

# BANKING: 10 YEARS OF CHANGE

## DEVELOPMENT FOR THE FUTURE

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*The banking industry in Slovakia has over the 10 years of the new Slovak Republic's existence undergone significant systemic, institutional, organisational and personnel changes. It is first of all necessary to emphasise the importance of the establishment of the National Bank of Slovakia as an independent body, which has gradually created a team of professional staff capable of introducing an independent currency and subsequently formulating and implementing the monetary policy of the independent central bank together with a set of instruments for regulating the newly established and developing commercial banks.*

The National Bank of Slovakia has throughout the ten years of the Slovak Republic's existence been both a stable and stabilising element and player in the transformation process in Slovakia. In connection to this, it is necessary at this point to evaluate also the creditable operation of the professional banking journal Biatec as an informatory organ, organiser and stimulant for the necessary progressive changes in the banking industry in Slovakia.

In commercial banking we have seen an expansion in the network of banks and their branches, these moving much closer to the client. The range of banking products and services has also expanded and improved in quality, on the basis of unceasing and intense competition. Restructuring has occurred with the privatisation and subsequent entry of foreign banks into 17 banking subjects. The relatively high share of foreign capital in the commercial banking industry in Slovakia - almost 84% - is a challenge for the Slovak economy to acquire highly professional banking technologies and products, as well as the proven working methods and cultures of individual leading banks in Europe as well as overseas and to adopt the high levels of professionalism of their staff. On the other hand, it is a challenge also for the foreign banks to penetrate the unique nature of this emerging market having an advantageous and promising geopolitical position, and to adapt fully to exploit the comparative advantages of the Slovak Republic.

Naturally, the course of the revolutionary changes in the banking industry has not always been straightforward or clearly progressive. It has also been necessary to pay a toll to the transformation process in the form of higher risk and an increased occurrence of classified loans, but also in the form of an occasionally unstable and non-transparent legal and business environment. There is a saying that a look back

allows us to better and more safely manage the journey ahead.

In the context of the principal reform steps under preparation by the pro-reform government, on the eve of accession to the European Union, and at the climax of our transformation process, the strategic priorities of the banking industry in Slovakia in the coming period (and in the case of a larger role played by the Association of Banks) may be summarised into 4 main groups:

### **1. To assist in achieving a stable standard and transparent legal and business environment in the work of banks.**

The Association of Banks has in cooperation with commercial banks drawn up initiatory papers concerning 17 laws in which amendments are required. It will be necessary to put forward and implement these amendments in cooperation with the National Bank of Slovakia, the Ministry of Finance, the respective parliamentary committees and legislative council of the SR Government.

The whole plethora of instruments and forms of financing should be gradually enriched also by fully functioning institutions and financial market instruments.

The result of these endeavours must include also improvements to the legal and business environment as regards the law enforcement and flexibility in the work of the courts.

### **2. Integration into the EU and European Monetary Union**

This concerns more intensive cooperation with the FBE (Federation Bancaire de UE) and its expert commissions, with the aim of achieving EU standards in the field of security and integrity of non-cash transfers, in the problem-free transition of the current banking accountancy over to the IAS international accounting standards, to an international tax system, etc.

**3. Transition to a new form of regulation for prudent banking – BASEL II**

This concerns cooperation with the National Bank of Slovakia in introducing prudent banking regulation and implementation of the New Basel Capital Accord on capital adequacy, with the aim of strengthening the healthy development and stability of the Slovak and international banking system, in the transition of the approach to banking supervision from mandatory to risk-oriented banking supervision.

**4. Rationalisation in the organisation and working methods of the Association of Banks**

I consider it essential that the huge changes currently underway in banking, the economy as well as society in general be recorded. Rationalisation is

required in order that the Association of Banks, as the professional organisation of the commercial banking industry, is able not merely to register changes, but also to participate in and actively stimulate the banking industry, correctly term, analyse and anticipate suitable moments and factors of the process, to intensify communication and cooperation with other partners and to strengthen the good image of banks and their association.

The successful course of the transformation process in the banking industry over the ten years of the independent Slovak Republic's existence gives cause for optimism that we will manage these tasks also in the coming demanding period.