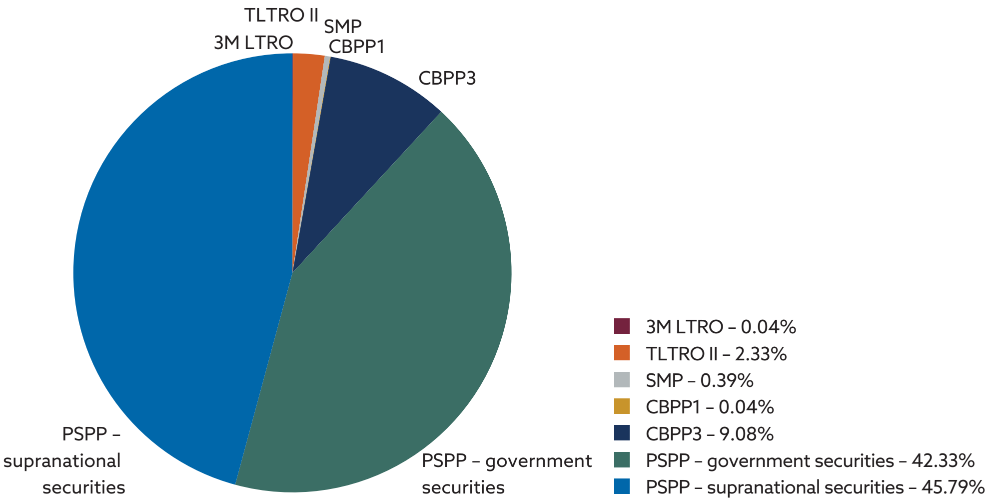
1 Monetary policy implementation and investment portfolio management

In 2019 Národná banka Slovenska (NBS) participated in the ECB's asset purchase programme (APP) by making purchases under the public sector purchase programme (used for purchasing central government bonds and bonds issued by international and supranational institutions and agencies located in the area) and the third covered bond purchase programme (CBBP3). At the end of 2019 the securities in NBS's monetary policy portfolio, measured at amortised cost amounted to €22 billion. Of that total, Slovak government bonds accounted for €10.3 billion, supranational bonds for €9.6 billion, and covered bonds purchased under the CBPP3 for €2 billion. The outstanding amount of domestic banks' borrowing under the second series of targeted longer-term financing operations (TLTRO II) was €526 million at the end of 2019, and the outstanding amount under the three-month LTROs was €8 million. NBS's involvement in monetary policy operations in 2019 centred on the APP (see chart 15) and predominantly on the APP's public sector purchase programme (PSPP). Of NBS's monetary policy assets at end-2019, 88% were purchased through the PSPP. In 2019 NBS was also lending domestic and foreign government securities purchased under the APP. This lending was conducted under APP securities lending framework in two ways: via the State Street Bank and Trust Company, as an agent, and via Euroclear Bank, as a custodian. The securities were lent both automatically and to third parties on request.

Chart 15
NBS monetary policy assets (percentages)



Source: NBS.
Note: CBPP1 – first covered bond purchase programme; SMP – Securities Markets Programme; 3M LTROs – three-month longer-term refinancing operations.

1.1 Minimum reserve requirements

In 2019 the ECB introduced a two-tier system for reserve remuneration

Under Eurosystem rules, all euro area credit institutions are required to hold a certain amount of funds as minimum reserves in their current accounts at their national central bank (NCB). Institutions currently have to hold a minimum of 1% of the sum of eligible balance sheet items that constitute the basis for calculating the reserve requirement ('the reserve base'). This requirement must be met on average over the maintenance period, i.e. the period over which compliance with reserve requirements is calculated.

In 2019 a total of 27 credit institutions in Slovakia were subject to minimum reserve requirements. They comprised 12 banks incorporated in Slovakia (including three home savings banks) and 15 branches of foreign credit institutions.

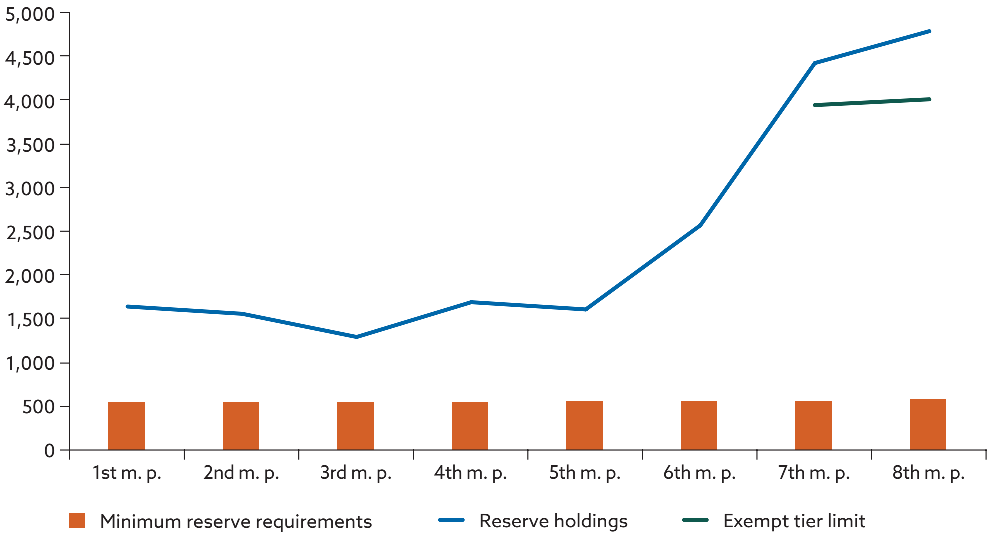
Excess reserves continued to be remunerated at a negative rate in 2019, as they had been since 11 June 2014. That rate was lowered from -0.40% to -0.50% on 18 September 2019.

Under the new two-tier system for remunerating excess reserve holdings, a fraction of banks' excess reserve holdings (the exempt tier) is exempt from the negative deposit rate, and this tier is determined as a multiple of a bank's minimum reserve requirements. As from 30 October 2019 the multiple and remuneration rate were set at six and 0% respectively. The non-exempt tier of excess liquidity holdings continued to be remunerated at the deposit facility rate, which at the start of the tiering system stood at -0.5%.

The average amount of reserves that banks were required to hold with Národná banka Slovenska in 2019 was €553.56 million, 5.8% more than in 2018. In 2019 the amount of banks' actual reserve holdings at NBS was, on average, 341.4% higher than the reserve requirement, while in 2018 it had been 181.7% higher. This increase was due largely to the launch of the two-tier system for remunerating excess reserve holdings, as banks increased their reserve holdings in order to take advantage of the zero interest rate applied to the exempt tier.

Chart 16

Reserve holdings and minimum reserve requirements in 2019 (EUR millions)



Source: NBS.
Note: m. p. – maintenance period.

1.2 Eligible assets

As a share of the assets used as collateral in Eurosystem credit operations, covered bonds continue to increase gradually at the expense of government debt securities

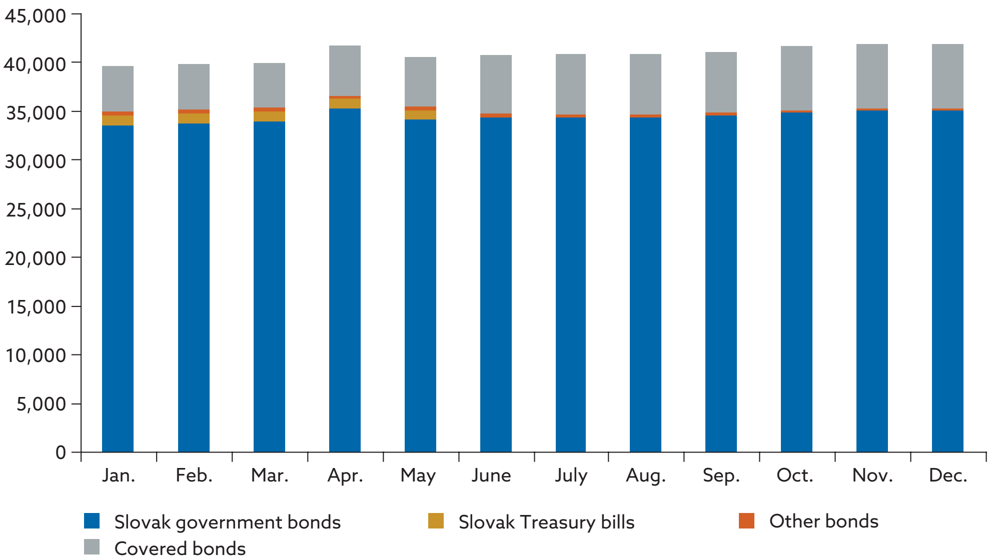
The collateral eligibility criteria for Eurosystem credit operations underwent only minor changes in 2019, mainly concerning the further elaboration of existing rules. One change was to align the criteria used for recognised agencies in the collateral framework and agencies eligible for the public sector purchase programme (PSPP). The ECB also amended the criteria for own-use of covered bonds. From 1 February 2020 covered bonds must have an external credit assessment institution (ECAI) rating to be eligible for own-use.

There were also changes relating to credit claims used as collateral in Eurosystem credit operations. Floating rate credit claims with an existing floor or ceiling became eligible again, and it was clarified that credit claims are not eligible if their most recent cash flow is negative. The method of assessing floating rate credit claims for valuation haircut purposes was also modified.

The value of Slovak marketable eligible assets was, on average, 2% higher in 2019 than in 2018. In absolute terms, the value of these assets at the end of 2019 was €40,893 million, which compared to its level at the end of the previous year was higher by €717 million. Slovak government bonds constituted almost 84.3% of these eligible assets, covered bonds 13.9%, Slovak Treasury bills 1.0% and other bonds around 0.8%. Chart 17 shows eligible asset trends in 2019, and Chart 18 compares the year-end composition of eligible assets in 2018 and 2019.

Chart 17

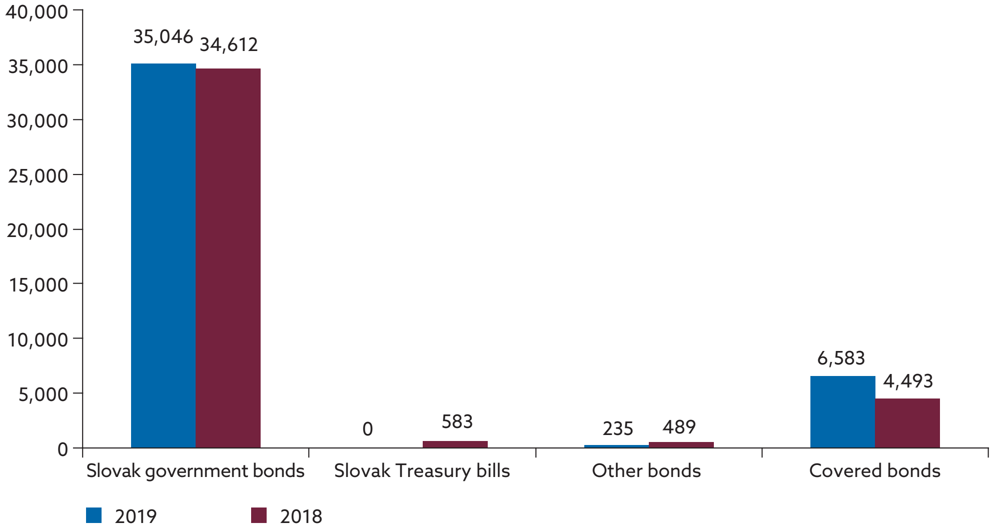
Composition of Slovak eligible assets in 2019 (EUR millions)



Source: NBS.

Chart 18

Composition of Slovak eligible assets as at end-December 2019 and end-December 2018 (EUR millions)

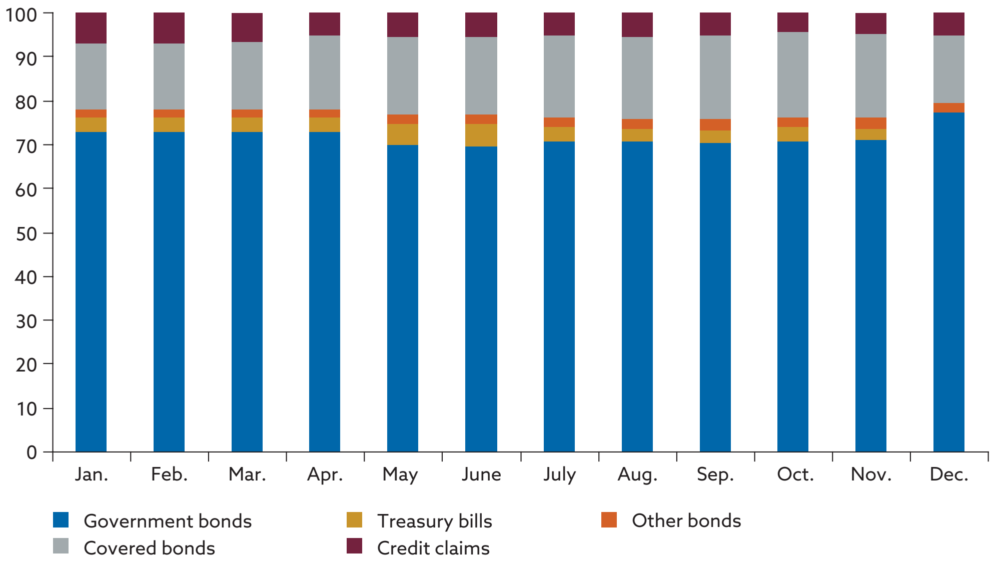


Source: NBS.

As regards the collateral pledged by domestic banks in Eurosystem operations in 2019, its value declined slowly over most of the year and then fell more sharply in December. Its average value for 2019 was around 7% lower compared with the previous year. The average share of government debt securities in the pledged collateral has been gradually declining in recent years, and in 2019 it dropped to 75%. By contrast, the average share of covered bonds continued to increase, up to 17.4%. The shares of credit claims and other bonds remained broadly unchanged from the previous year, at 5.5% and 2.1% respectively.

Chart 19

Eligible collateral pledged by domestic banks in Eurosystem credit operations in 2019 (percentages)

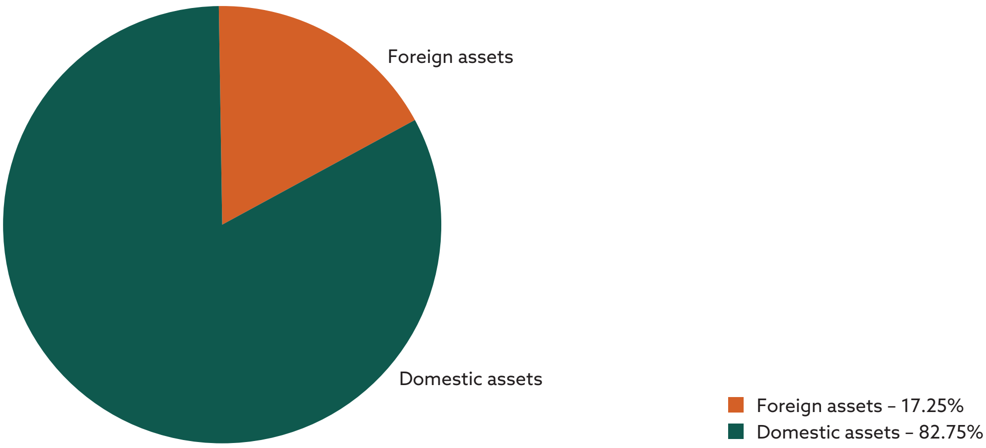


Source: NBS.

As for collateral issued in foreign markets, its share in the collateral pledged by domestic banks in Eurosystem operations maintained its year-on-year uptrend in 2019

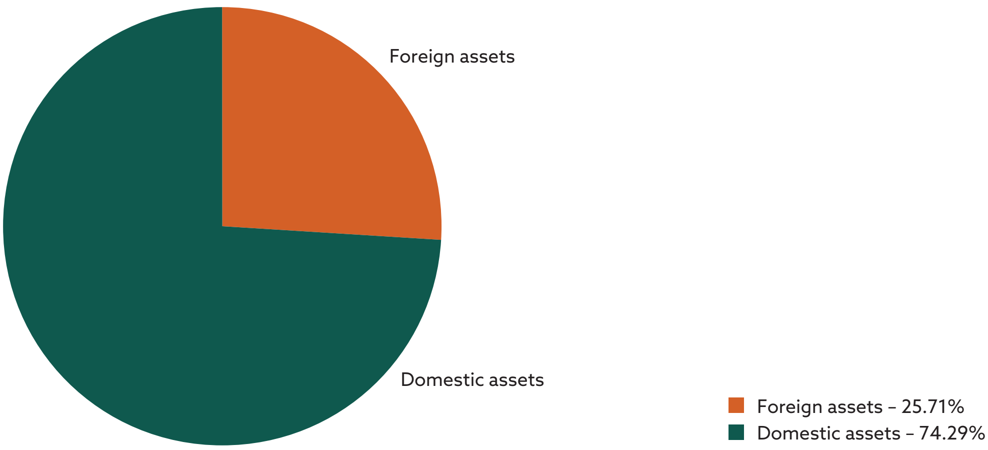
As a share of the total collateral pledged by domestic banks, collateral issued in the domestic market fell slightly, to almost 74.29% (see Chart 21). In previous years this figure had been around 80% (the share in 2018 is shown in Chart 20). Slovak counterparties use a collateral pool to manage their collateral.

Chart 20
Use of domestic and foreign eligible assets in 2018 (percentages)



Source: NBS.

Chart 21
Use of domestic and foreign eligible assets in 2019 (percentages)



Source: NBS.

1.3 Investment portfolio management

The total value of NBS's investment portfolios was €9.86 billion at the end of 2019.

Under an investment policy adopted in 2008 and amended in 2014 and 2016, Národná banka Slovenska manages its investment portfolios with the aim of ensuring that they contribute positively to the bank's overall financial result. The total value of NBS's investment portfolios as at 31 December 2019 was €8.48 billion (at corresponding exchange rates and with securities at nominal value), or €9.86 billion including gold. Most of the portfolios are bond portfolios, which are currency hedged by including portfolios denominated in euro, US dollars, British pounds, Swiss francs and Japanese yen (where interest rate risk is managed in a standard way through interest rate swaps and futures contracts) and a portfolio of Chinese government bonds. Chart 22 shows the change in value of these bond portfolios during 2019, and Chart 23 shows the breakdown of NBS's bond holdings by country of issuer.

The total return on NBS's investment portfolios in 2019 stood at €321.6 million

Since June 2018 NBS has had an equity portfolio that comprises shares in selected exchange-traded funds representing the global equity market. As at 31 December 2019 the market value of this portfolio stood at €177.7 million. The central bank's indirect investment in the Chinese renminbi[2] had a market value of around USD 52 million at the end of 2019. The total return on NBS's investment portfolios in 2019 was around €321.6 million (converted to euro at year-end exchange rates), including the return on gold reserves[3] and taking into account hedging costs and other expenses and income arising from operations on the liability side of the individual portfolios.

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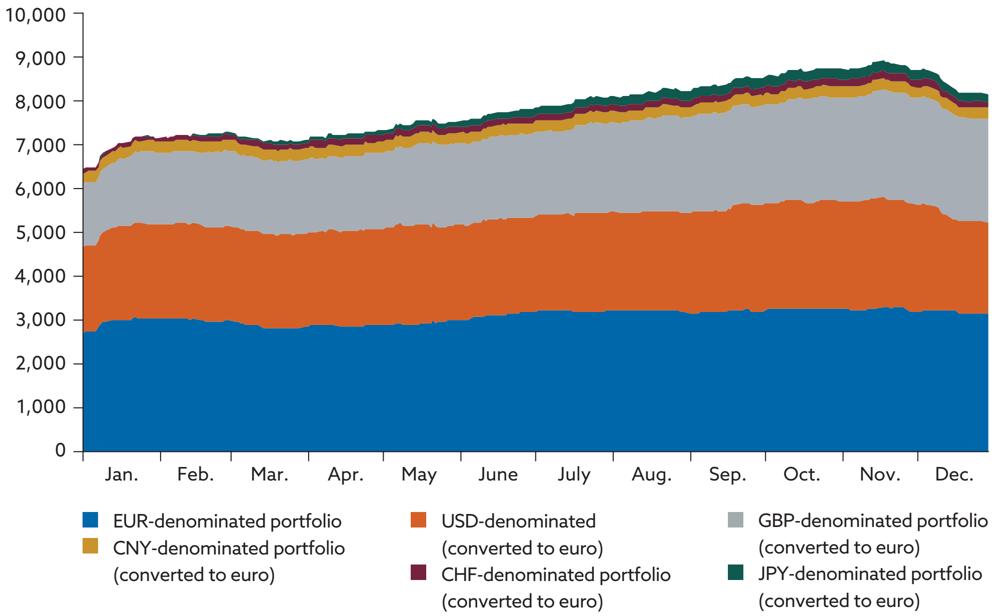
[2] Invested in the currency through the BISIP CNY, a fund comprising Chinese government bonds which is managed by the Bank for International Settlements in Basel.

[3] The overall return on gold holdings was around €245.7 million, mostly accounted for by gold price movements.

Chart 22

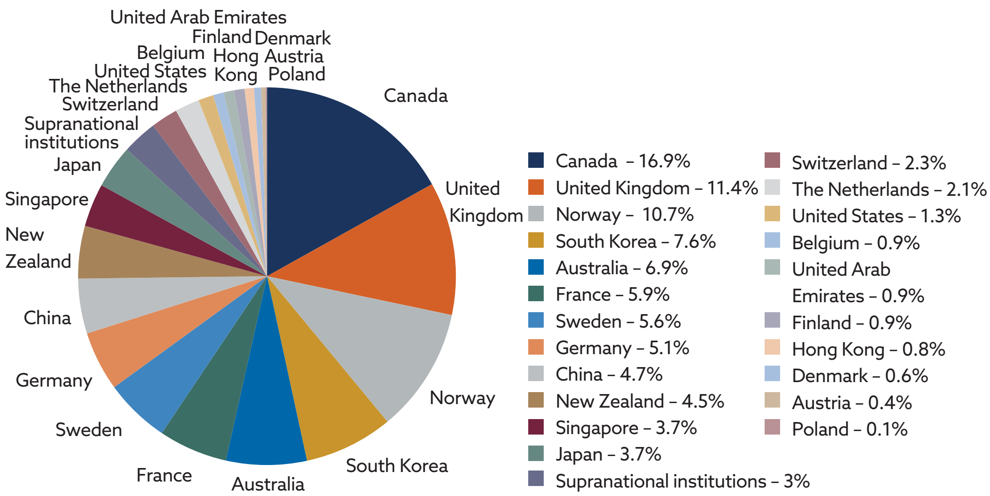
NBS bond portfolios in 2019 – nominal value of securities (EUR millions)



Source: NBS.

Chart 23

Total value of NBS bond portfolios as at 31 December 2019 – broken down by country of issuer (percentages)



Source: NBS.