



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

Bratislava, 23 November 2016

## **Opening remarks**

**by Mr Jozef Makúch**

**Governor, National Bank of Slovakia**

Good morning ladies and gentlemen.

Let me warmly welcome all of you to this conference.

It is my great pleasure to be the host of this research conference, an event that the National Bank of Slovakia organises every other year. This is already its 4<sup>th</sup> edition and, looking at the programme, I am confident we will have very fruitful and stimulating discussions.

Two years ago, opening the previous research conference at this same spot, I said we were living through exciting times for innovation in monetary policy implementation.

Standing here today, I would not much change that statement.

Even so, it was hard, two years ago, to imagine many of the things that we have subsequently witnessed in the euro area. It was hard to imagine deeply negative deposit rates. It was hard to imagine negative yields on long-term sovereign securities. It was hard to imagine Eurosystem balance sheets exceeding 30% of euro area GDP. And it could barely be imagined that we would embark on purchasing sovereign bonds, or even private sector assets, without sterilising them on our balance sheets.

But given the circumstances, we were compelled to deploy unconventional measures in order to preserve our ultimate goal of medium-term price stability.

With these measures, the euro area has entered uncharted waters. Therefore research into unconventional monetary policies and their transmission in different environments has become of utmost importance.

I am glad that our discussions at this conference will cover not just the mechanism of monetary policy transmission, but also its interaction with financial stability. I am especially looking forward to hearing some of the latest research on how monetary policy transmission works in small open economies and on how various policies spill over into other monetary areas.

It should be noted, however, that the bulk of research in this area focuses on the global level and on the larger euro area countries. While such research has much to teach us, and is of course represented at this conference, we must be aware that small open economies – and I refer in particular to the newer EU Member States – have very distinctive market structures. This implies that different countries will process unconventional monetary policy signals in different ways and with different outcomes.

Let me illustrate with the country case I know best.

*(Slide 2 here)*

Slovakia is a small euro area country that can be described as a safe, perhaps even core, member of the bloc.

Even three years ago we were fortunate, compared to other euro area countries, to have solid macro fundamentals and moderate private sector credit growth. Nevertheless, exceptionally accommodative monetary policies have been applied throughout the euro area, including Slovakia.

At first sight, the data appear to show that the policies have been successful. As we can see,

*(slide 3 here)*

credit growth rates accelerated even further following the introduction of the unconventional monetary policy programmes, back to their highest levels since 2008.

That is what the data show. But what do we see in the structure of the local financial market? In general, a very shallow and largely illiquid market with sovereign bonds held almost exclusively by banks.

*(Slide 4 here)*

Sovereign bonds as a share of domestic banks' total assets are close to 20% in Slovakia, higher than in any other euro area country. Since a large majority of these holdings are in held-to-maturity portfolios, most purchases under the APP programme are being made abroad.

Moreover, it is almost exclusively the banking sector that finances the non-financial private sector.

Now, let me have a look at these specificities through the lens of theory. There are understood to be three principal transmission channels for unconventional measures:

- the signalling channel;

- the portfolio rebalancing channel;
- the bank lending channel.

Slovakia's shallow local securities market and almost fully bank-financed system can barely generate or transmit the signals that our monetary policy is trying to send via market prices and future interest rates.

Given that bond purchases under the asset purchase programme are made mostly in external markets, the scope for exchanging longer-term and relatively less liquid assets for very short-term and highly liquid central bank money is limited. Or in other words, domestic bond purchases under the programme very seldom lead to portfolio rebalancing. This in turn may constrain one of the expected transmission channels.

*(Slide 5 here)*

Is the observed pick-up in credit solely attributable to the stimulation of credit supply by the reduction in the cost of credit?

Eighteen months on from the launch of the asset purchase programme, we see many new general findings, but are still searching for answers to too many questions, especially in regard to policy transmission in smaller economies with less liquid markets.

Are we correct to follow the general findings obtained in this very heterogeneous environment? Can smaller states rely on external demand pull from the rest of the euro area and overlook the importance of direct effects of unconventional policies on their own economies?

Furthermore, considering the strong focus on accommodation and credit support, shall we continue to concentrate mainly on price stability as our mandate requires? Or shall we give more importance to financial stability concerns, and, if so, to what extent?

Many of these and other topics will be discussed at this conference and I am very much looking forward to the exchange of views. As we know, research is about continually collecting evidence and building on previous knowledge. It therefore pleases me that the National Bank of Slovakia is helping to add to this collection of wisdom by hosting discussions on findings from new research projects.

Let me conclude by expressing my hope that we have two days filled with fruitful and informative discussions and that this conference provides fertile ground for many new ideas.

Thank you.