

E. INTERNATIONAL ACTIVITIES



1. COOPERATION OF THE NBS WITH THE EUROPEAN UNION

The National Bank of Slovakia is the coordinator of relations between the banking system and the European Union. In the fulfilment of the individual articles of the European Association Agreement, the Bank actively assists the process of harmonization and gradual attainment of compatibility of the legal and economic environment of the banking sector with the legislative framework of the EU.

Since 1998 the NBS has regularly participated in drafting a revised text of the National Programme for the Adoption of the Acquis Communautaire (NPAA), which monitors the level of approximation of the legislation of the Slovak Republic to the Acquis Communautaire and defines the obligation to adopt the acquis in the context of short- and medium-term priorities. The NBS has actively participated in four chapters of the NPAA:

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

On the basis of a decision of the EU Helsinki summit in December 1999, entry talks have started with the Slovak Republic and other candidate countries in 2000, when all four chapters concerning the NBS were worked out and submitted to Brussels for discussion. The negotiating position in chapter 12 – Statistics, was also opened in 2000 and, after having been successfully defended, postponed until later. Discussion in the other three negotiating positions were not concluded in 2000.

Since the beginning of 2000, cooperation with the European Central Bank has been intensified, and involved mainly expert consultations, advisory activities and preparation for future cooperation.

Foreign Technical Assistance The PHARE Programme

Since 1993, the EU grants foreign technical assistance (FTA) from Phare funds to the National Bank of Slovakia and the Slovak banking sector. FTA became one of the responsibilities of the Foreign Department of the NBS. PHARE Programme Implementation Unit (PIU) is responsible for drawing funds on the basis of Financial Memoranda signed between the Slovak Republic and the EU. PIU participates in the preparation of projects, cooperates in contract and financial aspects, monitors implementation and evaluates the results.

In 2000, the programme to restructure and privatise the banking sector, coordinated by the Minister of Finance of the Slovak Republic, was started. March 2000 saw the completion of an extensive programme of technical assistance to the Slovenská sporiteľňa (Slovak Savings Bank), provided by the British Lloyds TSB Bank. Cooperation between the Institute of Banking Education and a consortium under Portuguese leadership was also completed, which laid the foundation for a new form of education (two year distance learning), and which has been integrated into the standard educational programme of the Institute.

2. COOPERATION BETWEEN THE NBS AND INTERNATIONAL INSTITUTIONS

The International Monetary Fund

In April 2000, leading representatives of the NBS took part in the spring meeting of the committees of the International Monetary Fund and the World Bank in Washington, and at the end of September 2000, in the annual meeting of the governors of the member countries of the IMF and WB, in Prague. The main subjects discussed were as follows:

- *World economic outlook.* Continued economic growth in the major regions of the world and a level of inflation generally under control was confirmed. Nonetheless, risks connected with the economic and financial imbalances of the global economy still persist, with many poor countries facing serious economic problems. The Committee pointed to the effects of raised oil prices on inflationary pressures and worsening of the economic situation in poor countries, whilst acknowledging the improvement of access conditions for emerging economies to foreign markets, as well as the process of reforms in the countries of eastern Europe and the former Soviet Union.

- *The future role of the IMF.* Apart from continuing reform of the Fund, the IMF sees its main role in the coming period as applying the lessons learnt from the recent financial crises, to the work of the IMF and the policies of its members. The IMF will also attempt to reduce vulnerability and prevent crises, as well as to mitigate their spillover effects, and play a decisive role in strengthening the international financial system in cooperation with the World Bank and other international financial institutions. In the case of Fund-supported programmes for the member countries, the main criterion is their effectiveness, at the same time as respecting the specific circumstances in individual countries.

- *The Enhanced Initiative for Heavily Indebted Poor Countries and The Poverty Reduction and Growth Facility.* These two programmes create a basic framework for the development strategies of poor countries. The essence of these strategies is to create fundamental prerequisites for sustained growth with the support of the international community. The basic demands are macro-economic stability and structural reforms, which will create necessary conditions for private sector investment and for growth, and lead to gradual access to international capital markets. In this respect, the IMF is committed to providing a flexible response to the needs of members in the light of the continued high price of oil.

- *Strengthening the international financial architecture and reform of the Fund.* As part of review of the Fund, some credit facilities have been modified with the aim of creating more effective instruments to deal with crises and to protect Fund resources. The private sector has a specific role in this respect, as its participation in the prevention and regulation of crisis situations has to be market-oriented and voluntary. Fund surveillance will have to be improved, especially by means of consultation according to Article IV, which should help to identify vulnerable areas and foresee threats to the financial stability of a member country. Cooperation between the Fund and the World Bank is important, in the drafting of debt management guidelines, in combating money laundering and financial crime, and in protecting the international financial system. In the near future, special attention will have to be paid to the international financial markets, and the Capital Markets Consultative Group has been established for this purpose.

- *Effective management and the Fund.* Recent cases of misreporting to the Fund led to establishment of the Independent Evaluation Office, which is to assist the Fund to improve its operation and increase its responsibility.

In addition to the above, bilateral talks were also held with representatives of the IMF, WB and other international financial institutions.

The report on the Slovak Republic was discussed by the Executive Board of the IMF on 21 July 2000, reflecting long-term, mutually beneficial and stable relations between the Slovak Republic and the International Monetary Fund. This was the conclusion of the Article IV consultation for the preceding year. The Executive Board appreciated the progress achieved in tackling external and internal inadequacies, reducing the current account deficit of the balance of payments, creating a legal and institutional framework for bankruptcy proceedings, commencing restructuring of the banking sector and continuing the restructuring of the business sector.

Consultations of this type are held annually in every member country of the IMF and concern the most important aspects of the development of its economic policy. Discussions continued in December 2000 during the subsequent technical mission of the IMF on the proposed Staff-Monitored Programme of the IMF as a main condition for being granted an EFSAL restructuring loan by the World Bank.

Based on a decree of the government of the Slovak Republic of 13 September 2000 and a resolution of the Bank Board of the NBS dated 27 October 2000, the National Bank of Slovakia made an advanced repurchase of the Systemic Transformation Facility (STF) equivalent to SDR 75.05 million (USD 96.39 million), which was due for repayment until 2004 according to the original schedule of repayments. This was a result of the favourable development of the balance of payments and the level of foreign exchange reserves. The STF was the last outstanding loan from the IMF to the Slovak Republic, originally granted in 1993, in the amount of USD 186.68 million, which was drawn in two equal tranches in 1993 and 1994.

Prior to the final repayment of the above-mentioned loan, the National Bank of Slovakia repaid loan principal to the IMF according to the schedule of repayments, together with quarterly interest payments on the outstanding loan. In 2000, principal of USD 125.19 million and interest of USD 5.19 million was paid.

The World Bank

In February 2000, representatives of the National Bank of Slovakia took part in talks with the World Bank mission in connection with the preparation of a long-term „Enterprise and Financial Sector Adjustment Loan“ (EFSAL) intended for restructuring of the banking and enterprise sector. The size of the loan should be approximately USD 300 million. Provision of the loan will depend on fulfilment of the Staff-

Monitored Programme, as discussed by the Slovak government on 13 September 2000, in line with the above-mentioned form of cooperation with the International Monetary Fund. However, the process of restructuring of the banking sector requires cleaning-up of the credit portfolios of the banks before privatisation, so that they become attractive for foreign strategic partners.

In accordance with the government decree dated 22 December 1999, the Ministry of Finance of the Slovak Republic paid, on 16 January 2001, the first part of the Slovak Republic contribution to the 12th replenishment of the resources of the International Development Association in the amount of SDR 570 thousand (USD 741.86 thousand).

The National Bank of Slovakia paid interest of USD 8.96 million and principal of USD 20.68 million on both the Structural Adjustment Loan (SAL) and Economic Recovery Loan (ERL), in accordance with the schedule of repayments.

Japan Bank for International Cooperation

During 2000, funds from the Two Step Loan I-III from the Export-Import Bank of Japan (formerly the Japan Bank for International Cooperation) gradually accumulated in the intermediary banks. The banks used the resources for revolving loans. Up to 31 December 2000, 283 projects valued at Sk 2.52 billion were funded by the intermediary banks in accordance with the requirements of the TSL I-III credit lines.

The European Investment Bank

Early repayments of the Apex Global Loan I were made in 2000. As a result, this credit line was finally repaid and at an end. In the first half of the year, drawings on the credit line Apex Global Loan II, signed in 1995, continued, but finished in July 2000. The intermediary commercial banks

gave priority to withdrawals in Slovak crowns. In 2000, a further 4 projects valued at Sk 156 million were financed from the funds of the European Investment Bank.

The Bank for International Settlements

The National Bank of Slovakia has consistently complied with all the duties of a shareholder of the Bank for International Settlements (BIS). The participation of the governor of the NBS in the regular Governors' Meetings of the member central banks of the BIS and other central banks helped to further enhance the most significant relations between the NBS and BIS.

In accordance with the resolution of the 70th Annual General Meeting of the BIS, held on 5 June 2000, the Bank for International Settlements paid the National Bank of Slovakia dividends of 340 CHF per share for the financial year 1999-2000 ended on 31 March 2000. The total dividend remitted amounted to 907,800 CHF.

The significant benefits of the NBS membership in the BIS were received by the outcomes of works of the BIS committees and various expert groups working at the BIS and with its substantial support. The Committee on the Global Financial System, through its working group, has assessed current practices in stress testing in large financial institutions. The Working Group for International Banking Statistics set out a programme of further improvement in the international banking statistics of the BIS. The Committee on Payment and Settlement Systems completed work on evaluating the development of electronic money, while the Task Force on Payment Systems and Practices was working on elaboration of the Core Principles for Systemically Important Payment Systems. The BIS held a meeting of central bank experts focused on the design, implementation and perspective amendments to the central banks' web pages.

The Financial Stability Institute of the BIS held

seminars and workshops to promote implementation of the Core Principles for Effective Banking Supervision by close cooperation between banking supervisors, disseminating the latest information about the products of particular markets, practices and methods and assistance in introducing innovations in the risk management, finance and regulation.

The Basel Committee on Banking Supervision held its 11th International Conference of Banking Supervisors, which reviewed the first revision of the Basel Capital Accord, and then concentrated on elaboration of the second proposal of the New Capital Accord.

The Bank for International Settlements significantly contributed to the activities of the Financial Stability Forum comprising international financial institutions, national authorities responsible for financial stability in significant financial centres and international supervisory and regulatory bodies. The Financial Stability Forum extended the activity particularly of its Follow-up Group on Incentives to Foster Implementation of Standards to strengthen financial systems aimed at design of Key Standards for Sound Financial Systems, that require unavoidable compliance in Macroeconomic Policy and Data Transparency, Institutional and Market Infrastructure and Financial Regulation and Supervision.

Over the 2000, the BIS continued to help central banks of more than twenty industrial countries to coordinate technical assistance and specialized training for central banks of reforming countries. The BIS also runs a database on technical assistance and education for central banks of the countries of Central and Eastern Europe and the Baltic states, and organizes an annual international meeting of national coordinators of technical assistance and donors, at which the assistance provided is evaluated and future policies are decided upon. The NBS regularly and actively participates in these meetings.

The National Bank of Slovakia submits quarterly

data to the BIS on the technical assistance it has received on a bilateral basis, for example from the British Know-How Fund, the Japanese JICA, the American USAID, as well as assistance from international organizations (PHARE, IMF, WB, EBRD, OECD). The BIS receives data on assistance given to the NBS by the central banks of the G-10 countries and Austria, directly from the providers.

The International Investment Bank The International Bank for Economic Cooperation

Representatives of the National Bank of Slovakia participate in semiannual sessions of the boards of the International Investment Bank and the International Bank for Economic Cooperation at their headquarters in Moscow. Participation in these sessions is due to the position of the Slovak Republic as a shareholder of these banks.

On 23-25 May 2000, the representatives of the National Bank of Slovakia participated in the spring sessions of the boards of the International Investment Bank and International Bank for Economic Cooperation in Moscow. The autumn session of both institutions was held in Vietnam on 22-24 November 2000, with the participation of representatives of the NBS.

The Organization for Economic Cooperation and Development

In 2000, the process of accession of the Slovak Republic to the OECD continued to be a priority of the international activities of the NBS. Representatives of the NBS regularly participated in drafting the key documentation for the Slovak Republic and the supporting documents for the sessions of individual committees and working groups of the OECD. Participating in the respective talks, the representatives of the NBS had the opportunity to obtain detailed information

about developments in member and non-member countries of the OECD. During 2000, the NBS sent its representatives to the sessions of the Committee for Economic Policy (Working Group for Short-term Economic Outlook), the Committee for International Investment and Multinational Companies (CIME), the Committee for Capital Movements and Invisible Transactions (CMIT) and the Committee for Evaluation of the Economy and Development (EDRC).

Representatives of the NBS at various management levels participated in drafting individual documents in accordance with the requirements of the OECD. These included the Official Reply of the Bodies of the Slovak Republic to the Conclusions of the Chairman of the Joint Session of the CIME and CMIT Committees of 2-3 July 1996, which was approved at a session of the government of the SR on 1 December 1999 and submitted to the Secretariat of the OECD. In the document, the Slovak Republic assessed the most recent measures adopted in the area of legislation, corresponding with the obligations to adopt the Liberalisation Codes of the OECD and the instrument on national treatment in the recent past. Based on official redraft submitted, the Slovak Republic was invited for talks with the Committee of the OECD held in June 2000 (Ministerial Summit). From the point of view of evaluation of the accession process and individual activities in the course of 2000, a mention should be made of the following activities:

- *The session of the Joint Committee of the Slovak Republic and OECD on 4 April 2000 in Paris.* The committee was set up as part of the Memorandum of Understanding, in which the OECD programme to assist transforming economies and candidates for membership in the OECD - Partners in Transition (PIT) was implemented. The main areas of discussion were: economic development, the state of reforms in the Slovak Republic, reform of pension scheme, and evaluation of the programme for cooperation between the Slovak Republic and the OECD.

- *The session of the Committee for Financial Markets on 5 April 2000 in Paris.* The main points

of discussion were restructuring and privatisation of the banking sector and the schedule for further liberalization of capital movements.

- *The session of the Joint CIME/CMIT Committees on 27 April 2000, in Paris.* The position of the Slovak Republic on the codes and relevant documents of the OECD was revised at the session.

After the key talks in April, the views of other relevant committees and the evaluation of the overall position of the Slovak Republic on the resolutions, recommendations and other valid instruments, the resolution of the ministerial summit of the OECD on 28 July 2000, when Slovakia was invited to become the 30th member of the OECD, was an important milestone. The decision to invite the SR to join the OECD was followed by a declaration and the official approval of the Slovak Republic to accede to the Agreement on the OECD. The agreement on the invitation of the Slovak Republic to accede to the Agreement on the OECD was signed by the minister of foreign affairs of the Slovak Republic and the general secretary of the OECD on 28 September 2000. The accession of the Slovak

Republic to the Agreement on the OECD was further ratified by the National Council of the Slovak Republic on 26 October 2000 and signed by the president of the SR. The ratification paper was handed over to French government as depository on 14 December 2000, and the Slovak Republic officially became the 30th member of the OECD.

The World Trade Organization

During 2000, the National Bank of Slovakia participated in preparing a Review of the Commercial Policy of the Slovak Republic, which is the most important activity of the Slovak Republic in the WTO. The Review of Commercial Policy serves as a profile document for a particular member country of the WTO, giving summary information on the economy and commercial policy of the country. It also actively participated in discussion of the accession of the Russian Federation to the WTO in respect of trade in services.