

# Foreign Activities





## 8 Foreign Activities

### 8.1 European Union

Cooperation with the European Union (EU) and its Member States, as well as with the acceding countries Romania and Bulgaria, continued to be a priority of the NBS in 2006. This was carried out through the NBS delegates in bodies of the Council of the European Union (the Council) and the European Commission (EC).

In 2006 the NBS Governor attended the informal ECOFIN meetings (in Vienna and Helsinki), which are held semi-annually in the country holding the Presidency of the Council. The main focus of these meetings was global competition, innovation and productivity, the economic situation and financial stability.

The NBS representation at meetings of the Economic and Financial Committee (EFC), which contributes to the preparations of the ECOFIN, was also important. Moreover, the NBS was involved in the activities of the EFC Sub-Committee on IMF and related issues and its Euro Coin Sub-Committee.

At the level of EC committees, NBS experts attended meetings of the Committee of European Banking Supervisors and its expert groups, the Committee of European Securities Regulators, and the Committee of European Insurance and Occupational Pensions Supervisors. The NBS was also involved in the committees' activities focusing on statistics, as well as on banknotes and coins.

The NBS also participates in the submission of comments on EU legal acts where these are being discussed by working committees and groups of the Council which do not include NBS representatives. During 2006, the NBS expressed its opinion on, inter alia, the Convergence Report of the EC and ECB on Lithuania and Slovenia and on the other Member States concerned, and on draft proposal for a directive on consumer loan contracts and a directive on acquisitions, etc.

In connection with the preparation of December's EC Convergence Report, the European Commission carried out a mission in Bratislava in September 2006. The discussions at the NBS focused mainly on mo-

netary policy and the exchange rate, and the current development of, and projections for, inflation.

Regarding the coordination of decision-making on EU matters, a key role is played by the Commission for EU Affairs established at the Ministry of Foreign Affairs of the Slovak Republic. Throughout 2006 its meetings were regularly attended by a representative from the NBS.

#### The European System of Central Banks (ESCB) and the European Central Bank (ECB)

The Národná banka Slovenska cooperates with the ECB at several levels. The NBS Governor is a member of the General Council of the ECB, which convened four times in 2006. These meetings are attended by the governors of all national central banks of the ESCB and the highest representatives of the ECB. The governors of the Romanian and Bulgarian central banks had observer status at the 2006 meetings, ahead of their countries' accession to the EU on 1 January 2007 and the simultaneous inclusion of their central banks in the ESCB. A further two General Council teleconference meetings were held in regard to the approval of the ECB Convergence Reports on Lithuania and Slovenia (May 2006) and on the other Member States with a derogation (November 2006). During the year NBS representatives contributed to the activities of the committees and working groups of the ESCB by performing specific tasks, including the preparation of documents for discussions of the ECB General Council and Governing Council.

Many of the NBS activities within the ESCB involve the consultation of draft proposals for general legal regulations, i.e. draft laws, announcements and decrees that fall within the competences of the ECB. For the purposes of legislative transparency across the EU, government bodies of the Member States are required to submit for comments to the ECB their draft legislation falling within the ECB remit, and these are then made available to the other Member States. In 2006 the Národná banka Slovenska submitted the draft law on the NBS for comments and also made its own comments on the ECB opinions regarding the draft legislation of other Member States.



## The Phare Programme

In October 2006 the implementation of the Phare Programme under the last pre-accession memorandum (2003) was completed. The contracted projects, "Support for Risk-Oriented Supervision" and "Software Development for Capital Market Supervision", represented the logical continuation of the programme successfully completed under the Financial Memorandum 2002, "Strengthening Financial Sector Supervision", which was implemented between June 2004 and October 2005 by the consortium Wiener Bourse A.G. Both programmes supported the expansion and streamlining of supervisory authorities in their capacity to regulate the financial market effectively and efficiently, and they helped to create the technical bases for the incorporation of the Financial Market Authority (FMA) into the NBS.

The project "Support for Risk-Oriented Supervision", budgeted at EUR 1.15 million and launched in June 2005 as a form of technical assistance for the FMA and NBS, was implemented by the Belgian Bankers Academy (BBA).

This programme was tied in with outputs from previous projects in the field of integrated supervision and, in addition, brought quality improvements to the system of risk-oriented supervision of the capital market, insurance industry, pension funds and financial conglomerates. As regards the supervision of credit institutions, it addressed how to deepen consolidated supervision and to implement the New Basel Capital Accord (Basel II). Under the banking module, BBA experts held a series of special seminars on risks in the context of Basel II and on consolidated supervision; they produced two summary manuals for the conduct of on-site supervision in accordance with the requirements of Basel II, and they trained NBS staff to work with the specialist software "CADcalc" and "CADmarkt". Under the insurance module, specialist seminars were held on how to conduct off-site supervision in accordance with the Solvency II accord, and the supervision framework plan, including provision for software support, was prepared. Moreover, specialized secondments abroad were organized for staff responsible for the supervision of insurance mediation. Under the capital market module, specialist seminars were held and consultations provided on how to address current issues of supervision, in particular, the supervision of brokerage companies and the implementation of the "UCITS" and "MiFID" directives. Under the pension funds module, BBA experts organized a series of specialist seminars on current issues of supervision, and they provided consultations and assistance in regard to the drafting of an amendment to the law on pension funds.

The project involved 18 foreign experts, and the 36 seminars organized by them were attended by a total of 600 staff from the FMA and NBS.

The final project, "Software Development for Financial Market Supervision", budgeted at EUR 100 000, was launched in December 2005 and was implemented by AXON PRO, s.r.o., for the FMA. The aim of the project was to supply software applications, developed in accordance with the functional specification and technical-operational requirements of the NBS, in order to meet the needs of the current supervision system for the capital market. The software can be used on a daily basis for the electronic collection, evaluation and archiving of data submitted by capital market entities subject to NBS supervision. The supply included the software installation and testing, delivery of the respective documentation, and the training of supervision staff in its use and servicing.

The completion of these projects marked the culmination of the technical assistance which the European Commission had been providing to the Slovak banking sector through the Phare Programme since 1993. Using EU grants of over EUR 17 million, the NBS prepared more than 60 development projects during a period of over 13 years for employees of both commercial banks and the NBS.

## 8.2 NBS cooperation with international institutions

### International Monetary Fund (IMF)

In 2006 Slovakia joined the IMF donor members. In February, the IMF notified the Národná banka Slovenska, which represents the Slovak Republic in operations of the Financial Transactions Plan (FTP), that Slovakia was for the first time included on the list of 48 countries participating in the FTP, through which economically strong IMF members lend foreign exchange funds to member countries experiencing balance of payments difficulties. In accordance with the approved plan, Slovakia undertakes to meet IMF requests to provide the required funds from its foreign exchange reserves. During 2006 Slovakia did not make any such transfers to the IMF.

The mutual cooperation in 2006 was developed mainly through the IMF mission that visited Slovakia between September and October 2006. The IMF conducts regular consultations with each member country on an annual basis, under Article IV of the Articles of Agreement of the IMF, and this mission represented its consultations with Slovakia. The discussions at the NBS concerned mainly monetary policy, entry into ERM II, adoption of the euro, and macroeconomic and inflation forecasts.



In accordance with Article VIII of the Articles of Agreement of the IMF, the NBS updated for the IMF its Annual Report on Exchange Arrangements and Exchange Restrictions, and forwarded to the IMF Executive Board, the list of foreign exchange restrictions that Slovakia applies in order to preserve national and international security, and to protect the financial system against financial terrorism.

In April 2006 the highest representatives of the Národná banka Slovenska attended the Spring Meetings of the International Monetary Fund and World Bank, held in Washington, and their Annual Meetings, held in Singapore in September. The meetings focused on outlooks for the world economy and financial markets, the IMF medium-term strategy, IMF supervision, and the assistance provided to low-income countries within the fulfilment of the Millennium Development Goals. Most attention, however, was directed at the reform of member countries' quotas and the ad hoc quota increases for China, Korea, Mexico and Turkey, the countries most under-represented.

The Belgian Constituency of the IMF and World Bank held a meeting of central banks and finance ministers at the Deputies level in Prague in June 2006. The discussion focused on official development assistance and the accumulation and management of foreign reserve assets.

### **The World Bank**

The cooperation between Slovakia and the World Bank institutions is gradually changing in correlation with the transformation process in the Slovak economy.

Within the International Bank for Reconstruction and Development (IBRD), Slovakia is one of the EU-8, a group of countries that may still receive financial or technical assistance. During 2006 the technical assistance was provided through the relevant Slovak ministries: the Ministry of Health, which is drawing a loan for health sector modernization, and the Ministry of Labour, Social Affairs and Family, which is drawing down for a project to reform the administration of social benefits. The Ministry of Labour, Social Affairs and Family is working with the Ministry of Education on a project to support human capital. The aim of the project is to cooperate in modernizing employment and education support systems and to provide assistance in the field of social policy.

In the International Development Association (IDA), Slovakia has the position of a donor country, providing financial assistance to developing countries. In January 2006 Slovakia paid EUR 2.07 million as the first instalment of its contribution under the 14th

replenishment of IDA funds. The next instalments will be made in 2007 and 2008.

In November and December 2006 the World Bank conducted a mission to Slovakia, the aim of which was to reassess the Financial Sector Assessment Program (FSAP). The mission's work at the Národná banka Slovenska involved assessing the standards applied in the banking sector and insurance sector.

### **Bank for International Settlements (BIS)**

In 2006 the NBS Governor attended the 76th Annual General Meeting of the BIS member central banks, as well as the regular BIS Meeting of Governors. The meetings addressed ERM II and its entry criteria, inflation measurement, developments in the field of payment and settlement systems, cross-border integration of financial markets, and core principles of effective banking supervision.

In 2006 the Národná banka Slovenska hosted the 5th meeting of the BIS Monetary Policy Working Group for Central and Eastern Europe. The meeting in Bratislava was attended by representatives of the BIS, ECB and 21 European national central banks, and the discussions covered macroeconomic development, the external sector and financial sector, financial and monetary policy and exchange rate policy.

Also in 2006 the NBS joined the 45 central banks that are members of the Network on Central Bank Governance supporting the exchange of information on central bank management between central banks and BIS.

### **World Trade Organization**

The first half of the year saw intensive discussions at both the WTO and at the Article 133 Committee of the Council of the EU, which is responsible for the EU multilateral trade policy. The NBS expressed its opinions on financial services, in particular on proposed changes to the Schedule of Specific Commitments of the EU and within the "compensatory negotiations" under Article XXI of the General Agreement on Trade in Services, which stemmed from the enlargement of the EU to include 10 new Member States in May 2004.

### **Organisation for Economic Cooperation and Development (OECD)**

In 2006 NBS representatives contributed to the activities of relevant committees and working groups of the OECD, namely the Economic Policy Committee (EPC),



the Economic and Development Review Committee (EDRC), the Committee on Financial Markets (CFM), and the Insurance and Private Pensions Committee.

In addition, an OECD structural mission to Slovakia was conducted in September 2006, and this was followed up in December by an OECD political mission led by the OECD chief economist, J. P. Cotis. The purpose of the missions was to prepare documents for the Economic Survey of the Slovak Republic, due to be published in April 2007. The discussions at the NBS focused on the fulfilment of the convergence criteria for entry into the euro area, financial market regulation and pension reform issues.

### **European Bank for Reconstruction and Development (EBRD)**

In 2006 the attention was focused on the EBRD strategy for the period 2006-2010, namely, the Capital Resource Review 3. This document was officially approved in May 2006 at the Annual Meeting of the EBRD Board of Governors in London. One of the strategic objectives is to shift the EBRD activities further towards East and South-East of Europe, alongside the gradual termination of assistance provided to the countries which joined the EU in May 2004 (including Slovakia) and have up to now been recipients of EBRD assistance. A number of discussions with representatives of the Constituency Slovakia forms a part of were held in this regard.

### **International Investment Bank (IIB) and International Bank for Economic Cooperation (IBEC)**

The IIB and IBEC, headquartered in Moscow, are banks founded by member countries of the former Council for Mutual Economic Cooperation. Slovakia, as an independent republic, became their member in 1993. Its share in the paid-up capital of the IIB represents 4.85% or EUR 10.4 million, and in the IBEC, 6% or EUR 8.6 million.

The supreme governing bodies of both banks are the Bank Boards, which convene twice a year. In 2006, their spring and autumn meetings were held in Moscow and Vietnam, respectively.

### **International Investment Bank**

At its spring meeting, the IIB Bank Board took under consideration the "Report on activities for 2005"; it approved a profit of EUR 10.5 million, the budget of EUR 8.7 million for general operating expenses in 2007, and the appointment of KPMG company to

audit the 2006 financial statements. The Board also approved a new reallocation of official posts among the Member States for the term 2006-2011. Slovakia will be filling the positions of deputy chairman of the board of directors and assistant director of the investment lending department.

The autumn meeting of the IIB Bank Board saw the approval of the "Report on activities for the first nine months of 2006", the "Report on the progress of negotiations regarding the settlement of claims against Cuba", the "Report on the fulfilment of the 2006 budget for general operating expenses", and the composition of the revision commission for the period 2006-2011. With effect from 1 January 2007, the Bank Board appointed representatives of Slovakia, Bulgaria and Romania deputy chairmen of the board of directors.

### **International Bank for Economic Cooperation**

At its spring meeting, the IBEC Bank Board took under consideration the "Report on the bank's activities for 2005" and approved the "Report on the revision committee's activities for 2005", and the work plan for the period May 2006 to May 2007. A budget of EUR 8.0 million for general operating expenses was also approved.

The autumn meeting of the IBEC Bank Board took under consideration the bank's balance sheet as at 31 December 2005 and its retained earnings; it approved the "Report on the bank's activities for the first half of 2006", the "Report on fulfilment of the budget for general operating expenses for the first nine months of 2006", and appointed new members of the revision committee. The Bank Board also addressed the Russian Federation's delegation with a request to nominate a chairman of the board of directors.

## **8.3 The NBS foreign activities with regard to training and development**

In the field of training and development, the NBS foreign activities centre on cooperation within the European System of Central Banks (ESCB). The NBS participates in the creation and implementation of a common strategy through its representative in the Task Force on Training and Development. The purpose is to develop a common basis for the training and development of employees throughout the ESCB, as well as to create a common culture across the ESCB and Eurosystem.

In 2006 the NBS Institute of Banking Education (IBE) took part for the first time in the organization of joint



training events of the ESCB, and hosted one part of the training programme Heading for Leadership. Held from 24 to 28 April 2006 at the premises of the NBS in Bratislava, the event focused on the development of management skills, especially of leadership, and was attended by 16 representatives from ten national central banks of the ESCB, the European Central Bank and supervisory authorities of EU Member States.

The IBE also offered staff from ESCB central banks the chance to participate in three Open Seminars, two of which were focused on the development of language skills – Banking and Financial English (9 to 12 May 2006) and Financial English for Corporate Lawyers and Non-Financial Managers (16 to 19 October 2006) – and one of which was on the specialized issues of International Accounting Standards and International Standards of Financial Reporting (12 to 14 June 2006). The open seminars attracted a total of 28 foreign participants from 18 national central banks of the ESCB.

As part of foreign technical cooperation, the NBS organized a further two training events free-of-charge for experts from neighbouring countries' central banks or supervisory authorities. In May 2006 four experts from the Banka Slovenije attended a two-day consultation on risk management issues at the NBS Risk Management Methodology Department. In December 2006 the IBE, in cooperation with experts from the Risk Management Methodology Department, organized a two-day workshop on the topical issue of credit risk management of households and non-financial institutions, which was attended by ten banking supervisors from Austria, the Czech Republic, Hungary, Poland, and Slovenia. The programme included presentations by acknowledged experts from the Oesterreichische Nationalbank, and active contributions from other foreign participants.

The Národná banka Slovenska is an active provider of training-related foreign technical assistance. In line

with Slovakia's foreign policy and the EU common foreign policy (the European Neighbourhood Policy), the NBS has targeted its foreign technical assistance mainly at the National Bank of Ukraine (NBU).

In February 2006, the IBE director and the director of the NBU personnel department signed an agreement under which the NBS prepared and carried out eight training events in accordance with the specific requirements of the NBU. Of those events, four were held at the NBS in Bratislava and four in Kiev. They were led by 38 experts from 11 NBS departments, and altogether 93 staff of the NBU participated in them.

The first seminar in Kiev focused on internal audit issues and the second one addressed the implementation of monetary policy. The other six events were consultative in nature – study visits centred on technical issues, including cash management, the legal regulation of the NBS activities, the harmonization of legislation regulating banking supervision with the EU requirements, foreign reserve management, the liberalization of capital transactions, the preparation of an inflation report, and the monetary transmission mechanism.

The NBS experts concentrated on sharing their practical experience from the transformation process related to Slovakia's accession to the EU, the inclusion of the NBS in the ESCB and the planned introduction of the euro in Slovakia and the NBS entry into the Eurosystem, as well as presenting NBS approaches in the respective areas.

The preparation and implementation of training events, either in the context of the ESCB, foreign technical cooperation or the provision of foreign technical assistance provided positive experiences in 2006 which the NBS is planning to follow up on in the years ahead. The most important recipient of foreign technical assistance will continue to be the National Bank of Ukraine, which has already expressed interest in pursuing this form of cooperation.