



### KEY RISKS AND TRENDS FROM THE PERSPECTIVE OF SLOVAKIA'S FINANCIAL SECTOR STABILITY

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*The global economic slowdown during 2019 has gradually been having an impact on developments in the Slovak economy. Unfavourable economic outlooks have been reflected in the European Central Bank's decision to resume the loosening of monetary policy, which means that interest rates will be even lower, and for a longer time, than previously expected. The low interest rate environment is therefore now a key factor affecting financial stability in Slovakia, in particular with regard to the following: excessive growth in household indebtedness; the long-term negative impact on the profitability of banks and insurance companies; increasing sensitivity to the business cycle; upward pressure on property prices; and the need for fund managers to search for yield in riskier or less liquid assets. (p. 2)*

### THREE ESSAYS ON RISK MODELLING AND EMPIRICAL ASSET PRICING

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*This article is a summary of an eponymous dissertation, which won first prize in the NBS Governor's Award. The work looks at financial asset pricing from both a theoretical and applied perspective and proposes ways of estimating asset returns more accurately, which it then applies to futures contracts from the US and European markets. The dissertation consists of three papers that focus on risk modelling and empirical asset pricing. Specifically, the first paper contributes to the literature by providing a method of obtaining more efficient estimates and forecasts of covariance matrices. The second paper identifies common risk factors in panels of volatilities that drive the distribution of asset returns, and the third paper introduces a basic quantile asset-pricing equation with application to factor pricing. (p. 9)*

### DRIVERS OF DEINDUSTRIALISATION: AN INPUT-OUTPUT APPROACH

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*This article is a summary of a dissertation of the same name, which won the second prize in the NBS Governor's Award. The paper analyses causes of declining employment and value added in manufacturing, as well as differences in the deindustrialisation process among individual countries. Despite its decline in terms of value-added creation, manufacturing continues to contribute significantly to growth rates of national economies. Outsourcing and automation appear to be reducing manufacturing value added, since employment is falling in traditional industrial companies; on the other hand, the creation of value added usually shifts to other companies within the economy. However, offshoring and globalisation facilitate the transfer of value added creation to countries in the group of "risers". (p. 15)*

### COVERED BOND HARMONISATION IN EUROPEAN MARKETS

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*The subject of this article is the EU's new Directive on the issue of covered bonds and covered bond public supervision and the related amendment of Regulation (EU) No 575/2013. In the first part, the author describes the plan to harmonise covered bonds in the European market in terms of its process and bases. The focus then turns to the new developments and amendments that emerged from the "trialogue" negotiations and feature in the final version of the Directive. These concern inter alia eligible assets of credit quality step three, the liquidity buffer, overcollateralisation, the coverage ratio, and transparency. The author explains the difference between ordinary and premium European covered bonds in the context of new regulatory requirements. The last part focuses on the implementation period, the importance of issuing the Directive as a separate document, and how the Directive will benefit the market. (p.21)*

### FAILURE OF LATVIA'S AS PNB BANKA

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*At the request of Latvia's Financial and Capital Market Commission in its capacity as the competent supervisory authority, the European Central Bank (ECB) decided in March 2019 to classify Latvia's AS PNB banka as significant and to assume its direct supervision as of 4 April 2019. On 12 August 2019 the ECB concluded an on-site inspection, which found indications that the assets of the bank were less than its liabilities. As a result, on 15 August, the ECB issued its assessment that PNB was failing or likely to fail. Subsequently on the same day, the Single Resolution Board determined that resolution action was not necessary in the public interest. Less than one month later, on 12 September 2019, a Latvian court declared PNB insolvent. The PNB case shows how European authorities have managed to deal with a failing bank within half a year after taking charge of the matter. At the same time, however, the PNB case has revealed something of the current issues surrounding the resolution framework. In addition to that, PNB case brought to light some open questions regarding current resolution framework. The article therefore seeks not only to provide a closer look at this particular case, but also to address these open questions in a more comprehensive manner and to set the PNB case in the broader context of changes taking place in Latvia and in the EU as a whole. (p. 24)*

### A DE LEGE FERENDA PROPOSAL AND THE REGISTRATION OF PROVIDERS OF SPECIAL FINANCIAL EDUCATION

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*Special financial education is one of the components of professional competence of financial agents and financial advisers. The purpose of regulation in this area is to ensure that, with regard to the complexity and scope of the activities they perform, natural persons who work as financial agents and advisers have the knowledge and skills to meet at least the minimum statutory requirements. The objective of special financial education is to develop and deepen knowledge of the regulatory framework of the sector in which the agent or adviser operates. The author looks at the current situation in this area and puts forward some ideas for legislative changes. (p. 29)*