F. INTERNATIONAL ACTIVITIES

1. THE NBS AND THE INTEGRATION PROCESS

In October 1993, the Slovak Republic and the European Union and its member states signed the European Association Agreement which came into force in February 1995. The Europe Agreement lays down the legal framework for political dialogue, and technical and financial assistance provided by the EU member states to Slovakia. In compliance with individual articles of the Agreement, the NBS has taken part in the process of harmonisation and gradual compatibility of the legal and economic environment in the banking sector with the legislative framework in the EU.

Slovakia officially applied for EU membership in June 1995 at the European Council in Cannes. In December 1999 at its Helsinki summit, the Council of the European Union decided to open negotiations on Slovakia's membership of the European Union.

On 12-13 December 2002, a historic summit took place in Copenhagen, which resulted in an official invitation to ten candidate countries, including Slovakia, to join the European Union. Eventually, after the negotiations were over, all countries accepted the invitation.

Looking back, an important methodological guide, helping candidate countries to adapt their legislation to that of the EU, was the White Book published by the European Union. It defined two stages of liberalisation of the capital and foreign exchange regimes. During the first stage, all current payments and long- and medium-term capital movements (maturing in over one year) were to be liberalised. The second stage concerned the movement of short-term capital and was intended to wait until the final leg of transformation. When the Slovak Republic fulfilled Article VIII of the IMF Articles of Agreement on 1 October 1995, the Slovak koruna became convertible within the current account of the balance of payments. In the following period, most of the requirements set out in the first stage of foreign exchange regime liberalisation were met, as shown in the timetable of the liberalisation of capital movements in Slovakia. The second liberalisation stage is still underway.

Liberalisation of the foreign exchange regime of the Slovak Republic

1 February 1995

- direct investments in European Union member countries

1 December 1996

- direct investments in OECD countries
- acquisition of real estate in OECD member states by Slovakia's residents
- export and import of banknotes and coins denominated in Slovak or a foreign currency – reporting obligation – over Sk 150,000 (tourism) or Sk 20,000 (postal money orders, mail deliveries)
- financing loans provided by residents to non-residents based in an OECD member state repayable over 5 years
- financing loans received by residents from non-residents repayable over 3 years

1 April 1998

- issues of foreign securities for domestic trading or for placement on the domestic market when issued by entities based in an OECD member state whose securities are already traded on the main market of a foreign stock exchange, or when government bonds issued by OECD member states are involved:
- residents permitted to trade in the above securities
- mandatory conversion of foreign exchange abolished
- branches of foreign banks – acquisition of titles to domestic real estate required as business premises for their operation under a contract for work (subject to a 10-year transfer ban running from the date of acquisition)

1 January 2000

- extension of operations involving foreign securities specified in the liberalisation step of 1 April 1998 to include non-OECD countries
- foreign issues of domestic bonds maturing in 1 year or more
- financing loans provided by residents to non-residents based in an OECD member state repayable over 1 year
- financing loans received by residents from non-residents repayable over 1 year
- sureties, guarantees and financial support instruments maturing over 1 year
- financial institutions (branches of foreign banks, foreign insurance companies, foreign securities brokers and foreign asset management companies) – acquisition of titles to domestic real estate required as business premises.

1 January 2001

- receiving and providing financing loans repayable within 1 year
- sureties, guarantees and financial support instruments maturing within 1 year
- non-residents based in a EU or OECD member state operating a domestic organisation unit for business – acquisition of titles to domestic real estate required as business premises for the organisation unit
- extension of operations in foreign securities to include those not traded on a main market of a foreign stock exchange

1 January 2002

- liberalisation of domestic transactions in foreign securities

Further liberalisation steps approved by Act of the National Council of the Slovak Republic No. 456/2002 of 25 June 2002, amending the National Council of the Slovak Republic Act No. 202/1995 Z.z. (Foreign Exchange Act):

1 January 2003

- liberalisation of financial derivatives and remaining restrictions on securities

1 January 2004

- abolition of the repatriation obligation, liberalisation of resident operations with foreign deposit accounts, liberalisation of foreign currency operations
- liberalisation of direct investments outside OECD and European Economic Area countries, and of portfolio investments
- acquisition of titles to real estate outside OECD and European Economic Area countries

Upon Slovakia's accession to the EC and EU

- Non-residents – acquisition of titles to real estate, except for real estate subject to separate laws including the acquisition of farming land (except for persons other than Slovak citizens or EU member state citizens temporarily residing in the Slovak Republic who have farmed the land for at least 3 years after the valid date of the Agreement on the Accession of the Slovak Republic to the EC and EU).

The period between September 2001 and the end of December 2002 may be seen as a time of considerable progress in Slovakia's integration to the European Union. At that time, Slovakia once again put to test its negotiating skills and gained valuable experience in the process of accession to the European Union.

Overall, Slovakia had to defend its position in 31 chapters. By December 2002 (Copenhagen summit), Slovakia had defended and closed 30 negotiation chapters. Two further negotiation chapters (30 – Institutions, 31 – Miscellaneous) were added to the original number of 29.

The National Bank of Slovakia has collaborated on the following negotiation chapters:

		Authority in charge
3	– Free Movement of Services	MF SR (Ministry of Finance)
4	– Free Movement of Capital	MF SR
11	– Economic and Monetary Union	MF SR
12	– Statistics	ŠÚ SR (Slovak Statistical Office)
31	– Miscellaneous	MZV SR (Foreign Ministry)

Chapter 31 – Miscellaneous – was added to the original list of negotiation chapters in November 2002. This chapter deals with issues which surfaced during negotiations and which, though not covered in any of the previous chapters, form a part of European Union legislation. This chapter addresses the following eight areas:

1. European Development Fund,
2. Research Fund for Coal and Steel,
3. European Central Bank,
4. Amendments to the statutes of the European Investment Bank,
5. Protective measures,
6. Implementation and management of pre-accession funds,
7. Transitional measures for EU assistance aimed at institution building in new member states after EU accession
8. Temporary provisions – exchange of letters.

With respect to the above areas, the EU arranged an accession conference to present its common positions suggesting how each respective area should be treated after EU entry. As regards this chapter, the National Bank of Slovakia is particularly concerned with item no 3 – the European Central Bank. It is also expected to participate in issues concerning the European Investment Bank and EU pre-accession funds.

At the Copenhagen summit on 13 December 2002, ten candidate countries (Cyprus, Czech Republic, Estonia, Lithuania, Latvia, Hungary, Malta, Poland, Slovak Republic and Slovenia) completed accession negotiations and received an invitation to join the European Union. The treaty signing ceremony is scheduled to take place on 16 April 2003 in Athens and the new members are set to enter the European Union on 1 May 2004.

European System of Central Banks and the European Central Bank

The European System of Central Banks (ESCB) is composed of the European Central Bank (ECB) and the national central banks of the current 15 member states of the European Union (EU). Unlike the ESCB, the Eurosystem comprises the ECB and the national central banks of the member states which have already adopted the euro. According to the Statutes of the European System of Central Banks and the European Central Bank, the central banks of candidate countries will be deemed, after their accession, to be central banks of member states with a derogation and will not be bound by the legal acts of the European Union until the abrogation of the derogation and Slovakia's entry into the third stage of the Economic and Monetary Union.

The Eurosystem and the ESCB are governed by ECB's decision-making bodies, i.e. the Executive Board and the Governing Council. Apart from the two above, the General Council was set up as a third temporary decision-making body, due to the existence of EU member states which have not yet adopted the euro. Despite its undisputed role in the process of association of national central banks, the actual decision-making powers at the ECB lie fully with the Governing Council and the Executive Board. The General Council performs mostly tasks related to the introduction of the euro in all member states and certain other functions within ESCB's operations.

The co-operation with the European Central Bank reached a new qualitative level in the last period. In September 2002 the governor of the National Bank of Slovakia was invited to attend regular General Council meetings as an observer. At the same time, the European Central Bank asked the NBS to nominate representatives to twelve committees of the European System of Central Banks.

These committees are charged with specific tasks of the ESCB, and they are composed of representatives of the central banks of the Eurosystem. Representatives have also been appointed by the national central banks of member states which have not yet adopted the euro. Their representatives participate in a committee when dealing with a matter within the General Council's field of competence. Following ECB's request, in 2002 the central banks of candidate countries, including the National Bank of Slovakia, appointed their representatives to individual committees who will have the position of observers. There are 12 ESCB committees at present:

1. Accounting and Monetary Income Committee
2. Banknote Committee
3. Banking Supervision Committee
4. External Communications Committee
5. Information Technology Committee
6. Internal Auditors Committee
7. International Relations Committee
8. Legal Committee
9. Market Operations Committee
10. Monetary Policy Committee
11. Payment and Settlement Systems Committee
12. Statistics Committee

Reliable and fast information transfer is essential for effective co-operation between the NBS and the ECB. To that end, in summer 2002, the NBS was given the opportunity to connect to the ECB and other central banks via a secure e-mail system CebaMail (Central Bank Mail). This system was designed for the exchange of documents between the NBS and ECB and between the NBS and other central banks within the system.

The activities mentioned above document that the NBS has already become an active partner to central banks of the European Union member states.

Phare Programme

Since its establishment, the National Bank of Slovakia has also participated in a programme of technical assistance provided by the European Union to the Slovak banking sector and the NBS itself financed from the PHARE fund. The actual content of the PHARE programme is determined by the priorities of Slovakia's EU pre-accession strategy set out in the Partnership for Accession and further elaborated in the updated National Programme for the Adoption of the Acquis.

At all stages, this form of assistance has played an important part in shaping the banking sector in the Slovak Republic.

A project proposed in the Financial Memorandum 2001, designed to reinforce financial market supervision, failed to win the support of the European Commission, mainly due to doubts about the future institutional position of banking supervision. Since the Report on Preparedness of the Slovak Republic for EU Membership published in November 2001 highlights the importance of increasing the administrative capacities of supervision of financial services, the NBS, in connection with the PHARE programme based on the Financial Memorandum 2002, re-submitted a project updated in line with a government-approved concept for integrated supervision. The PHARE Management Committee in Brussels approved the project and allocated EUR 2 million from EU funds for its implementation. This task also corresponds with the tasks set in the area of banking supervision as one of the conditions of the Staff Monitored Program and the EFSAL Agreement with the World Bank.

2. CO-OPERATION BETWEEN THE NBS AND INTERNATIONAL INSTITUTIONS

International Monetary Fund (IMF)

In 2002, the top management of the National Bank of Slovakia took part in the spring meeting and in the Annual Meeting of the Boards of Governors of the IMF and World Bank in Washington. The agenda of the Annual Meeting featured these main topics:

• *Global Economy and Financial Markets*
The International Monetary and Financial Committee (IMFC) found that there had been economic growth in all major world regions, though slower than expected in early 2002. Although the world economy is still expected to strengthen, risks of setbacks and instability, as well as medium-term problems related to a long-term disruption of balance, persist. The IMF member countries should be ready to take necessary measures to promote general and durable growth.

• *Strengthening Crisis Prevention and Resolution*
The Committee supported the steps taken by the Fund to help countries prevent crises and, should they occur, to alleviate side-effects. Part of IMF's policy on crisis prevention is to spend considerable resources to improve the ability to assess member countries vulnerability to financial crises. The Fund's supervision focused primarily on improved data quality and transparency. Timely and detailed data on foreign debt and capital flows increase the chance of spotting vulnerability and calling for necessary action in advance. The financial sector is one of the main sensitivity indicators, as it is affected by the behaviour and expectations of international financial markets, national business environment and the banking sector.

• *The Fund's Role in Low-Income Countries*
At the meeting, the Committee appreciated the role played by the Fund in the system of aid for poor countries in trying to reduce poverty and spur growth. The IMFC praised the countries for increased efforts to develop and implement their Poverty Reduction Strategy Papers (PRSP). More and more countries are preparing their programmes in search for bilateral and multilateral aid.

The progress made by the HIPC Initiative (Initiative for Heavily Indebted Poor Countries) was commended highly. Nevertheless, the Committee pointed out that debt relief alone would not guarantee sustainable growth and poverty reduction under the HIPC. It must be accompanied by some real improvement in economic and social policies, as well as sound economic management and a strong government in afflicted countries.

• *Combating Money Laundering and Financing of Terrorism*
The Committee welcomed measures adopted by many member countries to fight money laundering and terrorism financing in follow-up to the action plan approved in November 2001 in Ottawa, and called on countries which had yet to take similar measures to do so as soon as possible. It also insisted on swift action on information sharing between individual member countries in respect of suspicious transactions in the financial sector.

As part of a long-term, mutually beneficial, and stable relationship between the Slovak Republic and the International Monetary Fund, several IMF missions took place in 2002, aimed at:

• *an assessment of the performance of the Staff Monitored Program* – SMP (February – March 2002). This is a support programme designed by the IMF Executive Board for the Slovak Republic to facilitate an EFSAL loan from the World Bank. The mission considered that SMP performance was satisfactory. Economic growth continues and fiscal and monetary performance is consistent with the programme.

- *an assessment of fiscal transparency* (June 2002). In its final report, the mission said that financial management and transparency had improved a great deal in the last two years and that the Slovak Republic meets the fiscal transparency code in many areas.

- *medium-term policy development* in connection with the arrival of a new government and 2003 budget (November 2002). The mission appreciated the low inflation and improved economic recovery, but voiced concerns over the large deficit in the external account of the balance of payments. The mission suggested tightening fiscal policy, loosening the monetary policy and speeding up preparations for admission to the euro area.

Article IV consultations with the Slovak Republic, held once a year with each member country, took place during the May 2002 mission. The IMF mission looked at economic growth and strategy in the fiscal, monetary and foreign exchange areas, as well as other vital aspects of economic policy. It praised Slovakia for following through on its programme of stabilisation and comprehensive restructuring and privatisation. A discussion on the report on the Slovak Republic at the IMF Executive Board in Washington in August 2002 concluded Article IV consultations for 2002.

In May 2002, the National Bank of Slovakia made a bid to host a meeting of representatives of ministries of finance and central banks of the Belgian constituency of the International Monetary Fund and the World Bank. Belgium, as the lead country at the Belgian constituency, welcomed the initiative and asked NBS officials to organise the meeting in the first half of 2003.

In August 2002, the Executive Director of the Belgian Constituency, Willy Kiekens, approached the IMF member countries for presenting measures taken to combat money laundering along with updates of their national action plans. The NBS sent in the document together with an update of the National Action Plan on 10 September 2002.

World Bank (WB)

In March and April 2002, Slovakia hosted a joint mission of the World Bank and International Monetary Fund experts invited by the Slovak government to evaluate its financial sector (FSAP – Financial Sector Assessment Program). The principal aim of the mission was to identify the sector's strengths and weaknesses, detect potential vulnerabilities and key opportunities for future development of the financial system in Slovakia. Against a backdrop of constantly changing financial structure and external environment, the mission pointed to difficult tasks to be tackled by the financial sector and identified obstacles it needs to overcome to fully apply basic standards, in particular those concerning insolvency and protection of creditor rights.

The mission was very important in Slovakia's run-up to European Union accession. A team of WB and IMF experts was deployed at all relevant Slovak institutions and, based on available information, wrote an assessment report in September 2002 including recommendations for improved functioning of the financial sector. The recommendations concerning NBS activities are being implemented on an ongoing basis.

In December 2002, a World Bank mission came in to review the implementation of the programme supported by the Enterprise and Financial Sector Adjustment Loan (EFSAL). The main purpose of the mission was to measure the progress made in the fulfilment of conditions set for the release of the second and the third tranches of the loan under the conditions defined in the EFSAL Agreement of 2001. In addition, the mission discussed technical support for the FSAP. The conclusions drawn by the mission contain recommendations for Slovak authorities.

The total EFSAL committed is EUR 200 million to be drawn in three tranches. The WB released the first tranche (EUR 60 million) in December 2001. The second and the third tranche (EUR 70 million each) are likely to become available in autumn 2003, provided that applicable conditions are complied with.

In late 2002, the International Bank for Reconstruction and Development (IBRD) opened an office in Slovakia (Bratislava) as a contact point for closer co-operation between the Slovak Republic's institutions and the IBRD.

On 27 March 2002, following government resolution No. 111 of 1 March 2000, the Ministry of Finance of the Slovak Republic paid US$ 161,372 as the second portion of the Slovak Republic's supplementary capital contribution to the Multilateral Investment Guarantee Agency (MIGA).

On 17 January 2002, following government resolution No. 1142 of 22 December 1999, the Ministry of Finance of the Slovak Republic paid the second portion of the Slovak Republic's contribution to the 12th replenishment of resources of the International Development Association (IDA) in the amount of SDR 570,000 (US$ 717,630).

As part of the fulfilment of obligations of the Slovak Republic towards the World Bank, the National Bank of Slovakia paid, in co-operation with the Ministry of Finance of the Slovak Republic, interest totalling US$ 4.72 million, and repaid principal totalling US$ 19.25 million on the Structural Adjustment Loan (SAL) and Economic Recovery Loan (ERL) in accordance with the repayment schedule.

Bank for International Settlements (BIS)

In 2002, the National Bank of Slovakia continued to carry out its duties as a shareholder in the Bank for International Settlements. In accordance with a resolution of the 72nd Annual General Meeting of the BIS, held on 8 July 2002, the Bank for International Settlements paid the National Bank of Slovakia dividends of CHF 380 per share for the financial year 2001/2002 ended 31 March 2002. The total dividends remitted amounted to CHF 1,014,600.

Regular meetings of central bank governors at the Bank for International Settlements have focused on monetary policy and other relevant issues of banking sector development thus generating a defining framework for the effective cooperation of central banks. The BIS fosters professional co-operation between banks through regular surveys of foreign exchange market developments and analyses of financial markets, as well as through the activities of the Basle 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.

Japan Bank for International Cooperation (JBIC)

During 2002, there was a gradual accumulation at intermediary Slovak banks of funds – instalment repayments of the principal from the 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 2002, 337 projects valued at Sk 3.8 billion were founded by intermediary banks as part of the revolving use of credit lines – TSL I, II and III.

Due to changed conditions in the credit and money markets, primarily lower interest rates, but also due to the entry of new shareholders to the banks, interest in the utilisation of said funds went down significantly, and some of the intermediary banks gradually paid them back. For this reason, the Bank Board of the NBS decided at its November 2002 meeting to pay off prematurely a part of the funds to the JBIC.

European Investment Bank (EIB)

After EU accession, the Slovak Republic will become a member of the European Investment Bank. EIB membership and admission criteria will be laid down in an amendment to the EIB Statutes. The Slovak Republic will subscribe EUR 408,489,500 worth of its capital. EIB membership will entitle the Slovak Republic to nominate its delegates to the bank's bodies. Slovakia managed to negotiate a more favourable payment schedule (spanning 8 instead of 4 years), than in the original proposal.

European Bank for Reconstruction and Development (EBRD)

In 2002, the European Bank for Reconstruction and Development and Slovakia signed eight projects worth EUR 120.5 million. The sum of EBRD's investments in Slovakia in 2002 was lower than in 2001. In 2001, the Slovak Republic and the EBRD signed projects with a record total since EBRD's arrival in Slovakia – 14 projects totalling EUR 344.5 million.

In the banking sector, the EBRD invested EUR 3.6 million, in a stake in Unibanka, which bought it 19.9% in share capital.

On 12 April 2002, following the Slovak government resolution No. 871/1996, the Ministry of Finance of the Slovak Republic paid the fifth portion of the Slovak Republic's additional capital contribution to the EBRD in the amount of EUR 1.2 million.

International Investment Bank (IIB) and International Bank for Economic Co-operation (IBEC)

The International Investment Bank and the International Bank for Economic Co-operation headquartered in Moscow were founded by member states of the former Council for Mutual Economic Co-operation. After the partition of the Czech and Slovak Federal Republic in 1993, Slovakia became a member of the IIB and IBEC as an independent country. The Slovak Republic's share in paid-up capital is EUR 10.4 million in the IIB, and EUR 8.6 million in the IBEC.

The top management bodies of both banks are the bank boards, which meet twice a year. Spring meetings are usually held in Moscow (the seat of both banks), while autumn meetings are hosted by one of the member states. In 2002, the autumn meetings of IIB and IBEC bank boards took place in Mongolia.

In 2002, the spring meetings of IIB and IBEC bank boards discussed and approved Annual Reports on the banks' activities in 2001, dealt with the issue of settlement of debts owed to the banks by the Russian Federation, and explored a concept for their future development.

As regards the settlement of Russian Federation's debts to the IIB and IBEC, the Russian side informed that their government was working on a resolution to serve as a basis for the recovery.

Apart from that, the IBEC bank board discussed and approved Basic Principles for the Formation of General Reserves by Individual Types of Assets, a Report on the Activities of the IBEC Revision Commission, a Working Plan of the IBEC Revision Commission for the period from May 2002 to May 2003, and the Appointment of New Members to the IBEC Revision Commission.

The autumn meetings discussed and approved both banks' Activity Reports for the first half of 2002, a Progress Report on the Settlement of the Debts of Cuba and the Russian Federation to the IIB and the IBEC. The IIB Bank Board also approved a Progress Report on the Settlement of Mutual Obligations and Liabilities with Former Member Countries – Hungary and Poland, the Fulfilment of the Budget of General Operating Costs of the Bank for the eight months of 2002, the plan for 2003, and a Working Plan of the IIB Revision Commission for 2003.

Regarding the recovery of IIB's and IBEC's receivables from the Russian Federation, the Russian side said that its government had passed a resolution whereby Russia's liabilities should be discharged in two stages. At the first stage, Russia should pay off IIB's and IBEC's liabilities to London Club creditors, with the paid amount reducing the sum of Russia's arrears to both banks. The rest of Russia's debt to the IIB and IBEC is to be paid off during the second stage. As Russia informed, the first stage should be completed by mid-2003.

During the spring and autumn meetings of the IIB and IBEC bank boards, joint meetings were also held to discuss, in particular, the settlement of both banks' mutual relations with the Russian Federation in respect of the IIB's and IBEC's title to the complex of buildings used as their seat.

World Trade Organisation (WTO)

In 2002, the process was under way of submission of Slovakia's requirements for commitments to other WTO member countries, as well as the process of preparation of stances and supporting documents on liberalisation requirements presented to the Slovak Republic by selected WTO member countries (USA, Switzerland, Japan). The NBS has played an active part in both processes in issues falling into its competence.

In connection with ongoing negotiations on liberalisation of services on WTO soil in Geneva, initial bilateral talks between Slovakia, the United States, Switzerland and Japan were held in October 2002. These were followed by special meetings of the Council for Trade in Services and by bilateral negotiations between delegations of the Slovak Republic and the United States, and of the Slovak Republic and Switzerland, on liberalisation of trade in services which took place in December 2002.

Organisation for Economic Co-operation and Development (OECD)

As in 2001, in 2002 Slovakia again took an active part in the work of 140 OECD committees and working groups. Likewise, the active participation of NBS representatives in relevant OECD committees continued. From time to time, the NBS sent its delegates to meetings of the following committees: Economic Policy Committee (EPC), Economic Development Reviews Committee (EDRC), Committee on International Investments (CIME), Committee on Capital Movements and Current Invisible Transactions (CMIT), and Committee on Financial Markets (CMF).