



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

ANNUAL REPORT 2008



ANNUAL REPORT 2008

NÁRODNÁ BANKA SLOVENSKA



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



ANNUAL REPORT 2008

Published by:
© Národná banka Slovenska 2008

Address:
Národná banka Slovenska
Imricha Karvaša 1
813 25 Bratislava
Slovakia

Phone:
+421 2 5787 2141
+421 2 5787 2146

Fax:
+421 2 5787 1128

[http:// www.nbs.sk](http://www.nbs.sk)

All rights reserved.
Reproduction for educational and non-commercial
purposes is permitted provided that the source is
acknowledged.

ISBN 978-80-8043-134-1



CONTENTS

FOREWORD	7	4.4 Consumer protection	60
1 THE EXTERNAL ECONOMIC ENVIRONMENT	9	4.5 Supervision activities of the supervision unit	60
1.1 Global trends in output and prices	11	4.6 Analytical activities of the supervision unit	63
1.2 Economic development in the euro area	13	4.7 Financial market developments in 2008	64
1.3 Economic development in the Czech Republic, Poland and Hungary	15	5 ISSUING ACTIVITY AND CURRENCY IN CIRCULATION	69
2 MONETARY DEVELOPMENTS	19	5.1 Slovak currency issuance	71
2.1 Economic developments	21	5.1.1 Currency in circulation and net annual issuance in the SR	72
2.1.1 Price developments	21	5.1.2 Structure of currency in circulation and net issuance	74
2.1.2 Gross domestic product	24	5.1.3 Average values of currency in circulation	75
2.1.3 Labour market developments	27	5.1.4 Preparation for the introduction of the euro in Slovakia from 1 January 2009	75
2.1.4 Financial results of corporations	29	5.1.5 Withdrawal of Slovak currency from circulation and its destruction	76
2.2 Balance of payments	30	5.2 Counterfeit money seized in the territory of the Slovak Republic	76
2.2.1 Current account	30	5.2.1 Slovak koruna counterfeits	76
2.2.2 Capital and financial account	33	5.2.2 Counterfeit foreign currencies	77
2.2.3 Foreign reserves	35	6 PAYMENT SYSTEM	79
2.2.4 External debt of Slovakia	35	6.1 Legal and institutional aspects	81
2.2.5 Nominal and real effective exchange rates of the Slovak koruna	36	6.2 The payment system of the Slovak Republic	82
2.3 General government	37	6.2.1 Payment system concept in the SR in relation to the euro introduction	82
2.4 Monetary developments	37	6.2.2 Payments executed via SIPS	83
2.4.1 Monetary aggregates	37	6.2.3 Payment cards	85
2.4.2 Leasing, factoring, and consumer credit companies	41	6.3 Cooperation with international financial institutions in the field of payment systems	86
2.4.3 Interest rate developments	41	6.4 Preparation for the introduction of the euro	88
3 NBS MONETARY POLICY OPERATIONS, FOREIGN EXCHANGE OPERATIONS AND INVESTMENT ACTIVITIES IN FOREIGN RESERVE MANAGEMENT	43	7 STATISTICS	91
3.1 Monetary policy operations	45	7.1 Monetary and financial statistics	93
3.2 Foreign exchange operations	49	7.2 Quarterly financial account statistics	94
4 SUPERVISION OF THE FINANCIAL MARKET	51	7.3 Statistics on insurance, the capital market and pension saving	95
4.1 Financial market regulation in Slovakia	53	7.4 Statistics on non-banking entities	96
4.2 Rulemaking activities of the supervision unit	53		
4.3 Licensing activities of the supervision unit	58		



8	FOREIGN ACTIVITIES	97			
8.1	The European Union	99	11.2.1 Personnel	121	
8.2	NBS cooperation with international institutions	99	11.2.2 Employee remuneration	122	
8.3	NBS cooperation with international supervision institutions	101	11.2.3 Social expenses	122	
8.4	NBS foreign training activities and foreign technical assistance	101	11.3 Organization and management	122	
			11.4 Training and education	122	
			11.5 Národná banka Slovenska joined the Eurosystem	124	
9	PREPARATIONS FOR THE EURO INTRODUCTION IN THE SR	103	12	COMMUNICATION	129
9.1	Economic policies and the Maastricht Criteria for euro adoption	105	13	ECONOMIC RESEARCH	135
9.2	National Euro Changeover Plan and organizational preparations	106	14	FINANCIAL STATEMENTS OF NÁRODNÁ BANKA SLOVENSKA FOR THE YEAR ENDED 31 DECEMBER 2008	141
10	LEGISLATION	111		ABBREVIATIONS AND GLOSSARY	177
11	INSTITUTIONAL DEVELOPMENTS	117		LIST OF CHARTS AND TABLES	189
11.1	Institutional framework	119			
11.2	Human resources	121			



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



FOREWORD



FOREWORD

2008 was the sixteenth and last year in which Národná banka Slovenska implemented an independent monetary policy in Slovakia. At the beginning of the year, Slovakia was comfortably complying with the Maastricht criteria and therefore satisfied the principal condition for the introduction of the euro. On 8 July 2008, the EU Council took the final decision allowing the adoption of the euro in Slovakia. Since 1 January 2009, Slovakia has been a member of the euro area and NBS has been an integral part of the Eurosystem.

The rapid growth of the Slovak economy continued in 2008. GDP at constant prices increased by 6.4%, while at the same time employment rose year-on-year and unemployment fell. But after a relatively long period of uninterrupted and impressive growth, the trend development underwent a fundamental turnaround in 2008. Quarterly data showed a steady slowdown in the pace of economic expansion. Foreign demand declined and growth in the investment component of domestic demand was also subdued. Overall domestic demand retained a rising trend in 2008 owing to a sharper increase in consumption.

In this period, when our preparedness for adopting the single European currency was being assessed, the 12-month average inflation rate in Slovakia was 2.2%, fully one percentage point below the reference value of the Maastricht inflation criterion. Later in 2008, however, the inflation rate began to creep up, and inflation as measured by the harmonized index of consumer prices reached 3.5% at the end of the year. The determining factors of price growth in Slovakia were factors beyond the reach of monetary policy, namely, movements in global prices of energy and agricultural commodities.

Exchange rate policy was conducted in accordance with the Slovak koruna's participation in Exchange Rate Mechanism II (ERM II). When favourable economic development at the beginning of the year was reflected in a strengthening of the exchange rate, Slovakia requested that the koruna's central rate in ERM II be revalued for the second time within two years. On 29 May 2008,

the central parity was revalued from 35.4424 SKK/EUR to 30.1260 SKK/EUR. This central parity was later fixed as the conversion rate between the koruna and the euro.

Some of the benefits expected from the introduction of the euro were apparent even before our country actually joined the euro area. These notably included the higher international rating of Slovakia and the stability of its currency. Soon after receiving official approval to join the euro area, Slovakia was assigned the highest rating of any V4 country. And when the region's economic development began to be affected by the global financial crisis, we felt the benefit of the single currency in overall economic stability. Unlike the currencies of neighbouring countries, the Slovak koruna did not depreciate at the end of 2008.

Národná banka Slovenska continued to implement monetary policy in accordance with the "Monetary Programme for the Period until 2008" and applied the strategy of inflation targeting within the conditions of ERM II. The priority was therefore to monitor the maintenance of price stability. With the euro adoption approaching, NBS conducted interest rate policy in accordance with the ECB's monetary policy decisions. From October 2008, NBS reduced the base rate on three occasions by a total of 175 basis points, to 2.5%.

The multiyear process of preparing for the introduction of the euro reached its culmination in 2008. Through their joint efforts, all parties involved ensured that the general public, public institutions and the private business sector were sufficiently prepared for the adoption of the single European currency. Národná banka Slovenska played a prominent role in this process, contributing from the outset to its smooth and successful progress.

Directly overseen by Národná banka Slovenska were the activities of the Working Committee for Banks and the Financial Sector and the Committee for Communication. As regards the cash payment system, the most important task was the frontloading of euro cash. Among the new EU Member States that have adopted the euro,





FOREWORD

Slovakia became the first to issue euro coins using the services of a mint in its own territory. NBS was also responsible for meeting the very demanding tasks related to cashless payment systems. In particular, it coordinated the connection of the banking sector (including NBS) to the pan-European TARGET2 payment system and also the transformation of the previous interbank payment system SIPS to the retail payment system EURO SIPS with final settlement in the TARGET2 system.

The second of these NBS-led committees managed the preparation and implementation of the comprehensive information campaign. The campaign aimed to provide the Slovak public with practical information on all key aspects of the introduction of the euro in advance of the event itself. The media campaign at the centre of this activity was launched in March 2008 – symbolic 300 days before the euro changeover. Národná banka Slovenska was a copartner in the distribution of several publications, notably the two information packs sent to all households. NBS prepared and held specialised seminars and conferences on the introduction of the euro and continued with the training of employees in the banking and other sectors in regard to the euro changeover. The results and effectiveness of the campaign were measured by public opinion surveys. Not only did they confirm the campaign's high quality, they revealed that the

public considered Národná banka Slovenska to be the most trustworthy source of information on the euro.

Alongside the tasks implemented under the working committees, many other tasks defined in the internal plan for the euro changeover were fulfilled by Národná banka Slovenska in 2008. NBS had to harmonize numerous activities, statistical data, and software applications with those of the European Central Bank. The introduction of the euro in Slovakia required preparations for the implementation of the single monetary policy and for changes in foreign reserve management and in the area of reporting. Several legal documents also had to be prepared, including regulations for the implementation of the law on the introduction of the euro in the Slovak Republic.

Favourable economic fundamentals in Slovakia in 2008 were recorded amid the emerging external financial crisis. This global crisis caused a slowdown in real economic activity, firstly in developed countries and then, in the last quarter of 2008, in emerging economies, too. The effect of the crisis on the Slovak economy was very mild at that time, but began to be more severe at the beginning of 2009. No sooner has the euro been successfully adopted than Slovakia faces another exacting challenge – to minimize the impact of the global recession and to recover growth in the domestic economy.

May 2009

Ivan Šramko
Governor



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 1

THE EXTERNAL ECONOMIC ENVIRONMENT

1



1 THE EXTERNAL ECONOMIC ENVIRONMENT

1.1 GLOBAL TRENDS IN OUTPUT AND PRICES

In 2008, the global economy was substantially influenced by the financial crisis as a result of the US sub-prime mortgage market collapse in 2007. The financial crisis deepened in 2008, pushing the economy into a severe global recession with a marked slowdown in real economic activity. In the first three quarters, advanced economies were affected most severely, while emerging economies remained relatively resistant to the financial crisis as a result of buoyant domestic demand. Hence, global economic activity remained relatively strong. At the beginning of the final quarter, however, these economies were also hard hit by the rapidly deepening financial crisis. This development led to the synchronisation of the global business cycle, with all countries recording a slowdown in economic activity. The year-on-year rate of global economic growth slowed to 3.8% in 2008, from 5.2% in 2007. The most significant slowdown took place in advanced economies. In 2007, financial institutions were worst affected, but in 2008 the crisis spread to the non-financial sector, as well as to the real economy. The problems in the financial sector led to risk reassessment, financial market

turmoil, and the tightening of credit standards. The high commodity prices in the first half of 2008 also contributed to the slowdown in economic activity in advanced economies. After the financial crisis deepened still further in the final quarter of 2008, credit conditions were tightened on a global scale, capital flows were greatly restricted, the costs of external financing increased, which led to a decrease in business and consumer confidence. Most seriously affected by these developments were emerging economies, which recorded currency depreciation, coupled with a significant slowdown in economic growth caused by a sharp decline in exports.

The downturn in global economic activity led to a slowdown in the year-on-year growth rate of foreign trade, to 4.1% in 2008, from 7.2% in 2007. Imports in advanced economies experienced a sharp slowdown, which was subsequently reflected in the exports of emerging economies. In the first three quarters, the slowdown in foreign trade was partly offset by an increase in trade between emerging economies, due mainly to intra-regional trade between the countries of South-East Asia. As a result of the deepening financial crisis, the dynamics of

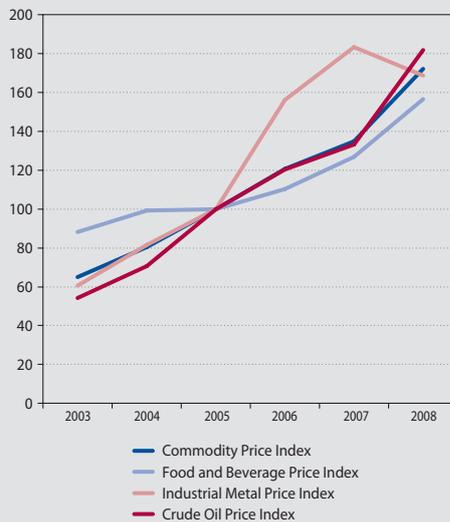
Table 1 World output (year-on-year growth in %)

	2006	2007	2008
World	5.0	5.2	3.2
Advanced economies	3.0	2.7	0.9
United States	2.9	2.0	1.1
Japan	2.4	2.4	-0.6
Euro area	2.8	2.6	0.8
Emerging Asian economies	9.6	10.6	7.7
China	11.1	13.0	9.0
India	9.7	9.3	7.3
Russia	7.4	8.1	5.6
Central and Latin America	5.5	5.7	4.2
Brazil	3.8	5.7	5.1
Middle East	5.8	6.3	5.9

Source: World Economic Outlook, IMF, April 2009, Eurostat.

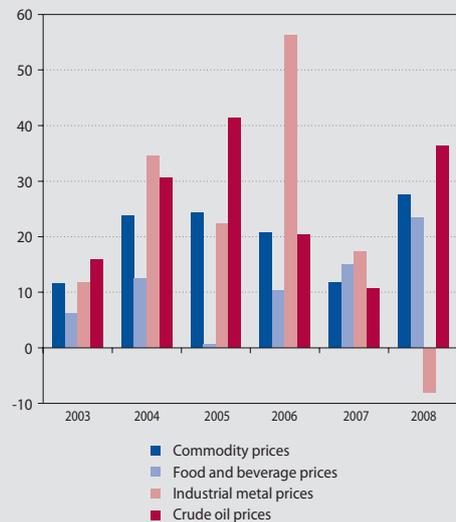


Chart 1 Price developments (USD price indices; year 2005=100)



Source: World Economic Outlook, IMF, April 2009.

Chart 2 Year-on-year changes in commodity prices (%)



Source: World Economic Outlook, IMF, April 2009.

foreign trade in this region also weakened to a significant extent.

Price developments were highly volatile in 2008, mainly in the first six months when intense inflationary pressures occurred as a result of oil and agricultural commodity price increases. In the second half of the year, after the financial crisis deepening, this movement reversed, as the inflation markedly decelerated and gave rise to concerns about the possibility of deflation in some countries towards the end of the year. The average annual inflation rate stood at 3.5% in 2008, compared with 2.1% in 2007. At the end of 2008, the year-on-year inflation rate reached 5.9%, compared with 5.0% in 2007.

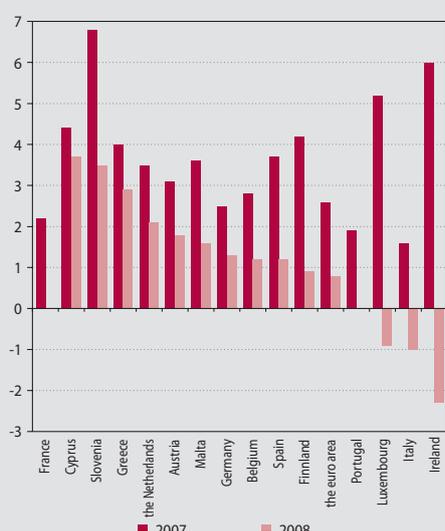
Oil prices were volatile over the course of 2008, mainly as a result of the global economic crisis. In the first half of the year, oil prices reached a historical high, at USD 144/barrel in July 2008. This was the result of strong demand in emerging Asia, while OECD countries recorded a fall in demand for oil owing to the high oil prices and the slowdown in the pace of economic growth. In the second half of the year, the deepening financial crisis was accompanied by a sharp fall in oil prices, which reached a minimum in December, at USD 35.82/barrel. In this period, demand for oil fell not only in the OECD countries, but also in emerging economies, which were severe-

ly hit by the global crisis. The average price of oil stood at USD 97/barrel in 2008. This represented a rise of 33% compared with the average price for 2007 (USD 72.8/barrel). Despite this, the spot price of oil dropped by 37% at the end of 2008, compared with the beginning of the year.

The prices of metals, including nonferrous metals, and agricultural commodities followed a similar course as oil prices. They were also volatile and also reflected the global economic situation. In the first half of the year, they rose mainly as a result of strong demand in emerging Asia. In the second half, when the financial crisis intensified, they recorded a marked fall as a result of growing concerns about the further trend in the global economy. The steepest increases over the first six months took place in agricultural commodity prices, which made a significant contribution to inflation in the emerging economies in particular. In the second and third quarters, however, agricultural commodity prices began to fall as a result of the economic slowdown and the better-than-expected crops. In the first half of the year, the prices of ferrous and nonferrous metals also increased, and reached a peak at the beginning of July 2008. Owing to concerns about the further course of economic development, however, agricultural commodity prices experienced a marked fall in the second half of 2008.

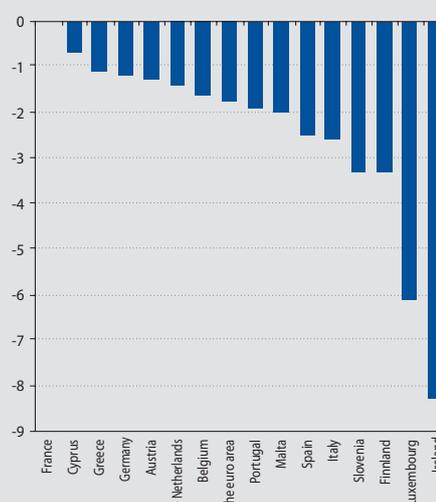


Chart 3 GDP growth in euro-area countries in 2007 and 2008 (%)



Source: Eurostat.

Chart 4 Changes in the economic growth rate in 2008 compared with 2007 (%)



Source: Eurostat.

1.2 ECONOMIC DEVELOPMENT IN THE EURO AREA

Despite growth in the first quarter of 2008, the euro-area economy experienced a decline in the following quarters, which deepened towards the end of the year. Compared with 2007 (2.6%), the rate of economic growth in the euro area slowed considerably in 2008, to 0.8%. This was the result of a sharp downturn in economic activity, driven by a weakening of domestic demand combined with a pronounced slowdown in the world economy. This mainly occurred at the end of the year, which saw a further economic decline and renewed turmoil in the financial markets. This was subsequently reflected in the decline in consumption and the negative contribution of net exports, when exports declined more sharply than imports in the final quarter. This also led to deterioration in unemployment, which increased from 7.2% in December 2007 (a historical low) to 8.1% in December 2008.

In 2008, the average rate of headline HICP inflation reached 3.3%, representing a marked increase compared with the previous two years, when inflation fluctuated around the level of 2.1% and 2.2%, respectively. As in the previous year, inflation in 2008 was largely determined by commodity prices, predominantly by energy and food prices. In the first part of the year, a boom

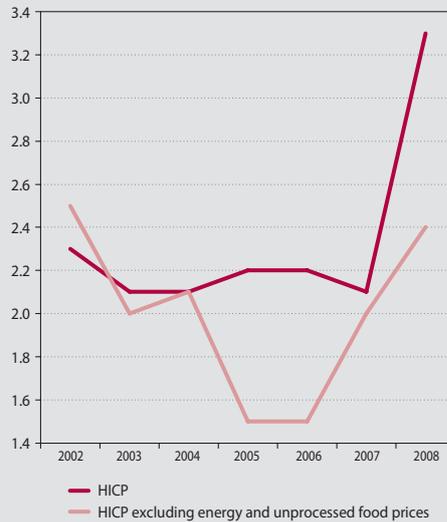
in world demand pushed up commodity prices to extremely high levels, while the rapid slowdown in economic activity in the second part of the year abruptly pushed them down again at the end of 2008. These developments were also reflected in the course of HICP inflation, when food and energy prices peaked in the middle of the year. Thus, headline inflation reached a historical high in July (4%). These components fell sharply in the second half of the year, causing a slowdown in inflation, to 1.6% in December. Compared with December 2007 (3.1%), the dynamics of HICP growth moderated to a significant extent. The rate of HICP inflation, excluding energy and food prices (processed as well as unprocessed), remained virtually unchanged, at the level of 2007 (2.0%).

The year-on-year rate of increase in industrial producer prices reached 5.9% in 2008, more than twice the figure for the previous year (2.8%), as a result of commodity price developments. During the year, the year-on-year dynamics of industrial producer prices peaked in July at 9.2%, and then weakened as a result of the overall trend, to 1.1% in December.

The euro exchange rate against the US dollar depreciated by 5.2% during the year. The financial market turmoil that began in August 2007 continued in 2008. At the beginning of 2008, the

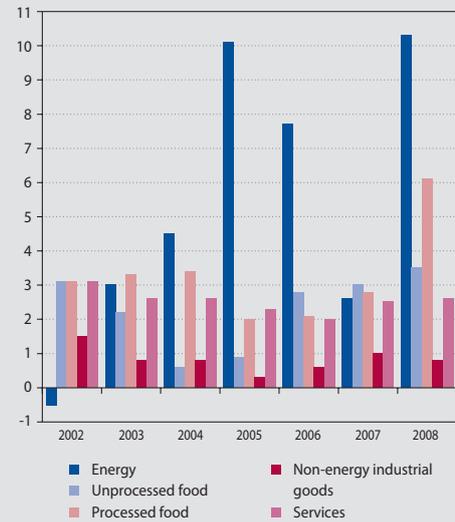


Chart 5 HICP inflation in the euro area (%)



Source: Eurostat.

Chart 6 Year-on-year changes in the HICP components in the euro area (%)



Source: Eurostat.

euro followed the appreciating trend from the previous period and, after reaching a historical peak in April, was broadly stable until August. This appreciation was the result of expectations of a widening interest rate differential in favour of euro assets, reflecting market beliefs that the euro area was going to be affected by the ongoing financial turmoil to a lesser extent than the United States. From that period on, however, data releases began to show that the financial turmoil that originated in the US sub-prime mortgage market was unfolding into economic slowdown or even decline across all major economies. As a result, the euro experienced a sharp depreciation against the US dollar which, in three months, brought it to the level prevailing around mid-2007. The sharp depreciation of the euro was primarily associated with a revision of market expectations about the euro-area economic outlook – as the financial crisis continued to deepen and its global reach began to be realised. Both heightened market uncertainty and global risk aversion had a strong influence on the euro exchange rate against the dollar and other major currencies. The depreciation was also associated with a worldwide dollar liquidity shortage, which commanded a sizeable repatriation of foreign investments and led to concerted central bank policy actions. In December, however, the euro experienced a strong rebound as the impact of the non-cyclical and temporary

Chart 7 USD/EUR exchange rate developments in 2008



Source: ECB.

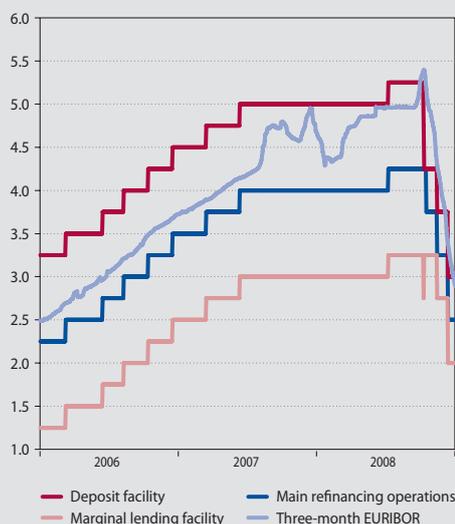
measures adopted in support of the dollar in the autumn waned and foreign exchange markets refocused attention on the growth outlook and interest rate differentials across the major economic areas.

In the course of 2008, the ECB conducted its monetary policy against the backdrop of the financial crisis observed since August 2007. Owing to the



high level of uncertainty caused by the financial market turmoil, the Governing Council raised the key ECB interest rates by 25 basis points in July, before lowering them in three stages by a total of 175 basis points in the final quarter of the year. Developments in the key ECB interest rates in 2008 reflected the evolution of risks to price stability over the medium-term horizon. In the first half of the year, the most significant risk factors were developments in international commodity prices and the economic impact of the ongoing financial turmoil, which intensified in September 2008. The Governing Council of the ECB reacted to this situation by taking a number of temporary liquidity management measures aimed at strengthening its intermediary function and calming the markets which were concerned about the risk of a liquidity shortage. These measures included the expansion of the list of assets eligible to be used as collateral in re-financing operations with the ECB and the introduction of instruments for longer-term liquidity supply. At the same time, instruments for providing sufficient liquidity denominated in US dollars and Swiss francs to the euro-area markets were introduced. A specific measure in October was the narrowing of the corridor of standing facility rates from 200 to 100 basis points around the interest rate on the main refinancing operation.

Chart 8 ECB interest rates and the EURIBOR (%)



Source: ECB.

ever, later, in the light of weakening inflationary pressures and the deepening financial crisis, the central banks lowered their key rates.

Compared with 2007, economic growth in the **Czech Republic** slowed by 1.6 percentage points, to 4.4%. In 2008, the average inflation rate accelerated by 3.3 percentage points, to

1.3 ECONOMIC DEVELOPMENT IN THE CZECH REPUBLIC, POLAND AND HUNGARY

In 2008, slower economic growth was recorded in all three countries under review, i.e. the Czech Republic, Poland and Hungary. The slowdown was the result of the deepening financial and economic crisis, coupled with reduced foreign and domestic demand. Hungary reported a slowdown in price inflation, while the CR and Poland recorded higher annual inflation rates as a result of administrative measures. At the end of the year, all three countries recorded inflation within the tolerance band of deviations from the central bank inflation targets. After appreciating in the first half of 2008, the currencies of these countries depreciated against the euro in the second half of the year, as a result of increased risk aversion after the collapse of Lehman Brothers. During the year, the central banks of the region gradually increased their key interest rates, how-

Chart 9 Exchange rates of the V4 currencies against the euro (year-on-year changes in %)

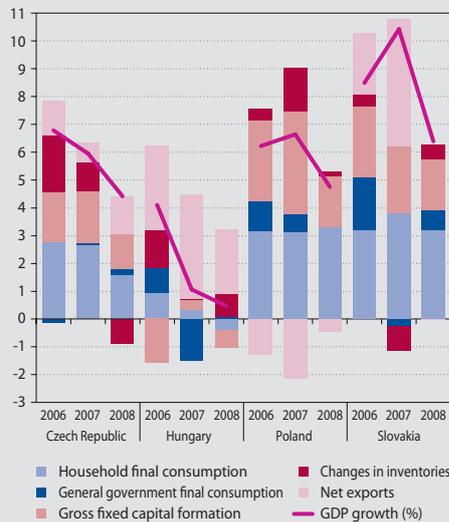


Source: Eurostat, NBS calculations.

Note: Negative values denote appreciation.

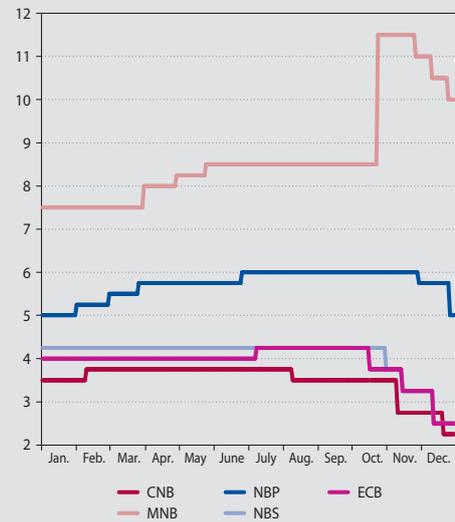


Chart 10 Contributions to GDP growth (percentage points)



Source: Eurostat, NBS calculations.

Chart 11 Key interest rates of national central banks (% p.a.)



Source: NCB, ECB.

6.3%. The accelerated price increase was mainly due to administrative measures introduced in January 2008, primarily the increase in the lower VAT rates, excise duties, and health care fees. Owing to the slowing global demand, inflationary pressures weakened gradually over the second half of the year and inflation fell in comparison with December 2007 by 2.2 percentage points, to 3.3% at the end of 2008.

The appreciating trend of the Czech koruna from 2007 continued in the first half of 2008, mainly in the second quarter when the Czech koruna belonged to the most rapidly appreciating currencies. Like the Polish zloty and, to some extent, the Hungarian forint, the koruna profited from the tense situation in the advanced economies. Owing to the favourable domestic indicators and the stable environment, the Czech koruna was a relatively safe investment. In the second part of the year, after the crisis had spread to emerging economies causing increased risk aversion, the koruna depreciated at a relatively fast pace. The depreciating trend continued until the end of 2008: the Czech koruna had weakened against the euro by almost 1% since the end of 2007.

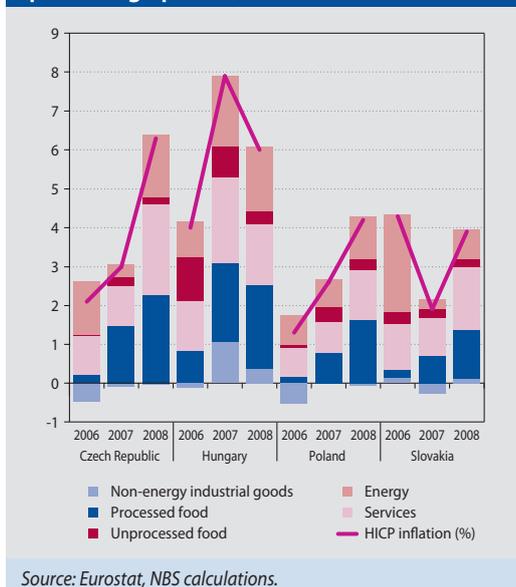
Česká národní banka (CNB) changed its key interest rates on four occasions in 2008. At the beginning of the year, CNB raised its two-week repo rate by 0.25 of a percentage point, mainly

in view of the risk that the higher inflation may be reflected in the inflation expectations. In the second half of the year, CNB was the first central bank in the region that started reducing its key interest rates: the reference rate was cut in three steps by a total of 1 percentage point (to 2.25%), particularly with regard to the economic slowdown and weakening inflationary pressures.

In 2008, **Hungary's** GDP growth slowed to 0.5%, which was 0.6 of a percentage point less than the figure for 2007. In the fourth quarter, the Hungarian economy recorded a negative year-on-year growth rate. Average inflation stood at 6% in 2008, representing a fall of 1.9 percentage points compared with the previous year. Price inflation slowed in all components, except in processed food prices. In the second half of the year, this trend came to a halt and inflation began to fall, mainly in the final quarter of 2008. Thus, the price increase slowed by 4 percentage points in December, to 3.4% (compared with the end of the previous year).

In the first quarter of 2008, the Hungarian forint followed a different course (compared with the other currencies) and depreciated as a result of the emerging financial market crisis. After the Hungarian forint's fluctuation band had been cancelled by the central bank in February, the forint appreciated gradually until the end of the

Chart 12 Contributions to HICP inflation (percentage points)



Source: Eurostat, NBS calculations.

third quarter. At the end of the year, the forint depreciated relatively quickly as a result of the deepening financial crisis, growing risk aversion, and domestic financial market developments. In comparison with 2007, the forint weakened by more than 5%.

Magyar Nemzeti Bank (MNB) modified its key interest rates on seven occasions during 2008. In the first half of the year, MNB approved a series of interest rate hikes to dampen the secondary effects of the relatively high inflation and to prevent an increase in inflation expectations. To calm the situation in the domestic market, MNB raised its base rate by 3 percentage points in October, to 11.5%. Owing to a further slowdown in economic activity and weakening inflationary

pressures, the Hungarian central bank reduced its base rate three times by a total of 1.5 percentage points, to 10% at end-2008.

In 2008, **Poland's** economy slowed by 1.8 percentage points, to 4.8%. Price inflation accelerated by 1.6 percentage points (to 4.2%), mainly as a result of a rise in food prices, as well as in energy and services prices, due to administrative adjustments made at the beginning of 2008 (as in the CR). Compared with the previous year, the year-on-year inflation rate fell by 0.9 of a percentage point, to 3.3% in December (as in the CR).

In the first half of the year, the exchange rate of the Polish zloty, like the Czech koruna, was influenced by the country's positive economic fundamentals and the growing tensions in advanced economies. The attractiveness of the zloty was also supported by increases in the central bank's key rates. At the beginning of the fourth quarter, the Polish zloty experienced a relatively sharp depreciation as a result of increased risk aversion and deteriorated sentiment in the region. Compared with the end of 2007, the exchange rate depreciated by almost 16%, which was the sharpest currency depreciation in the region.

Narodowy Bank Polski (NBP) modified its key interest rates on six occasions in 2008. Owing to the persistent high inflation, rapid wage growth compared with labour productivity, and concerns about the pro-cyclical impact of the state budget on the economy, NBP increased its reference rate in four steps by a total of 1 percentage point over the first six months, to 6%. In view of the slowdown in economic activity and lower inflation, NBP decided to lower its reference rate to 5% at the end of the year.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 2

MONETARY DEVELOPMENTS



2 MONETARY DEVELOPMENTS

The development of Slovakia's economic fundamentals in 2008 took place against the backdrop of the external financial crisis, which caused a slowdown in real economic activity in advanced economies in particular, but later (in the final quarter of 2008) in emerging economies as well. In 2008, Slovakia's economic growth reached 6.4%, with its dynamics weakening gradually from 9.3% in the first quarter to 2.5% in the fourth quarter. Parallel with the slowdown in foreign demand, the growth in the investment component of domestic demand also slowed, when non-financial corporations restricted their investment activities. Owing to faster growth in the consumption component of domestic demand, overall domestic demand maintained its growth dynamics approximately at the level of the previous year. The growth in gross domestic product led to a rise in employment levels and a fall in unemployment. Non-financial and financial corporations operating in Slovakia generated lower profits than in 2007. In 2008, the deficit in the balance of payments on current account increased in comparison with the previous year. The increase was caused by the worsened balances of services and current transfers. On the other hand, the income balance improved and the trade deficit remained virtually unchanged.

In line with the global trend, the price increase in Slovakia accelerated, with the rate of HICP inflation reaching 3.5% at the end of the year, 1 percentage point more than a year earlier. The price increase in Slovakia was determined by factors outside the control of monetary policy, i.e. developments in the world prices of energy-producing and agricultural commodities. These factors affected inflation through regulated price adjustments and increases in fuel prices, processed and unprocessed food prices. Prices were also affected by an increase in excise tax on cigarettes.

To eliminate the risk of unjustified price increases in connection with the changeover to the new currency, all prices for goods and services had to be displayed in both Slovak koruna and euro with effect from August 2008 (dual price display). As from 1 August, the Statistical Office of the SR

started to monitor the prices of selected consumer-basket goods and services in the Slovak koruna and the euro at ten-day intervals. The aim of this project was to monitor consumer price developments in SKK and EUR during the period of dual pricing. Národná banka Slovenska followed the monetary policy decisions of the European Central Bank and reduced its base rate in three stages from October 2008, by a total of 175 basis points (to 2.5%). Interest rates in the Slovak money market reflected roughly the changes in the key NBS rates.

2.1 ECONOMIC DEVELOPMENTS

2.1.1 PRICE DEVELOPMENTS

Consumer prices

Inflation as measured by the Harmonised Index of Consumer Prices

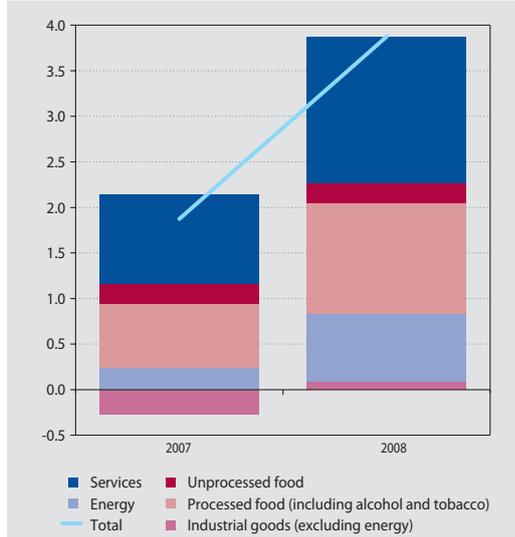
Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), had increased year-on-year by 3.5% by the end of December 2008, representing an acceleration of 1.0 percentage point in comparison with the end of 2007. The average inflation rate reached 3.9% in 2008 (compared with 1.9% in 2007), with the prices of goods and services rising by 3.5% and 4.8%, respectively. The year-on-year rate of core inflation (overall inflation, excluding energy and unprocessed food prices) averaged 3.9% in 2008 and was 2.0 percentage points higher than in the previous year.

Price developments in 2008 were determined by external factors: domestic price levels were influenced by the world prices of energy-producing (crude oil) and agricultural commodities. These factors affected inflation through regulated price adjustments and developments in fuel prices, and in prices of processed and unprocessed food. Processed food prices were also influenced by a change in indirect taxes on cigarettes.

In its Monetary Programme for 2005-2008 in December 2004, Národná banka Slovenska defined its monetary policy as inflation targeting under

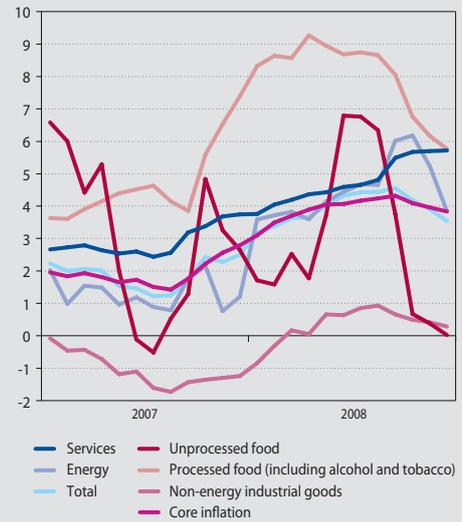


Chart 13 Structure of HICP inflation (contributions to headline inflation of particular components in percentage points)



Source: Statistical Office of the SR and NBS calculations.

Chart 14 Year-on-year changes in the HICP inflation components (%)



Source: Statistical Office of the SR.

the conditions of ERM II. The main anchor of such monetary policy was the setting of an inflation target. For December 2008, the year-on-year inflation rate had been set at 2%, but the actual end-year figure was 1.5 percentage points above the target. The inflation target was exceeded as a result of factors outside the control of monetary policy, i.e. global increases in food and energy prices, which were also reflected in the consumer prices of food and energy (heating and fuels) in the first three quarters of 2008.

Goods

Energy prices, as well as food prices (both processed and unprocessed), were elements that had a dynamising effect on goods prices in 2008. The accelerating rate of increase in energy prices, from 1.3% in 2007 to 4.5% in 2008 on average, was the result of developments in fuel and heating prices. Heating prices were influenced by the world-market price of natural gas. Fuel prices recorded an average rise of 6.4% in 2008, compared with an average fall of 4.9% in 2007. The rising trend in agricultural commodity prices that began at the end of 2007 and continued at the beginning of 2008 was reflected in food price developments. Food prices rose by an average of 6.4%, due to increases in both processed and unprocessed food prices (8.0% and 3.0%, respectively). Processed food prices were also

affected by the excise tax on cigarettes, which was increased with effect from January 2008, but the increase started to be reflected in consumer price levels only in October, due to pre-stocking on cigarettes before the tax increase. Non-energy industrial goods prices rose by 0.4% on average in 2008, after falling in 2007 by 1.1% (this fall was, however, caused by a reduction in VAT on pharmaceuticals and by methodological changes in the consumer basket in the area of pharmaceuticals). Within the structure of this sub-aggregate, the steepest increases occurred in the prices of non-durable industrial goods (2.7% on average), while the prices of durable industrial goods dropped by an average of 4.6%.

Services

In 2008, prices for services rose by an average of 4.8%, representing an acceleration in dynamics compared with 2007 (2.9%). The most dynamic increases were recorded in the prices of dental, restaurant (due to food prices), and transport services (bus fares, driving school fees). The dynamics of these prices markedly increased in the second half of 2008. Only communication services recorded a price fall (0.8%).

Producer prices

Producer price developments in 2008 were influenced by price fluctuations in the world mar-

**Table 2 Consumer price developments in terms of HICP (average for the period)
(annual percentage changes)**

	2007		2008				
	Dec.	Average	Mar.	June	Sep.	Dec.	Average
Total	2.3	1.9	3.4	4.0	4.5	3.9	3.9
Goods	1.6	1.4	3.0	3.8	4.2	3.0	3.5
Industrial goods	-0.4	0.0	1.3	1.9	2.5	2.2	2.0
Non-energy industrial good	-1.3	-1.1	-0.3	0.4	0.8	0.4	0.4
Energy	0.8	1.3	3.7	4.1	5.1	5.1	4.5
Food	5.5	4.1	6.3	7.3	7.6	4.3	6.4
Processed food (including alcohol and tobacco)	6.5	4.7	8.5	9.0	8.5	6.2	8.0
Unprocessed food	3.3	3.0	1.9	4.1	5.6	0.4	3.0
Services	3.7	2.9	4.0	4.5	5.0	5.7	4.8
Core inflation (total, excluding energy and unprocessed food prices)	2.6	1.9	3.4	4.0	4.2	4.0	3.9
Total, excluding energy prices	2.6	2.0	3.3	4.0	4.4	3.6	3.8

Source: NBS calculations based on data from the Statistical Office of the SR.

Table 3 Average year-on-year developments in producer prices (%)

	2007	2008				
		Q1	Q2	Q3	Q4	Q1-Q4
Industrial producer prices	1.8	4.9	6.1	6.6	6.7	6.1
Raw materials prices	-2.2	7.5	12.9	18.5	28.4	16.8
Manufacturing products prices	0.2	2.9	3.1	2.4	-0.6	2.0
Energy prices	4.2	7.7	10.1	12.1	16.4	11.6
Water rates and sewage charges	-0.1	2.4	6.9	7.1	7.3	5.9
Construction works prices	4.0	4.7	5.7	6.3	5.7	5.6
Construction materials prices	5.6	4.2	5.0	2.6	1.3	3.3
Agricultural products prices	5.4	13.1	13.8	8.9	-12.4	4.1
Plant products prices	24.0	44.0	45.9	13.2	-26.1	1.6
Animal products prices	-2.0	6.8	9.8	5.8	-0.9	5.3

Source: Statistical Office of the SR.

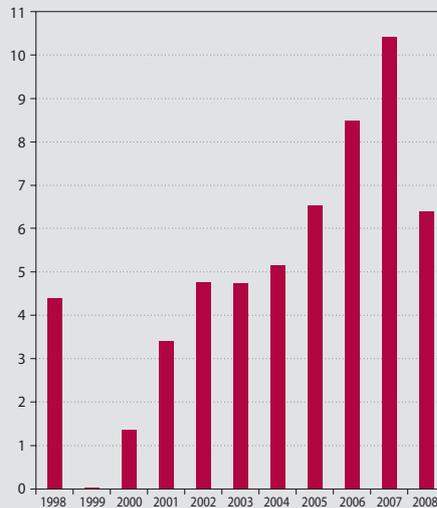
Note: Data based on the revised statistical classification of economic activities (SK NACE Rev. 2).

kets for oil and food products in particular. After peaking in July 2008, oil prices started plummeting. Until October 2008, industrial producer price developments had been dampened by the appreciation of the Slovak koruna, in particular against the US dollar. After peaking in July 2008, the rise in agricultural products prices began to slow. This was followed by a year-on-year decline, starting from September. As a result of these fac-

tors, a marked acceleration was recorded in the dynamics of industrial producer prices (compared with 2007), accompanied by a moderate slowdown in the overall year-on-year increase in agricultural products prices. In 2008, construction works prices continued to rise on a year-on-year basis more dynamically than in 2007 (on average), but the prices of construction materials increased more slowly than a year earlier.



**Chart 15 Annual real GDP growth
(annual percentage growth)**



Source: Statistical Office of the SR.

2.1.2 GROSS DOMESTIC PRODUCT

According to a preliminary estimate by the Statistical Office of the SR, gross domestic product (GDP) increased year-on-year by 6.4% at constant prices in 2008. Compared with 2007, the pace of economic growth slowed by 4.0 percentage points.

In terms of consumption, economic growth in 2008 was influenced primarily by domestic demand. In terms of production, the slowdown in GDP growth compared with 2007 took place mostly in industry. The nominal volume of GDP generated in the period under review amounted to SKK 2,028.4 billion (EUR 67.3 billion), which was 9.5% more than a year earlier.

Broken down by quarter, real economic growth gradually slowed during 2008, from 9.3% in the first quarter to 2.5% in the fourth quarter.

Table 4 GDP creation by component (index, same period a year earlier = 100, constant prices)

	2007	2008				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross output	110.9	108.3	109.9	105.2	101.4	106.0
Intermediate consumption	111.2	107.3	110.8	103.9	100.1	105.3
Value added	110.4	110.2	108.6	106.9	103.6	107.2
Net taxes on products ¹⁾	110.7	99.9	101.7	103.7	93.7	99.4

Source: Statistical Office of the SR.

¹⁾ Value added tax, excise tax, import tax, minus subsidies.

Table 5 GDP growth by sector (index, same period a year earlier = 100, constant prices)

	2007	Q1 08	Q2 08	Q3 08	Q4 08	2008
	2006	Q1 07	Q2 07	Q3 07	Q4 07	2007
Gross domestic product (GDP)	110.4	109.3	107.9	106.6	102.5	106.4
of which:						
Agriculture	109.2	106.4	97.1	106.0	113.9	109.2
Industry	113.0	111.4	106.9	90.7	79.8	96.3
Construction	107.8	107.3	106.6	108.7	129.3	114.0
Trade, hotels and restaurants, transport	114.1	116.2	113.6	119.4	118.8	117.0
Financial intermediation, real estate business	104.2	105.5	107.2	116.8	111.6	110.5
Public administration, education, health care, other community, social, and personal services	108.2	106.3	108.0	107.8	104.8	106.7
Net taxes on products ¹⁾	110.7	99.9	101.7	103.7	93.7	99.4

Source: Statistical Office of the SR.

¹⁾ Value added tax, excise tax, import tax, minus subsidies.

**Table 6 Structure of GDP by consumption (index, same period a year earlier = 100, constant price)**

	2007	2008				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Gross domestic product (GDP)	110.4	109.3	107.9	106.6	102.5	106.4
Domestic demand	106.5	109.5	107.0	107.2	102.8	106.4
Final consumption:	104.9	106.6	106.5	105.8	104.0	105.7
households	107.1	108.4	105.7	106.0	104.7	106.1
general government	98.7	100.7	109.6	105.3	102.3	104.3
non-profit institutions serving households	102.0	101.9	101.0	100.4	102.2	101.4
Gross fixed capital formation	108.7	107.5	111.8	107.3	101.4	106.8
Exports of goods and services	113.8	111.2	108.1	102.7	92.2	103.2
Imports of goods and services	108.9	110.6	107.7	103.6	93.3	103.3

Source: Statistical Office of the SR.

Supply side of GDP

GDP growth in 2008 was positively influenced by value added creation, which grew year-on-year by 7.2% at constant prices (compared with 10.4% a year earlier), while net taxes on products (value added tax, excise tax, import tax, minus subsidies) had a dampening effect on GDP creation (a fall of 0.6%, compared with a growth of 10.7% in 2007).

In 2008, value added growth was achieved in all sectors, except in industry; stronger real growth than in 2007 was recorded in trade, hotels and restaurants, transport, financial intermediation, and in real estate business.

Demand side of GDP

Economic growth in 2008 was influenced by both foreign and domestic demand. Foreign demand grew in real terms by 3.2%, which represented a slowdown of 10.6 percentage points compared with the figure for 2007.

Within the scope of domestic demand, the most rapid growth in 2008 was recorded in investment demand (6.8% in real terms), which was 1.9 percentage points less than a year earlier. The growth in the consumption component accelerated on a year-on-year basis by 0.8 of a percentage point, to 5.7%.

Domestic investment demand

Gross fixed capital formation was mostly affected by the purchase of new fixed assets (a growth

of 6.6% at constant prices). Broken down by the sector of national accounts, investment activity accelerated in the general government and household sectors, while recording a slowdown in non-financial corporations.

According to revised data from the Statistical Office of the SR, investments increased in both machines and buildings, with the most rapid growth recorded in investment in transport vehicles and residential buildings. Compared with 2007, the share of investments in machinery and equipment increased (by 3.1 percentage points), but that of investments in buildings decreased (by 0.5 of a percentage point).

Domestic consumer demand

In 2008, final consumption expenditure increased year-on-year by 5.7%, due to growth in all sectors. Within the structure of final consumption, the dynamics of general government final consumption strengthened in 2008 (compared with the previous year), mainly as a result of faster growth in wages, intermediate consumption, and social benefits in kind. In 2008, final consumption by households grew year-on-year by 6.1% in real terms, and its share of total GDP reached 51.8% (compared with 51.9% a year earlier).

An analysis of household final consumption in 2008 showed that the most significant year-on-year increases took place in the expenses of households on furnishings, household equipment, and the routine maintenance of dwellings



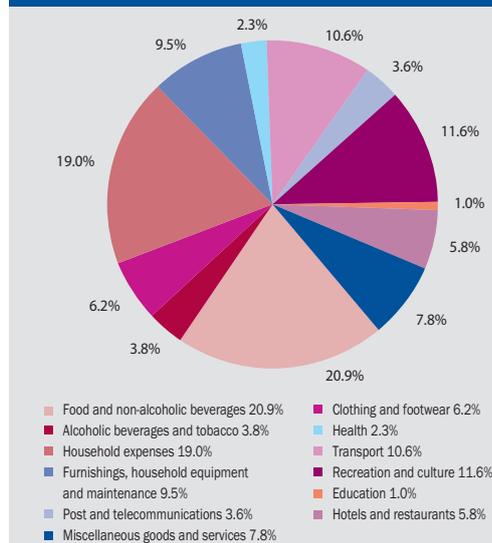
MONETARY DEVELOPMENTS

Table 7 Structure of gross fixed capital formation in 2008 (current prices)

	Gross fixed capital formation		Proportion (%)	Indices	
	(SKK billions)	(EUR billions)		2007/2006	2008/2007
Economy of the SR in total	526.2	17.5	100.0	110.0	108.8
of which (by sector):					
Non-financial corporations	361.4	12.0	68.7	112.6	105.6
Financial corporations	7.1	0.2	1.4	100.5	91.7
General government	40.6	1.3	7.7	95.7	117.0
Households	115.8	3.8	22.0	107.8	118.5
Non-profit institutions	1.1	0.04	0.2	109.2	105.0
of which (by production):					
Machinery and equipment	220.0	7.3	41.8	104.5	117.6
of which: other machines and equipment	160.9	5.3	30.6	103.2	117.2
transport vehicles	59.0	2.0	11.2	108.2	118.6
Buildings and structures	267.9	8.9	50.9	106.8	107.9
of which: residential buildings	51.7	1.7	9.8	112.3	118.6
other structures	216.2	7.2	41.1	118.6	105.6

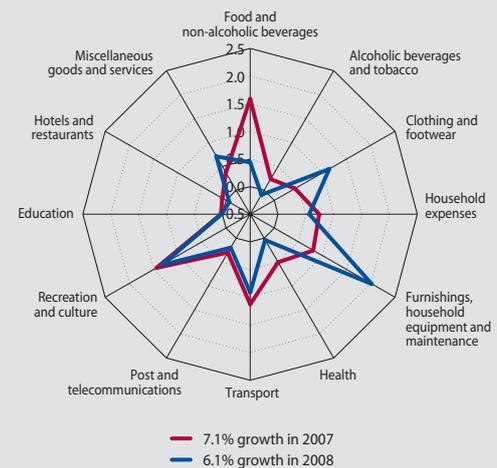
Source: NBS calculations based on data from the Statistical Office of the SR.

Chart 16 Structure of household final consumption in 2008 (percentage shares)



Source: Statistical Office of the SR.

Chart 17 Contributions of consumer expenses to growth in household final consumption (p.p.)

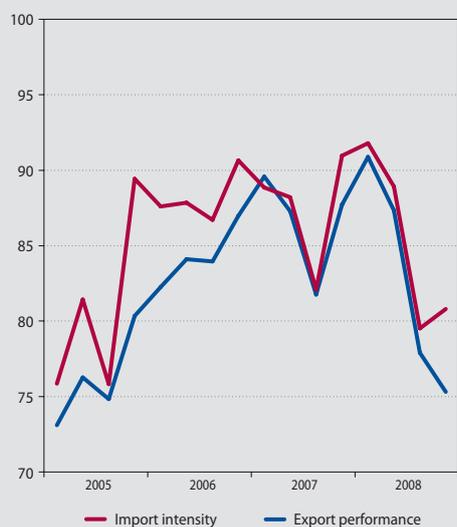


Source: NBS calculations based on data from the Statistical Office of the SR.

(25.1% at constant prices), clothing and footwear (20.9%), and recreation and culture (12.0%). In percentage terms, the largest consumption component (20.9%) was, as in the previous year, spending on food and non-alcoholic beverages.

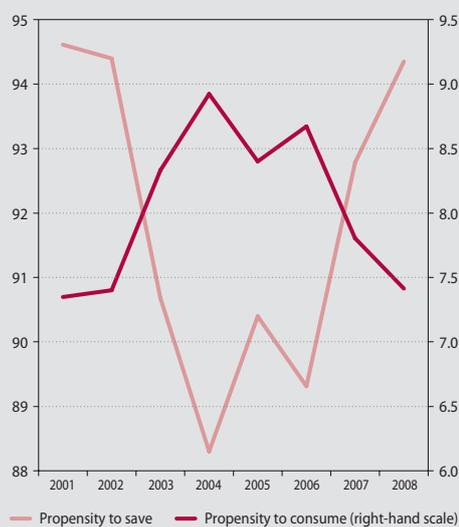
The second largest component was household expenses (19.0%). Compared with 2007, the share of these two components in household consumption decreased by 0.8 and 0.6 of a percentage point, respectively, while the steepest

Chart 18 Export performance and import intensity (%)



Source: Statistical Office of the SR.

Chart 19 Propensity of households to save and to consume (%)



Source: Statistical Office of the SR, NBS calculations.

year-on-year increases were recorded in the proportions of furnishings, household equipment, and the routine maintenance of dwellings, and in clothing and footwear.

The year-on-year growth in household final consumption was stimulated mostly by consumer spending on furnishings, household equipment and the routine maintenance of dwellings, and on clothing and footwear.

Exports and imports of goods and services

In 2008, both exports and imports of goods and services remained below the level of last year in terms of dynamics: exports grew by 4.6% and imports by 6.4% at current prices (compared with 14.4% and 10.7%, respectively in 2007). Nominal net exports resulted in a deficit of SKK 49.4 billion (EUR 1.6 billion), compared with a shortfall of SKK 19 billion (EUR 0.6 billion) a year earlier.

The export performance of the Slovak economy deteriorated year-on-year by 3.9 percentage points in 2008, when the exports of goods and services as a share of GDP reached 82.6% at current prices. Import intensity weakened on a year-on-year basis, to 85.0% (from 87.5% a year earlier). The openness of the Slovak economy, expressed in terms of the ratio of exports and imports of goods and services to nominal GDP, stood at 167.6% in 2008.

2.1.3 LABOUR MARKET DEVELOPMENTS

Employment

Employment as defined in the European System of Accounts 1995 (ESA95) grew year-on-year by 2.8% in 2008, compared with 2.1% in 2007. Looking at the breakdown of employment by sector, the year under review saw growing demand for labour in selected services, which led to dynamic employment growth in hotels and restaurants, transport, real estate business, and trade. On the other hand, employment in other community services, health care, and education remained below the previous year's level in terms of dynamics. Among the production sectors, construction recorded a rapid employment growth in 2008.

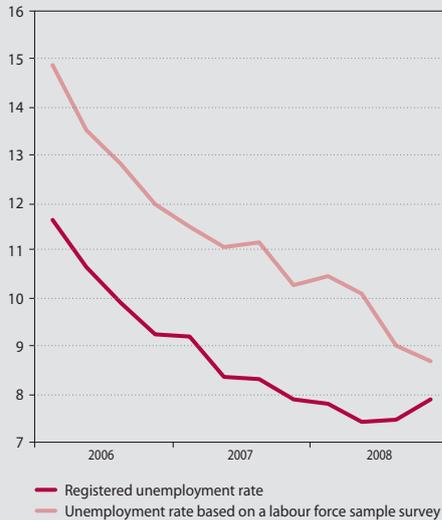
The trend in the outflow of labour to foreign countries underwent a change in 2008. The number of persons working abroad decreased on a year-on-year basis by 6.4%. Within the domestic economy, the number of employees increased by 2.5% and that of entrepreneurs by 10.2% (entrepreneurs without employees by 11.6% and those with employees by 6.0%).

Unemployment

The continuing demand for labour was also reflected in the level of unemployment. According to a labour force sample survey (LFSS), the



Chart 20 Unemployment (%)



Source: The Office for Labour, Social Affairs and Family and the Statistical Office of the SR.

number of people out of work decreased year-on-year by 11.8% in 2008. This decrease was also mirrored in the unemployment rate, which reached 9.6% in 2008, representing a drop of 1.4 percentage points compared with 2007. The falling trend in unemployment was also confirmed by data on registered unemployment. According to the registers of Office for Labour, Social Affairs and Family, the average unemployment rate in 2008 was 7.7%, representing a fall of 0.8 of a percentage point compared with 2007, but as of November 2008 the registered unemployment rate began to rise in comparison with the previous periods.

The continuing year-on-year growth in labour supply (i.e. persons in productive and post-productive age) was mainly reflected in the growing number of economically active persons in 2008. As a result of this development, the rate of economic activity reached 59.4%, representing a year-on-year increase of 0.6 of a percentage

Table 8 Labour market indicators

	2007	2008				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Nominal wage (SKK)	20,146	20,443	21,459	21,226	23,991	21,782
Nominal wage (EUR)	668.7	678.6	712.3	704.6	796.4	723.0
Nominal wage (index)	107.2	110.0	109.5	108.8	104.6	108.1
Real wage (index)	104.3	105.8	104.8	103.5	99.8	103.3
Nominal compensation per employee, ESA95 (index)	108.8	110.9	110.4	109.2	106.2	109.0
Real compensation per employee, ESA95 (index)	106.0	106.5	105.2	104.3	102.4	104.4
Labour productivity of GDP (index, current prices)	109.0	109.9	108.4	106.3	102.9	106.7
Labour productivity of GDP (index, constant prices)	107.7	106.4	105.1	103.2	100.8	103.7
Labour productivity of GDP, ESA95 (index, current prices)	109.4	109.8	108.1	106.3	102.5	106.5
Labour productivity of GDP, ESA95 (index, constant prices)	108.1	106.3	104.8	103.2	100.4	103.5
Employment according to statistical records (index)	102.5	102.7	102.7	103.2	101.7	102.6
Employment based on an LFSS ¹⁾ (index)	102.4	102.8	102.9	104.5	102.8	103.2
Employment based on the ESA95 (index)	102.1	102.8	102.9	103.2	102.1	102.8
Registered unemployment rate (%)	8.4	7.8	7.4	7.5	7.9	7.7
Unemployment rate based on an LFSS ¹⁾ (%)	11.0	10.5	10.1	9.0	8.7	9.6
Unit labour costs in nominal terms (ULC) ²⁾	100.6	104.4	105.3	105.8	105.8	105.3
Consumer prices (average index)	102.8	104.0	104.5	105.1	104.8	104.6

Source: Statistical Office of the SR and NBS calculations based on data from the SO SR.

1) Labour force sample survey (LFSS).

2) Ratio of growth in compensation per employee (at current prices) to growth in labour productivity as defined in ESA95 (at constant prices).



point. Among the economically active population, the increasing share of persons in employment led to a rise in the employment rate, by 1.6 percentage points year-on-year, to 62.3% in 2008.

Wages and labour productivity

In 2008, the average monthly nominal wage in the Slovak economy increased year-on-year by 8.1%, to SKK 21,782 (EUR 723). Compared with 2007, the rate of wage growth accelerated by 0.9 of a percentage point. The strongest nominal wage growth in 2008 took place in mining and quarrying (12.8%), health and social care (11.9%), trade (9.8%), other community services (9.5%), and real estate, leasing and business activities (9.2%). The smallest nominal wage increases were recorded in hotels and restaurants (2.9%) and financial intermediation (3.6%).

The dynamics of real wages weakened in comparison with 2007 by 1 percentage point (from 4.3% to 3.3%). Real wage growth in 2008 was achieved in all sectors of the economy, except in financial intermediation, hotels and restaurants.

Labour productivity (GDP per employee) grew more slowly than in 2007, when a 3.7% increase was recorded in real terms. The growth rate of real labour productivity exceeded the dynamics of real wages by 0.4 of a percentage point.

Unit labour costs increased year-on-year by 5.3% in 2008, while the annual HICP inflation rate stood at 3.9%. This represented an acceleration of 4.7 percentage points compared with 2007.

This was mainly the result of faster growth in nominal compensation per employee (by 0.2 of a percentage point compared with 2007, to 9.0%), which, accompanied by slower growth in real labour productivity (its dynamics weakened year-on-year by 4.6 percentage points, to 3.5%), lead to faster growth in unit labour costs.

2.1.4 FINANCIAL RESULTS OF CORPORATIONS

According to preliminary data from the Statistical Office of the SR, financial and non-financial corporations generated a total profit of SKK 268.6 billion (EUR 8.9 billion) in 2008. This profit was 18.2% lower than the figure for 2007; the earnings of non-financial corporations dropped by 7.4% and financial corporations recorded a loss of SKK 17.1 billion (EUR 0.6 billion).

Non-financial corporations achieved lower profits mainly in manufacturing; transport and storage; post and telecommunications; hotels and restaurants; and other community, social, and personal services. On the other hand, higher profits were earned in wholesale trade, retail trade, the sale of motor vehicles and fuels; construction; real estate, renting, and business activities; agriculture; and education.

Financial corporations recorded a loss of SKK 17.1 billion (EUR 0.6 billion). Their deteriorated financial performance can be attributed to the weaker financial results of insurance corporations and pensions funds, and to the losses of other financial intermediaries and the NBS. Commercial financial institutions achieved a profit of SKK 21.4 billion (EUR 0.7 billion) in 2008.

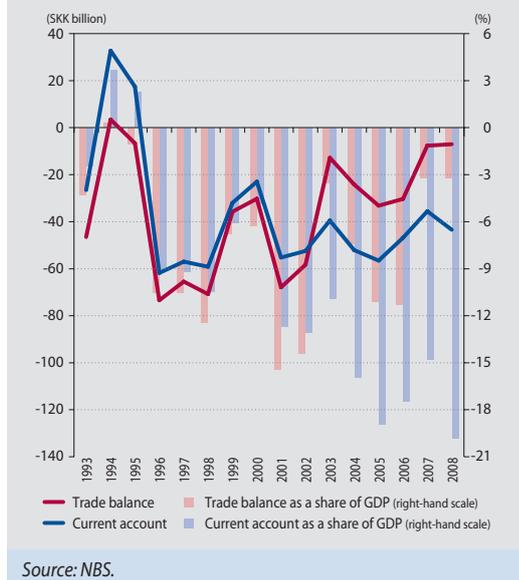
Table 9 Financial results of corporations (current prices)

Financial result (before taxation)	2006		2007		2008		Index 2008/2007
	SKK billions	EUR billions	SKK billions	EUR billions	SKK billions	EUR billions	
Non-financial and financial corporations in total	268.4	9.0	328.0	10.9	268.6	8.9	81.9
of which:							
Non-financial corporations	280.4	9.3	308.6	10.2	285.7	9.5	92.6
Financial corporations	-12.0	-0.4	19.4	0.6	-17.1	-0.6	-
of which: NBS	-45.1	-1.5	-19.5	-0.6	-37.0	-1.3	-
Financial corporations, excluding NBS	33.2	1.1	38.8	1.2	19.9	0.6	51.2

Source: Statistical Office of the SR, NBS.



Chart 21 Trade balance and current account developments in 1993-2008 (%)



in the current account deficit was a deterioration in the services and current transfers balances. On the other hand, the income balance improved in comparison with 2007 and the trade deficit remained virtually unchanged. The current account deficit as a share of GDP at current prices reached 6.5%, representing a year-on-year increase of 1.2 percentage points (the share of the current account balance, excluding dividends and reinvested earnings, was negative (-1.4%), while 2007 saw a surplus of 1.5%). The trade deficit as a share of GDP decreased to 1.1% in 2008 (the value of this ratio stood at 1.2% in 2007).

The trade balance resulted in a deficit of SKK 21.5 billion (EUR 0.7 billion), which virtually corresponded to the figure recorded in 2007. The growth in exports, as well as imports, slowed considerably on a year-on-year basis, which was markedly influenced by the exchange rate of the koruna, for the dynamics of exports and imports in euro were more than twice as strong (in US dollars nearly three times).

2.2 BALANCE OF PAYMENTS

2.2.1 CURRENT ACCOUNT

Current account

In 2008, the balance of payments on current account resulted in a deficit of SKK 132.2 billion (EUR 4.4 billion), which was SKK 43.4 billion (EUR 1.1 billion) more than in the previous year. The main factor behind the year-on-year increase

According to preliminary data from the Statistical Office of the SR, goods were exported during 2008 in the total amount of SKK 1,492.6 billion (EUR 49.5 billion), which was 5.1% (21.6% in US dollars and 13.4% in EUR) more than in 2007.

Over the twelve months of 2008, exports increased most significantly in comparison with

Table 10 Balance of payments current account

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Balance of trade	-21.5	-0.7	-21.4	-0.7
Exports	1,492.6	49.5	1,420.7	47.2
Imports	1,514.1	50.3	1,442.1	47.9
Balance of services	-14.7	-0.5	13.1	0.4
Balance of income	-69.1	-2.3	-79.4	-2.6
of which: investment income	-108.0	-3.6	-114.1	-3.8
of which: reinvested earnings	-16.8	-0.6	-23.3	-0.8
Current transfers	-26.9	-0.9	-11.1	-0.4
Current account in total	-132.2	-4.4	-98.8	-3.3
Current account as a share of GDP in %	-6.5		-5.3	
Current account (excluding dividends and reinvested earnings) as a share of GDP in %	-1.4		1.5	

Source: NBS, Statistical Office of the SR (GDP).



Table 11 Year-on-year changes in exports by segment

	Year-on-year changes				Contributions to the year-on-year changes	
	January – December				January – December	
	2008		2007		2008	2007
	SKK billions	EUR billions	SKK billions	EUR billions	p.p.	p.p.
Raw materials	11.6	0.4	-5.2	-0.2	0.8	-0.4
Chemicals and semi-finished goods	4.8	0.2	15.4	0.5	0.3	1.3
of which: Chemical products	-4.0	-0.1	1.7	0.06	-0.3	0.1
Semi-finished goods	8.7	0.3	13.7	0.5	0.6	1.1
Machinery and transport equipment	46.3	1.5	168.0	5.6	3.3	13.6
of which: Machinery	59.2	2.0	72.5	2.4	4.2	5.9
Transport equipment	-12.8	-0.4	95.5	3.2	-0.9	7.7
Finished products	9.1	0.3	9.7	0.3	0.6	0.8
Exports in total	71.8	2.4	187.9	6.2	5.1	15.2

Source: NBS.

Table 12 Year-on-year changes in imports by segment

	Year-on-year changes				Contributions to the year-on-year changes	
	January – December				January – December	
	2008		2007		2008	2007
	SKK billions	EUR billions	SKK billions	EUR billions	p.p.	p.p.
Raw materials	42.1	1.4	-14.5	-0.5	2.9	-1.1
Chemicals and semi-finished goods	6.1	0.2	32.7	1.1	0.4	2.5
of which: Chemical products	-0.7	-0.02	7.5	0.3	-0.1	0.6
Semi-finished goods	6.8	0.2	25.2	0.8	0.5	1.9
Machinery and transport equipment	-9.5	-0.3	91.1	3.0	-0.7	7.0
of which: Machinery	1.9	0.06	56.0	1.8	0.1	4.3
Transport equipment	-11.4	-0.4	35.1	1.2	-0.8	2.7
Finished products	33.2	1.1	24.7	0.8	2.3	1.9
of which: Agricultural and industrial products	13.2	0.4	20.6	0.7	0.9	1.6
Passenger cars	12.5	0.4	7.1	0.2	0.9	0.5
Machines and electrical consumer goods	7.5	0.2	-3.0	-0.1	0.5	-0.2
Imports in total	71.9	2.4	134.0	4.4	5.0	10.2

Source: NBS.

the same period a year earlier in the 'machinery and transport equipment' category (television sets and passenger cars). This increase was, however, approximately a quarter of the figure for

the same period in 2007. The smaller increase was due to a year-on-year decline in the exports of chemical products (mainly plastics), accompanied by slower growth in the exports of semi-



MONETARY DEVELOPMENTS

finished goods (the increase in iron and steel exports was significantly reduced by a year-on-year fall in the exports of aluminium and aluminium products). A somewhat smaller year-on-year increase was recorded in the 'finished products' category, where footwear and toy exports grew most dynamically. The increased exports of raw materials were caused mainly by increased refined oil exports, while the increase in exports was partly due to price developments.

The volume of goods imported in 2008 totalled SKK 1,514.1 billion (EUR 50.2 billion), representing a year-on-year increase of 5.0% (corresponding to 21.6% in US dollars and 13.3% in EUR).

The largest year-on-year increase in imports was recorded in mining and quarrying, i.e. more than 58% of the total increase in imports. This was to a large extent caused by a year-on-year rise in oil and gas prices, which stimulated growth in the imports of these two commodities. Marked increases were also recorded in the imports of black coal and refined petroleum oils. Stronger import growth than last year was recorded in the 'finished products' category, mainly in the imports of machines and electrical products (consumer electronics), passenger cars and, to a lesser extent, industrial products (toys, phar-

maceuticals, footwear). In finished products, a smaller increase was recorded in the imports of agricultural products (tobacco). The year-on-year increase in imports in 'chemicals and semi-finished goods' also contributed to the year-on-year growth in total imports, but was more than 80% smaller than in 2007. The increased imports of semi-finished goods were concentrated in iron and steel, and iron and steel products. In the 'chemical products' category, the increase in imports took place mostly in plastics. In contrast with the other categories, where imports grew on a year-on-year basis, goods imports in the 'machinery and transport equipment' category declined in comparison with 2007. The decline in imports was caused by a year-on-year fall in the 'transport equipment' sub-category (motor vehicle parts, components, and accessories), which resulted from the decline in car exports in the final quarter in particular.

Trade in services resulted in a deficit of SKK 14.7 billion (EUR 0.5 billion) in 2008, representing a year-on-year deterioration of SKK 27.8 billion (EUR 0.9 billion). The change from last year's surplus to a deficit was mainly caused by 'other services in total' and, to a lesser extent, by tourism and transport services. The balance of 'other services in total' (telecommunications, construc-

Table 13 Balance of services

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Transport	9.7	0.3	10.2	0.4
Tourism	9.2	0.3	12.0	0.4
Other services	-33.6	-1.1	-9.1	-0.3
Balance of services	-14.7	-0.5	13.1	0.4

Source: NBS.

Table 14 Income balance

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Compensation of employees	38.9	1.3	34.7	1.2
Direct investment	-94.2	-3.1	-109.2	-3.6
of which: reinvested earnings	-16.8	-0.6	-23.3	-0.8
Portfolio and other investments	-13.8	-0.5	-4.9	-0.2
Income balance	-69.1	-2.3	-79.4	-2.6

Source: NBS.

**Table 15 Balance of current transfers**

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Government	-5.2	-0.2	0.5	0.02
Other	-21.7	-0.7	-11.6	-0.4
Balance of current transfers	-26.9	-0.9	-11.1	-0.4

Source: NBS.

tion, insurance, financial, renting, computer engineering, advertising, business, and technical services, etc.) remained in deficit, but the size of the deficit increased year-on-year by SKK 24.5 billion (EUR 0.8 billion). The increased deficit in the balance of 'other services in total' was caused mainly by a marked increase in payments (accompanied by a fall in receipts) for financial and other services provided (mainly intermediation services and lower receipts from cultural services). The overall balance was negatively affected by construction and telecommunications services, where the growth in receipts was exceeded by the growth in expenses, and by legal, accounting, and consulting services, where the growth in expenses was accompanied by a fall in receipts. The year-on-year deterioration in the balance of tourism services was caused by accelerated growth in the expenses of Slovak residents on services related to tourism, which exceeded the growth in receipts from tourism services provided. The surplus in transport services decreased on a year-on-year basis, mainly as a result of increased expenses on passenger air transport services provided, accompanied by a fall in receipts from these services. The decrease in the surplus was slowed to some extent by increased receipts from the transit of oil and natural gas (by SKK 2.6 billion (EUR 0.1 billion)).

In 2008, the income balance resulted in a deficit of SKK 69.1 billion (EUR 2.3 billion). This represented an improvement of SKK 10.3 billion (EUR 0.3 billion) compared with the previous year's balance. Receipts increased year-on-year by SKK 14.5 billion (EUR 0.5 billion), while payments increased by only SKK 4.3 billion (EUR 0.1 billion). The main factor behind the decrease in the deficit was a lower estimate of the profits of foreign investors, which led to lower dividend payments to foreign investors (by SKK 10.6 billion (EUR 0.4 billion)) and to a lower estimate of the profits paid to foreign investors, which were

reinvested in Slovakia. Within the overall income balance, the diminishing deficit was supported by an increase in the incomes of Slovak residents from abroad, coupled with an increased surplus in employee compensation.

The balance of current transfers resulted in a deficit of SKK 26.9 billion (EUR 0.9 billion) in 2008. This represented a year-on-year deterioration of SKK 15.8 billion (EUR 0.5 billion), which was caused mainly by developments in the balance of private transfers, where the growth in expenses well exceeded the growth in receipts. The most significant increases took place in payments of allowances, foreclosure charges, bail for legal entities, and in income and property tax payments. The balance of government transfers also recorded a deterioration (an increase in payments to the EU budget accompanied by a fall in receipts from eurofunds).

2.2.2 CAPITAL AND FINANCIAL ACCOUNT

The balance of payments on capital and financial account resulted in a surplus of SKK 176.8 billion (EUR 5.9 billion), which was SKK 8.9 billion (EUR 0.3 billion) less than in the previous year. The structure of financial flows also changed during the year. In 2007, the dominant inflow took place in short-term capital for the banking sector. In 2008, capital inflows were dominated by direct and portfolio investments, which were accompanied by a substantially lower year-on-year inflow of short-term capital. In terms of financing the current account deficit, the structure of the b.o.p. capital and financial account improved in comparison with the previous year, while the deficit was fully covered by inflows of funds other than short-term funds.

The balance of payments on capital account resulted in a surplus of SKK 24.3 billion (EUR 0.8 billion) in 2008. This represented a year-on-year increase of SKK 13.0 billion (EUR 0.4 billion) in the



MONETARY DEVELOPMENTS

Table 16 Balance of payments capital and financial account

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Capital account	24.3	0.8	11.3	0.4
Direct investment	63.7	2.1	71.2	2.4
SR abroad	-5.6	-0.2	-9.5	-0.3
of which: equity capital abroad	-4.6	-0.2	-6.0	-0.2
reinvested earnings	-1.2	-0.04	-1.2	-0.04
In the SR	69.3	2.3	80.7	2.7
of which: equity capital in the SR	27.7	0.9	27.4	0.9
of which: FDI other than privatisation	27.7	0.9	27.4	0.9
reinvested earnings	18.0	0.6	24.5	0.8
Portfolio investment and financial derivatives	47.5	1.6	-16.2	-0.5
SR abroad	4.9	0.2	-19.7	-0.7
In the SR	42.6	1.4	3.5	0.1
Other long-term investment	4.7	0.2	19.0	0.6
Assets	-13.6	-0.5	-6.4	-0.2
Liabilities	18.3	0.6	25.4	0.8
Short-term investment	36.6	1.2	100.4	3.3
Assets	-3.4	-0.1	-29.3	-1.0
Liabilities	40.0	1.3	129.7	4.3
Capital and financial account in total	176.8	5.9	185.7	6.2

Source: NBS.

Table 17 Capital inflows in other investment by sector

	January – December 2008		January – December 2008		Year-on-year changes	
	SKK billions	EUR billions	SKK billions	EUR billions	SKK billions	EUR billions
Banks	54.7	1.8	88.4	2.9	-33.7	-1.1
Enterprises	-14.8	-0.5	36.1	1.2	-50.9	-1.7
Government + NBS	1.4	0.05	-5.2	-0.2	6.6	0.2
Total	41.3	1.4	119.3	4.1	-78.0	-2.6

Source: NBS.

surplus and was generated by increased inflows from eurofunds, while the inflow of funds in capital transfers markedly exceeded the decrease in current transfers.

From January to December 2008, foreign direct investment recorded an inflow of SKK 63.7 billion (EUR 2.1 billion), representing a decline of SKK 7.5 billion (EUR 0.3 billion) in comparison

with 2007. The year-on-year change in the balance of direct investments was mainly the result of a lower estimate of earnings reinvested in the economy by foreign investors, and of a smaller inflow in the form of other capital. Concerning assets, the overall decrease in inflows was moderated by lower interest among residents in foreign direct investment abroad (inflows in the form of equity participation and other capital).



Portfolio investment resulted in a net inflow of SKK 47.5 billion (EUR 1.6 billion), compared with a net outflow of SKK 16.2 billion (EUR 0.5 billion) in the previous year. The year-on-year change from an outflow to an inflow was influenced on the assets side by a fall in demand for foreign equity and debt securities among Slovak residents. On the liabilities side, the increased inflow resulted from an increase in demand for bond issues among foreign investors.

In other investments, an inflow of SKK 41.3 billion (EUR 1.4 billion) was recorded in 2008, compared with SKK 119.4 billion (EUR 3.9 billion) recorded in 2007. Virtually the entire year-on-year change was connected with developments in the corporate and banking sectors. In the corporate sector, the outflow resulted mainly from the repayment of import liabilities, accompanied by growth in deposits on accounts abroad. The lower inflow of funds into the banking sector resulted from the fact that inflows from financial loans were exceeded by a year-on-year decline in short-term deposits on non-resident accounts at Slovak banks. The year-on-year decline in short-term deposits on bank accounts was to a large extent the result of exchange rate stabilisation, while the strong inflow in 2007 was caused by the expectations of exchange rate appreciation (for the koruna) among investors.

2.2.3 FOREIGN RESERVES

At the end of 2008, the foreign reserves of Národná banka Slovenska stood at USD 18.8 billion (EUR 13.4 billion), representing a fall of USD 0.1 billion since the beginning of the year. The total foreign reserves of NBS were influenced by numerous factors during the year. The main factor positively influencing revenues was income from deposits and securities held in the Bank's portfolio. Expenditures were mainly determined by debt service payments made on behalf of the Government and cross-border payments effected for NBS clients. The deficit in the balance of revenues and expenditures in 2008 (USD-0.2 billion) was partly offset by positive exchange rate differentials (USD 0.04 billion), which resulted from the appreciation of the euro against the US dollar in international financial markets.

The revenue side of foreign reserves was determined in 2008 by the following factors:

- yields from deposits and securities held in the portfolio of NBS in the amount of USD 0.4 billion;
- income from new government loans in the amount of USD 0.1 billion.

The expenditure side of foreign reserves was affected in that period by:

- debt service payments for the Government in the amount of USD 0.5 billion, of which the payment of interest on government eurobonds issued in previous years accounted for USD 0.3 billion;
- other NBS expenditures in the amount of USD 0.3 billion, given by the difference between the funds received and paid in cross-border payments for NBS clients.

At the end of 2008, the foreign reserves of NBS were 2.7 times greater than the volume of average monthly imports of goods and services to Slovakia in 2008. The ratio of foreign reserves to the amount of payments for goods and services, recorded in banking statistics, reached 3.5 times the volume of average monthly imports of goods and services in 2008.

The foreign reserves of commercial banks reached USD 3.9 billion (EUR 2.8 billion) at the end of 2008. The volume of foreign reserves in the banking sector, including NBS, stood at USD 22.7 billion (EUR 16.1 billion) at the end of the year.

2.2.4 EXTERNAL DEBT OF SLOVAKIA

At the end of December 2008, Slovakia's total gross external debt stood at USD 52.5 billion (EUR 37.3 billion), representing a year-on-year increase of USD 8.2 billion (EUR 7.1 billion). Total long-term foreign debt grew year-on-year by USD 4.7 billion, while total short-term foreign debt increased by USD 3.5 billion. The increase in Slovakia's external debt during 2008 was significantly influenced by the EUR/USD cross rate.

Concerning long-term external debt, the foreign liabilities of the Government and NBS increased year-on-year by USD 0.8 billion. This increase was caused by strong interest in the purchase of SKK-denominated government bonds. Long-term foreign debt in the commercial sector increased by USD 3.9 billion, with the foreign liabilities of commercial banks growing by USD 1.2 billion (of which bonds and bills of exchange accounted



	USD billions		EUR billions	
	31.12.2007	31.12.2008	31.12.2007	31.12.2008
Total external debt of Slovakia	44.3	52.5	30.1	37.3
Long-term external debt	20.7	25.4	14.1	18.0
Government and NBS ¹⁾	9.5	10.3	6.5	7.3
Commercial banks	2.2	3.3	1.5	2.4
Entrepreneurial entities	9.1	11.8	6.2	8.4
Short-term external debt	23.6	27.1	16.1	19.2
Government and NBS ¹⁾	0.0	0.0	0.0	0.0
Commercial banks	12.1	15.3	8.2	10.9
Entrepreneurial entities	11.5	11.8	7.8	8.4
Foreign assets	37.0	40.0	25.2	28.4
Net external debt	7.3	12.5	5.0	8.9
SKK/USD and SKK/EUR rates	22.870	21.385	33.603	30.126
EUR/USD cross exchange rate	-	-	1.469	1.409

Source: NBS.
1) Including government agencies and municipalities.
Note: The totals may not sum up due to rounding.

for USD 1.0 billion) and the foreign liabilities of entrepreneurial entities increasing by USD 2.7 billion (of which loans accounted for USD 2.6 billion).

Within the scope of short-term foreign debt, the short-term foreign liabilities of commercial banks increased by USD 3.2 billion (mostly in the form of loans, cash, and deposits) and those of entrepreneurial entities grew by USD 0.3 billion.

At the end of December 2008, Slovakia's total per-capita gross external debt stood at USD 9,764, compared with USD 8,237 at the end of December 2007. The share of short-term foreign debt in the country's total gross external debt decreased year-on-year by 1.7 percentage points, from 53.3% at the end of December 2007 to 51.6% at the end of December 2008.

The net external debt of Slovakia, calculated as the difference between gross foreign debt, i.e. USD 52.5 billion (liabilities of NBS and the Government, commercial banks, and the corporate sector – except for equity participations), and foreign assets, i.e. USD 40.0 billion (foreign reserves of NBS, foreign assets of commercial banks and the corporate sector – except for equity participations), reached USD 12.5 billion (debtor position)

at the end of December 2008. This represented a year-on-year increase of USD 5.2 billion.

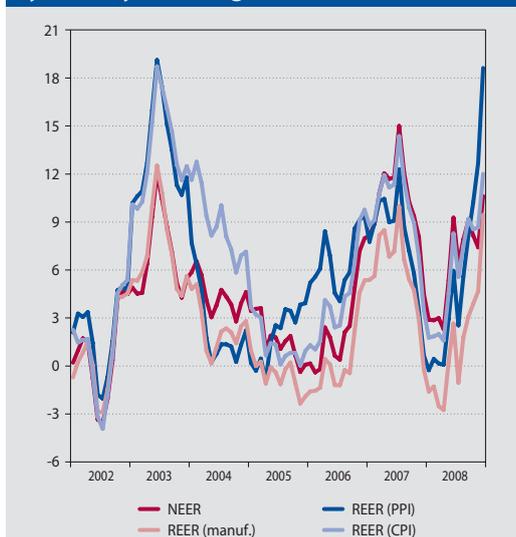
According to preliminary data, Slovakia's total gross external debt as a share of GDP at current prices reached 55.4% on 31 December 2008, representing an increase of 0.7 of a percentage point compared with 2007.

2.2.5 NOMINAL AND REAL EFFECTIVE EXCHANGE RATES OF THE SLOVAK KORUNA

The average year-on-year appreciation of the nominal effective exchange rate (NEER) of the Slovak koruna slowed to 6.3% in 2008, from 10.2% in the previous year. The biggest contributions to the appreciation of the NEER index came from the strengthening of the koruna against the euro (a contribution of 4.4 percentage points), the Russian ruble (0.9 of a percentage point), the pound sterling (0.6 of a percentage point), and the US dollar (0.4 of a percentage point). The appreciation of the NEER index was dampened by the weakening of the Slovak currency against the Czech koruna (a contribution of -0.5 of a percentage point).

The slower strengthening of the Slovak koruna in 2008 (in nominal terms) led to slower appreciation in the real effective exchange rate (REER).

Chart 22 Developments in the NEER and REER indices (16 trading partners) (year-on-year changes in %)



Source: NBS.

Note: + appreciation, – depreciation.

The average year-on-year appreciation of the REER index, defined on the basis of consumer prices, slowed in comparison with the previous year by 3.8 percentage points, to 6.0%. In the case of the REER index, defined on the basis of industrial producer prices, the rate of appreciation slowed by 2.3 percentage points, to 5.5%. The appreciation of the REER index, defined on the basis of manufacturing products prices, slowed by 4.5 percentage point, to an average of 1.4% in 2008. The slower appreciation of the individual real effective exchange rate indices in comparison with the nominal effective exchange rate was the result of lower inflation in the Slovak economy, compared with the weighted average of the country's foreign trading partners.

2.3 GENERAL GOVERNMENT

Budgetary performance in the general government sector during 2008 resulted in a deficit corresponding to 2.2% of GDP. Compared with the approved deficit (2.3% of GDP), the actual outcome was somewhat better.

The better outcome was mainly attributable to the Social Insurance Agency's improved budgetary performance. This was mainly due to higher-

than-expected social security contributions. In addition to the Social Insurance Agency, the favourable result of the general government sector can also be ascribed to the higher surplus achieved in state funds, owing to an unplanned capital income from the sale of emission quotas in the Environmental Fund, and to the reduced budget deficits of self-governing territorial units. The state budget's contribution to the favourable general government performance was insignificant. A strong negative contribution came from the budgetary performance of the National Property Fund, which greatly exceeded its planned deficit by assuming risky guarantees, while its income from dividends decreased. Budgetary performance in the general government sector was also negatively affected by the remission of uncollectible receivables in the state budget. Funds drawn from the EU budget reached 70% of the figure planned for 2008.

In 2008, the gross debt of the general government sector reached 27.6% of GDP, which was less than the budgeted figure (31% of GDP).

The parameters of the sector's deficit and debt recorded in 2008 did not exceed the reference values set for the Member States of the European Union.

2.4 MONETARY DEVELOPMENTS

2.4.1 MONETARY AGGREGATES

At the end of 2008, M3 monetary aggregate amounted to SKK 1,135.3 billion (EUR 37.7 billion), representing an increase of SKK 52.5 billion (EUR 1.7 billion) compared with 2007 (an increase of SKK 124.4 billion (EUR 4.1 billion)). The year-on-year rate of M3 growth slowed throughout the year, from 12.9% in December 2007 to 4.9% at end-2008. Among the money supply components, the slowdown took place mostly in currency in circulation and, during the first half of the year, in deposits and received loans repayable on demand. Deposits and received loans with an agreed maturity of up to two years grew mainly towards the end of the year in connection with the prepared cash changeover. The slowdown in the growth of less liquid deposits was the result of developments in deposits in the non-financial corporations sector, while the dynamics of household deposits remained un-



Chart 23 Contributions to year-on-year M3 growth from its main components



Source: NBS.

changed during the year. Among the counterparts of M3, the growing trend continued in MFI loans to the private sector, but at a much slower pace, which, after more than three years, slowed in the fourth quarter of 2008 below 20%.

Main components of M3

Developments in deposits and received loans repayable on demand were determined by household deposits, which followed a growing trend in the first half of the year and stagnated in the second half, and by deposits in the sector of non-financial corporations. The most liquid corporate deposits experienced a slowdown in dynamics and decline in volume virtually throughout the period. A modest increase was recorded in December 2008, which, however, was connected with the euro adoption. Non-financial corporations transferred their funds from demand deposits to deposits with an agreed maturity of up to two years and vice versa throughout the

Table 19 Developments in the main M3 components and counterparts

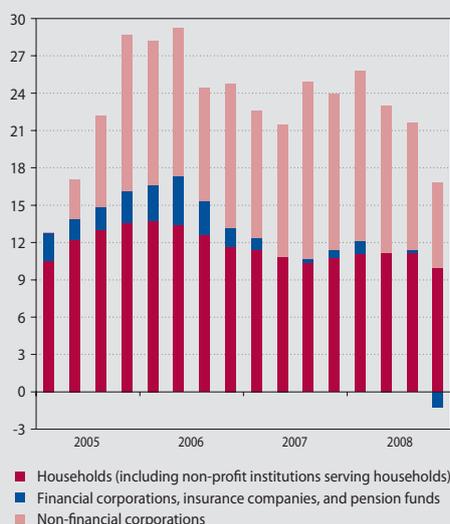
	Change in ¹⁾				Annual dynamics in ¹⁾		Volume	
	2007		2008		2007	2008	as at 31.12.2008	
	SKK billions	EUR billions	SKK billions	EUR billions	(%)	(%)	SKK billions	EUR billions
Currency in circulation	10.5	0.4	-93.5	-3.1	8.0	-66.0	48.2	1.6
Deposits and received loans repayable on demand	61.3	2.0	46.8	1.6	14.4	9.7	527.7	17.5
M1	71.9	2.4	-46.7	-1.6	12.9	-7.5	575.9	19.1
Deposits and received loans with an agreed maturity of up to 2 years	36.9	1.2	103.4	3.4	10.7	27.0	486.1	16.1
M2	106.9	3.5	56.0	1.9	11.7	5.5	1 071.0	35.6
M3 monetary aggregate	124.4	4.1	52.5	1.7	12.9	4.9	1 135.3	37.7
Counterparts of M3								
MFI loans and securities	151.2	5.0	131.3	4.36	16.9	12.5	1 178.2	39.1
of which: general government	6.9	0.2	10.6	0.4	3.1	3.5	272.3	9.0
other residents	144.3	4.8	120.7	4.0	23.6	15.5	905.9	30.0
Net foreign assets	6.2	0.2	-81.8	-2.7	-0.7	-33.1	180.4	6.0
Long-term financial liabilities (excluding capital and reserves)	19.3	0.6	9.4	0.3	15.7	6.7	151.3	5.0
Other items net (including capital and reserves) ²⁾	-13.8	-0.5	12.5	0.4	25.9	-3.7	-72.0	-2.4

Zdroj: NBS.

1) Since monetary aggregates and the counterparts of the M3 aggregate (according to ECB methodology) are not evaluated as at 1 January of the given year, the values recorded as at 31 December of the previous year are used in the table and the further text as initial values for the year.

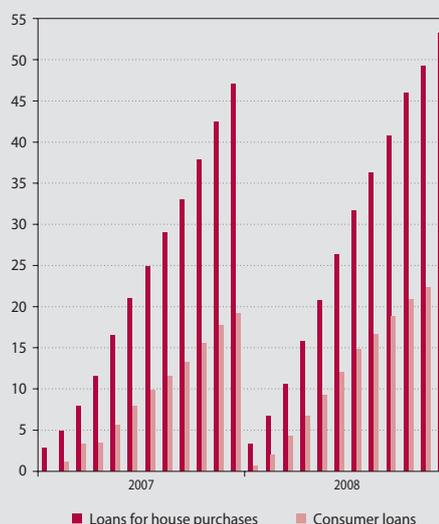
2) Other items net, including central government deposits. The values are calculated as follows: M3 = loans to the general government sector + loans to other residents + net foreign assets – long-term financial liabilities + other items net.

Chart 24 Contributions to the year-on-year growth in MFI loans to the private sector (p.p.)



Source: NBS.

Chart 25 Increases in loans to households since the beginning of the year (SKK billions)



Source: NBS.

year. Currency in circulation recorded a gradual fall in volume in connection with the changeover preparations. The Slovak koruna's gradual withdrawal from circulation led to a slowdown in the dynamics of currency in circulation, to -66.0% at the end of the year. These developments made negative contributions to the money supply growth.

The contribution of less liquid money supply components (M2-M1) to the overall dynamics of M3 growth diminished gradually over the first half of 2008, but this diminishing trend turned in the second half of the year, mainly at end-2008. This was attributable to household deposits, mainly in the final quarter (when currency in circulation decreased in volume, in connection with the euro changeover). After increasing gradually over the first half of 2008, the contribution of marketable instruments (M3-M2) to money supply growth markedly decreased in the second half of the year, mainly as a result of a marked outflow of funds in money market fund shares/units in October, and turned negative in the fourth quarter of 2008. Owing to the deepening financial crisis and stock market slump, interest in investment in open-end investment fund shares/units waned rapidly in September. The increase (M3-M2) shrank on a year-on-year basis by approximately SKK 21.0 billion (EUR 0.7 billion).

MFI loans to the private sector

At the end of 2008, the monetary financial institutions (MFIs) loans to the private sector (excluding securities) reached SKK 887.5 billion (EUR 29.5 billion), representing an increase of SKK 117.6 billion (EUR 3.9 billion) compared with the end of the previous year. This increase took place mostly in loans to households and, in the first half of the year, in loans to non-financial corporations. The dynamics of lending to households stagnated, mainly at the beginning of the year. The second half of the year saw a slowdown in the rate of growth, to 25.5% in December 2008 (28.5% in December 2007). MFI loans to non-financial corporations experienced a marked slowdown, from the second quarter in particular. They closed the year with a year-on-year increase of 13.1% (compared with 24.1% in December 2007).

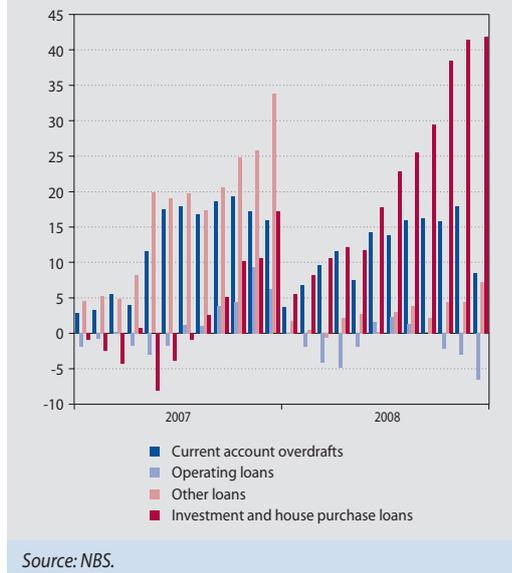
MFI loans to households

In 2008, as in the previous year, households used credit resources mostly for long-term investments. Within the structure of loans by purpose, the steepest year-on-year increase was recorded in loans for house purchases¹ (SKK 53.2 billion (EUR 1.8 billion)), which contributed 17.5 percentage points to the year-on-year growth in loans to households. Consumer loans and other loans recorded an absolute year-on-year increase of SKK 23.0 billion (EUR 0.8 billion), which was

¹ Loans to households (including non-profit institutions serving households) broken down by purpose comprise house purchase loans, consumer loans, and other loans.



Chart 26 Increases in loans to non-financial corporations since the beginning of the year (SKK billions)



more than a year earlier. Their contribution to the growth dynamics of loans to households was stable over the first three quarters, before diminishing somewhat in the final quarter (to 7.1 percentage points). Consumer loans and other loans represented one of the sources of growth in household final consumption. Their share in household final consumption had increased by 1.1 percentage points since the end of the previous year, to 10.8% (2007 also witnessed an increase of 1.1 percentage points, to 9.7%). It was, however, lower than in the euro area and other V4 countries.

The growth in MFI loans to households was accompanied by a rise in the level of indebtedness (expressed in terms of the ratio of MFI loans to households to GDP), which increased year-on-year by 2.3 percentage points and reached 18.8% at the end of the year. Similar developments in

connection with the process of real convergence were also recorded in the other new EU Member States, while household indebtedness in these countries was much lower than in the euro area (53.2% in December 2008).

MFI loans to non-financial corporations

In terms of purpose, the increase in MFI loans to non-financial corporations was concentrated in investment loans and house purchase loans (an increase of SKK 38.2 billion (EUR 1.3 billion)), and increased gradually, mainly in the second half of the year. Current account overdrafts and other loans also recorded a modest increase in comparison with the previous year. On the other hand, operating loans decreased, mainly at the end of the year. Regarding the time structure of loans, the growth in MFI loans to non-financial corporations took place mostly in long-term loans (over five years), which recorded a slight increase in their year-on-year growth dynamics. The most significant slowdown took place in short-term loans (up to one year), the dynamics of which weakened by 25.7 percentage points, to 4.3%.

Investment through open-end investment funds

The negative effects of the global financial crisis and stock market slump were mainly observed in the fourth quarter of 2008, in the unfavourable results of most types of investment funds. In 2008, open-end investment funds (OIFs) of all types operating in Slovakia in Slovak koruna or foreign currency achieved negative net sales in the total amount of SKK 30.5 billion (EUR 1.0 billion)², which represented an outflow of funds in the amount of SKK 53.6 billion (EUR 1.8 billion).

Negative net sales in 2008 were recorded by money market funds in the amount of SKK 15.2 billion (EUR 0.5 billion) and other types of funds (mainly bond funds, the funds of funds, mixed funds, and equity funds) in the total amount

² The different amounts of monthly and cumulative net sales can be explained by the fact that the data of the Slovak Association of Asset Management Companies (SASS) obtained from regular weekly statistical reports and the data of individual OIFs (www.openiazoch.sk) sometimes refer to different periods (SASS makes data releases on Fridays, but some of its members issue data on Thursdays) and the number of investment funds is recorded differently. Investment funds mergers and their year-end conversion into euro have led to a significant fall in the number of investment funds (from ca 550 to 460), as well as a marked decrease in the number of foreign-currency funds and/or an increase in the number of euro funds.

Table 20 Cumulative net sales of open-end investment fund shares/units

	2007		2008	
	SKK billions	EUR billions	SKK billions	EUR billions
OIF shares/units in Slovakia ¹⁾	23.1	0.8	-30.5	-1.0
Non-money market OIF shares/units	9.1	0.3	-15.3	-0.5
Money market OIF shares/units	14.0	0.5	-15.2	-0.5

Source: NBS calculations based on data from the Slovak Association of Asset Management Companies (SASS).
1) Denominated in domestic currency (Slovak koruna) and in foreign currency in total.

of SKK 15.3 billion (EUR 0.5 billion). Positive net sales were achieved by other funds (secured funds in particular), in the amount of SKK 2.4 billion (EUR 0.08 billion).

2.4.2 LEASING, FACTORING, AND CONSUMER CREDIT COMPANIES

The receivables of leasing, factoring, and consumer credit companies from the private sector increased by SKK 22.6 billion (EUR 0.8 billion) compared with the previous year, to SKK 146.7 billion (EUR 4.9 billion) at the end of 2008. Their growth dynamics weakened gradually during the year. Other receivables³ contributed 18.2% to their increase.

Broken down by sector, the most significant increases in receivables were recorded in relation to non-financial corporations (finance lease receivables, hire purchase receivables, and consumer credit receivables). In the household sector, the growth dynamics of factoring, leasing, and consumer credit receivables weakened somewhat, to 14.9% at the end of the year, when their volume reached SKK 40.7 billion (EUR 1.4 billion).

2.4.3 INTEREST RATE DEVELOPMENTS

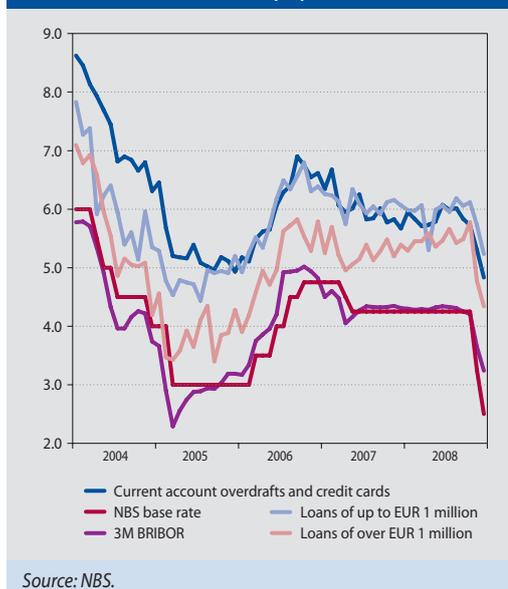
Customer interest rates

Customer interest rates were characterised in 2008 by a relatively stable course. At the end of the year, however, the ECB (and later NBS) reduced its key interest rates in three stages, by a total of 1.75 percentage points. This reduction was also reflected to some extent in the interbank market rates. Before the end of 2008, however, the key interest rate reduction had not been fully reflected in the market rates. Hence, customer interest rates were affected only very slightly. The market rates were most intensely reflected in customer rates on loans to non-financial corporations and deposits from non-financial corporations. The interest rates on household loans and deposits reacted rather inflexibly.

Interest rates on loans to non-financial corporations

Interest rates on loans to non-financial corporations remained relatively stable virtually throughout 2008. At the end of the year, the key interest rate and market rate reductions were already reflected in the interest levels. Interest rates fell on loans to small and medium-sized enterprises (up

Chart 27 Interest rates on loans to non-financial corporations, 3-M BRIBOR, and the NBS base rate (%)



to EUR 1 million) and to large companies (over EUR 1 million). Broken down by the period of initial rate fixation, short-term rates experienced a fall, while long-term rates showed a more or less rising tendency over the second half of the year. This was caused by a change in risk assessment at the end of the year as a result of the spreading financial markets problems, when interest rates on loans for operating activities (current account overdrafts and operating loans) reacted more intensely to the falling market rates, while interest rates on long-term loans (mainly investment loans and house purchase loans) reacted inflexibly. The financial market problems were also reflected in the smaller volumes of new loans to non-financial corporations at the end of the year.

Interest rates on loans to households

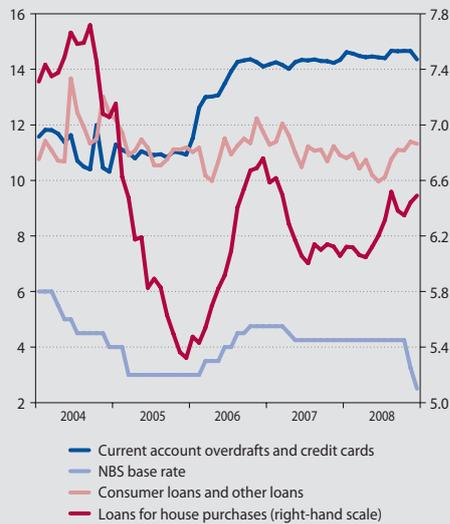
Lending rates to households did not react to the key interest rate and market rate cuts from the end of the year. Interest rates on loans to households showed a rising tendency virtually throughout the year. The only exceptions were interest rates on current account overdrafts, which represent the highest interest bearing type of credit. Interest rates on house purchase loans rose virtually throughout the year. They included mainly mortgage loans and, to a lesser extent, other loans for house purchases. On the other hand, interest rates fell somewhat on

³ In terms of purpose, factoring, leasing, and consumer credit receivables from the private sector are divided into finance lease receivables and other receivables. Other receivables comprise hire purchase receivables and consumer credit receivables.



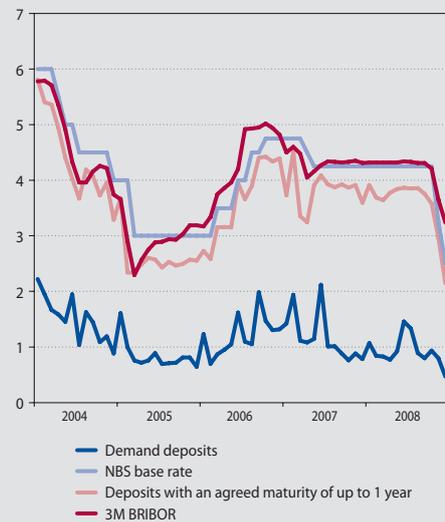
MONETARY DEVELOPMENTS

Chart 28 Interest rates on loans to households by type (%)



Source: NBS.

Chart 29 Interest rates on deposits from non-financial corporations (%)



Source: NBS.

home savings bank loans, which are not dependent largely on the financial market. Interest rates on consumer loans followed a slowly falling trend over the first half of the year, before rising steeply in the following period. Interest rates on these types of loans were affected by the euro-area interbank market rates, which were higher than the rates in the Slovak interbank market.

Interest rates on deposits from non-financial corporations

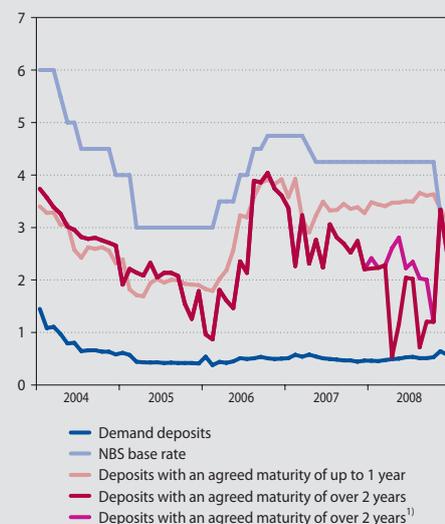
Interest rates on deposits from non-financial corporations followed a stable development in 2008, except in the last two months. The slightly more volatile course of demand deposit rates was caused by the liquidity situation in the interbank market on the last few days of the individual months, and by the relatively large fluctuations in the shortest-term rates. Over the first three quarters, interest rates on deposits with agreed maturity were stable and relatively high. In the following period, however, they fell significantly, in response to a fall in market rates.

Interest rates on household deposits

Unlike deposit rates for non-financial corporations, interest rates on household deposits did not react to changes in the interbank market rates. This was mainly the result of marketing campaigns aimed at gaining new customers in connection with the currency changeover. Within the scope of compe-

tion, banks offered relatively high interest rates for fixed-term deposits. Therefore, interest rates on household deposits remained virtually unchanged. A moderately rising trend was recorded in rates for deposits with an agreed maturity of up to one year. On the other hand, longer-term deposit rates were reduced during the year.

Chart 30 Interest rates on household deposits (%)



Source: NBS.

1) For months when structured deposits were recorded, the interest rates were adjusted for such deposits because banks set very low interest rates for such deposits, for they could not determine their yield in the future.



NBS MONETARY POLICY OPERATIONS, FOREIGN EXCHANGE OPERATIONS AND INVESTMENT ACTIVITIES IN FOREIGN RESERVE MANAGEMENT



3 NBS MONETARY POLICY OPERATIONS, FOREIGN EXCHANGE OPERATIONS AND INVESTMENT ACTIVITIES IN FOREIGN RESERVE MANAGEMENT

3.1 MONETARY POLICY OPERATIONS

The year 2008 was the last year, in which NBS continued to implement its independent monetary policy using the unchanged instruments. The essential parameter of the monetary policy in the medium-term outlook was to set the target value for inflation, defined as inflation targeting under the conditions of ERM II. The main instruments of NBS in relation to this medium-term target were the key interest rates, namely the interest rate limit for two-week repo tenders and interest rates for O/N refinancing and sterilization operations. Národná banka Slovenska conducted its monetary policy using the basic set of instruments comprising operations with banks and branches of foreign banks, in particular open market operations including the issuance of short-term securities and O/N operations.

LIQUIDITY OF THE BANKING SECTOR

The banking sector had a marked liquidity surplus at its disposal in the recent ten years. The average daily amount placed by banks in sterilization operations with NBS in 2008 was SKK 377.5 billion (EUR 12.5 billion); in comparison with 2007 it increased by SKK 17.2 billion (EUR 0.6 billion). Compared with the sterilization amount of SKK 371.6 billion (EUR 12.3 billion) at the beginning of 2008, the highest sterilization position was recorded in November, in an amount of SKK 386.7 billion (EUR 12.8 billion). The increase in the total sterilization amount was caused mainly by a decrease in currency in circulation related to the planned euro introduction in Slovakia.

Main monetary policy operations

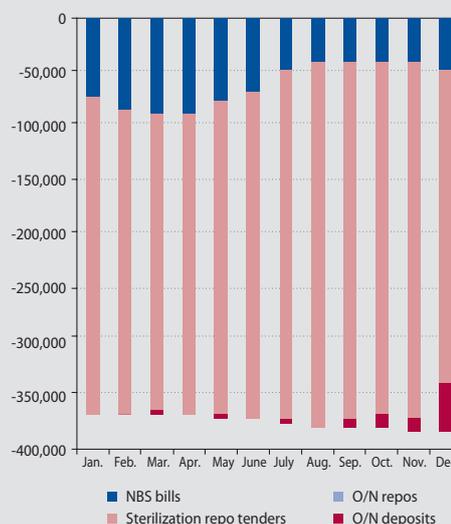
The open market operations were again dominated by standard sterilization repo tenders with a maturity period of 2 weeks, held on a regular weekly basis. On average, 81% of liquidity surplus was absorbed through this instrument, whereas its highest share was recorded in August (88%) and the lowest share was in March (74%). A total of 54 sterilization repo tenders were held

during the year and NBS accepted full demand in all cases. In all cases, the average interest rate matched NBS current interest rate limit for two-week repo tenders, since the banking sector did not expect any changes in monetary policy settings. Until October 2008 the NBS Bank Board left the key interest rate for two-week repo tenders unchanged at 4,25%. At its October meeting it decided to lower the key interest rate by 0.5 of a percentage point. This reduction was followed by two further cuts in November and December, by 0.5 and 0.75 of a percentage point, respectively. By this gradual easing of monetary policy the NBS key interest rate for two-week sterilization tenders was harmonized with the ECB key interest rate for one-week refinancing tenders.

Longer-term monetary policy operations

Regular auctions of NBS bills represented a supplementary monetary instrument that NBS also used in 2008. In total, 13 auctions were conducted. The first 10 auctions were held with a standard 84-day maturity and the maturity of the last 3 auc-

Chart 31 Open market operation by type
(monthly average, SKK millions)



Source: NBS.



NBS MONETARY POLICY OPERATIONS

tions was brought into line with the requirements of the market resulting from the euro changeover. NBS bills offered in the last auction matured in the second half of January 2009. During the year, the share of funds absorbed through this three-month instrument reached 17%. Though, with the end of the year approaching, the demand in the auctions of NBS bills gradually decreased along with the increased banks' preference for short-term sterilization. In the first half of 2008, the NBS bills' share in the sterilization position was around 20%, and, towards the end of the year, NBS absorbed just 11% through this instrument, since banks were transferring funds from NBS bills to two-week repo tenders and O/N deposits.

Standing facilities

O/N standing facilities, which took the form of the deposits with NBS in case of liquidity surplus, and repo transactions in case of a lack of liquidity, were used to adjust their current liquidity positions. Both forms were applied in a standard way, with a one-day maturity. Towards the ends of months, especially on the last days, bank's recourse to these facilities accelerated. The banking sector found itself systemically at liquidity surplus and monetary policy was of sterilization nature, which was reflected in standing facilities as well, though banks made also use of overnight credit. During the year the share of O/N deposits in sterilization position was around 1%. In December their share reached 11%, which reflected the interest of banks in shortest-term operations related to the approaching euro introduction. In order to ensure smooth conduct of their payments, banks were drawing intra-day credit, however, without apparent monetary effects.

Minimum reserves

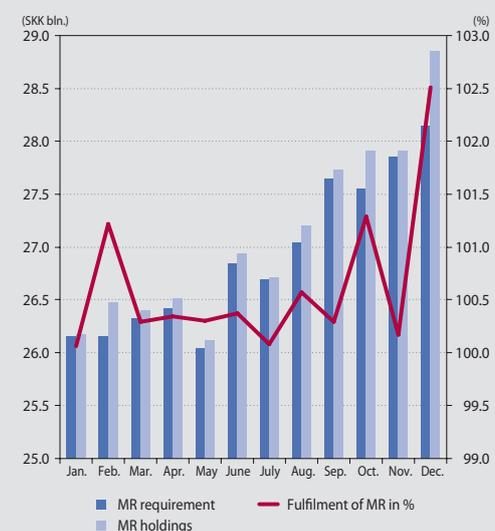
NBS applies the system of minimum reserves (MR) to banks, branches of foreign banks, building societies and electronic money institutions. A total of 26 financial institutions maintained minimum reserves in 2008, and one of them started holding MR during the year. The MR rate was set as 2% of the reserve base. An institution's reserve base consists of deposits and debt securities issued, except mortgage bonds, in the entire term spectrum. The reserve base increased by 7.65% compared to 2007, and the value of MR increased from SKK 26.1 billion (EUR 866.36 million) in January 2008 to SKK 28.2 billion (EUR 936.07 million) in December 2008.

By using this direct monetary instrument, NBS affects the level of banking sector's liquidity and, at the same time, maintains the minimum liquidity of financial institutions, to which the minimum reserves system applies, with regard to the needs of non-cash payment system.

Till the end of 2008 NBS applied its own MR system, which differed in some details from that applied by the Eurosystem. During previous year NBS prepared new set of rules for MR holdings, so that after Slovakia's entry into the Eurosystem they are in harmony with those applied by the Eurosystem. In the second half of 2008, NBS announced the new rules to all financial institutions operating in Slovakia and subject to MR requirements. The Slovak financial institutions started acting according to the new rules as of 1 January 2009, in the midst of the Eurosystem's maintenance period starting in December 2008 and ending in January 2009.

These changes were mainly related to the time structure of the reserve base, which consists only of primary deposits and debt securities issued with an agreed maturity of up to two years. In addition, a standardised one-off deduction of EUR 100,000 was introduced, which caused a decrease of calculated MR in comparison with 2008 by 18.8%. These changes affected maintenance period durations, which are defined by the an-

Chart 32 Minimum reserve survey in 2008



Source: NBS.



nounced maintenance period calendar, and the MR remuneration rate.

RISK MANAGEMENT

The system of risk management, which NBS introduced in 2005, was applied also in 2008. The system covered the assessment of counterparties eligible for monetary policy operations and the selection, assessment and valuation of financial assets eligible for monetary policy operations, including application of valuation haircuts. In 2008 NBS accepted as collateral in its monetary policy operations or for outright sale all government securities (Government bonds and Treasury bills) and bills issued by NBS. Due to the prevailing liquidity surplus in the banking sector, NBS bills were mostly used. In November 2008, consecutively to anticipated financial crisis effects, NBS decided to accept commercial bank's mortgage bonds as additional type of eligible assets as collateral for refinancing operations with NBS.

During the second half of 2008, in connection with the expected entry of the Slovak Republic into the euro area, NBS prepared a new set of risk management rules, harmonized with those valid in the Eurosystem, since the provisions applied by the Eurosystem differed from those applied by NBS in 2008. For example, the structure of debt instruments accepted by the Eurosystem in its monetary policy operations was considerably wider. In addition to debt instruments registered and traded in the Slovak Republic, counterparties can use the eligible assets from other euro area countries including selected debt securities from G-10 countries, provided they hold them and the eligibility of the assets has been confirmed by their publication on the ECB website.

Concerning asset types, for instance non-government bank and non-bank debt instruments and the financial institutions' credit claims can become eligible as collateral.

During the year NBS held several working meetings with the representatives of Slovak banks, in which the rules and procedures applied by the Eurosystem in its monetary policy operations in the Slovak conditions were presented and discussed. By the end of December, NBS conducted an eligibility assessment of assets registered and traded in the Slovak Republic. As of 1 January 2009, these assets will become part of the Eurosystem Eligible Assets Database. NBS prepared daily monitoring and updating procedures for the regular communication with the ECB as well.

In valuing assets, NBS applied in 2008 mainly the theoretical value of eligible assets based on benchmark curve data and BRIROR reference interest rates. The market price of assets was used exclusively in cases, where the given security was traded on the Bratislava Stock Exchange. NBS published actual prices on Reuters on a daily basis. After the entry of the Slovak Republic into the euro area, this mechanism is going to be changed to a certain extent. The set priority is to obtain single market or theoretical price for each individual asset used in Eurosystem's monetary policy operations.

During 2008 NBS completed the implementation of its new integrated information system for Eurosystem's monetary policy operations and foreign reserve management. Automated communication with external systems such as Burza cenných papierov v Bratislave, a. s. (Bratislava

Table 21 Slovak assets eligible from 31 December 2008 by type

Debt securities	Number of issues	Value of the issues in SKK billions	Value of the issues in EUR billions
Government bonds	20	373.6	12.4
Treasury bills	1	45.2	1.5
Mortgage bonds	83	51.2	1.7
Non-government bonds	10	6.0	0.2
NBS bills ¹⁾	2	54.2	1.8
Total	116	530.2	17.6

Source: NBS.

1) Up to 20 January 2009.

Note: According to Eurosystem methodology.



Stock Exchange), Centrálny depozitár cenných papierov SR, a. s. (Central Securities Depository), TARGET2-SK payment system, the ECB, other Eurosystem's NCBs and mainly with NBS's and Eurosystem's counterparties using the SWIFT system is a substantial part of this new information system.

Developments in the Slovak money market

In 2008, interest rates of domestic money market were predominantly influenced by the euro area money market rates. During the first five months of 2008, their development was relatively stable. In June 2008, deposit rates in the domestic market were influenced by the ECB's decision to increase its key rates, which resulted in an increase of deposit rates from approximately 4.35% to 4.75%. Over the next quarter, the domestic rates saw no substantial changes. Since the beginning of October, the euro area market rates have been significantly decreasing, due to the cuts in the ECB key interest rates. These cuts, followed by reductions of NBS key rates, are considered to be the essential factor of a significant decrease in domestic market rates from approximately 4.85% to 3.00%. Nevertheless, the Slovak rates remained above the euro area level till the end of 2008.

Expectations, as the main determinant of developments in long-term interest rates in the domestic money market, were being created and influenced by current and expected economic growth, the process of fulfilment of the convergence criteria for the adoption of the single European currency and the subsequent setting of the Slovak koruna/euro conversion rate, and by NBS acting as well. The foreign exchange market, or the exchange rate of the Slovak koruna, as the most sensitive indicator of interest rates changes, did not fulfil its mediation function in such a scale as it did in the previous years. The strengthening of the Slovak koruna against the euro recorded up to the setting of the new ERM II fluctuation band at the end of May 2008 was not reflected in a change, i.e. in a decrease in the domestic long-term rates. During this period, the interest rates were influenced by developments in euro area rates with the similar maturities. After the conversion rate of the Slovak koruna against the euro was set, the foreign exchange rate of the Slovak koruna against the euro remained rather stable; this development was to a certain extent

Chart 33 BRIBOR interest rates in 2008
(in % p.a.)



Source: NBS.

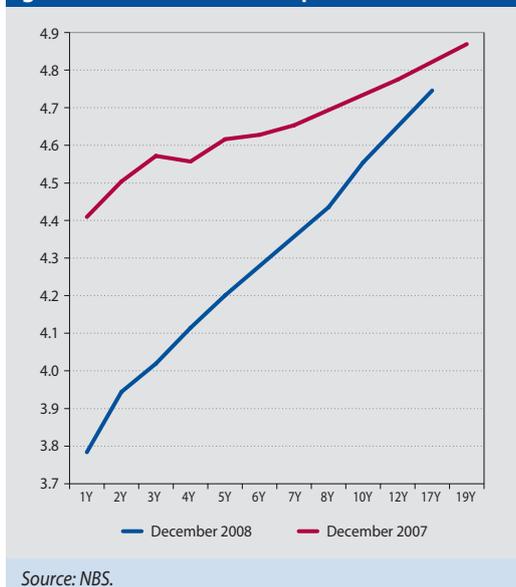
determined by the conversion rate set and the interest rate differential between the domestic rates and that of the euro area. The subsequent growth in rates, particularly in the third quarter, was solely an adjustment of domestic rates to euro area levels in the process of gradual convergence of interest rates.

BENCHMARK BOND YIELD CURVE

NBS monitored the benchmark portfolio structure on a continuing basis, and updated it in cooperation with the banks. In 2008, the benchmark portfolio of securities was last updated in September. Towards the end of 2008, the portfolio included bonds with a maturity of 1 to 5 years, together with 8-year, 10-year and 17-year bonds. The prices were set by the daily processing of quotations given by seven banks active in the market, and they were published on the Reuters system. Like banks, NBS used indicative benchmark curve prices for the theoretical valuation of financial assets.

In the course of the year, the benchmark curve of government bonds was moving up. The initial decrease of the yield curve was corrected by the subsequent increases continuing till the end of the first half of 2008. In the following period, the yield curve shifted downwards, affected mainly by multiple cuts in NBS key rates. Other

Chart 34 Benchmark yield curve of government bonds (in % p.a.)



factors causing the decrease of domestic yield curve were the decrease in the yield curve of the euro area and increased interest of market participants to invest excess funds consisting of cash deposits of domestic households made in connection with the euro changeover. The last fact exerted mainly the downward pressure on yields at the short end of the yield curve. In the pre-*una* against the euro was to a certain extent reflected in the development of government bonds in the secondary market. However, in 2008, the strengthening of the Slovak koruna against the euro did not cause a decrease in government bonds yields similar to that seen in the previous period.

3.2 FOREIGN EXCHANGE OPERATIONS

OPERATIONS IN THE FOREIGN EXCHANGE MARKET

During 2007, the exchange rate of the Slovak koruna against the euro appreciated by 10.4% (from SKK/EUR 33.603 to SKK/EUR 30.126). The average exchange rate was SKK/EUR 31.291, representing a change of 7.4% in comparison with 2007. The exchange rate of the Slovak koruna strengthened against the US dollar by 6.5% (from SKK/USD 22.870 to SKK/USD 21.385). The average exchange rate was SKK/USD 21.346 (appreciation by 13.6% in comparison with 2007).

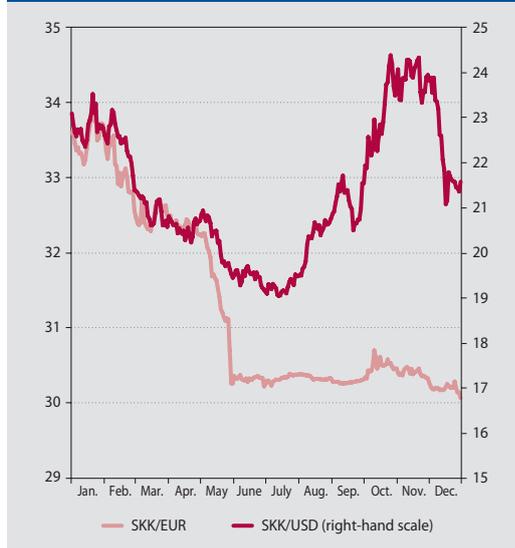
The exchange rate of the Slovak koruna strengthened against the Czech koruna by 10.4%.

At the beginning of the year, the Slovak koruna hovered at SKK/EUR 33.600. Very good macroeconomic indicators (e.g. GDP growth in the fourth quarter of 2007 reached 14.3%, followed by 8.7% in the first quarter of 2008) along with positive statements by representatives of European institutions started to influence also the exchange rate of the Slovak koruna, and, as a result, its strengthening continued. Similar developments in the markets of neighbouring states (mainly V4 countries) and market speculations about the possible revaluation of the central parity brought the exchange rate of the Slovak koruna at a level of SKK/EUR 32.500. After reaching this level, the speculations about further strengthening of the Slovak koruna intensified, affected also by statements by Slovak representatives expressing their wish for as strong exchange rate as possible. The exchange rate was significantly strengthening in May, and approached the lower limit of the ERM II band (SKK/EUR 30.126). Upon agreement of the finance ministers of the euro area member states, President of the ECB and finance ministers and central bank governors of Denmark, Estonia, Latvia, Lithuania, and Slovakia, the central rate of the Slovak koruna in ERM II was revaluated by 17.6472%, with effect from 29 May 2008. On a given day the koruna strengthened and reached a historical high of SKK/EUR 30.080. The market interpreted this information of the central parity change in such a way that the conversion rate would not significantly differ from this new central parity, which was also emphasized by several politicians.

After the conversion rate was fixed, trading in the spot foreign exchange market slowed as well. The influence of speculative transactions significantly diminished, since the volatility of the Slovak koruna went down and the exchange rate of the Slovak koruna was derived from the interest rates in the Slovak and European money markets. This was due to the fact that in the case of more significant deviations a risk-free arbitrage could be applied. The exchange rate of the koruna fluctuated within a narrow band until the end of October, and then the koruna weakened to SKK/EUR 30.800; this weakening was influenced mainly by motivation to buy the euro in spite of possible losses in view of approaching convergence.

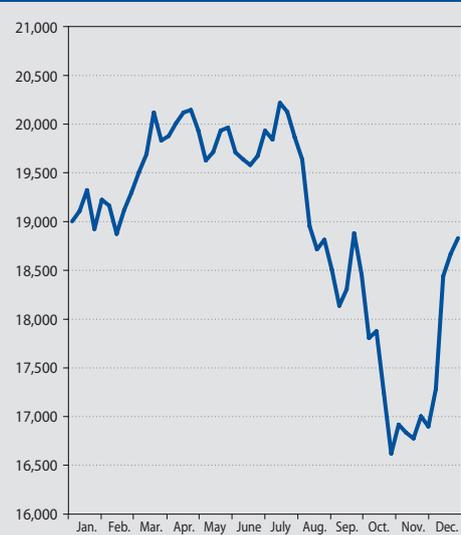


Chart 35 Exchange rates of the Slovak koruna against the euro and dollar in 2008



Source: NBS.

Chart 36 NBS foreign reserves (USD millions)



Source: NBS.

This motivation was based on the foreign banks' needs to have a prompt access to euro liquidity. At the same time the interest of Slovak banks in selling euros decreased because their credit lines were already drawn. The exchange rate at the level of SKK/EUR 30.800 had already been a sufficient motive for banks to enter arbitrage deals, and, therefore, they had started to buy korunas. In November and December, the exchange rate of the koruna fluctuated within a band in which the arbitrage opportunity was low, and the rate continually approached the conversion rate of SKK/EUR 30.1260.

INVESTMENT ACTIVITIES IN FOREIGN RESERVE MANAGEMENT

In 2008, as in previous years, NBS followed, in foreign reserve management, investment policy in accordance with the rules set out in the long-term

investment strategy approved in 2004. Since the trend of the exchange rate of the Slovak koruna against the euro was in line with NBS monetary policy and with the expected entry into the euro area, no interventions were conducted in the foreign exchange market. The value of foreign reserve assets at the respective exchange rates and market prices slightly decreased from USD 18.9 billion at the end of 2007 to USD 18.8 billion at the end of 2008. The return on foreign reserve assets was 7.1% for the euro investment portfolio and 5.0% for the dollar investment portfolio. In 2008, the combined return on foreign reserve assets based on the performance of individual portfolios reached approximately SKK 30.4 billion (EUR 1.0 billion).



SUPERVISION OF THE FINANCIAL MARKET



4 SUPERVISION OF THE FINANCIAL MARKET¹

4.1 FINANCIAL MARKET REGULATION IN SLOVAKIA

In exercising supervision of the financial market – in banking, the capital market, the insurance industry and pension saving – Národná banka Slovenska follows general procedural rules laid down in Act No. 747/2004 Coll. on supervision of the financial market and on amendments to certain laws, as amended. This Act came into effect on 1 January 2006, when Národná banka Slovenska assumed the competences of an integrated financial market regulator. Until 31 December 2005, the said powers with respect to the insurance sector, capital market and pension saving had been exercised by the Financial Market Authority.

The aim of financial market supervision, which falls under the authority of a Deputy Governor of Národná banka Slovenska, is to support both the stability of the financial market as a whole and its safe and sound operation. In line with this, the financial market supervision unit conducts financial market regulation, involving mainly the activities below:

- Rulemaking activities (it drafts generally binding legal regulations of Národná banka Slovenska in the financial market field, in particular concerning prudential regulation, operational security rules and other requirements for the conduct of business by supervised entities, participates in preparing generally binding legal regulations issued by central government bodies and, in addition, issues methodological guidelines and recommendations for supervised entities in the financial market);
- Licensing activities (it conducts proceedings, takes first-instance decisions, issues authorizations, approvals and prior approvals, and imposes sanctions and corrective measures);
- Supervision activities (it supervises financial market entities through on-site and off-site supervisions);
- Analytical activities (it prepares analyses of the financial market as a whole as well as of its individual entities).

The client's protection section, as part of the financial market supervision unit (tasked with

consumer protection in accordance with the National Bank of Slovakia Act and the Act on Supervision of the Financial Market) handles petitions from the customers of financial institutions that Národná banka Slovenska supervises on the basis of the above Acts and the organizational rules of Národná banka Slovenska.

The financial market comprises four sectors: the banking sector (represented mainly by banks and branches of foreign banks); the capital market (mainly investment firms, management companies, the stock exchange, the central securities depository, securities issuers and investment service intermediaries); the insurance sector (mainly insurance companies and branches of foreign insurance companies); and the pension savings market (mainly pension funds management companies and supplementary pension funds management companies).

Slovakia's membership in the European Union means that foreign-regulated entities may operate in the country also without a licence from Národná banka Slovenska, provided they are authorized to conduct such activities in another EU Member State (the single passport principle).

4.2 RULEMAKING ACTIVITIES OF THE SUPERVISION UNIT

In the field of financial market regulation, several acts, regulations, methodological instructions and recommendations governing the legal environment of regulated entities were adopted in 2008. In this section, we do not provide a complete list of these measures, but rather point to those which have had the greatest impact on the activities of regulated entities in individual financial market sectors in Slovakia.

One of the main tasks of the acts and regulations adopted in 2008 was to establish the legal prerequisites for problem-free changeover to a new currency – the euro – as of 1 January 2009. With this intention, the financial market supervision unit established a working group to draft

¹ A detailed report on the activities of the financial market supervision unit for 2008 is published on the Národná banka Slovenska's website at <http://www.nbs.sk/sk/dohlad-nad-financnym-trhom/publikacie-spravy-a-analyzy/sprava-o-cinnosti-dohlada-nad-financnym-trhom>.



Table 22 Number of supervised entities as at 31 December 2008

	Number of in-stitutions as at 31 December 2008	Number of in-stitutions as at 31 December 2007	Change
Banks in Slovakia	17	16	+1
Home savings banks	3	3	0
Mortgage banks	9	8	+1
Other banks	5	5	0
Branches of foreign banks in Slovakia	11 ¹⁾	10	+1
of which: NBS-authorized	0	1	-1
on the single European passport principle	11	9	+2
of which: branches of foreign mortgage banks	0	1	-1
Foreign banks contributing to the Deposit Protection Fund	0	2	-2
Representative offices of foreign banks in Slovakia	7	9	-2
Branches (organizational units) of banks in Slovakia	857	738	+119
Lower organizational units in Slovakia	401	431	-30
Branches of Slovak banks in other countries	1	1	0
Representative offices of Slovak banks in other countries	1	1	0
Foreign entities freely providing cross-border banking services	252	190	+62
of which: Banks	231	178	+53
Electronic money institutions	12	6	+6
Foreign financial institutions	7	4	+3
Credit cooperatives	2	2	0
Slovak banks providing cross-border banking services abroad	2	1	+1
of which: Electronic money institutions	0	0	0
Number of staff in banks and branches of foreign banks	20,598	19,779	+819
Insurance companies in Slovakia	23	23	0
of which: Insurance companies providing only life insurance	5	5	0
Insurance companies providing only non-life insurance	4	5	-1
Insurance companies providing life and non-life insurance	14	13	+1
Insurance companies providing services on a freedom to provide services basis	419	370	+49
of which: without an established branch	406	360	+46
through branches	13	10	+3
Insurance companies in Slovakia providing compulsory contractual third-party liability insurance for motor vehicles	9	9	0
Pension funds management companies	6	6	0
Supplementary pension funds management companies	5	5	0
Supplementary pension funds insurance companies	0	0	0
Domestic management companies in Slovakia	10	10	0
of which: management companies with an extended licence under Art. 3 of the Act on collective investment (ACI)	5	6	-1
Domestic mutual funds	114	118	-4
of which: Open-end mutual funds	68	72	-4
Closed-end mutual funds	41	41	0
Special mutual funds	5	5	0

**Table 22 Number of supervised entities as at 31 December 2008 (continuation)**

	Number of institutions as at 31 December 2008	Number of institutions as at 31 December 2007	Change
Foreign management companies and foreign collective investment undertakings operating in Slovakia and authorized under Art. 75 of the ACI:	4	2	+2
of which: through a branch in Slovakia	2	0	+2
without a branch established	2	2	0
Foreign management companies and foreign collective investment undertakings operating in Slovakia on the single European passport principle:	46	43	+3
of which: with a foreign management company branch, established under Art. 28 of the ACI	2	2	0
without a foreign management company, established under Art. 29 of the ACI	12	10	+2
European funds under Art. 61 – foreign management companies	13	11	+2
– foreign investment companies	19	19	0
within which: foreign mutual funds and sub-funds of foreign investment companies	816	617	+199
Foreign management companies doing business under Art. 3 para. 3 of the ACI	11	11	0
Investment firms under the Securities Act	18 ²⁾	32	-14
Banks doing business under the Securities Act and NBS-licensed	13	13	0
Branches of foreign banks – investment firms licensed by their home authorities	6	6	0
Foreign entities operating in Slovakia as an investment firm	890	582	+308
of which: through a branch in Slovakia	5	3	+2
without a branch established	885	579	+306
Slovak investment firms providing services abroad without establishing a branch	7	7	0
Investment service intermediaries in Slovakia:	978	937	+41
of which: legal persons	73	61	+12
natural persons	905	876	+29
Other legal persons licensed by Národná banka Slovenska who can only issue electronic means of payment	1	0	+1
Stock exchanges	1	1	0
Central securities depositories	1	1	0
Securities issuers whose securities are traded on a regulated market	144	173	-29
Issuers of public offerings	4	4	0

Source: NBS.

1) As of 31 December 2008, the following foreign credit institutions had not begun banking activities: UNIBON, spořitelni a úvěrní družstvo, a foreign organizational unit, and Oberbank AG, a branch office of a foreign bank.

2) SFM Group, o. c. p. a. s., had not begun operating as of 31 December 2008 and started to operate on 15 January 2009.

regulations related to adopting the euro for all regulated financial market entities. The supervision unit issued, for example, NBS Decree No. 24/2008 governing the change in currency in all existing reports from supervised entities, NBS Decree No. 221/2008 Coll., laying down rules for dual display of some prices, payments and other values in the areas of the financial market and

services of financial institutions and NBS Decree No. 240/2008 Coll., determining the number of decimal places when rounding certain securities to be redenominated from Slovak currency to the euro.

The most important legal regulation for the banking and investment services sectors in 2008



was the adoption of Act No. 552/2008 Coll. of 26 November 2008, amending Act No. 566/2001 Coll. on securities and investment services and on amendments to certain acts (the Securities Act) as amended, and on amendments to certain acts. In addition, Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007 amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC regarding procedural and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector was transposed by the above Act. The Act contained several modifications resulting from application practise in the supervision of financial market entities. The Act also amended several acts regulating other financial market sectors. In connection with the deepening crisis in the financial sector, the adoption of NBS Decree No. 18/2008 on liquidity of banks and branch offices of foreign banks in the Slovak banking sector through management of their assets and liabilities was the most significant among the regulations adopted in 2008 for the banking sector. Another important regulation was Decree No. 17/2008, amending NBS Decree No. 4/2007 on banks' own funds of financing and banks' capital requirements and on investment firms' own funds of financing and investment firms' capital requirements, as amended by NBS Decree No. 10/2007. Proposed amendments to a provision determining applicable collateral to mitigate credit risk, including a definition of terms for independent valuers, calculations of large exposures and risk-weighted exposures to other public authorities and legal persons other than corporates, resulted from application practise, findings made by NBS in supervision and several discussions with representatives of the Slovak Banking Association and the Slovak Association of Securities Dealers.

In collective investment sector, Act No. 552/2008 Coll. amended Act No. 594/2003 Coll. on collective investment and on amendments to certain acts, as amended, to incorporate new provisions involving prior approval for an acquisition and increase of qualifying holding in a management company, to eliminate some supervision problems that were discovered, and also to eliminate problems relating to management company activities resulting from application practice. In the capital market field, several decrees were

adopted by Národná banka Slovenska over the course of 2008. For example, the NBS Bank Board approved Decree No. 125/2008 Coll., implementing certain provisions of the Collective Investment Act. This provision fully implements Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions. The aim of adopting NBS Decree No. 357/2008 Coll. on exposures relating to financial derivative transactions was to determine details for calculating exposure when a mutual fund's assets are invested into financial derivatives in order to calculate risk-diversification limits under the Collective Investment Act. The supervision unit also issued two methodological instructions in the collective investment field: Methodological instruction of the financial market supervision unit of NBS No. 2/2008 amending previous Methodological instruction of the financial market supervision unit of NBS No. 4/2007, more precisely laying down the obligations of notified entities, and Methodological instruction of the financial market supervision unit of NBS 4/2008 on rules for asset investments in mutual funds, where the unit reacted to the issue of NBS Decree No. 125/2008 Coll. of 1 April 2008 implementing certain provisions of the Collective Investment Act. The aim of adopting NBS Decree No. 64/2008 Coll., laying down equal requirements for issuers whose registered office is in a non-Member State and whose securities are admitted to trading on a regulated market, was to ensure full implementation of Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

Most of the changes that occurred in the regulation of the insurance sector in Slovakia during 2008 were effected by coming into force of Act No. 8/2008 Coll. on insurance and on amendments and supplements to certain laws; in the course of 2008, for the purposes of practical application, two amendments to this Act were adopted. In connection with European legislation, this Act amended legislation on the activities



of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of reinsurance companies in Slovakia. The first amendment, incorporated into Act No. 270/2008 Coll. amending Act No. 510/2002 Coll. on the payment system and on amendments to certain acts, as amended, and on amendments to certain acts as amended, especially governs the solvency of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of foreign reinsurance companies. The second amendment, incorporated into Act No. 552/2008 Coll., particularly lays down provisions for internal audits at insurance companies, prior approvals of NBS and some aspects of changeover to the euro. Within the context of the Insurance Act entering into effect, a large number of legal regulations had to be issued in a relatively short period of time pursuant to enabling clauses. Národná banka Slovenska issued twelve decrees for the insurance sector in 2008. For example, NBS Decree No. 1/2008, laying down the maximum technical interest rate, NBS Decree No. 4/2008 on submitting statements, reports, summaries and other disclosures by insurance companies and branches of foreign insurance companies, NBS Decree No. 5/2008, laying down requirements for prior approval under Art. 45 para. 1 of Act No. 8/2008 Coll. on insurance and amendments and supplements to certain laws, NBS Decree No. 6/2008 on submitting statements, reports, summaries and other disclosures by reinsurance companies and the branches of foreign reinsurance companies, NBS Decree No. 7/2008, laying down limits on insurance technical provisions, NBS Decree No. 10/2008, laying down the method of defining the value of securities and real estate being part of the insurance industry's technical reserves, NBS Decree No. 14/2008, laying down the means for demonstrating fulfilment of conditions for receiving a licence to conduct insurance activities and receiving a licence to conduct reinsurance activities, and NBS Decree No. 25/2008 on solvency and the minimum capital in the guarantee reserves of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of foreign reinsurance companies.

In pension savings, Act No. 43/2004 Coll. on retirement pension savings was amended several times in connection with the opening of Pillar II

pension funds. Act No. 62/2008 Coll. made exiting easier, allowing a pension saver to terminate participation in retirement pension savings scheme (in that time, the period for leaving the pillar was limited until 30 June 2008), and without having an officially certified signature. Act No. 434/2008 Coll. again put an option in place to withdraw from the capitalization pillar (however, such withdrawal would come into effect on 1 January 2009 at the earliest). The Act's sponsor claimed the adoption had been necessitated by developments in the world financial markets, which were causing the savings of people participating in retirement pension scheme to depreciate. However, the Act concurrently allowed those who were not in the system to enter it. Act No. 449/2008 Coll., which amended the Social Insurance Act, changed the regulatory framework for investing assets into retirement savings and supplementary pension savings plans. The supervision unit was, to a significant degree, directly involved in drafting this change in the regulatory framework. Amending the regulation had special significance primarily in regard to repealing the obligation to invest 30% of pension funds assets in the Slovak Republic. Other adopted limits ensure a better risk diversification in pension funds, especially concerning limits for the value of a single issue, for a finance group (consolidated unit) and for deposits in a single bank. A new element in the regulation is detailed criteria for utilizing ratings. A pension funds management company and its depository are required each working day to provide Národná banka Slovenska with information on asset transactions and pension fund assets, via a secure communication through electronic data transfer. In this respect, NBS Decree No. 91/2008 Coll. was issued. NBS Decree No. 101/2008 Coll. of 18 March 2008 on own funds of a pension fund management company laid down in particular the definition of own funds with which a pension fund management company is obliged to maintain; the calculation of own resources; a definition of general operating expenses, liquid assets, liabilities and claims; the calculation of liquid assets and a method of demonstrating whether conditions for capital adequacy have been met. At the close of 2008, drafts of an NBS regulation on notification of cases when limits set for assets in a pension fund and supplementary pension fund are exceeded and reconciled and a regulation on providing information on net asset value in supplementary pension funds were prepared.



4.3 LICENSING ACTIVITIES OF THE SUPERVISION UNIT

In 2008, the financial market supervision unit of NBS issued 987 decisions on licences, where a majority of them related to the capital market and banking sector. A breakdown by individual sector is presented in the Table 23.

Decisions by Národná banka Slovenska related to the licensing of financial market entities in 2008 include, for example, the following:

- In a NBS decision of 25 March 2008, J&T SECURITIES (SLOVAKIA), o. c. p., a. s., received prior approval for the return of its licence to provide investment services.
- Granting prior approval to ČSOB, a. s., to acquire a share in the registered capital and voting rights of ČSOB stavebná sporiteľňa, a. s., on 14 January 2008.
- Granting prior approval for ČSOB stavebná sporiteľňa, a. s., to become a subsidiary of ČSOB, a. s., on 14 January 2008.
- Granting prior approval to Slovenská sporiteľňa, a. s., to utilize internal rating-based approach for credit risk, on 28 July 2008.
- Granting prior approval for the merger of Citibank Europe, plc., Ireland and Citibank (Slovakia), a. s., on 17 September 2008.
- Granting prior approval to Tatra banka, a. s., to utilize internal rating-based approach for credit risk, on 29 December 2008.
- The following companies received 9 licences to create open-ended mutual funds:
 - Asset Management Slovenskej sporiteľne, správ. spol., a. s. (3 open-ended mutual funds),
 - ISTRO ASSET MANAGEMENT, správ. spol., a. s. (1 open-ended mutual fund),
 - Tatra Asset Management, správ. spol., a. s. (2 open-ended mutual funds),
 - VÚB Asset Management, správ. spol., a. s. (3 open-ended mutual funds).
- Two foreign investment companies received licences to publicly offer securities of foreign collective investment entities they manage through their organizational units:
 - AXA investiční společnost, a. s., Prague, Czech Republic (3 mutual funds),
 - ČP INVEST investiční společnost, a. s., Prague, Czech Republic (6 mutual funds).
- The following companies received 8 prior approvals to merge open-ended mutual funds:
 - IAD Investments, správ. spol., a. s. (2 decisions – to merge the following wound-up mutual funds: Európa, o. p. f., Investičná a Dôchodková správ. spol., a. s., and Sprint, o. p. f., Investičná a Dôchodková, správ. spol., a. s.),
 - ISTRO ASSET MANAGEMENT, správ. spol., a. s. (1 decision – to merge the following wound-up mutual funds: ISTRO ASSET MANAGEMENT, správ. spol., a. s., Globálny technologický otvorený podielový fond and ISTRO ASSET MANAGEMENT, správ. spol., a. s., Rastový akciový otvorený podielový fond EURÓPA),
 - PRVÁ PENZIJNÁ správ. spol., a. s. (2 decisions – to merge the following wound-up mutual funds PRVÁ PENZIJNÁ správ. spol., a. s., Renta III-10, o. p. f., and Globálny akciový o. p. f. RENTA – PRVÁ PENZIJNÁ správ. spol., a. s.),
 - Tatra Asset Management, správ. spol., a. s. (2 decisions – to merge the following wound-up mutual funds: Tatra Asset Management, správ. spol., a. s., dolárový dlhopisový o. p. f. Tatra Asset Management, správ.

Table 23 Number of decisions issued by the financial market supervision unit of Národná banka Slovenska in 2008

	Number of decisions
Banking sector and investment firms	203
Capital market	488
Insurance sector	159
Pension saving	103
Foreign exchange activities	34
Total	987

Source: NBS.



- spol., euro dlhopisový o. p. f., Tatra Asset Management, správ. spol., a. s., fond korporátnych dlhopisov, o. p. f., and Tatra Asset Management, správ. spol., a. s., medzinárodný akciový-dlhopisový o. p. f.),
- o VÚB Asset Management, správ. spol., a. s. (1 decision – to merge the following wound-up open-ended mutual fund VÚB AM Dlhopisový korunový fond, open-ended mutual fund VÚB Asset Management, správ. spol., a. s.).
 - NBS certified PRVÁ PENZIUNÁ, správ. spol., a. s., in accordance with Art. 60 para. 1 of Act No. 594/2003 Coll. on collective investment, in respect of the company's intention to publicly offer shares in open-ended mutual funds it manages in the Czech Republic.
 - On 25 January 2008, based on a request from Wüstenrot poisťovňa, a. s., the transfer of part of the life insurance stock belonging to its Wüstenrot poisťovňa, pobočka pro Českou republiku, branch to Wüstenrot, životní poisťovňa, a. s., was approved.
 - On 27 March 2008, based on a request, Wüstenrot Verwaltungs- und Dienstleistungen GmbH, Austria, was granted prior approval to acquire a share in the registered capital and voting rights of Wüstenrot poisťovňa, a. s. to directly obtain for the first time more than 33% of the insurance company's registered capital and voting rights.
 - On 2 May 2008, based on a request, Poštová banka, a. s., was granted prior approval to acquire a share in the registered capital of Poisťovňa TATRA, a. s., to obtain for the first time more than 50% of the insurance company's registered capital.
 - On 17 June 2008, prior approval was granted to merge POISŤOVŇA HDI-GERLING Slovensko, a. s., and HDI Hannover Versicherung Aktiengesellschaft, Austria. By merging, HDI Hannover Versicherung Aktiengesellschaft, Austria Rakúsko, became the legal successor to POISŤOVŇA HDI-GERLING Slovensko, a. s.
 - On 21 August 2008, prior approval was granted to merge Generali Poisťovňa, a. s., and Česká poisťovňa – Slovensko, akciová spoločnosť (abbr.: ČPS, a. s.). By merging, Generali Poisťovňa, a. s., became the legal successor to Česká poisťovňa – Slovensko, akciová spoločnosť (abbr.: ČPS, a. s.).
 - On 28 August 2008, based on a request, WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group was granted prior approval to acquire a share in the registered capital of Poisťovňa Slovenskej sporiteľne, a. s., to obtain for the first time more than 50% of the insurance company's registered capital.
 - On 3 September 2008, based on a request, GROUPAMA INTERNATIONALE Sociétés anonymes was granted prior approval to acquire a share in the registered capital of OTP Garancia životná poisťovňa, a. s., to obtain for the first time more than 50% of the insurance company's registered capital.
 - On 3 September 2008, based on a request, GROUPAMA INTERNATIONALE Sociétés anonymes was granted prior approval to acquire a share in the registered capital of OTP Garancia poisťovňa, a. s., to obtain for the first time more than 50% of the insurance company's registered capital.
 - On 25 November 2008, based on a request, KOOPERATIVA poisťovňa, a. s., Vienna Insurance Group and I.V. s. r. o. were granted prior approval for their merger, and, within the merger, Vienna Insurance Group became the legal successor to I.V. s.r.o.
 - On 26 November 2008, based on a request, GROUPAMA Sociétés anonymes was granted prior approval to acquire a share in the registered capital of OTP Garancia životná poisťovňa, a. s., to obtain for the first time more than 50% of the insurance company's registered capital.
 - On 26 November 2008, based on a request, GROUPAMA Sociétés anonymes was granted prior approval to acquire a share in the registered capital of OTP Garancia poisťovňa, a. s., to obtain for the first time more than 50% of the insurance company's registered capital.
 - On 4 December 2008, KONTINUITA poisťovňa, a. s., Vienna Insurance Group was granted prior approval to conduct intermediary activities for a financial institution, Slovenská sporiteľňa, a. s.
 - In a decision of 18 January 2008, NBS granted ČSOB, d. s. s., a. s., prior approval to obtain 66% of the registered capital and voting rights of ČSOB d. s. s., a. s., a pension funds management company, in order for ČSOB, d. s. s., a. s. to become a subsidiary of Československá obchodná banka, a. s.
 - In a decision of 28 April 2008, NBS granted ČSOB d. s. s., a. s., prior approval to ING Bank N. V., a branch of a foreign bank, to become the company's depository.



- In a decision by NBS on 17 June 2008, the licence for the incorporation and activities of a supplementary pension fund management company, STABILITA, d. d. s., a. s., was amended.
- In March 2008, a decision was issued to amend the licence for the incorporation and activities of a stock exchange, which amended the purpose of business for BCPB, a. s., regarding the organization of a multilateral trading system.
- Národná banka Slovenska decided in April 2008 on the amendment of a licence for the incorporation and activities of the central depository.
- In 2008, two prior approvals were issued for CDCP membership (Patria Finance, a. s., and Citibank Europe plc.).

In addition to issuing the above decisions, the supervision unit in 2008 received for all financial market sectors a number of notices from supervised entities, approved security prospectuses and take-over bids and issued 34 other decisions related to foreign exchange activities. In the banking sector, 64 credit institutions and 318 investment firms informed of their intention to provide cross-border banking activities and investment services in Slovakia.

The financial market supervision unit is the competent body of NBS to conduct proceedings and decide in the first instance. In 2008, within these activities, 51 proceedings against supervised financial market entities were held by the supervision unit. In this year, 46 of them were opened and 31 concluded. The proceedings related mainly to the insurance, banking and investment firms sectors.

4.4 CONSUMER PROTECTION

The financial market supervision unit is also tasked, in accordance with the National Bank of Slovakia Act and the Act on Supervision of the Financial Market, with protecting customers of the financial market entities and, with handling petitions from customers of the financial institutions which Národná banka Slovenska supervises. In 2008, the financial market supervision unit received 871 petitions from clients of financial market institutions (both natural and legal persons) who were dissatisfied with the practices

of financial services providers. Of the number received, the unit managed over the course of 2008 to close out 830 files, representing a 95.29% success factor in processing petitions. Most of the petitions received (561) concerned the insurance sector. The clients' protection section, in fulfilling the consumer protection role assigned to Národná banka Slovenska by the National Bank of Slovakia Act and the Act on Supervision of the Financial Market and respecting the competence of Národná banka Slovenska in the above field, guaranteed dissatisfied clients of insurance companies, banks and other supervised entities, in many cases, so-called "remedy mediation", for example change in the decision the insurance company had made not to pay benefits on an insurance claim, without having to seek relief in the courts. Financial market entities cooperating with Národná banka Slovenska provide it with information about their clients' petitions, respect the opinion presented by Národná banka Slovenska and are willing to compromise, and, in some cases, to reevaluate their decision. Petitions from clients of supervised entities are a source of information about the methods supervised entities use in conducting their activities and this information is used by the financial market supervision unit in on-site supervisions conducted at specific institutions.

4.5 SUPERVISION ACTIVITIES OF THE SUPERVISION UNIT

One of the most important roles the financial market supervision unit of Národná banka Slovenska plays is the supervision of financial market entities in the form of on-site and off-site supervisions. In conducting supervisions at supervised entities, NBS ascertains important facts about the supervised entities and their activities, especially weaknesses, the reason for them, their consequences and the persons responsible for them. A supervision is conducted on an individual or consolidated basis, including supervision of consolidated groups of entities and special-purpose asset pools, which also includes supervised entities, and in supplemental supervisions of financial conglomerates.

In 2008, the financial market supervision unit conducted a total of 65 on-site supervisions (Table 24).



On-site conduct of supervisions follows an annual supervision plan, which is determined by a schedule and the main focus of the supervision.

In total, 28 on-site supervisions were conducted in the banking sector and at investment firms in 2008. In the case of banks, thematic supervisions dominated, while comprehensive supervisions were conducted at non-bank investment firms. Supervisions conducted on-site at banks concentrated e.g. on validating the IRB model – verifying the quality of the data used to calculate and measure credit risk on the basis of advanced internal rating-based approach – in the scope necessary to issue prior approval to utilize internal rating-based approach in credit risk measurement in accordance with the Act on Banks. Another aim was to review management systems for operational risk, market risk, liquidity risk and credit risk, selected reports on prudential business and reports on information system, anti-money laundering and anti-terrorist financing systems, depository activities and bank-provided investment services and system for evaluating internal capital adequacy – the system was verified on the basis of a review of a bank's strategy for managing internal capital and of implementation of that strategy, an assessment of the bank's organization and management and the information and communications system put in place by the bank within the ICAAP (internal capital adequacy assessment process) framework, in relation to the scope and complexity of the bank's activities. The supervisions also evaluated methodology and the system of identification and measurement of significant risks and their incorporation into the bank's governance framework. In the case of investment firms, on-site supervisions focused on the following areas: company organization and management, the company's activities as an investment firm in connection with Act No. 566/2001 Coll. on securities and investment services, compliance with the terms and conditions laid down in their investment services licences, maintaining commercial documentation and adherence to professional standards in providing investment services and reporting and communicating a company's obligation as an investment firm – i.e. the objective accuracy of submitted reports and reports linked to the company's accounting and internal control systems, internal regulations governing the company's activities, information

systems security, data protection, data backup and anti-laundering safeguards.

On-site supervisions at regulated capital market entities in 2008 concentrated on the activities of management companies and the mutual funds they manage, compliance with provisions of Act No. 594/2003 Coll. on collective investment, Act No. 566/2001 Coll. on securities and investment services and special laws and generally binding legal regulations issued to implement them, and with statutes on mutual funds and the management companies' by-laws, as well as compliance with the terms and conditions under which the companies were granted licences and the terms and conditions presented in other NBS decisions, a review of the objective accuracy of selected reports and disclosures, and an evaluation of the principal activities of management companies in the administration of mutual funds, in particular, company organization and management, internal regulations, the system of concluding transactions, the portfolio management system, risk management in mutual funds and the internal control system in the companies.

In the insurance sector, six supervisions were conducted on-site at insurance companies during 2008, of which three were comprehensive and three were thematic. A further ten comprehensive supervisions were conducted at insurance and reinsurance intermediaries and at investment services intermediaries. Comprehensive on-site supervisions at insurance companies focused on compliance with provisions of Act No. 95/2002 Coll. on insurance, Act No. 8/2008 Coll. on insurance, special laws to the extent resulting from them and the generally binding regulations issued to implement them, and the terms and conditions set in licences issued in pursuance of the Act on Insurance. Thematic on-site supervisions at insurance companies focused, in particular, on adherence to currently valid internal regulations at the insurance companies in the compliance area, the system of conducting internal audits and fulfilment by the insurance companies of their reporting obligations to NBS, the concluding and administering of insurance policies and associated relationships with insurance intermediaries, the establishment of technical provisions, supporting documents for establishing technical provisions and accounting for those technical reserves, General Insurance



Table 24 Number of on-site supervisions conducted at supervised financial market entities in 2008

	Comprehensive	Thematic	Follow-up	Total
Banks	-	21	1	22
Non-bank investment firms	6	-	-	6
Management companies	3	2	1	6
Pension funds management companies and supplementary pension funds management companies	5	2	1	8
Insurance companies	3	3	-	6
Insurance, reinsurance and investment services intermediaries	10	-	-	10
Entities subject to foreign exchange supervisions	7	-	-	7
Total supervisions	34	28	3	65

Source: NBS.

Note: Not included in the table are on-site supervisions which were conducted in connection with fulfilling legal and contractual conditions for frontloading euro-currency at banks and legal persons.

Terms and Conditions for coverage, acceptance of an insured risk by an insurance company and the administration of insurance policies, management of claims and claims payment in accordance with Act No. 8/2008 Coll. on insurance.

In the area of pension saving, eight on-site supervisions were conducted, focusing on the following activities: organization, management and the legal framework for the companies' operations and contracts concluded by companies; management of investments and activities related to appreciation of the assets in pension funds, including transaction settlement, risk management and compliance with legal limits related to asset composition in pension funds; company information system and information flows; valuation of assets in pension funds, calculation of net asset value and the present value of pension units, pension fund fees, accounting and reporting; managing individual pension accounts for savers; crediting contributions and revenues; stopping fees; retirement pension savings agreements; internal controls and complaints; advertising and promotions; and compliance with the Retirement Pension Savings Act, other generally binding legal regulations, the pension fund statutes and the by-laws of pension funds management companies, as well as on compliance with the terms and conditions for which licences were granted and the terms and conditions of other

decisions by Národná banka Slovenska and a review of the objective accuracy of selected reports and disclosures. In supplementary pension saving, supervisions concentrated on reviewing requirements for personal accounts of participants and recipients of benefits and personal account statements for participants and recipients of benefits, checking and becoming familiar with a company's arrangements for transforming a supplementary pension funds insurance company to a supplementary pension funds management company, an inspection of how the company settles its beneficiaries' claims to supplementary pension insurance benefits, a review of procedures for redistributing revenues to the company's customers, valuing assets in supplementary pension funds the company administers and calculating the net asset value in supplementary pension funds, a review of the accounting method for expenses connected with administering assets in supplementary pension funds in accordance with the Supplementary Pension Savings Act and a review of procedures and methods for handling complaints from supplementary pension savings participants.

Foreign exchange supervisions focused on the fulfilment of reporting obligations by supervised entities. Foreign exchange supervisions focusing on currency exchange activities primarily verified the keeping of prescribed special records



(the issuing of purchase and sale statements, foreign exchange bookkeeping, etc.).

In 2008, the supervision unit also verified the preparedness of supervised entities for introduction of the euro, primarily focusing on dual display requirements resulting from Act No. 659/2007 Coll. on the introduction of the euro in the Slovak Republic. In this case, all supervised entities were reviewed: i.e. banks, branches of foreign banks, credit cooperatives, insurance companies, investment firms, management companies, pension funds management companies, supplementary pension funds management companies, the stock exchange and the central securities depository. After evaluating documents the supervising entities had sent, the commercial locations of 42 entities were visited during the fourth quarter of 2008, including 16 banks, 9 branch offices of foreign banks, 12 management companies, 5 pension funds management companies and 5 supplementary pension funds management companies. Individual entities were subsequently advised of weaknesses that had been found and requested to take immediate corrective action. 18 investment firms, as well as the Bratislava Stock Exchange and the Central Securities Depository received visits regarding preparedness for changeover to the euro on 1 January 2009. The supervisions showed that the supervised entities were organizationally, technically and professionally prepared to ensure problem-free changeover to the euro. The supervisions also verified preparedness at insurance companies for introduction of the euro, particularly in the scope of required dual display at insurance companies. The reviews were conducted from October to December 2008 and included both an evaluation of supporting documents which had been sent and verification that obligations at selected commercial locations of insurance companies had been fulfilled.

In addition to processing statements from supervised entities and supporting on-site supervisions at the preparation stage and during their on-site conduct, important tasks of off-site supervisors included, for example, preparation of analyses of individual financial market entities; designing stress scenarios concentrating on simulated growth in non-performing loans in a bank's loan portfolio, reflecting the impact of the current deepening financial crisis on pen-

sion funds; interim monitoring of concluded securities transactions at the BCPB stock exchange; and reviewing petitions related to the disposal of shares at CDCP filed by its clients. In connection with the financial markets turbulences and the deepening economic crisis, a meeting with insurance companies was organized. Their representatives informed in detail about the current impacts of the crisis on functioning and financial management of insurance companies. In addition, in connection with the financial crisis, daily monitoring of liquidity at banks and branches of foreign banks was put into place at the end of September 2008, based on a Decision on the imposition of a preliminary NBS measure requiring banks to maintain a minimum amount of liquid assets on a daily basis, set in consideration of specific situation of individual banks. Banks were required to ask Národná banka Slovenska for prior approval if a decline in assets below the defined minimum value was expected.

4.6 ANALYTICAL ACTIVITIES OF THE SUPERVISION UNIT

A significant part of the analytical activities of the supervision unit is focused on quantifying risks in the financial sector in connection with developments in the financial market and in the domestic and foreign economies. The aim of the analysis performed is especially to identify both medium- and long-term risks and the connection to regulatory changes.

In addition to regular assessment through selected indicators of trends and risks in the domestic and foreign financial markets, a large part of the work focuses on semi-annual Analyses of the Slovak financial sector. This report is submitted to the NBS Bank Board and published in a shortened form². At the same time, the report is an important underlying document for the Financial Stability Report. The analysis includes a deep and comprehensive evaluation of trends in the entire financial sector, risk identification and a quantification of the ability of individual financial entities and of the entire sector to be able to manage the risks to which they are exposed. Another regular analysis is a six-month report on the state and development of the Slovak financial market submitted under the Act on Supervision of the Financial Market for the Government

² <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/analysis-of-the-slovak-financial-sector>



and National Council of the Slovak Republic sessions.

Analytical activities in 2008 were influenced to a great degree by the ongoing financial crisis. In connection with negative developments in world financial markets during 2008, analyses of the crisis's impact on the Slovak banking sector and Pillar II pension funds were conducted during the first phase of the mortgage slump. These analyses were focusing in detail on the sensitivity of the security portfolios of entities concerned to a decline in value of selected groups of financial assets. In terms of assessing the effects of the crisis, attention was also paid to systemic risk assessment and the exposure of institutions operating in the Slovak financial market to counterparties whose risk had increased in this crisis, as well as monitoring various market indicators (e.g. share and credit derivatives prices). Special attention was paid to improving models and the risk assessment system, particularly concentrating on stress testing. In assessing the risk, the impact of two macroeconomic scenarios on the entire financial market was stress-tested and published, utilizing several econometric models.

In the supervision unit, the introduction of the common European currency was reflected at several levels. As part of the supervision unit's analytical activities, an analysis of the effects of adopting the euro on the financial sector was prepared.

Analytical activities were, to a large extent, also utilised in the preparation of new regulations, particularly when analyzing the consequences of legislative changes.

In respect of the ongoing crisis, greater attention was paid to crisis management. At the international level, the supervision unit cooperated, in particular, in the preparation of joint analytical instruments for crisis situations and several meetings were held with central bank representatives from neighbouring states to discuss this area.

4.7 FINANCIAL MARKET DEVELOPMENTS IN 2008

The deepening financial crisis, the start of the economic crisis and preparations for entering the euro area were the main moving forces shaping

developments in the Slovak financial sector during 2008. The world financial crisis, which started at the beginning of the second half of 2007, caused during the year 2008 significant global turbulences, particularly becoming increasingly grave at the end of the third and beginning of the fourth quarters and reaching a degree that threatened the very existence of the world financial system.

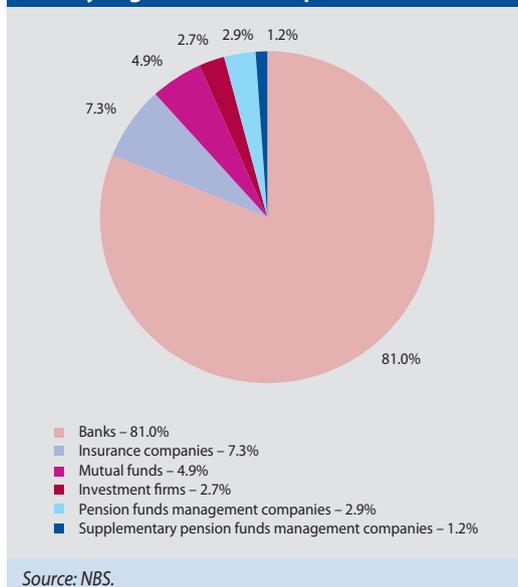
Considering the crucial role the Slovak financial sector plays in the domestic economy, the economic crisis, whose first signs were being observed in Slovakia at the beginning of the final quarter of 2008 and whose effects had already been felt by the end of the year, for example, in a decrease in loan activity in the dominant banking sector, constituted a very serious threat to financial stability.

Changeover to the euro caused balance sheets in the financial sector to expand in 2008, particularly due increases in bank deposits, which especially had a positive impact on bank liquidity.

Assets in all regulated financial institutions grew by 11% in 2008. Expressed in absolute numbers, they increased by SKK 230.77 billion (EUR 7.66 billion) to SKK 2,336.58 billion (EUR 77.56 billion) by the end of 2008.³ Compared to a 20% rise in the previous year, this was a relatively sharp slowdown in the growth rate of the sector's balance sheet total. The contribution of the banking sector to the rise in assets in the entire financial sector was dominant, and the banking sector's balance sheet total reached SKK 1,893.1 billion (EUR 62.84 billion) at the end of 2008. A large part of a 14% year-on-year increase in assets was concentrated in the second half of the year, when the banks cashed in on the supply of Slovak korunas which had been deposited mostly by households, mainly to ensure a smooth conversion to the euro once the common currency is introduced. The investment firm sector showed double-digit growth, as well as both pension scheme pillars. The insurance sector also grew, although at a slower rate, at a level of around 5%. There was not much positive in 2008 for the collective investment sector, which found itself in the final months under strong pressure to redeem unit certificates. This was the main cause for a 30% drop in the net value of assets managed in mutual funds over the course of the year.

³ Data for 2008 are final only for the banking sector.

Chart 37 Share on assets and managed assets by segments: NBS-supervised entities



In 2008, the crisis had already partially affected the financial sector's profitability. Return on equity (ROE) declined in almost all segments except for Pillar II pension funds, which was the only segment to register a negative value of this indicator. At the year-end, banking sector earned profits of SKK 15.83 billion (EUR 525.47 million). In the capitalized pension fund pillar, however, high initial costs, which companies spread out over several years, had an increasingly negative impact on financial performance. Profits earned in individual segments slowed mainly in the second half of 2008.

Negative developments in world stock markets were also reflected in a fall in the values, in particular, of share issues on the Bratislava Stock Exchange. Both as a result of these developments and the termination of regulated trading in 35 share issues, market capitalization on this exchange significantly declined. At the close of 2008, it stood in proportion to GDP at the lowest level in minimally seven years. As the direct financing already had relatively little significance, it fell even more. Credit financing, whether through banks or entities in an unregulated market, as a percentage of GDP grew in the first half of the 2008, but stagnated in the second half.

The financial crisis was locally most evident in a sharp decline in the performance of most fi-

ancial products. Money investments, including demand and term deposits in banks and money market mutual funds, continued on average to have positive nominal yields in 2008, and conservative funds in Pillar II pension funds also finished higher, while year-on-year performance in other investments increasingly fell into the red during the year. Considering the predominantly longer investment horizon and fixed nature of many of these investments, this decline does not have to mean future realisation of losses for households.

Negative developments in the financial markets also affected the ability of banks to issue bonds, particularly mortgage bonds. Both an increase in the costs of funds and the low availability of long-term funding limited the ways of financing using these resources. As a whole, however, the financial crisis did not more pronouncedly affect the banking sector in terms of resources. As opposed to other sectors in the EU Member States, the Slovak banking sector reported a high percentage of customer deposits, which significantly exceeded customer loans. Therefore, domestic banks were less exposed to the risk of high volatility in the financial markets.

In terms of assets, the financial crisis became more distinctly evident in the third quarter of 2008. Worsening economic indicators and particularly outlooks for their future course caused banks to tighten lending standards. At the same time, demand for corporate loans, especially for longer-term loans, fell. As a result, lower growth in total corporate loans was recorded in 2008 compared with previous periods. The market for household loans began to show negative trends related to the financial crisis as late as the final quarter of 2008. The falling pace of loan growth was reflected more in a drop in household demand than in tighter lending standards of banks. This development was fuelled by negative expectations of future economic developments, and also by continued decline in residential property prices. Decreasing prices, already registered in the second quarter of 2008, generated further deflationary expectations, and real estate purchases were being put off until a later period.

Despite the continuing financial crisis, a majority of banks increased their own funds, mainly by retaining profits from previous years. As of De-



cember 2008, own funds in the banking sector reached SKK 115.35 billion (EUR 3.83 billion).

In 2008, the financial crisis also began to be apparent in the insurance sector. As a consequence of the reduction in return on assets, total insurance company profits fell by almost a half, compared to the previous year, to SKK 3.26 billion (EUR 110 million). Technical premium reached SKK 63.26 billion (EUR 2.1 billion); in life insurance it was SKK 33.14 billion (EUR 1.1 billion) and in non-life insurance SKK 30.13 billion (EUR 1.0 billion). The trend towards higher growth in life insurance compared to non-life continued, and as a result, the technical premium ratio in 2008 swung toward life insurance for the first time. Once again, unit-linked insurance recorded the strongest growth among individual insurance coverage groups (37.7%).

There was no significant change during 2008 in the amount of securities transactions carried out by investment firms. Bonds, shares and unit certificates in a total value of SKK 421.76 billion (EUR 14 billion) were traded. The amount of customer assets managed by licensed investment firms grew year-on-year by 41% to SKK 63.26 billion (EUR 2.1 billion). The prescribed level of capital adequacy of these entities was comfortably met.

Growth of managed assets in collective investment observed in previous periods came to a standstill in the first half of 2008 and net asset value in mutual funds actually fell sharply in the second half of the year. This development was primarily a result of the financial crisis; – on the one hand it reflected mass redemptions caused by uncertainty in light of further developments in the value of investments, and, on the other hand, albeit to a lesser degree, it reflected the decline in value of certain portfolio assets. Year-on-year performance fell across the entire spectrum of mutual funds and only money market funds managed to deliver on average positive nominal yields to unitholders. Nevertheless, the largest redemptions were documented by money market funds, also due to the impact of a rise in the limit of customer deposits protected by law in banks to 100%.

The global financial crisis also affected the pension fund sector of the financial market. A price

decline in certain asset funds consequently diminished income from these funds, and within the Pillar II pension funds, positive numbers were achieved in conservative funds only. A fall in performance also affected supplementary pension saving, where only 3 of the 10 funds financed by contributions achieved positive figures. In addition to performance, the crisis in the financial markets also affected the structure of portfolios in both Pillar II and Pillar III pension funds in 2008. Bond-type investments prevailed, especially in government bonds, while the amount of shares in the assets of pension funds and supplementary pension funds decreased almost by a half. Another significant factor influencing the activities of the pension fund sector in 2008 was the double opening of Pillar II pension funds allowing entrance or withdrawal for savers.

In recent years, household indebtedness had markedly risen, and exposure by the banks to credit risk from these loans also increased. Significant growth was documented, in particular, in long-term mortgage loans. Despite their volume increased in absolute terms, the share of household loans in total bank loans and their proportion in GDP remained relatively low, especially in comparison with similar indicators in other countries. In terms of the riskiness of household loans, the indebtedness of individual households, particularly in relation to their income, is substantial. The value of this ratio is important, especially in times of crisis. The year-on-year average ratio of loan instalments to disposable income moderately increased by 3 percentage points to 33%. The population group who were provided with loans in 2007-2008 is at more risk. However, developments in non-performing loans in 2008 had not indicated a worsening in the quality of loan portfolios.

In light of the worsening economic situation in the last quarter of 2008 and a markedly negative outlook for 2009, credit risk resulting from corporate loans constitute the greatest threat to the banking sector's stability. Bank loans to non-financial corporations rose in 2008, which was reflected in a growth of corporate indebtedness. The credit quality of corporate loan portfolios did not significantly change in 2008. Throughout 2008, the largest amount of non-performing corporate loans remained in the wholesale and retail sectors, followed by the manufacturing sector.



Direct exposure of the banks to foreign exchange risk was negligible as at of 31 December 2008. In relation to the approaching euro adoption on 1 January 2009 and the related significant decrease in SKK/EUR exchange rate volatility, banks were only exposed to changes in exchange rates of other foreign currencies. In the short-term outlook (i.e. a time horizon of several weeks), profitability at most banks should not be affected more sharply by interest rate movements. The reason is that only a small part of the assets and liabilities (approximately 10%) is revaluated at fair value against profit and loss. An increase in rates should have negative impacts since part of these assets comprised longer-duration bonds, whereas liabilities consisted mainly of short-term deposits.

The most important risks insurance companies are exposed to are insurance risks. In addition, insurance companies are exposed to market risks, which can cause an unexpected decrease in the value of assets covering technical provisions. However, most insurance companies are at almost negligible market risk which could have a direct impact on the earnings they report.

An overwhelming majority of conservative fund portfolios at pension funds management companies had no open currency positions and

included neither shares nor unit certificates. Therefore, they were not exposed to either foreign exchange risk or equity risk. The portfolios' sensitivity to changes in interest rates is greater, i.e. the interest rate risk is higher in comparison with the previous year. In balanced and growth funds, a trend towards a decreased percentage of shares and unit certificates in net asset value prevailed. Foreign exchange risk is relatively low since foreign exchange positions in the funds are to a large extent closed. In the period under review, euro positions constituted the largest percentage of open positions. Nevertheless, with the euro adoption in 2009 they no longer represent a risk. Aside from this, pension funds are the most exposed to risks resulting from exchange rate changes in the US dollar and Polish zloty. Similarly as pension funds management companies, supplementary pension funds management companies are also exposed mainly to market risks.

Developments in the riskiness of mutual fund investments were influenced to a large extent by a distinct increase in volatility, especially in stock markets. Money market and bond funds were exposed to interest rate risk, though more from a long-term point of view. Following a further cut in the ECB's base rate, interest income decreased.



ISSUING ACTIVITY AND CURRENCY IN CIRCULATION



5 ISSUING ACTIVITY AND CURRENCY IN CIRCULATION

5.1 SLOVAK CURRENCY ISSUANCE

In 2008, with the Slovak Republic due to join the euro area on 1 January 2009, Národná banka Slovenska ensured that the amount and denomination structure of Slovak koruna banknotes and coins were sufficient to meet the needs of currency circulation until the end of 2008.

There was no printing of Slovak banknotes or minting of Slovak circulation coins in 2008, except for the 32 800 coins of each valid denomination that were issued for annual collector sets.

During the year, Národná banka Slovenska issued four commemorative collector coins that were minted from precious metals and marked certain significant events and anniversaries. These included a 200 koruna silver coin commemorating the 100th anniversary of the death of Andrej Kmeť, issued on 12 February 2008; a 500 koruna silver coin marking the Protection of Nature and Landscape – Low Tatras National Park, issued on 13 May 2008; and a 5000 koruna gold coin commemorating the Bratislava coronations and the 400th anniversary of the coronation of Matthias II, issued on 16 September 2008.

The last commemorative coin to be issued in the koruna currency was a 1000 koruna silver coin marking the “Farewell to the Slovak koruna”,

which came out on 1 December 2008. All the coins were produced by the state mint, Mincovňa Kremnica, š. p., which was also charged with the sale of annual collector sets.

In preparation for the changeover from the Slovak currency to the euro and for the fact that banks needed to be frontloaded with sufficient euro banknotes and euro coins, Národná banka Slovenska ensured the production of 499 million euro coins in all denominations and deliveries of 188 million euro banknotes in all denominations.

Euro banknotes lent to NBS out of the Eurosystem's stocks were delivered from the Oesterreichische Nationalbank in the fourth quarter of 2008. Euro coins were minted by Mincovňa Kremnica, š. p., which in addition to circulation coins, issued 1.32 million starter kits for the frontloading of euro cash to the public and 2.5 million €2 commemorative coins marking the “10th anniversary of Economic and Monetary Union”.

The euro starter kits were available to buy from 1 December to 31 December 2008 from NBS, branches of commercial banks, and post offices of Slovenská pošta, a.s. All the starter kits were sold. The two-euro coin was prepared, minted and distributed in advance so that it could be issued after the introduction of the euro in January 2009.

Table 25 Commemorative coins issued by NBS in 2008

Denomination	Event marked by the coin	Number of coins issued		NBS Decree
		total	PROOF	
200 Sk ¹⁾	100th anniversary of the death of Andrej Kmeť	7,400	3,400	498/2007 Coll.
500 Sk ¹⁾	Protection of Nature and Landscape – Low Tatras National Park	9,100	4,800	9/2008 Coll.
5000 Sk ²⁾	Bratislava coronations – 400th anniversary of the coronation of Matthias II.	4,050	4,050	58/2008 Coll.
1000 Sk ¹⁾	Farewell to the Slovak koruna	22,000	22,000	302/2008 Coll.

Source: NBS.

1) Commemorative silver coin.

2) Commemorative gold coin.



ISSUING ACTIVITY AND CURRENCY IN CIRCULATION

5.1.1 CURRENCY IN CIRCULATION AND NET ANNUAL ISSUANCE¹ IN THE SR

With 2008 being the last year of the Slovak koruna currency, cash circulation in Slovakia was throughout the year marked by preparations for the introduction of the euro from 1 January 2009. Currency circulation indicators in the first half of 2008 showed a similar development in comparison with the same period of the previous year. In the second half of 2008, they were influenced by the announcement that Slovakia would be joining the euro area and adopting the euro currency from 1 January 2009. As a consequence, the value of currency in circulation began to fall steadily, except for a brief rise in mid-October caused by the financial crisis.

The value of currency in circulation in the Slovak Republic as at 31 December 2008 represented SKK 77.71 billion (EUR 2.58 billion), including

Chart 38 Monthly development of currency in circulation (SKK billions)



Source: NBS.

Table 26 Value of currency in circulation in SKK

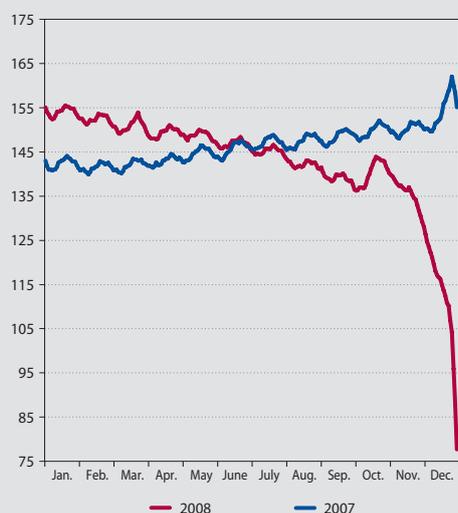
	Value in SKK		Share in %	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Banknotes				
5000Sk	31,308,397,500	74,381,077,500	40.29	47.94
1000Sk	34,330,587,500	65,888,564,500	44.18	42.47
500Sk	3,926,713,375	5,693,748,375	5.05	3.67
200Sk	1,930,493,050	2,459,868,650	2.48	1.59
100Sk	2,539,720,850	2,553,773,150	3.27	1.65
50Sk	764,181,550	903,850,100	0.98	0.58
20Sk	670,486,545	773,488,305	0.86	0.50
Total	75,470,580,370	152,654,370,580	97.11	98.39
Circulation coins				
10Sk	652,338,310	895,795,870	0.84	0.58
5Sk	312,975,580	359,567,040	0.40	0.23
2Sk	236,804,642	251,880,460	0.31	0.16
1Sk	155,644,718	164,910,186	0.20	0.11
50 hal. I	25,371,141	26,082,861	0.03	0.02
50 hal. II	88,155,736	83,835,690	0.11	0.05
20 hal.	44,240,866	44,275,412	0.06	0.03
10 hal.	26,953,438	26,967,812	0.04	0.02
Total	1,542,484,430	1,853,315,331	1.99	1.19
Commemorative coins	700,536,780	646,400,190	0.90	0.42
Banknotes and coins in total (SKK)	77,713,601,580	155,154,086,101	100.00	100.00
Banknotes and coins in total (EUR)	2,579,618,986	5,150,172,147	-	-

Source: NBS.

¹ The net issuance is the difference between the amount of money put into and returned from circulation over a specified period of time. The terminology is identical to that of the European Central Bank.



Chart 39 Daily development of currency in circulation (SKK billions)



Source: NBS.

commemorative coins. In comparison with its figure as at 31 December 2007, the value of currency in circulation declined by SKK 77.4 billion (EUR 2.57 billion) or 49.9% year-on-year.

The value of currency in circulation during 2008 (measured as at the end of each month) was influenced by preparations for the introduction of the euro in Slovakia from 1 January 2009. Whereas in previous years the value of currency in circulation had shown a typically seasonal pattern of falling in the first quarter and rising towards the end of the year, in 2008 the value declined steadily. The monthly values of net issuance in 2008 ranged from minus SKK 2.6 billion (EUR 0.086 billion) in January to minus SKK 50.4 billion (EUR 1.67 billion) in December 2008. The development of currency in circulation in 2008 is shown in Chart 38.

Table 27 Currency in circulation by number of banknotes and coins

	Value in SKK		Share in %	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Banknotes				
5000 Sk	6,261,680	14,876,216	0.50	1.18
1000 Sk	34,330,588	65,888,565	2.74	4.88
500 Sk	7,853,427	11,387,497	0.63	0.84
200 Sk	9,652,465	12,299,343	0.77	0.91
100 Sk	25,397,209	25,537,732	2.03	1.89
50 Sk	15,283,631	18,077,002	1.22	1.34
20 Sk	33,524,327	38,674,415	2.68	2.86
Total	132,303,326	186,740,770	10.56	13.82
Circulation coins				
10 Sk	65,233,831	89,579,587	5.21	6.63
5 Sk	62,595,116	71,913,408	5.00	5.32
2 Sk	118,402,321	125,940,230	9.45	9.32
1 Sk	155,644,718	164,910,186	12.42	12.21
50 hal. I	50,742,282	52,165,721	4.05	3.86
50 hal. II	176,311,471	167,671,380	14.07	12.41
20 hal.	221,204,329	221,377,062	17.66	16.39
10 hal.	269,534,379	269,678,123	21.51	19.96
Total	1,119,668,447	1,163,235,697	89.37	86.11
Commemorative coins	937,174	889,584	0.07	0.07
Banknotes and coins in total	1,252,908,947	1,350,866,051	100.00	100.00

Source: NBS.



ISSUING ACTIVITY AND CURRENCY IN CIRCULATION

The highest daily value of currency in circulation in 2008 was SKK 155.5 billion (EUR 5.16 billion), recorded on 18 January. The development of the daily value of currency in circulation in 2008 and in the previous year is shown in Chart 39.

Given the atypical development of currency circulation in Slovakia in 2008 (with the steady decline in its total value), this annual report does not include a section evaluating the development of currency in circulation against macroeconomic variables (GDP, inflation, monetary aggregates M0 and M1). Instead, there is information on the preparations for the introduction of the euro in Slovakia from 1 January 2009 and on the withdrawal and destruction of the Slovak currency.

5.1.2 STRUCTURE OF CURRENCY IN CIRCULATION AND NET ISSUANCE

As at 31 December 2008, 132.3 million banknotes with a value of SKK 75.5 billion (EUR 2.51 billion), 1,119.7 million circulation coins with a value of SKK 1.54 billion (EUR 51.20 million) and 937,200 commemorative coins with a value of SKK 700.5 million (EUR 23.25 million) were in circulation. Banknotes represented 97.1% of the total value of currency in circulation, circulation coins 2.0% and commemorative coins 0.9%. Of

the total number of banknotes and coins in circulation, banknotes accounted for 10.6% and circulation coins 89.4%.

The net issuance in 2008 was to a large extent influenced by the steady decline in currency in circulation – i.e. a far higher number of banknotes and coins were taken out of circulation than were put into circulation, and the net issuance for 2008 was therefore negative (minus SKK 77.4 billion or EUR 2.57 billion). Thus, almost half (49.9%) of the value of currency in circulation as at the end of 2007 was taken out of circulation during 2008.

Of the total value of currency returned from circulation in 2008, banknotes accounted for 99.6% and coins 0.4%. As at the end of 2008, the currency remaining in circulation consisted mainly of lowest denomination banknotes (20 koruna – 33.5 million notes; 100 koruna – 25.4 million notes; 50 koruna – 15.3 million notes), while the most numerous of the higher value banknotes was the 1000 koruna denomination (34.3 million notes).

As for coins, the currency remaining in the circulation consisted mainly of the lowest denomina-

Table 28 Development of the average value of the currency mark (in SKK)

Year	Banknotes	Circulation coins	Currency including commemorative coins
1993	289.3	3.2	90.2
1994	384.1	2.0	76.4
1995	455.6	1.8	76.7
1996	537.3	1.7	81.8
1997	566.3	1.6	80.5
1998	552.3	1.5	72.2
1999	594.1	1.5	76.1
2000	631.4	1.4	77.1
2001	693.6	1.4	84.4
2002	697.8	1.4	80.3
2003	729.2	1.4	85.0
2004	738.8	1.6	94.0
2005	788.9	1.6	106.0
2006	803.6	1.6	111.2
2007	817.5	1.6	114.9
2008	570.4	1.4	62.03

Source: NBS.



tion circulation coins, 50 halier coins numbered 227 million, 1 koruna coins 156 million, and 2 koruna coins 118 million.

A total of 316,500 ten and twenty halier coins were returned from circulation in 2008 with 31 December of that year representing the end of the foreclosure period during which these invalid coins could be returned. By the end of the year, therefore, the number of these coins that had not been returned was more than 490 million, or more than 82% of the total number issued between 1993 and the end of 2003.

In 2008, the total number of commemorative coins in circulation increased by more than 47,000 and their overall value rose by SKK 54.1 million (EUR 1.79 million).

5.1.3 AVERAGE VALUES OF CURRENCY IN CIRCULATION

The value of currency in circulation per capita² as at 31 December 2008, including commemorative coins, totalled SKK 14,389 (477.63 EUR). Of that figure, banknotes accounted for SKK 13,973 (EUR 463.82), circulation currency SKK 286 (EUR 9.49) and commemorative coins SKK 130 (EUR 4.32). A meaningful comparison with the figures for 2007 cannot be made since the decline in Slovak currency in circulation during 2008 would have a distorting effect.

As at the end of 2008, the per capita number of banknotes remaining in circulation was almost 25, with the most numerous denominations being the 1000 koruna and 20 koruna notes (6 per capita each). The per capita number of circulation coins represented 207, with the most numerous legal tender coins being those in the lowest denominations, i.e. 50 halier coins (42 per capita), 1 koruna coins (29), and 2 koruna coins (almost 22).

The average value of the currency mark³ in 2008 was SKK 62.03. The development of the average value of the currency mark between 1993 and 2008 is compared in the table 28, together with the mark for banknotes and coins separately.

5.1.4 PREPARATION FOR THE INTRODUCTION OF THE EURO IN SLOVAKIA FROM 1 JANUARY 2009

When preparing for the introduction of the euro into circulation in Slovakia, one of the main tasks was to ensure that sufficient euro banknotes and

euro coins were frontloaded to banks in good time and that they were then sub-frontloaded to banks' clients.

The whole process of frontloading and sub-frontloading was carried out on a contractual basis and fully subject to the Guideline ECB/2006/9 on frontloading and sub-frontloading as amended by the Guideline ECB/2008/4, which laid down details of the rights and obligations of the parties involved, the frontloading/sub-frontloading period, collateral arrangements, and the reporting of statistical data.

In order to meet cash circulation needs related to the euro cash changeover, 188 million euro banknotes with a total value of SKK 213.9 billion (EUR 7.1 billion) were borrowed from the Oesterreichische Nationalbank in 2008. Of that number, banks were frontloaded with 51.1 million banknotes with a total value of almost SKK 28.7 billion (EUR 950.9 million).

Banks sub-frontloaded their clients, on request, with 14.3 million euro banknotes with a total value of SKK 6.8 billion (EUR 225 million), which represented 25% of the total value of sub-frontloaded euro banknotes.

Národná banka Slovenska had 499 million euro coins minted by Mincovňa Kremnica, š.p. Among the new Member States introducing the euro, Slovakia was the first one to use the services of a mint in its own territory to produce its national euro coins. A total of 283.4 million euro coins worth almost SKK 2.9 billion (EUR 98 million) were frontloaded to banks.

Banks sub-frontloaded their clients, on request, with 195 million euro coins with a total value of more than SKK 1.9 billion (EUR 66 million), which represented 66% of the total value of sub-frontloaded euro coins.

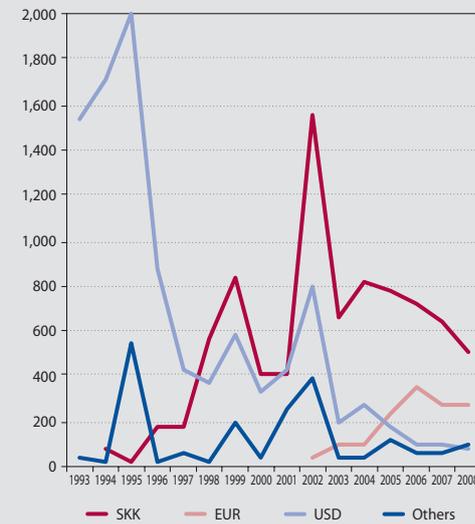
Altogether, euro banknotes and euro coins were sub-frontloaded to almost 14,000 clients.

In addition to euro coins for frontloading, Mincovňa Kremnica, š. p. produced 1.32 million euro starter kits with a total value of SKK 660.1 million (EUR 21.9 million). The starter kits were sold at banks (833,000), post offices of Slovenská pošta, a.s. (400,000), and directly at NBS.

² The population as at 31 December 2007 numbered 5 400 998, according to the Statistical Office of the Slovak Republic.

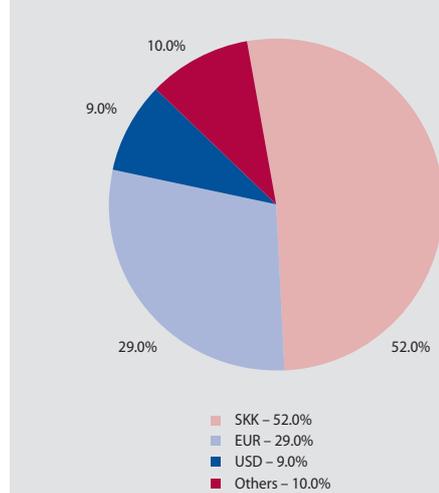


Chart 40 Number of seized counterfeits



Source: NBS.

Chart 41 Breakdown of counterfeits seized in 2008 (%)



Source: NBS.

5.1.5 WITHDRAWAL OF SLOVAK CURRENCY FROM CIRCULATION AND ITS DESTRUCTION

Besides ensuring a sufficient amount of euro banknotes and euro coins for the needs of cash circulation, the preparations for euro introduction involved withdrawing Slovak currency from circulation and destroying it.

The process of withdrawing Slovak currency from circulation began immediately after it was announced that Slovakia had met the conditions for the introduction of the euro from 1 January 2009. In the second half of 2008, the value of currency in circulation began to fall steadily – except for a brief rise in October caused by the financial crisis – and this trend culminated in December when the value declined month-on-month by more than SKK 50 billion (EUR 1.66 billion). The 54.4 million banknotes and 43.6 million coins returned from circulation in 2008 had a total value of SKK 77.4 billion (EUR 2.57 billion).

In connection with preparations for the euro introduction in Slovakia and in accordance with the National Euro Changeover Plan, NBS began the destruction of surplus stocks of Slovak banknotes and coins. From these surplus stocks, 90.2 million banknotes with a total value of SKK 45.8 billion (EUR 1.52 billion) and 74.3 million circulation coins with a total value of SKK 428.3 million (EUR 14.22 million) were destroyed in 2008.

5.2 COUNTERFEIT MONEY SEIZED IN THE TERRITORY OF THE SLOVAK REPUBLIC

A total of 964 counterfeit banknotes and coins were seized in the territory of the Slovak Republic in 2008 (see Chart 40). The number of seized counterfeits fell by 102 (around 9.5%) in comparison with 2007, and it was the smallest number in any year since the establishment of the Slovak Republic. Fully one-third of all the counterfeit seizures last year took place in Bratislava region. Of these counterfeits, 92% were seized from currency in circulation by banks, branches of foreign banks, non-banking entities, and security services.

The highest proportion of seized counterfeits comprised Slovak koruna and euro counterfeits, 52% and 29% respectively, and to a lesser extent US dollar counterfeits (9%) and counterfeits of other currencies 10% (Chart 41).

5.2.1 SLOVAK KORUNA COUNTERFEITS

A total of 502 Slovak koruna counterfeits were seized in 2008, including one modified banknote and one fake coin. Most of the counterfeits were found in Bratislava region (126) and Banská Bystrica region (89). Counterfeit banknotes in the denominations of SKK 500 and SKK 1000 accounted for 80% of all Slovak koruna counterfeits. The Slovak koruna counterfeits seized in 2008 were

**Table 29 Number of seized Slovak koruna counterfeits (pcs)**

Year	Denomination								p ¹⁾	Total
	5000	1000	500	200	100	50	20	10		
2004	45	419	203	36	68	36	11	1	1	820
2005	23	337	151	103	87	48	28	0	7	784
2006	28	346	138	96	56	22	6	0	33	726
2007	32	304	151	66	31	23	7	25	0	639
2008	18	211	189	26	28	22	6	1	1	502

Source: NBS.

1) Imitations, modified and composed banknotes and coins.

Table 30 Number of seized euro counterfeits (pcs)

Year	Denomination									P ¹⁾	Total
	1	2	5	10	20	50	100	200	500		
2004	0	3	1	0	1	48	26	17	2	5	103
2005	0	8	0	0	13	114	26	37	34	2	234
2006	0	3	1	4	6	69	217	38	10	0	348
2007	4	8	0	2	10	59	99	90	6	0	278
2008	2	15	0	4	9	65	70	106	4	0	275

Source: NBS.

1) Imitations, modified and composed banknotes and coins.

Table 31 Number of US dollar counterfeits (pcs)

Year	Denomination							P ¹⁾	Total
	1	5	10	20	50	100	1000		
2004	3	0	1	1	5	252	0	2	264
2005	0	0	1	1	3	163	0	3	171
2006	2	1	0	0	3	94	1	0	101
2007	0	0	0	2	3	92	0	0	97
2008	0	0	0	1	6	74	0	6	87

Source: NBS.

1) Imitations, modified and composed banknotes and coins.

of a low quality and most were produced using colour ink jet printers.

5.2.2 COUNTERFEIT FOREIGN CURRENCIES

In 2008, a total of 275 euro counterfeits, 87 US dollar counterfeits, and 100 counterfeits of other currencies were seized in the territory of the Slovak Republic.

Euro counterfeits

Although it had been expected to rise, the number of seized euro counterfeits (275) was al-

most the same as in 2007. Their quality, however, showed a marked improvement on the previous year. Whereas euro counterfeits seized in euro area countries were mostly in the lower denominations of EUR 50 and EUR 20, the most common counterfeit in the Slovak Republic was in the EUR 200 denomination, which accounted for fully 39% of the total number of seized euro counterfeits. It is expected that the adoption of the euro will lead to a sharp rise in the number of seized euro counterfeits, a change in their breakdown and an improvement in their quality.



Table 32 Number of counterfeit of other foreign currencies (pcs)

Currency/ Year	GBP	CZK	CAD	PLN	CHF	HUF	Others ¹⁾	Total
2004	14	12	4	2	1	3	0	36
2005	82	21	3	1	1	18	1	127
2006	39	9	0	2	0	7	1	58
2007	34	6	0	2	0	3	7	52
2008	88	4	0	2	1	3	2	100

Source: NBS.

¹⁾ German mark (2006), Australian dollar (2007), Czechoslovak koruna (2007), Norwegian krone (2008).

US dollar counterfeits

The number of US dollar counterfeits has been steadily declining since 2004, as has their share of the total number of seized counterfeits. A total of 87 US dollar counterfeits were seized in the territory of the Slovak Republic in 2008, which was 10% fewer than in the previous year. Counterfeits of the USD 100 banknote were again the most common, constituting 85% of the total number of US dollar counterfeits.

Counterfeits of other foreign currencies

A total of 100 counterfeits of other foreign currencies were seized in 2008, representing an increase of more than 92% in comparison with the previous year. Last year was the first in which counterfeits of other foreign currencies were seized in a greater number than US dollar counterfeits. The highest proportion of that total, 88, were counterfeits of British pounds, all of which were counterfeits of the 20 pound banknote.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 6

PAYMENT SYSTEM



6 PAYMENT SYSTEM

6.1 LEGAL AND INSTITUTIONAL ASPECTS

The payment system in the Slovak Republic is governed primarily by Act No. 510/2002 Coll. on the payment system and on amendments to certain laws as amended (hereinafter “the Payment System Act”).

A direct amendment (Act No. 270/2008 Coll.) to the Payment System Act was adopted in 2008. The enactment of this amendment was related to changes in the SIPS domestic payment system and to the connection to the TARGET2 payment system from 1 January 2009, taking place because of the introduction of the euro in the Slovak Republic.

At the European Union level, the principal law in this area is Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC (hereinafter “the Payment Services Directive”).

The main aim of the Payment Services Directive is to establish a single payment market within the Community (including the European Economic Area) by introducing a harmonized legal framework, the intention being to eliminate internal market borders in regard to the provision of payment services.

In 2008, Národná banka Slovenska in cooperation with the Ministry of Finance of the Slovak Republic began the process that will result in the transposition of Payment Services Directive into Slovak law through the adoption of a new generally binding law, expected to take effect as of 1 November 2009. With the adoption of this law, the Payment System Act will be repealed.

The amendment act that will transpose the Payment Services Directive governs mainly:

- a) the rights and obligations of payment service providers and payment service users in regard to the provision of payment services within the European Economic Area in the current

of EEA member countries, in the scope of the Payment Services Directive taking into account the principle of full harmonization, and, where other payment services are provided, in the scope of the minimum requirements for the provision of these services (outside the ambit of the Payment Services Directive);

- b) conditions for establishing and carrying on the business of payment institutions in the scope of the Payment Services Directive taking into account the principle of full harmonization;
- c) conditions for establishing and carrying on the business of electronic money institutions within the scope of European law;
- d) conditions for establishing and operating payment systems within the scope of European law; and
- e) out-of-court complaint and redress procedures for the settlement of disputes concerning the provision of payment services.

The following Regulations (EC) of the European Parliament and of the Council have also been transposed into Slovak law:

- Regulation No. 2560/2001 on cross-border payments in euro, and
- Regulation No. 1781/2006 on information on the payer accompanying transfers of funds.

During the course of 2008, the Ministry of Finance of the Slovak Republic and Národná banka Slovenska participated on a basis of mutual cooperation in the legislative recodification of Regulation No. 2560/2001 on cross-border payments in euro.

The Permanent Court of Arbitration of the Slovak Banking Association was established with effect from 1 July 2003. Its registered office is in Bratislava and at present it has two chambers:

- a) the chamber for deciding disputes on payments,
- b) the chamber for deciding disputes arising from other commercial or civil relations, which commenced operation on 1 January 2004.

In 2008, Národná banka Slovenska approved the Slovak Banking Association’s proposal not to pay any contribution in 2008 to the opera-



tion of the Permanent Court of Arbitration of the Slovak Banking Association, having regard to the court's financial results and to the sufficiency of funding for the activities of the chamber for deciding disputes on payments. At the same time, Národná banka Slovenska approved Addendum No. 3 to the Statute of the Permanent Court of Arbitration.

6.2 THE PAYMENT SYSTEM OF THE SLOVAK REPUBLIC

6.2.1 PAYMENT SYSTEM CONCEPT IN THE SR IN RELATION TO THE EURO INTRODUCTION

By joining the euro area, Slovakia was obliged to connect to the new TARGET2 payment system, since the execution of currency transactions through this system is a mandatory requirement. Preparation of the strategy and procedure for the connection process began back in 2005, when the NBS Governor sent a letter to the ECB declaring that connection to the TARGET2 system would be established, at the latest, by the time Slovakia adopted the euro. A decision on the future form of the payment infrastructure in Slovakia was taken at the end of 2006 when approval was given to a strategy which envisaged the SIPS system becoming a retail payment processing and clearing platform in the form of a TARGET2 "ancillary system", with the RTGS functionality removed from the original SIPS system and replaced by the TARGET2 system.

The selected strategy for rebuilding the payment infrastructure in Slovakia was also supported by the Slovak banking community, which undertook to participate in the TARGET2 system and to use the future EURO SIPS system. The banking sector's preparations for connecting to TARGET2 came under the intensive coordination of Národná banka Slovenska in September 2007, with the presentation of a detailed plan containing required analyses of banks' procedures and future ancillary systems (EURO SIPS, Central Securities Depository, First Data Slovakia), training of future participants, registration for SWIFT services, three-phase coordinated testing in the TARGET2 system and, finally, registration in the production environment.

During 2008, Národná banka Slovenska held eight working meetings with representatives of

banking sector participants, at which it updated them on the progress of the work, gave guidance on their next steps, evaluated testing, and, towards the end of the year, specified all the steps essential to ensuring a successful transition to the euro in the area of cashless payments. In cooperation with the European Central Bank as well as with representatives of the TARGET2 system operator, Národná banka Slovenska coordinated not only the connection of the banking sector, but also the connection of NBS itself (for further details of these activities, see part 6.3). This did not just concern the technical aspect of the connection, but encompassed also the professional, organizational and staffing arrangements for the operation of the TARGET2-SK system and the preparation of the legislative framework for payment infrastructure changes.

Národná banka Slovenska, banks and ancillary systems confirmed at the end of 2008 their preparedness for commencing regular operation, and the entire TARGET2 connection process culminated with the successful transfer of koruna account balances held with banks in the SIPS system to euro accounts in the TARGET2-SK system.

The tasks under the National Euro Changeover Plan for the Slovak Republic also included modifying the concept of the interbank payment system in the Slovak Republic. The SIPS payment system was therefore prepared for the transformation related to the euro introduction in the Slovak Republic, from being a sole domestic interbank payment system to an ancillary system of the TARGET2 trans-European payment system.

In upgrading the SIPS payment system into the EURO SIPS ancillary payment system, the aim was to change the existing interbank payment system so that:

- it meets the requirements placed on a TARGET2 ancillary system;
- it ensures the same functionality that is at present ensured by the SIPS payment system;
- as at 1 January 2009 it replaces the Slovak koruna currency unit with the euro currency unit of the European Union;
- from 1 January 2009 it performs processing and multilateral clearing of domestic retail payments ("the retail system"), and the results of the clearing of these domestic transactions are settled in TARGET2-SK;



- it maintains a price level comparable to that of the existing SIPS payment system.

Since the SIPS payment system was not intended to be working in a dual regime in the last quarter of 2008, but was to be directly replaced by the new EURO SIPS system on the last day of the year, the SIPS transformation project was divided into two stages.

The first stage involved ensuring the stability of the system's operation prior to the euro introduction by implementing the upgraded SIPS payment system and putting it into live operation with the Slovak koruna currency, with a built-in functionality, and with the parameters of the future EURO SIPS payment system. From 22 June 2008, the upgraded SIPS payment system for the euro introduction was implemented by Národná banka Slovenska and by all participants in the interbank payment system. As of that date, the SIPS payment system was prepared for parameterization in regard to the EURO SIPS ancillary system and the transition from the Slovak koruna currency to the euro currency, which had to be carried out on 31 December after the reconciliation of accounts for the last operating day of the SIPS system.

The second stage involved testing the connection of the EURO SIPS payment system to the TARGET2-SK system using the services of S.W.I.F.T company, the aim being to correctly set the parameters and security functions of the infrastructure and of data transmission between EURO SIPS and TARGET2-SK. After successful connectivity testing, the operational coordination of the EURO SIPS system as a TARGET2-SK ancillary system was tested in accordance with Eurosystem requirements. As one of the future TARGET2-SK participants, the EURO SIPS system took part in the country tests, and it carried out the prescribed tests within the stipulated deadlines. Tested in parallel with this was the actual transition of the SIPS payment system to the operation of the EURO SIPS ancillary system, including the change in parameters and its operation in the euro currency.

At the same time, contractual arrangements with the future EURO SIPS participants were being prepared in connection with the change of the payment system's functionality to the ancillary system and with the commencement of inter-

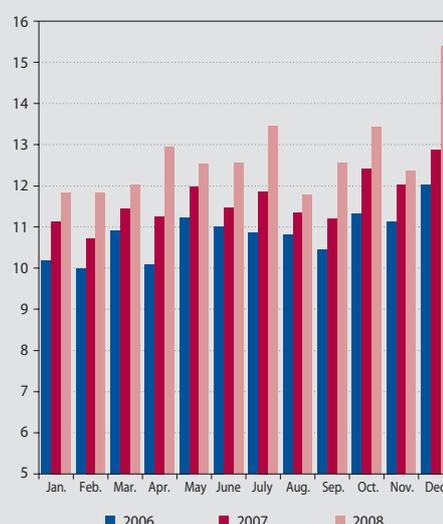
bank payments executed in the euro currency. In relation to the change of the payment system's functionality, the position of some of the existing payment system's participants was changed from 1 January 2009 – three of them were transformed into two TARGET2-SK ancillary systems and two participants opted for the settlement of payments through other entities. By mid-December 2008, the EURO SIPS Payment System Agreement had been signed by the future EURO SIPS participants, and on 1 January 2009 a total of 27 entities became active participants of the EURO SIPS payment system.

In accordance with the applicable rules, the operation of EURO SIPS as a TARGET2-SK ancillary system was launched in the afternoon of 31 December 2008. This opening of its first operating day in the euro currency went without a hitch and took place at the time stipulated in the system's applicable schedule.

6.2.2 PAYMENTS EXECUTED VIA SIPS

In 2008, 32 participants of the interbank payment system were connected to the SIPS payment system. According to the domestic categorization, these included 30 direct and two indirect participants. The number of participants and their structure did not change during 2008, and the list of them at the end of the year was the same as at the beginning of the year.

Chart 42 Number of transactions executed in SIPS in 2006, 2007 and 2008 (millions)



Source: NBS.



PAYMENT SYSTEM

Table 33 Number of transactions executed in SIPS (millions)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
2004	8.12	8.09	8.94	8.57	9.11	9.46	8.81	9.06	8.94	9.27	9.42	10.93
2005	8.86	9.14	9.91	9.88	10.25	10.24	9.84	9.91	9.83	10.24	10.28	11.34
2006	10.18	9.99	10.92	10.09	11.23	11.01	10.85	10.80	10.45	11.34	11.13	12.04
2007	11.12	10.72	11.45	11.26	11.97	11.46	11.87	11.35	11.19	12.42	12.02	12.89
2008	11.83	11.85	12.03	12.94	12.53	12.57	13.47	11.79	12.57	13.43	12.36	15.38

Source: NBS.

Table 34 Value of transactions executed in SIPS (SKK trillions)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
2004	2.77	2.62	3.05	2.86	3.30	3.95	3.84	3.70	3.46	3.43	3.25	4.46
2005	3.95	13.78	11.12	6.35	5.98	6.22	5.04	5.60	5.14	5.00	5.53	5.93
2006	6.43	6.36	8.88	7.15	8.37	8.38	8.61	7.25	6.17	6.21	6.13	5.69
2007	7.46	5.45	9.97	7.34	6.87	6.10	5.85	6.69	5.44	6.47	5.95	5.95
2008	7.08	6.62	6.70	7.53	6.67	7.21	8.00	5.83	6.15	6.42	4.67	6.56

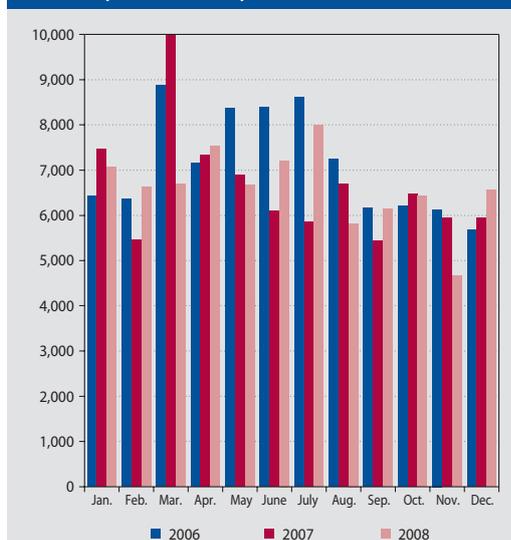
Source: NBS.

A total of almost 153 million transactions were executed through the SIPS interbank payment system in 2008. This represented an increase of 9.34% in comparison with 2007, and maintained the rising trend of previous years in the year-on-year figure. The number of transactions executed

in each month of 2006, 2007 and 2008 is shown in Chart 42 and Table 33.

The total value of transactions executed in 2008 was around SKK 79.5 trillion (EUR 2,638.9 billion), which was almost identical to the previous year's figure. The total value declined by 1.32% in comparison with 2007, thereby confirming that the previous year had marked a turning point in the year-on-year growth curve – after rising by almost 50% from 2004 to 2006, the total value of transactions fell for the first time in 2007, by 7.1%. The value of transactions executed in each month of 2006, 2007 and 2008 is shown in Chart 43 and Table 34.

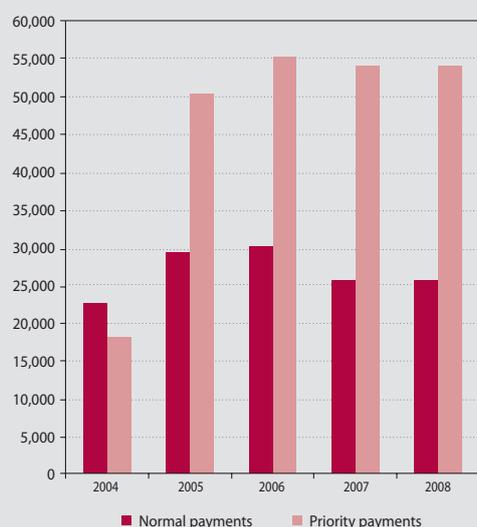
Chart 43 Value of transactions executed in SIPS (SKK billions)



Source: NBS.

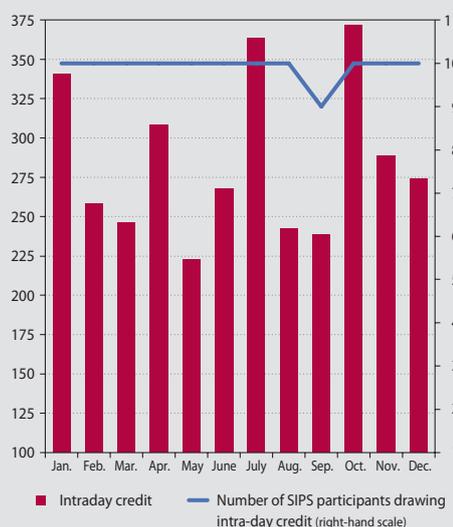
Priority payments as a share of the total number and value of executed transactions did not change in 2008 (277,697 priority transactions were made in 2008 with a total value of SKK 54 trillion, or EUR 1,792.5 billion). Priority payments as a share of the total number of transactions therefore remained at the same level as in 2007, below 0.2%. Although the share of the number of these transactions is minimal, the value of priority payments as a share of the total value of executed transfers represented 68%, meaning that the ratio of normal payments to priority payments remained at 32:68.

Chart 44 Normal and priority payments as a share of the total value of executed transactions (SKK millions)



Source: NBS.

Chart 45 Intraday credit in 2008 (SKK billions)



Source: NBS.

Chart 44 shows the relative share of normal and priority payments, by value, over five consecutive years, confirming the stability in the total value of transactions as well as in proportional representation of both categories.

In 2008, the SIPS payment system was open to participants during all 250 working days. The average daily number of payments processed and settled in the system was 583,000 with a total value of almost SKK 317.76 billion (EUR 10,547.7 million). The average value per transaction represented SKK 545,370 (EUR 18,102.97).

To put these figures in context, over a period of approximately 6.38 working days last year, the SIPS system processed and settled payments with a cumulative value equivalent to the gross domestic product of the Slovak Republic for 2008.¹ Given that GDP in 2008 was higher than in 2007, this period was more than half a working day longer than in 2007.

Národná banka Slovenska provides intraday credit to those participants of the interbank payment system who are required to hold minimum reserves. Intraday credit is provided as an overdraft facility on financial reserve accounts with a maximum overdraft limit. The intraday credit is

payable within one operating day and must be fully collateralized, i.e. by the relevant amount of securities listed in the central register of short-term securities maintained by NBS.

In 2008, intraday credit was requested by ten SIPS participants. In contrast to the previous year, their using of intraday credit was evenly spread through the year with all the participants using this credit in every month apart from September. In 2008, participants who applied for intraday credit were provided with this credit in the total amount of more than SKK 3,422.3 billion (EUR 113.6 billion). The average weekly amount of intraday credit provided by Národná banka Slovenska was SKK 66.092 billion or EUR 2,193.9 million (the amount of intraday credit provided to participants is set on a weekly basis). The amount of intraday credit provided in each month of 2008 and the number of participants who drew this credit is shown in Chart 45.

Information on the number and value of transactions processed in the SIPS system is published on the website of Národná banka Slovenska.

6.2.3 PAYMENT CARDS²

The number of payment cards issued increased by 7.5% in 2008, to stand at 5.255 million.

¹ GDP for 2008 amounted to SKK 2,028.42 billion (source: Statistical Office of the Slovak Republic).

² Source: Slovak Banking Association.



PAYMENT SYSTEM

As at 31 December 2008, a network of 2,266 ATMs and 31,722 payment terminals could be used by bank clients in the territory of the Slovak Republic.

In 2008, payment card holders made almost 155 million transactions with a total value of almost SKK 387 billion (EUR 12.85 billion). ATM withdrawals numbered 90 million and had a total value of SKK 304 billion (EUR 10.09 billion), while the number of payments made through payment terminals was almost 65 million with a total value of more than SKK 85 billion (EUR 2.82 billion).

Although the number and value of payments made through payment terminals rose sharply in 2008, almost 60% of all payment card transactions comprised ATM cash withdrawals. The number of cashless payments is increasing more rapidly in comparison with cash withdrawals – last year the number of cashless payments and cash withdrawals rose, respectively, by 28% and 5% year-on-year, and their total values increased, respectively, by 23% and 11% year-on-year.

6.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE FIELD OF PAYMENT SYSTEMS

ASSESSMENT OF THE CDCP SECURITIES SETTLEMENT SYSTEM IN REGARD TO THE SMOOTH ENTRY OF SLOVAKIA INTO THE EURO AREA

In regard to the adoption of the euro in the Slovak Republic, the European Central Bank (ECB) asked Národná banka Slovenska to make an assessment of securities settlement systems (SSS) with regard to the standards for the use of EU securities settlement systems in Eurosystem credit operations. The ECB determined a formal procedure for ensuring the performance of this assessment, under which Národná banka Slovenska acted both as the coordinator in relation to domestic securities settlement systems and as the first assessor. The role of the second assessor was filled by the Banca d'Italia. The final assessment report was produced by the ECB in December 2008, and the assessment process came to a conclusion when the ECB sent its recommendations.

The subject of this assessment in the Slovak Republic was the central securities depository of

the Slovak Republic, Centrálny depozitár cenných papierov SR a.s. (CDCP). With the approval of the Governing Council, CDCP was assessed as “compliant” with standards for its use in Eurosystem credit operations. At the same time, CDCP was included in the list of SSSs eligible for use in Eurosystem credit operations. The ECB also sent CDCP several recommendations, which CDCP is expected to meet as soon as possible. Confirmation that CDCP had been added to the updated list of eligible SSSs in the euro area was given in a press release of 19 December 2008 (published on the ECB website). The next assessment of Slovak SSSs is due to take place in 2010.

EUROPEAN PAYMENTS COUNCIL – SEPA

The SEPA project concerns the creation of the Single Euro Payments Area (SEPA) in which consumers, companies and other economic entities will be able to send and receive payments in euro – whether within one country or between different countries – under the same basic conditions, rights and obligations, and regardless of where they are located. The body governing and coordinating SEPA at the European level is the European Payments Council, of which the Slovak Banking Association is a member. The SEPA project is also supported by the European Central Bank and European Commission, as well as by the national central banks. The SEPA project covers two basic payment instruments – credit transfers and direct debits – and it defines a common framework for payment cards.

In 2008, SEPA reached an important milestone with the launch of the SEPA Credit Transfer (SCT) scheme on 28 January. From this date, it has been possible to carry out payments based on common rules and standards. Over the course of the year, the SCT scheme was joined by more than 4,300 banks from 31 European countries, covering around 95% of the total volume of payments. Seven of these banks were operating in Slovakia. In July, the European Payments Council approved the new version (3.2) of the SEPA Credit Transfer Rulebook.

The usage of SCT is being consistently monitored by the European Central Bank using the so-called euro area SEPA indicator, representing the share of SCT in the interbank domain as a percentage of the total volume of credit transfers in the euro area. The indicator is updated regularly



on a monthly basis and published on the ECB website. As at the end of 2008, SCT transfers as a share of total credit transfers carried out during the year in the euro area stood at 1.8% (Source – European Central Bank).

As regards the SEPA Direct Debit (SDD) scheme, it is due to be launched on 1 November 2009. In 2008, the European Payments Council issued a new version (3.2) of the SEPA Direct Debit Rulebook. Later, in December of the same year, the EPC plenary meeting approved “e-mandates” as an alternative way of executing SDD.

Last year, the European Central Bank issued the 6th SEPA Progress Report, which included a list of the key steps that need to be taken to achieve the objectives of the SEPA project.

SEPA COMMITTEE

The highest governing and coordinating authority for the SEPA project in the Slovak Republic is the SEPA Committee, which is chaired by the Slovak Banking Association. The Committee also brings together both providers and users of payment services and is comprised of: Národná banka Slovenska, the Slovak Banking Association, the Ministry of Finance of the Slovak Republic, the State Treasury, representatives of commercial banks, the postal service Slovenská pošta, representatives of SMEs, business representatives, and the representatives of consumers.

THE EUROSISTEM, ESCB, TARGET2 SYSTEM, AND THE CONNECTION OF NBS AND THE BANKING SECTOR TO THE TARGET2 SYSTEM

The development of the new TARGET2 payment system was successfully completed in 2007, culminating on 19 November of that year when the system was put into operation ready for the first migration wave of existing participants. This migration process of the original TARGET participants took place progressively, stage by stage, and was successfully completed when the last migration took place on 19 May 2008. From then on, the original TARGET system ceased to exist.

What has not ceased, however, is the cooperation between the TARGET2 operator, the Eurosystem central banks, the European System of Central Banks, and TARGET2 users. The works on a new version of the Single Shared Platform (SSP), on which the TARGET2 system operates, have be-

gun as early as during the migration phase. This was not an exceptional situation, but rather part of a process of regular annual platform upgrading, through which new functionalities are added in accordance with participants' requirements and errors from the previous version should be removed. Every single upgrade is subject to the strict testing at the level of the central banks connected to the TARGET2 system, as well as at the level of all system participants. After successful testing, SSP version 2.0 was applied in the TARGET2 production environment on 17 November 2008.

In November 2007, the NBS Bank Board approved the connection of NBS and the Slovak banking sector to the TARGET2 system. The TARGET2 connection project devised by NBS ensured the top-level coverage of the personal, organizational, technical and legal changes that the connection preparations required, during the year 2008. The main aims of this project were to analyse the NBS intrabank processes which would be affected by the connection to the TARGET2 and to prepare an output plan for changes and interventions that needed to be made in existing processes, as well as to prepare and implement the connection plan for NBS and the banking sector (registration for SWIFT services, registration in the TARGET2 test environment, three-phase testing, registration in the production environment, and finally migration and the commencement of normal operation).

Throughout the year 2008, NBS was maintaining an intensive communication with the representatives of the future TARGET2-SK participants. In March 2008 the participants were provided with the information necessary to register for SWIFT services used in the TARGET2 system and to complete the SSP registration forms for registration in the testing environment, as well as the information on all the organizational aspects of this process. Training courses on the use of the Information and Control Module were held in March, and were attended by almost 200 TARGET2 users from the banks and the ancillary systems.

In April 2008, a meeting of ECB representatives and representatives of the SSP operator was held at NBS, which besides other things confirmed the TARGET2 system testing could begin as had been intended. During the course of April, all



participants were registered for testing in the TARGET2, and the testing of the participants began on 5 May 2008.

The testing process itself was divided into three phases – connectivity testing, interoperability testing, and country testing. The first two phases took place in parallel and involved individual testing of each participant, requiring them to pass the prescribed testing scenarios (compulsory and elective). The final phase, undertaken in September and October, involved the comprehensive simulation of operating days with all banks and ancillary systems connected, as well as the testing of non-standard situations. The testing was carried out successfully and all participants met the technical and operational pre-conditions for the regular operation.

During November and December, the participants were being successfully registered in the TARGET2 production environment, and the system became technically prepared for the launch of the live operation. Simultaneously, the preparation of the legislative framework for the connection of NBS and the banking sector to TARGET2 was reaching its culmination. On 9 December 2008, the ECB Governing Council discussed the draft of NBS Decision No. 9/2008 on conditions for participation in TARGET2-SK, under which the harmonized conditions for participation in the TARGET2 would be adopted in NBS legal regulations. Agreements on participation in the TARGET2-SK system were signed between NBS, as the system operator, and all of its participants in December, too.

THE EUROSISTEM, TARGET2 SECURITIES, TARGET2 ADVISORY GROUP

In the field of payment systems, as well as other matters, the nominated representatives of Národná banka Slovenska on the working committees and working groups of the European System of Central Banks (ESCB) continued to cooperate with ESCB representatives.

In 2008, as part of the consolidation of the European securities market infrastructure, the Eurosystem supported by the ESCB continued its work on the TARGET2-Securities (T2S) project. The aim of this project is to maximize the security and efficiency of securities transaction settlement. T2S will serve as a technical platform for

the settlement of securities in central bank money, within the euro area / EU / EEA, primarily in the euro currency, while the technology will support settlements also in non-euro currencies.

In 2008, the T2S Advisory Group (AG) was established under the ESCB as an advisory body to the ECB's TS2 decision-making body, in which both Národná banka Slovenska and Centrálny depoziár cenných papierov, a.s. are represented. The mission of the AG is to open cooperation on the T2S project between, on the one hand, the ESCB representatives and, on the other hand, representatives of central securities depositories and their clients, as well as securities market regulators.

The AG in 2008 participated in the defining of user requirements for the proposed T2S functionalities, which are set out in the User Requirements Document (URD). Version 4.0 of the URD was approved by the ECB Governing Council in July 2008. The second half of 2008 saw the continuation of cooperation, the launch of the drafting of legal documents for the arrangements of contractual relations in regard to the T2S platform, and the continuation of market consultation on the proposed T2S services.

In accordance with the decision of the ECB Governing Council, T2S will be operated by central banks (a group of four central banks designated as 4CB) and is due to be put into operation in 2013.

6.4 PREPARATION FOR THE INTRODUCTION OF THE EURO

WORKING COMMITTEE FOR BANKS AND THE FINANCIAL SECTOR

In 2008, the Working Committee for Banks and the Financial Sector ("the Committee") performed its tasks resulting from the National Euro Changeover Plan for the Slovak Republic and the tasks approved by this Committee in regard to non-cash and cash circulation. The Committee's meetings were held according to its work schedule, approved at half-yearly intervals.

The Committee's membership comprised representatives of Národná banka Slovenska, the Slovak Banking Association, the Ministry of Finance



of the SR, the State Treasury, the Slovak Insurance Association, the Slovak Association of Asset Management Companies, the Association of Supplementary Pension Insurance Companies, the Association of Pension Fund Management Companies, the Slovak Association of Securities Dealers, and the postal service Slovenská pošta. The Committee also invited representatives of other financial sector institutions, e.g. the Bratislava Stock Exchange, to attend some of its meetings.

The Committee was established in 2005 and performed various tasks over its three-year existence, mostly relating to cashless and cash payment systems, though also to the field of secu-

rities and financial market transactions. These tasks concerned, for example, setting rules for the dual display of prices and financial amounts throughout the financial sector, solving problems arising with the end of 2008, connection to the TARGET2 system, electronic banking, payment card changes, loading of ATMs with euro, POS terminals setting, strategy on the introduction of the euro into cash payments, frontloading of euro cash, and legislative regulation of changes in cash and non-cash circulations related to the introduction of the euro in Slovakia.

The Working Committee for Banks and the Financial Sector was wound up following the successful introduction of the euro in Slovakia.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 7

STATISTICS



7 STATISTICS

Národná banka Slovenska develops, collects, compiles and disseminates various types of statistics, mainly for supporting the implementation of monetary policy and financial stability, as well as for various other activities. The collection and compilation of statistics is one of the tasks of the Eurosystem, and therefore cooperation with the ECB and preparation for Slovakia's entry into the euro area was one of the main activities in the field of monetary and financial statistics, quarterly financial market statistics, and statistics on insurance companies, the capital market and the balance of payments. The final stages in the harmonization of different fields of statistics in line with activities of the ESCB, Eurostat, the BIS and other international institutions continued in 2008 in close cooperation with the ECB. Statistical data was provided according to schedule in 2008. An important step towards full integration with ECB requirements was the preparation and adoption of a legal framework that will in the near future ensure the provision of statistics in accordance with new requirements stemming from the financial market situation. Individual units of the statistics department cooperated in revamping the presentation of statistical data in the main menu of the NBS website. In accordance with the medium-term strategy, tasks were performed in relation to the adoption of the single European currency.

7.1 MONETARY AND FINANCIAL STATISTICS

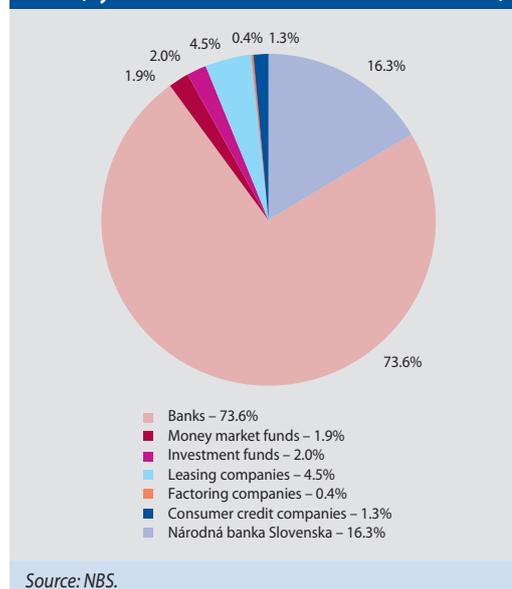
One of the priorities in 2008, besides ensuring the periodic processing of data and compiling and presenting individual types of statistics, was to complete the process for euro area entry by meeting all the requirements laid down by the ECB. Another priority was to prepare and adopt a legal framework for the collection and compilation of balance sheet statistics, statistics on interest rates on deposits and loans, and statistics on securitizations. NBS for the first time adopted measures on the submission of reports by banks, branches of foreign banks, and securities dealers (No. 26/2008) which fixed the requirements on reporting entities in regard to medium-term sta-

tistical data (the data requirements should not be modified for at least three years). Under this approach, banking entities in particular will have sufficient time to prepare for new requirements. The reporting to the ECB of additional statistics for the monetary financial institution (MFI) sector will begin from mid-2010. NBS, for its part, contributed to the preparation of ECB regulations. The preparation included an assessment of the merits of each item of the new statistics and an estimation of the related costs – both for NBS and our reporting entities – in order to ensure the fulfilment of user requirements as well as requirements arising from the financial market situation.

NBS also cooperated in the preparation of the Slovak Republic's section in the Convergence Report of May 2008, by compiling time series for selected indicators (debt securities issued by resident entities, stock market capitalization, bank loans, and the share of international loans of euro area banks in total liabilities of resident banks).

As regards statistics of other financial intermediaries, a new development from January 2008 was

Chart 46 Breakdown of reporting financial institutions (by share of assets as at 31 December 2008)



Source: NBS.



the collection of data on investment funds on a security-by-security basis and the compilation of statistics not only for stock data at the months ends, but also for transactions. The reporting was introduced on the basis of the implementation in 2007 of the new ECB Regulation on statistics on the assets and liabilities of investment funds. The submission of data to the ECB, as well as their publication by NBS, began in January 2009. Also during 2008, a legal framework was prepared for the submission of source data with effect from January 2009, which in the case of reports on mutual funds submitted by asset management companies was based on the adoption of NBS Decree No. 23/2008, and in the case of reports submitted by factoring companies, consumer credit companies and leasing companies, it was based on NBS Decree No. 22/2008.

The final steps before entry into the euro area commenced in the second half of 2008 on the basis of bilateral cooperation with the ECB. It was necessary to prepare and send to the ECB a new time series for the complete balance sheet statistics on monetary financial institutions, from January 2006 to December 2008, using the same methodology and breakdown that is applied to euro area members. Slovakia's position vis-à-vis countries entering the euro area over the past three years had to be ascertained and reported. A complete dataset of balance sheet statistics (stocks and flows) has been sent to the ECB since October 2008 on a dual basis (separately as a new EU Member State and as a member of the euro area). The reporting of the reserve base for the calculation of minimum reserve requirements had to be prepared at the methodological and technical level. This necessitated the formulation of complete statistics on issued securities (debt securities and listed shares), which were not required for new EU Member States. In cooperation with Slovakia's central securities depository, Centrálny Depozitár CP SR, a.s., and the Bratislava Stock Exchange, we also managed to finalize the time series (from 1993 for debt securities, and from 2001 for shares). Another new development was the incorporation of the requirement to report bank lending to the non-financial corporation sector, broken down according to industry classification.

As for interest rate statistics of credit institutions, since January 2008 there has been dual

reporting of interest rates on deposits and loans made in Slovak korunas as well as in euros. The reporting of the long-term interest rate statistics continued, as did the preparation of the time series for 10-year government Eurobonds from 2001.

Statistical data published on the NBS website attracted greater interest in 2008. Visits to pages showing money and financial statistical data accounted for an average of 43% of all visits to the "Statistics" section. There was also a rise in the number of written questions submitted by users of the page, especially towards the end of the year.

In addition to cooperation with the IMF, our cooperation with the BIS in regard to statistics on issued debt securities was stepped up over the course of the year.

The interrelation and usability of monetary and financial statistics with other types of statistics and other activities ensured by NBS and the ECB is best illustrated by the fact that the data provided are employed not only for the conduct of monetary policy and analyses of financial market developments, but also as underlying documents for compiling quarterly financial account statistics, calculating the required reserves of credit institutions, compiling balance of payment statistics, bank development statistics, financial stability statistics (prudential analysis), structural statistical indicators, as well as payment system statistics within the ESCB.

7.2 QUARTERLY FINANCIAL ACCOUNT STATISTICS

Under ECB requirements, Národná banka Slovenska also plays a role in the compilation of the quarterly financial accounts (QFAs) of the monetary union. The main purpose of compiling QFAs is to create a supporting analytical tool for monitoring the monetary policy transmission mechanism and for financial stability analyses.

The QFA matrix contains data on the structure of financial flows for individual financial instruments (currency in circulation, deposits, loans, debt and equity securities, financial derivatives, mutual funds, and insurance technical reserves)



between different institutional sectors in the national economy, classified according to ESA95 (European System of National Accounts). Národná banka Slovenska works on the compilation of QFAs in close cooperation with the Slovak Statistical Office, which is responsible for the general government sector as well as the annual financial accounts for the whole economy and the quarterly non-financial accounts.

The main task in 2008 was to finalize the acquisition of the time series for all source data dating back to 2004, when Slovakia joined the European Union. Among those source data that are essential to the compilation of quarterly financial accounts are data acquired from monetary and financial statistics (deposits, loans, securities and other financial instruments for individual entities of the financial market), the balance of payments (international investment position and balance of payments flow data), as well as data collected for the purpose of financial market supervision (stock exchange, central securities depository, etc.) and data acquired in cooperation with the Statistical Office of the Slovak Republic (non-financial corporations, households, government sector).

In order to acquire a methodologically and statistically consistent QFA time series for the entire Slovak economy, the process of methodological adjustment and evaluation continued to be carried out throughout the year. This process included regular consultations with representatives of the Statistical Office of the Slovak Republic concerning the data collection methodology for the general government sector and each of its sub-sectors. As regards technical support for the processing and evaluation of statistical data, enhancements were made to the APS STATUS software application, which is used for two-way communication between NBS and financial market entities when exchanging statistical data and methodologies.

In connection with preparations for the regular quarterly transmission of QFA data to the ECB as part of the compilation of euro area economic accounts (quarterly financial and non-financial accounts), the QFA matrix for the second quarter of 2008 was published on the NBS website for the first time, along with analytical comments and the QFA compilation methodology.

An important project implemented in the application systems IS STATUS and STATUS DFT was the conversion of historical data using the euro conversion rate of the Slovak koruna. Since August 2008, users of these application systems were ensured access to two databases: in the Slovak currency (1996 – 2008) and in the euro currency (1996 – 2008), and new data in the euro from 2009. With the implementation of this project, it was possible to link new data in euro currency to historical data in Slovak korunas. The conversion mechanism also allows historical data to be immediately updated in both databases in the event of revision.

7.3 STATISTICS ON INSURANCE, THE CAPITAL MARKET AND PENSION SAVING

As regards statistics on insurance companies, the capital market and pension saving, the focus of NBS in 2008, in its role as supervisor of the entire financial market, was to ensure the provision of data necessary for the exercise of supervision and for statistical purposes, for both national and supranational institutions, and in particular to ensure the quality of the data in terms of their timeliness, accuracy and mutual comparability.

The collection, processing and storage of data on financial market entities continued to be performed using the STATUS – DFT information system.

The whole of 2008 was to a considerable extent influenced by the approaching introduction of the euro, the single European currency, and the related requirements regarding the amendment of the legal framework for data submission and the conversion of statistical databases.

Last year, in reaction to the complexity of financial markets and the interconnection of financial transactions made by different entities, including to a large extent insurance companies and pension funds, the ECB informed about the proposal to broaden the group of entities providing statistics of financial assets and liabilities, broken down by sector, to cover also insurance companies and pension funds. NBS participated in the implementation process for this ECB require-



STATISTICS

ment, mainly by surveying the availability of the source data and the timeliness of their provision.

Securities statistics were expanded to include a new balance of payments requirement for reporting the equity and debt portfolio of entities.

7.4 STATISTICS ON NON-BANKING ENTITIES

Statistics on non-banking entities are collected and processed from statistical reports submitted by entities other than banks and branches of foreign banks for the purpose of compiling the balance of payments and the international investment position statistics.

In 2008, statistics on non-banking entities underwent a process of harmonization in accordance with the recommendations of international institutions, primarily the ECB, in regard to the compi-

lation methodology for the balance of payments and international investment position statistics.

Entry into the euro area will also bring a change in the scope of reported data, enabling the compilation of overall euro area balance of payments and international investment position statistics. With Slovakia's entry into the euro area, residents of Slovakia will become euro area residents.

This change also has implications for statistics on non-banking entities, or balance of payments and international investment position statistics, since transactions between residents of Slovakia and other euro area residents must be consolidated.

Work connected with Slovakia's entry into the euro area and related requirements for statistical data conversion continued in 2008, as did preparations for providing historical data from 2004 (when Slovakia joined the EU) in a sufficiently detailed geographic and sectoral breakdown.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 8

FOREIGN ACTIVITIES



8 FOREIGN ACTIVITIES

8.1 THE EUROPEAN UNION (EU)

Národná banka Slovenska participated in activities of the EU institutions in 2008. The highest representatives of NBS took part in regular informal meetings of the Economic and Financial Affairs Council (ECOFIN), which took place in Brdo, Slovenia, in April, and in Nice, France, in September. The discussed topics covered the economic and financial conditions, with emphasis placed on financial markets, financial stability, agreements in the field of supervision, public finances and the reform of the IMF.

NBS participates in the decision-making process of the EU bodies via its representatives in selected committees and working groups of the EU Council and the European Commission. NBS plays an important role in the Economic and Financial Committee (EFC) of the EU and NBS experts also participate in the activities of several sub-committees. Within the European Commission committees, experts of Národná banka Slovenska take part in sessions of the committees and sub-committees for supervision (CEBS, CEIOPS, CESR), in meetings of the committee and working groups for monetary and financial statistics and payment balance statistics, as well as in meetings of the working group of mint directors and working groups of the Financial Services Committee (FSC).

In coordination of Slovakia's participation in the decision-making process on EU issues, the Commission for EU Affairs, established at the Ministry of Foreign Affairs of the SR, has a significant position. In 2008, NBS continued to participate in the said process by the preparation of background papers for drafting instructions, and in the form of participation of its representatives at regular meetings of this Commission.

NBS participates in the process of preparation of EU legal acts in the form of comments. In 2008, NBS expressed its opinion on draft conclusions of the meetings of the European Council and ECOFIN (especially on materials related to the euro introduction in the SR), on draft directives, for example on the capital requirements

of banks, on the commencement and conduct of direct insurance and reinsurance – Solvency II, on coordination of legislative and administrative acts relating to undertakings for collective investment in transferable securities (UCITS) and on systems of deposit protection.

8.2 NBS COOPERATION WITH INTERNATIONAL INSTITUTIONS

INTERNATIONAL MONETARY FUND (IMF)

In 2008, the cooperation between NBS and IMF continued at the standard level. The NBS Governor, Ivan Šramko, as the Governor for Slovakia at the IMF, attended the Spring Meetings of the IMF and the World Bank in April and the Annual Meetings of the IMF and the World Bank in October 2008. Both meetings focused on the outlook for the world economy and financial markets in the light of the global financial crisis.

In June 2008, the meeting of representatives of the Belgian Constituency of the IMF and the World Bank at the level of deputy governors in Minsk (Belarus) with the participation of NBS deputy-governor Martin Barto focused also on the financial markets turbulences. In December 2008 the working mission of the IMF representatives to Slovakia took place, aiming at the preparation for regular consultations according to Article IV of the IMF Agreement scheduled for the first half of 2009.

In April 2008, the Resolution on Quota and Voice Reform was adopted by the IMF Board of Governors. One of the most discussed issues of recent years was concluded by this step. The resolution proposed, among other things, an increase in the member quota for the SR by SDR 70 million to SDR 427.5 million, and an amendment to the IMF Articles of Agreement. In May 2008, the IMF Board of Governors adopted the Resolution on amendments to the IMF Agreement with the aim to expand the IMF's investment authority. The approval process for the increase in the IMF member quota for the SR as well as for the amendment to the IMF Agreement in terms of given resolutions began in 2008.



FOREIGN ACTIVITIES

In accordance with Article VIII of the IMF Agreement, NBS in cooperation with the ministries concerned updated the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) and, based on a decision of the IMF Executive Board, NBS informed about the foreign exchange restrictions that the Slovak Republic applies in order to ensure national and international security, and to protect financial system against financial terrorism.

In the follow-up to the decision of the Government of the SR of November 2007 and the NBS Governor's letter to IMF Managing Director Dominique Strauss-Kahn of January 2008, the SR engaged in the proceedings of IMF debt relief for Liberia in April 2008.

Along with the worsening financial conditions of some IMF member countries in the second half of 2008, the engagement of the SR in the Financial Transaction Plan (FTP) increased. In 2008, NBS lent through FTP a total of SDR 28 million from its foreign reserves.

THE WORLD BANK

In 2008, the Slovak Republic graduated from the World Bank's operations. Graduation means that the member country has been formally transferred from the group of countries eligible to be the World Bank clients, i.e. from the group of recipients of the World Bank assistance (the so-called "Part 2" countries) to the group of developed countries with the status of development assistance provider (the so-called "Part 1" countries).

NBS Vice-Governor Viliam Ostrožlík, in the position of the Alternate Governor in the World Bank Group, attended meetings with the representatives of the World Bank and meetings of Belgian Constituency during the Spring Meetings of the IMF and the World Bank in Washington.

The Slovak Republic as a donor country in the International Development Association (IDA) took part in 15th replenishment of IDA funds. In July 2008 the Slovak Government approved the participation of the SR in the 15th IDA replenishment and the financing of the Multilateral Debt Relief Initiative (MDRI). The Slovak Republic's contribution, based on the 15th IDA replenishment, represents EUR 2.23 million and its share

in MDRI financing will be EUR 630,000 over the period of 2009–2018.

BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

In the course of 2008, the BIS held five regular meetings of governors of the member central banks. The meetings addressed the current problems of world finance, e.g. causes and economic impacts of the current financial crisis, the role of monetary and credit aggregates in the monetary policy or interbank market liquidity.

In June 2008, the 78th annual general meeting of shareholders of the BIS was held, where the financial results of the BIS, the distribution of profit and the amount of dividends were approved.

In 2008, NBS joined two surveys, organised by the BIS Central Bank Governance Group, on key problems of central bank governance and of central banks functions.

ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)

In 2008, NBS representatives contributed to the activities of relevant working bodies of the OECD. In particular, they contributed to the work of the Economic Policy Committee (EPC), the Economic and Development Review Committee (EDCR). Economies of the OECD member countries, including the economy of Slovakia, were assessed by the EDRC in 2008. Within the framework of preparation for assessment of our economy and before publication of the Economic Survey of the SR, Slovakia and NBS received two visits of representatives of the OECD, the so-called structural mission in June and OECD political mission in October 2008.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

In May 2008, the annual meeting of the EBRD Board of Governors was held in Kiev. The head of delegation of the SR was NBS Governor Ivan Šramko, who also acts as the EBRD Alternate Governor for the Slovak Republic. At the meeting Thomas Mirow was elected as new EBRD President, replacing Jean Lemierre, who had served in the position for eight years. Among other things, the allocation of net income to the bank's strategic reserves and its smaller part to EBOR Special Funds was approved at the meeting.



In September 2008, NBS received a visit of representatives of the EBRD Board of Directors. The purpose of this visit was to get acquainted with country's development before the decision of the Board of Directors concerning the new EBRD's strategy for the next two years is taken.

8.3 NBS COOPERATION WITH INTERNATIONAL SUPERVISION INSTITUTIONS

In connection with NBS's commitments to international organizations, the European Central Bank, the European committees, etc., staff at the supervision unit regularly participate in negotiations with various working groups and committees. The supervision unit, to a significant degree, is also cooperating with foreign regulators, particularly in relation to supervising banks and insurance company groups, participation in working groups and in the committees of international institutions, such as the Committee of European Bank Supervisors (CEBS), the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR), which are among the so-called "Level 3 Committees".

The CEBS gives advice to the European Commission in the area of banking. It is currently focusing on capital requirements rules for financial institutions with the aim of making sure that capital at financial institutions is more closely aligned with the risks they face. In 2008, the Committee met four times.

The role of CESR is to improve coordination among securities regulators within the European Union, act as an advisory group for the European Commission and work to ensure more consistent and timely implementation of community legislation in the Member States. At meetings of top representatives from individual supervisory authorities in the field of securities regulation, CESR members accepted fundamental decisions regarding regulation and supervision and approved Level 3 guidances and other important documents related to CESR activities (in accordance with accepted amendments to the bylaws by a qualified majority vote of members). In 2008, CESR paid special attention to issues of positions and powers, the increase of efficiency

of its activities and mutual cooperation with the "3L3 Committees", which was also reflected in amended CESR statutes in force as of 10 September 2008. CESR has established several permanent working and expert groups, in which NBS is a representative and which have established and prepared most of the technical material submitted for approval at the highest-level CESR meetings as output from the applicable group.

The goal of CEIOPS is to provide advice to the European Commission in the areas of insurance and occupational pensions, and particularly to draft regulations and implement European directives. CEIOPS is the platform for cooperation between supervisory authorities with the aim of ensuring consistent interpretation and application of Community regulations (Level 3 Lamfalussy Activities) and exchange of information about supervised entities. Since its establishment, CEIOPS's work has to a substantial degree been determined by work on Solvency II, from recommendations for preparing a framework directive to testing the effect through quantitative impact studies.

8.4 NBS FOREIGN TRAINING ACTIVITIES AND FOREIGN TECHNICAL ASSISTANCE

FOREIGN TRAINING ACTIVITIES

Also in 2008, NBS through the Institute of Banking Education participated in the organization of training activities for employees of NBS and the ESCB central banks.

By organizing a part of the common training programme entitled ESCB Heading for Leadership, NBS as the host bank was involved in the so-called ESCB Training activities, its trainers participated within the seminar framework "Introduction to the Functioning of the ESCB", and in the so-called ESCB Open Training Activities.

A special category of training events for the central banks of ESCB was the so-called Financial Stability Christmas Workshop; NBS has been traditionally organizing this event since 2004. Representatives of four central banks (of the Czech Republic, Austria, Hungary and Poland) participated in this workshop for experts from neighbouring countries' banking supervisors. In 2008, NBS organized in total three training events for



FOREIGN ACTIVITIES

employees of the ESCB central banks, which were attended by 29 participants.

In cooperation with Advanced Risk Management (Prague), two three-day specialised seminars – Asset Backed Securitisation, participated by 21 NBS employees, and Commodity and Credit Derivates, with 18 NBS employees taking part, were organised.

Several NBS employees attended training events organised within the common education framework of ESCB central banks. In addition to these events, 20 NBS employees attended seminars and conferences organised abroad by correspondent banks and other financial institutions (Euromoney, State Street Financial Center, and others). Six employees of NBS continued their two-year complex education at the Czech Institute of Internal Auditors. In November 2008, four employees of NBS passed the examination at the

Global Association of Risk Professionals in Charlottesville (USA), to receive the Financial Risk Manager Certificate.

In 2008, NBS employees made use of training offered by the International Monetary Fund in Washington, the Joint Vienna Institute in Vienna and the BIS Financial Stability Institute (FSI) in Basel. In total, 20 employees of the bank attended 16 training events provided by the FSI, which were focused especially on banking regulation and banking supervision, risk management, accounting, financial stability and the financial crisis.

PROVISION OF FOREIGN TECHNICAL ASSISTANCE

In 2008, the main recipient of foreign technical assistance provided by NBS was National Bank of Ukraine, in accordance with the agreement signed in 2008. During 2008, NBS organised two training events in Bratislava, led by eight NBS experts.



PREPARATIONS FOR THE EURO INTRODUCTION IN THE SR



9 PREPARATIONS FOR THE EURO INTRODUCTION IN THE SR

At the beginning of 2008, the Slovak Republic met comfortably the Maastricht criteria, and fulfilled the key requirement for the euro introduction on 1 January 2009. On 7 May 2008, the European Commission concluded that Slovakia had achieved a high degree of sustainable economic convergence and was prepared to adopt the euro. The Commission submitted to the Council of the EU a proposal to abrogate the excessive deficit procedure for Slovakia and to accept Slovakia as a member country of the euro area. After the EU heads of state and governments had discussed this issue at their summit in June and after the European Parliament had given its opinion, the EU's Economic and Financial Affairs Council (ECOFIN) made on 8 July 2008 a final decision on euro adoption in Slovakia as from 1 January 2009.

9.1 ECONOMIC POLICIES AND THE MAASTRICHT CRITERIA FOR EURO ADOPTION

In 2008, the rising trend of productivity and potential of the Slovak economy continued, which was reflected in the strengthening of the equilibrium real exchange rate, and, therefore, the Slovak Republic made a request for another change of the central parity. The central rate was revalued from 35.4424 to SKK/EUR 30.1260 with effect from 29 May 2008. The Slovak koruna has been part of the Exchange Rate Mechanism (ERM II) for more than two years without any deviation

from the given fluctuation band. The exchange rate stability was maintained without severe tensions, and its stabilization did not have to be sought at the expense of the rest of the economy. Thus, Slovakia fulfilled the exchange rate stability condition. On 8 July 2008, the central parity set with effect from May 2008 was declared the official conversion rate.

Slovakia has been meeting the inflation criterion since August 2007. At the time of the assessment by the European Commission, the 12-month average HICP inflation in Slovakia reached 2.2 %. The reference value for inflation, based on inflation in the Netherlands, Malta and Denmark, was 3.2 %. Thus, the Slovak Republic comfortably met the inflation criterion, by one percentage point below the ceiling. As the European Commission noted in its report, Slovakia met the nominal inflation criterion in a sustainable manner, i.e. the country will be able to adhere to this criterion also after its entry into the euro area, under the single monetary policy of the European Central Bank (ECB).

The long-term interest rate stability criterion has been comfortably met for a long time. At the time of the official assessment, the 12-month average interest rate for long-term government bonds was 4.5 % in Slovakia, 2 percentage points below the reference value (6.5 %).

In 2007, the general government deficit and total public debt reached 2.2 % and 29.4 % of GDP,

Table 35 Time table for euro introduction in the SR

Fulfilment of Maastricht criteria	March 2008
Slovakia's request for assessment of the Maastricht criteria fulfilment	4 April 2008
ECB and EC convergence reports	7 May 2008
The European Commission proposal to the Council of the EU for abrogation of the derogation	7 May 2008
Consultation with the European Parliament	May–June 2008
Abrogation of the derogation and setting the conversion rate	8 July 2008
Entry into the euro area – “€-Day”	1 January 2009

Source: NBS.



Table 36 Fulfilment of the Maastricht criteria at the time of assessment by the EC (March 2008)

Criterion	Recorded value	Reference value
Inflation (average HICP; %)	2.2%	3.2%
Long-term interest rates (%)	4.5%	6.5%
Gross public debt (% of GDP)	29.4%	60.0%
General government deficit (% of GDP)	2.2%	3.0%
Exchange rate stability	Participation in ERM II since November 2005	Participation in ERM II for more than two years without severe tensions

Source: EC.

respectively. The Government of the SR committed itself to continue in gradual reducing the general government deficit also in the following years. Therefore, the Commission concluded that the excessive deficit had been eliminated in a reliable and sustainable manner. After abrogating of the excessive deficit procedure, Slovakia fulfilled also the fiscal criterion.

In the period after the official assessment of the fulfilment of the Maastricht criteria, the 12-month average HICP inflation rate had been gradually increasing. At the same time, the reference value for this criterion had also increased, and, as a result, Slovakia continued to fulfil the inflation criterion also in December 2008. Under the influence of worsening global economic conditions and higher domestic inflation, the long-term interest rate in Slovakia increased at the end of 2008. The long-term interest rate stability criterion had still been comfortably met. When the global financial crisis affected the economic development of the region, the Slovak Republic, even prior its entry to the euro area, started to feel positive effects of the single currency on economic stability, and, unlike the currencies of the neighbouring countries, the market exchange rate of the Slovak koruna did not depreciate, due to the officially set conversion rate.

9.2 NATIONAL EURO CHANGEOVER PLAN AND ORGANIZATIONAL PREPARATIONS

The multi-year process of preparations for the introduction of the euro culminated in 2008. With the joint effort of all parties concerned, a sufficient level of preparedness of inhabitants, public institutions and private businesses was assured

Chart 47 Exchange rates of V4 countries in 2008 (index)



Source: ECB.

for a smooth adoption of the single European currency as of 1 January 2009.

In line with experiences gathered and facts learned during the ongoing preparations, two updates of the National Euro Changeover Plan were made. With the aim of smooth and clear frontloading of inhabitants, as well as small entrepreneurs and self-employed with euro cash, the conclusion to produce and distribute the so-called starter kits of euro coins was incorporated into the National Euro Changeover Plan. In September 2008, the third, and at same time the last update of the National Euro Changeover Plan in the Slovak Republic was approved. Its elaboration resulted mainly from the successful completion of all approval procedures, confirmation of 1



January 2009 as the date of entry of the SR into the euro area and the setting of official conversion rate. No new tasks or changes against the initially set principles and rules for the transition to the euro were included.

Several meetings of working committees and sessions of the National Coordination Committee for the Euro Changeover were held in the 2008. In addition, one meeting of the Euro Committee was held, however, the official activities of the committee were ceased in May, after the Maastricht convergence criteria had been met.

During 2008, no serious problems, delays or obstacles were recorded. The work continued in accordance with the approved timetable. Following a monitoring mission in Slovakia, experts from the European Commission came to similar conclusions.

The experience of the countries that have already introduced the euro showed that businesses could misuse the introduction of the euro for unreasonable price increases. The Statistical Office of the SR carried out ten-day price development surveys of selected sorts of goods. Since July 2008, the regular monitoring of consumer prices had been carried out also by the Association of Slovak Consumers. Based on the price data gained, six businesses were put on the so-called black list in December. The Slovak Trade Inspection focused on the supervision of observance of Act No. 659/2007 Coll. on the euro introduction in the Slovak Republic, with emphasis on the dual display of prices, fixing and rounding of prices, unit prices and payments during the euro changeover period.

Till the end of 2008 the preparations for the introduction of the single currency required to draw up and approve more than 200 acts, 26 regulations of the government and several decrees, edicts, provisions of NBS and other central governmental bodies. The most demanding and the most extensive preparations were in the field of conversion of information systems and in the field of cash and scriptural circulation. Sufficiently in advance of the euro introduction, the systems of scriptural payment had been successfully tested.

NBS managed the operation of the Working Committee for Banks and Financial Sector (more

in the chapter 6.4) and the Working Committee for Communication. The most important task in the field of cash payment system was the frontloading with euro cash. Within the new member countries of the EU, which had adopted the euro, the SR was the first, which used the mint on its own territory. The euro coins with the Slovak side were minted in Mincovňa Kremnica, a.s. The euro banknotes were borrowed from the Oesterreichische Nationalbank by NBS. The frontloading of euro coins started on 6 September, and was successfully completed on 29 December 2008. The total value of euro coins, which were distributed to commercial banks within the framework of the frontloading, reached EUR 98 million, which represented 283 million pieces of coins. Frontloading of banknotes started on 7 October 2008, and was successfully completed on December 2008. During this period of time banks received 51 million pieces of euro banknotes in a value of EUR 950.9 million. Sub-frontloading started on 28 October 2008 and was successfully completed on 31 December 2008. In total, almost 14 thousand clients were sub-frontloaded, and obtained 1/4 of the total volume of banknotes and 2/3 of the total volume of coins.

Shortly after official fulfilling the requirements for the euro adoption, NBS started to withdraw the original koruna cash. In the second half of 2008, NBS started to destruct the excessive stocks of Slovak banknotes and coins. The Working Committee for Banks and Financial Sector was in charge with the fulfilment of further very demanding tasks in the field of scriptural payment systems. NBS coordinated primarily the connection of the banking sector, including NBS, to the TARGET2 payment system.

Also the second committee within the remit of NBS fulfilled all tasks scheduled for 2008. The Working Committee for Communication coordinated primarily the comprehensive information campaign. The campaign's objective was to provide Slovak public with practical information about all necessary facts prior to the euro introduction. In addition to general public, the needs of broad spectrum of sensitive target groups were taken into account. The most important element was the media campaign, which started in March 2008 – symbolical 300 days before the euro introduction. Till the end of the year, seven



PREPARATIONS FOR THE EURO INTRODUCTION IN THE SR

Chart 48 Public awareness of the euro (%)

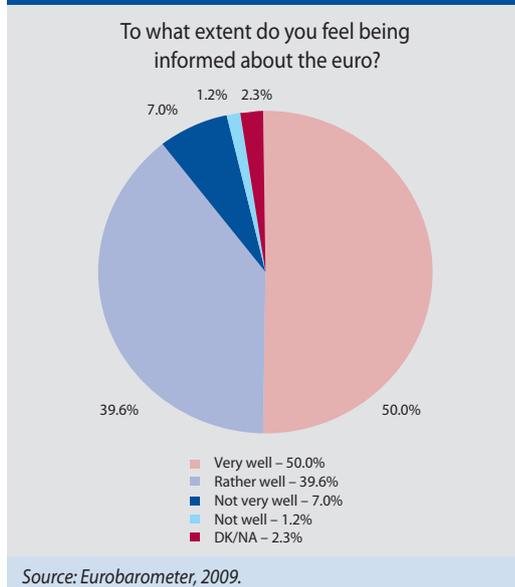
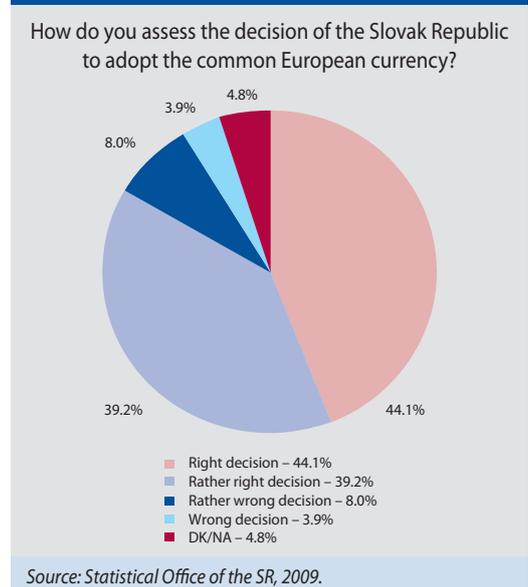


Chart 49 Opinion of citizens on the introduction of the euro in the SR (%)



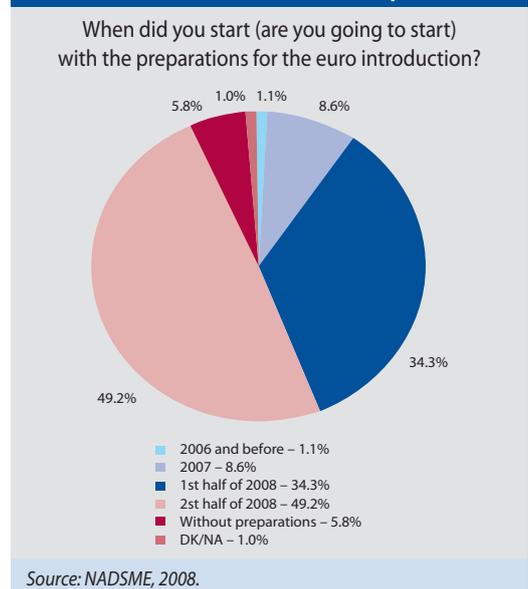
of total nine waves of media campaign had been carried out (the last two waves were in January and February 2009). Information about the euro was provided to media through a number of press releases and press conferences. NBS and the Ministry of Finance distributed more than 20 million pieces of publications within the information campaign. The most important were two direct deliveries of information materials to all households. The campaign included also several exhibitions, competitions, information and entertaining events. NBS took part in organization of conference "Slovakia euro changeover conference", organized the Open Day focused on the euro, prepared travelling exhibition "Slovak euro coins" and the exhibition "From the Koruna to the Euro" in Brussels.

The effectiveness of the campaign was measured through public opinion surveys, which were carried out by the Statistical Office of the SR. In January 2009, short time after euro introduction, 93% of inhabitants of Slovakia were satisfied with the information about the euro, which they had received. More than 90% of citizens were of the opinion, that particular pieces of information were clear and useful. The high quality of the information campaign was confirmed by results of the European Commission's Eurobarometer surveys. The Eurobarometer surveys showed that Národná banka Slovenska was the most

credible information source about the euro for inhabitants of Slovakia. At the same time public opinion surveys showed that citizens of the SR considered the decision to adopt the common currency to be right.

Along with the tasks performed by working committees, NBS completed a number of other tasks in 2008, specified by the Internal Euro

Chart 50 Commencement of preparations of small and medium-sized enterprises (%)





Changeover Plan of NBS. In cooperation with the Slovak Banking Association and members of the Working Committee for Communication NBS prepared a plan for crisis communication. NBS monitored and supervised the level of preparedness of banks and financial institutions. NBS had to harmonize a lot of activities, statistical data and application software with the ECB. In regard to the introduction of the euro in Slovakia it was necessary to make preparations for the conduct of single monetary policy, a change in the foreign reserves management, as well as in reporting. NBS prepared and carried out specialized seminars on the euro introduction and proceeded with training of banking and other staff in regard to the euro introduction.

Within the process of the euro introduction, NBS had played a crucial role and contributed to its smooth and successful course since its very beginning. The greater part of public institutions and business entities had prepared for the introduction of the euro just during the year 2008. The surveys showed, that several, especially large enterprises had commenced with preparations already in 2007, or even before. Small and medium-sized enterprises postponed preparations to a later time, and approximately one third of them commenced with preparations for the euro in the first half of 2008. Almost half of small and medium-sized enterprises commenced with preparations in the last half of the year prior to the euro introduction.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 10

LEGISLATION



10 LEGISLATION

In 2008, Národná banka Slovenska continued to exercise its legislative and approximation competences in the monetary issues and in the areas of currency circulation, foreign exchange management, banking, the capital market, insurance, and retirement pension saving.

LEGISLATIVE AMENDMENTS PREPARED AND IMPLEMENTED IN 2008 TO LAWS ON MATTERS WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No. 659/2007 Coll. on the introduction of the euro in the Slovak Republic and on amendments to certain laws was amended in 2008 by Act No. 70/2008 Coll., Act No. 270/2008 Coll., Act No. 397/2008 Coll. and Act No. 421/2008 Coll. All these amendments served to clarify Act No. 659/2007 Coll. so as to make it as unambiguous as possible, to prevent it from being interpreted in multiple ways, and to ensure that the introduction of the euro in the Slovak Republic from 1 January 2009 was smooth and successful.

Act No. 483/2001 Coll. on banks and on amendments to certain laws as amended was amended in by Act No. 297/2008 Coll. and Act No. 552/2008 Coll. The change made by Act No. 552/2008 Coll. related to an amendment to the Securities Act and set out in more detail the prudential business rules for banks and new rules and evaluation criteria for the acquisition and increase of holdings in banks. Act No. 297/2008 Coll. reduced to EUR 2,000 the transaction amount above which banks and branches of foreign banks must require the client to prove his identity.

Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws (the Securities Act) as amended was amended in 2008 by Act No. 552/2008 Coll. on the basis of the EU Acquisitions Directive, the objective of which is to lay down a common framework of harmonized procedural rules and criteria for the prudential assessment of the acquisition or disposal of holdings of share capital or voting rights in financial market entities, including also securities dealers.

Act No. 510/2002 Coll. on the payment system and on amendments to certain laws as amended was amended in 2008 by Act No. 270/2008 Coll., Act No. 552/2008 Coll., and Act No. 567/2008 Coll. A significant change was made by Act No. 270/2008 Coll., which extended the scope of the Payment System Act to cover the execution of transfers through the European payment system and laid down conditions enabling entities other than electronic money institutions to issue electronic means of payments on the basis of a licence.

Act No. 747/2004 Coll. on financial market supervision and on amendments to certain laws as amended was amended in 2008 by Act No. 552/2008 Coll. This law amended the Financial Market Supervision Act mainly by laying down provisions on the payment of contributions by supervised entities to support the exercise of supervision.

Act of the National Council of the Slovak Republic No. 202/1995 Coll. – the Foreign Exchange Act and act amending Act of the Slovak National Council No. 372/1990 Coll. on misdemeanours as amended – was amended in 2008 by Act No. 567/2008 Coll., which cancelled the requirement not to trade in foreign exchange assets except within the scope of a business activity.

Act No. 8/2008 Coll. on insurance and on amendments to certain laws as amended entered into force in 2008, its purpose being to ensure full harmonization with the European Union Directives governing insurance and reinsurance. The new legal regulation of reinsurance has importance for the commercial insurance sector since it facilitates the spreading of risks insured and risks reinsured to the global level, thereby ensuring the stability of insurance companies and reinsurance companies, and of the financial market as a whole. The new law also incorporates the experience gained from the application of the law that it succeeded. The new Insurance Act was amended as early as 2008 by Act No. 270/2008 Coll. and Act No. 552/2008 Coll. The provisions laid down by Act No. 270/2008 Coll. concerned mainly the solvency of insurance and



LEGISLATION

reinsurance companies. The main change made to the Insurance Act by Act No. 552/2008 Coll. was to incorporate harmonized rules and criteria for the prudential assessment of the acquisition or disposal of holdings of share capital or voting rights in insurance companies and reinsurance companies.

Act No. 594/2003 Coll. on collective investment and on amendments to certain laws as amended was amended in 2008 by Act No. 552/2008 Coll. This law in the field of collective investment served mainly to incorporate harmonized rules and criteria for the prudential assessment of the acquisition or disposal of holdings of share capital or voting rights in asset management companies.

Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws as amended was amended in 2008 by Act No. 62/2008 Coll., Act No. 434/2008 Coll. and Act No. 449/2008 Coll. These laws address at the legislative level substantive changes governing the relationship between the first and second pillars of social insurance.

Act No. 650/2004 Coll. on supplementary pension saving and on amendments to certain laws as amended was amended in 2008 by Act No. 449/2008 Coll. This amendment mainly laid down conditions concerning the lump-sum settlement of a supplementary retirement pension or a supplementary long-term service pension, as well as provisions on business documentation, provisions regulating assets in a supplementary pension fund, and rules on the limiting and spreading of risks in respect of a supplementary pension fund.

Act No. 340/2005 Coll. on insurance mediation and reinsurance mediation and on amendments to certain laws was amended in 2008 by Act No. 70/2008 Coll., which laid down that for proving the trustworthiness of an insurance or reinsurance intermediary, a copy of his entry in the Criminal Register will suffice.

Act of the National Council of the Slovak Republic No. 118/1996 Coll. on deposit protection and on amendments to certain laws as amended was amended in 2008 by Act No. 421/2008 Coll. and Act No. 552/2008 Coll. The most significant

change was made by Act No. 552/2008 Coll., laying down in Section 22ba conditions under which the branch of a foreign bank which accepts deposits in the territory of the Slovak Republic under a single banking licence may voluntarily participate in the deposit protection scheme.

Act No. 530/1990 Coll. on bonds as amended was amended in 2008 by Act No. 552/2008 Coll. This law stipulated that the par value of a bond must be denominated in the euro currency and not be lower than one euro, and that higher values must be given in whole multiples of one euro.

Act No. 429/2002 Coll. on the Stock Exchange as amended was amended in 2008 by Act No. 8/2008 Coll., Act No. 297/2008 Coll. and Act No. 552/2008 Coll. The main purpose of Act No. 8/2008 Coll. in this respect was to specify the entities over which NBS exercises supervision under the Stock Exchange Act. The main change made to the Stock Exchange Act by Act No. 552/2008 Coll. was to incorporate harmonized rules and criteria for the prudential assessment of the acquisition or disposal of holdings of share capital or voting rights in the stock exchange.

DECREES ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2008 UNDER ITS LEGISLATIVE COMPETENCES TO ISSUE IMPLEMENTING, GENERALLY BINDING LEGAL REGULATIONS

- Decree No. 9/2008 Coll. on the issue of 500 koruna silver commemorative coins marking the Protection of Nature and Landscape – Low Tatras National Park.
- Decree No. 58/2008 Coll. on the 5000 koruna gold commemorative coins marking the 400th anniversary of the coronation of Matthias II in Bratislava.
- Decree No. 91/2008 Coll. on the provision of information regarding transactions in pension fund assets and the balance of pension fund assets by a pension fund management company and its depository, and amending Decree No. 567/2006 Coll. of Národná banka Slovenska laying down the content of reports on the management of a pension fund's assets, reports on the management of the own assets of a pension fund management company, the method and scope of their publica-



- tion, and the content of the daily information on each transaction in a pension fund's assets.
- Decree No. 101/2008 Coll. on the own funds of a pension fund management company.
 - Decree No. 221/2008 Coll. laying down certain rules for the dual display of prices, payments and other amounts in the financial market and in respect of services provided by financial institutions in the sectors of banking, capital market, insurance, and pension saving.
 - Decree No. 240/2008 Coll. stipulating the number of decimal places to which the par value of certain types of security is to be rounded when converted from the Slovak currency to euros.
 - Decree No. 302/2008 Coll. on issue of 1000 koruna silver commemorative coins with the theme "Farewell to the Slovak koruna".
 - Decree No. 387/2008 Coll. repealing implementing regulations on banknotes and coins issued before the euro introduction date in the Slovak Republic.
 - Decree No. 523/2008 Coll. amending certain decrees of Národná banka Slovenska related to the introduction of the euro in the Slovak Republic.
 - Decree No. 607/2008 Coll. on certain details of cash circulation and on amendments to certain decrees.
 - Decree No. 1/2008 stipulating the maximum technical interest rate (Notification No. 53/2008 Coll.).
 - Decree No. 2/2008 stipulating the minimum amount of the guarantee fund of insurance companies and branches of foreign insurance companies (Notification No. 54/2008 Coll.).
 - Decree No. 3/2008 on the submission of reports by pension fund management companies and supplementary pension insurance companies for statistical purposes (Notification No. 98/2008 Coll.).
 - Decree No. 4/2008 on the submission of statements, reports and other disclosures by insurance companies and branches of foreign insurance companies (Notification No. 121/2008 Coll.) as amended by NBS Decree No. 27/2008 (Notification No. 578/2008 Coll.).
 - Decree No. 5/2008 laying down the elements of an application for prior approval as referred to in Section 45(1) of Act No. 8/2008 Coll. on insurance and on amendments to certain laws (Notification No. 142/2008 Coll.).
 - Decree No. 6/2008 on the submission of statements, reports and other disclosures by reinsurance companies and branches of foreign reinsurance companies (Notification No. 143/2008 Coll.).
 - Decree No. 7/2008 laying down limits for the investment of insurance technical reserves (Notification No. 170/2008 Coll.).
 - Decree No. 8/2008 on fees for acts performed by Národná banka Slovenska (Notification No. 178/2008 Coll.).
 - Decree No. 9/2008 on the submission of reports by entities ensuring the distribution of securities of foreign collective investment undertakings for supervision purposes (Notification No. 183/2008 Coll.).
 - Decree No. 10/2008 laying down the method for determining the value of securities and real estate in which insurance technical reserves are invested (Notification No. 184/2008 Coll.).
 - Decree No. 11/2008 on the elements of the competent actuary's report on the activities of an insurance company or reinsurance company and on the elements of the competent actuary's report on the activities of a branch of a foreign insurance company or a branch of a foreign reinsurance company (Notification No. 197/2008 Coll.).
 - Decree No. 12/2008 laying down the method for demonstrating compliance with conditions for the granting of an investment services licence (Notification No. 198/2008 Coll.).
 - Decree No. 13/2008 on the professional examination for actuaries (Notification No. 218/2008 Coll.).
 - Decree No. 14/2008 laying down the method for demonstrating compliance with conditions for the granting of authorization to conduct insurance business or reinsurance business (Notification No. 250/2008 Coll.).
 - Decree No. 15/2008 laying down the elements of an application for prior approval as referred to in Section 70(1) of the Securities Act (Notification No. 276/2008 Coll.).
 - Decree No. 16/2008 laying the elements of an application for authorization to issue electronic means of payment under Section 21d(1) of Act No. 510/2002 Coll. on the payment system and on amendments to certain laws (Notification No. 360/2008 Coll.).
 - Decree No. 17/2008 amending Decree No. 4/2007 of Národná banka Slovenska on



LEGISLATION

- banks' own funds and banks' capital requirements and on securities dealers' own funds and securities dealers' capital requirements as amended by Decree No. 10/2007 of Národná banka Slovenska (Notification No. 443/2008 Coll.).
- Decree No. 18/2008 on the liquidity of banks and branches of foreign banks and the liquidity risk management process of banks and branches of foreign banks, and amending Decree No. 11/2007 of Národná banka Slovenska on the submission of statements, reports and other disclosures by banks, branches of foreign banks, securities dealers and branches of foreign securities dealers for supervision and statistical purposes (Notification No. 423/2008 Coll.).
 - Decree No. 19/2008 amending Decree No. 6/1999 of Národná banka Slovenska laying down conditions for regulating the balance of payments of the Slovak Republic as amended (Notification No. 426/2008 Coll.).
 - Decree No. 20/2008 on the submission of actuarial data and statistical data by insurance companies and branches of foreign insurance companies (Notification No. 455/2008 Coll.).
 - Decree No. 21/2008 on the submission of reports by pension fund management companies and supplementary pension insurance companies for statistical purposes (Notification No. 456/2008 Coll.).
 - Decree No. 22/2008 on the submission of reports by factoring companies, consumer credit companies and leasing companies for statistical purposes (Notification No. 457/2008 Coll.).
 - Decree No. 23/2008 on the submission of reports on mutual funds by asset management companies for statistical purposes (Notification No. 446/2008 Coll.).
 - Decree No. 24/2008 amending certain Provisions of Národná banka Slovenska in connection with the introduction of the euro in the Slovak Republic (Notification No. 513/2008 Coll.).
 - Decree No. 25/2008 on the solvency and minimum level of the guarantee fund of insurance companies, branches of foreign insurance companies, reinsurance companies, and branches of foreign reinsurance companies (Notification No. 566/2008 Coll.).
 - Decree No. 26/2008 on the submission of reports by banks, branches of foreign banks, securities dealers and branches of foreign securities dealers for statistical purposes (Notification No. 577/2008 Coll.).
 - Decree No. 27/2008 on the submission of reports by insurance companies and branches of foreign insurance companies for statistical purposes, and amending Decree No. 4/2008 of Národná banka Slovenska on the submission of statements, reports and other disclosures by insurance companies and branches of foreign insurance companies (Notification No. 250/2008 Coll.).
 - Decree No. 64/2008 Coll. laying down equivalent requirements for issuers with a registered office in a non-Member State whose securities are admitted to trading on a regulated market.
 - Decree No. 125/2008 Coll. implementing certain provisions of the Act on Collective Investment.
 - Decree No. 288/2008 Coll. on the elements of an application for prior approval of Národná banka Slovenska under the Collective Investment Act.
 - Decree No. 310/2008 Coll. on the method for demonstrating compliance with conditions for the granting of authorization for the incorporation and activities of an asset management company.
 - Decree No. 634/2008 Coll. on the submission of reports under the Foreign Exchange Act.



INSTITUTIONAL DEVELOPMENTS



11 INSTITUTIONAL DEVELOPMENTS

11.1 INSTITUTIONAL FRAMEWORK

Národná banka Slovenska is the central bank of the Slovak Republic. It was established as the country's independent central bank on 1 January 1993 under Act No. 566/1992 Coll. on Národná banka Slovenska. The primary objective of NBS is to maintain price stability, and it carries out its mission independently from the government and other public or political entities. For matters falling within its jurisdiction, NBS has the competence of a legislative body.

Národná banka Slovenska has an independent budget, and acts as a business entity in handling its own property. The financial results of Národná banka Slovenska are audited by an external auditor. In addition to its headquarters, Národná banka Slovenska has nine local offices.

In 2008, Národná banka Slovenska fulfilled its core tasks as the national monetary authority, and at the same time very intensively prepared and implemented all necessary steps regarding its membership of the Eurosystem, the central banking system of the euro area within the European System of Central Banks. NBS became a member of the Eurosystem as of 1 January 2009 – the date of the introduction of the euro in Slovakia.

After joining the Eurosystem, Národná banka Slovenska still has as its primary objective the maintenance of price stability. For this purpose, NBS:

- participates in the common monetary policy determined by the European Central Bank for the euro area;
- issues euro banknotes and coins in accordance with separate regulations applicable in the euro area to the issuance of euro banknotes and coins;
- promotes the smooth operation of payment systems and settlement systems; regulates, coordinates and ensures currency circulation, payment systems and settlement of payment system data, and provides for their smooth and economic functioning;
- maintains and manages foreign reserves and conducts foreign exchange operations in ac-

cordance with separate regulations applicable to Eurosystem operations;

- performs other activities relating to its participation in the European System of Central Banks.

As regards the financial market, Národná banka Slovenska contributes both to the stability of the financial system as a whole and to the secure and sound functioning of the financial market, in order to ensure confidence in the financial market, the protection of clients, and compliance with competition rules. Since 2006, Národná banka Slovenska has exercised integrated supervision of the financial market, i.e. supervision of banks, branches of foreign banks, investment firms, investment services intermediaries, stock exchanges, asset management companies, mutual funds and collective investment undertakings, insurance companies, reinsurance companies, pension fund management companies, pension funds, supplementary pension insurance companies, and other supervised entities of the Slovak financial market.

The main governing body of Národná banka Slovenska is the NBS Bank Board. The scope of its powers is laid down primarily in the NBS Act, other generally binding regulations, and the Organizational Rules of NBS. The Bank Board has eleven members as stipulated by Section 7 of the NBS Act. The Bank Board members comprise the Governor, two Deputy Governors and eight other members, up to three of whom do not have to be employed with Národná banka Slovenska. The term of office of Bank Board members is five years. The Governor and Deputy Governor are appointed, and may be dismissed, by the President of the Slovak Republic at the proposal of the Government and with the approval of the National Council of the Slovak Republic. The eight other members are appointed, and may be dismissed, by the Government at the proposal of the NBS Governor.

The members of the NBS Bank Board as at 31 December 2008:

- Ing. Ivan Šramko, Governor,
- Ing. Viliam Ostrožlík, MBA, Deputy Governor responsible for the coordination of the euro introduction policy and for the Financial Management Department, Human Resources



Members of the NBS Bank Board as at 31 December 2008



Martin Barto



Ivan Šramko



Viliam Ostrožlík



Milena Koreňová



Jozef Makúch



Karol Mrva



Ľudovít Ódor



Gabriela Sedláková



Peter Ševčovic



Slavomír Šťastný

- Management Department, and International Relations and Communication Department;
- Ing. Martin Barto, CSc., Deputy Governor responsible for the exercise of financial market supervision and foreign exchange supervision by NBS, including the Financial Market Supervision Unit (encompassing the Supervisory Department, the Licensing and Enforcement Department, and the Regulatory and Risk Management Methodology Department);
 - Ing. Milena Koreňová, responsible for the payment system and currency circulation;
 - Ing. Peter Ševčovic, responsible for monetary policy;
 - RNDr. Karol Mrva, responsible for financial market operations;
 - Ing. Slavomír Šťastný, PhD., MBA, responsible for financial education and information technology;
 - doc. Ing. Jozef Makúch, PhD., responsible for security and premises,

- Mgr. Ľudovít Ódor, responsible for research;
- Ing. Gabriela Sedláková, Bank Board member.

11.2 HUMAN RESOURCES

11.2.1 PERSONNEL

As at 31 December 2008, NBS had 1,100 employees. A total of 69 staff ceased to be employed with NBS in 2008, 23 of them due to organizational changes.

In 2008, 86 employees were recruited. Recruitments were made from outside NBS only if no NBS employee expressed interest in the vacancy. A total of 59 internal selection procedures were held during the course of the year.

In the field of cooperation between national central banks of the European System of Central Banks and the European Central Bank in the



INSTITUTIONAL DEVELOPMENTS

area of human resources management, a staff exchange programme has been running for several years between the ESCB national central banks. The aim is to support staff mobility within the ESCB, thereby facilitating the development of human resources and exchange of experience. Altogether five NBS employees worked at the ECB in 2008 in the areas of risk management, research, legal services, and financial market operations.

In March 2008, the director of the NBS Human Resources Management Department welcomed the HR directors of the Czech, Slovenian, Hungarian and Austrian central banks, and the ECB, to the premises of Národná banka Slovenska for their fourth joint meeting. The purpose of these regular gatherings is to exchange information and experience in specific areas of HR management, through presentations and follow-up discussions on current and prospective issues in HR management at each of the participating central banks. A productive theme of the meeting was the remuneration systems at the central banks, including current remuneration policy and planned changes. Národná banka Slovenska presented experience in preparation of job cards, a key part of the new remuneration system.

11.2.2 EMPLOYEE REMUNERATION

The principles and rules of remuneration at NBS in 2008 were laid down in NBS internal regulation No. 20/2002 on remuneration of NBS employees as amended.

The average monthly salary in 2008 was SKK 45,915 (EUR 1,524.10), which in comparison with 2007, represented an increase of SKK 2,495 (EUR 82.82) or 5.7%.

11.2.3 SOCIAL EXPENSES

Employees whose employment was terminated due to organizational changes were paid all the financial claims owed to them under the Labour Code, NBS internal regulation No. 20/2002 on remuneration of NBS employees as amended, and the NBS Collective Agreement for 2008.

In 2008, NBS made severance payments (including compensatory provision from 2007) amounting to SKK 9,050,000 (EUR 300,400) in total. The employment of ten employees was terminated due to retirement, disability or early retirement,

and they received severance payments (including compensatory provision from 2007) totalling SKK 1,359,000 (EUR 45,110).

NBS contributions to supplementary pension schemes amounted to SKK 21,156,000 (EUR 702,250). As at 31 December 2008, a total of 767 NBS employees were enrolled in supplementary pension schemes, representing an increase of 66 year-on-year.

11.3 ORGANIZATION AND MANAGEMENT

Three amendments to the Organizational Rules of Národná banka Slovenska were approved in 2008, their effect on the NBS organizational structure being related to decisions of the NBS Bank Board. Organizational changes were made in response to the emergence of new activities and to the reassignment and segmentation of activities in particular management areas.

The organizational changes that had the most significant effect on planned positions at NBS in 2008 were the establishment of the TARGET2-SK Operations Section and establishment of the ECB Coordination Section, carried out as part of NBS preparations for membership of the Eurosystem from 1 January 2009.

11.4 TRAINING AND EDUCATION

In accordance with the Lisbon Strategy, NBS considers training and education to be a key factor in the professional and personal development of its employees and therefore in directly improving the quality of their work. In 2008, training and educational activities continued to be organized by NBS's Institute of Banking Education (IBE), not only for NBS employees, but also employees of the banking sector and other financial institutions. IBE implements a quality management system that is ISO 9001:2000 certified.

Training and education of NBS employees in 2008 centred on supporting efficient work performance, including tasks stemming from NBS full membership of the European System of Central Banks, especially in regard to preparations for joining the Eurosystem and for the introduc-

**Table 37 Number of participants in training and educational events**

Subject category	Number of events	Number of participants
Banking and finance	277	833
– in Slovakia	66	543
– abroad	211	290
Management education	12	111
– in Slovakia	6	105
– abroad	6	6
Personal development	4	27
– in Slovakia	1	21
– abroad	3	6
IT training	66	242
– in Slovakia	46	210
– abroad	20	32
Language training	38	451
– in Slovakia	35	438
– abroad	3	13
Special-focus training	118	448
– in Slovakia	109	435
– abroad	9	13
Total	515	2,112
– in Slovakia	263	1,752
– abroad	252	360

Source: NBS.

tion of the euro in Slovakia from 1 January 2009. The training and education was predominantly classroom-based.

In 2008, a total of 2,112 NBS employees spent 53,865 hours at 515 training and educational events. Although the number of events and the number of NBS employees attending them were slightly lower than in 2007 (owing to organizational changes and staff reductions at NBS), the total number of hours increased by 4,553. Expenses related to training and education as a share of total wage expenses represented 4.16% in 2008, compared to 4.33% in 2007. NBS spending on training and education per employee (including travel expenses in Slovakia and abroad) averaged SKK 21,284 (EUR 706.5) in 2008, which was SKK 1,369.55 less than in 2007.

The main focus of NBS staff training and education in 2008 was, as in previous years, professional education in matters of banking and fi-

nance. Out of the total number of events held, 53.4% were in this subject category. The table 37 shows the number of participants and number of events broken down by subject category.

Training in the area of banking and finance focused on issues directly related to the tasks of NBS as a full member of the ESCB – on the planned entry into the Eurosystem and introduction of the euro in Slovakia, on strengthening the European dimension of NBS activities, and, to a considerable extent, on the regulation and supervision of the financial market and the risks therein.

A priority was to make maximum use of foreign technical cooperation where it involved events for which NBS did not pay participation fees or even the full travel expenses. In 2008, a total of 185 NBS employees attended 154 training and educational events organized in the context of foreign technical cooperation. Compared with



INSTITUTIONAL DEVELOPMENTS

2007, that represented 13 more events and 11 more participants or, in percentage terms, increases of 9% and 6%, respectively.

The NBS staff induction course "Minimum zamestnanca NBS" is run for new and recently recruited employees, its purpose being to ensure their swift and smooth integration into the NBS working environment and corporate culture. The course was held three times in 2008 and attended by a total of 53 participants.

As in previous years, NBS supported staff training and education also by using the services of external institutions. In all, 102 employees passed courses focused on the euro introduction in relation to tax and accounting, on the euro changeover in the accounts department, on the conduct of audits, and on financial and cost controlling.

Národná banka Slovenska supports staff who study alongside their employment in order to raise or extend qualification related to their work with NBS.

In 2008, the Institute of Banking Education also organized 107 training and educational events attended by a total of 1,547 employees of commercial banks and other financial institutions (in 2007, the respective figures were 93 and 1,076). The structure and content of these events were based on a survey of the training needs of the target groups, in particular banks. The most popular events in 2008 were in the categories "euro integration", "payment systems" and "legal aspects of banking and legislation".

Internal trainers – members of the NBS staff – were heavily involved in the preparation and organization of training and educational events. NBS experts also participated in teaching activities within the context of foreign technical cooperation and assistance.

11.5 NÁRODNÁ BANKA SLOVENSKA JOINED THE EUROSYSTEM

Preparations for the adoption of the single European currency and for the related integration of Národná banka Slovenska into the Eurosystem continued to be made in all areas of NBS activities in 2008. The preparations were intensified by

the Decision of the ECOFIN Council of 8 July 2008 to abrogate Slovakia's derogation from joining the euro area. In October 2008, Národná banka Slovenska signed in for the Strategic intents of the Eurosystem and the Organisational principles for the fulfilment of Eurosystem functions by all members of the Eurosystem. Since 1 January 2009, NBS has been part of the Eurosystem.

THE ESCB, EUROSYSTEM AND ECB

The European System of Central Banks (ESCB) comprises all 27 national central banks (NCBs) of the European Union (EU) Member States and the European Central Bank. Its tasks are defined in the Treaty establishing the European Community and are developed further in the Protocol on the Statute of the ESCB and the ECB.

The primary objective of the ESCB is to maintain price stability. Its basic tasks in this regard are:

- to define and implement the monetary policy of the Community,
- to conduct foreign exchange operations,
- to hold and manage the official foreign reserves of the Member States,
- to promote the smooth operation of payment systems.

Until all EU Members States have adopted the single European currency, ESCB tasks will fall within the competence of the Eurosystem, which consists of the NCBs of euro area countries and the ECB. The Eurosystem tasks are overseen by the ECB. The governing bodies of the ECB are at the same time the governing bodies of the Eurosystem and ESCB, namely the Governing Council, the Executive Board, and the General Council.

The Governing Council is the main decision-making body of the Eurosystem, and consists of all six members of the Executive Board plus the governors of the NCBs of the euro area countries. The governors have the role of independent experts. The Governing Council adopts the decisions and guidelines necessary to ensure the performance of tasks entrusted to the Eurosystem.

The Governing Council meets, as a rule, twice a month. The first meeting is usually held on the first Thursday of the month and, by convention, deals with monetary policy issues. Decisions on the key ECB interest rates are taken at that meet-



Source: ECB.

ing and are subsequently announced at an official press conference by the ECB President. The second meeting of the month is usually held two weeks after the first meeting, also on a Thursday. The decisions taken at this meeting focus on issues related to other tasks of the Eurosystem, for example, decisions concerning the ECB, foreign reserve management, the operation and oversight of payment systems, the issuance of banknotes, etc. The Governing Council may also hold a teleconference meeting if it needs to address an urgent situation.

The Executive Board mainly prepares meetings of the ECB Governing Council, implements decisions of the Governing Council, and manages the day-to-day business of the ECB.

The General Council meets in the composition of the President and Vice-President of the ECB and the governors of the NCBs of all EU Member States. Its principal tasks include adopting the convergence reports and supporting cooperation within the ESCB.

EUROSYSTEM/ESCB COMMITTEES

The Eurosystem/ESCB committees play an important role in assisting the ECB's decision-making bodies. They provide expertise in their fields of competence and perform specific tasks mandated by the Governing Council. As at 31 December 2008, there were thirteen Eurosystem/ESCB Committees:

- Accounting and Monetary Income Committee
- Banknote Committee
- Banking Supervision Committee
- Committee on Cost Methodology
- Eurosystem/ESCB Communications Committee
- Information Technology Committee
- Internal Auditors Committee
- International Relations Committee
- Legal Committee
- Market Operations Committee
- Monetary Policy Committee
- Payment and Settlement Systems Committee
- Statistics Committee



INSTITUTIONAL DEVELOPMENTS

Another three committees have a special position:

- Budget Committee
- Human Resources Conference
- Eurosystem IT Steering Committee

Meetings of the Eurosystem/ESCB committees may be attended by representatives of the Eurosystem NCBs only, or by representatives of the NCBs of all EU Member States. When discussing decisive issues that fall within their field of competence, committees meet in the Eurosystem composition. The final decision on matters discussed at the expert level of the committees is taken by the ECB Governing Council.

ROLE OF NBS WITHIN THE ESCB AND PREPARATIONS FOR JOINING THE EUROSYSTEM

Since 1 May 2004, when Slovakia joined the EU, Národná banka Slovenska has been a member of the ESCB and its Governor has been a member of the ECB General Council. Five meetings of the General Council were held in 2008. At its 47th meeting, held by teleconference on 6 May 2008, the General Council supported the abrogation of Slovakia's derogation from the adoption of the euro.

The decision allowing Slovakia to adopt the euro from 1 January 2009 also set Národná banka Slovenska on course to join the Eurosystem. NBS had until the end of 2008 to prepare for the fact that, as of 1 January 2009, it would be involved in all Eurosystem tasks performed in relation to the single European currency.

At its 236th meeting held on 3 July 2008, the Governing Council supported the introduction of the euro in Slovakia and granted the NBS Governor observer status in all its meetings starting from 17 July 2008. Since then, the NBS Governor attended meetings of the Governing Council as an observer, in preparation for full membership as of 1 January 2009. In 2008, the NBS Governor attended eleven meetings of the Governing Council (ten held in Frankfurt and one in Brussels), as well as further twelve teleconference meetings of the Governing Council.

Observer status was also granted to NBS representatives with respect to meetings of the Eurosystem/ESCB committees and their sub-structures held in the Eurosystem composition. As

at 31 December 2008, NBS had almost 70 representatives on the committees and their sub-structures.

The specialist departments of NBS, and especially the NBS staff in the committees and their sub-structures, are therefore contributing to the preparation of analyses and draft decisions, as well as to the preparation of opinions on key documents for the NBS Governor at meetings of the Governing Council. They are also drafting NBS opinions on written procedures, i.e. procedures under which decisions of the Governing Council are adopted in writing. The NBS Governor has been involved in written procedures of the Governing Council since 8 July 2008. A total of 99 written procedures were commenced between that date and the end of 2008.

At the same time, consultations were held in 2008, and continue to be held, on national legislation or EU legislation falling within the competence of the ECB. The ECB adopts opinions on these matters, and each member of the ECB Governing Council may comment on these ECB opinions. NBS has been fully exercising its right in this regard.

A total of 117 consultations were initiated in 2008, and the ECB issued the following opinions concerning Slovak law:

- Opinion of the ECB of 25 April 2008 at the request of Národná banka Slovenska on a draft law amending Act No. 510/2002 Coll. on payment systems and on amendments to certain laws.
- Opinion of the ECB of 30 May 2008 at the request of Národná banka Slovenska on a draft decree laying down rules for the dual display of certain prices, payments and other amounts and on a draft decree laying down the number of decimal places of certain types of securities for the purpose of rounding by redenomination of their nominal value from the Slovak currency to the euro.
- Opinion of the ECB of 12 June 2008 at the request of the Slovak Ministry of Finance on a draft decree laying down the scope of prices, payments and other amounts subject to dual display with regard to the field of gambling games and methods of their dual display.
- Opinion of the ECB of 1 July 2008 at the request of the Slovak Ministry of Labour, So-



- cial Affairs and Family on a draft decree laying down further detailed rules on the dual display, conversion and rounding of certain prices, payments and other amounts in the labour law and social security sectors on the euro changeover.
- Opinion of the ECB of 2 September 2008 at the request of the Slovak Ministry of Defence and of the Slovak Ministry of Labour, Social Affairs and Family on draft laws laying down further detailed rules on the euro changeover falling within their field of competence.
 - Opinion of the ECB of 8 December 2008 at the request of Národná banka Slovenska on a draft decree regarding cash currency circulation.



COMMUNICATION



12 COMMUNICATION

Národná banka Slovenska complied with the principle of openness and transparency in communication by providing information on all decisions regarding the monetary policy, financial market supervision and other tasks of the central bank also in 2008. Nevertheless, this year was for Národná banka Slovenska extraordinarily important and strenuous with regard to communication activities mainly due to the euro introduction in the Slovak Republic.

In 2008, Národná banka Slovenska continued in standard informing on monetary developments in the SR and on decisions on key interest rates. Press conferences were held on a monthly basis with NBS top representatives presenting standpoints of the NBS Bank Board on monetary developments and also, voting of the Bank Board members in the case of changes made to the NBS interest rates. In addition, NBS published quarterly forecasts of expected developments in basic macroeconomic indicators in the Slovak economy.

Representatives of Národná banka Slovenska presented and explained current issues before parliamentary committees, at meetings with the professional community, and through articles and presentations in the media. NBS communication with the media intensified primarily in the second half of 2008 in connection with impacts of the global crisis on the economy and financial sector of the SR.

Národná banka Slovenska produced specialized publications that were providing information and analyses in the areas covered by main activities of the Bank. They included the Annual report, Financial Stability Report, Report on the Results of the Financial Sector Analysis, the Monetary Survey monthly bulletin and Medium-Term Forecasts. Apart from this, other analyses and research studies on monetary developments, the financial market and the effect of the euro introduction were published in electronic form.

Národná banka Slovenska as part of the European System of Central Banks (ESCB) was participating in joint communication activities within the ESCB. NBS representatives were regularly

attending meetings of the EUROSYSTEM/ESCB Communications Committee (ECCO) and its working groups for the euro cash communication, multilingual communication, Internet and websites of the central banks as well as the internal communication of the Eurosystem.

In line with the principles of the ESCB multilingual communication Národná banka Slovenska participated in preparation of the national language versions of the official ECB publications (four regular issues of the ECB Monthly Bulletin, special ECB Monthly Bulletin on the 10th anniversary of the ECB, the ECB Annual Report, the ECB Convergence Report and the publication entitled "The single monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures".

Concerning its website, NBS accepted ESCB minimum standards for the Web and recommendations regarding navigation, content structure and accessibility of websites. In the field of Eurosystem internal communication, NBS made some information accessible for the use in company journals of the euro area central banks.

By means of electronic communication, NBS dealt with 2,519 messages and information requests. Under the law on free access to information, Národná banka Slovenska replied in writing to 154 requests.

EURO INTRODUCTION

The information campaign on the euro introduction in the SR, led by NBS, culminated in 2008. For the purpose of overseeing the nationwide communication activities, NBS established the Working Committee for Communication on the Euro Changeover which included representatives of central government bodies, the private sector, and public service media (for more information see chapter 9, Preparations for the euro introduction in the SR).

In cooperation with the Ministry of Finance NBS carried out seven waves of media campaign



COMMUNICATION

to enhance the awareness of the public on the euro. Also in cooperation with the Ministry euro starter kits with information brochures and euro calculators were delivered to all households in Slovakia. These activities were supported by the European Commission through several grants.

In the campaign NBS focused on vulnerable target groups which needed specific information or alternative forms of their dissemination. The target groups included mainly senior population, children, youth and national minorities – among them Romany and Hungarian, the blind and partially sighted, deaf, mentally handicapped, homeless, prisoners, abandoned children in youth homes, addicted, people in the crisis centres, and also small and medium-sized enterprises and municipality representatives. NBS created special aids and information materials for several of these groups such as a cash test for recognizing money, a talking card for blind people or DVD for the deaf, CD for Romanies etc.

The effectiveness of the campaign was regularly measured through public opinion surveys carried out by the Statistical Office of the Slovak Republic. In January 2009, 93% of Slovak residents surveyed expressed satisfaction with the information they had received about the euro, and, according to a Eurobarometer survey, one of the most trusted sources of information on this issue was Národná banka Slovenska.

Information was provided to a range of target groups through various channels. Among the most complex and used of these channels was the official website www.euromena.sk, which attracted almost 2.3 million visitors.

NBS created 39 information materials totalling 7,082,300 copies for the general public. Overall, NBS distributed more than 20 millions of different euro publications. Beside own materials of NBS the figure included also publications of the European Central Bank, European Commission and joint materials of NBS and the Ministry of Finance of the SR.

NBS staff participated in almost 300 seminars and training events on the euro including 48 lectures and seminars which took place in the NBS premises, mainly for teachers and students of primary and secondary schools. Travelling exhibi-

tion "Slovak Euro Coins" was installed in eight Slovak towns during 2008, attracting more than 28,000 visitors.

The NBS Bank Board approved the Memorandum of Understanding between the European Central Bank and Národná banka Slovenska on communication activities for euro introduction in Slovakia. The most important activities within the Memorandum included:

- Preparation of publications and information materials aimed at informing the general public, minorities and sensitive target groups about the euro introduction process in Slovakia and security features of the euro banknotes. Certain publications were at disposal in four language versions – Slovak, Hungarian, Romany and English.
- Direct mail of Národná banka Slovenska and the European Central Bank which included information leaflet and two conversion cards with description of security features of the 20 euro banknote. The direct mail was sent to 1,928 thousands of households in Slovakia.
- Preparation of the Slovakia Euro Changeover Conference which took place on 22 September 2008 in the premises of the Slovak Philharmonic in Bratislava. The Euro Conference was preceded by ceremonial unveiling of the mega board on the NBS building and opening of the Euro exhibition.
- Implementation of the programme Partnership in communication, supported by the European Central Bank, which was joined by 108 organisations – banks, ministries, large retail chains, travel agencies, and also by small companies, publishing houses, consumer associations, etc. Through this programme, the organisations obtained information materials of NBS and ECB or layouts for creation of own information material on the euro introduction.
- Organisation of seminar for journalists from the most important Slovak media in September 2008 in Frankfurt about functioning and decision-making of the European Central Bank and Eurosystem and about the aims of euro area monetary policy.

To mark the fixing of the conversion rate and official admission into the euro area Národná banka Slovenska prepared the exhibition "From the Koruna to the Euro", which was opened on 8 July 2008 in Brussels. The exhibition illustrated the



history of money on the territory of Slovakia and Slovak motifs on the euro coins to other euro area members.

Also the Open Day at the headquarters of Národná banka Slovenska, visited by almost 4,000 people, was in 2008 under the sign of the euro. One of the events mentioned was the “Euro in My Eyes” competition, which was entered by children and young people from across Slovakia.

NBS WEBSITE

The NBS website continued to be the most used and complex communication tool also in 2008. With regard to its information content, the website is intended not only for economists, but also for other target groups including the general public. As the Internet is increasingly being used among the general public, it is necessary to account for this trend also on websites, concerning both, the information content, and usability and accessibility. Therefore, in 2008, Národná banka Slovenska undertook a complex remake project of its website. The changes referred to the design, restructuring of the content and technological environment, and W3C standards implementation which increase accessibility of the web domains for the visually impaired. The new website was made available to the public on 1 January 2009.

BIATEC

The BIATEC journal also plays an important role in the area of public communication, being a respected platform for the presentation of specialist knowledge in banking, finance and economics. Its contributors and readers represent a balanced link between Národná banka Slovenska, the banking and financial sector, and the academic and educational sphere. The journal has become not only a communication tool of the central bank, but also its contribution to fulfilling the Lisbon Strategy objectives and creating a knowledge-based economy.

NBS LIBRARY

For the professional community, Národná banka Slovenska offers library and information services

based on a specialized collection of resources focused on monetary policy, the banking sector, and financial markets, as well as the law and legislation, computer technology and statistics. In 2008, the online library processed around 4,000 books, research reports, periodicals and articles. The central NBS library provides access to electronic information resources, both domestic and foreign, and conducts information searches with output provided mainly for NBS staff. General information about the central library is published on the NBS website. Members of the public may access any of the reference, bibliographical and search services by electronic mail. The public appreciate the high level of these services, which is reflected in the fact that the number of visits, as well as in-person borrowings, have been rising year after year. In 2008, the central library processed more than 1,500 search requests from both Slovakia and abroad and provided information on various aspects of economics, particularly in relation to the introduction of the euro in Slovakia.

MUSEUM OF COINS AND MEDALS IN KREMNICA

The Museum of Coins and Medals at Kremnica has been a part of Národná banka Slovenska since 1994, and administers an extensive collection covering the fields of numismatics, regional history and art. Part of the collection is presented to the public through the permanent exhibitions “Two Sides of Money – Money and Medals in the History of Slovakia” and “Routes of Collecting in 15th to 18th Century Art – the Town Castle”. For the latter exhibition, the museum received two major awards in 2008: *Museum of the Year*, conferred by the Slovak Ministry of Culture, the Union of Museums in Slovakia, and the Council of Slovak Galleries, and the *Annual Award* from the magazine *Pamiatky a múzeá (Monuments and Museums)* for the exceptional activities in the area of cultural heritage protection. Národná banka Slovenska was also awarded a commemorative silver medal for its contribution to the development of Kremnica town and the preservation of cultural heritage.

In addition to permanent exhibitions and the long-term art history exhibition, the museum provided for ten occasional exhibitions at its



COMMUNICATION

premises in 2008, including an exhibition within the series of international medal expositions of Visegrad Four countries: *"From the Danube, Vltava and Vistula – Medal Makers and Their Works"*. At the end of 2008, the Museum of Coins and Medals prepared a specialist exhibition entitled *"Currency Reforms, Partings, Separations, and Other Cataclysms in the 20th Century"*, focusing on the monetary upheavals in the 20th century in both Slovakia and the broader central and eastern European region.

The museum focused much of its activities on the organization of cultural and educational events designed for secondary schoolchildren and for the general public. For the third year in a row, the museum participated in the international museum project enabling public to visit the exhibitions until late at night under the heading "Night of Museums – Night of the Muses".

In 2008, the permanent and occasional exhibitions of the Museum of Coins and Medals at Kremnica attracted more than 44,000 visitors from Slovakia and abroad.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 13

ECONOMIC RESEARCH

13



13 ECONOMIC RESEARCH

The role of economic research at Národná banka Slovenska is to study relationships in detail, focusing on the Slovak Republic and the euro area. This particularly involves applied research whose findings may be used in setting NBS's policies or as technical support for other institutions formulating Slovakia's economic policies. Primary areas where economic research at NBS is concentrated include economic development modelling. Other important areas are monetary and fiscal policies, the labour market and financial stability.

Results and findings from economic research are published as reviewed working papers, financial stability reports and policy or occasional papers. In 2008, 10 research papers were published on the NBS website, including two financial stability reports, seven working papers and one policy paper. In addition, each financial stability report includes appendices analyzing special topics (e.g. the real estate market or impacts of the financial crisis). A short description of the published studies is shown in Box 1.

Further regular activities are research department seminars, which are usually organized every week. Approximately once a month, external guests are invited to speak. The most prominent external lecturer in 2008 was Professor David N. DeJong of the University of Pittsburgh, who gave presentation entitled "Structural Guidance for Policymaking: The Past, Present, and Future Directions".

In the area of econometric modeling and forecasting, Národná banka Slovenska is working continuously on the research and development of new tools to support forecasting and macro-economic analyses. At the end of 2008, a new structural model started to be utilized, enhancing analytic tools currently being used for some elements which had as yet not played a role in developing forecasts, as well as an analysis of

economic development scenarios. Implementing such a model brought, above all, a better and more detailed view of the economy's demand side, while allowing factors in supply-side economic development to be surveyed. At the same time, this model allowed Národná banka Slovenska to be incorporated in full into the ESCB's common forecasting process. Work on both existing and new instruments will also continue in 2009.

Like other activities of NBS, research is gradually acquiring an international character. In 2008, a representative of Národná banka Slovenska began participating in discussions among Heads of Research of ESCB central banks. Meetings are usually held once a year with the aim of coordinating ESCB research activities, making data and economic publications available and providing information about common research projects.

During the year, Národná banka Slovenska joined two expert groups which had been established in the Eurosystem. The first is the Wage Dynamics Network (WDN), composed of economists from the ECB and the national central banks in the EU who are focusing on a detailed study of the features and causes of wage dynamics and their implications for monetary policies in European countries. The group's September meeting presented a study on wage inflexibilities.

With Slovakia's entry into the euro area, the country was also invited to join the Household, Finance and Consumption Network (HFCN). This group is composed of statistics-gathering experts, statisticians and ECB economists and experts from the national central banks in the Eurosystem and the statistical offices of some countries. The group's mandate includes implementation and determining financial position and household consumption expenses.



Box 1

WORKING PAPERS PUBLISHED IN 2008

WP 1/2008 Juraj Zeman and Pavol Jurča: Macro Stress Testing of the Slovak Banking Sector

In this paper, the authors estimate the impact of a simulated slowdown in the Slovak economy on the Slovak banking sector. They also evaluated, using a vector error correction model, the impact of the slowdown on interest rates and exchange rates, taking into consideration the indirect impact of interest rate and foreign exchange risk via possible worsening of the financial situation of debtors. The results suggest that even a significant slowdown of the GDP growth would not substantially threaten the Slovak banking sector, provided that the response of the monetary policy would be adequate. Given the current portfolio of the Slovak banking sector, this monetary policy would have a positive impact on the Slovak banking sector through the interest rate channel. The shocks to GDP growth that would be left without relevant response in other factors might represent a more noticeable threat.

WP 2/2008 Michal Benčík: Methods for Detecting Disequilibrium in the Real Economy of the Slovak Republic

This paper presents nine selected methods for computing disequilibrium in the real economy and applies them to the Slovak Republic. Eight of the methods are used to compute relative output gap and one of them to compute a composite index of disequilibrium. The results of all the methods indicate that the economic development of the Slovak Republic in 1996 to 2006 can be split into three separate stages: disequilibrium growth with an expansive economic policy till the end of 1998, followed by contraction and consolidation from 1999 till 2002 and gradual acceleration of growth from 2003 onwards.

WP 3/2008 Tibor Lalinský: Competitiveness Factors of Slovak Companies

The author has studied competitiveness factors of top Slovak companies using a questionnaire survey. Results imply that companies are

aware of the key role of the customers. Due to the stress on production modernization and wide use of information and communication technologies they successfully place their products on foreign markets. However, the final customers are out of their reach. The most important are intracompany factors, particularly company management and cost reduction. High impact was identified also for EU membership and energy costs. Scheduled euro adoption in Slovakia is perceived as a source of competitiveness increase. Companies start to realize the necessity of transition to a higher level of competitiveness based on innovation. Threats arise from potential deepening of labor market disequilibrium.

WP 4/2008 Mária Marčanová and Ľudovít Ódor: Effective Aggregate Tax Burden in Slovakia

The paper identifies some weaknesses of the commonly used methodology of macroeconomic tax burden and proposes an alternative solution, which is directly applied to Slovak data. The study identifies two key shortcomings in the standard methodology. The first weakness is the definition of taxes and social security contributions, which also includes, for example, taxes paid by the government to its own pockets. The second problem is related to the definition of GDP, which contains indirect tax and also the added value of the general government, which enters the tax quota denominator. The study concludes the private value added in Slovakia is taxed at approximately 27%.

WP 5/2008 Michal Benčík and Sandra Tatterská: The Impact of the Euro Introduction on the Banking Sector

This paper analyses balance sheets and profit and loss accounts of the EU banking sector, identifying profit factors and quantifying the effects of euro introduction. Possible impacts on the Slovak banking sector resulting from euro introduction are quantified as well. During the whole estimation period the profits were a function of the share of bank assets in



Box 1 – continuation

GDP and the long term interest rate. The introduction of euro was followed by an autonomous drop in banking profits, compensated by emerging positive effects of openness and changes in the ratio of financial investment to GDP. The effects of euro introduction were positive for the Belgian banking sector, mixed in the Netherlands and temporarily negative for the rest of analyzed countries. In Slovakia, with respect to a high degree of openness, rather positive effects are expected, though these might also be negative in the case of unfavorable developments in openness and the ratio of financial investment.

PP 1/2008 An Analysis of Convergence in Slovakia

At the start of 2008, Slovakia had successfully completed its road towards meeting the Maastricht criteria and fulfilled the essential conditions for the euro to be introduced on 1 January 2009. This study continues a series of regular analyses regarding convergence and assesses both nominal and real convergence of the Slovak economy with the EU average, emphasizing results from the past 12 months. In addition, the analysis discusses developments in the Baltic States and examines fulfillment of the Maastricht criteria in the euro area countries once the euro was introduced. The study also includes an assessment of long-term inflation in Slovakia.

WP 6/2008 Sandra Tatierská: ULC Dynamics of Euro Area Countries and Slovakia in the Long Run

This paper analyses the ability of national nominal unit labor costs (ULC) of the euro area countries to converge to the weighted average of the EMU and in the case of Slovakia also to the weighted average of V4 countries. Co-integration between individual and average nominal ULC indices was examined. A significant co-integration with the euro area was detected for almost all countries, including Slovakia. This is an important criterion for sustaining the competitiveness of a country without an exchange rate mechanism.

WP 7/2008 Pavel Gertler a Matúš Senaj: Downward Wage Rigidities in Slovakia

Recognizing the scope of wage rigidity is especially important when setting policies after introduction of the euro and the loss of monetary policy instruments. The aim of the study is to assess the extent of wage rigidities in Slovakia. In the first part, the authors applied methodology proposed by Holden and Wulfsberg with data on industrial level, analyzing both old and new EU Member States. In case of Slovakia, however, it is difficult to interpret results obtained from sectoral data. Therefore the authors analyze individual wage data of Slovak firms in the second part of the study. They conclude that the extent of wage rigidities is relatively small and thus employers are able to adjust total compensation per working hour relatively flexibly.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 14

FINANCIAL STATEMENTS OF NÁRODNÁ BANKA SLOVENSKA FOR THE YEAR ENDED 31 DECEMBER 2008



**PricewaterhouseCoopers
Slovensko, s.r.o.**
Námestie 1. mája 18
815 32 Bratislava
Slovak Republic
Telephone +421 (0) 2 59350 111
Facsimile +421 (0) 2 59350 222

INDEPENDENT AUDITOR'S REPORT

To the Bank Board of Národná banka Slovenska.:

We have audited the accompanying financial statements of Národná banka Slovenska, which comprise the balance sheet as at 31 December 2008, the income statement and the statement of changes in equity for the year then ended, and the notes.

Responsibility of the Bank Board for the Financial Statements

The Bank Board of Národná banka Slovenska is responsible for the preparation and fair presentation of these financial statements in accordance with Slovak Accounting Act and European Central Bank rules ("ECB rules"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.



PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Národná banka Slovenska as of 31 December 2008, and its financial performance for the year then ended in accordance with Slovak Accounting Act and ECB rules.

PricewaterhouseCoopers Slovensko s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161



Mária Frühwaldová

Mária Frühwaldová
SKAU licence No.: 047

17 March 2009

Translation note:

This version of our report is a translation from the original, which was prepared in Slovak. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

(2)

NÁRODNÁ BANKA SLOVENSKA
Financial statements as at 31 December 2008 – Balance sheet
(in millions of SKK)The Ministry of Finance of the Slovak Republic
Decree No. MF/8338/2005-74**BALANCE SHEET**
of Národná banka Slovenska
in millions of SKK

Assets		Notes	At 31.12.2008	At 31.12.2007
1.	Gold	1	20,826	21,538
2.	Debt securities denominated in foreign currency	2	387,815	387,289
3.	Derivatives	3	1,490	318
4.	Receivables from banks and central banks	4	7,890	33,844
4.1	Current accounts, deposits and loans denominated in foreign currency		5,769	31,102
4.2	loans related to monetary policy operations in SKK			
4.3	Receivables not related to monetary policy operations in SKK		2,121	2,742
5.	Receivables from the International Monetary Fund	5	12,602	13,454
6.	Receivables from clients	6	307	316
7.	Equity shares in subsidiaries and affiliates and other shares and participating interests	7	386	413
8.	Non-current assets	8	5,414	5,712
8.1	depreciable		5,022	5,318
8.2	non-depreciable		392	394
9.	Other assets	9	384	242
TOTAL ASSETS			437,114	463,126



FINANCIAL STATEMENTS OF NBS FOR THE YEAR

NÁRODNÁ BANKA SLOVENSKA
Financial statements as at 31 December 2008 – Balance sheet
(in millions of SKK)

Liabilities		Notes	As at 31.12.2008	As at 31.12.2007
1.	Currency in circulation	10	77,714	155,154
2.	Liabilities to banks and central banks	11	454,365	332,547
2.1.	Current accounts denominated in SKK		14,069	2,536
2.2.	Overnight deposits, loans and deposits denominated in SKK and minimum reserves		430,254	325,590
2.3.	Current accounts, deposits and loans denominated in foreign currency		10,042	4,421
3.	Liabilities from debt securities	12	30,178	67,712
3.1.	Denominated in SKK		30,178	67,712
3.2.	Denominated in foreign currency			
4.	Derivatives	3	3,050	2,442
5.	Liabilities to the International Monetary Fund	5	11,545	13,311
6.	Liabilities to other international financial institutions	13	848	772
7.	Liabilities to clients	14	1,887	1,163
8.	Provisions and other liabilities	15	351	276
9.	Statutory fund	16	483	483
10.	Funds from profit appropriations and capital funds	16	10,312	10,312
11.	Valuation differences from revaluation of	16	25,186	20,783
11.1.	Gold		18,488	19,208
11.2.	Derivatives		940	190
11.3.	Securities		5,737	1,385
11.4.	Foreign currencies		21	-
12.	Retained earnings/ (accumulated deficit) from previous years	16	(141,829)	(122,365)
13.	Profit / (loss) for the current accounting period	16	(36,976)	(19,464)
TOTAL EQUITY AND LIABILITIES			437,114	463,126

Translation of the financial statements originally issued in the Slovak language.

3

NÁRODNÁ BANKA SLOVENSKA
Financial statements as at 31 December 2008 – Income statement
(in millions of SKK)The Ministry of Finance of the Slovak Republic
Decree No. MF/8338/2005-74**INCOME STATEMENT**
of Národná banka Slovenska
in millions of SKK

	Notes	As at 31.12.2008	As at 31.12.2007
1. Interest and similar income		15,872	16,943
1.1. on SKK - denominated loans related to monetary policy operations		4	24
1.2. on SKK - denominated receivables not related to monetary policy operations		65	92
1.3. on receivables and securities denominated in foreign currency		15,803	16,827
a. Interest and similar expense		(16,216)	(15,947)
a.1. on SKK - denominated liabilities related to monetary policy operations and from securities		(16,006)	(15,585)
a.2. on SKK - denominated liabilities not related to monetary policy operations		(72)	(65)
a.3. on liabilities and securities denominated in foreign currency		(138)	(297)
I. Net interest income	17	(344)	996
2. Fees and commission income		334	237
b. Fees and commission expense		(23)	(16)
II. Fee and commission income	18	311	221
3./c. Net gains / (losses) from operations in, and derivatives involving, securities denominated in foreign currency	19	2,632	(296)
4./d. Net gains / (losses) from operations in, and derivatives involving, foreign exchange and gold	20	(36,232)	(18,529)
5. Revenues from dividends and other profit distributions		24	28
6. Revenues from currency in circulation		36	5
e. Expenses on currency in circulation		(1,571)	(129)
III. Net profit / (loss) from currency in circulation		(1,535)	(124)
7. Income from reversal of provisions and written-off receivables and securities			
f. Expenses on provisioning and the write-off of receivables and securities			
8. Other operating income		305	125
g. Other operating expenses	21	(2,137)	(1,885)
g.1. Staff costs		(894)	(867)
g.2. Depreciation of tangible and intangible fixed assets		(431)	(481)
g.3. Other operating costs		(812)	(537)
A. Profit / (loss) before appropriations		(36,976)	(19,464)
h. Profit appropriations			
B. Profit / (loss) after appropriations		(36,976)	(19,464)



NÁRODNÁ BANKA SLOVENSKA
Financial statements as at 31 December 2008 – Statement of changes in equity
(in millions of SKK)

The Ministry of Finance of the Slovak Republic
Decree No. MF/8338/2005-74

STATEMENT OF CHANGES IN EQUITY
of Národná banka Slovenska
in millions of SKK

	Statutory fund	Capital fund	Reserve fund	Revaluati on funds	Accumulated deficit	Equity
1. Balance as at 31 December 2007	483	43	10,269	20,783	(141,829)	(110,251)
Settlement of loss from previous accounting periods	-	-	-	-	-	-
3. Appropriation to statutory fund	-	-	-	-	-	-
4. Appropriation to accumulated deficit	-	-	-	-	-	-
5. Appropriation to reserve funds	-	-	-	-	-	-
6. Revaluation of securities	-	-	-	4,352	-	4,352
7. Revaluation of derivatives	-	-	-	750	-	750
8. Change in gold revaluation fund	-	-	-	(720)	-	(720)
9. Revaluation of foreign currencies	-	-	-	21	-	21
10. (Loss) / profit for the current accounting period	-	-	-	-	(36,976)	(36,976)
11. Profit appropriations	-	-	-	-	-	-
12. Appropriation to social fund	-	-	-	-	-	-
13. Change over the accounting period	-	-	-	4,403	(36,976)	(32,573)
14. Balance as at 31 December 2008	483	43	10,269	25,186	(178,805)	(142,824)

Translation of the financial statements originally issued in the Slovak language.

5



NÁRODNÁ BANKA SLOVENSKA
Financial statements as at 31 December 2008 – Statement of changes in equity
(in millions of SKK)

STATEMENT OF CHANGES IN EQUITY
of Národná banka Slovenska
in millions of SKK

	Statutory fund	Capital fund	Reserve fund	Revaluation funds	Accumulated deficit	Equity
1. Balance as at 31 December 2006	483	43	10,269	16,931	(122,365)	(94,639)
Settlement of loss accounting periods						
2. from previous	-	-	-	-	-	-
3. Appropriation to statutory fund	-	-	-	-	-	-
4. Appropriation to accumulated deficit	-	-	-	-	-	-
5. Appropriation to reserve funds	-	-	-	-	-	-
6. Revaluation of securities	-	-	-	1,328	-	1,328
7. Revaluation of derivatives	-	-	-	(227)	-	(227)
8. Change in gold revaluation fund	-	-	-	2,751	-	2,751
9. Revaluation of foreign currencies (Loss) / profit for the current	-	-	-	-	-	-
10. accounting period	-	-	-	-	(19,464)	(19,464)
11. Profit appropriations	-	-	-	-	-	-
12. Appropriation to social fund	-	-	-	-	-	-
13. Change over the accounting period	-	-	-	3,852	(19,464)	(15,612)
14. Balance as at 31 December 2007	483	43	10,269	20,783	(141,829)	(110,251)



NÁRODNÁ BANKA SLOVENSKA
The notes to the financial statements at 31 December 2008
(in SKK millions)

NOTES
to the financial statements for the year ended 31 December 2008

Bratislava, 17 March 2009

These Notes are an integral part of the financial statements of Národná banka Slovenska.
Translation of the financial statements originally issued in the Slovak language.

7



A. GENERAL INFORMATION ON NÁRODNÁ BANKA SLOVENSKA

Národná banka Slovenska (The National Bank of Slovakia – ‘the NBS’ or ‘the Bank’) is the independent central bank of the Slovak Republic. The NBS was established in accordance with Act N° 566/1992 Coll. on the National Bank of Slovakia as amended (‘the NBS Act’). It commenced its activities on 1 January 1993 as the bank issuing the currency of the Slovak Republic. The NBS is a legal entity (Corporate ID: 30 844 789) seated at Imricha Karvaša 1, Bratislava. In respect of its own assets, the NBS acts as a business entity. The NBS has its head office in Bratislava, nine branches in the Slovak Republic and special-purpose organizational units.

The Bank’s primary objective is to maintain price stability. Therefore, the NBS:

- determines the monetary policy;
- issues banknotes and coins;
- manages, co-ordinates and ensures money circulation, payment transactions, the clearing of payment transaction data and ensures their smooth clearance and efficiency;
- effects the activities, tasks, rights and obligations resulting from the participation of Národná banka Slovenska in the European System of Central Banks;
- contributes to the stability of the financial system as a whole and to the safe and sound functioning of the financial market in the interest of maintaining credibility of the financial market, protection of clients and respecting of the rules of economic competition; the Bank also supervises the financial market and other financial market activities;
- represents the Slovak Republic in international financial institutions and ensures the fulfillment of tasks resulting from such representations; and
- represents the Slovak Republic in international financial market operations related to the implementation of the monetary policy.

The NBS’s highest executive body is the NBS Bank Board (‘the Bank Board’). The Bank Board has eleven members: the Governor, two Deputy Governors, and eight other members, three of whom may be persons not employed by the NBS. Membership in the Bank Board is limited to a maximum of two consecutive terms of office. The NBS is represented by the Governor.

At 31 December 2008, the Bank Board consisted of the following members:

Name	Term of office in the Bank Board		Current position	Date of appointment
	from	to		
Ing. Ivan Šramko	11 Jan. 2002	1 Jan. 2010	Governor	1 Jan. 2005
Ing. Martin Barto, CSc.	1 Dec. 2004	31 Jan. 2010	Deputy Governor	31 Jan. 2005
Ing. Viliam Ostrožlík, MBA	1 Mar. 2007	11 July 2012	Deputy Governor	11 July 2007
Ing. Peter Ševčovic	1 Oct. 2004	1 Oct. 2009	Member	1 Oct. 2004
Ing. Milena Koreňová	1 Jan. 2005	1 Jan. 2010	Member	1 Jan. 2005
Doc. Ing. Jozef Makúch, PhD.	1 Jan. 2006	1 Jan. 2011	Member	1 Jan. 2006
Mgr. Ľudovít Ódor	1 Jan. 2006	1 Jan. 2011	Member	1 Jan. 2006
Ing. Slavomír Šťastný, PhD., MBA	1 Jan. 2006	1 Jan. 2011	Member	1 Jan. 2006
RNDr. Karol Mrva	10 Jan. 2007	10 Jan. 2012	Member	10 Jan. 2007
Ing. Gabriela Sedláková	1 June 2007	1 June 2012	Member	1 June 2007



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

In accordance with the NBS Act, the Bank Board determines the monetary policy, the instruments for its implementation and decides on NBS's monetary transactions. The Bank ensures the implementation of the monetary policy mainly by using the following tools – base interest rate, open market operations (repo tenders, issues of treasury bills, direct purchase or direct sale of state securities and NBS treasury bills, foreign exchange operations), overnight refinancing and overnight money withdrawing operations, minimum reserves requirements, exchange rate regime after the entry of the Slovak Republic into the Exchange Rate Mechanism ERM II from 28 November 2005.

The Bank ensures the administration of foreign exchange reserves primarily by means of financial operations related to securities denominated in foreign currencies, acceptance of loans from foreign entities, purchase of foreign currency from banks and branches of foreign banks, and financial transactions with foreign currencies and gold with the purpose of holding them for the purpose their appreciation.

Main objectives of NBS and functions of Bank Board are changing by accession to the Eurosystem (see Note. H).

All the costs necessary for the Bank's activities are covered from its revenues. According to Article 39 paragraph 4 of the NBS Act, the Bank generates either a profit or a loss over the accounting period. Profit generated by the Bank is allocated to the reserve fund and to other profit reserves, or used to cover losses from previous years. The remaining profit is transferred to the State budget or, based on the Slovak Government's decision, to state financial assets under a separate regulation. The NBS may settle the loss for the current period from the reserve fund or from other reserves; alternatively, the Bank Board may decide to transfer the loss to the next accounting period as accumulated deficit (refer to Note 16).

The Bank submits an annual report on its financial results to the National Council of the Slovak Republic, within three months of the end of the calendar year; in addition to the NBS financial statements data and the auditor's opinion on these financial statements, the report specifically states information about the NBS operating costs. Should the National Council of the Slovak Republic request so, the NBS is obliged to amend the report within six weeks to bring it into compliance with the request or, as appropriate, provide explanations to the data stated in the report.

B. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS APPLIED

(a) Basic principles of preparation of the financial statements

The NBS financial statements have been prepared in accordance with Act N^o 431/2002 Coll. on Accounting as amended ('Accounting Act'). Pursuant to Section 17b of the above Act, the NBS maintains its accounting records in accordance with the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks N^o ECB/2006/16 ('ECB Guideline').

When accounting for transactions is not regulated by the ECB Guideline, the Bank proceeds in line with the International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and in line with the interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Commission pursuant to the Directive of the European Parliament and the Council of the European Union. Other cases are subject to the Accounting Act.

When disclosing items of its financial statements, the Bank proceeds in line with the Decree of the Ministry of Finance of the Slovak Republic N^o MF/8338/2005-74 of 14 December 2005 setting out details on the arrangement, description of items in separate financial statements, contents of these items, and the extent of data from financial statements designated for publishing for the National Bank of Slovakia ('Decree of MF SR').



(b) Transaction day

The Bank records an accounting entry on the day when the respective accounting event occurred, i.e. on the day when cash was paid or received; in the case of a direct debit, on the payment day; in the case of securities and gold, on the settlement date; in the case of derivatives and spot transactions, on the trade date; in the case of cash in foreign currency, on the day it was credited according to the deal message received; in the case of property relations, on the day when the property title was acquired or terminated; and in the case of a shortage, deficit or surplus, on the day the difference was identified.

(c) Methods of foreign currency valuation and settlement of valuation differences

During the year, assets (including gold and derivatives) and liabilities denominated in foreign currencies are stated using the average currency exchange rate. Differences between the exchange rate announced by the NBS and the average currency exchange rate represent unrealized foreign exchange gains or losses. At the balance sheet date, unrealized foreign exchange gains exceeding unrealized foreign exchange losses are recognized in the Bank's equity on revaluation accounts. Unrealized foreign exchange losses are recognized in the income statement. Foreign exchange losses of one currency cannot be offset against foreign exchange gains of other currencies or gold.

Realized foreign exchange gains and losses from the sale of assets and settlement of liabilities are recognized in the income statement.

The exchange rates of principal foreign currencies used for the valuation of assets and liabilities as at 31 December 2008 were as follows:

Currency	Amount	31 December 2008	31 December 2007
EUR	1	30.126	33.603
USD	1	21.385	22.870
JPY	100	23.652	20.218
XDR	1	33.014	36.068

(d) Gold

Gold is stated at the market price of London's commodity market morning fixing of gold in USD/oz. (troy ounce) at the balance sheet date. Gains from gold revaluation to fair value are included in equity, while losses from gold revaluation to fair value have impact on the Bank's financial results. The sale of gold is recorded in the income statement in the amount of difference between the agreed selling price and the gold's book value. At the same time the aliquot part of the valuation differences from revaluation of gold related to the sold gold is posted in the income statement.

Swap transactions with gold are recorded as repurchase transactions with gold, i.e. gold used in these transactions as collateral is part of the balance sheet amount under the caption 'Gold'.

(e) Debt securities

Debt securities are initially recognized at acquisition cost. As of the day after the purchase up to and including the security's sale or maturity date the Bank amortizes the premium or the discount on a daily basis (the difference between the security's acquisition cost and nominal value). The amortization of the premium/discount is recognized under interest and similar income in the income statement.

In the financial statements, the Bank recognizes debt securities at fair value. The difference between the security's fair value and the average acquisition cost adjusted for the amortized discount or premium



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

represents a valuation difference. Valuation differences constituting gains are recognized in the Bank's equity. Valuation differences constituting losses are included in the Bank's income statement.

The fair value of debt securities, for which there is an active market and whose market value can be reliably measured, is determined on the basis of the market value on such a market. If the market value is not available, fair value is determined as the sum of future cash flows discounted using market interest rates of the relevant currency, maturity and the risk rating of the security's issuer.

Upon the sale of a security, the difference between the average acquisition cost adjusted for the amortized discount or premium and the sales price represents a realized gain or loss that has an effect on the Bank's income statement.

(f) Derivatives

The derivatives include options, interest rate futures and currency swaps.

At the trade date, interest rate futures, options and currency swaps are recorded off-balance sheet in the amount of the underlying instrument. During the year, they are measured individually at fair value on the balance sheet. The positive fair value of options is recognized as an asset and the negative value is recognized as a liability.

During the year, losses and gains from options valuation are recognized in the revaluation accounts in equity and do not affect the profit and loss. At the end of the year, the valuation losses are recognized in the income statement and the valuation gains remain in equity, on revaluation accounts. Options are recognized at fair value that is based on the market value, using the discounted cash flow method and Merton Model.

Options entered into with respect to swap transactions with gold are recorded as derivatives embedded to other financial instruments. Embedded derivatives are treated as separate derivatives and recorded separately from the host financial instrument provided that they are not closely related to the economic characteristics and risks of the host financial instrument.

Changes in fair values of interest rate futures are based on closing prices of the contracts in the relevant markets and are recognized on a daily basis as a realized gain or loss in the income statement.

Currency swap is a combination of a spot and forward transaction. It represents a contract, which is part of the spot buying and selling (the spot portion of trade) and a forward sales and purchases (forward part of transaction) of one currency for another. The difference between the spot and forward value of the transaction is considered as interest expense/ income which is accrued on a daily basis.

Major risks influencing derivatives include the price volatility of gold and changes in interest rates and foreign currency rates.

(g) Receivables

Receivables are recognized on the balance sheet at their nominal value increased by accumulated interest ("amortized cost"). Receivables are decreased by impairment losses. Creation and release of impairment loss provisions has an impact on the income statement.

Following the prudence principle, the Bank evaluates the risk of receivables, categorizes them and creates impairment loss provisions for them.

Bad debts are written off to expenses based on a court decision, on their irrecoverability and based upon the Bank Board's decision and the release of the related impairment loss provision is credited to expenses.



(h) Repurchase and reverse repurchase transactions

Transactions, in which the Bank accepted securities in exchange for cash, along with the commitment to return these securities at a certain date in exchange for the transferred cash amount plus interest (reverse repurchase transaction), are recorded as loans provided. The collateral accepted in a reverse repurchase transaction is recorded at market value on off-balance sheet accounts.

Transactions in which the Bank provided securities or gold in exchange for cash, along with the commitment to accept back these securities or gold at a certain date in exchange for the original cash amount plus interest (repurchase transaction), are recorded as received loans with a transfer of collateral. The collateral provided in a repurchase transaction remains in the balance sheet and in the financial statements it is valued at fair value.

Tri-Party reverse repurchase transactions are transactions with a third party entering the relationship between the NBS and a partner bank. The partner bank is an entity with whom the NBS performs financial transactions relating to the administration of foreign exchange assets.

In addition to repurchase and reverse repurchase transactions performed directly by the Bank, the Bank issued a mandate to perform transactions with securities held by the NBS to selected banks based on contracts for provision of services, the so-called 'Securities Lending'. Reverse repurchase transactions including lending of securities carried out under the program of lending and receiving of securities, are recorded on off-balance sheet accounts. For these transactions, the NBS receives a portion of the income, which is recognized in the income statement.

The Bank's market and credit risks in these transactions are minimized through the specification of products in which the cash received can be invested, as well as the counterparties with whom deals may be performed.

(i) Receivables from and liabilities to the International Monetary Fund

Receivables from and liabilities to the International Monetary Fund ('IMF') at 31 December 2008 are stated using the gross method, i.e. receivables and liabilities are not offset.

(j) Equity shares in subsidiaries and affiliates and other shares and participating interests

The Bank has a majority ownership interest with a control over RVS, a.s. Bratislava. The equity shares of RVS, a.s. Bratislava are stated at cost.

The Bank has an equity stake in the Bank for International Settlements, Basel, Switzerland ('BIS'). Shares in BIS are stated at cost. The equity interest in BIS is disclosed in the amount of the paid-up share (25%). The unpaid part (75%) is due upon request. Dividends are paid out in EUR from the NBS total share in BIS maintained in XDR.

As part of other participating interests, the Bank accounts for a participation in the European Central Bank ('ECB'). On 1 May 2004, the NBS became a member of the European System of Central Banks ('ESCB'). In accordance with the Statute of the ESCB and ECB, the NBS has paid the initial minimum contribution to the ECB's capital. The amount of the total capital share of individual national central banks depends on the capital key determined on the basis of the following statistical categories: GDP and population. In accordance with the Protocol on the Statute of the ESCB and the ECB, the capital key is adjusted every five years or when new members enter the ESCB. Last time, the capital key was adjusted at 1 January 2007 (see Note 7) and it will be updated at 1 January 2009 (see Note H).



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

(k) Non-current assets

Non-current assets include tangible assets, the acquisition cost of which is higher than SKK 30,000 and whose term of operational and technical capabilities exceeds one year, and intangible assets, the acquisition cost of which is higher than SKK 50,000 and whose term of operational and technical capabilities exceeds one year. On the balance sheet, they are stated at acquisition cost, including the costs related to their acquisition. The carrying value of depreciated non-current assets is shown net of accumulated depreciation. For depreciation purpose, the Bank uses a depreciation plan that specifies depreciation periods for individual types of assets. The depreciation period is based on the determined period of use that takes into account factor such as expected use, physical wear and tear and technical obsolescence. Land, works of art, collections and tangible and intangible fixed assets under construction are not subject to depreciation.

The NBS's tangible and intangible fixed assets were classified into individual depreciation groups as follows:

Depreciation group	Depreciation period in years
1. Buildings and halls	30
2. Engineering structures	4 - 12 ¹⁾
3. Machines and equipment	20
4. Transportation means	4 - 12
5. Inventory	4 - 6
6. Software	4 - 12
7. Other non-current intangible assets	2 - 4
	2 - 4
	by contract
8. Non current investment property	30
9. Technical improvement of intangible cultural landmarks	30

¹⁾ components of assets

(l) Non-current assets held for sale

Non-current assets held for sale comprise buildings and land, which are classified for sale in their present condition and their sale is considered to be highly probable.

Assets classified as non-current assets held for sale are included in 'Other assets' at the lower of acquisition cost less accumulated depreciation and impairment losses and fair value less costs to sell.

(m) Currency in circulation

NBS administers the issue of banknotes and coins and their withdrawal from circulation. Currency in circulation represents the Bank's liability arising from issued banknotes and coins. The liability is decreased by the banknotes and coins in the NBS's cash desk. The liability due to currency in circulation is stated at the nominal value.

(n) Liabilities arising from debt securities

The Bank issues short-term securities falling due within one year (NBS bills). The issues are made for the purpose of sale to commercial banks in primary markets and to create a sufficient stock of securities for the performance of money withdrawing repurchase transactions. Money withdrawing repurchase transactions relate to the implementation of monetary policy in open market operations.

These Notes are an integral part of the financial statements of Národná banka Slovenska.
Translation of the financial statements originally issued in the Slovak language.

13



From the settlement date of the issue to the due date, the value of issued and sold NBS bills is gradually increased by the accrued interest (the so-called amortized cost). On the balance sheet, issued NBS bills are shown netted off by any bills repurchased to the NBS portfolio, including the accrued interest.

(o) Provisions

The Bank recognizes provisions if it has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(p) Interest income and interest expense

Interest income and interest expense are recognized in the income statement based on the accrued amount using the straight-line method. The effective interest method ('IRR') is applied to interest income which is accrued from discounted securities with the residual maturity exceeding 1 year at the time of their acquisition.

The interest includes amortized discounts or premiums from purchased and issued securities.

(q) Cost of employee benefits

The NBS pays regular contributions on behalf of its employees to health insurance agencies for health insurance and to the Social Insurance Agency for sickness, retirement, accident, guarantee, and unemployment insurance, and a contribution to the Guarantee Fund. Contributions are paid in the amounts required by law in the respective year. The Bank also pays a contribution for not employing the obligatory percentage of persons with disability, as set out in the Employment Act.

In co-operation with agencies offering supplementary retirement insurance, the NBS has created an additional pension scheme for its employees.

(r) Taxation

The NBS is liable to corporate income tax. In accordance with Article 12 of Act N^o 595/2003 Coll. on Income Taxes as amended ('Income Taxes Act') only those revenues are taxed which are subject to the withholding tax.

The NBS is registered as a VAT payer.

C. RELATED PARTY TRANSACTIONS

According to the Decree of MF SR, parties related to Národná banka Slovenska are mainly the members of the Bank Board. In 2008, their remuneration and other employee benefits amounted to SKK 38 million (SKK 36 million for 2007).

The Bank recognizes receivables from the Bank Board members for loans provided in the total amount of SKK 10 million at 31 December 2008 (SKK 11 million at 31 December 2007).



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

D. NOTES TO BALANCE SHEET ITEMS AND INCOME STATEMENT

1. Gold

The gold consists of the following items:

	2008	2007
Bullion in standard form	20,799	21,510
Gold in other form	27	28
	<u>20,826</u>	<u>21,538</u>

At 31 December 2008, 'Gold' comprised a total of 1,126 thousand ounces of gold (1,126 thousand ounces of gold at 31 December 2007), of which 372 thousand ounces were deposited in correspondent banks, 752 thousand ounces were used in repurchase transactions, and 2 thousand ounces were held by the Bank.

The market value of gold at 31 December 2008 was USD 865.00 /oz. (USD 836.50 /oz. at 31 December 2007). Despite the growth in the market price of gold, the strengthening of the SKK/USD exchange rate (see Note E) had a negative effect on the amount reported under 'Gold' at fair value and under 'Valuation differences from revaluation of gold'. At 31 December 2008, the balance on Gold revaluation funds was SKK 18,488 million (SKK 19,208 million at 31 December 2007).

The value of gold provided as collateral in gold repurchase transactions at 31 December 2008 (see Note 11) amounted to SKK 13,905 million (SKK 7,656 million at 31 December 2007).

From the beginning of the year through to 31 December 2008, the Bank sold 1 ounce of gold in the form of gold coins (251 ounces of gold in 2007).

2. Debt securities

As at 31 December 2008, the Bank's portfolio of securities comprised the following items (at fair value):

	2008	2007
State zero-coupon bonds	7,492	123,098
State coupon bonds	179,054	76,689
Coupons	3,468	1,650
Securities of state bodies - total	<u>190,014</u>	<u>201,437</u>
Other zero-coupon bonds	5,363	20,074
Other coupon bonds	188,756	162,822
Coupons	3,682	2,956
Securities of other entities - total	<u>197,801</u>	<u>185,852</u>
Total securities	<u>387,815</u>	<u>387,289</u>

These Notes are an integral part of the financial statements of Národná banka Slovenska.
Translation of the financial statements originally issued in the Slovak language.

15



FINANCIAL STATEMENTS OF NBS FOR THE YEAR

NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

According to the issuer of securities the sector breakdown of the Bank's portfolio of securities is as follows:

	2008	2007
Public sector	190,014	201,437
Financial institutions	190,022	159,905
Financial services organizations	6,384	23,775
Non-financial institutions	1,395	2,172
Total securities	387,815	387,289

According to the issuer of securities, at 31 December 2008 the Bank registered securities from EMU countries in the amount of SKK 340,670 million (SKK 300,473 million at 31 December 2007) and securities from other countries, including international institutions, in the amount of SKK 47,145 million (SKK 86,816 million at 31 December 2007). The Bank trades with securities on foreign financial markets, mainly in New York, London, Basel, and in the euro area countries. These trades mostly involve transactions outside the stock exchanges.

3. Derivatives

The fair value of derivatives is as follows:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Put options purchased	1,008	-	271	-
Call options sold	-	3,049	-	2,442
Interest rate futures	482	-	47	-
Currency swaps	-	1	-	-
	1,490	3,050	318	2,442

The Bank concluded four long-term repurchase transactions in gold ('gold repos') in 2005 and 2006. To eliminate the risk of a decrease in the market value of gold, the Bank purchased four European put options and sold four European call options for the same amount of gold. Option premiums for the purchased and sold options were not paid, but were incorporated in the rate of interest (lower than the market rate) for the long-term loan accepted by the Bank. The options are embedded derivatives which meet the criteria of separating the derivative from the host financial instrument. Therefore, the options were separated from the accepted loan and are recorded separately.

The difference between the market value of purchased put options and sold call options in closing the transaction had an effect on the amount of the accepted loan. Using the IRR method, it is accrued into expenses on a daily basis.

Since 2006, within the management of foreign currency assets, the Bank performs transactions with foreign currency interest rate futures. At 31 December 2008, the Bank recorded futures contracts entered into with respect to debt securities. Initial margins are provided in the form of cash. All contracts are measured at fair value on a daily basis and changes in the fair value are recognized in the income statement.

At 31 December 2008 the Bank recorded currency swaps in foreign currency. The difference between spot and forward value of the transaction is considered as interest expense or income. Foreign currency position on currency swaps is affected by amounts of currency recognized for accruals of interest expense and interest income in foreign currency.



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

4. Receivables from banks and central banks

Current accounts, deposits and loans in foreign currency

	2008	2007
Receivables from banks in the European System of Central Banks	21	387
Receivables from banks abroad in foreign currency	2,992	730
Deposits	2,756	4,326
Loans granted to commercial banks for the support of business in foreign currency	-	13
Loans granted through repurchase transactions in foreign currency	-	25,646
	<u>5,769</u>	<u>31,102</u>

Receivables in SKK related to monetary policy operations

Loans related to the execution of monetary policy include receivables from loans from repurchase transactions with domestic banks.

Receivables in SKK not related to monetary policy operations

	2008	2007
Loans granted to domestic banks for the support of business activities by JBIC (Japan Bank for International Cooperation) and EIB in SKK	84	230
Redistribution loans	2,006	2,491
Other	31	21
	<u>2,121</u>	<u>2,742</u>

The aim of loans accepted from foreign banks (JBIC and EIB) is to support small and medium-sized enterprises and specific industries of the Slovak economy.

A preferential redistribution loan was provided for a complex construction of apartment buildings. The redistribution loan interest rate was 1.00% at 31 December 2008 to (2.75% at 31 December 2007).

At 31 December 2008, the NBS recorded a state guarantee accepted for the redistribution loan provided in the amount of SKK 2,206 million (SKK 3,193 million at 31 December 2007). The state guarantee is provided for the amount of principal, plus interest to maturity of the loan.



5. Receivables from and liabilities to the International Monetary Fund

	2008		2007	
	XDR equivalent	SKK	XDR equivalent	SKK
Membership quota in the IMF	357	12,568	357	13,419
XDR holdings	1	34	1	35
Investments and receivables in foreign currency	358	12,602	358	13,454
Account No. 1, 2	2	53	15	555
Securities	325	11,492	340	12,756
Liabilities to non-residents in domestic currency	327	11,545	355	13,311

The membership quota of the Slovak Republic in the IMF is allocated in special drawing rights (XDR) and is expressed in Slovak crowns using the exchange rate set by the IMF. The Bank thus records a receivable of XDR 358 million which is SKK 12,602 million (SKK 13,454 million at 31 December 2007). Part of the membership quota is a receivable from the loans granted within the Financial Transactions Plan which based on the IMF call was provided by the Slovak Republic in the amount of XDR 31 million, i.e. SKK 1,023 million at 31 December 2008 (XDR 3 million, SKK 114 million as at 31 December 2007).

The Bank records a liability of the Government of the Slovak Republic to the IMF of SKK 11,545 million (SKK 13,311 million as at 31 December 2007), representing mainly a non-transferable and non-interest-bearing promissory note payable on demand in the amount of SKK 11,492 million (12,756 million at 31 December 2007).

6. Receivables from clients

At 31 December 2008, the NBS recorded receivables from clients of SKK 307 million (SKK 316 million as at 31 December 2007). The major part of the receivables from clients consists of consumer and investment loans provided to employees totaling SKK 302 million (SKK 302 million at 31 December 2007) and debit balances on current accounts of employees totaling SKK 4 million (SKK 9 million at 31 December 2007).

7. Equity shares in subsidiaries and affiliates and other shares and participating interests

Equity shares in subsidiaries

The Bank holds shares in RVS, a.s. Bratislava, a company involved in relaxation and educational activities. At 31 December 2008, similarly to 31 December 2007, the Bank held 1,080 certified shares in the amount of SKK 108 million. This volume represented a 52.33% share in the company's share capital, which is by 0.75% more than it was at 31 December 2007. This increase resulted from reduction of the share capital by 30 pieces of own shares based on the approved resolution of the 18th extraordinary General Meeting of RVS in December 2007.

Even though the Bank is the majority shareholder in RVS, a.s. Bratislava, it does not prepare consolidated financial statements according to Section 22 of the Accounting Act.



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

Other participating interests

The Bank holds ownership interests in BIS. At 31 December 2008, the Bank held 2,858 shares of BIS valued at SKK 549 million (SKK 599 million At 31 December 2007), which represented a 0.52% share in the BIS share capital. The share in BIS is disclosed on the balance sheet in the amount of the 25% paid-up share, i.e. at SKK 195 million (SKK 213 million at 31 December 2007). The liability from the unpaid share at 75% of the nominal value of each share amounts to SKK 354 million (SKK 386 million at 31 December 2007). The unpaid part of the share is due upon request. In July 2008, the NBS received dividends from BIS shares in the amount of SKK 24 million (SKK 28 million in 2007).

At 31 December 2008, the amount of paid-up initial contribution of the Bank to ECB's subscribed capital was SKK 82 million (SKK 92 million at 31 December 2007), which represents 7% of the NBS total share in the ECB's subscribed capital. From 1 January 2007 the Bank's share in ECB's capital is determined at 0.6765%, which is EUR 39 million (see Note H)

At 31 December 2008 the Bank recorded a base capital contribution in of SKK 1 million in Inštitút bankového vzdelávania NBS, n.o. (Institute of Banking Education of NBS, n. o. Bratislava). The company was established by NBS in October 2008.

8. Non-current assets

For the year ended as at 31 December 2008 movements in non-current tangible and intangible assets were as follows:

	Land	Other non-depreciable tangible assets	Buildings and constructions	Technological equipment and machines	Other depreciable tangible assets	Software and other intangible assets	Advances on tangible and intangible assets	Total
Acquisition cost as at 31 December 2007	232	56	6,457	1,374	249	569	144	9,081
Additions			35	76	-	30	142	283
Disposals	2	-	10	77	14	8	142	253
Acquisition cost as at 31 December 2008	230	56	6,482	1,373	235	591	144	9,111
Acc. depreciation as at 31 December 2007			1,614	1,216	222	279	38	3,369
Additions			220	91	20	100	-	431
Disposals			4	78	14	7	-	103
Acc. depreciation and provisions as at 31 December 2008			1,830	1,229	228	372	38	3,697
Net Book value of tangible and intangible assets as at 31 December 2007	232	56	4,843	158	27	290	106	5,712
Net Book value of tangible and intangible assets as at 31 December 2008	230	56	4,652	144	7	219	106	5,414

At 31 December 2008, the Bank recognized a valuation allowance for advances paid in the amount of SKK 38 million (SKK 38 million at 31 December 2007).



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

9. Other assets

	2008	2007
Trade receivables	338	46
Cash in foreign currency	14	15
Assets held for sale	7	156
Other	25	25
	<u>384</u>	<u>242</u>

Substantial part of Trade receivables includes the start-up euro coin packets sold to Slovenská pošta, a.s. in accordance with a SKK 200 million contract and an advance payment for the purchase of material, paid to Mincovňa Kremnica in accordance with a Contract on minting and supply of euro coins made of ordinary metal at SKK 98 million.

At 31 December 2008, the Bank recognized valuation allowances for receivables from fines due from financial market entities in the amount of SKK 20 million (SKK 20 million at 31 December 2007), valuation allowances for receivables from contributions of financial market entities in the amount of SKK 1 million (SKK 2 million at 31 December 2007) and valuation allowances for operating receivables of SKK 16 million (SKK 15 million at 31 December 2007).

At 31 December 2007, the Bank recorded inventories of SKK 7 million (SKK 7 million at 31 December 2007). Inventories are stated at cost, i.e. inclusive of costs related to their acquisition.

10. Currency in circulation

The issue of banknotes and coins represents the valid national banknotes and coins in circulation:

	2008	2007
Issued coins	2,243	2,500
Issued bank notes	75,471	152,654
	<u>77,714</u>	<u>155,154</u>

At 31 December 2008 NBS supplied Euro notes amounting to SKK 28,647 million and Euro coins amounting to SKK 2,950 million to commercial banks. Inventories of Euro notes amount to SKK 184,673 million and Euro coins amount to SKK 1,330 million. Collaterals received from banks for the supply are recognized off balance sheet at SKK 35,318 million.

11. Liabilities to banks and central banks

Current accounts in SKK

	2008	2007
Current accounts of banks for transfers and replenishments	14,064	2,521
LORO accounts of central banks	5	15
	<u>14,069</u>	<u>2,536</u>



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

At 31 December 2008, the NBS had liabilities to banks and central banks in SKK worth SKK 14,069 million (SKK 2,536 million at 31 December 2007), a major portion of which consisted of current accounts of banks used for transfers and replenishments.

Overnight deposits, deposits and loans in SKK and minimum reserves

	2008	2007
Loans received in repurchase transactions in SKK	278,437	260,834
Minimum reserves in the NBS	57,643	17,826
Overnight deposits from banks	93,839	45,034
Interbank settlement in SKK	199	1,896
Deposits from banks – supply of Euro	136	-
	<u>430,254</u>	<u>325,590</u>

At 31 December 2008, the Bank recognized liabilities from repurchase transactions totaling to SKK 278,437 million (at 31 December 2007: SKK 260,834 million) relating to money withdrawing repurchase transactions in the Slovak interbank market.

Current accounts, deposits and loans in foreign currency

	Loan maturity in year	FC code	2008 FC	SKK	2007 FC	SKK
Deposits from banks	2009	EUR	1	15	-	-
Gold repo	2009	USD	276	5,892	-	-
Gold repo	2015	USD	82	1,747	81	1,861
Gold repo	2016	USD	112	2,386	110	2,530
AGL II	2009	EUR	-	2	1	30
			<u>x</u>	<u>10,042</u>	<u>x</u>	<u>4,421</u>

In December 2008, the Bank concluded six new gold repurchase transactions due in the first half of 2009. At 31 December 2008, the Bank recognized liabilities from gold repurchase transactions in the amount of SKK 10,025 million (SKK 4,391 million at 31 December 2007).

12. Liabilities from debt securities

At 31 December 2008, the NBS issued bills of SKK 530,178 million (SKK 1,067,712 million at 31 December 2007) and repurchased bills in the amount of SKK 500,000 million (SKK 1,000,000 million at 31 December 2007).

At 31 December 2008, NBS bills of SKK 308,994 million were used for money withdrawing operations (SKK 329,893 million at 31 December 2007), of which SKK 278,816 million (SKK 262,181 million at 31 December 2007) were in the form of money withdrawing repurchase transactions and SKK 30,178 million (SKK 67,712 million at 31 December 2007) remained in the portfolios of domestic banks.



FINANCIAL STATEMENTS OF NBS FOR THE YEAR

NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

13. Liabilities to other international financial institutions

	2008	2007
Current accounts - Euro Account European Commission	348	169
Loro accounts - World Bank, Bank for International Settlements	499	602
Deposits - PHARE	1	1
	<u>848</u>	<u>772</u>

At 31 December 2008, the NBS recorded liabilities to other international financial institutions in the amount of SKK 848 million (SKK 772 million at 31 December 2007).

14. Liabilities to clients

	2008	2007
Term deposits of employees	840	650
Current accounts of employees	325	289
Current accounts of financial service organizations	16	28
Term deposits of financial service organizations	17	48
Accounts of government	11	147
Other	678	1
	<u>1,887</u>	<u>1,163</u>

'Other' mainly includes sold starter euro packets in the amount SKK 660 million.

15. Provisions and other liabilities

	2008	2007
Provisions	272	125
Liabilities to suppliers	30	61
Other	49	90
	<u>351</u>	<u>276</u>

As at 31 December 2008, the Bank recorded provisions for liabilities to employees of SKK 104 million (SKK 95 million at 31 December 2007), provisions for uninvoiced supplies, lawsuits, audit of the financial statements and the annual report, of SKK 168 million (SKK 30 million at 31 December 2007).

'Other' includes received advances, settlement of taxes and other liabilities.

16. Equity

As at 31 December 2008, the NBS recorded a loss of SKK 36,976 million (SKK 19,464 million at 31 December 2007) and a negative equity of SKK 142,824 million (SKK 110,251 million at 31 December 2007). Funds generated from changes in valuation differences of securities, derivatives, gold and foreign currency represented SKK 25,186 million (SKK 20,783 million at 31 December 2007).



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

The Bank Board decided that the losses of the NBS would be covered from the Bank's future profits and own resources.

Valuation differences

	2008	2007
Revaluation of gold	18,488	19,208
Revaluation of derivatives	940	190
Revaluation of securities	5,737	1,385
Revaluation of foreign currency	21	-
	<u>25,186</u>	<u>20,783</u>

17. Net interest income/expense

	2008	2007
Interest received on loans related to monetary policy operations, in SKK	4	24
Interest received on receivables not related to monetary policy operations, in SKK	65	92
Interest received on receivables and securities in foreign currency	<u>15,803</u>	<u>16,827</u>
Interest and similar income	15,872	16,943
Interest paid on liabilities related to monetary policy operations and securities, in SKK	(16,006)	(15,585)
Interest paid on liabilities not related to monetary policy operations, in SKK	(72)	(65)
Interest paid on liabilities and securities in foreign currency	<u>(138)</u>	<u>(297)</u>
Interest and similar expense	(16,216)	(15,947)
Net interest income/expense	<u>(344)</u>	<u>996</u>

18. Net profit from fees and commissions

At 31 December 2008, fee income from transactions concluded based on contracts for provision of services in the area of securities, the so-called 'Securities Lending', amounted to SKK 276 million (SKK 174 million at 31 December 2007).

	2008	2007
Revenues from fees and commissions	334	237
Costs of fees and commissions	<u>(23)</u>	<u>(16)</u>
Net income from fees and commissions	<u>311</u>	<u>221</u>



19. Net gains/losses from operations in, and derivatives involving, securities denominated in foreign currency

	2008	2007
Gains from debt securities	4,341	228
Losses from debt securities and revaluations	(1,709)	(524)
Net gains/losses from operations in, and derivatives involving, securities denominated in foreign currency	2,632	(296)

20. Net loss from operations in, and derivatives involving, foreign exchange and gold

	2008	2007
Gains from derivatives	1,732	384
Losses from derivatives	(2,837)	(1,382)
Net exchange loss	(35,127)	(17,531)
Net loss from operations in, and derivatives involving, FX and gold	(36,232)	(18,529)

Strengthening of the Slovak crown against EUR and USD had major impact on the net foreign exchange loss.

21. Other operating expenses

	2008	2007
Salaries and bonuses	(608)	(566)
Social costs	(195)	(174)
Other personnel costs	(91)	(127)
Staff expenses	(894)	(867)
Depreciation of tangible and intangible assets	(431)	(481)
Other operating costs	(812)	(537)
Other operating expenses	(2,137)	(1,885)

At 31 December 2008, the average number of staff employed was 1,078 (1,081 at 31 December 2007), of which 109 were managers (107 at 31 December 2007). At 31 December 2008, the average number of staff in banking supervision over the capital market, insurance market, pension savings, banks and securities brokers was 173 (177 at 31 December 2007), of which 20 were managers (20 at 31 December 2007).

For the year ended as at 31 December 2008, costs of audit of the financial statements amounted to SKK 4 million (SKK 2 million for the year ended as at 31 December 2007).



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

E. Currency structure of assets and liabilities

	Line No.	SKK	Foreign currencies converted to SKK - total	of which EUR	USD	Other	Not defined
1. Gold		-	20,826	-	20,826	-	-
Debt securities denominated							
2. in foreign currency		-	387,815	368,415	19,400	-	-
3. Derivatives		-	1,490	418	1,072	-	-
Receivables from banks and central banks		2,121	5,769	82	5,645	42	-
4. Receivables from the International Monetary Fund		11,545	1,057	-	-	1,057	-
5. Receivables from clients		307	-	-	-	-	-
Equity shares in subsidiaries and affiliates and other shares and participating							
7. interests		109	277	82	-	195	-
8. Non-current assets		-	-	-	-	-	5,414
9. Other assets		366	18	7	4	7	-
Assets	1	14,448	417,252	369,004	46,947	1,301	5,414
1. Currency in circulation		77,714	-	-	-	-	-
Liabilities to banks and central banks		444,323	10,042	17	10,025	-	-
Liabilities from debt securities		30,178	-	-	-	-	-
4. Derivatives		-	3,050	-	3,050	-	-
Liabilities to the International Monetary Fund		11,545	-	-	-	-	-
5. Liabilities to other international financial institutions		500	348	348	-	-	-
7. Liabilities to clients		1,876	11	11	-	-	-
Provisions and other liabilities		316	35	35	-	-	-
Liabilities	2	566,452	13,486	411	13,075	-	-
Open foreign exchange position at 31 Dec 2008	3=1-2	(552,004)	403,766	368,593	33,872	1,301	5,414
Assets	4	16,811	440,603	339,918	100,401	284	5,712
Liabilities	5	566,197	7,180	346	6,828	6	-
Open foreign exchange position at 31 Dec 2007	6=4-5	(549,386)	433,423	339,572	93,573	278	5,712

Currency risk results from the open foreign exchange position of the NBS. The impact of exchange rate changes on NBS's performance is significant. This primarily results from the size of the open foreign exchange position and the volatility of the SKK/EUR and EUR/USD exchange rates.



FINANCIAL STATEMENTS OF NBS FOR THE YEAR

NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

At 31 December 2008, the exchange rate of SKK to EUR strengthened by 10.35% (from EUR 1 = SKK 33.603 at 31 December 2007 to EUR 1 = SKK 30.126) and the exchange rate of SKK to USD strengthened by 6.49% (from USD 1 = SKK 22.870 as at 31 December 2007 to USD 1 = SKK 21.385).

The open foreign exchange position at 31 December 2008 dropped by 5.59% compared to 31 December 2007, from SKK 433,423 million to SKK 409,180 million.

F. Interest rates on assets and liabilities

The following table summarizes the interval (in percentage) of the average interest rates on assets and liabilities for 2008 and 2007, by the main currencies:

2008	EUR	USD	XDR	SKK
Assets				
Gold	-	0.11 - 0.40	-	-
Debt securities in foreign currency	1.41 - 5.43	0.02 - 4.54	-	-
Derivatives	-	-	-	-
Receivables from banks and central banks	3.86 - 5.47	-	-	1.00 - 8.50
Receivables from the IMF	-	-	0.80 - 3.50	-
Receivables from clients	-	-	-	1.00 - 5.25
Liabilities				
Liabilities to banks and central banks	3.36 - 4.67	-	-	0.10 - 1.50
Liabilities from debt securities	-	-	-	2.49 - 4.25
Derivatives	-	-	-	-
Liabilities to the IMF	-	-	-	-
Liabilities to government and other clients	-	-	-	0.10 - 7.75
2007				
Assets				
Gold	-	0.01 - 0.10	-	-
Debt securities in foreign currency	3.62 - 7.00	2.37 - 5.37	-	-
Derivatives	-	-	-	-
Receivables from banks and central banks	4.17 - 5.46	-	-	-
Receivables from the IMF	-	-	0.00 - 4.38	-
Receivables from clients	-	-	-	1.00 - 5.25
Liabilities				
Liabilities to banks and central banks	3.67 - 4.69	-	-	0.75 - 4.75
Liabilities from debt securities	-	-	-	4.05 - 4.25
Derivatives	-	-	-	-
Liabilities to the IMF	-	-	-	-
Liabilities to government and other clients	-	-	-	0.75 - 7.75



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

G. Maturity of assets and liabilities

The structure of NBS's assets and liabilities by the remaining time to maturity at 31 December 2007 was as follows:

As at 31 December 2008	Due within 1 month incl.	Due within 1-3 month s incl.	Due within 1 year incl.	Due within 1- 5 years incl.	Due in 5+ years	Not defined	Total
1. Gold	3,845	-	6,820	-	7,403	2,758	20,826
2. Debt securities in foreign currency	13,719	14,810	49,171	308,985	1,130	-	387,815
3. Derivatives	63	418	-	-	1,009	-	1,490
4. Receivables from banks and central banks	5,883	-	118	545	1,333	11	7,890
4.1 Current accounts, deposits and loans in foreign currency	5,769	-	-	-	-	-	5,769
4.2 Loans related to monetary policy operations in SKK	-	-	-	-	-	-	-
4.3 Receivables not related to monetary policy operations in SKK	114	-	118	545	1,333	11	2,121
5. Receivables from the International Monetary Fund	-	-	-	-	-	12,602	12,602
6. Receivables from clients	5	-	-	2	300	-	307
Equity shares in subsidiaries and affiliates and other shares and participating interests	-	-	-	-	-	386	386
8. Non-current assets	-	-	-	-	-	5,414	5,414
9. Other assets	96	234	14	-	-	40	384
TOTAL ASSETS	23,611	15,462	56,123	309,532	11,175	21,211	437,114
1. Currency in circulation	-	-	-	-	-	77,714	77,714
2. Liabilities to banks and central banks	446,814	163	3,273	-	4,115	-	454,365
2.1 Current accounts denominated in SKK	14,069	-	-	-	-	-	14,069
2.2 Overnight deposits, loans and deposits in SKK and minimum reserves	430,118	136	-	-	-	-	430,254
2.3 Current accounts, deposits and loans in foreign currency	2,627	27	3,273	-	4,115	-	10,042
3. Liabilities from debt securities	30,178	-	-	-	-	-	30,178
3.1 Denominated in SKK	30,178	-	-	-	-	-	30,178
3.2 Denominated in foreign currency	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	3,050	3,050
5. Liabilities to the IMF	-	-	-	-	-	11,545	11,545
6. Liabilities to other international financial institutions	348	-	-	-	-	500	848
7. Liabilities to clients	1,022	31	189	207	438	-	1,887
8. Provisions and other liabilities	195	32	21	9	23	71	351
TOTAL LIABILITIES	478,557	226	3,483	216	4,576	92,880	579,938

Overnight bank deposits (item 2.2. under Liabilities) amounted to SKK 93,839 million.



FINANCIAL STATEMENTS OF NBS FOR THE YEAR

NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

The structure of NBS assets and liabilities by the remaining time to maturity at 31 December 2007 was as follows:

As at 31 December 2007	Due within 1 month incl.	Due within 1-3 months incl.	Due within 1 year incl.	Due within 1-5 years incl.	Due in 5+ years	Not defined	Total
1. Gold	9,551	-	4,303	-	7,656	28	21,538
2. Debt securities in foreign currency	54,220	68,674	135,222	121,684	7,489	-	387,289
3. Derivatives	29	18	-	-	271	-	318
4. Receivables from banks and central banks	31,216	85	217	751	1,564	11	33,844
4.1 Current accounts, deposits and loans in foreign currency	31,090	9	3	-	-	-	31,102
4.2 Loans related to monetary policy operations in SKK	-	-	-	-	-	-	-
4.3 Receivables not related to monetary policy operations in SKK	126	76	214	751	1,564	11	2,742
5. Receivables from the International Monetary Fund	-	-	-	-	-	13,454	13,454
6. Receivables from clients	14	-	-	5	297	-	316
Equity shares in subsidiaries and affiliates and other shares and participating interests	-	-	-	-	-	413	413
8. Non-current assets	-	-	-	-	-	5,712	5,712
9. Other assets	17	168	18	-	-	39	242
TOTAL ASSETS	95,047	68,945	139,760	122,440	17,277	19,657	463,126
1. Currency in circulation	-	-	-	-	-	155,154	155,154
2. Liabilities to banks and central banks	328,126	76	11	2	4,332	-	332,547
2.1 Current accounts denominated in SKK	2,536	-	-	-	-	-	2,536
2.2 Overnight deposits, loans and deposits in SKK and minimum reserves	325,590	-	-	-	-	-	325,590
2.3 Current accounts, deposits and loans in foreign currency	-	76	11	2	4,332	-	4,421
3. Liabilities from debt securities	13,661	54,051	-	-	-	-	67,712
3.1 Denominated in SKK	13,661	54,051	-	-	-	-	67,712
3.2 Denominated in foreign currency	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	2,442	-	2,442
5. Liabilities to the IMF	-	-	-	-	-	13,311	13,311
6. Liabilities to other international financial institutions	169	-	-	-	-	603	772
7. Liabilities to clients	511	8	177	467	-	-	1,163
8. Provisions and other liabilities	121	21	19	15	47	53	276
TOTAL LIABILITIES	342,588	54,156	207	484	6,821	169,121	573,377

Overnight bank deposits (item 2.2. under Liabilities) amounted to SKK 45,034 million.



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

H. Post-balance-sheet events

After 31 December 2008, there were no significant events that would require adjustments or disclosures in the 2008 financial statements.

At 1 January 2009, Slovakia joined the Eurosystem. In accordance with the ECB Statute, Article 29.3, the capital key of NBS was adjusted from 0.6765 to 0.6934 from 1 January 2009.

NBS was required to:

- pay the remainder of the outstanding share in ECB up to EUR 39,944,363.76;
- transfer in favour of ECB's account a specified amount of foreign currency reserves in USD amounting to EUR 376,623,232.58 and in gold amounting to EUR 66,462,923.69 pursuant to Article 30.1 and Article 49.1 of ECB's Statute;
- contribute an amount of EUR 154,213,619.75 to ECB's reserves and reserve funds;
- convert the balance sheet amounts to Euros at 1 January 2009.

By joining the Eurosystem and in accordance with Act 659/2007 Coll. on the Euro Introduction in Slovakia, the main purpose of NBS is to maintain the price stability. For this purpose, the Bank:

- participates in a common currency policy determined by the European Central Bank for the euro area;
- issues Euro banknotes and Euro coins pursuant to special regulations applicable in the euro area;
- supports smooth operations of payment and clearance systems, manages, coordinates and ensures money circulation, payment relations and settlement of payment data in the extent determined by the Act and a special Act 1a) and ensures their efficiency;
- maintains foreign currency reserves, uses them and makes foreign currency transactions. In transactions within the Eurosystem, it follows the special regulations applicable for the Eurosystem;

After joining the Eurosystem, the Bank's Board as the highest body shall be responsible particularly for :

- determining NBS's and its branch's policies relating to the execution of the common European currency policy;
- determining principles and organization of financial market oversight;
- determining principles of activities and transactions of NBS;
- approving the NBS's budget, approving its financial statements, annual reports on the results of operations and the NBS's Annual Reports, deciding on profit distribution or covering the loss, and determining types of NBS's reserves, their amount and use;
- deciding on NBS's and its branches' procedures relating to the issue of Euro notes and Euro coins including commemorative Euro coins and collection Euro coins, pursuant to special regulations applicable in the euro area for the issue of Euro banknotes and Euro coins;



NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2008
(in SKK millions)

- approving generally binding principles issued by the NBS and proposals of acts submitted by NBS Bank individually or jointly with other institutions;
- approving agreements on mutual cooperation and provision of information and material between NBS and foreign market oversight bodies, or between the Bank and Governmental bodies that perform an oversight pursuant to special regulations.

Ing. Ivan Šramko

Governor

Ing. Viliam Ostrožlík, MBA

Deputy Governor

Ing. Katarína Taragelová

Director
Financial Management Dept.



**PricewaterhouseCoopers
Slovensko, s.r.o.**
Námestie 1. mája 18
815 32 Bratislava
Slovak Republic
Telephone +421 (0) 2 59350 111
Facsimile +421 (0) 2 59350 222

**Report on Verifying Consistency of the Annual Report with the Financial Statements,
as required by § 23 of Act No. 540/2007 Coll.
(Addendum to the Auditor's Report)**

To the Bank Board of Národná banka Slovenska:

We have audited the accompanying financial statements of Národná banka Slovenska at 31 December 2008 on which we issued an unqualified Auditor's Report on 17 March.

In accordance with the Act No. 431/2002 Coll. on Accounting, as amended, we also verified whether accounting information included in the annual report of Národná banka Slovenska at 31 December 2008 is consistent with the audited financial statements referred to above.

Responsibility of the Bank Board of Národná banka Slovenska

The Bank Board of Národná banka Slovenska is responsible for the preparation, accuracy, and completeness of the annual report in accordance with the Slovak Accounting Act.

Auditor's Responsibility for Verifying Consistency of the Annual Report with the Financial Statements

Our responsibility is to express an opinion on whether the accounting information presented in the annual report is consistent, in all material respects, with the information in the audited financial statements of Národná banka Slovenska. We conducted the verification in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the verification to obtain reasonable assurance whether the annual report is free from accounting information that would significantly differ from the information stated in the financial statements.

The scope of work includes performing procedures to verify that the accounting information presented in the annual report is consistent with the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation and fair presentation of the annual report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of Národná banka Slovenska. We did not verify those data and information in the annual report that were not derived from the financial statements.

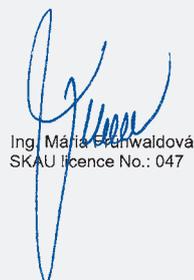
We believe that the procedures performed provide a sufficient and appropriate basis for our opinion.

Opinion

In our opinion, the accounting information presented in the annual report of Národná banka Slovenska prepared for the year ended on 31 December 2008 is consistent, in all material respects, with the audited financial statements referred to above.


PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161




Ing. Mária Franwaldová
SKAU licence No.: 047

Bratislava, 26 June 2009

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



ABBREVIATIONS AND GLOSSARY



ABBREVIATIONS

ACI	Act on Collective Investment – Zákon o kolektívnom investovaní (ZKI)
ARDAL	Debt and Liquidity Management Agency
a.s.	joint stock company
ATM	Automated Teller Machine
BCPB	Bratislava Stock Exchange
BIS	Bank for International Settlement
BRIBOR	Bratislava Interbank Offered Rates
CDCP SR	Central Securities Depository of the SR
CEBS	Committee of European Bank Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions
CESR	Committee of European Securities Regulators
CP	securities
CPI	Consumer Price Index
DDP	Doplňková dôchodková poisťovňa – Supplementary Pension Insurance Company
DDS	Doplňková dôchodková spoločnosť – Supplementary Pension Asset Management Company
DSS	Dôchodková správcovská spoločnosť – Pension Asset Management Company
EBOR	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council of the EU
EFT POS	Electronic Funds Transfer at Point of Sale
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
EU	European Union
EUR	euro/€
EURIBOR	Euro Interbank Offered Rate – fixing of interest rates on the euro area money market
FDI	Foreign direct investment
Fed	Federal Reserve System
FNM	Fond národného majetku – National Property Fund
FRA	Forward rate agreement
GDP	Gross Domestic Product
HFCN	Household Finance and Consumption Network – an expert group focusing on financial situation and consumption of households
HICP	Harmonised Index of Consumer Prices
IBEC	International Bank for Economic Cooperation
IBRD	International Bank for Reconstruction and Development
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IIB	International Investment Bank
IMF	International Monetary Fund
IPP	Industrial Production Index
IRB model	Credit risk model based on internal rating
IRS	Interest rate swap
MFI	Monetary Financial Institutions
MiFID	Markets in Financial Instruments Directive
NAV	Net Asset Value



ABBREVIATIONS AND GLOSSARY

NBS	Národná banka Slovenska – National Bank of Slovakia
NEER	Nominal Effective Exchange Rate
OECD	Organisation for Economic Co-operation and Development
OCP	obchodník s cennými papiermi – securities dealer
OPEC	Organisation of Petrol Exporting Countries
OPF	otvorené podielové fondy – Open-end Mutual Funds
p.a.	per annum
p.p.	percentage points
PP	Policy Paper – analytical study
PPI	Producer Price Index
REER	Real Effective Exchange Rate
ROE	Return on Equity
RULC	Real Unit Labour Costs
SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Management Companies
SAX	Slovak Share Index
SDX	Slovak Bond Index
SDXG	Slovak Bond Index Group
SEPA	Single Euro Payments Area
SIPS	Slovak Interbank Payment System
SKK	Slovak koruna
SKONIA	SlovaK OverNight Index Average
SSP	Single Shared Platform
SSS	Securities Settlement System
STATUS DFT	STATUS application software for financial market supervision
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer
ULC	Unit Labour Costs
USD	US dollar
WB	World Bank
WDN	Wage Dynamics Network – an expert group focusing on wage dynamics
WP	Working Paper – research study
WTO	World Trade Organization
ZBK SR	Bank Card Association in the SR
ZKI	Act No. 594/2003 Coll. on collective investment



GLOSSARY

Actuary – insurance mathematician responsible for the calculation of insurance premiums and reporting.

Autonomous liquidity factors – factors other than monetary policy operations influencing banking sector liquidity. Such factors are, in particular, net foreign assets held by the central bank, central government deposits with the central bank and currency in circulation.

Average value of currency mark – the total value of currency in circulation divided by the total number of banknotes and coins.

B5 – aircraft insurance.

B11 – insurance of the liability arising out of the ownership and use of aircraft including carrier's liability.

BRIBOR (Bratislava Interbank Offered Rate) – interest rate fixing in the interbank deposit market calculated from prices offered by reference banks for deposits with maturities ranging from 1 day to 12 months. As of 1 January 2009, it was replaced by EURIBOR.

Central parity – the exchange rate vis-à-vis the euro of currencies of ERM II participant countries, around which the ERM II fluctuation margins are defined. The central parity for the Slovak koruna was set on 28 November 2005 at 38.4550 SKK per euro, with a fluctuation band of $\pm 15\%$.

Collateral – an asset used to secure a loan. In case of the debtor's default the asset can be sold and the proceeds used to settle the outstanding loan.

Common ESCB Training – a common training program of the European Central Bank (ECB) and national central banks of the European System of Central Banks (ESCB). The program covers manager training designed to learn new knowledge and work procedures, as well as the development of management skills focusing on the effectiveness and efficiency of decision-making in the ESCB and the Eurosystem, to foster a common ESCB culture through sharing of best practices.

Core inflation – measures the rate of growth of the price level on the basis of an incomplete consumer basket. The consumer basket excludes items with regulated prices and items with prices subject to other administrative measures (e.g. change of VAT, consumer taxes, subsidies). It is part of the national index of consumer prices.

Deflation – a decrease in the general price level, the opposite of inflation.

EFCB certificate (European Foundation Certificate in Banking) – an internationally accepted banking certificate awarded in an examination assessing the level of skills required as qualification for a bank employee, comparable within the EU banking sector; the only institution in Slovakia accredited to conduct EFCB training and examinations is the Institute of Banking Education of Národná banka Slovenska.



ABBREVIATIONS AND GLOSSARY

Effective exchange rates (nominal: NEER, real: REER) – weighted averages of bilateral SKK exchange rates against the currencies of the main trading partners. The weights used reflect the share of each partner country in Slovakia's foreign trade. Real effective exchange rates are nominal effective exchange rates deflated by a weighted average of foreign, relative to domestic, prices or costs. They are measures of price and cost competitiveness of a country.

Electronic money business – the issue and administration of electronic money and electronic money payment instruments.

Electronic money institution – a legal person other than a bank, foreign bank or Národná banka Slovenska, holding a license for electronic money business under the Payments Act.

Employee benefits – wage and wage compensations, bonuses, supplementary insurance, severance pay, exit pay, and other non-pecuniary benefits, such as health care.

ERM II (exchange rate mechanism II) – an exchange rate system providing a framework for exchange rate policy cooperation between the euro area countries and the EU Member States not participating in the third stage of the EMU. Membership in ERM II is one of the Maastricht criteria for the adoption of the euro.

ESA95 – the European System of Accounts adopted in 1995. A common methodology for the compilation and reporting of GDP, employment and employee compensation data for all EU countries.

EURIBOR (Euro Interbank Offered Rate) – the interbank reference rate within the Economic and Monetary Union, which was introduced in 1999. It is the rate at which euro interbank term deposits are offered by one bank to another and is published at 11:00 a.m. CET for spot value (T+2). The company chosen to be responsible for computing and publishing EURIBOR is Reuters.

Euro area – the area encompassing those EU Member States in which the euro has been adopted in accordance with the Treaty. The responsibility for monetary policy in the euro area lies with the European Central Bank.

EURO SIPS – retail payment system transformed from the interbank payment system SIPS operated by Národná banka Slovenska as of the euro adoption day in the territory of the Slovak Republic.

European Economic Area – comprises all EU Member States, Norway, Lichtenstein and Iceland.

European Payments Council – an organisation associating European Union banking associations.

European System of Central Banks (ESCB) – the system of central banks comprising the European Central Bank (ECB) and the national central banks of all EU Member States.

EUROSIPS – a retail payment system that will be made up by the transformation of the present domestic SIPS payment system. It will be operated by Národná banka Slovenska as of the day of euro introduction.

Eurosystem – a system of central banks comprising the European Central Bank (ECB) and the national central banks of the euro area countries (EU countries that have adopted the euro).

Financial market (for the purposes of chapter 4, entities regulated by NBS) – consists of four sectors: the banking sector (the main representatives are banks and branches of foreign banks), the capital market (the main representatives are securities dealers, asset management companies, the stock exchange, the Central Securities Depository, issuers and investment services intermediaries),



the insurance sector (the main representatives are insurance companies and branches of foreign insurance companies), and the pension saving market (the main representatives are pension management companies and supplementary pension companies (pension insurance companies)).

Foreign direct investment – a category of international investments reflecting the objective of a resident entity in an economy (direct investor) to acquire a permanent interest in a company residing in an economy other than that of the investor (direct investment company). Direct investments include the initial transaction between these two entities – i.e. the transaction giving rise to the investment relationship – and all subsequent transactions between these two entities and affiliated companies.

Foreign reserves – reserves of the Slovak Republic consisting of gold and other financial assets denominated in foreign currency held and managed by the central bank. They are used to directly finance payment imbalances, to indirectly regulate their size through foreign exchange market interventions in order to influence the exchange rate of the currency, or for other purposes.

Free provision of cross-border services – the conduct of banking activities by foreign entities based in the European Economic Area (foreign banks, foreign financial institutions or electronic money institutions) not present in the Slovak Republic.

GDP deflator – an aggregate price index reflecting developments in the price of products and services in an economy. It is calculated as a ratio of GDP at current prices to GDP at constant prices.

General government – a sector defined in ESA95 as comprising resident entities that are engaged primarily in the production of non-marketable goods and services intended for individual and collective consumption and in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds, and any budget-funded or subsidised organisations established by them, whose revenues cover less than 50% of their production costs.

General government debt – gross debt (deposits, loans and other debt securities other than financial derivatives) of the general government at nominal value. A debt-to-GDP ratio under 60% is one of the Maastricht convergence criteria for the adoption of the euro.

General government deficit – the difference between total revenues and total expenditures of the general government sector, if expenditures exceed revenues. A deficit-to-GDP ratio under 3% is one of the Maastricht convergence criteria for the adoption of the euro.

Gross domestic product (GDP) – the total output of goods and services in an economy in a given period. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services.

Harmonised Index of Consumer Prices (HICP) – a consumer price index measured on a comparable basis across all EU Member States, which accounts for differences in national definitions. The HICP is one of the indicators used to assess price stability in a country (one of the Maastricht convergence criteria).

IBAN (International Bank Account Number) – an international bank account number format allowing unique customer identification and automated payment processing (mostly cross-border payments at present). In Slovakia, IBAN consists of 24 alpha-numerical characters (ISO country code, control number, account number including bank code).



ABBREVIATIONS AND GLOSSARY

Implied volatility – expected volatility (i.e. standard deviation) in terms of change in the price of an asset (for example, a bond or share). It can be derived from the price of the asset, maturity date and the exercise price of an option for the asset, as well as from a risk-free rate of return using an option valuation model (e.g. the Black-Scholes model).

Inflation – an increase in the general price level.

Longer-term refinancing operations – liquidity-providing reverse transactions with a monthly frequency and a maturity of normally three months. These operations are aimed at providing counterparties with additional longer-term refinancing and are conducted by the national central banks of the Eurosystem on the basis of standard tenders. In these operations, as a rule, the Eurosystem aims to generate sufficient liquidity and ensure smoothness of financial flows in the financial sector.

M1 – a narrow monetary aggregate comprising currency in circulation and overnight deposits with MFIs and central government (e.g. with post office – Post Giro – or the State Treasury).

M2 – an intermediate monetary aggregate that comprises M1 plus deposits repayable at notice of up to 3 months (short-term saving deposits) and deposits with an agreed maturity of up to 2 years (short-term time deposits) with MFIs and central government.

M3 – a broad monetary aggregate that comprises M2 plus negotiable instruments, i.e. repurchase agreements, money market fund shares and units as well as debt securities issued by MFIs with a maturity of up to two years.

Maastricht criteria – convergence criteria set out in the Maastricht Treaty that must be fulfilled before a country can join the euro area. There are four criteria regarding: public finances (deficit and debt of the general government sector), inflation, long-term interest rates, and exchange rate.

Main refinancing operations – regular liquidity-providing reverse transactions with a weekly frequency and a maturity of normally one week. These operations are executed by the national central banks of the Eurosystem on the basis of standard tenders. The main refinancing operations play a pivotal role in pursuing the objectives of the Eurosystem. As from 1 January 2009, the rate for the main refinancing operations replaced the NBS base rate.

Marginal lending facility – a facility for obtaining overnight liquidity from a national central bank against eligible assets. Access to the facility is usually limited only by the requirement to submit sufficient eligible assets. Under normal circumstances, the interest rate on the facility provides a ceiling for the overnight market interest rate.

Marginal deposit facility – a facility used to make overnight deposits with a national central bank. Under normal circumstances, there are no limits on access to the facility. The interest rate on the marginal deposit facility normally provides a floor for the overnight market interest rate.

MFI claims on residents – MFI claims from residents other than MFIs (including the general government sector and the private sector) and securities issued by residents other than MFIs (stocks and other equity and debt securities) held by MFIs.

Minimum reserve requirement – financial reserves held by banks, branches of foreign banks, building societies and electronic money institutions on accounts with the central bank. It is a monetary policy tool with the level set by the central bank for each minimum reserve holder.



Monetary financial institutions (MFI) – financial institutions which together form the money-issuing/generating sector. These comprise the central bank (NBS), credit institutions (banks and branches of foreign banks) and all other financial institutions whose business is to receive deposits or redeemable funds from entities other than MFIs and, in their own name and for their own account, to extend credit and invest in securities (in particular money market funds).

NBS base rate – the interest rate limit applied to standard sterilization repo tenders of NBS – its main monetary policy operation. NBS has published the base rate since 1 January 2003; whenever the term “discount rate of Národná banka Slovenska” or “discount rate of the Czecho-Slovak State Bank” appears in older legislation, it means the NBS base rate. As of 1 January 2009, it was replaced by the ECB’s rate for main refinancing operations.

Net currency issuance – the difference between the amount of currency put into circulation and currency received in a given period.

Non-banking financial corporations – other financial companies, financial intermediaries, pension funds, mutual funds, and insurance companies.

Overnight refinancing operation of NBS – a facility which counterparties (banks) may use to receive overnight credit from the central bank against eligible assets. The overnight refinancing rate is one of the NBS key rates. As of 1 January 2009, it was replaced by the ECB’s marginal lending facility rate.

Overnight sterilisation operation of NBS – a facility which counterparties (banks) may use to make overnight deposits with the central bank. The overnight sterilisation rate is one of the NBS key rates. As of 1 January 2009, it was replaced by the ECB’s marginal lending facility rate.

Own funds adequacy – the ratio of own funds to risk-weighted assets (must not fall below 8%). The adequacy of own funds is an indicator of smooth functioning of a financial institution in the future, i.e. an indicator of its financial strength and credibility.

Parent company – a legal person controlling, i.e. holding over 50% of equity or voting rights in another legal person, or the right to appoint or dismiss the majority of the members of its statutory body, supervisory board or another managing, supervisory or controlling body.

Pension pillar II – retirement pension schemes as a component of mandatory state pension insurance (funded defined contribution system).

Pension III – a funded defined contribution system of supplementary pension schemes, enrolment in which is voluntary and which are supported by the state through tax relief.

Persons related to Národná banka Slovenska – legal or natural persons which are subsidiary accounting units of the NBS, affiliated accounting units, members of the NBS Bank Board, close relatives of a member of the NBS Bank Board, accounting units controlled, co-controlled or subject to the influence or significant voting rights exercised or held by members of the NBS Bank Board or their close relatives.

Portfolio investment – net transactions by residents and their holdings of securities issued by non-residents (assets) and net transactions by non-residents and their holdings of securities issued by residents (liabilities). They comprise equities and debt securities (bonds, bills of exchange and money market instruments). For investments to be considered portfolio investments, the interest in the company concerned must be lower than the equivalent of 10% of ordinary shares or voting rights.



ABBREVIATIONS AND GLOSSARY

Price stability – a year-on-year increase in consumer prices lower than a limit set by NBS. As a medium-term target, NBS seeks to maintain consumer price growth as measured by the HICP below 2% at the end of 2007 and 2008.

Regulated prices – prices and fees set by ministries or regulators (Network Industries Regulation Office, Slovak Post Office, Slovak Telecommunications Office, etc.) or by regional or local governments. They are included in the national consumer price index.

Reinvested earnings – consist of the share of a direct investor (relative to a direct participating interest) in profit not distributed as dividends by subsidiaries or affiliates and in profit of branches not distributed to the direct investor.

Repo operation – the granting or receiving of a loan against collateral in form of securities.

RTGS (Real Time Gross Settlement) – a real-time gross settlement system.

SEPA (Single Euro Payments Area) – a single euro payments area the objective of which is to create a single internal market for cross-border euro payments.

Single banking licence (single European passport) – regulated foreign entities are allowed to perform activity on the territory of other member states of the European Economic Area, provided they have been granted a licence in a member state of the European Economic Area. These entities may provide services on the basis of an established branch or via free provision of cross-border services.

Single banking licence principle (single European passport principle) – applies to all banking activities explicitly stated in the Banking Act. In order to provide mortgage loans pursuant to Article 67(1) of the Banking Act and to act as a depository under the Collective Investment Act, a special licence from Národná banka Slovenska is required.

SIPS – an interbank payment system operated by Národná banka Slovenska.

SSP – Single Shared Platform – a technical platform on which TARGET2 is operating.

Stability and Growth Pact – was designed to ensure sound public finances during the third stage of the Economic and Monetary Union in order to facilitate price stability and a strong sustainable growth contributing to job creation. To that end, the Pact requires Member States to set medium-term fiscal targets. It also defines a specific excessive deficit procedure. The Pact consists of the resolution on the Stability and Growth Pact adopted at the Amsterdam summit of the European Council on 17 June 1997 and two Council regulations, namely (i) Regulation 1466/97/EC of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies as amended by Regulation 1055/2005/EC of 27 June 2005 and (ii) Regulation 1467/97/EC of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation 1056/2005/EC of 27 June 2005.

STEP2 – a European automated clearing system operated by the Euro Banking Association Clearing, designed to process cross-border euro payments.

Subsidiary – a legal person subject to control (a holding of over 50% of equity or voting rights in the legal person).

SWIFT – Society for Worldwide Interbank Financial Telecommunication – a provider of data infrastructure and technologies for the exchange of payment messages.



TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer) – a real-time gross settlement system for euro payments.

TARGET2 – a new generation of the TARGET system – a real-time gross settlement system for the euro with settlement in central bank money. It is functioning on the Single Shared Platform through which all payment orders received and payments accepted are technically processed in an equal way.

TARGET2-SK – a payment system of Národná banka Slovenska that is part of the TARGET2 system.

T2S – TARGET2 Securities – a technical platform for the settlement of security transactions.

Technical premium – the price agreed in an insurance contract irrespective of which financial reporting method is used for the contract.

Two-week repo tender of NBS – a standard 14-day repo operation of the central bank consisting in lending or borrowing against collateral in form of securities. This repo operation is conducted as a tender. The two-week repo tender rate is the NBS base rate.

Yield curve – a graphic representation of the relationship between the interest rate/yield and the maturity of an asset with the same credit risk, but different maturities at a specific point in time. The slope of the yield curve can be expressed as the difference between interest rates applied to two selected maturities.



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



LIST OF CHARTS AND TABLES



LIST OF CHARTS

Chart 1	Price developments	12	Chart 27	Interest rates on loans to non-financial corporations, 3-M BRIBOR, and the NBS base rate	41
Chart 2	Year-on-year changes in commodity prices	12	Chart 28	Interest rates on loans to households by type	42
Chart 3	GDP growth in euro-area countries in 2007 and 2008	13	Chart 29	Interest rates on deposits from non-financial corporations	42
Chart 4	Changes in the economic growth rate in 2008 compared with 2007	13	Chart 30	Interest rates on household deposits	42
Chart 5	HICP inflation in the euro area	14	Chart 31	Open market operation by type	45
Chart 6	Year-on-year changes in the HICP components in the euro area	14	Chart 32	Minimum reserve survey in 2008	46
Chart 7	USD/EUR exchange rate developments in 2008	14	Chart 33	BRIBOR interest rates in 2008	48
Chart 8	ECB interest rates and the EURIBOR	15	Chart 34	Benchmark yield curve of government bonds	49
Chart 9	Exchange rates of the V4 currencies against the euro	15	Chart 35	Exchange rates of the Slovak koruna against the euro and dollar in 2008	50
Chart 10	Contributions to GDP growth	16	Chart 36	NBS foreign reserves	50
Chart 11	Key interest rates of national central banks	16	Chart 37	Share on assets and managed assets by segments: NBS-supervised entity	65
Chart 12	Contributions to HICP inflation	17	Chart 38	Monthly development of currency in circulation	72
Chart 13	Structure of HICP inflation	22	Chart 39	Daily development of currency in circulation	73
Chart 14	Year-on-year changes in the HICP inflation components	22	Chart 40	Number of seized counterfeits	76
Chart 15	Annual real GDP growth	24	Chart 41	Breakdown of counterfeits seized in 2008	76
Chart 16	Structure of household final consumption in 2008	26	Chart 42	Number of transactions executed in SIPS in 2006, 2007 and 2008	83
Chart 17	Contributions of consumer expenses to growth in household final consumption	26	Chart 43	Value of transactions executed in SIPS	84
Chart 18	Export performance and import intensity	27	Chart 44	Normal and priority payments as a share of the total value of executed transactions	85
Chart 19	Propensity of households to save and to consume	27	Chart 45	Intraday credit in 2008	85
Chart 20	Unemployment	28	Chart 46	Breakdown of reporting financial institutions (by share of assets as at 31 December 2008)	93
Chart 21	Trade balance and current account developments in 1993-2008	30	Chart 47	Exchange rates of V4 countries in 2008	106
Chart 22	Developments in the NEER and REER indices (16 trading partners)	37	Chart 48	Public awareness of the euro	108
Chart 23	Contributions to year-on-year M3 growth from its main components	38	Chart 49	Opinion of citizens on the introduction of the euro in the SR	108
Chart 24	Contributions to the year-on-year growth in MFI loans to the private sector	39	Chart 50	Commencement of preparations of small and medium-sized enterprises	108
Chart 25	Increases in loans to households since the beginning of the year	39			
Chart 26	Increases in loans to non-financial corporations since the beginning of the year	40			



LIST OF TABLES

Table 1	World output	11	Table 23	Number of decisions issued by the financial market supervision unit of Národná banka Slovenska in 2008	58
Table 2	Consumer price developments in terms of HICP (average for the period)	23	Table 24	Number of on-site supervisions conducted at supervised financial market entities in 2008	62
Table 3	Average year-on-year developments in producer prices	23	Table 25	Commemorative coins issued by NBS in 2008	71
Table 4	GDP creation by component	24	Table 26	Value of currency in circulation in SKK	72
Table 5	GDP growth by sector	24	Table 27	Currency in circulation by number of banknotes and coins	73
Table 6	Structure of GDP by consumption	25	Table 28	Development of the average value of the currency mark	74
Table 7	Structure of gross fixed capital formation in 2008	26	Table 29	Number of seized Slovak koruna counterfeits	77
Table 8	Labour market indicators	28	Table 30	Number of seized euro counterfeits	77
Table 9	Financial results of corporations	29	Table 31	Number of US dollar counterfeits	77
Table 10	Balance of payments current account	30	Table 32	Number of counterfeits of other foreign currencies	78
Table 11	Year-on-year changes in exports by segment	31	Table 33	Number of transactions executed in SIPS	84
Table 12	Year-on-year changes in imports by segment	31	Table 34	Value of transactions executed in SIPS	84
Table 13	Balance of services	32	Table 35	Time table for euro introduction in the SR	105
Table 14	Income balance	32	Table 36	Fulfilment of the Maastricht criteria at the time of assessment by the EC (March 2008)	106
Table 15	Balance of current transfers	33	Table 37	Number of participants in training and educational events	123
Table 16	Balance of payments capital and financial account	34			
Table 17	Capital inflows in other investment by sector	34			
Table 18	External debt of Slovakia	36			
Table 19	Developments in the main M3 components and counterparts	38			
Table 20	Cumulative net sales of open-end investment fund shares/units	40			
Table 21	Slovak assets eligible from 31 December 2008 by type	47			
Table 22	Number of supervised entities as at 31 December 2008	54			

