

ECONOMIC AND LEGAL ASPECTS INFLUENCING THE FINANCIAL MARKET IN SLOVAKIA

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Abstract

As worded in the title, the contribution submitted deals with the currently important field of the financial market, which has influence on the development in EU and also in the whole world. This market follows the respective principles and aspects which have an effect on it alongside with economic and legal questions being valid only for the particular country or for all parties concerned. The theoretical knowledge and experience acquired in this field are confirmed in the contribution with results and conclusions drawn from concrete cases in the financial market in Slovakia and viewed from the aspect of the present economic period. The contribution brings conclusions and, at the same time, points out to principles which should be respected from the viewpoint of economic and legal rules during dealings and, in general, during all actions developed in the financial market.

Key words: bank sector, credit risk, economic factors, financial market, labour market, legal aspects.

Introduction

The financial market is the market with financial means that is the one, in which some people are offering them and some are buying. (Chovancová, et al., 2006) The market is a place where the sale and purchase of different products are realized. The product is any object which is able to satisfy the needs or wishes of customers and can be offered in the market (Jílek, 2008). The greater the products' ability to meet wishes of buyers, the higher is their success. There exist the real estate market, automobile market, grain market, labour market, stock market, insurance market and many others. Traders can receive orders from the hundreds of customers and dispatch the goods either by post, or they can arrange the sale of products and services through the more and more favourable Internet (Špírková, & Zajacová, 2010).

The financial market is functioning according to the mechanism based on the one hand on market principles ensuring the meeting of an offer with a demand, which results in the balanced prices of financial instruments and services, and on the other hand on regulative state elements determining the general rules of the financial market in operation. The aim of these rules is to achieve the market functionality and also the protection of investors. The before-mentioned financial institutions are state-regulated companies which operate in the financial market and have legal subjectivity. They are including also commercial banks and the central bank in the territory of the Slovak Republic. The commercial banks are considered to be one of the most important subjects in the financial system and receive an extraordinary attention. Together with the central (national) bank they constitute a bank system. The Central Emission Bank is a managerial centre of the bank system. It manages other banks mainly by means of indirect economic instruments. The central bank can be constituted as one bank – in unitary states - or as a system of emission banks – in federal states (for example, FED – Federal Reserve System in the U.S.A.). Its clientele represents a state and commercial banks. Other economic subjects get into contact with other types of banks (Bondareva, Zatrochová, 2011). The next

regulation and control body is the ministry of finances which elaborates a state budget, takes care of the state's financial needs, takes part in the creation of the legislative framework, ensures the collection of taxes, which are the main source of the state finances, and of course, it has also the control function. The activity of individual parts of the financial system is supervised also by specialized organizations – supervisory bodies -, which are designed to ensure the maximum transparency and the adherence to the established “rules of the play”.

The whole course of research carried out in the field of the financial market complies with the state legislature, i.e. with fundamental laws which are valid in the Slovak financial market. It is primarily the Law for the Financial Market Office No.329/2000 and the Law for the Supervision over the Financial Market No. 747/2004, Collection of Laws.

Methodology of Research

In the sphere of investigation carried out to find out the situation in the financial market many unsolved questions were detected. Their initial status was examined by using basic scientific methods incorporating a cycle of gathered empirical data, their classification and processing. The research methods enable one to formulate the new recognition, its elucidation and classification into outputs in the form of diagrams and tables. In the indicated output (of the paper) the fundamental experimental method based on the current state of the financial market in Slovakia was used. It analyzes the market financial situation, outlines basic problems and subsequently processes outputs by a logical deduction, and, of course, it also summarizes conclusions in the given field.

Results of Research

From among all problems occurring in the field of the financial market the two of them were chosen as an object of our research. It was primarily the problem concerned with the regulation of the financial market in the area of punishment imposed by a state organ and the problem existing in a bank sector in the area of the analysis of credit risks which were experienced by households in the years of 2010 and 2011.

1. Regulation of the financial market in the area of punishment by a state organ

In agreement with maintaining the “order” in the financial market, its subjects functioning on a worldwide scale are liable, to a large or small extent, to a certain form of the regulation. The regulation is applied through the determination of fixed rules (deliberate business activities) or limitations of the specific activities executed by these subjects. It is obvious that by setting the rules (regulation) the indicated process does not end but goes on by a supervision, i.e. by a permanent control of the adherence to these rules. If they are broken, the supervision authorities have at their disposal adequate sanctions which must or can be imposed to supervised subjects.

The next Table 1 characterizes the basic factors influencing the financial market and, on the other hand, describes the manner in which these factors influence the financial market development.

Table 1. The basic factors influencing the financial market.

Factors	Manner in which factors influence financial markets development
1.Regulatory framework	Corporate governance
2.Fiscal and exchange rate policies	Controlled exchange rates
3. Trade patterns	Market stability
4. Insufficient information	Rational decisions on assessing products in the financial market
5. Regulatory service	Decrease of the risk arising from the incorrect investment
6. Legal form	Effective supervision over the financial market

The problem of the legal form of punishment executed in the field of the financial market needs to be elaborated in a more detail and thus to be helpful to state authorities on applying this part of the law. Such a state results from many factors which can be justified by the fact that:

- established offices represent a relatively new type of the financial market institutes governed by the “young” legal form including legal sanctions imposed in this field,
- in this connection the interpretation of some financial-legal provisions, which are harmonized with the European law, is problematic,
- there exists a small and non-differentiated financial market, in the individual segments of which still dominates banking (in the Slovak Republic, commercial banks administer ca. 80 % of all financial assets); **the capital market is characterized by a low rate of liquidity** as well as by a small number of traded titles, which results in the rare acts (for example, manipulation with the stock-market rate, misuse of the confidential information, etc.),
- as a consequence of the above-indicated problems there exists the insufficient practical experience of some financial market institutes in relation to their participants or to subjects which are competent to impose sanctions against potential unlawful acts occurring in the financial market,
- an important factor can be the insufficient education level of the financial market participants and of the employees of organs authorized to impose sanctions.

The main problem is the inclusion of a legal form of the punishment imposed in the financial market from the aspect of the taxonomy of legal branches. The purpose of the punishment imposed in the financial market is primarily its protection and also the protection of its participants by using preventive or repressive means of the public authority. The protection is ensured on the basis of both legal criminal norms and public sanction norms which do not belong to the criminal sphere. From the aspect of the aim it can be concluded that the latter norms involve public legal sanctions which are an object of the regulation according to the public law. The legal criminal norms used in the financial market are identifiable in the criminal material codex incorporating the Law No. 300/2005, Collection of Laws, and the Criminal Law in the wording of later rules and regulations which is based on the concrete facts of criminal acts. From the viewpoint of the financial market segmentation criminal acts (criminal or juridical torts) can be classified into *criminal acts committed in the monetary market* (in the sphere of the system of payments and in the sphere of credit trades), *criminal acts committed in the capital market* (for example, defalcation, fraud, capital fraud, legalization of the income from the criminal activity, illegal business, misuse of the information in business contacts, falsification,

fraudulent alteration and the illegal production of securities), *criminal acts committed in the exchange market* (illegal trading with securities and the provision of exchange services, menace of the exchange economy) and *criminal acts committed in the insurance market* (insurance fraud, unlawful reduction of the tax and insurance premium, avoidance of the tax payment and insurance premium).

The problem of the above-mentioned regulation of financial markets falls within a set of legal provisions and the supervision over the financial markets belongs to the competence of the legal form constituting a part of the financial law. From this point of view it is necessary to indicate the application of financial-legal sanctions, the range of which is wide and does not contain only financial recourses. In our country, the sanctions are imposed by the National Bank of Slovakia (NBS) within the performance of its integrated supervision over the financial market. It imposes sanctions of the administrative character to financial mediators or to other persons. On defining this character it is necessary to realize that the NBS, which is allocated the supervision powers, is a public administration body conducting the special administrative proceedings in the matter of sanctions assessed according to laws regulating the financial market.

2. The credit risk of households in the bank sector in the years of 2010 and 2011

The credit risk of households can be defined as their ability to remit their commitments to banks. This ability depends on many factors, the significance of which varies in the course of time. In the last period a very important development was observed in the labour market influencing the incomes of households. In this connection an important role is attributed to the rate of indebtedness which points to the ability to resist to the negative development. The provision of credits is accompanied with a growth of the sensitivity of households to credit rate changes, especially in the case of the short fixations of credit rates. The analysis of the sector of Slovak households, which was made for the year of 2009, showed that during all the year the population was exhibited to a relatively great pressure on repaying its credits although **the first half of the year brought some release. Despite unfavourable labour market conditions some positive trends were recorded.** This was caused by a slowdown of the growth of unemployment and by a slower decline of employment. The development of employment in the further period was already positively perceived by companies. This, of course, reflected also in the development of the incomes of households which started to increase in comparison with the year of 2009.

During the crisis, the development of the fund of working hours showed itself to be significant for the total financial position of households because the Slovak economics experienced an enormous decline in the above-indicated hours. Changes in the individual months of working hours led, mainly in the second quarter of the year of 2010, to positive values. However, the number of working hours did not achieve a level before the period of the crisis, especially in the industry.

The situation started to change also in the area of the incomes of inhabitants. In the second quarter of the year of 2010 the incomes in most of the main branches increased in comparison with the former year. At the level of the whole economy a decline of incomes stopped and in the last two quarters of the year the situation considered in this respect became stable.

In the sphere of the credit risk of households were observed during the first half of the year of 2010 more positive than negative trends, particularly the improved ability of households to remit their commitments to banks. In the bank sector this reflected in the development of failed credits. The total volume of failed credits, their increment in individual months of the year, and their proportion in the total volume of provided credits decreased. In this sphere the development of Slovakia is much different from that in neighbouring countries. Central banks in the Czech Republic, Hungary and Poland are reporting the deteriorated quality of the credit

portfolios of households. This refers primarily to the combination of failing credits provided at the time of loosened standards before the crisis as well as during the stagnation of the labour market and the higher proportion of credits in foreign currencies. For the development of the credit risk it is characteristic that in the first half of the year of 2011 no remarkable changes in the unemployment occurred. On the other hand, the unemployment structure points to several unfavourable trends in the ability of households to repay their credits to banks. This state is characterized in Table 2.

Table 2: Factors influencing the ability of households to repay credits.

Credit type	June 2011	December 2011	January 2012
Overdraft of credits	9,70	9,10	8,81
Consumer credits	12,77	10,08	9,89
Mortgage credits	3,14	2,79	2,76
Building credits	1,61	1,57	1,58
Intermediate credits	6,07	6,20	6,45
Other credits for real estates	3,59	3,24	2,75

Source: Processed according to the NBS data.

An important phenomenon is also the comparison of the current state of unemployed people with a level before the crisis. While the present state of unemployed people belonging low income categories approached the levels before the crisis, the state of unemployed people belonging to medium and higher income categories is much better than the state before the crisis. This suggests that many households with granted credits are in the deteriorated financial position and probably will remit their commitments only with difficulties. On the other hand, in the first quarter of the year of 2011 the more positive trends were observed in the employment of people. Most of the sectors reported inter-annual increments. However, the total employment is still below the level existing before the crisis. When considering the whole economy, the total employment at the end of the first quarter of the year of 2011 was by 6 % lower than that before the crisis in the third quarter of the year of 2008.

Discussion

The total indebtedness of households in Slovakia measured by the proportion of debts in their gross disposable incomes still belongs to the lowest one in the European Union. The essential part of the debt, i.e. approximately 92 %, was developed in relation to local banks. The significance of other local financial mediators (installment companies, leasing companies, etc.) has decreased in the last two years. In this period, the dominant financial position of banks towards households has risen considerably, which can be accounted for by the higher interest of households in credits for housing and also by the fact that the importance of short-term credits of the consumer character diminished. From the aspect of the credit risk the measure of the indebtedness of households that were granted credits is crucial. The higher the burden of incomes caused by installments the less resistant are households to negative trends including the increase of unemployment or the growth of credit installments caused by the rising interest rates. In the case of credits for housing the level of a debt burden of disposable incomes brought about by installments was at the end of the year of 2010 about 26.7 %. It means that the debt

value in 2010 increased in comparison with the year of 2009 when it represented 24.6 %. In the year of 2010 the rate of a burden was the highest for the low-income households and also the highest in comparison with the former year. Considering the credit risk in banks it is important to know that this vulnerable group of clients took the minimum share in the total volume of credits for housing (about 10 %).

Conclusions

For the purpose of assessing the ability of households to resist to selected shocks the tests of susceptibility were performed. The assessment was made to indicate the impact of the growth of interest rates and of the increase of inflation and unemployment per ratio of credit installments towards disposable incomes. The noticeable impact was caused mainly by the increase of interest rates and the inflation shock. The high susceptibility was perceived by the low-income group which, at the same time, reported the most remarkable growth of the volume of failed credits. It is obvious that the higher unemployment does not increase the average indicator of the burden value. On the other hand, it is possible that a crucial decrease of the incomes of selected households can lead to a higher proportion of households, in which the installments might exceed their incomes also in other income groups. Based on the basic research the contribution presented could help summarize the data concerned with a description of problems occurring in the financial market in Slovakia.

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