Resolution in the Italian banking sector

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The Italian banking sector has for a long time been burdened with an excess of non-performing loans. This has resulted in the failure of several domestic financial institutions in recent years. The situation in Italy is being closely watched, mainly because it provides an opportunity to apply the new EU-wide resolution framework, which is intended to shift the costs of bank failures from the taxpayers to investors. This article looks at the resolution of financial institutions – including the reasons behind the use of resolution tools – in the context of the new framework as well as state aid rules. In addition, it presents current initiatives to prevent bank failures and to modify the state aid regime in EU. (p. 2)

The resolution of Banco Popular Español S.A.

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The financial crisis exposed the fact that general corporate insolvency procedures may not always be appropriate for financial institutions as they may not always ensure sufficient speed of intervention, the continuation of critical functions of institutions and the preservation of financial stability. The way out of this situation is provided by an EU-wide framework establishing the resolution of financial institutions by means of the application of resolution tools. This article deals with the current progress in bank resolution by focusing on the situation at Banco Popular Español S.A., a Spanish bank whose resolution was approved at the beginning of June. (p. 8)

The impact of changes in interest rate risk regulation

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In January 2016 the Basel Committee on Banking Supervision published a new version of its market risk regulatory framework for banks. This text is part of the Basel III agreement, whose purpose is to make revisions to the current Basel II regulatory rules. The new rules are to be gradually enacted into national laws. In the case of the European Union, these rules are included in the proposal for a regulation amending the Capital Requirements Regulation, which the European Commission published in November 2016. The new rules concerning market risk represent a significant change from the current regime, not only in regard to their calibration but also to the capital requirement calculation method. This article focuses on the area of interest rate risk. It compares the current and proposed methods, identifies and describes the most significant changes, and estimates the impact of the changes on an illustrative government bond portfolio. (p. 12)

Not every accidental injury is an "accidental injury"

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This article deals with problems in defining the term accidental injury as an insured risk. It draws attention to difficulties in the term's application and to legal risks resulting from the very restricted and ambiguous definitions of the term as found in insurance terms and conditions usually used in the Slovak insurance market. The authors' main suggestions for solving these problems are to simplify insurance products and to increase consumer awareness of the actual content of the insurance products they are offered and provided. (p. 18)

Representation by a barrister in supervisory proceedings

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The law allows parties to supervisory proceedings before Národná banka Slovenska to be represented by a third party who has capacity to act in such proceedings and whose interests do not conflict with those of the party. Such a representative may be a barrister. In this article, the author looks at certain legal aspects concerning the authorising of barristers to represent parties in supervisory proceedings. (p. 20)

Yield curve estimation in Slovakia and its particularities

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The zero-coupon yield curve estimates that the National Bank of Slovakia has been publishing regularly since June 2017 are subject to certain country specifics that need to be kept in mind if the estimated term structure is used for any kind of further analysis. A limited number of distinctive bond issuances, low liquidity in the sovereign bond market, and transactions being conducted outside local and fairly weak stock market are all factors that do affect how prices and yields in the market are determined. In this article we briefly elaborate on methodology, but primarily address these inefficiencies distinctively and quantitatively. We show that the average deviation ranges between 20 and 40 basis points, while estimates of the short end of the curve are potentially subject to larger errors than those of the rest of the curve. Sensitivity analysis of the methodology used in the exercise confirms that although the most suitable specification has been selected; given the scale of errors it will, however, remain a subject of interest once the asset purchase programme is terminated. (p. 23)

When are we in recession? (Estimating recession probabilities for Slovakia)

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In this article we estimate a model of recession probabilities for Slovakia. In the first part we summarise the techniques most widely used to identify business cycle turning points. We then look at the empirical issue arising from GDP data revisions. Next we estimate a Markov-switching model of recession probabilities for Slovakia. This model identified two recessions, at the beginning of 1999 and 2009. A subsequent sensitivity analysis showed, however, that these results should be treated with caution due to considerable uncertainty related to GDP data revisions. This model should therefore be seen mainly as a supplementary analytical tool for monitoring the business cycle in Slovakia. (p. 31)