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# Monetary policy implementation and investment portfolio management

more than

**€27 billion**

- the total volume of credit institutions' excess reserves exempted, under the ECB's two-tier system, from remunerating at the deposit facility rate of -0.5%

**€12.7 billion**

- the total value of investment portfolios, including gold reserves and the equity portfolio



**24%**

- average increase in the use of covered bonds as collateral in Eurosystem operations

almost

**€4 billion**

- the take-up of LTRO funds in Slovakia

# Monetary policy implementation and investment portfolio management

**In 2020 the domestic banking sector borrowed almost €4 billion under LTRO operations, which exceeded its borrowing under any previous Eurosystem operations**

Národná banka Slovenska implements the Eurosystem's monetary policy in Slovakia by conducting tender operations in which domestic counterparties participate and by participating in asset purchase programmes involving a wide range of monetary policy counterparties. In 2020 domestic monetary policy counterparties made only sporadic and modest use of the Eurosystem's main refinancing operations, bridge longer-term refinancing operations, and deposit facility, and their recourse to the marginal lending facility was also occasional. The domestic banking sector borrowed relatively higher amounts under the Eurosystem's US dollar tenders. Its borrowing under the Eurosystem's longer-term refinancing operations (LTROs) has been sizeable, and that amount totalled €3.95 billion by the end of 2020.

**Securities purchased by NBS for the monetary policy portfolio amounted to €30.8 billion**

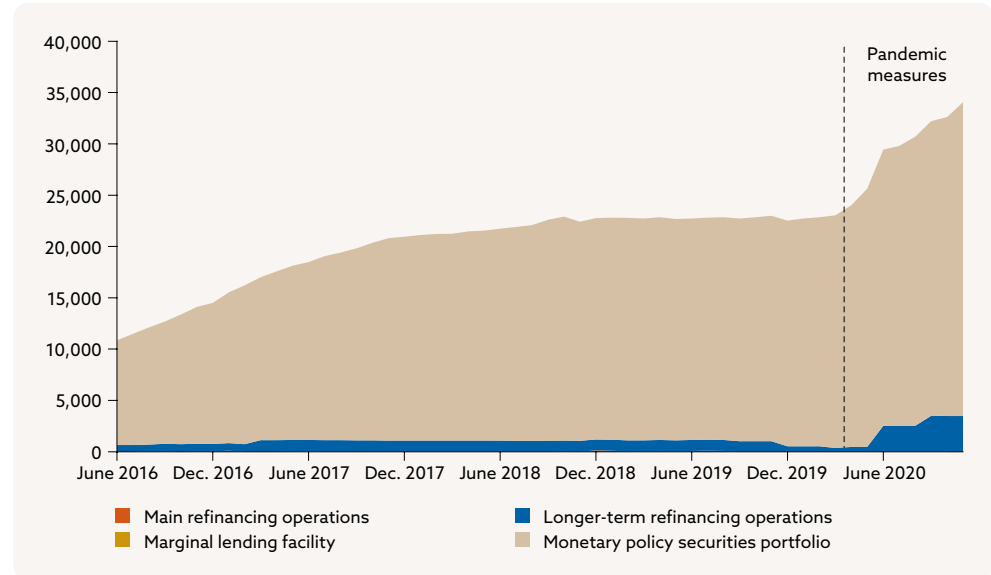
Národná banka Slovenska participates in the Eurosystem's monetary policy asset purchase programmes, which in 2020 comprised the existing asset purchase programme (APP) and a new pandemic emergency purchase programme (PEPP). The types of assets that NBS purchased under the APP in 2020 remained the same as before, and its purchases under the PEPP were in the same asset categories: domestic government bonds, bonds issued by supranational institutions, and domestic covered bonds. By the end of 2020, the Bank's holdings of domestic government bonds totalled €15.5 billion, including APP purchases of €11.1 billion and PEPP purchases of €4.4 billion. The weighted average maturity of this portfolio was eight years. Bonds issued by supranational institutions also accounted for a significant share of the monetary policy portfolio, amounting to €13.3 billion, while covered bond holdings stood at €2.0 billion. The size of the Bank's monetary policy portfolio at the end of 2020 was 40% higher year on year,

at €30.8 billion. Including tender operations, the Bank's monetary policy activity amounted to €35 billion. The Bank continued in 2020 to lend domestic and foreign government securities purchased under ECB programmes. This lending was conducted via the State Street Bank and Trust Company, as an agent, and via Euroclear Bank, as a custodian. The securities were lent both automatically and to third parties on request.



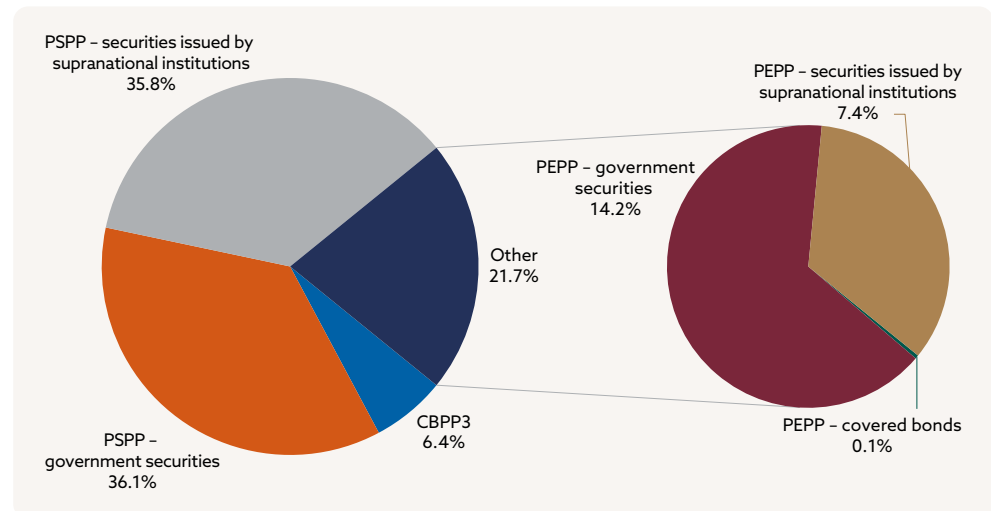
**Chart 17:**  
NBS monetary policy position (EUR millions)

Source: NBS.



**Chart 18:**  
NBS monetary policy portfolio (percentages)

Source: NBS.



## Minimum reserve requirements

### The two-tier system for remunerating excess reserves had its first full year of application

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, i.e. the period over which compliance with reserve requirements is calculated.

In 2020, as in the previous year, a total of 27 credit institutions in Slovakia were subject to minimum reserve requirements. They comprised 12 banks incorporated in Slovakia (including three home savings banks) and 15 branches of foreign credit institutions.

Compliance with minimum reserve requirements in 2020 was significantly affected by the two-tier system for excess reserve remuneration ('tiering'), which had its first full year of application after being introduced on 30 October 2019. Under tiering, a part of each credit institution's reserve holdings in excess of minimum reserve requirements is exempt from the deposit facility rate, and in 2020 that exemption allowance remained set at six times the institution's minimum required reserves and was remunerated at 0%. The non-exempted excess reserves were remunerated at the deposit facility rate of -0.5%, while required reserves continued to be remunerated at the main refinancing rate of 0%. With the system configured in this way, the exemption allowance limit became more relevant than required reserves. Most credit institutions have adapted to this remuneration system, and in 2020 the banking sector's usage of the exemption allowance was 97% on average.

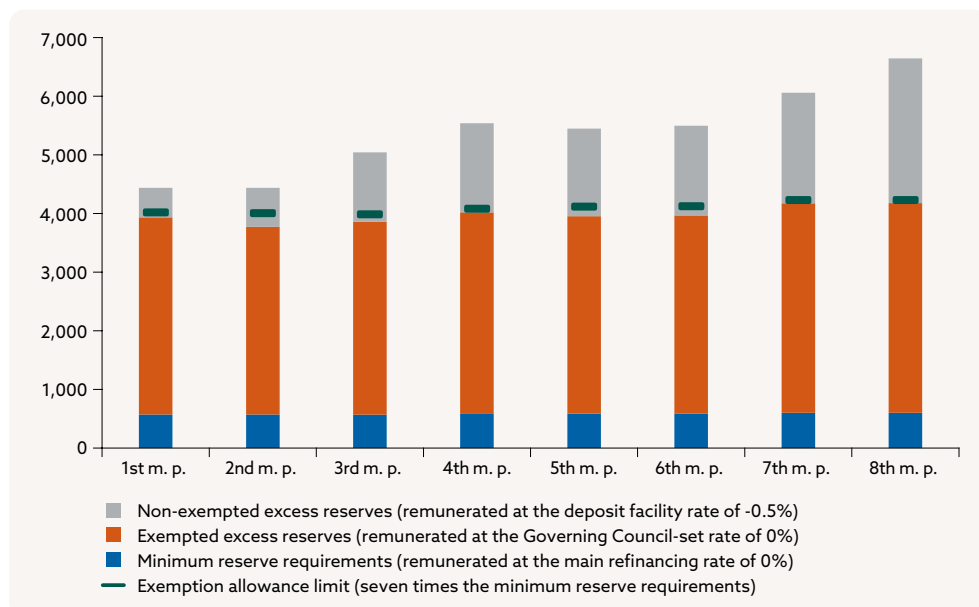
The average amount of required reserves held by credit institutions with Národná banka Slovenska in 2020 was €585.91 million, representing a year-on-year increase of 5.8%. Their actual reserves held with NBS averaged €5.36 billion in 2020, which was 121% higher than in 2019. Comparing the volume of average actual reserves with average required reserves, it went from being 4.4 times higher in 2019 to 9.1 times higher in 2020, owing ma-

inly to the impact of the tiering system and to banks' high participation in Eurosystem monetary policy operations. In 2020 the total exempted excess reserves amounted to €27.18 billion. The excess reserves remunerated at the deposit facility rate were on average, 30.9% larger in 2020 than in 2019, despite the lower negative average deposit facility rate.



**Chart 19:**  
Minimum reserve requirements and actual reserve holdings (showing differential remuneration under the ECB's tiering system) (EUR millions)

Source: NBS.



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### Eligible assets

**In order to mitigate the fallout from the COVID-19 crisis, the ECB eased credit quality requirements for collateral eligibility in Eurosystem operations and expanded the temporary additional credit claims frameworks**

The collateral eligibility criteria for Eurosystem credit operations underwent several significant changes in 2020, most of which were of a temporary nature and were aimed at mitigating the fallout from the COVID-19 crisis. One notable change was an extension of the additional credit claims (ACC) frameworks, through which central banks can temporarily accept credit claims that do not fulfil all the general eligibility criteria for Eurosystem collateral. Another key change was a general reduction of collateral valuation haircuts by a fixed factor of 20%. In addition, the valuation haircuts applied to credit claims were reduced by a further 20%. Important steps were also taken to mitigate the effect on collateral availability of po-

ssible rating downgrades resulting from the pandemic's economic fallout. All these temporary measures are expected to remain in place at least until June 2022. In 2020 the ECB's Governing Council also approved certain changes to the Eurosystem's general collateral framework, but these are not due to apply until 2021 or later.

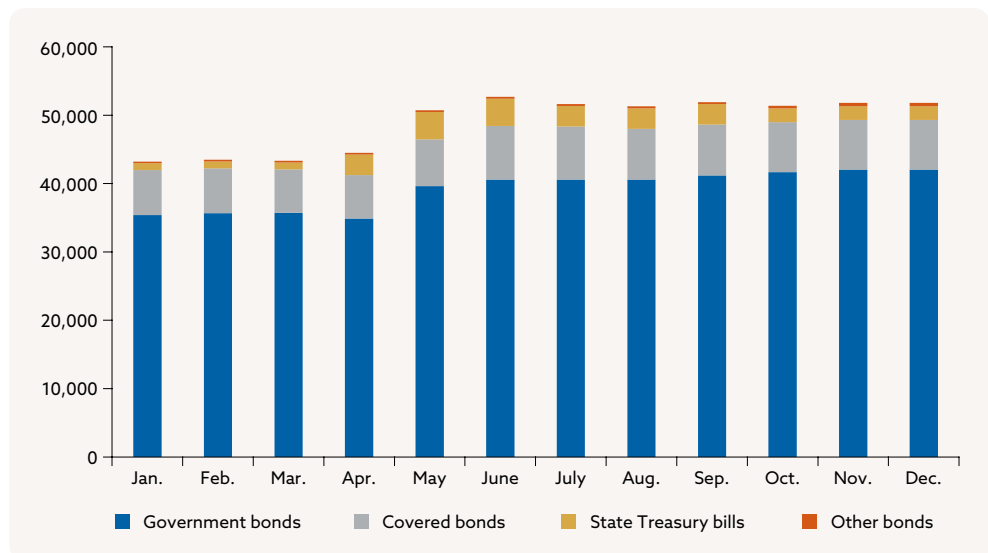
From the perspective of NBS, the most significant change was the establishment and subsequent extension of an ACC framework in Slovakia. Slovak banks could therefore, if necessary, increase the value of their collateral and, as a result, increase the value of monetary policy operations. From June 2020, NBS was gradually accepting as collateral individual credit claims of lower credit quality. To assess the credit quality of these claims, banks were allowed to use their internal ratings-based models, which had previously been approved only for banking supervision purposes. From August 2020, credit claims subject to a lower level of protection against set-off risk became eligible, and from October 2020, so did credit claims not fulfilling all the eligibility criteria applicable under the Eurosystem's general collateral framework. Under the new public loan guarantee scheme, the Export-Import Bank of the Slovak Republic guaranteed the repayment of up to 80% of the principal of these claims. In 2020 NBS also made a change to the general collateral framework by reducing the residual value of a credit claim upon its mobilisation as collateral, from €500,000 to €100,000.

The value of Slovak marketable eligible assets was, on average, 20% higher in 2020 than in 2019. In absolute terms, the value of these assets at the end of 2020 was €48,973 million, which compared to its level at the end of the previous year was higher by €8,079 million. Slovak government bonds constituted almost 80% of these eligible assets; covered bonds, 14.5%; Slovak Treasury bills, 4.9%; and other bonds, around 0.6%. Chart 20 shows the composition of eligible assets during 2020, and Chart 21 compares the year-end composition of eligible assets in 2020 and 2019.



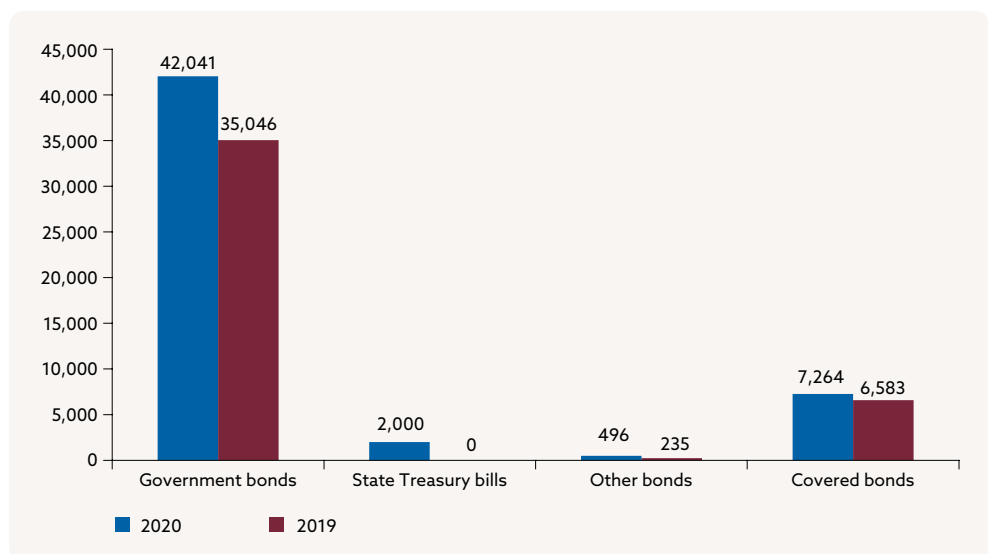
**Chart 20:**  
Composition of  
Slovak eligible  
assets in 2020  
(EUR millions)

Source: NBS.



**Chart 21:**  
Composition of  
Slovak eligible  
assets as at  
end-December  
2020 and end-  
December 2019  
(EUR millions)

Source: NBS.

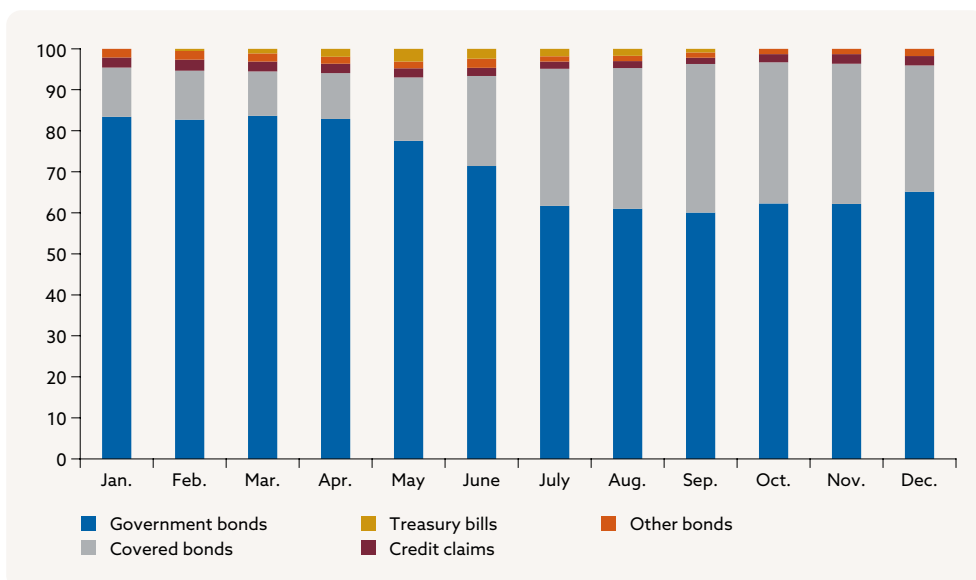


As regards the collateral pledged by domestic banks in Eurosystem operations, its value increased significantly in 2020. This shift was seen from May and stemmed from banks' elevated participation in new types of operations aimed at mitigating the fallout from the pandemic crisis. The volume of collateral pledged was, on average, around 24% higher in 2020 than in the previous year. The share of government bonds in that collateral averaged 72%. The changes in that share during the course of 2020 are shown in Chart 22, as is the fact that the use of covered bonds increased sharply from June compared with the previous period. The share of covered bonds averaged 24% for the whole year and 32% for the period from June to December. Other bonds had an average share of around 1.7%, slightly lower compared with 2019, and the share of credit claims also dropped, to 2.1%.



**Chart 22:**  
Eligible collateral  
pledged by  
domestic banks  
in Eurosystem  
credit operations  
in 2020  
(percentages)

Source: NBS.

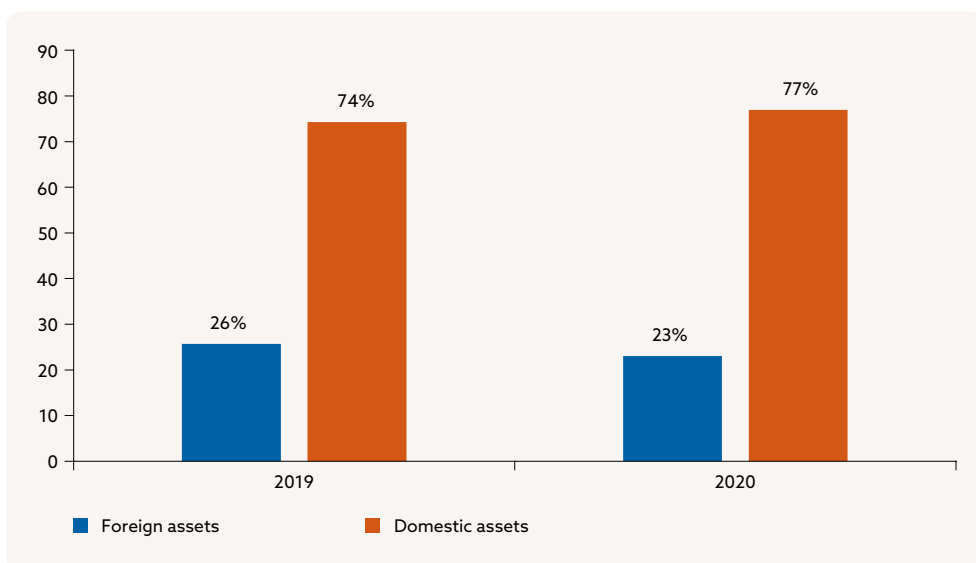


As a share of the total collateral pledged by domestic banks, collateral issued in Slovakia remained around the same in 2020 as in the previous year. The shares of domestic collateral and cross-border collateral are shown in Chart 23. Slovak counterparties use a collateral pool to manage their collateral.



**Chart 23:**  
Use of domestic  
and foreign  
eligible assets  
in 2020 and 2019  
(percentages)

Source: NBS.





## Investment portfolio management

### The total value of NBS's investment portfolios was €11.1 billion at the end of 2020

Národná banka Slovenska manages its investment portfolios with the aim of ensuring that they contribute positively to the Bank's overall financial result. The total value of the Bank's investment portfolios as at 31 December 2020 was €11.1 billion (at corresponding exchange rates and with securities at nominal value), or €12.7 billion including gold. Bond portfolios accounted for 79% of that total. These are currency-hedged portfolios denominated in euro, US dollars, British pounds, Swiss francs, Australian dollars, and Japanese yen (in all of which interest rate risk is managed in a standard way, through interest rate swaps and futures contracts), as well as a portfolio of Chinese government bonds.

Since June 2018 the Bank's investment portfolios have also included an equity portfolio that comprises shares in selected exchange-traded funds representing the global equity market. As at 31 December 2020 the market value of this portfolio stood at €236 million. The Bank's indirect investment in the Chinese renminbi<sup>3</sup> had a market value of around USD 47 million at the end of 2020. The total return on the Bank's investment portfolios in 2020 was around €297.7 million (according to the mark-to-market principle), including the return on gold reserves<sup>4</sup> and taking into account hedging costs and other expenses and income arising from operations on the liability side of the individual portfolios. Charts 24 and 25 show, respectively, the value of the Bank's investment portfolios during the course of 2020 and the geographical breakdown of the securities in its bond portfolios at the end of 2020.

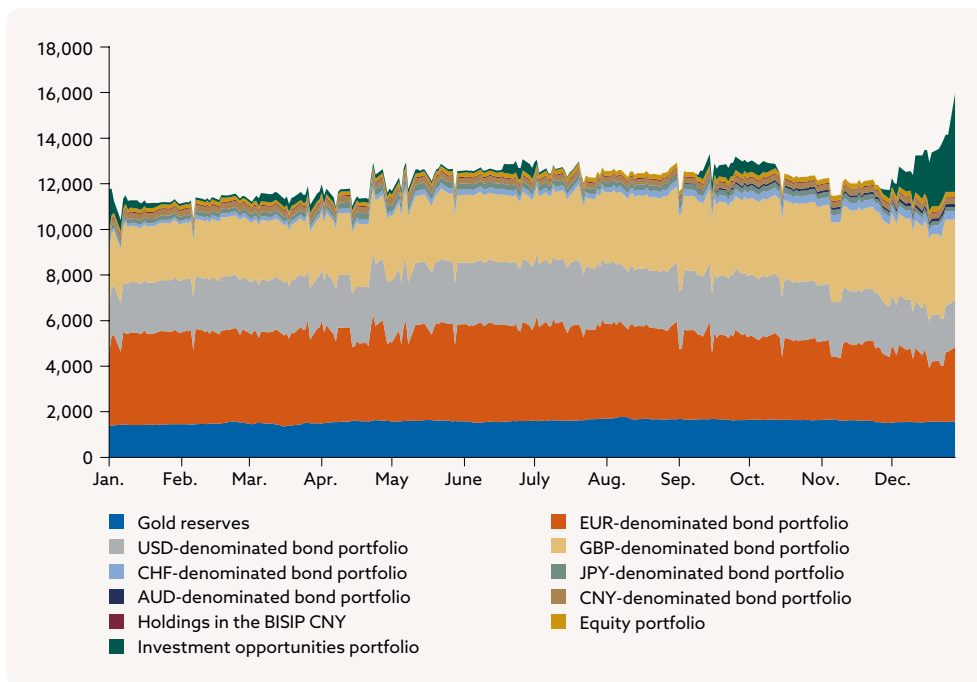
<sup>3</sup> Invested in the currency through the BISIP CNY, an open-ended fund comprising Chinese government bonds and managed by the Bank for International Settlements in Basel.

<sup>4</sup> The overall return on gold holdings was around €199.3 million, mostly accounted for by gold price movements.



**Chart 24:**  
NBS investment  
portfolios  
in 2020  
(EUR millions)

Source: NBS.



**Chart 25:**  
Total value of NBS  
bond portfolios as  
at 31 December  
2020 - broken  
down by country  
of issuer  
(percentages)

Source: NBS.

