



# 1 MONETARY POLICY IMPLEMENTATION AND INVESTMENT PORTFOLIO MANAGEMENT

As a member of the Eurosystem, Národná banka Slovenska is subject to the monetary policy set by the Governing Council of the European Central Bank. NBS conducts Eurosystem monetary policy operations in accordance with the ECB's indicative calendar for them. The assets accepted as collateral in such operations must be eligible, i.e. fulfil certain criteria, in order to protect the Eurosystem from incurring losses in its monetary policy operations and to ensure the equal treatment of counterparties, as well as to enhance operational efficiency and transparency. In this regard, the Eurosystem has developed a single framework for eligible assets common to all Eurosystem credit operations.

Under Eurosystem rules, all credit institutions in the euro area are required to hold minimum reserves on account with their respective national central bank (NCB).

## 1.1 MINIMUM RESERVE REQUIREMENTS

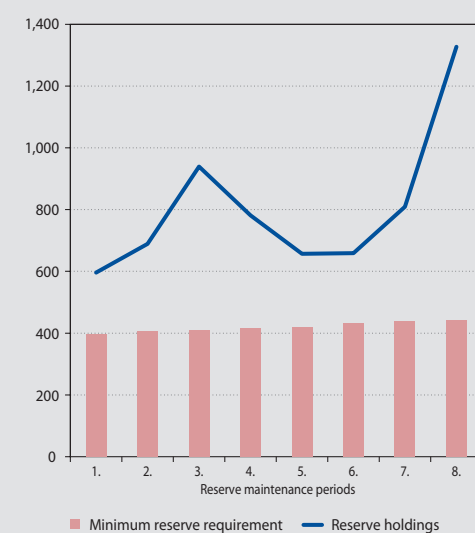
In 2015 the reserve requirement was 1% of the reserve base.

At the beginning of 2015 a total of 28 credit institutions in Slovakia were subject to minimum reserve requirements; they comprised 13 banks incorporated in Slovakia (including three home savings banks) and 15 branches of foreign credit institutions (including credit cooperatives). Their number had fallen to 27 by the end of the year, as the Royal Bank of Scotland N.V., a branch of a foreign bank, ceased its operation in Slovakia as of 30 April 2015.

Excess reserves started to be remunerated at a negative rate from 11 June 2014 and the rate remained negative throughout 2015, at -0.20% until 8 December and at -0.30% from 9 December.

The length of reserve maintenance periods in 2014 was either 28 days or 35 days, while in 2015 it was either 42 days or 49 days and the number of maintenance periods was reduced from 12 to 8.

Chart 12 Minimum reserve requirements and reserve holdings in 2015 (EUR millions)



Source: NBS.

The average minimum reserve requirement in 2015 was €420.32 million, around 7.8% higher than in 2014. The extent by which, on average, reserve holdings exceeded the reserve requirement increased to 92.0% in 2015, from 62.9% in 2014. The highest reserve holdings were recorded in the eighth and third maintenance periods.

## 1.2 ELIGIBLE ASSETS

The collateral eligibility criteria for Eurosystem credit operations underwent several significant changes in 2015. These concerned mainly the modification and further specification of eligible types of coupon structure, changes in the application of credit rating priority rules in assessments of asset eligibility, and an extension of the list of eligible asset issuers to include multilateral development banks and international organisations. In addition, a new class of eligible assets, namely 'non-marketable debt instruments backed by eligible credit claims (DECCs)', was introduced in the Eurosystem collateral framework. There were also several modifica-

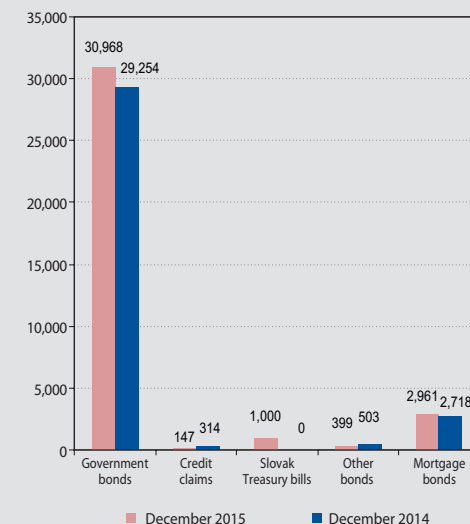


tions to the eligibility criteria for asset-backed securities (ABSs). While the above changes were significant in the context of the Eurosystem as a whole, they did not have a marked impact on eligible assets and monetary policy implementation in Slovakia.

The value of Slovak eligible assets was, on average, 7% higher in 2015 than in 2014 and it increased moderately towards the year-end. The total nominal value of these assets at the end of 2015 was €35,474 million, which in comparison with its level a year earlier was higher by €3,009.1 million. Slovak government bonds constituted almost 90.1% of these eligible assets, and mortgage bonds 8%. Slovak Treasury bills also featured among Slovak eligible assets at the end of 2015, unlike at the end of 2014.

The participation of Slovak banks in Eurosystem monetary policy operations did not change notably during 2015. It largely involved repaying longer-term refinancing operations conducted in 2011 and 2012 and participation in the new targeted longer-term refinancing operations (TLTROs). The value of the collateral pledged by domestic banks in Eurosystem operations was around 6% higher at end-2015 than at end-2014, and the average year-on-year increase was around 5%. Of that total, government debt securities made up al-

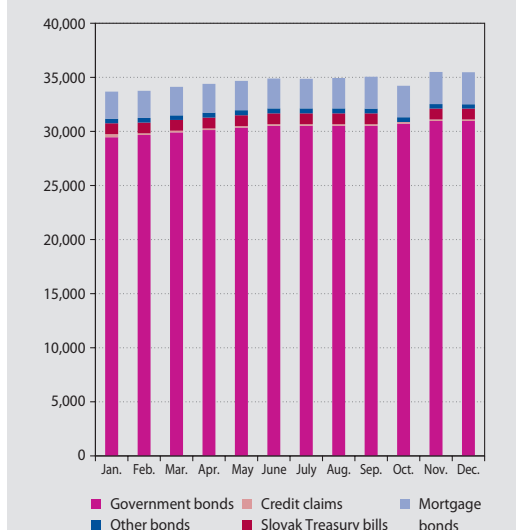
Chart 14 Composition of Slovak eligible assets in 2014 and 2015 (EUR millions)



Source: NBS.

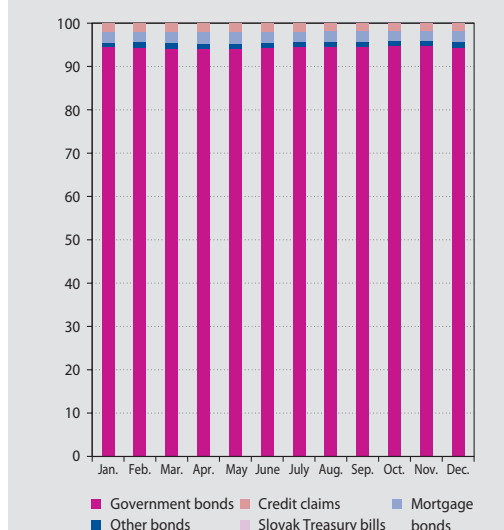
most 94%, a similar share to that recorded in 2014. The only notable change in the use of eligible assets in 2015 was in their breakdown by country of issuer. As a proportion of the total amount of assets pledged as collateral, securities issued in the domestic market increased from 87% in 2014 to around 94% in 2015. Slovak counterparties used a collateral pool to manage their collateral.

Chart 13 Composition of Slovak eligible assets in 2015 (EUR millions)



Source: NBS.

Chart 15 Use of eligible assets in 2015 (%)



Source: NBS.



**Chart 16 Use of domestic and foreign eligible assets (%)**



Source: NBS.

### 1.3 INVESTMENT PORTFOLIO MANAGEMENT

Národná banka Slovenska manages its investment assets with the aim of ensuring that its investment portfolios contribute positively to the bank's overall financial result. The total value of NBS's investment portfolios as at 31 December 2015 was €6.8 billion (at corresponding exchange rates and with securities at nominal value).

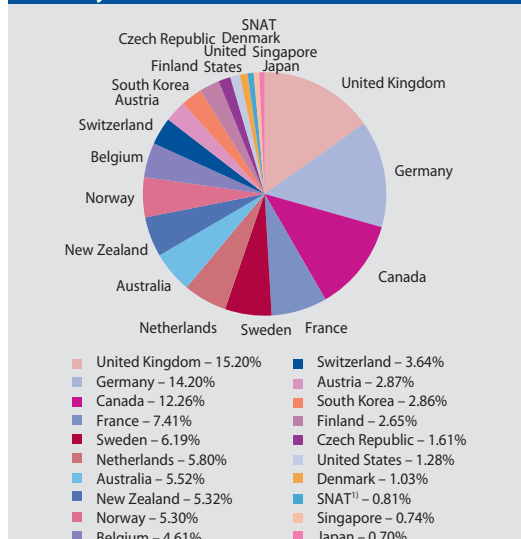
In managing its portfolios, NBS applies the principles laid down in the NBS investment strategy approved in 2008 and updated in 2014. In the case of the euro-denominated portfolio, containing 82.3% of NBS's overall investment assets, interest rate risk is managed in a standard way through interest rate swaps and futures contracts. The return on the euro-denominated portfolio in 2015, after taking into account interest expenses and hedging, stood at 0.16%.

**Chart 17 Total value of NBS investment portfolios in 2015 (EUR billions)**



Source: NBS.

**Chart 18 Euro-denominated portfolio as at 31 December 2015 – broken down by country of issuer**



Source: NBS.

1) SNAT – supranational institutions.