



INTERNATIONAL CONFERENCE: THE CHALLENGES FOR CENTRAL BANKING

On 5 June 2018 an international conference entitled *The Challenges for Central Banking* was held in Bratislava as part of a series of events to mark the 25th anniversary of *Národná banka Slovenska* (NBS). The conference addressed some of the key issues facing central banks today. The discussions were divided into three panels, each focused on a particular topic as follows: (1) *Managing the twin goals of central banks: financial stability and price stability*; (2) *Measuring, navigating and responding to financial cycles*; (3) *Shaping the future of financial services*. The heads of the Czech, Austrian and Swiss central banks each chaired a discussion panel. The panellists included representatives of *Národná banka Slovenska*, international financial institutions, commercial banks, and academia. In his opening remarks to the conference, NBS Governor Jozef Makúch stressed that the issues of financial stability, technological innovation in the financial sector, and non-standard monetary policies had to be viewed from both the position of the global economy and the position of small open economies such as Slovakia's. He also noted that the Slovak banking sector was in some respects better prepared for the introduction of new technology, since it had not been burdened with legacy procedures from the 20th century. (p. 2)

MACROECONOMIC PROJECTIONS FOR SLOVAKIA ACCORDING TO THE JUNE 2018 MEDIUM-TERM FORECAST (MTF-2018Q2)

Slovakia's annual economic growth in 2018 is now projected to be 4.0%, which although lower than projected in the March 2017 Medium-Term Forecast, is still higher than the last year's growth rate of 3.4%. In addition to a pick-up in export performance, the growth forecast reflects the expansion of production capacity in the car industry and also envisages a gradual strengthening of domestic demand. Household income growth is expected to have an upward impact on consumer demand. Employment is expected to increase throughout the projection period, but the pace of that growth should gradually decrease owing mainly to labour market tightening, negative demographic trends, and a declining pool of skilled unemployed. The unemployment rate is projected to maintain its moderate downward trend and to creep below 6% before the forecast horizon. The inflation rate is expected to accelerate under demand-pull pressures, and remain above 2% throughout the projection period. (p. 12)

PRINCIPAL RISKS AND TRENDS IN REGARD TO THE STABILITY OF THE SLOVAK BANKING SECTOR

Jozef Kalman, *Národná banka Slovenska*

The notably benign economic environment has been having a rather favourable impact on the financial stability of the Slovak financial sector. This trend, however, also entails risks in regard to long-term sustainability. As for external risks to financial stability, financial market risks are becoming ever more significant and include, in particular, the risk related to the potential overpricing of assets. In the domestic environment, the most significant trend and risk is excessive household credit growth and the related high increase in household indebtedness. *Národná banka Slovenska* has responded to this situation by tightening regulatory requirements for lending to households. Rapid credit growth has also had an upward impact on liquidity risk. (p. 14)

FOLLOW-UP ON THE CCyB IN SLOVAKIA: BUILD-UP, CALIBRATION AND RELEASE

Štefan Rychtárik, *Národná banka Slovenska*

Macroprudential policy was intended to use a wide range of instruments, differing by type, scope and legal background. The application of these instruments across the European Union has varied in practice due to

differences in the legislative environment. Unlike most other macroprudential policy instruments, countercyclical capital buffer (CCyB) frameworks are implemented in all EU Member States. Although these frameworks have a general homogeneity stemming from common provenance in EU legislation, their practical implementation in Member States reflects different characteristics of local financial and lending markets. Naturally, there continue to be various approaches to financial cycle monitoring, buffer rate calibration, and buffer release. Some frameworks are more sophisticated, while others employ simpler metrics, but always searching for a balance between complexity and transparency, accuracy and intuitiveness. In its conduct of macroprudential policy, *Národná banka Slovenska* has so far opted for a more transparent and intuitive approach to all stages of the CCyB process, such that reflects the traditional business models of local banks, the absence of a deep domestic financial market, and the limited length of time series. (p. 20)

FISCAL MULTIPLIERS AND THEIR DEPENDENCE ON THE INTERACTION BETWEEN MONETARY AND THE FISCAL POLICIES

Michal Benčík, *Národná banka Slovenska*

Using structural vector autoregressions (SVARs), we investigate the fiscal multiplier in normal times and in the presence of a binding zero lower bound (ZLB) on interest rates. We construct special shocks to interest rates that compensate their reactions to fiscal expansion and hold the rates constant, applying the model to the euro area and the United States. In the case of the euro area, the multiplier increases sharply in the ZLB, but in the United States it decreases. The sign of its change is determined by the coordination of fiscal and monetary policy, i.e. whether interest rates rise or drop in response to fiscal expansion. We also applied this technique to Slovakia and found that the change of the multiplier in the ZLB in Slovakia is analogous to that in the euro area. (p. 25)

EFTA COURT INTERPRETS LEGAL EXPENSES PROVISION OF EU DIRECTIVE

Dominik Baco, *Národná banka Slovenska*

In this article, the author looks at the issue of legal expenses insurance. Originally under Directive 87/344/ECC and now under Articles 199 to 205 of Directive 2009/138/EC (Solvency II), insured persons enjoy a right (under certain circumstances) to freely choose an external lawyer to serve their interests. Recently, a Liechtenstein court requested the EFTA Court to give a preliminary ruling concerning the interpretation of that right. As usual, the EU Member States were also asked to submit their observations. The author, an employee of the National Bank of Slovakia who participated in the elaboration of that observation, examines the judgment of the Court as well as some of its implications for Slovak legislation or at least for insurers' future practice. (p. 28)

BOOK REVIEW: PRÁVO FINANČNÉHO TRHU (FINANCIAL MARKET LAW)

by Lubomír Čunderlík et al.

Timotej André, *Národná banka Slovenska*

This university textbook focuses on the legal regulation of the financial market in Slovakia and refers to the related European regulation. Praise is due for the intention to provide a dedicated comprehensive treatment of financial market law in Slovakia, something that has long been lacking in the academic literature. Written by a team of authors led by Lubomír Čunderlík, the book covers its subject matter very clearly and coherently. It is divided into a general part and a detailed part, the latter being subdivided into eight chapters on different aspects of financial market law. While aimed mainly at law students, this book will also be of practical use to professionals in the field. (p. 29)