The impact of low interest rates on financial stability in Slovakia

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In general, interest rates have a considerable impact on financial stability. This was evident, for example, at the turn of 2008-09, when falling rates helped banks and their customers face adverse developments, mainly by reducing debt servicing costs. On the other hand, a prolonged period of low interest rates usually has a negative impact on financial stability, mainly through the channels of household indebtedness, the real estate market, and liquidity risk, as well as through pressures on traditional business models and, consequently, on banks' profitability and resilience. Moreover, prolonged periods of low interest rates increase the sensitivity of financial institutions and customers to a rebound in interest rates. (p. 2)

Financial agents' quarterly reports

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In the first half of 2017 Národná banka Slovenska, acting within its off-site supervisory remit, required all independent financial agents in Slovakia to complete electronically a report on the activities they conducted in the first quarter of 2017. This step was grounded in the need to map the sector of financial intermediation and financial advisory services in response to undesirable market practices that have come to NBS's attention. The data obtained from the quarterly reports, both quantitative and qualitative, was then processed and analysed. This article also explains the working methods of risk-oriented supervision and the grounds on which NBS requested the data. (p. 7)

Mortgage bonds versus covered bonds: Bases for harmonising covered bond legislation

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Covered bonds have in the past five years been a major issue in the recovery of the financial sector and in the harmonisation of financial sector rules. The task of analysing and identifying the common features of these bonds is being addressed by several European Union institutions (including the European Banking Authority, European Commission and European Parliament) and by competent associations. Although the harmonisation of rules in the covered bond market has not yet been accomplished, much work has been done towards that goal, and conclusions and recommendations have been adopted which map the future course and progress of that work. At the national level, some EU countries are enacting the recommendations in national law either by amending existing legislation or by introducing entirely new legislation. This article looks at the changes made and at EU-level developments, and analyses them in relation to mortgage bonds and the related market in Slovakia. (p. 11)

Investing in bond funds

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Risk averse investors seeking to increase their returns on capital are highly likely to invest in bond funds. These funds typically offer higher returns than cash funds and at less risk than equity funds; the recommended term of bond fund investments is more than one year. The duration of a bond fund is the key indicator of its profile, as well as of its sensitivity to interest rate movements. Bond funds are also differentiated by their asset portfolio structure, which need not consist only of bonds but may include shares in other bond funds and exchange-traded funds, and, in accordance with law, equities. This article focuses on the duration and asset structure of the biggest-selling bond funds in Slovakia. (p. 14)

Foreign Exchange Global Code of Conduct: FX Global Code

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After more than three years in preparation, a global code of conduct for trading in the foreign exchange market – the FX Global Code – was published in May 2017. Its publication was welcomed by many central banks of both major and smaller countries, with its purpose being to promote a well-functioning, fair and transparent global foreign exchange market. The Code functions on the basis of market participants voluntarily committing to abide by its principles and thus strengthening their standing. (p. 17)

Slovakia's position within European and global value chains

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The Slovak economy's strong export performance and high degree of openness result from its integration in global value chains. This integration is the main reason why the economy is gaining significant market shares in global trade and why its value added has been increasing for a long time. Slovakia's integration in global value chains is deeper than that of the other V4 countries. That the entire region is integrated in global or Europe-wide value chains with approximately similar sectoral structure is mainly the result of foreign direct investment in the region. Slovakia is not flattered by its very low position in these chains, in other words by its capacity to add value to imported products. Moreover, Poland and the Czech Republic have also established regional value chains in which Slovakia has a low position. (p. 19)