

# Foreign Activities





# 7 Foreign Activities

## 7.1 European Union

During 2005 – in the second year of EU membership – the National Bank of Slovakia joined the decision-making process of EU bodies by having delegates on selected committees and working groups of the EU Council, European Commission and Commission for EU Affairs.

Governors of national central banks were invited to informal meetings of the EU Council of Economics and Finance Ministers (ECOFIN), held in May in Luxembourg and in September in Manchester. These meetings focused on issues concerning financial crises management, development aid and responses to the challenges of globalization.

The NBS delegates were also regular participants in the meetings of the committees and working groups of the EU Council and European Commission. The NBS played an important role mainly in the activities of the Economic and Financial Committee (EFC), which is responsible for monitoring the economic and financial situation in the EU Member States, financial relations with third countries, and the situation in regard to the movements of capital and payments. The EFC also consulted over the process leading to a decision on the entry of Cyprus, Malta, Latvia and the Slovak Republic into the exchange rate mechanism ERM II. NBS experts attended meetings of the EFC's Euro Coin Sub-committee and Sub-committee on IMF. As regards European Commission committees, NBS delegates took part in the meetings of the Committee of European Banking Supervisors (CEBS) and its expert groups, as well as the Mint Directors Working Group and its sub-committees.

In 2005, the NBS also participated in the EU-related decision-making process within Slovakia. NBS representatives were regular participants in the meetings of the Commission for EU Affairs, the main task of which is to coordinate Slovakia's European policy towards matters discussed by the Committee of Permanent Representatives (COREPER) at the EU in Brussels. The NBS also cooperated in the drafting of instructions for the Commission for EU Affairs, which subsequently approved and forwarded them to the Permanent Representation of the Slovak Republic at the EU in Brussels.

### The 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 central banks of 25 Member States of the European Union, while the Eurosystem comprises the ECB and the central banks of those Member States that have adopted the euro. The Eurosystem and the ESCB are managed by the ECB decision-making bodies, namely the Executive Board of the ECB and the Governing Council of the ECB. The ECB President, Jean-Claude Trichet, is the Head of these bodies. The third decision-making body is the General Council of the ECB, a transitional umbrella body for those Member States that have not yet adopted the euro (Denmark, Sweden, the United Kingdom and the ten new Member States). Seven out of ten new Member States (including Slovakia) have already entered ERM II, which is one of the necessary steps in the euro changeover process.

The National Bank of Slovakia cooperates with the ECB at several levels. The NBS Governor is a member of the ECB General Council, which convened five times in 2005 including once through a teleconference. The General Council meetings focus mainly on the documents drafted in the ESCB committees. The NBS has two experts on each of the twelve ESCB committees, and they, together with the representatives from the other central banks and the ECB, oversee the fulfilment of specific tasks of the ESCB, including the preparation of documents for discussion by the General Council and Governing Council of the ECB. Other NBS experts participate in the work of the internal structures of individual committees.

A significant part of the NBS's work involves consultation over draft general legal regulations of the NBS, i.e. draft laws, decrees and provisions that fall within the competence of the ECB. In the interests of transparent law-making within the EU, the national authorities of the Member States are required to submit to the ECB for comments, and for access by other Member States, their draft legal provisions that come within the remit of the ECB. In 2005, the National Bank of Slovakia submitted several draft legal regulations for comments, and also commented on ECB's opinions regarding the draft legal provisions of other Member States. In addition, the NBS provided comments on



various regulations and directives issued by the EU Council and European Commission.

### The Phare Programme

On the basis of Resolution No. 775/2003, and following the adoption of Act No. 747/2004 Coll., the Slovak Government passed a decision on establishing an integrated supervision of the financial market, as of 1 January 2006. In order to support this process, the steering committee in Brussels approved, within the Financial Memorandum 2002, a joint project for the Financial Market Authority (FMA) and the NBS entitled "Strengthening Financial Sector Supervision", for which it provided a grant of EUR 2 million.

Given its scope, 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 an Early Warning System for the FMA and NBS" (EUR 0.6 million). The projects were launched in the first half of 2004 and completed in the second half of 2005, implemented by Consortium Wiener Boerse, from Austria, and Asyk S. A, a Greek company.

The main aim of the projects was to strengthen supervision of the capital market, insurance companies and banks by improving the quality of supervisory procedures in the supervision exercised by the FMA and NBS.

The successful implementation of both projects supported the expansion and streamlining of supervisory authorities in their capacity to regulate the financial market effectively and it helped to create the technical bases for the amalgamation of the two supervisory authorities.

The last Slovak banking sector project to be financed by the European Commission under the Phare Programme is "Support for Risk-based Supervision". Provided on the basis of the Financial Memorandum 2003, the grant amounts to EUR 1.25 million. Implementation of the project by the Belgian Banking Academy began in June 2005 and is due to be completed in October 2006. The project represents a logical continuation of the preceding projects and its immediate objective is to improve the quality and effectiveness of the integrated supervision in line with the implementation of Basel II, i.e. to encompass all risks related to business in the financial and capital market and to develop supervision of pension funds, financial companies, electronic commerce, market management and cross-border services.

A stand-alone subproject is the implementation of application software for the collection and assessment of data from entities subject to capital market supervision.

## 7.2 NBS cooperation with international institutions

### International Monetary Fund (IMF)

Relations between the National Bank of Slovakia and the International Monetary Fund have undergone a gradual transformation, and their mutual cooperation has reached a qualitatively new level over recent years. Because of good results in economic policy and its stable economic environment, the Slovak Republic stands as one of the countries that have settled all their financial liabilities towards the IMF, is not drawing any loans, and is among the IMF donor countries.

Preparations were made during 2005 for the participation of the Slovak Republic in the Financial Transactions Plan (FTP), through which the economically strong IMF member countries lend foreign exchange to member countries which have balance of payment problems. In FTP transactions, the National Bank of Slovakia acts on behalf of Slovakia, executing the transactions entirely out of its foreign exchange reserves, up to the maximum amount of the member's quota for Slovakia, i.e. SDR 357.5 million.

In the context of the Slovak Republic's long-term stable relations with the International Monetary Fund, regular IMF missions were conducted during 2005. The IMF mission that visited Slovakia in July 2005 praised the change in monetary policy regime and the adoption of inflation targeting under the conditions of ERM II, as well as the publication of inflation forecasts which provide for more transparent monetary policy. The mission also acknowledged that the NBS had taken a substantial step towards strengthening banking supervision.

The regular consultation, which, in accordance with Article IV, the IMF holds once per year with each member country once a year was held in Slovakia during the IMF missions in November and December 2005. The IMF mission said in its final report that economic performance was strong again in 2005 and that Slovakia was very well prepared for the euro changeover. It also gave a positive assessment of the sound macroeconomic management and the wide range of significant structural reforms in the financial sector. The mission welcomed the NBS's aim of extending supervision to include supervision of non-banking financial institutions.

In 2005, the highest representatives of the National Bank of Slovakia attended the Spring Meetings of the International Monetary Fund and the World Bank, held in Washington in April, and their Annual Meetings, held at the end of September. The focus of the meetings concerned the outlook for the world economy and financial markets, the IMF's mid-term strategy,



and the IMF's role in low-income countries. Other matters discussed included IMF supervision, crises prevention, the fight against money laundering and the financing of terrorism, as well as the utilization of IMF funds and other current issues.

In June 2005, following the Spring Meetings, a meeting was held in Turkey of representatives of the IMF and the World Bank's Belgian Constituency at the level of central bank governors and finance ministers. Besides current issues of the IMF and the World Bank, the participants in the meeting discussed rules in the area of fiscal policy and public debt management.

### The World Bank

The position of the Slovak Republic within the framework of the World Bank institutions has been changing in accordance with the completion of the Slovak economy's transformation process.

Within the International Bank for Reconstruction and Development (IBRD), the Slovak Republic is one of the EU-8 countries, which still have the option to receive financial or technical assistance. The objective of the IBRD in Slovakia is to support the achievement of a long-term sustainable development and to make as effective use as possible of the country's EU membership. IBRD activities are also directed at improving living conditions, especially for the most vulnerable sections of the population. Support was provided during 2005 through the ministries concerned and non-governmental organizations.

In the International Development Association (IDA), the Slovak Republic has the position of a donor country providing financial assistance to developing countries. In this regard, the Slovak Government passed Resolution No. 691 of 14 September 2005 to approve the Slovak Republic's accession to the 14th replenishment of IDA funds in the amount of EUR 2,070,144, the payment of which will be made in three instalments between 2006 and 2008.

### Bank for International Settlements (BIS)

As a shareholder in the Bank for International Settlements, the National Bank of Slovakia has been actively involved in its operations. Accepting a BIS offer, the NBS purchased 188 shares of the American issue and thereby increased its total holding of BIS shares to 2,858, as at 1 June 2005.

On 27 June 2005, in Basle, the BIS's member central banks held their Annual General Meeting and also an Extraordinary General Meeting. The central bank governors approved the BIS's financial statements

and the distribution of profit. The subject matter of the Extraordinary General Meeting concerned changes to the BIS Statutes.

At their regular meetings held every two months, the governors of the member central banks of the BIS focused their discussions on current issues of the global economy, inflation, BASEL II and financial stability.

### European Bank for Reconstruction and Development (EBRD), World Trade Organization (WTO), and Organization for Economic Co-operation and Development (OECD)

The EBRD's 2005 Annual Meeting, held in Belgrade in May, confirmed the shift in EBRD activities towards the Balkans, Eastern Europe and Central Asia. In regard to the EU-8 new Member States, as beneficiaries from the EBRD and countries which have achieved an advanced transformation, the EBRD wants to focus primarily on projects concerning infrastructure, energy saving, and venture capital, on support for small and medium-sized enterprises, and on eliminating regional disparities.

In 2005, the EBRD pursued this strategy also in relation to Slovakia. As at 31 December 2005, the portfolio of EBRD activities in Slovakia had a net cumulative value of EUR 427.5 million, of which current assets represented EUR 308 million.

During the course of 2005, the Slovak Republic, as a member of the EU, expressed its opinion on WTO matters through the 133 Committee of the EU Council, which is responsible for multilateral trade affairs. The NBS was primarily concerned with discussions in the financial services field. In December 2005, the WTO Ministerial Conference was held in Hong Kong, China. The closing Ministerial Declaration approved a new timeframe for completing discussions in the services sphere.

NBS representatives also participated in the work of relevant committees and working groups of the OECD, namely, the Economic Policy Committee (EPC), the Economic and Development Review Committee (EDRC), the Committee on Financial Markets (CFM) and the Investment Committee.

### 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 Cooperation. Slovakia, as an independent republic, became a member of them in 1993. Its share in the paid-up capital of the IIB and IBEC is, respectively, 4.85% and 6%, representing EUR 10.4 million and EUR 8.6 million.

The supreme governing bodies of both banks are the Bank Boards. They meet twice a year, and their 2005 meetings were held in Moscow in spring and summer.

The May Meetings of the IIB and IBEC Bank Boards approved reports on the activities of both banks for 2004, reports on the settlement of claims and liabilities of the IIB and IBEC, the fulfilment of the general operating costs budgets in 2004 and the banks' plans for 2005. They also took note of the report on the activities of the IIB revision commissions for 2004.

At their November Meetings, the Bank Boards approved the report on the banks' activities for the first half of 2005, information on the preparedness of the Russian Federation to implement the second stage in the settlement of its liabilities towards the IBEC, budget proposals for 2006 general operating costs, and a decree on the IIB revision commission and a schedule of its work for 2006. Mr A. A. Serebrjakov was confirmed as the Chairman of the IIB Board of Directors.

The joint meeting of the IIB and IBEC Bank Boards included discussions at which individual delegations presented their ideas for a future development bank that should bring about the transformation of both banks and their future alliance.

## **7.3 Providing foreign technical cooperation and assistance in training**

### **Activities within foreign technical cooperation**

In terms of providing foreign technical cooperation, the NBS primarily focuses on the central banks of the new Member States. In 2005, the Institute of Banking Education, the department responsible for the NBS's activities in this area, held two expert consultations and one workshop.

A consultation at the Central Bank of Malta was held in June 2005. It concerned the issue of managing risks in foreign exchange transactions and focused on the specific role of Middle Office (modelling for the

yield curve shift and estimating future earnings, scenario analysis, stress testing, customized benchmark construction, and profit decomposition).

In February 2005, a consultation concerning protection and security was held at the NBS for 3 experts from the Czech National Bank; it focused on the issues of security and crisis management in the NBS and the protection of confidential information at the NBS.

The host central banks gave a very positive evaluation of the events and praised in particular the high expertise of the NBS specialists, gained from their long-term practical experience in the respective field, and their capacity to communicate knowledge and professional experience to others.

In December 2005, the NBS in cooperation with Deutsche Bundesbank experts held a workshop for experts in banking supervision on the subject of stress testing. The event was attended by 24 employees of the NBS and 7 foreign participants from central banks of the Czech Republic, Poland, Hungary and Slovenia.

### **Activities within foreign technical assistance**

In 2005, the NBS was actively involved in providing foreign technical assistance. It organized two two-day expert consultations for specialists from the Albanian central bank. In March 2005, in Tirana, a consultation was held on a pre-set and tightly defined group of questions concerning risk management and Middle Office (profit decomposition, experience from building a middle office section, measuring portfolio performance and benchmarking). In December 2005, the NBS held a consultation for 2 experts concerning selected questions of human resources management and training (training and development of staff, flexible working time, staff catering, description and specification of workplaces, staff remuneration).

The National Bank of Albania evaluated the events positively and expressed its active interest in continuing cooperation with the NBS through further needs-based training events, either in Albania or at the NBS.

Following to a similar event in 2004, that showed to be a real success, the NBS arranged a one-day study visit for 42 foreign students from the Instituto Tecnológico de Monterrey (Mexico), which included a specialist programme centred on NBS activities in the areas of legislation, training, money issuance and circulation.