Foreign Activities

6. Foreign Activities

6.1. The NBS and the integration process

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

Accession negotiations with Slovakia were successfully completed on 13 December 2002, and the Treaty of Accession to the EU was signed on 16 April 2003. In a referendum held on 16 – 17 May 2003 a majority of citizens of the Slovak Republic expressed their support for membership in the EU.

After signing the Accession Treaty, the Slovak Republic together with the other acceding countries actively participated in meetings of the European institutions (until 1 May 2004 as an observer). Following the successful ratification of the Accession Treaty, the Slovak Republic became a member of the European Union on 1 May 2004.

In connection with the SR's membership in the EU, the participation of its delegates continued from the lowest expert level in working groups of the European Commission and the Council of the European Union through to the participation of ministers at meetings of the Councils of Ministers and the Prime Minister's participation at meetings of the Council (with voting rights). The NBS was regularly represented by the Governor, Vice-Governor and experts from individual divisions of the NBS at meetings in committees and working groups of the Council of the EU and of the Commission.

The Slovak Republic's accession process into the European Union was one of the NBS's priorities. Following EU accession the NBS has paid attention to the tasks ensuing from membership.

The basis for the EU's decision-making process is the creation of Community legislation, which has three stages – initiative, negotiation and decision. The European Commission is the initiative body of the EU and has the exclusive right to propose EU legislation and to submit it to the Council of the EU and the European Parliament for approval. Drafts are prepared in specialised committees and working groups of the European Commission (there are 700 to 1000 of these). Upon completion of discussions, the European Commission officially submits the draft to the Council of the EU. The draft is discussed again in committees and working groups within the framework of the Council. Following the conclusion of discussions in working groups and committees of the Council of the EU, the draft is further submitted for discussion to COREPER 1 and COREPER 2. Subsequently the draft is submitted to the Council of Ministers for final approval (besides those cases, where pursuant to co-decision procedures it must also be passed by the European Parliament).

The active involvement of the NBS experts in this process in the framework of the Slovak Republic is co-ordinated by the departmental coordination group for EU affairs established by the Governor of the NBS in June 2003. The basic role of this group is to ensure the form of permanent communication with the Commission for Affairs of EU1 and EU2, established at the Ministry of Foreign Affairs of the SR, the smooth transfer of relevant information to the NBS with the aim of its being used or secured by the respective organisational units at the bank, as well as co-ordinating the participation of NBS delegates at negotiations abroad.

Treaty establishing a Constitution for Europe

On 29 October 2004 the text of the first European Constitution was signed in Rome by the highest representatives of the EU's 25 Member States.

After long negotiations, representatives of the EU 25 agreed on the text of the European Constitution on 18 June 2004 in Brussels, during the Irish presidency of the EU. The European Constitution shall enter into force on 1 November 2006 if all Member States have ratified it by then.

During 2004 the NBS submitted its proposals in the process of making comments on the draft constitution, as well as in processing a comparison of the state which the constitution implements and the current status quo of primary law according to the Nice Treaty.

Liberalisation of the foreign exchange regime in the SR

A significant field in the adaptation of Slovakia's legislation to that of the EU was the liberalisation of the foreign exchange regime. This had two stages. In the first stage all current payments and long and medium-term capital movements (with a maturity longer than one year) were liberalised. The second stage concerned movements of short-term capital and was realised only in the last phase of the transformation. The Slovak Republic fulfilled Article VIII of the IMF Articles of Agreement on 1 October 1995, whereby the Slovak koruna became convertible within the current account of the balance of payments.

The course of the foreign exchange regime liberalisation process

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 Slovak residents
- Export and import of bank notes 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 for their operation

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 an 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 that are not traded on the main market of a foreign stock exchange

1 January 2002
- Liberalisation of domestic transactions in foreign securities

1 January 2003
- Liberalisation of financial derivatives and remaining restrictions on securities

1 January 2004
- Abolition of the repatriation obligation, liberalisation of foreign operations in residents' deposit accounts and liberalisation of foreign currency operations performed both domestically and internationally
- Liberalisation of direct investments outside OECD and European Economic Area countries, and of portfolio investments
- Acquisition of titles to real estate outside OECD and EEA countries.

1 May 2004
- Non-residents: the acquisition of ownership rights to real estate, except for real estate acquisition, which is restricted by special regulations and the acquisition of farming land by persons other than

Slovak citizens and EU Member State citizens who have farmed the land for at least 3 years following the Treaty of Accession of the SR to the EU coming into force.

The European System of Central Banks (ESCB) and the European Central Bank (ECB)

The European System of Central Banks is composed of the European Central Bank and the national central banks of 25 Member States of the European Union, where the ECB and national central banks of the Member States that have introduced the euro jointly form the Eurosystem. The Eurosystem and the ESCB are managed by the ECB decision-making bodies, i.e. the Governing Council of the ECB and the Executive Board of the ECB. The third, transitional body with decision-making power is the General Council of the ECB. Its establishment is connected with the existence of the EU Member States that have not yet introduced the euro (Denmark, Sweden, the United Kingdom, and, as of 1 May 2004, the 10 new EU Member States). All three bodies are headed by the ECB president, Jean-Claude Trichet.

The National Bank of Slovakia's co-operation with the European Central Bank changed substantially upon the Slovak Republic's entry to the European Union. Until 30 April 2004 the delegates of the NBS had an observer status at the meetings of the respective bodies of the ECB (General Council of the ECB, committees of the ESCB), where following the Slovak Republic's accession to the EU, the Governor of the NBS became a member of the General Council of the ECB and the NBS delegates were nominated as members to all 12 committees of the ESCB. The work of the committees is aimed at ensuring the fulfilment of specific tasks of the ESCB, including the preparation of documents for discussion by the General Council and the Governing Council of the ECB. Other NBS experts have participated in the work of the internal structures of individual committees.

Consultation of draft legislative measures of the NBS that fall within the ECB's field of competence have become a significant and completely new component of the NBS's work since the country's accession to the EU. In the interest of transparency in the legislative process in the framework of the EU, government bodies of the EU Member States are obliged to submit the drafts of their legal provisions in the field of the ECB's competence for comment by the ECB and other Member States. The National Bank of Slovakia submitted the respective drafts for comment and at the same time gave opinions to the ECB regarding draft legal provisions of other Member States of the European Union.

EU Structural Funds

In 2004, until the end of the accession process, the NBS had representation on the Preparatory Committee for Structural Funds (PCSF). In this way it was involved in creating the conditions and integral system of procedures fulfilling the requirements of the European Commission for drawing funds for economic and social development in Slovakia by means of the Union's Structural Funds.

In 2004 the NBS also participated in the launch of the activities of the Monitoring Committee for the Sectoral Operational Programme Industry and Services of the SR, where attention was focused on the process of setting criteria for the selection of activities and assessing the results and aims achieved in the programme.

The European Commission makes sure that structural fund expenditures are used for ensuring compatibility with European Union policy. Coordinating the activity of the Funds in the framework of individual countries is ensured by the respective managing and paying authorities, whose institutionalisation was completed at the respective ministries. For the purpose of monitoring aid, setting the criteria for selecting activities, assessing results and goals achieved, competences and cooperation were also extended to other bodies and institutions, including the NBS, which in the end leads to a more effective and comprehensive application of the Regional and Sectoral Operational Programmes' aims.

The Phare Programme

Following the successful completion of the projects supporting the privatisation of the largest commercial banks and the assistance to the Slovak Consolidation Bank in settling the portfolio of classified loans transferred to it in the framework of the pre-privatisation rehabilitation of banks, Phare in 2004 concentrated on the projects that met the NBS needs.

At the end of 2003 a twinning-light project begun in the framework of the Financial Memorandum 2001 (FM 2001), whose objective was to increase expertise of NBS banking supervision staff in techniques used in and types of money laundering. The project's main aim was the implementation of the internationally accepted FATF measures (Financial Action Task Force on money laundering) for detecting suspicious transactions related to money-laundering in the banking system. The Guidebook prepared includes draft procedures for NBS audit to be used in reviews of preventive measures adopted by commercial banks against money laundering.

In the framework of the FM 2002 and following the approval of the Government concept of the Integrated Supervision of the Financial market, and with regard to the coming into effect of Act No 96/2002 Coll. on supervision of the financial market, the Government of the SR approved the joint project of the NBS and Financial Market Authority (FMA) “Strengthening the Financial Sector Supervision”, and the European Commission agreed a grant of EUR 2 million for the implementation of this project.

The overall aim of the project is to contribute to the coordination of the banking supervision exercised by the NBS and the supervision of the capital market and insurance industry exercised by the FMA.

Given its complexity, the project was divided into two thematic blocks forming stand-alone sub-projects: “Technical and Legal Assistance” (EUR 1.4 million) and “Software Development and Expert Advice on Early-Warning System for the FMA and NBS” (EUR 0.6 million).

Project contracts were signed in June 2004. The first project “Technical and Legal Assistance” is implemented by the experts from the consortium led by Wiener Börse AG, Austria. The aim of this sub-project is to support the technical integration of both systems of supervision and to improve the quality of monitoring and control mechanisms used in financial market supervision in the SR. The project begun in June 2004 and should be completed by the end of October 2005.

The objective of the second sub-project, “Software Development and Expert Advice on Early-Warning System for the FMA and NBS”, is that the FMA achieves at the date of integration an equal technical level as NBS banking supervision. At the same time an early-warning system shall be implemented in the FMA information system. In the field of banking supervision, the sub-projects aims at improving the risk assessment of information system. The project is implemented by the Greek company ASYK, SA in cooperation with local experts. The project begun in July 2004 and should be finished in August 2005.

In 2004 the last pre-accession financial memorandum allocated EUR 1.25 million for another Phare project “Support to the Implementation of Risk-based Supervision”. During this year the terms of references for the project were completed and a public tender was prepared so that the project could start in the first half of 2005. With regard to the consolidated supervision of credit institutions, the project should assist in the implementation of Capital Accord – Basle II.

6.2. NBS cooperation with international institutions

International Monetary Fund (IMF)

The National Bank of Slovakia’s cooperation with the International Monetary Fund has changed substantially over the past years. With regard to the stable macroeconomic environment and its good budgetary and monetary policy, the Slovak Republic ranked among those countries having all financial liabilities towards the IMF settled and not drawing any loans. Therefore mutual cooperation in 2004 developed mainly by means of missions.

The IMF mission which visited Slovakia in May 2004 stated in its concluding report that Slovakia’s economic growth in comparison with the other V4 countries is more favourable also owing to the stable macroeconomic environment, which is the result of a sound budgetary and monetary policy in recent years.

Regular consultations with the Slovak Republic pursuant to Article 4, held once per year with each Member State, took place during the mission’s visit in October/ November 2004. The IMF mission positively assessed the increase in economic growth and decrease in the balance of payments deficit. This development was supported by foreign direct investment, a healthier business environment and structural reforms. The mission appreciated the adoption of the Monetary Policy Framework by the National Bank of Slovakia, but noted that the high risks connected with inflation and record low interest rates leave little room for any further interest rate reduction. It emphasised that if the significant inflow of capital is to continue, the basic instrument for reducing inflation must be a stronger fiscal policy. The mission welcomed the planned inclusion of the Financial Market Authority into the National Bank of Slovakia.

The spring and annual meetings of the committees of the International Monetary Fund and World Bank in Washington focused on the topics concerning the outlook for the world economy and financial markets, strengthening the function of the IMF supervision in preventing crises and the progress achieved in solving them. Other matters discussed included the fight against money laundering and financing terrorism, the IMF’s role in low-income countries, as well as member states’ quotas and other current issues.

Following the spring meeting of the IMF and the World Bank in June 2004 in Kazakhstan, a meeting of the representatives of the IMF Belgian constituency and the World Bank was held at the level of central bank governor representatives and finance minister representatives. Participants at the meeting discussed the development in world energy markets with particular emphasis on oil production, its distribution and demand, as well as the structure of financial supervision and the role of the central bank in monitoring and maintaining financial stability.

The World Bank

In January 2004 the second instalment of the Slovak Republic's contribution was paid in the framework of the 13th replenishment of the International Development Aid's (IDA) funds in the amount of SKK 32,006,700 (SDR 660,000). The instalment was made in accordance with Government Resolution No. 791 of 10 July 2002, approving the proposal for the Slovak Republic's accession to the 13th replenishment of IDA funds for aid to the world's poorest countries. Upon paying the first contribution, which was settled in 2003, the SR became an IDA donor state.

In April 2004 the World Bank released the third and now last tranche of the government loan, the Enterprise and Financial Sector Adjustment Loan (EFSAL), thus completing its assistance in the banking sector reform in the Slovak Republic.

In June 2004 the new Country Partnership Strategy for the Slovak Republic, which creates the framework for further cooperation for the years 2005 – 2007 was approved. This strategy reckons on a relatively low credit framework of USD 17 million with the reasoning that the SR has increasingly better access to sources of credit. It focuses on the field of fiscal consolidation, the implementation of structural reforms with the aim of increasing the economy's competitiveness and mitigating poverty and promoting social inclusion.

Over the course of 2004 the regional office of the World Bank began to issue a quarterly report on economic development in eight of the EU new Member States (the so-called EU-8). The reports monitor the countries' economic development and continuing reform processes. Its other activities in 2004 included the provision of a grant in the amount of USD 350,000, to the SR Government for the effective notification of the public on the significance and content of government reforms, as well as for the organisation of various conferences, workshops and discussion forums. Overall the Bank's activities have been gradually focusing more on non-credit aid provided in the form of analytical and advisory activities in implementing further reforms. In this way the Slovak Republic has been gradually moving into a new phase of partner cooperation, which will be completed through its graduation, or final transition into the position of donor.

The Bank for International Settlements (BIS)

The National Bank of Slovakia in 2004 again fulfilled its obligation as a shareholder in the Bank for International Settlements. On the basis of Decision 74 of the BIS General Meeting, held on 28 June 2004, it received dividends in the amount of SDR 225 per share for the financial year 2003/2004, which ended on 31 March 2004. The total dividend received represented SDR 600,750 (EUR 724,666.70).

The regular meetings of the BIS, at which the Governor of the National Bank of Slovakia also participated in 2004, focused on the main issues of central banking such as Basle II (the New Basle Capital Accord), the ERM II, the role and the activities of the Committee on Payment and Settlement Systems. The governors also discussed the development of financial markets and institutions, fiscal rules, the problem of global liquidity, the relationship of central banks to the insurance industry and rating agencies.

The Bank for International Settlements also contributed to the banks' professional cooperation by way of regular overviews of the development of the foreign exchange market and analyses of the financial markets, as well as by means of the activity of the Basle Committee for Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System, the Markets Committee and other expert groups.

Japan Bank for International cooperation (JBIC)

As a result of the changes in the conditions on the credit and financial markets, commercial banks' interest in the further use of the Two Step Loan credit lines, provided by the JBIC to the National Bank of Slovakia over the course of 1994 to 1997, has fallen significantly. On the basis of a decision by the Bank Board of the NBS, the National Bank of Slovakia made an early repayment in favour of JBIC in September 2004 in the amount of the outstanding balance of funds from the Two Step Loan.

European Investment Bank (EIB)

Upon its accession to the EU, the Slovak Republic became a member of the EIB and thus took on the obligation of realising the conditions for a repayment calendar for capital subscribed in the amount of EUR 408,489,500. According to the SR's Treaty of Accession to the EU an eight-year repayment term is set for the total amount of the subscribed capital and its first payment of EUR 9,446,046 was made in 2004.

In accordance with the policy of EU bodies, the EIB is assigned a key position in ensuring the development programmes of member states and has recently been at the centre of attention related to the specific demand of the Council to support the European Action for Growth programme, linking to the process of creating the technical, legal, administrative and accounting conditions for realising infrastructural and innovation projects. The credit financing mechanism of these projects uses a special instrument, known as a framework loan, provided to commercial banks. In addition, broader use has begun to be made of the system of state guarantees, where a contractual party in the given cases is the Ministry of Finance of the SR, fulfilling the function of the paying authority involved in realising the structural operations.

The EIB Board approved a framework loan of EUR 400 million for railway transport projects and a further framework loan of EUR 350 million for projects relating to motorway construction. In relation to the co-financing of structural funds, a government loan of EUR 95 million, whose repayment can begin after 2010, was contractually agreed for a period of 25 years. The credit sources of the EIB are gradually becoming a significant support instrument for the National Development Plan of the SR.

European Bank for Reconstruction and Development (EBRD)

In 2004 the European Bank for Reconstruction and Development was involved in financing activities in the Slovak Republic totalling EUR 83 million, in accordance with its strategy. Its priority activities during 2004 were centred on the joint credit programme of the EBRD and the EU aimed at financing small and medium-sized enterprises.

At the 13th Annual Meeting of the Board of Governors of the EBRD Member States, held in London on 18 – 19 April 2004, the EBRD confirmed its position regarding the new Member States of the EU. The EBRD is willing to continue in investment activities and in support for the new EU Member States; however the focus of its activities will shift to poor countries of Central Asia, the Balkans, and in particular Russia.

In July 2004, the EBRD's new strategy for the Slovak Republic setting out the short-term key operational priorities for the following two years, was approved. Its support will be focused on the business, financial and energy sector and on infrastructure. Upon the Slovak Republic's accession to the EU, the joint loan facility of the EBRD and the EU, which was aimed at the development and growth of small and medium-sized enterprises, ended. The EBRD, in cooperation with the EU, have prepared new loan facilities, which will focus on the financial supporting for the building up and development of communal infrastructure as well as for small and medium-sized enterprises in the rural environment. Within the framework of the facility for supporting small and medium-sized enterprises in the rural environment, the EBRD will provide loans for banks and leasing companies in the amount of EUR 50 million. In November the first contract within the framework of the new Municipal Finance Facility was signed with Dexia banka Slovensko in the amount of EUR 32 million.

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

The International Investment Bank (IIB) and the International Bank for Economic Cooperation (IBEC) headquartered in Moscow are banks founded by member countries of the former Council for Mutual Economic Co-operation. Following the division of the Czech and Slovak Federal Republic in 1993, Slovakia, as an independent republic, became a member of the IIB and IBEC. The Slovak Republic's share in the paid-up capital in the IIB is 4.85%, representing EUR 10.4 million, and 6% in the IBEC, representing EUR 8.6 million.

The supreme governing body of both banks are the Bank Boards, which meet twice a year. The spring meeting was held in St. Petersburg, Russian Federation; the autumn meeting was held in the Czech Republic.

The spring meetings of the IIB and IBEC bank boards discussed and approved the reports on the activities of both banks for 2003, the reports on the settlement of the receivables and liabilities of the IIB and IBEC, the budgets of general operating costs for 2004, and took note of the report on the activities of the IIB revision commission for 2003. The IBEC Bank Board approved the plan of work for the IBEC revision commission for the period from May 2004 to May 2006 and appointed new review commission members from the Slovak Republic and Czech Republic.

At their meetings the IIB and IBEC bank boards approved a proposal to create a working group of authorised representatives of the leading delegations of the member states whose function shall be to draw up and negotiate the aims, roles, strategy and basic principles for the further functioning of both banks.

At its autumn meeting, the IBEC Bank Board discussed and approved a report on the bank's activities for the first half of 2004, information on the settlement of the bank's receivables and liabilities, a report on the course of the settlement of issues connected with the bank's headquarters in the territory of the Russian Federation and the draft budget of general operating costs for 2005.

At the autumn meeting of the IIB Bank Board a document on the development of the IIB's activity was discussed and approved, including the optimisation of general operating costs by means of an organisation focused on providing technical services, a report on the course of the settlement of the IIB's receivables and liabilities with former member states and a report on the course of the settlement of issues connected with the bank's headquarters in the Russian Federation. The Bank Board also approved the fulfilment of the budget's general operating costs for 2004, the draft budget for 2005 and the working plan of the review commission for 2005.

The autumn meetings included the joint negotiation of the bank boards of the IIB and IBEC focusing on the results of the activity of the working group of authorised representatives of leading delegations of the member states.

World Trade Organisation (WTO)

Since the entry of the Slovak Republic into the European Union, the remit and tasks of the Slovak Republic in the WTO has changed. The SR participates in common action of the EU towards this institution, whereby negotiations of the Member States are conducted under the umbrella of the 133 Committee, which is a consultative body of the EU Commission for multilateral trade affairs, application of WTO rules, and preparation of negotiation positions. The responsible body for the representation of the interests of the SR is the Ministry of Economy of the SR.

The NBS expresses its views on the part of obligations in the field of financial services, especially those related to banking. In 2004 the presented obligations of the Russian Federation and Ukraine were evaluated, as these countries expressed interest in ordinary membership in the WTO. Accession negotiations have as yet not been concluded.

Organisation for Economic Cooperation and Development (OECD)

In 2004, the Slovak Republic continued its active cooperation in realising the planned agenda in the relevant committees of the OECD. The SR participates in and is represented on 140 committees and working groups of the OECD. The work of NBS representatives is shown primarily in the Committee on Financial Markets (CFM), the Economic Policy Committee (EPC), the Committee on Capital Movements and Invisible Transactions (CMIT) and the Economic and Development Review Committee (EDRC). Similarly as in previous years, the presentations by the NBS representatives were strengthened by their expertise, involvement and presentation of the Government's programme of economic reforms in the SR.

In March 2004, under the auspices of the SR Government, the international Economic Reforms for Europe conference was held in Bratislava, at which NBS representatives also participated.

In July 2004, an evaluation and examination of Portugal was made by the Committee for Economic Reviews; representatives of the Ministry of Finance of the SR, the Ministry of Foreign Affairs of the SR and the NBS also participated.

Within the framework of the OECD's regular activities in 2004, the NBS participated in filling out and completing the OECD Questionnaire.

In December 2004, the NBS received a visit of representatives of the OECD mission within the framework of preparatory work for updating the Economic Survey for the SR, where representatives of the NBS presented the current situation in monetary development, as well as the state and level of stability in banking supervision and capital activities in the SR. Based on the presented preliminary economic indicators, OECD representatives positively evaluated the development of the economy and NBS policy.