



MACROECONOMIC PROJECTIONS FOR SLOVAKIA ACCORDING TO NBS'S SEPTEMBER 2018 MEDIUM-TERM FORECAST (MTF-2018Q3)

New investment in the automotive industry began having an increasing impact in the first half of 2018, which will be reflected in a sharp rise in investment activity for the whole year. This, together with export growth, is expected to push GDP growth up to 4% in 2018. Next year, when Slovakia's new car plant has begun operation and is exporting its output, GDP growth is projected to accelerate to 4.5%, before falling back to 4% in 2020. Households are expected to benefit from the favourable economic situation. Employment is projected to increase, and demand for labour should boost wage growth. In this context, purchasing power is expected to increase and its growth should have an immediate upward impact on demand-pull inflation. (p. 2)

THE IMPACT OF DEMOGRAPHIC FACTORS ON THE SLOVAK HOUSING MARKET

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Demographic trends, and in particular the age structure of the population, are significantly affecting the demand side of the Slovak housing market. There is an increasing view that rapid demographic ageing in Slovakia could be the factor that in coming years begins to curb demand pressures on house price growth. This article aims to outline certain demographic developments in Slovakia and their potential repercussions for the domestic housing market. (p. 5)

THE ABLV BANK CRISIS

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On 13 February 2018 the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) announced plans for measures that would prohibit the opening or maintaining of a correspondent account in the United States for, or on behalf of, ABLV Bank, the third-largest bank in Latvia at the time. The reason given for this unusual step was the bank's non-compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) rules. Immediately following the FinCEN announcement, the bank experienced an abrupt wave of withdrawal of deposits, even though FinCEN's proposed measures were not as yet in effect. Within ten days after the announcement, the European Central Bank (ECB) determined that ABLV Bank, which until then had reported a relatively strong capital position and ample liquidity, was failing or likely to fail. Subsequently, the Single Resolution Board (SRB) determined that resolution action was not necessary and that, as a consequence, the winding up of ABLV Bank and its Luxembourg subsidiary would take place under the law of Latvia and Luxembourg, respectively. But while the Latvian bank somewhat unconventionally opted for voluntary liquidation, requests for the liquidation of the Luxembourg subsidiary were rejected by a court in that country. The

ABLV case has revealed several deficiencies in the current resolution framework, as well as in the monitoring of compliance with AML/CFT rules within the European Union. This article describes the situation in the Latvian banking sector before the ABLV crisis, the current state of the case, and what these developments will mean for Latvia and the EU. (p. 10)

EURO SHORT-TERM RATE (ESTER)

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The global benchmark reform that we wrote about in the December 2017 issue of *Biatic* has had a substantial impact on global interest rate benchmarks. On the one hand, it has revealed the inadequacy of the current operation of interbank offered rates (IBORs), which will probably result in most of them being scrapped. On the other hand, this situation is giving impetus to the development of new, requirement-compliant and reliable benchmarks. In the euro area, this has culminated in the decision to develop a euro short-term rate (ESTER), which could be a major European milestone within the system of global benchmarks. (p. 15)

THE OPEN BANKING INITIATIVE

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The Open Banking initiative is now a priority issue in the development of modern financial services. This initiative has a distinct potential to change the future administration and management of finances, to increase competition between financial services providers, and to improve customers' experience of banks. It marks a significant step forward for both banks and innovative fintechs. What, though, does Open Banking actually mean? Simply put, it is about enabling customers to give authorised third parties other than their credit institution access to financial and transaction data which until recently the institution alone would have held and had access to. These new licensed providers of payment initiation services and account information services may be able to fully realise the initiative's potential and, in cooperation with traditional market players such as banks, offer services tailored to customers and their individual needs. (p. 18)

TECHNICAL FACTORS OF ETF INVESTING FOR TAX-EXEMPT INVESTORS

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Exchange-traded funds (ETFs) have been gaining popularity in global markets, offering various types of investors a convenient vehicle for strategy implementation. Whether investors wish to simply replicate an index or to actively seek alpha, they can find an ETF or combination of ETFs that will satisfy their investment aims. But despite the ease of ETF trading, there are technical factors important to determining the efficiency of the investment outcome (low costs/tight tracking/low access cost). (p. 25)