

## MEETINGS OF THE NBS BANK BOARD

### **The 21st Meeting of the Bank Board of the National Bank of Slovakia, chaired by Marián Jusko, Governor, was held on 18 October 2003.**

- The Bank Board of the NBS approved the "Report on the Slovak Banking Sector Development and the Assessment of Prudential Conduct in the Banking Sector as at 30 June 2003.

As at 30 June 2003, there were twenty banks operating in the banking sector in Slovakia (i.e., eighteen banks and two branches of foreign banks) and eight representative offices of foreign banks. Of these eighteen banks there were three home-savings banks. Of fifteen banks with a universal licence, there were eight banks and one branch of a foreign bank with a licence for mortgage banking. The volume of subscribed registered capital in the banking sector (excluding the NBS), as compared with the volume as at 31 December 2002, increased by SKK 1.9bn, from SKK 38.5bn to SKK 40.4bn.

Total assets (aggregated net assets) of the Slovak banking sector in the first half of 2003 decreased by SKK 60.3bn (i.e. by 5.94 %) to SKK 953.7bn. The total assets decrease was mainly due to the decrease of primary funds in the banking sector, which were in higher volumes transferred into unit trusts. Total claims on loans reported by banks were SKK 356.1bn as at 30 June 2003. Classified claims decreased by SKK 0.8bn to SKK 37.5bn, i.e. by 1.98 %. Their share in total claims fell by 0.6 % to 10.54 %.

In the second quarter of 2003, three new on-site examinations started in June in line with the 2003 plan of examinations. The NBS Decree No 2/2003 of 30 May 2003 on the Register of Credits and Guaranties was issued. The decree enhances the quality and effectiveness of the Register of Credits and Guaranties system, which has been designed in the NBS to provide banks and branch offices of foreign banks with the information on total credit exposure of clients, and to set the particulars of what the technically ensured protection of reported and supplied information means. This Decree shall become effective on 1 June 2004.

On 12 June 2003 the agreement in the area of banking supervision cooperation was signed between the National Bank of Slovakia and the Central Bank of Cyprus.

- The Bank Board of the NBS took note of the "Report on the Progress in Tasks Set by the FSAP (Financial Sector Assessment Program), EFSAL (Enterprise and Financial Sector Adjustment Loan), Peer Review, and Long-term Supervisory Development Plan, as of 30 September 2003".

- The Bank Board of the NBS approved the Memorandum of Understanding among the Austrian Federal Ministry of Finance, the Austrian Financial Market Authority and the National Bank of Slovakia concerning the cooperation in the area of banking supervision of credit institutions.

- The Bank Board also approved the Decree on the issue of commemorative coins with the theme of the Slovak banknotes of SKK 20, 50, 100, 200, 500, 1000, and 5000. The commemorative coins will be issued as a collector set of seven rectangle coins arranged in a representative wooden box. The collector set is to commemorate the tenth anniversary of the introduction of the autonomous Slovak currency. All seven coins are minimized relief copies of the current Slovak banknotes, issued by the NBS between 1993 and 2002. The coins will be struck of an alloy of silver and copper (925/75). The two highest-value coins will be bimetal on one side. On the obverse of the SKK 1000 coin, a gold plate with the fineness of 999/1000 will be inserted in a silver plate. The obverse of the SKK 5000 coin will be composed of two gold plates with the same fineness, one of which will bear the KINEGRAM® with the minimized theme of the SKK 5000 banknote from 1999.

The author of the obverse themes of all coins is the sculptor Stefan Novotny, and the author of the reverse sides of the coins is the sculptor Maria Poldaufova. The collector set is minted in the Kremnica Mint, and the NBS will issue it before Christmas. The NBS will issue 6,000 sets of coins and if the interest is higher, it is ready to increase this number.

### **The 22nd Meeting of the Bank Board of the National Bank of Slovakia, chaired by Marian Jusko, Governor, was held on 31 October 2003.**

- The Bank Board of the NBS discussed the Situation Report on Monetary Development in Slovakia in September 2003 and decided on maintaining the overnight sterilization rate at 4.75 %, the overnight refinancing rate at 7.75 %, and the limit rate for two-week REPO tenders with commercial banks at 6.25 %.

- The Bank Board of the NBS discussed the Proposal for Changing the Implementation Plan of the Project "Establishment of the Real Time Settlement System in the Slovak Republic", within the SIPS system, by means of which the settlement of inter-bank payments in real time will be carried out from 1 April, 2004.

### **Comment on the NBS Bank Board resolution on interest rates of 31.10.2003**

The development of consumer prices in September slightly exceeded the NBS expectations, where in the structure of inflation, acceleration in the rate of core inflation growth was particularly notable. The source of its faster growth was in particular the additional adjustment of prices of selected tradable goods to the August increase in consumer taxes. At the same time food prices also rose as a result of efforts by primary producers not to sell below production costs.

In 2003 the development of prices will continue to be prevailingly determined by the effect of administrative adjustments with a dampening effect on inflationary demand pressures. The current short-term prediction of inflation confirms expectations of fulfilling planned values for headline and core inflation in the upper band of the planned range.

In relation to abroad the current account deficit in the balance of payments continues to improve in comparison with the same period last year. In August the balance of trade achieved a surplus for the third time this year, and this positive trend continued also in September. The development to date and predictions of macroeconomic indicators suggest a continuation of the decrease in the balance of trade and current account deficits. Their end-of-year level could, with regard to their declining differences expressed in 12-month cumulative terms, achieve a level lower than AMP forecasts.

The development of the Slovak koruna exchange rate in September may also be viewed as stable. In real terms, on a year-on-year basis, the koruna appreciation slowed, which has been influenced by the abatement of the effect of the Slovak koruna's depreciation in the same period of last year. In consequence of this, a continuation of the slowdown in real appreciation also in the coming period may be expected.

The development of the monetary aggregates in September continued along their previous trend. Money supply growth quickened in comparison with August. The overall slowdown in the rate against the previous year is partially connected with the change in the behaviour of bank depositors in favour of non-bank institutions, as well as the decline in real income among the population. The growth in loans slowed moderately, on average however a stable level in the third quarter has been maintained.

The September development of economic and monetary indicators does not indicate any change in the growth of consumer imports and the favourable development is influenced primarily by the export side. The growth in lending activities is connected with people's drawing of long-term mortgage loans.

On the basis of an evaluation of current development and predictions of economic and monetary development it is not necessary to change monetary policy settings. In accordance with this, the NBS Bank Board decided to leave the current level of key interest rates unchanged.

**Press department OVI NBS**

## **PRESS REPORTS**

### **Banking in the SR**

The Deputy Governor of the NBS Ms Elena Kohútiková participated in a conference on the Banking in the SR organised by the Institute for International Research at the Hotel Holiday Inn on 21 October 2003.

Elena Kohútiková was a participant in the panel discussion "Entering Monetary Union – a Threat or an Opportunity", where she presented the opinions of the National Bank of Slovakia as to the optimum timing for the introduction of the single currency – the euro. Participating with the Deputy Governor of the NBS in the discussion was Mr Viliam Harvan, director of the banking and foreign currency department of the Ministry of Finance of the SR and Vladimír Zláčký, chief economist of the bank VÚB, a.s.



**P. Lisý, Photo: P. Kochan**



## IMF Mission in the National Bank of Slovakia

From 7 to 16 October 2003, the International Monetary Fund sent a mission to Slovakia, dealing with the examination of macro-economic indicators. The members of the mission were Juan José Fernández-Ansola, head of the mission, Mrs Choueiri and Mr Moore. Costas Christou, permanent representative of the IMF in Slovakia, cooperated closely with the mission, and

participated at several of the meetings. Besides the NBS and the Ministry of Finance of the SR, the mission's members will have negotiations also at the Ministry of Work, Social Affairs and the Family, the National Property Fund, the Statistical Office of the SR and the Utilities Regulation Authority. On 7 October 2003, representatives of the mission met the Governor of the NBS Marián Jusko, who informed them of current monetary policy issues and on the development of the SR's macroeconomic indicators.

## Signing a new agreement

On 8 October 2003, the Governor of the National Bank of Slovakia Marian Jusko and the Ambassador, Head of the SR's mission to the European Communities in Brussels, Miroslav Adamis, signed in Brussels the new Constituency Agreement of the Belgian Constituency of the International Monetary Fund (IMF) and the World Bank (WB). The agreement between the central bank governors of the countries of the Belgium Constituency governs the internal relations and the

appointments to positions the Constituency. The new Constituency Agreement has been signed for ten years.

The Belgium constituency comprises ten member countries of the IMF and World Bank, namely Belgium, Austria, Hungary, Turkey, the Czech Republic, Belarus, Kazakhstan, the Slovak Republic, Luxembourg and Slovenia. These countries' cooperation is based on the Constituency Agreement that the countries signed on 27 January 1994, being in effect for ten years.

**Press department OVI NBS**

## Opinion of the ECB

On 13 October 2003, the Director of the Directorate Communications of the European Central Bank (ECB), Manfred Korber, gave the ECB's opinion regarding media reports on the alleged commencement of negotiations on entry to the exchange rate mechanism ERM II by certain acceding countries. In the opinion it is stated:

"The Press and Information Division of the ECB, on the basis of materials that have appeared recently in

the media (Reuters, The Times of Malta, Borsen Zeitung, Der Standard) on negotiations with the ECB on the conditions of the new EU member states' entry into the ERM II system, at the request of media, responds that the European Central Bank is not informed about any such negotiations. These in any case cannot commence before the formal initiation of the process of entering ERM II. We do not envisage that this process will begin before the new member states enter the European Union".

## Compulsory takeover bid for Slovnaft shares approved

The Financial Market Authority has approved a proposal for the compulsory purchase of shares issued by

Slovnaft, a.s. This proposal was submitted on 28. October 2003, by the company MOL, the Hungarian oil and gas joint-stock company. The decision came into force on 29 October 2003 and is enforceable.

**M. Kačmár, Financial Market Authority**

## Unibanka – sale of Pioneer funds

Unibanka has begun with the sale of an expanded range of 45 funds administered by the Pioneer Investments company. Both companies are a component of the Italian banking group UniCredito Italiano. Of them, 43 are foreign funds and 2 Slovak koruna funds – money and bond funds. The basic range comprises 13 funds, koruna, euro, USD and mixed lifestyle funds. Until the end of the year UniBanka is offering all new

investors free-of-charge entry in the case of investments in koruna money funds. All types of Pioneer funds are sold at UniBanka outlets, the number of which will increase by the end of the year to 69. The amount of the minimum investment is SKK 30 000.

Pioneer Investments has operated on international markets now for 75 years and administers 180 funds with total assets of almost EUR 115 billion (as at 31 August 2003).

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## NEW RATING OF ISTROBANKA

CRA Rating Agency, a renowned international rating agency and an affiliate of Moody's Investors Service, granted a long-term international CRA Rating of A- to ISTROBANKA, a.s., which means that the ability of this bank to discharge its long-term liabilities denominated in foreign currencies in time and to the full extent is equal to that of the Slovak Republic. Furthermore, ISTROBANKA was awarded a long-term local CRA Rating of skAa-, ranking the bank among high quality entities with a great ability to pay their long-term liabilities in time and to the full extent. CRA also granted ISTROBANKA a short-term local CRA Rating of skP-1, which is the highest possible assessment of an ability to discharge one's current liabilities (with a maturity of up to one year) in time and to the full extent. ISTROBANKA's outlook with regard to its ratings is stable.

The CRA's decision to provide ISTROBANKA with such a high rating largely rests on the support on the part of the parent group BAWAG P.S.K., the only shareholder and a 100% owner of ISTROBANKA since March 2002, and its statement of intent to get involved in the bank as a long-term shareholder. The agency very positively perceives the ongoing successful revision of the product portfolio and introduction of new products using the parent group's know how. The agency's decision was also facilitated by some other factors, such as the bank's tradition and history of operation in the market since 1992, a relatively well established trademark and goodwill,



**At the press conference held on 21 October 2003, Mag. Volker Pichler, Chairman of the Board of Directors and General Director of ISTROBANKA (left) received from Ing. Lubomír Dubecký, Director of CRA RATING AGENCY for the SR, an official certificate attesting to the bank's high rating.**

a position of high rank in the segment of small and mid-sized businesses, a comparatively broad distribution network and a full range of services offered. CRA sees the bank's results of operations so far to be commensurate with its starting position, noting its good prospects for improvement in the forthcoming years.

In CRA's view, accomplishment of the bank's strategic goals will almost solely depend on how successful ISTROBANKA is in the highly competitive Slovak banking market. A necessary prerequisite for success will be the bank's ability to utilise the rich experience of either of its own or of the

BAWAG P.S.K. group in the form of new, quality and attractive products on the one hand, but especially the bank's ability to sell these products to clients. This might be facilitated by ISTROBANKA's reinstatement in the market for municipal financing, the enlargement of its distribution network (starting from 2005, the bank plans to open 15 new outlets), the expansion of subsidiaries, the utilisation of synergy effects ensuing from the BAWAG P.S.K. group, and also spreading cross-selling of non-banking products through its distribution network. The attractiveness of the bank and of its products is also documented by the fact that over the last, barely two years, the number of ISTROBANKA's clients rose by more than 70 thousand and towards the end of September 2003, their number stood at almost 182 thousand.

**Alica Polónyiová**

ISTROBANKA, a.s. is a universal bank, active in the Slovak banking market since September 1992. Nowadays it operates a network of 13 branches and 23 sub-branches all over Slovakia. The bank's financial group comprises two subsidiaries subject to consolidation. They are ISTRO RECOVERY, spol. s r.o., which is in the business of collecting claims, and ISTRO ASSET MANAGEMENT, správ. spol., a.s., which provides the clients with an alternative way of adding value to their funds through investment into mutual funds. Starting from March 2002, Bank für Arbeit und Wirtschaft, Aktiengesellschaft, Vienna is its 100% shareholder.

CRA RATING AGENCY, a.s., has been active in the market for rating services for the sixth year in a row. Its shareholder is the American company Pragocontact Corporation. The agency has already assigned ratings to more than 110 entities and it is the only recognised local rating agency in the Czech Republic and the Slovak Republic. Its products include CRA Rating, CRA Fond Scoring and Czech/Slovak Sector Award, rating of bonds traded in the BCPB and BCPP markets and others. In October 2002, it signed an affiliation agreement with world-renowned rating agency Moody's Investors Service, thus becoming the sixth Moody's affiliate in the world and the only one in Central Europe. It has already rated 20 entities in Slovakia, awarding 35 ratings thereto.



## European Integration

The Governor of the National Bank of Slovakia, Marián Jusko, together with the Governor of the National Bank of Poland Leszek Balcerowicz participated in the Discussion Forum held by the HN Club in the Bratislava Hotel Forum on 16 October 2003. Both central bank governors of these countries acceding to the EU spoke on the topic of integration. While L. Balcerowicz focused on the overall economic advantages that membership in the Union will bring to the new countries, M. Jusko spoke in more detail on the preparations

for Slovakia's entry to Economic and Monetary Union (EMU). He emphasised that the positive factors of the transition to the common European currency significantly outweigh the disadvantages that would temporarily accompany the euro's introduction. The NBS Governor repeated that in the case of the current positive trends of the Slovak economy's development being maintained, the country can expect to enter into the eurozone in 2008-2010.



*Leszek Balcerowicz, Governor of the National Bank of Poland*



*Marián Jusko,  
Governor  
of the National  
Bank of Slovakia*

*Igor Barát  
Photo:  
Pavel Kochan*

## International Conference in Salzburg



*From left: Reinhard Ortner, member of the board of directors of Erste Bank, Vienna, Elena Kohútiková, Deputy Governor of the NBS, Walter Schwimbersky, managing director of Salzburger Sparkasse, Erhard Busek, coordinator of the Stability Pact for Central and Eastern Europe, and Walter Koren director of foreign economic relations, Chamber of Commerce, Austria.*

The Deputy Governor of the National Bank of Slovakia Elena Kohútiková, attended the international conference "Central and South-Eastern Europe – Expansion Opportunities for Your Business", held in Salzburg, Austria on 15 October 2003. She gave an introductory speech for the business community on the topic "Slovakia – the sensible choice for your investment". She familiarised investors with the conditions of investing in Slovakia in the context of current macroeconomic development and the reforms being made, combining to create attractive conditions for their investment. Participants at the conference were interested primari-

ly in the implementation of tax and pension reforms, as well as legislative stimuli in the form of state aid supporting foreign investment, which will apply also following the SR's entry to the EU, in accordance with EU law governing economic competition. Besides the Deputy Governor of the National Bank of Slovakia, reports were also presented by Erhard Busek, coordinator of the Stability Pact for South Eastern Europe, and Peter Havlik – Deputy Director of the Vienna Institute for International Economic Studies (WIIW).

*Peter Lisý*