



1 MONETARY POLICY IMPLEMENTATION AND INVESTMENT PORTFOLIO MANAGEMENT

1.1 MINIMUM RESERVE REQUIREMENTS

Under Eurosystem rules, all euro area credit institutions are required to hold a certain amount of funds as minimum reserves in their current accounts at their national central bank (NCB). Institutions currently have to hold a minimum of 1% of the sum of eligible balance sheet items that constitute the basis for calculating the reserve requirement ('the reserve base'). This requirement must be met on average over the maintenance period.

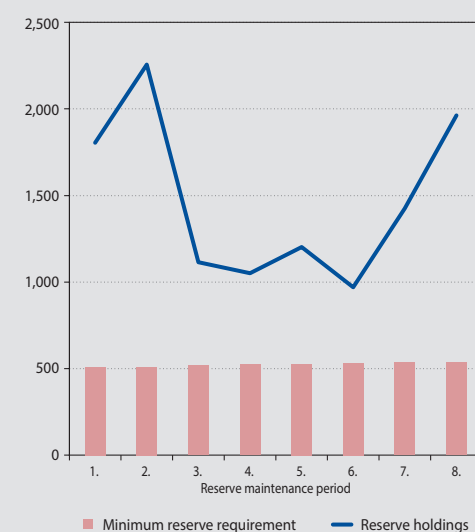
At the beginning of 2018 a total of 26 credit institutions in Slovakia were subject to minimum reserve requirements; they comprised 12 banks incorporated in Slovakia (including three home savings banks) and 14 branches of foreign credit institutions. Raiffeisen Centrobank AG Slovak Branch, a foreign bank branch, began operating in Slovakia from 9 April 2018, thereby increasing the number of foreign bank branches to 15 and the total number of credit institutions to 27. This situation remained unchanged for the rest of the year.

Excess reserves continued to be remunerated at a negative rate in 2018, as they had been since 11 June 2014. That rate was maintained at -0.40% throughout 2018. None of the three key ECB interest rates were adjusted during the year.

Before 2015 the ECB's Governing Council held its monetary policy meetings on a monthly basis, but since then it has held them at six-week intervals. This change resulted in the reserve maintenance period being extended to either 42 or 49 days, and therefore the number of periods per year fell to eight. The calendar for reserve maintenance periods is aligned with the schedule for the Governing Council's monetary policy meetings so that the start of the period falls on the potential effective date of any change in the monetary policy settings.

The average amount of reserves that banks were required to hold with Národná banka Slovenska

Chart 14 Reserve holdings and minimum reserve requirements in 2018 (EUR millions)



Source: NBS.

in 2018 was €523.15 million, around 6.7% more than in 2017. In 2018 the amount of banks' actual reserve holdings at NBS was, on average, 181.7% higher than the reserve requirement, while in 2017 it had been 199.1% higher. The aggregate reserve holdings were highest in the second and eighth maintenance periods.

1.2 ELIGIBLE ASSETS

The collateral eligibility criteria for Eurosystem credit operations underwent several changes in 2018. One of the more significant was the further clarification of haircuts assigned to eligible credit claims with floating interest payments. The purpose of this change was to reduce the financial risk related to the use of credit claims and to ensure partial harmonisation with collateral eligibility criteria applicable to collateral in the form of bonds, for which there is a precisely defined interest payment structure. At the same time, the eligibility criteria for uncovered bank bonds were tightened in response to law changes in several European countries. This



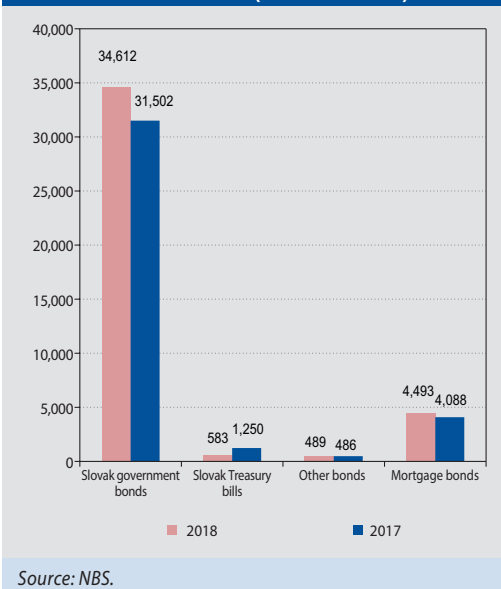
amendment resulted in the subordination of these bonds to other assets issued by the same company.

In addition, restrictions were imposed on the own-use of covered bonds as collateral in Eurosystem credit operations. Only covered bonds meeting the requirements laid down in the EU's Credit Requirements Regulation (No 575/2013) may be used by the bond issuers as collateral in credit operations. Another change concerned the method of setting valuation haircuts applied to floating-rate marketable and non-marketable eligible assets. This involved graduating the haircuts according to the residual maturity of the eligible assets.

The value of Slovak marketable eligible assets was, on average, 8% higher in 2018 than in 2017. In absolute terms, the value of these assets at the end of 2018 was €40,177 million, which compared to its level at the end of the previous year was higher by €2,851 million. Slovak government bonds constituted almost 86.2% of these eligible assets, mortgage bonds 11.2%. Slovak Treasury bills 1.4% and other bonds around 1.2%.

The value of collateral pledged by domestic banks in Eurosystem operations was slightly low-

Chart 16 Composition of Slovak eligible assets as at end-December 2018 and end-December 2017 (EUR millions)



er at end-2018 than at end-2017, while the average value for 2018 was around 4% lower compared with the previous year. The average share of government debt securities in the pledged collateral has been on a downward year-on-year trend, and in 2018 it dropped to 78%. By contrast, the average share of mortgage bonds

Chart 15 Composition of Slovak eligible assets in 2018 (EUR millions)

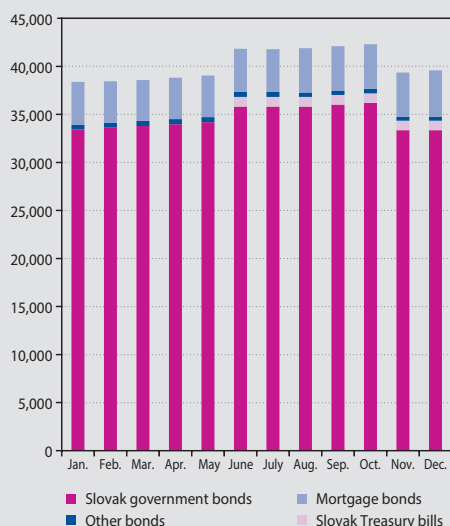
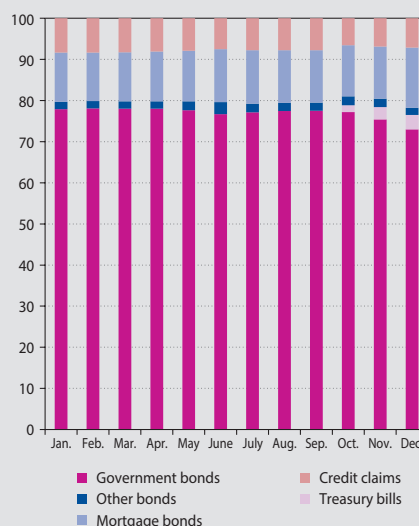
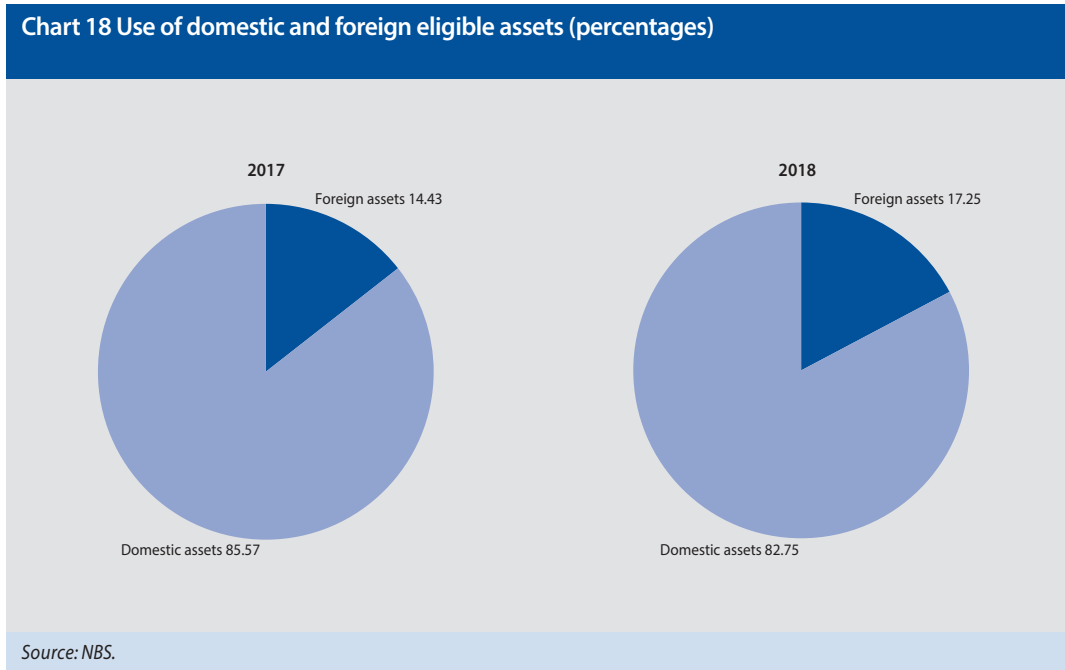


Chart 17 Eligible collateral pledged by domestic banks in Eurosystem credit operations in 2018 (percentages)





continued to increase, up to 12%. The shares of credit claims and other bonds remained broadly unchanged from the previous year, at 8% and 2% respectively.

As a share of the total collateral pledged by domestic banks, collateral issued in the domestic market fell slightly, to just under 83%. In previous years this figure had been around 90%. Slovak counterparties use a collateral pool to manage their collateral.

1.3 INVESTMENT PORTFOLIO MANAGEMENT

Národná banka Slovenska manages its investment portfolios in line with an investment policy adopted in 2008 and amended in 2014 and 2016. The aim of the policy is to ensure that the portfolios contribute positively to the bank's overall financial result. The total value of NBS's investment portfolios as at 31 December 2018 was €6.5 billion (at corresponding exchange rates and with securities at nominal value), or €7.65 billion including gold. Most of the portfolios are bond portfolios; these are currency hedged by including portfolios denominated in euro, US dollars, British pounds, Swiss francs

and Japanese yen (where interest rate risk is managed in a standard way through interest rate swaps and futures contracts) and a portfolio of Chinese government bonds. Chart 19 shows how the total value of these portfolios changed during the year, while Chart 20 shows their geographical breakdown. In June 2018

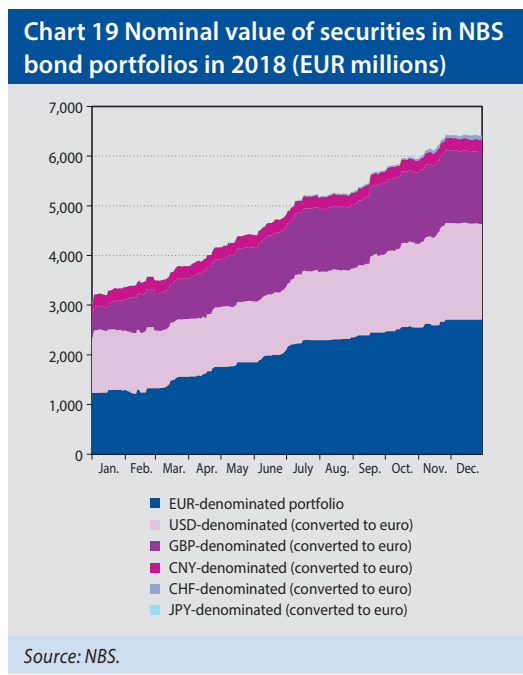
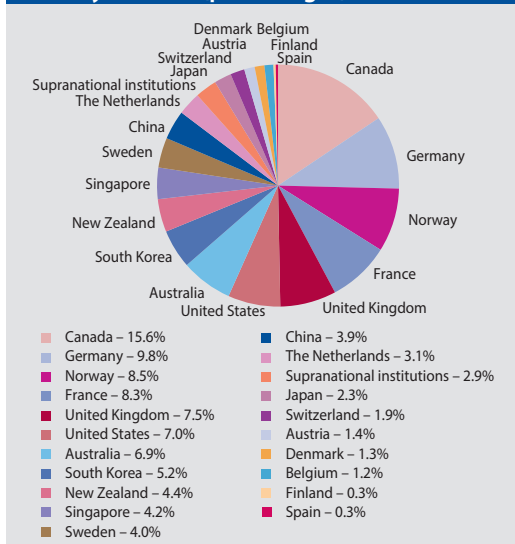


Chart 20 Total value of NBS bond portfolios as at 31 December 2018 broken down by country of issuer (percentages)



Source: NBS.

NBS entered the equity market, establishing an equity portfolio that comprises shares in selected exchange-traded funds representing the global equity market. Overall in 2018, the NBS investment portfolios earned around €38 million (marked-to-market, with the portfolios' aggregate value converted to euro at year-end exchange rates), including earnings on gold reserves and taking into account hedging costs and other expenses and income arising from operations on the liabilities side.

Box 2

FX GLOBAL CODE

The FX Global Code is a set of principles of good practice for traders in the foreign exchange market. Its objective is to promote a robust, fair, liquid, open and transparent market underpinned by high ethical standards that will benefit all forex market participants. The Code was initiated by the Bank for International Settlements (BIS) and its establishment was a joint effort of major world central banks and commercial banks. In May

2017 all ESCB central banks, including Národná banka Slovenska and the European Central Bank, undertook to incorporate the Code in their internal procedures within 12 months. On 14 May 2018 NBS and the other ESCB central banks jointly issued a Statement of Commitment to Foreign Exchange Global Code. At the same time, NBS supports the implementation of and adherence to the Code in the Slovak financial sector.

2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION⁹

2.1 FINANCIAL STABILITY

In 2018 the NBS Bank Board adopted six macroprudential policy decisions concerning cyclical and structural systemic risks.

Four of these decisions were regular quarterly decisions on the setting of the countercyclical capital buffer (CCyB) rate, the first two of which kept the CCyB rate at 1.25%.¹⁰ The next decision, adopted in July (No 6/2018) was significant from

⁹ For further details, see the Report on the Activities of the Financial Market Supervision Unit of NBS in 2018 (in Slovak only), which is published on the NBS website at <http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnost-i-udf>.

¹⁰ The Bank Board bases its CCyB rate decisions on the analysis provided in NBS's Quarterly Commentary on Macroprudential Policy, which is published on the NBS website in January, April, July and October.