



OIL PRICES ARE FLOATING IN THE OCEAN OF SUPPLY

Branislav Karmažin, Národná banka Slovenska

Has the recent increase in oil prices, recorded since mid-February 2016, been only temporary and fuelled by current market psychology, regardless of fundamentals? Or, has the oil market already taken account of expectations that the oil oversupply will reduce in the future? The picture of future short-term price developments is blurred when looking at current data. On the one hand, there is a huge imbalance between supply and demand, when an excess oil production reaches almost 2 million barrels per day. On the other hand, the number of productive oil rigs has sharply declined in the United States and the number of bankruptcies of oil companies that use unconventional production methods increased. Meanwhile, the OPEC countries have not yet agreed on reducing production volumes. Apparently, it will take some time until longer-term price balance is restored on the market. (p. 4)

MAIN TRENDS AND RISKS FROM THE VIEW OF THE SLOVAK BANKING SECTOR'S STABILITY

Ján Klacso, Národná banka Slovenska

Developments of the Slovak economy in the period under review have influenced the domestic banking sector and its financial stability rather positively. In contrast, external environment entails some risks that might, if materialised, impact on financial institutions. In 2015 and early 2016, overall developments in the banking sector, in particular its profits and main balance-sheet items, were significantly affected by the environment of low interest rates. Low rates are expected to continue in the near term and their influence will increase. Macroeconomic and financial risks are coupled with growing legislative risks. A sharp rise of household loans, combined with increased indebtedness of households and rising housing prices, and a restored growth of corporate loans are being reflected in macroprudential policy. In the near future, an NBS Recommendation in the area of prudential provision of retail loans is being transposed into an NBS Decree, and the central bank is considering raising the countercyclical capital buffer above zero. (p. 6)

CYBER SECURITY IN THE INSURANCE SECTOR – THREATS AND OPPORTUNITIES

Matúš Medvec, Národná banka Slovenska

The previous article titled "Cyber risk insurance", which was published in the June 2015 issue of BIATEC, explained cyber insurance and its characteristics and main parameters. The present article, however, focusses on the latest developments in this area in European countries and from the view of international institutions. Cyber security is being explored by numerous public and private institutions. The OECD, EIOPA, IAIS and the EU Member States' central banks and supervisory authorities have given increased attention to cyber risk issues. The pressure to ensure cyber security has naturally intensified with IT evolution introducing work with large databases, the use of big data, and the provision of financial services via different internet applications. This is especially evident in the financial sector, where personal data security has become a particularly sensitive issue. (p. 11)

THE FUTURE OF EURIBOR OR THE REFORM OF BENCHMARK INTEREST RATES

Peter Andresič, Národná banka Slovenska

At the end of the last year, the European Money Market Institute (EMMI) organised a series of road shows introducing planned changes to the Euro Interbank Offered Rate (Euribor). As one of the prime benchmarks for prices and rates, this rate has gone through a turbulent period recently, which adversely affected its reliability and credibility. The proposed changes are aimed at reversing this trend, eliminating manipulation by banks when providing quotes for the Euribor and similar benchmark rates, improving the Euribor's quality and reputation, as well as increasing banks' interest in participating in its setting. These changes should eventually help the financial market price indicators to regain respect. Restoring damaged reputation usually takes some time, however, the EMMI and banks seem to have properly addressed the latest issues. The mentioned manipulation has not been the only challenge for benchmark setting. The author of the article summarises the establishment, development, reforms and future of representative Euribor rates. (p. 16)

BANK MANAGER COMPENSATION SYSTEMS THAT MATERIALLY IMPACT THE RISK PROFILE OF LARGE EUROPEAN BANKS

Zoltán Zéman, József Tóth, Péter Kalmár, László Hajós
Szent Istvan University

Following the recent economic crisis, a need has emerged to regulate the existing remuneration practices. The financial sector has become a professional environment where high short-term profits lead to generous bonus payments to managers without adequately considering longer-term risks imposed on their institutions. In 2009 the Financial Stability Forum (now the Financial Stability Board) issued for the first time a set of Principles for Sound Compensation Practices. These principles have been incorporated into the Basel III Accord and formed part of the Capital Requirement Regulation and Directive in the European Union since 2013. This article provides an overview of different regulatory expectations with a focus on their implementation in the European Union. It analyses data on remuneration disclosed by European banks in 2014 as part of the latest European stress testing exercise. (p. 20)

PROPERTY CYCLE IN SLOVAKIA AND ITS SPECIFIC FEATURES

Mikuláš Cár, Národná banka Slovenska

The housing bubble burst in the second half of the 2010s, which probably belongs among the strongest in recent history, has significantly contributed to global financial and economic instability. This experience has suggested that the phases of the property cycle in individual countries, and in particular reasons of housing market overheating and a subsequent slump in housing prices, should be more systematically analysed. Based on this analysis, effective measures should be employed to prevent re-occurrence of similar situations. (p. 24)