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Gold collector coin

World Cultural Heritage

Wooden churches of the Slovak part of the Carpathian Mountain Area

Ing. Dagmar Flaché
Národná banka Slovenska

In December, Národná banka Slovenska issues its first gold collector coin in the euro currency. The coin depicts some of the Slovak cultural heritage sites that are included in UNESCO´s World Heritage List, namely wooden churches in the Slovak part of the Carpathian arc. Its nominal value is 100 euro. In March 2010, NBS issued a 10-euro silver collector coin on the same theme. Gold and silver collector coins depicting UNESCO-sites in Slovakia were first minted in 1997, and over the years they have included such sites as Banská Štiavnica, Spišský hrad (Spiš castle), Vlkolínec and Bardejov.

The coin was designed by PhDr. Kliment Mitura

In 2008, after a demanding assessment process, eight wooden churches were chosen for inclusion in the World Heritage List. They included two Roman Catholic churches (Saint Francis of Assisi in Hervartov and All Saints Church in Tvrdošín), three Protestant churches (in Kežmarok, Leštiny and Hronsek), and three Greek Catholic churches (the Church of St Nicholas in Bodružal, the Church of St Michael the Archangel in Ladomirová and the Church of St Nicholas the Bishop in Ruská Bystrá). The churches reflect the unique and still vital architecture and building traditions found in the multi-ethnic and multi-denominational environment of the Western Carpathians mountain area. They are among the most precious examples of historical architecture in Slovakia, representing a unique symbiosis of Christianity and folk architecture and offering a fine illustration of the co-existence of three Christian denominations. The rare and valuable interior decoration of the churches has been preserved.

In July 2009, Národná banka Slovenska announced an anonymous public competition for the coin design. A total of fourteen designs were entered by twelve authors, and in February 2010 they were assessed by the NBS Governor's Committee for the Assessment of Designs for Slovak Euro Coins.

The Committee selected the design by PhDr. Kliment Mitura as the one to be used on the coin, and he won a reduced first prize. The Committee particularly appreciated the interesting composition of both the obverse and the reverse sides, whose unified perspective set this design apart from the rest. In line with the recommendations given in the terms of the competition, the obverse depicts churches of all the three Christian denominations. The Church of St Francis of Assisi in

Reduced first prize: Mária Poldaufová

Third prize: Pavel Károly

Reduced third prize: Karol Ličko

Hervartov is shown on the left of the design, the belfry of the church in Hronsek is in the centre, and the Church of St Nicholas in Bodružal is on the right.

On the reverse of the coin, the central motif is the Late Baroque altar of All Saints Church in Tvrdošín. The composition on the both sides is completed by a suitably chosen font.

A reduced first prize was also awarded to Mária Poldaufová. Her design impressed the Committee with its genuine and distinct composition, accuracy of processing and sophisticated details. The obverse shows the iconostas from the church in Ladomirová, and the reverse depicts the bell tower in Hronsek and the churches in Hervartov and Ladomirová. Regarding the iconostas design, it was remarked that since the design does not show all the icons, it gives an impression of transparent architecture.

The third prize was awarded to Pavel Károly. His design was notable for its clear composition. The obverse features the bell tower in Hronsek, the gateway at Ladomirová and the church in Hervartov, as well as the national emblem with an implied wooden structure. As for the reverse, the Committee appreciated the reference to the basic material of wooden churches – a cross-section of wood juxtaposed against a finely drawn icon. The Committee also highlighted the refined font and the recurring decorative motif.

A reduced third prize was awarded to Karol Ličko. The Committee noted the obverse side's miniature drawing of religious architecture – the churches in Kežmarok, Ladomirová and Tvrdošín – as well as the reverse-side depiction of angels linking all the denominations. This is suitably complemented by the decoration from the Tsar door of the Ladomirová iconostas.

Minted at the Kremnica Mint, the gold collector coin was made from gold with a purity of 900/1000; it measures 26 mm in diameter, weighs 9.5 g, and has a milled edge. A total of 6640 proof coins were minted.

Photo: Ing. Štefan Fröhlich

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REVIEW

Monetary policy operations of the European Central Bank and its impact on the money market of the euro area

Ing. Roman Kostelný
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The outbreak of the financial crisis on the American market and its shift to the euro area escalated distrust among money market participants. However, under this influence such participants' limited business activities, as reflected in the worsening of access of several subjects to funds on the interbank market. At first, the ECB accessed the money market through fine-tuning operations to smooth imbalances of liquidity flows of the banking sector. In addition to this activity, it acceded to an adjustment of a set of instruments, as well as the regularity of conducting monetary policy operations, namely by supplementary refinancing operations and especially by the extension of their maturities. By implemented unconventional measures, the ECB pursued easing tension, reopening of trading activity, and the restoring of money market participants' confidence. At the beginning of 2010, the ECB was before another important decision, relating to the gradual exit of some measures from the set of unconventional ones adopted since the outbreak of the financial crisis.

The continuation of the paper from the previous issue

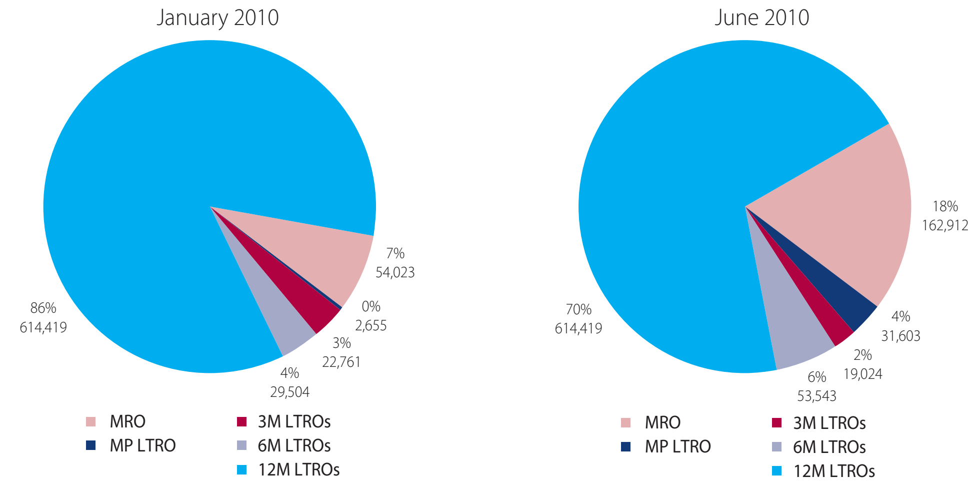
Period from January 2010 to June 2010

The ECB considered the slight easing the tension on the money market as a process of return of trading activity back to initial standard conditions. A reduction of interest in supplementary operations also confirmed this fact, because several market participants had ensured the financing of liquidity needs from one-year operations. Because of that, it decided to take the first step of exit strategy, and it step out of reopening supplementary three-month and six-month operations.

However, the recovery of trading activity was interrupted by investors' concerns related to the worsening condition of public finance of some euro area countries. The market participants

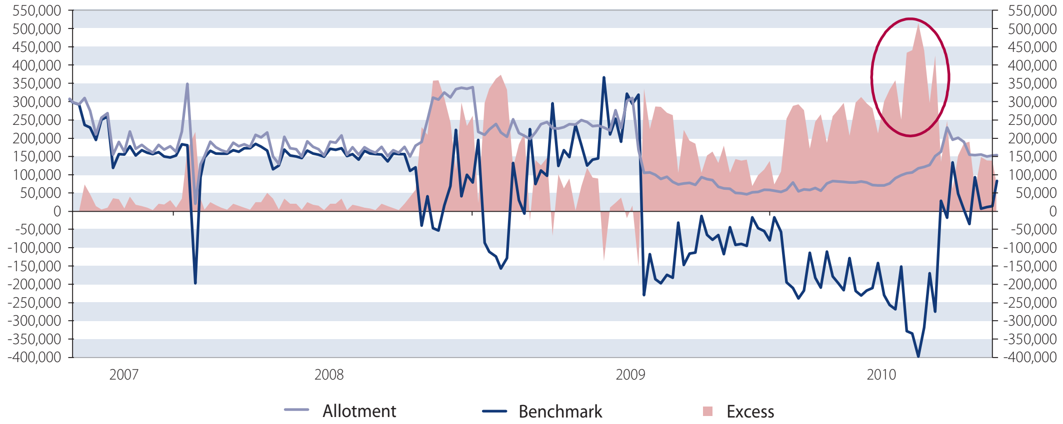
1 *The paper focuses on a review of the period defined by the maturity of the first one-year operation LTRO, i.e. July 2010.*

Chart 14 Structure of ECB refinancing funds (in EUR million and in %)



Source: ECB data.

Chart 15 Excess of liquidity over allotment benchmark in MRO operation (in EUR million)



Source: ECB data.

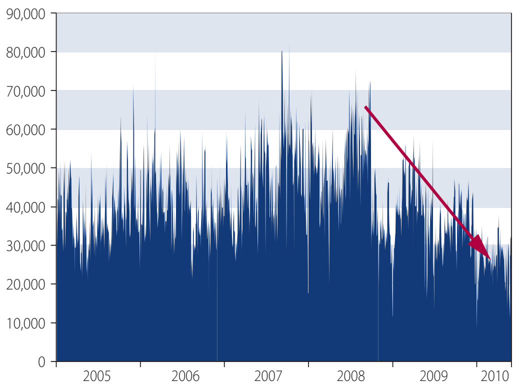
considered the execution of transactions against counterparties from these countries as more risky, thus it reduced the risk of return of lent funds. There was a lack of opportunity for less risky banks to allocate free funds, therefore they deposited such funds through overnight deposit facilities with the ECB. More risky banks substituted funds not traded by a participation in refinancing operations, which was reflected in the renew increase of refinancing funds. Demand at MRO operations doubled from its historic minimum of EUR 50 billion and share of 7%, to a level above EUR 100 billion.

In spite of fact that some banks could not obtain funds from the money market, the ECB acceded to the next step of the exit strategy, namely to three-month operations to be executed as variable interest rate and with the satisfaction of demand up to the indicated amount. Upon this decision, it also took into account the fact that only participants who regularly participate in several refinancing operations shall express interest in this operation.

Total demand did not exceed the indicated amount in executed three-month operation, but the average interest rate of satisfied demands was worthy of note. Compared with the initial expectations of the ECB, its level was much higher. This situation was caused by the most risky banks, which were afraid of the non-acceptance of low interest demands.

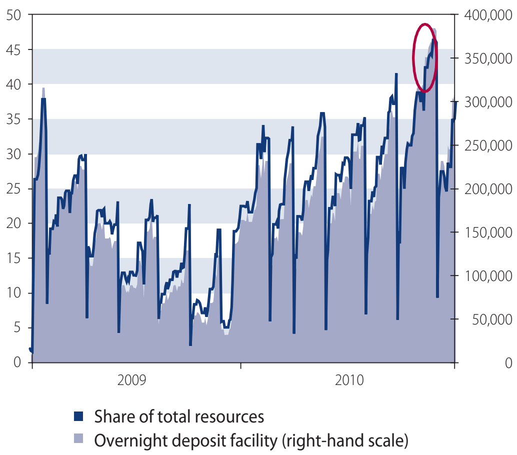
Another factor that complicated the situation on the money market was increasing tension on the bond market from peripheral members of the euro area. Limitation of trades resulted in decreased traded amount, for the first time being below EUR 20 billion.[2] Unallocated free funds were more intensively deposited by means of overnight deposit facility. Actually, the utilisation of this type of standing facilities exceeded the previous maximum recorded after the first one-year operation, namely by an increase above EUR 380 billion. Basically, it represented that funds were made available in the amount of 40% of total refinancing funds.

Chart 16 Development of overnight trades included in the EONIA index (in EUR million)



Source: Bloomberg and ECB data.

Chart 17 Development of overnight deposits and their share in total refinancing resources (in EUR million)

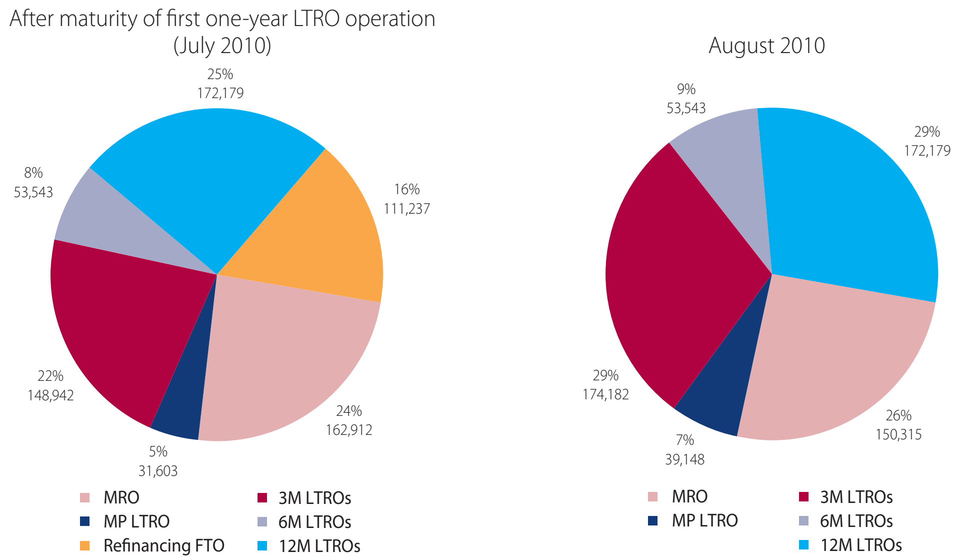


Source: Bloomberg and ECB data.

Investors questioned the effectiveness of the rescue program for Greece, thus the alleviation of persisting tension did not occur even after this program had been approved. Investors continued to hold the opinion that Greece would not

2 Several analysts considered the breaking of this level to be a sign that the money market remains fragmented into several groups of banks that have different access to funds.

Chart 18 Development of structure of ECB refinancing funds (in EUR million and in %)



Source: ECB data.

3 *Opportunity cost is defined as the cost relating to the next-best choice available for a subject who has picked among several mutually exclusive choices.*

be able to avoid a collapse and thus a restructuring of national debt.

The escalating situation on markets required an interruption of exit strategy of the ECB and the adoption of additional measures. The ECB returned to the three-month operations as fixed rate full allotment procedures and supplemented options with one six-month operation.

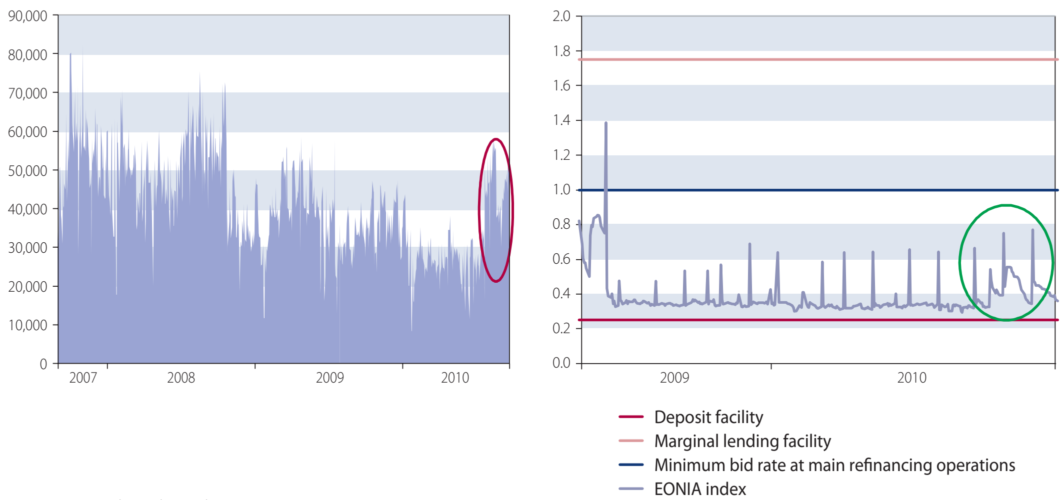
Period from July 2010

After the maturity of the first one-year operation and its partial roll-over, the accumulated surplus of liquidity decreased from EUR 300 billion to half this amount. There is a positive that the sector does not need to dispose of a more significant surplus of liquidity, and thus more funds were transferred into shorter MRO and maintenance period LTRO operations . The remaining part thereof was transferred to three-month operations. These changes led to the share of shorter refinancing funds increasing above 30%. However, shorter funds gradually decreased from EUR 200 billion to EUR 155 billion. For banks the participation in three-month operation became more attractive, since the three-month market interest rate was only 10 base points lower than the key interest rate.

The market is considerably influenced by the opinions of analysts, but it is even more greatly influenced by the opinions of ECB representatives, some of whom incline to continuing current procedures to at least the end of this year, and to making exit strategy more intense next year. Concurrently, a postponement of increasing ECB interest rates and the suppression of decreasing interest rates is occurring.

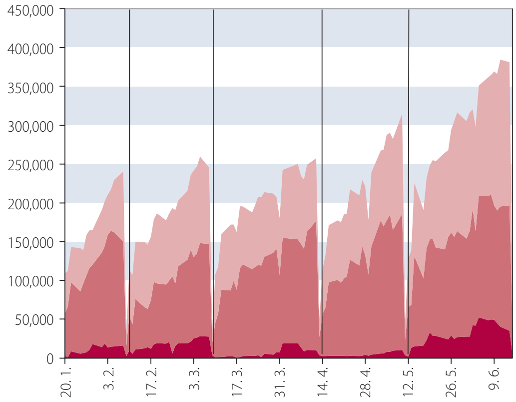
The drawing of a substantial part of liquidity surplus picked up trading activity on the money market. The activity was increased especially by

Chart 19 Development of overnight trades and the EONIA index (in EUR million and in %)



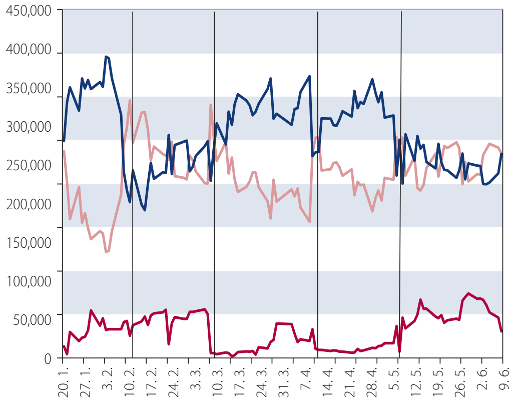
Source: ECB, Bloomberg data.

Chart 20 Development of overnight deposits by particular groups of banks (in EUR million)



- O/N deposits by banks without any participation in refinancing operations
- O/N deposits by banks with participation only in one-year LTRO
- O/N deposits by banks with participation in all operations

Chart 21 Development of share of particular groups of banks in overnight deposit facility (in %)



- O/N deposits by banks without any participation in refinancing operations
- O/N deposits by banks with a participation only in one-year LTRO
- O/N deposits by banks with participation in all operations

Source: ECB data.
Remark: Vertical lines limit particular periods of maintenance period.

banks, which had already ensured the covering of liquidity needs from one-year operation of ECB, thus the banks that could also trade on the money market before this period. The increase of demand for decreasing free funds was reflected in increased market interest rates. The EONIA index experienced the most significant increase, since it rose from the last narrower range of 0.30 - 0.35% to above 0.40%. The recovery of trading activity was also confirmed by a clear increase of the EONIA index amount, since it rose from the last level of EUR 20 billion to EUR 50 billion.

In spite of the considerable recovery of trading activity, banks from peripheral countries did not experience an improvement of access to market funds. Therefore, they continued to participate in refinancing operations.

To alleviate clear distrust against some participants on the money market, international institutions stress tested the most important banks in the euro area. However, published results of stress tests only had a limited impact on an improvement of trading activity, since bank analysts expressed doubts about the criteria setting.

Segmenting of interbank market of the euro area after execution of the last one-year operation

The ECB considerably influenced trading activity on the money market of the euro area by implementing unconventional measures of monetary policy. Market participants adjusted their trading behaviour to operational framework. As a result, several groups of banks were created, based on recorded access to the refinancing operations of the ECB. Available data on the participation of particular banks in refinancing operations as well as data on the overnight deposits at standing facilities for more detailed characterization of the

Average shares of particular groups of banks in deposit facility

Year 2010	1st group of banks	2nd group of banks	3rd group of banks
1st period of MP	32%	62%	6%
2nd period of MP	48%	43%	9%
3rd period of MP	41%	56%	3%
4th period of MP	42%	56%	2%
5th period of MP	45%	45%	10%

groups has been used. The reason for selecting a period after the last one-year operation (thus from the first to the fifth maintenance period in 2010) was the worsening of the situation to an extent not recorded since the financial crises began. This period was characterized by the inhibition of trading activity on money market, by the increase of deposited free funds and, as a result of these two phenomena, the renew growth of banking sector refinancing in the euro area.

The analysis is focused on a determination of subjects that participated in sterilising free funds, and thus, mostly, on limiting trading activity. On the other hand, the point of interest is also the identification of subjects that had difficult access to the money market and therefore had only one option to ensure funds - by participation in ECB refinancing operations.

For the needs of analysis, based on the behaviour of banks in the refinancing operations of the ECB, there were three groups of banks created for the needs of analysis as follows:

- 1st group: banks without any participation in refinancing operations,
- 2nd group: banks with participation at exclusively one-year LTRO ,
- 3rd group: banks participating in other refinancing operations.

Findings of analysis by particular groups of banks

1. Banks without any participation in refinancing operations

The reason for this absence could be the strategy of these banks to take advantage of obtaining funds on the interbank market for substantially lower interest rates. However, such a decision could have been adopted only by those banks that other subjects considered as less risky. Another strategy of the banking group was the option to ensure indirect access to ECB refinancing funds by a specified bank that participated in refinancing operations also for other banks acting within the framework of the banking group. In addition, this group also included banks with a surplus of liquidity that could not be allocated on the interbank market.

Banks of the first group disposed of the surplus of liquidity, which they could lend to other money market participants in the euro area. The leeway for trades was considerably limited by persisting considerable surplus liquidity of banking sector. Therefore, they were able to trade especially within the first group and with banks that only supplemented a temporary increase of liquidity need. However, it was still not enough for the full allocation of free funds. Of course they were also allowed to trade with other subjects, but the latter represented higher risk.

From the point of view of own liquidity, banks included in the first group accelerated the fulfilment of minimum reserves at the beginning of periods by the accumulation of free funds. During other days, they could reduce deposited funds on their accounts, which they subsequently lent to less risky subjects. They deposited their unallocated free funds in the form of overnight deposit facility , and their share in particulars deposits of the euro area banking sector was 42% on average. This meant that their approach to liquidity management also influenced considerably other participants of the euro area money market.

2. Banks exclusively participated in the one-year LTRO

Banks that substituted previous due amounts from refinancing operations with participation in exclusively one-year operations have the largest share in total deposited free funds. The incentive of their participation was especially the ensuring of sufficient funds for financing expected liquidity flows. They considered the operation with such duration to be attractive since there were no trades with one-year maturity on the interbank market. Most banks compensated the reopening of due shorter operations by participation in one-year operation. And there were also banks with difficult access to the interbank market, and thus they searched for liquidity management options in the longer term. In addition to liquidity needs, investment plans were also an incentive for participation in one-year operations.

The reason for the increase of free funds of this group could have been caused by a decrease in the need to finance liquidity flows. In addition, it is possible that banks did not completely perform previously intended investment plans. It could mean that they were able to temporarily lend free funds to other subjects on the interbank market to decrease opportunity costs with an efficient allocation of non-invested funds.[3] However, several banks included in this group disposed of much higher funds compared to their liquidity needs. Therefore, they did not show interest in obtaining further supplementary funds. Participants of the market were in a position to allocate free funds to subjects that had some remaining liquidity needs, or which did not participate in any refinancing operation due to obtaining cheaper funds on the interbank market. They included less risky counterparties not having difficult access to the interbank market. In spite of this, it was not sufficient for the second group of banks for the allocation of free funds.

The banks included in the second group preferred the accumulation of the surplus of liquidity on accounts at the beginning of each period. Faster fulfilment of minimum reserves allowed the reduction of funds deposited on accounts more markedly in the last days of periods. Thus, released funds increased the liquidity surplus of the banking sector. Instead of lending to other subjects on the interbank market, they were deposited in the form of overnight deposit facility with national central banks. The approach of this group to liquidity management mainly contributed to the faster increase of deposited free funds at the level of the euro area banking sector. Their share of total overnight deposits was 52% on average.

Based on the facts we have ascertained, it is possible to conclude that trading on the interbank market apparently took place among participants of the first and second groups of banks during the period under review. However, allocation of free funds was limited, since several banks of these groups disposed of sufficient liquidity. Another common sign consisted in the manner of fulfilment of minimum reserves during particular periods.

3. Banks participating in other refinancing operations

The third group consists of banks that participated in one-year as well as other operations of the ECB. Counterparties considered this group to be risky, which considerably limited its trades. ECB funds substituted market funds.

This group of banks expressed interest in refinancing resources in refinancing operations that did not considerably exceed their liquidity needs. Therefore, they deposited temporarily free funds in lower amounts, which did not considerably influence overnight deposits of the euro area banking sector. Only May was an exception, during which the tension on the interbank market was most escalated. Banks with difficult access to the money market apparently expressed an interest in more funds during this period than were needed to cover liquidity. Part of them created the reserve, which they did not need temporarily. Probably this group of banks did not even perform trades with the objective of allocating temporarily free funds. Therefore such were deposited in the form of overnight sterilising operations. The share of overnight deposits of the third group of banks was on average 6%, while it did not exceed 10% during particular periods.

Summary of analysis findings

Based on the facts, we have ascertained that it is possible to state that the performance of one-year operations did not support the recovery of trading activity on the interbank market, nor the provision of loans to non-financial subjects in the requested extent. It was exactly the opposite: the provision of one-year funds contributed to the further alleviation of participant activity on the money market, which was, in addition, influenced by the public finance crisis of several euro area member countries. In spite of the implemented unconventional measures, the ECB was not able to alleviate or eliminate distrust among counterparties. In addition, the ECB became an intermediate, which, on one hand, provided funds, and on the other hand, sterilised them. In fact, it meant a takeover of intermediary and distribution tasks from the money market, which fulfils these tasks under standard conditions.

Conclusion

After the easing of market tension, banks ceased to be interested in some unconventional operations, therefore the ECB started the gradual termination thereof.

Thus the accumulated surplus from previous refinancing operations could only be drawn in such a manner that the ECB did not satisfy demand in the full extent in performed operations, or by partial roll over of due means from maturing operations. In spite of the fact that the surplus of liquidity decreased from the previous level of EUR 300 billion, the euro area banks continue to dispose of free funds in the amount of EUR 100 billion. However, funds from the implemented covered bonds purchase program (CBPP) create the essential part thereof. Therefore, there is an important persistent question - whether the ECB leaves the drawing of the remaining surplus of liquidity to the banking sector, or takes over the task of liquidity management in a manner that will result in the smoothing of delivered refinancing funds to the level of liquidity needs.

The gradual takeover of the task of liquidity managing should, in fact, mean the termination of the performance of some refinancing operations by full allotment fixed rate procedures. Returning to the previous manner of performance of monetary policy operations as variable interest rates, and failing to satisfy aggregate demand in the full amount, should result in shortening the average maturity of ECB refinancing funds, which should contribute to the facilitation of the central bank position in managing monetary policy objectives.

In fact, it would be a return of the ECB to the allotment of refinancing funds in MRO operation based on benchmark. For the elimination of the influence of allotted funds from the CBPP program, which are of longer-term nature, CBPP would be included in the benchmark. A similar procedure is applied in the inclusion of means from longer-term refinancing operations. In fact, it would mean that the optimal allotment of shorter funds would be reduced by the CBPP program. Thus, the ECB could achieve a smoothing of liquidity in the banking sector.

An obstacle in achieving this objective should be supplied funds or funds in the supply process from the program of government-bond securities purchase (SMP), even despite the fact that they are drawn by fine-tuning sterilising operations. The banking sector should utilise the funds obtained from the SMP program for the financing of liquidity needs, instead of their sterilising in executed fine-tuning operations, by the gradual decreasing of the liquidity surplus. Thus the fulfilment of the ECB's liability, by which it differed the purpose of the SMP program from the CBPP program, would become more difficult, namely by sterilising supplied funds during the whole validity of the SMP program. To avoid possible difficulties, it would be appropriate to extend sterilising operations from seven days to a longer period, which should contribute to the facilitation to fix the funds of SMP program . In the determination of the appropriate maturity of this operation, it is necessary to take the unwillingness of banks to fix funds for a longer period into account, therefore such lower attractiveness could be moderated by offered interest rates.

In addition to the manner of liquidity management, it is necessary to deal with a structure of monetary policy operations. The ECB ceased performing some of the additionally implemented refinancing operations (six-month and one-year), and the operation with maturity identical with maintenance period duration still remains valid. Its potential termination could result in making the liquidity management more difficult, since some participants got used to utilising funds from this operation for the facilitation of the liability of fulfilment of minimal reserves. Therefore it is necessary to consider the behaviour of banks during the financial crisis.

Another interesting topic should be the future distribution of liquidity in the banking sector. The implementation of unconventional measures resulted in disorder in the previous layout, in which the most important role belonged to the MRO operation. In the case that the ECB returns to the initial structure of liquidity, it could result in a negative impact on conventions experienced during the financial crisis.

An approximation of the current structure of the open market operations to the initial one should still occur before the first increase of key interest rates. Their increase should be supported by faster growth of inflation above the target level, or by the recovery of trading activity on the money market.

It results from the behaviour of money market participants that despite the performance of refinancing operations with various maturities, it did not succeed to recover trading activity in such a manner to approximate the level before the start of the financial crisis. The reason is the persisting distrust of participants towards other subjects, therefore only a narrower range of banks participated in the trading activity.

For this reason and in addition to the situation of unconventional measures, the most important euro area banks were stress-tested. The objective of the stress tests was to return credibility to these subjects that are apparently considered as being more risky. However, the stress tests did not contribute to the expected extension of trading activity to broader range of banks. This implies that only market participants would contribute to the improvement of trading activity on the money market, since the ECB can effectively intervene in its operation only by instruments of monetary policy.

Predominantly, a small number of domestic banks with lower amounts participated in ECB operations. Higher participation was experienced only at the end of maintenance periods at execution of overnight deposit facility. One-year operations were the only exclusion, where several domestic banks participated with higher amounts. The one-year operations were the most used operation from the extended framework of monetary policy operations. The reason for stronger interest in these funds was primarily investment plans.

Why do we experience financial instability?

doc. Ing. Juraj Sipko, MBA, PhD.
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The US mortgage crisis, triggered by interacting negative factors in the world economy, led to the world financial crisis and subsequently to the world recession. To have a better understanding of the current instable evolution of exchange rates, we should look at its historic evolution and causal relationships.

Some of the basic factors leading to the world financial crisis are:

- deepening income disparity (polarization of wealth),
- expansive monetary policy of the Federal Reserve System (FED),
- financial sector supervision failure,
- abolishment of US financial market regulation,
- failure of rating and auditing companies,
- world economic imbalances related to the instability of exchange rates.

Currently, at the time of a relatively fragile and uneven recovery of the world economy, we can also witness the ongoing instability of exchange rates, marked by many as currency wars.

We may understand the instable development of exchange rates if we point out its historical evolution and causal relationships.

Bretton-woods monetary system – fixed exchange rates

At the end of World War II at the UN international conference, experts created the Bretton-Woods[1] monetary system, the aim of which was to create a stable exchange rate system The stability of exchange rates was expected to support international trade, provide a multilateral system of payments, and aid the development of the world economy.

The Bretton-Woods system of monetary management was based on the tandem of USD and monetary gold. Currency parities[2] served as a basis for establishing exchange rates. The deal was that individual states were allowed a ± 1% deviation of the monetary parity. The agreement of all participating countries was needed for deviations higher than ± 1% of the currency parity.

The international monetary system based on the 'USD and monetary gold' tandem was applied from July 1944 to 15 August 1971. With a unilateral decision, the then president Richard Nixon abolished the free convertibility of USD for monetary gold.

Some of the main reasons leading to the breakdown of the Bretton-Woods system were both an external imbalance of the American economy (deficit in the current account of the balance of payments), and the unsustainability of monetary gold price.[2] After two devaluations of the USD, G5 representatives met in March 1973 and decided to change the exchange rate system. The fixed system of exchange rates was replaced by a floating exchange rate system.

We might say that the Bretton-Woods system based on fixed exchange rates brought relative stability to international monetary system after World War II; this manifested itself both in the growth of world trade as well as investment flow. The unsustainability of the international monetary system based on the USD and monetary gold tandem led to the origin of a new international monetary system. The current international system is based on floating exchange rates (the term used in Anglo-Saxon terminology) called the Kingston monetary system.

Kingston monetary system – floating exchange rates

The Kingston monetary system[3] is characterized by floating exchange rates; usually they are set on the basis of supply and demand on international financial markets. As not all states in the world are able to maintain long-term macroeconomic stability, internal as well as external balance, a decision was made in Kingston, capital of Jamaica, that exchange rates would be established on the basis of floating exchange rates and that modified exchange rate systems would be derived from them. These systems should basically correspond to a particular development stage of national economies, their internal as well as external balance, but also their involvement in trade financial flows in the world economy. Currently, there is the following structure of exchange rates:

The original intention of changing fixed exchange rates into floating ones was that the basis of current exchange rate systems are floating exchange rates. In spite of an effort to introduce the system of floating exchange rates, individual countries use different modifications within the existing exchange rate systems. Problems related to both internal as well as external imbalances in individual countries led to the fact that not all states could introduce floating in its pure form.

1 *International UN financial and monetary conference was held in July 1994, at the seaport town of Bretton Woods, New Hampshire. As a part of the agreements, the International monetary fund (IMF) and World Bank were also established.*

2 *On 18 December 1971 representatives of Group5 met (Governors and Finance Ministers of USA, Japan, Germany, GB, and France) in Washington where they discussed and evaluated the development of exchange rates, with free convertibility of USD for gold) and they also signed the Smithsonian Agreement leading to a USD devaluation, i.e., the price of 1 troy ounce increased from USD 35 to 38. The unfavorable development of the USD also continued throughout 1972; that is why another G5meeting took place on 12 February 1973, when an agreement on the second USD devaluation was made. The price for 1 troy ounce increased from USD 38 to 42.22.*

3 *The Kingston monetary system entered into force in January 1976 when representatives of the International Monetary Fund signed the agreement on terminating the demonetization process, i.e. a gradual elimination of basic functions of monetary gold as a general equivalent. The result of the agreement was that monetary gold stopped to fulfill its basic function, i.e. to be a measure of values and prices, and continued fulfilling its function of a reserve of all reserves.*

Table 1 Structure of exchange rates

Floating exchange rates	Fixed exchange rates	Fixed exchange rate intermediate
clean, independent	currency board	crawling peg
managed	dolarization, eurozation	currency basket
	monetary union	central nominal parity

Source: Author.

As has been seen until now in the development of exchange rates, one of the most suitable exchange rate systems is managed floating. In this exchange rate system central banks of individual states only sporadically intervene in financial markets in order to reach a equilibrium of their national currencies. Countries with price instability, which is usually connected with an internal economic imbalance, experience a completely different situation. In such case, individual countries only apply the system of fixed exchange rates (currency board, dollarization/eurozation or monetary union). States which have no or few problems with an internal or external imbalance usually use an exchange rate system in the form of a currency basket. Using a currency basket helps individual stated to establish an objectively more real exchange rate against national currencies of states which they have largest business relationships and financial flows with. There are fluctuation bands determined for the central nominal currency parity, both upwards and downwards. Since the floating exchange rate systems were introduced, we can see their relative instability, mainly in major reserve and freely convertible currencies.

Instability of floating exchange rates – Plaza agreement

The current system of floating exchange rates is characterized by its instability. Historically this instability has been shown among major reserve currencies, mainly the American dollar (USD) and the Japanese yen (JPY), or American dollar and the West-German mark (DEM). The instability of major reserve currencies was most expressively demonstrated as early as the early 80's.[4]

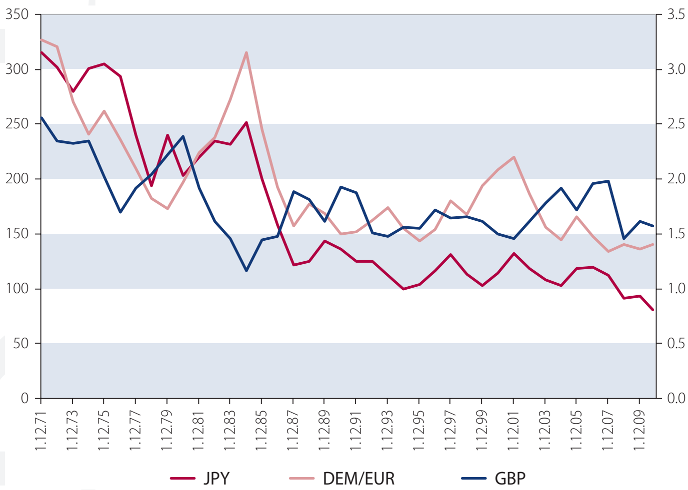
In an effort to stabilize their exchange rates, representatives of the G5[5] (Governors and Finance Ministers of USA, Japan, Germany, GB and France) decided to adopt a common intervention policy with the aim to stabilize the stated three exchange rates. It was the high FED interest rate that led to the excessive inflow of capital into the USA, resulting in historically highest appreciation of the USD against the JPY and the DEM.. The strong appreciation of the USD had a significant impact on international trade and deepened world economic imbalances as well.

Chart 1 shows the evolution of the exchange rates of USD against JPY and DEM/EUR for the period from 1 January 1971 until the end of November 2010. In this chart we can see the relative instability of the exchange rates of USD against JPY and DEM/EUR. The greatest instability in the exchange rate evolution was in February 1989 when USD 1 was equal to DEM 3.48 or JPY 240.

Sharp fluctuations of major freely convertible exchange rates deepened the world economic imbalance and deficit in the current account of the balance of payments.

That is why on 22 September 1985 representatives of the G5 met in the Hotel Plaza, New York, to assess the unfavourable evolution of exchange rates. The discussions resulted in adopting a common intervention policy leading to the relative stabilization of the exchange rate of USD against JPY and DEM in the following 2 years. The G5 adopted a time schedule for implementing the common intervention policy[5] which was discussed in Louvre, France, at a G7 meeting, as the G5 had been joined by Italy and Canada. G7 representatives assessed the development of their equlibrium of real and effictive exchange rates, and signed the Louvre Accord.[6]

Chart 1 Evolution of actual efficient exchange rates of JPY, DEM/EUR and GBP (right-hand scale) against USD (left-hand scale)



Source: Bloomberg.

Economic imbalances between USA and China

One of the basic problems in the area of global economic imbalances is the ongoing deficit in the current account of the balance of payments of the USA, and a surplus in the current account in the case of China. These imbalances are mainly a result of the positive balance of trade payments of China and the passive balance of the USA. The unsustainability of the the current account deficit of the USA on the one side, and the surplus in the current account of China on the other side, form

4 *In the early 80's the US economy entered recession, being the second biggest after the Great Depression. In its effort to enhance economic growth in the USA, the FED adopted the policy of steep increase of interest rates. Within a few months, the FED had increased the interest rate from 4.5% to 16%, peaking at 21%. The excessive rise of the interest rate in the USA was partly influenced by a relatively high inflation rate. The high interest rates led not only to a huge inflow of capital from almost all countries to the USA, USD exchange rate appreciation, but also to a chronic debt crisis mainly in countries with loans denominated in the USD.*

5 *Governors of Central Banks and Finance Ministers of G5 agreed that the common intervention policy of Central Banks (USA, Japan, France, Germany) should be focused on reaching balanced, real and efficient exchange rates between USD, JPY and DEM. The aim of the common coordinated intervention policy applied by the FED, the Bank of Japan and the Bundesbank was to decrease the value of the USD by 10-12% within a short time-period. On top of the common intervention policy, the G5 representatives agreed on adopting the following measures: USA - introduce restrictive fiscal policy, Japan – support private demand, conduct a tax reform, Germany – decrease taxes.*

6 *The Louvre Accord was signed on 20 February 1987. The basis of this agreement was frameworks to be adopted in the cases of further common interventions. It was agreed that if deviations were higher than 5% of the stated limit, a common intervention of parties involved would be binding. On top of that, there was a commitment accepted by Japan and Germany to take steps to enhance stimuli by means of decreasing taxes.*

the basic problem of world economic imbalances (Chart 1).

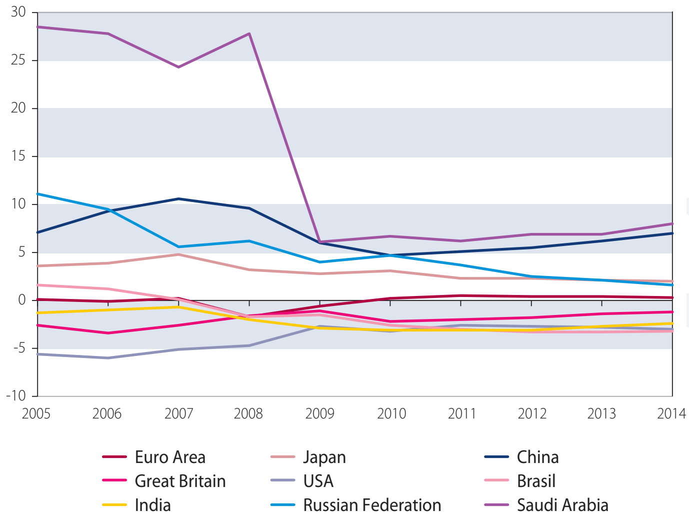
It is clear from Chart 2 that in spite of a slight improvement of the unfavourable evolution of the current account (during the world financial crisis and the world recession) we may see its further deterioration. This results from the above mentioned trend that a further surplus in the current account is expected in the mid-term horizon in China and Saudi Arabia, while a long-term deficit is expected in the USA's current account.

These global imbalances are a result of growing savings in China and low savings in the USA (Chart 2). It is clear from the chart that there is a high disparity between savings in both countries. In practice it means that this significant disparity must inevitably lead to a growth of global economic imbalances, which is the case of the present situation too. From the theoretical point of view, a basis for reaching an exterior balance, i.e. achieving a balanced status in the current account of the balance of payments, is a balance between investments and savings. Paradoxically, these imbalances between savings and investments are found between the two strongest world economies, e.i, the USA and China. A failure to tackle this basic imbalance between savings and investments is one of the biggest obstacles preventing the revival of the world economy.

The issue of global economic imbalances and the instability of exchange rates is a new and old problem. Historically, it has not been possible to deal with this. Currently, at the time of a very complex and complicated evolution of the world economy in its extent, there is a possibility to adopt complex measures that would lead to a recover of the world economy.

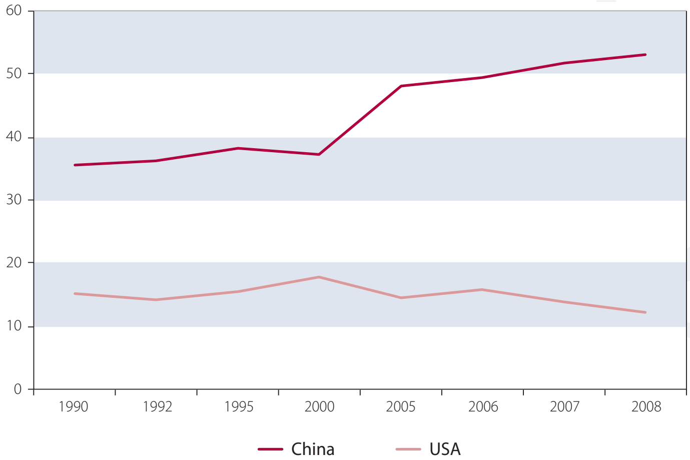
Current global economic imbalances are also a result of exchange rate instability. This instability is nourished by the inflexible exchange rate system of the Chinese national currency – renminbi (RMB). The Chinese economy has achieved remarkable results, not only in GDP growth over the last two decades, but also in positive labour productivity growth. It is known from economic theory that labour productivity growth in the structure of tradable goods also leads to appreciation of national currency.

Chart 2 Current account of the balance of payments



Source: IMF.
Note: state surplus in the % of its GDP, forecast for 2010-2014, IMF, World Economic Outlook, October 2010.

Chart 3 Savings evolution in the USA and China (in % GDP)



Source: MMF.

USD – RMB EXCHANGE RATE

The exchange rate of the Chinese renminbi (RMB) was fixed in the 80's at RMB 2.5 for USD 1. The stated exchange rate did not consider purchasing power parity, as foreign trade did not represent a significant part in the Chinese economy. Moreover, the inflow of direct foreign investment was relatively low at that time. Apart from the official exchange rate, there was also a black exchange rate in the 80's. In early 90's the RMB devaluated. Since the 90's the current account of the balance of payments has gradually reached a relatively high surplus, which was a result of the inflow of direct foreign investments. That is the reason why the Chinese Central Bank introduced an exchange rate with fluctuation bands.

On 21 July 2005 the Chinese Central Bank stopped establishing the exchange rate on the basis of the currency basket[7] and introduced a fixed RMB-USD exchange rate. The mutual ratio was established at USD 1 = RMB 8.11. In relation to labour productivity growth and the higher competitiveness of Chinese goods in foreign markets, it was necessary to take steps to correct the RMB exchange rate. That is the reason why in late 2008 the RMB was appreciated against the USD by an exchange rate of RMB 6.8 to USD 1.

In June 2010, the Chinese Central Bank decided to change the fixed RMB-USD exchange rate. During the debt' crisis the RMB was appreciated by 16% against EUR. As a result of a very favourable development of the Chinese economy, labor productivity growth, total factor productivity, addition to GDP, inflow of direct foreign investment,

7 The following freely convertible currencies were in the currency basket to establish the RMB exchange rate: EUR, JPY, USD and South-Korean won.

8 BRIC states (Brazil, the Russian Federation, India, China) currently have an almost 50% share in world foreign exchange reserves.

9 Set up in September 1999, G20 is a informal group of 19 states including: Argentina, Australia, Brazil, Canada, China, France, Germany, GBR, India, Indonesia, Italy, Japan, South Africa, South Korea, Mexico, Russian Federation, Saudi Arabia, Turkey, USA and the presiding EU state. The President of the European Central Bank attends its meetings too.

10 In international cooperation, in the area of international monetary system, the mandate for supervising over exchange rates is in the competence of the IMF. Based on the Article 4 of the "Articles of the Agreement", the IMF is entitled to provide supervision and adopt specific measures for exchange rate management. Within the stated agreements of intervention in international financial markets, they may be successful only if they are aimed at providing and supporting a long-term, stable, and balanced economic growth.

but mainly the excessive growth of foreign exchange reserves, the Chinese government promised at the last G20 meeting in South Korea to gradually revaluate its national currency.

Evolution of foreign exchange reserves of newly-industrialized states

The global economic imbalances and the global economic recession have also lead to an unprecedented growth of foreign exchange reserves in newly-industrialized states, mainly in BRIC[8] and South-East Asian countries. Chart 3 shows the huge growth of foreign exchange reserves, in both a linear and ascending trend. A dominant position in the foreign exchange reserves growth in the world economy is held by China, disposing of 10 times greater volume of foreign exchange reserves than India.

Accumulation of foreign exchange reserves which exceed a reasonable level is not consistent with the support oriented at achieving a balanced exchange rate. Moreover, accumulation of foreign exchange reserves may lead to the destabilization of both the world and national economy. Currently, this trend is rather one-sided because the accumulation of foreign exchange reserves is centred in newly-industrialized countries of South-East Asia. If this trend continues, it could lead to a worsening of already complicated situation in the area of global economic imbalances, as well as of efficient foreign exchange reserves management.

There is no optimum level of foreign exchange reserves defined in economic theory. Excessive accumulation of foreign exchange reserves may have a negative impact on the long-term sustainable economic growth of the world economy. We may say that an excessive accumulation of foreign exchange reserves in China could lead to a significant appreciation of the RMB exchange rate. From the international point of view, the International Monetary Fund is the institution responsible for supervision over foreign exchange reserves and for providing a symmetric evolution of exchange rates. That means that the IMF is responsible for not only exchange rate asymmetry, but also foreign exchange reserves management. It might be said that the IMF has not been able to meet its mandate resulting from its task of an international institution responsible for monitoring and adopting measures in the area of supervision over the exchange rate evolution, as well as management and supervision over the foreign exchange reserves.

As we mentioned at the beginning of this article, one of the basic problems of the world economy, which has also had a significant influence on the current development, are global economic imbalances. The recession saw only a minor improvement in this area. With a gradual, although only slow and uneven revival of the world economy, we may see global economic imbalances getting deeper. However, in spite of G20 promises, no solutions have been found yet in this area.

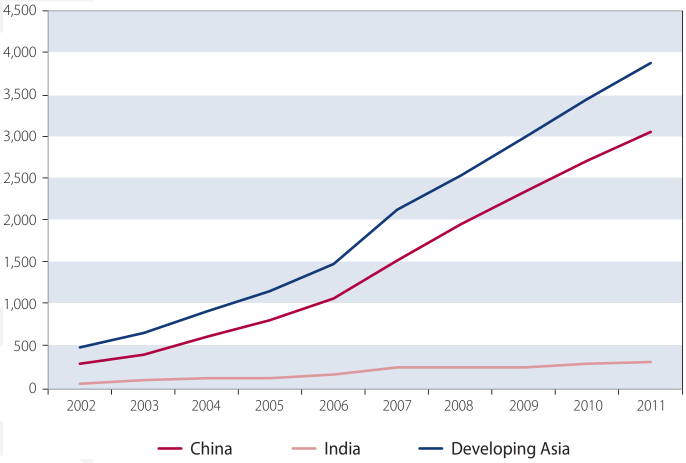
G20 and exchange rate instability

In spite of the fact that the G20[9] was established in 1999, its involvement in dealing with current world economic problems was minimal in the following period. In relation with the origin of the global financial crisis, the G7 considered how to involve other states that had a significant and increasing share in the world economy, in tackling the exchange rate instability and global economic imbalances. We may say that in spite of the effort of some industrially advanced countries to reach an agreement obliging individual states to abolish their protectionist measures aimed at boosting the export of their products, no mutual agreement was achieved at the last G20 meeting in Seoul on 11-12 November 2010 either.

There is a question arising in this relation as to who is responsible for supervising exchange rates. Experience shows that non-formal groups, such as the G20, are not responsible for supervising exchange rates from the legislative point of view. The only institution with an international scope of action which is entitled to be responsible for supervising exchange rates is the International Monetary Fund and not the G20. Apart from that, the IMF disposes of extensive technical support and rich experience that they gained with floating exchange rates. Even though the G20 currently has a 90%-share of world GDP, it represents only 19 states out of 187 IMF members.

So, the IMF supported by the G20 has an urgent task to adopt measures in the area of global economic imbalances and to secure exchange rate stability. One of the possible solutions is to make a new agreement, e.g., when tackling world-economy related problems where a complex attitude is necessary. It has been shown that when dealing with exchange rate instability and global economic imbalances, it is necessary to take mutually coordinated action[10], for example adopting the Plaza II agreement which would also be con-

Chart 4 Foreign exchange reserves evolution in China and India (in bil. USD)



Source: Bloomberg.

nected to the reform of the international monetary system.

Plaza II

Based on the development of floating exchange rates, with the current system and their structure, a jointly coordinated policy is necessary, oriented to reach e.g. at Plaza II agreement. Experience shows, and real practice during the world financial crisis confirmed, that it is necessary to adopt measures to stabilize exchange rates. During the global financial crisis and the slow recovery of the world economy, newly-industrialized and export-oriented countries started adopting protectionist measures to boost their exports by means of so-called competitive devaluation. Non-accepting the current trends of appreciation of national currencies of some countries may lead to an even more complicated situation with regard to global economic imbalances and still the fragile recovery of the world economy.

Therefore adopting a similar agreement as the agreement adopted in September 1985 is one of the preconditions to secure the relative stability of exchange rates of major freely convertible currencies. Such agreement could include a solution of the issue of global economic imbalances, management of macroeconomic policies, protectionist measures elimination, foreign exchange reserves management, etc. Adoption of Plaza II could also be connected with the comprehensive reform of the international monetary system.

Conclusion

The global financial crisis is a result of a few interrelated factors, which have negatively contributed to its origin. As a whole range of factors hamper the still fragile recovwery of the world economy, a coordinated and complex, but at the same time dynamic attitude is necessary to solve the problems of the current development of the world economy. As the world recession is a result of the crisis in the financial sector, we need to introduce a new, appropriate, transparent and efficient system of supervision over the financial sector.

Although no accordance has been reached in managing foreign exchange reserves, it is being demonstrated that should be adopt appropriate tools for managing an unprecedented excessive increase of foreign exchange reserves and their usage. Apart from that there is a need to create a basic system of measures to be applied when dealing with excessive global liquidity as well as with its shortage, to secure an increase of the national demand in countries with a surplus and to rise savings in countries with a deficit.

The G20 and other states need to adopt measures to stabilize their exchange rates and to deal with the issue of global economic imbalances. Exchange rate instability might make the started process of recovery in industrial countries more complicated. Economic theory shows that macroeconomic policy in combination with fiscal and monetary policies might be used to correct the development of real and effictive exchange rate. There is also a basic question arising: who should monitor the instability of exchange rates in the international context? In the Kingston monetary system, it is the IMF who has the mandate to monitor the asymmetric approach in the area of exchange rate management.

Given the complexity of the problem of global economic imbalances and the instability of exchange rates, adopting the new Plaza II agreement seems to be a step that might positively influence the world economic debelopment. Adopting a new agreement in the area of correcting instability and exchange rates should also be connected with a comprehensive reform of the international monetary system. Since its establishment, not only has the IMF not been reformed, but the reform has not been the subject of discussion either. The issue of IMF reform was partly outlined 13 years ago and was related to the liberalization of capital movements and the financial crisis in South-Eastern Asia.

The comprehensive reform of the international monetary system is related to current problems that are typical for the present development of the world economy. One of the basic preconditions for providing stability in the development of both business as well as financial relations seems to be the adoption of urgent and complex measures with a dynamic approach. The involvement of active participants of all parties, not only the G20, is needed to carry out comprehensive reform of international monetary system. With a jointly coordinated policy in the area of supervision over exchange rates and foreign exchange reserves management, it is important that the IMF uses the mandate that it is definitely right to have.

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Currency circulation in the Slovak Republic

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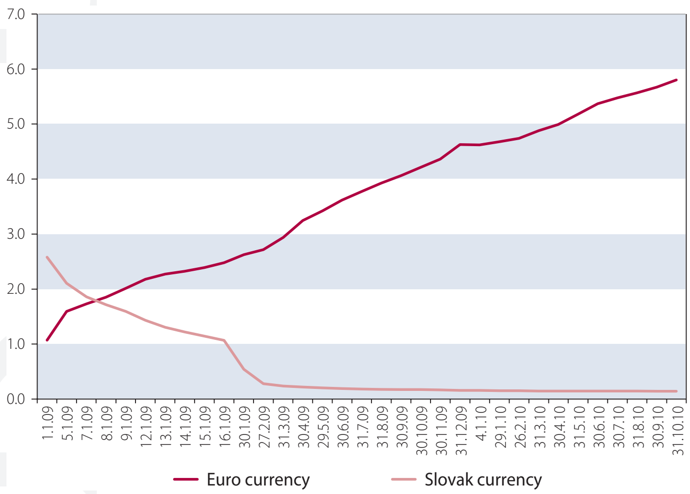
Since the admission of Slovakia into the euro area in 2009, the euro became our national currency. In this context, adjustments and alternations were performed in multiple areas of currency circulation. The change concerned primarily the methodology of usage of indicators of currency circulation and the procedure in planning and controlling the need for euro banknotes and coins for currency circulation.

The fact that Slovakia adopted the euro and became part of the euro area requires much more thorough protection of euro banknotes. In this context, the European Central Bank released a regulation called "Framework for the detection of counterfeits and fitness sorting of euro banknotes by credit institutions and professional cash handlers" (hereafter referred to only as "Framework"), the objective of which is contolling the integrity and protection of euro in circulation and therefore also the confidence of the public in the euro banknote. Starting from 1 January 2011, the framework will be replaced by decision no. ECB/2010/14 on authenticity and fitness checking and the recirculation of euro banknotes (hereafter referred to only as "ECB decision"), which has a direct legal binding force in all countries of the euro area.

Cumulative net issuance of euro banknotes and euro coins

Before we start to evaluate currency circulation in SR , it is important to emphasize that the "currency in circulation" indicator under the methodology of the ECB[1] represents the contribution (share) of Slovakia on euro banknotes issued by the euro area. The "currency in circulation" indicator used at the time of independent Slovak currency was replaced by the indicator "cumulative net issuance". Cumulative net issuance on a given date represents the difference between the value (number) of euro currency issued by the Národná banka Slovenska into circulation, and the value (number) of euro currency received from circulation into the NBS. Cumulative net issuance represents the real issuance of the NBS, which can be quantified in real time, while the "currency in circulation" under the ECB methodology is calculated retroactively and its value is known subsequently, not in real time.

Chart 1 Development of issuance of euro money and Slovak money in circulation (in billions of EUR)



Source: NBS.

On the date of euro introduction in SR, the total value of pre-supplied euro banknotes and euro coins was in the sum of EUR 1.07 billion transferred to issuance. The increase of cumulative net issuance of euro cash was in the following period almost inversely proportional to the decrease of Slovak coins in circulation. As can be seen from Chart 1, halfway through the dual circulation the cumulative net issuance reached equilibrium point, with the value of Slovak crowns in circulation converted to euro and its value gradually increasing after this date.

On 31 October 2010 cumulative net issuance reached EUR 5.8 billion (SKK 174.8 billion), which is almost 13% higher than the value of Slovak crowns in circulation by the end of 2007 (SKK 155.15 billion, which is EUR 5.15 billion, Chart 2).

Of euro banknotes, the highest share on issuance have the notes €50, €20 and €100, which are also most frequently used for allocation to ATMs. Their total share on cumulative net issuance is more than 72% (Chart 3). The largest share on the euro coin issuance have 1-cent and 2-cent coins, which constitute almost half of the cumulative net issuance of euro coins (Chart 4). These coins are, like 10- and 20-halier coins in the past, gradually becoming disposable coins" and their rate of return to the NBS is very low.

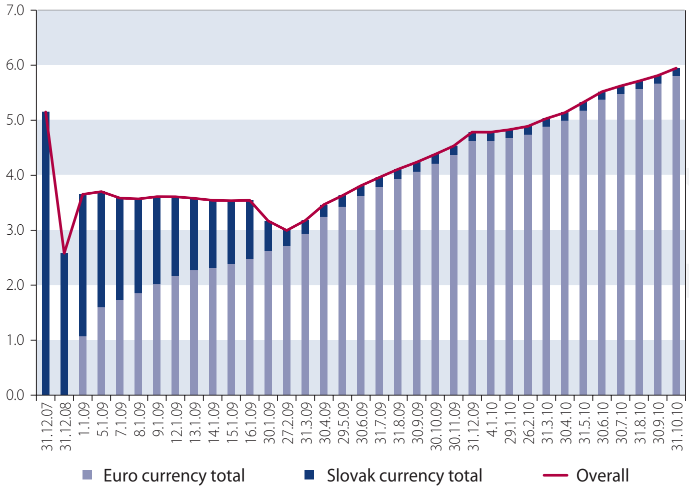
Currently there are 16 euro notes and 64 euro coins, almost half of which are 1- and 2-cent coins,

1 *The item currency in circulation of monetary aggregates includes, in addition to the actual issuance of euro banknotes, also the liability/obligation towards the ECB at the amount that corresponds to the issuance of euro banknotes by the National Central Bank below, or over the volume determined each month on the basis of the reallocation key for issuance of banknotes by the ECB. In addition, it also includes the obligation arising for each country after accounting for 8 percent share of the ECB on the total capital of the euro area. Source: article by Ing. Natália Šteflíková "Change in methodology of reporting currency in circulation and its influence on the monetary aggregate M3", Biatec no. 11/2009.*

per habita of SR on average. Euro banknotes and coins that are coming into our currency circulation from other countries of the euro area, which represent so-called migration of currency in circulation, are not included in this number. Unlike the banknotes, which are all identical despite being issued by various central banks of the euro area, determining the migration of euro coins is possible on the basis of their national sides. The NBS determines the migration data twice a year. Analysis of data revealed that the most frequent euro coins emerging into SR currency circulation are coins with German, Austrian and Italian national side.

For the sake of comparison we will also provide the data on SR currency circulation in addition to the data on cumulative net issuance. Currency in circulation in SR, reported by the ECB methodology, represents the share of the NBS on euro banknotes issued by the Eurosystem in estimated value of EUR 7.1 billion (approximately 0.9% of the euro area circulation value). The value of the euro area circulation on 31 October 2010 was more than EUR 815 billion. This value consisted, unlike the cumulative net issuance in SR, only of euro banknotes in the amount of 13.6 billion items.

Chart 2 Development of issuance of euro currency and circulation of Slovak currency in SR in 2009 and 2010 (in billions of EUR)



Source: NBS.

Status of Slovak crowns

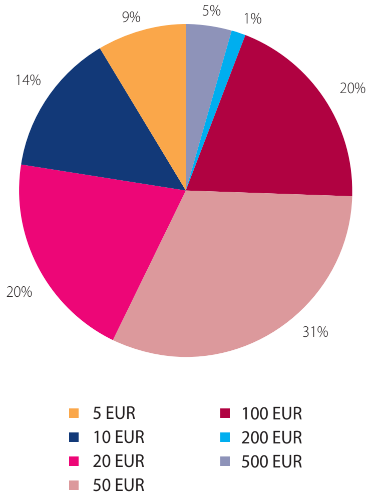
The removal of Slovak crowns from circulation begun as soon as 2008, immediately after the announcement of the date of euro adoption in SR. By the end of 2008, more than SKK 77 billion had been removed from circulation, approximately half of the circulation from the end of the previous year. Another sharp decrease of Slovak crowns in circulation was documented during dual circulation, when more than 59% of circulation value was removed by 31 December 2008. After the period of dual circulation, the process of removal of Slovak crowns considerably slowed and by the end of 2009, only SKK 17.3 billion had been removed from circulation. As a result of the relatively low number of Slovak banknotes and coins in circulation, the slow rate of removal also continues this year. Since the beginning of this year until the end of October, only less than SKK 0.5 billion were removed and the value of Slovak banknotes and coins which still remained in circulation by this date was SKK 4.3 billion. There are still almost 20 million banknotes in circulation, mostly 20 crown ones, and almost 395 million coins, mostly 50-halier and SKK 1.

Of the remaining Slovak crowns in circulation, there are currently approximately four Slovak banknotes in the value SKK 535, and 73 of Slovak circulation coins in the value of SKK 135 per resident. The total value of Slovak crowns in circulation per habita is approximately SKK 800.

Controlling currency circulation

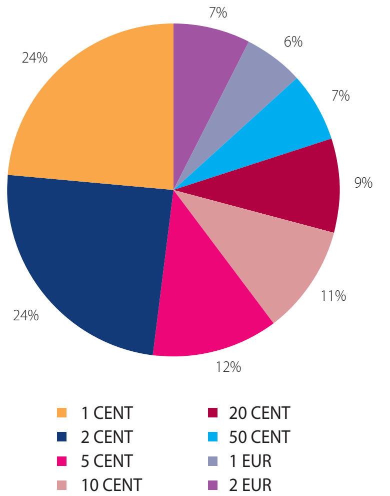
After the admission of Slovakia into the euro area, the NBS, just like other central banks of the euro

Chart 3 Structure of issued euro banknotes in SR as at 31 October 2010 (in %)



Source: NBS.

Chart 4 Structure of issued euro coins in SR as at 31 October 2010 (in %)



Source: NBS.

area, is still responsible for controlling currency circulation on the territory of its country. However, the NBS became part of an entity where different decision making mechanisms apply. The ECB decides on the value of euro banknotes in currency circulation on the basis of a key, the maximal value of euro coin issuance is approved by the European Commission and subsequently by the ECB. The NBS ensures the real issuance of euro banknotes and euro coins to the public through banks, which distribute them through their ATMs, bank cash windows, and via clients. The distribution of euro banknotes and euro coins to individual links in this chain is made by banks and also by transportation and processing companies (CIT).

Euro banknotes and euro coins will return from the public to the NBS in the opposite direction, from businesspeople and chain stores, which will transfer the cash through the CIT companies to banks that subsequently transfer this currency to the NBS for processing.

The primary objective of the NBS in the area of currency circulation is to have the sufficient number of euro banknotes and euro coins in required denominations, as well as the quality of currency in circulation. In practice this means ensuring that only authentic euro banknotes and coins enter into circulation, and that the money has the required cleanness, it is not torn, dirty or otherwise damaged. To ensure this objective, the NBS processes all euro banknotes and euro coins that it receives from banks, in its facilities, which check their authenticity and usability for further circulation.

In addition to determining the share of respective national central bank on euro banknotes issued by the entire euro area, the ECB's task is also to monitor the cleanness of euro banknotes, and their processing and destruction on the basis of statistics from each national central bank of the euro area.

To acquire an overview of public satisfaction with the quality of euro banknotes in circulation, the ECB performs a survey on the quality of euro banknotes in circulation, which takes place in countries of the euro area. Respondents from Slovakia participated for the first time in 2010. The survey, performed on a sample of more than 15,000 respondents from all countries of the euro area, focused on the evaluation of the general satisfaction of citizens with the quality of banknotes, on reasons for dissatisfaction, and on the evaluation of the physical condition of €5 and €50 banknotes in circulation. The €50 banknote was chosen as the most frequently used euro banknote in circulation (its share of the total number of circulating euro banknotes is currently 38.8%). The second euro banknote included in the satisfaction survey was the €5 banknote, which is assumed to have the lowest quality due to its denomination.

The conclusions of the aforementioned survey suggest general satisfaction of citizens with the quality of euro banknotes in circulation (as much as 76% of respondents stated that they are "very satisfied" or "satisfied" with the quality of circulating euro banknotes in the euro area). In cases when respondents were not satisfied with the quality of circulating banknotes, the most frequently mentioned reasons of dissatisfaction were shabbiness, fast deterioration, and "raggedness" of euro notes.

It is said that the attitude towards money and the treatment of currency is one of the indicators of a nation's culture. From the euro area countries, the highest satisfaction with the quality of euro banknotes was reported by citizens of Luxembourg, Finland and Portugal, the lowest by Greece and Ireland. It is an interesting fact that Slovak citizens are among countries with the highest satisfaction of respondents with the quality of the €5 banknote, but the same cannot be said about the evaluation of the €50 banknote where satisfaction with the quality of this euro banknote is much lower.

Conclusion

It is too early to evaluate the development of the issuance of euro banknotes and euro coins in Slovakia after less than two years. However, for now it can be said that the net cumulative issuance, just like the value of circulation of Slovak crowns before, is growing at a relatively stable rate during the course of the year. The highest rate of growth is in the summer vacation period and the maximum is achieved in the pre-Christmas period. From the viewpoint of net cumulative issuance, Slovakia ranks among those euro area countries where the structure of issuance of euro banknotes and euro coins in all denominations is positive, which means that their put into circulation is higher than their receipt from circulation.

At the euro area level it is important to ensure the quality and cleanness of circulating money in all countries, in accordance with the efficiency and expense-to-revenue ratio of cash circulation, towards which the abidance of principles stated in the aforementioned decision by ECB banks and other cash handlers should prominently contribute.

Implications of the establishment of the new framework for financial market regulation and supervision in the European Union

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Introduction

The European Commission (hereinafter referred to as the "Commission" or the "EC") in November 2008 established as a reaction to the financial crisis a group of high-level experts chaired by Mr. Jacques de Larosière, and entrusted it with developing recommendations on how to strengthen cooperation in the area of supervision at the European level in order to help rebuild trust in the financial system. In the final report of the de Larosière Group submitted on 25 February 20091, it recommended creating a new model of supervision of European financial institutions and markets in the interest of strengthening general financial stability in the European Union.

The basis of the suggested reform has been distinguishing between the performance of supervision at the macro-prudential and micro-prudential level, and total harmonisation in the area of business entity regulation on the financial market. As a result of this report, on 27 May 2009 the Commission issued a Communication[2] in which it took over and specified the concept proposed by the de Larosière group. The European Council approved the proposed concept and gave the Commission a mandate to draft the legislation needed in order to implement these ideas into praxis, so that the relevant regulations came into effect as of 1 January 2011[3]. On 17 November 2010, the Council of the European Union (hereinafter referred to as the "Council") made up of ministers of finance (hereinafter referred to as the "ECOFIN") approved the wording of regulations representing a compromise achieved as part of the dialogue between the European Parliament, the Commission, and the Council.[4] The European Parliament passed these regulations on 23 September 2010.

The indicated regulations present the legal basis of the new "European Financial Supervision Architecture", referred to as the European System of Financial Supervisors (hereinafter referred to as the "ESFS").[5] At the same time, the Council also passed the proposal of the "Omnibus I" Directive stipulating areas in the form of authorising provisions in which the new European supervisory authorities will have to develop proposals for wordings of so called regulatory technical standards and implementing technical standards.[6]

Historical implications of the new financial supervision architecture

Naturally, the financial supervision architecture has not been born on a green field. It is a continuation of the constantly deepening process of financial market legislation harmonisation on the European level. This process was launched more intensely at the turn of the new millennium. The issue of creating a unified financial market within the EU was not given as much priority at that time as, for example, the issue of introducing a single currency. To strengthen integration in this area, the Commission on 11 May 1999 published what is referred to as the Financial Services Action Plan (hereinafter referred to as the "FSAP")[7]. The Action Plan contained various goals that were to be achieved in the course of the next five years, and it proposed 42 legislative and non-legislative measures to improve the internal market of financial services.

FSAP contained a list of priorities (of 1st to 3rd degree) and a timetable for the passing of legislative and non-legislative measures to achieve the following three strategic goals:

1. Ensuring a single market for financial services;
2. Creating open and safe markets for clients;
3. Modernization of regulations in the area of supervision and modernization of supervision performance.

The goal set in March 2000 by the European Council in Lisbon was for Europe to become the most competitive and dynamic economic region in the world by 2010 within the global strategy (known as the Lisbon Strategy). According to the Lisbon Strategy, this economic area should be able to achieve sustainable economic growth with a higher number of qualified workplaces and strong social cohesion.[8] At the same time, the European Council also supported the Action Plan for Financial Services proposed by the Commission, stipulating that this plan was to be implemented by 2005.

Since no unified capital market but rather a number of national partial markets existed within

* *Opinions expressed in this article are individual views of its authors and do not necessarily correspond with the official position of the Národná banka Slovenska.*

1 *De Larosière, J. et al.: De Larosière Report. Available at http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf. Viewed on 25 September, 2010.*

2 *EU Commission: Communication of the Commission – European Financial Supervision, document COM (2009) 252 in its final version, [online], Brussels, 27 May 2009 [quote 2010-03-10], available on the internet at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0252:FIN:SK:PDF.*

3 *European Council: Revised version of conclusions of the chairmanship from the meeting of the European Council on 18 and 19 June 2009 in Brussels, [online], Brussels, 18 and 19 June 2009 [quote 2010-03-10], available on the internet at http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/SK/ec/108643.pdf.*

4 *3045th Council Meeting, Economic and Financial Affairs, document 16369/10 provisional version, [online], Brussels, 17 October 2010 [quote 2010-010-17], available on the internet at http://www.consilium.europa.eu/eudocs/cms_data/docs/pressdata/en/ecofin/117790.pdf.*

5 *At the time of writing this article, regulations establishing the new "European Financial Supervision Architecture" have not been published in the Official Journal of the EU. Due to this, we refer to the English versions of the regulations published on the internet page of the Council indicated in the references.*

6 *Since at the time of submitting of the Omnibus I Directive, the Directive of the European Parliament and the Council 2009/138/EC of 25 November 2009 on starting and performing insurance and assurance (Solvency II) has not been published in the Official Journal of the EU, these authorising regulations will be implemented in the insurance sector by the OMNIBUS II Directive that is expected to be submitted by the European Commission at the turn of 2010 and 2011.*

7 *Financial services: Action plan, publication of the Commission COM (1999) 232, Brussels, 11 May 1999.*

8 *Compare the resolutions of the European Council (2000 No. 5).*

9 Lamfalussy, A. et al.: Final report of the Committee of Wise men on the Regulation of European Securities markets, [online], Brussels, 15 February 2001 [quote 2010-03-10], available on the internet: http://ec.europa.eu/internal_market/securities/docs/lamfalussy/wisemen/final-report-wise-men_en.pdf.

10 CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors), CEBS (Committee of European Banking Supervisors) and CESR (Committee of European Securities Regulators).

11 E.g. Directives 2003/6/EC, 2003/124/EC, 2003/125/EC, 2004/72/EC, 2003/71/EC, 2004/39/EC, 2006/73/EC, 2004/109/EC, 2007/14/EC, also known as Lamfallusy's directives.

12 Compare the introductory provisions No. 71 of the Directive 2004/39/EC on financial markets.

13 Financial integration in Europe, annual publication of the ECB.

14 Financial integration in Europe, April 2010, the ECB, available at http://www.ecb.int/pub/pdf/other/financialintegrationineurope201004en.pdf.

the European Union, liberalization, as part of structural reforms contained in the Lisbon Strategy, was to be realised through the Action Plan for Financial Services.

On 17 June 2000, ECOFIN gave a mandate to the "Committee of Wise Men" led by Mr. Alexander Lamfalussy. The task of the Lamfalussy Council was to develop a final report on the regulation of financial markets with securities. The Lamfalussy report[9] reached the following conclusions:

1. Establishing an integrated securities market in Europe is difficult mainly due to the non-existence of basic common legal regulations.
2. The existing system is not sufficiently prompt and flexible to enable the passing of standards required by modern financial markets.
3. The incoherent approach of implementing legal regulations makes the establishment of a unified market harder.

The Lamfalussy Council was convinced that reform in the approach of passing regulations was needed, if the EU wanted to achieve its goals and if FSAP was to be realised by the deadline of 2005.

As a solution, the report of the Lamfalussy Council recommended four levels of procedures that were also to contribute in the area of legislation to the fulfilment of goals set in FSAP.

As part of the first level, the Commission was to investigate the need of passing legislative acts. If it thought that a certain legal act was needed on the level of the Community, it was to develop a proposal for passing legally binding framework regulations (especially directives) to be passed by the European Parliament and the Council based on the proposal of the Commission in a process of 'codecision'. The framework regulation would authorise the Commission to issue implementing regulations.

On the second level of the Lamfalussy process, the Commission was to issue implementing regulations to implement the framework regulations. When developing proposals of the implementing regulations, the Commission was to take into consideration recommendations of the councils of the European supervisory authorities[10], while implementing regulations are to be passed by one of the processes of 'comitology'.

Intensive cooperation was to take place on the third level between individual national supervisory authorities with the aim of ensuring a unified application of regulations passed on the 1st and 2nd level. For this purpose, councils of the European supervisory authorities were to pass legally non-binding statements and implementing standards.

Finally as part of the fourth level, the Commission was to supervise the implementation of legally binding regulations passed on the 1st and 2nd level. The approach proposed as part of the fourth level of the final Lamfalussy's report was passed by the European Council in Stockholm in March 2001. The Lamfalussy process led the approval of directives[11], the aim of which was the establishment of an integrated financial market in which non-professional clients are to be protected and the effectiveness and integrity of markets ensured.[12]

The pressure on centralisation of supervision in the European Union

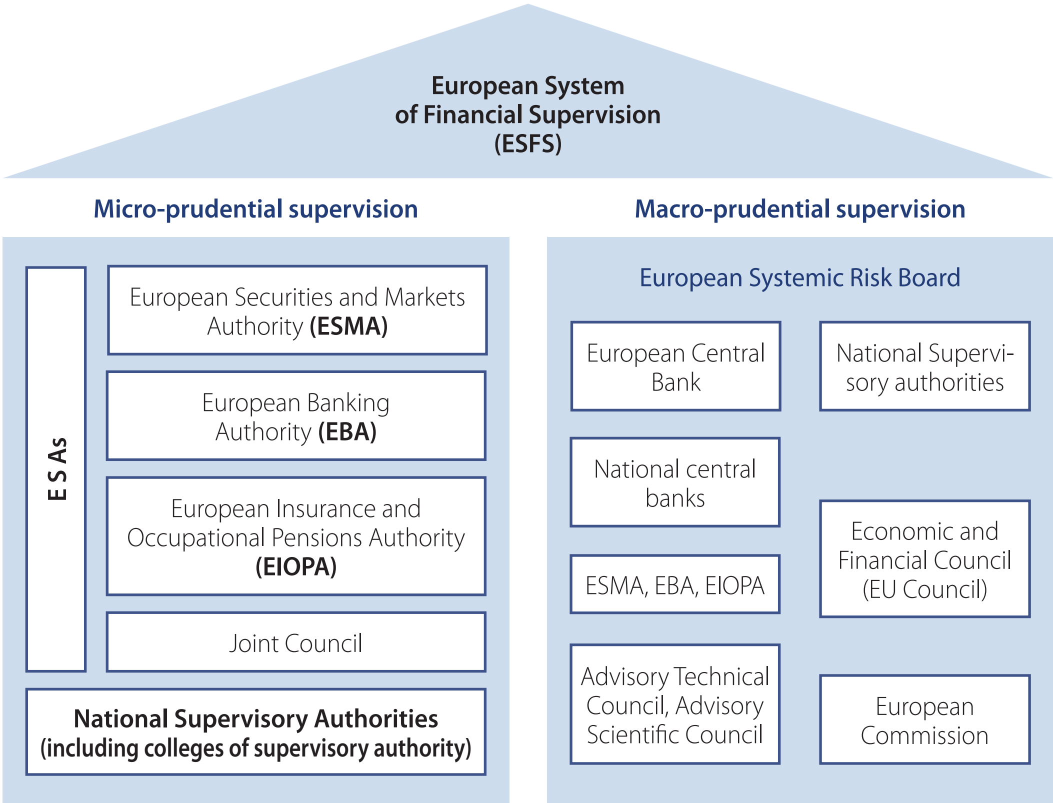
The efforts to centralise supervision within the European Union as initiated mainly by the European Commission and strongly supported by entities of the financial market, also existed in the past. These initiatives, however, focused mainly on increasing the competence of domestic supervisory authorities and were carried out individually in the relevant sectors. A significant milestone was the passing of the CRD Directive that set, for example, the key competences of the domestic supervisory body in the approval of an internal model of banks to set capital requirements. The last of such initiatives was the submission of a new regulation in the insurance industry sector (Solvency II), the aim of which was to introduce a regime of group support suppressing the supervision of individual legal entities for the benefit of group supervision, and enabling the holding of a part of regulatory capital outside the host country. Finally, also in connection with the financial crisis, an alternative way was chosen – the centralisation of supervision and regulation through European institutions.

Single market for financial services and its barriers

As mentioned earlier, the new financial supervision architecture is a continuation of the Commission's attempts so far to create a unified market for financial services within the EU. The Commission likes to present the current situation in a way that the main hindrance of a unified market is the not unified regulation and supervision of the financial market, and that by introducing new financial supervision architecture we will achieve the desired situation. However, the given area is much more complex.

A unified market can be measured, for example, by the degree of financial integration, i.e. by the volume of financial services provided by entities working across borders or by the amount of deviations in the condition of providing services between domestic entities and entities working across borders. Such analysis has regularly been published by the European Central Bank (hereinafter referred to as the "ECB")[13]. The report on financial integration from April 2010[14] states that the degree of financial integration varies for individual products. Financial integration is high in the area of inter-banking market, operations with securities and large corporations, while its degree is low in the case of households and small and medium enterprises (hereinafter referred to as "retail").

This difference has been caused to a large extent by other barriers of the single market, such as differing legal environments in the individual



countries (e.g. bankruptcy and tax regulations), language barrier, various habits and behaviour of clients, and other developments in the economic environment (e.g. on the real estate market). Due to these barriers, financial companies offer their services for retail mainly through their daughter companies or branches in the given country and not directly. In the case of other services with the economic environment being more globalised, the degree of integration is higher. Here too, however, as a result of the financial crisis, the phenomenon of a return to original markets occurred with financial entities focusing on business in their main domestic markets with the degree of integration decreasing. As long as these barriers are not eliminated, unification of regulation and supervision will not lead to the achievement of the desired goal – a unified market for financial services.

Since a large part of financial services is provided exclusively through local financial institutions, it is necessary to maintain financial stability on the local level so that the financial market is able to fulfil its basic function of mediating the transfer of financial resources in the economy. However, according to the new financial supervision architecture, the aim of new authorities is exclusively to monitor the financial stability of the EU as a whole. Nobody though provided a clear definition of what this concept included. In our opinion, a necessary pre-requisite of financial stability of the whole Union is the financial stability of individual Member States, as confirmed by the case of Greece and Ireland. To ensure this, local supervisory authorities need to have enough competences, since they are the most appropriate body in terms of achieving stability at the local level.

In the context of the efforts carried out so far that focused on the centralisation of supervision of financial markets, or the shift of competence of supervision from the local level to the level of mother groups, we perceive the new financial supervision architecture as a continuation of these efforts and the weakening of the competences of local supervisory authorities in maintaining financial stability at the national level. We negatively perceive especially efforts aimed at giving new supervisory authorities direct competences in performing supervision of systemically significant financial institutions, especially as long as fiscal responsibility for saving banks remains at the national level. Sufficient powers and responsibilities should go hand in hand. At the same time, the earlier-mentioned report on financial integration states that the price for the high level of integration is a faster spread of crisis into the whole financial system of the Union.

THE STRUCTURE OF THE NEW FINANCIAL SUPERVISION ARCHITECTURE

The European system of financial supervision that is to be born as of 1 January 2011 consists of a body that is to perform its competence in what is referred to as the macro-prudential area, and authorities carrying out their competence in the micro-prudential areas. Macro-prudential competences have been entrusted to the European Systemic Risk Board (ESRB), the mission of which is to: "contribute to preventing or mitigating systemic risks for financial stability in the Union resulting from developments within the financial system, while considering macro-economic developments in order to prevent periods of extensive financial stresses. The ESRB shall contribute to the problem-free functioning of the internal market and thus ensure a sustainable level of contribution of the financial sector to economic growth."[15] The ESRB identifies, analysis, monitors and determines the importance of systemic risks for the whole EU. In the case of significant risks it shall issue warnings and recommendations. Similar organisations as the ESRB are also established e.g. in the U.S.A. (Financial Stability Oversight Council)[16] and Great Britain (Council of Financial Stability).

Micro-prudential competences will be performed by three new European supervisory authorities (jointly referred to as "ESAs") – the European Banking Authority (hereinafter referred to as "EBA"), the European Insurance and Occupational Pensions Authority (hereinafter referred to as "EIOPA"), the European Securities and Markets Authority (hereinafter referred to as "ESMA"), and the Joint Committee creating and managing on the principle of rotation the following three authorities. ESAs have the following main competences[17]:

- Preparation of proposals of generally binding regulations;
- Issuance of legally non-binding regulations;
- Ensuring unified application of law of the European Union;
- Binding settlements of disagreements between supervisory authorities;
- Action in emergency situations.

Briefly it can be stated that ESAs are an instrument of strengthening harmonisation in the area of supervision of the financial market in the EU, also in terms of legislation when it comes to the performance of supervision by national supervisory authorities. The role of the Joint Committee is to discuss issues related to the competence of several European supervisory authorities, e.g. in the area of financial conglomerates, measures of fighting money laundering, retail investment products, accounting, and auditing. All representatives in the new bodies should proceed independently, in the interest of the Union as a whole, and should not accept instructions from national authorities nor European institutions.

The new financial supervision architecture in the EU

European supervisory authorities replace the present advisory councils of the Commission working on the third level of the Lamfalussy's process – CEBS, CEIOPS and CESR.[18] Since the new ESAs are their legal successors and their headquarters are not changed either, the committees have been preparing thoroughly throughout 2010 to the new arrangement of supervision and regulation in the EU.

From the economic point of view, the questions of justification of maintaining various location of the European supervisory authorities is questionable (EBA – London, EIOPA – Frankfurt and ESMA – Paris). At least the secretariat ensuring the administrative activities of these authorities could have been joined, until either one authority was created for the whole financial market or three authorities with one central office. When establishing these three bodies, the promise given to the new Member States at the time of their joining the European Union in 2004 was not kept, in that priority would be given to establishing headquarters of new European authorities in the new Member States.[19] This could also have been a way of saving operational costs.

Macro-prudential and micro-prudential supervision

By the establishment of new authorities for macro- and micro-prudential supervision, the need to clearly differentiate these two relatively new concepts came to the forefront in order to set the limits between responsibilities of individual authorities. So what is the difference?

According to Borio[20] and Crockett[21] we can define macro- and micro-prudential supervision best as two extreme and opposing terms in order to highlight the border between them. In a normal world, however, they exist commonly in many shades, similarly as various shades of gray are a combination of two extremes – black and white. Each supervisory and regulatory authority

Comparing micro- and macro-prudential perspectives

	Macro-prudential supervision	Micro-prudential supervision
Immediate objective	Limiting stress in the financial system as a whole	Limiting difficulties of individual financial institutions
Final objective	Preventing losses in GDP	Protection of consumer (investor/depositor)
Perception of the risk	(Partial) endogenous – the risk originates at least partially as a result of activities of economic entities	Exogenous – affecting entities from the outside, they cannot limit the risk
What it focuses on	Mutual relationships, common behaviour, common risks, mechanisms multiplying risks and losses	Adequacy of capital and reserves, risk level of operations, internal processes, system of management of society

15 Article 3 Paragraph 1 of the Regulation on ESRB.

16 www.ustreas.gov/fsoc

17 We will deal with the tasks of ESAs and ESRB in greater detail in the January issue of the Biatec Journal.

18 The Committee of the European Banking Supervisors (CEBS) seated in London will be replaced by the European Banking Authority (EBA), the Council of European Insurance and Occupational Pensions Supervisors (CEIOPS) seated in Frankfurt am Main will be replaced by the European Insurance and Occupational Pensions Authority (EIOPA), and the Council of European Securities Regulators (CESR) seated in Paris will be replaced by the European Securities and Markets Authority (ESMA).

19 See the resolutions of the European Council of 13 December 2003: "Finally, the Representatives of the Member States, meeting at Head of State or Government level, agreed to give priority to Acceding State, once they have joined the Union, in the distribution of the seats of other offices or agencies to be set up in the future [...]". Available at hhtp://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/78364.pdf. Viewed on 6 December 2010. Priority right of the new Member States to placing of seats of the European agencies has been confirmed also in the resolutions of the European Council of June 2008. Available at http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/101346.pdf. Viewed on 6 December 2010.

20 Borio, C.: Towards a macroprudential framework for financial supervision and regulation? BIS Working Papers No. 128, February 2003.

21 Crockett, A.: Marrying the micro- and macroprudential dimensions of financial stability. BIS Speeches, 21 September 2000.

then chooses its own shade that best suits the fulfilment of its aims.

Macro- and micro-prudential supervision differs mainly in their goals and in the way they perceive risks. We can provide a clear overview in a table freely adopted from Borio[22].

From the macro-prudential point of view it is not necessary that each financial institution was healthy. A fall of a small and insignificant company that does not create stress in the rest of the financial sector is a normal and desired process that strengthens prudence and the prudential behaviour of economic agents. Costs of ensuring stability of each entity are too high. On the other hand, the stability of each single financial institution does not yet mean that the whole sector is stable, nor that such financial sector fulfils its mission. Let's consider the following instance. In times of a crisis, a bank makes its standards to provide stricter credits in order to avoid losses. From the micro-prudential point of view it is the right move, because the bank strengthens its resistance. However, if all banks take such a step in an excessive way at the same time, from the macro-prudential point of view this can be an undesired phenomenon, since an insufficient level of credit offers suppresses economic development and may cause problems for companies when it comes to funding, which can consequently be reflected in their ability to pay for existing credits to banks, as well as the economy as such (e.g. the employment rate).

The aim of macro-prudential supervision thus is to create an environment in which the financial sector fulfils its basic function of a mediator of financial resources in good and bad times, does not contribute to a deepening of the economic cycle, and does not create price bubbles. In light of this, the definition of systemic risk in the ESRB regulation is: "systemic risk is the risk of disturbing the financial system that may have significant negative effects on the internal market and real economy".

Currently, the trend to increase the importance of macro-prudential supervision is seen around the world. In our opinion, however, it is more important to find the right mix of macro- and micro-prudential supervision. It is not possible to separate macro-prudential and micro-prudential regulation. Both must be in a balance in order to jointly fulfil their function – the stability of the financial system. Neither is it possible to divide instruments as exclusively macro-prudential or micro-prudential. The main shift in thinking about this area is that risks are cumulated in good times and shown in bad times. Thinking applied so far has led to a situation where risks did not exist in good times, and following a sudden break risks started to be shown everywhere.

Position of agencies in the European administative legislation

Three new supervisory authorities have the position of European agencies. Such organisational form is not new in the EU. As early as the 1970s two agencies[23] were established, and their number later expanded so it currently includes several dozens.

The main reasons for establishing agencies can be that several highly specialised areas subject to European legislation require expert knowledge, continuity, and independence from political decision-making.[24] These elements are ensured by a transfer of competences from the Commission to an independent external agency funded from the common EU budget. Moreover, the concentration of several tasks of the European Commission into an agency enables the Commission to better focus on performing its key competences.[25] Within the jurisdiction of the European agencies in general is mainly the provision of expert and scientific support of the Commission or Member States, performance of the entrusted executive powers, and providing services to other agencies and institutions of the EU.

Even though the first European agency was established as early as 1975, we see no mention of them in the association agreements. According to Article 13 Paragraph 1 of the European Union Association Agreement (EUAA), institutions of the European Union are only the European Parliament, European Council, Council, European Commission, European Court of Justice, European Central Bank, and the Court of Auditors. The legal base of the majority of agencies (just as EBA, ESMA and EIOPA) is Article 114 Paragraph 1 of the European Union Functioning Agreement (EUFA).[26] It stipulates that the European Parliament and Council can take measures to approximate regulations of acts and other legal regulations and administrative measures of *Member States leading to creation and functioning of the internal market. The performance of this mentioned power is linked with two conditions that need to be fulfilled cumulatively:*

1. The aim of these measures is the creation of an internal market and ensuring its functioning in accordance with the relevant provisions of the agreements.
2. The Agreements (EUAA and EUFA) do not define other mechanisms to achieve this goal.

Such general legal base of the European agencies stimulated some past questions regarding the legitimacy of delegating decision-making powers of the European Commission to independent authorities without a transferred mandate from the European Parliament. The problem was also dealt with by the Court of Justice of the EU which in its resolution regarding C-217/04[27] (United Kingdom/European Parliament and Council) stated that measures that can be taken by the European Parliament and the Council according to Article 114 of the AAFA that *do not have to be addressed only to Member States*. The indicated authorities can establish based on Article 114 an authority of the Union (e.g. agency), the task of which will be to contribute to the realisation of the process of approximation of regulations on the level of Member States. The European Commission also referred to this decision in regu-

22 Ibid 18.

23 It involved the European Centre for the Development of Vocational Training (Cedefop), a European Foundation for the Improvement of Living and Working Conditions (EUROFOUND).

24 Communication from the Commission, The operating framework for the European Regulatory Agencies COM (2002) 718 final, p. 5. Available at ec.europa.eu/governance/docs/comm_agence)en.pdf. Viewed on 26 November 2010.

25 Communication From The Commission To The European Parliament And The Council European agencies – The way forward COM (2008) 135 final. Available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0135:FIN:EN:DOC. Viewed on 26 November 2010.

26 The legal base of some further agencies is provided by the Article 352 EUFA individually or jointly with Article 339 of EUFA or 77 EUFA.

27 ECR 2006, p. I-03771, paragraph 44.

28 See e.g. rationale No. 16 of the EIOPA Regulation.
29 Case 9/56, Meroni, ECR (1958).
30 Depending if the agency has the right to issue individual legal acts, we differentiate between regulatory and non-regulatory agencies. EBA, ESMA and EIOPA are entitled to make under certain conditions also decisions related to entities of the financial market, i.e. they can issue individual legal acts, are regulatory agencies. ESRB does not have such power and therefore these doubts do not apply to it.
31 However, it needs to be stated that two agencies are in a similar position that EBA, EIOPA and ESMA, that were established a longer time ago, and that is the Office for Harmonisation in the Internet Market (OHIM) and the European Aviation Safety Agency (EASA) that can also issue individual legal acts.

lations regarding the three European financial market agencies.[28] It is because the purpose and role of these agencies is to help relevant national supervisory authorities in the consistent interpretation and implementation of EU rules and contribute to financial stability needed for financial integration. Both these tasks relate, according to the rationale of the regulation, with the goals of legal regulations of the Union regarding national market with financial services, therefore Article 114 of the EUFA should be a sufficiently solid base for their establishment.

The problem which in our view continues is the scope of competence that may be delegated to agencies. In a relevant decision, *Meroni*[29] the EU Court of Justice stated that the European Commission may not delegate decision-making powers to entities of private law where a wide margin of discretion can be applied. In the case of EBA, ESMA and EIOPA, a certain level of consideration will necessarily be with the agencies in developing individual legal acts (resolutions).[30] In the case of regulating implementing technical standards, it is necessary to take into consideration that these are subject of approval by the Commission, which is delegated the power to issue these acts in accordance with the Agreement. Thus a mechanism exists in this case excluding the applicability of the doctrine embedded in the case of Meroni. In connection to the individual legal acts, however, similar guarantees (legitimisation of decisions of the Commission) do not exist. The end result, in our view, is thus that it cannot be ruled out that doubts about the legality of individual acts will originate that may lead to their being questioned at the Court of Justice of the EU, since Article 114 of the EUFA does not provide a sufficient legal base for the issuing of individual resolutions of the EU agency.[31] This worry is partially weakened by the fact that the resolution regarding the Meroni case was issued in 1958, and the functioning of the European Union has changed substantially since that time, and it cannot be ruled out that the court would eventually provide legitimacy to this mechanism.

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Austro-Hungarian commemorative cap badges in the collections of NBS – Museum of Coins and Medals in Kremnica

Austro-Hungarian commemorative badges (often called also 'cap badges') represent in their historical and artistic aspects very interesting items of the monarchy's military history from towards the end of its long existence. Many Slovaks, Czechs, Moravians and other nationalities fought on European battlefields in Austrian and Hungarian uniforms and they would bring these badges home with them as mementos of the hardships they endured. As the years passed, the badges quite naturally became objects of interest for many collectors in this country and abroad. Some of them also became part of the Kremnica Museum collections through a series of acquisitions made by the museum during the 1960s

A primary reason for this publication was to 'recover' these badges from the museum depository, process them, and prepare a catalogue which would reveal the beauty of these miniature works of art. Since these items, particularly those containing zinc, had quite naturally become tarnished by the passage of time, the first step involved restoration and conservation work. This was followed by identification and classification of the badges, for which catalogues of the Viennese auction house H. D. Rauch were used.

Written by PhDr. Martin Karasek in cooperation with Mgr. Bohuslava Konušová, the publication was published by the National Bank of Slovakia – Museum of Coins and Medals in Kremnica. It has 28 pages of A4-sized, chalk paper. Since the objects are shown in colour photographs in 1:1 scale, they can be imagined in their original size. The introduction and all descriptive texts are bilingual, in Slovak and German. The descriptions both identify the badges and provide information on their material (having been precisely identified at NBS), manufacturer and fastening method.

The whole collection of 134 badges has been processed. The text is accompanied by colour postcards and several 3D items donated by residents of Kremnica and the surrounding area. The text is divided into an Introduction and the following eight chapters:

1. Corps, army and division badges; 2. Regular infantry badges; 3. Riflemen unit badges; 4. Landwehr unit badges; 5. Cavalry badges; 6. Artillery badges; 7. Badges of other military units; 8. Other military and patriotic badges.

We would like to bring this short publication to the attention of professionals in this field, as well as members of the general public, who have a particular interest in the period of the World War I. The publication is on sale for €4 at the museum's exhibitions, or it may be ordered from: NBS – Múzeum mincí a medailí, Štefánikovo nám. 11/21, 967 01 Kremnica.

B I A T E C