MEETINGS OF THE NBS BANK BOARD

The 11th Meeting of the Bank Board of the National Bank of Slovakia was held on 11 June 2004, chaired by Marian Jusko, Governor.

• The Bank Board of the NBS approved the Report on the development of the banking sector in the Slovak Republic and the assessment of prudential undertaking in the banking sector as of 31 December 2003 (final results).

The favourable trends in the banking sector development continued also in 2003, in particular in the area of assets productivity, in the increased level of competition in the banking products market, as well as the meeting of prudential banking indicators. In the latter area there was a qualitative shift in the calculation of the adequacy of own funds as from 1 January 2003 when the Decree on adequacy of own funds became effective and the market risks started to be considered in addition to the credit risk.

Within this period, some other laws and by-laws became effective, having strong potential to contribute to the higher quality of work in the banking supervision area. The amendments to some other laws became effective as of 1 January 2004.

• As at 31 December 2003, there were 18 banks and 3 branches of foreign banks operating in the Slovak banking sector. The number of branches increased to 3 due to the licence granted to Commerzbank Aktiengesellschaft; the branch reported its result of operation as at 31 December 2003 for the first time. The volume of subscribed share capital of 18 banking entities was SKK 40.4 billion and the volume of funds provided to branches of foreign banks by their head offices was SKK 2.8 billion. Following the entry of a foreign investor in Banka Slovakia, almost as much as 90% of the subscribed share capital is now held by foreign investors. During the assessed year the number of banks licensed for mortgage operations increased also.

The volume of assets of banks in the Slovak banking sector was SKK 985.4 billion, the stake of three major banks being more than half of this volume. Also, the three banks created almost as much as 70% of the total result of operations of the banking sector, which was SKK 11.3 billion and represented a decrease of SKK 0.5 billion on a year-on-year basis. The 10 banks which, as at 31 December 2003, reported a lower result of operations on a year-on-year basis contributed to this decline.

In line with the strategy approved by the Bank Board of the NBS, the substantial part of the two-year supervisory plan was completed. 15 inspections were made, of which 10 were full-scope. On their basis the individual supervisory plan was set for banks and branches of foreign banks. When the first two-year supervisory plan is finished, the Banking Supervision Division will start another supervisory cycle in the last quarter of 2004, and the full-scope inspections will be substituted by the inspections focused on the individual risks (credit, market, and operational), reflecting the results of the individual supervisory plan of the first cycle. Such an approach focused on the actual risks in the operation of the individual banks and branches will allow to control the banks' operations and their risk management systems in more depth.

• The Bank Board of the NBS discussed and approved a draft Decree on own funds and investments of electronic money institutions.

The approved decree is based on the amendment to Act No. 510/2002 Coll. of 19 August 2002 on the payment system and on the amendments and supplements to certain laws as amended. The amendment of the law transposed in our legal system the EU Directive 2000/46/EC on the taking up, pursuit of and prudential supervision of the business of electronic money institutions.

The purpose of the approved Decree is to stipulate the system of calculation of own funds for the electronic money institutions and the limitations of investments of the electronic money institutions.

This Decree becomes effective as of 15 July 2004.

• The Bank Board of the NBS approved the production and sale of the annual sets of coins in circulation to be ensured by the Kremnica Mint on the conditions contractually agreed with Narodna banka Slovenska and it approved the production of the 2004 set of coins in circulation in a maximum amount of 49,000 pieces.

• The Bank Board of the NBS approved an Annex to the Framework Agreement on the conditions for holding client accounts and performance of the Slovak koruna payment and settlement systems for the clients of the State Treasury at Narodna banka Slovenska, and Annex to the Framework Agreement on the procedures related to termination of holding of client accounts and conduct of fund transfers for the clients of the State Treasury at Narodna banka Slovenska.

In this regard, the Bank Board of the NBS concluded that in terms of the transferring of the clients from the NBS to the State Treasury, Narodna banka Slovenska considers the time schedule as final and, due to technical, organizational and personnel capacities of the particular working units and the information system of the NBS, the NBS cannot accept any further delays of the deadlines stipulated in these Annexes.

The 12th meeting of the Bank Board of the National Bank of Slovakia was held on 30 June 2004, chaired by Marian Jusko, Governor.

• The Bank Board discussed the Situation Report on Monetary Development of Slovakia in May 2004 and decided on the changes in interest rates levels to 3,00 % for the overnight sterilization rate, to 6,00 % for the overnight refinancing rate, and to 4,50 % for the two-week REPO tenders with commercial banks limit rate, effective as of 1 July 2004.

The Bank Board of the NBS discussed and approved the Strategy for Further Development in the Area of Payments Systems in the Slovak Republic after its accession to the European Union.

This paper deals with the development of the payments systems in the Slovak Republic in the context of the European integration. The Bank Board of the NBS decided to tie the strategy for linking the NBS to the European payments system TARGET with the strategy for the euro adoption in the Slovak Republic.

The Bank Board of the NBS approved the Report on the Development of the Banking Sector in the Slovak Republic and the Assessment of the prudential Conduct of Banking Businesses in the Banking Sector as at 31 March 2004.

As at 31 March 2004, there were 21 banks and 8 representative offices of foreign banks operating in the Slovak banking sector. The banks reported the total volume of assets of SKK 999.9 billion and the net profit of SKK 3 billion, which was by 7.3% less on a year-on-year basis. Only one bank reported loss as a result of its operation. The volume of classified loan claims went down by 12.5%; their share in total claims was below the level of 8% as of 31 March 2004. The banks did not have any serious problems with their compliance of prudential banking indicators; certain events of violation of two limits stipulated in the Decree on large exposure of banks have, however, occurred.

The activities in the legislative area have, not least, also contributed to the stabilization of the banking sector results. During the assessed period, there were five Decrees of the National Bank of Slovakia issued or amended, as well as four methodological Instructions, which are directly related to the conduct of banking supervision.

The higher effectiveness of the banking supervision conduct has been supported also by the cooperation between the Banking Supervision Division of the NBS and both domestic and international institutions. In the course of February 2004 this cooperation was successfully extended by endorsing the Memorandum of Understanding with the Malta Financial Services.

The Bank Board of the NBS has approved a Decree on the issue of the commemorative silver coin in a nominal value of SKK 200 with a motif of ”UNESCO World Heritage / Bardejov, the municipal heritage site”.

The National Bank of Slovakia will issue this commemorative coin to remind of the importance of the world's cultural heritage. The coin is minted from an alloy containing 750 parts of silver and 250 parts of copper. The weight of the coin is 20.0g, with a diameter of 34mm. The designer of the coin is the sculptor Jan Cernaj. The commemorative coins were minted in the Kremnica Mint, š.p., to the number of 12 000 pieces, and will be sold at the beginning of September 2004.

The Bank Board of the NBS has approved the terms and conditions of the public anonymous tender for the artistic designs of the Slovak faces of euro coins with nominal values of 1, 2, 5, 10, 20, 50 eurocents, EUR 1 and EUR 2. This tender's objective is to acquire the quality artistic designs of the Slovak faces of euro coins which will substitute the current Slovak coins in circulation when the euro is adopted in the Slovak Republic.

The tender will have two rounds. In the first round, the cartoon designs of coins will be submitted, of which the best designs will pass to the second round. The authors of the five best cartoon designs of each nominal value will be invited to make the reliefs of coins in the form of plaster models.

The tender will be announced on 20 July 2004, and the full version of terms and conditions of the tender will be available on the web site of the national Bank of Slovakia www.nbs.sk.

On request, it will be available also at the Currency Preparation and Analysis Department of the NBS.

The more detailed information will be provided to the media at a separate press conference.

Rationale behind the decision of the Bank Board of the NBS on interest rates

After having discussed the Situation Report on Monetary Development in Slovakia in May 2004 and having considered the current information on the macroeconomic development, the Bank Board of the NBS decided on lowering its interest rates. The Bank Board took into account the development of real economy, which published data on gross domestic product for the first quarter 2004 confirmed, after three year-quarters of decline, the recovery of domestic demand. This recovery has already been indicated by the development in individual branches. The Bank Board concluded, in the context of the reported economic growth, that both the current development of inflation and its twelve-month's horizon prediction are in line with the expectations of the NBS, i.e. at the level of about 4%. When deciding on the interest rates levels, the Bank Board of the NBS considered also the development of the exchange rate of the Slovak koruna, the appreciation growth rate of which, in the second half of May, may have been considered as too fast. Although the exchange rate has slightly stabilized recently, the NBS will carefully monitor its development and will consider using available tools for its corrections, if necessary.

In making a decision on the level of interest rates, the NBS has considered the following factors:

The price development in May was consistent with the expectations of the NBS. In the area of consumer prices the growth persisted in the prices of fuels. Also foodstuff prices began to rise as expected, which was due to seasonal effect as well as to the adoption of the Common Agricultural Policy. The inflation development in June should be influenced by an expected decrease in fuel prices, low dynamics of tradable goods prices, as well as the seasonal growth of the prices of foodstuffs and certain services connected with the summer tourist season. In the months to come we expect a gradual decrease in the inflation dynamics, which is in consistence with the programmed band. This favourable development of inflation is reflected also in the consumers expectations in the area of price development, which expectations have considerably decreased since the beginning of this year.

In April, the development in trade balance continued in the trend of the previous months, when the deficit on the year-on-year basis further decreased. At the same time, the current account remained in surplus. This development was consistent with the NBS assumptions. In the second half-year 2004, the import of investments should increase and the year-on-year dynamics of exports should slow down due to the basic effect.

The data on gross domestic product for the first quarter 2004 have confirmed the signals from the development of branch indicators of domestic demand recovery. The achieved growth of real economy can be considered as relatively dynamic, being influenced also by a higher number of working days. In comparison with the last year, the positive contribution of net exports in the first quarter 2004 decreased in favour of domestic demand. This corresponds with the NBS assumptions, and is consistent with the last decisions of the central bank that has decreased the interest rates for several times since last September in order to support domestic demand. The structure of GDP does not signal any emergence of demand pressures. The faster growth of the final consumption of households, as compared with the expectations, was in the first quarter influenced by the development of wages and by the consumption deferred from the previous year. As the dynamic growth of nominal and real wages was considerably influenced by the transferring of the 2003 wages and bonuses payout, and the April data for the particular branches indicate its curbing for the following months, we assume that the development of the final consumption of households will be more moderate in the next year-quarters. As regards domestic demand, the share of investments should gradually increase. Based on the so far information and with regard to the above-mentioned facts, the real economy growth could reach the year-long growth rate oscillating around the upper limit of the Updated Monetary Programme.

During May and June there were repeated appreciation pressures in the area of the exchange rate, and the NBS reacted by operations on the money market. The leaving of the excess liquidity in the banking sector should have indicated that the dynamics of the exchange rate appreciation started to be very fast and was not consistent with the equilibrium exchange rate development. As regards the foreign trade development, in the following months we expect an increase of its deficit on the year-on-year basis. This increase should be influenced by the expiration of the effect of the increased level of exports in the first five months of this year as compared with the same period of the last year. Simultaneously, the current account should be negatively influenced by the dividend payout to abroad.

Based on the latest information, we can state that in the area of inflation no factors have been identified which could divert its growth rate from the programmed band in the twelve months to come. A relatively dynamic growth of gross domestic product in the first quarter 2004 is considered by the NBS as favourable with regard to the more balanced growth structure in favour of the domestic demand recovery. The development of foreign trade is in line with the NBS expectations, while an expected worsening of its balance on the year-on-year basis as well as an expected outflow of funds within other items of the current and capital accounts could dampen the exchange rate appreciation. The NBS will monitor the development of the exchange rate and will react adequately in the event of any pressures for its appreciation caused by the inflow of short-term capital.

Press Development of the NBS

PRESS REPORTS

NBS Governor signs declarations of accession to memoranda

On 17 June 2004 the Governor of the NBS, Marián Jusko, at the European Central Bank in Frankfurt am Main signed the Declaration of Accession to the Memorandum between Payment System Supervisors and Banking Supervisors, and the Declaration of Accession to the Memorandum of Understanding of Banking Supervisors and Central Banks in the Field of Crisis Management.

Both declarations were signed concurrently by the highest representatives of the central banks of all ten new EU member states.

The main aim of the first document is to support cooperation and the mutual exchange of information in the field of payment systems, as well as ensuring a healthy and stable payments system of participating credit institutions. Even though the memorandum is aimed primarily at large interbank transfers, it provides a starting point also for cooperation in the field of retail payments.

The second memorandum contains a list of the principles and procedures of cross-border cooperation between banking supervisors and the central banks of EU member states in crisis situations. These are deemed situations that may have an adverse impact on individual credit institutions, banking or financial groups and may adversely influence also other member states. The memorandum includes also practical conditions for the exchange of information at the cross-border level.

NBS Governor at meeting of the ECB General Council

On 17 June 2004 the Governor of the NBS, Marián Jusko and Deputy Governor Elena Kohútiková attended the 27th meeting of the General Council of the European Central Bank (GC ECB) in Frankfurt am Main.

The agenda of the negotiations of the heads of central banks of the eurozone countries covered macro-economic, monetary and financial development in the union with emphasis on development in the eurozone, an evaluation of monetary policy in individual states using the common currency as well as in countries preparing to introduce the euro. The GC ECB also assessed the Annual Report on Public Finances in the European System of Central Banks. The document concerns the development both of eurozone states as well as development in other EU member states.

The meeting dealt with the degree of preparation of national central banks in the new member states of the EU for complying with the requirements of the ECB in the field of statistics. The GC ECB also discussed the provision of cross-border banking services and the position of central banks in this field.

I. Barát

VÚB GENERALI DSS

JOINT VENTURE IN THE PENSION FUND SECTOR

The Group Generali and Banca Intesa through their Slovak subsidiaries – Generali Poisťovňa and VÚB banka – have founded a joint venture which will operate in the domestic pension fund market. The new company with the name VÚB Generali DSS, a.s. (pension fund company) is controlled equally by the founding companies. The company has registered capital of SKK 300 million.

The aim of the joint venture VÚB Generali DSS is to take advantage of the opportunity in connection with the opening up of the pension fund market (the 2nd pillar) from 2005. The company is aiming at gaining a 20 to 25% market share, representing around 200 000 clients. The company will offer the funds by means of licensed brokers in the VÚB branch network, by means of licensed brokers and the insurance agents of Generali and via the employees of DSS and through an independent distribution network on the basis of a contractual relationship and brokers' individual licences.

Press conference held on 10 June 2004 on the occasion of the founding of the new pension fund company VÚB Generali DSS, a.s. From left: R. Juraš, W. Moertel, T. Spurny, G. Mandelli, M. Drosc.

The reform of the Slovak pension system, with effect from 1 January 2005, is based on the creation of a second pillar through the establishment of private pension funds with a compulsory contribution of 9% of gross earnings for a period of at least 10 years.

The new pension fund company relies on the stable and renowned presence of VÚB and Generali Poisťovňa in Slovakia. The entry to the Slovak pension fund market is a further step marked out in the strategic plan of the Generali Group, which is focused on consolidating and strengthening its presence in Eastern Europe. The same applies also for Banca Intesa, which has clients in Croatia, Hungary, Warsaw and Belgrade, and which recently held a celebratory opening of ZAO Banca in Moscow as the first Italian bank with a licence in Russia.

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Photo: VÚB banka, a. s. archives.

BASEL II – PREPARATIONS FOR IMPLEMENTATION

On 21 June 2004 a seminar was held in the Congress Hall of the National Bank of Slovakia, focusing on implementation of Basel II and the new capital directives.

Participants of the seminar, guests from the Financial Market Authority, representatives of auditing firms and speakers from the European Commission, the European Central Bank, Česká sporiteľňa, Erste Bank, VÚB banka, Deloitte and Touche Bratislava and the NBS were welcomed by the Deputy Governor of the NBS, Ivan Šramko (third from right in the picture). In his opening speech he touched on the current state in the preparation for implementing the new rules for prudential banking business.

He mentioned that the European Commission via its Expert Panel for the preparation of amendments to the two main banking directives (the "coordination directive 2000/12" and the directive on KP 93/6) had prepared the text of these amendments, which following internal processing at the European Commission will be published as a final proposal of the Commission (probably in July 2004). Ivan Šramko stated that the NBS had had the possibility to contribute to the preparation of the new banking rules and had actively taken advantage of this.

In his speech he also stated that the forthcoming changes to the regulatory framework have an impact both on prudence, as well as in the macroeconomic, or microeconomic field. They are aimed at the health of individual institutions and at the stability of the financial sector as a whole. He outlined also the 25 Basel Principles of effective supervision, which are currently followed by supervisory authorities in more than 130 countries.

NBS Deputy Governor Ivan Šramko in conclusion provided information on the NBS's activities over the period of preparations for introducing the new capital requirements and stated that in the future the close cooperation of the banking sector and NBS banking supervision will be essential in the framework of implementing the new Basel II rules for prudential banking business.

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Photo: P. Kochan