



FOREWORD

Several unexpected scenarios materialised in 2016. The surprising results of the United Kingdom's referendum on EU membership and of the presidential election in the United States had a profound impact on perceptions of future economic developments and on market uncertainty. As for the external economic environment, the tightening of monetary policy in the United States represented a major change. All these external factors are expected to have an indirect impact on the economic situation in Slovakia. Contrary to expectations, the country's economic growth was relatively satisfactory in 2016 and was accompanied by a further decline in consumer prices. Indeed, in contrast to previous concerns that joining the euro could push up domestic prices, Slovakia's headline inflation in 2016 was lower than the average inflation rate for both the euro area and the EU as a whole.

A new experience for Slovakia in 2016, and by extension for Národná banka Slovenska (NBS), was the country's assumption of the Presidency of the Council of the European Union. The central bank's involvement in the Presidency's agenda concerned mainly discussions on the completion of the EU's Banking Union and on the proposed Capital Markets Union. The high point of the Presidency from the view of NBS was September's informal meeting of EU finance ministers (ECOFIN) in Bratislava, which was preceded by a meeting of EU Member States' central bank governors and the President of the European Central Bank (ECB).

The external environment was not supportive to Slovakia's economic growth. Global GDP growth was weak, while euro area growth, affected by financial market uncertainty related to geopolitical developments, slowed to 1.7%. As in previous years, euro area GDP growth was driven largely by household consumption.

Slovakia's annual GDP growth also decelerated, to 3.3%, and was balanced between domestic and foreign demand. Domestic labour market conditions nevertheless remained favourable, with falling unemployment and rising real wages. The annual headline inflation rate became

less negative and then, in December, it turned slightly positive for the first time in three years. Nevertheless, the average price level for the year as a whole continued to fall.

In view of the risk of euro area inflation returning to negative territory and of European financial market conditions deteriorating, the ECB's Governing Council decided in March 2016 to cut the ECB's key interest rates to all-time lows and adopted further non-standard monetary policy measures. The main refinancing rate was reduced to zero, the marginal lending rate to 0.25%, and the deposit facility rate to -0.40%. In line with its forward-guidance policy, the ECB confirmed that the key rates would remain at present or lower levels well past the horizon of its asset purchase programme (APP). At the same time, within the remit of its non-standard measures, the ECB decided to expand the APP to include asset purchases under a new corporate sector purchase programme (CSPP) and decided to launch a new series of four targeted longer-term refinancing operations (TLTRO-II). The Governing Council made further adjustments to its unconventional tools in December 2016.

In response to the continuing sharp growth in lending and the consequent risks to financial stability, NBS adopted several regulatory measures to tighten lending to households. A number of legislative changes in other areas of financial market supervision were also implemented during 2016. With the aim of supporting financial literacy among the public, NBS organised a new event called *Financial Consumer Days*, which included a series of talks and practical exercises. The provision of information to financial consumers was also supported by the launch on the NBS website of a database of financial market participants on the NBS website. As the NBS's supervisory activities gradually expanded, so too did the share of its staff members employed in this area. The total number of NBS employees stood at 1,075 by the end of 2016.

Among the tasks that NBS performs exclusively are those related to the operation of payment systems and to currency circulation. Both the





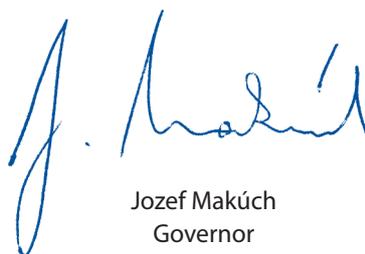
number and value of transactions processed in the Slovak Interbank Payment System were higher in 2016 than in the previous year. As for the TARGET2-SK payment system, the number of transactions increased, year on year, but their overall amount fell. The number of participants in each of these NBS-operated systems increased by one in 2016.

The cumulative net issuance of euro banknotes and coins in Slovakia – meaning the difference between the value of euro cash that NBS has put into circulation and withdrawn from circulation – stood at more than €11 billion by the end

of 2016. NBS was responsible for ensuring the production of a certain tranche of the new €50 banknotes, as well as of circulation euro coins in different denominations. In addition, NBS issued six precious-metal collector coins and a €2 commemorative coin featuring *The first Slovak Presidency of the Council of the European Union*.

Národná banka Slovenska reported a net profit of €147 million for 2016, the largest component being interest income on bonds. Under a decision of the NBS Bank Board, the entire 2016 profit was set off against losses from previous years.

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