

E. INTERNATIONAL ACTIVITIES



1. CO-OPERATION OF THE NBS WITH THE EUROPEAN UNION

The basis for the development of relations between Slovakia and the European Union (EU) is the European Association Agreement, which came into force on 1 February 1995.

The NBS is the coordinator of relations of the banking sector with the EU, whereby in fulfilling individual articles of the European Association Agreement it actively facilitates the process of harmonisation and gradual attainment of compatibility of the legal and economic environments of the banking sector with the legislative framework valid in the EU.

In 1998, the European Commission prepared the Accession Partnership document which sets out priority areas for each candidate country associated with their ability to meet the criteria approved by the European Council in Copenhagen in 1993 (the document was revised in October 1999). Each candidate country was asked to prepare a National Programme for Adopting the Acquis Communautaire (NPPA).

In 1998, the NBS participated in the preparation of the NPPA, which assessed the degree of progress in adapting the legislation of the Slovak Republic to the *acquis communautaire*, and defined a commitment to adopt the *acquis* in terms of short and medium-term priorities.

In May 1999, the first revised version of the NPPA was approved, in which the NBS actively participated. The NBS is taking part in work on four chapters:

- 3 - Free movement of services,
- 4 - Free movement of capital,
- 11 - Economic and monetary union,
- 12 - Statistics.

In 1999, bilateral *acquis* screening took place of the 29 chapters, following the multilateral *acquis* screening in 1998. Multilateral screening

was carried out in all candidate countries at the same time with the aim of explaining individual chapters as a whole. Bilateral screening was done individually with a candidate country and its objective is examining to what degree the *acquis* has been implemented.

The sixth meeting of the Association Committee of Slovakia and the European Union took place in Bratislava in December 1999, when a wide range of questions were discussed linked to the political and economic development in the Slovak Republic and the European Union, preparations of the Slovak Republic for membership in the EU, and ongoing bilateral co-operation.

At the Helsinki summit in December 1999, the EU decided to begin accession negotiations with the Slovak Republic and other candidate countries.

Foreign Technical Assistance PHARE Programme

The technical assistance extended to the National Bank of Slovakia and the banking sector in Slovakia by the European Union through the PHARE programme, has since 1993, been one of the responsibilities of the International Relations Department of the NBS. A PHARE Programme Implementation Unit (PIU) special section was set up at the department to organise the drawing of funds on the basis of Financial Memoranda between the Slovak Republic and the European Union, to participate in the preparation of projects, to cooperate in providing contractual and financial support, to monitor the implementation, and evaluate the results achieved.

In 1999, the selection of projects was strictly linked to priorities set out by the European Commission in the Accession Partnership document and tasks specified in the National

Programme for adopting the Acquis Communautaire. In the light of this program and in connection with implementation of the government policy on privatisation of banks with the capital share of the National Property Fund, the PHARE programme unit participated in the interdepartmental project 'Restructuring and Privatisation in the Banking Sector' co-ordinated by the Ministry of Finance of the Slovak Republic.

In order to support preparations for the privatisation of VÚB, Slovenská sporiteľňa, and Banka Slovakia in July 1999, funds in the programme for the banking sector were increased by EUR 2 million. The NBS, as the guarantor of this project, participated in formulating specifications for a series of projects and in organising appropriate selection procedures. In October 1999, a contracts for diagnostic audit was arranged for VÚB (Arthur Andersen, Bratislava), Slovenská sporiteľňa, and for Banka Slovakia (Deloitte & Touche Slovakia). At the same time, a contract was concluded with a long-term advisor for the recently established privatisation unit at the Ministry of Finance of the Slovak Republic. International tenders for the selection of financial and legal advisors took place in December 1999. J. P. Morgan Securities Ltd. of Great Britain became the financial advisor for the privatisation of VÚB, Slovenská sporiteľňa, and Banka Slovakia, and the international legal firm White & Case (Czech Republic) became the legal advisor for privatisation in general.

The project for restructuring of VÚB continued in 1999 in the form of so-called twinning co-operation with the Bank of Ireland. An extensive program of technical assistance was financed from PHARE funds for Slovenská sporiteľňa, which was implemented by Lloyds TSB of Great Britain.

Programmes implemented by the NBS in 1999, included: the project RTGS for the system of central bank accounting (a continuation of distance learning organised by the Institute of

Banking Education); a special programme for the Institute of Monetary and Financial Studies with the co-operation of the Institute of Banking and Finance of the Banque de France; the purchase of special literature for the IMFS library; the running of selected educational activities for NBS employees; Mr. Michel Doumont (Belgium) acting as an EU advisor for the PHARE program unit at the NBS.

2. CO-OPERATION OF THE NBS WITH INTERNATIONAL INSTITUTIONS

International Monetary Fund

During the spring meeting of the International Monetary Fund (IMF) and the World Bank in Washington at the end of April, as well as during the annual meeting of the governors of IMF and World Bank member countries in September 1999 in Washington, the senior representatives of the NBS took part in the following discussions: on support for the revival of South-East Asian economies after the financial crises and building confidence in the financial market; on including the private sector in efforts to prevent and resolve financial crises; on aid to Kosovo after the end of the war and overcoming the negative consequences of its economic effects on countries in the region; alleviating poverty in member countries with the lowest per capita income through new forms of funding; improving adaptability of exchange rate systems in member countries with regard to increased mobility of capital; on the appropriate rate of progress in the liberalisation of capital flows; on the creation of new standards in transparency of monetary and fiscal policies in member countries; on plans to resolve unexpected developments in transition to the year 2000, and other current matters. At the meeting, bilateral talks with representatives of the IMF and the World Bank took place, as well as with representatives of other international financial institutions.

As part of long-term and mutually beneficial stable relations between the Slovak Republic and the International Monetary Fund, reports concerning the Slovak Republic were discussed on 21 July 1999, at the Executive Board in Washington, which completed Article IV consultations for the preceding year. The consultations that take place once a year with each IMF member country and address the most important aspects of development of economic policy, were followed by an IMF mission on 13-27 October 1999. During discussions with the NBS, members of the mission were informed about monetary development in 1999, planned macroeconomic framework for the implementation of monetary policy in 2000, as well as other current aspects of economic development in the Slovak Republic. The IMF mission appreciated the steps included in the fiscal package in May 1999, designed to resolve large macroeconomic imbalances inherited from the past, as well as the intention and initial steps taken to restructure the banking and enterprise sectors, and which create conditions for sustainable economic growth in the country.

In line with Resolution No. 87 of the Government of the Slovak Republic of 27 January 1999, the Slovak Republic joined the 11th General Quota Review of the member countries of the International Monetary Fund, which was completed in 1998. Based on this decision and after completing procedures and carrying out financial operations required by the IMF in association with the quota increase for the member countries, the member quota of the Slovak Republic (SDR 257.4 million) was increased by SDR 100.1 million. The new member quota of the Slovak Republic, i.e. SDR 357.5 million, came into effect on 1 March 1999.

In meeting the commitments of the Slovak Republic towards the IMF, the NBS paid the principal on IMF loans in accordance with the schedule of repayments, as well as quarterly interest payments on outstanding loans. In 1999, repayments of principal amounted to US\$

51.99 million and US\$ 6.01 million in interest was paid.

World Bank

In March and May 1999, representatives of the NBS took part in talks with a World Bank mission on preparations for a long-term EFSAL loan (Enterprise and Financial Sector Adjustment Loan) designed for restructuring the financial and enterprise sectors. This loan is provided conditionally on specific reform steps being taken by the applicant country. The process of restructuring of the banking sector, however, requires cleaning up the loan portfolio of banks to be privatised, in order to make them attractive for foreign strategic investors.

In accordance with government resolution No. 288 of 1996, the NBS arranged, on 15 January 1999, payment of the third part of Slovakia's contribution to the 11th replenishment of resources for the International Development Association (IDA), in the amount of US\$ 1.40 million.

As part of Slovakia's commitment to the World Bank, the NBS arranged payment of US\$ 11.24 million in interest on loans received and of US\$ 17.62 million in principal on Structural Adjustment and Economic Recovery Loans, in accordance with the schedule of repayments.

Export-Import Bank of Japan

Participating banks are gradually accumulating funds - repaid principal from previously provided Two Step Loan I - III from the Export-Import Bank of Japan. These funds are being revolved. By 31 December 1999, participating banks had financed 217 projects from revolving credit lined from TSL I - III in a total amount of Sk 1.92 billion.

On 1 October 1999, the Japan Bank for International Co-operation commenced operations; the bank originated from a merger of the Export-Import Bank of Japan and the Overseas Economic Co-operation Fund. The merger of the functions of the two former institutions created a new bank for international financial operations to support exports and imports, as well as the overseas economic activities of Japan.

European Investment Bank

Drawing on the APEX Global Loan II credit line continued in 1999, based on a contract concluded between the European Investment Bank and the National Bank of Slovakia in 1995. In addition to convertible currencies, the intermediary commercial banks preferred to draw funds in Slovak crowns. Via the NBS, the European Investment Bank funded 15 projects by over Sk 740 million in 1999.

Bank for International Settlements

The NBS has continued to carry out all its duties as a shareholder in the Bank for International Settlements (BIS). The presence of the Governor of the NBS at the regular monthly meetings of central bank governors of member and non-member states, represents the most important part of relations between the NBS and the BIS.

Based on a decision passed at the 69th General Meeting of BIS that took place on 7 June 1999, the BIS paid dividends to NBS of CHF 320 per share on its holdings for the fiscal year 1998/99, ending on 31 March 1999. The total amount of dividends paid to the NBS amounted to CHF 854,400.

The National Bank of Slovakia, as a BIS shareholder, took part in the 10th Extraordinary

General Meeting of the BIS held in Basle on 8 November. At the meeting, the member central banks approved an amendment to the statutes of BIS.

Recent contributions arising from the membership of the National Bank of Slovakia in the BIS were the outcomes of the work of expert groups that began work in 1999. They comprise first of all the Committee for Global Financial System at the BIS; the Financial Stability Forum representing central bank governors and finance ministers from G 11 countries; and the Institute for Financial Stability. The common aim of these activities is to affect, in a synergic manner, the creation of sustainable conditions for monetary and financial stability at national and subsequently at global level.

During 1999, the Joint Year 2000 Council was in action at BIS and its final activity at the end of 1999 was to develop a system of information exchange on transition to the year 2000. Through this system the Joint Year 2000 Council provided important information support to central banks and related authorities in financial markets by collecting and distributing current data from the most important financial markets. Over the course of transition to the year 2000, the National Bank of Slovakia had free access to the relevant information.

The BIS maintains a database of technical assistance and educational programmes for central banks of Central and Eastern Europe and the Baltic states. An annual international meeting is organised by the BIS in Basle of national coordinators of technical assistance and donors, where provided assistance is evaluated and plans for the future are discussed. The NBS is a regular participant in these meetings.

The NBS submits to the BIS quarterly reports about the technical assistance it receives on a bilateral basis, e.g. from the British Know-How Fund, the Japanese International Co-operation Agency (JICA), American US AID, as well as assistance from major international organisations

(PHARE, IMF, World Bank, EBRD, and OECD). Reports about aid that the NBS receives from central banks of G-10 countries and Austria, are also submitted directly to BIS by the donors.

The Sale of the Stake of the National Bank of Slovakia in ČSOB

On 21 December 1999, the stake of the National Bank of Slovakia in ČSOB was sold to the Belgian bank KBC Bank Brussels and the European Bank for Reconstruction and Development (EBRD). Of the total stake of NBS in the registered capital of ČSOB of 24.13% with nominal value of CZK 1,231.7 million, KBC bought 16.66% for EUR 278.7 million and the remaining 7.47% was transferred to the EBRD for EUR 125 million. The crown equivalent of the purchase price was Sk 17,107.8 million.

International Investment Bank and the International Bank for Economic Co-operation

Representatives of the National Bank of Slovakia took part in the spring session of the 69th meeting of the Bank Council of the International Investment Bank and the 92nd Bank Council meeting of the International Bank for Economic Co-operation. The meetings took place in Moscow on 12 -14 May 1999.

In the autumn, representatives of the National Bank of Slovakia took part in the 70th meeting of the Bank Council of the International Investment Bank and the 93rd Bank Council meeting of the International Bank for Economic Co-operation in Moscow on 23-25 November 1999.

Organisation for Economic Co-operation and Development

One of the priorities of the international activity of the NBS is the accession of the Slovak Republic to the OECD. In 1999, the NBS participated regularly in the preparation of documents on behalf of the Slovak Republic and documentation for individual committees as well as working groups of the OECD. The Bank's active participation in relevant discussions afforded the opportunity to acquire detailed information on the development in member and non-member countries of the OECD. Through its representatives, the NBS participated in meetings of the Council for Economic Policy (working group for the short-term economic outlook), the Committee for International Investments and Multinational Enterprises (CIME), the Committee for Capital Movement and Invisible Transactions (CMIT) and the Economic and Development Review Committee (EDRC).

Representatives of the NBS management participated at different stages in drawing up the basic document for the OECD – the Official Response of Authorities of the Slovak Republic to Conclusions of the Chairman of the Joint Meeting of CIME/CMIT of 2 - 3 July 1996, which was approved at a meeting of the Government of the Slovak Republic on 1 December 1999 and submitted to the Secretariat of the OECD. In response, the Slovak Republic presented its opinion of steps in legislation corresponding to commitments in the accession process to the Liberalisation Codes of the OECD and to the instrument on national treatment in the recent past. The official response expressed the commitment to eliminate legislative barriers by 2003 and stressed the necessity to set up the means of objection in the Slovak legislation at the time of presumed accession of the Slovak Republic into the OECD, and later.

Recent acceleration of the accession process of the Slovak Republic to OECD can be

evaluated very positively. Communication between the OECD Secretariat and the authorities of the Slovak Republic has led to the finalisation of documents needed for the final evaluation of the Slovak Republic before admission to OECD in the year 2000.

World Trade Organization

The Slovak Republic, as one of the founding members of the World Trade Organization (WTO), has taken part since 1995, in several rounds of negotiations on the further liberalisation of trade in financial services. At the end of negotiations, countries submitted their revised Documents of specific commitments in the sector of financial services and signed the Second Protocol to GATS. The Second Protocol legalised the adopted commitments of individual member countries of the WTO as an interim agreement.

With regard to the temporary validity of this agreement and the negotiations of WTO member countries at the conference in Singapore at the beginning of 1997, negotiations were renewed on further liberalisation of trade in financial services. The Slovak Republic took an active

part in this process and attended several rounds of bilateral negotiations, and in December 1997, submitted the revised Document of specific commitments in the sector of financial services.

Liberalisation of trade in financial services should lead to increased competition, the effectiveness and quality of these services, as well as better allocation of resources. On the other hand, it emphasises the need for financial stability and a suitable regulatory framework and supervision in this area. Negotiations to liberalise financial services ended on 12 December 1997. During negotiations on liberalising financial services, the Fifth Protocol to GATS was formulated and the NBS took part in the process. The required ratification procedure was completed with the approval of the protocol in resolution No. 925 of the Slovak government of 23 December 1998.

In accordance with the Fifth Protocol, the ratification procedure ended on 29 January 1999, and came into effect on 1 March 1999. Another round of negotiations was to begin at the Third Ministerial Conference of WTO, which took place on 30 November - 3 December 1999 in Seattle. However, the conference ended without official conclusions being reached and a new round of multilateral trade negotiations has been postponed until a later date.