

F. INTERNATIONAL ACTIVITIES



1. COOPERATION OF THE NBS WITH THE EUROPEAN UNION

The National Bank of Slovakia is the coordinator of relations between the Slovak banking system and the European Union. With regard to the fulfilment of the individual articles of the European Association Agreement, the Bank actively assists the process of harmonization and the gradual attainment of compatibility of the legal and economic environment of the Slovak banking sector with the legislative framework of the EU. Since 1998, the NBS has regularly participated in drafting a revised text of the National Programme on the Adoption of the Acquis Communautaire (NPAA), which monitors the level of approximation of the legislation of the Slovak Republic to the acquis and defines the obligation to adopt the acquis in the context of short- and medium-term priorities. The NBS has actively participated in three chapters of the NPAA:

3 – Free Movement of Services,

4 – Free Movement of Capital,

11 – Economic and Monetary Union

and has also cooperated on the chapter

12 – Statistics.

In 2000, the Slovak Republic attained a new status as regards the accession process to the European Union as a consequence of the decision of the Helsinki summit in December 1999, which opened the door for a second group of candidate countries to begin the accession process. The SR opened accession negotiations on individual chapters, which in practice meant that Slovakia began direct negotiations on the fulfilment of entry conditions.

In June 2001, Slovakia submitted a revised NPAA, in which it outlined its accession strategy including the method of implementation of priorities contained in the document - Accession Partnership.

The Slovak Republic must defend its position in a total of 29 chapters. As of the end of December

2001, the SR defended and temporarily concluded 22 negotiation chapters, including those with NBS participation. The European Commission positively assessed the marked progress attained, particularly as regards adopted legislation.

As regards the mentioned chapters, NBS representatives have participated at meetings of the Association Council, the Association Committee and Association Subcommittees, at which the NBS submitted an assessment of the fulfilment of legislation in the banking sector, development of the monetary policy, the state of the banking sector and of progress as regards payment systems. This presentation became the basis for the assessment of the Slovak Republic in the accession process to the EU and was incorporated in the Regular Report of the European Commission on the Slovak Republic's Progress towards Accession to the European Union of 13 November 2001.

Chapter No. 3 – Free Movement of Services

Progress was attained in the field of financial services, particularly as regards legislation regulating banking supervision. The amendment of the Act on the National Bank of Slovakia, which became effective in May 2001, increased the independence of the central bank and reinforced its supervisory authority within the banking sector. The new Banking Act adopted by the National Council of the SR in October 2001, contains additional steps regarding harmonizing banking legislation and organised banking supervision on an individual and consolidated basis.

Chapter No. 4 – Free Movement of Capital

Since 2000, significant progress in this area has been achieved, mainly with regard to the movement of capital and protection against the money laundering. Additional liberalisation measures were implemented by an amendment to the Foreign Exchange Act and a Directive of the Ministry of Finance, which implements some provisions of the Foreign Exchange Act with effect from January 2001.

Chapter No. 11 – Economic and Monetary Union

A new amendment of the Act on the National Bank of Slovakia was adopted, which became effective in May 2001. The amended Act provides for the independence of the central bank, thus harmonising Slovak legislation with the requirements of the acquis in this area. The amendment also stipulates the prohibition of direct funding of the public sector by the central bank.

Foreign Technical Assistance The PHARE Program

The European Union provides foreign technical assistance to the Slovak banking sector within the Phare programme. This agenda has been carried out by the Foreign Department of the NBS since its establishment. The Programme Implementation Unit (PIU) at the NBS is in charge of technical preparation of projects approved for particular banks, preparation for contracting funds allocated in the Financial Memoranda (FM), guiding implementation of projects including monitoring and evaluating the results achieved.

In 2001, the programme of restructuring the Slovak banking sector (financed under the FM 1997 and 1998), in coordination with the MF SR, significantly contributed to the recovery and subsequent privatisation of the two largest commercial banks – Všeobecná úverová banka, a.s. and Slovenská sporiteľňa, a.s. In liaison with those projects technical assistance under the FM 2000 for Slovenská konsolidačná, a.s. (the SKAS) has been launched. All the classified loans from commercial banks and bad assets from other state institutions have been transferred to SKAS (finally merged with the Konsolidačná banka), with the aim of rehabilitating them to some extent. The projects aims to provide support to this institution with its asset portfolio analysis drafting business and legal due diligence of the assets in preparation for their disposal. Assignment of the first expert to assist the Investment Board of the SKAS was already

concluded. The key project will start immediately after the selection of an advisory company in an international tender, which is due in September 2002.

2. COOPERATION BETWEEN THE NBS AND INTERNATIONAL INSTITUTIONS

The International Monetary Fund (IMF)

In April 2001, the leading representatives of the NBS took part in the spring meeting of the committees of the International Monetary Fund (IMF) and the World Bank (WB) in Washington. In addition to these meetings, bilateral meetings with representatives of the IMF and the World Bank and other international financial institutions were held.

The annual meeting of the governors of the member countries of the IMF and the World Bank, originally scheduled for the end of September 2001 in Washington, was cancelled due to the terrorist attacks against the USA. It took place in November 2001 in Ottawa under strict security measures and with a limited number of representatives from individual countries and constituencies. The programme of the annual meeting addressed the following main subject areas:

Strengthening the world economy

September's terrorist attack brought about a slowdown in world economic development. Extensive actions for support and recovery in 2002 were adopted; outlook, however, is largely uncertain. The international community is prepared to take all steps necessary for the maintenance of stability and the reinforcement of growth. By means of increased supervision, the IMF will continue to play a crucial role with regard to crisis prevention, and mitigation of the impact of crises, by strengthening the international financial system and securing global macroeconomic and financial

stability. But the main responsibility as regards the support of the rapid recovery of global growth will rest with the advanced economies. A crucial role in economic recovery will be played by the growing opportunities for trade and international efforts to open markets. The Committee called for vigilance as regards the creation of stability on oil markets and a reasonable price for consumers and producers.

Emerging markets and developing countries are facing weakening of global demand, reduced capital flows, increased aversion to risk in financial markets, reduced incomes from tourism, and reduced and fluctuating prices of goods. A crucial role in these countries will be played by a sound and proactive policy. The Fund, which has a broad range of instruments available and whose current fiscal position is strong, is ready to provide additional financial assistance to countries willing to implement such a policy.

The Committee emphasized the importance of the private sector involvement in the prevention and solution of financial crises. It expressed much concern about the adverse impact of a global slowdown on low-income countries and on the poorest, heavily indebted countries. It called upon the IMF and WB to react flexibly to the needs of those countries, including the granting of additional concession financing and debt relief and for increased efforts to be made within the Poverty Reduction and Growth Facility (PRGF), within the Poverty Reduction Strategy Paper (PRSP) and within the enhanced Initiative for Heavily Indebted Poor Countries (HIPC). Those countries should accelerate the adoption of conditions that could secure debt relief and maintain a sound economic policy. The Committee emphasized the importance of financing the HIPC Initiative and urged bilateral donors to fulfil their obligations.

Fight against money laundering and financing of terrorism

The Committee expressed serious concern regarding the use of the international financial system for the financing of terrorist acts and the

laundering of the proceeds of illegal activities. It called upon all member countries to ratify and implement UN directives, particularly UN Security Council Resolution No. 1,373 on terrorism. It recommended to all member countries to freeze the assets of terrorists and their associates, deny them access to the international financial system and publish monthly list of terrorist organisations whose assets had been frozen, and their amount. The fight against money laundering and financing of terrorism requires the active participation of financial institutions and the establishment of effective security procedures.

During 2001, as part of the long-term mutually beneficial and stable relationship between the Slovak Republic and the International Monetary Fund, several IMF missions were oriented towards statistics, technical assistance for tax administration, but primarily towards the SMP (Staff Monitored Program) proposed by the IMF Executive Board for the Slovak Republic as a supporting programme for the provision of assistance from the World Bank (EFSAL loan). The Slovak Government agreed to the proposed form of cooperation with the Fund and on 28 March 2001 adopted the Statement on Economic Policy for the Purpose of the Staff Monitored Program (Resolution No. 273), which stipulates the specific plans of the Government regarding economic policy for the next period.

On 27 July 2001, a report on the Slovak Republic was discussed by the IMF Executive Board, which represented the completion of the consultation process pursuant to Article IV for the preceding year. The stated consultations, which are conducted annually with each IMF member country, relate to the most important aspects of the development of its economic policy. The Executive Board appraised the efforts of the government to stabilise the economy and to accelerate structural reforms and stated that they considered the economic outlook for 2001 to be encouraging.

In September 1997, the IMF Board of Governors adopted Amendment to the Articles of Agreement, which allowed the implementation of a special one-time allocation of SDRs to member countries. On the one hand, the SDR allocation represents an increase in the foreign exchange reserves of a member country, and on the other hand its liability towards the IMF. The proposed Fourth Amendment to the Articles of Agreement is designed to correct the fact that more than a fifth of member countries have never participated in the SDR allocation and also to balance the ratio of SDR allocation with the membership quota for all member countries at 29.32%. The anticipated share of the Slovak Republic in this allocation will be approximately SDR 75.47 million (US\$ 97 million). From the procedural point of view, it is necessary that all member countries approve the Amendment pursuant to national legislation, which becomes valid following its approval by 85% of the total number of votes. With the approval of the Fourth Amendment by the Slovak Government, by the National Council of the SR and its subsequent signing by the President of the Slovak Republic on 5 December 2001, Slovakia joined the IMF member countries that have agreed to its adoption.

On 11 December 2001, the Permanent Mission of the IMF in the Slovak Republic was established in Bratislava, and Konstantinos Christou (Greece) was appointed the Resident Representative of the IMF in the SR.

The World Bank (WB)

Following meetings of the representatives of the relevant governmental institutions, in addition to representatives of the National Bank of Slovakia with the World Bank missions in 2000 and in early 2001, on 2 August 2001, the World Bank Board of Executive Directors approved the granting of an EFSAL (Enterprise and Financial Sector Adjustment Loan) to the Slovak Republic. This loan is intended for restructuring of the banking and enterprise sector, with emphasis on coverage of the costs of restructuring of the

selected banks and a solution of problems at medium-sized banks, and is also to be used to contribute to improving legislation concerning bankruptcy and corporate governance.

On 25 September 2001, in accordance with the stated decision, an Agreement on EFSAL was signed between the Slovak Republic and the International Bank for Reconstruction and Development (IBRD) amounting to EUR 200 million with a maturity of 14 years and a 5-year grace period. The loan is to be disbursed in 3 tranches of EUR 60, 70 and 70 million. The conditions for granting the first tranche related to the completion of the pre-privatisation restructuring of banks, completion of the privatisation of Slovenská sporiteľňa and Všeobecná úverová banka, and the announcement of a tender for the privatisation of IRB were fulfilled and the World Bank released the first EUR 60 million tranche of the loan on 21 December 2001. From this tranche, the Slovak Government paid the initial fee of EUR 2 million for its release. Slovakia will be able to draw down the second and third tranches following the coincidence of macroeconomic objectives and policy agreed within the Staff Monitored Program.

On 15 August 2001, in accordance with Government Decree No. 111, dated 1 March 2000, the Ministry of Finance of the Slovak Republic paid the first part of the increase of the Slovak Republic capital deposit at the Multilateral Investment Guarantee Agency (MIGA) in the amount of US\$ 161,372.

On 16 January 2001, in accordance with Government Decree No. 1,142, dated 22 December 1999, the Ministry of Finance of the Slovak Republic paid the first part of the Slovak Republic's contribution to the 12th replenishment of the resources of the International Development Association in the amount of SDR 570 thousand (US\$ 741.86 thousand).

As part of the fulfilment of the obligations of the Slovak Republic toward the World Bank, the National Bank of Slovakia paid, in cooperation

with the MF SR, interest totalling US\$ 6.68 million, and repaid principal totalling US\$ 19.24 million on the loans granted - Structural Adjustment Loan (SAL) and Economic Recovery Loan (ERL), in accordance with the stipulated repayment schedule.

The Bank for International Settlements (BIS)

In 2001, the National Bank of Slovakia continued to comply with all the obligations of a shareholder of the Bank for International Settlements. In accordance with a resolution of the 71st Annual General Meeting of the BIS, held on 11 June 2001, the BIS paid the National Bank of Slovakia dividends of CHF 360 per share for the financial year 2000/2001 ended 31 March 2001. The total dividend remitted amounted to CHF 961,200.

Regular meetings of the governors of central banks at the Bank for International Settlements on monetary policy and relevant issues of banking sector development have generated a defining framework for the effective cooperation of central banks. The BIS contributed to the strengthening of this cooperation via regular surveys of foreign exchange market development and analyses of financial markets, and also by means of the activities of the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System, the Committee on Gold and Foreign Exchange, and other expert groups.

The Japan Bank for International Cooperation (JBIC)

During 2001, there was a gradual accumulation at intermediary Slovak banks of funds for the repayment of the principal from the loans - Two Step Loan I, II and III from the Japan Bank for International Cooperation. These funds were used by the banks in the SR for revolving funding. Up to 31 December 2001, 323

projects valued at Sk 2.9 billion were funded by intermediary banks as part of the revolving use of credit lines - TSL I, II and III.

The structure of the interest rate for Slovak crown funds provided to intermediary banks up to 28 June 2001 was based on the discount rate. Due to changes in conditions on the capital and financial markets (decreases in interest rates) the Bank Board of the National Bank of Slovakia approved a new interest rate structure based on the limit rate for standard NBS two-week REPO tenders.

Despite improved conditions regarding the provision of the stated funds, intermediary banks did not manifest any marked interest for funding projects within the credit lines of the TSL.

The European Investment Bank (EIB)

In 2001, an early repayment of EUR 7.7 million of a part of Apex Global Loan II was made following an NBS Bank Board resolution.

The structure of interest rates for Slovak crown funds provided to intermediary banks up to 12 July 2001 was based on the discount rate. Similar as for JBIC credit lines, this was converted to the limit rate for standard NBS two-week REPO tenders with the aim of adopting the cost of funds to market conditions.

The European Bank for Reconstruction and Development (EBRD)

2001 may be considered an exceptionally positive year in terms of the EBRD activities in Slovakia. The overall number of signed projects for this year represents a record amount compared to the preceding year, i.e. 14 projects with a total value of EUR 344.5 million. Thus, the bank more than doubled its portfolio in the SR, which as of 31 December 2001 attained the value of EUR 534 million.

A significant proportion represented investments in the banking sector. The EBRD invested in pre-privatisation projects at Všeobecná úverová banka, and contributed to the successful privatisation of Slovenská sporiteľňa by purchasing a 19.9% share. In addition, it increased its share in the registered capital of Poľnobanka and concluded a credit line with VÚB for small and medium-sized enterprises.

The International Investment Bank (IIB) and The International Bank for Economic Cooperation (IBEC)

In 2001, delegation of the Slovak Republic took part in the spring session of the IIB and IBEC Bank Boards in Moscow and the autumn session in Cuba.

The main topic of sessions of the IIB Bank Board was discussion on the settlement of the debt of the Russian Federation, which is to be implemented in 2002. In the field of settlement of debt with regard to Cuba a mutually acceptable solution has, as yet, not been found. A Report on IIB Activities for the First Half of 2001, a Report on Settlement of Mutual Obligations and Receivables with former members of the IIB – Hungary and Poland, were also debated. A Working Plan of the Revision Commission of the IIB for 2002 was also approved. The sessions of the IBEC Bank Board were of a similar nature.

The World Trade Organization (WTO)

During 2001, the National Bank of Slovakia participated in the preparation and processing of information materials for several events which are important from Slovakia's point of view. The most important included the WTO Ministerial Conference and the Trade Policy Review of the SR at the WTO.

WTO Ministerial Conference

The fourth World Trade Organization Ministerial Conference was held in Qatar from 9 to 14 November 2001. Ministerial Conference is the highest-level decision making body of the WTO and the meeting is held at least once every two years. The Conference concluded with the adoption of the Ministerial Declaration, which in practice means the approval of the start of multilateral trade negotiations on further liberalisation of trade at the WTO – the so-called new round – Doha Development Agenda.

The opening of a new round of trade negotiations signifies the obligation of the SR as a WTO member country at the economic, trade and political level, to actively engage in the discussions regarding the agenda stipulated in Doha. Within the new round of negotiations the SR will assert its trade and political interests and in accordance with the EU integration process, harmonize its negotiation positions with those of the EU.

Trade Policy Review

On 21 and 23 November 2001, Trade Policy Review of the SR at the WTO was conducted in Geneva. The discussion was based on two fundamental documents, i.e. a Trade Policy Review of the SR (prepared by the WTO Secretariat), and a Report of the Government of the SR as part of the WTO Trade Policy Review, which was approved by the Government of the SR on 19 September 2001. The presentation and discussion of the Trade Policy of the SR is in accordance with its obligations which stem from the SR's membership of the WTO, which stipulates the obligation of the transition economies to present a Trade Policy Review every six years.

The conclusions of the WTO Trade Policy Review Body positively assessed the trade policy of the SR and the progress achieved regarding the transformation of the economy since the last Trade Policy Review in 1995 (especially with

regard to the liberalisation of trade and investments), the reinforcement of the overall institutional and legislative framework, the revitalisation of structural reforms, the improvement of transparency and the privatisation process.

The Organization for Economic Cooperation and Development (OECD)

In 2001, activities stemming from the Slovak Republic's membership of the OECD, continued to be accorded a high level of priority at the National Bank of Slovakia. Representatives of the NBS participated regularly in the drafting of the required documentation for the Slovak Republic, in addition to other required documents as a result of sessions of the following OECD committees and working groups which included:

- Economic Policy Committee (EPC)
- Working Group for Short-term Economic Outlook (STEP)
- Expert Group on National Accounts (EG NA)
- Committee for Economic Reviews (EDRC)
- Committee for International Investments and Multinational Companies (CIME)
- Committee for Capital Movements and Invisible Transactions (CMIT)
- Committee for Financial Markets (CMF)
- Working Group for Financial Statistics (WFS)
- FATF (Financial Action Task Force) Revision Group on Money Laundering.

The OECD Secretariat positively evaluated the work of the NBS. As part of the examination of the SR by the FATF Revision Group (22 May 2001) the delegates of the SR reversed the unfavourable evaluation of the SR in the revision report thanks to their presentation, which was subsequently altered to be the best among the Central European countries. Similarly, the professional

and qualified contributions of the NBS to the above-mentioned OECD bodies were positively assessed. The conclusions of the STEP sessions addressed the global economy outlook for 2001 – 2002 and the outlook in the key OECD regions. They addressed the impacts of the slowdown of the US economy on selected non-member economies of the OECD, in addition to the predicted development of main macro-economic indicators. The conclusions of the STEP discussions have been and continue to be the basis for the preparation of the Economic Outlook of the OECD. The Economic Policy Committee (EPC) dealt in its spring session with current issues related to the implementation of the economic policy of member countries. The main focus was the international impact of national policies with regard to increased mutual dependency and the need for effective harmonization. The comments of the delegate of the SR regarding the conclusions were subsequently approved at a meeting of the OECD Board at the ministerial level in May 2001.

The presentations of experts from the SR to the STEP and CIME committees reaffirmed their professional quality and high level of preparedness. The active and expedite involvement of experts of the SR in the work of individual OECD committees was also highlighted by Donald Johnson, Secretary General of OECD during his June visit to the Slovak Republic.

Pursuant to the activities of NBS representatives regarding OECD activities during 2001, following the preparation of the Economic Review of the SR, employees of the NBS participated in preparing the content and organising the first and second mission of the OECD in Slovakia. The National Bank of Slovakia participated within its competencies in the preparation of responses to individual structured questionnaires of the OECD.