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## Abbreviations

BRIBOR	Bratislava Interbank Offered Rate
CEBS	Committee of European Banking Supervisors
CPI	Consumer Price Index
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council of the EU
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
Eurostat	Statistical Office of the European Communities
Fed	Federal Reserve System
FNM	Fond národného majetku – National Property Fund
GDP	Gross Domestic Product
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IBAN	International Bank Account Number
IBRD	International Bank for Reconstruction and Development
IIB	International Investment Bank
IMF	International Monetary Fund
IRF	Initial Rate Fixation
MFI	Monetary Financial Institutions
NBS	Národná banka Slovenska – National Bank of Slovakia
NEER	Nominal Effective Exchange Rate
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of the Petroleum Exporting Countries
p.a.	per annum
PPI	Producer Price Index
REER	Real Effective Exchange Rate
SEPA	Single Euro Payments Area
Sk, SKK	Slovak Koruna
SR	Slovak Republic
ZBK SR	Bank Card Association of the Slovak Republic

## Glossary

**Autonomous liquidity factors** – factors other than monetary policy operations influencing banking sector liquidity. Such factors are, in particular, net foreign assets held by the central bank, central government deposits with the central bank and currency in circulation.

**Average value of currency mark** – the total value of currency in circulation divided by the total number of currency instruments.

**Basic NBS rate** – the interest rate limit applied to the marginal deposit facility of the NBS – its main monetary policy operations. The NBS has published the basic rate since 1 January 2003; whenever the term “discount interest rate of the National Bank of Slovakia” or “discount rate of the Czecho-Slovak State Bank” appears in older legislation, it means the basic NBS rate.

**BRIBOR** (Bratislava Interbank Offered Rate) – interest rate fixing in the interbank deposit market calculated from prices offered by reference banks for deposits with maturities ranging from 1 day to 12 months.

**Central parity** – the exchange rate vis-à-vis the euro of currencies of ERM II member countries, around which the ERM II fluctuation margins are defined. The central parity for the Slovak koruna was set on 28 November 2005 at 38.4550 SKK per euro, with a fluctuation band of  $\pm 15\%$ .

**Classified claims** – claims receivable from customers and banks (loans) non-performing for 90 or more days.

**Collateral** – an asset used to secure a loan. In case of the debtor's default the asset can be sold and the proceeds used to settle the outstanding loan.

**Common ESCB Training** – a common training program of the European Central Bank (ECB) and national central banks of the European System of Central Banks (ESCB). The program covers manager training designed to learn new knowledge and work procedures, as well as the development of management skills focusing on the effectiveness and efficiency of decision-making in the ESCB and the Eurosystem, to foster a common ESCB culture through sharing of best practices.

**Core inflation** – measures the rate of growth of the price level on the basis of an incomplete consumer basket. The consumer basket excludes items with regulated prices and items with prices subject to other administrative measures (e.g. change of VAT, consumer taxes, subsidies). It is part of the national index of consumer prices.

**Deflation** – a decrease in the general price level, the opposite of inflation.

**EFCB certificate** (European Foundation Certificate in Banking) – an internationally accepted banking certificate awarded in an examination assessing the level of skills required as qualification for a bank employee, comparable within the EU banking sector; the only institution in Slovakia accredited to conduct EFCB training and examinations is the Institute of Banking Education of the National Bank of Slovakia.

**Effective exchange rates** (nominal: NEER, real: REER) – weighted averages of bilateral SKK exchange rates against the currencies of the main trading partners. The weights used reflect the share of each partner country in Slovakia's foreign trade. Real effective exchange rates are nominal effective exchange rates deflated by a weighted average of foreign, relative to domestic, prices or costs. They are measures of price and cost competitiveness of a country.



**Electronic money business** – the issue and administration of electronic money and electronic money payment instruments.

**Electronic money institution** – a legal person other than a bank, foreign bank or the National Bank of Slovakia, holding a license for electronic money business under the Payments Act.

**Employee benefits** – wage and wage compensations, bonuses, supplementary insurance, severance pay, exit pay, and other non-pecuniary benefits, such as health care.

**ERM II** (exchange rate mechanism II) – an exchange rate system providing a framework for exchange rate policy cooperation between euro area countries and EU Member States not participating in the third stage of the EMU. Membership in ERM II is one of the Maastricht criteria for the adoption of the euro.

**ESA 95** – the European System of Accounts adopted in 1995. A common methodology for the compilation and reporting of GDP, employment and employee compensation data for all EU countries.

**Euro area** – the area encompassing those EU member states in which the euro has been adopted in accordance with the Treaty. The responsibility for monetary policy in the euro area lies with European Central Bank.

**European Economic Area** – comprises all EU member states, Norway, Lichtenstein and Iceland.

**European Payments Council** – an organisation associating European Union banking associations.

**Eurosystem** – a system of central banks comprising the European Central Bank and the national central banks of those EU member states that have adopted the euro.

**Foreign direct investment** – a category of international investments reflecting the objective of a resident entity in one economy (direct investor) to acquire a permanent interest in a company residing in an economy other than the investor's (direct investment company). Direct investments include the initial transaction between the two entities - i.e. the transaction giving rise to the investment relationship - and all subsequent transactions between these two entities and affiliated companies.

**Foreign exchange reserves** – reserves of the Slovak Republic consisting of gold and other financial assets denominated in foreign currency held and managed by the central bank. They are used to directly finance payment imbalances, to indirectly regulate their size through foreign exchange market interventions in order to influence the exchange rate of the currency, or for other purposes.

**Free provision of cross-border services** – the conduct of banking activities by foreign entities based in the European Economic Area (foreign banks, foreign financial institutions or electronic money institutions) not physically present in the Slovak Republic.

**GDP deflator** – an aggregate price index reflecting developments in the price of products and services in an economy. It is calculated as a ratio of GDP at current prices to GDP at constant prices.

**General government** – a sector defined in the ESA 95 as comprising resident entities that are engaged primarily in the production of non-market goods and services intended for individual and collective consumption and in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds, and any budget-funded or subsidised organisations established by them, whose revenues cover less than 50% of their production costs.

**General government debt** – gross debt (deposits, loans and other debt securities other than financial derivatives) of the general government at nominal value. A debt-to-GDP ratio of up to 60% is one of the Maastricht convergence criteria for the adoption of the euro.

**General government deficit** – the difference between total revenues and total expenditures of the general government sector, if expenditures exceed revenues. A deficit-to-GDP ratio of up to 3% is one of the Maastricht convergence criteria for the adoption of the euro.



**Gross domestic product (GDP)** – the total output of goods and services in an economy in a given period. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services.

**Harmonised Index of Consumer Prices (HICP)** – a consumer price index measured on a comparable basis across all EU member states, which accounts for differences in national definitions. The HICP is one of the indicators used to assess price stability in a country (one of the Maastricht convergence criteria).

**IBAN** (International Bank Account Number) – an international bank account number format allowing unique customer identification and automated payment processing (mostly cross-border payments at present). In Slovakia, IBAN consists of 24 alpha-numerical characters (ISO country code, control number, account number including bank code).

**Implied volatility** – expected volatility (i.e. standard deviation) in terms of change in the price of an asset (for example, a bond or share). It can be derived from the price of the asset, maturity date and the exercise price of an option for the asset, as well as from a risk-free rate of return using an option valuation model (e.g. the Black-Scholes model).

**Inflation** – an increase in the general price level.

**M1** – a narrow monetary aggregate comprising currency in circulation and overnight deposits with MFIs and central government (e.g. post office or the State Treasury).

**M2** – an intermediate monetary aggregate that comprises M1 plus deposits redeemable at notice of up to 3 months (short-term saving deposits) and deposits with an agreed maturity of up to 2 years (short-term time deposits) with MFIs and central government.

**M3** – a broad monetary aggregate that comprises M2 plus negotiable instruments, i.e. repurchase agreements, money market fund shares and units as well as debt securities issued by MFIs with a maturity of up to two years.

**Maastricht criteria** – convergence criteria set out in the Maastricht Treaty that must be fulfilled before a country can join the euro area. There are four criteria regarding: public finances (deficit and debt of the general government sector), inflation, long-term interest rates, and exchange rate.

**MFI claims on residents** – MFI claims receivable from residents other than MFIs (including the general government sector and the private sector) and securities issued by residents other than MFIs (stocks and other equity and debt securities) held by MFIs.

**Minimum reserve requirement** – financial reserves held by banks, branches of foreign banks, building societies and electronic money institutions on accounts with the central bank. It is a monetary policy tool with the level set individually by the central bank for each minimum reserve holder.

**Monetary financial institutions (MFI)** – financial institutions which together form the money-issuing/generating sector. These comprise the central bank (NBS), credit institutions (banks and branches of foreign banks) and all other financial institutions whose business is to receive deposits or redeemable funds from entities other than MFIs and, in their own name and for their own account, to grant credit and invest in securities (in particular money market funds).

**Net currency issuance** – the difference between the amount of currency put into circulation and currency received in a given period.

**Open seminars** – seminars organised by individual national central banks of the European System of Central Banks (ESCB) which may be attended by staff of other ESCB national central banks. The aim of this initiative is to strengthen the European dimension of training within the ESCB, enhance expertise, develop mutual understanding within an integrated Europe, understand differences and similarities in the European culture, and foster a common ESCB culture.



**Overnight refinancing operation of the NBS** – a facility which counterparties (banks) may use to make overnight deposits with the central bank. The overnight refinancing rate is one of the key NBS rates.

**Overnight sterilisation operation of the NBS** – a facility which counterparties (banks) may use to receive overnight credit from the central bank against eligible assets. The overnight sterilisation rate is one of the key NBS rates.

**Own funds adequacy** – the ratio of own funds to risk-weighted assets (must not fall below 8%). The adequacy of own funds is an indicator of smooth functioning of a financial institution in the future, i.e. an indicator of its financial strength and credibility.

**Parent company** – a legal person controlling, i.e. holding over 50% of equity or voting rights in another legal person, or the right to appoint or dismiss the majority of the members of its statutory body, supervisory board or another managing, supervisory or controlling body.

**Persons related to the National Bank of Slovakia** – legal or natural persons which are subsidiary accounting units of the NBS, affiliated accounting units, members of the NBS Bank Board, close relatives of a member of the NBS Bank Board, accounting units controlled, co-controlled or subject to the influence or significant voting rights exercised or held by members of the NBS Bank Board or their close relatives.

**Portfolio investment** – net transactions by residents and their holdings of securities issued by non-residents (assets) and net transactions by non-residents and their holdings of securities issued by residents (liabilities). They comprise equities and debt securities (bonds, bills of exchange and money market instruments). For investments to be considered portfolio investments, the interest in the company concerned must be lower than the equivalent of 10% of ordinary shares or voting rights.

**Price stability** – a year-on-year increase in consumer prices lower than a limit set by the NBS. As a medium-term target, the NBS seeks to maintain consumer price growth as measured by the HICP below 2% at the end of 2007 and 2008.

**Real interest rate on household deposits (ex-post)** – the interest rate on household deposits adjusted for past inflation.

**Redistribution loan** – a loan extended by the Czecho-Slovak State Bank to cover loan assets involved in restructuring during the division of the country's banking system into a central bank and commercial banks.

**Regulated prices** – prices and fees set by ministries or regulators (Network Industries Regulation Office, Slovak Post Office, Slovak Telecommunications Office, etc.) or by regional or local governments. They are included in the national consumer price index.

**Reinvested earnings** – consists of the share of a direct investor (relative to a direct participating interest) in profit not distributed as dividends by subsidiaries or affiliates and in profit of branches not distributed to the direct investor.

**Repo operation** – the granting or receiving of a loan against collateral in form of securities.

**RTGS** (Real Time Gross Settlement) – a real-time gross settlement system.

**SEPA** (Single Euro Payments Area) – a single euro payments area the objective of which is to create a single internal market for cross-border euro payments.

**Single banking license** – foreign banks, foreign financial institutions or electronic money institutions may conduct banking activities in other European Economic Area member states in accordance with the European Parliament and Council Directive 2000/12/EC relating to the taking up and pursuit of the business of credit institutions, if their license was granted in a European Economic Area member state. These entities may provide their services by opening a branch or under the freedom to provide cross-border services.





**Single banking licence principle** – applies to all banking activities explicitly stated in the Banking Act. In order to provide mortgage loans pursuant to Article 67(1) of the Banking Act and to act as a depository under the Collective Investment Act, a special license from the National Bank of Slovakia is required.

**SIPS** – an interbank payment system operated by the National Bank of Slovakia.

**Stability and Growth Pact** – was designed to ensure sound public finances during the third stage of the Economic and Monetary Union in order to facilitate price stability and a strong sustainable growth contributing to job creation. To that end, the Pact requires member states to set medium-term fiscal targets. It also defines a specific excessive deficit procedure. The Pact consists of the resolution on the Stability and Growth Pact adopted at the Amsterdam summit of the European Council on 17 June 1997 and two Council regulations, namely (i) Regulation 1466/97/EC of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies as amended by Regulation 1055/2005/EC of 27 June 2005 and (ii) Regulation 1467/97/EC of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation 1056/2005/EC of 27 June 2005.

**STEP2** – a European automated clearing system operated by the Euro Banking Association Clearing, designed to process cross-border euro payments.

**Subsidiary** – a legal person subject to control (a holding of over 50% of equity or voting rights in the legal person).

**TARGET** (Trans-European Automated Real-time Gross Settlement Express Transfer) – a real-time gross settlement system for euro payments. It is a decentralised system made up of 15 national RTGS systems, the ECB payment mechanism and the interlinking mechanism.

**TARGET2** – a new generation of TARGET in which the current decentralised technical structure will be replaced by a single shared platform.

**Two-week repo tender of the NBS** – a standard 14-day repo operation of the central bank consisting in lending or borrowing against collateral in form of securities. This repo operation is conducted as a tender. The two-week repo tender rate is the basic NBS rate.

**Yield curve** – a graphic representation of the relationship between the interest rate/yield and the maturity of an asset with the same credit risk, but different maturities at a specific point in time. The slope of the yield curve can be expressed as the difference between interest rates applied to two selected maturities.

