NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

Annual Report 2009

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Národná banka Slovenska

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Address:
Národná banka Slovenska
Imricha Karvaša 1
813 25 Bratislava
Slovakia

Telephone:
+421 2 5787 2141
+421 2 5787 2146

Fax:
+421 2 5787 1128

http://www.nbs.sk

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FOREWORD

Foreword

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 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);

- 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;

CHAPTER 1

THE EXTERNAL ECONOMIC ENVIRONMENT

1

1 The External Economic Environment

1.1 Global trends in output and prices

In 2009, global economic activity recorded its steepest downturn since the times of the Great Depression. The adverse economic developments of 2008 were transmitted to the global economy largely through a slump in foreign trade and they reached their peak in the first half of 2009. The sharpest decline in global economic activity was recorded in the first quarter of 2009. Several countries sought to revive their economies by taking extensive fiscal and monetary stimulus measures. The principal aim of the fiscal stimuli was to boost domestic demand and sustain domestic economic activity, while the level and form of these stimuli varied from one country to another. Whereas in advanced countries the stimulus measures were largely directed at maintaining domestic demand, in emerging economies they focused mainly on infrastructure projects. Non-standard monetary-policy measures were implemented predominantly in advanced economies, where they helped to stabilise the financial sector. The effects of these measures gradually began to be felt in the second and third quarters of 2009, when the global economy stopped contracting and made a tentative return to growth. The trend recovery of global economic activity continued in the fourth quarter. For the whole of 2009, the world economy declined by 0.6% year-on-year, compared with a rise of 3.0% in 2008. The downturn was more pronounced in advanced economies, certain European emerging economies, and Latin American countries. In advanced countries, the economic slump was attributed mainly to falls in both domestic demand and export activity, while in Latin America, the Middle East and Russia, it was driven by a decline in world commodity prices. In emerging market countries, the primary cause of the slowdown in economic activity was the drop in foreign trade, although another key factor was the flight of foreign capital and investments from these countries. As for emerging Asian countries, they managed to record growth (albeit at a far slower pace than in 2008) on the basis of relatively robust domestic demand.

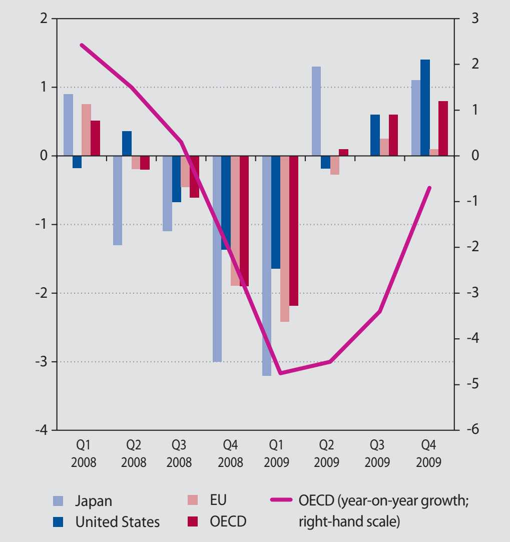
It was through the collapse in external trade that the financial crisis spilled over from advanced economies to the global economy. After recording a year-on-year decline of 2.8% in 2008, external trade plunged by 10.7% in 2009. The sharp contraction of imports in advanced economies had an adverse effect on the exports of emerging economies, particularly those in Asia. This effect could not be offset either by the intrar-

Table 1 World output (annual percentage growth)

	2007	2008	2009
World	5.2	3.0	-0.6
Advanced economies	2.7	0.5	-3.2
United States	2.0	0.4	-2.4
Japan	2.4	-1.2	-5.2
Euro area	2.6	0.6	-4.1
Emerging Asian economies	10.6	7.9	6.6
China	13.0	9.6	8.7
India	9.3	7.3	5.7
Russia	8.1	5.6	-7.9
Central and Latin America	5.7	4.3	-1.8
Brazil	5.7	5.1	-0.2
Middle East	6.3	5.1	2.4

Source: World Economic Outlook, IMF, April 2010, Eurostat.

Chart 1 Quarterly GDP growth (%)



Source: OECD.

egional trade of South-East Asian countries or by the relatively robust domestic demand in these countries. The result of this development was a synchronisation of global economic activity and a slump in external trade in the first half of 2009, with export-oriented countries being harder hit. As the economy gradually began to recover in the second half of 2009, so external trade increased, too.

Global price developments in 2009 were dominated by the sharp decline in commodity prices that began in the second half of 2008 and by the related base effect. In first half of 2009, partial concerns about inflation were prevalent and some countries recorded temporarily negative inflation. In the second six months, however, consumer price inflation rose gradually, reflecting developments in energy prices and the steady recovery in economic activity. The average annual inflation rate for 2009 was 2.4%, compared with 6.0% in 2008. The year-on-year inflation rate as at the end of 2009 was 2.9%, compared with 4.5% a year earlier.

Oil prices were less volatile in 2009 than in the previous year. Following a sharp fall in the second half of 2008 (due to a the crisis and a drop in demand for oil), oil prices gradually steadied in the first quarter of 2009 and they then rose gradually in the second quarter amid a more positive outlook for the global economy's recovery. Demand for oil was again strongest among emerging Asian economies, especially China. The average price of oil in 2009 was USD 62 / barrel, representing a drop of 36% compared with the average price in 2008 (USD 97 / barrel). The steep decline in oil prices in the second half of 2008 continued into the first quarter 2009, with the average price reaching a low of USD 39 / barrel in February. As economic activity gradually rebounded, the oil price recorded an uninterrupted rise until it peaked at USD 78 / barrel in December 2009. At the year-end, the spot price of oil was 81% higher than at the beginning of the year, even though it was less than the average for 2008.

As for prices of metals, non-ferrous metals, and agricultural commodities, their development was similar to that of the oil price. They, too, were relatively stable and rose gradually over the course of the year. Like oil prices, these prices were affected by the global economic situation and the outlook for economic recovery. Prices of metallic and non-metallic commodities increased mainly in the second half of 2009. The increase in demand for these commodities was particularly high in China, owing to the fiscal measures taken by that country to support infrastructure development. In the case of these prices, too, the gradual recovery of the global economy put them under upward pressure mainly in the last quarter of 2009. Prices of agricultural commodities during 2009 were determined by developments in the global economy and their movement was not significantly different from that of other commodity prices.

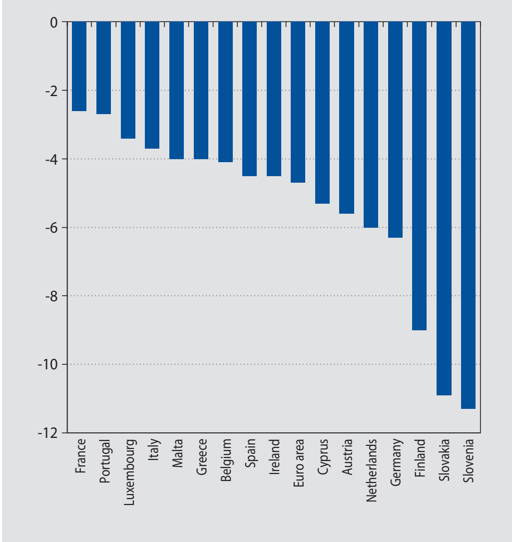
1.2 ECONOMIC DEVELOPMENTS IN THE EURO AREA

After growing by 0.6% in 2008, the euro area economy contracted by 4.1% in 2009. This was largely attributable to the global slowdown and the consequent decline in domestic demand. The economy was adversely affected by the negative contribution of net exports to GDP as well as by the decline in gross fixed capital formation. A combination of mounting uncertainty and an unfavourable situation in the labour market (unemployment rose from 8.2% in December 2008 to 9.9% in December 2009) translated into

Chart 2 GDP growth in euro area countries in 2008 and 2009 (%)

Source: Eurostat.

Chart 3 Changes in the economic growth rate between 2009 and 2008 (%)

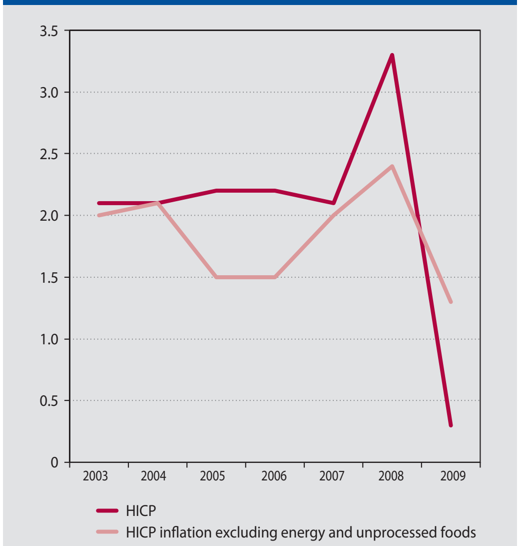


Source: Eurostat.

a downturn in consumer demand. During the year, individual governments adopted stimulus packages aimed at reviving the economy by supporting industry, the labour market and consumer demand. These measures, together with automatic stabilisers, tempered the economic slump. The contraction of economic activity in 2009 was most severe in the first quarter of the year, when GDP, after recording a steep decline at the end of 2008, fell even further. GDP stopped declining in the second quarter, and economic activity made a moderate recovery in the second half of the year. Over the last two quarters of the year, exports increased, the slump in investment demand was mitigated, the inventory cycle entered a restocking phase, and consumer demand stabilised.

In 2009, the overall average inflation rate as measured by the Harmonised Index of Consumer Prices was 0.3%, a considerable slowdown compared with the 3.3% recorded for 2008. In the months from June to October (inclusive), the rate temporarily entered negative territory. The marked decline in inflation in 2009 was largely caused by the dampening effect of commodity prices, especially energy prices and to a lesser extent food prices. Prices were also held in check by the downturn in economic activity over the year. The annual inflation rate rose more slowly in December 2009 (by 0.9%) than in December

Chart 4 HICP inflation in the euro area (%)

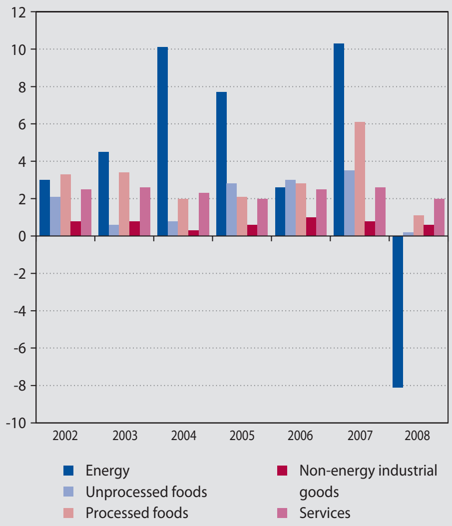


Source: Eurostat.

2008 (1.6%). The rate of core inflation (HICP inflation excluding prices of energy and unprocessed food) fell gradually during 2009 and its average for the year represented 1.3% (compared with 2.4% in 2008).

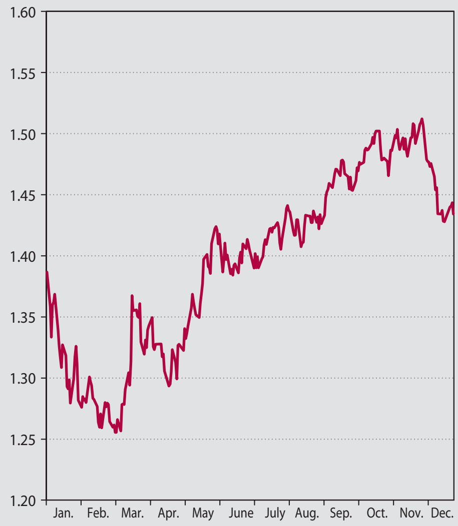
Industrial producer prices fell by of 5.1% in 2009, after rising 6.1% in 2008. The decline in industrial producer prices bottomed out in July (when

Chart 5 Components of HICP inflation in the euro area (annual percentage changes)



Source: Eurostat.

Chart 6 USD/EUR exchange rate in 2009



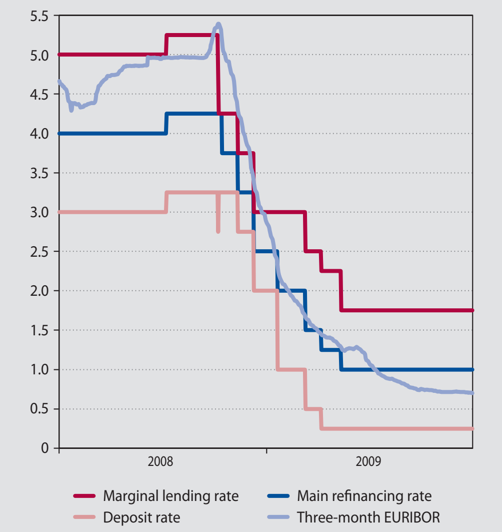
Source: ECB.

prices fell by 8.4% year-on-year) and thereafter became more moderate (in December they decreased by 2.9%).

The euro's exchange rate against the US dollar in 2009 was to great extent determined by conditions in the global economy and by economic indicators coming out of the euro area and the United States. During the first two months of the year, amid expectations of a worsening economic situation in the euro area, the euro weakened against the dollar, and by the end of February it had lost almost 9% of its value against the beginning of the year. From March to the end of November, the euro made incremental gains due to a gradual easing of pressures in financial markets and an increase in risk appetite among investors. This period also saw a return to carry trades (i.e. transactions in which funds are borrowed in a low-yielding currency and then invested in a high-yielding currency), which at the same time supported strengthening the euro. From the beginning of March up to December 2009, the euro appreciated by around 20% against the dollar. During December, however, the emergence of widespread concerns about fiscal developments in certain euro area countries resulted in the euro falling by 5% against the dollar. At the end of 2009, the euro's exchange rate against the dollar was 3.4% stronger than at the end of 2008.

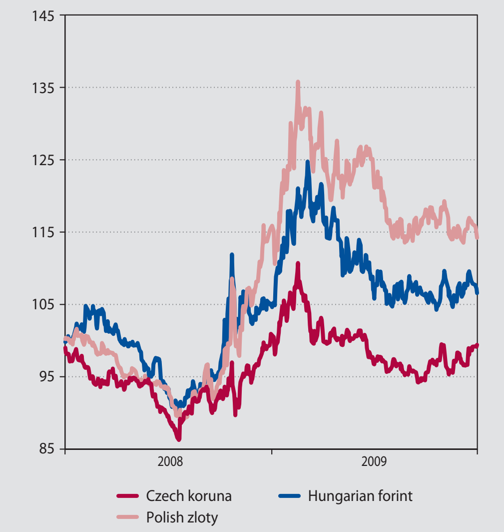
In 2009, the implementation of the ECB's monetary policy continued to be influenced by the ongoing financial crisis. Since October 2008, the ECB had been reacting to the situation by gradually cutting key interest rates. In the last quarter of 2008, the ECB Governing Council decided on three occasions to reduce rates – bringing them down by 175 basis points in total – and with effect from 9 October 2008 it temporarily reduced the standing facilities corridor to 100 basis points. Given the unfavourable outlook for economic development and the absence of inflationary pressures, the ECB continued cutting its main interest rates also in 2009, reducing the rate on the main refinancing operations by a further 150 basis points between January and May. The Governing Council then left the key rates unchanged for the rest of the year, with the rate on the main refinancing operations staying at 1.0%, interest rate on the marginal lending facility and deposit facility 1.75% and 0.25% respectively. In response to money market developments, the ECB continued in 2009 to take further non-standard measures aimed at easing market tensions and at providing access to sufficient liquidity. The ECB expected that these measures would create more favourable financial conditions and support the flow of credit to both households and enterprises. Lending conditions gradually began to improve, money market spreads narrowed, and the markets became less volatile.

Chart 7 ECB interest rates and the EURIBOR (%)



Source: ECB.

Chart 8 Exchange rate indexes of V4 currencies against the euro (30.06.2008 = 100)



Source: Eurostat, NBS calculations.
Note: A fall in value denotes appreciation.

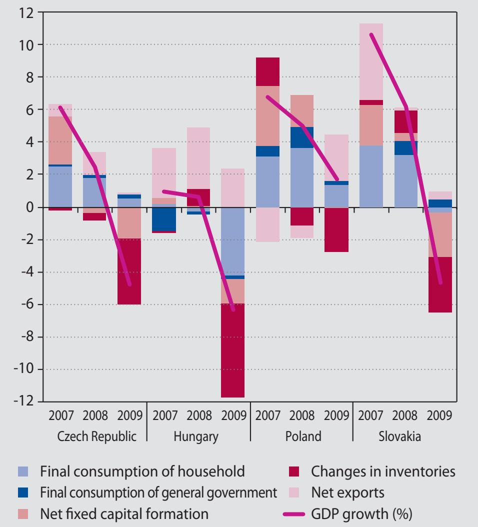
The non-standard measures used by the ECB in 2009 included providing of liquidity in a fixed–rate tender procedure with full allotment in all refinancing operations against eligible collateral. At the same time, the maturity spectrum at which the ECB offered refinancing operations was broadened to include longer term refinancing operations with a maturity of one year. The set of eligible collateral was expanded, and liquidity was provided in foreign currencies. Other non-standard measures included outright purchases in the covered bond market. At its meeting on 3 December 2009, the Governing Council decided for the gradual phasing out of these non-standard measures.

1.3 ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC, POLAND AND HUNGARY

Economic developments in the central European region in 2009 were shaped by the ongoing global financial crisis. The Czech and Hungarian economies contracted in comparison with the previous year, and only the Polish economy managed to grow, albeit at a far slower pace than in 2008. Economic growth was dampened mainly due to destocking and the decline in investment, and also because of the sharp fall in exports stemming from weak external demand. The average annual rate of inflation declined in all countries, but particularly so in the Czech Republic. Inflation pressures were subdued mostly by a combination of commodity price developments and weak domestic demand. In the case of energy and unprocessed food prices, the slowdown in annual inflation was particularly marked. Exchange rates at the beginning of 2009 continued to depreciate at a relatively rapid pace. With global risk aversion diminishing and central banks making a joint verbal intervention, exchange rates began to correct from the second quarter and appreciated against the euro at a relatively rapid pace. From around August to the end of the year there was a certain stabilisation. In seeking to contain the effects of the economic crisis, to revive domestic economic activity and to support the banking sector, all of the region's central banks cut interest rates. In the Czech Republic and Poland, key interest rates fell to all-time low levels.

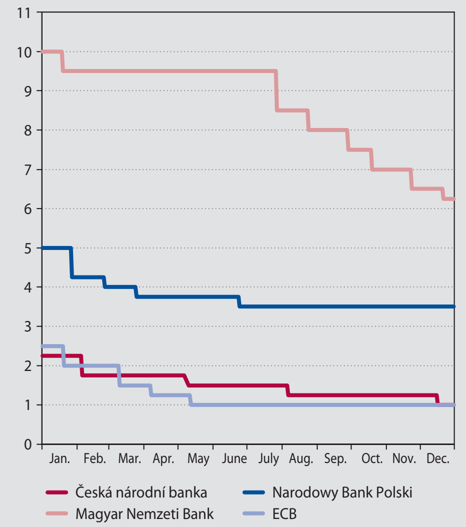
Gross domestic product in the **Czech Republic** slumped by 4.8% in 2009, after growing by 2.5% in the previous year. Destocking was substantial and investment demand plummeted. At the same time, domestic consumption growth and

Chart 9 Contributions to GDP growth (in p.p.)



Source: Eurostat, NBS calculations.

Chart 10 Key interest rates of national central banks in 2009 (% p.a.)



Source: NCBs, ECB.

the contribution of net exports to GDP were lower compared with 2008. Average price inflation in 2009 slowed by 5.7 percentage points, to 0.6%, caused mainly by commodity price developments as well as by the base effect of high price rises in the previous year (due to changes in regulated prices and tax rates). Prices of energy, services and processed foods all rose at a slower pace year-on-year, and prices of unprocessed foods and industrial goods decreased.

The exchange rate of the Czech koruna weakened at the start of 2009, reflecting above all the negative mood towards the emerging market countries of central and eastern Europe. From the beginning of the year to mid-February, the koruna depreciated by almost 9% against the euro. Over the rest of 2009, amid a gradual reduction in risk aversion, the Czech koruna regained the value it had lost earlier in the year. Compared with the end of 2007, the koruna's exchange rate against the single currency appreciated by 1.5%.

The Česká národní banka cut its key interest rates four times during 2009. The two-week repo rate was reduced to 1%, after being cut by 0.5 of a percentage point in February and then by 0.25 of a percentage point in May, August and December. In cutting interest rates, ČNB was attempting to partially mitigate the repercussions of the global economic crisis on the domestic economy and banking sector. The easing of monetary policy was also made plausible by the absence of substantial inflation pressures.

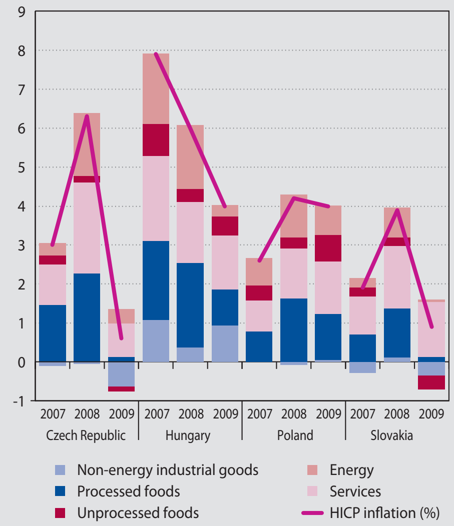
The **Hungarian economy** contracted by 6.3% in 2009, after growing by 0.6% in the previous year. At the same time, gross capital formation fell sharply and the decline in domestic consumption became more pronounced. With imports decreasing more substantially than exports, net exports was the only component that positively contributed to GDP growth. Price inflation, which has been gradually accelerating in 2010, was affected by the forint's depreciation and in particular by the rise in VAT and excise duties that took effect in July 2009. Weak domestic demand dampen pass through of higher taxes into consumer prices, and thus the average inflation rate for 2009 fell by two percentage points year-on-year, to 4.0%. The slowdown in inflation was particularly marked in prices of energy, processed foods, and services.

Like the currencies of neighbouring countries in central Europe, the Hungarian forint's exchange rate begin the year by depreciating and it continued to weaken until the beginning of March. Apart from global factors, the exchange rate reflected also the weak position of the Hungarian economy. The gradual reduction of high risk aversion in financial markets, as well as the partial restoration of confidence in the Hungarian economy and the country's success in borrowing from the International Monetary Fund, resulted in the forint appreciating against the euro in the next period. This relatively sharp correction of the previous development lasted until the beginning of August, at which point the exchange rate partially stabilised. In comparison with the previous year, however, the forint weakened by 1.4%.

The Magyar Nemzeti Bank reduced key interest rates on seven occasions in 2009, bringing them down by 3.75 percentage points overall, to 6.25%. The key rates were cut mainly in the second half of the year (the exception being January's reduction), with the principal aim of stimulating weak demand and the domestic economy. The policy of reducing rates from their relatively high level was facilitated by the ebbing of risk aversion in global markets and the revival of confidence in the Hungarian economy, as well as by the more stable forint's exchange rate and the favourable development of inflation. Also in 2009, the Magyar Nemzeti Bank entered into a swap agreement with central banks of euro area countries and Switzerland on supplying liquidity in Swiss francs and it introduced new refinancing instruments. These measures were aimed at strengthening and stabilising the domestic financial market and supporting the banking sector.

The only economy in the region (and in the EU as a whole) that managed to record growth in 2009 was the **Polish economy**, although its pace of growth slowed by 3.3 percentage points year-on-year, to 1.7%. Unlike the Czech and Hungarian economies, the Polish economy benefitted above all from continuing growth in domestic consumption, a lower decline in investment demand, and less severe destocking. The Polish currency's substantial weakening may also have had a favourable effect on foreign trade – the contribution of net exports to GDP was the highest in any of the V4 countries. Following the adjustment of certain regulated prices and excise duties at the beginning of January, the inflation rate rose gradually until July. From then until the year-end, price inflation was somewhat dampened and remained stable. Compared with the previous year, the average inflation rate in 2009 fell by 0.2 of a percentage point, to 4%, the slow-

Chart 11 Contributions to HICP inflation (p.p.)



Source: Eurostat, NBS calculations.

down being particularly pronounced in prices of energy and unprocessed foods.

Because of persisting risk aversion at the beginning of 2009, the Polish zloty lost almost 15% of its value in the period up to the middle of February. The subsequent correction and strengthening against the euro was partially curbed by tense developments in the Baltic states. The zloty's movement over the first six months was partially affected also by expectations about the currency possibly joining the exchange rate mechanism ERM II. In addition, the IMF's announcement in April to extend a flexible credit line to Poland had a short-term effect on the exchange rate. In line with the regional pattern, the exchange rate stabilised in the second half of the year, particularly from August. Compared with the end of the previous year, the zloty appreciated by 1.2%.

Narodowy Bank Polski cut its reference interest rate four times in 2009 – by 0.75 of a percentage point in January and by 0.25 p.p. in February, March and June – thereby reducing it to 3.5%. Interest rates remained unchanged during the second half of the year. In cutting rates, Narodowy Bank Polski was reacting to the slowdown in economic growth as well as to the low level of lending in the banking sector. The central bank's efforts to stimulate lending also included its decision in May to reduce the required reserves and its introduction in September of new facilities to support commercial bank lending activities. As in Hungary, the stability of the interbank market throughout the year was supported by the active use of swap lines for increasing liquidity in Swiss francs.

CHAPTER 2

MONETARY DEVELOPMENTS

2

2 Monetary Developments

Slovakia's economic fundamentals in 2009 were influenced by two factors above all others. Firstly, as from 1 January Slovakia joined the euro area and adopted the euro currency; at the same time, Národná banka Slovenska became a member of the Eurosystem. Secondly, economic developments were impaired by the persisting financial crisis, as global economic activity recorded its sharpest downturn since the Great Depression.

The adverse economic situation across the world had already affected the performance of Slovakia's economy in 2008, with growth slowing in the last quarter of the year. As a consequence of the financial crisis, Slovakia's real economy contracted by 4.7% in 2009, after growing by 6.4% in 2008. As regards GDP growth in individual quarters, however, the downturn gradually ameliorated, from -5.7% over the first three months to -2.6% in the last quarter. The effect of the global economic and financial crisis on Slovakia's real economy was seen above all in the slump in external trade. And just as external demand was slowing down, so too was domestic demand falling, particularly due to the decline in its investment component. The weaker external demand dragged down corporate profits, especially the profits of non-financial corporations, with the result that investment activities were scaled back substantially. Domestic consumption demand rose slightly owing to an increase in the final consumption of general government. The current account deficit of the balance of payments improved slightly in 2009 in comparison with the previous year, reflecting positive developments in the trade balance as well as in the income and current transfers accounts. But the fact that the trade balance was in surplus was due to imports declining more sharply than exports. Another repercussion of the economic downturn was rising unemployment and falling employment, particularly in industry. Amid the unfavourable economic conditions, both nominal and real wage growth slowed year-on-year. As for labour productivity, it declined on a year-on-year basis, in both nominal and real terms, owing to the sharp contraction in GDP. Unit labour costs, however, recorded an annual increase, largely because of the relatively high rise in nominal compensation per employee.

Price developments in Slovakia in 2009 were affected by the global economic downturn and the consequent decline in consumer demand. The inflation rate in Slovakia, as measured by the Harmonised Index of Consumer Prices, remained unchanged in December on a year-on-year basis. Compared to the year-on-year consumer price dynamics in December 2008, this represented a slowdown of 3.5 percentage points. The average inflation rate for 2009 came to 0.9%. The decline in the domestic price level was driven by lower prices of industrial goods, which in turn reflected a slower rise in energy prices and sharp drop in fuel prices. Food prices, too, were lower in the year-on-year comparison. Prices of services rose, but at a slower pace. For most of 2009, almost all producer prices were lower in comparison with the same point of the previous year.

In the field of interest rate policy, Národná banka Slovenska has been subject to the decisions of the European Central Bank since 1 January 2009, when it joined the Eurosystem. The ECB's main refinancing rate now functions as the base rate. In 2009, the main refinancing rate was cut on four occasions, and from May until the year-end it stood at 1.0%. Meanwhile, the euro's importance as a bulwark against the effects of the global financial crisis on Slovakia's financial sector and, indirectly, on its macroeconomic developments has increased substantially.

2.1 ECONOMIC DEVELOPMENTS

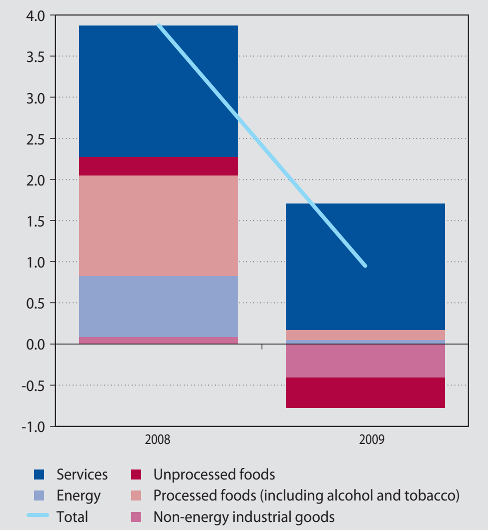
2.1.1 Price developments

Consumer prices

Inflation as measured by the Harmonised Index of Consumer Prices (HICP)

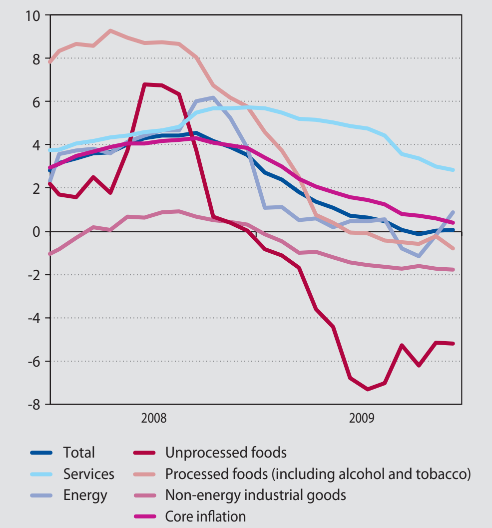
In December 2009, the HICP inflation rate stood unchanged on a year-on-year basis, and compared to the year-on-year consumer price dynamics in December 2008, this represented a slowdown of 3.5 percentage points. The average inflation rate for 2009 was 0.9% (compared with 3.9% for 2008) with prices of goods falling by 0.8% and prices of services rising by 4.4%. The

Chart 12 Structure of HICP inflation (contributions of components to the annual average rate; p.p.)



Source: SO SR and NBS calculations.

Chart 13 Year-on-year changes in HICP sub-components (%)



Source: SO SR.

year-on-year rate of core inflation (the headline rate excluding prices of energy and unprocessed foods) averaged 1.6% in 2009, which was 2.3 percentage points lower than in the previous year.

Price developments in 2009 were determined by external factors. The domestic price level was affected by the global economic downturn and the consequent downward pressure on world prices of energy commodities (oil) and non-energy (agricultural) commodities. Slovakia's inflation rate reflected these commodity price developments though a low increase in energy prices, a marked drop in fuel prices, and also a decline in food prices. The slowdown in consumer demand – stemming from uncertainty about future global developments (rising unemployment, falling employment) – dragged down prices of industrial goods, firstly from abroad and then from domestic producers. As for inflation in services prices, it began to slow down during the second half of 2009.

Goods

In the case of goods prices, the most substantial deflationary factor in 2009 was food prices, which reflected the falling trend in agricultural commodity prices recorded towards the end of 2008 and at the beginning of 2009. Food prices were lower on average throughout 2009, owing to a decline in unprocessed food prices and a slower rise in processed food prices. Prices of processed foods reflected also excise duties on cigarettes, which were raised in February 2009. This tax hike, however, only began to show up in consumer prices from September to December, since it had been preceded by substantial pre-stocking of cigarettes. The slowdown in energy price inflation was influenced by fuel prices and regulated energy prices. Fuel prices in 2009 fell by an average of 16.4%, after rising by 6.4% in 2008. Prices of non-energy industrial goods declined on average over 2009, with prices of durable industrial goods falling by an average of 7.6%. At the same time, however, prices of non-durable industrial goods rose by 1.3% on average.

Services

Inflation in services prices slowed only marginally in 2009, since it included sharp rises in prices of health services, dental services, bus fares and postal services. It was also the case that inflation in these prices did not start declining by a greater margin until the second half of 2009, when it reflected the impact of the crisis and the base effect. The most pronounced drop in prices within the services category was recorded by prices of telecommunications services and air transport.

Table 2 HICP inflation (average for the period; annual percentage changes)

	2008		2009				
	Dec.	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Overall	3.5	3.9	2.3	1.1	0.4	0.0	0.9
Goods	2.5	3.5	0.8	-0.9	-1.5	-1.5	-0.8
Industrial goods	1.7	2.0	0.1	-0.6	-1.0	-1.2	-0.7
Non-energy industrial good	0.3	0.4	-0.5	-1.2	-1.6	-1.7	-1.3
Energy	3.8	4.5	0.9	0.4	0.1	-0.2	0.3
Foods	3.9	6.4	2.1	-1.4	-2.3	-2.1	-0.9
Processed foods (including alcohol and tobacco)	5.8	8.0	3.6	0.4	-0.4	-0.5	0.8
Unprocessed foods	0.0	3.0	-1.2	-5.0	-6.5	-5.5	-4.6
Services	5.7	4.8	5.5	5.0	4.2	3.1	4.4
Core inflation (overall inflation excluding energy and unprocessed food prices	3.8	3.9	3.0	1.8	1.2	0.6	1.6
Overall inflation excluding energy prices	3.5	3.8	2.6	1.2	0.4	0.0	1.1

Source: NBS calculation based on data from the SO SR.

Producer prices

For the greater part of 2009, almost all producer prices (except for construction work prices) declined on a year-on-year basis. This was largely due to the sharp drop in prices of oil and food products in world markets as well as to the base effect of their rapid increase in the previous year. Although the oil price rebounded from the beginning of 2009 (after plummeting from July 2008), it was not until November 2009 that it returned to the levels of the previous year. The decline in agricultural product prices culminated in the third quarter of 2009. Because of these factors, industrial producer prices fell in comparison with 2008 and agricultural product price recorded a substantial overall decline on a year-on-year basis. Also in 2009, prices of construction materials fell year-on-year and prices of construction work rose, on average, more slowly than in 2008.

Industrial producer prices

Year-on-year inflation in industrial producer prices had already been slowing down since the last months of 2008, and in April 2009 it entered negative territory. This trend became more pronounced in subsequent quarters as a result of persisting steep falls in refined oil products and decreasing energy prices.

The year-on-year slowdown in manufacturing output prices in 2009 reflected price deflation in all components and particularly in prices of refined oil products, which recorded an average decline of 34.7% (compared to a rise of 17.9% in 2009). Other prices that fell in 2009 on a year-on-year basis after rising in the previous year were prices of good products, rubber and plastic products, metals and metal products, and electrical equipment. The year-on-year decline in prices of transport vehicles slowed moderately in 2009 (by 5.5 percentage points, to -1.2%).

The decrease in energy price inflation in 2009 stemmed largely from prices for the production and pipeline distribution of gaseous fuels, which fell by 11.1% in 2009 after rising by 17.0% in 2008. Electricity production and distribution prices increased more slowly in 2009 on a year-on-year basis (3 percentage points lower at 7.1%), while inflation in prices of steam supply and cold air distribution accelerated year-on-year (by 1.4 percentage points, to 8.0%).

Construction work prices

Inflation in construction work prices slowed in 2009 in comparison with the previous year. Almost the same increases were recorded for prices of construction repairs and maintenance

Table 3 Producer prices – average year-on-year changes (%)

	2008	2009				
		Q1	Q2	Q3	Q4	Q1–Q4
Industrial producer prices	6.1	2.0	-2.2	-4.6	-5.4	-2.5
Raw materials prices	16.8	15.7	3.4	-10.3	-16.0	-2.6
Manufacturing output prices	2.0	-4.5	-6.7	-7.2	-5.4	-5.9
Energy prices	11.6	10.3	3.5	-1.3	-5.3	1.6
Water rates and sewage charges	5.9	4.9	4.0	4.3	5.0	4.5
Construction works prices	5.6	4.3	2.8	1.9	1.6	2.7
Construction materials prices	3.3	0.4	-5.8	-8.4	-9.0	-5.7
Agricultural output prices	5.9	-22.7	-27.7	-31.7	-16.1	-24.5
Plant products prices	19.7	-39.9	-41.6	-35.7	-14.8	-33.0
Animal products prices	5.3	-13.2	-22.8	-25.2	-18.3	-19.9

Source: Statistical Office of the SR.
Note: Data based on the revised statistical classification of economic activities (SK NACE Rev. 2).

(2.8%) and for prices of work on new constructions, on building modernisation and refurbishment, and on civil engineering construction (2.7%).

The prices of materials and products used in the construction industry (materials and products of domestic industrial producers) declined on average in 2009 in comparison with the previous year. This reflected a downturn in prices of materials used for construction repairs and maintenance (-5.4%) and in prices of materials used for new constructions and for building modernisation and refurbishment (-5.7%).

Agricultural output prices

Prices of agricultural products recorded a year-on-year decline in 2009, which was influenced mainly by falling prices of plant products and animal products.

As for plant products, the substantial year-on-year drop in their prices was largely related to developments since mid-2008 – when inflation in their prices began to slow sharply and then, in September of that year, entered deflationary territory, where it stayed for the duration of 2009. The main driver of this decline was prices of cereals and pulses, which recorded average annual falls of 33.9% and 35.5%, respectively.

As for prices of animal products, their overall decline on a year-on-year basis was primarily due to the downturn in prices of raw cow's milk (-33.1%), slaughtered pigs (-6.3%) and slaughtered poultry (-18.8%). There was also a year-on-year downward trend in the average prices of slaughtered cattle and veal (-0.4%) and chicken eggs for consumption (-2.3%).

The course of producer prices in 2009 was to a considerable extent affected by the economic recession, although its repercussions varied in intensity from one sector to another and were felt after a certain time lag.

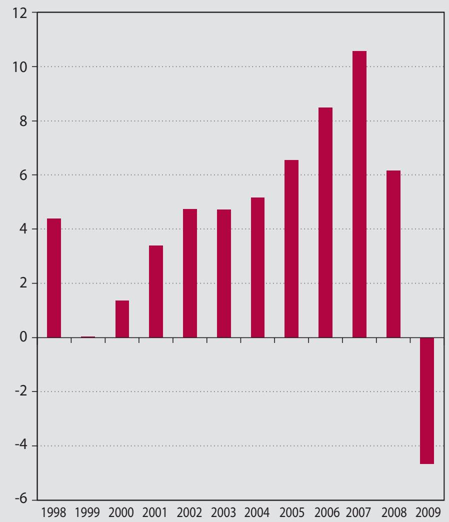
2.1.2 Gross domestic product

Slovakia's gross domestic product (at constant prices) contracted by 4.7% in 2009 on a year-on-year basis, according to the preliminary estimate from the Statistical Office of the Slovak Republic. In 2008, by contrast, GDP grew by 6.4%.

On the consumption side, the slump in GDP was attributable to the decline in external and domestic demand. On the production side, it was the sectors of industry and services that were the principal drag on growth. The nominal amount of GDP generated during the year represented €63.332 billion, which was 5.8% less than in the previous year.

Broken down by quarter, the downturn in real GDP gradually ameliorated over the course of the year, from -5.7% in the first quarter, to -2.6% in the fourth quarter.

Chart 14 Real GDP (annual percentage growth)



Source: SO SR.

After making seasonal adjustments, the only substantial quarter-on-quarter fall in GDP in 2009 was recorded in the first quarter. In subsequent quarters, economic activity was making a gradual recovery and GDP rose from one quarter to the next.

Supply side of GDP

GDP creation in 2009 was negatively affected by the value added component, which fell year-on-year by 4.6% at constant prices (compared to an increase of 6.9% in 2008), and it was also dampened by net taxes on products (value added tax, excise tax, and import tax, less subsidies), which fell by 5.6%, after dropping by 0.5% in the previous year.

The sectors in which the decline in value added was most pronounced were industry, construction and business services. By contrast, the agriculture, financial services and public services recorded growth in value added in 2009.

Table 4 GDP creation by component (index, same period a year earlier = 100, constant prices)

	2008	2009				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross output	106.7	85.9	86.8	89.9	93.9	89.2
Intermediate consumption	106.6	81.8	81.6	85.5	91.5	85.2
Value added	106.9	93.0	94.9	95.8	97.8	95.4
Net taxes on products[1]	99.5	108.8	90.1	88.0	93.9	94.4

Source: SO SR.
1) Value added tax, excise tax, and import tax, less subsidies.

Table 5 GDP by sector (index; same period of the previous year = 100; constant prices)

	2008/2007	Q1 09/Q1 08	Q2 09/Q2 08	Q3 09/Q3 08	Q4 09/Q4 08	2009/2008
GDP	106.2	94.3	94.5	95.1	97.4	95.3
of which:						
Agriculture	97.4	114.5	110.5	127.3	87.6	110.2
Industry	107.0	81.4	86.9	100.0	100.1	91.7
Construction	105.6	87.9	108.1	105.0	92.4	98.2
Trade, hotels and restaurants, transport	113.2	84.8	92.7	84.5	85.6	86.9
Financial intermediation, real estate activities	111.1	115.7	108.5	91.2	103.0	103.8
General government; education; health care; other community, social and personal services	95.2	106.8	92.7	100.5	111.7	102.9
Net taxes on products[1]	99.5	108.8	90.1	88.0	93.9	94.4

Source: SO SR.
1) Value added tax, excise tax, and import tax, less subsidies.

Table 6 GDP by consumption (index; same period of the previous year = 100; constant prices)	2008	2009				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross domestic product	106.2	94.3	94.5	95.1	97.4	95.3
Domestic demand	106.0	96.1	93.3	93.8	93.4	94.1
Final consumption	105.8	99.6	101.9	99.7	99.4	100.1
Households	106.1	99.1	100.5	99.7	98.1	99.3
General government	105.3	101.3	106.9	99.8	102.9	102.8
Non-profit institutions serving households	101.6	98.3	98.1	98.5	98.4	98.3
Gross fixed capital formation	101.8	96.1	82.3	88.6	92.7	89.5
Exports of goods and services	103.2	74.8	79.7	85.0	94.8	83.5
Imports of goods and services	103.1	77.7	77.8	84.4	89.7	82.4

Source: SO SR.

Demand side of GDP

On the consumption side, the economy's downturn in 2009 reflected a decline in both domestic and external demand (which fell by 5.8% and 16.5%, respectively).

In the breakdown of domestic demand in 2009, investment demand recorded the sharpest fall, while rapid destocking also made a negative contribution to GDP growth. The consumption component rose only marginally, driven mainly by an increase in public consumption. Household consumption dropped by 0.7%.

Domestic investment demand

The downturn in external demand was reflected also in corporate profits and consequently in lower gross fixed capital formation. Among the component sectors, investment activities of financial and non-financial corporations recorded

Table 7 Structure of gross fixed capital formation in 2009 (current prices)	Gross fixed capital formation (EUR million)	Share (%)	Index	
			2008/2007	2009/2008
Slovak economy – total	**14,943.2**	**100.0**	**103.8**	**89.4**
in which (by sector):				
Non-financial corporations	10,082.8	67.5	101.4	87.5
Financial corporations	179.9	1.2	108.3	63.4
General government	1,241.6	8.3	114.4	94.5
Households	3,394.0	22.7	108.1	95.9
Non-profit institutions	44.9	0.3	105.5	76.1
of which (by production):				
Machinery	**7,211.2**	**48.3**	**113.5**	**102.3**
of which: Other machines and equipment	5,510.5	36.9	114.5	105.6
Transport vehicles	1,700.8	11.4	110.7	92.8
Buildings	**6,578.9**	**44.0**	**100.0**	**79.4**
of which: Residential buildings	1,479.8	9.9	107.9	94.8
Other structures	5,099.2	34.1	98.4	75.9

Source: NBS calculations based on data from the SO SR.

Table 8 Investment and savings (%, current prices)

	2008	2009
Savings ratio[1)]	25.8	19.9
Gross investment ratio[2)]	28.1	20.6
Fixed investment ratio[3)]	24.9	23.6
Coverage of investments by savings[4)]	92.0	96.7

Source: NBS calculations based on data from the SO SR.
1) Ratio of gross domestic savings (GDP less total final consumption) to GDP.
2) Ratio of gross capital formation to GDP.
3) Ratio of gross fixed capital formation to GDP.
4) Ratio of gross savings to gross investments.

the sharpest fall. Fixed capital formation in the household and general government sectors was only slightly down.

In the breakdown by production, only investments in machinery increased on a year-on-year basis, according to revised data from the Statistical Office of the Slovak Republic. The most marked rise under this category was recorded by investments in other machinery and equipment. Investments in transport equipment and in buildings declined in 2009.

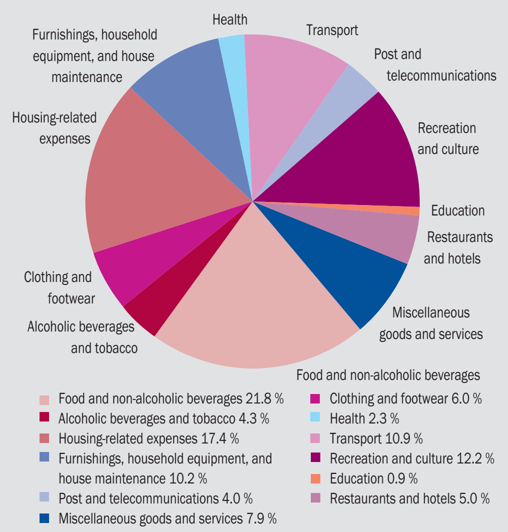
The share of domestic savings in the financing of investment demand increased in 2009. For every euro of gross investment in the economy there were 92.0 cents of gross savings, while in 2008 the figure was 96.7 cents. This difference was the result of gross investments falling more sharply year-on-year in comparison with the decline in savings.

Domestic consumer demand

Final consumption expenditure increased only slightly in 2009 on a year-on-year basis, with most of the additional spending accounted for by general government consumption. The consumption of households and non-profit institutions serving households declined. Growth in general government consumption fell in comparison with 2008, largely due to a slower rise in intermediate consumption. Household final consumption in 2009 fell by 0.7% year-on-year in real terms, while its share of overall GDP rose to 54.1% (from 51.9% the year before). The downturn in private consumption was caused by the deteriorating situation in the labour market (falling employment, slowdown wage growth) related to a slump in manufacturing, as well as to waning consumer confidence. While household consumption was decreasing, the savings ratio was rising.

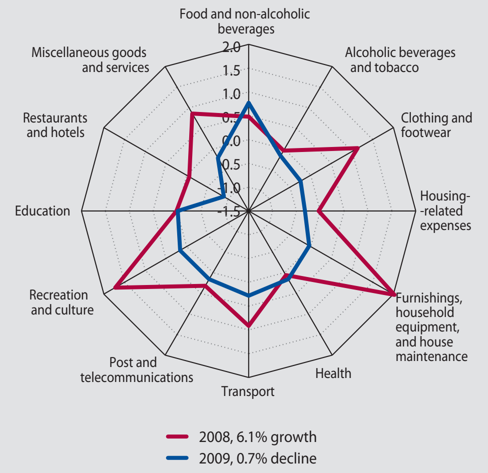
As for the different items of consumption expenditure, spending on food and non-alcoholic drinks accelerated more sharply than the rest, rising by 3.7% year-on-year (compared with 2.2% in 2008). The items on which spending fell included mainly furnishings and housing, recreation and culture, clothing and footwear, restaurants and hotels, and transport. As a percentage of total household consumption, the largest item continued to be food and non-alcoholic beverages (21.8%), followed by spending related to housing

Chart 15 Structure of household final consumption in 2009 (percentage shares)



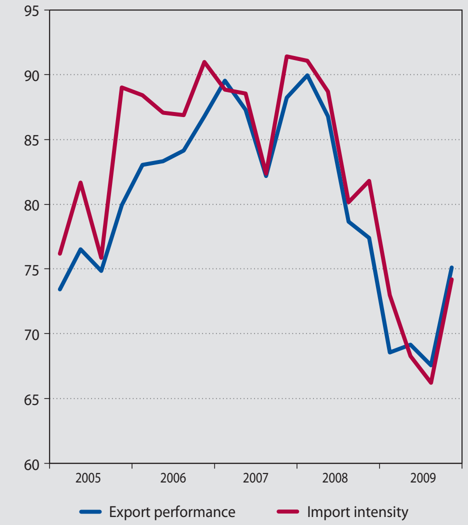
Source: SO SR.

Chart 16 Items of consumption expenditure by contribution to household final consumption growth (p.p.)



Source: NBS calculations based on data from the SO SR.

Chart 17 Export performance and import intensity (%)



Source: SO SR.

(17.4%). The combined share of these two items in total household consumption increased by 0.7 of a percentage point in comparison with 2008.

The year-on-year decline in household final consumption was driven mainly by spending related to restaurants and hotels and to housing, all of which fell as a natural consequence of the crisis.

Exports and imports of goods and services

As a consequence of the downturn in external demand, both exports and imports of goods and services slumped in 2009, with exports down by 20.4% and imports by 22.3% (at current prices). Because the fall in imports was more pronounced (reflecting also destocking and weaker domestic demand), nominal net exports recorded a moderate deficit of €138.6 million (compared to a deficit of €1,512.6 million in 2008). At current prices, exports fell by 16.5% and imports by 17.6%, which resulted in net exports making a positive contribution to GDP (accounting for 0.5 of a percentage point of GDP growth).

The export performance of the Slovak economy in 2009 deteriorated by 12.9 percentage points year-on-year, with exports of goods and services as a share of GDP (at current prices) reaching 70.1%. Import intensity weakened on a year-on-year basis, down to 70.4% (from 85.3% in the previous year).

The openness of the Slovak economy as measured by the ratio of exports and imports of goods and services to nominal GDP represented 140.5%.

Household income and expenditure

The current income[1] of households in 2009 came to €54.8 billion, representing a year-on-year nominal increase of 0.9% (and a real decline of 0.1%), according to preliminary data from the Statistical Office of the Slovak Republic. Compared with 2008, the nominal growth slowed by 9.6 percentage points. Among items of current income, social benefits recorded the sharpest rise (8.5%). The largest item of current income was employee compensation, which declined by 0.8% year-on-year.

As for the current expenditure[2] of households – meaning expenditure paid to other sectors and not used for direct consumption – it rose by 1.2% year-on-year (or by 0.2% in real terms), to reach €15.0 billion. The year-on-year rise in current expenditure represented 12.1%, and it was largely attributable to an increase in social security contributions and other current transfers.

The overall gross disposable income of households in 2009, after deducting current expenditure from current income, amounted to €39.8 billion, representing a year-on-year increase of 0.8% (compared to a rise of 10.0% in 2008). The

1 Gross mixed household income includes the earnings and incomes of small entrepreneurs, including the value of agricultural products grown by households for own consumption, imputed rents, and contributions of households to the construction of their own homes; Income from property received – interest, dividends, income from rented land, etc.; Other current transfers received – insurance claims paid to households, lottery winnings, etc.

2 Income from property paid – loan interest payments made by households and other payments of this type; Other current transfers paid – payments for various types of non-life insurance, life and health insurance; Social security contributions – direct taxes and fees paid to the State budget, contributions paid to health insurance companies, the Social Insurance Agency, and the employment fund, etc.

Table 9 Generation and use of income in the household sector (EUR; current prices)

	EUR billion		Same period of previous year = 100 in %		Share in %	
	2008	2009	2008/2007	2009/2008	2008	2009
Compensation of employees	25.8	25.6	107.3	99.2	47.4	46.6
of which: Gross wages and salaries	20.0	19.8	105.5	98.9	36.8	36.1
Gross mixed income	16.8	16.7	115.2	99.3	30.9	30.4
Property income – received	1.9	1.9	125.1	101.9	3.5	3.5
Social benefits	7.9	8.6	106.9	108.5	14.6	15.7
Other current transfers – received	2.0	2.1	118.7	104.8	3.6	3.8
Current income – total	54.4	54.8	110.5	100.9	100.0	100.0
Property income – paid	0.9	0.7	107.7	81.2	5.8	4.7
Current taxes on income, property, etc.	2.2	2.1	110.2	96.5	14.9	14.2
Social contributions	9.7	10.0	110.8	103.2	65.1	66.4
Other current transfers – paid	2.1	2.2	122.8	105.0	14.2	14.7
Current expenditure – total	14.8	15.0	112.1	101.2	100.0	100.0
Gross disposable income	39.5	39.8	110.0	100.8	-	-
Adjustment for changes in the net equity of households in pension funds	1.0	0.9	105.2	91.7	-	-
Household final consumption	37.6	37.7	110.9	100.3	-	-
Gross savings of households	2.9	3.1	97.8	103.8	-	-
Gross savings as a share of gross disposable income (%)	7.4	7.7	-	-	-	-

Source: SO SR.

proportion of disposable income used for final consumption was 94.7%; the rest was accounted for by gross savings, which increased by 3.8% year-on-year. The gross savings ratio rose by 0.3 of a percentage point in comparison with the previous year, to 7.7%. Amid uncertainty about labour market developments, households increased their savings despite facing a decline in remuneration (which, under current income, was largely supplemented by payments from the state in the form of social contributions). With household savings rising and household income increasing only slightly, growth in household final consumption slowed considerably.

2.1.3 Labour market

Employment

Employment as defined in the European System of Accounts 1995 (ESA 95) fell in 2009 by 2.4% year-on-year (after rising by 2.8% in 2008), as

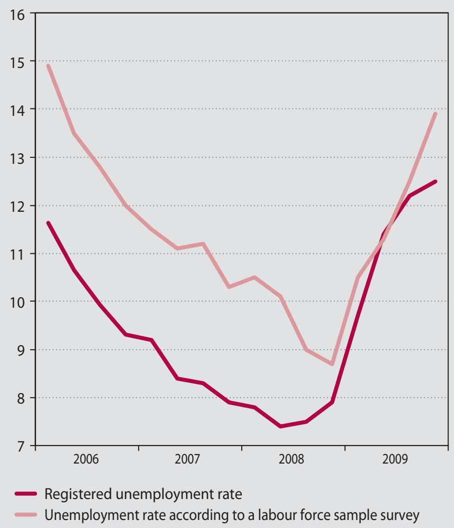
Chart 18 Propensity of households to save and to consume (%)

Source: SO SR, NBS calculations.

a consequence of the downturn in economic activity. Because of the impact of the economic crisis, firms in Slovakia began to cut production and, in an effort to protect jobs, many of them put employees on short time. This was reflected in a sharp fall in the number of hours worked in comparison with the drop in employment (by 6.5%). As the year went on, however, the decline in the number of hours worked became more moderate, and over the last three months it even increased on a quarter-on-quarter basis. Consequently, the number of employees did not fall sharply at the beginning of the year, but rather declined steadily over the course of the year.

In the breakdown of employment by sector, industry recorded the sharpest fall in employment in 2009, and in both agriculture and financial services the level of employment was lower than in the previous year. At the same time, however, employment rose in the sectors of real estate

Chart 19 Unemployment rate (%)



Source: Central Office of Labour, Social Affairs and Family and the SO SR.

Table 10 Labour market indicators

	2008	2009				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Nominal wage (EUR)	723.0	710.5	732.5	722.5	813.2	744.5
Nominal wage (index)	108.1	104.7	102.8	102.5	102.1	103.0
Real wage (index)	103.3	101.7	100.9	101.3	101.6	101.4
Nominal compensation per employee, ESA95 (index)	108.1	106.5	106.4	104.8	102.1	104.7
Real compensation per employee, ESA95 (index)	103.5	103.0	104.9	104.9	102.0	103.5
Labour productivity of GDP (index, current prices)	106.5	95.6	96.4	100.0	102.9	98.7
Labour productivity of GDP (index, constant prices)	103.5	96.9	98.4	100.9	103.2	99.8
Labour productivity of GDP according to ESA 95 (index, current prices)	106.3	93.3	93.7	97.9	101.0	96.5
Labour productivity of GDP according to ESA 95 (index, constant prices)	103.3	94.6	95.7	98.8	101.4	97.7
Employment according to statistical records (index)	102.6	97.3	96.0	94.3	94.4	95.5
Employment based on an LFSS (index)	103.2	99.9	98.9	95.7	94.5	97.2
Employment based on the ESA95 (index)	102.8	99.6	98.7	96.3	96.0	97.6
Registered unemployment rate (%)	7.7	9.7	11.4	12.2	12.5	11.4
Unemployment rate according to an LFSS[1)] (%)	9.6	10.5	11.3	12.5	13.9	12.1
Nominal unit labour costs (ULC)[2]	102.5	112.6	111.1	106.0	100.6	107.6
Consumer prices (average index)	104.6	103.0	101.9	101.2	100.5	101.6

Source: SO SR, and NBS calculations based on data from the SO SR.
1) Labour force sample survey.
2) Ratio of growth in compensation per employee (at current prices) to growth in labour productivity as defined in ESA 95 (at constant prices).

and rental activities, construction, and public services.

The number of persons working abroad continued to fall in 2009, decreasing by 23.0% on a year-on-year basis. Across the domestic economy, the number of employees fell by 4.8% year-on-year, but the number of entrepreneurs increased by 10.7% – largely due to a rise of 12.7% in the number of entrepreneurs without employees.

Unemployment

Unemployment reflected the unfavourable situation in both the domestic and external labour market. According to a labour force sample survey (LFSS), the number of unemployed rose by 25.9% year-on-year and the unemployment rate climbed to 12.1%, an increase of 2.5 percentage points in comparison with the previous year. The rising tendency in unemployment was further confirmed by data on registered unemployment. According to the registers kept by Labour, Social Affairs and Family Offices, the average unemployment rate in 2009 was 11.4%, representing an increase of 3.7 percentage points in comparison with 2008.

Wages and labour productivity

The average nominal monthly wage in 2009 was €744.5, representing an increase of 3.0% in comparison with 2008. Its growth, however, slowed by 5.1 percentage points year-on-year as a result of the economic crisis. The sectors reporting the highest nominal wage growth were administrative services (9.0%), education (7.3%), arts, entertainment and recreation (6.4%), other activities (5.6%), health and social care (5.4%), public administration, defence and social security (5.0%). Sectors in which the average nominal wage growth was lower than in the previous year included accommodation and food service activities, real estate activities, and trade. Industry recorded the largest year-on-year slowdown in average nominal wage growth – 4.3 percentage points – since it was the sector hardest hit by the economic crisis (the average nominal wage in industry rose by 2.6% in 2009).

Real wage growth in 2009 declined by 1.9 percentage points in comparison with 2008, from 3.3% to 1.4%).

Labour productivity based on GDP per employee fell in both nominal and real terms in 2009. This decline was related to the sharp contraction of GDP in 2009. The growth dynamics of real labour productivity lagged behind those of real wage growth by 1.6 percentage points.

Unit labour costs in 2009 increased by 7.6% year-on-year against an annual HICP inflation rate of 0.9%. This represented an acceleration of 5.1 percentage points compared with 2008, the main result being a drop in real labour productivity and a relatively high rise in nominal compensation per employee.

2.1.4 Financial results of corporations

The total profit generated by financial and non-financial corporations in 2009 was €7,352.9 million, according to preliminary data from the Statistical Office of the Slovak Republic. This profit was 18% lower than the figure for 2008, largely because the profits of non-financial corporations slumped by 30.9%. But this unfavourable trend among non-financial corporations was partially offset by financial corporations, which made an

Table 11 Financial results of corporations (EUR billions; current prices)

Profit/loss before tax[1]	2006	2007	2008	2009	Index 2009/2008
Non-financial and financial corporations – total	8.92	10.86	8.97	7.35	82.0
of which: Non-financial corporations	9.31	10.24	9.53	6.59	69.1
Financial corporations	-0.38	0.61	-0.64	0.77	-
of which: NBS	-1.50	-0.65	-1.23	0.07	-
Financial corporations excluding NBS	1.12	1.26	0.58	0.70	119.1

Source: SO SR and NBS.
1) Unaudited financial results.

overall profit for 2009 (compared with a loss for the previous year).

The overall drop in profits of non-financial corporations encompassed lower profits in all sectors except real estate activities, which reported an increase of 14.1% on a year-on-year basis. The sectors in which profits fell most sharply were industry (down by 29.9% year-on-year) and wholesale trade, retail trade and the repair of motor vehicles and motor cycles (41.5%). In the industry sector, the lower profits in manufacturing were to some extent offset by results in the sector of electricity, gas, steam and cold air supply, which reported a year-on-year rise in profit.

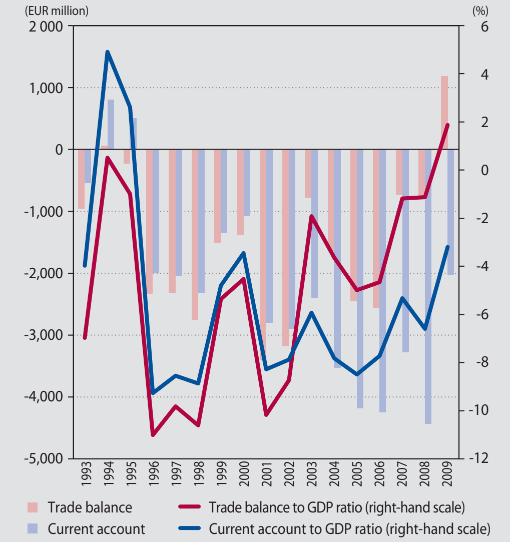
Financial corporations made an overall profit of €767.3 million in 2009, compared with a loss of €642.5 million in 2008. This improvement was driven mainly by the results of monetary financial institutions and Národná banka Slovenska. The year-on-year growth in profits of financial corporations not including NBS came to 19.1%. Profits were recorded also by insurance corporations and pension funds and by other financial intermediaries.

2.2 BALANCE OF PAYMENTS

2.2.1 Current account

In 2009, the current account deficit of the balance of payments amounted to €2,023.4 million, down by €2,409.0 million in comparison with the previous year. That reduction in the deficit was driven mainly by improvements in the trade balance, income balance and, to a lesser extent, the current transfers balance. By contrast, the services balance performed more poorly than in 2008. The ratio of the current account deficit to GDP (at current prices) fell by 3.4 percentage points on a year-on-year basis, to stand at 3.2%. Deducting dividends and reinvested earnings from the current account, the current account to GDP ratio in 2009 represented 1.4%, compared

Chart 20 Current account and trade balance in 1993-2009 (%)



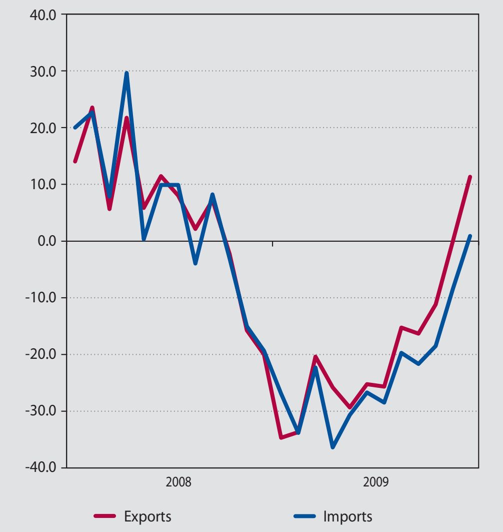
Source: NBS.

Table 12 Balance of payments current account (EUR millions)

	2008	2009
Balance of trade	-757.8	1,186.9
Exports	49,522.3	39,715.6
Imports	50,280.1	38,528.7
Balance of services	-488.0	-1,246.2
Balance of income	-2,293.7	-1,287.9
of which: Investment income	-3,584.9	-2,387.6
of which: Reinvested earnings	-557.7	-498.8
Current transfers	-892.9	-676.2
Current account – total	-4,432.4	-2,023.4
Ratio of current account to GDP (%)	-6.6	-3.2
Ratio of current account (less dividends and reinvested earnings) to GDP (%)	-1.5	1.4

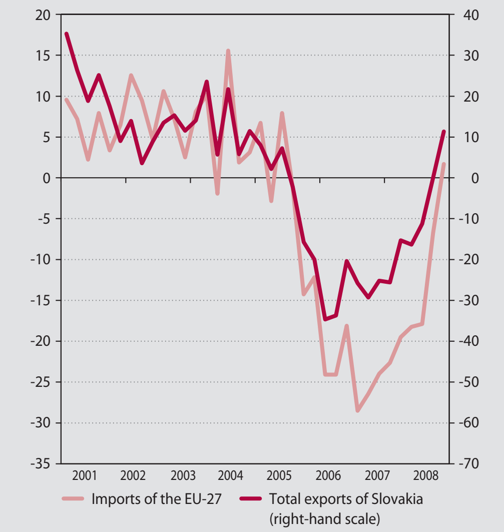
Source: NBS, SO SR (GDP).

Chart 21 Year-on-year dynamics in exports and imports (%)



Source: NBS and the SO SR.

Chart 22 Year-on-year dynamics in exports of Slovakia and imports of the EU-27 (%)



Source: NBS, the SO SR, and Eurostat.

with -1.5% in 2008. Similarly, the trade balance to GDP ratio in 2009 was 1.9%, in contrast to the figure of -1.1% recorded in the previous year. As for how the financial and economic crisis affected the current account in 2009, the volume of exports and imports of goods and services declined and the income balance improved on a year-on-year basis (dividends and reinvested earnings were lower owing to a drop in corporate profits). The adverse effect of the crisis on exports was offset on the imports side by existing import intensity and falling prices of raw materials, as well as by destocking in the economy, lower investment imports and a decline in consumption demand. The combination of these factors resulted in a trade balance surplus. The situation in external demand was the main factor behind the slump in Slovakia's exports, and it had a similar effect in neighbouring countries, which recorded a comparably sharp slowdown in export performance (despite the substantial, temporary weakening of these countries' currencies).

The trade balance recorded a surplus of €1,186.9 million in 2009. Both exports and imports plummeted in comparison with the previous year, with exports down by 19.8% and imports by 23.4%. The year-on-year changes in exports and imports did not follow an even course throughout the year, but rather began with a sharp fall, then declined at a more moderate pace, and finally, towards the end of the year, accelerated sharply into positive figures as external demand gradually began to pick up. The effect of the economic crisis on external demand was reflected in all categories of goods exports. The main factor in reducing the decline in exports towards the year-end was an increase in exports of passenger cars.

Over the twelve months of 2009, the category of exports that recorded the sharpest year-on-year fall was machinery and transport equipment. Almost half of the total decline in exports was accounted for by this category, and in particular by the sub-category of transport equipment (exports of passenger cars). In the sub-category of machinery, exports of automatic data processing machines, shafts, pumps and bearings fell on a year-on-year basis, while the overall decline in exports was partially mitigated at the beginning of the year by exports of television sets. However the positive effect of rising exports among this group of goods largely stemmed from developments in the first four months of the year. From May, exports of television sets were falling on year-on-year basis and for the whole of 2009 they were down by 3.4%. Another category in which exports decreased was chemical products and semi-finished goods. In this case, the decline was mainly due to a year-on-year slump in exports of

Table 13 Year-on-year changes in Slovak exports by segment and the contributions of these segments to the year-on-year change

	Year-on-year change in EUR millions		Contribution to the year-on-year change in p.p.	
	January – December		January – December	
	2008	2009	2008	2009
Raw materials	374.0	-839.2	0.8	-1.7
Chemicals and semi-finished goods	50.3	-3,733.6	0.1	-7.5
of which: Chemical products	-226.3	-726.1	-0.5	-1.5
Semi-finished goods	276.6	-3,007.5	0.6	-6.1
Machinery and transport equipment	1,546.4	-4,716.7	3.3	-9.5
of which: Machinery	1,861.4	-1,735.0	3.9	-3.5
Transport equipment	-314.9	-2,981.6	-0.7	-6.0
Finished products	200.5	-517.2	0.4	-1.0
Exports – total	2,171.3	-9,806.7	4.6	-19.8

Source: NBS.

Table 14 Year-on-year changes in Slovak imports by segment and the contributions of these segments to the year-on-year change

	Year-on-year change in EUR millions		Contribution to the year-on-year change in p.p.	
	January – December		January – December	
	2008	2007	2008	2007
Raw materials	1,391.2	-2,298.3	2.9	-4.6
Chemicals and semi-finished goods	260.0	-3,607.5	0.5	-7.2
of which: Chemical products	4.3	-1,025.0	0.0	-2.0
Semi-finished goods	255.7	-2,582.4	0.5	-5.1
Machinery and transport equipment	-352.4	-4,927.0	-0.7	-9.8
of which: Machinery	-119.1	-3,092.7	-0.2	-6.2
Transport equipment	-233.3	-1,834.3	-0.5	-3.6
Finished products	905.3	-918.6	1.9	-1.8
of which: Agricultural and industrial products	213.4	-171.3	0.4	-0.3
Passenger cars	454.4	-659.4	0.9	-1.3
Machines and electrical Consumer goods	237.5	-87.9	0.5	-0.2
Imports – total	2,204.1	-11,751.3	4.6	-23.4

Source: NBS.

semi-finished goods (especially iron, steel, and products thereof) and to a lesser extent because of lower exports of chemical products (mainly plastics, rubber, and products thereof), which was partially related to developments in the prices of these commodities. The most moderate decline in exports were recorded in the finished products category, in which footwear exports experienced the largest fall. The drop in exports of raw materials was largely attributable to a decrease in exports of refined petroleum oils, with a considerable part of that decline ascribable to price developments. The downturn in goods exports was most marked at the beginning of the year, while the second half of the year saw a gradual acceleration of export growth.

As with exports, the largest year-on-year decline in imports was recorded in machinery and transport equipment, which accounted for almost 42% of the total drop in imports. The downturn in imports was related to the slump in exports, particularly in regard to the fall in imports of components for the automobile industry (under the sub-category of transport equipment). In the machinery sub-category, the year-on-year decline in component imports for the electrical engineering industry was partly caused by lower import intensity in the electrical engineering industry in relation to the domestic production of screens. Another category in which imports fell sharply on a year-on-year basis was chemical products and semi-finished goods. Imports of raw materials (like exports of the same) declined largely because of oil price developments in global markets, which reflected mainly the fall in imports of crude oil. As in the case of exports, the category of imports that recorded the lowest fall was final consumption goods. But whereas the year-on-year decline under this category was more pronounced in the second half of the year, the fall in imports under other categories of goods followed the opposite course – primarily due to a gradual recovery of external demand and a slower decrease in exports.

Trade in services in 2009 produced a higher deficit compared with the previous year. Behind the rise in the services balance deficit lay lower receipts in all three of the principal categories of services. As in previous years, the category of other services (including, for example, telecommunications, construction, insurance, financial, rental, computer engineering, advertising, business, and technical services) recorded a deficit, but in 2009 the deficit increased by €396.3 million on a year-on-year basis. The main causes of this higher deficit in the other services category were a decline in receipts for intermediation services and technical services as well as a sharper fall in receipts for telecommunications services (accompanied by a rise in the respective payments). As for the tourism category of the balance of services, the year-on-year rise in its deficit was the result of receipts for tourism services falling more sharply than the expenditure of Slovak residents on tourism-related services. The downturn in receipts for tourism services was largely attributable to poor winter tourist seasons, and therefore the decline was more pronounced in the first and fourth quarters of the year. In the transport category of the services balance, the surplus decreased on a year-on-year basis mainly due to lower receipts for gas and oil transit (down by €192.6 million) and lower receipts for

Table 15 Balance of services (EUR millions)

	2008	2009
Transport	322.0	95.1
Tourism	305.3	170.4
Other services	-1,115.3	-1,511.6
Balance of services	-488.0	-1,246.2

Source: NBS.

Table 16 Income balance (EUR millions)

	2008	2009
Compensation of employees	1,291.2	1,099.7
Direct investment	-3,126.8	-2,603.1
of which: Reinvested earnings	-557.7	-498.8
Portfolio and other investments	-458.1	215.5
Income balance	-2,293.7	-1,287.9

Source: NBS.

road freight transport services and air passenger transport services, which may have been affected by falls in imports and exports stemming from weak external demand.

The income balance deficit in 2009 improved in comparison with the previous year, since the decline in receipts was far exceeded by the fall in payments – €422.8 million compared with €1,429.9 million. The main deficit-reducing factor was a decrease in dividend payments to foreign investors. In 2009, the profits of enterprises with foreign participation were negatively affected by the financial and economic crisis, and therefore estimates for reinvested earnings were lower. The effect of the crisis on the income balance was also seen in the compensation of employees category, where receipts fell in connection with a decline in the number of Slovak citizens working abroad. Therefore the lower surplus for employee compensation was partially mitigated by the positive effect of the year-on-year improvement in the balance of investment income.

The deficit in the balance of current transfers improved slightly in 2009 in comparison with the previous year. This reflected better figures in the balance of private transfers, in which ex-

Table 17 Balance of current transfers (EUR millions)

	2008	2009
Government	-172.6	-198.2
Other	-720.3	-478.0
Balance of current transfers	-892.9	-676.2

Source: NBS.

Table 18 Capital and financial account of the balance of payments (EUR millions)

	2008	2009
Capital account	806.6	463.9
Direct investment	2,237.3	-346.7
Abroad by Slovak residents	-182.6	-310.9
of which: Equity capital	-156.0	-312.7
Reinvested earnings	-39.8	29.2
In the Slovak economy	2,419.8	-35.8
of which: Equity capital	952.7	839.0
of which: FDI other than privatisation	952.7	839.0
Reinvested earnings	597.5	469.7
Portfolio investment and financial derivatives	1,550.2	-662.1
Abroad by Slovak residents	136.1	-1,494.6
In the Slovak economy	1,414.1	832.5
Other long-term investment	132.8	-846.6
Assets	-454.8	-865.1
Liabilities	587.5	18.5
Short-term investment	1,218.2	4,813.8
Assets	-86.3	-2,189.7
Liabilities	1,304.5	7,003.5
Capital and financial account in total	5,945.0	3,422.3

Source: NBS.

Table 19 Other investment – capital inflows by sector (EUR millions)

	January – December 2008	January – December 2009	Year-on-year changes
Banks	1,797.2	-10,045.2	-11,842.4
Enterprises	-491.2	-56.5	434.7
Government + NBS	45.0	14,068.9	14,023.9
Total	1,351.0	3,967.2	2,616.2

Source: NBS.

penses declined far more sharply than receipts. On the payments side, the steepest falls were in payments related to allowances, sureties and distraints of legal entities, while the largest decrease on the income side was in receipts from non-investment subsidies. The government transfers category of the current transfers balance deteriorated slightly (with payments to the EU budget rising more sharply than receipts from EU funds).

2.2.2 Capital and financial account

The capital and financial account of the balance of payments ended 2009 with a lower surplus compared with end of the previous year. There was also a change in the structure of financial flows: the categories of direct investment and portfolio investment had net outflows in 2009 in contrast to the net inflows they recorded in 2008. The cause of this turnaround was that the outflow of other capital under direct investment and the rise in residents' demand for external debt securities altogether exceeded the year-on-year increase in financial inflows under other investment.

The capital account surplus of the balance of payments declined in 2009 due to a reduced inflow of EU funds through capital transfers. Since the inflow of funds through current transfers rose slightly, capital transfer inflows as a share of total EU fund inflows fell from more than 60% in 2008 to less than 46% in 2009. The overall amount of current and capital transfers in the form of funds received from the EU came to €1,133.6 million in 2009, representing a year-on-year drop of €106.9 million.

The foreign direct investment balance recorded a net outflow of funds from January to December 2009, compared with a net inflow during 2008. This shift in the balance was largely attributable to developments in the other capital category, which, in regard to the commercial activities of enterprises with foreign participation, included an increase in claims and decrease in liabilities vis-à-vis parent undertakings. This may also have been related to the past due repayment of commercial debts to foreign parent undertakings, probably made in connection with the financial and economic crisis. On the assets side, the overall outflow of funds was amplified by the upturn in residents' demand for FDI investment abroad.

The portfolio investment category recorded a net outflow of funds in 2009, in contrast to a net inflow of funds in the previous year. That change was largely the result of rising demand for foreign debt securities among Slovak residents. On the liabilities side, the inflow of funds fell on a year-on-year basis owing to reduced demand for residents' debt securities among non-residents. This decline was only partially offset by a May issue of Eurobonds.

In the other investment category, the net inflow of funds in 2009 was higher compared with 2008. Almost the entire year-on-year change was accounted for by developments in the government and NBS sector, where the inflow of funds outweighed the outflow recorded in the banking sector. The inflow of funds in the government sector stemmed from the central bank's policy implemented after Slovakia joined the euro area. Accordingly, NBS did not use its original foreign reserves to meet liabilities to the banks sector, but instead borrowed funds from the Eurosystem through the TARGET2 system. The outflow of funds in the banks sector was reflected mainly in the year-on-year fall in residents' short-term deposits held with Slovak banks, which in turn was related to the introduction of the euro (the point of keeping accounts in euros ceased to apply) and partially also to the financial crisis. In the enterprises sector, the reduced outflow of funds was largely due to the lower net repayment of import debts.

Table 20 External debt of Slovakia

	USD million		EUR million	
	1.1.2009	31.12.2009	1.1.2009	31.12.2009
Overall external debt of Slovakia	52,815.6	65,314.2	37,491.2	45,338.2
Long-term external debt	25,388.5	27,917.9	18,022.0	19,379.3
Government and NBS[1)]	10,287.1	11,406.9	7,302.3	7,918.1
Commercial banks	3,334.6	3,983.7	2,367.0	2,765.3
Business entities	11,766.8	12,527.3	8,352.7	8,695.9
Short-term external debt	27,427.1	37,396.3	19,469.2	25,958.8
Government and NBS	315.3	21,507.0	223.8	14,929.2
Commercial banks	15,321.6	3,781.7	10,876.1	2,625.1
Business entities	11,790.2	12,107.5	8,369.3	8,404.5
Foreign assets	40,007.8	46,330.0	28,399.6	32,160.2
Net external debt	12,807.8	18,984.1	9,091.6	13,177.9

Source: NBS.
1) Including government agencies and municipalities.
Note: USD/EUR cross rate: 1.4406.

2.2.3 External debt of Slovakia

As at the end of December 2009, Slovakia had a gross external debt of USD 65.3 billion (€45.3 billion), representing a year-on-year increase of USD 12.5 billion or €7.9 billion. The overall long-term external debt rose by USD 2.5 billion year-on-year, and the overall short-term external climbed by USD 10.0 billion. The increase in Slovakia's external debt in 2009 was significantly influenced by movements in the EUR/USD cross rate.

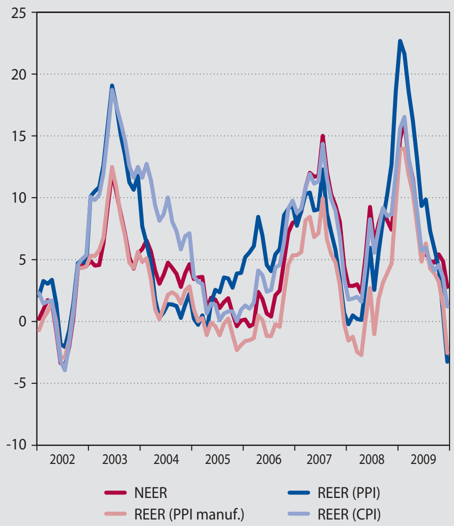
As regards the overall long-term external debt, the external liabilities of the Government and Národná banka Slovenska rose by USD 1.1 billion year-on-year. They were in part driven up by the issuance of external bonds by the Slovak Finance Ministry, at a time when demand among non-residents for Slovak government bonds was falling. The long-term external debt of the commercial sector rose by USD 1.4 billion, while the external debt of commercial banks (comprising mainly borrowings) rose by USD 0.6 billion in total. The external liabilities of business entities went up by USD 0.8 billion, with borrowings accounting for USD 0.6 billion of that rise.

As a consequence of Slovakia joining the euro area in 2009, the structure of the short-term external debt underwent a substantial change, with the component of Národná banka Slovenska's debt rising by USD 21.2 billion year-on-year. Entry into the euro area was also accompanied by a decline in the short-term external debt of commercial banks, which fell by USD 11.5 billion in total. Under the cash and deposits item, deposits fell by USD 9.6 billion as non-residents (mainly parent undertakings) withdrew funds from accounts held with Slovak commercial banks and transferred them to their own accounts abroad. Under the borrowings item, the debt fell by USD 1.9 billion on a year-on-year basis. As for the external debt of business entities, it increased by a modest USD 0.3 billion in comparison with the previous year.

At the per capita level, Slovakia's overall gross external debt amounted to USD 12,141 as at the end of December 2009, compared to USD 9,764 at the end of 2008. As a share of the overall gross external debt, the overall short-term external debt came to 57.3% at the end of December 2009, which compared with the 51.6% reported at the end of December 2008 represented a year-on-year increase of 5.7 percentage points.

The net external debt of Slovakia amounted to USD 19.0 billion (debtor position) as at the end of 2009, representing a year-on-year increase of USD 6.2 billion. That figure was calculated as the difference between, on one hand, the gross external debt of USD 65.3 billion (liabilities of NBS and the Government, commercial banks, and the corporate sector – except for equity participa-

Chart 23 The NEER and REER indices (16 trading partners; annual percentage changes)



Source: NBS.
Note: + appreciation, - depreciation of indices.

tions) and, on the other hand, external assets of USD 46.3 billion (NBS's foreign reserves, foreign assets of commercial banks and the corporate sector – except for equity participations).

According to preliminary data, Slovakia's ratio of gross external debt to GDP (at current prices) was 71.6% as at 31 December 2009, which was 16.2 percentage points higher than the figure for 2008 (55.4%).

2.2.4 Nominal and real effective exchange rate[3]

The average year-on-year appreciation of the nominal effective exchange rate (NEER) index accelerated from 6.3% in 2008 to 8.0% in 2009. Of that figure for 2009, the strengthening of the domestic currency against the euro accounted for 2.1 percentage points, and its appreciation against the Russian rouble and Czech koruna represented another 2.0 percentage points in each case. The contribution of the euro to the rise in the NEER index is a result of the substantial appreciation in 2008 that preceded the fixing of the conversion rate. This is reflected in the year-on-year changes in the effective exchange rate recorded in the first half of 2009.

Along with the faster appreciation of the NEER, the real effective exchange rate (REER) also appreciated more rapidly. The REER index defined according to consumer prices rose to 7.8%, representing an acceleration of 1.8 percentage points in comparison with the previous year. As for the REER index defined according to industrial producer prices, it increased by 4.6 percentage points year-on-year, to reach 10.2%. The REER index defined according to manufacturing output prices averaged 6.4% in 2009, representing an acceleration of 5.0 percentage points year-on-year. The REER indices based on the CPI and industrial output prices appreciated more slowly than the nominal effective exchange rate, the reason being that the inflation rate in the Slovak economy as measured by these indices was lower compared with the weighted average of the country's main foreign trading partners.

2.3 GENERAL GOVERNMENT

In 2009, the general government sector ran a budget deficit of 6.8% of GDP. Since the estimate for the macroeconomic impact of the economic crisis kept being revised, the projected budget deficit was adjusted several times.[4] The revised deficit projections took into account only the negative effect of the crisis on the income side of the general government budget, without considering any expenditure-reducing effects.

Table 21 General government deficit projection for 2009

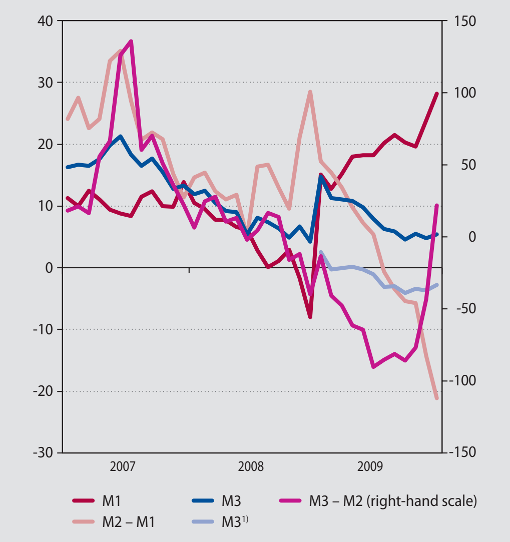
	General government budget 2009 – 2011		Revised projection (10/2009)	Actual data for 2009
	Approved (10/2008)	Revised (11/2008)		
Deficit (%GDP)	1.7	2.1	6.3	6.8
GDP growth at current prices (%; current prices)	11.3	9.2	-5.4	-5.8
GDP estimate (EUR million)	74,839	73,400	63,600	63,332

Source: Ministry of Finance of the Slovak Republic and NBS calculations.

3 *NEER and REER indices are compiled according to the IMF methodology. Monthly averages of domestic currency exchange rates against the currencies of main trading partners are used. The methodology is based on CPI, PPI, PPI-manufacturing, 1999 base year and 16 significant trading partners of the Slovak Republic representing approximately 86 to 89 % of Slovak foreign trade turnover in 1993 – 2004: Germany, Czech Republic, Italy, Austria, France, Netherlands, United States, United Kingdom, Switzerland, Poland, Hungary, Ukraine, Russia, Japan, China and Turkey.*

4 *The last projection for the general government budget assumed a deficit of 6.3% GDP.*

Chart 24 Year-on-year changes in M3 components (%)



Source: NBS.
1) M3 for analytical purposes (adjusted for the effect of currency in circulation).

All sectors of the general government ran budget deficits in 2009, but it was central government, with a budget deficit equivalent to 5.7% of GDP, that accounted for the largest share of the overall general government deficit.

Funds received from the European Union in 2009 amounted to 57.4% of the budgeted figure.

General government gross debt as a share of GDP represented 35.7% in 2009.

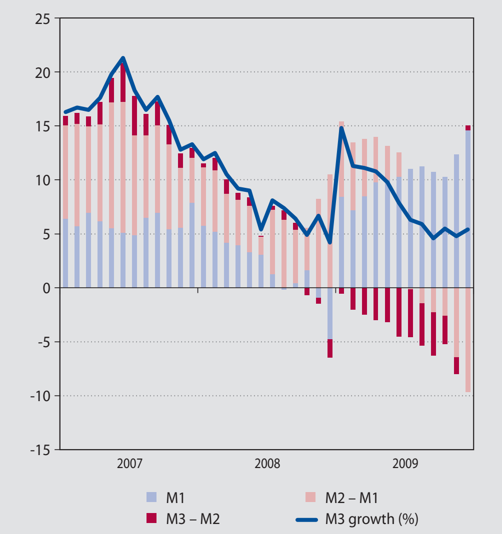
With Slovakia projecting that its general government deficit for 2009 would be above the reference value set in the EU Treaty, the European Commission adopted a report under Article 104(3) of the EU Treaty for Slovakia on 7 October 2009. On the basis of the EC's recommendation in that report, the European Council opened an excessive deficit procedure for Slovakia on 2 December 2009.

Table 22 Main components of the M3 aggregate and its counterparts in 2008 and 2009

	Annual change in EUR billions		Annual change in %		Volume (EUR billion)
	2008[1)]	2009[1)]	2008[1)]	2009[1)]	as at 31.12.2009
Currency in circulation	-3.193	5.557	-69.1	389.4	6.984
Overnight deposits	1.499	-0.175	9.5	-0.9	17.494
M1	-1.695	5.382	-8.0	28.2	24.478
Deposits and received loans with an agreed maturity of up to 2 years	3.743	-3.936	29.4	-23.7	12.676
M2	2.028	1.811	6.2	5.1	37.821
M3 monetary aggregate	1.421	1.960	4.2	5.4	38.872
M3 counterparts					
MFI claims and securities	4.442	0.185	10.7	0.4	46.134
of which: General government	0.357	-1.290	1.0	-9.9	13.793
Other residents	4.085	1.475	15.7	4.9	32.341
Net foreign assets	-3.413	4.325	-75.2	398.7	5.302
Long-term financial liabilities (excluding capital and reserves)	-0.334	-0.920	-29.2	-113.9	-0.112
Net other items (including capital and reserves)[2)]	0.058	-3.470	-0.6	37.7	-12.676

1) Data for 2008 are calculated using the ECB's methodology, with Slovakia representing a notional member of the euro area. Since monetary aggregates and counterparts of the M3 (under the ECB methodology) are not evaluated as at 1 January of the given year, the values recorded as at 31 December of the previous year are used in the table and the further text as initial values for the year.
2) Net other items include central government deposits; net other items = fixed assets + other assets – capital, reserves and provisions – other liabilities – surplus liabilities between MFIs – deposits and loans received from the general government sector. At the same time, there is balance sheet equilibrium, where M3 = claims on general government + claims on other residents + net foreign assets – long-term financial liabilities + other net items.

Chart 25 Contributions of components to M3 growth (p.p.; %)



Source: NBS.

2.4 MONETARY DEVELOPMENTS

2.4.1 Monetary aggregates

The contribution of domestic monetary financial institutions (MFIs) to the euro area's M3 monetary aggregate amounted to €38.9 billion in 2009, representing a year-on-year increase of almost €2 billion (compared with a rise of €1.7 billion in 2008). However, the year-on-year rate of M3 growth showed a falling trend during 2009 and ended the year at 5.4%. Owing to a change in the reporting methodology for currency in circulation[5], the annual changes in M3 were overestimated from January 2009. Without this change, the annual growth trend would have been the same, only at a lower level (as of December at -2.8%).

Main components of M3

Growth in the M3 monetary aggregate was driven mainly by currency in circulation, which increased in amount as a result of the euro changeover. M3 components that declined during the year included current account deposits and deposits with an agreed maturity of up to 2 years. This development stemmed from the yield curve slope, with interest rates on the shortest maturities declining to very low levels. There was thus a prevailing tendency to shift deposits from M3 to higher-yielding deposit products outside M3. Investments in money market fund shares/units recorded a slight rise in 2009. The year-on-year growth in M1 accelerated during the period under review (due to a rise in currency in circulation) and therefore contributed to the growth in the overall M3 monetary aggregate. As for the contribution of less liquid deposits (M2-M1), it was positive at the beginning of the year and turned negative towards the year-end. This was because of the sharp rise in these deposits which occurred towards the end of 2008 ahead of the introduction of the euro, and which was followed by their decline in the second half of 2009. The contribution of marketable instruments (M3-M2) was volatile during 2009. In the first six months, the negative contribution became more pronounced, but then it decelerated and, in December, broke into positive territory.

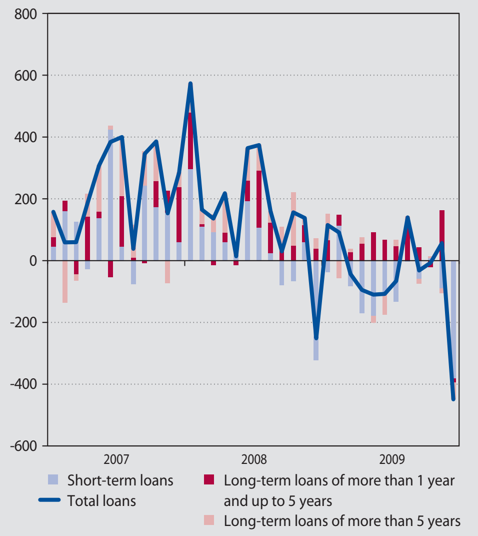
At the sectoral level, the development of deposits was very similar in the case of non-financial corporations and households. The amount of deposits taken from each sector declined during the period under review, but those taken from non-financial corporations fell the most. The slump in economic activity and the associated drop in corporate sales had the effect of reducing current account deposits and also short-term deposits with an agreed maturity. Household deposits decreased and the structure of deposits also underwent a substantial change. On the one hand, overnight deposits and deposits with an agreed maturity of up to 3 months increased, while, on the other hand, deposits with an agreed maturity of up to 2 years declined. In searching for higher yields, households invested in deposits outside M3 (deposits with an agreed maturity of more than 2 years and investment funds).

MFI loans to the private sector

In 2009, the loans of monetary financial institution to the private sector (loans and securities) amounted to €32.3 billion. That represented an increase of €1.5 billion year-on-year, which was far lower than the annual rise reported in 2008 (€4.1 billion). The breakdown of the growth in loans also differed from the previous year. In 2008, the amount of loans increased and the amount of securities fell, but in 2009 securities increased by a substantial margin while loans rose slightly. Households accounted for the largest share of the rise in loans to the private sector, with loans to households recording a rise of €1.3 billion in 2009 (compared with €2.5 billion in 2008). Loans to non-financial corporations declined by around €0.5 billion over the whole of 2009 (whereas in 2008 they

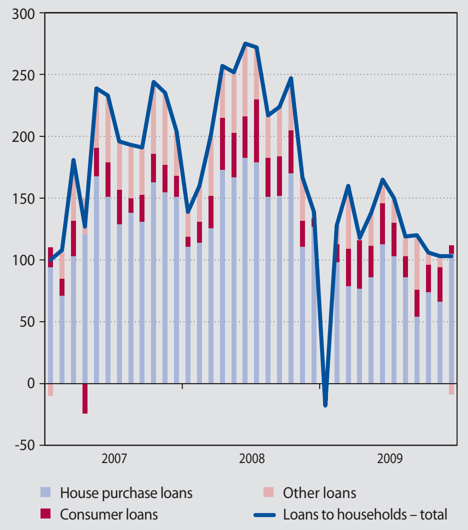
5 *„Currency in circulation" does not correspond to the actual volume of currency in circulation, but to Slovakia's banknote allocation key. This was higher than the actual volume of currency in circulation, and therefore NBS published also the M3 figures for analytical purposes.*

Chart 26 Year-on-year changes in loans to non-financial companies (EUR millions)



Source: NBS.

Chart 27 Year-on-year changes in loans to households (EUR millions)



Source: NBS.

increased by €2.0 billion). Over the whole of 2009, year-on-year growth of loans to the private decelerated, and as of end of December stood at 4.9% (or 1.1% excluding securities). The overall slower growth in loans reflected the effects of the economic crisis, which included both lower borrowing demand and a reduction in bank lending. This was confirmed by the results of the Bank Lending Survey in 2009. During the year, banks tightened credit standards by imposing higher margins, raising the requirements for collateral, and requiring borrowers to have higher amounts of own funds. The survey indicates also that due to lower economic activity, enterprises were not demanding additional funds.

Loans to non-financial corporations

For almost the whole of 2009, lending to non-financial companies had a prevailing downward trend due to the economic crisis. The slump in sales and new orders was adversely affecting the economic performance of enterprises. Banks were more cautious in providing new loans and they also cut back short-term lending through credit lines and current account overdrafts. On a month-on-month basis, the amount of such lending declined for most of the year. Thriving enterprises sought to take advantage of the relatively low interest rates (compared with 2008, they were 200 basis points lower on average) and secure cheaper funding for themselves. Thus demand among firms for longer-term loans increased in 2009, by almost €0.7 billion. The decline in the outstanding amount of loans to non-financial corporations was also reflected in the year-on-year comparison, according to which lending slowed throughout 2009 and ended in December at negative value of 3.3%. The year-on-year lending growth decelerated by almost 19 percentage points in comparison with December 2008.

Loans to households

Unlike loans to non-financial corporations, the outstanding amount of loans to households increased slightly over the whole of 2009, although the month-on-month increments were lower than in 2008. With the economic crisis bringing higher unemployment and greater uncertainty about future developments, households were less willing to borrow. Another factor was the falling trend in property prices, which is having a significant effect on lending growth. The supply of bank lending under tighter lending standards was also a drag on lending growth. Although the outstanding amount of loans increased over the year as a whole, lending growth on a year-on-year basis slowed. In December 2009, lending growth stood at 11.0% year-on-year, which was 14.3 percentage points lower than the growth reported at the end of 2008. A drop in lending growth was recorded for all types of loans.

Table 23 Cumulative net/sales of open-end investment funds in Slovakia (EUR millions)

	2008	2009
OIF shares/units in Slovakia[1)]	-975.7	110.9
Non-money market OIF shares/units	-422.1	7.7
Money market OIF shares/unit	-553.6	103.2

Source: Slovak Association of Asset Management Companies (SASS), based on data reported by its members.
1) Denominated in the domestic currency (EUR as from 2009, or SKK until the end of 2008, converted according to the conversion rate of 30.1260 SKK/EUR) and in foreign currencies in total, not including special funds for institutional investors.

Lending to households increased in nominal terms in 2009, resulting in a rise in household indebtedness as measured by the ratio of household bank loans to nominal GDP. The ratio went up substantially, from 18.8% in 2008 to 22% in 2009 (by 3.3 percentage points), the main factor being the fall in nominal GDP alongside a modest rise in the amount of lending.

Investment in open-end investment funds (OIFs)
In the first half of 2009, the global financial crisis was adversely affecting most investment fund categories (except for equity funds and real-estate special funds), which reported an outflow of funds and unfavourable results. In the second half of the year, however, the collective investment sector was already beginning to regain the confidence of investors. For 2009 as a whole, all categories of resident investment funds, whether denominated in the domestic currency or a foreign currency, achieved total positive net sales in the overall amount of €110.9 million[6], which in comparison with 2008 represented a considerable turnaround.

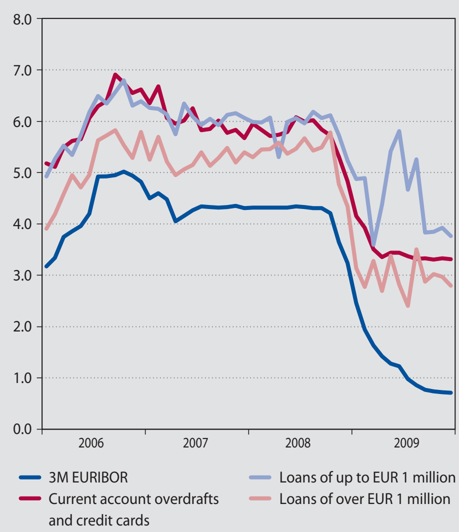
The category breakdown of 2009 net sales shows that money market funds had by far the highest positive net sales (€103.2 million), further confirming that Slovak investors remain strongly conservative. Other fund categories achieved net sales of €7.7 million in total, including, on one hand, positive net sales of equity funds (€44.0 million), mixed funds (€39.0 million), real-estate special funds (€21.4 million) and bond funds (€13.8 million), and, on the other hand, negative net sales of other/secured funds (€-57.6 million) and funds of funds (€-52.9 million).

2.4.2 Claims of leasing companies and hire-purchase companies

The overall claims of leasing, factoring, and hire purchase companies on the private sector amounted to €4,203.9 million as at the end of 2009, which represented a drop of €693.1 million in comparison with the previous year. In their year-on-year dynamics, these claims continued a declining growth trend that began in 2008, and from the second quarter until the end of 2009 they were falling year-on-year. As at the end of 2009, they were down by 14.2% compared with the end of 2008 (by contrast, the year-end figure for 2008 showed an annual rise of 18.2%). The main component of this decline was claims related to financial leasing.

Claims fell in all sectors in 2009, but the most marked decline was recorded by claims on financial corporations. These decreased by 53.8 %, driven mainly by *other claims*[7]. As at the end of 2009, claims of leasing, factoring, and hire-purchase companies on non-financial corporations were lower by 16.8% year-on-year and claims on

Chart 28 Interest rates on loans to non-financial corporations (%)

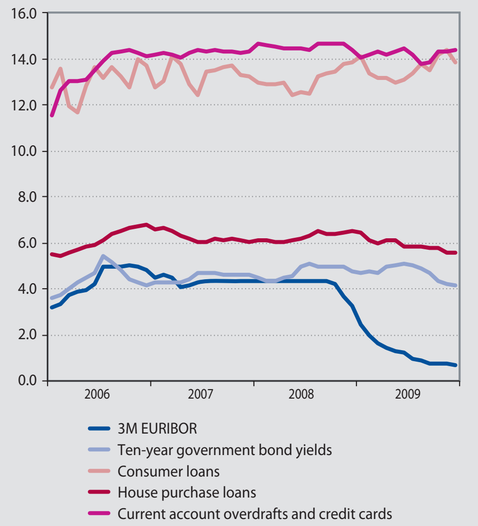


Source: NBS.

6 *The different amounts of monthly and cumulative net sales can be explained by the fact that the data of the Slovak Association of Asset Management Companies (SASS) obtained from regular weekly statistical reports and the data of individual OIFs (www.openiazoch.sk) sometimes refer to different periods (SASS releases data on Fridays, but some of its members release data on Thursdays) and the number of investment funds is recorded differently. Owing to the merging of investment funds and the redenomination of investment funds into euros at the end of 2008, the number of investment funds fell (from around 550 to 460) while number of them denominated in domestic euro currency soared and number denominated in a foreign currency decreased. The high volatility in the number of funds continued during the course of 2009, ranging from more than 570 in June to less than 500 at the year-end.*

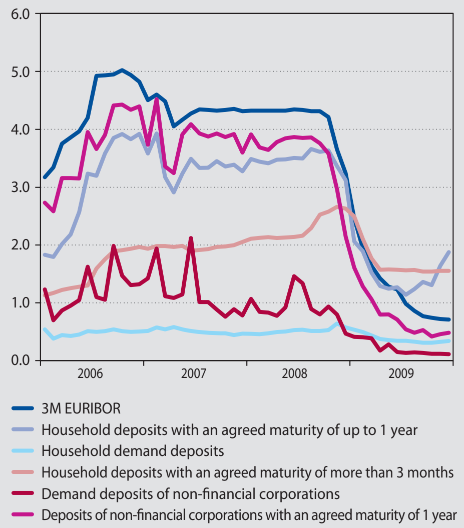
7 *In terms of their purpose, the claims of leasing, factoring, and hire-purchase companies on the private sector are divided into finance lease claims and other claims. The other claims category is further divided into hire-purchase claims and consumer credit claims.*

Chart 29 Interest rates on loans to households (%)



Source: NBS.

Chart 30 Deposit rates (%)



Source: NBS.

households were down by 6.9%. In each of these sectors, the principal determinant of developments was lease-related claims.

2.4.3 Interest rates

During 2009, the ECB cut its key rates on four occasions, by a total of 150 basis points. Together with other monetary policy measures (long-term tenders with full allotment; the covered bond purchase programme; extending the set of eligible collateral), the ECB managed to reduce market interest rates by a substantial margin in order to support the euro area economy. By the end of 2009, the shortest market rates – the overnight rate EONIA and 3-M EURIBOR – stood at 0.35% and 0.71%, respectively. This development also affected retail interest rates in Slovakia, which were mostly being cut during the year. Nevertheless, risk perception of banks increased due to negative macroeconomic situation which counteracted against more pronounced drop in retail interest rates.

Interest rates on loans to non-financial corporations

Interest rates on loans to non-financial corporations fell sharply in the first four months. This development mirrored the relatively substantial decline in market rates. In following periods, however, customer rates developed differently depending on the loan amount. A combination of the higher perception of risk and worsening economic performance, as well as the outlook for further development, were reflected in a relatively sharp increase in bank lending costs for small and medium-sized enterprises (loans of up to €1 million). In the last four months of the year, interest rates for these enterprises returned to the lowest level recorded in March 2009. Interest rates on loans to large corporations of more than €1 million fluctuated at around 3%. The most stable development was seen in interest charged on current account overdrafts, which after falling on the first quarter of 2009 remained at around 3.3% for the rest of the year.

Interest rates on loans to households

Lending rates to households remained considerably rigid throughout 2009 and they did not reflect the reduction in market rates. In the case of interest on house purchase loans, a very slight downward trend was discernible all through the year. Banks were cautious in reducing interest rates on these long-term loans, since yields of a comparable maturity (10-year government bonds) did not decline by a greater margin. As for interest rates on consumption loans, they did not react at all to the decrease in market rates. Interest rates on these types of loans remains high, at around 13% – 14% or almost twice the euro area level. One of the contributing factors to this development may have been the rising rate of unemployment. Interest rates on current account overdrafts maintained a stable course throughout 2009. Meanwhile, interest rates on loans to self-employed persons were relatively volatile, ranging from 4% – 7%.

Interest rates on deposits from non-financial corporations and households

Interest rates on deposit products for non-financial corporations and households fell sharply at the beginning of 2009 and then stabilised over the rest of the year. In the case of deposit rates for non-financial corporations, the reduction in key rates and then in market rates was passed on to them immediately and in full. Banks cut lending rates for all maturities. From the second quarter, deposit rates for non-financial corporations remained unchanged. The largest year-on-year fall in interest rates was recorded for term deposits with longer maturities. In the household sector, development was very similar to those in the non-financial corporation sector. At the beginning of the year, interest rates fell sharply, and then later they stabilised. One exception was deposits with an agreed maturity of up to 1 year, which recorded a modest rise in interest rates towards the year end, largely because of the expiration of deposits with agreed maturity of 1 year. In seeking to retain customer deposits, banks offered higher returns on them. This development was also a response to the calming of financial markets, which offer higher yields on many investment products. Banks therefore sought to maintain relatively cheap deposit funds.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

IMPLEMENTATION OF EUROSYSTEM MONETARY POLICY, FOREIGN EXCHANGE OPERATIONS AND INVESTMENT ACTIVITIES IN FOREIGN RESERVE MANAGEMENT

3

3 Implementation of Eurosystem Monetary Policy, Foreign Exchange Operations and Investment Activities in Foreign Reserve Management

3.1 MONETARY POLICY OPERATIONS

Once Slovakia became fully integrated into the euro area, Národná banka Slovenska began to implement the monetary policy set by the European Central Bank. As at 31 December 2008, NBS ceased using monetary policy instruments as a means of absorbing the liquidity surplus in the Slovak banking sector (approximately €13 billion). The systemic liquidity deficit that is a permanent feature of the European banking sector requires liquidity-providing operations. On 1 January 2009 Slovakia became the 16th member of the euro area, where the monetary policy operations conducted at the national level are those of the Eurosystem.

The European Central Bank implements a qualitative monetary policy through setting the key interest rates that serve as the rates for main refinancing operations and for the marginal lending and deposit facilities. The ECB manages the banking sector's liquidity so that the reference rate for the euro interbank overnight market (EONIA) remains close to the main refinancing rate. The interest rates for the marginal lending and deposit facilities serve as a corridor within which the EONIA may fluctuate.

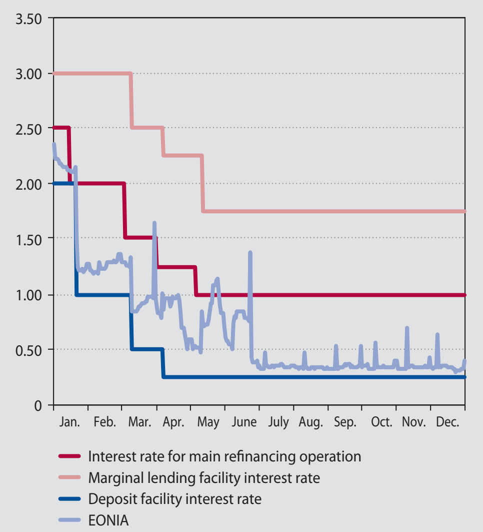
The Eurosystem's standard set of monetary policy instruments includes main refinancing operations with a maturity of one week, longer-term refinancing operations with a maturity of three months, overnight fine-tuning operations of a liquidity-providing or liquidity-absorbing character, and standing facilities. The other monetary policy instruments that the ECB has at its disposal are not used in normal circumstances,[8] but they did come into play during 2009 as part of the response to the financial crisis.

Key interest rates in the euro area were cut fourfold during the course of 2009, by 150 basis points in cumulative terms, with the main refinancing rate ending the year at an all-time low of 1.00%. Whereas before the financial crisis the EONIA overnight rate had been close to the main refinancing rate, in 2009 it remained almost constantly below this rate and at the same time close to the lower end of the corridor. This was due to the liquidity surplus that banks accumulated after the ECB switched the way in which funds are allotted in Eurosystem liquidity-providing operations – from basing the allotment on a calculated benchmark, to applying the full allotment procedure. During this period, however, the ECB did not abandon the standard practice of smoothing the effect of excess liquidity at the end of the reserve maintenance period, which was absorbed through fine-tuning operations. This was reflected in short-term rises in the EONIA overnight rate.

Liquidity of the banking sector

With Slovakia's adoption of the euro, Slovak banks became fully integrated into the Europe-

Chart 31 Key ECB interest rates in 2009 (% p.a.)



Source: ECB.

8 *For further details, see the ECB publication "The implementation of monetary policy in the euro area", the Slovak version of which is published on the NBS website at http://www.nbs.sk/_img/Documents/ecbpub/ump/mp200811.pdf.*

an financial sector and their liquidity surplus was absorbed by the systemic deficit of the European banking sector. Slovak banks placed part of their surplus funds with their respective parent companies and invested a further part of these funds in the European interbank market.

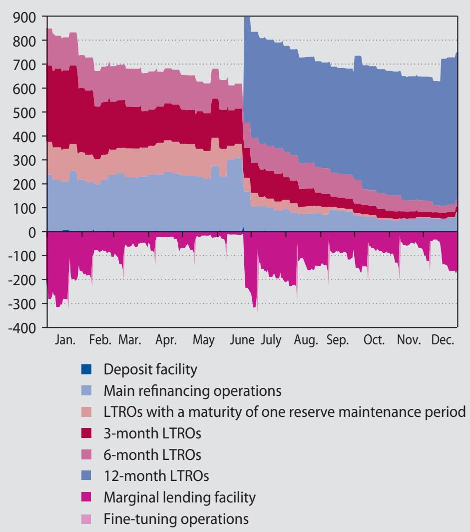
In 2009, the European Central Bank continued with the non-standard full allotment procedure through its liquidity-providing operations. Since liquidity remained tight in the interbank market, banks were obtaining the funds they required almost exclusively from the ECB. With banks requesting far more funds than they actually needed, there was a substantial surplus in the amount of funds lent by the ECB. The lack of confidence in the interbank market and the need to accumulate funds was reflected in the higher number of longer-maturity borrowings. This in turn saw the share of longer-term refinancing operations in the total amount of outstanding refinancing increase to a majority of 75% in the first half of 2009, having already risen in the previous period by the addition of operations with a maturity of one reserve maintenance period and with a maturity of six months. Unlike in normal circumstances, main refinancing operations accounted for only 35% of the total amount of outstanding refinancing in the first half of 2009. The introduction of 12-month operations in mid-2009 further squeezed the use of main refinancing operations as a means of providing liquidity to banks. Banks gradually reduced the amount of funding they obtained through all other operations, until 12-month operations became almost their only source (with a share of 86%).

In July 2009, after the Eurosystem had carried out its first one-year LTRO, the total amount of the Eurosystem's outstanding refinancing stood at a record €900 billion. The new LTROs allowed banks to obtain credit from the ECB for one year at an all-time low rate of 1.00%. These operations appreciably squeezed main refinancing operations as a share of the total outstanding amount, represented only around 10% by the end of 2009.

Standing facilities

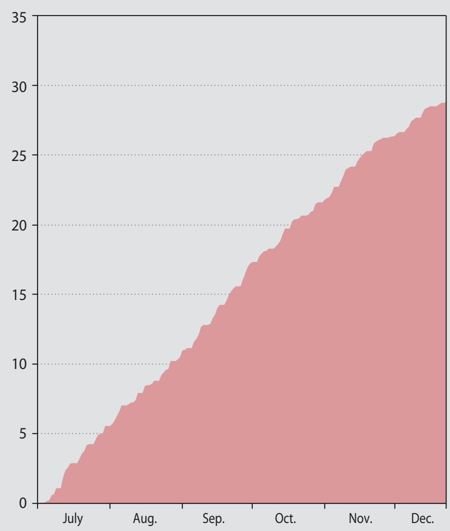
Since banks were responding to counterparty credit risk by not investing their temporary surplus funds in the interbank market, they placed large volumes with the Eurosystem's marginal deposit facility. Usage of the facility doubled during 2009, and its highest-ever levels of around €300 billion were recorded in January and July. The fact that banks experiencing a liquidity shortage obtained credit from the ECB at the main refinancing rate and that banks with a surplus of funds accessed the deposit facility at rates of 100 and 75 basis points, respectively, below the main refinancing rate indicates that the interbank market was still not functioning efficiently in 2009.

Chart 32 Eurosystem operations in 2009 (EUR billions)



Source: ECB.

Chart 33 Purchase of covered bonds in 2009 (EUR billions)



Source: ECB.

Covered bond purchase programme
In July 2009, the Eurosystem introduced another non-standard instrument – the covered bond purchase programme – the aim of which was to revive the market in these securities. Under the programme, covered bonds with a total nominal amount of €60 billion should be purchased within a period of one year, i.e. by June 2010. The purchases are carried out through the ECB and national central banks, their share being determined on the basis of their capital key. By the end of 2009, the Eurosystem's portfolio of covered bonds amounted to almost €30 billion, a half of the targeted amount.

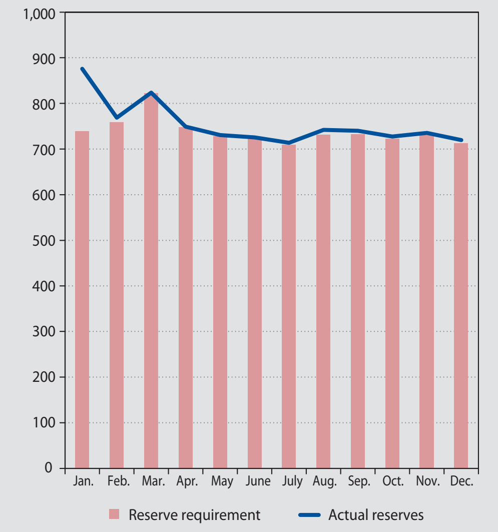
Minimum reserves

In the area of minimum reserves, the principal changes introduced to the system applied in previous years concerned the reserve base of credit institutions. Under Eurosystem rules, the reserve base consists only of primary deposits and debt securities issued with an agreed maturity of up to two years; it does not include deposits taken from other credit institutions in the Eurosystem. In 2009, as in previous years, the reserve ratio stood at 2% of the reserve base. Each credit institution may deduct a lump-sum allowance of €100,000 from its reserve requirement. The reserve maintenance period is around one month on average, and typically starts on the Wednesday following the meeting of the ECB Governing Council at which monetary policy parameters are set. There were also changes in regard to the remuneration of minimum reserves; the fixed remuneration rate was superseded by a variable rate equal to the average marginal rate for the Eurosystem's main refinancing operations over the respective maintenance period.

Credit institutions operating in Slovakia are required to hold minimum reserves either on their own account or on an intermediary's account with Národná banka Slovenska. In 2009, a total of 26 credit institutions were subject to minimum reserve requirements, and one of them held its reserves on an intermediary's account.

The average value of the reserve requirement in 2009 was €734.5 million; its value fell by 3.5% over the course of the year, from €739.5 million in January to €713.3 million in December. None of the credit institutions established in Slovakia failed to comply with the reserve requirement.

Chart 34 Minimum reserves in 2009 (EUR millions)



Source: NBS.

The minimum reserve system fulfils an important role in the framework of monetary policy implementation. Since reserves need to comply with the reserve requirement only on average over the whole maintenance period, the system supports stability in short-term money market rates. It smoothes the effects of unexpected liquidity fluctuations and, in regard to non-cash payment requirements, it maintains the minimum liquidity of financial institutions that are subject to minimum reserve requirements.

Eligible assets

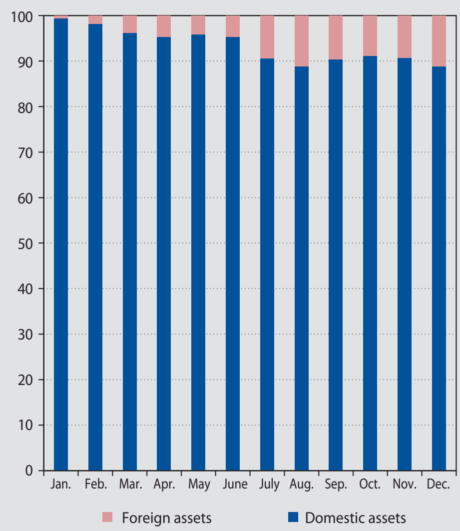
In January 2009, Národná banka Slovenska began implementing the Eurosystem's common monetary policy. The common rules concern the conduct of monetary policy operations, as well as the management of the risks associated with them. NBS started to conduct Eurosystem operations at the national level with eligible credit institutions that perform banking activities in Slovakia. Under the ESCB and ECB Statute, all Eurosystem credit operations must be collateralised with eligible collateral. Consequently, the Eurosystem has put in place a set of criteria by which to assess the eligibility of particular types of financial assets. Assets meeting these eligibility criteria may be used as collateral for liquidity-providing operations (including intraday credit in the TARGET2 payment system), or they may be the subject of outright transactions. The asset eligibility criteria are applied at the national level in the euro area countries. Therefore all financial assets issued or provided in Slovakia are included in the Single List of Eligible assets, provided that they met the eligibility criteria in the previous year and continue to meet them.

Regarding the use of financial assets in Eurosystem operations, another important aspect, apart from their eligibility, is the collateralisation techniques for depositing assets and how these assets are managed in the creditor national central bank. For eligible credit institutions in Slovakia, Národná banka Slovenska began to manage pool accounts for pooled collateral. These assets may be deposited for the collateralisation of operations either through the repo technique or the pledge technique. NBS established the same conditions for the use of domestic assets and for the use of assets on the cross-border principle. Where eligible financial assets were used, they were also valued at either their market value or on the basis of a theoretical price, including application of the corresponding haircut.

In 2008, before Slovakia joined the euro area, the assets most commonly used in monetary operations were government securities and NBS bills, but in 2009 eligible credit institutions in Slovakia had the opportunity to use various types of underlying financial assets. The category of eligible assets was extended to include various debt securities, as well as credit claims. These assets could be domestic assets or foreign financial assets held by eligible credit institutions in Slovakia. As of the beginning of 2009, NBS started to accept as collateral, in addition to maturing NBS bills, other domestic financial assets up to the amount of €17.6 billion. During the course of 2009, these assets were supplemented with new assets held in Slovakia, up to a total value of €19.1 billion. In accordance with the use of assets held in Slovakia, counterparties also started to apply foreign eligible financial assets that were denominated in euros and held in euro area countries. In Slovakia, however, the actual use of foreign assets was less significant, and by the year-end it represented only 11% of the total amount of collateral used for Eurosystem operations conducted through NBS. The largest shares of the assets used in 2009 were represented by covered bank bonds issued in accordance with the UCITS Directive (which in Slovakia means mortgage bonds), followed by Slovak government bonds, Slovak Treasury bills, and bonds issued by bank and non-bank entities in Slovakia. As for foreign assets used as eligible collateral by credit institutions in Slovakia, they mainly comprised government bonds of EEA countries and covered bank bonds issued by credit institutions in EEA countries. In 2009, no credit claims were used as collateral in Slovakia.

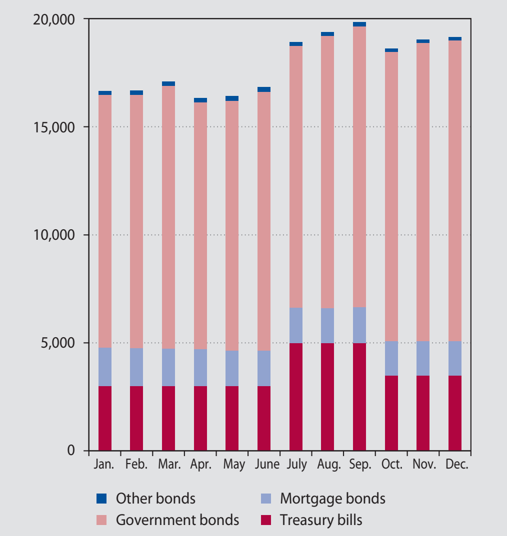
In 2009, the Eurosystem opened the way for extending the range of financial assets eligible for use during the financial and economic crisis, and, as a result, the asset eligibility criteria were amended. This new group of assets is identified as "temporary collateral" held in euro area countries; the debt securities may be denominated not only in euro, but also in US dollars, pounds sterling and Japanese yen. They may be accepted as eligible collateral until the end of 2010, or no later than the maturity of the last 12-month liquidity-providing operation undertaken with the Eurosystem before the end of 2010. This opportunity could and can be taken up also by eligible credit institutions in Slovakia. Another group of assets that the Eurosystem has recognised as eligible since the beginning of 2009 (in the context of exceptional crisis conditions) are assets issued by selected governments of G-10 countries (in their domestic currency). These assets are identified as "special collateral" and their

Chart 35 Use of domestic and foreign eligible assets in 2009 (%)



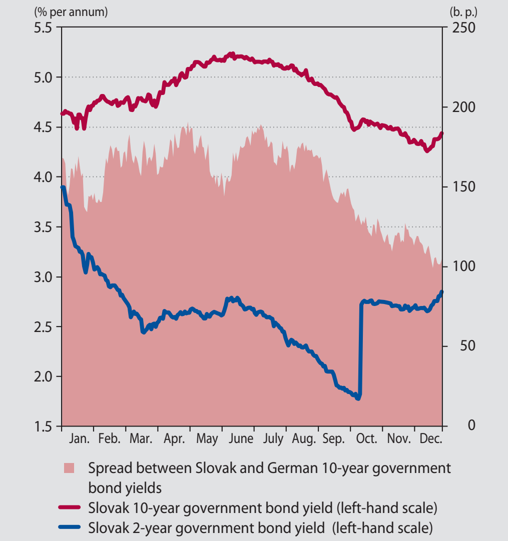
Source NBS.

Chart 36 Structure of Slovak eligible assets in 2009 (EUR millions)



Source NBS.

Chart 37 Benchmark government bonds in 2009



Source NBS.

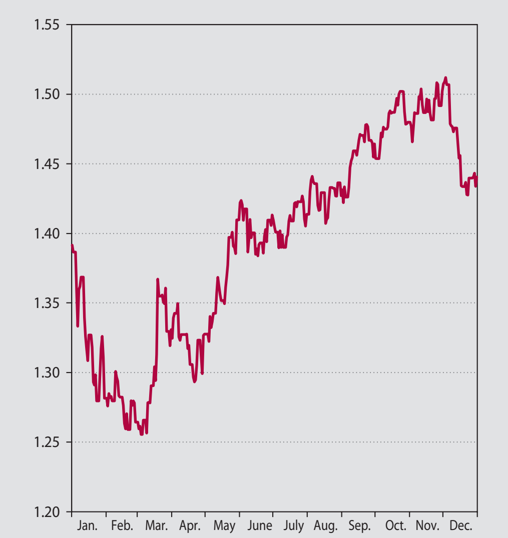
eligibility is judged by the ECB, taking into account the mobilisation of assets for the requirements of particular euro area NCBs.

As from January 2009, Národná banka Slovenska began using a proprietary information system for conducting Eurosystem operations (including settlement operations) in the given area of processes and procedures. This includes communicating with eligible credit institutions in Slovakia and with external systems, such as the Bratislava Stock Exchange and Centrálny depozitár cenných papierov SR, a.s. (the central securities depository). This system is directly connected to the TARGET2-SK payment system and allows NBS to communicate with the ECB and other euro area NCBs in regard to, inter alia, eligible assets for Eurosystem monetary operations.

Benchmark bond yield curve

Yields on two-year Slovak government bonds fell markedly in 2009, and thus partially converged to the European level. The conspicuous upward shift towards the end of October was caused by revised figures for Slovak benchmark bonds. The long end of the yield curve approached European yields only to a slight extent, where spreads between Slovak and German 10-year benchmark bonds narrowed from almost 200 basis points to 100 basis points.

Chart 38 Euro-dollar exchange rate in 2009



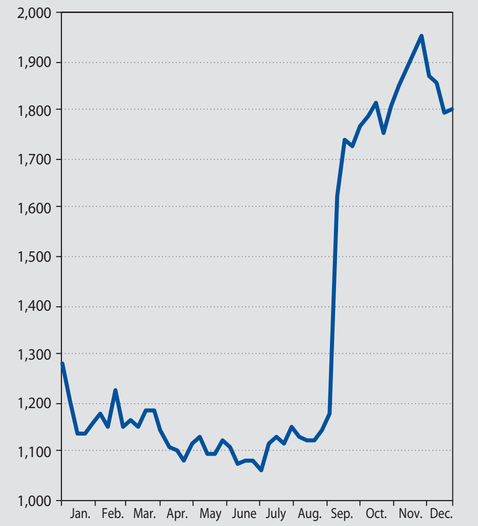
Source: ECB.

3.2 FOREIGN EXCHANGE OPERATIONS

Foreign exchange market operations

With the adoption of the single European currency in Slovakia, the Slovak koruna was as the domestic currency replaced by the euro in a floating exchange-rate regime. At the beginning of 2009, the euro's exchange rate against the US dollar was high-

Chart 39 NBS foreign reserves in 2009 (USD millions)



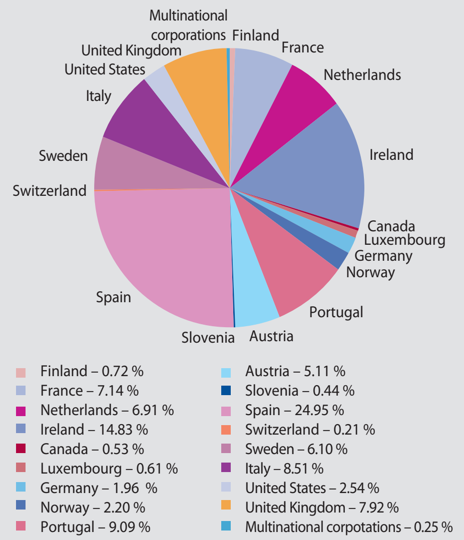
Source: NBS.

Chart 40 Investment reserves under NBS management (EUR billions)

Source: NBS.

ly volatile as a consequence of investors' persisting risk-aversion. The euro recorded its lowest level of 1.25 USD/EUR in March, but as the year wore on it gained almost 21% against the dollar. Between its peak, at 1.51 USD/EUR, and the end of the year, the euro weakened slightly, and it ended 2009 at 1.44 USD/EUR. The European Central Bank did not undertake any currency interventions in 2009.

Chart 41 Euro investment portfolio – breakdown by country



Source: NBS.

Investment activities in foreign reserve management

The changeover to the single currency brought about changes in foreign reserve management in the area of investment strategy. In previous years, NBS had managed foreign reserves in the form of US dollars, euros and gold. From the beginning of 2009, however, its foreign reserves comprised only US dollars and gold. The amount of foreign reserves was determined mainly by the price of gold, since gold comprised the main part of the foreign reserves. The value of the foreign reserves at the corresponding exchange rates and market prices rose from USD 1.28 billion at the beginning of 2009, to USD 1.8 billion at the end of 2009. The amount of foreign reserves denominated in US dollars was affected largely by the exchange rate between gold and the dollar.

Investment activities in investment reserves management

For Slovakia, 2009 was its first year of euro area membership. NBS adapted to the new framework of investment reserves management and followed the new rules set out in the investment strategy approved at the end of 2008. The character of investment reserves management has changed from the investment of net assets to the management of assets and liabilities. In the wake of the euro changeover, the focus of investment reserves management has been on achievement adequate net returns by complying with the pre-determined constraints. The moderate easing of credit restrictions on investments was accompanied by tightening of portfolio diversification conditions that limit the concentration of credit exposure vis-à-vis a single issuer or country. Another change was the restriction of exposure to interest rate risk and foreign exchange risk. In order to manage interest rate risk effectively, interest rate swaps started to be traded in the euro investment portfolio during 2009. By 31 December 2009, the nominal value of interest rate swaps had reached €12.3 billion and the total value of investment assets came to €12.5 billion. The effective net return on investment reserves represented 2.3% for the euro investment portfolio and 3.1% for the dollar investment portfolio. The overall return on investment reserves on the basis of portfolio performance measurement was around €280 million.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

CHAPTER 4

SUPERVISION OF THE FINANCIAL MARKET

4

4 Supervision of the Financial Market[9]

4.1 FINANCIAL MARKET REGULATION IN SLOVAKIA

The general procedural rules followed by Národná banka Slovenska in supervising and regulating the financial market in the areas of banking, capital market, insurance and pension savings are laid down in Act No. 747/2004 Coll. on Supervision of the Financial Market and on amendments to certain laws, as amended.

The aim of financial market supervision is to contribute to the stability of the financial market as a whole, as well as to its secure and sound functioning.

The supervisory and regulatory powers defined in this law are exercised by the Financial Market Supervision Unit, which was in 2009 managed by a Deputy-Governor of Národná banka Slovenska. The Financial Market Supervision Unit is in charge of the following activities:

- rulemaking activities (it drafts generally binding legal regulations of Národná banka Slovenska, concerning the financial market, in particular prudential regulations, operational security rules and other requirements for the conduct of business by supervised entities; participates in the preparation of generally binding legal regulations issued by central government authorities; and issues methodological guidelines and recommendations for supervised entities of the financial market);
- licensing activities (it conducts proceedings, takes first-instance decisions, issues authorisations, approvals and prior approvals, and imposes penalties and remedial measures);
- supervisory activities (it supervises financial market supervised entities through on-site and off-site supervisions); and
- analytical activities (it prepares analyses of the financial market as a whole, as well as of its individual financial entities).

The Customer Protection Section, as part of the Financial Market Supervision Unit (tasked with customer protection under the NBS Act and the Supervision Act), handles petitions received from the customers of financial institutions supervised by Národná banka Slovenska on the basis of the above Acts and the organisational rules of Národná banka Slovenska.

The financial market comprises four sectors: the banking sector (represented mainly by banks and branches of foreign banks); the capital market (represented mainly by investment firms, asset management companies, the stock exchange, the central securities depository, securities issuers and investment service intermediaries); the insurance sector (represented mainly by insurance companies and branches of insurance companies from another Member State of the EU, insurance and reinsurance intermediaries); and the pension savings sector (represented mainly by pension fund management companies and supplementary pension asset management companies).

Slovakia's membership of the European Union means that foreign-regulated entities may operate in the country also without a licence from Národná banka Slovenska, provided they are authorised to conduct such activities in another EU Member State (the single passport concept).

4.2 RULEMAKING ACTIVITIES OF THE SUPERVISION UNIT

In the area of financial market regulation, numerous laws, regulations, methodological instructions and recommendations governing the legal environment of regulated entities were adopted in 2009. In this chapter, we do not provide a complete list of these measures, but rather point to those which have had the greatest impact on the activities of regulated entities in the individual financial market sectors of Slovakia.

One of the most significant preventive measures taken in response to the global financial and economic crisis was the adoption of the so-called 'anti-crisis law' (Act No. 276/2009 Coll.), which provides a legal framework for the granting of stabilisation aid to banks and amends numerous laws pertaining to the financial market. On the

9 *A detailed report on the activities of the Financial Market Supervision Unit for 2009 is published on the website of Národná banka Slovenska at http://www.nbs.sk/en/financial-market-supervision/analysis-reports-and-publications-in-the-field-of-financial-market/reports-on-the-activities-of-the-financial-market-supervision.*

Table 24 Number of supervised entities as at 31 December 2009

	Number of institutions as at 31 December 2009	Number of institutions as at 31 December 2008	Change
Banks in Slovakia	15	17	-2
Home savings banks	3	3	0
Mortgage banks	8	9	-1
Other banks	4	5	-1
Branches of foreign banks in Slovakia	13[1)]	11	2
of which: NBS-authorised	0	0	0
on the single European passport principle	13	11	2
of which: branches of foreign mortgage banks	0	0	0
Foreign banks contributing to the Deposit Protection Fund	1	0	1
Representative offices of foreign banks in Slovakia	4	7	-3
Branches (organisational units) of banks in Slovakia	1,042	857	185
Lower organisational units in Slovakia	188	401	-213
Branches of Slovak banks in other countries	2[2)]	1	1
Representative offices of Slovak banks in other countries	1	1	0
Foreign entities freely providing cross-border banking services	274	252	22
of which: banks	251	231	20
electronic money institutions	13	12	1
foreign financial institutions	7	7	0
credit cooperatives	3	2	1
Slovak banks freely providing cross-border banking services abroad	2	2	0
of which: electronic money institutions	0	0	0
Number of staff in banks and branches of foreign banks	18,750	20,598	-1,848
Insurance companies in Slovakia	20	23	-3
of which: insurance companies providing only life insurance	5	5	0
insurance companies providing only non-life insurance	3	4	-1
insurance companies providing life and non-life insurance	12	14	-2
Insurance companies based in Slovakia, providing services in another EU state	14	14	0
of which: without establishing a branch	11	11	0
through branches	3	3	0
Insurance companies from another Member State of EU providing services on a freedom to provide services basis	447	419	28
of which: without establishing a branch	433	406	27
through branches	14	13	1
Insurance companies in Slovakia providing compulsory third-party liability insurance for motor vehicles	9	9	0
Pension fund management companies	6	6	0
Supplementary pension asset management companies	5	5	0
Domestic asset management companies in Slovakia	8	10	-2
of which: companies with an extended licence under Section 3(3) of the Collective Investment Act	6	6	0
Domestic mutual funds	78	114	-36
of which: open-end mutual funds	73	68	5
closed-end mutual funds	0	41	-41
special mutual funds	5	5	0

Table 24 Number of supervised entities as at 31 December 2009 (continuation)

	Number of institutions as at 31 December 2009	Number of institutions as at 31 December 2008	Change
Foreign asset management companies and foreign collective investment undertakings operating in Slovakia and authorised under Section 75 of the Act	5	5	0
of which: through branches in Slovakia	2	2	0
without establishing a branch	3	3	0
Foreign asset management companies and foreign collective investment undertakings operating in Slovakia on the single European passport principle	57	0	57
of which: foreign asset management company branches established under Section 28 of the Collective Investment Act	2	0	2
Foreign asset management companies without a branch established under Section § 29 of the Collective Investment Act	13	0	13
European funds under Section 61 – foreign asset management companies	16	0	16
– foreign investment companies	26	0	26
within which: foreign mutual funds and sub-funds of foreign asset management and investment companies	874	0	874
Foreign asset management companies operating under Section 3(3) of the Collective Investment Act	13	0	13
Investment firms as defined by the Securities Act	18	18	0
Banks conducting business under the Securities Act and NBS-licensed	11	13	-2
Branches of foreign banks – investment firms licensed by their home authority	7	6	1
Foreign entities operating in Slovakia as investment firms	1,029	890	139
of which: through branches in Slovakia	4	5	-1
without establishing a branch	1,025	885	140
Slovak investment firms providing services abroad without establishing a branch	9	7	2
Investment service intermediaries in Slovakia	962	978	-16
of which: legal persons	85	73	12
natural persons	877	905	-28
Securities issuers whose securities are admitted to trading on a regulated market	125	144	-19
Other legal persons authorised by NBS only to issue electronic means of payment	2	1	1
Payment institutions	1	0	1
Electronic money institutions	1	0	1
Foreign payment institutions providing cross-border payment services in Slovakia	19	0	19

Source: NBS.
1) As at 31 December 2009, the following branches of foreign credit institutions had not commenced banking activities: AXA Bank Europe, a branch of a foreign bank, and UNIBON, a savings and credit cooperative (an organisational unit of a foreign entity).
2) As at 31 December 2009, Poštová banka had not commenced banking activities through a branch established abroad.

basis of this law, stabilisation aid to a bank can be granted in the form of a contribution of financial funds to the bank's registered capital for a countervalue in the form of equity or priority shares (recapitalisation), or a special guarantee for bonds issued by the bank or a loan provided to the bank. Further areas addressed by the 'anti-crisis law' are provisions relating to 'subordinated bonds' in the Commercial Code, the law on bankruptcy and restructuring, and the Securities Act; provisions of the Banking Act concerning reporting of large exposures vis-à-vis other persons or groups of persons; and provisions of the Insurance Act which now enable NBS to start proceedings against a responsible actuary for the breach of duties laid down in the Insurance Act and to suspend a natural person's authorisation to act as an actuary until the end of proceedings (the authorisation's suspension being recorded in the list of actuaries).

Another significant legal regulation prepared by the mutual working group of Financial Market Supervision Unit in collaboration with the Slovak Ministry of Finance was Act No. 186/2009 Coll. on Financial Intermediation and Financial Counselling and on amendments and supplements to certain laws. This Act was designed to regulate financial mediation and financial counselling throughout the financial market and to introduce the same rules for the conduct of intermediating and advisory activities in the insurance/reinsurance sectors, the capital market, the supplementary pension saving sector, and the market for loans and deposits. Národná banka Slovenska will supervise the providers of financial intermediation and financial counselling services on the basis of this law.

Národná banka Slovenska supported the measures taken to mitigate the effects of the global financial crisis also by amending other legal regulations, e.g. the Banking Act by the adoption of Act. 492/2009 Coll. With effect from 1 December 2009, the amended Banking Act prescribes credit risk calculation arisen from holding of assets by bank. The Banking Act was also amended in connection with the enactment of a law on payment services. The amendment contains important provisions concerning the register of bank loans and guarantees, which is kept by Národná banka Slovenska.

An important law governing pension savings was Act No. 137/2009 Coll., amending Act No. 43/2004 Coll. on Retirement Pension Saving. The amendment contains new provisions concerning fees that a pension fund management company is entitled to charge for asset management for savers. At the end of 2009, similar changes were made in the supplementary pension saving sector, through Act No. 557/2009 Coll., amending Act No. 650/2004 Coll. on supplementary pension saving.

At the level of by-laws, a major contribution to the implementation of anti-crisis measures on the part of Národná banka Slovenska in the banking sector was the issuance of NBS Decree No. 5/2009, amending Decree No. 18/2008 on the liquidity of banks and branches of foreign banks and on the process of liquidity risk management at banks and branches of foreign banks. Regarding cash flows in banks and branches of foreign banks in relation to the financial market situation, this decree was designed to strengthen the requirement to provide loans to enterprise entities, with the aim of mitigating the effects of the global financial crisis on the Slovak economy. Hence, the parameters of the indicator of liquid assets were reassessed.

During 2009, Národná banka Slovenska issued several decrees concerning collective investment in the capital market, including Decree No. 3/2009 providing a method for determining the value of mutual fund assets. Regarding the absence of adequate regulations, the aim of this decree was to regulate the valuation of securities, money market instruments, derivatives, current accounts and deposit accounts, receivables and liabilities, equity participations and precious metals held by mutual funds. The Supervision Unit also issued a methodological guideline (ÚDFT NBS No. 1/2009) for the conduct of activities in the area of collective investment on the basis of a single European licence. This methodological guideline was designed to implement the changes made in the Collective Investment Act in regard to the notification of European funds after its amendment by Act No. 552/2008 Coll., and to implement the provisions of the CESR guideline for the simplification of notification procedures for undertakings for collective investment in transferable securities (UCITS).

For the regulation of the insurance sector, Národná banka Slovenska issued two decrees over the course of 2009. NBS Decree No. 1/2009 concerning the activity reports and plans of internal audit units of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of foreign reinsurance companies specifies the required form and contents of the activity reports of internal audit units and their plans for the next calendar year. NBS Decree No. 12/2009 is an amendment to Decree No. 25/2008 concerning the solvency and minimum guarantee funds of insurance and reinsurance companies, branches of foreign insurance and reinsurance companies, in connection to the revaluation of amounts for the calculation of solvency by the European Commission.

In the area of pension savings, the most important decrees approved in 2009 were NBS Regulation No. 74/2009 Coll. on the submission of reports on the exceeding of limits and compliance with limits concerning the assets of pension funds or supplementary pension funds, and NBS Regulation No. 75/2009 Coll. on the submission of information about the net asset values of supplementary pension funds, with the aim of obtaining and monitoring daily information on the net asset value in the individual supplementary pension saving funds created and managed by a supplementary asset management company. In June 2009, the Bank Board of NBS approved Regulation No. 267/2009 Coll. on the reference values of conservative pension funds and the composition of the reference values of balanced pension funds and growth pension funds. The aim of adopting this regulation was to set the minimum yield that a conservative pension fund is obliged to achieve over the period under review.

In the area of financial intermediation, NBS approved and issued Decree No. 11/2009, which specifies the due form of a proposal for registration, a change in registration or the cancellation of registration; the amounts of fees charged for a proposal for registration, a change in registration or the cancellation of registration; the specimen certificate; the structure of the registration number and other particulars of the register.

4.3 LICENSING ACTIVITIES OF THE SUPERVISION UNIT

In 2009, the Financial Market Supervision Unit of NBS issued 826 decisions concerning licences. Most of them related to the capital market and the banking sector. A breakdown by individual sector is presented in Table 25:

Decisions by Národná banka Slovenska related to the licensing of financial market supervised entities in 2009 include, for example, the following:

- granting prior approval to acquire a share in the registered capital and voting rights of Slovenská sporiteľňa, a.s., in the amount of 100%, and to become a subsidiary of EGB Ceps Holding GmbH;
- granting prior approval to Slovenská sporiteľňa, a.s., and UniCredit Bank Slovakia, a.s., to use an advanced measurement approach for operational risk model for calculating the capital requirement;
- granting prior approval for the merger of Československá obchodná banka, a.s., and ISTROBANKA, a.s.;
- granting licence to European Investment Centre, o.c.p., a.s., to provide investment services;
- granting prior approval to PORTFIN, o.c.p., a.s., to return its licence to provide investment services;
- granting prior approval for the transfer of administration of open-end mutual funds to another asset management company:
  - the transfer of 4 open-end mutual funds from ISTRO ASSET MANAGEMENT, správ. spol., a.s., to ČSOB Asset Management, správ. spol., a.s.;
  - the transfer of 2 open-end mutual funds from KD Investments, správ. spol., a.s., to IAD Investments, správ. spol., a.s., an asset management company;

Table 25 Number of decisions issued by the Financial Market Supervision Unit of Národná banka Slovenska in 2009

	Number of decisions
Banking sector and investment firms	163
Capital market	357
Insurance sector	155
Pension savings sector	124
Foreign exchange activities	24
Payment services	3
Total	826

Source: NBS.

- granting prior approval to ISTRO ASSET MANAGEMENT, správ. spol., a.s., to return its licence to operate as an asset management company;
- granting prior approval for the merger of KD Investments, správ. spol., a.s. and IAD Investments, správ. spol., a.s., asset management companies;
- granting prior approval for the merger of KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group and KONTINUITA poisťovňa, a.s., Vienna Insurance Group; KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group became through the merger the legal successor to company KONTINUITA poisťovňa, a.s., Vienna Insurance Group;
- granting prior approval to KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group to conduct intermediation activities for a financial institution, Slovenská sporiteľňa, a.s.;
- granting prior approval for the sale of Q B E poisťovňa, a.s., including its branch in the Czech Republic, to QBE Insurance (Europe) Limited, United Kingdom of Great Britain and Northern Ireland;
- granting prior approval to Allianz Holding eins GmbH, Austria, to acquire a qualified share in Allianz - Slovenská poisťovňa, a.s.;
- granting prior approval to Doplnková dôchodková spoločnosť Tatra banky, a.s., to establish a new supplementary pension fund called Doplnková dôchodková spoločnosť Tatra banky, a.s., Konzervatívny príspevkový d.d.f.;
- granting prior approval to ING Continental Europe Holdings B.V., Netherlands, to increase its share in the registered capital of a supplementary pension asset management company, ING Tatry – Sympatia, d.d.s., a.s., to 66% in one operation directly;
- granting licence to Orange Slovensko, a.s., under Section 21(d) of Act No. 510/2002 Coll. on the Payment System and on amendments to certain laws, as amended; on the basis of this licence, the company is entitled to issue electronic money instruments;
- granting licence to Telefónica O2 Slovakia, s.r.o., under Section 81(b) of Act No. 492/2009 Coll. on payment services and on amendments to certain laws (the Payment Services Act); on the basis of this licence, the company is entitled to issue and manage electronic money instruments in a limited range pursuant to Section 87 of the Payment Services Act;
- granting licence to Trust Pay, a.s., under Section 64(1) of the Payment Services Act; on the basis of this licence, the company is entitled to provide payment services in accordance with Section 2(1)(c and g) of the Payment Services Act.

In 2009, on the basis of the terms and conditions set, the following credit institutions commenced operations through their local branches: Citibank Europe plc, branch of a foreign bank (from 1 January 2009), and Oberbank AG, branch of a foreign bank (from 1 April 2009).

In 2009, Národná banka Slovenska registered 22 credit institutions (including electronic money institutions and foreign financial institutions) and 140 investment firms, which informed NBS of their intention to provide cross-border banking and investment services in Slovakia.

Apart from issuing mentioned decisions, the Supervision Unit in 2009 received, from all sectors of the financial market, number of notifications from supervised entities, approved securities prospectuses and takeover bids, and issued other 24 decisions concerning foreign exchange activities.

The Financial Market Supervision Unit is the competent body of NBS to conduct proceedings and decide in the first instance. Within these activities, 45 proceedings against supervised financial market entities were conducted by the Supervision Unit in 2009. In the year under review, 33 of them were opened and 14 concluded (on the basis of the Supervision Unit's resolution in 2009). The proceedings related mainly to the insurance sector, the capital market and the foreign exchange sector.

4.4 CUSTOMER PROTECTION

The Financial Market Supervision Unit is also tasked, in accordance with the National Bank of Slovakia Act and the Financial Market Supervision Act, with protecting the customers of financial market entities and with handling petitions from the customers of financial institutions that are supervised by Národná banka Slovenska. In

2009, the Financial Market Supervision Unit received 933 petitions from the clients of financial market institutions (both natural and legal persons) who were dissatisfied with the practices of financial service providers. This represents an increase of petitions in more than 7% compared with 2008. Of the number received, the Supervision Unit managed to close 872 files, representing a 93.46% success factor in processing petitions. Most of the petitions received (463) concerned the insurance sector. The Customer Protection Section, in fulfilling the customer protection role assigned to Národná banka Slovenska by the NBS Act and the Financial Market Supervision Act and respecting the competence of Národná banka Slovenska in this area, guaranteed the dissatisfied clients of insurance companies, banks and other supervised financial market entities, so-called 'remedy mediation' without having to seek relief in the courts. As from the end of 2009, the Section is also responsible for processing petitions in accordance with the Payment Services Act. Financial market supervised entities cooperate with Národná banka Slovenska, supply NBS with information about their clients' petitions, respect the opinions of NBS and are willing to reach a compromise, and, in some cases, to reconsider their decisions. Petitions from the clients of supervised entities are a source of information about the methods the supervised entities use in conducting their activities. This information is used by the Supervision Unit during on-site supervisions conducted at specific institutions.

4.5 SUPERVISORY ACTIVITIES OF THE SUPERVISION UNIT

One of the most important roles of the Financial Market Supervision Unit of Národná banka Slovenska is to supervise financial market entities through on-site and off-site supervision. When exercising supervision, NBS ascertains important facts about the entities under supervision and their activities, especially shortcomings, their causes and consequences, and the persons responsible for these shortcomings. Supervision is exercised on an individual or consolidated basis, as supervision of individual entities or consolidated groups of entities and special-purpose asset pools, including the entities under supervision, and supplementary supervision of financial conglomerates.

In 2009, the Supervision Unit conducted a total of 65 on-site supervisions at financial market supervised entities (Table 26).

On-site supervisions were conducted according to the annual plan of supervision, which includes a schedule of supervisions and their main aims.

In total, 19 on-site supervisions were conducted at banks and investment firms in 2009. They were predominantly thematic supervisions (11). Supervision conducted on-site at banks focused on, for example, evaluating the advanced measurement approach used for calculating the capital requirement for operational risk coverage (AMA); on evaluating the management systems used for market risk, liquidity risk, credit risk and operational risk; on evaluating banks' internal control systems; on on-site inspections conducted in the scope necessary for the issue of prior approval for the use of an IRB approach for credit risk measurement; areas significant for the use of an advanced measurement approach for operational risk within the group at local level and its application under local conditions; on verifying banks' anti-money laundering and anti-terrorist financing systems, information systems, selected prudential statements and reports, and the system used for evaluating banks' internal capital adequacy ratios, accounting and reporting. In the case of investment firms, on-site supervisions focused on the following areas: compliance with the provisions of the law on securities and investment services in providing investment services; compliance with other laws and generally binding legal regulations; compliance with the terms and conditions laid down in the licence to provide investment services; compliance with the rules of internal control; verification of the company's selected statistical statements and reports, organisation and management, internal control system, and trading system, business documentation, the system of anti-money laundering; adherence to professional standards in providing investment services; the objective accuracy of submitted statements and reports linked to the company's accounting system; information system security, data protection and backup system.

On-site supervisions at regulated capital market entities in 2009 concentrated on the activities of asset management companies and the mutual

Table 26 Number of on-site supervisions conducted at supervised financial market entities in 2009

	Comprehensive	Thematic	Follow-up	Total
Banks	0	11	2	13
Non-bank investment firms	6	0	0	6
Asset management companies	2	0	2	4
Pension funds management companies and supplementary pension asset management companies	5	1	1	7
Insurance companies	5	1	3	8[1)]
Insurance, reinsurance and investment service intermediaries	18	1	0	19
Entities subject to foreign exchange supervisions	8	0	0	8
Supervisions in total	44	14	8	65[1)]

Source: NBS.
1) One on-site supervision was a combination of comprehensive and follow-up supervision.

funds they manage; compliance with the laws on collective investment, securities and investment services, other laws and generally binding legal regulations, the terms and conditions laid down in the licences of asset management companies, and with the reporting requirement; the promotion of open-end mutual funds; the objective accuracy of selected statements and reports; the internal control system; the terms and conditions under which the companies were licensed to provide investment services under the law on collective investment; the procedure followed by the Central Securities Depository of Slovakia when making a change in the list of registered shareholders kept by the Central Securities Depository of Slovakia.

In the insurance sector, eight on-site supervisions were conducted at insurance companies during 2009, of which five were comprehensive, one thematic and three follow-up inspections. The supervisions focused on the valuation of technical provisions, accounting for technical provisions, and the supporting documents for valuation of technical provisions; the administration of insurance contracts, claims settlement/liquidation and claim payments; the verification of data and information presented by insurers to Národná banka Slovenska in the form of statements, surveys and reports; compliance with the provisions of Act No. 8/2008 Coll. on insurance and other generally binding legal regulations; compliance with the terms and conditions laid down in the licences of insurance companies; and the implementation of selected measures adopted to eliminate the shortcomings revealed during on-site supervision. On-site inspections were also conducted at insurance intermediaries, reinsurance intermediaries, and investment service intermediaries. These supervisions aimed at verifying compliance with the relevant generally binding legal regulations in force in Slovakia.

In the area of pension saving, seven on-site supervisions were concluded at pension fund management companies and supplementary pension asset management companies in 2009. The supervisions focused on the following activities: organisation and management; investment and risk management; valuation of pension fund assets, calculation of the net asset value and the current value of a pension unit; management of personal pension accounts for savers, pension fund fees; retirement pension saving contracts; complaints from savers, internal control; evaluation of the implementation of remedial measures; legal framework for operations; activities associated with the valuation of assets in pension funds, including the settlement of transactions; compliance with statutory limits concerning the composition of assets in pension funds; evaluating of assets in pension funds, accounting and reporting, advertising and promotion. In supplementary pension asset management companies, on-site supervisions concentrated on verifying the activities of supplementary pension asset management companies; compliance with the generally binding legal regulations, the statutes of supplementary pension funds, the by-laws of supplementary pension asset management companies, and the terms and conditions laid down in their licences; verifying the objective accuracy of selected statements and reports; organisation and management, investment management and risk management; the valuation of supplementary pension fund assets, including net asset value calculation; the management of personal accounts for participants, charges, participants contracts; the internal control system, complaints from participants; the personal accounts of participants and statements of the personal accounts of participants; activities associated with the valuation of assets in supplementary pension funds, including the settlement of transactions, the valuation of assets in supplementary pension funds, accounting and reporting, and the fees of supplementary pension funds.

Foreign exchange supervision focused on the verification of compliance with the reporting requirement by entities that are subject to supervision.

The aim of off-site supervision is to monitor and evaluate the financial situation and risk profile of supervised financial market entities according to information supplied on a regular basis, information obtained during on-site supervisions, information generally available to the public, and specific information provided on an irregular basis. For the needs of Supervision Department and management, the off-site supervisors prepare analyses of the individual banks on the basis of reports received from banks and the implementing outputs. Such analyses are normally prepared on a quarterly basis, or monthly if need be. They focus on developments in assets and liabilities, interbank transactions, loan portfolios, portfolios of financial instruments, customer deposits and foreign exchange positions. Special attention in analysis is paid to the economic results, liquidity, prudential ratios and the effects of stress scenarios. Data from these analyses are used in the process of internal capital adequacy assessment by supervision, during communication with banks and the competent domestic supervisory authorities in supervisory meetings in the case of banks that are subsidiaries of foreign banks. In 2009, increased attention was paid to changes in the strategies of banks, to credit risk, liquidity, concentrations and the ability of banks to cope with an unfavourable situation related to risks to which they are exposed. During 2009, the off-site supervisors provided additional information for the needs of on-site supervision before the commencement of on-site supervisions at individual financial market entities, as well as tips on the basis of information obtained and compiled about the banks. In validating IRB models, the off-site supervisors participated in the analysis of individual banks' loan portfolios and the calculation of risk-weighted assets for the purpose of capital requirement calculation. In accordance with the Banking Act, internal capital adequacy was evaluated in all banks, as well as the risk portfolios of banks. The supervisors subsequently analysed the results of internal capital adequacy assessment in the banking sector as a whole, and the results of analysis were presented to the representatives of banks at a working meeting in November.

In 2009, NBS also verified, through off-site supervision, compliance with the reporting requirement by issuers whose securities were admitted to trading on a regulated market in accordance with Act No. 429/2002 Coll. on the Stock Exchange as amended and Act No. 566/2001 Coll. on securities and investment services (the Securities Act) as amended by regulations pertaining to the reporting requirement for entities inviting a tender for assets.

During 2009, the supervisors also verified the calculation of transfers from motor third-party liability insurance premiums (8%) to a special account of the Ministry of the Interior, which was realised by insurers providing such insurance services.

Another focus of off-site supervision was the independent valuation of correctness of valuation of financial instruments managed by pension funds and whether the acquisition of financial instruments by pension funds was in compliance with the law. In verifying the valuation of such instruments, the supervisors used not only reports from the supervised entities but also information from the Bloomberg and Reuters systems, information from stock exchange or other information disclosed during supervision. On the basis of the stress testing results, the supervisors analysed the scenarios under which the largest hypothetical losses were recorded in the different types of pension funds and compared their effects on the profits of these funds. Within the scope of information support, off-site supervisors put into operation a uniform information portal (Early Warning System) in 2009. This portal adds a new layer of presentation and visualisation to the original information system.

4.6 ANALYTICAL ACTIVITIES OF THE SUPERVISION UNIT

The Financial Market Supervision Unit conducts analytical activities at various levels of its organisational structure. A significant part of these analytical activities is focused on quantifying risks in the financial sector in connection with developments in the financial markets and in the domestic and foreign economies.

The analytical activities comprise activities related to the regular monitoring of trends in individual financial institutions and in the financial sector as a whole, the monitoring of developments in the real economy and in the financial markets. The aim of monitoring is to identify all the relevant trends that may significantly influence the stability of the financial sector as a whole.

In addition to monitoring the trends and risks in the domestic and foreign financial markets through selected indicators, a large part of the work is devoted to the Analysis of the Slovak Financial Sector. This report is submitted to the NBS Bank Board on a semi-annual basis and is published in a shortened form[10]. It is also used as a significant source material for the preparation of the Financial Stability Report. The Analysis includes a comprehensive and in-depth study of trends in the entire financial sector, risk identification, and a quantification of the ability of individual financial entities and the sector as a whole to cope with the risks to which they are exposed. Another regular analysis with the semi-annual periodicity is the Report on the State and the Development of the Slovak Financial Market, which is submitted under the Financial Market Supervision Act to the Government and the National Council of the SR. Another semi-annual report – the Macro-prudential Analysis of the Banking Sector[10] – was launched in 2009 (released in May and November), its purpose being to provide up-to-date information on developments of trends and risks in regard to banking sector stability.

The analytical activities of the Supervision Unit were, to a large extent, utilised in the preparation of new regulations, particularly when the consequences of legislative changes were analysed. Thus, regulation should react to the potential risks in the financial sector well in advance.

Analytical activities in 2009 were influenced to a great degree by the ongoing financial and economic crisis. During 2009, when the financial crisis was changing into an economic crisis, the analytical activities focused on the evaluation of negative trends in the real economy and their effects on the banking sector's stability. Increased attention was paid to stress testing, the task of which is to quantify the sensitiveness of the financial sector to negative developments in the real economy and in the financial markets. During stress testing, numerous econometric models were used. Special efforts were made to improve the models and the risk assessment system. A new VaR model was introduced for market risk assessment.

The analytical activities included numerous meetings with banks of the Slovak banking sector. The main items on the agenda in 2009 were the exposure of banks to credit risk, and changes in the credit standards and lending policies of banks.

The analytical activities were extended with regard to the need for adequate input data. In 2009, new sources of data started to be used in the course of analytical activities. The emphasis was placed on the use of individual financial data from the corporate sector. These data were subsequently analysed together with data from the Register of Bank Loans and Guarantees. For analytical activities, data on households were also used from the banks' register of retail loans.

4.7 FINANCIAL MARKET DEVELOPMENTS IN 2009

In 2009, the Slovak financial market was influenced by the ongoing global crisis. While the first wave of the crisis in the second half of 2007 and the first half of 2008 affected the Slovak banking sector to a lesser extent than it did in the United States and in western European countries, the crisis gradually spilled over into the real economy

10 *http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/analysis-of-the-slovak-financial-sector.*

in the second half of 2008. This led to a change in the behaviour of the financial institutions' customers, and the impact on Slovak financial institutions became more profound. Another one-off effect came from the euro changeover.

These effects were mainly reflected in the banking sector, where the amount of assets decreased as a result of the euro adoption and the related cessation of sterilisation operations with NBS. Although deposit withdrawals of foreign banks were moderated by an increase in household deposits, the result was a decrease of €9.9 billion (16%). Regarding the inflow of foreign bank deposits over the last few years, this change should be viewed as inevitable. The decrease in the share of interbank activities also contributed to the lower volatility in the banking sector's balance sheet. Another sector in the Slovak financial market in which assets decreased in year-on-year terms was the investment firms sector. As a result of weakening confidence in financial markets in the first quarter of 2009, collective investment funds also recorded a decline. The amount of assets decreased mainly as a result of redemptions and, to a lesser extent, a fall in asset prices. In the remaining part of the year, however, the situation in the sector improved as financial markets turned around, and collective investment funds recorded positive net sales of units in aggregate terms. Together with the positive performance, this ensured an increase of 9% in the amount of managed assets during the year. The highest growth in terms of the amount of assets was recorded in both pillars of the pension system. As a result of regular contributions, assets managed in pension fund management companies increased by 30% and those in supplementary pension asset management companies by 12%. Compared with the previous year, the rate of growth in the insurance sector accelerated to 8% in 2009. In terms of the sum of assets and managed assets in all regulated entities, the Slovak financial sector contracted by almost 11% in 2009.

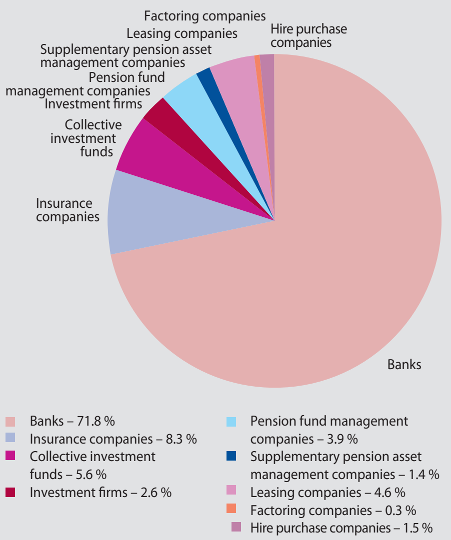
The relatively weaker activity of financial market entities in 2009 was also reflected in their profits. Most severely hit was the banking sector, where return on equity fell substantially. The fall in profits was to a large extent due to the country's entry into the euro area. Higher profits were achieved by insurance companies and supplementary pension asset management companies, while pension fund management companies remained in loss. The decrease in profits of collective investment management companies can be attributed to their strong correlation with the amount of managed assets.

The year 2009 saw significant changes in the balance sheet of banks. While the previous years had seen dynamic growth, the year 2009 can be characterised as one of disappointment. Primarily the economic crisis hit Slovakia with full force. Its adverse effects were also felt in sectors to which domestic banks have significant credit exposures. Banks reacted by restricting their investment activities in sectors with a worsening financial position, while investing more in conservative assets.

Lending to the corporate sector was restricted to a relatively significant extent. Reduced financing was observed in almost all of the sectors. Banks changed their views of what could be yet considered as recoverable loan. Credit standards were tightened throughout 2009, mainly because of the worsening economic development and its negative outlook. On the other hand, the economic crisis also squeezed demand in the corporate sector, mainly for investment loans.

In contrast to the corporate sector, lending to households was affected by the financial and

Chart 42 Distribution of assets and managed assets in the financial sector



Source: NBS.

economic crisis with a certain lag. Household loans, unlike corporate loans, still showed relatively strong growth in 2009. The supply of and demand for loans in this sector was influenced by several factors. The most crucial were uncertainty in the labour market, the rising unemployment, the tightening of credit standards accompanied by a fall in interest rates, the declining property prices and, to some extent, the adoption of the single currency. The strong growth in loans continued in some of the banks only, while other banks were more cautious in their lending activities.

The more prudent approach of banks to lending led to a marked increase in investment in government bonds, on a year-on-year basis. Compared with the previous periods, numerous banks made increased investments in foreign government bonds, mainly from neighbouring countries. In the case of certain banks, the growth in refinancing operations was directly connected with investment in securities.

In the interbank market, banks' activities underwent a marked change in comparison with 2008. In 2008, banks mostly received deposits from foreign banks and then conducted sterilisation operations with NBS. In 2009, however, after the euro changeover, these operations lost their relevance. Developments in 2009 were influenced first and foremost by refinancing operations between the ECB and NBS. Several banks borrowed mainly at one-year maturities. The funds borrowed were invested predominantly in government bonds, and, in some cases, in the interbank market, mainly in transactions with parent banks.

In 2009, the crisis was also reflected in the decreasing amount of mortgage bond issues. This was due to the lower amount of new mortgage loans and to the unfavourable situation in financial markets at the beginning of 2009.

Banks strengthened their capital positions over the course of 2009. This was relatively general trend, and reflected banks' efforts to make them better prepared for a potential increase in losses. This was supported on the one hand by an increase in own funds, mainly in Tier I capital, and on the other hand the amount of risk-weighted assets decreased.

The situation in the insurance sector in 2009 characterized for two key developments: firstly, the largest drop in premiums in monitored history, caused mainly by the unfavourable economic conditions, and, secondly, the sharp rise in profits compared with 2008, which stemmed from increased gains on financial operations. More significant decrease in premiums was recorded in life insurance, where premiums for unit-linked insurance policies, long the fastest growing of all insurance lines, fell significantly. In non-life insurance, prolonged contracts increased its share on all insurance contracts, indicating a stabilisation of insurance portfolios in almost all lines of business. In the motor insurance segment, premiums for motor vehicle insurance exceeded premiums for motor third-party liability insurance for the first time since 2002. The profits of insurance companies amounted to €136.1 million in total, representing a rise of 26.5%. As for the investment structure of technical provisions, the share of government bonds increased at the expense of bank bonds and term deposits.

During 2009, trading in financial derivatives suffered a sharp year-on-year decline (by 76%), owing to the financial crisis. Trading in bonds, shares and other financial instruments increased by 40%. The amount of customer assets managed by companies with authorization to manage a customer portfolio remained virtually unchanged in year-on-year terms. Investment firms met the statutory capital requirement by a large margin.

The collective investment sector in the first quarter of 2009 was still reeling from the negative developments in 2008 that were driven mainly by the financial and economic crisis. The crisis was reflected in the plunging prices of certain assets managed by domestic and foreign collective investment undertakings, and it thus fuelled investor fears and led to a wave of redemptions. The main equity indexes bottomed out at the beginning of March 2009. In the period that followed, stock markets began to rebound (offering the first signs of improvement in expected economic developments) and the prices of other assets stabilised, and it was in this context that investor demand for collective investment products gradually picked up and thus brought stability back to the collective investment sector. From the second quarter of 2009, the sector was reporting positive net sales, and their growth was supported also by the low level of interest rates on bank deposits, which are the principal alternative for investors in collective investment undertakings. Overall, in 2009, the prices of assets managed by collective investment undertakings and the total net asset value in the sector rose in comparison with the end of 2008, but the figures still fell short of the levels recorded before the wave of mutual fund redemptions began in September 2008.

In the pension saving sector, the portfolio composition of all pension funds underwent a radical change in 2009. Pension fund management companies sold practically the entire equity component of their fund portfolios and substantially reduced the volume and share of the bond component. The funds released in this way were reinvested in Treasury bills, which reached a year-end share of 35.3%, and thus became the largest asset class in the portfolio of Pillar II of the pension saving system. Within the portfolio of debt securities, the share of government debt securities increased to 80% at the end of the year, and companies purchased debt securities with shorter residual maturities. Unlike in Pillar II of the pension saving system, supplementary pension funds invested most of their assets in bonds, predominantly in government bonds. The share of the portfolio's equity component increased to 4.7% in Pillar III of the pension system. It can be seen as positive that the year-on-year performance of balanced and growth funds entered positive territory for the first time since the outbreak of the global financial crisis. Once again, though, savers with conservative funds enjoyed the highest yields. Improved performance was also recorded in the case of supplementary pension funds.

The economic downturn in 2009 relatively quickly resulted in increased risks in the domestic banking sector. The crisis had a severe impact on the corporate sector in particular. Almost all sectors recorded negative effects on their financial positions, which reduced their ability to repay liabilities to banks. After a noticeable downturn in the first half of 2009, a moderate revival occurred, mainly in export-oriented sectors. Statistics point to a certain revival, but the absolute increases indicate that production and capacity utilisation are still at a very low level. An important confidence indicator in the corporate sector is willingness to employ staff. This indicator was very low at the end of 2009.

Similar developments were also recorded in the household sector, where the effects of the economic downturn were less serious. After a steep rise during the first two quarters of 2009, the unemployment rise rate stabilised. However, households remained exposed to a relatively high degree of uncertainty, which is related to the state of the recovery in the corporate sector. Hardest hit by the crisis were the lower-income groups. Exposures to these groups are concentrated in the lending segments of consumer loans and current account overdrafts. The largest increase in non-performing loans was also recorded in these segments. Share of lower-income groups on house purchase loans is smaller, albeit their share has been rising in recent years.

Regarding the exposure of banks to risks, in particular to credit risk, a very important factor will be the pace of economic recovery and primarily its sustainability.

In terms of liquidity, the banking sector maintained its stability throughout 2009. It is important that, in the long term, the majority of banks still cover lending from stable customer funds. The situation in the area of short-term liquidity remained unchanged, with almost all banks meeting the prescribed short-term liquidity ratio. Nonetheless, there were differences between banks within the sector.

In addition to the positive trends in the real economy, signs of improvement were also observed in the financial markets. Regarding the risks to which Slovak financial institutions are exposed, an important trend in the second half of 2009 was the decrease in the volatility of share price indices, interest rates and credit spreads.

In most sectors, risk exposures remained virtually unchanged throughout 2009. The most significant change was a decrease in the risk exposure of portfolios of pension fund management companies over the second quarter of 2009, including a change in the structure of these risks. The retirement pension sector was exposed mostly to the risk posed by countries with a high degree of public finance debt, albeit only through bonds with short residual maturities. In addition, the equity component's share in the portfolios of mutual funds increased, as a result of the rising share prices and the positive net sales of equity and mixed funds at the end of 2009.

The highest risk was recorded in the asset portfolios of insurance companies invested on behalf of the insured (unit-linked insurance). These portfolios had a large proportion of shares and mutual fund unit certificates, as well as long-duration bonds.

As for market risks, banks were exposed to interest rate risk in particular. Parallel interest rate increases would have a negative impact on banks. At present, however, interest rates are expected to rise for shorter maturities only, while rates for longer maturities will probably remain stagnant. Such interest rate changes should have no significant impact upon banks. The level of interest rate exposures remained virtually unchanged in 2009. Banks offset the rise in longer-term retail deposits recorded in the last quarter of 2009 by extending the duration of the bond portfolio.

CHAPTER 5

ISSUING ACTIVITY AND CURRENCY CIRCULATION

5

5 Issuing Activity and Currency Circulation

5.1 CUMULATIVE NET ISSUANCE OF EURO CASH AND SLOVAK KORUNA CASH IN CIRCULATION

In connection with the euro changeover in Slovakia, the compilation of monetary aggregates and counterparts of the M3 monetary aggregate underwent a change in regard to methodology and reporting. Since 1 January 2009, the M3 aggregate has represented Slovakia's national contribution to euro area M3, as published by the European Central Bank (ECB). A key part of the change was the approach to the calculation of the currency in circulation item, which includes the allocated share in the Eurosystem's production of euro banknotes.

Another change was in the reporting methodology for actual data on cash circulation in Slovakia. The indicator "currency in circulation" was replaced with the indicator "cumulative net issuance"[11], since euro banknotes and euro coins issued in other euro area countries are now also in circulation in the territory of Slovakia.

5.1.1 Euro banknotes and euro coins

The cumulative net issuance of euro cash increased continually, while the amount of Slovak koruna cash in circulation declined. The pace of growth in the cumulative net issuance of euro cash peaked at the end of the dual circulation period (16 January 2009), when the cumulative figure reached €2.47 billion. Compared with the amount of euro cash that had been frontloaded (€1.07 billion, comprising 51.1 million banknotes and 342.8 million euro coins), the cumulative net issuance of euro cash increased by more than 100% (by €1.4 billion). This relatively sharp rise in the value of the cumulative net issuance over a short period stemmed from a change in the breakdown of euro banknotes – there was an increasing proportion of the highest denomination banknotes, which had not been included in the frontloaded cash. By contrast, the total volume of euro coins issued during this period declined.

Once the dual circulation period had ended, the cumulative net issuance of euro cash increased at a slower pace, and by the end of March its value stood at €2.94 billion. This figure, converted into Slovak koruna according to the conversion rate, was higher (at SKK 88.5 billion) than the value of Slovak currency in circulation as at 31 December 2008 (SKK 77.7 billion). Compared with the value of frontloaded euro, the value of this indicator rose by €1.87 billion.

Over the subsequent period, the monthly pace of growth in the cumulative net issuance gradually stabilised, except for a spike in December caused by higher demand for euro cash in the pre-Christmas period.

As at 31 December 2009, the cumulative net issuance had a total value of €4.63 billion (see Table 27). That figure equated to SKK 139.37 billion (based on the conversion rate), which approximately corresponds to the value of Slovak korunas in circulation as at 15 November 2006.

Of the total value of the cumulative net issuance, euro banknotes accounted for 98% and euro coins 1.97%, with euro collector coins making up the rest. The highest-value 500 euro banknote accounted for €1.4 billion of the overall value of the cumulative net issuance, securing the highest share despite its exclusion from the frontloaded currency. The 100 euro banknote and 50 euro banknote totalled €1.3 billion and €1.2 billion, respectively.

In the breakdown of the cumulative net issuance by number of banknotes and coins, euro banknotes constituted 19.46% of the total and euro coins 80.53%, with euro collector coins accounting for the rest (see Table 28). The euro banknote issued in the largest numbers was the € 50 note, which made up 32% of the total number of euro banknotes issued. The euro coins minted in the largest numbers were the lowest-value coins (the 1 cent, 2 cent and 5 cent coins), which represented 57% of the total number of euro coins issued.

Looking at how the cumulative net issuance of euro banknotes and euro coins has developed up to this point, it is clear that Slovakia, through Národná banka Slovenska, does not as yet show

11 Cumulative net issuance as at a given date represents the difference between the volume (value) of euro cash put into circulation by Národná banka Slovenska and the volume (value) of euro cash returned from circulation by NBS in the period following the introduction of the euro in Slovakia, including the given date.

Table 27 Cumulative net issuance broken down into euro banknotes and euro coins (in EUR)

Nominal value	Cumulative net issuance		Share in %	
	As at 1.1.2009	As at 31.12.2009	1.1.2009	31.12.2009
€ 500	0.00	1,425,142,000.00	0.00	30.80
€ 200	0.00	202,402,600.00	0.00	4.37
€ 100	236,550,000.00	1,302,786,600.00	22.09	28.16
€ 50	254,950,000.00	1,175,497,700.00	23.81	25.41
€ 20	218,140,000.00	286,781,020.00	20.37	6.20
€ 10	154,920,000.00	105,448,040.00	14.47	2.28
€ 5	86,370,000.00	36,656,310.00	8.07	0.79
Total banknotes	950,930,000.00	4,534,714,270.00	88.80	98.02
€ 2	48,992,468.00	45,803,066.00	4.58	0.99
€ 1	33,007,202.00	20,744,075.00	3.08	0.45
50 cent	20,096,168.00	11,198,196.50	1.88	0.24
20 cent	9,148,867.20	5,930,908.80	0.85	0.13
10 cent	4,656,715.20	3,357,536.10	0.43	0.07
5 cent	2,452,173.00	1,898,383.15	0.23	0.04
2 cent	1,029,269.20	1,381,426.36	0.10	0.03
1 cent	522,484.60	642,031.80	0.05	0.01
Total coins	119,905,347.20	90,955,623.71	11.20	1.97
Collector coins	0.00	681,930.00	0.00	0.01
Total cash	1,070,835,347.20	4,626,351,823.71	100.00	100.00

Source: NBS.

the longer-term trend of a "recipient country" for any denomination of euro banknotes or euro coins.

The average value of the currency mark[12], calculated on the basis of the issued euro cash (including issued euro collector coins), represented €12.4. For euro banknotes, the average value of the currency mark was €62.4, and for euro coins, €0.3.

As at 31 December 2009, the number and value of euro banknotes per capita[13] stood at, respectively, 13 and around €838, and the corresponding figures for euro coins were 56 and €16.8. The overall value of the cumulative net issuance per capita represented €854.8 (not including euro collector coins).

The most numerous denominations of euro banknotes were the 50 euro and 20 euro notes, of which there were, respectively, 4 and 3 per capita. As for euro coins, the most numerous denominations were the two lowest-value coins (the 1 cent and 2 cent coins), whose combined total amounted to 25 per capita.

5.1.2 Slovak koruna cash in circulation

The decline in Slovak koruna cash in circulation, which had begun in the second half of 2008, accelerated and reached its peak pace during the dual circulation period, from 1 January to 16 January 2009.

During the first 16 days of 2009, the total value of Slovak koruna cash returned from circulation represented SKK 45.5 billion. After 16 January 2009, the decline in Slovak koruna cash in circulation slowed down, and over the rest of the year currency worth a further SKK 27.4 billion was returned. The total value of Slovak koruna cash returned from circulation in 2009 came to almost SKK 73 billion, which represented more than 111 million Slovak koruna banknotes and more than 232 million Slovak koruna circulation coins.

12 Average value of the currency mark = cumulative net issuance by value / cumulative net issuance by number of banknotes and coins.

13 The population of Slovakia as at 31 December 2008 was 5.4 million, according to the Statistical Office of the Slovak Republic.

Table 28 Cumulative net issuance broken down by number of euro banknotes and euro coins (pieces)

Nominal value	Cumulative net issuance		Share in %	
	As at 1.1.2009	As at 31.12.2009	1.1.2009	31.12.2009
€ 500	0	2,850,284	0.00	0.76
€ 200	0	1,012,013	0.00	0.27
€ 100	2,365,500	13,027,866	0.60	3.49
€ 50	5,099,000	23,509,954	1.29	6.30
€ 20	10,907,000	14,339,051	2.77	3.84
€ 10	15,492,000	10,544,804	3.93	2.83
€ 5	17,274,000	7,331,262	4.39	1.96
Total banknotes	51,137,500	72,615,234	12.98	19.46
€ 2	24,496,234	22,901,533	6.22	6.14
€ 1	33,007,202	20,744,075	8.38	5.56
50 cent	40,192,336	22,396,393	10.20	6.00
20 cent	45,744,336	29,654,544	11.61	7.95
10 cent	46,567,152	33,575,361	11.82	9.00
5 cent	49,043,460	37,967,663	12.45	10.17
2 cent	51,463,460	69,071,318	13.07	18.51
1 cent	52,248,460	64,203,180	13.26	17.20
Total coins	342,762,640	300,514,067	87.02	80.53
Collector coins	0	45,763	0.00	0.01
Total cash	393,900,140	373,175,064	100.00	100.00

Source: NBS.

As at 31 December 2009, the total value Slovak koruna cash in circulation was SKK 4.77 billion, including more than 20 million Slovak koruna banknotes worth SKK 3.3 billion and more than 396 million Slovak koruna circulation coins worth SKK 733.6 million. The Slovak koruna currency still in circulation also included 934,900 Slovak koruna commemorative coins with an overall nominal value of SKK 699.4 million. Of the total value of Slovak koruna cash in circulation, banknotes accounted for 69.9%, circulation coins 15.4%, and Slovak koruna commemorative coins 14.7%.

At the end of 2009, the most numerous Slovak koruna banknotes still in circulation were the 20 koruna note (10.6 million of them), the 100 koruna note (3.7 million) and the 50 koruna note (3.4 million). The most numerous Slovak koruna circulation coins were the lowest-value 50 halier coin (170.5 million), 1 koruna coin (103.3 million) and 2 koruna coin (65.4 million).

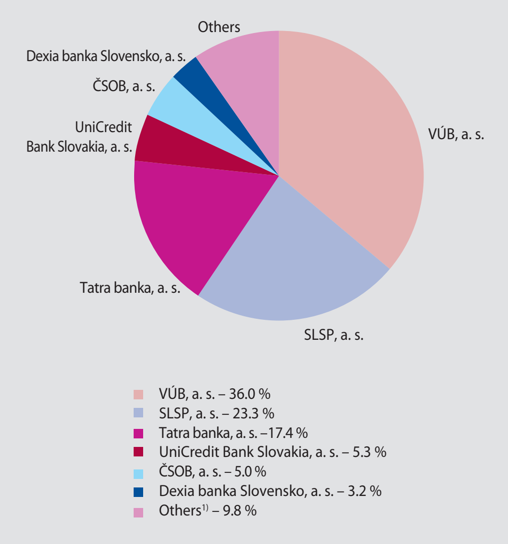
By the end of 2009, the value of Slovak koruna cash returned from circulation totalled SKK 72.9 billion, of which banknotes constituted 99% and circulation coins 1%. A total of 2,200 Slovak koruna commemorative coins worth SKK 1.1 million had also been returned from circulation.

As for the Slovak koruna currency returned to NBS from commercial banks in 2009, VÚB, a.s. returned the largest share of the total (36% – see Chart 43).

As measured by the number and value of banknotes and coins per capita in Slovakia the Slovak koruna cash still in circulation included 73 banknotes worth SKK 617 and 73 circulation coins worth SKK 136. The overall value of the Slovak koruna cash remaining in circulation represented SKK 883 per capita.

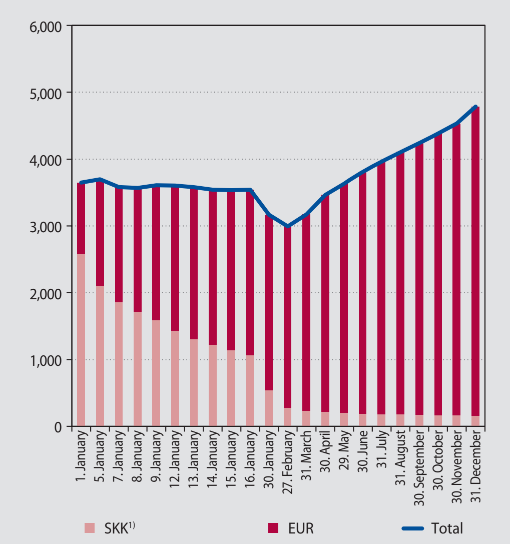
On a per capita basis, the most numerous Slovak koruna banknotes and coins still in circulation as at 31 December 2009 were the 20 koruna note

Chart 43 Slovak koruna cash returned to NBS from commercial banks in 2009 (%)



Source: NBS.
1) Among the other banks were included those that returned less than 3% of the total.

Chart 44 Cumulative net issuance of euro cash and Slovak koruna cash in circulation in 2009 (EUR billions)



Source: NBS.
1) In EUR.

and 50 halier coin, of which there were, respectively, 2 and 32 per capita.

5.2 DELIVERIES OF EURO BANKNOTES AND THE PRODUCTION OF EURO COINS

The introduction of the euro currency as from 1 January 2009 heralded major changes in the field of currency preparation and issuance. With Slovakia having joined the euro area, Národná banka Slovenska may, under separate regulations, issue euro banknotes and euro coins (including euro commemorative coins) that are legal tender in euro area countries as well as in participating third countries. Also under separate regulations, NBS may issue euro collector coins, which, unlike euro coins and euro commemorative coins, are legal tender only in the territory of Slovakia and are not destined for circulation. Euro collector coins must, however, be readily distinguishable from euro coins intended for circulation and their face values in euro or euro cents must be different from those of euro coins.

During the period leading up to the euro changeover (in 2008), NBS borrowed from the Eurosystem a total of 188 million euro banknotes, with an overall value of €7.1 billion, in order to meet cash circulation needs. NBS is required to return the borrowed euro banknotes to the Eurosystem in 2010. For the purpose of securing the best prices for the printing of euro banknotes, NBS has joined the JET (Joint European Tendering Group)[14], a grouping of countries that procure the printing of euro banknotes through a joint tender.

Euro coins bearing the Slovak national side are produced by the state mint – Mincovňa Kremnica, š.p. In 2009, it minted 543.6 million such coins (see Table 29).

In accordance with its issuance plan for commemorative and collector coins in 2009, NBS issued two different commemorative coins, each with a nominal value of € 2 (see Table 30). The first, issued on 7 January 2009, was a coin commemorating the 10th anniversary of Economic and Monetary Union. Other euro area countries also issued commemorative coins to mark this occasion, the only differences between them being the name of the issuing country and the EMU acronym written in the language of the respective country. NBS issued another € 2 commemo-

14 The JET grouping includes the national central banks of the Cyprus, Luxembourg, Malta, Netherlands, Slovenia, Slovakia and Finland.

Table 29 Euro coins with year mark 2009 minted in Slovakia

Denomination	Number	Value (€)
€ 2	39,249,963	78,499,926.00
€ 1	46,859,975	46,859,975.00
50 cent	59,399,975	29,699,987.50
20 cent	66,602,325	13,320,465.00
10 cent	74,799,975	7,479,997.50
5 cent	84,957,325	4,247,866.25
2 cent	80,905,325	1,618,106.50
1 cent	90,828,325	908,283.25
Total coins	543,603,188	182,634,607.00
Collector coins	68,270	907,600.00

Source: NBS.
Note: The number and value of € 2 coins include € 2 commemorative coins.

Table 30 Commemorative euro coins issued by Národná banka Slovenska in 2009

Denomination	Subject of commemoration	Number of coins issued	Notification of coin issuance
€ 2	10th anniversary of Economic and Monetary Union	2,500,000	NBS Notification No. 494/2008 Coll., Official Journal of the EU 2008/C 315/04
€ 2	20th anniversary of the events of 17 November 1989	1,000,000	NBS Notification No. 254/2009 Coll., Official Journal of the EU 2009/C 196/07

Source: NBS.

Table 31 Collector coins issued by Národná banka Slovenska in 2009

Denomination	Subject of commemoration	Number of coins issued		Notification of coin issuance
		Total	of which: PROOF	
€ 10[1)]	150th anniversary of the birth of Aurel Stodola	23,400	13,300	494/2008 Coll.
€ 20[1)]	Protection of Nature and Landscape – Veľká Fatra National Park	22,500	12,600	177/2009 Coll.

Source: NBS.
1) Silver collector coin.

rative coin on 10 November 2009, to mark the 20th anniversary of the events of 17 November 1989.

In 2009, Národná banka Slovenska issued two collector coins minted from precious metals (Table 31). One of them, issued on 24 April 2009, was a € 10 silver coin commemorating the 150th anniversary of the birth of Aurel Stodola; the other, issued on 16 June, was a € 20 silver coin marking the Protection of Nature and Landscape – Veľká Fatra National Park.

Apart from these commemorative and collector coins, Mincovňa Kremnica on behalf of NBS produced 110,100 euro coins in each denomination that were minted in Proof–Like or Brilliant Uncirculated condition. The coins were used for five different annual collector sets that were sold by Mincovňa Kremnica. NBS arranged the sale of other numismatic products through domestic and foreign contractual partners.

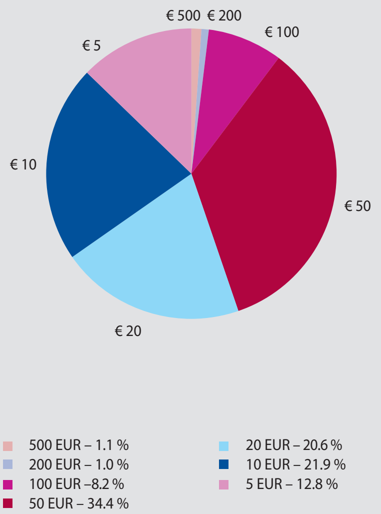
5.3 PROCESSING OF EURO CASH AND SLOVAK KORUNA CASH

In 2009, NBS put 318.4 million euro banknotes into circulation and received 245.8 million euro banknotes from circulation. Of the total number of euro banknotes received, NBS processed more than 234 million (95%).

The average number of turnarounds[15] of euro banknotes was four, which means that on an average of four times during the year each euro banknote was returned to NBS for processing (from commercial banks). The number of turnarounds of the three highest-value euro banknotes ranged from 1.3 to 2.6, while the figure for other denominations was more than twice as high (between 4.0 and 5.5).

The turnaround period[16] was three months, which means that every three months the overall volume of circulated euro banknotes was returned to NBS for processing.

Chart 45 Euro banknotes processed in NBS in 2009 (%)



Source: NBS.

The most frequently processed euro banknote was the € 50 note, which is also the most used euro banknote in circulation. As at 31 December 2009, the € 50 banknote constituted 32.3% of the cumulative net issuance of euro banknotes (see Chart 45).

During the processing of euro banknotes in 2009, a total of 12.1 million banknotes were found to be unfit. The average unfit rate for euro banknotes was 5.18%. That this rate was one of the lowest among euro area countries was clearly influenced by the fact that more than half of the banknotes delivered to NBS were new. In Slovakia, as in other euro area countries, the unfit rate for higher-value euro banknotes was relatively low, while the lowest-value euro banknote (€ 5) had the highest unfit rate (13.8%).

As for euro coins, a total of 666.5 million were put into circulation in 2009 and more than 366 million were returned from circulation, of which 360.2 (98.3%) were processed over the course of the year. In all, 13,200 of the returned euro coins were found to be unfit. The average number of turnarounds of euro coins in 2009 was 1.3 and the average turnaround period was 9.3 months.

Taking place alongside the introduction of the new currency was the process of withdrawing the Slovak koruna currency from circulation. Národná banka Slovenska therefore received a large volume of Slovak koruna banknotes and coins that had to be stored, processed and destroyed. During the year, NBS processed 169.7 million Sovak koruna banknotes and 173 million Slovak koruna coins, and it destroyed 213.1 million Slovak koruna banknotes and 282.8 million Slovak koruna coins.

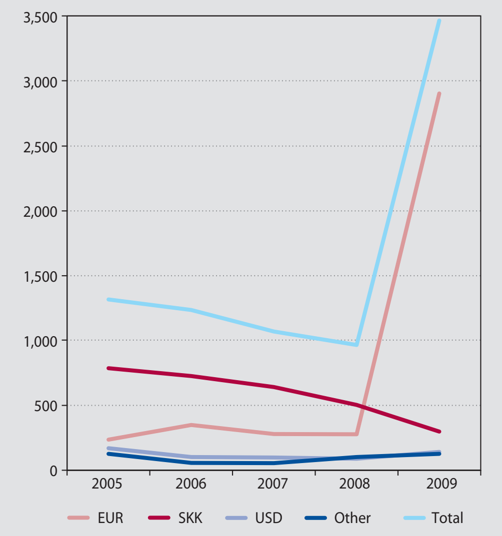
5.4 COUNTERFEIT BANKNOTES AND COINS SEIZED IN SLOVAK TERRITORY

A total of 3,467 counterfeit banknotes and coins were seized in the territory of Slovakia in 2009 (see Chart 46). The total number of seized counterfeits increased by 2,503 (260%) in comparison with 2008, and it included 2,657 banknotes and 810 coins. There were more counterfeit seizures in 2009 than in any other year since Slovakia was established as an independent country in 1993. The rise was caused mainly by the introduction

15 The number of turnarounds of euro banknotes (euro coins) of a given nominal value (NV) for a given year = the number of euro banknotes (euro coins) of the given NV received during the given year / the average cumulative net issuance of euro banknotes (euro coins) of the given NV.

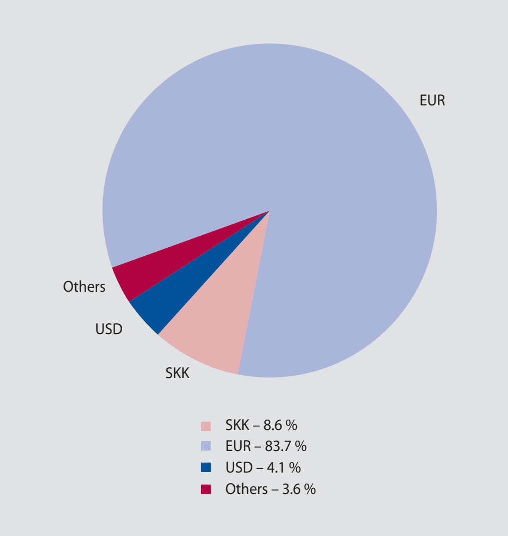
*16 Turnaround period in months = 1 / number of turnarounds * 12.*

Chart 46 Number of counterfeits seized



Source: NBS.

Chart 47 Breakdown of counterfeits seized in 2009 (%)



Source: NBS.

of the euro – the legal tender of Slovakia as from 1 January 2009 – one consequence of which was that many counterfeits produced abroad became distributed in Slovakia. Almost 42% of the counterfeit seizures took place in Bratislava region. Counterfeits seized from currency in circulation by banks, branches of foreign banks, non-banking entities and security services accounted for 88% of total seizures.

Euro counterfeits constituted the vast majority (83.7%) of the total number of seized counterfeits, and the number of euro counterfeits was more than eleven times higher than in 2008. Koruna counterfeits accounted for 8.6% of the total, US dollar counterfeits 4.1%, and counterfeits of other currencies 3.6% (see Chart 47).

Neither the number of counterfeit seizures in 2009, nor the technical level of their production, posed a serious risk to the security and smooth operation of cash circulation in Slovakia.

5.4.1 Euro counterfeits

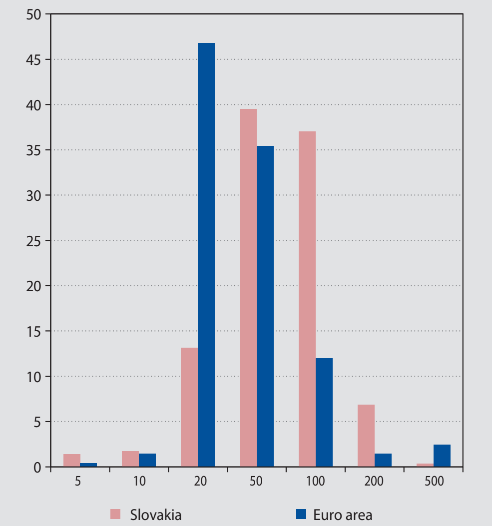
A total of 2,093 counterfeit euro banknotes were seized in Slovak territory in 2009, and 40% of them were seized in the first quarter of the year (see Table 32). The general quality of the counterfeits showed an improvement on the previous year. In addition to counterfeit banknotes, eight altered banknotes comprising different parts of banknotes of the same denomination were also seized in 2009. A new trend that emerged in the first year of the euro's circulation in Slovakia was the large number

Table 32 Number of euro counterfeits seized

Year	Denomination										P[1)]	Total
	€ 0.50	€ 1	€ 2	€ 5	€ 10	€ 20	€ 50	€ 100	€ 200	€ 500		
2005	0	0	8	0	0	13	114	26	37	34	2	234
2006	0	0	3	1	4	6	69	217	38	10	0	348
2007	0	4	8	0	2	10	59	99	90	6	0	278
2008	0	2	15	0	4	9	65	70	106	4	0	258
2009	37	109	664	29	37	274	827	775	144	7	0	2,903

Source: NBS.
1) Imitations, altered and modified banknotes and coins.

Chart 48 Counterfeit euro banknotes seized in Slovakia and in the euro area by denomination (%)



Source: NBS.

counterfeit euro coins that were seized –810 in total. Most of these coins were barely distinguishable from legal coins in terms of their magnetic properties, conductivity and design, and they therefore represent a high risk to currency circulation. The trend of rising numbers of euro counterfeit seizures and improvements in the quality of counterfeits can be expected to continue in the years ahead.

In the euro area as a whole, a total of 1,190,524 euro counterfeits were seized in 2009, with banknotes accounting for 87% of that figure. There were fewer euro counterfeits seized in Slovakia than in any other euro area country, and those seized in Slovakia represented 0.24% of all the euro counterfeits seized in the euro area.

Of every million euro banknotes in circulation in Slovakia, 29 were counterfeits, while in the euro area as a whole, 70 were counterfeits. As for the number of counterfeit euro coins per million circulation coins, the ratio in Slovakia was similar to that in the euro area as whole, i.e. 2.7 compared with 1.8. The likelihood of natural or legal persons coming into contact with a counterfeit banknote or coin in circulation currency is very low.

In the euro area as a whole, counterfeits of € 20, € 50 and € 100 banknotes constituted 94.2% of all the counterfeit euro banknotes seized, and counterfeit € 20 banknotes accounted for almost one in every two of the total. In Slovakia, the breakdown of counterfeits was different (see Chart 48), with counterfeit € 50 and € 100 banknotes making up, respectively, 39.5% and 37% of the total number of counterfeit euro banknotes seized in the country.

The number of euro counterfeits seized in the euro area represented 3 per 1,000 inhabitants, while in Slovakia, the ratio was 0.4.

5.4.2 Slovak koruna counterfeits

Owing to the introduction of the euro into cash circulation, the number of Slovak koruna counterfeits fell sharply in 2009. A total of 297 counterfeit koruna banknotes were seized (see Table 33), and 232 of them were seized in January. In other months of the year there were only a few counterfeit seizures. The number of counterfeits seized in Bratislava region alone represented 228 or 77% of the total.

5.4.3 US dollar counterfeits

The total number of US dollar counterfeits seized in Slovakia in 2009 was 141, representing a rise of 62% in comparison with 2008 (see Table 34).

Table 33 Number of Slovak koruna counterfeits seized

Year	Denomination										P[1]	Total
	Sk 0.50	Sk 5	Sk 10	Sk 20	Sk 50	Sk 100	Sk 200	Sk 500	Sk 1000	Sk 5000		
2005	0	0	0	28	48	87	103	151	337	23	7	784
2006	1	0	0	6	22	56	96	138	346	28	33	726
2007	0	0	25	7	23	31	66	151	304	32	0	639
2008	0	0	1	6	22	28	26	189	211	18	1	502
2009	0	0	0	7	10	8	21	182	50	19	0	297

Source: NBS.
1) Imitations, altered or modified bank notes and coins.

Table 34 Number of US dollar counterfeits seized

Year	Denomination							P[1)]	Total
	USD 1	USD 5	USD 10	USD 20	USD 50	USD 100	USD 1000		
2005	0	0	1	1	3	163	0	3	171
2006	2	1	0	0	3	94	1	0	101
2007	0	0	0	2	3	92	0	0	97
2008	0	0	0	1	6	74	0	6	87
2009	0	0	0	0	2	138	0	1	141

Source: NBS.
1) Imitations.

Table 35 Number of seized counterfeits of other foreign currencies

Currency/ Year	GBP	CZK	CAD	PLN	CHF	HUF	AUD	NOK	Kčs	Others[1)]	Total
2005	82	21	3	1	1	18	0	0	0	1	127
2006	39	9	0	2	0	7	1	0	0	0	58
2007	34	6	0	2	0	3	0	0	7	0	52
2008	88	4	0	2	1	3	0	2	0	0	100
2009	60	10	2	1	0	53	0	0	0	0	126

Source: NBS.
1) Currencies replaced by the euro.
Note: GBP – British pound; CZK – Czech koruna; CAD – Canadian dollar; PLN – Polish zloty; CHF – Swiss franc; HUF – Hungarian forint; AUD – Australian dollar; NOK – Norwegian krone; CSK – Czechoslovak koruna.

Counterfeits of the 100 dollar banknote were again the most common by far, constituting 98% of the total.

5.4.4 Counterfeits of other foreign currency

As for counterfeits of other foreign currencies, a total of 126 were seized in 2009, representing a moderate rise in comparison with the previous year (see Table 35). Counterfeit British pounds accounted for the largest share (60) of these counterfeits and they included 59 counterfeits of the 20 pound banknote. Hungarian forint counterfeits numbered 53, including 47 counterfeits of the 10,000 forint note.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

CHAPTER 6

PAYMENT SYSTEM

6

6 Payment System

6.1 LEGAL AND INSTITUTIONAL ASPECTS

At the European Union level, the principal legislation in the field of payment services is Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC (hereinafter "the Payment Services Directive").

The main aim of the Payment Services Directive is to establish a single payment market within the European Union (including the European Economic Area) by introducing a harmonised legal framework for an EU internal market in payment services.

During 2009, the process of transposing the Payment Services Directive into Slovak law was brought to a completion with the adoption of Act No. 492/2009 on Payment Services and on amendments to certain laws (hereinafter "the Payment Services Act"), which entered into force on 1 December 2009. From the original Act, the new Act adopted provisions of European law (on payment systems and electronic money institutions) as well as other provisions (for example, on the permanent court of arbitration).

The Payment Services Act governs mainly:

a) the provision of payment services within the European Economic Area ("EEA") in the currencies of the EEA member countries and within the scope of the Payment Services Directive (taking into account the principle of full harmonisation);
b) the provision of other payment services within the scope of the minimum requirements for the provision of such services;
c) conditions for establishing and operating payment systems;
d) conditions for establishing and carrying on the business of payment institutions within the scope of the Payment Services Directive (taking into account the principle of full harmonisation);
e) conditions for establishing and carrying on the business of electronic money institutions within the scope of the Directive on the taking up, pursuit and prudential supervision of the business of electronic money institutions;
f) complaints, other submissions, and conditions for the out-of-court settlement of disputes in regard to the provision of payment services and to the issuance and use of electronic money; and
g) the supervision of payment system operators, the supervision of payment institutions, and the supervision of electronic money institutions.

Another regulation passed in 2009 was Decree No. 8/2009 of Národná banka Slovenska laying down the structure of a bank connection, the structure of an international bank account number, and details concerning the issuance of a converter of bank identifier codes.

The following Regulations (EC) of the European Parliament and of the Council have also been transposed into Slovak law:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No. 2560/2001; and
- Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds.

The Permanent Court of Arbitration of the Slovak Banking Association was established with effect from 1 July 2003. Its registered office is in Bratislava and at present it has two chambers:

a) the chamber for deciding disputes on payments;
b) the chamber for deciding disputes arising from other commercial or civil relations, which commenced operation on 1 January 2004.

In 2009, Národná banka Slovenska approved the Slovak Banking Association's proposal not to pay any contribution in 2009 to the operation of the Permanent Court of Arbitration of the Slovak Banking Association, having regard to the court's financial results and to the sufficiency of funding for the activities of the chamber for deciding disputes on payments. At the same time, Národná banka Slovenska approved Addendum No. 4 to the Statute of the Permanent Court of Arbitration.

6.2 PAYMENT SYSTEMS OF THE SLOVAK REPUBLIC

6.2.1 The EURO SIPS payment system

Národná banka Slovenska developed the EURO SIPS payment system as a new generation of the SIPS payment system, which had been operating successfully since 1 January 2003. The EURO SIPS system was launched into operation on 1 January 2009, simultaneously with the introduction of the euro. The euro changeover necessitated a conceptual change in Slovakia's interbank payment system.

With the introduction of the euro, EURO SIPS became the sole retail system for the processing of customer payments. Interbank payment transactions conducted since 1 January 2009 have been settled in TARGET2-SK, component of the trans-European payment system.

The original SIPS payment system was transformed into an ancillary system of TARGET2-SK. The expected targets in regard to the switch from SIPS, as the sole interbank payment system, to EURO SIPS, as an ancillary system of TARGET2-SK, were met in full. The new payment system:

a) satisfies the requirements placed on TARGET2-SK ancillary systems;
b) implements a functionality comparable to that of the original SIPS payment system;
c) executes payment transactions in the euro currency;
d) processes retail payment transactions and carries out their clearing;
e) settles, in the TARGET2-SK payment system, the clearing results of domestic payment transactions;
f) has maintained service prices at a level comparable to that of the original SIPS payment system.

On 31 December 2008, on schedule, EURO SIPS was successfully launched as an ancillary system of TARGET2-SK operating in the new euro currency. The processing of payment transactions in EURO SIPS takes place in two clearing cycles, and the results of the clearing cycles are financially settled in the TARGET2-SK. The rules on the functioning of the EURO SIPS system are laid down in the operating rules for EURO SIPS users and in the EURO SIPS Payment System Agreement, which Národná banka Slovenska enters into with each participant.

The EURO SIPS payment system had 28 active participants during 2009; one participant terminated its active participation following its merger with another participant, and one new active participant was admitted to the payment system.

EURO SIPS and the SEPA project

The use of a common legal tender – the euro – for cash circulation in euro area countries was the basis for creating a common area in which cashless payments, too, will be made in euros. The project behind this Single Euro Payments Area (SEPA) aims to remove any differentiation between national and cross-border payments and to harmonise standards, rules and procedures for the payment systems of all euro area countries.

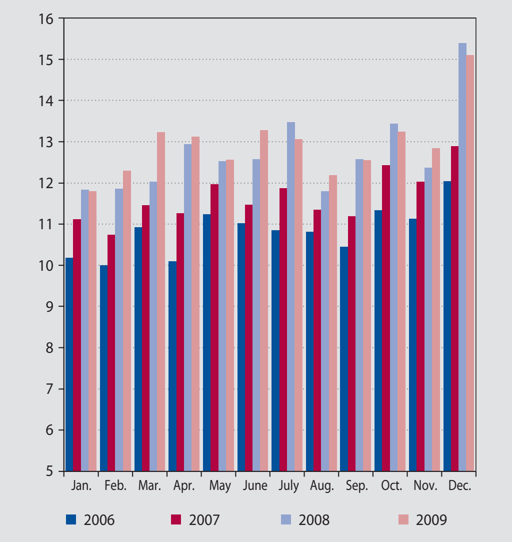
A strategy for the implementation of SEPA payment instruments in Slovakia was approved during the course of 2009 and represented the fruit of mutual cooperation between Národná banka Slovenska, the Ministry of Finance of the SR and the banking sector.

Under a decision taken by the NBS Bank Board in 2009, the EURO SIPS payment system will be converted into a "SEPA scheme compliant" payment system.

Once the SEPA rules and standards have been implemented, the EURO SIPS payment system will have to meet certain criteria. This will mean, in particular, that:

a) data are transmitted between payment system participants without the need for additional modifications or changes;
b) all transactions are processed in such a way that guarantees compliance with the stipulated timeframes for the execution of SEPA payments;
c) all fees from the payment system's participants are paid directly to the payment system operator (fees cannot be collected through deduction from a SEPA payment transaction);
d) the payment system is compatible with SEPA rules, SEPA standards, and respective technical requirements;

Chart 49 Comparison of the number of transactions processed in SIPS between 2006 and 2008 and in EURO SIPS in 2009 (millions)



Source: NBS.

e) the transparency of access criteria and the operating rules is ensured;
f) the system complies with the European Central Bank's applicable oversight standard for retail payment systems.

The aim of Národná banka Slovenska is that the EURO SIPS payment system will be fully compatible with SEPA standards and rules.

6.2.2 Payments executed in EURO SIPS

A total of almost 155,237,573 transactions were executed in the EURO SIPS system in 2009. Despite the migration of large-value interbank transactions to the TARGET2-SK system, that figure represented an increase of almost 2% year-on-year. The number of transactions executed in each month of the years 2006 to 2009 are compared in Chart 49.

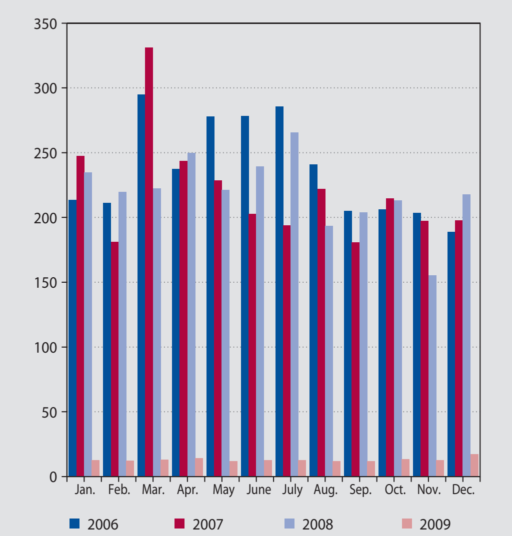
The transactions executed in the EURO SIPS system in 2009 had a total value of €154.6 billion. The value of transactions executed in each month of the years 2006 to 2009 are compared in Chart 49.

Since the developments in 2009 had a greater degree of transparency, we can produce Chart 51 showing the value of transactions executed in the system for each month of 2009.

6.2.3 TARGET2 payment system

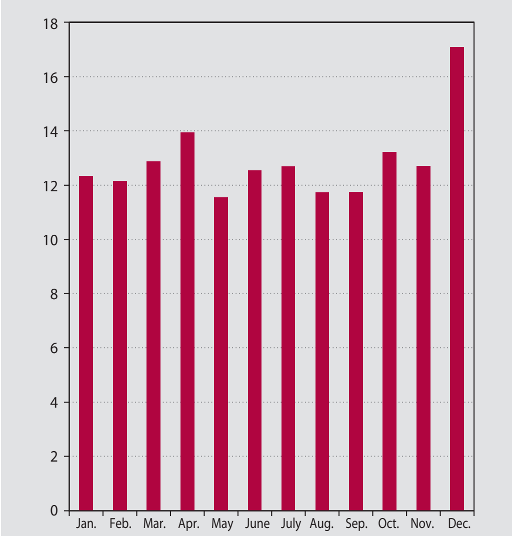
The date on which Slovakia joined the euro area was also the date on which it became connected to the TARGET2 payment system. The process of

Chart 50 Comparison of the value of transactions processed in SIPS between 2006 and 2008 and in EURO SIPS in 2009 (EUR billions)



Source: NBS.

Chart 51 Value of transactions processed in EURO SIPS in 2009 (EUR billions)



Zdroj: NBS.

preparing Slovakia's payment infrastructure for the changeover had lasted nearly four years and culminated on this day. The TARGET2-SK system had its first day of regular operation on 2 January 2009, and thereby expanded participation in the TARGET2 system to include the 27 direct participants and three ancillary systems from Slovakia. The system's launch into live operation went without a hitch, reflecting the careful preparations made for the transition and the system testing that had been undertaken with the whole banking community during 2008. Over the first operational days of TARGET2-SK, the system's services were actively used by all of its participants as well as by the ancillary systems. During the system's first year of operation (2009), there were no incidents on the side of either the system or its participants that would jeopardise the smooth processing of payments or interrupt the system's operation.

The successful launch of the TARGET2-SK payment system did not, however, spell the end of Národná banka Slovenska's tasks in this regard. On the contrary, its tasks increased. Apart from having responsibilities for the system's daily operation, for providing its participants with consultation and business support, and for carrying out regular testing of contingency procedures, Národná banka Slovenska is involved in coordinating the development, modification, testing and implementation of software upgrades for the Single Shared Platform (SSP) that forms the technical basis of the TARGET2 system.

It is through new releases of this software that new functionalities and modifications (approved by the Eurosystem at the request of the system's participants) are implemented in the SSP, and that bugs identified in the previous versions are removed. The SSP is upgraded every November, but in 2009 it also underwent a special upgrading in May. The purpose in this case was to remove technical restrictions on using the liquidity of a single participant who is at the same time a participant of several ancillary systems. The software implemented in November introduced a new SWIFT standard.

During 2009, Národná banka Slovenska organised periodic working meetings with representatives of the TARGET2-SK participants. These meetings are opportunities to consult over proposals for, and prepared modifications to, the TARGET2 system, to coordinate testing of new SSP releases with participants, to evaluate the day-to-day operation, and to communicate other relevant information to the TARGET2-SK participants.

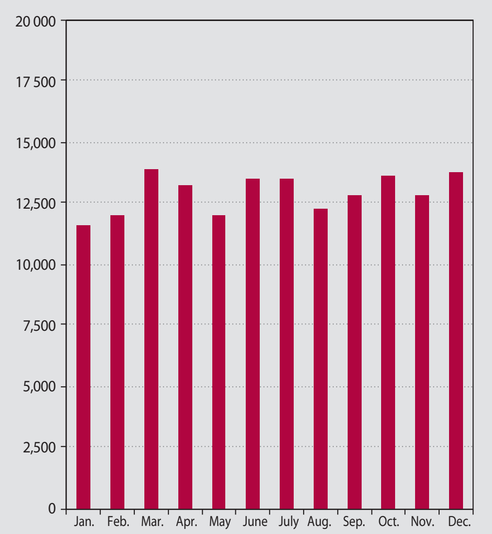
In regard to new releases of the SSP software, Národná banka Slovenska made two amendments to NBS Decision No. 10/2008 on settlement procedures for TARGET2-SK ancillary systems and one amendment to NBS Decision No. 9/2008 on conditions for participation in TARGET2-SK. It was clear by the end of 2009 that these Decisions would be amended again at the beginning of 2010 in order to bring them into line with the new Act No. 492/2009 Coll. on payment services and on amendments to certain laws, which entered into force on 1 December 2009.

6.2.4 Payments executed in TARGET2-SK

A total of 30 participants were connected to the TARGET2-SK payment system in 2009. Of that number, 27 were direct participants (including Národná banka Slovenska) and three were ancillary systems – EURO SIPS, the central securities depository Centrálny depozitár cenných papierov SR, a.s. (CDCP), and First Data Slovakia, a.s.

The number of participants and their relative share changed twice during 2009; firstly, when a new participant was connected to the system

Chart 52 Number of payments processed in TARGET2-SK in 2009



Source: NBS.

Table 36 Number and value of payments and their daily averages in 2009

	Number of operational days	Number of payments	Value of payments (EUR)	Daily average number of payments	Daily average value of payments (EUR)
January	21	11,589	163,862,869,611.41	552	7,802,993,791.02
February	20	11,976	90,349,936,029.94	599	4,517,496,801.50
March	22	13,953	69,790,809,426.75	634	3,172,309,519.40
April	20	13,267	66,169,761,156.99	663	3,308,488,057.85
May	20	11,980	62,640,117,866.01	599	3,132,005,893.30
June	22	13,553	67,183,256,058.70	616	3,053,784,366.30
July	23	13,473	59,952,612,123.91	586	2,606,635,309.74
August	21	12,257	58,959,295,986.12	584	2,807,585,523.15
September	22	12,784	59,279,776,068.27	581	2,694,535,275.83
October	22	13,653	62,974,780,977.29	621	2,862,490,044.42
November	21	12,844	54,938,677,476.71	612	2,616,127,498.89
December	22	13,708	65,533,920,823.94	623	2,978,814,582.91
Average	-	-	-	**606**	**3,443,889,896.90**
Total	**256**	**155,037**	**881,635,813,606.04**	-	-

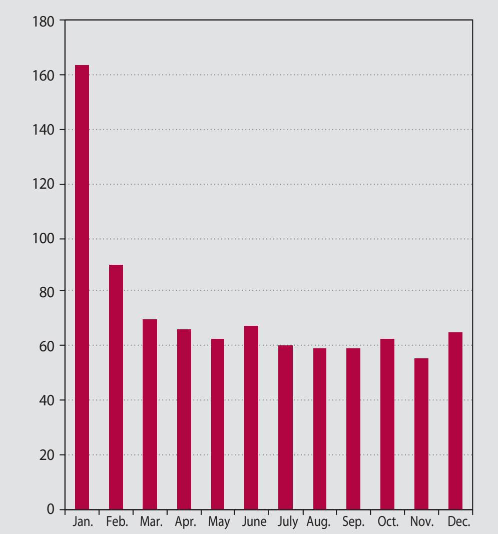
Zdroj: NBS.

on 1 April, and, secondly, when two participants merged on 1 June, thereby bringing the number of participants back to the level at which it began the year.

A total of more than 155 000 transactions with an overall value of almost €881.6 billion were executed in the TARGET2-SK payment system in 2009. Developments in the number of transactions executed in each month of the year are shown in Table 36 and Chart 52.

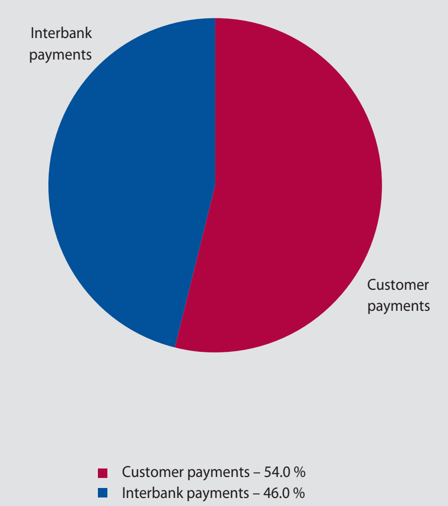
In 2009, TARGET2-SK had 256 operational days. On a daily basis, the average number of payment

Chart 53 Value of payments processed in TARGET2-SK in 2009 (EUR billions)



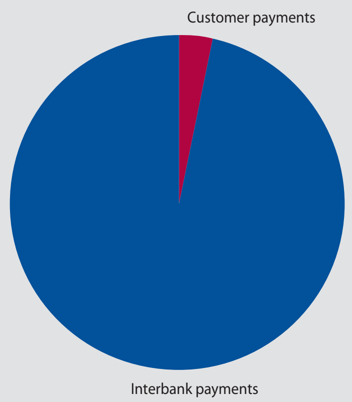
Source: NBS.

Chart 54 Ratio of customer and interbank payments by number in 2009



Source: NBS.

Chart 55 Ratio of customer and interbank payments by value in 2009



Source: NBS.

transactions processed in the system was 606 with an average overall value of almost €3 444 million. The average daily values are shown in more detail in Table 36 and Chart 53.

Charts 54 and 55 show interbank payments and customer payments as a proportion of the payments processed in 2009. In terms of the number of payments, customer payments have the slightly higher share (54:46), while in value terms, the ratio between interbank payments and customer payments is 97:3.

6.2.5 Payment cards

The number of payment in cards in circulation at the end of 2009 stood at 5.08 million, representing a 3% drop from the previous year (5.255 million).

As at 31 December 2009, a network of 2,310 ATMs and 35,438 POS terminals was available to bank customers in the territory of Slovakia.

In 2009, cardholders made more than 178 million transactions with a total value of over €13 billion. ATM withdrawals numbered almost 87 million and had a total value of nearly €10 billion. The number of payments made through POS terminals reached 84 million; their total value amounted to more than €3 billion and the average value of one payment fell by €6.30 in comparison with 2008, to €37.61.

Although the number and value of payments made through POS terminals rose sharply in 2009, almost 51% of all payment card transactions were in the form of ATM cash withdrawals. But while the number of ATM withdrawals still exceeds the number of POS terminal transactions, the difference between them narrowed year-on-year. Trends also indicate that higher amounts are being withdrawn from ATMs, since the average value of one withdrawal increased by €2.61 in comparison with 2008.

Whereas the number of card payments rose substantially in 2009 (by 30.1% year-on-year), cash withdrawals fell by 3.3%. Likewise, the value of card payments climbed by 11% year-on-year, while the total value of cash withdrawals declined by one percent.[17]

6.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE FIELD OF PAYMENT SYSTEMS

Assessment of the CDCP securities settlement system – monitoring of compliance with recommendations

In connection with the adoption of the single currency in Slovakia, the securities settlement system (SSS) operated by the central securities depository – Centrálny depozitár cenných papierov (CDCP) – was assessed against Standards for the use of EU securities settlement systems in ESCB credit operations. The ECB produced the final assessment report in December 2008, and, wrapping up the assessment process, it sent recommendations to CDCP that CDCP was expected to meet them during the course of 2009. CDCP was included in the list of eligible securities settlement systems for Eurosystem credit operations. The results of the assessment were announced in a press release (published on the ECB's website).

Towards the end of 2009, NBS carried out final monitoring of the CDCP's compliance with the ECB recommendations, and thereby confirmed that CDCP satisfied all the recommendations. The results of the monitoring were communicated to the ECB, as well as to Banca d´Italia as second assessor. Banca d´Italia confirmed that CDCP was fully compliant with the ECB's recommendations,

17 Source: Slovak Banking Association.

and the results of the monitoring of the recommendations' implementation were subsequently confirmed by the ECB, too. In the first quarter of 2010, the final report is due to be submitted to the ECB's Governing Council for approval.

European Payments Council – SEPA

Following the successful introduction of the euro for cash payments, the SEPA project represents another step towards establishing an integrated European payment services market by ending the differentiation between the national and cross-border payments. It will eliminate the fragmentation of the European payment services market and open the door for innovative payment instruments, for example, internet and mobile payments, electronic invoicing, etc. If the SEPA vision is implemented, every citizen, retailer and enterprise will make payments in any of the countries in the SEPA area from a single bank account, using the same payment instruments, just as easily and securely as they now make domestic payments.

In 2009, the migration plan of the Slovak banking sector entitled "Introduction of SEPA in the Slovak Republic – Implementation Plan" was updated to version 2.3, and it will serve as a reference point for all parties involved in the migration process. Apart from the organisational structure and legal framework, the additions to the document include the communication strategy and the summary of the tasks and responsibilities falling to each of the participants in the implementation process, as well as a timeframe for their fulfilment.

Following the launch of the SEPA Credit Transfer (SCT) Scheme in January 2008, the SEPA Direct Debit (SDD) Scheme was launched at the European level on 2 November 2009. The new scheme is expected to replace the national direct debit schemes of Member States over the coming period. No specific date for the completion of migration has yet been set either for the SCT Scheme or the SDD Scheme. More than 2,600 European banks adhered to the new scheme immediately after its launch.

New versions of the SEPA Direct Debit Rulebooks were approved by the Plenary Meeting of the European Payments Council (EPC) at the end of October 2009, and were subsequently published on the EPC website. The versions in question were The SEPA Core Direct Debit Scheme Rulebook version 4.0 and The SEPA Business to Business Direct Debit Scheme Rulebook version 2.0. At the same time, an updated version of the SEPA Credit Transfer Scheme Rulebook version 4.0 was also published. The SEPA Cards Framework has been recently updated to version 2.1 and came out towards the end of December together with the document SEPA Cards Standardisation Volume – Book of Requirements version 4.0.

Based on the recommendations of the Economic and Financial Affairs (ECOFIN) Council adopted at its meeting of 2 December 2009, the European Commission began preparing an impact assessment of setting a "SEPA migration end-date" (SMED). Depending on the results of this assessment, final decision could be taken on the issuance of a regulatory measure stipulating a final date for migration to SEPA payment instruments. After that point, it will not be possible to use payment instruments in national formats anymore. Regarding the SCT Scheme, the Slovak banking sector voluntarily chose the year 2012 as the end-date for the migration to SEPA credit transfers at the interbank level. As for the SEPA direct debits, no end-date has been set yet.

The European Central Bank is continuously monitoring the progress of SEPA migration through so-called SEPA indicators. Attention is currently focused on the indicator of SEPA credit transfers, which represents SEPA credit transfers as a share of the total number of credit transfers executed at the euro area level and at the national level of all member countries. The indicator of SEPA credit transfers in the euro area as a whole is based on statistical data of the payment infrastructures that process payments in the euro area. The ECB updates this data once a month and publishes it on the ECB website. At the end of 2009 the SEPA credit transfers as a share of total credit transfers in the euro area represented 6.2%.[18]

The highest governing and coordination authority for the SEPA project in the Slovak Republic is the SEPA Committee, which brings together both providers and users of payment services. On 4 June 2009, the Committee's members held a joint meeting at which they approved the Rules of Procedure for the SEPA Subcommittee, which was in the process of being established. An up-

18 Source: European Central Bank.

dated version of the SEPA Implementation Plan was also approved.

SEPA Subcommittee

The SEPA Subcommittee was established as a working body to deal effectively with outstanding issues related to the SEPA project, and to provide detailed solutions to individual tasks arising from the Implementation Plan. Under its Rules of Procedure, the SEPA Subcommittee consists of representatives of Národná banka Slovenska, the Slovak Banking Association, the Slovak Ministry of Finance, the Slovak State Treasury, and commercial banks.

The Eurosystem, TARGET2 Securities

Work on the TARGET2-Securities (T2S) project continued in 2009. The purpose of T2S is to make the settlement of securities transactions as secure and efficient as possible. T2S will be a technical platform allowing securities transactions to be settled in central bank money within the euro area / EU / EEA. Although these settlements will be carried out mainly in the euro currency, settlement in a non-euro currency will also be technically possible.

The T2S Advisory Group (AG) continued its activities in 2009. The TS2 AG gives advice on the T2S project to the ECB's decision-making bodies, and Národná banka Slovenska is represented on it. In Slovakia, the National User Group (NUG-SK) has been established to support the development and implementation of T2S. It creates a forum for involving national market participants in the work on the T2S project. The NUG-SK held its first meeting in March 2009, and its members include representatives of NBS, Centrálny depozitár cenných papierov, the Slovak Finance Ministry, the Slovak Banking Association, and the Slovak Association of Securities Dealers.

The Eurosystem and representatives of central securities depositories (CSDs) signed a Memorandum of Understanding (MoU) in July 2009 in order to formalise the current understanding of the Eurosystem and the CSDs regarding certain mutual contributions to the T2S project and the scope and negotiations of the future agreement between the Eurosystem and individual CSDs in relation to T2S services. Drafting of the Framework Agreement for the development and operational phase began in 2009.

In July 2009, the ECB Governing Council approved an amended version of the User Requirements Document (URD), which then served as the basis for drafting the General Functional Specifications (GFS). Work continued through the year on further amendments to the URD in response to market requirements, as did work on the legal documents dealing with contractual relations in respect of the T2S platform. In 2009, the Eurosystem addressed also other issues related to the T2S project, including price structure, interdependencies between T2S, T2 and CCBM2, management, user requirements, testing, and migration. All relevant information may be found on the ECB website in the English language.

CHAPTER 7

STATISTICS

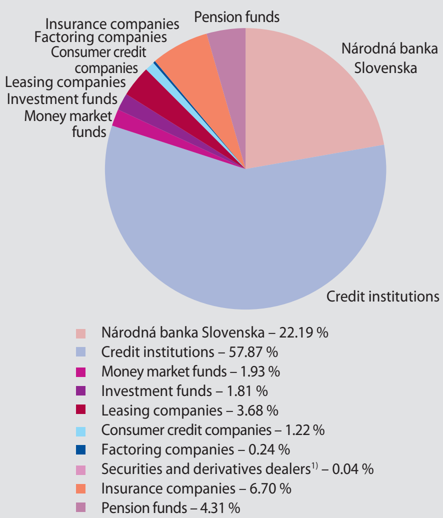
7

7 Statistics

Národná banka Slovenska develops, collects, compiles and disseminates various types of statistics, mainly for supporting the implementation of monetary policy, the maintenance of financial stability, and various other activities of the ESCB. In 2009, data collection in the areas of monetary and financial statistics, quarterly financial market statistics, insurance statistics, capital market statistics, and balance of payments statistics took place in accordance with the schedule. Statistical data were provided in line with the requirements of the ECB/ESCB, Eurostat, BIS and other international institutions. The data compiled were utilised to a large extent by internal users, financial market entities, the general public and the media. They were analysed and released by Národná banka Slovenska in various reports, analyses and surveys relating to the financial sector.

The structure of reporting entities (other than the government, non-financial corporations and households) by their share of assets is shown in Chart 56.

Chart 56 Breakdown of reporting entities by share of assets as at 31 December 2009



Source: NBS.
1) Investment firms (authorised under Act No. 566/2001 Coll.) other than banks, branches of foreign banks, asset management companies or branches of foreign asset management companies.

7.1 Monetary and financial statistics

Activities performed in 2009 were based on the results of work carried out in the previous year as part of the euro area accession process. All areas of monetary and financial statistics were influenced in methodological terms by a change in the structure of the data reported. There was fine-tuning of technical projects for statistics on the following areas: balance sheet and interest rate statistics of monetary financial institutions, minimum reserve requirements for credit institutions, asset and liability statistics of investment funds and other financial intermediaries, and securities statistics.

In the area of balance sheet statistics, data on monetary aggregates and the M3 counterparts started to be compiled and released in 2009 in the form of a national contribution to the euro area aggregates; the NBS website had to be adjusted accordingly. NBS began releasing detailed reports to the European Central Bank on loans provided to non-financial corporations, according to the statistical classification of economic activities. The data reported were monitored for accuracy, correctness and timely delivery. For the compilation and publication of statistical data, the ECB's Statistical Data Warehouse (SDW) started to be utilised. As at the end of 2009, the number of reporting entities stood at 40 (26 credit institutions and 13 money market mutual funds, plus NBS).

In the area of investment fund statistics, two new developments took place. One of them was the delivery of data on investment funds in accordance with the new ECB directive on investment fund asset and liability statistics from 2007, which was implemented in Slovakia as early as 2008. Under this directive, data started to be reported to the ECB and released by NBS on a monthly basis in December 2008. After the quality of the data reported had been assessed for almost a year, the ECB began to publish new harmonised euro area investment fund statistics in December 2009. The second new development was the use of sample surveys in monthly balance sheet statistics, the aim being to reduce the costs of asset management companies incurred in connection with data reporting to NBS. In 2009, asset management companies submitted balance-sheet statistics on only 45 (out of 107) existing investment funds.

As regards statistics on leasing, factoring and consumer credit companies, the year 2009 saw no methodological changes concerning the collection and reporting of data to the ECB. A noteworthy event was that the samples of individual types of companies were updated for reporting in 2010.

During the year, securities issues statistics were revised and supplemented to include data on Slovak securities issued abroad by sectors other than the government sector. This area of statistics was brought into harmony with data from balance sheet statistics reported by monetary financial institutions. NBS was actively involved in the management of data exchange between the national database of securities and the ECB's central database. At the national level, preparations are now underway for a further area of securities statistics, i.e. the statistics of auctioned securities, which is a new project run by the ECB/ESCB.

7.2 QUARTERLY FINANCIAL ACCOUNT STATISTICS

Under the ECB requirements, Národná banka Slovenska also plays a major role in the compilation of the monetary union's quarterly financial accounts (QFAs). The main purpose of compiling QFAs is to create a supporting analytical tool for monitoring the monetary policy transmission mechanism and for financial stability analyses.

The QFA matrix contains data on the structure of financial flows for individual financial instruments (currency in circulation, deposits, loans, debt and equity securities, financial derivatives, mutual funds, and insurance technical reserves) between different institutional sectors in the national economy, classified according to ESA 95 (European System of Accounts). Národná banka Slovenska works on the compilation of QFAs in close cooperation with the Slovak Statistical Office, which is responsible for data from the general government sector and for data (annual financial accounts) from the economy as a whole.

With Slovakia's entry into the euro area as from 1 January 2009, NBS became obliged to supply the ECB with QFA data on a quarterly basis. Until the end of 2008, such data had been provided on a voluntary basis. In connection with this obligation, historical data (for the period from Q1/2004 to Q3/ 2008) were also sent to the ECB at the end of January 2009; they were converted from Slovak koruna to euro at the official conversion rate. Apart from the data conversion, communication between the ECB and NBS underwent a change, too. The delivery of data in January was followed by an intense exchange of information about changes in the data and their causes, as well as about significant transactions in QFAs (over €1 billion).

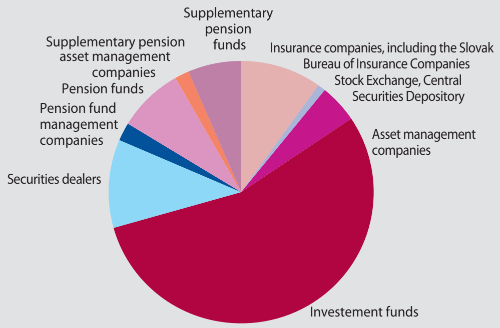
On the basis of this communication, NBS estimated the missing data in the sectoral composition of euro area residents outside Slovakia and the rest of the world. The stricter control system for data evaluation provided a stimulus for improving IT support for data evaluation, as well as for updating the data series in the QFA database. Within the scope of IT support, a control system was also created for the data already sent so that the revisions of QFA data series could be monitored and compared.

At the end of 2009, a methodological change started to be implemented in the calculation of transactions between the non-resident sector and the domestic economy. The transactions had previously been calculated mostly from international investment position data, i.e. as the difference between two positions. The new method of calculation will increasingly use the flow statistics of external operations, i.e. balance of payments data.

7.3 STATISTICS ON INSURANCE, THE CAPITAL MARKET AND PENSION SAVING

The regular collection and processing of data on insurance market entities, capital market entities and pension saving market entities continued in 2009. The data were used for the exercise of supervision and for statistical purposes, for both national and supranational institutions; they were

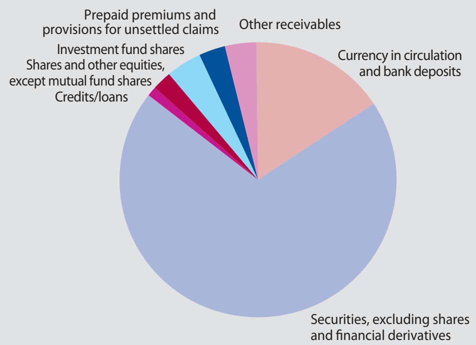
Chart 57 Number of reporting financial market entities as at 31 December 2009



- Insurance companies, including the Slovak Bureau of Insurance Companies – 24
- Stock Exchange, Central Securities Depository – 2
- Asset management companies –11
- Investement funds –130
- Securities dealers (excluding banks and asset management companies) – 26
- Pension fund management companies – 6
- Pension funds – 18
- Supplementary pension asset management companies – 5
- Supplementary pension funds – 15

Source: NBS.

Chart 58 Financial assets of insurance companies and pension funds as at 31 December 2009



- Currency in circulation and bank deposits – 16 %
- Securities, excluding shares and financial derivatives – 69 %
- Credits/loans –1 %
- Shares and other equities, except mutual fund shares –3 %
- Investment fund shares – 4 %
- Prepaid premiums and provisions for unsettled claims – 3 %
- Other receivables – 4 %

Source: NBS.

kept up to date, accurate and comparable. At the end of the year, a total of 237 reporting entities were recorded, including 24 insurance market entities, 169 capital market entities and 44 pension saving market entities.

The beginning of 2009 was substantially influenced by the changeover to the single European currency and the related requirements arising from the amended legal framework for data reporting, as well as by the conversion of statistical databases.

Owing to the complexity of financial markets and the interconnection of financial transactions made by different entities (including to a large extent insurance companies and pension funds), the ECB in 2009 broadened the group of entities providing statistical data on financial assets and liabilities, broken down by sector, to cover also insurance companies and pension funds. Such statistical data are provided on a quarterly basis in the structure of financial instruments (currency in circulation, deposits, loans, equity and debt securities, financial derivatives, insurance technical reserves, and other receivables and liabilities).

The ECB received in the required structure not only data for the current period, but also historical data as from the first quarter of 2006. The data are currently used for internal analytical purposes, i.e. for analysing the financial stability of the euro area. It is planned to publish them on a regular basis as from the autumn of 2010.

In 2009, the field of insurance statistics was influenced by preparations for Solvency II, a system designed to harmonise the conditions of data release as well as to ensure the transparency and consistency of data within the European Union. The system is planned to be launched in 2012. The changes made in the area of reporting for insurance market entities were verified and commented on, as was their impact on the structure and form of the data reported.

7.4 STATISTICS ON NON-BANKING ENTITIES

Statistics on non-banking entities are collected and processed from statistical reports submitted by legal entities other than banks and branches of foreign banks, for the compilation of balance of payments, international investment position, and foreign direct investment statistics.

The year 2009 saw the continued harmonisation of statistics on non-banking entities in line with the recommendations of international institutions, primarily the ECB, made in regard to the compilation methodology for balance of payments and international investment position statistics.

After Slovakia's entry into the euro area, the methodological guidelines were amended according to the provisions of Act No. 659/2007 Coll. on the introduction of the euro in the Slovak Republic, and the range of the data reported was changed so that the overall balance of payments and international investment position statistics could be compiled for the euro area.

On 1 January 2009, residents of Slovakia became euro area residents. This change also had implications for statistics on non-banking entities, and/or balance of payments and international investment position statistics, since transactions between residents of Slovakia and other euro area residents must be consolidated.

Work connected with the requirements for statistical data conversion was successfully completed in 2009, as were preparations for the provision of historical data since 2004 (when Slovakia joined the EU) in a sufficiently detailed geographic and sectoral breakdown.

7.5 STATISTICAL INFORMATION SYSTEM AND TECHNICAL SUPPORT

In order to improve the collection and processing of statistical data still further, projects were implemented within the IS STATUS and STATUS DFT systems with the aim of minimising the transfer errors and enhancing the administration of both systems. Within the scope of IS STATUS, procedures were prepared for the compilation of financial account statistics. The IS STATUS DFT system was modified with the aim of ensuring accelerated data control and data processing.

At the end of 2009, analytical work began for the preparation of a new information system designed to improve communication with the reporting entities, to accelerate the processing of data at NBS, and to create a central data warehouse for data from all reporting entities (banks, non-bank financial entities, entities with a foreign exchange reporting obligation). The new data collection portal is intended to replace the information systems currently in use.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

CHAPTER 8

ECONOMIC RESEARCH

8

8 Economic Research

The introduction of the euro and adoption of the common monetary policy has also been reflected in the focus of the economic research conducted by Národná banka Slovenska, which is shifting towards ancillary economic policies. Research activities are gradually being standardised and are taking on the quality of those conducted by other euro area national central banks. International cooperation with the ECB and with research teams at the EU level is being deepened.

The substance of economic research remains unchanged. Its prime focus is the analysis of economic and financial relations in the economy and how they are linked to monetary policy. This predominantly takes the form of applied research. The focus of the research is to an increasing extent directed not only at the domestic economy, but also at the external economy, particularly that of the euro area. The primary areas of economic research comprise economic development modelling, monetary and fiscal policy, the labour market and financial stability.

The most important results and findings were published in several specialist articles. The more extensive outputs were published as reviewed working papers, financial stability reports, and policy or occasional papers. The full texts are also available on the NBS website under the section "Working papers".[19]

A total of eight research papers intended for the public were completed and published during the course of 2009. Four of them were working papers, two can be classified as discussion papers, and the other two took the form of policy papers. Although most of the authors of these papers were members of the Research Department staff, there was increased cooperation with staff from other NBS departments and with external authors and co-authors.

At the thematic level, most of the papers produced in 2009 were in the field of monetary and fiscal policy. Among the issues examined were theoretical starting points for the calculation of the equilibrium interest rate and the scope for its application in Slovakia. Monetary policy decisions, especially on the key interest rate, were analysed for their effect on output, prices, the exchange rate, and short-term interest rates. Questions at the boundaries between monetary policy, fiscal policy and financial stability were addressed in a paper examining the factors that determine the development of long-term interest rates in EU countries. The key findings included estimates of the effect of fiscal policy on the business cycle. One paper that attracted a great deal of interest from the professional community proposed a new institutional arrangement in which fiscal policy is based on the concept of national net worth. No less important has been the progress in economic modelling. In 2009, a medium-sized neo-Keynesian dynamic stochastic general equilibrium model for Slovakia was completed and published. The other two principal papers in the area of economic research focused on the variability of economic developments at the turn of 2008 and 2009, with emphasis on the nominal and real convergence and competitiveness of Slovakia. The economic research team published a number of important findings as annexes to the financial stability reports. These annexes included an evaluation of housing affordability in the region (from the view of lending, the rate of construction, and prices of flats), as well as an analysis of the international financial integration of Slovakia in terms of its development and characteristics, and a concept for a new framework of financial regulation and supervision. Further details of the published papers are given in Box 1.

A number of other non-published research results and many interesting theoretical and methodological issues were the subject of lectures given by internal and external experts at periodical seminars organised by the Research Department. In all, 40 of these seminars were held in 2009, and there was a year-on-year increase both in the number of seminars attended by representatives of other specialist institutions based in Slovakia, as well as in the number of presentations given by speakers from abroad. Compared with the focus of the research papers, the expert seminars centred more on the

19 *http://www.nbs.sk/en/publications-issued-by-the-nbs/working-papers.*

issue of economic modelling and the theoretical assumptions underpinning monetary developments and the long-term sustainability of public finances.

Národná banka Slovenska has joined several international research teams. An NBS representative attends the meetings of Heads of Research of EU national central banks. Two such meetings were held in 2009 and they contributed to the further convergence of research activities across the euro area. Staff engaged in economic research gained access to new data and specialist publications on economics. In addition to its membership of two expert groups of the European System of Central Banks, Národná banka Slovenska joined further groups during the course of 2009.

The Wage Dynamics Network (WDN) is a research network consisting of economists from the ECB and the national central banks of the EU countries, which aims at studying in depth the features and sources of wage dynamics and their implications for monetary policy. In spring 2009, as part of its involvement in this network, NBS carried out a harmonised survey of enterprises aimed at studying the features and sources of wage dynamics. The survey's results were processed towards the end of year and presented within the network; they will be put to use in several planned research projects. In December 2009, the Eurosystem presented and published a final report summarising the cross-sectional findings across the network and analysing the implications of wage dynamics for the monetary policy of EU countries.

The Household Finance and Consumption Network (HFCN) consists of statistical survey experts, statisticians and economists from the ECB, the Eurosystem national central banks and a number of national statistical institutes. Its purpose is to implement and further develop the Household Finance and Consumption Survey. In 2009, the involvement of NBS experts in the HFCN concerned mainly the preparation of the Slovak version of the harmonised system.

The financial crisis pointed to gaps in the expertise on macrofinancial stability. In response, an international contact group was established with the task of examining the feasibility of a common research project, the availability of data, and the capacities of individual national central banks. The contact group recommended the establishment of a new working group called the Macro-prudential Research Network (MaRs), its purpose being to produce key conceptual frameworks, models and tools that will help to enhance the conditions in which macroprudential supervision is exercised in the European Union. The emphasis will be on the development of macrofinancial models that link financial stability with the real economy, on early warning systems and systemic risk indicators, and on the assessment of contagion risk.

In the field of financial stability, long-term term international cooperation with another two groups was continued in 2009. ECONET is a group of economists specialising in the area of financial stability, and its main task is to monitor and analyse developments in European financial markets and to assess the impact of existing and proposed regulation in the financial markets field. In 2009, as part of its first round of tasks, ECONET periodically submitted to meetings of the Economic and Financial Committee (EFC) and the Financial Services Committee (FSC) its assessment of the risks and trends in European financial markets. Within the second round of tasks, ECONET members produced impact assessments for proposed legislative measures.

The Working Group on Macro-prudential Analyses (WGMA) focuses on identifying and assessing risks in the EU banking sector. It determines the subject matter and special topics that are to be included in the publications ECB Financial Stability Review and EU Banking Sector Stability.

Box 1

PAPERS PUBLISHED IN 2009

WP 1/2009 Michal Benčík: The equilibrium interest rate – theoretical concepts and applications

The paper summarizes several theoretical concepts of the equilibrium real interest rate, applies several of them to the conditions in Slovakia, and at the same time assesses the potential impact of the changeover to the European single currency. It presents calculations of the neutral real interest rate and long-term equilibrium interest for both Slovakia and the euro area as a whole. The neutral interest rate is determined by the relationship between savings and investments (the so-called "IS curve") and the relationship between nominal wages and unemployment (the "Phillips curve"). Although its values are close to zero, they are skewed by the general excess of savings over investments. The long-run equilibrium interest rate is computed directly using a modified Ramsey-Keynes rule (the marginal substitution rate between consumption in various periods should be equal to the marginal transformation rate between output in these periods), and its values are in the region of 2.5%. The calculations indicate that following Slovakia's entry into the monetary union, differences could arise between the neutral interest rate in the euro area and the rate in Slovakia. Other economic policy measures will probably be necessary to offset the expansionary impact of interest rates.

WP 2/2009 Michal Benčík: An analysis of the impact of fiscal policy on the business cycle – a SVAR approach

The paper outlines the theoretical concepts behind models that evaluate the effect of time series of several variables and their time-shifted values (VAR models), and various methods of identifying them. It summarises the results of model estimates for the general government deficit, the real interest rate, GDP growth, and the GDP deflator, using data for the Slovak Republic for the period 1997–2007. The analysis was conducted on the basis of several external approaches. The impact of fiscal policy on the business cycles is identified as being predominantly in accordance with the features predicted by neoclassical theory. If the ratio of the budget deficit to GDP records a permanent increase of 1%, the immediate effect on the rate of GDP growth is an increase of only 0.4% per year. That effect falls to 0.2% in subsequent periods and peters out completely after six quarters, when the rate of GDP growth returns to its original level. However, the increase in the deficit leads also to a permanent rise in interest rates. The reliability of these results may be impaired by the small number of observations and qualitative changes in the period under review.

WP 3/2009 Juraj Zeman and Matúš Senaj: DSGE model – Slovakia

The paper presents a medium-sized neo-Keynesian DSGE model of an open economy that is designed to simulate developments in the Slovak economy. The model consists of more than fifty equations and contains all the key macroeconomic variables, including GDP and its main components – consumption, investment, government expenditure, exports and imports. The model also uses three factors of production – labour, capital and energy. Price developments were tracked by the consumer price index and by the import and export price index. Other important variables included the nominal interest rate and exchange rate. Most of the model's parameters are calibrated, while a minority are estimated using various estimation techniques. The appropriateness of the model is tested in several ways – by comparing statistics of simulated variables with empirical data, by analysing impulse response functions, and by reproducing historical time series.

WP 4/2009 Ján Žilinský: What determines borrowing costs of EU countries?

Through a detailed examination of long-term interest rates, the paper finds that the correlation between the size of government debt and long-term interest rates in EU countries is no more than weak. While this runs counter to theory, it can be explained by the institutional differences existing across Europe. Countries that have high democratic capital (established traditions) have lower margins compared with new democracies. Although debt reduction is a worthy objective, the results presented in the paper indicate that a country's reputation may be of more importance than purely its economic indicators.

DP 1/2009 Judita Jurašeková Kucserová: Effects of monetary policy shocks in Slovakia

The paper presents the results of empirical research into how monetary policy shocks affect the economy in Slovakia. Real output, prices, the exchange rate, and the short-term interest rate were monitored for their reactions to structural shocks, which were based on a SVAR model and selected by the sign restriction method. In most cases, historical shocks are also identified in order to define the monetary shock in more precise terms. The results indicated that an unforeseen rise of 50 basis points in the key interest rate causes prices to fall by up to 0.4%.

As predicted, the effect reaches its peak around one year, at the latest, after the initial shock. However, the results for the effect on GDP are inconsistent and indicate that shifts in monetary policy are no more than a minor factor in real output changes.

DP 2/2009 Michal Horváth and Ľudovít Ódor: Making fiscal commitments credible – institutions for responsible and transparent fiscal policy in Slovakia

The paper analyses the weaknesses of the current fiscal institutions in Slovakia and proposes a new institutional framework for fiscal policy, one based on the concept of net worth and international best practices. The crux of the proposal is to introduce supplementary fiscal rules to the Stability and Growth Pact – an upper limit on gross debt, expenditure ceilings, new rules for local authority budgets, and requirements for greater transparency. For the checking and monitoring of fiscal rules and processes, the paper proposes that a Council for Fiscal Responsibility be established under the authority of the Slovak Parliament. Such a framework should increase Slovakia's credibility when it comes to seeking exit strategies after the adversities of the current economic crisis, and it should lead both to lower interest rates, and to faster and more balanced growth in the long run.

PP 1/2009 Judita Jurašeková Kucserová, Ľudovít Ódor, Matúš Senaj and Juraj Zeman: Selected indicators of competitiveness: a brief outline

Competitiveness is crucial to maintaining productivity growth and to raising living standards, particularly in small open economies that are based on international trade and are heavily dependent on foreign direct investment. According to one definition, competitiveness means a country's ability to sell its goods and services in a given market. The term also includes, for example, a country's overall business environment, its physical infrastructure and knowledge base, as well labour market indicators, financial market regulation and the regulation of markets in goods and services. Therefore the monitoring of competitiveness cannot be narrowed down just to the monitoring of exchange rate movements. The aim of this policy paper is to evaluate the development of competitiveness in Slovakia, particularly in relation to the depreciating currencies of neighbouring countries.

PP 2/2009 Tibor Lalinský: An analysis of the Slovak economy's convergence

Towards the end of 2008, the effects of the global financial crisis began to be seen in the real economy. The fastest and most intensive economic downturns were recorded in those countries that had been directly affected by the financial crisis. But in the case of other countries, including Slovakia, the adverse effects were not felt until the beginning of 2009, when the slump in demand from advanced industrial countries began to take its full toll. In March 2009, despite a slowdown in consumer price inflation, Slovakia ceased to meet the Maastricht inflation criterion. After several years of progress, the trend of nominal and real convergence within the EU came to a halt. For a certain time, we will be witnessing more economic divergence than convergence. The outlook for the years ahead indicates also that the pace of Slovakia's convergence to the average EU level will slow down considerably. Because of adverse developments in the global and domestic economy, Slovakia will have an excessive deficit this year and also in the next two years. As regards compliance with the Maastricht criteria in those EU countries that are outside the euro area, none of them are complying with all of the criteria and therefore the next expansion of the euro area will not come under consideration for several years.

FOREIGN ACTIVITIES

9

9 Foreign Activities

9.1 THE EUROPEAN UNION (EU)

At the level of cooperation between Národná banka Slovenska and various EU institutions, the most important relationship is between NBS and the European Central Bank.

The Eurosystem, ESCB and ECB

As of when the Slovak Republic adopted the euro currency, on 1 January 2009, Národná banka Slovenska became a member of the Eurosystem. At the technical level, this involved paying up the full amount of its share in the ECB capital and transferring a proportion of its foreign reserves to the ECB. NBS's share in the ECB capital is based on Slovakia's share of the EU total population and its share of the EU overall GDP. Accordingly, NBS has a share of 0.6934%, amounting to €39,944, 363.76. The value of the foreign reserves transferred to the ECB in accordance with Art 30.1 and 49.1 of the ECB Statutes represented €443,086,155.98.

From the institutional view, NBS became a full member of the Eurosystem as of 1 January 2009. At the same time, NBS Governor automatically took a seat on the ECB Governing Council, the Eurosystem main decision-making body. Thereafter, NBS representatives started to participate in the work of Eurosystem/ESCB committees and working groups convened in the standard composition. This composition is reserved for Eurosystem NCBs, and the matters discussed at these meetings are relevant thereto. Since 1 January 2009, NBS has been taking part in the decentralized performance of the Eurosystem tasks, and sharing its profits or losses, in accordance with applicable legislation.

NBS continues to be part of the European System of Central Banks (ESCB) and the NBS Governor remains a member of the ECB General Council. The NBS Governor attended all four of the General Council meetings held in 2009.

In 2009, the NBS Governor also attended all 22 meetings of the ECB Governing Council, 21 of which were held in Frankfurt and one in Venice. The number of NBS staff sitting on Eurosystem/ESCB committees and their working groups stood at almost seventy as at 31 December 2009. As for written procedures under which decisions of the ECB Governing Council are adopted, a total of 208 were commenced in 2009. Consultations over national legislation or EU legislation which falls within the ECB competence and on which the ECB delivers an opinion continued to be held in 2009. Each member of the ECB General Council is entitled to comment on ECB opinions, and the NBS Governor exercised this right in full in 2009. In all, 101 such consultations were commenced in 2009. In regard to Slovak legislation, the ECB delivered the following opinions:

- Opinion of the European Central Bank of 27 May 2009 on measures to mitigate financial turmoil (CON/2009/49), delivered at the request of the Slovak Ministry of Finance;
- Opinion of the European Central Bank of 29 September 2009 on payment services (CON/2009/75), delivered at the request of the Slovak Ministry of Finance;
- Opinion of the European Central Bank of 27 October 2009 on Národná banka Slovenska's independence (CON/2009/85), delivered at the request of Národná banka Slovenska.

Opinions on national and EU legislation falling within the ESCB's competence are published on the ECB website.[20]

Other EU institutions

During 2009, NBS was regularly involved in the activities of the EU institutions. The Bank's top representatives took part in informal meetings of the Council of Ministers for Economic Affairs and Finance (ECOFIN), which are held twice a year in whichever country holds the EU Presidency. At the April meeting in Prague (the Czech Republic) and the October meeting in Gothenburg (Sweden), discussions centred on the economic and financial situation, especially on agreements in the area of European supervision, financial markets, financial stability, and measures adopted in response to the international economic crisis.

Národná banka Slovenska is involved in the EU decision-making process through its representatives on selected committees and work-

20 http://www.ecb.int/ecb/legal/opinions/html/index.en.html

ing groups of the EU Council and the European Commission. NBS experts attend meetings of the European and Financial Committee (EFC) of the EU Council and its Sub-committee on IMF and Related Issues (SCIMF). Within the European Commission, NBS experts attend meetings of the European Commission committees and sub-committees for supervision (CEBS, CEIOPS, and CESR), meetings of the committee and working groups for monetary and financial statistics and balance of payment statistics, as well as meetings of the Mint Directors Working Group and working groups of the Financial Services Committee (FSC).

In 2009, NBS participated in the Slovak Republic decision-making process for the EU affairs by preparing materials for the drafting of instructions and by the attendance of NBS representatives at meetings of the Committee for EU Affairs established at the Slovak Ministry of Foreign Affairs.

Over the course of the year, NBS expressed comments on various drafts of the EU legislation, including: the Deposit Guarantee Schemes Directive; the Regulation on Credit Rating Agencies; the decision concerning specific activities in the field of financial services, financial reporting and auditing; and the decision concerning external auditors of NBS.

9.2 NBS COOPERATION WITH INTERNATIONAL INSTITUTIONS

International Monetary Fund (IMF)

Several reforms of this Bretton Woods institution were undertaken during 2009. The issues at the forefront of discussions were IMF supervision, the adequacy of the IMF resources, reform of the lending framework, the question of a new mandate for the IMF, and reform of the IMF governance. These topics, along with the global financial crisis, dominated also the IMF/WB spring meeting in April 2009 and the IMF/WB annual meeting in October 2009, both of which were attended by the NBS Governor, Ivan Šramko, in his capacity as Slovakia's representative at the IMF. The same subjects were discussed at the regular gathering of the IMF and World Bank's Belgian constituency at the level of central bank governors, held in Budapest in June 2009. These issues received a further airing at European fora, particularly at the European and Financial Committee (EFC) and its sub-committee on IMF and related issues (SCIMF) and at regular meetings of the group of EU representatives to the IMF (EURIMF).

Because of the worsening financial situation in certain IMF member countries, Slovakia's commitment to the Financial Transactions Plan (FTP) was increased in 2009. As at 31 December 2009, Slovakia's total contribution to the FTP represented SDR 67.8 million. In addition, Slovakia joined the international initiative to increase the IMF resources, committing itself to lend the IMF up to €440 million under a bilateral loan agreement. The approval process for this commitment began in 2009, and the bilateral agreement is due to be signed at the beginning of 2010.

In 2009, Slovakia was for the first time allocated Special Drawing Rights (SDRs), the international reserve asset established by the IMF in 1969. Under the general and special allocation of SDRs in August and September 2009, Slovakia received SDR 340.5 million. By supplementing the reserves of IMF member countries, the general allocation of SDRs served as one of the means of ensuring global liquidity.

From 2009, with the entry of Slovakia into the euro area, the consultations conducted under Article IV of the IMF Articles Agreement (Article IV consultations) were divided into two separate parts – consultations on the monetary and exchange rate policies of the euro area (this part is common to all euro area countries) and consultations on other economic policies conducted in Slovakia. In May 2009, the regular IMF mission in Slovakia was conducted in respect of the second part of the Article IV consultations, and it was followed up by a smaller working mission in November 2009. In July 2009, moreover, the IMF brought to a close the first part of its Article IV consultations in respect of euro area policies.

There were also changes within the Belgian constituency in 2009. In April of that year, in order to reduce the costs of the constituency in the IMF, Slovakia and the Czech Republic signed an agreement on sharing the joint position of a senior advisor to an IMF executive director, at rotating four-yearly intervals. As from 1 July 2009, this role has been carried out by Marek Jakoby, who since 2006 has represented Slovakia at the IMF in the role of advisor to an executive director.

In 2009, Slovakia successfully continued its approval process for reforms pursuant to the IMF Resolution on Quota and Voice Reform and to the Resolution on the approval of an amendment to the IMF Agreement that broadens the Fund's investment authority. In April 2009, the Slovak Government approved an increase in Slovakia's quota in the IMF, raising it by SDR 70 million to SDR 427.5 million. Progress was also made in the approval process for amendments to the IMF Agreement, which are due to be ratified in the beginning of 2010. Even though the IMF quota and voice reform of 2008 has not yet entered into force, discussions are underway within the IMF regarding a further adjustment of member quotas within the 14th General Review of Quotas, which is due to be completed at the beginning of 2011.

Slovakia's participation in multi-year IMF initiatives continued in 2009. The annual activities include, for example, updating of the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) and informing the IMF about the foreign exchange restrictions that Slovakia applies in order to ensure national and international security and to protect the financial system against financial terrorism.

The World Bank (WB)

As a shareholder of the World Bank, Slovakia participated in the process of reforming the management of the World Bank and its voting structure. Under Resolution No. 596 of 30 January 2009 – "Enhancing the voice and participation of developing and transition countries" in the World Bank Group – the Articles of Agreement of the International Bank for Reconstruction and Development (IBRD) are to be amended so as to increase Slovakia's overall voting rights in the World Bank, from the current 0.21% to 0.22%.

In 2009, Slovakia's contribution to the International Development Association (IDA) amounted to €680,000 and its contribution to the Multilateral Debt Relief Initiative (MDRI) represented €30,000. The donations were based on a commitment given as part of Slovakia's participation in the 15th replenishment of IDA funds and in the financing of the MDRI. Also in 2009, Slovakia came through with its contribution under the 10th replenishment of IDA funds, by making a payment of €55,128.

The position of the Alternate Governor of Slovakia at the World Bank Group was held by Viliam Ostrožlík, Deputy Governor of NBS.

Bank for International Settlements (BIS)

On 29 June 2009, NBS Governor Ivan Šramko attended the 79th Annual General Meeting of the BIS, held in Basel. In addition, NBS representatives took part in regular bimonthly meetings of BIS member central banks, which addressed the monitoring of global economic and financial developments and issues of monetary and financial stability, financial market supervision, and central bank governance.

Also in 2009, NBS participated in activities of the BIS Central Bank Governance Group.

Organisation for Economic Cooperation and Development (OECD)

In 2009, NBS representatives contributed to the activities of relevant OECD committees and working groups, which predominantly addressed issues related to the financial and economic crisis. Given the conditions of significant uncertainty and rapidly deteriorating economic indicators, there was a need for more frequent evaluation of the economic situation and for the production of forecasts additional to those regularly scheduled. Consequently, for example, the Economic Policy Committee (EPC) held an extraordinary meeting in the first half of 2009, at which Národná banka Slovenska was represented by Ľudovít Ódor, a member of the NBS Bank Board.

NBS representatives attended meetings of several other OECD committees and working groups during 2009, including the April spring meeting of the Financial Markets Committee, at which the dominant issues were again the financial and economic crisis and assessing the OECD strategic response to the crisis. At meetings of the Working Party on Private Pensions, regulators exchanged experiences of addressing the adverse effects of the global financial crisis on pension funds.

At a press conference held in Bratislava on 9 February 2009, the OECD's Secretary-General, Angel Gurría, presented the OECD Economic Survey of

Slovakia, completed in December 2008 by the Economic and Development Review Committee (EDRC). Mr Gurría also had a meeting with NBS Governor Ivan Šramko at the NBS headquarters.

European Bank for Reconstruction and Development (EBRD)

On 15 and 16 May 2009, the EBRD Board of Governors held its Annual Meeting at EBRD headquarters in London, with Národná banka Slovenska represented by NBS Deputy Governor Martin Barto. The meeting was held against the backdrop of the financial and economic crisis, and it was this subject that dominated the governors' talks and panel discussions. At the meeting, the governors approved the 2008 financial statements, the allocation of net income to the Bank's strategic reserves, and the strategic document *Fighting the Crisis, Promoting Recovery and Deepening Transition*.

9.3 NBS'S INTERNATIONAL ACTIVITIES IN THE FIELD OF SUPERVISION

In connection with Národná banka Slovenska's commitments to the European Central Bank, to bodies and committees of the European Union and to international organisations, staff of the Financial Market Supervision Unit regularly attend meetings of the respective committees and working groups. In addition, the Supervision Unit is heavily involved in cooperation with foreign supervisory and regulatory authorities, especially in relation to the exercise of supervision over banking and insurance groups.

The Banking Supervision Committee (BSC) of the European System of Central Banks (ESCB) has the following tasks: to monitor and evaluate developments in the European financial sector in terms of financial stability; to analyse regulatory requirements for financial system stability; to strengthen cooperation and the sharing of information between central banks and Member States' supervisory authorities; and to cooperate in the drafting of ECB opinions on European Commission proposals. During 2009, the information shared between the committee's members mainly concerned how the financial crisis was affecting their respective countries and the measures being taken by governments to support the financial system. The committee's analyses (produced at the subgroup level), as well as its discussions, were focused on the vulnerability of the EU financial system and on the system's resilience to various shocks. They also addressed the tasks and role of the BSC within the new supervision architecture for the EU financial market, especially in relation to the proposed European Systemic Risk Board (ESRB).

Národná banka Slovenska is involved in the work of the so-called Lamfalussy Level 3 Committees, a group of committees established by the European Commission, which include: the Committee of European Banking Supervisors (CEBS), the Committee of European Securities Regulators (CESR), and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

The principal tasks of the CEBS include giving advice to the European Commission, implementing European Union directives, and enhancing cooperation and the sharing of information between banking supervisors. It focuses mainly on capital requirements rules for financial institutions, the purpose being to ensure that financial institutions have a closer link between their capital and the risks they are exposed to. Working groups and expert groups are established under the CEBS, and they produce specialist documents on specific topics which are submitted to the committee for approval. There is also the Groupe de Contact (GdC), an expert group of the CEBS which focuses on the harmonisation of supervisory procedures and the sharing of information.

The task of the CESR is to improve coordination among securities regulators across the European Union, to act as an advisory group to assist the European Commission, and to work to ensure more consistent and timely implementation of European Union legislation in Member States. The CESR's plenary meetings take key decisions on the regulation and supervision of this area, and they approve guidelines and other important documents concerning the activities of the committee and of financial institutions operating in the markets of its members. Most of the specialist materials submitted to the CESR's plenary meetings for approval are prepared by permanent working and expert groups established under the CESR.

The principal tasks of the CEIOPS include: providing advice on implementation measures for framework directives (Level 2 activities of the Lamfalussy process); issuing standards, recommendations and guidelines to ensure the uniform interpretation of regulations and guidelines; and facilitating cooperation and the sharing of information between supervisors. At present, the priority task of the CEIOPS is the Solvency II project. The aim of the project is to introduce a new harmonised, risk-oriented regime of supervision and capital requirements for insurance companies and reinsurance companies operating in EU Member States, and to re-codify the 13 existing directives that regulate the activities of insurance companies and reinsurance companies. Working groups and expert groups are established under the CEIOPS, and they produce specialist documents on specific topics which are submitted to the committee for approval.

In 2009, all three of the Level 3 Committees paid particular attention to key questions concerning the establishment of a European System of Financial Supervisors, which include a European Securities and Markets Authority (ESMA), a European Banking Authority (EBA) and a European Insurance and Occupational Pensions Authority (EIOPA), in accordance with the recommendations of the European Council of 19 June 2009 regarding a new European supervisory architecture for the financial sector.

The process of establishing colleges of supervisors in accordance with EU legislation continued during 2009. The supervision of cross-border banking groups in the EU is exercised at the consolidated level by the "home supervisor". Národná banka Slovenska, operating at the consolidated level as the "host supervisor", is a member of colleges of supervisors where the supervisors are designated for banking groups that include entities falling under NBS's supervision in the Slovak Republic. Within the framework of the colleges, and in accordance with CEBS requirements, multilateral agreements on cooperation between the supervisory authorities were signed before the end of 2009, and meetings were held with the supervisors of banking groups that have banks operating in the territory of the Slovak Republic.

Národná banka Slovenska is also a member of globally operating international organisations that bring together supervisory authorities in different sectors of the financial market: the International Organization of Securities Commissions (IOSCO), where it is signatory to a Multilateral Cooperation Agreement; the International Association of Insurance Supervisors (IAIS); and the International Organisation of Pension Supervisors (IOPS).

9.4 FOREIGN TECHNICAL ASSISTANCE

Foreign technical assistance

In 2009, Národná banka Slovenska provided technical assistance to the National Bank of Ukraine in the form of expert seminars held in Bratislava and Kiev, as part of bilateral cooperation between the two central banks. In the first half of May 2009, the first of these training events, entitled *Organization of cash circulation in Slovakia with CIT-companies involved*, was held at NBS under the professional supervision of the Currency Circulation Management Department. In the second half of May, NBS experts from the Statistics Department lectured at a seminar in Kiev on the subject of *Statistics management in a central bank*. In June 2009, NBS hosted an expert seminar for staff of the National Bank of Ukraine's Supervision Department, at which members of NBS Supervision Department gave a presentation entitled *Problem banks supervision strategy*.

CHAPTER 10

LEGISLATION

10

10 Legislation

In 2009, Národná banka Slovenska continued to exercise its legislative and approximation competences in regard to monetary matters, currency, currency circulation, foreign exchange management, banking, the capital market, insurance, and retirement pension saving.

LEGISLATIVE AMENDMENTS PREPARED AND IMPLEMENTED IN 2009 TO LAWS ON MATTERS WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No. 483/2001 Coll. on banks and on amendments to certain laws as amended was amended in 2009 by Act No. 186/2009 Coll., Act No. 276/2009 Coll. and Act No. 492/2009 Coll. The amendment implemented by Act No. 186/2009 Coll., a new law on financial intermediation and financial advisory services, modified the rules of financial intermediation for banks and branches of foreign banks. Consequently, banks and branches of foreign banks may use only independent financial agents and tied financial agents for the purpose of financial intermediation in the deposit-taking and lending sector. Act No. 276/2009 Coll. modified the procedural rules of banks, branches of foreign banks, and Národná banka Slovenska in regard to the introduction of measures to mitigate the effects of the global financial crisis on the banking sector, and it also clarified rules on the prudential conduct of banks. As for Act No. 492/2009 Coll., the main purpose of the amendment was to bring the provisions of the Banking Act into line with the new rules for the provision of payment services and with the new terms laid down in the Payment Services Act. The Banking Act was also amended by the addition of a thirteenth part regulating the provision of loans to young married couples.

Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws (the Securities Act) as amended was amended in 2009 by Act No. 160/2009 Coll., Act No. 186/2009 Coll., Act No. 276/2009 Coll., Act No. 487/2009 Coll. and Act No. 492/2009 Coll. In the case of Act No. 160/2009 Coll., the amendment concerned mainly rules for the central depository's activities. As for Act No. 186/2009 Coll. on financial intermediation and advisory services, it brought the Securities Act into line with its provisions, and modified the rules of financial intermediation for investment firms. Act No. 276/2009 Coll. modified the procedural rules of investment firms and Národná banka Slovenska in regard to the introduction of possible measures to mitigate the effects of the global financial crisis on the banking sector, it also clarified provisions on the exercise of supervision by Národná banka Slovenska. The amendment implemented by Act No. 492/2009 Coll. served to bring the Securities Act into line with new rules for the provision of payment services as laid down in the Payment Services Act, and it also established that the only basis for proving trustworthiness will be a criminal record certificate.

Act No. 492/2009 Coll. on payment services and on amendments to certain laws was adopted in 2009 as a new law to regulate payment services and the provision of such services in accordance with the requirements of the European Union. This entailed establishing conditions for the single market in payments across the European Economic Area and for the abolition of internal market borders in regard to the provision of payment services. The Act does not distinguish between domestic transfers and cross-border transfers except for a provision on the shorter time limit for the execution of domestic credit transfers. This law allows payment services to be provided also by payment institutions, lays down new rules on how payment service providers are to convey information, and stipulates conditions for the establishment and operation of payment systems, conditions for the establishment and operation of electronic money institutions, and how complaints and other submissions are to be handled. It repealed Act No. 510/2002 Coll. on the payment system as amended.

Act No. 747/2004 Coll. on financial market supervision and on amendments to certain laws as amended was amended in 2009 by Act No. 186/2009 Coll., Act No. 276/2009 Coll. and Act No. 492/2009 Coll. In the case of Act No. 186/2009 Coll. on financial intermediation and financial advisory services, the amendment brought the Financial Market Supervision Act into line with the new law's provisions, and it modified the definitions of on-site supervision and off-site supervision. The changes implemented by Act No. 492/2009 Coll. on payment services served to clarify certain rules for proceedings held before Národná banka Slovenska and provisions concerning objections on grounds of bias, and they brought the Financial Market Supervision Act into line with terms used under the new law. Those provisions of the Financial Market Supervision Act that relate to Act No. 276/2009 Coll. on measures to mitigate the effects of the global financial crisis on the banking sector were amended by the new law so as to comply with its requirements.

Act of the National Council of the Slovak Republic No. 202/1995 Coll. – the Foreign Exchange Act and act amending Act of the Slovak National Council No. 372/1990 Coll. on misdemeanours as amended – was amended in 2009 by Act No. 492/2009 Coll. By this amendment, the definitions of non-cash transactions and foreign exchange services were deleted from the Foreign Exchange Act in connection with the new rules on payment services.

Act No. 8/2008 Coll. on insurance and on amendments to certain laws as amended was amended in 2009 by Act No. 186/2009 Coll. and Act No. 276/2009 Coll. In the case of Act No. 186/2009 Coll. on financial intermediation and financial advisory services, it modified rules concerning financial intermediation in the area of insurance.

Act No. 594/2003 Coll. on collective investment and on amendments to certain laws as amended was amended in 2009 by Act No. 186/2009 Coll. on financial intermediation and financial advisory services. The amendment modified rules concerning financial intermediation in the area of collective investment.

Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws as amended was amended in 2009 by Act No. 137/2009 Coll. and Act No. 572/2009 Coll. In the case of Act No. 137/2009 Coll., the amendment mainly brought in new provisions on the regulation of pension fund management fees charged by pension fund management companies, and it imposed on pension fund management companies an obligation to establish a guarantee account for pension funds. The changes implemented by Act No. 572/2009 Coll. concerned mainly savers' options for terminating participation in retirement pension schemes on grounds of their pension rights having been transferred to a pension scheme based in the European Union or run by an EU institution.

Act No. 650/2004 Coll. on supplementary pension saving and on amendments to certain laws as amended was amended in 2009 by Act No. 186/2009 Coll. and Act No. 557/2009 Coll. In the case of Act No. 186/2009 Coll. on financial intermediation and financial advisory services, the amendment brought the Supplementary Pension Saving Act into line with the new law's provisions. As for Act No. 557/2009 Coll., it clarified and modified the rules for supplementary pension saving schemes, especially in regard to the payment of contributions, the payout of a supplementary retirement pension, the payout of a supplementary long-term service pension, lump-sum settlements, termination settlements, the management fee for a supplementary pension fund, the fee for increasing the value of assets in a supplementary pension fund, the fee that a participant is charged for switching to another supplementary pension asset management company, and the termination settlement fee.

Act No. 186/2009 Coll. on financial intermediation and financial advisory services and on amendments to certain laws was adopted and entered into force in 2009, its purpose being to bring Slovak law into line with the European Union's requirements in the area of financial intermediation and financial advisory services. The law lays down what constitutes financial intermediation and financial advisory services. Under this law, entities authorized to perform financial intermediation are financial agents that may also provide financial advisory services. Financial advisory services, however, may be provided by financial advisors who are not authorized to perform financial intermediation. This law also governs the supervision of financial intermediation and financial advisory services, and it repealed Act No. 340/2005 Coll. on insurance mediation and reinsurance mediation as amended.

Act of the National Council of the Slovak Republic No. 118/1996 Coll. on deposit protection and on amendments to certain laws as amended was amended in 2009 by Act No. 276/2009 Coll. and Act No. 492/2009 Coll. Of particular significance is the amendment implemented by Act No. 492/2009 Coll., which brought the Deposit Protection Act into line with the Payment Services Act.

Act No. 530/1990 Coll. on bonds as amended was amended in 2009 by Act No. 276/2009 Coll. This short amendment clarified footnote 3f.

Act No. 429/2002 Coll. on the Stock Exchange as amended was amended in 2009 by Act No. 487/2009 Coll. This law specified in more detail the information that an issuer is required to publish.

Act of the Slovak Council No. 310/1992 Coll. on home savings as amended was amended in 2009 by Act No. 492/2009 Coll. in connection with the new rules on the provision of payment services.

DECREES ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2009 UNDER ITS LEGISLATIVE COMPETENCES TO ISSUE IMPLEMENTING, GENERALLY BINDING LEGAL REGULATIONS

- Decree No. 74/2009 Coll. of Národná banka Slovenska on the submission of reports on the exceeding of limits and compliance with limits concerning the assets of a pension fund or a supplementary pension fund.
- Decree No. 75/2009 Coll. of Národná banka Slovenska on the provision of information about the net asset value of supplementary pension funds.
- Decree No. 246/2009 Coll. of Národná banka Slovenska concerning the methods of establishing the value of assets in a pension fund and a supplementary pension fund and amending Decree of the Ministry of Finance of the Slovak Republic No. 217/2005 Coll. on the own funds of a supplementary pension asset management company and on the methods and procedures to be followed in determining the value of assets in supplementary pension funds, as amended
- Decree No. 267/2009 Coll. of Národná banka Slovenska on the reference value of a conservative pension fund and the composition of the reference value of a balanced pension fund and a growth pension fund.
- Decree No. 270/2009 Coll. of Národná banka Slovenska on the provision of information on the balance of assets in supplementary pension funds.
- Decree No. 319/2009 Coll. of Národná banka Slovenska on the charges payable by an issuer of securities and on their method of payment by a pension fund management company.
- Decree No. 545/2009 Coll. of Národná banka Slovenska on annual reports and semi-annual reports submitted by pension fund management companies.
- Decree No. 546/2009 Coll. of Národná banka Slovenska on annual reports and semi-annual reports submitted by supplementary pension fund asset management companies.
- Notification No. 177/2009 Coll. of Národná banka Slovenska on the issuance of €20 silver collector coins marking the protection of nature and landscape – Veľká Fatra National Park.
- Notification No. 254/2009 Coll. of Národná banka Slovenska on the issuance of €2 commemorative circulation coins to mark the 20th anniversary of the events of 17 November 1989.
- Decree No. 1/2009 of Národná banka Slovenska concerning the report on the results of the activities performed by the internal audit department of an insurance company, branch of a foreign insurance company, reinsurance company, and branch of a foreign reinsurance company (Notification No. 86/2009 Coll.).
- Decree No. 2/2009 of Národná banka Slovenska laying down the elements of an application for permission to issue electronic money payment instruments as defined in Section 21d of Act No. 510/2002 Coll. on the payment system and on amendments to certain laws as amended, and amending Decree No. 8/2008 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska (Notification No. 147/2009 Coll.).
- Decree No. 3/2009 of Národná banka Slovenska on how the value of assets in a mutual fund is to be determined (Notification No. 248/2009 Coll.).
- Decree No. 4/2009 of Národná banka Slovenska concerning the elements of an application for prior approval of Národná banka

Slovenska under the Collective Investment Act (Notification no. 320/2009 Coll.).

- Decree No. 5/2009 of Národná banka Slovenska amending Decree No. 18/2008 of Národná banka Slovenska on the liquidity of banks and branches of foreign banks and the process of liquidity risk management of banks and branches of foreign banks, and on the amendment of Decree No. 11/2007 of Národná banka Slovenska concerning the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms, and branches of foreign investment firms for supervision and statistical purposes (Notification No. 519/2009 Coll.).
- Decree No. 6/2009 of Národná banka Slovenska concerning the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms and branches of foreign investment firms for supervision purposes, and amending Decree No. 26/2008 of Národná banka Slovenska on the submission of statements by banks, branches of foreign banks, investment firms and branches of foreign investment firms for statistical purposes (Notification no. 520/2009 Coll.).
- Decree No. 7/2009 of Národná banka Slovenska laying down certain details of the authorization for the activities and business conducted by payment institutions and electronic money institutions (Notification No. 531/2009 Coll.).
- Decree No. 8/2009 of Národná banka Slovenska laying down the bank account structure and bank identifying code structure, the structure of the International Bank Account Number and disclosure procedure of bank identifying codes (Notification No. 521/2009 Coll.).
- Decree No. 9/2009 of Národná banka Slovenska on the submission of reports by asset management companies and by depositories of mutual funds for the purposes of financial market supervision (Notification No. 552/2009 Coll.).
- Decree No. 10/2009 of Národná banka Slovenska amending Decree No. 6/1999 of Národná banka Slovenska which lays down conditions for regulating the balance of payments of the Slovak Republic as amended (Notification No. 573/2009 Coll.).
- Decree No. 11/2009 of Národná banka Slovenska concerning the register of financial agents, financial advisors, and financial intermediaries from other EU Member States in the insurance or reinsurance sector and of tied investment agents, and amending Decree No. 8/2008 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska (Notification No. 584/2009 Coll.).
- Decree No. 12/2009 of Národná banka Slovenska amending Decree No. 25/2008 of Národná banka Slovenska on the solvency and minimum level of the guarantee fund of insurance companies, branches of insurance companies, reinsurance companies, and branches of foreign reinsurance companies (Notification No. 591/2009 Coll.).

CHAPTER 11

INSTITUTIONAL DEVELOPMENTS

11

11 Institutional Developments

11.1 INSTITUTIONAL FRAMEWORK

Národná banka Slovenska is the central bank of the Slovak Republic. It was established as the country's independent central bank on 1 January 1993 under Act No. 566/1992 Coll. on Národná banka Slovenska. The primary objective of NBS is to maintain price stability, and it carries out its mission independently from the government and other public or political entities. For matters falling within its jurisdiction, NBS has the competence of a legislative body.

Národná banka Slovenska has an independent budget, and acts as a business entity in handling its own property. The financial results of Národná banka Slovenska are audited by an independent external auditor, appointed in accordance with specific Eurosystem regulations. In addition to its headquarters, Národná banka Slovenska has nine sub-branches.

Since 1 January 2009, the date of the euro introduction in the Slovak Republic, Národná banka Slovenska has been a member of the Eurosystem – the euro area's central banking system within the European System of Central Banks. After joining the Eurosystem, NBS still has as its primary objective the maintenance of price stability. For this purpose, NBS:

- participates in the common monetary policy set by the European Central Bank for the euro area;
- issues euro banknotes and coins in accordance with separate regulations that apply in the euro area to the issuance of euro banknotes and coins;
- promotes the smooth operation of payment systems and settlement systems; regulates, coordinates and ensures currency circulation, payment systems and settlement of payment system data; and provides for their smooth and cost-effective operation;
- maintains and manages foreign reserves and conducts foreign exchange operations in accordance with separate regulations applicable to Eurosystem operations;
- performs other activities relating to its participation in the European System of Central Banks.

As regards the financial market, Národná banka Slovenska contributes both to the stability of the financial system as a whole and to the secure and sound functioning of the financial market, in order to ensure confidence in the financial market, the protection of customers, and compliance with competition rules. Since 2006, Národná banka Slovenska has exercised integrated supervision over the financial market, i.e. supervision of banks, branches of foreign banks, investment firms, investment services intermediaries, stock exchanges, asset management companies, mutual funds and collective investment undertakings, insurance companies, reinsurance companies, pension fund management companies, pension funds, supplementary pension fund asset management companies, and other supervised entities of the Slovak financial market.

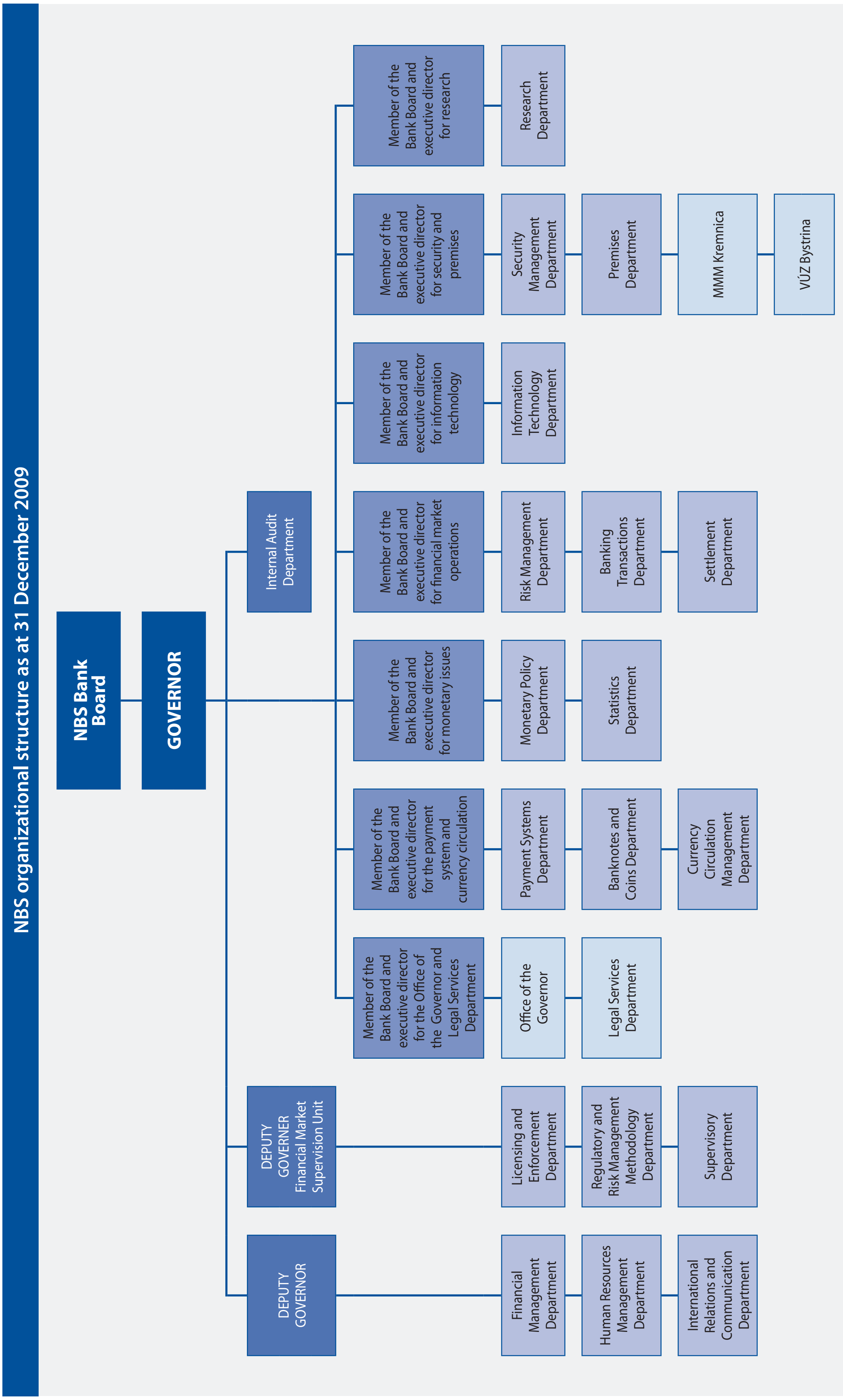
11.2 HUMAN RESOURCES

11.2.1 Personnel

As at 31 December 2009, NBS had 1,086 employees. A total of 37 staff ceased to be employed with NBS in 2009, seven of them due to organisational changes.

There were 79 recruitment procedures held in 2009 (including internal and external procedures, as well as re-announced procedures). In all, 48 new employees were recruited. Positions were filled through external recruitment only where it was not possible to fill them through internal recruitment.

For several years now, a staff exchange programme has been running between the national central banks (NCBs) of the European System of Central Banks (ESCB) and between the NCBs and the European Central Bank (ECB). The aim is to support staff mobility within the ESCB, the shar-


NBS organizational structure as at 31 December 2009
NBS Bank Board
GOVERNOR
Internal Audit Department
DEPUTY GOVERNOR
Financial Management Department
Human Resources Management Department
International Relations and Communication Department
DEPUTY GOVERNOR Financial Market Supervision Unit
Licensing and Enforcement Department
Regulatory and Risk Management Methodology Department
Supervisory Department
Member of the Bank Board and executive director for the Office of the Governor and the Legal Services Department
Office of the Governor
Legal Services Department
Member of the Bank Board and executive director for the payment system and currency circulation
Payment Systems Department
Banknotes and Coins Department
Currency Circulation Management Department
Member of the Bank Board and executive director for monetary issues
Monetary Policy Department
Statistics Department
Member of the Bank Board and executive director for financial market operations
Risk Management Department
Banking Transactions Department
Settlement Department
Member of the Bank Board and executive director for information technology
Information Technology Department
Member of the Bank Board and executive director for security and premises
Security Management Department
Premises Department
MMM Kremnica
VÚZ Bystrina
Member of the Bank Board and executive director for research
Research Department

ing of experiences and know-how, and the development of human resources. In 2009, a total of five NBS staff were on secondment to the ECB and Banque central du Luxembourg. They worked in the areas of risk management, research, financial market operations and statistics.

11.2.2 Staff remuneration

The principles and rules of remuneration at NBS in 2009 were laid down in NBS Staff Regulation No. 28/2008 on remuneration of employees of Národná banka Slovenska as amended by NBS Staff Regulation No. 29/2008.

The average monthly salary for 2009 was €1 653.70, which in comparison with 2008 represented an increase of €129.60 or 8.5%.

11.2.3 Social expenses

Employees whose employment was terminated due to organisational changes were paid all the financial claims owed to them under the Labour Code, NBS Staff Regulation No. 28/2008 on remuneration of employees of Národná banka Slovenska (as amended by NBS Staff Regulation No. 29/2008), and the NBS Collective Agreement for 2009. These claims amounted to €80,585.

A total of 11 employees ended their employment on grounds of statutory retirement or early retirement, and they received severance payments amounting to €28,332.

NBS contributions to supplementary pension saving and supplementary pension insurance schemes totalled €790,241. As at 31 December 2009, there were 786 NBS employees enrolled in supplementary pension schemes.

11.3 ORGANISATION AND MANAGEMENT

Four amendments to the NBS Organisational Rules were approved in 2009, all of them related to decisions of the Bank Board. Under these amendments, the powers of the Executive Director for Financial Market Operations were extended to cover the prevention of money laundering and terrorist financing in NBS; the duties of the Risk Management and Investment Strategy Section of the Risk Management Department were modified and expanded; and the organisational structure was altered to include responsibilities for "the Office of the Governor and Legal Services" in connection with the appointment of a new member of the Bank Board as from 1 April 2009.

11.4 TRAINING

The Human Resources Management Department organized training courses for NBS staff. The training courses were based on the training plans of individual organisational units and on the requirements set by management resulting from the actual tasks of organizational units.

The staff training and development has long been seen as one of the means of the job performance management.

In accordance with the training plan and with the current job performance needs and requirements, the NBS employees attended training courses in the following areas:

- professional training,
- management training and development,
- language training,
- IT training,
- training in social skills.

More than 500 training courses were organised by the Human Resources Management Department in 2009, and there were 1,776 participants in total. While organising the training courses, the Human Resources Management Department cooperated with NBS Inštitút bankového vzdelávania, n.o.

The key area of staff training and development was professional training aimed mainly at gaining and development of professional knowledge, skills and sharing work experience. The staff taking part in these training courses accounted for 36.77% of the total number of participants in all training courses in 2009.

The professional training courses in 2009 in which staff participation was seen as a priority were those held within the European System of Central Banks and the European System of Financial Supervisors, as well as training courses organised by other international financial institutions.

The language training was in accordance with job performance needs and requirements, aimed at maintaining and developing of language skills related to the representation and presentation of NBS abroad. The staff taking part in the language courses accounted for 21.1% of the total number of participants in all training courses in 2009.

The management training and development held in 2009 was concerned with the acquiring and improving" of knowledge and skills and with the sharing of experience in the staff management and leadership.

Regarding IT training, the Human Resources Management Department organised mainly user-level courses in MS Office and the courses of application systems used in the Bank for IT professionals

The social skills training courses held in 2009 were focused on the development of communication skills and teamwork.

In 2009, NBS supported professional internships for university undergraduates. Ten students completed the study visits during which they gained professional experience in selected organisational units of the Bank and studied professional publications in the NBS library. The study visits were focused on the issues determined by the students' thesis.

In 2009, spending of the National Bank of Slovakia on training and development per employee represented 5.20% of its total wage costs.

11.5 NÁRODNÁ BANKA SLOVENSKA JOINED THE EUROSYSTEM

When Slovakia adopted the euro on 1 January 2009, Národná banka Slovenska became a member of the Eurosystem. At the institutional level, this meant that NBS became a full member of the Eurosystem, that the NBS Governor automatically took a seat on the ECB Governing Council (the ECB's highest decision-making body), and that NBS representatives gained the opportunity to participate in the work of Eurosystem/ESCB committees convened in the standard composition. At the same time, NBS relinquished a number of powers (e.g. in the area of monetary policy) to the ECB's decision-making bodies. Since 1 January 2009, NBS has been taking part in the decentralized performance of the Eurosystem's tasks, and sharing its profits or losses, in accordance with applicable legislation. At the technical level, joining the Eurosystem primarily involved paying up the full amount of NBS's share in the ECB's capital. The national central banks (NCBs) of EU countries are the sole holders of the ECB's capital, and they pay up their share in full as a condition of joining the Eurosystem. NBS has a share of 0.6934%, amounting to €39,944, 363.76.

The ESCB, Eurosystem and ECB

The European System of Central Banks (ESCB) comprises the ECB and all 27 NCBs of the European Union (EU) Member States. Its tasks are defined in the Treaty on the Functioning of the European Union and are developed further in the Protocol on the Statute of the ESCB and the ECB.

The primary objective of the ESCB is to maintain price stability. Its core tasks in this regard are:

- to define and implement the monetary policy of the Union;
- to conduct foreign exchange operations;
- to hold and manage the official foreign reserves of the Member States;
- to promote the smooth operation of payment systems.

The target scenario for the ESCB is where all EU countries have adopted the euro. The current situation can be described as a transitional phase. In those countries that have already adopted the euro, the ESCB's stated tasks are implemented by the Eurosystem, which consists of the NCBs of euro area countries and the ECB. The Eurosystem's tasks are performed under the umbrella of the ECB. The governing bodies of the ECB are at the same time the governing bodies of the Eurosystem and ECB, namely the ECB Governing Council, the ECB Executive Board, and the ECB General Council.

The ECB Governing Council is the main decision-making body of the Eurosystem, and consists of all six members of the ECB Executive Board plus the governors of the NCBs of the euro area countries. The governors have the role of independent experts. The Governing Council adopts the decisions and guidelines necessary to ensure the performance of tasks entrusted to the Eurosystem.

Source: ECB.

The ECB Governing Council meets, as a rule, twice a month. The first meeting is usually held on the first Thursday of the month and, by convention, deals with monetary policy issues. Decisions on the key ECB interest rates are taken at that meeting and are subsequently announced at an official press conference by the ECB President. The second meeting of the month is usually held two weeks after the first meeting, also on a Thursday. The decisions taken at this meeting focus on issues related to other tasks of the Eurosystem, for example, decisions concerning the ECB, foreign reserve management, the operation and oversight of payment systems, the issuance of banknotes, etc. The ECB Governing Council may also hold a teleconference meeting if it needs to address an urgent situation.

The Executive Board mainly prepares meetings of the ECB Governing Council, implements decisions of the Governing Council, and manages the day-to-day business of the ECB.

The General Council meets in the composition of the President and Vice-President of the ECB and the governors of the NCBs of all EU Member States. Its principal tasks include adopting the convergence reports and supporting cooperation within the ESCB.

Eurosystem/ESCB committees

The Eurosystem/ESCB committees play an important role in assisting the ECB's decision-making bodies. They provide expertise in their fields of competence and perform specific tasks mandated by the ECB Governing Council. As at 31 December 2009, there were thirteen Eurosystem/ESCB Committees:

- Accounting and Monetary Income Committee
- Banknote Committee
- Banking Supervision Committee
- Committee on Cost Methodology
- Eurosystem/ESCB Communications Committee
- Information Technology Committee
- Internal Auditors Committee
- International Relations Committee
- Legal Committee
- Market Operations Committee
- Monetary Policy Committee
- Payment and Settlement Systems Committee
- Statistics Committee

Another three committees have a special position:

- Budget Committee
- Human Resources Conference
- Eurosystem IT Steering Committee

Eurosystem/ESCB committees may be convened in either an extended composition, in which each of the NCBs of the EU countries is represented, or a standard composition, in which only the NCBs of the Eurosystem are represented. When discussing key issues that fall within their field of competence, committees meet in the standard composition The final decision on matters discussed at the expert level of the committees is taken by the ECB Governing Council.

CHAPTER 12

COMMUNICATION

12

12 Communication

For Národná banka Slovenska, 2009 brought a fundamental change in regard to communication about monetary developments. With Slovakia's adoption of the euro, NBS became a member of the Eurosystem, and all decisions concerning monetary policy have since then been communicated in accordance with rules and principles of the common approach in this area. The purpose of the communication activities of the ECB and national central banks (NCBs) is to improve the quality of public awareness about the ECB's procedures and decisions in relation to monetary policy.

The core principles of the ECB's communication activities are openness and transparency. Both principles contribute to the efficiency, effectiveness and credibility of the ECB's monetary policy. Národná banka Slovenska is now involved in their implementation and helps to strengthen them by providing information about euro area monetary policy on a regular basis and by communicating in real time.

As a formal expression of NBS's inclusion in the Eurosystem, the NBS logo was modified to include the word "Eurosystém" (Slovak spelling) below the name Národná banka Slovenska, but otherwise the original design was left unchanged in order to maintain continuity. The visual identification of Eurosystem central banks through the addition of the word "Eurosystem" to each one's logo was approved by the ECB Governing Council on 1 September 2005.

Box 2

COMMUNICATION ABOUT MONETARY POLICY DECISIONS

Decisions on monetary policy are taken by the ECB Governing Council. The Council meets twice a month, and its decisions concerning key interest rates are, by convention, taken at the first meeting of the month. The schedule for meetings of the ECB Governing Council is published online at http://www.ecb.int/events/calendar/mgcgc/html/index.en.html

Every decision on interest rates is publicly announced, even when the decision is to leave the rates unchanged. The decision on interest rates is published on the ECB website at 13:45 CET on the day of the Governing Council's meeting, and it is simultaneously published by NBS, too.

The reasoning behind the monetary policy decision is disclosed by the ECB President at a press conference given at 14.30 CET after the meeting of the Governing Council has ended. The ECB President presents a detailed introductory statement explaining the decision of the Governing Council, and then he and the ECB Vice-President field questions from the media. After the press conference, the ECB and NBS publish the introductory statement on their respective websites.

One week after the ECB's decision on the level of key interest rates, i.e. on the second Thursday of the month, the ECB Monthly Bulletin (providing a detailed analysis of monetary and economic developments) is published at 10:00 CET. A Slovak translation of the full ECB Monthly Bulletin for the last month of each quarter is published by Národná banka Slovenska. As for the other ECB Monthly Bulletins, NBS publishes only a translation of their editorials.

In 2009, Národná banka Slovenska complied with the principle of openness and transparency in the provision of information about all decisions concerning other tasks of the central bank, in particular financial market supervision, oversight of the payment system and currency circulation, issuing activities, and so on. For the publication of its quarterly forecasts concerning basic macroeconomic indicators in Slovakia, NBS organised press conferences for representatives of print and other media. At these press conferences, the NBS Governor or members of the Bank Board presented and explained the grounds for the expectations regarding economic developments.

Representatives of Národná banka Slovenska presented and explained current issues before parliamentary committees, at meetings with the professional community, and through articles and presentations in the media. Communication with the media in regard to the repercussions of the global crisis on the Slovak economy and financial sector was conducted at an intensive level throughout the year.

In 2009, Národná banka Slovenska issued specialist publications providing information and analyses in areas covering the Bank's main activities. These publications included the Annual Report, Financial Stability Report, Analysis of the Slovak Financial Sector, Monthly Bulletin, and Medium-Term Forecast.[21] In addition, other analyses and research papers concerning monetary developments, the financial market and the effect of the euro introduction were published in electronic form.

As a member of the Eurosystem, Národná banka Slovenska engaged in joint communication activities within the ESCB. NBS representatives regularly participated in meetings and activities of the Eurosystem/ESCB Communications Committee (ECCO) and of its working groups in the areas of official ECB publications, euro cash communication, internet and central bank websites, and the Eurosystem's internal communication.

In line with the principles of the Eurosystem/ESCB's multilingual communication system, Národná banka Slovenska was involved in the preparation of national language versions of official ECB publications. In 2009, it published Slovak translations of the ECB's Annual Report for 2008 and four of the ECB's Monthly Bulletins[22].

Národná banka Slovenska took part in the joint preparation of information materials (leaflets, posters, brochures) about security features of euro banknotes and how to distinguish between genuine and counterfeit banknotes, which were aimed at the general public and people working with euro cash.

By means of electronic communication, NBS dealt with 3,573 responses, suggestions, and information requests. A total of 65 requests requiring an answer in electronic form complied with the criteria laid down in the Free Access to Information Act (211/2000 Coll.). Of these requests, 17 were replied to by registered post owing to the nature of the request or the need to issue a written decision on the refusal of the request.

EXHIBITIONS AND LECTURES

Národná banka Slovenska's touring exhibition "Slovak euro coins" continued in 2009. During the year it was installed at four Slovak towns (Prievidza, Martin, Považská Bystrica and Skalica) and at the Slovak embassy in Berlin.

In the second half of 2009, an exhibition was opened at NBS headquarters under the name "Monetary ups and downs – currency separations, farewells, reforms and other cataclysms in the 20th century". It was put together by the Museum of Coins and Medals in Kremnica, where it had been held for several months before transferring to NBS. This innovative exhibition provides a host of information about currencies of the European region and how they have been affected by economic, political and military events. NBS will also be taking this exhibition on tour so that people in other towns have the chance to learn about the rich and colourful history of money in the territory that is now Slovakia and in the territory of national groupings of which Slovakia was formerly a part.

An exhibition called "Slovakia, the country at the heart of Europe" was held for a brief time at the premises of Národná banka Slovenska. The exhibition showcased the most successful entries in an eponymous competition which had been open to students of secondary art schools as a way of allowing them to contribute to the euro introduction in Slovakia.

NBS also organised on its premises a total of 35 lectures for students of primary and secondary schools, grammar schools, business academies, and the University of Economics, as well as for

21 *http://www.nbs.sk/en/publications-issued-by-the-nbs*
22 *http://www.nbs.sk/en/publications-issued-by-the-nbs*

foreign students (from Mexico, Austria and France).

NBS WEBSITE

The website of Národná banka Slovenska had its first year of operation in 2009 since being completely reconstructed and redesigned in connection with the euro changeover in Slovakia and with NBS joining the Eurosystem. The NBS website also meets compulsory standards of accessibility. In an evaluation of compliance with these standards, the Slovak Blind and Partially Sighted Union ranked the NBS website in a leading position.

Changes made to the website in 2009 included the substantial expansion of the *Financial Market Supervision* section. In the *Publications* section, full texts of the current issue of the Biatec journal were added and the oldest volumes of the NBS Monetary Surveys and Annual Reports were digitalised and supplemented. Information on NBS archive collections and materials was significantly extended, and the option of switching between Slovak and English was incorporated in subpages.

The NBS website was Bank's most used communication channel in 2009 and attracted more than six million visitors. Among the most popular pages were those providing information about exchange rates, statistics, NBS itself, and financial market supervision.

BIATEC – SPECIALIST JOURNAL

The Biatec journal plays an important role in the area of public communication, providing a platform for the presentation of specialist articles in the area of banking, finance and economics. The profile of its contributors and readers links together Národná banka Slovenska, the banking and financial sector, and the academic and educational sphere. The journal is not only a communication tool of the central bank, but also its contribution to fulfilling the Lisbon Strategy objectives and creating a knowledge-based economy. In 2009, NBS began to publish the full text of Biatec on its website along with a full English version of each issue.[23]

NBS LIBRARY

In 2009, the NBS library continued to provide access to publications, information and knowledge, particularly in the areas of monetary policy, issuing policy, currency circulation, payment systems and financial management, banking transactions and risk management, financial supervision and regulation, central banking, banking systems, law, and other related areas of economics. Apart from that, the library contains specialist information on such areas as informatics, security and protection, human resources, and others.

Communication with the professional community forms an integral part of the library's activities[24]. This includes the provision of consultations and of search and library services, as well as electronic communication[25]. By providing information services to the public, the NBS library contributes significantly to the fulfilment of Národná banka Slovenska's objectives in regard to transparent and open communication with the public and to financial education.

In 2009, the library updated its online catalogue with bibliographical and content processing of 4,500 documents related to economic fields. More than 60% of the catalogued documents originate outside Slovakia. The information and documents provided in 2009 concerned particularly the introduction of the euro in Slovakia, changes in NBS's monetary policy following the euro changeover, and the effects of the financial crisis on particular sectors of the economy, as well as information about capital market developments in euro area countries, macro stress testing, bank credit ratings, bank mergers, regulation of the insurance sector, the Lamfalussy Project, and much else besides. In all, the library processed 3,000 search requests on a range of topics, with more than a third of those requests coming from members of the public.

With Národná banka Slovenska having joined the Eurosystem in 2009, the central library became part of the international cooperation between the libraries of Eurosystem central banks in regard to the provision of information, as well as to the joint creation and sharing of databases. The library has also established contacts with central bank libraries and information centres across the world through the information portal

23 http://www.nbs.sk/en/publications-issued-by-the-nbs/journal-biatec
24 Further details of the library's information services for the public are published on the NBS website at: http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-central-library
25 centralna.kniznica@nbs.sk

Creative workshops

Muse's Summer Night

platform provided by the library of the Bank for International Settlements in Basel.

NBS ARCHIVE

The archive of Národná banka Slovenska is responsible for the administration of written records of more than 180 former financial institutions from across what is now Slovak territory. These documents, dating back as far as the first half of the 19th century, occupy around 3,500 linear metres. This archive of Slovak banking documents, the only one of its kind, has been awarded the charter of a specialized archive. The written files and materials that are deposited here can be divided into four basic groups according to the scope of activities of their original owners – materials of central banks, materials of commercial banks, materials of "people's financial institutions", and written records of institutions which were constituted as separate legal entities and whose establishment and activities were directly related to the activities of financial institutions. The archive includes a reference library containing more than 3,000 volumes of publications and dozens of periodical titles, most of which are no longer published. One rarity is the first ever Slovak banking magazine "Slovenský peňažník" (Slovak Financier), which was issued between 1909 and 1922.

The archive provides information and advice to both professionals and the general public. It makes available information on proprietary rights in relation to passbooks, personal accounts, securities, and term and demand deposits dating back to 1945, to mortgages and other loans, real estate, deposits, savings transfers, and so on. It also receives requests from district and regional courts, land registries, national heritage offices, galleries, museums, law firms and other companies. Most requests concern restitution proceedings and title to real estate. The subject matter of other requests has included the compensation of victims of the Second World War, the involvement of staff of former banks in the anti-fascist resistance, and research into various historical phenomena and events.

The archive cooperates with the Ministry of Interior of the Slovak Republic, the Institute of Historical Studies of the Slovak Academy of Sciences, the Ministry of Finance of the Slovak Republic, and the Slovak National Archive.

The NBS archive allows members of the public to study the archived materials as well as publications from the reference library. The people who used the archive in 2009 included professional historians, economists, students and other private individuals, and most of the documents they studied covered developments in Slovakia's banking and finance sector, exchange rate tables, information about lending methods, accounting, and the activities of significant individuals in financial institutions. Some of the archived materials are frequently looked at by conservationists and architects since they contain original technical plans and projects of bank buildings, offices, and even, for example, the oldest hotels and chalets located in the High Tatras.

The tasks of the archive include the administration of the NBS central registry, which receives, brings together, files and retrieves records from all NBS organisational units. The materials on file fill almost 3,000 linear metres. As part of its activities, the NBS archive puts together collections of securities, photographs, exchange rate tables, company forms and stamps. Much of the archived material is acquired through the Committee for the Acquisition and Valuation of Written, Pictorial, Audio and Other Records.

The Archive section of the NBS website was extended in 2009. These pages not only include a great deal of information about the archived materials, they now give details about how to request information from the archive and permission to do research there.[26]

MUSEUM OF COINS AND MEDALS AT KREMNICA

The Museum of Coins and Medals at Kremnica[27] has been a part of Národná banka Slovenska since 1994. Its collections are presented to the public through the numismatic-historical exhibition Two Faces of Money – Money and Medals in the History of Slovakia, the exhibition at the Town Castle, and the long-term art-historical exhibition Routes of Collecting in 15th to 18th Century Art, which is subtitled Public and Private Collecting in Kremnica.

Besides these permanent and logn-term exhibitions, the museum puts on occasional exhibitions on different themes. In 2009, there were five occasional exhibitions held in the exhibition rooms of the Two Sides of Money exhibition, including an exhibition related to the 10th International Symposium of Medals at Kremnica.

The Symposium, an outstanding medal-making event, was held from 5 October to 1 November 2009. Organised by the Museum of Coins and Medals on a biennial basis since 1988, the Symposium is always attended by five leading medal makers from different countries, including one from Slovakia. The main idea of having the International Symposium of Medals at Kremnica is to create favourable conditions in which the participants can, at an international level, produce works and exchange information and creative ideas. The 2009 Symposium was attended by Ligita Franckeviča (from Latvia), Marie Šeborová (the Czech Republic), Teodora Draganova (Bulgaria), Wiesław Jelonek (Poland) and Ivan Řehák (Slovakia). During the Symposium, each of the medal makers produced designs for one struck medal and five cast medals. All the designs were included in the Museum's above-mentioned exhibition, which was open to the public until the end of 2009.

Also in 2009, the Museum of Coins and Medals took part in the international museum event "Night of Museums", during which the gates of Town Castle were opened for visitors. Over the summer, the Museum also organised a series of night-time guided tours of its exhibitions under the name "Summer Nights of the Muses".

As part of its educational activities, the Museum brought out two books for children in 2009. Featuring attractively presented tasks, games and cut-out exercises, these books aim to inform children about the history of money and medal-making in Slovakia, as well as about Kremnica's history as an important centre of minting and medal-making. The Museum also ran various thematic educational programmes for schoolchildren and other specific groups of visitors.

In 2009, the permanent and occasional exhibitions of the Museum of Coins and Medals at Kremnica attracted more than 33 000 visitors from Slovakia and abroad.

26 *http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-archive/archive-use-by-public*
27 *http://www.nbs.sk/en/museum-of-coins-and-medals*

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS OF NBS FOR THE YEAR ENDED 31 DECEMBER 2009

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Deloitte.

Deloitte Audit s.r.o.
Digital Park II, Einsteinova 23
851 01 Bratislava
Slovak Republic

Tel: +421 2 582 49 111
Fax: +421 2 582 49 222
deloitteSK@deloitteCE.com
www.deloitte.sk

Registered at the Municipal
Court in Bratislava I
Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

Národná banka Slovenska

INDEPENDENT AUDITOR'S REPORT

To the Bank Board of the Národná banka Slovenska:

1. We have audited the accompanying financial statements of Národná banka Slovenska (the "Bank"), which comprise the balance sheet as at 31 December 2009, and the income statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

The Banks' Board of the Národná banka Slovenska Responsibility for the Financial Statements

2. The Bank Board of the Národná banka Slovenska is responsible for the preparation and fair presentation of these financial statements in accordance with the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks No ECB/2006/16 as amended ("the ECB Guideline") and the Slovak Accounting Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

   An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

   We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the financial statements present fairly, in all material respects, the financial position of Národná banka Slovenska as of 31 December 2009, and its financial performance for the year then ended in accordance with the ECB Guideline and the Slovak Accounting Act.

Bratislava 16 March 2010

Deloitte

Deloitte Audit s.r.o.
Licence SKAu No. 014

Ing. Zuzana Letková, FCCA
Responsible auditor
Licence SKAu No. 865

BALANCE SHEET
of the Národná banka Slovenska

ASSETS	Note	31 Dec 2009	1 Jan 2009*	31 Dec 2008
		EUR '000	EUR '000	EUR '000
Gold and gold receivables	1	780 755	699 568	691 103
Claims on non-euro area residents denominated in foreign currency	2	486 014	644 440	636 792
Claims on euro-area residents denominated in foreign currency	3	105 847	224 948	222 226
Claims on non-euro area residents denominated in euro	4	2 450 078	1 038 022	1 038 022
Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	2 063 000		
Other claims on euro area credit institutions denominated in euro	6	100 005	1 120 767	71 843
Securities of euro-area residents denominated in euro	7	10 196 074	10 962 791	10 962 791
General government debt denominated in euro				
Intra-Eurosystem claims	8	3 429 484	6 069 470	3 139
Items in the course of settlement				
Other assets	9	5 784 452	6 437 046	5 208 864
Loss for the year				1 227 376
TOTAL ASSETS		**25 395 709**	**27 197 052**	**20 062 156**
LIABILITIES				
Banknotes in circulation	10	7 481 457	9 485 620	2 505 164
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	1 198 172	14 266 799	14 266 799
Other liabilities to euro area credit institutions denominated in euro	12	38 512	11 591	11 591
Debt certificates issued			1 003 186	1 003 186
Liabilities to other euro area residents denominated in euro	13	66 443	40 531	40 531
Liabilities to non-euro area residents denominated in euro	14	370 093	28 325	28 325
Liabilities to euro area residents denominated in foreign currency	15	78 507	79 880	78 914
Liabilities to non-euro area residents denominated in foreign currency	16	57 161	256 275	253 174
Counterpart of special drawing rights allocated by the IMF	17	370 644		
Intra-Eurosystem liabilities	18	14 499 760	36 805	
Items in course of settlement				
Other liabilities	19	503 334	773 887	674 685
Provisions	20	4 950	9 032	9 032
Revaluation accounts	21	297 743	846 776	832 410
Capital and reserves	22	358 345	358 345	358 345
Profit for the year	32	70 588		
TOTAL LIABILITIES		**25 395 709**	**27 197 052**	**20 062 156**

* See Note B, Letter c)

NÁRODNÁ BANKA SLOVENSKA
Financial Statements as at 31 December 2009 – Profit and Loss Account
(in EUR thousands)

Profit and Loss Account of the Národná banka Slovenska

	Note	31 Dec 2009 EUR '000	31 Dec 2008 EUR '000
1.1 Interest income		743 572	614 195
1.2 Interest expense		(651 689)	(636 856)
1 Net interest income	24	**91 883**	**(22 661)**
2.1 Realised gains arising from financial operations		174 264	83 381
2.2 Write-downs on financial assets and positions		(157 955)	(1 187 465)
2.3 Transfer to/from provisions for foreign exchange rate, interest rate and gold price risks			
2 Net result of financial operations, write-downs and risk provisions	25	**16 309**	**(1 104 084)**
3.1 Fees and commissions income		2 893	11 103
3.2 Fees and commissions expense		(1 332)	(753)
3 Net income/expense from fees and commissions	26	**1 561**	**10 350**
4 Income from equity shares and participating interests	27	**8 652**	**790**
5 Net result of pooling of monetary income	28	**12 818**	
6 Other income	29	**8 865**	**11 342**
Total net income		**140 088**	**(1 104 263)**
7 Staff costs	30	**(31 569)**	**(29 664)**
8 Administrative expenses		**(18 766)**	**(26 915)**
9 Depreciation of tangible and intangible fixed assets	31	**(11 585)**	**(14 304)**
10 Banknote production services			**4**
11 Other expenses	29	**(7 579)**	**(52 232)**
12 Income tax and other government charges on income		**(1)**	**(2)**
Profit/(loss) for the year	32	**70 588**	**(1 227 376)**

These notes are an integral part of the financial statements of Národná banka Slovenska
This is an English language translation of the original Slovak language document. 3

NOTES

to the Financial Statements as at 31 December 2009

Bratislava, 16 March 2010

A. General Information on Národná banka Slovenska

Národná banka Slovenska (the National Bank of Slovakia, hereinafter the "NBS" or the "Bank") is the independent central bank of Slovakia. The NBS was established in accordance with Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (hereinafter the "NBS Act"). The NBS commenced its activities on 1 January 1993 as the bank issuing the currency of Slovakia. Upon the euro adoption in Slovakia as at 1 January 2009, the NBS has become a full member of the Eurosystem, the euro area central banking system consisting of the European Central Bank (hereinafter the "ECB") and 16 national central banks of the EU member states that introduced the euro.

The NBS is a legal entity (Corporate ID: 30 844 789) seated at Imricha Karvaša 1, Bratislava. In respect of its own assets, the NBS acts as a business entity. The NBS has its head office in Bratislava, nine branches in Slovakia, and special-purpose organisational units.

Under the NBS Act, the Bank's primary objective is to maintain price stability. For this purpose, the NBS:

- Participates in the common monetary policy determined by the ECB for the euro area;
- Issues euro banknotes and euro coins in line with special regulations valid in the euro area;
- Supports the smooth and cost-effective operation of payment services, and controls, coordinates and facilitates the circulation of money;
- Holds and manages foreign reserves and carries out foreign exchange operations; in conducting operations within the Eurosystem, it acts in accordance with the separate legal provisions applicable to Eurosystem operations.

In the area of the financial market, the NBS contributes to the stability of the financial system as a whole, as well as to the secure and sound operation of the financial market for the sake of maintaining its credibility, client protection, and respect for the rules of economic competition. The NBS performs financial market supervision and other activities in the area of the financial market.

The National Bank of Slovakia, with the authorisation of the Government of Slovakia (hereinafter the "Government"), represents Slovakia in international institutions in the area of the financial market and in operations on international financial markets where it ensures the fulfilment of tasks arising from such representation. In performing supervision of the financial market, the NBS also fulfils tasks in the area of international cooperation.

The NBS fulfils its tasks independently of instructions from state authorities, local self-government bodies, and other general government bodies. Within the scope of its authority, the NBS serves the Government in an advisory capacity.

The supreme governing body of the NBS is the NBS Bank Board (hereinafter the "Bank Board"). In exercising its powers and authorities under the NBS Act, the Bank Board is obliged to respect the rules valid for the European System of Central Banks and the rules applicable for the Eurosystem. After the accession to the Eurosystem, the Bank Board primarily:

- Determines procedural principles followed by the National Bank of Slovakia and its organisational units when implementing the common European monetary policy;

(in EUR thousands)

- Determines the principles of conduct and the organisation of supervision of the financial market;
- Sets guiding principles for the activities and operations of the National Bank of Slovakia;
- Approves the budget of the NBS, financial statements of the NBS, annual results of operations and annual reports of the NBS, decides on the use of profits or settlement of losses of the NBS, and sets the types of funds of the NBS, and the level and application thereof;
- Sets up the organisational structure of the NBS;
- Sets the amount of annual contributions of supervised entities in the financial market;
- Decides on the procedure followed by the NBS and its organisational units when issuing euro banknotes and euro coins, including commemorative euro coins and collector euro coins, in accordance with the separate legal provisions applicable in the euro area for the issuing of euro banknotes and euro coins;
- Approves generally binding regulations issued by the NBS and proposals which the NBS presents or co-presents to the Government; and
- Approves draft agreements on mutual assistance, cooperation, and provision of information and supporting documents between the NBS and foreign supervisory authorities in the area of financial markets or between the NBS and public authorities of Slovakia, which perform supervision and surveillance pursuant to separate regulations.

Pursuant to the amendment to Act No. 492/2009 Coll., the Bank Board should have five members: the Governor, two Deputy Governors, and two other members. Members of the Bank Board are appointed for a term of five years. The same person can be reappointed as a member of the Bank Board provided that the same person may be appointed as Governor for no more than two consecutive terms of office and as Deputy Governor for no more than two consecutive terms of office. The Governor represents the NBS vis-à-vis third parties.

The number of the Bank Board members will be adjusted to five gradually as the term of office lapses for the individual Bank Board members whose office existed as at 1 January 2009.

As at 31 December 2009, the Bank Board consisted of the following members:

Name	Term of Office in the Bank Board		Current Position	Date of Appointment
Ing. Ivan Šramko	11. 1. 2002	12. 1. 2010	Governor	1. 1. 2005
Ing. Martin Barto, CSc.	1. 12. 2004	31. 1. 2010	Deputy Governor	31. 1. 2005
Ing. Viliam Ostrožlík, MBA	1. 3. 2007	11. 7. 2012	Deputy Governor	11. 7. 2007
Ing. Peter Ševčovic	1.10. 2004	1. 10. 2009	Member	1.10. 2004
Ing. Milena Koreňová	1. 1. 2005	1. 1. 2010	Member	1. 1. 2005
Doc. Ing. Jozef Makúch, PhD.	1. 1. 2006	1. 1. 2011	Member	1. 1. 2006
Mgr. Ľudovít Ódor	1. 1. 2006	1. 1. 2011	Member	1. 1. 2006
Ing. Slavomír Šťastný, PhD., MBA	1. 1. 2006	1. 1. 2011	Member	1. 1. 2006
RNDr. Karol Mrva	10. 1. 2007	10. 1. 2012	Member	10. 1. 2007
Ing. Gabriela Sedláková	1. 6. 2007	1. 6. 2012	Member	1. 6. 2007
Ing. Štefan Králik	1. 4. 2009	1. 4. 2014	Member	1. 4. 2009

On 12 January 2010, the President of the Slovak Republic appointed Doc. Ing. Jozef Makúch, PhD to the office of Governor of the National Bank of Slovakia.

The term of office of Deputy Governor Ing. Martin Barto, CSc ended on 31 January 2010.

Assets and liabilities of the NBS falling under the Eurosystem regime are recognised and measured under the Protocol on the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the "Statute"). The NBS participates in allocating monetary income in the Eurosystem and allocating net profits and losses of the ECB to the extent and under conditions as specified in the Statute.

According to Article 39 (4) of the NBS Act, the financial result of the NBS for a reporting period is the profit it generated or loss it incurred. The profit generated by the Bank is allocated to the reserve fund and other funds created from profit, or to cover accumulated losses from prior years. The loss incurred in the current reporting period can be settled by the NBS from the reserve fund or from other funds; alternatively, the Bank Board may decide to carry the accumulated loss forward to the following reporting period.

The Bank submits the annual results of operations to the National Council of the Slovak Republic within three months after the end of the calendar year. In addition to the NBS financial statements and the auditor's opinion thereon, the annual results of operations specifically provide information about the NBS's operating costs. Upon request by the National Council of the Slovak Republic, the NBS is obliged to supplement, within six weeks, the report as requested and/or to provide explanations to the submitted report.

B. Accounting Principles and Accounting Methods Applied

(a) Basis of Preparation of the Financial Statements

The Bank applies accounting principles in accordance with the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks No ECB/2006/16 (hereinafter the "ECB Guideline") as amended. In recognition of transactions not regulated by the ECB Guideline, the Bank observes the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in line with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Commission pursuant to the Directive of the European Parliament and the Council of the European Union. In other cases, the Bank acts in line with Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Accounting").

In line with the ECB Guideline, the Bank applies the following basic accounting principles: the principle of economic reality and transparency, the principle of prudence, the recognition of post-balance-sheet events, the principle of materiality, the accruals principle, the going concern basis, and the principle of consistency and comparability. Income and expenses are recognised in the accounting period in which they are earned or incurred.

Other accounting principles are described in individual sections of the financial statements.

When preparing financial statements, the Bank acts in line with the Compilation of agreed recommended harmonised disclosures for the ECB's and national central banks' annual accounts no. AMICO/09/305 of 18 December 2009.

(b) Transaction Date

Foreign exchange transactions, financial instruments denominated in local and foreign currency and related accruals excluding securities are subject to the economic approach, i.e. transactions are recorded on off-balance sheet accounts on the trade date. On the settlement date the off-balance sheet booking entries are reversed and the transactions are booked on balance sheet accounts in the Bank's assets and liabilities.

Other economic transactions including transactions with debt securities are recorded according to the cash/settlement principle, i.e. no accounting entries are made on the trade date and the transaction is recorded on the settlement date.

(c) Change in the Method of Disclosure and Revaluation of Assets and Liabilities Denominated in Foreign Currency as at 1 January 2009

On 1 January 2009 the Slovak Republic entered the Eurosystem and the Slovak crown was replaced by the euro. As a result, the Bank converted its accounting books to euros as at 1 January 2009 using the set conversion rate of EUR/SKK 30.1260. The financial statements for 2009 and subsequent years will be prepared in euros. Comparatives for 2008 were translated from Slovak crowns to euros using the conversion rate.

Transactions related to the changes in the methodology of disclosure and the euro adoption as at 1 January 2009:

Total assets as at 31 Dec 2008 in EUR thousands in the 2008 NBS's Financial Statements	**14 509 524**
- **Change in the methodology of disclosure according to the ECB methodology:**	5 552 632
- Accumulated losses from previous years	*5 935 228*
- IMF	*(383 215)*
- Other	*619*
Total assets as at 31 Dec 2008 in EUR thousands according to the ECB methodology	**20 062 156**
- Nostro and loro accounts kept in the Eurosystem central banks	(411)
- ECB transactions as at 1 Jan 2009	7 115 666
- Euro frontloading	*1 048 924*
- Claim related to the allocation of euro banknotes (CSM)	*6 029 526*
- Settlement of the remaining share in ECB's capital	*37 216*
- Revaluation of assets	19 641
Total assets as at 1 Jan 2009 in EUR thousands	**27 197 052**

On the day when the NBS became a member of the Eurosystem, the NBS revalued its assets (including gold) and liabilities denominated in foreign currency in accordance with Article 25 of the ECB Guideline. For the revaluation of the debt securities and options, the market prices and rates as at 30 December 2008 were applied. For foreign currency, the exchange rate announced by the ECB as at 31 December 2008 was applied. The differences arising from the revaluation are recognised in equity (see Note 22).

(in EUR thousands)

(d) Methods for Valuing Assets and Liabilities in Foreign Currency

Debt securities, except for covered bonds held-to-maturity are valued monthly at market prices. During the reporting period, the valuation differences are recognised in equity. Profit/loss is only affected at the end of the reporting period if there is a loss on valuation.

Covered bonds held-to-maturity purchased under the common monetary policy are valued at cost as at the acquisition date, and then at amortised cost. As at the balance sheet date, it is assessed whether there is objective evidence of their impairment.

Interest rate swaps are valued separately on a monthly basis at market prices. During the reporting period, the valuation difference, which is the difference between the market price and the carrying amount, is recognised in equity. As at the year-end, gains on valuation are recognised in equity in the Bank's balance sheet and losses on valuation are recognised in the Bank's profit and loss account. Losses are amortised in subsequent years until the termination of the interest rate swap.

Options are valued monthly at market prices in line with the selected valuation model. During the reporting period, valuation differences are recognised on the revaluation accounts and disclosed in equity. As at the year-end, losses on valuation are recognised in the profit and loss account and gains on valuation are recognised in equity in the Bank's balance sheet.

Futures are valued daily at market prices and recognised in the profit and loss account.

During the year, assets (including gold) and liabilities denominated in foreign currency are valued daily at the average cost of the currency. The foreign exchange differences arising on the daily valuation from movements in assets and liabilities are recognised in the profit and loss account. As at the month-end, assets and liabilities are valued at the reference exchange rate announced by the ECB. The difference between the market rate and the exchange rate used in the accounting books (the average cost of the currency) represents unrealised foreign exchange gains or losses, which are recognised on the revaluation accounts in equity during the year. Unrealised foreign exchange losses are recognised in the profit and loss account at the year-end. Foreign exchange gains remain recognised on revaluation accounts in equity.

Each currency is valued separately. Foreign exchange losses on one currency are not netted with foreign exchange gains on other currencies.

Foreign exchange rates of key foreign currencies used to value the assets and liabilities as at 31 December 2009 were as follows:

Currency	Amount	31 Dec 2009	1 Jan 2009	31 Dec 2008*
GBP	1	0,88810	0,9525	0,9741
USD	1	1,44060	1,3917	1,4087
JPY	1	133,16000	126,1400	127,3719
XDR	1	0,91861	0,9051	0,9125
EUR/ozs	1	766,347	621,542	614,022

* The exchange rates announced by the NBS, converted using the rate of SKK/EUR 30.1260.

(e) Gold and Gold Receivables

In line with the ECB Guideline, gold is treated as a foreign currency. No distinction is made between price and currency revaluation differences. Gold is daily valued at the average price of the currency (gold). On a monthly basis, gold is measured at the market value, which is the London gold morning fixing in USD/oz. (troy ounce) translated at the EUR/USD exchange rate valid as at the revaluation date.

Gold swap transactions are recognised as repurchase transactions with gold. The gold used in such transactions remains included in the Bank's total assets under the caption "Gold".

(f) Debt Securities

Debt securities are initially recognised at cost. From the day following the purchase until the sale or maturity of the security (including the sale or maturity date), the Bank accrues the premium or the discount daily (the difference between the cost and nominal value). The IRR method is applied to the calculation of the accrued premium/discount.

The straight-line method is applied to the coupon accruals. Accruals are recognised from the date following the settlement date until the sale or maturity of the coupon (including the sale or maturity date).

Debt securities, except for covered held-to-maturity bonds acquired as part of the common monetary policy, are valued monthly at the mid-market price, on a code-by-code basis, i.e. the same ISIN number/type for securities. The valuation difference is the difference between the mid-market price and the average cost net of the accrued discount/premium recognised in the accounting books. During the year, valuation differences are recognised in equity. As at the year-end, gains on valuation are recognised in the Bank's equity and losses on valuation are recognised in the Bank's profit/loss.

The mid-market price of debt securities, for which an active market exists, is derived from the mid-market price on the market. If no mid-market price is available, the price is determined by a qualified estimate.

Upon the sale of a security, the difference between the average cost net of the accrued discount/premium and the selling price is the realised gain or loss on the sale (market effect), which is recognised in the Bank's profit/loss.

Covered held-to-maturity bonds acquired as part of the common monetary policy are initially valued at cost and then at amortised cost. As at the balance sheet date, the Bank assesses whether there is any objective evidence of their impairment. The loss on impairment is calculated as the difference between the carrying amount of the covered bond as at the last calendar day of the year and the present value of the estimated future cash flows discounted by the original interest rate. The impairment affects the average cost of the covered bond and the loss is recognised in the profit and loss account. If the loss on impairment decreases in the following reporting period, the previously recognised loss on impairment is reversed directly to the profit and loss account.

Debt securities are presented including the accrued premium/discount. Coupons are disclosed under the caption "Other assets".

(g) Derivatives

In 2005 and 2006, the Bank entered into four long-term repo transactions with gold (hereinafter the "gold repo transactions"). Aiming to eliminate the risk of a decrease in the gold market price, under the gold repo transaction the Bank purchased four European put options and sold four European call options for the same volume of gold. The option premiums for the purchased and sold options were not paid but were included in a lower than market interest rate for the long-term loan received by the Bank. The options are an embedded derivative that meets the criteria for separation from the host contract. Therefore, the options were separated from the received loan and they are recognised separately.

The difference between the market price of the purchased put options and the sold call options on the trade date affected the amount of the received loan and is accrued daily in expenses using the IRR method.

As at 31 December 2009, the Bank also recognised short-term gold repo transactions not backed by options (see Notes 12 and 14).

Since 2006, as a part of the investment reserves management, the Bank has carried out deals with interest rate futures denominated in foreign currencies. As at 31 December 2009, the Bank recognised futures for debt securities contracts and interest rate futures. Initial margins are deposited in cash. All futures are measured at nominal value on a daily basis and changes in nominal values are recognised to the profit and loss account.

In 2009, the Bank started to enter into interest rate swap transactions. In line with the contract, in the event of an increase/decrease in the net transaction position, collateral will be adjusted accordingly. Collateral is in the form of provided and/or received deposits. Deposits bear interest at an ECB reference marginal rate or EONIA, which is adjusted daily. The interest on received and granted deposits is recognised in the profit and loss account on a daily basis.

(h) Receivables

Receivables are recognised in the balance sheet at their nominal value increased for accrued interest. Receivables are net of provisions for impairment losses. Transfers to/from provisions are recorded in the profit and loss account.

Following the prudence principle, the Bank assesses the risk of receivables, categorises them, and recognises provisions for receivables.

Receivables are written-off into expenses based on a court decision on their irrecoverability and based on the Bank Board's decision. Associated provisions are reversed to expenses.

(i) Reverse Transactions

Transactions in which the Bank received securities in exchange for cash with a simultaneous liability to return the securities at a certain date for an amount equalling the transferred cash plus interest (reverse repurchase transaction) or granted a collateralised loan are recognised as granted loans. Received securities and collateral are not recognised by the Bank.

Transactions in which the Bank provided securities or gold in exchange for cash with a simultaneous liability to receive back the securities or gold at a certain date for an amount equalling cash plus interest (repurchase transaction) or received a collateralised loan are recognised as received loans. Collateral provided in repurchase transactions remains in the balance sheet and is revalued to the market price.

Tri-party repurchase transactions are reverse repurchase transactions with a third party entering the relationship between the NBS and a partner bank.

(j) Receivables from / Payables to the International Monetary Fund

Receivables from and payables to the International Monetary Fund (IMF) are disclosed on a net basis, i.e. receivables and payables are netted. The payable from the allocation is disclosed under L 9 "Counterpart of special drawing rights allocated by the IMF".

(k) Participating Interests

The Bank records a participating interest in the European Central Bank (hereinafter the "ECB"). In accordance with the Statute, the amount of the total capital share of individual national central banks depends on the capital key determined on the basis of the following statistical categories: GDP and population. In accordance with the Statute, the capital key is adjusted on a five-year basis or upon the accession of new members to the European System of Central Banks (hereinafter the "ESCB"). Most recently the capital key was adjusted as at 1 January 2009 and the interest attributable to the NBS is 0.6934%.

In accordance with the Commercial Code (Act No. 513/1991 Coll. as amended), the NBS is the controlling entity with a majority share in the voting rights in RVS, a.s. Bratislava. The equity share of RVS, a.s. Bratislava is measured at cost.

The Bank recognised an equity share in the Bank for International Settlements in Basel, Switzerland (hereinafter the "BIS"). The equity shares in BIS are measured at cost. The participating interest in the BIS is recognised in the amount of the paid share (25%). The outstanding portion (75%) is payable on demand. Dividends are paid in euros on the NBS's total share in the BIS maintained in XDR.

The NBS recognises a capital share in Inštitút bankového vzdelávania NBS, n.o. Bratislava, which the Bank established on 28 October 2008. The capital share is valued at cost.

(l) Intra-Eurosystem Claims and Liabilities

Intra-Eurosystem claims and liabilities represent the position of the NBS to other ESCB members from cross-border transactions; such transactions are performed mainly through TARGET2 (Trans-European Automated Real-Time Gross settlement Express Transfer system 2, hereinafter the "TARGET2").

In Intra-Eurosystem claims the Bank recognises its claim from the ECB related to the allocation of euro banknotes and the transfer of foreign reserves. Other claims and liabilities resulting from the reallocation of monetary income, the Bank's share on the ECB's total income on euro banknotes in circulation, and the net position to TARGET2 are recognised on a net basis in liabilities.

(m) Monetary Income

Under Article 32(1) of the Statute, monetary income represents annual income derived from assets of a national central bank held against notes in circulation and deposit liabilities to credit institutions.

Monetary income accrues in the performance of the ESCB's monetary policy function. It is allocated at the end of each financial year in proportion to the NBS's paid up share in the capital of the ECB (0.9935%). The subsequent transfer of financial means is performed through the TARGET 2 payment system by the end of January of the following calendar year.

Under the decision of the Governing Council, the ECB loss can be settled from monetary income of the relevant financial year.

The amount of monetary income of each central bank in the Eurosystem is derived from the actual income on earmarkable assets held against the liability base pursuant to Decision ECB/2001/16, as amended, on the allocation of monetary income of the national central banks of the participating member states from the 2002 financial year, as amended.

The liability base mainly consists of banknotes in circulation, liabilities to euro area credit institutions related to monetary policy operations denominated in euro and liabilities resulting from TARGET2 transactions. Any interest paid on liabilities included within the liability base is deducted from the monetary income pooled.

Earmarkable assets mainly consist of gold, lending to euro area credit institutions related to monetary policy operations denominated in euro, securities held for monetary policy purposes, and intra-Eurosystem claims on allocation of euro banknotes.

The monetary income pooled by the Eurosystem is allocated among national central banks (hereinafter "NCBs") according to the ECB's subscribed capital key (see Note 28).

(n) Allocation of Net Profits and Losses of the ECB

Under Article 33 of the Statute, transfers from the earned net profit of the ECB are first made to the general reserve fund of the ECB (which may not exceed 20% of the net profit, subject to a limit equal to 100% of the capital). The remaining net profit shall be redistributed to the national central banks in the Eurosystem in proportion to their paid-up shares in the capital of the ECB.

In the event of a loss incurred by the ECB, the shortfall may be offset against the ECB's general reserve fund and, if necessary, following a decision by the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the national central banks in the Eurosystem in accordance with Article 32.5 of the Statute.

(in EUR thousands)

Participating interests of 27 central banks of the European Union in the capital of the ECB since 1 January 2009:

	Capital Key for Subscribtion of ECB's Capital (%)	Subscribed Share in Capital (EUR)	Paid-up Capital (EUR)	Eurosystem Key
Banque National de Belgique	2,4256	139 730 384,68	139 730 384,68	3,4755
Deutsche Bundesbank	18,9373	1 090 912 027,43	1 090 912 027,43	27,1339
Central Bank and Financial Services Authority of Ireland	1,1107	63 983 566,24	63 983 566,24	1,5915
Bank of Greece	1,9649	113 191 059,06	113 191 059,06	2,8154
Banco de España	8,3040	478 364 575,51	478 364 575,51	11,8983
Banque de France	14,2212	819 233 899,48	819 233 899,48	20,3768
Banca d'Italia	12,4966	719 885 688,14	719 885 688,14	17,9056
Central Bank of Cyprus	0,1369	7 886 333,14	7 886 333,14	0,1962
Banque centrale du Luxembourg	0,1747	10 063 859,75	10 063 859,75	0,2503
Central Bank of Malta	0,0632	3 640 732,32	3 640 732,32	0,0906
De Nederlandsche Bank	3,9882	229 746 339,12	229 746 339,12	5,7144
Oesterreichische Nationalbank	1,9417	111 854 587,70	111 854 587,70	2,7822
Banco de Portugal	1,7504	100 834 459,65	100 834 459,65	2,5081
Banka Slovenije	0,3288	18 941 025,10	18 941 025,10	0,4711
Národná banka Slovenska	**0,6934**	**39 944 363,76**	**39 944 363,76**	**0,9935**
Suomen Pankki – Finlands Bank	1,2539	72 232 820,48	72 232 820,48	1,7966
Total euro-area NCBs	*69,7915*	*4 020 445 721,56*	*4 020 445 721,56*	*100,00*
Българска народна банка (Bulharská národná banka)	0,8686	50 037 026,77	3 502 591,87	
Česká národní banka	1,4472	83 368 161,57	5 835 771,31	
Danmarks Nationalbank	1,4835	85 459 278,36	5 982 149,49	
Eesti Pank	0,1790	10 311 567,80	721 809,75	
Latvijas Banka	0,2837	16 342 970,87	1 144 007,96	
Lietuvos bankas	0,4256	24 517 336,63	1 716 213,56	
Magyar Nemzeti Bank	1,3856	79 819 599,69	5 587 371,98	
Narodowy Bank Polski	4,8954	282 006 977,72	19 740 488,44	
Banca Natională a României	2,4645	141 971 278,46	9 937 989,49	
Sveriges Riksbank	2,2582	130 087 052,56	9 106 093,68	
Bank of England	14,5172	836 285 430,59	58 539 980,14	
Total non-euro area NCBs	*30,2085*	*1 740 206 681,02*	*121 814 467,67*	
Total	**100,00**	**5 760 652 402,58**	**4 142 260 189,23**	

(in EUR thousands)

(o) Issue of Banknotes

Pursuant to Decision ECB/2008/26, the NBS's share in the total issue of euro banknotes within the Eurosystem amounts to 0.914%, according to the Banknote Allocation Key. As part of the "Capital Share Mechanism" (hereinafter the "CSM"), the NBS records a claim from the Eurosystem as its actual issue of euro banknotes is lower than the key-based issue.

Over the five-year period from the cash changeover year (including the euro adoption year), the claim recorded within the CSM is adjusted in line with Decision ECB/2001/16, as amended. The adjustment is derived from the average issue of local currency banknotes two years before accession to the Eurosystem. For the NBS, the period for adjustments to the issuing of the banknotes will end on 31 December 2014.

The receivable bears interest applicable to main refinancing operations and relevant interest is credited to the central banks' accounts on a quarterly basis (see Note 24).

The NBS also participates, in the share of 0.9935%, in the ECB's 8% banknote issue based on the subscribed capital key. It is the NBS's liability to the Eurosystem which reduces its receivable within the CSM system. In line with Decision ECB/2005/11 as amended, interest from the payable is fully redistributed to the central banks on the second business day of the following year if the ECB's net income for the relevant year is not lower than its income on euro banknotes in circulation and if the Governing Council does not decide to create provisions for foreign exchange rate, interest rate and price risks.

(p) Fixed Assets

Fixed assets include tangible fixed assets with initial cost higher than EUR 996 and with useful life of more than one year, and intangible fixed assets with initial cost higher than EUR 1 660 and with useful life of more than one year. In the balance sheet, fixed assets are recognised at cost including incidental expenses; depreciated fixed assets are net of accumulated depreciation. Land, works of art, collections and tangible and intangible assets under construction or in progress are not depreciated.

Tangible and intangible fixed assets of the NBS are included in the individual depreciation groups as follows:

Depreciation Group		Depreciation period in years
1.	Land and structures	30 4 -12[1)]
2.	Utility networks	20
3.	Plant and equipment	4 -12
4.	Transport means	4 - 6
5.	Fittings and fixtures	4 -12
6.	Software	2 - 4
7.	Other intangible fixed assets	2 - 4 contract
8.	Fixed property investment	30
9.	Technical improvements of immovable historic landmarks	30

1) asset components

(q) Fixed Assets Available for Sale

Fixed assets available for sale include land and structures that are available for sale in their current condition, where such sale is considered highly probable. These assets are not depreciated.

Assets classified as fixed assets available for sale are disclosed under "Other assets" at the lower of cost less accumulated depreciation and provisions or fair value less costs of sale.

(r) Provisions

The Bank recognises provisions if it has a present liability as a result of past events and it is probable that an outflow of financial resources will be required to settle the liability, and the amount of the liability can be reliably estimated.

(s) Cost of Employee Benefits

The NBS makes regular payments on behalf of its employees to health insurance companies for health insurance and to the Social Insurance Company for sickness, retirement, accident, guarantee, and unemployment insurance, and a contribution to the Guarantee Fund. Contributions are made in the amounts required by law in the relevant year. The Bank also pays a contribution for not employing the obligatory percentage of persons with a disability, as set out in the Employment Act.

In co-operation with supplementary retirement insurance companies the NBS has established a supplementary pension scheme for its employees.

The Bank also creates a provision for employee benefits in line with the statutory and other requirements.

(t) Taxation

The NBS is liable to corporate income tax. In accordance with Article 12 of Act No. 595/2003 Coll. on Income Taxes as amended, only income taxed by withholding tax is subject to taxation.

The NBS is registered as a VAT payer since 1 July 2004.

(u) Off-Balance Sheet Instruments

Forward and spot purchases and sales are recognised in off-balance sheet accounts from the trade date to the settlement date at the spot rate of the transaction. On the settlement date the off-balance sheet booking entries are reversed, and the transactions are booked on balance sheet accounts.

Foreign exchange spot and forward transactions affect the net foreign currency positions for calculating the average cost of the currency position from the trade date. For foreign exchange swaps the foreign currency position is only affected by interest payable and receivable on an accruals basis (difference between the spot and forward rates), which is accrued in the balance sheet daily.

(in EUR thousands)

For calculating and recognising gains and losses on these off-balance sheet instruments, the same principle as for valuing assets and liabilities denominated in foreign currencies shall apply (see Section B, Note d).

Options and futures are recognised by the Bank on off-balance sheet accounts from the trade date until the settlement date at the price of the underlying instrument. Valuation of the underlying instruments does not affect the net foreign currency position for calculating the average cost of the currency.

C. Parties Related to the National Bank of Slovakia

Parties related to the National Bank of Slovakia include members of the Bank Board. The salaries and employee benefits of the Bank Board's members amounted to EUR 1 443 thousand for 2009 (2008: EUR 1 278 thousand).

The Bank recognised receivables from loans provided to the Bank Board's members totalling EUR 275 thousand as at 31 December 2009 (31 December 2008: EUR 319 thousand).

D. Notes to the Balance Sheet and Profit and Loss Account Items

1. Gold and Gold Receivables

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Bars in standard form	779 549	698 669	690 215
Gold in other form	1 206	899	888
	780 755	**699 568**	**691 103**

At 31 December 2009, gold comprises a total of 1,019 thousand troy ounces of gold (1,126 thousand ounces of gold as at 31 December 2008), of which 106 thousand troy ounces of gold are deposited in correspondent banks, 912 thousand troy ounces of gold are used in repurchase transactions, and 1,000 ounces are deposited with the Bank.

According to Article 30 of the Statute, when entering the Eurosystem, the Bank transferred 107 thousand troy ounces of gold to the ECB.

The market value of gold as at 31 December 2009 was EUR 766.347 per oz (EUR 614.022 per oz as at 31 December 2008). As at 31 December 2009, the balance of the gold revaluation account was EUR 147 610 thousand (EUR 622 156 thousand as at 1 January 2009, EUR 613 691 thousand as at 31 December 2008).

The value of gold provided as collateral in gold repurchase transactions at 31 December 2009 amounted to EUR 698 647 thousand (EUR 467 227 thousand as at 1 January 2009, EUR 461 574 thousand as at 31 December 2008).

2. Claims on Non-Euro Area Residents Denominated in Foreign Currency

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Receivables from/payables to the IMF	445 665	35 354	35 068
Balance in banks and security investments, external loans and other external assets	40 349	609 086	601 724
	486 014	**644 440**	**636 792**

Receivables from / Payables to the International Monetary Fund

	31 Dec 2009		1 Jan 2009		31 Dec 2008	
	Equivalent in mil. XDR	EUR'000	Equivalent in mil. XDR	EUR'000	Equivalent in mil. XDR	EUR'000
Receivables from IMF	**699**	**760 955**	**359**	**418 569**	**359**	**418 283**
1) National quota	358	389 070	358	417 464	358	417 187
- Membership contrib.	290	315 290	327	383 215	327	383 215
- Reserve position	68	73 780	31	34 249	31	33 972
2) Nostro account in IMF	341	371 885	1	1 105	1	1 096
Liabilities to IMF	**290**	**315 290**	**327**	**383 215**	**327**	**383 215**
1) IMF loro accounts	301	327 311	327	383 215	327	383 215
2) Adjustment account	(11)	(12 021)				
Total (net)		**445 665**		**35 354**		**35 068**

Receivables from the IMF consist of the national quota of Slovakia in the IMF and a nostro account in the IMF. Part of the national quota is a membership contribution maintained in euros and a reserve position in Special Drawing Rights (XDR), which represents a receivable from loans granted with respect to the Financial Transactions Plan (hereinafter the “FTP”). Under the FTP, as at 31 December 2009 funds were provided to third countries in the amount of XDR 68 million, equalling EUR 73 780 thousand (EUR 34 249 thousand as at 1 January 2009, EUR 33 972 thousand as at 31 December 2008). In 2009 the balance of the nostro account in the IMF was increased by XDR 340 million due to a general and special allocation, representing EUR 371 885 thousand (EUR 1 105 thousand as at 1 January 2009, EUR 1 096 thousand as at 31 December 2008).

Liabilities to the IMF represent financial funds of the IMF deposited on IMF loro accounts with the NBS in the amount of EUR 327 311 thousand (EUR 383 215 thousand as at 31 December 2008). Liabilities on the loro account in local currency change depending on the IMF representative exchange rate (currency adjustment). Significant part of the liabilities consists of non-marketable and non-interest bearing notes of Slovakia due on demand in the amount of EUR 326 040 thousand (EUR 381 464 thousand as at 31 December 2008).

The Bank records a liability to the IMF from the allocation recorded under L 9 “Counterpart of special drawing rights allocated by the IMF” (see Note 17).

(in EUR thousands)

Balance with Banks and Security Investments, External Loans and Other External Assets

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Debt securities	29 513	582 307	575 262
Other	10 836	26 779	26 462
	40 349	**609 086**	**601 724**

Debt securities recognised as at 31 December 2009, categorised in this caption, are denominated in US dollars. Per security issuers, they are general government securities.

As at 31 December 2009, "Other" mainly includes receivables from term deposits.

3. Claims on Euro Area Residents Denominated in Foreign Currency

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Debt securities	105 465	128 513	126 958
Current accounts	382	96 435	95 268
	105 847	**224 948**	**222 226**

Debt securities categorised in this caption are denominated in US dollars. Per security issuers, as at 31 December 2009 the Bank records securities of financial institutions and general government.

4. Claims on Non-Euro Area Residents Denominated in Euro

As at 31 December 2009, in this category the Bank recognises debt securities of non-euro area residents in the amount of EUR 2 450 078 thousand (31 December 2008: EUR 1 038 022 thousand). Per security issuers, as at 31 December 2009 the Bank records mainly securities issued by monetary financial institutions.

5. Lending to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

According to the rules for the monetary policy operations in the Eurosystem, the NBS performed main and longer-term refinancing operations in the total amount of EUR 2 063 000 thousand as at 31 December 2009.

Main refinancing operations are regular liquidity-providing reverse transactions with a weekly frequency and normally a maturity of one week. Longer-term refinancing operations are regular liquidity-providing reverse transactions of a longer period; in 2009, transactions with a maturity of three, six and twelve months were carried out as well as with maturity covering the individual periods of maintaining minimum reserves. Both types of monetary policy operations are carried out through standard tenders.

As at 31 December 2009, the volume of main refinancing operations and longer-term refinancing operations amounted to EUR 68 000 thousand and EUR 1 995 000 thousand, respectively.

(in EUR thousands)

6. Other Claims on Euro Area Credit Institutions Denominated in Euro

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Redistribution loan	55 138	65 808	65 808
Current accounts	44 563	3 103	3 103
Granted loans	304	2 753	2 753
Claims on banks from frontloading		1 048 924	
Other		179	179
	100 005	**1 120 767**	**71 843**

A discounted rate redistribution loan provided to finance comprehensive housing construction was assigned following the separation of the balance sheet of the State Bank of Czechoslovakia. As at 31 December 2009, the redistribution loan bears interest of 0.50% p.a. (31 December 2008: 1.00% p.a.).

As at 31 December 2009, the NBS recorded a received state guarantee for the granted redistribution loan in the amount of EUR 57 967 thousand (EUR 73 234 thousand as at 31 December 2008). The state guarantee amount represents the principal and interest until the loan maturity.

Until 31 December 2008, the NBS recorded receivables from euro frontloading on off-balance sheet accounts. As at 1 January 2009, the NBS recognised this receivable from banks in the balance sheet in the amount of EUR 1 048 924 thousand. The receivables were repaid in phases: on 6 January 2009; 28 January 2009; and 4 February 2009.

7. Securities of Euro Area Residents Denominated in Euro

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Securities held for monetary policy purposes	268 102		
Other securities	9 927 972	10 962 791	10 962 791
	10 196 074	**10 962 791**	**10 962 791**

Based on the decision of the ECB Governing Council of 7 May 2009 and 4 June 2009 concerning the programme to purchase covered bonds in euros issued by euro area residents as part of the single currency policy, as at 31 December 2009 the NBS purchased covered bonds in the amount of EUR 268 102 thousand. These are held-to-maturity securities which are included in the investment portfolio and are mainly issued by euro area monetary financial institutions.

As at 31 December 2009, under !Other securities" the Bank mainly recognises securities issued by the monetary financial institutions and euro area general government. These are included in the trading portfolio.

(in EUR thousands)

8. Intra-Eurosystem Claims

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Participating interest in ECB	194 158	39 944	2 728
Claims equivalent to the transfer of foreign reserves	399 444		
Net claims related to the allocation of euro banknotes within the Eurosystem	2 835 882	6 029 526	
Other claims within the Eurosystem			411
	3 429 484	**6 069 470**	**3 139**

Participating Interest in ECB

Under Article 49(1) of the Statute and the decision of the Governing Council, as at 1 January 2009 the NBS settled the remaining 93% of its subscribed capital, amounting to EUR 37 216 thousand. The NBS's percentage share in the ECB's capital is set at 0.6934% as of 1 January 2009, which represents the total amount of the paid participating interest of the NBS in the amount of EUR 39 944 thousand.

In accordance with Article 49(2) of the Statute and the decision of the Governing Council, the NBS contributed the amount of EUR 154 214 thousand to the ECB reserves to cover interest rate, price, and foreign exchange risks and to the ECB revaluation accounts.

Claims Equivalent to the Transfer of Foreign Reserves

The NBS recognises a claim equivalent to the transfer of foreign reserves on the ECB in the amount of EUR 399 444 thousand made according to the NBS capital key under Article 30(1) of the Statute. The receivable bears interest equalling 85% of the main refinancing operations rate. As at 31 December 2009, accrued interest income from the claim equivalent to the transfer of foreign reserves amounts to EUR 4 374 thousand (see Note 24).

Net Claims Related to the Allocation of Euro Banknotes within the Eurosystem

The item represents a claim related to the application of the banknote allocation key, which amounts to EUR 2 835 882 thousand as at 31 December 2009 (EUR 6 029 526 thousand as at 1 January 2009). The claim bears interest at the interest rate for main refinancing operations. As at 31 December 2009, interest received amounts to EUR 23 964 thousand (see Note 24).

(in EUR thousands)

9. Other Assets

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Tangible and intangible fixed assets	171 584	179 939	179 939
Other financial assets	10 043	10 139	10 086
Off-balance sheet instruments revaluation differences	101	593	653
Accruals and prepaid expenditure	270 386	238 923	238 809
Sundry	5 332 338	6 007 452	4 779 377
	5 784 452	**6 437 046**	**5 208 864**

Tangible and Intangible Fixed Assets

Fixed assets of the NBS are disclosed under this caption. The balance of tangible and intangible fixed assets as at 31 December 2009 is as follows:

	TA & advances and assets under construction	IA & advances and assets under construction	TOTAL
Acquisition cost as at 1 Jan 2009	**279 462**	**22 967**	**302 429**
Additions	2 935	7 466	10 401
Disposals	3 461	5 697	9 158
Acquisition cost as at 31 Dec 2009	**278 936**	**24 736**	**303 672**
Accumulated depreciation as at 1 Jan 2009	**110 369**	**12 342**	**122 711**
Additions	8 701	2 884	11 585
Disposals	1 836	330	2 166
Accumulated depreciation and provisions as at 31 Dec 2009	**117 234**	**14 896**	**132 130**
Carrying amount of TA and IA as at 1 Jan 2009	**169 093**	**10 625**	**179 718**
Carrying amount of TA and IA as at 31 Dec 2009	**161 702**	**9 840**	**171 542**

As at 31 December 2009, the NBS recognises available-for-sale assets in the amount of EUR 42 thousand.

(in EUR thousands)

Other Financial Assets

As at 31 December 2009 and 31 December 2008, the Bank owned 1,080 certificate shares of RVS a.s. Bratislava in the amount of EUR 3 585 thousand, representing a 52.33% share on the registered capital. Despite its majority influence in RVS, a.s., the Bank does not prepare consolidated financial statements in accordance with Article 22 of the Act on Accounting. Based on an equity analysis, the Bank did not identify any significant risk associated with its equity share or the need for provisioning.

As at 31 December 2009 the Bank owned 2,858 pieces of BIS shares in the amount of EUR 18 092 thousand (EUR 18 362 thousand as at 1 January 2009, EUR 18 213 thousand as at 31 December 2008), representing a 0.51% share on the registered capital of BIS. The share in BIS is recognised in the balance sheet in the amount equalling the 25% paid share, i.e. EUR 6 425 thousand (EUR 6 521 thousand as at 1 January 2009, EUR 6 468 thousand as at 31 December 2008). The liability from the outstanding share in the amount of 75% of the face value of each share represents EUR 11 667 thousand (EUR 11 841 thousand as at 1 January 2009, EUR 11 745 thousand as at 31 December 2008). The outstanding portion of the share is due on demand. As at 31 December 2009, the Bank recognises received dividends from BIS shares in the amount of EUR 831 thousand (see Note 27).

As at 31 December 2009, the NBS records a contribution in the registered capital of Inštitút bankového vzdelávania NBS, n. o. Bratislava in the amount of EUR 33 thousand (31 December 2008: EUR 33 thousand).

Off-Balance Sheet Instruments Revaluation Differences

As at 31 December 2009, the gain from off-balance sheet instruments revaluation amounted to EUR 101 thousand (1 January 2009: EUR 593 thousand, 31 December 2008: EUR 653 thousand).

Accruals and Prepaid Expenditure

The item mainly represents accruals of bonds coupons in the amount of EUR 163 072 thousand (1 January 2009: EUR 115 949 thousand, 31 December 2008: EUR 114 542 thousand). The purchased bond coupons amounted to EUR 61 939 thousand (1 January 2009: EUR 122 805 thousand, 31 December 2008: EUR 122 773 thousand).

Sundry

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Accumulated loss from previous years	5 085 121	5 935 228	4 707 852
Granted deposits related to IRS swaps	196 500		
Interest rate swap	4 374		
Purchased options	8 532	33 878	33 468
Interest rate futures	25 082	16 008	15 982
Investment and consumer loans granted to employees	10 240	10 036	10 036
Other	2 489	12 302	12 039
	5 332 338	**6 007 452**	**4 779 377**

The purpose of the granted deposits related to IRS swaps is to secure counterparty credit risk in respect of an impairment of the swap on the NBS's side.

The accumulated loss from previous years as at 1 January 2009 was adjusted for the loss for 2008 in the amount of EUR 1 227 376 thousand. Under Article 25 of the ECB Guideline, as at 31 December 2009 unrealised gains that arose before the Bank's Eurosystem membership, including mainly pre-accession valuation differences in the amount of EUR 846 776 thousand, were transferred to the accumulated loss from previous years (see Note 21 and 22).

(in EUR thousands)

10. Banknotes in Circulation

The "Banknotes in circulation" item represents a total amount of euro banknotes attributable to the NBS according to the Banknote Allocation Key and the volume of Slovak banknotes in circulation:

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Euro banknotes in circulation issued by NBS	4 534 715	950 930	
Euro banknotes not issued by NBS (CSM)	2 835 882	6 029 526	
Total euro banknotes according to the NBS Banknote Allocation Key	**7 370 597**	**6 980 456**	
Banknotes in SKK	110 860	2 505 164	2 505 164
	7 481 457	**9 485 620**	**2 505 164**

The total volume of euro banknotes issued by the Eurosystem central banks is redistributed on the last day of each month in line with the Banknote Allocation Key (see part B (o)). The total euro banknotes according to the Banknote Allocation Key attributable to NBS as at 31 December 2009 amount to EUR 7 370 597 thousand (EUR 6 980 456 thousand as at 1 January 2009). Euro banknotes actually issued by the NBS as at 31 December 2009 amount to EUR 4 534 715 thousand (EUR 950 930 thousand as at 1 January 2009). As at 31 December 2009, the difference between the euro banknotes actually issued and the euro banknotes attributable to the NBS according to the Banknote Allocation Key (see Note 8) represents for the NBS a receivable in the amount of EUR 2 835 882 thousand (1 January 2009: EUR 6 029 526 thousand).

Unchanged Slovak coins and euro coins in circulation issued by the NBS are disclosed as of 1 January 2009 under L12 "Other liabilities" (see Note 19).

11. Liabilities to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Current accounts (covering the minimum reserve system	520 802	1 912 207	1 912 207
Deposit facility	677 370	3 114 884	3 114 884
Fine-tuning reverse operations		9 239 708	9 239 708
	1 198 172	**14 266 799**	**14 266 799**

As at 31 December 2009, current accounts represent monetary reserves of credit institutions that are subject to minimum reserve system according to the Statute. The deposit facility represents overnight deposits at a pre-specified interest rate.

(in EUR thousands)

12. Other Liabilities to Euro Area Credit Institutions Denominated in Euro

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Liabilities from repo transactions with gold	38 501		
Deposits received from banks - frontloading		5 003	5 003
Interbank clearing in Slovakia (SIPS)	11	6 588	6 588
	38 512	**11 591**	**11 591**

The amount of other liabilities to euro area credit institutions denominated in euro was influenced by a short-term repo transaction with gold and de-recognition of received deposits from banks for the purpose of securing euro frontloading.

13. Liabilities to Other Euro Area Residents Denominated in Euro

	31 Dec 2009	1 Jan 2009	31 Dec 2008
General government	70	371	371
Other liabilities	66 373	40 160	40 160
	66 443	**40 531**	**40 531**

General Government

As at 31 December 2009, the NBS recognises current accounts of the State treasury in the amount of EUR 70 thousand (31 December 2008: EUR 371 thousand).

Other Liabilities

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Client current accounts	10 981	10 930	10 930
Client term deposits	29 279	28 150	28 150
Current accounts of auxiliary financial institutions	2 347	521	521
Term deposits of auxiliary financial institutions	23 766	559	559
	66 373	**40 160**	**40 160**

Auxiliary financial institutions include the Deposit Protection Fund and the Investment Guarantee Fund.

14. Liabilities to Non-Euro Area Residents Denominated in Euro

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Liabilities from repo transactions with gold	356 704		
Liabilities to international institutions	13 388	28 178	28 178
Client loro accounts	1	147	147
	370 093	**28 325**	**28 325**

(in EUR thousands)

15. Liabilities to Euro Area Residents Denominated in Foreign Currency

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Liabilities from repo transactions with gold	78 507	79 874	78 908
Current accounts of the State treasury in foreign currency		6	6
	78 507	**79 880**	**78 914**

Liabilities from repo transactions with gold consist of two long-term repo transactions with gold denominated in US dollars.

16. Liabilities to Non-Euro Area Residents Denominated in Foreign Currency

As at 31 December 2009, this category includes liabilities from loans from repo transactions denominated in US dollars in the total amount of EUR 57 161 thousand (1 January 2009: EUR 256 275 thousand, 31 December 2008: EUR 253 174 thousand).

17. Counterpart of Special Drawing Rights Allocated by the IMF

As at 31 December 2009, the Bank records a liability to the IMF from allocation in the amount of EUR 370 644 thousand. The liability from allocation is denominated in XDR. The IMF allocated XDR 75 million as part of the general allocation and XDR 265 million as part of a special allocation to Slovakia.

18. Intra-Eurosystem Liabilities

The major part of this category represents the Bank's liability to TARGET2, which amounted to EUR 14 520 625 thousand as at 31 December 2009 (see Section B, Note l). The position bears interest at the rate applied to main refinancing operations and the settlement is made on a monthly basis on the second business day of the following month. The total interest paid amounts to EUR 163 967 thousand as at 31 December 2009 (see Note 24). The liability to TARGET2 is further offset against a claim owing to the difference between monetary income pooled and reallocated in the amount of EUR 12 818 thousand and a claim from income on euro banknotes in circulation in the amount of EUR 7 821 thousand, under the ECB Guideline.

19. Other Liabilities

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Off-balance sheet instruments revaluation differences	97	506	548
Accruals and income collected in advance	139 977	3 411	3 402
Sundry	363 260	769 970	670 735
	503 334	**773 887**	**674 685**

The major part of accruals represent interest expense from interest rate swaps in euros in the amount of EUR 126 422 thousand and interest on TARGET2 remuneration in the amount of EUR 12 818 thousand.

(in EUR thousands)

As at 31 December 2009, off-balance sheet instruments revaluation differences represent a loss from off-balance sheet instruments valuation in the amount of EUR 97 thousand (1 January 2009: EUR 506 thousand, 31 December 2008: EUR 548 thousand).

Sundry

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Derivatives	220 124	102 471	101 232
Euro coins in circulation	91 637	119 905	
SKK coins in circulation	47 566	74 455	74 455
Other	3 933	473 139	495 048
	363 260	**769 970**	**670 735**

As at 31 December 2009, "Derivatives" comprise call options sold in the amount of EUR 123 387 thousand (1 January 2009: EUR 102 471 thousand, 31 December 2008: EUR 101 232 thousand) and a loss on the valuation of an interest rate swap in the amount of EUR 96 737 thousand.

The bulk of "Other" represents liabilities from operations and settlements to employees.

As at 1 January 2009, "Other" mainly comprises interim items that were settled as at 7 January 2009.

20. Provisions

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Provisions for payables to employees	3 460	3 447	3 447
Provisions for unbilled supplies	733	5 086	5 086
Provisions for legal disputes	669	418	418
Provision for Annual Report	22	22	22
Provisions for audit	66	59	59
	4 950	**9 032**	**9 032**

(in EUR thousands)

21. Revaluation Accounts

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Pre-entry valuation differences		**846 776**	
Valuation differences from gold valuation	147 610		613 691
Valuation differences from derivatives valuation	4 374		27 606
Valuation differences from securities valuation	139 581		190 422
Valuation differences from foreign currency valuation	6 178		691
	297 743	**846 776**	**832 410**

As at 1 January 2009, valuation differences represent the valuation differences from the valuation of financial assets and liabilities before the entry into the Eurosystem in the amount of EUR 832 410 thousand, the initial revaluation of financial assets and liabilities using the ECB foreign exchange rates as at the date of entry into the Eurosystem in the amount of EUR 14 103 thousand, and the influence of the application of the IRR method on the valuation in the amount of EUR 263 thousand.

As at 31 December 2009, the pre-entry valuation differences were reclassified to accumulated losses from previous years in line with Article 25 of the ECB Guideline.

22. Capital and Reserves

	31 Dec 2009	1 Jan 2009	31 Dec 2008
Capital	16 041	16 041	16 041
Reserves	342 304	342 304	342 304
	358 345	**358 345**	**358 345**

Capital

This item includes the statutory fund representing the paid capital assumed from the separation of the balance sheet of the State Bank of Czechoslovakia, which has been in the amount of EUR 15 490 thousand since the establishment of the NBS, and the registered capital of the Financial Market Authority (Úrad pre finančný trh, "ÚFT") in the amount of EUR 551 thousand. With effect from 1 January 2006, the ÚFT was dissolved and merged with the NBS in line with the applicable law.

Reserves

Reserves consist of general reserves and capital reserves.

As at 31 December 2009, the NBS's general reserves amounted to EUR 340 874 thousand (31 December 2008: EUR 340 874 thousand). The general reserves consist of contributions from generated profits in the amount of EUR 337 412 thousand. As at 1 January 2006, following the merger of the ÚFT with the NBS, the ÚFT's reserve fund amounting to EUR 3 462 thousand was transferred to the NBS reserves.

As at 31 December 2009, the NBS's capital reserves amount to EUR 1 430 thousand and mainly include real estate delimitation balances.

(in EUR thousands)

Summary of Changes in Equity

	Statutory fund	Capital reserves	Reserve fund	Valuation differences fund	Accumulated (loss)
1. Balance as at 31 Dec 2008 reported in the 2008 Financial Statements	16 041	1 430	340 874	836 004	(5 935 228)
2. Gain on change of accounting method				(3 594)	3 594
3. Balance as at 31 Dec 2008 under ECB methodology	**16 041**	**1 430**	**340 874**	**832 410**	**(5 931 634)**
4. Initial valuation using ECB rates				14 103	
5. IRR method - impact on valuation				263	
6. IRR method - change in accounting					(263)
7. Change as at 1 Jan 2009				14 366	(263)
8. Adjusted balance as at 1 Jan 2009	**16 041**	**1 430**	**340 874**	**846 776**	**(5 931 897)**
9. Transfer to statutory fund					
10. Transfer to accumulated loss				(846 776)	846 776
11. Transfer to general reserves					
12. Change in valuation differences from securities				139 581	
13. Change in valuation differences from derivatives				4 374	
14. Change in valuation differences from gold				147 610	
15. Change in valuation differences from foreign currencies				6 178	
16. (Loss)/profit for the current reporting period					70 588
17. Remittances from profits					
18. Change for the reporting period				(549 033)	917 364
19. **Balance as at 31 Dec 2009**	**16 041**	**1 430**	**340 874**	**297 743**	**(5 014 533)**

(in EUR thousands)

23. Off-Balance Sheet Instruments

	31 Dec 2009		31 Dec 2008	
	Receivables	Liabilities	Receivables	Liabilities
Forward receivable in EUR from foreign exchange swaps	56 361			
Forward liability in USD from foreign exchange swaps		39 914		
Forward liability in GBP from foreign exchange swaps		7 101		2 675
Forward liability in JPY from foreign exchange swaps		9 342		3 675
	56 361	**56 357**		**6 350**

	31 Dec 2009		31 Dec 2008	
	Receivables	Liabilities	Receivables	Liabilities
Put options purchased	149 796	306 705	153 183	245 742
Call options sold	253 474	306 705	259 205	245 742
	403 270	**613 410**	**412 388**	**491 484**

As at 31 December 2009, the Bank recognises a net liability from the value of the underlying instruments for interest rate futures in the amount of EUR 2 335 472 thousand (31 December 2008 and 1 January 2009: a net liability in the amount of EUR 2 000 000 thousand).

24. Net Interest Income

	31 Dec 2009	31 Dec 2008
Interest income	**743 572**	**614 195**
Interest income from derivatives	239 866	57 489
Interest income from bonds	462 464	532 330
Interest income from repo transactions	11 547	19 593
Received interest from euro banknotes remuneration	23 964	
Received interest from a claim equivalent to the transfer of foreign reserves	4 374	
Interest from redistribution loan	306	1 809
Interest from client loans and deposits	1 050	2 933
Other	1	41
Interest expense	**(651 689)**	**(636 856)**
Interest espense from derivatives	(362 123)	(68 733)
Interest expense from bonds	(95 770)	(29 847)
Interest expense from repo transactions	(10 774)	(426 759)
Paid interest from TARGET2 remuneration	(163 967)	
Paid interest from minimum reserve requirement	(9 610)	(13 620)
Interest on current accounts, deposits and loans	(7 528)	(7 613)
Interest expense from NBS treasury bills	(1 459)	(90 279)
Other	(458)	(5)
	91 883	**(22 661)**

(in EUR thousands)

Interest received from euro banknotes remuneration amounted to EUR 23 964 thousand as at 31 December 2009 (see Part B (o)).

25. Net Result of Financial Operations, Write-Downs and Risk Provisions

	31 Dec 2009	31 Dec 2008
Realised gains arising from financial operations	**174 264**	**83 381**
Net foreign exchange gains/losses from daily valuation	1 308	(8 430)
Net gains from sale of securities	172 908	90 474
Net foreign exchange gains from other operations	48	1 337
Write-downs on financial assets and positions	**(157 955)**	**(1 187 465)**
Losses from write-downs on derivatives	(145 327)	(25 444)
Losses from write-downs on valuation of securities	(10 340)	(3 120)
Losses from write-downs on foreign currency	(2 288)	(1 158 901)
	16 309	**(1 104 084)**

Losses from write-downs on foreign currency were eliminated as at 31 December 2009 mainly due to the euro adoption.

26. Net Income/Expense from Fees and Commissions

	31 Dec 2009	31 Dec 2008
Fees and commissions income	**2 893**	**11 103**
Received fees from SIPS participants	1 731	1 439
Fees and commissions received from clients	425	401
Fees and commissions in operations with securities	359	9 171
Received fees from share on TARGET 2 pooled income	343	
Received contractual penalties from monetary policy operations	23	
Other	12	92
Fees and commissions expense	**(1 332)**	**(753)**
Fees paid to banks	(847)	(576)
Fees paid for interest rate futures	(323)	(96)
Fees paid to SWIFT	(107)	(81)
Fees paid to TARGET 2	(38)	
Other	(17)	
	1 561	**10 350**

(in EUR thousands)

27. Income from Equity Shares and Participating Interests

	31 Dec 2009	31 Dec 2008
Income on euro banknotes in circulation	7 821	
Dividends from equity shares and participating interests	831	790
	8 652	**790**

Income on euro banknotes in circulation represents the NBS's share according to its Eurosystem key on the ECB's total income on euro banknotes in circulation, which amounted to EUR 787 157 thousand in 2009 and was fully redistributed among the Eurosystem member states based on a decision of the Governing Council of 17 December 2009 (see Part B (o)).

In respect of the participating interest in BIS, the NBS records dividends received from BIS equity shares in the amount of EUR 831 thousand as at 31 December 2009.

28. Net Result of Pooling of Monetary Income

The monetary income pooled by the NBS for 2009 into the common pool of the Eurosystem amounted to EUR 100 032 thousand. Monetary income corresponding to the 0.9935% share of the NBS on the common pool amounted to EUR 112 850 thousand. The difference of EUR 12 818 thousand represents the net result arising from the calculation of monetary income (see Note 18).

29. Other Income and Other Expenses

As at 31 December 2009, the bulk of the Bank's other income represents income from fees and contributions from the financial market entities in the amount of EUR 3 797 thousand (31 December 2008: EUR 3 711 thousand), income from unchanged invalid 10 and 20 heller coins in the amount of EUR 2 363 thousand and income from sales of commemorative and damaged coins in the amount of EUR 1 463 thousand (31 December 2008: EUR 1 200 thousand).

The Bank's other expenses include mainly costs of coinage and coin production in the amount of EUR 6 148 thousand (31 December 2008: EUR 50 306 thousand), costs of coinage of commemorative coins in the amount of EUR 948 thousand (31 December 2008: EUR 1 168 thousand) and costs of coin destruction in the amount of EUR 396 thousand (31 December 2008: EUR 128 thousand).

30. Staff Costs

	31 Dec 2009	31 Dec 2008
Wages and salaries	(21 638)	(20 180)
Social security costs	(6 689)	(6 461)
Other employee costs	(3 242)	(3 023)
	(31 569)	**(29 664)**

As at 31 December 2009, the average FTE number of employees was 1 083 (31 December 2008: 1 078), of which 106 were managers (31 December 2008: 109).

(in EUR thousands)

31. Depreciation of Tangible and Intangible Fixed Assets

	31 Dec 2009	31 Dec 2008
Depreciation of intangible fixed assets	(2 884)	(3 323)
Depreciation of tangible fixed assets	(8 701)	(10 981)
	(11 585)	**(14 304)**

32. Profit

The result of the Bank's operations as at 31 December 2009 is a profit in the amount of EUR 70 588 thousand. The Bank Board decided that the profit will be used to cover the accumulated loss from previous years.

E. Post-Balance Sheet Events

In accordance with Article 33 of the Statute, the Governing Council adopted a decision at its meeting on 4 March 2010 on the full distribution of the ECB's net profit to individual central banks based on the key on the ECB's paid-up capital. The income of the NBS from the distribution of profit in the amount of EUR 14 565 thousand is included in the 2010 reporting period.

Subsequent to 31 December 2009, there were no significant events that would require any adjustments in the 2009 financial statements.

Doc. Ing. Jozef Makúch, PhD.	Ing. Viliam Ostrožlík, MBA	Ing. Katarína Taragelová
Governor	Deputy Governor	Financial Management Director

Deloitte.

Deloitte Audit s.r.o.
Digital Park II, Einsteinova 23
851 01 Bratislava
Slovak Republic

Tel: +421 2 582 49 111
Fax: +421 2 582 49 222
deloitteSK@deloitteCE.com
www.deloitte.sk

Registered at the Municipal
Court in Bratislava I
Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

AUDITOR'S REPORT ON THE CONSISTENCY

OF THE ANNUAL REPORT WITH THE FINANCIAL STATEMENTS PURSUANT TO ACT NO. 540/2007 COLL., ARTICLE 23 (5)

To the Bank Board of the Národná banka Slovenska:

I. We have audited the financial statements of Národná banka Slovenska (the "Bank") as at 31 December 2009 presented on pages 144 to 176. We issued an Auditor's Report on these financial statements dated 16 March 2010 in the wording as follows:

INDEPENDENT AUDITOR'S REPORT

To the Bank Board of the Národná banka Slovenska:

1. We have audited the accompanying financial statements of Národná banka Slovenska (the "Bank"), which comprise the balance sheet as at 31 December 2009, and the income statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

The Banks' Board of the Národná banka Slovenska Responsibility for the Financial Statements

2. The Bank Board of the Národná banka Slovenska is responsible for the preparation and fair presentation of these financial statements in accordance with the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks No ECB/2006/16 as amended ("the ECB Guideline") and the Slovak Accounting Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

   An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

   We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the financial statements present fairly, in all material respects, the financial position of Národná banka Slovenska as of 31 December 2009, and its financial performance for the year then ended in accordance with the ECB Guideline and the Slovak Accounting Act.

II. We have also audited the consistency of the Annual Report with the aforementioned financial statements. The accuracy of the Annual Report's presentation is the responsibility of the Bank Board of the Národná banka Slovenska. Our responsibility is to issue an opinion on the consistency of the Annual Report with the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that the Auditor plan and perform the audit to obtain reasonable assurance that the information disclosed in the Annual Report and presented in the financial statements is consistent, in all material respects, with the relevant financial statements. We assessed the consistency of the information presented in the Annual Report with the information presented in the financial statements as at 31 December 2009. We have not audited any data or information other than the financial information obtained from the financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned financial statements.

Bratislava 15 June 2010

Deloitte Audit s.r.o.
Licence SKAu No. 014

Ing. Zuzana Letková, FCCA
Responsible auditor
Licence SKAu No. 865

ABBREVIATIONS AND GLOSSARY

Abbreviations

AMA	Advanced Measurement Approach
ARDAL	Debt and Liquidity Management Agency
a.s.	joint stock company
b.p.	basic points
BIS	Bank for International Settlement
BRIBOR	Bratislava Interbank Offered Rates
BSC	Banking Supervision Committee
CDCP	Central Securities Depositary
CEBS	Committee of European Bank Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions
CESR	Committee of European Securities Regulators
Coll.	Collection of Laws of the SR
CPI	Consumer Price Index
d.d.f.	Supplementary Pension Fund – doplnkový dôchodkový fond
d.d.s.	Supplementary Pension Asset Management Company – doplnková dôchodková spoločnosť
DSGE model	Dynamic Stochastic General Equilibrium model
d.s.s.	Pension Asset Management Company – dôchodková správcovská spoločnosť
EBA	European Banking Authority
EBOR	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
ESME	European Securities Markets Expert Group
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro/€
EURIBOR	Euro Interbank Offered Rate – fixing of interest rates on the euro area money market
EURO SIPS	retail payment system operated by NBS after the euro introduction
FDI	foreign direct investment
Fed	Federal Reserve System
FNM	Fond národného majetku – National Property Fund
FRA	forward rate agreement
FSC	Financial Services Committee
GdC	Groupe de Contact – CEBS committee expert group
GDP	Gross Domestic Product
HFCN	Household Finance and Consumption Network
HICP	Harmonised Index of Consumer Prices
IAIS	International Association of Insurance Supervisors
IBRD	International Bank for Reconstruction and Development
ICAAP	Internal Capital Adequacy Assessment Process
IMF	International Monetary Fund
IOPS	International Organization of Pension Supervisors

IOSCO	International Organisation of Securities Commissions
IPP	Industrial Production Index
IRB model	credit risk model based on internal rating
LFSS	Labour Force Sample Survey
IRS	interest rate swap
JET	Joint European Tendering Group – association of Eurosystem NCBs for effective production and supply of euro banknotes
MaRs	Macro-prudential Research Network
MFI	Monetary Financial Institutions
NAV	Net Asset Value
NBS	Národná banka Slovenska – National Bank of Slovakia
NCB	national central bank
NEER	Nominal Effective Exchange Rate
o.c.p.	investment firm – obchodník s cennými papiermi
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petrol Exporting Countries
OPF	Open-end Mutual Funds – otvorené podielové fondy
p.a.	per annum
p.p.	percentage points
PP	Policy Paper – analytical study
PPI	Producer Price Index
REER	Real Effective Exchange Rate
ROE	Return on Equity
RULC	Real Unit Labour Costs
SASS	Slovak Association of Asset Management Companies – Slovenská asociácia správcovských spoločností
SAX	Slovak Share Index
SDX	Slovak Bond Index
SDXG	Slovak Bond Index Group
SEPA	Single Euro Payments Area
SIPS	Slovak Interbank Payment System – interbank payment system operated by NBS before the euro introduction
SKK	Slovak koruna
SO SR	Statistical Office of the Slovak Republic
SR	Slovak Republic
SSP	Single Shared Platform
SSS	Securities Settlement System
STATUS DFT	STATUS application software for financial market supervision
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer
UCITS	Undertakings for collective investment in transferable securities
ULC	Unit Labour Costs
USD	US dollar
VAR model	Vector Autoregression model
WB	World Bank
WDN	Wage Dynamics Network
WGMA	Working Group on Macro-prudential Analysis
WP	Working Paper – research study
WTO	World Trade Organization
ZBK SR	Bank Card Association in the SR

Glossary

Actuary – insurance mathematician responsible for the calculation of insurance premiums and reporting.

Autonomous liquidity factors – factors other than monetary policy operations influencing banking sector liquidity. Such factors are, in particular, net foreign assets held by the central bank, central government deposits with the central bank and currency in circulation.

Average value of currency mark – the total value of cumulative net issuance divided by the cumulative net issuance in pieces.

BRIBOR (Bratislava Interbank Offered Rate) – interest rate fixing in the interbank deposit market calculated from prices offered by reference banks for deposits with maturities ranging from 1 day to 12 months. As of 1 January 2009, it was replaced by EURIBOR.

Central parity – the exchange rate vis-à-vis the euro of currencies of ERM II participant countries, around which the ERM II fluctuation margins are defined.

Collateral – an asset used to secure a loan. In case of the debtor's default the asset can be sold and the proceeds used to settle the outstanding loan.

Core inflation – measures the rate of growth of the price level on the basis of an incomplete consumer basket. The consumer basket excludes items with regulated prices and items with prices subject to other administrative measures (e.g. change of VAT, consumer taxes, subsidies). It is part of the national index of consumer prices.

Corporate governance – company management and administration.

Cumulative net issuance at a given date – the difference between the volume (value) of euro cash put into circulation by Národná banka Slovenska and the volume (value) of euro cash taken out of circulation by NBS in the period following the introduction of the euro in Slovakia, including the given date.

Deflation – a decrease in the general price level, the opposite of inflation.

Deposit facility – a facility used to make overnight deposits with a national central bank. Under normal circumstances, there are no limits on access to the facility. The interest rate on the marginal deposit facility normally provides a floor for the overnight market interest rate.

Effective exchange rates (nominal: NEER, real: REER) – weighted averages of bilateral domestic currency exchange rates against the currencies of the main trading partners. The weights used reflect the share of each partner country in Slovakia's foreign trade. Real effective exchange rates are nominal effective exchange rates deflated by a weighted average of foreign, relative to domestic, prices or costs. They are measures of price and cost competitiveness of a country.

Electronic money business – the issue and administration of electronic money and electronic money payment instruments.

ERM II (exchange rate mechanism II) – an exchange rate system providing a framework for exchange rate policy cooperation between the euro area countries and the EU Member States not participating in the third stage of the Economic and Monetary Union. Membership in ERM II is one of the Maastricht criteria for the adoption of the euro.

ESA 95 – the European System of Accounts adopted in 1995. A common methodology for the compilation and reporting of GDP, employment and employee compensation data for all EU countries.

EURIBOR (Euro Interbank Offered Rate) **–** the interbank reference rate within the Economic and Monetary Union, which was introduced in 1999. It is the rate at which euro interbank term deposits are offered by one bank to another and is published at 11:00 a.m. CET for spot value (T+2). The company chosen to be responsible for computing and publishing EURIBOR is Reuters.

Euro area – the area encompassing those EU Member States in which the euro has been adopted in accordance with the Treaty. The responsibility for monetary policy in the euro area lies with the European Central Bank.

European Economic Area (EEA) – includes 27 Member States of the EU, Island, Lichtenstein and Norway (member states of the European Free Trade Association (EFTA), except of Switzerland).

European Economic Area – comprises all EU Member States, Norway, Lichtenstein and Iceland.

European Payments Council – an organisation associating European Union banking associations.

European System of Central Banks (ESCB) – the system of central banks comprising the European Central Bank (ECB) and the national central banks of all EU Member States.

EURO SIPS – a retail payment system that will be made up by the transformation of the present domestic SIPS payment system. It will be operated by Národná banka Slovenska as of the day of euro introduction.

Eurosystem – a system of central banks comprising the European Central Bank (ECB) and the national central banks of the euro area countries (EU countries that have adopted the euro).

Financial market (for the purposes of chapter 4, entities regulated by NBS) – consists of four sectors: the banking sector (the main representatives are banks and branches of foreign banks), the capital market (the main representatives are securities dealers, asset management companies, the stock exchange, the Central Securities Depository, issuers and investment services intermediaries), the insurance sector (the main representatives are insurance companies and branches of insurance companies from another EU Member State), and the pension saving market (the main representatives are pension management companies and supplementary pension companies (pension insurance companies)).

Foreign direct investment (FDI) – a category of international investments reflecting the objective of a resident entity in an economy (direct investor) to acquire a permanent interest in a company residing in an economy other than that of the investor (direct investment company). Direct investments include the initial transaction between these two entities – i.e. the transaction giving rise to the investment relationship – and all subsequent transactions between these two entities and affiliated companies.

Foreign reserves – reserves of the Slovak Republic consisting of gold and other financial assets denominated in foreign currency held and managed by the central bank. They are used to directly finance payment imbalances, to indirectly regulate their size through foreign exchange market interventions in order to influence the exchange rate of the currency, or for other purposes.

Free provision of cross-border services – the conduct of banking activities by foreign entities based in the European Economic Area (foreign banks, foreign financial institutions or electronic money institutions) not present in the Slovak Republic.

GDP deflator – an aggregate price index reflecting developments in the price of products and services in an economy. It is calculated as a ratio of GDP at current prices to GDP at constant prices.

General government – a sector defined in ESA 95 as comprising resident entities that are engaged primarily in the production of non-marketable goods and services intended for individual and collective consumption and in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds, and any budget-funded or subsidised organisations established by them, whose revenues cover less than 50% of their production costs.

General government debt – gross debt (deposits, loans and other debt securities other than financial derivatives) of the general government at nominal value. A debt-to-GDP ratio under 60% is one of the Maastricht convergence criteria for the adoption of the euro.

General government deficit – the difference between total revenues and total expenditures of the general government sector, if expenditures exceed revenues. A deficit-to-GDP ratio under 3% is one of the Maastricht convergence criteria for the adoption of the euro.

Gross domestic product (GDP) – the total output of goods and services in an economy in a given period. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services.

Harmonised Index of Consumer Prices (HICP) – a consumer price index measured on a comparable basis across all EU Member States, which accounts for differences in national definitions. The HICP is one of the indicators used to assess price stability in a country (one of the Maastricht convergence criteria).

Households – population; i.e. accounts of citizens.

IBAN (International Bank Account Number) – an international bank account number format allowing unique customer identification and automated payment processing (mostly cross-border payments at present). In Slovakia, IBAN consists of 24 alpha-numerical characters (ISO country code, control number, account number including bank code).

Inflation – an increase in the general price level.

Longer-term refinancing operations – liquidity-providing reverse transactions with a monthly frequency and a maturity of normally three months. These operations are aimed at providing counterparties with additional longer-term refinancing and are conducted by the national central banks of the Eurosystem on the basis of standard tenders. In these operations, as a rule, the Eurosystem aims to generate sufficient liquidity and ensure smoothness of financial flows in the financial sector.

M1 – a narrow monetary aggregate comprising currency in circulation and overnight deposits with MFIs and central government (e.g. with post office – Post Giro – or the State Treasury).

M2 – an intermediate monetary aggregate that comprises M1 plus deposits repayable at notice of up to 3 months (short-term saving deposits) and deposits with an agreed maturity of up to 2 years (short-term time deposits) with MFIs and central government.

M3 – a broad monetary aggregate that comprises M2 plus negotiable instruments, i.e. repurchase agreements, money market fund shares and units as well as debt securities issued by MFIs with a maturity of up to two years.

Maastricht criteria – convergence criteria set out in the Maastricht Treaty that must be fulfilled before a country can join the euro area. There are four criteria regarding: public finances (deficit and debt of the general government sector), inflation, long-term interest rates, and exchange rate.

Main refinancing operations – regular liquidity-providing reverse transactions with a weekly frequency and a maturity of normally one week. These operations are executed by the national central banks of the Eurosystem on the basis of standard tenders. The main refinancing operations play a pivotal role in pursuing the objectives of the Eurosystem. As from 1 January 2009, the rate for the main refinancing operations replaced the NBS base rate.

Marginal lending facility – a facility for obtaining overnight liquidity from a national central bank against eligible assets. Access to the facility is usually limited only by the requirement to submit sufficient eligible assets. Under normal circumstances, the interest rate on the facility provides a ceiling for the overnight market interest rate.

MFI claims on residents – MFI claims from residents other than MFIs (including the general government sector and the private sector) and securities issued by residents other than MFIs (stocks and other equity and debt securities) held by MFIs.

Minimum reserve requirement – financial reserves held by banks, branches of foreign banks, building societies and electronic money institutions on accounts with the central bank. It is a monetary policy tool with the level set by the central bank for each minimum reserve holder.

Monetary financial institutions (MFI) – financial institutions which together form the money-issuing/generating sector. These comprise the central bank (NBS), credit institutions (banks and branches of foreign banks) and all other financial institutions whose business is to receive deposits or redeemable funds from entities other than MFIs and, in their own name and for their own account, to extend credit and invest in securities (in particular money market funds).

NUG – a forum for national financial market participants' work on T2S project.

Number of turnarounds of euro banknotes (euro coins) of a given nominal value for a given year – the number of euro banknotes (euro coins) of the given nominal value received during the given year divided by the average cumulative net issuance of euro banknotes (euro coins) of the given nominal value.

Own funds adequacy – the ratio of own funds to risk-weighted assets (must not fall below 8%). The adequacy of own funds is an indicator of smooth functioning of a financial institution in the future, i.e. an indicator of its financial strength and credibility.

Parent company – a legal person controlling, i.e. holding over 50% of equity or voting rights in another legal person, or the right to appoint or dismiss the majority of the members of its statutory body, supervisory board or another managing, supervisory or controlling body.

Pension pillar II – retirement pension schemes as a component of mandatory state pension insurance (funded defined contribution system).

Pension pillar III – a funded defined contribution system of supplementary pension schemes, enrolment in which is voluntary and which are supported by the state through tax relief.

Persons related to Národná banka Slovenska – legal or natural persons which are subsidiary accounting units of the NBS, affiliated accounting units, members of the NBS Bank Board, close relatives of a member of the NBS Bank Board, accounting units controlled, co-controlled or subject to the influence or significant voting rights exercised or held by members of the NBS Bank Board or their close relatives.

Portfolio investment – net transactions by residents and their holdings of securities issued by non-residents (assets) and net transactions by non-residents and their holdings of securities issued by residents (liabilities). They comprise equities and debt securities (bonds, bills of exchange and money market instruments). For investments to be considered portfolio investments, the interest in the company concerned must be lower than the equivalent of 10% of ordinary shares or voting rights.

POS terminal – technical equipment allowing payments by payment cards (Point of Sale).

Price stability – a year-on-year increase in consumer prices lower than a limit set by the ECB. As a medium-term target, the ECB seeks to maintain consumer price growth as measured by the HICP below 2%, but close to this level.

Regulated prices – prices and fees set by ministries or regulators (Network Industries Regulation Office, Slovak Post Office, Slovak Telecommunications Office, etc.) or by regional or local governments. They are included in the national consumer price index.

Reinvested earnings – consist of the share of a direct investor (relative to a direct participating interest) in profit not distributed as dividends by subsidiaries or affiliates and in profit of branches not distributed to the direct investor.

Repo operation – granting or receiving a loan against collateral in the form of securities.

RTGS (Real Time Gross Settlement) – a real-time gross settlement system.

SEPA (Single Euro Payments Area) – a single euro payments area the objective of which is to create a single internal market for cross-border euro payments.

Single licence principle – regulated foreign entities are allowed to perform activity on the territory of other member states of the European Economic Area, provided they have been granted a licence in a member state of the European Economic Area. These entities may provide services on the basis of an established branch or via free provision of cross-border services.

SIPS – interbank payment system operated by Národná banka Slovenska before the euro introduction.

SSP – Single Shared Platform – a technical platform on which TARGET2 is operating.

Stability and Growth Pact – was designed to ensure sound public finances during the third stage of the Economic and Monetary Union in order to facilitate price stability and a strong sustainable growth contributing to job creation. To that end, the Pact requires Member States to set medium-term fiscal targets. It also defines a specific excessive deficit procedure. The Pact consists of the resolution on the Stability and Growth Pact adopted at the Amsterdam summit of the European Council on 17 June 1997 and two Council regulations, namely (i) Regulation 1466/97/EC of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies as amended by Regulation 1055/2005/EC of 27 June 2005 and (ii) Regulation 1467/97/EC of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation 1056/2005/EC of 27 June 2005.

STEP2 – a European automated clearing system operated by the Euro Banking Association Clearing, designed to process cross-border euro payments.

Subsidiary – a legal person subject to control (a holding of over 50% of equity or voting rights in the legal person).

SWIFT – Society for Worldwide Interbank Financial Telecommunication – a provider of data infrastructure and technologies for the exchange of payment messages.

TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer) – a real-time gross settlement system for euro payments.

TARGET2 – a new generation of the TARGET system – a real-time gross settlement system for the euro with settlement in central bank money. It is functioning on the Single Shared Platform through which all payment orders received and payments accepted are technically processed in an equal way.

TARGET2–SK – the payment system of Národná banka Slovenska that is part of the TARGET2 system.

T2S – TARGET2 Securities – a technical platform for the settlement of security transactions.

Technical premium – the price agreed in an insurance contract irrespective of which financial reporting method is used for the contract.

Turnaround period – the number of months during which the volume of all banknotes returned by all banks to NBS equals the average cumulative net issuance of euro banknotes in a given year.

Unit-linked insurance – life insurance linked to an investment fund.

Yield curve – a graphic representation of the relationship between the interest rate/yield and the maturity of an asset with the same credit risk, but different maturities at a specific point in time. The slope of the yield curve can be expressed as the difference between interest rates applied to two selected maturities.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

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