



## DEVELOPMENTS IN THE SLOVAK FINANCIAL SECTOR AS REGARDS FINANCIAL STABILITY

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Financial sector stability is an important precondition for a healthy economy. The financial sector has the potential to support sound and sustainable economic growth, but at the same time it has the potential to produce shocks in the real economy that adversely affect living standards. It is therefore warranted to analyse financial sector developments and evaluate the related potential risks. The present favourable economic developments in Slovakia and the world are having a positive impact on living standards and consequently also on the financial market, which is currently seeing a strong increase in loans to households and the corporate sector. Private sector debt continues to increase, and significant risks to financial stability are materialising and growing. At the moment, the risks consist in excessive household debt growth, the banking sector's increasing vulnerability to the commercial real estate sector, and the growing pressure on the sector's profitability and business model. This article analyses developments in the Slovak financial sector as well as risk trends referring to NBS's November 2017 Financial Stability Report. (p. 2)

## REGULATION ON INDICES USED AS BENCHMARKS

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The main objective of the article is to present the essential structure of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds entering into force on 1 January 2018. In order to maintain and improve the proper functioning of the EU internal market, and to ensure a high level of consumer and investor protection, this Regulation establishes and enforces a governance framework for the benchmark determination process and defines the spectrum of benchmark usage. The continuous fulfilment of those goals is to be achieved by ensuring the reliability, robustness and integrity of benchmarks. The introduction and observance of clearly defined organisational requirements related to the activities of benchmark providers is a prerequisite for the existence of benchmarks that meet the Regulation's objective. (p. 7)

## WORLDWIDE REFORM OF MAJOR INTEREST RATE BENCHMARKS

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The major interest rate benchmarks – LIBOR, EURIBOR and TIBOR, known also as the IBOR benchmarks – are widely used by the global financial system as basic and systemically important interest rates, or benchmarks, for large transactions and various types of financial products and contracts. The existing interest rate benchmarks' credibility and reliability have declined since 2012, owing both to the revelation in that year of LIBOR manipulation and to the significant decline in money market trading as a result of the quantitative easing introduced as a monetary policy response to the financial and economic crisis. The unreliability of benchmarks widely used in the area of finance

poses a high systemic risk. The provision and administration of input data for benchmarks may be subject to manipulation. This is why global authorities have launched an urgent initiative for worldwide reform of these parametric data, in order to ensure transparent, reliable and standard-compliant benchmarks. (p. 11)

## RESOLUTION IN THE INSURANCE SECTOR

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During the summer of 2017, EIOPA and the ESRB separately published their views on the benefits and design of the harmonised European recovery and resolution framework for (re)insurers. The documents may be the first concrete step towards a European Union framework that directly affects insurance business in Slovakia. The aim of this article is to provide broad details about the main conclusions of the documents, highlight some of the comments made by NBS in the document drafting process, and to look at the latest global-level activities in this area. (p. 15)

## GROWING IMPORTANCE OF CRYPTOCURRENCIES

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Cryptocurrencies have now become a phenomenon in the financial sphere. Although these pseudo currencies, often also called digital currencies, account for a negligible share of the global financial market and pose no risk to central banks, they are attracting significant attention from economists, the financial community, and central bankers. The reason is a surge in value of the leading cryptocurrency – Bitcoin. This year its value has increased by more than 800%, and so the public awareness of Bitcoins has grown. As this new phenomenon has proved remarkably successful in the world of finance, several international financial institutions (including the Bank for International Settlements and the International Monetary Fund) are studying the possibility of central banks issuing alternative digital currencies that would be able to satisfy customer demand. (p. 31)

## THE 110<sup>TH</sup> ANNIVERSARY OF MICHAL BOSÁK'S SIGNATURE ON US DOLLARS

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Michal Bosák (born 10 December 1869 in Okružle, Slovakia – died 18 February 1937 in Scranton, Pa., USA) was a prominent Slovak-born banker in the United States at the beginning of the 20th century. His name is known mainly in connection with his signature on the 5-, 10- and 20-dollar banknotes from the year 1907. What is less well known, however, is his support for Czechoslovak nationalism through activities in both the United States and his native land. It is rarely mentioned that Bosák was an important signatory of the Pittsburgh Agreement of 31 May 1918, which constituted a basis for the establishment of Czechoslovakia in October 2018. This year we commemorate the 80th anniversary of Bosák's death and the 110th anniversary of his signature appearing on US dollar banknotes. This article aims to provide a more detailed presentation of Michal Bosák's "dollar signatures" in the context of the history of dollar banknotes. (p. 34)