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Conference The Euro Area and the Financial Crisis

The Euro Area and the Financial Crisis conference was opened by NBS Governor Mr. Jozef Makúch (first from left), who also chaired the first session. Governor of the Central Bank of Cyprus Mr. Athanasios Orphanides (in the middle) devoted the keynote lecture to regulation and supervision, and to the issue of crisis resolution. The same issue was also analysed by Mr. Thomas F. Huertas from Great Britain (first from left).

Economic research in Slovakia witnessed from the 6th to 8th of September hitherto the greatest event. Národná banka Slovenska together with the Heriot-Watt University from Edinburgh and the Comenius University in Bratislava organized The Euro Area and the Financial Crisis conference. As the name suggests, the conference was dedicated to the issues of the financial crisis and its aftermath, the implications of the crisis for the euro area and several of its members, open issues of financial regulation, and the issue of how the euro introduction influenced several EU member countries and how viewpoints on the euro adoption developed in other new member countries.

The conference was opened by NBS Governor Mr. Jozef Makúch, who also chaired the first session. Governor of the Central Bank of Cyprus Mr. Athanasios Orphanides presented an inspiring keynote lecture. According to Orphanides financial stability is undoubtedly an important concern of central banks. At the European level it is necessary to solve two aspects of financial stability: on the one hand regulation and supervision, on the other hand resolution of a manifested crisis. A significant progress was made in recent years in the area of supervision and regulation – increasing emphasis on macrofinancial stability, setting up the European Systemic Risk Board, there is a system of communication and cooperation among national regulators, and the harmonisation of legislation among member states has intensified. On the other hand, in the area of crisis resolution there are no systemic solutions yet. According to Orphanides Europe needs clear and ex ante defined rules for the division of responsibility in crisis resolution. Even with the best supervision

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Hitherto the greatest event of economic research in Slovakia – an international conference organized by the NBS together with two universities – Heriot-Watt University in Edinburgh and Comenius University in Bratislava impressed present guests.

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Would the integration of financial markets help Europe?

JUDr. Martina Janstová
Národná banka Slovenska

Since September 2008 the independent Committee of European Securities Regulators (CESR) has been considering the idea of integrating financial markets – those of EU member states and of third countries. The potential integration of financial markets should concern the so-called trading venues, i.e. regulated markets and publicly organized markets (EU's MTF systems or similar third countries' systems). As for products, this potential integration should concern all securities accepted in respective markets for trading, as well as products connected with collective investment schemes (CIS).

A Working Group was created within CESR to deal with this issue. Its aim is to identify the positive and negative sides of financial market integration, and to define potential conditions and criteria for such integration if financial market integration is supported by the European Commission.

The start of the financial crisis in the second half of 2008 blocked the Working Group's activity for a short time; then in 2009 CESR renewed the activity of the group with the aim to use financial market integration as an economic stimulus for activating the economy that stagnated as a result of the crisis.

Financial market integration should bring benefit for financial market participants; this is why the attitude of the EU's financial market is most important for CESR, stressing strong and medium-strong "players". The Working Group elaborated the call for evidence,[1] the aim of which was to obtain market participants' feedback regarding this issue. On 8 June 2009, CESR disclosed this on its website, and financial-market participants could respond from 8 June 2009 to 1 September 2009. The aim of this activity was to find out if they considered financial market integration as benefit on the economic level, and if yes, they should specify the expected economic benefit in more detail.

In the determined period, CESR received 21 open and 5 confidential responses; the Working Group held bilateral talks with the authors of the interesting responses. It resulted from the activities stated in the responses that the EU financial market would like to have a uniform license – with selected countries in connection with selected financial products – similar to the one which brings profit to participants in the financial markets in EU member states on the basis of the Directive of the European Parliament and of Council No. 2004/39/ES (MiFID).

The approximation of legislation of the EU and third countries in a similar way as in EU member states is highly unlikely from the political point of view. Therefore Mutual Recognition Agreements (MRAs) among the respective regulators of an EU member state and a third country seem to be suitable for the purposes of the financial market integration of EU and third countries.

Inspiration

CESR can draw some inspiration from international agreements concluded in order to release the rules of financial market regulation. Australia was very active in this area, partly integrating its financial market with the financial markets of New Zealand, Hong Kong, Singapore, and finally the USA on the basis of agreements. Currently it is making an effort to conclude a similar agreement with EU member states.

Regulators of Australia and New Zealand concluded an agreement on loosening financial market regulations in 2008. Subsequently in January 2009, the Australian Securities and Investments Commission (ASIC) disclosed on its website Regulatory Guide No. 190 – a joint guideline of ASIC and (two) relevant New Zealand's regulators[2]. This guideline was made for the issuers of securities, and those who are interested in doing business in the area of collective investment in both jurisdictions. It lays down obligations of respective financial market participants in view of the trans-Tasman mutual recognition scheme of regulation regarding offers of securities (trading). The agreement applies to securities, debt securities, and collective investment. It lays down minimum requirements that have to be met, and enforceable in both respective jurisdictions. Each participant of such integrated market is supervised by its *home regulator*, while financial market participants are obliged to fulfil selected information obligations towards their *host regulator*.

On 7 July 2008 ASIC also concluded an agreement on mutual recognition with the Hong Kong regulator (Hong Kong Securities and Futures Commission) which applies to collective investment. In the area of regulated markets, ASX (ASIC)

[1] *http://www.cesr-eu.org/data/docu--ment/09_406b.pdf*
[2] *http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rg190.pdf/$file/rg190.pdf – 166k – [pdf]*

concluded an agreement with the Singapore Stock Exchange.

On 25 August 2008 an MRA was concluded among the SEC – the U.S. Securities and Exchange Commission, the Australian Government, and the ASIC which provides a framework for granting exceptions from the obligatory regulation to regulators from the USA and Australia. On the other hand, it allows regulated market and securities traders to provide their services in both jurisdictions without being liable to regulation in both respective legislations[3].

As a result of the concluded MRAs, Australia's financial market participants have seen cost savings, connected with the fact that issuers can accumulate financial means from the public without an obligation to meet the legislative requirements of the host regulator – on the condition that they have met or are meeting such requirements in line with their home legislator's legislative.

Based on the majority of responses to the *call for evidence*, it seems that the need for financial market integration in the EU is equal in its content with the need of the Australian financial market which was reflected in the above specified agreements (MRAs). However, some respondents are rather sceptical about mutual recognition between the EU and third countries in the financial market, and they have mentioned a few potential risks.

Expected advantages of MRAs for the EU financial market

Respondents consider that the main advantage would be cost-saving, due to the liberalization of access to regulated and publicly organized markets in the EU and third countries. These issues are regulated for EU member states in Articles 31 and 42 of the MiFID Directive.

For example, currently if a member of any European stock exchange would like to trade at a stock exchange in the USA, he have to register himself at the US regulator (SEC) and meet all requirements of American legislation. The SEC would also check securities which the European stock exchange member would like to trade at any American stock exchange. Similar steps would also be taken if an American stock exchange member would like to trade at a European stock exchange.

For subjects active in European regulated markets and MTF systems, access to regulated and publicly organized non-EU markets is mainly connected with the cost of overcoming the obstacles of the third country's regulations, i.e. the costs of legal consultancy and the costs of meeting the obligations and requirements of an unknown legislation, while they have met most such in their EU home country, pursuing their activities in regulated and publicly organized markets.

These requirements are often equal in their content in EU and third countries.

The MRAs' benefit in relation to the liberalization of the access of European market participants to the markets of third countries would lie in the fact that it would not be necessary to register with two regulators; it would be enough to receive a registration in the home country. This would facilitate international trading with securities accepted in the regulated market, MTF system, or business platform of a country similar to the MTF system. The Internet could be an example of an access channel for such international trading.

Respondents showed their interest in MRAs with the USA, Canada, Israel, Dubai, Australia, Switzerland, China, Japan, Hong Kong, Singapore, India, Russia, and South Africa.

They saw a further advantage in extending the offer of securities, as all securities which have been accepted for trading in respective markets would be available to the participants of such integrated markets.

In the area of collective investment, cost saving is expected with MRAs in relation to fees charged from investors by asset management companies. These fees are higher if collective investment funds are distributed in more countries; this also means that a lot of different legislative and regulatory requirements of the respective countries have to be met. Respondents specified that fees are significantly lower when the collective investment fund distribution is made in countries with strong investors' protection.

As for products, apart from securities and debt securities, respondents were also interested in derivatives, harmonized and non-harmonized collective investment funds, hedge funds and real-estate funds.

Expected risks and obstacles of MRAs

Financial market participants also answered questions regarding risks which could arise if MRAs were concluded. The responses contained, for example, competitiveness risk resulting from differences in the competitive environments of two non-harmonized legislations which the subjects liable to the rules of the particular legislation are used to; and in this way they have an advantage against those who would be authorized to participate in the respective markets by MRAs, but as a result of their lack of orientation in rules would suffer from a competitive disadvantage. According to responses, an equivalent and harmonized approach at the international level in the area of financial product regulation and regulation standards would decrease this risk. The question still is, however, how real such international harmonization is; a more realistic option would be to set principles for assessing legislation with a need for its mutual recognition in EU member states.

Differences may appear in methods used by supervisory authorities in relation to capital requirements, liquidity, investors' protection, and guarantee-scheme requirements. According to respondents, a protectionist approach cannot be excluded either when assessing the "equivalence" of a third country's legislation. This is the reason why they asked for assessing third countries' legis-

[3] *http://edgar.sec.gov/news/digest/2008/dig082508.htm*

lation at the EU level with the aim to provide equal rules for all jurisdictions of third countries at least by defining common assessment criteria. They also required checking legislation equivalence after concluding an MRA; plus they required the EU to repeatedly review the approved jurisdictions of third countries.

Most respondents think that the MRAs should not be applied to retail clients due to a potential risk impact. There was a proposal to limit MRAs' application to professional or institutional investors and clients. However, none of the respondents specified this group of investors in more detail, nor did they suggest borders between a retail and professional (institutional) investor and client in relation to products contained in the MRAs in the future. In connection with this risk, there is a requirement to define key terms at the European level.

The tax risk was mainly mentioned in relation to collective investment funds where, in the respondents' opinion, foreign collective investment funds are often taxed higher than home funds.

Well-established purchase channels of third countries – which might be difficult for a financial market participant with an EU-domicile to penetrate – were seen by respondents as a business risk. As a result of this risk, it might happen that the EU will open its financial markets without profiting from its access to non-European markets, as such access may only remain at a theoretic level and would not be efficient in real business. Unbalanced MRAs' gain might represent a further business risk. For one EU-domiciled market participant, MRA can mean extending business activities beyond EU borders, for another it may represent a loss for the reason that they will not vindicate their current market position against competitors from third countries following the MRA.

The legal risk and risk of being exposed to lawsuits are risks which will be borne by investors in case of trouble. The question is who will assume responsibility for declaring a third country's legislation as equivalent to the EU-legislation, or to the EU-member-state legislation. CESR has asked member state regulators to provide personal and financial sources in order to map the legislations and economies of third countries. However, these are money-consuming projects with expenses which the supervisory bodies of EU member states are not willing to bear, especially if they have not obtained relevant evidence from the EU financial market about the economic profitability of MRAs with third countries.

The impact on employment, as a result of losing control of a part of the financial sector, also has to be considered as risk. In the case of MRAs, highly-qualified professionals may lose their job opportunities in the EU labour market. If there is freedom in providing services agreed in an MRA, without the need to settle down, a reduction in job opportunities may be considered too with respect to administrative workers of the supervised EU financial sector (in regulated and publicly organized markets, in investment companies, and supervisory bodies).

Respondents identified the draft of the new directive of the European Parliament and of the Council on Alternative Investment Fund Managers (AIFM) as an obstacle in MRAs in the area of collective investment; in their opinion it will disable MRAs in relation to collective investment.

Respondents saw a further risk in insufficient cooperation of relevant supervisory bodies. It is questionable if a third country regulator is able to supervise alone in the EU in reality, and how exact the authorizations and competencies of host countries' supervisory bodies should be. MRAs might also be made on the basis of an exception from home legislation, be it fully or partially. In such case, the host-state supervisory body would be competent to decide about granting or not granting an exception from its legislation, and to what extent. In such case, the responsibility for assessing the legislation's equivalence would be transferred to a supervisory body of an EU member state. Supervisory bodies of EU member states are mainly interested in the impact of potential MRAs on the financial markets that they regulate.

One of the aims of financial market supervision is the protection of investors, which is also in line with Slovak legislation. Ultimately, investor protection is regulated by national legislation. With a typical MRA model (not model of an exception), investor protection would be regulated by third countries' legislation with the assistance of their supervisory bodies.

Conclusion

In their answers, respondents did not sufficiently specify the estimated favourable economic consequence of the potential MRAs. This is why it now seems that there are more risks than advantages resulting from potential MRAs with third countries for EU member states' supervisory bodies and CESR (mainly in the legal area).

In order to outweigh the above mentioned risks, it is not enough when (a majority of) respondents say that they expect an economic benefit from MRAs. It is necessary for the EU financial sector to submit evidence to the EU regulators and CESR based on real economic analyses which will clearly show that the EU financial market needs MRAs with third countries (and to what extent), in spite of their potential risks.

This is the reason why the CESR Working Group is preparing a *Consultation Paper* with details of respondents' answers, details from bilateral talks held in early 2010 within CESR with some respondents, and new questions for the EU financial market participants. CESR is expecting qualified responses from new respondents (those who are interested in MRAs), focused on expected economic profit. This material is expected to be disclosed on the CESR webpage as early as this year.

Concept of financial market regulation according to the Lamfalussy framework

Ing. Mária Petianová
Národná banka Slovenska

In the EU, a contemporary system of supervision is based on regulation standards, on the principle of supervision by the home country, where the mother company of the financial institution has its domicile, and on the principle of mutual recognition between supervisory authorities. Banks and other financial institutions are thus licensed and supervised in their home country and can without additional supervision expand within the framework of EU by offering services on a cross-border basis in other countries or by creating branches in these states. In such cases, the host organ of the supervision[1] is obliged to recognize supervision carried out by the authority of the home country in most of the supervised items.

In certain cases, though EU law provides a guarantee to the supervisory authorities of the host country, for example through the option of intervention in situations of crisis with the aim of protection of depositors (article 33 CRD[2]). It generally holds that the area of liquidity control of foreign banks branches remain within the field of activity of a host organ of supervision, which must be informed of all relevant matters of fact concerning the group (Article 42 CRD).

In practice, companies may also choose the option of acting in other member countries by means of independent legal units – subsidiaries. Subsidiaries are subject to local legislature and are autonomously licensed and supervised by the authorities of a host country, in certain areas in cooperation with the home supervisory authority. The controlling framework of such subsidiaries through the supervision of the host country in practice is limited, as main decisions are often made by the mother company in the home country, and the financial health of the daughter company is thus narrowly connected with the good functioning of the whole financial group. Primary effective control of the big financial groups as a whole is thus basically in the hands of consolidated supervision in the home country. This can cause tension, as the decisions made by the authorities of the home country for the protection of the stability of their national financial system may influence the results in a host country. That is why the cross-border character of activities of many financial companies requires close cooperation among national supervisory authorities. Framework conditions for such cooperation are provided by the concept of financial market regulation according to the Lamfalussy framework, from which start also changes of supervision and regulation currently prepared according to the so-called Model De Larosière.

The Lamfalussy framework is, in substance, a four-level legislature process of management. It divides legislature to high level framework rules and to implementing measures. Within the Lamfalussy regime the European Commission proposes basic legislature, and this is passed in co-decision procedure by Council and Parliament (Level L1). This legislature is supplemented on the Level L2 with more detailed implementing measures, which are prepared by the Commission on the basis of recommendations of the national supervisory authorities acting through committees of the third Lamfalussy level (L3: CEBS, CEIOPS and CESR). Committees of level L3 also have it as their aim to strengthen supervision convergence and so-called best practice, mainly through the creation of legally non-binding standards. Lastly, what the Commission does at level L4, is securing that the legislature of member states is in accordance with valid EU legal regulations and makes use of enforcement measures for complying with European norms in the case of need.

Creating Lafmalussy framework and its committees

On 15 February 2001 the Final report of the Committee of wise men was published for the sector of trading with securities. The Chairman of the Committee was baron Alexandre Lamfalussy, after whom the process referred-to in the report was named as the "Lamfalussy Process". This report suggested a new approach towards the regulation of the EU sector of securities.

The agreement on draft resolution on functioning of a new legislature process in the field of securities on the markets of European Union was

1 Host supervisor is a supervisor of so-called host country, in which there is domicile of a branch or subsidiary of financial institution (mother company). The mother company has its seat in another (home) country at the same time.

2 Directive of the European Parliament and of the Council No. 2006/48/EC on starting of activities of credit institutions (CRD – Capital Requirements Directive).

3 *Announcement of the Commission from 11 May 1999 named "Introduction of framework for financial markets: action plan" stipulated a series of steps being necessary for the finalization of unified financial services market. According to the session of European Council in Lisbon on 23 and 24 March 2000, the European Council called upon implementation of this action plan up to 2005.*

4 *The decision 2001/527/EC, through which the Committee of European Securities Regulators is grounded and the Decision 2001/528/EC through which European Securities Committee is established.*

5 *Decisions of the Commission from 5 November 2003 set up CEBS committee (No. 2004/5/EC), CEIOPS committee (No. 2004/6/EC), CESR committee (No. 2004/7/EC), ESC committee (No. 2004/8/EC), EIOPC committee (No. 2004/9/ EC), EBC committee (No. 2004/10/EC).*

6 *Banking Advisory Committee was set up through Directive of the European Parliament and of the Council 2000/12/ES from 20 March 2000 on commencement and carrying out of activities of credit institutions. Its task was giving counsel to the Commission by the creation of legal regulations and assisting it by fulfilment of its implementing powers in the area of banking.*

achieved at the level of EU Commission ECOFIN in Stockholm on 22 March 2001, and it was passed at the session of the European Council on 23 and 24 March 2001. The processes stipulated in the draft resolution on more effective regulation of the security market embodied implementation of the ideas presented in the Lamfalussy Report. This was a result of the mandate conferred in July 2000 and it claimed that the change is necessary if there is supposed to be an integrated EU financial market by 2005.[3]

After these steps, on 6 July 2001 the Commission adopted decisions[4], which set up the Committee of European Securities Regulators (CESR) and European Securities Committee (ESC). Through resolution from 5 February 2002, the European Parliament passed a four-level Lamfalussy approach towards securities, and in the resolution from 21 November 2002 it requested the enlarging of part of this approach also to the banking sector and the sector of insurance. Subsequently, on 3 December 2002 the Council requested from the European Commission to adopt such a system also in the area of banking and insurance and to set up advisory committees also in these areas. The Lamfalussy system was introduced into these sectors in 2004 when further committees for regulation and supervision[5] also started functioning: European Banking Committee (EBC) and European Insurance and Occupational Pensions Committee (EIOPC) replaced the existing Banking Advisory Committee[6] (BAC) and Insurance Committee (IC) and they aimed to function as a ESC committee for securities, so helping the Commission by adopting implementing measures to the EU directives. As committees of the third Lamfalussy level, Committee of European Banking Supervisors (CEBS) and Committee of European insurance and occupational pension supervisors (CEIOPS) were created.

According to the creators of the Lamfalussy model, the basic reason for the change in the supervision arrangement was the necessity to carry out changes in the manner of regulation of EU markets so that the supervision would be effective, flexible and capable of reacting to the fast growth of integrated financial markets, because the existing regulatory system was considered to be too slow, rigid and inadaptable to the needs of modern financial markets. They pointed out the creation of ambiguous texts in legislation, and the reluctance towards transposing it consequently into national norms or to enforce its fulfilment. The ambition was to secure a convergence of practices of the financial supervision, accelerate decision making process, to ensure competitiveness of the EU, to keep to the terms of legal certainty and institutional balance, and also to achieve more flexible, more effective, and more transparent regulatory process for the legal regulations of the community.

Levels of the Lamfalussy process

As a basis for the Lamfalussy process are four procedural levels for adopting, implementation and application of EU framework legislature and implementing measures thereto in the area of financial services. Concrete steps of the Lamfalussy reform were stipulated in the second part of the Final Report of the Committee of Wise Men, and European Commission, European Parliament, Council of Ministers, European Central Bank, Economic and Financial Committee, member states, European regulators and national central banks were charged with their implementation.

L1 – Framework principles

European framework legislation of the first Lamfalussy level is drafted by the European Commission after thorough consultations with all interested parties, and in the end it is adopted in co-decision process of the Council of Ministers and European Parliament.

First level legislature acts – directives and regulations – are focused on basic principles, whereas for each L1 level proposal the Council and the Parliament also decide on the character and scope of technical implementing measures, which are finally adopted at level L2. They also decide on limits, within which it is possible to adopt and amend implementing stipulations of implementing measures without the necessity of changing framework legislation. The difference between L1 principles and L2 measures is determined from case to case. For the purposes of accelerating the legislature process, the Committee of wise men proposed to use to a greater extent the form of regulations as compared to directives, as regulations accelerate the implementation, in that they are directly applicable in member states.

L2 – Implementing measures

Legislation of the first Lamfalussy level is supplemented at the L2 level with more detailed technical implementing measures, which are formally adopted by the Commission after the voting of the concerned committee for regulation (EBC, ESC and EIOPC), and after taking the standpoint of the European Parliament into account. According to inter-institutional agreements, the European Parliament must be thoroughly informed of the whole process. In the phase of the preparation of expert implementing measures, consulting is provided to the Commission by the representatives of national supervisory authorities, acting through the committees of the third Lamfalussy level (CEBS, CEIOPS and CESR).

Original organization of second Lamfalussy level included only European Securities Committee (ESC) with predominantly regulatory function, and counselling function towards the Commission was done by the European Securities Regulators Committee (ESRC). Their task was to define, propose and decide on details of implementation of the first level framework, so as to secure that the rules will keep pace with market development. The process stipulated that the Commission should ask the ESRC committee to begin work on the technical details and that their time schedule

should be agreed upon. Subsequently the ESRC committee moved the technical proposals forward to the Commission and submitted them to the ESC committee for approval by voting.

Contemporary second level committees have their basic role in the process of adopting new legislation. The following committees are concerned:

- European Banking Committee (EBC)
- European Securities Committee (ESC)
- European Insurance and Occupational Pensions Committee (EIOPC)

L3 – COOPERATION

National supervisory organs are grouped at the EU level in three committees of financial services sectors (known as committees of third Lamfalussy level, or 3L3 committees), which play important role within the European legislative framework of financial services:

- CEBS – Committee of European Banking Supervisors
- CEIOPS – Committee of European Insurance and Occupational Pension Supervisors,
- CESR – Committee of European Securities Regulators.

Lamfalussy framework

L1

Commission prepares a formal draft of the directive after finishing of consultation process

European Parliament ↔ **Council of Ministers**

Agreement on framework principles and implementing powers for L2

L2

Commission after consultations with the EBC/ESC/EIOPC committee asks CEBS/CESR/CEIOPS committee for consultancy on the implementing measures

CEBS/CESR/CEIOPS committee prepares recommendations on the basis of discussions with market participants and submits them to the Commission.

Commission takes into account the recommendations and submits the draft to EBC/ESC/EIOPC committee.

Committee EBC/ESC/EIOPC votes on the draft

European Parliament is informed on the whole process and it can interfere into the process, if it considers that implementing powers stipulated at the L1 level were exceeded.

After voting of the EBC/ESC/EIOPC committee and after statement of European Parliament, the Commission adopts implementing measures.

L3

CEBS/CESR/CEIOPS committee works on interpreting recommendations, regulations and standards (in the area not covered by EU legislature) for the securing of consistent implementation of EU rules

L4

Commission checks conformity of member states legislature with EU legislature

Commission uses enforcement measures for observing European norms

Source: Lamfalussy, A. (2001) with update and modification from the author.

Supervision on financial conglomerates is done by these committees jointly within the framework of Joint Committee on Financial Conglomerates (JCFC).

3L3 committees are institutionally one part of the European Commission. They are composed of high level representatives from individual supervisory organs of EU member states and they do not have legal subjectivity at the European level. For the purposes of contracts conclusion with third parties and facilitating of operations and administration committees, though, members of each of the committees in the states, where there are such committees (France, Germany, the United Kingdom) created support structures with legal subjectivity. Three committees of the third Lamfalussy level aggregate more than 80 national supervisory authorities in the EU, which supervise markets with approximately 40 big cross-border groups. 3L3 committees will be replaced after finishing the process if the De Larosière Model is introduced by European authorities of supervision with modified powers.

Primary responsibility of Lamfalussy committees of the third level is to make use of experience and expert knowledge to provide consultancy to the European Commission in the phase of draft of measures at the level L2 or draft of legislature of the level L1. This is a task, which was conceptually worked out mostly by the Committee of Wise Men and which forms most of the work being done by 3L3 committee since they were created, in view of the demand of the legislative programme of the Commission. Positive assessment of the Lamfalussy process as a whole is to a considerable extent caused and supported by this precious consulting activity of the committees of third level.

Besides consulting function, the committees of the supervisors were also set up with the aim of securing convergence of national supervisory practices within the Community, more effective cooperation, and exchange of information. The third task is to contribute to the mutual application of EU rules, for example by issuing regulations of non-binding character and also to strengthen greater mutual confidence.

L4 – ENFORCEMENT OF ADHERENCE TO THE NORMS

Important role in this area is played by all participating parties, but the greatest responsibility lies with the European Commission, which has the right to act as a guarantor of European agreements. At the forth level, the Commission secures conformity of the legislature of member states with valid legal regulations and in case of need it makes use of enforcement measures for complying with European norms. Also supportive is utilizing cooperation among member countries, their regulators, and the private sector. Thus it controls the timely and correct transposition of EU law into national legislatures and enforces the law of the Community more consistently.

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6. Press release of the European Commission from 23 March 2001 No. MEMO/01/105.

Legal mechanisms of introduction and use of euro outside the euro area

JUDr. Peter Pénzeš, LL.M., PhD.
Národná banka Slovenska

Adopting the common European currency is a demanding process that is open to EU countries that prove a high degree of sustainable real and nominal convergence. In practice, however, we can see some examples of countries using the euro without having met any criteria of its adoption. This is so-called euroisation.

Euroisation based on monetary agreements

The legally and politically approved form of euroisation is to use the euro on the basis of a monetary agreement. Under this arrangement a third state does not formally become a euro area member and does not become a member of the euro group. Nevertheless the country is given a righ to use euro as a legal tender on its territory. These agreements are made with small countries that had not used their own currency even prior to euro introduction in EU, or their currency had been linked to the French franc or Italian lira, and their economies had been closely linked to the economies of a state that had entered the euro area. Such monetary agreements only ensure the legal continuity of the regime that had pre-existed the introduction of euro in the euro area.

One such state is Monaco, where French francs had been the legal tender since 1925. Other states with a monetary agreement are San Marino and the Vatican City State, Holy See (Vatican). Based on bilateral covenants with Italy from 1939 and 1929, they could issue lira coins with the legal tender status. Following the introduction of euro in France and Italy, the , the former agreements were replaced with the agreement concluded between Monaco, San Marino, Holy See and EU Member States . These are no longer bilateral agreements but rather agreements between third countries and the EU made according to the Article 111 of the Treaty on the European Union (now Article 219 of the Treaty on the Functioning of the European Union).

The monetary agreements entitle Monaco, San Marino, and the Vatican to use the euro as their official tender, to issue euro coins displaying on the national side the artistic motives of these countries, and such coins are acknowledged as the statute of the legal tender across the Euro Area. The volume of coins that these states may mint is limited by the agreement.. At the same time, by monetary agreements, the above mentioned three states committed themselves to adopt legal regulations transposing EU legal provisions on euro notes and euro coins, and to co-operate with the EU against money counterfeiting. However, the EU has no sanctioning powers against the third state if it omits its liabilities arising from the monetary agreement. In 2009 these agreements were reviewed as the European Commission proposed to implement such sanctioning mechanism in the form of acknowledging the power to decide about a temporary suspension of the right to issue euro coins in the case of continued (e.g. 2 years) and serious violation of the liabilities stipulated by the monetary agreements. Based on such review, a new agreement was negotiated with the Vatican that came into effect on 1 January 2010. This does not include the sanctioning mechanism proposed by the Commission, but the contracting parties established the jurisdiction of the Court of Justice of the European Union in respect to disputes arising from the monetary agreement. If any of the parties fails to respect the judgement, the other party has the right to renounce the monetary agreement. At the time of writing this contribution, the new contracts with the two remaining states have not yet been published.

Using the euro on dependent territories

Another instance of legally and politically certified euroisation is the use of the common European currency in some territories outside Europe that are dependent on EU Member States. In this instance it is necessary to differentiate between two groups of countries. The first group includes the dependent territories of Euro Area Member States (France, Portugal and Spain) that are considered as part of the EU although geographically they are positioned outside Europe, in accordance with Article 355 of the Treaty on the Functioning of the European Union. In this way, in 2002 the euro was introduced into the currency circulation of Guadeloupe, French Guyana, Martinique, Réunion, Saint Bartholomew, Saint Martin, Azores,

Madeira, and the Canary Islands. This is euroisation in the economic but not legal sense. The second group are the so-called off-shore states and territories that are not considered part of the EU. In terms of economy and politics, they are linked to France and the Netherlands, but have quite extensive autonomy. Such are Saint Pierre and Miquelon, Mayotte (using the euro as their currency), New Caledonia, French Polynesia, Wallis and Futuna Islands (using a currency linked to the euro), the Dutch Antilles and Aruba (using their own currency).

Unilateral euroisation

On the other hand, some states use the euro unilaterally (so-called unilateral euroisation). This means using the common European currency without entering into an agreement with the EU. The euro was implemented unilaterally in Kosovo, Montenegro and Andorra. These countries do not have the right to mint their own coins. Some (e.g. Andorra) are making efforts to reach an agreement with the EU that would enable them to issue their own euro coins. Euroisation is used especially by smaller states, for which it is easier to accept the loss of one of the attributes of their sovereignty - own currency.

In 2008, Iceland was also interested in the unilateral use of the euro in relation to the alleviation of the consequences of the financial crisis, but the ECB´s attitude was negative.

The benefit of euroisation (either by agreement or implemented unilaterally) is the improvement of macroeconomic stability as the result of implementing a stable and more credible currency, with the ECB being the guarantor of a low inflation rate. A more stable currency also has a positive impact on domestic financial sector development. A favourable result is also represented by the partial economic integration with the economy of the Euro Area as the result of deepened commercial relations based on the decrease of transaction costs, and the elimination of risk arising from foreign exchange rate fluctuations. Some of these benefits are fully reflected only if the unilateral euroisation is accompanied by performance towards a more responsible economic policy.

As for the negatives of unilateral euroisation, first of all the central bank of the country loses the possibility to influence the exchange rate of the currency as the currency and political tools are in the hands of the ECB, and such countries have no influence over its decisions. When making use of its tools, the ECB does not take the economic development of the states using the euro unilaterally or based on agreement into account. Secondly, another drawback of unilateral euroisation is the loss of yield from money issuing (co-called "seigniorage", the difference between the value of notes or coins issued and the costs of minting, printing and distribution). Finally, for the central bank of a state that has unilaterally implemented euroisation, it is much more difficult to act as a lender of last resort in respect to the banking industry. This duty is very important in the case of a massive increase of requirements on the payment of deposits on the side of clients as a result of panic on the market, i.e. a so-called "run" on the bank. If exceeding a certain critical limit of liquidity demand, the bank may reach a crisis that can only be resolved by asking the central bank for a temporary loan. In the case of euroisation, such loan cannot be provided by issuing money in circulation but only from foreign-exchange reserves that may be very limited in smaller and less developed states.

The European Union expressed its negative attitude to the unilateral use of the euro when in 2000 the ECOFIN Council accepted a formal conclusion that unilateral euro use is not compatible with the economic substance of the economic and monetary union. Euro introduction shall only represent the completion of the convergence process. Unilateral euroisation should not be a tool to circumvent the process required for adopting the common European currency. Even clearer is the conclusion formulated in this case in the joint standpoint on the question of acceding countries and ERM 2 from an informal meeting of the ECOFIN Council in Athens on 5 April 2003. Paragraph 6 of the document states that unilateral euroisation is contrary to the Treaty on the Functioning of the European Union.

Greek Rescue Package and European Financial Stabilisation Mechanism

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The turbulent evolution in Greece and the following instability in euro-area financial markets in early 2010 have become the most discussed economic topic. In view of the threat of Greece's potential bankruptcy and its serious consequences for the whole European Union (EU), the European institutions, in cooperation with the International Monetary Fund (IMF), have been looking for the most suitable mechanism. In this article, we will deal with the process of financial assistance to Greece provided by the euro area member states in cooperation with the IMF, describe the recovery programme, and briefly outline the new mechanism aimed at supporting the euro area's stability.

The world economic crisis has revealed Greece's vulnerability as caused by long-term external and fiscal imbalances, high debt, and low competitiveness. The Greek general government deficit for 2009 was gradually revised to 13.6% GDP, and gross government debt was as high as 115% GDP for the stated period. As a result, increased market nervousness regarding the fiscal sustainability and creditworthiness of Greece increased in early 2010. The measures announced by Greece in order to gradually decrease its expenses have still failed to calm the markets. Confidence in the euro has also deteriorated and the euro area as a whole has also been under threat. Faced with this situation and for the first time in its history, the euro area decided to provide financial support to one of its members.

The first discussions about providing financial support to Greece started on **25 March 2010** at a meeting of euro-area heads of state and government. On **11 April 2010**, the Eurogroup[2] released a statement outlining the conditions for financial help with the aim of safeguarding the financial stability of the whole euro area. Euro-area Member States decided to provide financial assistance to Greece via bilateral loans supplemented by IMF resources. They also agreed that the financial assistance of the euro area should reach EUR 30 billion in the first year and would be conditioned to a 3-year economic adjustment programme.

Greece officially requested financial support on **23 April 2010**. On the basis of Greece's request and after the end of the mission of the European Commission (EC), the European Central Bank (ECB) and the IMF in Greece, the euro area Ministers unanimously approved on **2 May 2010** a stability support package via bilateral loans from euro area Member States for a period of 3 years. On **9 May 2010**, the IMF approved a 3-year *Stand-By Arrangement (SBA)*. The joint financial support to Greece amounts to EUR 110 billion, with euro area Member States contributing EUR 80 billion, and the IMF EUR 30 billion. On **3 May 2010**, Greece also signed the *Memorandum of Economic and Financial Policies, the Memorandum of Understanding on Specific Economic Policy Conditionality* and *the Technical Memorandum of Understanding*. By signing the Memoranda, the Greek government has pledged itself to implement the economic adjustment package for the recovery of its economy. The Memoranda were also signed by the EC and the IMF. On **8 May 2010**, the EC and Greece signed a *Loan Facility Agreement*[3], which contains the necessary provisions on the drawing and repayment of loans.

On **18 May 2010**, the euro area countries released the first instalment amounting to EUR 14.5 billion, enabling Greece to fully cover EUR 8.5 billion of bonds payable the next day. At the same time, the IMF also released the first instalment amounting to EUR 5.5 billion.

1. Coordination within the euro area

The Treaty on the functioning of the EU does not exclude mutual assistance among euro area countries via loans, but does not allow Member States to be made liable for or made to assume the commitments of other member states. However, loans among Member States or loans from the EC requested by one Member State are allowed in the EU.

In spite of this, the euro area lacked a rescue mechanism in the event its members were to face financial difficulties. It became therefore necessary to agree rapidly on the mutual relations and on a form of cooperation between (lender) countries, as well as to determine the role that the European institutions, in particular the ECB and the EC, were to play.

1 *The authors wish to thank A. Šťavinová who participated at EWG Task Force meetings on behalf of the Ministry of Finance of the Slovak Republic (MF SR), as well as M. Jakoby, a representative of the Slovak Republic at the IMF and a senior advisor to the Executive Director of the Belgian Constituency in the IMF for their valuable comments.*

2 *Eurogroup is an informal gathering of Finance Ministers of the euro area Member States.*

3 *Loan Facility Agreement between Member States whose currency is euro as Lenders and Greece as Borrower, and the Bank of Greece as Agent to the Borrower.*

Table 1 Chronology of events related to the financial support of the euro area and IMF to Greece

21 October 2009	Greece sends Eurostat revised notification on the government deficit and debt statistics – the foreseen 2009 general government deficit is revised from 3.7% GDP (April) to 12.7% GDP (re-revised in April 2010 to 13.6% GDP).
22 October 2009	The Fitch Ratings downgrades Greece's credit rating to A- from A (further downgrades to BBB+ in December 2009 and BBB- in April 2010 with negative outlook).
23 December 2009	The Greek Parliament approves the 2010 budget with planned general government deficit of 9.1% GDP.
15 January 2010	Greece updates its Stability Programme, proposing to bring the general government deficit below 3% in 2012 and decreasing the planned 2010 government deficit to 8.7% GDP. (Greece announces further measures in February 2010.)
11 February 2010	Statement by heads of state and government of the EU about the readiness of euro area Member States to take coordinate action (if necessary) to safeguard financial stability in the euro area as a whole.
16 February 2010	Proposed by the EC and recommended by the European Council, Ecofin6 adopts the decision in view of the excessive deficit correction in Greece.
3 March 2010	The Greek government announces another package of fiscal measures (in connection with the Stability Programme measures from January 2010 and measures from February 2010).
25 March 2010	Statement by heads of state and government of the euro area reaffirming their readiness to help Greece via bilateral loans under strong conditionality and in cooperation with the IMF.
11 April 2010	Eurogroup statement on the support to Greece aiming to safeguard financial stability in the euro area as a whole – closer defined technical details of the assistance. The IMF states its readiness to help Greece through a multi-year SBA.
21 April – 3 May 2010	Joint EC, ECB and IMF mission in Greece.
22 April 2010	Moody's downgrades Greece's credit rating to A3 from A2 with negative outlook (the A1 rating was downgraded in December 2009).
23 April 2010	Official request by Greece for financial assistance from the euro area countries and the IMF.
27 April 2010	Standard and Poor's downgrades Greece's credit rating to BB+ from BBB+ with negative outlook; Greece's rating is getting into speculative grade.
2 May 2010	Staff-Level Agreement among Greece, EC, ECB and IMF on the programme of economic policies amounting to EUR 110 billion and unanimous approval by the Eurogroup.
3 May 2010	Greece sends the Letter of Intent and signs the Memoranda. ECB decision to accept Greece's debt instruments issued or guaranteed by the Greek government independently from the assigned rating.
5 May 2010	The EC is delegated to coordinate bilateral loans of the euro area countries for Greece.
6 May 2010	The Greek Parliament approves the programme defined in the memoranda.
7 May 2010	The gap between German and Greek 2-year bonds reaches 1739 basis points (1 February 2010: 347 basis points).
8 May 2010	Meeting of heads of state and government of the euro area – conclusion of the procedure of financial support to Greece and proposal of a European Financial Stabilisation Mechanism in order to safeguard the financial stability of the euro area.
9-10 May 2010	The IMF approves the SBA. Special Ecofin[5] decision to create the European Financial Stabilisation Mechanism.
18 May 2010	First instalment from the euro area (EUR 14.5 billion); first instalment from the IMF EUR 5.5 billion also provided in May 2010.
14–18 June 2010	EC, ECB and IMF interim review mission under the IMF Emergency Financing Mechanism.
26 July – 5 August 2010	First review mission by EC, ECB and IMF to Greece as part of the quarterly assessments of Greece's economic programme.
6 August 2010	Greece sends updated memoranda to the EC, ECB and IMF.
September 2010	Scheduled negotiations of the IMF Executive Board and the Eurogroup – decision on disbursing the second instalments.

The euro area Member States decided to take coordinated action for financial support to Greece in view of the Intercreditor Agreement[4]. The Intercreditor Agreement was signed on 8 May 2010 and came into force with the written commitment confirmation of at least five euro area lender countries representing at least 2/3 of the total commitment (critical mass of member states). In Slovakia, the ratification process[6] was not successfully completed and the Intercreditor Agreement has therefore not become binding for this country.

The lenders[7] are to take their decisions at meetings within the framework of the Eurogroup with a majority of lender countries holding no less than 2/3 of principal loan outstanding at the time of voting, except in the case of decisions requiring unanimity (e.g. modifications of the agreements and memoranda, prolongation of the availability period or decision on disbursement). The lenders are to communicate their decisions to the EC via the chairman of the Eurogroup Working Group (EWG)[8].

The euro area Member States also authorized the EC to represent them and act on their behalf in their dealings with Greece, to negotiate and sign the Loan Facility Agreement and memoranda with Greece as well as to coordinate and manage pooled bilateral loans of the euro area countries. The EC opened an account with the ECB on behalf of the lender countries to serve for processing all payments from lenders and the borrower. Together with the ECB, the EC is to provide assessments of Greece's compliance with the conditions of the memoranda. On the basis of these reports, the lender countries are to decide unanimously on the release of other instalments of the loan.

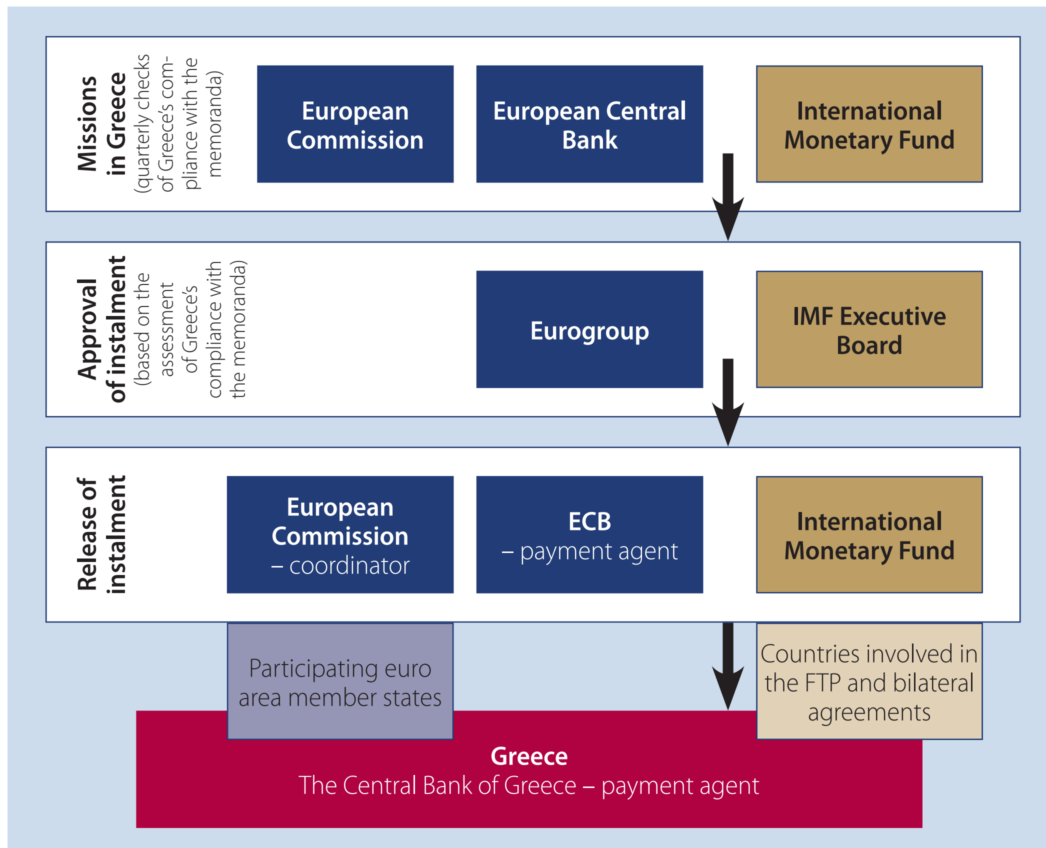
Each participating country has pledged itself to provide for the following 3 years a bilateral loan in Euros within the limit of the maximum amount determined on the basis of a contribution key[9]. At the same time, the EC pledges itself to obtain from all participating euro area countries that they share the burden equally (according the contribution key).

Not all euro area countries participated in the first disbursement, as the national approval procedures had not been completed in some of them. The Intercreditor Agreement stipulates that a country cannot be required to participate in the instalment in case its funding costs were to be higher than the interests paid by the borrower, and provided that other lenders were not able or willing to settle these costs.

2. IMF participation

In contrast to the euro area, providing loans to member states with balance of payment difficulties is one of the basic tasks of the IMF. Several lending facilities have been created for this purpose, as well as different mechanisms which

Scheme 1 Mechanism of EU and IMF assistance to Greece



Source: diagram by the authors.

4 *Intercreditor Agreement between the Kingdom of Belgium, the Federal Republic of Germany, the Republic of Ireland, the Kingdom of Spain, the French Republic, the Italian Republic, the Republic of Cyprus, the Grand Duchy of Luxembourg, the Republic of Malta, the Kingdom of the Netherlands, the Republic of Austria, the Republic of Portugal, the Republic of Slovenia, the Slovak Republic and the Republic of Finland.*

5 *Ecofin (or Economic and Financial Affairs Council) is composed of the EU Economic and Finance (Budget) Ministers.*

6 *The Intercreditor Agreement was signed for the Slovak Republic by the Minister of Finance on the basis of the decree No. 287 of 8 May 2010 of the Government of the Slovak Republic. The provision of the loan from the Slovak Republic was conditioned to the ratification of the Intercreditor Agreement, as required by the Constitution of the Slovak Republic. In its decree No. 40 of 11 August 2010, the National Council of the SR expressed its disagreement with the Intercreditor Agreement.*

7 *Lenders are the euro area countries except Greece and the Slovak Republic. Germany is represented in its function of lender by KfW (German National Bank) acting in the public interest, subject to German instructions and with a guarantee of Germany. (There is a principle laid down in the Intercreditor Agreement that other member states may also authorize other legal subject to function as lender.)*

8 *The EWG is a special group created under the Economic and Financial Council (EFC). Among other things, this group was responsible for drafting the Loan Facility Agreement with Greece and the Intercreditor Agreement among the member states.*

9 *This contribution key is derived from the valid key for subscription to the ECB capital. According to the key, Slovakia's share was supposed to be 1.02% of the total amount; i.e. EUR 817.85 million, of which EUR 306 million of the loan programme in the first year.*

allow the IMF to respond promptly to an arising situation.

The IMF is to provide financial support to Greece through a 3-year *Stand-By Arrangement* (SBA). The SBA was created in 1952 and can be granted to any IMF member state with short-term problems in its balance of payments (An SBA is provided for a maximum of 3 years). The SBA provision is conditioned to the adoption of an adjustment programme aiming at solving the problems in the balance of payment in a sustainable way. The normal access limit represents 200% of the IMF quota for a 12-month period, and the cumulative access limit amounts to 600% of the total credit outstanding.

In the case of Greece, the exceptional access was approved with a loan of SDR 26.4 billion (equal to EUR 30 billion), corresponding to about 3.212% of Greece's quota[10]. At the same time, Greece used the option of a front-loaded access and applied for an exceptionally high first disbursement of EUR 5.5 billion. Like in a few other cases during the current crisis, an Emergency Financing Mechanism was applied to Greece as this exceptional situation required an accelerated approval process.

To finance its lending, the IMF currently uses quota resources from IMF member states participating in the Financial Transaction Plan (FTP) and resources provided to the IMF through bilateral borrowing and note purchase agreements[11]. All euro area Member States, with the exception of Greece, now participate in the FTP and most of them have also signed a bilateral borrowing agreement with the IMF, including the Slovak Republic.

3. Conditions for providing the loan

The conditions for providing the loan to Greece are laid down in the Loan Facility Agreement and in the agreement on SBA, as well as related memoranda. The adjustment programme was created in close cooperation with the IMF and European partners, and for this reason both facilities have identical conditionality.

Greece will draw on IMF and European facilities at a fixed ratio of 3:8 throughout the programme period. The condition for providing financial resources (the release of the first instalment was an exception) is to meet quantitative performance criteria and structural benchmarks of the recovery programme defined in individual memoranda. During the programme, the IMF, ECB and EC will make 12 joint quarterly assessments.

The loans from the IMF and the euro area have the same term which cannot exceed 5 years, starting on the date when the loan was paid out. The interest rate for the loans from the euro area is derived from the Euribor[12] rate increased by 300 basis points (bp). If the term of repayment exceeds 3 years, the interest rate is to be increased by another 100 bp. The interest rate of IMF loans is derived from the SDR interest rate increased by 100 bp[13]. With credit outstanding higher than 300% of quota, a surcharge of 200 bp is calculated in the first 3 years, and of 300 bp later. In both cases, the borrower is to pay a service charge of 50 bp from the resources drawn, which will be used for settling operating costs. Apart from that, the IMF also charges a commitment fee which is fully refunded if the resources are drawn.

4. Greece's recovery programme

Greece's recovery programme was drafted in the triple presence of the ECB, the EC and the IMF. This is the reason why a common framework of macroeconomic and structural reforms was agreed for both resources (euro area and IMF); these are summarised in the *Memorandum of Economic and Financial Policies* and the *Technical Memorandum of Understanding*. Additionally, the EC and Greece also signed the *Memorandum of Understanding on Specific Economic Conditions* defining more detailed structural reforms and a timetable for their implementation. The performance criteria and other indicators and obligations defined in these documents form the basis for regular quarterly assessments carried out jointly by all three institutions.

The objectives of the 3-year programme are to restore the confidence of investors and regain market access, to secure debt sustainability, to recover competitiveness, and to provide stability for the Greek financial sector. A combination of fiscal, financial sector and structural policies is necessary to reach these goals.

The basis of the programme is formed by **fiscal measures** aimed at reducing general government deficit to below 3% of GDP by 2014, and at reducing the debt-GDP ratio from 2013 onwards. The bulk of those fiscal measures (amounting to around 8% GDP) should be implemented in 2010 (including the already accepted obligations from February and March 2010), followed by fiscal measures of similar range in 2011 – 2013.

The frontloaded measures are aimed mainly at a fast reduction of government expenditures (e.g. by lowering pensions and wages in the public sector or reducing subsidies to state enterprises) and an increase of government revenues (e.g. by increasing the VAT rate or excise taxes). They are to be followed by several reforms (particularly tax reform, health system reform, pension reform) which should help to consolidate the public finances. Greece has also pledged itself to adopt measures to secure better tax collection, more efficient budget control, and better statistical presentation. The significant technical help of the IMF, EC and Eurostat will be used in these areas.

In the **financial sector**, the supervision provided by the Bank of Greece will be intensified and an independent Financial Stability Fund will be established. It will provide an additional safety net by supporting banks with temporary problems of capital adequacy. The ECB took an important decision in May 2010 to continue accepting debt instruments issued or guaranteed by the Greek government as collateral, regardless of their rating.

10 *Exceptional Access Policy defines four criteria: the country has to face exceptional pressure on the balance of payment, have a sustainable debt in the medium-term period, good prospects for renewing its access to capital markets, and a convincing programme of reforms.*

11 *More information on IMF's resources can be found in: International initiative to bolster the lending capacity of the IMF, Biatec, January 2010.*

12 *In the case of a loan period shorter than 1 week, EONIA rate will be used.*

13 *For the 2011 financial year.*

Box 1

Summary of measures in selected areas

Pension system measures

The first measures in the area of pensions were to decrease the highest pensions and cancelling Easter, summer and Christmas bonuses paid out to pensioners, while protecting the lower pensions. A complex pension reform aimed at reaching the fiscal sustainability of the pension system was approved in June 2010 (the date was September 2010) by means of two acts coming into force in early 2011. The reform introduced a minimum pension, decreased accrual yearly coefficients and introduced the fact that lifelong contributions will be decisive for pension calculation. The reform laid down a retirement age of 65 and a minimum retirement age of 60. At the same time, the minimum period of contributing to the system was increased to 40 years; as of 2013, the retirement age for men and women is to be unified in both sectors and, as of 2021, the retirement age will be adjusted automatically following the increase of life expectancy. The list of hard and physically demanding professions is also to be shortened. The reform also includes a clause on possible adjustments in the case of unfavourable projections of pension system costs.

Tax measures

Greece was obliged to introduce VAT as well as excise taxes on alcohol, fuels and tobacco by the end of 2010. The country also pledged itself to introduce a progressive tax scale for all income sources and to reduce exceptions and deductible items. Further measures were to be added by September 2010, such as temporary crisis extra payments for high-profit companies, higher taxes on luxury goods, and the gradual introduction of "green taxes" on CO_2 emissions. Additionally, the tax base was to be extended, as well as 30% of goods and services to be moved from the lower to basic VAT rate. A tax on non-alcoholic beverages, among other things, is to be introduced as of September 2011.

Financial Stability Fund(FFS)

The FFS was set up by the Bank of Greece in July 2010 for a period of seven years in order to safeguard the financial stability of the Greek banking system by providing capital in the form of preference shares (which are convertible into ordinary shares). The participation of banks in the FFS will be compulsory. If, in the course of time, a bank were to be unable to increase its capital (and repay the FFS), the FFS would require its restructuring. The FFS capital of EUR 10 billion will be provided by the Greek government from the euro area/IMF loan programme. The FFS Board of Directors consists of seven members including representatives of the Central Bank of Greece and the Greek Finance Ministry. The EC and ECB each have an observer status without voting rights.

Structural reforms are necessary to restore the competitiveness of the Greek economy. Reforms will be aimed at reorganizing and modernizing public administration (e.g. strengthening the role of public procurement) and strengthening the labour market (e.g. a legislative adjustment of the minimum wage, more efficient use of part-time work, or a reduction of redundancy payouts). The business environment needs to be rehabilitated by accelerating the founding process for new companies, by implementing the EU Services Directive and removing obstacles in some professions (e.g. architects). Another important measure is the improvement of the operation of state companies in order to reduce state participation. And, last but not least, the capacity for absorption of structural and cohesion EU funds (e.g. by creating a special blocked account to co-finance them) should also be improved.

The programme also contains measures to protect the most socially vulnerable groups. During the 3-year programme, Greece will be required to regularly send various reports and statistics to the ECB, EC and IMF.

Since the approval of the economic adjustment programme, two missions of the IMF, ECB and EC have taken place in Greece[14]. In August 2010, an expert team stated that Greece was meeting all performance criteria and important reforms, including pension reform, and was ahead of schedule. The conclusions from the first revision of the programme are expected to be approved in early September 2010 by the EC, the Eurogroup as well as the IMF Executive Board, which should allow the release of the second instalment of EUR 9 billion (EUR 6.5 billion from the euro area and EUR 2.5 billion from the IMF).

5. New plan for maintaining the EU's financial stability

Following the events in Greece, which have shaken the stability of the euro area's financial markets, the EC submitted on **9 May 2010,** at an extraordinary Ecofin meeting, a Stabilisation Mechanism draft for maintaining financial stability in Europe, resulting in the approval of the European Financial Stabilisation Mechanism for as much as EUR 500 billion. The mechanism is based on Article 122 of the Treaty on the functioning of the EU and intergovernmental agreements of the euro area Member States, with financial assistance from the EU budget amounting to EUR 60 billion and from

14 The first mission took place within the IMF's Emergency Funding Mechanism in June 2010, the following mission from July/August 2010 was the first one of the series of 12 quarterly missions.

Box 2

The European Financial Stability Facility, the Guarantee Scheme and the participation of the Slovak Republic

The EFSF is a special purpose vehicle enabling the provision of a stabilisation loan to a euro area member state in trouble. The EFSF works as a public limited company set up in accordance with the legal system of Luxembourg on 7 June 2010, while the original subscribed capital of EFSF was EUR 31,000. All euro area member states are to become shareholders of the EFSF. The Board of Directors of the EFSF (last changed on 14 July 2010) determines the amount of EFSF share capital, while the current EFSF statutes allow a share capital of maximum EUR 30 million.

Euro area countries are to conclude a EFSF Framework Agreement. Its binding character for single member states is conditioned to its compliance with their national legislation. The Agreement contains rules and conditions regulating the provision of loans to euro area member states from the EFSF, as well as rules and conditions for guarantors regarding funding guarantees by means of issuing bonds. The EFSF Framework Agreement will come into force once the obligations are confirmed by at least five member states representing at least 2/3 of the total volume of guarantees. Additionally, the provision of financial help is conditioned to the confirmation of the obligations by countries representing 90% of the total assistance volume. As for financial assistance to Greece, the provision of loans to member states in difficulty will depend on their following the Memorandum of Understanding regarding the borrower's economic policy and on checks being performed by the EC.

The EFSF may provide stabilisation assistance to a euro area country in difficulty and asking for financial assistance on the basis of the loan and credit agreement. The financial assistance will be funded by the EFSF through the issue of bonds in the market which will be covered by guarantees of participating euro area members (guarantors) in order to achieve the best rating possible (EUR 440 billion with a guarantee of 100%). The guarantee scheme for the euro area countries (like financial assistance to Greece) is derived from the distribution key in the ECB's repaid capital. If the best possible rating for the EFSF is reached, there is a maximum guarantee determined for each member state of 120% of their share in the emission guarantees. The financial means for providing a recoverable loan for a particular country will be obtained through emission. There is also a service charge and a margin for providing the loan, like with the financial assistance to Greece.

At its session on 11 August 2010, the National Council of the Slovak Republic approved this General Contract. In order to finalize the process of the Slovak involvement in the EFSF, the Framework Agreement still needs to be ratified by the President of the Slovak Republic and a new legislative framework should be adopted.

The Slovak share in the share capital of the EFSF represents 0.99%. According to the EFSF Framework Agreement, Slovakia will participate with EUR 4.37 billion with a guarantee of 100%.

euro area member states to EUR 440 billion. As part of the mechanism, euro area Member States will set up a *European Financial Stability Facility (EFSF)* and will guarantee resources in the amount of EUR 440 billion. The involvement rate of Member States is derived from the key for subscribing ECB capital. The participation of the countries in the EFSF has to be in line with their national requirements. According to the provisions of the EFSF, it should provide financial assistance until June 2013. As for the support to Greece, the IMF will also participate in implementing the assistance from the Stabilisation Mechanism.

On the basis of the adopted mechanism, countries with difficulties will be allowed to ask for financial assistance in the form of a loan. Financial support will be conditioned by meeting obligations and it will be strictly supervised by the EC, ECB and IMF. In this way the EU will be ready to respond efficiently, promptly, and in a coordinated way to serious events which may affect the EU's financial stability.

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Silver Collector Coin

Protection of Nature and Landscape - Poloniny National Park

Ing. Dagmar Flaché
Národná banka Slovenska

The latest collector coin issued by the Národná banka Slovenska in September 2010 features the Poloniny National Park. It is the ninth and last coin, thus completing the series featuring Slovak national parks, as since 1994 the Národná banka Slovenska has issued coins featuring all nine contemporary Slovak national parks.

Coin realization based on the design by Karol Ličko

Poloniny National Park is located in the East of Slovakia in the area where the borders of three countries – Slovakia, Poland, and Ukraine – meet. Its name derives from the alpine pastures above the upper border of forest on the central crest of the Bukovina Mountains, which are called 'poloniny'. It was established on 1 October 1997 and has an area of 29,805 ha; the protected area amounts to 10,973 ha.

Eighty percent of its area is comprised of forest ecosystems, especially beech and fir-beech forests. The largest complex of primeval forests in Slovakia can be found here. Primeval forests in Stužica, Rožok, and Havešová national natural reserves were added to UNESCO's World Heritage List in 2007 as 'The Primeval Beech Forest of the Carpathians'. Apart from these, one more Slovak area – Vihorlat – is registered in the list, as well as another six areas in the Ukraine.

The national park is home to many rare species of plants and animals. The endangered species of Poloniny's nesting avifauna include the Red kite, the Peregrine falcon, the Short-toed eagle, and the Golden eagle. Beasts of prey which inhabit the area include the Brown bear, the Eurasian lynx, the wildcat and the Gray wolf. The national park is the only area in Slovakia where the free-living European bison can be found. In terms of the phytogeographical division of Slovakia, the area of Poloniny National Park is the only one that belongs to the East Carpathian floral region represented by Ranunculus carpaticus (Carpathian buttercup), Viola dacica (Dacian violet), Campanula abietina (Fir-tree bellflower), Dianthus barbatus L. subsp. Compactus (Sweet William), Helleborus purpurascens (purple Hellebore), etc.

The whole region possesses excellent preconditions for the development of tourism. Poloniny can offer countless interesting hiking and bicycle trails of the Carpathian arterial road. The cultural and historical attractions of the region are represented by Greek Catholic churches with unique wooden architecture in Topoľa, Uličské Krivé, Ruský Potok, and Jalová.

Ten authors entered the public anonymous competition for the art design of the coin, submitting a total of fifteen art works. The NBS Governor's Commission for the Assessment of Art Designs of Slovak Euro Coins recommended the art design by academic sculptor Ivan Řehák for re-

Second prize academic sculptor Ivan Řehák

Third prize PhDr. Kliment Mitura

Reduced third prize Karol Ličko

Photo: Ing. Štefan Fröhlich

alization, which was awarded second prize in the competition. His design impressed and captured the interest of the commission with its unconventional modern solution and interesting dynamic composition. The obverse of the design depicts the European bison; the reverse shows a typical beech growth motif supplemented with purple hellebore. Professional advisors to the commission commented on the design, observing that the bison is rendered in an unnatural posture.

Although the commission recommended this design for realization, the NBS governor exercised his right arising from the terms of the public competition, which allows him to decide contrary to the commission's recommendation. Thus on the basis of the authorization from the Bank Board of the NBS, he approved for realization the design by Karol Ličko, which received the reduced third prize. For the obverse, the artist chose a characteristic Poloniny landscape motif with purple hellebore in the foreground. The reverse of his design depicts two wolves in a setting with a fallen tree trunk and branches of beech growth. With regard to the commission's assertions about certain imperfections in the depiction of fauna, the author adjusted the image of the wolf at the bottom.

First prize was not awarded in the competition. Third prize was awarded to PhDr. Kliment Mitura. As regards his design, the commission particularly praised the harmonious and faithful rendition of the obverse depicting beech trunks and purple hellebore. On the reverse, the author created a composition of a landscape motif, a bison's head, Dianthus barbatus, and a traditional architectonic element of Poloniny 'oboroh' (a type of simple barn). Reduced third prize was awarded to another design by Karol Ličko. On the obverse of the design, the artist depicted a bison; on the reverse, an 'oboroh' supplemented with characteristic species of Poloniny flora.

The collector coin in nominal value of 20 euro, diameter of 40mm and weight of 33.63g, is minted of silver of 925/1000 purity at the Kremnica mint. 8,150 pieces of BU quality and 10,350 pieces of proof quality were minted. The inscription on the edge of the coin reads "OCHRANA PRÍRODY A KRAJINY" (THE PROTECTION OF NATURE AND LANDSCAPE), before which there is a dividing mark in the shape of a flower.

BIATEC

Deposit protection after turbulence in the financial markets

Ing. Rudolf Šujan, Presidium Chairman
Deposit Protection Fund

Deposit protection has been going through dynamic evolution and changes, especially after turbulence in the world financial markets in the autumn of 2008, and this trend has not finished by far. The aim of this contribution is to summarize the most significant changes which have appeared since 2008 in the area of deposit protection in the EU and beyond.

We are not living in a perfect world, neither from the economic point of view nor when considering the financial or banking system. This was clearly shown in September 2008 when the US bank, Lehman Brothers, went bankrupt and so became a victim of the mortgage and loan crisis.

Another event which triggered changes in deposit protection was a massive withdrawal of deposits from the Northern Rock Bank in England, whose clients withdrew £1 billion on Friday 14 September 2008, while the withdrawing continued on Monday, 17 September when the bank lost further deposits totalling GBP 2 billion. Subsequently the British Government and the Bank of England announced that deposits in this bank would be guaranteed at their full amount.

It did not take long for the financial rescue responses to arrive as a result of these events.

At its meeting on 7 October 2008, the ECOFIN Council called on EU member states to adopt certain measures for deposit protection and to increase debt protection in the extent of at least EUR 50,000.

Subsequently, in October 2008 governments of the EU member states took various decisions. While some states in a declarative or legislative way secured a 100% guarantee of deposits (Denmark, Greece, Ireland, Germany, Austria, Slovenia and Slovakia), deposit protection in the amount of EUR 100,000 was approved by Belgium, Cyprus, Netherlands, Lithuania and Spain. Further countries, such as the Czech Republic, Bulgaria, Finland, Latvia, Poland, Hungary and Great Britain, approved deposit protection in the amount of EUR 50,000.

Some member states, such as Denmark, Netherlands, Germany, Portugal, Spain, Italy and Great Britain also adopted further measures for their financial sectors to recover and to strengthen their financial stability.

All EU member states abolished the participation of depositors in deposit protection.

In the Slovak Republic, Act No. 421/2008 Coll., in force from 1 November 2008, amended Act No. 118/1996 Coll. on the protection of bank deposits as amended. The mentioned act cancelled the 10% participation of depositors and also introduced unlimited deposit protection which means that if deposits are inaccessible in one of the banks, depositors are paid compensation in the full amount of their protected deposit by the Deposit Protection Fund.

Directive No. 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes did not escape changes either; it was amended by Directive No. 2009/14/EC of 11 March 2009. The changes mainly concern the level of deposit protection and the period of compensation payment, while the minimum deposit protection level was increased to EUR 50,000, and until 31 December 2010 the deposit protection limit for all depositors should be EUR 100,000.

Based on the amended directive, the deposit-guarantee schemes in single countries have to be able to pay out duly verified claims of depositors regarding their inaccessible deposits within 20 working days from the day the bank was declared unable to pay out deposits, while under special circumstances the deposit-guarantee scheme may ask respective authorities to prolong this period by not more than 10 working days.

Not later than 16 March 2011, the Commission will submit to the European Parliament and to the Council a report on payment efficiency and dates, reviewing if the period stated in the first subparagraph could be shortened to 10 working days.

Deposit protection in individual EU countries

Since 2008 deposits have been protected up to EUR 50,000 in Bulgaria, the Czech Republic, Estonia, Finland, Latvia, Poland and Romania. Deposits in France are currently protected up to EUR 70,000; while Cyprus, Lithuania, Luxembourg, Malta and Spain protect their deposits up to EUR 100,000.

Other EU countries have adopted measures regarding deposit protection itself or regarding their financial and banking sectors, in addition to increasing the deposit protection limit.

Belgium

On 9 October 2008 the Belgian Government announced a state guarantee for all new bank loans of systematically significant Belgian banks. The guarantee was applicable to inter-bank deposits, bonds and institutional investments until 31 October 2009. Currently deposits in Belgian banks are protected up to EUR 100,000.

Denmark

From 5 October 2008 to 30 September 2010, deposits are guaranteed in their full amount. The Guarantee Fund is not involved in a further guarantee which is co-financed by the state and Danish banks - these will set up a specific fund of EUR 4.4 billion.

Greece

Since 7 November 2008 the deposits of natural persons have been protected up to EUR 100,000. The government has bound itself to also protect deposits of corporate entities for 3 years.

Netherlands

Deposits are protected up to EUR 100,000. On 8 October 2008 the government also approved a reserve for the financial sector of EUR 20 billion with the aim to support liquidity or to strengthen the capital of those financial houses which may get into difficulties.

Ireland

Deposits are protected up to EUR 100,000. On 30 September 2008 the government also bound itself to protect all deposits in the six main Irish banks for 2 years.

Hungary

Since 15 October 2008 deposits have been protected up to HUF 13 million, i.e. about EUR 49,400. The government also guarantees full deposit protection, currently with no time limitation.

Germany

The government made a political declaration that deposits in commercial banks were guaranteed in their full amount without limitation. Since 30 June 2009 deposits have been protected up to EUR 50,000; from 31 December 2010 they will be protected up to EUR 100,000. It has to be mentioned that deposits in German cooperative banks are protected in their full amount, as their system protects these banks as institutions.

Portugal

Since 3 November 2008 deposits have been protected up to EUR 100,000. Apart from that, the government declared a guarantee of EUR 20 billion for financing or refinancing operations of banks according to particular market conditions, until 31 December 2009. The Deposit Guarantee Fund does not participate in this guarantee.

Austria

In force from late October 2008 to 31 December 2009, deposits of all natural persons were protected without limitation; since 1 January 2010 they have been protected up to EUR 100,000.

Slovakia

Deposits of natural persons and selected corporate entities have been protected in their full amount, i.e. without limitation, since 1 November 2008.

Slovenia

On 8 October 2008 the government and the National Bank of Slovenia jointly declared that deposits were protected without limitation until the end of the financial crisis. Unlimited deposit protection until 31 December 2010 was also introduced by amending the Act on Banks, in force since 5 December 2008.

Sweden

Since 30 June 2009 deposits of natural persons and corporate entities have been protected up to EUR 50,000. The government also introduced a measure regulating guarantees of deposits made in branches of foreign banks active in Sweden with the aim to prevent a potential violation of the Swedish financial system.

Italy

Deposits are protected up to EUR 103,291.38. On 8 October 2008 the government also approved another system-protection and stability vehicle – government intervention in the form of recapitalization – in the case that one of the commercial banks gets into difficulties.

Great Britain

Since 7 October 2008 deposits have been protected up to EUR 64,000. The government also declared a banking system rescue package of GBP 500 billion. This particular capital is prepared for the eight biggest banks and co-operative banks in exchange for preferred shares of those financial institutions which the assistance is provided to.

DEPOSIT PROTECTION IN NON-EU COUNTRIES

Deposit protection in non-EU countries has also seen some changes since 2008, aimed mainly at increasing its level.

Since autumn 2008 deposits in Albania, Montenegro, Macedonia, and Russia have been protected up to EUR 20,000; in Armenia up to EUR 4,850; in Bosnia and Herzegovina up to EUR 10,000; in Turkey up to EUR 28,878; in Serbia and Switzerland up to EUR 50,000; in Croatia up to EUR 56,000; and in Norway up to 2 million Norwegian crowns, i.e. approximately EUR 240,000.

In the USA deposit protection was increased to USD 250,000 on 3 October 2008, while on 1 January 2010 it was supposed to return to USD

100,000. However, a decision was made on May 2009 that deposits would be protected up to USD 250,000 until 31 December 2013.

Conclusion

The deposit-protection measures which single countries took after the "hot" autumn of 2008 in the financial markets were of great significance and they also contributed to strengthening the trust and greater stability of bank sectors in individual countries, including Slovakia. For deposit-guarantee schemes, this means an increase of requirements for their functioning. There is no doubt that changes in the deposit-guarantee schemes have not finished but will continue. The deposit-protection scheme in Slovakia is fully compatible with the European directive and the Deposit Protection Fund itself pursues its activity in line with the Act on Deposit Protection, and it is ready to respond to changes related to legislative evolution in the EU and in Slovakia.

Note: Information used in the article derives from the European Forum of Deposit Insurers (EFDI), of which the Deposit Protection Fund is a member as well as from the EU and FDIC (USA) web pages.

Euro: Perpetrator or witness? Development and factors of company competitiveness after euro introduction

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Národná banka Slovenska

It is not easy to assess the impact of euro introduction on company competitiveness. Competitiveness is rather a medium-term, even a long-term, phenomenon, and Slovakia has been a member of the euro area for only a year and a few months. Apart from that, strong negative effects of the global economic recession appeared in the Slovak economy in 2009. Therefore, we are going to focus mainly on a qualitative assessment of the company sector development and an analysis of potential factors of competitiveness, having in mind the readiness and response of businesses to the changes in the company and macroeconomic environment[1].

1. Expectations prior to euro introduction

Neither professional studies nor public declarations published in the period prior to euro introduction dealt with particular expectations associated with the impact of euro introduction on the competitiveness of Slovakia and Slovak businesses. Only some general statements and recommendations regarding competition and competitiveness appeared. This also makes it impossible to confront initial assumptions with the real development and to make an in-depth ex post comparison.

The 'Strategy of Euro Introduction in Slovakia' (NBS and MF SR, 2003) in relation to determining central parity states that an overestimated central parity would weaken the competitiveness of the Slovak economy. The 'National Plan of Euro Introduction in Slovakia' (NBS and MF SR, 2005) mentions that an increase in competition in the area of goods and services may, in the long run, contribute to the growth of competitiveness. The NBS Study (2006) draws attention to growing competition pressures related to price transparency, while these pressures may increase mainly in the agriculture, food and textile industries.

Expectations of enterprises were generally positive. The largest companies located in Slovakia felt a negative impact from Slovak koruna (SKK) strengthening, and they understood the euro introduction perspective as a positive factor for their competitiveness. An NBS survey[2] which was carried out before euro introduction showed that most large enterprises expected that the euro introduction would increase their competitiveness. Outcomes of a different survey carried

Table 1 Expected impact of the euro introduction on turnover, export and profit (% of respondents)

Respondent rate	Turnover		Vývoz		Zisk	
	Small and medium companies	Large companies	Small and medium companies	Large companies	Small and medium companies	Large companies
Increase by <5 %	16.0	4.0	8.8	7.0	16.2	9.0
Increase by 6 - 10 %	5.2	4.0	5.0	4.0	6.2	4.0
Increase by 11 - 20 %	2.2	0.0	1.6	0.0	2.3	0.0
Increase by >20 %	0.8	0.0	0.7	1.0	0.7	1.0
No change	44.5	87.0	63.5	81.0	42.0	76.0
Decrease	15.1	4.0	1.8	0.0	18.0	9.0
No opinion	16.2	0.0	18.7	6.0	14.6	0.0

Source: NBS (2006).

1 The contribution presents updated conclusions of the study of "Corporate Competitiveness after Euro Introduction in Slovakia" (T. Lalinský, 2010).
2 For more information see T. Lalinský (2008).

out among large enterprises (NBS, 2006) suggest that when assessing a potential impact on their export, turnover and profit, large enterprises were less optimistic. Some managers even expected their income and turnover to possibly go down after euro introduction.

Approximately one quarter of small and medium enterprises (SMEs) expected the euro to bring them new euro area consumers, and their turnover and profits to rise. Sixteen percent of SMEs counted with higher exports after euro transition. A newer survey (NARMSP, 2008) indicated that, in comparison with older forecasts, SMEs could indeed gain a lower number of new consumers and new markets.

Mainly enterprises from the transport, post and telecommunication sectors expected euro introduction to have a favourable impact. An unfavourable impact on exports was expected mainly by trade companies. Cost increase after euro introduction was seen as the most significant negative point. The second most widely perceived disadvantage was an increase of competition pressure which was expected by the majority of SMEs after euro introduction.

2. Experience of other euro area countries

Published ex post analyses assessing the impact of euro introduction on the growth of foreign trade, inflow of direct foreign investment, and the related potential rise of competitiveness indicate that the expected benefits have not yet been evident in such extent as foreseen. Since the euro area's establishment until now, the euro is believed to have had a positive impact on foreign trade of 10 to 15% on average.

At the same time, several quantitative studies confirm that the impact of the euro on foreign trade shows great industry-related differences. Flam and Nordstrom (2003) calculated a total increase of trade among euro area countries of 15%, while the impact on individual industries ranged between 7-50%[3]. Baldwin et al. (2005) identified a stronger effect and greater differences among industries. De Nardis et al. (2008) stated that at the industrial level, the euro impact on foreign trade could have even been negative for some countries. Industries using decreasing costs of scale had the greatest advantage from euro introduction. Industry-related division and industry location, together with other factors (such as different access to production resources and market liberalization rate), could have played a decisive role in euro introduction being a benefit for a particular country and industry or not.

There are only a few ex post analyses of euro introduction impact on the competitiveness of countries and businesses. Foreign studies concentrate mainly on price and cost competitiveness. In its Quarterly Report on the Euro Area (EC, 2009) the European Commission observes a divergence in the price competitiveness of countries after euro introduction. Some of the main reasons can be insufficient wage flexibility and strong national demand pressures connected with high debts. Several studies also indicate that the relation between export performance and price/cost competitiveness is different, depending on the particular country being assessed; factors of non-price competitiveness and relative national demand are more important.

Studies based on the New Trade Theory focus attention on those euro advantages that are related to lower prices, and higher productivity resulting from a stronger and more transparent international competition. Barrell et al. (2008) confirmed that the euro had increased labour productivity. The direct effect resulting from economic integration related to scale savings and higher competition pressures led to a productivity increase of 3%. Indirect impact related to a fall of GDP volatility and risk premium were calculated at 2%.

The Ottavian, Maur and Taglioni (2009) paper shows that with competition increasing, resources are allocated towards more efficient enterprises; total productivity and foreign trade are increasing. Small and open countries (Finland, Belgium and Austria) benefited the most from euro introduction. It was in industrial areas with strong competition and low barriers (in particular the production of electrical devices, basic metals and metallic products, and vehicles) where competitiveness grew most. This might be good news for Slovakia, as it is a small and very open economy with the aforementioned industrial areas playing a major role.

3. Competitiveness of Slovak enterprises after euro introduction

The number of indicators which can reflect short-term trends in the corporate competitiveness development is rather limited. Company success can be evaluated on the basis of the development of production, revenues, export, and resulting market share. Short-term trends in the development of the financial competitiveness of companies may be observed on the basis of quarterly data regarding revenues, added value generated, or profit of non-financial corporations. We can also consider the development of cost and price competitiveness, staff costs, the number of employees, amount of investment, and changes in the number of enterprises. Estimations of future production, orders, etc. may help us to gain a view of near-future development.

Production and export development

In the euro transition period, Slovakia saw a dramatic decline in its export and industrial production. At first glance, we could put the blame for such development on a too strong exchange rate and a subsequent appreciation of the effective exchange rate caused by the depreciaton of neighbouring currencies. In this case, industrial production in Slovakia would have grown more slowly in 2009 (or even would have decreased) in comparison with the Czech Republic or other

3 In their later work, Flam and Nordstrom (2006) found an increase of 26% and a higher positive impact on industries producing semi-finished goods and finished products.

4 In reality the situation in wholesale was much worse than in the retail sector.
5 Eurostat data shows that total exports from Slovakia and Poland dropped by 17%. Exports from the Czech Republic, Hungary and the EU dropped by 19%.
6 Added value in industry dropped by 15.4% in Slovakia and by 15.1% in the EU.

Chart 1 International comparison of industrial production development (index 2005=100)

Source: Eurostat
Note: SK – Slovak Republic, V4 – V4 countries average, CZ – Czech Republic

neighbouring countries. However, as we can see in Chart 1, industrial production in Slovakia grew faster than in its neighbouring countries in 2009. In the course of the year, Slovakia even saw the largest industrial production index (IPI) growth of all EU countries.

In 2009 a largely similar situation could also be seen in other economic areas, not only in industry. Retail turnover dropped more significantly in Slovakia than in its neighbouring countries and stayed low, which could in theory confirm a certain delayed impact of the appreciation of the effective Slovak exchange rate on this sector[4].

Data regarding the number of nights spents by tourists suggests that 2009 saw one of the most notable standstills in the collective tourist industry, mainly from the point of view of foreign tourists (Chart 2). The year-on-year drop of interest of foreign tourists was the largest of EU countries in 2009. A large decrease in numbers of tourists wishing to visit Slovakia was seen among Polish tourists in particular. The level of decrease of Czech tourists was comparable to the decrease of tourists from other countries.

Perhaps the most important indicator of corporate competitiveness is export performance. Exports from EU countries between January - December 2009 were 19% lower in comparison with the previous year. The drop in exports from all V4 countries was almost identical[5]. In comparison with other EU countries, Slovak companies saw a relatively lower drop in the exports of intermediate products and capital goods. The largest drop was seen in the export value of waste; as for industrial production goods, it was the export value of wood and wood products. Dynamic growth was only seen in oil and gas exports; the value of exports of electronic and optical devices remained almost the same. The smallest decrease was seen in exports to Asia, the biggest to Australia and Oceania. Apart from the general change from a growing to falling trend, it cannot be said that some unexpected sectors or regions stood out in 2009.

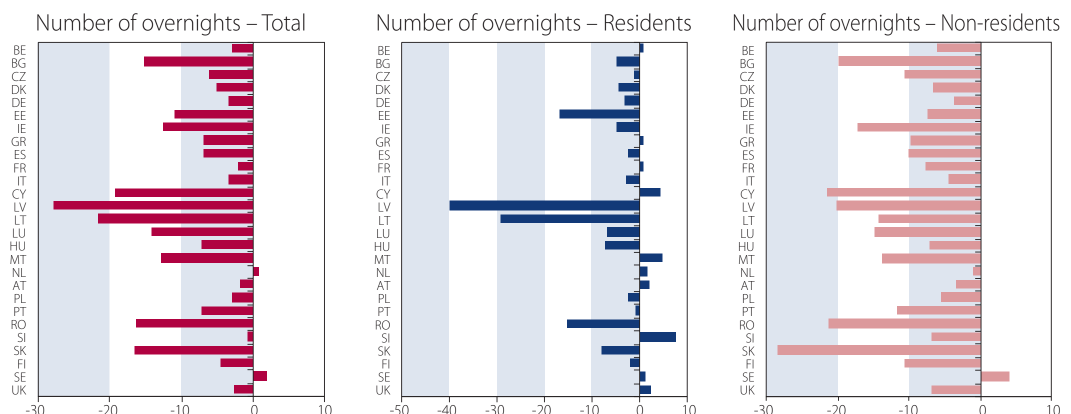
Development of Revenues, Added Value and Profit

Although, the decrease of revenues slowed down in 2009; the revenues for selected major industries continued to decrease at the end of the year. This trend was closely connected to the development of domestic consumption. Revenues of internal trade were not so flexible in their response as the revenues in industry. Lower exports, production, and revenues were also reflected in worse financial and economic results of Slovak enterprises.

Added value development saw a year-on-year decline mainly in the share of industrial production and trade. The added value drop was approximately at the EU average level, showing that the competitiveness of Slovak enterprises did not change significantly within the EU[6].

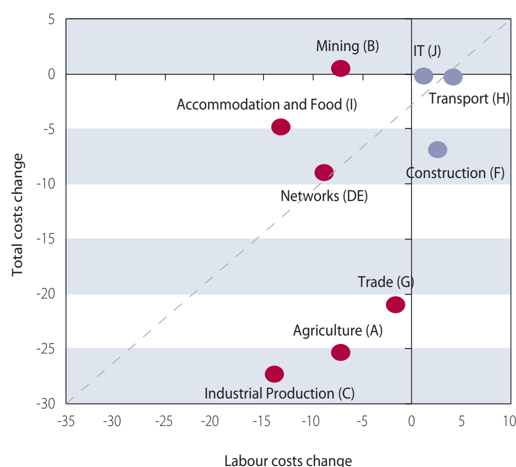
Lower formation of added value has been reflected in the economic results of non-financial

Chart 2 Development of the number of nights spent in accommodation facilities since 2009 (year-on-year change in %)



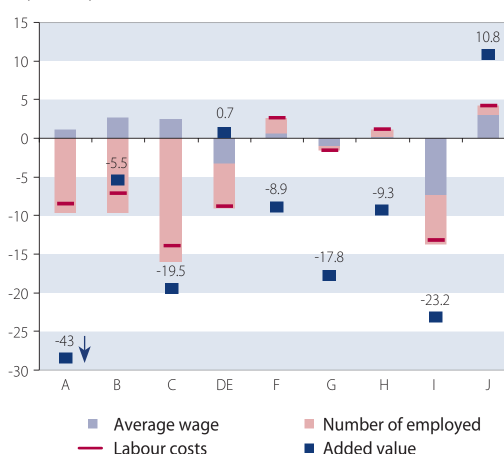
Source: Eurostat, own calculations.
Note: The chart reflects data for all collective accommodation facilities.

Chart 3 Development of total and labour costs in Slovakia (year-on-year change in %, 2009)



Source: ŠÚ SR, own calculations.

Chart 4 Comparison of development of labour costs and added value (year-on-year change in %, 2009)



Source: ŠÚ SR, own calculations.
Note: Agriculture (A), Mining (B), Industrial Production (C), Networks (DE), Construction (F), Trade (G), Transport (H), Accommodation and Food (I), IT (J).

7 Labour costs in the monitored period increased year-on-year in construction, transport and IT.

8 A comparison with the development of added value suggests that not all industries were able to respond flexibly by adjusting their labour costs to market development. From the point of view of labour market indicators development, the least flexible seem to be trade, transport and construction.

9 The financial and economic crisis had a significant impact on cross--boundary investment flows. The flow of investment into Slovakia in the form of equity capital increased year--on-year. However, a drop of other capital was bigger than the increase of equity capital; therefore the total inflow of foreign direct investment to Slovakia was negative.

enterprises. It was mainly profit in industrial production, trade, and transport that decreased. The agriculture, accommodation, and food facility industries all saw a loss.

An international comparison shows that the Slovak company sector has long been one of the most profitable in the EU. According to the latest available data for 2008, Slovak businesses showed the third highest share of gross operating surplus in added value. In 2009 the profitability of businesses went down. According to our estimates, Slovak non-financial corporations are still one of the most profitable in the EU.

Cost Adjustment

Companies hit by a global decrease in demand were forced to cut back on their production and to increase emphasis on cost minimization. The main economic sectors (except for mining and quarrying) saw a year-on-year drop of total cost in 2009. Generally speaking, we can say that the growing efforts to cut costs were accompanied by a growing attempt to reduce labour costs.[7] Labour costs decreased more quickly than total costs only in accommodation and food services (Chart 3). Industries which responded to lower demand by decreasing labour costs preferred mainly to lay-off their employees[8].

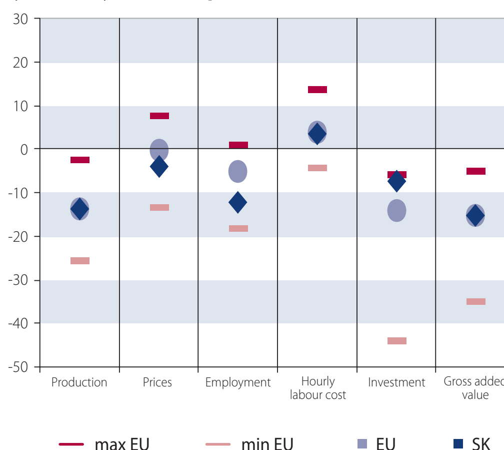
In response to the global economy situation worsening, enterprises were forced to cut not only operational but also capital expenditures. Investment activity in Slovakia decreased by more than 11%. The double-digit drop was seen particularly in the transport and storage industry. Even though Slovakia saw a rather big average investment drop, it is still one of the countries with the highest investment rate[9].

Summary View on Enterprises

From the competitiveness point of view, we are mainly interested in the development in the tradable sector. In Slovak conditions, the tradable sector is mainly created by industrial companies. At the beginning of 2009, the drop of industrial production was slightly bigger than the average EU decrease, and the gross added value was decreasing at the same rate as in EU countries on average. In late 2009 the average year-on-year drop of industrial production in Slovakia reached approximately the same value as the EU. Slovak enterprises decided to considerably cut back on prices and staff numbers; this enabled them to retain one of the lowest levels of investment reduction in the EU.

With a more detailed look at the differences in the development of financial and economic results among particular sub-sectors in industrial production, we can see that other factors (such as production and products' life cycle) played a

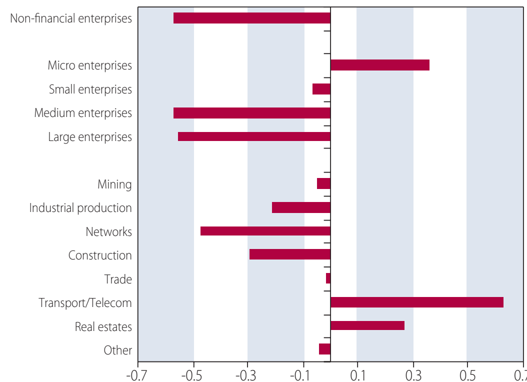
Chart 5 Summary of the main indicators of industrial production in Slovakia in 2009 (year-on-year change in %)



Source: Eurostat, own calculations.

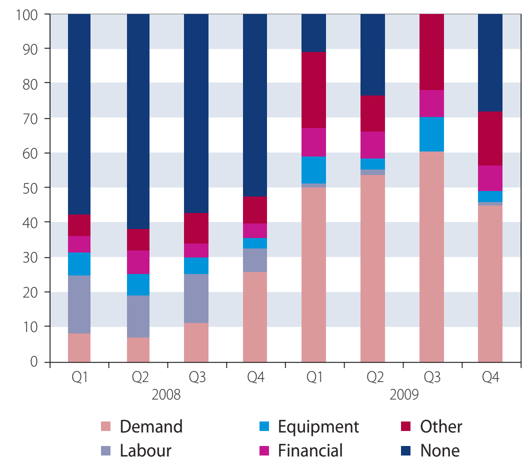
10 The variable is equal to 1 in the period after euro introduction (or after fixing the exchange rate), and equal to 0 in all previous quarters.

Chart 6 Correlation of the development of exchange rate and profit in non-financial enterprises in SR (correlation coefficient)



Source: ŠÚ SR, own calculations.
Note: based on yearly data for 2000 - 2008

Chart 7 Factors limiting industrial production in Slovakia (share in %)



Source: Eurostat, own calculations.

more crucial role than euro introduction and the related appreciation of the effective exchange rate.

Analysis of Potential Factors

Coincidentally, during the euro introduction period in Slovakia, neighbouring countries' exchange rates weakened against the euro as a result of worsening economic development and growing risk aversion. This caused a temporary drop in the price and cost competitiveness of Slovak enterprises. When the situation in financial markets calmed down, the neighbouring exchange rates started to appreciate again. Late 2009 saw almost the same situation in cost competitiveness as before euro introduction. That is the reason why we see the cost competitiveness decline of Slovak enterprises as only a temporary phenomenon.

The comparison of the strengthening development of SKK and profit growth between 2000-2008 suggests that the strengthening did not have a substantial negative impact on the profitability of industrial enterprises. As SKK gradually strengthened, profit growth mainly in electricity, gas and water production & distribution, as well as in medium-sized enterprises, slowed down (Chart 6).

The largest drop in profits was recorded in industrial production in 2009, which was to a certain extent in line with the long-term trend from the point of view of effective exchange rate development. A huge drop was also seen in trade which was previously almost unaffected by the strengthening of the original domestic currency. In contrast, profit in construction dropped only slightly, in spite of the fact that their long-term trend suggests a strong negative dependency on exchange rate development. These findings suggest that the main reasons for the 2009 negative economic development of enterprises should be looked for elsewhere.

A simple regression analysis confirms that industrial production in Slovakia is mainly dependent on foreign demand. An important finding is the fact that a dummy variable[10], which can express the potential impact of euro introduction but also the negative impact of the global economic crisis, increases the accuracy of estimations.

Based on the strong identified impact of the dummy variable, we could come to the prelimi-

Table 2 Results of a simple regression analysis

Independent variables		Dependent variable				
		Foreign demand	Domestic demand	Dummy variable		Adjusted R^2
				Q4 2008	Q1 2009	
Industrial Production	SK	0.41 (7.9)		-8.1 (-2.4)		0.59
	CZ	0.45 (9.86)		-7.6 (-3.3)		0.73
	HU	0.43 (12.8)	0.12 (2.28)		-15.1 (-9.47)	0.91
	PL	0.40 (12.2)			-6.58 (-2.95)	0.66
	DE	0.48 (7.6)	-0.47 (-2.01)		-8.60 (-4.50)	0.90

Source: SU SR, own calculations
Note: Estimates were based on quarterly data and year-on-year changes of selected indicators for the period 1Q 2000–3Q 2009. The table shows statistically significant variables (t-statistics in the brackets).

nary conclusion that the euro could have had a temporary negative impact on enterprises. The problem is that the Czech Republic has not introduced the euro and Germany had had it long before. Nevertheless, regression models for these countries are more accurate after introducing the artificial variable for the euro introduction period in Slovakia. The average value of the indicator showing the close dependency of production development and the dummy variable is higher too. The simple regression analysis therefore only confirms a significant change in the development of monitored indicators in the given period, which is most likely related mainly to negative impacts of the global economic recession.

Surveys among enterprisers confirm that the main factor limiting production in 2009 was a lack of demand (Chart 7). Companies in almost all EU countries felt lack of demand as a decisive factor limiting production.

4. Further competitiveness development expectations

According to several independent outlooks, the Slovak economy should see a stronger recovery in 2010 than other EU countries. In late 2009 and early 2010, Slovak businesses saw a more dynamic growth in orders and also expected quicker export revival.

Key factors of competitiveness growth

Based on the survey among major companies in Slovakia[11], Slovak companies expected stronger pressures on costs reduction and buyer demands satisfiction. Of course, the real pressures on decreasing costs and satisfying customers were probably a lot more intensive in 2009 than the most pessimistic expectations. In spite of temporarily higher labour costs dynamics in the SR as in the EU, Slovakia has – on the basis of current experience – all the prerequisites to maintain its cost competitiveness.[12]

Enterprises evaluated capital availability (in Slovakia represented mainly by the availability of bank loans) as above-standard. The global financial and economic crisis brought a fundamental change in perceiving the risk rate of entrepreneurial activities. Higher cautiousness of financial institutions slowed down the volume growth of new credits; a similar trend was seen in most countries. In this sense we can consider capital availability as one of the current factors limiting the further growth of the competitiveness of Slovak enterprises.

The long-term trends in the development of our export product structure can be considered as prevailingly positive; mainly the share of exports of machinery and transportation equipment grew. However, Slovakia is not particularly successful in chemical industry exports. High-tech products' export share has increased in the last nine years; nevertheless, we are still significantly lagging behind in high-tech exports.

The current revival of international trade is to a large extent driven by the growing demand of Asian countries, dominated by exports to China. The share of Slovak exports to Asia is growing relatively quickly; however, in 2009 the share of Slovak exports to developing Asian countries of total exports from Slovakia was about half lower than the EU average, and several times lower than in the USA.

Business Environment Quality

In comparison with other countries ranked in the same development group, it is mostly innovation and professional requirements that we lag behind in. Slovakia also has great scope for improvement in the basic infrastructure, institutions, and higher education areas. According to several renowned studies, biggest competitive disadvantages of Slovakia include inefficient government bureaucracy, low efficiency of the legal system and related administrative burden of enterprises, the purposefulness of government expenditures, and bribery.

In the long view it is necessary to focus on enhancing the education system, and to lay greater emphasis on research, development and innovation. The euro introduction and the transition to the common monetary policy have led to an increase of the importance of other economic policies. It is necessary to continue with structural reforms and ensure responsible fiscal policy. In view of the sustainable long-term growth of the Slovak economy and competitiveness growth, structural policies should focus on increasing economic flexibility; mainly with labour market flexibility playing a crucial role.

Conclusion

A detailed examination of the impact of the euro on competitiveness, be it on a company or country level, is not really a common topic of scientific studies. Available experience from the euro area countries suggest that, given the openness and industrial focus of the country, Slovakia and Slovak enterprises should gradually become one of the winners, or be among the countries and enterprises which the common European currency has brought more advantages than disadvantages to.

Shortly after the euro was introduced, Slovak enterprises had to face a sharp drop in exports, industrial production, and revenues. The year-on-year decrease of interest of foreign tourists in using accommodation facilities in Slovakia was bigger than other EU countries. The growth of interest of Slovak people in shopping abroad was also publicly felt. The drop in production, exports, and subsequently also added value was comparable with the EU average. However, Slovak companies started to cut back on prices and staff numbers more significantly, which enabled them to reach one of the lowest drop rates of investment and to maintain good prospects for further competitiveness growth.

11 See T. Lalinský (2008)

12 In the long view, unit labour costs in industrial production in Slovakia were still decreasing. The euro area has been stagnating a long time; or it has seen a slight growth of unit labour costs in industrial production.

Total competitiveness has not changed notably. The worsening of price and cost competitiveness related to the fixation of the euro exchange rate was only of a temporary nature. There is no direct evidence that the euro had a purely negative impact on some industries. Our findings suggest that the euro was a witness rather than a perpetrator of a significant year-on-year worsening of financial results of Slovak enterprises. The decisive factor of the 2009 development was a lack of foreign demand.

Slovakia has relatively good preconditions for a quick adaptation and competitiveness growth. The tradable sector represented mainly by industrial production seems to be competitive enough. Enterprises seem to be flexible and prefer productivity increase; they do not focus only on costs decreasing. They are increasingly more aware of the importance of long-term competitiveness factors; they feel the need to invest in research and development, boost innovation activity, and support the education of their employees.

Long-term trends in the development of the export product structure reflecting export competitiveness are considered to be prevailingly positive. Nevertheless, Slovakia still fails to be successful in chemical industry exports, and still lags behind in high-tech products export. Following a trend seen in developed countries, Slovak enterprises should focus more on exports to quickly developing Asian countries.

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Selected areas of evaluation and reporting on purchased securities in a commercial bank

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Classification of purchased securities and their filing into portfolios

Purchased securities of every commercial bank represent assets of the bank that result from past events. It is almost certain that in the future such securities will increase those economical benefits of the bank that can be reliably evaluated in accordance with articles No. 24 up to 28 of the act on accountacy[1]. According to international accounting standards[2], security is a financial instrument, i.e. a legal relationship on the basis of which financial assets are originated at one contractual party and financial obligation or capital instrument at the other contractual party.

In a commercial bank, purchased securities are classified into the following categories:

According to the character of investment:

- debt securities (bonds, mortgage bonds, bills of exchange and the like),
- proprietary securities (shares, participation certificates).

According to the issuer:

- financial sector securities (banking, non-banking),
- securities of the public sector (central government, self-governing regions, towns, public sector agencies and other institutions of the public sector),
- securities of entrepreneurial sector,
- securities of multi-national corporations,
- securities of EU central institutions.

According to the place of issuance and denomination:

- issued and conducted in euro area (domestic),
- issued and conducted outside euro area (foreign),
- denominated in euro,
- denominated in other currency than euro.

According to the maturity period:

- up to 1 year inclusive,
- from 1 up to 2 years inclusive,
- from 2 up to 5 years inclusive,
- over 5 years.

In a commercial bank the securities are also monitored separately, e.g. separately debt securities with fixed interest yield, and separately securities with floating interest yield.

Securities procured by a commercial bank for the purposes of tenure or trading according to IAS 39, which do not represent any share on basic capital in subsidiary accounting unit nor in an affiliated accounting unit, are divided by commercial banks according to intention into securities:

- intended for trading,
- intended for sale,
- being held up to maturity.

According to IAS 39, a security intended for trading is a financial asset being held for the purposes of trading and profit achievement from price as well as exchange rate differentials resulting from the development of a continuous change of its value or exchange rate, or acquired value at its sale. Even when a commercial bank purchases a security with the intention of profit achievement resulting from assumed development of market price or exchange rate increase, it sometimes happens that the effect is opposite, wherein the market price or security exchange rate decreases. The mentioned development has an influence on the whole reported profit/loss of the bank. If the development is positive, profit/loss reported according to IAS 39 rises, if the development is negative, profit/loss - on the contrary - decreases.

According to IAS 39 rules, a security held in the portfolio up to maturity is held in accordance with the maturity period of the security. A commercial bank should not only have the intention, but foremost the ability to hold this security without trading with it, and that up to its maturity period. If a commercial bank lacks the ability to hold a security up to maturity or does not have financial resources to keep this security up to maturity, or if it is subject to legal or other restriction capable of destroying its intention, there is no possibility to hold this security in the portfolio up to maturity.

If a commercial bank procures a security with the purchase of a sales option with the intention to file into the portfolio up to maturity, then it is possible to file the security into the portfolio up to maturity in the case that the sales option is not exercised.

A security can be reported as a security intended for sale, if it is not intended for trading nor for being held up to maturity. It concerns a security, which is, for example, not traded on the stock exchange and whose fair value is determined by a

1 Act on accountancy No. 431/2002 Coll. 18 June 2002 as amended by later regulations and on changing and completing some acts of law.
2 IAS 39 Financial tools: reporting and evaluation.

3 *Amortised cost of e.g. security being held up to maturity is the price used at the initial accounting of this asset, being gradually decreased or increased by amortised premium or discount and decreased by allowance created for this asset, provided it is created for this asset.*

quantified estimate (by theoretical price). A security reported in this portfolio may change its fair value. The difference from the development of its fair value is reported according to International Accounting Standards as a component part of the equity of a commercial bank, which is presented in the balance sheet reported according to IAS 39. If there is a positive difference, the equity rises, and if there is a negative difference, the equity decreases.

Allocations of securities between portfolios

- *Allocations of securities from the portfolio of securities intended for trading* into the portfolio of securities intended for sale or into the portfolio of securities being held up to maturity are not carried out, as it is not only necessary to keep the given trading intention, but the primary appraisal of the particular security as well, which stems from the development of its market fair value, which is given by its price on the real market.
- *Allocations of securities from the portfolio of securities intended for sale* into the portfolio of securities intended for trading are only carried out in exceptional cases. This situation can happen if the commercial bank really begins trading such securities with the aim of profit formation based on short-term changes of their market prices. Assuming that the principle of international accounting standards is substance over form, in this case it means that the commercial bank starts from conditions on the market where subsequently the securities become part of the portfolio of securities intended for trading.
- *Allocations of securities from the securities portfolio being held up to maturity* into the portfolio of securities intended for sale are carried out by the change of business plan or after expiration of the given period, which can be, for example, up to three months before their maturity. Changes of interest rates should not considerably influence the fair value of these securities then (it is more precise to measure such a period by duration). A situation when the bank accepts from the issuer besides interest yields (through payout of coupons) achieved during the period of tenure of these securities at least 90% of procurement price of these securities is also possible. Allocation of securities from the portfolio of securities intended to be held up to maturity into the portfolio of securities intended for sale may be carried out because of a unique event which could not be expected or influenced by the bank, being for example a considerable worsening of economic situation of the issuer.

Securities evaluation

In the sense of the Act on accountancy, the securities intended for sale and securities intended for trading are evaluated by their fair value. Securities being held in portfolio up to maturity are primarily – when they are allocated into portfolio – evaluated by acquisition prices.

- *Changes of fairl values of securities intended for trading* and differences between acquisition prices of securities intended for trading and their fair values during the period up to maturity are determined according to the development of their market prices on the regulated financial markets, for example on the stock exchange, where the development of supply meets the financial market demand for them. In the case that the liquidity of securities on the stock exchange is very low (for example, trades are executed once a month, etc.), the fair value of securities calculated through theoretical price by means of a yield curve composed of short-term and long-term prices of appropriate referential financial instruments is more precise.
- *Changes of fairl values of securities intended for sale* and differences between acquisition prices of these securities intended for sale and their fair values are considered as positive or negative evaluation differences from the valuation of the securities intended for sale. These evaluation differences influence the amount of equity.
- *Securities being held up to maturity* are evaluated by amortised (redemption) cost . Amortised cost3 is represented by initial procurement price decreased by eventual instalments of the principal. If a commercial bank purchased this security with a premium, it is necessary to gradually decrease (redeem) by this very value the difference between initial value and its maturity value, which may be decreased by the amount of a temporary downturn of its value (allowance). If a commercial bank purchased this security with a discount, it is necessary to gradually increase (redeem) by this very item the difference between initial value and its maturity value, which may be decreased by the amount of temporary downturn of its value (allowance).

Allocations of securities and balance sheet structure of a commercial bank

If a commercial bank allocates a certain portion of securities from the portfolio of securities intended for sale into the portfolio of securities being held up to maturity, their fair value on the date of allocation is considered to be a new amortised cost, which is subsequently increased by achieved interest yields. If there is objective proof that the loss incurred because of decrease of value, allowances are formed to this security, the costs being debited.

By the allocation of securities from the portfolio of securities being held up to maturity into the portfolio of securities intended for sale is the security from the date of allocation evaluated by fair value with simultaneous accounting of difference from evaluation into the entry of evaluation differences, which may be positive or negative and

thus influences the amount of equity of a commercial bank. If allowances were created to the securities being allocated to portfolio of securities being held up to maturity, these are cancelled by the allocation into the returns of the commercial bank. By the allocation of securities into the portfolio of securities intended for sale, the difference between amortised cost and fair value is reported in the equity.

By the allocation of securities from the portfolio of securities being held up to maturity into the portfolio of securities intended for trading, a security is from the date of allocation evaluated by fair value with simultaneous accounting of difference from evaluation on the accounts of costs or revenues of the commercial bank. If an allowance is created to the securities allocated to the portfolio of securities being held up to maturity, this is cancelled before allocation through profit/loss. After allocation of securities to the portfolio of securities intended for trading, only the difference between the fair value of the allocated security and its amortised cost is included in the costs or revenues.

If a security is reported during the whole period of tenure in the trading portfolio, the differences between acquisition prices of the securities intended for trading and their fair values are continuously accounted to the accounts of costs or revenues of a commercial bank correspondingly with the concerned accounts of securities.

If a security is reported during the whole period of tenure in the portfolio for sale, the differences between acquisition prices of the securities intended for sale and their fair values are continuously accounted to the accounts of evaluation differences reported in the liabilities of the bank correspondingly with the concerned accounts of securities. Such evaluation exerts influence on the amount of equity, where in the case of reporting a negative difference between acquisition price and its fair value, or in the case of the unfavourable development of its value it concerns an item decreasing its amount. In the case of achieving positive difference – a profit – between acquisition price and its fair value or in the case of the favourable development of its value it concerns an item which increases equity. On the date of sale, the maturity of security which was reported in the portfolio intended for sale, the positive difference is reported in the profit/loss of current accounting period as a profit from sale, negative difference shows itself in profit/loss of current accounting period as a loss from sale, which influences the amount of costs and decreases the profit/loss of the current period.

In the sense of the application of International Accounting Standards, it is also necessary to present a common method of purchase or sale of financial assets in the form of securities. It concerns the moment when the reporting or accounting of financial assets in the form of securities in the balance sheet of a commercial bank is taking place. Purchase or sale thereof is carried out within the framework of a contract, the conditions of which require delivery thereof and subsequent reporting within the framework of a period of time.

Current purchase of financial assets is reported according to suitability:

a) by using accounting on the date of execution of the trade,
b) by using accounting on the date of settlement of the trade.

By sale of financial assets the reporting thereof ends:

a) by using accounting on the date of termination of the trade,
b) by using accounting on the date of settlement of the trade.

If a commercial bank uses accounting on the date of execution of the trade in relation to the financial assets in the form of securities which are subsequently evaluated in acquisition price or adjusted price of the acquisition, so the assets are initially reported in their fair value on the date of execution of the trade. Differences from the development of fair values up to the date of settlement of the trade are a component part of profit/loss of a commercial bank. Date of execution of the trade is the date on which the accounting unit obliges itself to purchase or sell assets. Accounting on the date of execution of the trade is related to reporting of the assets which are about to be accepted. When using the accounting on the date of execution of the trade on the date of sale of assets, it is the date of termination of their reporting and at the same time on this date a reporting of profit or loss from sale and reporting of a receivable against the buyer takes place.

The settlement day of the trade (property settlement) is the date on which the financial assets in the form of securities are delivered to the commercial bank or on which the commercial bank delivers the assets to the business partner, whereas financial settlement also takes place. Accounting on the date of settlement of the trade is related to the reporting of the assets to the date of their acceptance or to termination of their reporting and reporting of profit or loss from their retirement on the date on which handover or delivery thereof by the commercial bank took place, together with financial settlement.

Ranking of securities into particular portfolios follows the business and investment plan of a commercial bank. Reporting according to the rules of international accounting standards has an influence on the value of particular items in the balance sheet of a commercial bank, on the profit/loss statement, and report on equity.

Conference The Euro Area and the Financial Crisis

Continuation from page 2 of the cover story

and regulation, crises happen from time to time. Due to unclear rules, countries or regulators try to transfer responsibility to others, or they postpone necessary solutions. Crisis resolution costs thus increase. With the creation of good rules it is possible to both lower the frequency of crises and to decrease their costs when they happen.

Thomas Huertas from the UK Financial Services Authority also addressed the area of regulation and crisis resolution. He pointed out that no bail-out rules do not prevent bail-outs in practice. We have seen lots of examples when in the situation of an existing crisis governments abandon pre-crisis rules and bail out financial institutions in difficulties. Huertas warns that the rules in normal – non-crisis – times should take into account how motivations change when the crisis breaks out. Financial institutions as well as regulators should have prepared plans for crisis resolution. One of the plans could also be subordinated debt, which is automatically converted to capital, whereby on the one hand it replenishes the missing capital of the financial institution in question, and on the other hand it reduces the costs of state assistance.

Miroslav Beblavý, from the Comenius University in Bratislava, dedicated himself in his contribution to the issue of euro introduction in connection with the growth of prices.

Thorvardur T. Ólafsson and Thórarinn G. Pétursson from the Central Bank of Iceland analyzed factors that caused banking and exchange-rate crises in the past decade. Their results are like pouring balm into the soul of a central banker, as one of the main factors that increase the risk of crisis is high and volatile inflation in the years preceding a crisis. A crisis tends to be stronger if the country experienced a crisis in the past, which points out a persistence of systemic risks in some countries (or an inability to learn from own mistakes).

The overall reasons for the outbreak of the current crisis were also examined by Laurent Clerc and Benoit Mojon from Banque de France. While at the beginning of the decade the monetary policy in the USA was considerably loose in comparison with the Taylor rule, the ECB policy did not show such a large deviation. If we evaluate the ECB according to the price stability outcomes, there are no uncontrolled inflation pressures we could criticize. Financial systems in some European countries were very fragile, but in other countries they showed great resilience. Important unbalances developed in various countries, which, however, had no common European denominator. The next part of the conference presented the experience of various individual countries. Biswajit Banerjee, Damjan Kozamernik and Ľudovít Ódor compared the path of Slovenia and Slovakia into the euro area. The countries had very different initial positions, they chose diverse economic policies before entering the euro area and they introduced the euro in diametrically different global economic conditions. At the same time, both countries are satisfied with their approach to the euro changeover, and both countries are perceived externally as successful models of euro introduction. The authors therefore conclude that for every country there may be a different optimal approach, and thus experience from one country cannot be automatically applied to another one.

Slovakia was also the topic of the presentation of Miroslav Beblavý from Comenius University in Bratislava, who examined whether the euro contributed to a rise in prices in Slovakia. Looking at the overall price level, as well as viewing particular groups of goods and services, it cannot be said that prices have considerably increased in the period of euro introduction. Volatility of prices, though, did rise – in the period of price conversion from koruna to euro there was a considerably more frequent price adjustment, which, however could be in both directions.

Philip Lane from Trinity College Dublin described the situation before and after the outbreak of the crisis in Ireland. Imbalances started to grow in Ireland approximately around 2003, mainly due to the growing bubbles in the real estate sector. While previously high productivity growth significantly decelerated, the consumers remained very optimistic, real estate prices grew, employment rose, and the construction sector, and the public budget was in a surplus. The global financial crisis was only an impulse to burst the Irish real estate bubble. Majority of financial institutions got into difficulties, public revenues declined dramatically, and GDP fell by approximately one eighth. Although Ireland still has a very flexible economy and reacted very quickly to the crisis, the size of the decline was so large that Ireland still remains in a difficult situation, both from the point of view of financial sector stability as well as public finances.

Four authors from Banco de España – Gavilán, de Cos, Jimeno and Rojas – presented the situation in Spain. Growing real estate sector imbalances and labour productivity slowdown were

In a fourth session of the conference a panel discussed the issues of better management of economic policy in the euro area. In the photograph from left Jacques Mélitz from Edinburgh University, Daniele Franco from Banca D'Italia ,and Ľudovít Ódor from the NBS.

present here before the outbreak of crisis, too. On top of this, hundreds of thousands of immigrants entered Spain per year.

Martti Randveer from the Central Bank of Estonia studied the situation in the Baltic countries. All three Baltic countries experienced the hardest recession of EU members, caused by the past aggressive growth of the financial sector and over-optimism of the domestic private as well as public players. The most difficult situation is in Lithuania, where a great part of the financial sector has domestic owners (and therefore cannot rely on relatively stable resources from mother corporations), while one of the advantages of Estonia was a healthier fiscal situation, whilst Lithuania had lower foreign indebtedness.

Another part of the conference was dedicated to the situation in Central Europe. A perspective of Hungary was presented by Lajos Bokros from the Central European University, while Lubor Lacina from Mendel University reviewed the situation in the Czech Republic. An overall view of the region was given by the panel, with discussants Ewald Nowotny, Governor of the Austrian National Bank, and György Szapáry, former Deputy-Governor of the Hungarian National Bank. According to Nowotny countries have to concentrate not only on nominal Maastricht criteria, but it is also necessary to achieve durable real convergence, otherwise euro introduction can represent a great risk for a country.

The last part of the conference was assigned to questions of a better economic policy setting in the euro area. Francesco Giavazzi and Luigi Spaventa warned that even in a monetary union it is necessary to monitor the current account of a country. Although the common currency prevents current account deficit pressures on the exchange rate or the interest rates, persistent deficits will be manifested in the growth of imbalances. Boris Cournede presented the advantages of targeting price levels instead of inflation, which could under certain conditions lead to a more stable macroeconomic environment. Wendy Carlin shifted this idea still further forward, when she proposed that countries in a monetary union should use fiscal policy to stabilize price level and to maintain optimal relative price level against the rest of the monetary union. According to several panel participants, Europe needs stronger and better enforceable fiscal rules. Although Europe was not the source point of the current global crisis, weak budgetary situation of many countries and inadequate fiscal rules led to a stronger crisis impact on Europe and longer recovery times.

Martin Šuster

Photo: Igor Plávka

György Szapáry (first from left), former Deputy-Governor of the Hungarian National Bank and Ewald Nowotny (middle), Governor of the Austrian National Bank presented their views in another panel. In the place of David Cobham from Edinburgh University, who chaired the discussion, sits Ľudovít Ódor from the NBS.

B I A T E C