



# Introductory Address by Jozef Makúch, the NBS Governor

Dear fellow Governors, Colleagues, Ladies and Gentlemen,

It is my great pleasure to welcome so many distinguished guests to this conference, organised as part of a series of events surrounding the 25th anniversary of the National Bank of Slovakia.

Before we proceed to discuss the current and future challenges for central banking, I would like to say a few words about the history of our bank, which was established on 1 January 1993 along with the Slovak Republic itself. Initially there was a monetary union with the Czech Republic, but that lasted only six weeks. The top challenges back then were to ensure exchange rate stability and to build a regulatory framework for the banking sector. We also succeeded in building up our research capacities basically from scratch. I was privileged to be personally involved in this effort, as head of the newly created Institute of Monetary and Financial Studies. This institute eventually became the central bank's Research Department, which has provided expert oversight for today's conference.

In 1998 we moved to a floating exchange rate and a more traditional framework of monetary policy. Restrictions on capital movement were gradually lifted. In 2005 the National Bank of Slovakia implemented inflation targeting, and in 2006 we became the integrated regulator of all financial institutions in the country.

In 2009 Slovakia adopted the euro, and we hope and believe that the European monetary union – unlike the short-lived Czechoslovak monetary union of 25 years ago – will be a permanent one.

Rapid changes did not stop with the euro adoption. We went on to assume explicit responsibility for macro-financial stability in Slovakia, and we are now an integral part of the process of building the EU's banking union and capital markets union. In addition, we recently assumed responsibility for the oversight of financial consumer protection in Slovakia.

Turning now to the future, there are several challenges facing the central banking community. I hope the debates about them today will be interesting and productive.

I am especially pleased that this conference will provide an opportunity to discuss, in relation to these challenges, specific concerns of converging small open economies. Given my knowledge of these concerns from the view of Slovakia, I am convinced they should be taken into account when new policies are being formulated.

Indeed, the three main themes of our conference can be viewed from two perspectives.

The first is a global perspective, with discussion focused on how financial innovations and new policies should be implemented within the current policy framework. Specifically, we will look at the following questions:

- Should financial stability considerations be embedded within the framework of central bank objectives, and if so, how?
- How can the great pace of innovation in the IT sector and in digital transactions be fully exploited. In other words, how can these new trends be integrated into our framework?
- How can we properly measure and respond to financial cycles?

The second perspective is that of converging small open economies like Slovakia. In this context, we should consider the following points in the respective discussion sessions:

- First, in an environment where inflation is low, incomes are converging to advanced economy levels, and very accommodative monetary policy is the norm, lending naturally tends to be more dynamic. Although double-digit annual credit growth rates may still be deemed sustainable, they may be risky in terms of both price stability and financial stability.
- Second, converging economies have shorter historical time series that do not allow for sound measurement of financial cycles. Furthermore, small open economies are typically more vulnerable to external financial shocks.
- Third, the emerging and converging economies of central Europe saw major structural changes in their banking sectors around 15 to 20 years ago. At that time the internet was expanding and financial innovation was beginning its rapid acceleration. As these banking sectors have been built almost from scratch, some financial services are likely to be more advanced in these countries than in developed economies. Will that give them a head start in the upcoming revolution in digital money?

The topics to be discussed at this conference cover key factors that will shape the future of financial market infrastructures.

It pleases me greatly that these issues can be discussed at such a high level in Slovakia today.

I hope that our discussions will enrich us all and help us both to understand the challenges better and to explore ideas about how to meet them.

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