



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



FOREWORD



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Last year we were witnesses to an array of economic and monetary-policy changes both at home and abroad. Our economy was hit hard by the adverse impact of the global economic crisis. Národná banka Slovenska joined the Eurosystem and, in regard to financial stability, it was involved in addressing many new challenges of both regional and global significance.

For Národná banka Slovenska, 2009 brought a fundamental change in relation to the successful introduction of the euro currency and the transition to a common monetary policy. Decisions on monetary policy, foreign exchange interventions, foreign reserves, the volume of currency in circulation and international cooperation are now taken at the Eurosystem level. It is in accordance with decisions of the Eurosystem that NBS conducts market operations and foreign exchange interventions, manages foreign reserves, issues euro banknotes and euro coins, and engages in international negotiations. The NBS Governor, as a full member of the ECB Governing Council, codetermines monetary policy for the whole euro area. In addition, many NBS staff participate in various ECB committees and working groups and thereby play a part in the setting of the euro area monetary policy.

The common monetary policy brings us several benefits. In the event of turbulences, the Slovak economy is not buffeted by regional fluctuations. The risk of a liquidity shortage in the banking sector has been reduced, and both the Government and business have seen borrowing costs fall.

The euro changeover also entailed substantial changes in payment infrastructures. NBS began operating the TARGET2-SK payment system, a part of the trans-European payment system. At the same time, NBS converted the SIPS payment system into the EURO SIPS payments system. All the changes related to the euro changeover passed off without a hitch, thanks to the thorough preparations made in the preceding period.

For Slovakia, as a converging country that originally had a floating exchange rate, there was

a major challenge to maintain low inflation once the benefit of an appreciating domestic currency no longer existed. Developments in 2009 confirmed that the consumer prices were not significantly affected by strengthening of the exchange rate. Slovakia recorded its lowest ever average rate of inflation (0.9%). According to our estimates, the euro changeover added around 0.15 of a percentage point to the inflation rate, which tallies with the experiences of countries that previously adopted the euro. If deflationary items were also included in the calculation, the direct effect of the euro changeover on the inflation rate would be close to zero.

During the initial stages of the global financial crisis, Slovakia's economy and financial sector were not directly affected by it. Since banks in Slovakia had a liquidity surplus, they did not face refinancing difficulties. Banks had sufficient business opportunities in the domestic market, they followed conservative business models, and their exposure to innovative financial instruments was very small indeed. In an effort to prevent any unwarranted flight of funds, Národná banka Slovenska tightened the rules for short-term liquidity.

But neither a sound financial sector, nor the introduction of the single currency could keep protecting Slovakia from the adverse effects of the global recession. After several years of rapid growth, Slovakia's GDP contracted sharply in 2009. The economic decline was most pronounced in the first quarter of the year, and gradually slowed down over the next three quarters. For the year as a whole, Slovakia's average GDP fell by 4.7% on a year-on-year basis, with most of the downward pressure coming from unfavourable developments in external demand. The lower economic activity was reflected in the labour market, as the number of people in employment declined and the unemployment rate climbed. Because of its highly open economy and large proportion of cyclical sectors, Slovakia was one of the EU countries most severely affected by the economic crisis.

In response to the deteriorating situation, domestic economic policy-makers took several





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countermeasures. Fiscal policy was set so as to boost the utilisation of EU funds and PPP projects, and Slovakia joined the European Economic Recovery Plan. Support for selected public financial institutions was strengthened, and full deposit protection was reintroduced on a temporary basis. As a result of monetary policy decisions, the base interest rate gradually came down to 1% (a drop of 225 basis points during the whole of 2009). As the consequences of the global financial and economic crisis became increasingly serious, the ECB responded with additional non-standard measures. These included using fixed-rate tenders with full allotment in all liquidity-providing operations, extending the set of eligible collateral, broadening the maturity spectrum at which refinancing operations are offered, introducing swap operations in other currencies, and purchasing secured bonds denominated in euro.

In order to have an effective legal framework within which to fight the global crisis, NBS drafted the so-called "Anti-Crisis Act" (No. 276/2009 Coll.), which allows the provision of stabilisation aid to commercial banks. While this law is similar to laws adopted by other EU Member States, it differs in that it was adopted only for preventive reasons, i.e. its purpose is to strengthen legal certainty in the event of a critical financial situation. Another key legislative change from the view of NBS was the adoption of Act No. 186/2009 Coll. on financial intermediation and financial advisory services. The aim here was to ensure that

rules concerning the performance of intermediation activities and financial advisory services are the same across the sectors of insurance and reinsurance, capital market, supplementary pension saving, and lending and deposit taking. As for legislation on payments systems, a significant change took place with the adoption of Act No. 492/2009 Coll. on payment services and on amendments to certain other laws. This Act included amendments to the NBS Act, one result of which is that the number of members of the NBS Bank Board is being gradually reduced. Eventually, the Bank Board will have a total of five members: the Governor, two Deputy Governors and two other members.

The crisis has altered the way that financial stability is understood. The report of a High-Level Group chaired by Jacques de Larosière has made several specific recommendations for overhauling the current framework of financial stability. On the basis of the "de Larosière Report", it has been decided to enhance financial stability in the EU and improve macroprudential supervision by establishing the European Systemic Risk Board (ESRB) and the European System of Financial Supervisors (ESFS). Národná banka Slovenska is actively involved in events in this area. In the period ahead, questions of how to strengthen international supervision and the risk of national supervisory authorities' powers being restricted as a result will probably be the central topics of supranational discussions as well as matters of key interest to Národná banka Slovenska.

May 2010

Jozef Makúch
Governor



Members of the NBS Bank Board

Front row (left to right): Martin Barto, Ivan Šramko, Viliam Ostrožlík

Back row (left to right): Slavomír Šťastný, Gabriela Sedláková, Ľudovít Ódor, Jozef Makúch, Karol Mrva, Milena Koreňová, Štefan Králik, Peter Ševčovic

THE BANK BOARD OF NÁRODNÁ BANKA SLOVENSKA

The main governing body of Národná banka Slovenska is the NBS Bank Board (hereinafter “the Bank Board”). The scope of its powers is laid down primarily in the NBS Act, other generally binding legal regulations, and the Organisational Rules of NBS.

With effect from 1 December 2009, the number of Bank Board members is set at five under Section 7 of the NBS Act. The Bank Board consists of the Governor, two Deputy Governors and two other members. The term of office of Bank Board members is five years. The term of office of the Governor, Deputy Governor and other members of the Bank Board commences as of taking effect of their appointment. While an ordinary member of the Bank Board may be reappointed to the same position an unlimited number of times, the Governor and the deputy Governor may serve no more than two terms.

Until 30 November 2009, the Bank Board had 11 members as stipulated under the NBS Act.

As of 1 December 2009, until the number of other Bank Board members is reduced to the target number of five, the Bank Board shall consist of the Governor, one Deputy Governor and all other

members whose office existed as at 1 December 2009 and who were appointed before 1 December 2009 until the lapse of their position as Bank Board members.

The Governor and Vice Governor are appointed, and may be dismissed, by the President of the Slovak Republic at the proposal of the Government and subject to the approval of the Slovak Parliament. The other two members of the Bank Board are appointed, and may be dismissed, by the Government at the proposal of the NBS Governor.

The Bank Board had the following members in 2009:

- Ing. Ivan Šramko, Governor;
- Ing. Viliam Ostrožlík, MBA, Vice Governor responsible for the Financial Management Department, the Human Resources Management Department, and the International Relations and Communication Department;
- Ing. Martin Barto, CSc., Vice Governor responsible for the Financial Market Supervision Unit (encompassing the Supervisory Department, the Licensing and Enforcement Department, and the Regulatory and Risk Management Methodology Department);



THE NBS BANK BOARD

- Ing. Milena Koreňová, member responsible for the payment system and currency circulation;
- Ing. Štefan Králik, member responsible for the Office of the Governor and Legal Services (as from 1 April 2009),
- doc. Ing. Jozef Makúch, PhD., member responsible for security and premises;
- RNDr. Karol Mrva, member responsible for financial market operations;
- Mgr. Ľudovít Ódor, member responsible for research;
- Ing. Gabriela Sedláková, member.
- Ing. Peter Ševčovic, member responsible for monetary issues (until 1 October 2009),
- Ing. Slavomír Šťastný, PhD., MBA, member responsible for information technology;