

REPORT ON MONETARY DEVELOPMENT IN THE SR IN THE 1ST HALF OF 2003

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INTRODUCTION

Macroeconomic development in the first half of 2003 was considerably influenced by the forthcoming accession of Slovakia to the European Union, both in terms of the implementation of policies necessitated by the process, and in terms of the formation of expectations on the part of economic entities. The most important steps of the economic policy resulting from the commitment of Slovakia as a future member of the EU were particularly the implementation of adjustments to regulated prices and launching the process of consolidation of public finances and changes with regard to indirect taxes related thereto.

These steps markedly contributed towards the acceleration of year-on-year dynamics of inflation (from 3.4% in December 2002 to 8.4% in June 2003) on the one hand, but also showed in an improved structure of economic growth, favourable relationship between the development of labour productivity and real wages, as well as in expectations of foreign investors on the other.

Administrative adjustments to regulated prices and indirect taxes contributed towards year-on-year inflation rate by more than 71%. By way of secondary cost effects, the adjustments to regulated prices were also reflected in the development of core inflation, notably in the sector of market services. Accelerating dynamics of core inflation (to 3.1% in June 2003 over 1.9% in December 2002) was also influenced by an increase in indirect taxes envisaged since August, particularly those on tobacco and tobacco products, where, as a result of growing demand, the prices of cigarettes were raised already in June. All in all, the price development in the first half of the year was mainly determined by cost factors, without a more distinct action of demand forces.

Increased spending of households on goods to regulated prices had a favourable impact on absorbing demand pressures in the economy. This, together with a relatively dynamic growth of labour productivity that surpassed the growth of real wages, translated into an improved structure of economic growth and competitiveness of the Slovak economy.

Whereas last year domestic demand, including final consumption, posed an important factor facilitating economic growth, in the 1st half of 2003 the impact of domestic demand on GDP growth was zero. Measures of the economic policy adopted in respect of regulated prices and the consolidation of public finances thus translated into decelerated growth of final consumption of households and general government. It was exactly the dynamic growth of these two components of GDP in 2002, largely due to unbalanced wage developments in the public and private sectors that created the risk of excessive demand pressures being formed in the economy. The development of domestic demand in the 1st half of 2003 was also influenced by lowered demand for investment. In terms of the structure of gross fixed capital, there was nevertheless an increase in investment into residential buildings, and notably structures predominantly in the nature of infrastructure, which could provide an impetus for further development in the future also with regard to investment into machinery and technologies.

Despite the stagnating domestic demand, Slovakia is one of the fastest growing economies in the region, with the real gross domestic product increasing by 3.9% in the 1st half of the year. Although economies of the majority of our trading partners are in recession, the growth

of Slovak economy was determined by a markedly accelerated dynamics of exports of goods and services. In spite of a relatively high increase in imports, which was however mainly related to a higher export performance, this translated into a distinct improvement in the balance of net exports. In the 1st half of 2003, its surplus at constant prices reached SKK 10.9 billion compared to a deficit of SKK 7.4 billion in a corresponding period of the previous year. The high dynamics of exports, surpassing the growth of imports, was also reflected in a decreased deficit on the current account of the balance of payments, whose share in GDP reached 1.3% in the 1st half of the year in comparison with 7.9% in a corresponding period of the previous year. This change in the structure of economic growth in the 1st half of 2003, together with the envisaged continuation of economic reforms, thus creates prerequisites for its sustainability in the long run.

The progression of integration process and implementation of necessary measures with regard to economic policy have also been reflected in expectations of economic entities, notably those from abroad. On the one hand, there is a growing interest of foreign investors in direct investment in Slovakia, which has a key importance in terms of strengthening the competitiveness of our economy and catching up with the economic standard of highly developed countries. On the other hand, the process of integration and its credibility has also aroused interest in speculative investment striving to make use of interest differential, as well as to realise potential exchange rate gains, provided that Slovak koruna is appreciated. A mild strengthening of the local currency is a natural side effect of economic convergence drawing upon a more rapid growth of labour productivity in the catching-up economy. However, a surge inflow of short-term capital aiming at foreign exchange gains tends to markedly divert the rate of appreciation of exchange rate from its equilibrium level determined by economic fundamentals. Due to the formation of such unfounded pressures towards the appreciation of Slovak koruna, the NBS entered into the market several times during the 1st half of the year in order to perform foreign exchange intervention and stabilise the exchange rate development. The exchange rate of Slovak koruna against euro was therefore not changed in any significant way from the start of the year. The accelerated growth of prices was reflected in a notable appreciation of real effective exchange rate.

Generally the macroeconomic and monetary development was in line with projections of both the Monetary Programme of the NBS and its update. The accelerated price growth was mostly influenced by administrative factors, with demand-driven pressures being dampened through the impact of rising regulated prices on purchasing demand on the part of households in the situation where there was a favourable relationship between the development of wages and labour productivity. Although the development in the 1st half of the year did not suggest formation of demand-related pressures, propensity to saving further diminished in favour of consumption during this period. Regarding these factors, as well as current predictions of economic and monetary development, the Bank Board of the NBS considered the current level of key interest rates to be adequate and did not proceed to change them during that period.

As for monetary policy instruments, the NBS continued the process of their harmonisation with the ECB instruments. With effect from 1 January 2003, the rate on minimum required reserves was reduced to 3%.

The Slovak Republic will become a member of the European Union within a relatively short period of time. The signing of Treaty of accession to the EU gives rise to Slovakia obligation to join the Economic and Monetary Union (EMU). In this context, the NBS, in co-operation

with the MoF SR, elaborated a document „Strategy for the adoption of euro in the Slovak Republic“, which was discussed by the Government of the SR. At a session held on this document by the Government, Joint Communiqué of the Government of the SR and the NBS concerning the procedure for joining of Slovakia into the euro zone has been approved. The Government of the SR and the NBS noted that entry into the euro zone should provide an important impetus for healthy growth of the Slovak economy, with advantages following from the membership outmatching its disadvantages. The Slovak Republic should therefore introduce euro at an earliest possible date on meeting the Maastricht criteria in a sustainable way.

1. ECONOMIC DEVELOPMENT

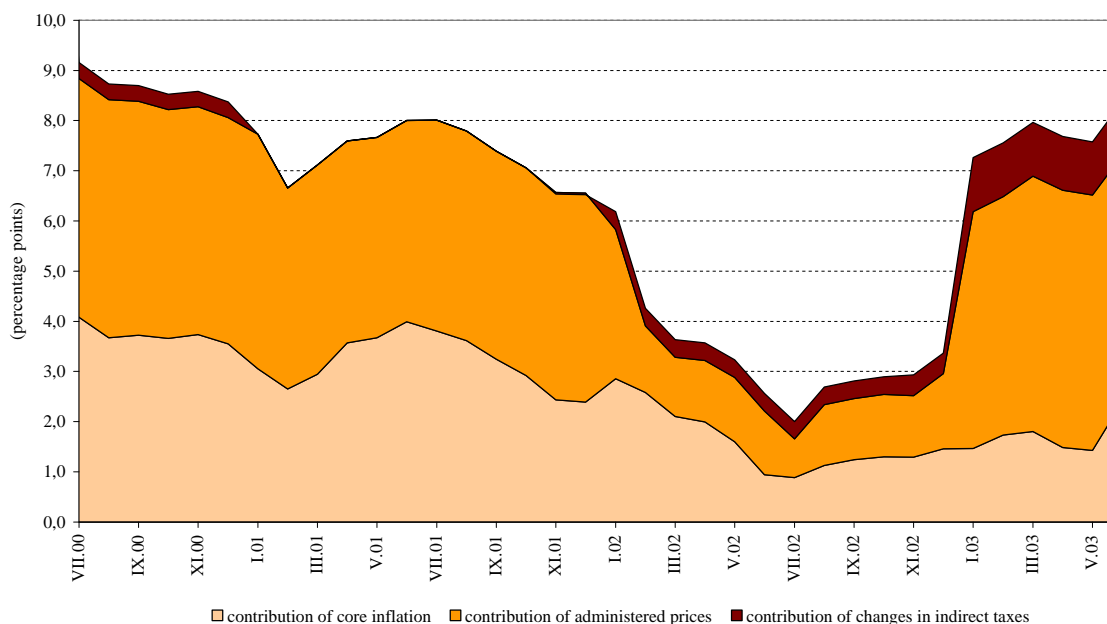
1.1 Price Developments

Consumer prices

A year-on-year inflation rate, as measured by the Consumer Price Index, stood at 8.4% in June, having increased by 5.0 percentage points over December 2002 (3.4%). The sector of regulated prices contributed to the year-on-year increase in consumer prices recorded in June by 4.92 percentage points, the impact of changes in indirect taxes was 1.07 percentage points, and core inflation contributed by 2.40 percentage points. Per annum inflation rate in the 1st half of 2003 averaged 7.7% (being 3.9% in a corresponding period of the previous year).

As for inflation development, the situation in the 1st half of 2003 was mainly determined by domestic cost factors, which to a considerable extent had to do with administrative measures in the area of regulated prices and indirect taxes (excise duties and the value added tax). In terms of external factors, the growth of crude oil prices in the first months of the year was driven by the situation in the Near East, yet partly moderated by the appreciation of Slovak koruna against US dollar.

Structure of Annual Inflation



Consumer prices – year-on-year increase

	Constant weights (%)	XII-02	I-03	II-03	III-03	IV-03	V-03	VI-03
Total	100.0	3.4	7.3	7.6	8.0	7.7	7.6	8.4
Regulated prices (%)	20.7	6.5	20.4	20.6	22.0	22.3	22.1	21.3
<i>Share of total (percentage points)</i>		1.50	4.72	4.75	5.09	5.13	5.08	4.92
Impact of changes in indirect taxes on non-regulated prices - share of total in percentage points		0.41	1.08	1.07	1.07	1.07	1.06	1.07
Core inflation (%)	79.3	1.9	1.9	2.3	2.4	1.9	1.9	3.1
<i>Share of total (percentage points)</i>		1.46	1.46	1.73	1.80	1.49	1.43	2.40
of which: Foodstuffs (%)	21.4	-0.2	-1.0	-1.4	-1.4	-1.7	-1.5	0.7
<i>Share of total (percentage points)</i>		-0.04	-0.22	-0.29	-0.29	-0.35	-0.31	0.15
Tradable goods (%)	39.5	2.8	3.4	3.1	3.0	1.9	1.7	2.9
<i>Share of total (percentage points)</i>		1.05	1.25	1.15	1.11	0.70	0.61	1.08
Market services (%)	18.5	2.5	2.4	4.8	5.2	6.1	6.1	6.3
<i>Share of total (percentage points)</i>		0.45	0.44	0.88	0.97	1.14	1.12	1.17
<i>Net inflation (excluding the impact of changes in indirect taxes)</i>	58.0	2.7	3.0	3.6	3.8	3.3	3.1	4.0
<i>Share of total (percentage points)</i>		1.50	1.68	2.02	2.09	1.84	1.74	2.25

Source: Statistical Office of the SR (SO SR)
 1/ Calculations made by the NBS based on the SO SR data.
 Net inflation – includes price increases in the sectors 'tradable goods' and 'market services'.

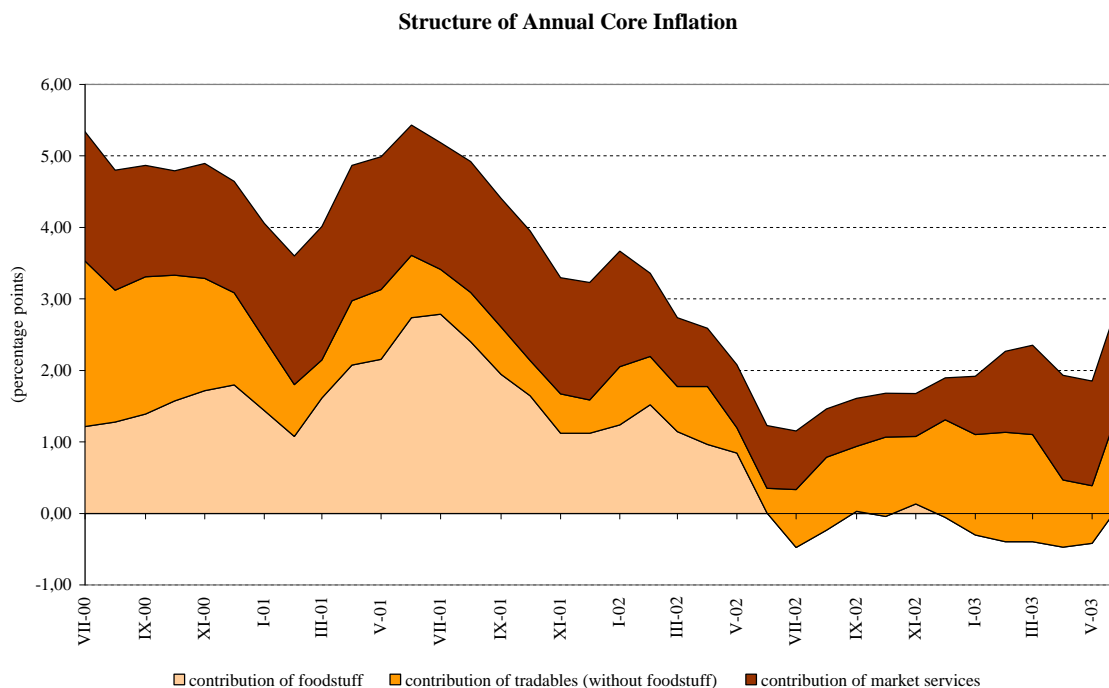
Core inflation

In June 2003, a year-on-year rate of core inflation increased by 1.2 percentage points, i.e. to 3.1% over December 2002. Prices in individual segments followed a different course of development.

Both in December 2002 and during the first five months of the year, a year-on-year decline was observed in prices of foodstuffs due to the lowering farmer prices for both crops and livestock production. This tendency was discontinued in June 2003, when the prices of foodstuffs rose 0.7% year-on-year. This was notably caused by an alleviated year-on-year fall in prices of unprocessed foodstuffs (meat, fruits and vegetables) as a result of their more marked seasonal decline in June of the previous year (the so-called baseline effect).

In June, prices in the tradable sector increased by 2.9% year-on-year (in December 2002 by 2.6%). It was first of all the development of prices of motor fuels, whose half-yearly average prices have practically not changed from one year to another, that had a stabilising effect on their development. Accelerated dynamics of prices of tradable goods in June was largely facilitated by rising prices of cigarettes as a result of a growing demand prior to the raising of excise duties due in August.

A year-on-year increase in the prices of market services speeded up, from 2.5% in December 2002 to 6.3% in June 2003. This increase was chiefly caused by secondary effects of administrative measures (increase of regulated prices and indirect taxes) Besides that, the price development in June was also influenced by higher prices of training and education (growing charges for admission exams to institutions of higher learning) and recreation in Slovakia.



Regulated prices and indirect taxes

In June 2003, the rate of year-on-year growth of regulated prices increased to 21.3%, whilst reaching 6.5% last December. The sector of regulated prices therefore constituted the most significant component of price growth, accounting for almost 60% of the year-on-year inflation. The regulated prices were influenced by a larger scope of their adjustments compared to 2002. January saw increases in the regulated prices of electricity, gas, heat, passenger bus and rail transport, water and tapping. The prices of catering in school canteens and accommodation on campuses of institutions of higher learning rose as well. In subsequent months, the prices of rental in state and municipal apartments, public transport and health care were raised.

Beginning with January 2003, excise duties on tobacco, beer, mineral oils and wine were concurrently raised, and rates of the value added tax were revised (from 23% to 20%, and from 10% to 14%). Their overall contribution to increases in excise duties during the first six months of this year was 1.07 percentage points. Administrative measures (changes in regulated prices and indirect taxes), taken as a whole, accounted for more than 71% of the year-on-year inflation in June.

Producer prices

Industrial producer prices

In the 1st half of 2003, industrial producer prices were influenced by growing pressures due to both internal and external cost factors. Domestic factors dominated, since as a result of deregulation, the prices of electricity, gas, steam and hot water were significantly increased. The elimination of price deformities was more marked than in 2002, since the price

dynamics in the given sector rose by 7.7 percentage points to 17.2% from one year to another. This also contributed, by major part, to the rising of prices of manufactured products by 2.9% on the average compared to a year ago (where in the 1st half of 2002, a decline by 0.1% was recorded). Also, the prices of raw minerals saw an increase compared to a year ago (by 4.0%), their dynamics was however 2.5 percentage points slower than in a corresponding period of the previous year.

Development of producer prices

Average price index (corresponding period of previous year = 100)	1. half of the year	
	2002	2003
Industrial producer prices	102.0	108.4
- prices of manufactured products	99.9	102.9
- prices of raw minerals	106.5	104.0
- prices of electricity, gas, steam and hot water	109.5	117.2
Prices of construction work	105.2	105.2
Prices of construction materials	103.5	103.7
Prices of agricultural products	100.0	93.0
- prices of crop production	95.8	95.1
- prices of livestock production	100.7	92.6

In addition to greater cost of energies in Slovakia, the increases of prices of manufactured products were also affected by the high price of crude oil in global markets (with its level over the first months of the year being impacted by the situation in the Near East), which was dampened by the appreciation of an exchange rate of Slovak koruna against US dollar. Owing to the said factors, it was notably the prices in sectors involved in the processing of energies from raw materials that grew most, with the largest increase (of 6.5%) occurring in prices of refined petroleum products. Also the prices of basic metals and fabricated metal products, products made of rubber and plastics as well as other non-metallic mineral products grew faster than the sector average.

The industrial producer prices were influenced by a relatively small growth of prices of the food products, beverages and tobacco (by 2.5%). As for individual groups of processed foods, the prices of dairy products, processed fruits and vegetables and beverages increased, whereas the prices of meat products, milling products, starch and starch products as well as those of prepared animal feeds declined.

Construction prices

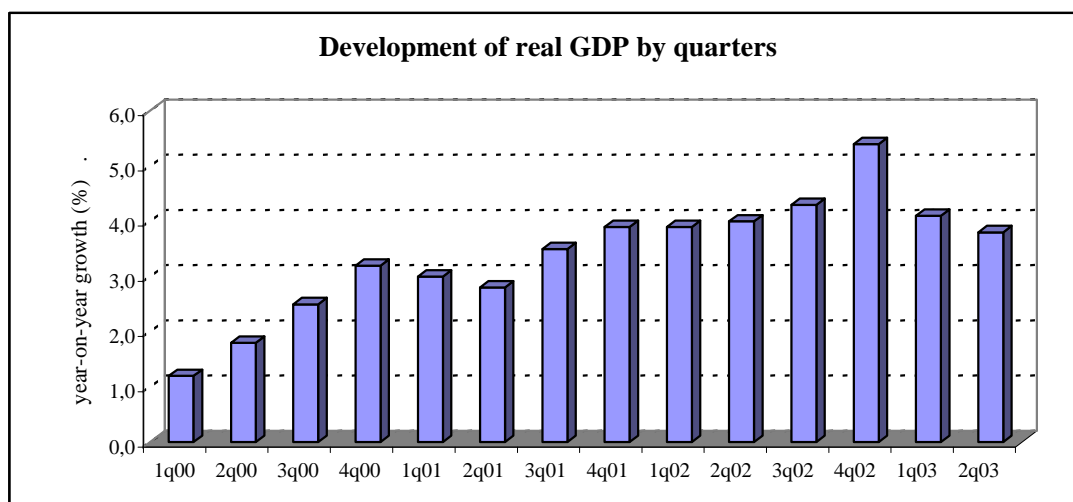
Like in the same period of previous year, the prices of construction work in the 1st half of 2003 saw a year-on-year increase of 5.2%. As for new construction, the prices of civil engineering work saw the most marked increase (6.2%, especially on account of the work on railways), and the prices of work on residential buildings grew least (4.2%). In terms of products classification by activity, the most distinct increases were observed in the case of prices of site preparation work (by 5,6%) and of carcassing (buildings and civil engineering structures by 5.5%). Producer prices of materials and products used in construction increased by 3.7% on the average (and by 3.5% in a corresponding period of the previous year), since the prices of materials used for construction repair and maintenance happened to be higher by 4.3% and material inputs for new construction, modernisation and reconstruction went up by 3.5%.

Prices of agricultural products

In the 1st half of 2003, prices of farming products decreased by 7.0% on a year-on-year basis (whilst not changing in the 1st half of 2002) as a result of reduction in the prices of livestock production (by 7.4%) and crop production (by 4.9%). The prices of livestock production mainly decreased due to lower prices of pigs for slaughter (by 18.6%), where their considerable falling was not even stopped by intervention purchases of pigs made by the Agricultural Intervention Agency in the 2nd quarter. Also the prices of poultry for slaughter and cattle for slaughter including calves were lesser than a year ago. A decline in the prices of crops production was notably related to lower prices of grains (by 6.3% on the average). This was caused by supply predominating over demand, since the processors, holding sufficient stocks, did not purchase grains or only purchased smaller quantities.

1.2 Gross domestic product

According to preliminary data from the Statistical Office of the SR, the gross domestic product at constant prices in the 1st half of 2003 increased by 3.9% year-on-year, thus reaching the same real economic growth as in the 1st half of 2002. Whereas in the 1st quarter of 2003, the real GDP rose by 4.1%, in the 2nd quarter its dynamics slowed down to 3.8%.



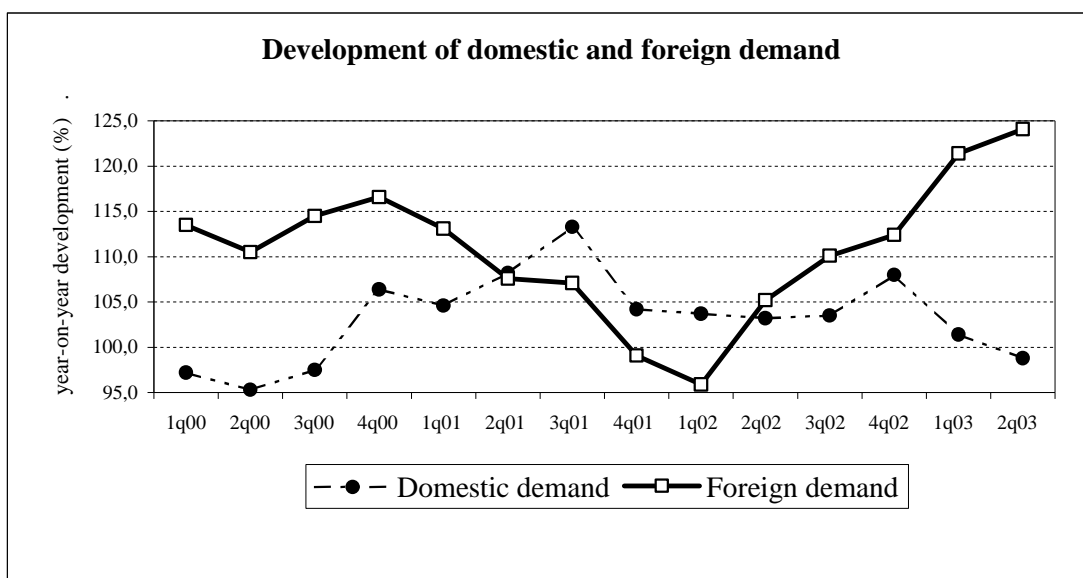
Demand

As for its use, the development of GDP was exclusively driven by foreign demand, with domestic demand stagnating at the level from a year ago. A year-on-year increase in foreign demand at constant prices reached 22.8%, the most rapid growth ever since 1994, and its pace in the 2nd quarter accelerated even more compared to the preceding quarter.

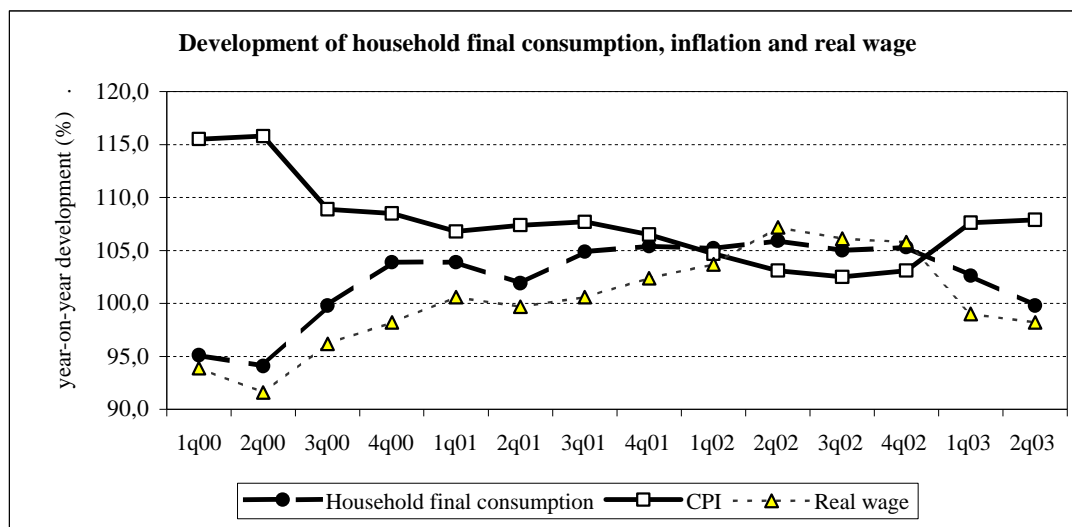
Development of gross domestic product by use* (index, y-o-y change, c.p.1995)

Indicator	1.Q 02 1.Q 01	2.Q 02 2.Q 01	3.Q 02 3.Q 01	4.Q 02 4.Q 01	2002 2001	1.Q 03 1.Q 02	2.Q 03 2.Q 02	1-2.Q03 1-2.Q02
Gross domestic product	103.9	104.0	104.3	105.4	104.4	104.1	103.8	103.9
Domestic demand	103.7	103.2	103.5	108.0	104.7	101.4	98.8	100.0
Final consumption	105.3	106.3	104.3	104.0	104.9	102.4	99.6	100.9
Final consumption of households	105.2	105.9	105.0	105.3	105.4	102.6	99.8	101.2
Final consumption of general government	105.7	107.7	102.7	101.2	104.0	101.7	98.8	100.1
Final consumption of non-profit institutions serving for households	99.7	100.3	98.0	98.1	99.0	103.5	108.6	106.0
Gross capital formation	100.0	96.6	101.7	120.9	104.1	98.7	96.9	97.8
Gross fixed capital formation	99.2	100.1	98.8	98.5	99.1	98.0	99.6	98.9
Exports of goods and services	95.9	105.2	110.1	112.4	105.9	121.4	124.1	122.8
Imports of goods and services	94.6	104.2	109.9	111.9	105.3	116.4	115.3	115.8

* SO SR retrospectively adjusted the value of final consumption of general government, final consumption of non-profit institutions serving for households and the value of statistical discrepancy for the 1st quarter of 2003, due to which the growth indices on final consumption and domestic demand are not identical with the data published in the NBS Situation Report for May 2003.



Domestic demand maintained its level from a corresponding period of the previous year, increasing by 1.4% in the 1st quarter of 2003 and decreasing by 1.2% in the 2nd quarter, if compared on a year-on-year basis. This was mainly driven by a decline in the gross fixed capital formation and an almost unchanged level of final consumption of general government. In comparison with the 1st half of 2002, the year-on-year dynamics of private consumption slowed down, which was due to both lowered real wages and a high comparison basis, notably for the 2nd quarter of 2002 (in which period the growth of private consumption reached 5.9%).



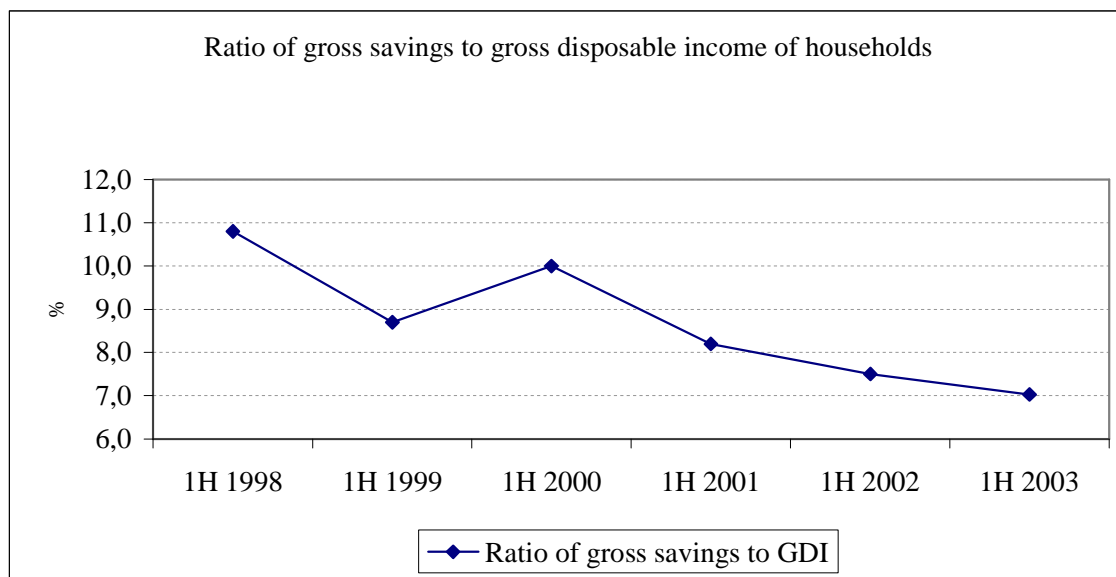
Despite the decline in real wages (by 1.4% in the 1st half of the year), private consumption kept growing during this period (by 1.2%), following a different course of development in individual quarters. Whereas in the 1st quarter it went up by 2.6%, in the 2nd quarter it dropped by 0.2%.

Preliminary figures of the SO SR on the generation and application of income in the household sector clearly indicate heightened propensity to consumption on the part of households in the 1st half of 2003, and conversely, an evidently diminished propensity to saving (according to the ESA 95 methodology and information from the SO SR, in addition to koruna deposits of the household sector and small entrepreneurs, also their activities associated with purchasing of tangible and intangible investments and purchases by the household sector abroad are to be included). On the other hand, an analysis of the development of gross disposable income and its distribution points to an increase in household assets held in the reserves of pension funds¹, which could indicate a greater degree of allocation of disposable funds of the household sector to various forms of life assurance and pension saving schemes.

Development of gross disposable income (index, y-o-y change, current prices)

Indicator	1.-2.Q 02	2002	1.Q 03	2.Q 03	1.-2.Q 03
	1.-2.Q 01	2001	1.Q 02	2.Q 02	1.-2.Q 02
Gross disposable income	107.8	108.2	107.5	106.2	106.8
Final consumption of households	108.7	107.9	108.9	106.1	107.5
Gross savings of households	98.7	112.9	94.2	109.4	100.2
Ratio of gross savings to gross disposable income (%)	7.5	9.9	8.0	6.0	7.0

¹ Under the ESA 95 methodology, this item is reported as part of household savings, representing a change in net assets of households held in life assurance and pension fund reserves, as well as prepaid premiums for unsettled claims.



In the 1st half of 2003, the final consumption of general government grew only faintly, with its volume increasing by only 0.1% year-on-year. A year-on-year slowdown in the growth dynamics by 6.7 percentage points confirms that current expenditure of the public sector recorded virtually no increase. A 6% increase in the expenditure was observed for non-profit institutions serving for households, which however did not translate into the GDP growth because of their low share of the volume.

Gross capital formation at constant prices (including a changes in inventories) dropped by 2.2%. Its development was due to a lower level of fixed investment, which decreased by 1.1% on a year-on-year basis (and by 0.3% a year ago). So far, the expected revival of investment demand was not confirmed. The decline in gross capital was notably deepened by the change in inventories, with the inventories in the 1st half of 2003 growing by SKK 4.6 billion, whilst rising by SKK 5.9 billion a year earlier. On the other hand, smaller additions to the inventories in the 1st half of the year apparently showed in increased exporting performance of the economy, which is a favourable development.

In terms of distribution by sectors, the gross fixed capital formation declined proportionally in all sectors, due to which fixed investment in the 1st half of the year was reduced by 1.1% year-on-year. In terms of articles concerned, investment in machinery declined (by 5.9%) in real terms. On the contrary, increased investment (by 10.1%) directed to construction should provide a certain impetus of developmental nature to the effect of reviving the demand for investment, thanks to which the level of investment into residential buildings and also other structures (in the nature of infrastructure) grew from a year ago.

Structure of gross fixed capital formation in the 1st half of 2003*

	Gross fixed capital formation (million SKK)	Share (%)		Index
		1.-2.Q 02 2002	1.-2.Q 2003	$\frac{1.-2.Q\ 03}{1.-2.Q\ 02}$
Slovak economy in total	155 204	100.0	100.0	98.9
<i>of which (by product classification):</i>				
Structures	53 437	35.0	34.4	110.1
of which: residential buildings	8 827	6.0	5.7	104.9
other structures	44 610	29.0	28.7	111.2
Machinery	92 172	58.8	59.4	94.1
of which: metal products and machinery	69 789	44.7	45.0	93.6
transportation equipment	22 383	14.2	14.4	95.8
<i>therein (by sectors):</i>				
Non-financial corporations	104 201	66.9	67.1	99.2
Financial corporations	20 052	13.0	12.9	98.7
General government	9 161	6.0	5.9	98.3
Households	21 329	13.7	13.7	99.2
Non-profit institutions *	461	0.4	0.3	66.7

* the volumes are stated at current prices, and indices are given at constant prices

In the 1st half of 2003, the share of domestic sources in investment financing was considerably greater than in previous periods. 92.4% of investment at current prices was covered by gross domestic savings (unconsumed portion of GDP) and, when expressed at constant prices, the volume of gross domestic savings exceeded the volume of investment by 10.4%.

Development of investment and savings

(%)

	2001	2002	1st half of 2003
<i>constant prices of 1995</i>			
Savings rate ¹	26.6	26.2	30.7
Gross investment rate ²	29.9	29.8	27.8
Fixed investment rate ³	30.4	28.8	26.6
Savings-to-investment ratio ⁴	88.8	87.8	110.4
<i>current prices</i>			
Savings rate ¹	23.4	23.8	26.5
Gross investment rate ²	32.0	30.9	28.7
Fixed investment rate ³	31.3	29.8	27.5
Savings-to-investment ratio ⁴	73.1	77.0	92.4

¹ a ratio of gross domestic savings (GDP less total final consumption) to GDP

² a ratio of gross capital formation to GDP

³ a ratio of gross fixed capital formation to GDP

⁴ a ratio of gross domestic savings to gross investments

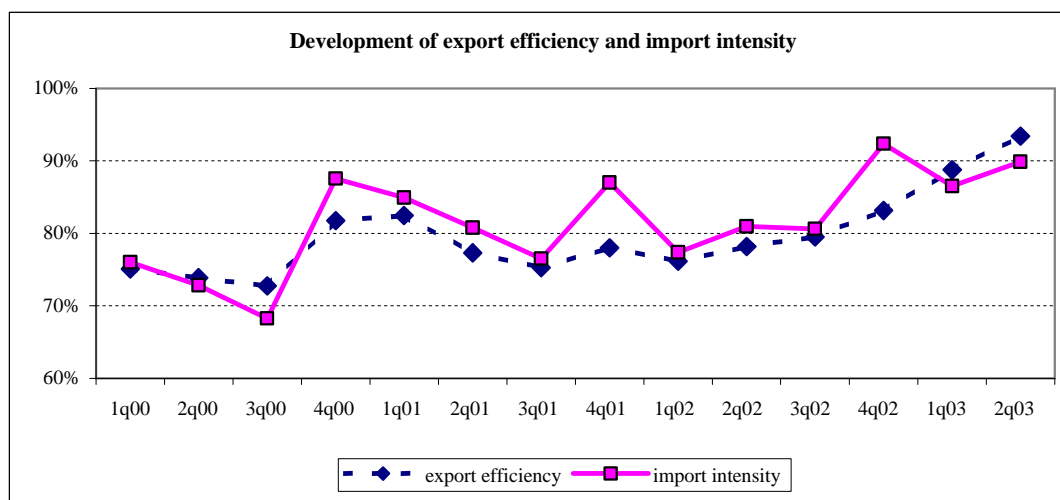
Net exports

A significant growth of exports of goods and services, notwithstanding a relatively great increase in imports, translated into improvements in the balance of foreign trade. The deficit of net exports at current prices in the 1st half of this year stood at SKK 7.6 billion, which

was 4.4 times less than in a corresponding period of the previous year (SKK 33.8 billion). On taking account of negative year-on-year increases in foreign trade deflators, chiefly due to exchange rate developments, a positive balance of net exports at constant prices in the amount of SKK 10.9 billion was achieved (whilst a year earlier the deficit was SKK 7.4 billion).

The improved balance of foreign trade in respect of products and services, including the statistical estimation of grey economy, was due to a faster year-on-year real growth of exports (22.8%) over imports (15.8%). The high rate of growth of exports and imports of products and services was partly influenced by the so-called baseline effect.

The high dynamics of exports of products and services was reflected in a year-on-year increase of 14.0 percentage points in the export efficiency of the Slovak economy, with the share of exports in GDP at constant prices rising to 91.2%. The dependence of exporting branches of the Slovak industry on imports showed in a year-on-year increase in the intensity of imports (the proportion of imports to GDP at constant prices) by 9.0 percentage points to 88.3%. In the 1st half of 2003, openness of the Slovak economy (measured as a ratio of exports of products and services plus imports of products and services to GDP) increased to 179.5% at constant prices (whilst being 156.4% in the 1st half of 2002). The openness of the economy at current prices was equal to 155.3% (and 147.9% in the 1st half of 2002).

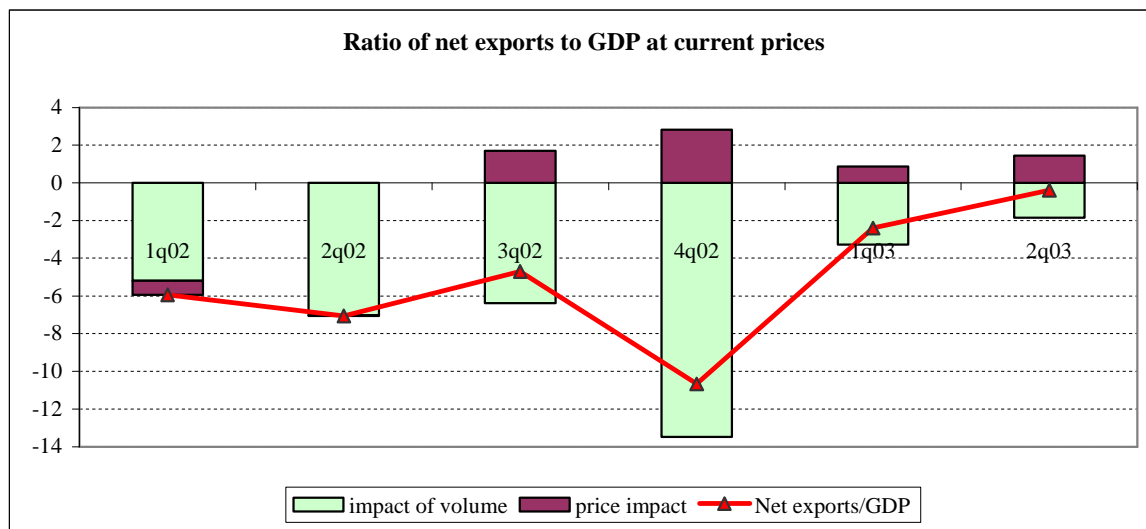


Apart from the volume of exported and imported products and services, the development of net exports of products and services at current prices was also influenced by the price developments, which also reflect exchange rate changes. Whereas the development of prices in the 1st half of 2002 added to the deficit of nominal net exports, in the 1st half of 2003 the price developments acted in the opposite direction, i.e. alleviating the deficit of net exports at current prices.

Contributions of price and volume to the development of exports and imports (perc. points)

	2002					2003		
	1.Q	2.Q	3.Q	4.Q	year	1.Q	2. Q	1-2.Q
Exports of goods and services (% year-on-year growth, current prices)	-1.5	3.4	11.3	13.1	3.7	19.0	18.4	18.7
Contribution of volume	-4.1	5.2	10.1	12.4	5.9	21.4	24.1	22.8
Contribution of price	2.6	-1.8	1.2	0.7	0.8	-2.4	-5.6	-4.1
Imports of goods and services (% year-on-year growth, current prices)	-1.8	3.0	8.9	9.7	5.1	13.1	8.3	10.5

Contribution of volume	-5.4	4.2	9.9	11.9	5.3	16.4	15.3	15.8
Contribution of price	3.6	-1.2	-1.0	-2.2	-0.2	-3.3	-7.0	-5.3
Net exports-to-GDP ratio (% ratio, current prices)	-5.9	-7.1	-4.7	-10.7	-7.1	-2.4	-0.4	-1.4
Contribution of volume	-5.2	-7.0	-6.4	-13.5	-8.1	-3.3	-1.8	-2.5
Contribution of price	-0.7	0.0	1.7	2.8	1.0	0.9	1.4	1.2



impact of volume impact of prices net exports/GDP

In terms of structure, the GDP growth was boosted by net exports, which contributed by 5.1 percentage points. At an unchanged level of domestic demand and a negative contribution of statistical discrepancy, the dynamics of real GDP growth stayed at the same level as in the 1st half of 2002.

Contributions to GDP growth¹ (percentage points, c.p. 1995)

Indicator	1.-2. Q 02	2002	1.-2. Q 03
	1.-2. Q 01	2001	1.-2. Q 02
Gross domestic product	3.9	4.4	3.9
Domestic demand	3.5	4.8	0.0
Final consumption	4.1	3.6	0.7
Final consumption of households	2.9	2.8	0.6
Final consumption of general government	1.2	0.8	0.1
Final consumption of non-profit institutions serving for households	0.0	0.0	0.0
Gross capital formation	-0.6	1.2	-0.7
Gross fixed capital formation	-0.1	-0.3	-0.3
Changes in inventories	-0.5	1.5	-0.4
Net exports	0.9	0.3	5.1
Exports of goods and services	0.5	4.6	17.6
Imports of goods and services ¹	-0.4	4.3	12.5
Statistical discrepancy	-0.4	-0.7	-1.1

¹ calculated from the GDP figures in million SKK, with the contribution of imports of goods and services reducing the net exports and GDP; the differences in subtotals are due to rounding

Supply

In the 1st half of 2003, the gross domestic product at constant prices generated in the industry increased by 10.5%, in the agriculture by 9.2%, in the construction business by 5.8% and in services by 3.3% on a year-on-year basis.

As for the industry, especially in response to a growing foreign demand, the GDP generated

through manufacturing went up (by 7.4%), since virtually all of its branches, with the exception of chemical industry, generated a greater volume of GDP compared to its level a year ago. On a year-on-year basis, the largest increase was recorded by the production of metals and metallic products. The development of GDP generated in the industry was also influenced by the production and distribution of electricity, gas and water, with a year-on-year increase in GDP equal to 49.8%.

Development of gross domestic product by sectors (year-on-year % change, c.p. 1995)

Branch of economic activity	2002					2003		
	1.Q	2.Q	3.Q	4.Q	Year	1.Q	2.Q	1.-2.Q
GDP	3.9	4.0	4.3	5.4	4.4	4.1	3.8	3.9
therein:								
Agriculture, hunting, fishing and forestry	7.0	8.7	14.4	11.9	10.9	8.5	9.8	9.2
of which: agriculture	10.7	10.5	14.2	12.9	12.3	8.5	10.8	9.7
Industry in total	-4.3	4.6	10.9	5.3	4.0	15.1	6.4	10.5
Mining and quarrying	-0.8	-18.3	-10.1	-25.5	-13.9	-22.5	-15.8	-19.4
Manufacturing	-9.7	6.0	11.8	3.4	2.6	11.4	4.0	7.4
Electricity, gas and water supply	85.4	-1.3	9.7	81.0	33.4	56.7	41.6	49.8
Construction	8.0	16.8	10.9	8.3	11.0	8.0	4.0	5.8
Services in total	5.9	2.5	1.0	7.8	4.2	2.3	4.2	3.3
Wholesale, retail trade, repairs...	1.5	-2.6	-4.4	-0.2	-1.8	0.5	3.0	1.9
Hotels and restaurants	-5.9	-5.6	-4.5	-10.9	-6.7	-18.2	-27.5	-23.6
Transport, storage, communication	-5.6	1.0	-5.3	-3.8	-3.5	6.5	2.8	4.7
Financial intermediation	5.9	35.5	65.0	74.6	40.0	2.9	31.4	15.8
Real estate, renting and business activities	-6.5	-0.1	1.6	2.0	-0.5	0.2	3.4	1.9
Public administration, defence, social security	31.1	11.1	4.4	17.4	15.2	4.7	-3.9	0.3
Education	33.8	-2.0	-6.8	7.7	7.2	10.7	22.3	16.1
Health and social work	22.1	1.1	-10.0	6.5	4.1	-0.1	0.9	0.4
Other community, social and personal services	50.3	4.0	2.7	16.2	16.4	-2.6	7.1	-4.7
Others ¹	16.7	4.5	-1.3	-11.3	0.7	-23.9	-9.7	-16.1

¹ value added tax, excise duty, tax on imports less subsidies and imputed production of banking

1.3 Labour market

Wages

In the 1st half of 2003, the average monthly nominal wage of persons in employment in the Slovak economy increased by 6.2% to SKK 13 602 on a year-on-year basis. Its growth was 3.4 percentage points behind the pace a year ago. During the six months, the dynamics of nominal wages slowed down, since their increase of 6.5% in the 1st quarter fell to 5.9% in the 2nd quarter.

Besides the high comparison base of the 2nd quarter of the last year (wages increases in education, health care, other community, social and personal services in response to the enforcement of laws on civil and public service), the development in the 2nd quarter was also impacted by low increases of wages in transport, posts and telecommunications as well as trade.

The level of nominal wages in all the sectors of the Slovak economy was higher than in the 1st half of 2002, nevertheless the dynamics of its growth in the majority of sectors

decelerated. Only in hotels and restaurants, construction business, financial intermediation and public administration the nominal wages grew faster than a year earlier.

Growing at a relatively fastest pace in the 1st half of the year were the wages earned in financial intermediation (11.8%) and in hotels and restaurants (10.5%), but also the growth of wages in education (9.1%), industry (7.0%), real estate (7.6%) and public administration, defence and mandatory social security (7.5%) surpassed the economy-wide average. The slowest growth was observed in transport, posts and telecommunications (3.3%), trade and repair activities (3.9%), construction (4.9%) and health care (5.2%).

Real wages dropped by 1.4% year-on-year, whilst recording a growth of 5.5% in a corresponding period of the previous year. Apart from a slower growth of nominal wages, the development of real wages was also considerably influenced by the development of average consumer prices, the growth dynamics of which almost doubled from the 1st half of 2002, reaching 7.7%.

The development of labour productivity (per employee GDP) followed a positive track, increasing by 7.7% in nominal terms and by 2.8% in real terms. The rate of growth of nominal labour productivity thus exceeded the growth of nominal wages by 1.5 percentage points, with the lead time exhibited by labour productivity over real wages at constant prices equal to 4.2 percentage points.

Development of average monthly wages and labour productivity in the Slovak economy

	1.Q 2002	2.Q 2002	1.-2.Q 2002	1.Q 2003	2.Q 2003	1.-2.Q 2003
nominal wages (SKK)	12 287	13 329	12 811	13 082	14 118	13 602
(index romr =100)	108.6	110.5	109.6	106.5	105.9	106.2
real wages (index romr =100)	103.7	107.2	105.5	99.0	98.2	98.6
labour productivity, c.p. (index romr =100)	103.3	104.1	103.7	103.1	102.4	102.8
consumer prices (index romr =100)	104.7	103.1	103.9	107.6	107.8	107.7

Employment and unemployment

A tendency towards enlarging number of persons in employment, recorded in the last two quarters of 2002, also continued in the 1st half of 2003. According to a labour force sample survey² there were 2 150.5 thousand people working in the Slovak economy, which was 1.9% up from the same period a year ago.

² Under the workforce sample survey methodology, persons in employment are all persons aged 15 and above, who in the reference week of the survey did any work for pay or profit for at least one hour, including persons working abroad. This can involve full-time or part-time jobs, temporary, occasional or seasonal work. Also counted as persons in employment are assisting household members of entrepreneurs, who do not receive any wage or compensation for their activities, professional members of services in the armed forces as well as conscripts in civil service. Also considered as persons in employment are people who in the reference week of the survey had jobs but were not working because of illness, vacation, regular maternity leave, training, poor weather, as a result of strike or lockout, except for persons on a long-term unpaid leave and persons on additional maternity leave.

The development of employment was by major part influenced by a growing number of entrepreneurs, especially self-employed ones (by 16.8%), which was probably related to an increasing tendency towards self-employment on the basis of a trading licence. An increase of 9.9% in the number of entrepreneurs with employees compared to a year ago was also a positive factor. The situation with regard to work opportunities for employees slightly improved, with their number in the 1st half of 2003 increasing by 0.6%.

In terms of educational level, the greatest increase (of 9.0%) occurred with regard to the employment of persons with secondary-level education without school-leaving exams, followed by vocational school leavers with school-leaving exams (8.4%) and persons with University-level education (7.2%).

In terms of distribution by sectors, the growth in employment was largely due to an increase in the construction business (a year-on-year increase of 9%), health care and social assistance (8.2%) and public administration and defence (6.6%). Conversely, a decline was recorded in the number of people working in the agriculture, transport, warehousing, posts and telecommunications, education and industry.

Labour market development* (average for the period, index, romr=100)

	2002		2003		
	1. half of the year	year	1.Q	2.Q	1. half of the year
Economically active population	98.8	99.1	99.9	100.6	100.3
of which:					
Persons in employment	100.0	100.2	101.2	102.6	101.9
Employees	100.1	99.9	99.9	101.3	100.6
Entrepreneurs	99.9	103.4	113.9	115.7	114.8
without employees	105.1	108.8	118.6	115.1	116.8
with employees	89.4	92.0	103.2	117.2	109.9
Assisting household members of entrepreneurs	60.6	74.1	115.8	119.0	120.0
Unemployed	96.5	95.8	94.9	91.9	93.4
Unemployment rate (%)	19.0	18.5	18.4	17.0	17.7

* according to a labour force sample survey

According to a labour force sample survey,³ the number of unemployed averaged 465 thousand people during the 1st half of 2003. In comparison with a corresponding period of the previous year, this was less by 32.6 thousand people, i.e. by 6.6%. The average unemployment rate during the period under review fell to 17.7%, 1.3 percentage points down from a year ago.

The largest number of newly unemployed in the surveyed period recruited from among persons whose last job was in the agriculture, health care, social welfare and financial

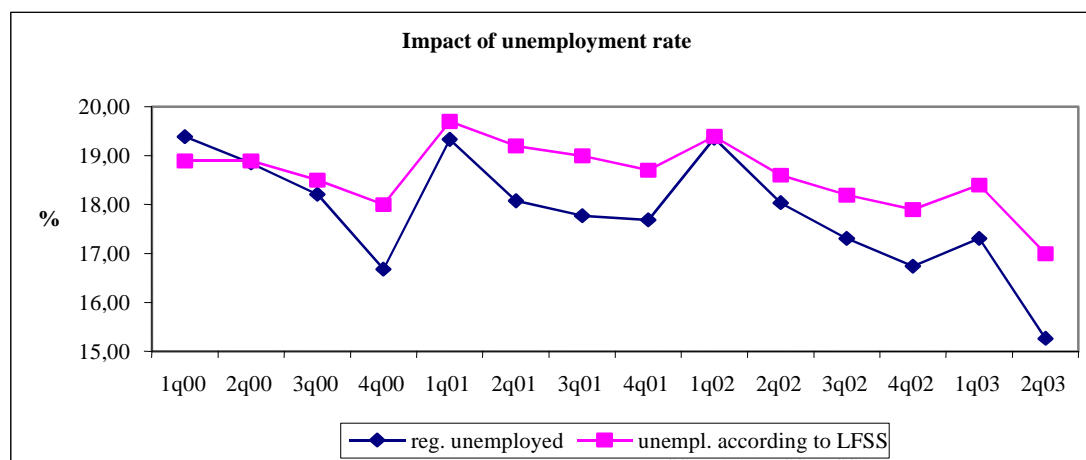
³ Under the labour force sample survey (LFSS) methodology, considered as unemployed are all persons aged 15 and over who in the reference week of the survey were without remunerated work (or had a job, but were on a long-term unpaid leave), during the four previous weeks actively sought employment, and were available to start work within the next two weeks. (all the mentioned preconditions must be met concurrently). Such persons can, but do not need to be registered with labour offices. This sample survey methodology, used by the Statistical Office of the SR, was recommended by the International Labour Organisation (ILO) with a view to achieving cross-comparability of data on the development of labor market in individual countries.

intermediation. Conversely, graduates and persons, whose last job was in hotels and restaurants as well as education, recorded a significant decrease in unemployment. Also, unemployed recruiting from trade, community, social and personal services, industry and construction were able to find an occupation to a larger extent.

The development of unemployment in the 1st half of the year was in particular related to growing work opportunities. The amendment to the Employment Act, effective from 1 January 2003, imposing an obligation on unemployed to report to labour offices every 14 days, also had the effect of reducing unemployment to a certain degree.

Long-term unemployment is a persisting problem of the Slovak labour market. In the 1st half of 2003, approximately 20% of the total number of unemployed were people unemployed for 1 to 2 years and about 41% of the total number of unemployed were unemployed for more than 2 years.

In this period, the unemployment rate as judged by labour office registers fell on the average by 2.4 percentage points to 16.3% compared to a year ago. A more marked decline in unemployment occurred in the 2nd quarter (April, May). Hence, at the end of June, the registered unemployment rate reached 14.6% (compared to 17.6% a year ago).



1.4 Financial results of the commercial sector

According to preliminary results, corporations in the non-financial and financial sectors generated a profit (gross profit before tax) totalling SKK 91 billion in the 1st half of 2003. Its level was by 15.1% higher than in a corresponding period of the previous year. The favourable financial results were helped by a year-on-year increase of more than 34% in the profits of non-financial corporations, whilst financial corporations reported a loss.

Financial results SKK, current prices)

	1. 1st half of 2003	index <u>1. 1st half of 2003</u> 1. 1st half of 2002
Profit/loss (before tax)		
Non-financial and financial corporations in total	90 966	115.1
Non-financial corporations	92 182	134.1
Financial corporations	- 1 216	x

The greater profitability of non-financial corporations was chiefly due to increased profits from the production and distribution of electricity, gas and water (135.1%), transport, posts and telecommunications (81.9%) as well as manufacturing (35.5%). Also undertakings engaged in construction, trade, real estate and leasing generated more profits than a year ago.

Losses of financial corporations in the 1st half of the year totalled SKK 1.2 billion, whilst the financial results of entities belonging to this sector varied. Insurance corporations and insurance funds reached a profit of SKK 2 billion (a year-on-year increase of 0.4%), whilst financial institutions (savings banks and banks, including the NBS) reported a loss of SKK 2.8 billion, and other financial intermediaries made a loss of SKK 0.4 billion.

2. BALANCE OF PAYMENTS

In the 1st half of 2003, a deficit of SKK 7.4 billion was recorded in the balance of payments current account of the Slovak Republic. The inflow of foreign capital in the capital and financial account amounted to SKK 29.0 billion. Foreign exchange reserves of the NBS rose (on excluding exchange rate differences) by SKK 20.7 billion, i.e. by USD 535.9 million.

2.1 Current account

The deficit in the balance of payments current account reached SKK 7.4 billion and compared to 1st half of 2002 decreased by SKK 33.5 billion. Its decline was particularly influenced by a year-on-year improvement in the balance of trade. Exporting activities of the SR led to an increase of SKK 68.2 billion in the exports and an improvement in the balance of trade by SKK 31.2 billion. Not only did the balance of trade improve, but also the balance of income and current transfers⁴. The only item that deteriorated compared to 2002 was the balance of services.

	billion SKK	
	1st half of 2003	1st half of 2002
Trade balance	-9.7	-41.6
Balance of services	2.3	8.4
Balance of income	-5.2	-11.1
Current transfers	5.2	3.4
CURRENT ACCOUNT IN TOTAL	-7.4	-40.9

The trade balance ended a negative balance of SKK 9.7 billion, at a year-on-year decrease of SKK 31.9 billion.

The foreign trade results were helped by the relationship between import and export prices in SKK (with export prices increasing by 6.1% and import prices increasing by 0.6% in the 1st quarter), where such a development was also influenced by the year-on-year strengthening of a nominal rate of Slovak koruna against all principal currencies.

In geographic terms, a trade balance surplus enlarged particularly vis-à-vis the EU member states (by SKK 24.3 billion) on a year-on-year basis. Within this group of countries, the most marked improvement (by SKK 24.2 billion) was seen in the balance of trade with Germany and a slight one in the balance of trade with Great Britain (by SKK 1.8 billion). Conversely,

⁴ From 2003 onwards, the methodology for calculating compensations for employees has changed. As opposed to the original one, which only drew upon banking statistics, the new methodology also employs estimations and calculations of the SO SR (the number of people working abroad, average wages, the expenditure of persons working abroad, and so on). Since the modification to the methodology has not only influenced the balance-of-income (compensation of employees is part of the balance of income), but also the tourism (expenditure of Slovaks working abroad is part of tourism payments) and also partially the balance of current transfers (a part of income from compensation of employees is realized through transfers of natural persons), the information value of comparison between the year 2003 and the previous year is thus reduced (the said change caused the current account deficit to improve by SKK 3.5 billion). Another change in comparison with the reporting of previous years is that income from government obligations is reported based on additional banking sources or data from the Securities Centre (a deterioration in the current account deficit by SKK 3.3 billion). The overall impact in the 1st half of the year was to reduce the current account deficit by SKK 0.2 billion.

growing imports from France and Italy caused the foreign trade balance with those countries to deteriorate (by SKK 5.3 billion in total).

According to the SO SR preliminary figures, goods worth SKK 375.3 billion were exported in the 1st half of 2003, 22.2% up from a corresponding period of the previous year (or by 54.3% and 25.4%, if expressed in USD and EUR respectively).

In the 1st half of 2003, the share of machinery and transport equipment in the commodity structure of exports went up. An increase of 38.9%, i.e. by SKK 47.9 billion, was achieved in this category of goods, mainly thanks to transport equipment. A year-on-year increase in the category of motor vehicles (by SKK 36.2 billion) was linked to the development of automotive industry and the production of new, more sophisticated models of cars gradually being launched from the end of the last year. An increase in the mechanical engineering output (by SKK 11.7 billion) was facilitated by increased exports of automatic data processing equipment, bearings, boilers, white technology and electrical transformers.

Heightened export activity was also observed in the case of chemical products and semi-products (an increase of SKK 11.6 billion). Within this group, it was the exports of iron and steel as well as of products made of iron and steel that grew in particular (by SKK 9.8 billion), accounting for 82% of the overall increase for the whole group. From among chemical products, it was mainly products made of plastics that exhibited growth. Exports of other chemical products (excluding plastics products) remained slightly below the level for a corresponding period of the previous year.

As for agricultural and industrial products, the greatest increases in exports were seen in the case of furniture, bed ware and assembled buildings (by SKK 6.7 billion). The analysis of this group leads us to conclude that the major increase occurred within the subgroup comprising exports of seats for motor vehicles. The said production is linked to the automotive industry and its marketing abroad is done in accordance with co-operation agreed in respect of the automotive production.

Year-on-year changes in exports of the SR and their individual segments, as well as contributions of these segments to export increases/decreases

Year	1. half of 2003 billion SKK	1. half of 2002 billion SKK	1. half of 2003 %	1. half of 2002 %	% contri- buti on 2003	% contri- buti on 2002
<i>Raw materials</i>	2.4	-2.0	9.7	-7.5	0.8	-0.6
Chemical products and semi-finished products	11.6	2.3	10.3	2.1	3.8	0.7
Machinery and transport equipment	47.9	-4.5	38.9	-3.5	15.6	-1.5
Agricultural and industrial products	6.2	3.7	13.4	8.7	2.0	1.2
TOTAL EXPORTS	68.1	-0.5	22.2	-0.2	22.2	-0.2

The volume of goods imported in the 1st half of the year stood at SKK 385.0 billion, at a year-on-year increase of SKK 36.3 billion, i.e. 10.4% (39.4% in USD and 13.3% in EUR).

When it comes to the commodity structure of imports, the greatest increases occurred in the imports of machinery and transport equipment (by SKK 16.5 billion) and the imports of chemical products and semi-finished products (by SKK 11.9 billion). The imports of machinery and equipment can be divided into two groups. The first group consists of

transport equipment (an increase of SKK 9.9 billion), and is marked by increased imports falling under the item “parts, components and accessories of motor vehicles”. These imports are intended for automotive industry whose growth correlated with rising output and exports by this sector.

An increase (of SKK 6.6 billion) in the imports belonging to the second group and comprising machinery, electrical equipment and instrumentation was mainly due to imported generators, engines and electrical parts of machinery. On the other hand, there was a slight decrease in the imports of technology-related equipment for individual branches of the national economy, which could immediately impact the restructuring of the economy, causing the exports to raise in the future (as calculated by the NBS, the imports of technology-related equipment dropped from SKK 31.3 billion to SKK 30.7 billion, with its share in total imports falling from the last year’s 9.0% to 8.0%).

The rising of imports of intermediate goods (by SKK 6.1 billion) concentrated on increased imports of iron and steel as well as products made thereof. Within the group of chemical products (an increase of SKK 5.8 billion), the major increase was seen in the case of primary-form plastics and resin mixtures. Their imports had to do with expanding production and exports of these commodities.

Within the category of finished products, there was an increase in the imports of mechanical engineering consumer products and consumer electronics (by SKK 4.2 billion). Within the group of finished industrial and agricultural products (an increase of SKK 2.6 billion), more pharmaceuticals, furniture and footwear happened to be imported compared to the previous year.

As for imports destined for final consumption, an increase in the imports of mechanical engineering consumer products and consumer electronics was recorded in particular (by SKK 4.2 billion). In the group of finished industrial and agricultural products (an increase of SKK 2.6 billion), more pharmaceuticals, furniture and footwear was imported in compared to a year earlier. Despite a lower number of imported passenger cars compared to the 1st half of 2002, a mild increase occurred in their value (by SKK 1.1 billion).

Imports of strategic raw materials stayed at the level for a corresponding period of the previous year. A decline in the koruna equivalent of crude oil prices, notably due to favourable development of the Slovak koruna exchange rate against USD, caused that imports of this raw material, despite a mild increase in volume, stayed at the level of the 1st half of 2002 (an average SKK price of crude oil decreased by 2.6% and the volume of imports increased by 2.9%). An increase in the price of natural gas in SKK (by 1.5%), at a lower volume of its imports (by 4.8%), showed in a slight fall in the imports of this commodity, which was countered by enlarged imports of electricity within the group of raw materials.

Year-on-year changes in imports of the SR and their individual segments and contributions of these segments to import increases/decreases

Year	1. half of 2003 billion SKK	1. half of 2002 billion SKK	1. half of 2003 %	1. half of 2002 %	% contribution on 2003	% contribution on 2002
Raw materials	0.0	-9.3	0.0	-14.2	0.0	-2.7
Chemical products and semi-finished products	11.9	4.3	11.1	4.2	3.4	1.2
Machinery and transport equipment	16.5	1.8	15.2	1.2	4.7	0.5
Finished products	7.9	2.8	10.3	3.8	2.3	0.9
of which:						
agricultural and industrial products	2.6	2.7	5.5	6.1	0.8	0.9
passenger cars	1.1	0.3	9.4	2.6	0.3	0.1
mechanical engineering and electro-technical consumer products	4.2	-0.2	24.0	-1.1	1.2	-0.1
TOTAL IMPORTS	36.3	-0.4	10.4	-0.1	10.4	-0.1

In the 1st half of 2003, a surplus of SKK 2.3 billion was generated by traded services (on disregarding a change in the methodology, a year-on-year decrease of SKK 6.1 billion will be reduced to SKK 3.1 billion). Collections for services exported abroad diminished by SKK 0.6 billion and payments for services imported concurrently increased by SKK 5.5 billion. Individual items on the balance of services followed a different course of development, where greater income from tourist trade could only partially offset the unfavourable development caused by increased payments for transport services and „other services in total“.

	billion. SKK	
	1. half of 2003	1. half of 2002
Balance of services	2.3	8.4
Transport	8.5	14.3
Tourism	4.2	1.6
Other services in total	-10.4	-7.5

Income from international passenger and freight transport equalled SKK 24.5 billion (at a year-on-year decrease of SKK 2.0 billion) and the expenditure amounted to SKK 16.0 billion (at an increase of SKK 3.8 billion). In volume terms, income from transport of natural gas and crude oil in the amount of SKK 13.1 billion continued to be the most sizeable item in transport services. A decline in the income from transport was to a full extent caused by lower income from paid transit charges.

A deficit balance of services of international car, rail and water transport and other services directly related to transport rose from the last year's SKK 2.3 billion to SKK 4.6 billion. Its growth was induced by increased payments to foreign carriers for freight conveyed by means of motor traffic as a result of the higher dynamics intensity of foreign trade. Also in the 1st half of 2003, rail transport remained to be the most important form of freight, although its share in total freight/cargo services dropped as a result of strengthened position of motor traffic.

A positive balance of foreign tourism increased from SKK 1.6 billion to SKK 4.2 billion on a year-on-year basis. Despite the revaluation of Slovak koruna, foreign exchange income from foreign tourist trade increased by 23.1% to SKK 14.9 billion (in EUR by 26.4%).

Although in the 1st half of 2003 a lesser number of tourists crossed the border than in the previous year, the rising number of foreign tourists accommodated in Slovakia and of nights stayed by them in Slovakia indicates that the raised income from tourism was achieved through a longer period of stay, as well as a growing average daily spending by foreign tourists in the Slovak territory.

The amount spent by Slovak citizens on foreign tourism reached SKK 10.7 billion, staying approximately at the level for a corresponding period of the previous year. Beginning with 2003, the NBS started to include, in line with the national accounts methodology and the Balance of Payments Manual of the IMF (5th issue), the revenue from short-term work stays of Slovak citizens abroad into its calculations of compensation of employees. Under the mentioned methodology, consumption of goods and services by these workers in the country where operate was added to the expenditure on external tourism (in the 1st half of 2003, payments for external tourism were increased by SKK 3.0 billion for the said reason). Net of the mentioned amount, the foreign exchange funds expended by Slovak citizens on trips abroad will decrease by more than 30% (the larger spending of foreign exchange in the 1st half of 2002 was due to the appreciation of an exchange rate of Slovak koruna notably in March and April and related run-up purchases of foreign exchange to the stock by citizens).

Income from tourism realised via payment cards stood at SKK 2.6 billion in the 1st half of the year, accounting for 17% of total income. Slovak citizens executed payments worth SKK 2.3 billion via payment cards abroad. Fund transfers accounted for 32% of their expenditure on tourism (excluding the consumption of persons working abroad).

Like in previous years, the balance of 'other services in total' (telecommunications, construction, insurance, financial, leasing, computer technology, advertising, commerce and technical services, etc.) was marked by a high deficit. The deficit balance of „other services in total“ amounted to SKK 10.4 billion, recording a further increase of SKK 2.9 billion. Collections for services provided to the rest of the world reached SKK 17.5 billion, decreasing by 7.1% year-on-year, i.e. by SKK 1.3 billion. Payments made abroad in return for services equalled SKK 27.9 billion, at a year-on-year increase of 6%, i.e. SKK 1.6 billion.

The lagging behind the last year's income from exports of „other services in total“ was due to a decline in exports of legal and accountancy services and services of financial nature. The decrease in income was in both cases accompanied with a concurrent growth of payments, thus causing the deficit in these services to rise by a total of SKK 2,8 billion. A rise in the deficit was also recorded for insurance services and computer technology services as a result of raised imports of these services.

On the other hand, increased exports and decreased imports of construction services caused the trend to change from the last year's deficit to the current surplus (an improvement of SKK 0.6 billion). A mild increase in the positive balance (SKK 0.2 billion) also occurred in respect of postal and telecommunications services. Construction and telecommunications services were the only items, where in the 1st half of 2003 collections for exports exceeded the respective payments.

The deficit balance of income, amounting to SKK 5.2 billion, fell by SKK 5.9 billion from one year to another. The said improvement was due to a change in the methodology for

calculating compensations of workers, in which, additionally to data from bank reporting, also income of Slovak citizens working abroad, as calculated by the SO SR, was included (adding SKK 8.0 billion to the calculated figure for the 1st half of 2003). On abstracting from the change in the methodology for calculating compensations for people in employment, the balance of income would deteriorate by SKK 2.1 billion.

The balance of income from investment (without of compensation for employees) ended in a deficit of SKK 13.4 billion, having deteriorated by SKK 2.1 billion compared to a corresponding period of 2002. Net income of commercial banks fell by SKK 3.5 billion over the 1st half of 2002. A year-on-year decrease in income from deposits made abroad and interest on loans made to foreign banks and clients was caused by a gradual fall down of their stocks (which were reduced by more than SKK 40 billion over June 2002). The lowered income of commercial banks was coupled with raised payments as a result of greater yields on assets paid to direct investors and dividends on securities, especially bonds denominated in SKK (the second change compared to the reporting of previous years is the reporting of income from government bonds on the basis of supplementary bank sources or data from the Securities Centre). In the 1st half of the year, the interest paid on securities was estimated at SKK 3.3 billion, having increased by SKK 2.2 billion year-on-year.

Balance of income for the sector of government and the NBS improved by SKK 1.4 billion. The growth of NBS reserves showed in an increase of SKK 0.9 billion in the income from the NBS reserve assets. Interest paid on government loans (including bonds) decreased mildly, in which case an important part was also played by the development of Slovak koruna exchange rate.

The balance of current transfers for the 1st half of 2003 was marked by a surplus of SKK 5.2 billion, at a year-on-year improvement by SKK 1.8 billion on the expenditure side as a result of lower transfers to abroad in the form of donations and supports and other transfers to legal entities. Transfers came to be the third item (following tourism and balance of income), the recording of which was altered in response to the change in the methodology for calculating compensation of labour. Since a part of income of persons in employment in foreign countries may be repatriated to Slovakia through transfers of natural persons, collections falling under the said item were reduced by 75% (resulting in the amount of SKK 1.5 billion for the 1st half of 2003).

2.2 Balance of payments - capital and financial account

The capital and financial account ended in a surplus of SKK 29.0 billion. This surplus was SKK 14.5 billion higher (i.e., by 100%) than in a corresponding period of the previous year.

A surplus of SKK 0.5 billion was reached in the capital account which includes foreign aid of investment nature ensuing from foreign governments and non-government entities, as well as purchases and sales of patents, licenses and copyrights. Funds incoming to the SR (to the accounts of the MoF SR held with the NBS) under the PHARE, ISPA, SAPARD and similar programmes stood at SKK 0.7 billion.

Balance of payments - capital and financial account
billion SKK

	1. half of 2003	1. half of 2002
Capital account	0.5	1.8
Direct investment	20.2	12.6
of the SR abroad	0.7	-0.3
in the SR	19.5	12.9
Portfolio investment and financial derivatives	-18.2	11.4
of the SR abroad	-16.2	5.0
in the SR	-2.0	6.4
Other long-term investment	-4.4	-4.2
Assets	8.7	2.4
Liabilities	-13.1	-6.6
Other short-term investment	30.9	-7.1
Assets	-7.1	2.4
Liabilities	38.0	-9.5
CAPITAL AND FINANCIAL ACCOUNT	29.0	14.5

The balance of foreign direct investment increased by SKK 6.6 billion on a year-on-year basis, reaching SKK 19.5 billion.

billion SKK

	1. half of 2003	1. half of 2002
<i>Foreign direct investment (FDI) in the SR</i>	19.5	12.9
of which: equity capital	20.8	18.3
of which: privatisation FDI	9.4	6.8
other equity capital	11.4	12.3
other capital	-1.3	-5.4

The foreign direct investment inflow into Slovakia can be divided into three basic categories. The first group is represented by privatisation activities of the government mediated by the NPF, the proceeds from which amounted to SKK 9.4 billion (an additional payment for the privatisation of SPP worth SKK 2.6 billion, proceeds from the privatisation of Východoslovenská energetika in the amount of SKK 5.4 billion and an additional payment for the privatisation of Západoslovenská energetika equal to SKK 1.4 billion).

The inflow of FDI into the Slovak economy, aimed at increasing the equity position of foreign investors in undertakings and banks within the territory of Slovakia and which, by its nature, belongs to the second group of FDI, reached SKK 11.4 billion. Of this amount, more than 72% of funds were channelled into individual branches of the industry, and more than 60% of them were invested in the production of coke, refined oil products and nuclear fuel. As for other sectors, the only investments of greater significance were made into the production of foodstuffs and beverages as well as metallic products. Despite a relatively high share of FDI in the industry, even in 2003 no change occurred with regard to adverse situation of mechanical engineering and electro technical industries, where the equity position of foreign investors increased by SKK 0.2 billion and their share of total inflow dropped by one half, to 1.5%.

In terms of geographic distribution, the most significant investments (including privatisation ones) were made by Germany and Hungary. Other investors came from the Netherlands, Switzerland and the Czech Republic.

The last group of FDI was formed of other capital, including claims and obligations vis-à-vis direct investors. The development of other capital retained its last year's tendency, with a

continuing outflow in the amount of SKK 1.3 billion. Due to a rising level of credits extended by Slovak entities in connection with exports of goods to parent companies, the outflow exceeded an inflow represented by financial loans of both long-term and short-term nature.

Portfolio investment comprises transactions with equity and debt securities of the government and the NBS, banks and enterprises. Equity securities (shares) represent capital holdings with an investor's interest in the assets of less than 10%. Debt securities include bonds, notes and money market instruments.

In the 1st half of 2003, the balance of portfolio investment ended in a net outflow of SKK 17.6 billion. Compared to a corresponding period of the previous year, during which an inflow in the amount of SKK 11.4 billion was realised, this meant a change of SKK 29.0 billion in the financial flows. Such a development was to a decisive extent mediated by the banking and corporate sectors. Whereas resident banks swapped a portion of their assets from short-term deposits to bonds, enterprises invested their disposable funds into money market instruments. An increase in the equity position of up to 10% was related to the privatisation activities in the chemical industry and to a reciprocal acquisition of an interest in a foreign company by Slovak firms.

An outflow of funds as a result of portfolio investment was also recorded on the liabilities side. Such a development was influenced by the redemption of government eurobonds that were covered by a new drawing to 65%. The balance of investments made by non-residents in resident securities amounted to SKK 7.6 billion, which was by SKK 6.5 billion more than the 1st half of 2002. Non-residents invested their funds mostly in government bonds and notes. The turnover of transactions with koruna government securities totalled SKK 283 billion, having increased by 43% on a year-on-year basis.

In the 1st half of 2003, in conformity with the IF methodology and the EU statistical methods concerning the balance of payments, financial derivatives were taken out from the portfolio investment and are now reported under a separate category of the financial account. A net outflow of SKK 0.6 billion was recorded for the item "financial derivatives". The largest value of trade was realised by commercial banks, with assets operations of banks exceeding their liabilities operations.

The balance of other investment resulted in an inflow of funds from abroad in the amount of SKK 26.5 billion (at a net outflow of SKK 11.3 billion in the 1st half of 2002). A major part in this inflow of other investment was held by the banking sector (SKK 37.9 billion) with a partial contribution from the sector of government and NBS (SKK 4.2 billion), whereas the corporate sector reported a net outflow of capital (SKK 15.6 billion).

An outflow of SKK 4.4 billion was witnessed in respect of other long-term investment. It was due to the fact that financial loan payments exceeded draw downs, particularly in the sector of government and the NBS, and also partially in the corporate sector. The repayment of government and NBS loans in the amount of SKK 9.7 billion was accompanied with the drawing of a loan in the amount of SKK 0.6 billion for the Road Management State Fund (within the sector of government and NBS, a foreign loan in the amount of SKK 6.2 billion from JBIC was repaid prematurely in April).

The drawing of corporate financial loans stood at SKK 9.2 billion, staying approximately at the level for a corresponding period of the previous year. In terms of the distribution of loans drawn by sectors, the trend of inflow of funds to trade and commerce services and the production and distribution of electricity, gas and water was continued. Payments on financial loans of the corporate sector reached at SKK 13.0 billion and declined by 3.0% year-on-year, which probably had to do with the trend of declining government loan drawing.

Short-term capital, which during the 1st half of the year exhibited distinctive movement on both the assets and liabilities side, resulted in an inflow of SKK 30.9 billion.

A considerable influence on the amount of short-term liabilities (an increase of SKK 38.0 billion) was exerted by local banks with foreign participation, which recorded an increased inflow of capital from parent banks seated abroad (SKK 28.8 billion). The sector of government and the NBS had a share of SKK 12.8 billion in the total inflow of short-term capital. This inflow was influenced by the execution of repo operations as part of the strategy for foreign exchange reserve management by the NBS. An opposite tendency was observed in respect of lending activities, where the repayment of corporate loans drawn in the previous year (trade credits and financial loans) outmatched new loans by SKK 3.6 billion.

A decisive part on the side of short-term assets (an increase of SKK 7.1 billion) was played by the corporate sector. A net outflow of capital at the level of SKK 10.3 billion was due to an increase in short-term export receivables. As for short-term assets of commercial banks (a decrease of SKK 3.2 billion), an important part here was played by a decrease in deposits of commercial banks in foreign countries, which was partly offset by an increase in financial loans and other receivables due from foreign countries.

2.3 Foreign exchange reserves

At the end of June 2003, foreign exchange reserves of the NBS stood at USD 10 487.6 million, having increased by USD 1 292.1 million from the end of December 2002. In the course of the year, total foreign exchange reserves of the National Bank of Slovakia were influenced by several factors. The income side was primarily influenced by the government borrowing, proceeds from the government's privatisation activities and interventions undertaken by the central bank. The expenditure side was in particular determined by payments made as part of the government's debt service. Over the 1st half of the year, the development of foreign exchange reserves of the NBS was also affected by the development of cross-exchange rates of freely convertible currencies in international financial markets. A surplus balance of income and expenditure in the period under review (USD 535.9 million) was coupled with positive exchange rate differences (USD 756.2 million) due to the strengthening of other freely convertible currencies (especially of euro) against US dollar in global financial markets.

The revenue side of foreign exchange reserves over this period was determined by the following factors:

- proceeds from the government's privatisation activities (USD 239.7 million);
- yields from deposits and securities on the NBS portfolio (USD 224.3 million);
- the drawing of government loans from foreign financial institutions in the amount of USD 604.2 million, of which the May issue of eurobonds was equal to USD 587.9 million);

- income on account of interventions and direct operations in the interbank foreign exchange market (USD 698.3 million);
- the central bank's revenue from realised repo operations (USD 344.7 million);
- other income of the NBS (USD 54.1 million).

The expenditure side of foreign exchange reserves in this period was influenced by:

- payments under the government's debt service in the amount of USD 1150.1 million, of which principal and interest payments on government eurobonds issued in previous years were equal to USD 1063.5 million;
- payments under the NBS debt service (USD 195 million);
- other expenditure of the NBS in the amount of USD 151.4 million, mostly incurred due to fund transfers in order to execute foreign payments on behalf of the NBS clients (USD 105.4 million).

At the end of June 2003, foreign exchange reserves of the NBS were sufficient enough to cover 5.4 times the volume of average monthly imports of goods and services to the Slovak Republic during the first six months of the year, which corresponded to approximately the figure as of the end of the last year.

Foreign exchange reserves of commercial banks at mid-2003 stood at USD 1 061.4 million. At the end of June, the balance of foreign exchange reserves of the banking sector, including the NBS, amounted to USD 11 549 million.

2.4 External debt of the SR

As of the end of June, gross foreign debt totalled USD 15 332.0 million, having increased by USD 2 143.9 million from the end of 2002. A major part in this growth of total foreign debt was played by the development of EUR/USD cross-currency rate (on its conversion, the foreign debt equalled EUR 13 411.5 million, having increased by EUR 756.3 million compared to the end of 2002).

Over the period under review, total long-term foreign debt grew by USD 452.3 million, reaching USD 9 403.8 million at the end of June. Over the course of the 1st half of the year, long-term foreign debt of entrepreneurial entities rose by USD 405.7 million and long-term foreign debt of the Government of the SR and the NBS increased by USD 78.5 million.

As of the end of June, short-term foreign debt totalled USD 5 928.2 million, at a half-year increase of USD 1 691.6 million. Within the commercial sector, short-term payables of commercial banks grew by USD 847.8 million and those of entrepreneurial entities by USD 494.0 million. Short-term liabilities of the Government and the NBS went up by USD 349.8 million, whereas at the 2002 year-end, a zero short-term foreign debt was reported for the Government of the SR and the NBS.

At the end of June, per capita total gross foreign debt reached USD 2 850, having increased by USD 398 from the end of 2002. In comparison with December 2002, a significant increase was recorded in the ratio of total short-term debt to total gross foreign debt of the SR (by 6.6 percentage points to 38.7%) as at the end of June 2003.

External debt of the SR

million USD.	31.12.2002*)	30.06.2003**
Total foreign debt of the SR	13 188.2	15 332.0
1) Long-term foreign debt	8 951.5	9 403.8
Government and the NBS ***	3 740.2	3 818.7
Commercial banks	245.7	213.8
Entrepreneurial entities	4 965.6	5 371.3
2) Short-term foreign debt	4 236.7	5 928.2
Government and the NBS	0.0	349.8
Commercial banks	1 289.6	2 137.3
Entrepreneurial entities	2 947.1	3 441.1
Foreign assets	14 127.4	16 216.2
Net external debt	-939.2	-884.2

* new methodology effective from 1 January 2002

** starting from 1 January 2003, the long-term debt of commercial banks no longer includes „Other Equity Accounts“ (transfers from parent companies), which are now classified to „Foreign Direct Investment“ in line with international standards

*** including government agencies and municipalities

Net external debt, calculated as a difference between gross external debt in the amount of USD 15.3 billion (liabilities of the NBS and government, liabilities of commercial banks and liabilities of the corporate sector - except for participating interests) and foreign assets in the amount of USD 16.2 billion (foreign exchange reserves of the NBS, foreign assets of commercial banks and foreign assets of the corporate sector - except for participating interests) reached a creditor position of USD 0.9 billion, staying virtually unchanged since the beginning of the year.

3. PUBLIC SECTOR

Developments in budget performance

At mid-2003, the operation of the State Budget resulted in a deficit of SKK 27.6 billion (increasing by approximately SKK 3 billion compared to a corresponding period of the previous year), which accounted for 49.3% of the overall level set for this year.

The State Budget revenue for the whole year 2003 was set at SKK 235.4 billion. As of 30 June, the revenue equalled SKK 100.9 billion, i.e. 42.9% of the year-long budget (with SKK 17 billion lagging behind the schedule). This year's revenue was lesser by SKK 1.9 billion than in a corresponding period of the previous year. Tax revenue reached SKK 89.3 billion, i.e. 41.4% of the yearly projection, falling by SKK 3.4 billion in comparison with the 1st half of 2002. A decline compared to a corresponding period a year ago was also recorded for non-tax revenue (SKK 1.7 billion down), which stood at SKK 7.5 billion (meeting the budgeted figure to 62.1%). Other revenue totalled SKK 4.1 billion. Its increase at mid-year was due to transfer of SPP dividends in the amount of SKK 3.3 billion from the National Property Fund to the state budget.

In the 1st half of the year, the revenue from value added tax reached 36.2% of the budgeted level (the amount that failed to be met was equal to SKK 13.7 billion). Such an outcome was to a considerable extent influenced by a lower consumption, overestimated impact of changes in VAT rates and the modification of the VAT Act (No. 511/2002 Z.z.), which was to revise tax deductions and resulted in the lowering of VAT tax collections (the revenue from VAT was SKK 4.4 billion less than in a corresponding period of the previous year).

Likewise, excise duty collections did not match the budgeted figure, meeting the budget to 45.7% (with the amount that failed to be met equalling SKK 1.6 billion). This year's revenue from excise duties exceeded the last year's level by SKK 2.2 billion.

At the end of June, the revenue from personal income tax did not match the budgeted figure (accounting for only 43.1% of the annual budgeted revenue, i.e. being SKK 2.3 billion below the budgeted figure), and slightly increased (SKK 0.5 billion) compared to a corresponding period of the previous year. A similar development was recorded for corporate income tax collections. The forecast budget failed to be met by approximately SKK 1 billion (with the actual performance equal to 46.5%) and the revenue from this tax was SKK 2 billion less than a year ago.

The expenditure side of the State Budget was marked by greater dynamics than the revenue side. At mid-year, the expenditure stood at SKK 128.5 billion (i.e., the budgeted spending was met to 44.1%). Compared to the 1st half of 2002, the expenditure was SKK 1.1 billion higher.

Government guarantees

In 2003, a principal change occurred in respect of the provision of government guarantees as a result of the approval of Act No. 386/2002 Z. z. on Government Debt and Government Guarantees, which is to govern the scope of entities, the purpose and a limit on the provision of government guarantees. The limit has been defined according to the total of loan

principals subject to government guarantees maturing in the respective budget year. By virtue of the aforementioned Act, government guarantees on loans up to the maximum amount of SKK 6.6 billion may be granted in 2003, which is approximately 23% of the limit for 2002. The guarantees may only be provided in inevitable cases to fund the repayment of due loans covered by government guarantee, where it is likely that the guarantees will be realised from public finances, as well as to finance projects eligible to the EU funding, since under the EU reporting methodology (ESA 95), once a government guarantee is realised in the case of public undertakings, the total outstanding principal relating to guaranteed obligations is to be counted as government debt. As of 30 June 2003, the Government did not approve any drawing under the set limit on the provision of government guarantees.

In 2003, the realisation of government guarantees is envisaged from public finances in the total amount of approximately SKK 7.0 billion. To this end, a respective reserve from privatisation proceeds was raised in the NPF budget. A substantial share in this volume was held by Slovenské elektrárne, a.s. (the Slovak Electricity Company, plc.) and Železnice SR (the Slovak Railways). As of 30 June 2003, a government guarantee on behalf of Železnice SR in the amount of SKK 1.55 billion was realised from the NPF funds.

Relationship between the NBS and the State Budget of the Slovak Republic

In the period under review, the National Bank of Slovakia continued to accrue interest on the balance of government funds maintained in the summary memorandum account of the government, at the rate equal to an overnight sterilisation rate of the NBS. Time accounts of the government bear interest at a rate applicable to the respective BRIBID maturity at the time of realising the deposit.

Under the approved interest system, the NBS paid to the Ministry of Finance of the SR an interest in the amount of SKK 404.4 million for the 1st half of 2003, of which the interest on funds deposited in the summary memorandum account of the government amounted to SKK 253.3 million and the interest on time deposits amounted to SKK 151.1 million (predominantly deposits with a one-week maturity).

As a result of the half-yearly financial results, no transfer of an available balance of profit of the NBS was made to the state budget during the period.

Government financial assets and liabilities

As of 30 June, government financial assets deposited in the NBS accounts equalled SKK 8.3 billion, having declined by approximately SKK 0.6 billion from the start of the year. At mid-year, the government financial liabilities had zero value.

State funds

During the 1st half of 2003, there were two state funds with a designated purpose in place, which were to accomplish special tasks not fully covered by the State Budget expenditure. It was the State Fund for the Liquidation of Nuclear Power Engineering Facilities and Handling of Spent Fuels and Radioactive Waste, which operated under the Ministry of Economy of the SR, and the State Housing Development Fund, which operated under the Ministry of Construction and Regional Development of the SR.

At mid-year, the balance of funds in accounts of these state funds held with the NBS and commercial banks stood at SKK 12.5 billion (with the interest paid on time deposits amounting to SKK 287.5 million and that on demand deposits equal to SKK 12.2 million).

National Property Fund

As of 30 June, the NPF reported a surplus of SKK 7.1 billion. Nevertheless, the NPF expenditure is expected to raise in the forthcoming period in connection with the cost to be incurred in privatisation, the carryover of the last year's payables, as well as forecast proceeds from the privatisation of Slovenské elektrárne, a.s. to be carried forward to 2004 in the amount of approximately SKK 12.0 billion.

Funds earmarked for the financing of the pension reform

The balance of funds on time deposit of the MoF SR held with the NBS, intended to fund the pension reform, stood at SKK 65.9 billion at the end of June. As a result of the interest credited to the account, the volume of funds in this account increased by SKK 2.3 billion from the beginning of the year.

4. MONETARY POLICY AND MONETARY DEVELOPMENT

In the 1st half of 2003, the NBS pursued its monetary policy in the environment characterised by a growing inflation rate, favourable development of foreign trade balance, sustained economic growth, lowering unemployment rate and relatively stable development of the exchange rate against EUR. An increase in inflation envisaged in the 1st half of 2003 was determined by cost factors taking the form of adjustments to regulated prices and changes in VAT and excise duty rates, at the absence of any distinct demand pressures. The scaling down of demand pressures was notably due to a decline in real wages and increased costs of undertakings and households.

Although there were certain risks associated with the fiscal area, especially on account of a potential failure to meet the tax revenue, the overall economic and monetary development in the 1st half of 2003 was in line with the Monetary Programme of the NBS for the Year 2003, due to which no monetary policy response was required.

The level of key interest rates of the NBS in this period was set at 5.0% for overnight sterilisation operations, 8.0% for overnight refinancing operations and 6.5% for two-week repo tenders.

In the environment marked by growing inflation rate, the unchanged strategy for monetary policy showed in the deepening of negative real interest rates on bank deposits, due to which a change in the allocation of disposable funds in favour of capital market products was witnessed.

The positive macroeconomic and monetary development also translated into enhanced rating afforded to the SR by the Japan Rating and Investment Information and by Fitch IBCA rating agencies.

At mid-year, the exchange rate of Slovak koruna against the reference currency (euro) almost reached its initial level. Nevertheless, in the period under review, its economically unjustified appreciation necessitated interventions in the foreign exchange market on the part of the NBS, which, in cumulative terms, reached EUR 628 million during the 1st half of the year.

4.1 Monetary aggregates

Money supply M2 (at 1993 fixed rate) dropped by SKK 4.1 billion from the beginning of the year to SKK 682.3 billion (in current-rate terms, it fell by SKK 9.8 billion to SKK 698.7 billion). During the 1st half of the year, a year-on-year rate of growth of money supply stepped up to 9.3% in May (6.7% at current rate), whilst considerably slowing down to 5.3% (3.1%) in June. The June decline in money supply was most markedly influenced by the payout of dividends from generated profits to foreign investors and to the state budget, as well as the discharge of tax liabilities for the year 2002 by those legal entities, whose tax returns were elaborated by tax advisors. These factors caused a portion of client koruna deposits to drain off from the banking sector.

Money supply M2 (billion SKK)	Balance as at 30.6.	Change from the start of the year	abs. 12-month change
at current rate	698.7	-9.8	+21.0
at 1993 fixed rate	682.3	-4.1	+34.6

The different development of money supply at fixed as opposed to current rate was due to the appreciation of Slovak koruna particularly against USD, which, in terms of distribution by currencies, accounts for 37% of foreign currency deposits. In the 1st half of 2003, Slovak koruna appreciated by 8.8% against USD (whilst depreciating by 0.04% against EUR). As a result of this appreciation, the koruna counter-value of foreign currency deposits decreased, which, concurrently with unfavourable interest yield, has motivated economic entities to partly convert foreign currency deposits to koruna ones. The change in foreign currency deposits expressed at fixed rate only shows the impact of changed behaviour of economic entities and does not reflect any revaluation differences due to fluctuating exchange rates.

Foreign currency deposits (billion SKK)	Balance as at 30.6.	Change from the start of the year	abs. 12-month change
at current rate	92.2	-14.6	-20.5
at 1993 fixed rate	75.8	-8.9	-6.9

A decrease in net foreign assets by SKK 17.1 billion during the 1st half of the year was mainly determined by changed holdings of government securities by non-resident entities (which rose by SKK 13.3 billion). The downscaling of privatisation activities of the Slovak Government compared to a year ago had a stabilising effect.

During the 1st half of 2003, net credit to general government and the NPF was enlarged by SKK 15.7 billion, which, at a deficit current position of the government, was favourably impacted by the inflow of remaining portion of proceeds from privatisation at the beginning of the year. The results of operation of the state budget at mid-year were adversely affected by delayed posting of tax revenues (approximately SKK 4 billion) which was carried out during the first days of the next half-year despite that the corresponding deductions had previously been made from client deposits. Although these factors led to an increase in the book value of net credit to the government, they did not boost the money supply growth.

Compared to last year, the government's external debt decreased during the 1st half of 2003, which was due to the conversion of a portion of due foreign debt to internal one (with the internal debt at fixed rate of 1993 amounting to SKK 10.9 billion), since a portion of funds yielded by local issues of government bonds was used to redeem foreign eurobonds in May.

In the 1st half of the year, the creditor position of the NPF vis-à-vis the banking sector increased by SKK 3.5 billion, reaching SKK 7.1 billion. The results of operations of the NPF were particularly influenced by proceeds from the privatisation of VSE and additional payments for the privatisation of ZSE and SPP. The disbursement of compensation to a privatisation adviser, transfers of the NPF funds to cover the needs of the Ministry of Health of the SR and the Ministry of Transport, Posts and Telecommunications of the SR, as well as the realisation of government guarantees, all these caused the creditor position of the NPF to decline.

Also during the 1st half of 2003, credits to enterprises and households trended upwards, increasing by SKK 12.9 billion (in absolute terms) from the beginning of the year. Compared to a year ago, the development of credits to household sector speeded up, rising by SKK 7.1 billion from the start of the year (SKK 3.2 billion for the 1st half of 2002), and thus accounting for more than half of the credit expansion during the 1st half of 2003. Foreign currency credits increased to SKK 5.6 billion (whilst increasing by SKK 1.0 billion in the 1st half of 2002). Practically the entire volume of credits to corporates involved foreign currency credits due to changed preferences with regard to the drawing of loans, where priority was given to foreign exchange loans at the expense of koruna loans (with koruna credits to corporates increasing by SKK 0.2 billion).

4.2 Structure of money supply

A major part of decline in money supply (of SKK 7.1 billion) happened in the 2nd quarter, which was mainly due to the discharge of tax liabilities by legal entities, whose tax returns are made out by tax advisors, and the payout of dividends accruing from the corporate sector to the state budget and abroad (in June). A year-on-year rate of growth of money supply accelerated, from 4.7% in December 2002 to 5.3% in June 2003.

In the 1st half of the year, currency in circulation outside banks grew by SKK 2.4 billion. Its year-on-year rate of growth trended upwards during the period, having accelerated by 4.8 points to 8.8% in comparison with the end of 2002.

Total Koruna deposits taken as a whole (both demand and time ones) rose by SKK 2.4 billion from the beginning of the year, with their year-on-year rate of growth increasing from 3.7% in December 2002 to 7.1% in June 2003. This growth was driven by time deposits (by SKK 3.5 billion), whereas demand deposits recorded a decline (by SKK 1.1 billion). The year-on-year rate of growth of demand deposits accelerated (especially due to a more distinct decrease in a corresponding period of the previous year) by 6.7 points, to 16.5% and that of time deposits by 2.2 points, to 3.3%. The rise in koruna deposits in the 1st half of the year was primarily driven by corporate deposits, with deposits made by the household sector only recording a mild growth.

	Year-on-year change (%)			Change from the beginning of the year (billion SKK)		
	June 2001	June 2002	June 2003	June 2001	June 2002	June 2003
Household deposits	7.6	5.4	0.6	8.0	-1.0	-6.9
<i>total koruna deposits</i>	7.0	3.1	2.7	5.1	-4.5	0.3
demand deposits	30.4	15.5	14.7	6.5	2.8	6.3
time deposits	2.6	0.0	-1.5	-1.4	-7.3	-6.0
<i>foreign currency d.</i>	11.7	22.1	-7.8	2.9	3.5	-7.2
Corporate deposits	23.2	12.7	12.8	5.9	-1.1	0.4
<i>total koruna deposits</i>	20.6	12.2	16.8	6.1	-3.9	2.1
demand deposits	20.5	15.3	18.4	-6.2	-11.2	-7.4
time deposits	20.7	10.1	15.7	12.3	7.3	9.5
of which: insurance companies	22.6	-10.7	-37.2	5.3	0.6	-2.1
<i>foreign currency d.</i>	40.2	15.3	-9.3	-0.2	2.8	-1.7

Also in the 1st half of 2003, when it came to koruna deposits, there was a preference shown by individual sectors of the economy to hold short-term deposits and deposits not fixed for a determinate period of time. This tendency is particularly evident in the case of deposits made by entrepreneurial entities, in which case demand and short-term deposits accounted for 98.4% of deposits at the end of June, with this share rising slightly from the beginning of the year (by 0.8 points). Within the category of corporate deposits, the most marked increase was exhibited by overnight time deposits (by SKK 11.4 billion), time deposits with a maturity of up to one month (by SKK 4.4 billion), and time deposits with a maturity of up to seven days (by SKK 2.9 billion). A decline was recorded in the case of demand deposits (by SKK 7.4 billion), time deposits with a maturity of up to three (by SKK 4.6 billion) and six months (by SKK 2.4 billion). No significant changes occurred in respect of deposits with longer maturities. The interest differential between demand and time corporate deposits dropped by 0.3 points to 3.8 points as a result of the reduced average interest rate on time deposits (by 0.1 points), at a concurrent increase in the average interest rate on demand deposits (by 0.2 points).

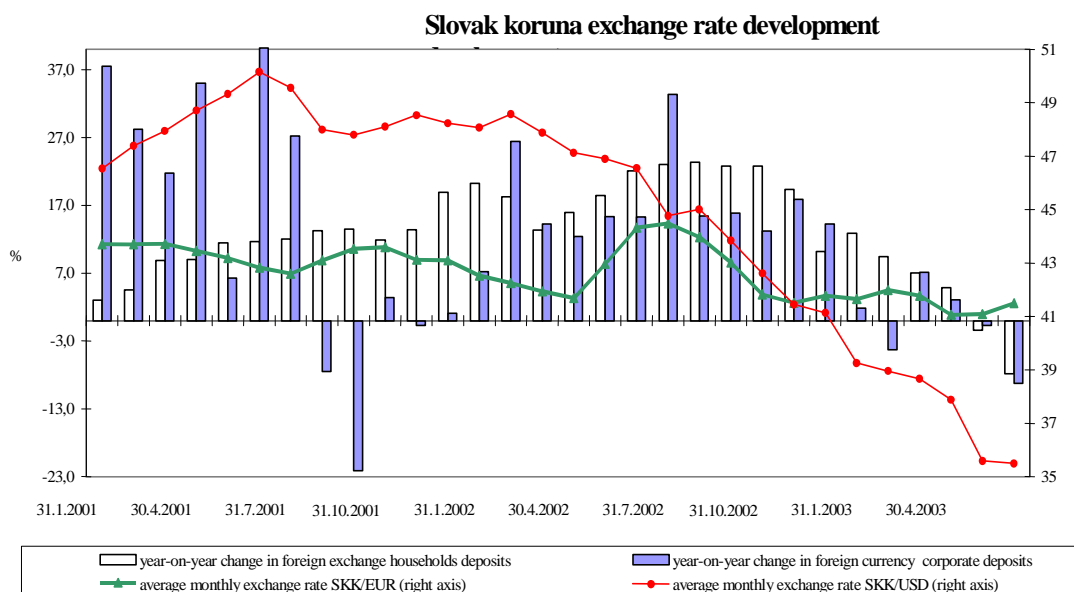
Likewise, the household sector still tends to give preference to highly liquid funds, in which case, compared to the beginning of the year, the share of demand and short-term deposits in total koruna deposits of the household sector increased slightly (by 0.7 points) to 79.4%. Koruna deposits of the household sector grew only mildly over the start of the year (by SKK 0.3 billion), but their structure underwent more significant changes. Demand deposits rose by SKK 6.3 billion, which was countered by a decline in saving deposits (by SKK 5.3 billion) and time deposits (by SKK 0.8 billion). As for time deposits of the household sector, one-month deposits grew by SKK 4.3 billion, whereas six-month deposits dropped by SKK 2.6 billion and one-year and seven-day deposits decreased by SKK 2.1 billion. The decline in saving deposits was to a decisive extent driven by one-year (by SKK 4.0 billion) and five-year deposits (by SKK 2.6 billion), which was partially counterbalanced by an increase in three-month deposits (by SKK 2.2 billion). The decrease in saving deposits is probably related to the cancellation of interest-bearing anonymous deposits from 2004 onwards. The development of an interest differential between the average rates on demand and time deposits of the household sector during this half of the year was marked by a gradual decline, dropping by 0.4 points to 2.0% compare to December 2002 as a result of a more marked decrease in interest rates on time deposits (by 0.5 points) compared to demand deposits (by 0.1 points). Owing to declining interest rates, the attractiveness of time deposits for the household sector diminished, which was shown in increasing utilisation of alternative investment opportunities (such as mutual funds).

Comparing the interest bearing of koruna deposits of the household sector and the corporate sector, two tendencies become evident. Whereas in the case of demand deposits the interest rates on corporate deposits was 0.1 points higher on the average, in the case of time deposits this difference became even more profound (in June 2003, interest rates on corporate deposits was greater by 1.9 percentage points, and in December 2002 it was greater by 1.5 percentage points compared to household deposits).

In the 1st half of 2003, foreign currency deposits declined of SKK 8.9 billion. Their development during the period was marked by a falling tendency. On a year-on-year basis, they decreased by 8.3% (whilst in December 2002, a year-on-year increase of 11.7% was reported). A major part in the reduction of foreign currency deposits was played by household deposits (a decrease by SKK 7.2 billion), with a partial contribution from corporate deposits (a decline by SKK 1.7 billion). As for foreign currency deposits, like in

the case of koruna deposits, a tendency prevailed on the part of both the corporate and household sector (whose share in foreign exchange deposits oscillated at almost 100%) to give preference to deposits not fixed for a determinate period of time and to short-term deposits. A year-on-year rate of decline of foreign currency deposits of the household sector reached 7.8% in June (in December 2002, a growth of 10.2% was recorded) and 9.3% for corporate deposits (with an increase of 14.2% in December 2002). Since foreign currency deposits recorded a marked decline in the 1st half of 2003, their share in the money supply dropped from 12.5% to 11.1%. One of the factors that could have affected the development of foreign currency deposits during the period was the development of an exchange rate of Slovak koruna (in terms of currency distribution, 63% of foreign currency deposits are denominated in European currencies, notably EUR, and 37% are denominated in other currencies, notably USD). The trend of weakening exchange rate of US dollar, coupled with the appreciation of Slovak koruna against euro (especially in the 2nd half of the last year), together with further strengthening of SKK envisaged as a result of integration activities of Slovakia, were probably a reason for a smaller interest in foreign currency deposits.

Comparison of foreign exchange deposits development (at a fixed exchange rate as of 1 January 1993) and



4.3 Lending activities

Total loans (crown and foreign currency loans at current rate) made to the entrepreneurial sector, the household sector, central and local government authorities so as to cover their extra-budget requirements, all add up to the figure reported in the statistics for the whole banking sector. They do not coincide with the figure on loans made to the corporate and household sector as reported under the monetary survey methodology, since these do not cover the government sector.

In June 2003, the volume of total loans grew by SKK 10.4 billion from the year-end. Within the category of crown loans (an increase of SKK 5.9 billion), the most marked growth was

recorded by loans to the household sector (by SKK 7.3 billion), whereas loans to government dropped by SKK 2.9 billion. Crown loans to the entrepreneurial sector grew only slightly (by SKK 0.7 billion), whilst foreign currency loans increased by SKK 4.5 billion.

In terms of distribution of crown loans by sectors, the most marked growth (by SKK 5.8 billion) was exhibited by loans made to “the others” sector (which accounted for 37.4% of total loans), the financial sector - by SKK 3.3 billion (6.8% of the total), and the sector of transport, warehousing, posts and telecommunications - by SKK 2.1 billion (8.0% of the total). The volume of loans to the sector of production and distribution of electricity, gas and water fell by SKK 4.2 billion (accounting for 12.8% of total loans), and in the industrial production by SKK 1.9 billion (17.3% of the total).

In terms of maturity structure, the most notable increase was recorded by long-term crown loans, mainly on account of expanding mortgage business. The growth of crown short-term loans was primarily driven by operating loans. There was a decline in medium-term crown loans, accompanied with an increase in foreign currency loans, notably medium-term ones, which probably had to do with expected appreciation of the Slovak crown exchange rate.

anges in the balance of Slovak crown stock of loans and foreign currency loans by maturities (absolute terms)

	Crown loans		Foreign currency loans		Total loans (SKK + FC)	
	Change from Dec. 2002 (billion SKK)	Share of total loans (%)	Change from Dec. 2002 (billion SKK)	Share of total loans (%)	Change from Dec. 2002 (billion SKK)	Share of total loans (%)
Short-term loans	+2.9	31.9	+0.5	34.0	+3.4	32.3
Medium-term loans	-2.2	28.5	+2.8	33.6	+0.6	29.4
Long-term loans	+5.2	39.6	+1.2	32.4	+6.4	38.3
Total loans	+ 5.9	100.0	+4.5	100.0	+10.4	100.0

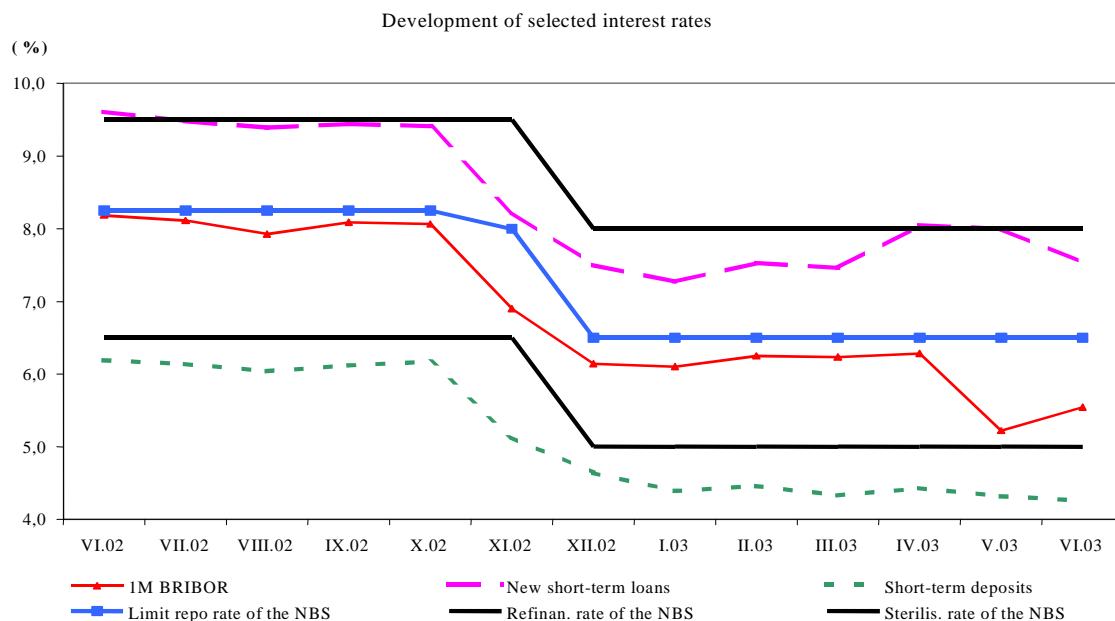
Of the total volume of new loans drawn in the amount of SKK 466.4 billion (in cumulative terms), 93.3% were directed to the entrepreneurial sector, notably its part controlled by foreign capital, and predominantly involved operating loans. The household sector accounted for 6.0% of the total volume of new loans drawn. Short-terms loans mainly involved overdrafts, medium-term loans were notably utilised for consumer and construction purposes, and long-term loans were predominated by mortgage business.

New loans drawn in the 1st half of 2003 (cumulatively)

	Entrepreneurial sector (bn SKK)	% share	Household sector (bn SKK)	% share
Short-term loans	395.9	91.0	12.6	44.7
Medium-term loans	32.0	7.4	7.1	25.3
Long-term loans	7.0	1.6	8.4	30.0
Total	434.9	100.0	28.1	100.0

4.4 Interest rates

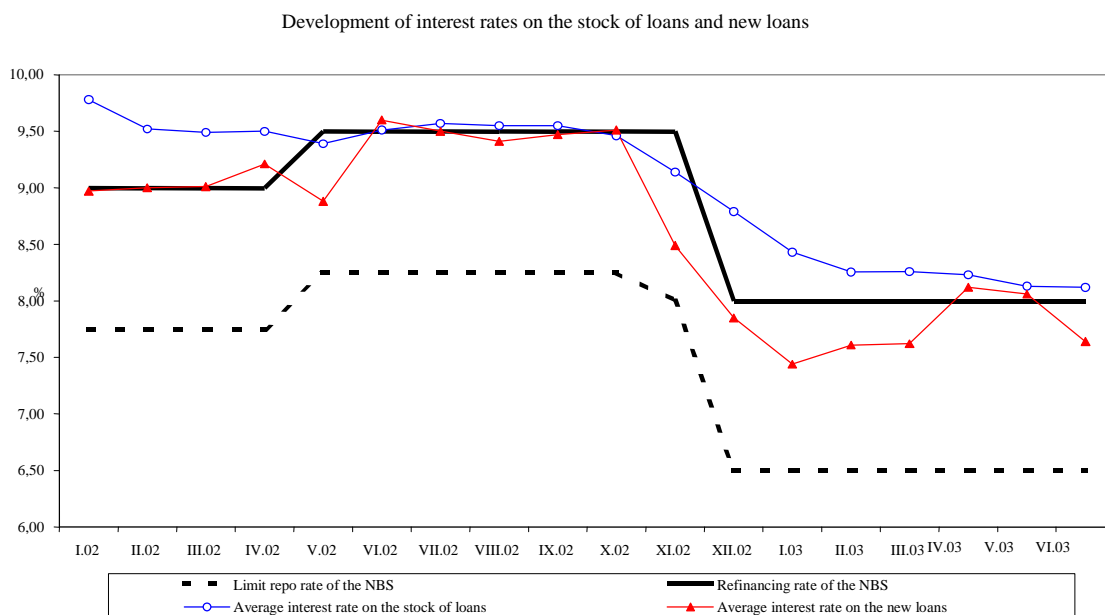
In response to the overall economic and monetary development, the Bank Board of the NBS decided to keep the key interest rates at unchanged level in the 1st half of 2003, also determining the development of customer interest rates in this way. During the 1st half of the year, the development of customer rates, especially short-term ones, was partly influenced by a reduction in key interest rates of the NBS dated November 2002 (by 1.5 points). In January, the rates on new short-term loans recorded a decrease more below the level of overnight refinancing rate, nevertheless, in subsequent months, their development was gradually adjusted so as to make them match this rate. Unlike the rates on loans, short-term rates on deposits continued to trend downward during the whole half-year period.



In June 2003, a decrease in the average interest rate on new loans of 0.21 percentage points (7,64%) was recorded in comparison with the end of 2002. The average interest rate on short-term loans increased minutely (by 0.03 percentage points) to 7.53%, whereas the rates on medium-term loans dropped by 0.75 percentage points to 9.15%, and the interest rate on long-term loans was markedly reduced (by 1.54 percentage points) to 6.88% (mainly due to increased volume of new mortgage loans)⁵.

In terms of purpose for which a loan is to be used, the development of new loans in the 1st half of 2003 was influenced by a decrease in interest rates especially in the category of other loans, which include operating, overdraft, development, paper credit, construction and mortgage loans (which at mid-year accounted for 77.2% of total new loans in cumulative terms). Within this group, a distinctive decline occurred in the average interest rate on mortgage loans not subject to government subsidy (by 2.88 percentage points) to 7.10% and on mortgage loans subject to government subsidy (by 2.67 percentage points) to 5.31%. (Long-term mortgage loans accounted for 43.0% of total long-term loans).

⁵ Beginning with 1 July 2003, the system for granting government subsidies on mortgage loans has changed in that the amount of government subsidy will not be guaranteed over the whole loan repayment period.



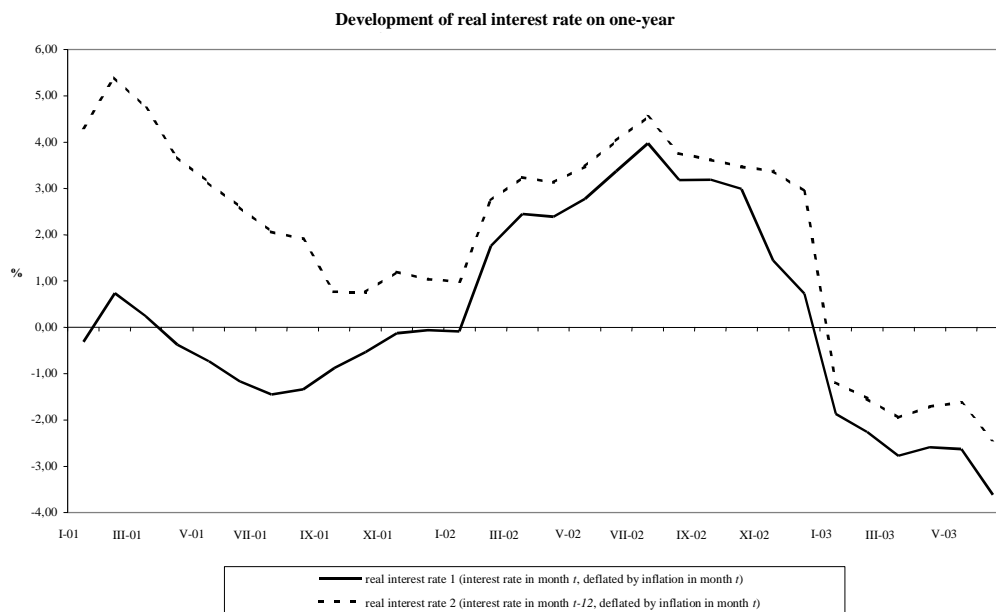
In comparison with the end of 2002, the average interest rate on the stock of loans decreased by 0.67 percentage points to 8.12% due to lowered average interest rates across all maturities. The rates on short-term loans were reduced by 0.61 percentage points to 8.33%, those on medium-term loans by 0.46 percentage points to 9.01%, and the rates on long-term loans were lowered by 0.82 percentage points to 7.29%.

In June 2003, the average interest rate on deposits was reduced by 0.22 percentage points to 3.23% over December 2002. The average interest rate on demand deposits saw a decline of 0.12 percentage points (to 1.52%), and that on time and saving deposits was reduced by 0.33 percentage points (to 4.06%).⁶

There was a decline (across all maturities) recorded by time and saving deposits, broken down into short-term, medium-term and long-term deposits. In June 2003, the average interest rate on short-term deposits reached 4.26% (0.38 percentage points down from December 2002), on medium-term loans 3.38% (by 0.45 percentage points) and on long-term loans 2.99% (a decrease of 0.01 percentage points).

The real interest rate on one-year deposits (compared to the average interest rate and year-on-year inflation in a corresponding period) fell down by 4.35 percentage points from the end of 2002, reaching a negative value of 3.62% in June 2003. Relative to the average interest rate on one-year deposits in June 2002 and year-on-year inflation rate in June 2003, the real interest rate reached a negative value of 2.43%.

⁶ According to the original methodology in force till the end of 2002, deposits were classed into demand and time deposits. Under the modified methodology, effective from 2003, saving deposits were separated out as a special group. At the same time, the structure of time deposits was changed, due to which overnight deposits were separated out from deposits for a period of up to seven days, nine-month deposits were included in deposits with a maturity of up to twelve months, and three- to four-year deposits were classified to deposits with a maturity of up to five years.



5. FINANCIAL MARKETS

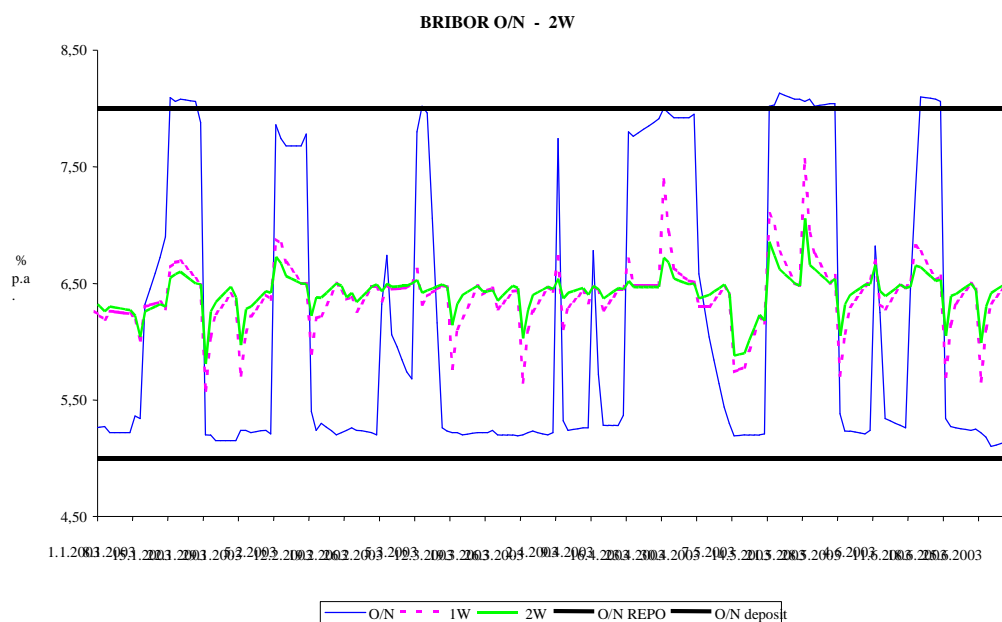
5.1 Money market

Primary market for Treasury bills

In the 1st half of the year, Treasury bills (T-bills) were not auctioned at all, since the Ministry of Finance of the SR financed the state budget deficit from other sources.

Development of Money Market rates

Over the same period, the development of interest rates with a maturity ranging from one day to two weeks was typically marked by a high volatility. The price of overnight rate followed the development of daily liquidity of the banking sector, and on four occasions its quotation exceeded the value of overnight refinancing repo rate of the NBS. In addition to the development of daily liquidity, the quotation of one- and two-week rates was cyclically governed by the date of upcoming two-week repo tender, with its price on the tender realisation date returning closely back to the tender limit rate (6.5%), irrespective of the liquidity position of the banking sector. A prompt response to changing development of daily liquidity of shorter maturities is a consequence of the weighty volume of trade transacted in the interbank market, where operations with a maturity of up to one week reached for more than 90% of the total traded volume.



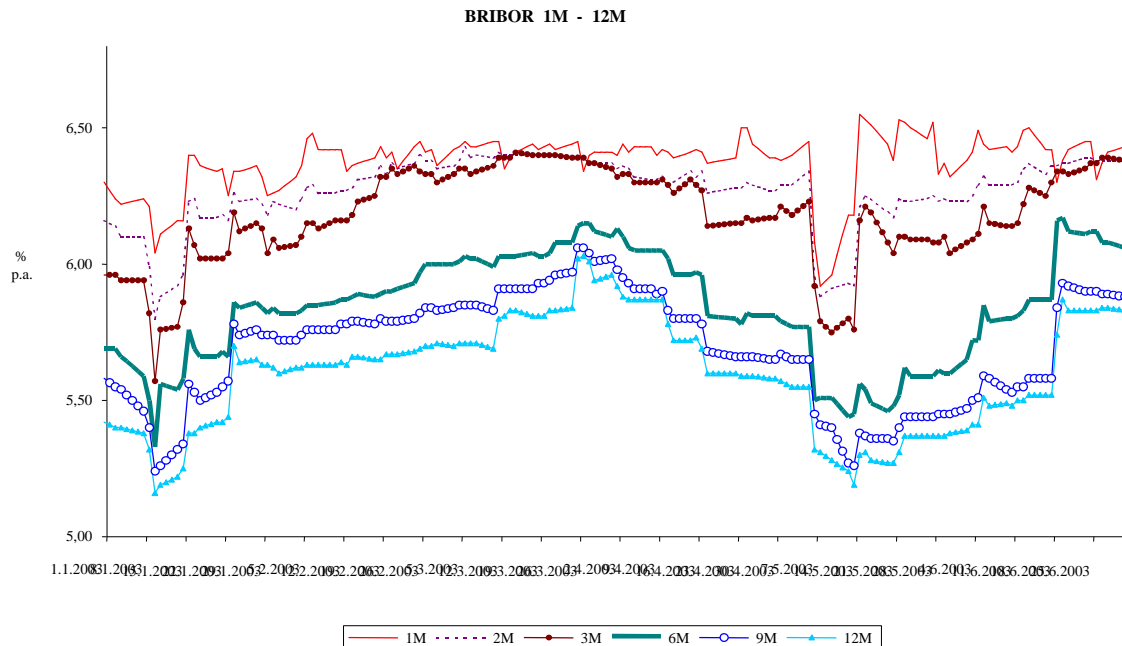
The day-to-day development of the banking sector's liquidity had minimum impact on the price of deposits with a maturity of more than one month. A more distinct change in their price as soon as at the beginning of the year was caused by an interest shown by foreign banks in purchasing crowns in the foreign exchange market, and depositing them in the money market, thus causing their price to drop. The NBS responded to the strengthening of an exchange rate of Slovak crown against euro by repeated foreign exchange interventions, which, after the crown exchange rate weakened, resulted in increased prices of longer-term

rates. A small interest shown during an auction for government bonds in March and an increase in the coupon rate expected by investors caused the prices of longest maturities to rise in this period. The upward trend was discontinued on the publication of positive results of the foreign trade development (at the end of March). Purchases of Slovak crowns in the foreign exchange market in April (which resulted in the strengthening of crown against euro) and their subsequent deposit via derivative contracts caused the price from three- to twelve-month deposits to decline. In May, the tendency towards the appreciation of the Slovak crown exchange rate continued, supported by the expectation of further strengthening of crown after referendum on the entry into the EU, which translated into a marked decline in long MM rates. On the NBS interventions in the foreign exchange and money markets aiming to put the strengthening of the crown exchange rate to halt, the prices of deposits restored their original level. A factor that influenced the development of interest rates at mid-year was the closing of positions of foreign banks in the interbank market after the key interest rates of the Hungarian central bank were raised in June, with a resulting increase in the price of rates with a maturity of more than three months.

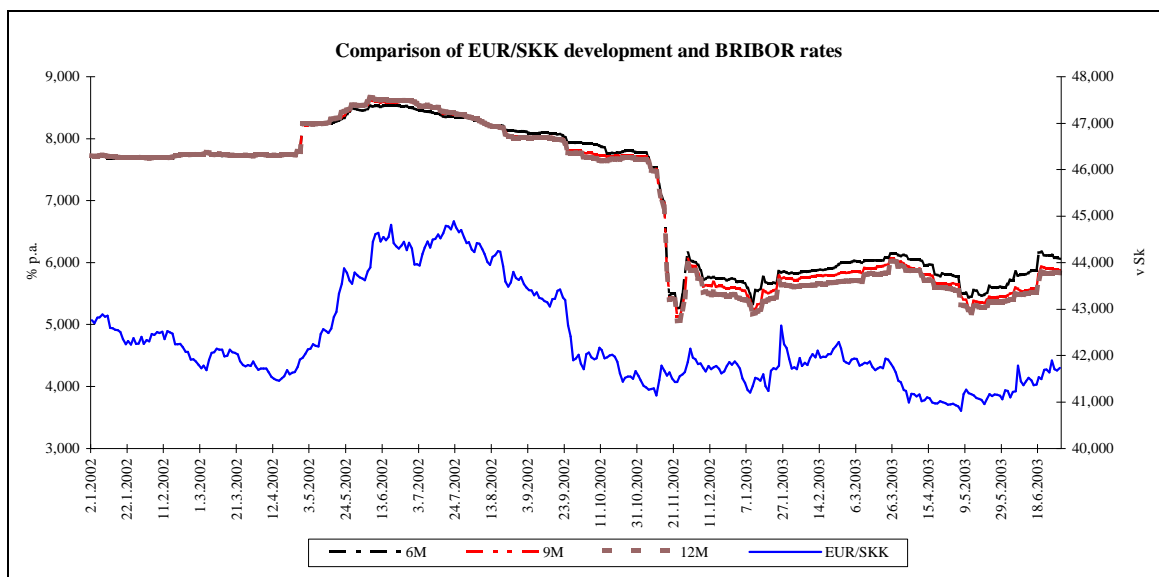
Share of interbank market operations by selected maturities

%	O/N	1W	1M	3M	6M	9M – 12M
Deposits	87.3	5	1.2	1.2	1.3	0.5
Swaps	77.2	9.3	5.8	1.5	0.5	0.7
Total	84.9	6	2.5	1.7	1.1	0.8

With respect to the minimum proportion of interbank market operations with a maturity of more than three months, even a small traded volume of deposits with longer maturities will have impact on their price. Since last September there is an evident tendency towards connecting the operations in the foreign exchange and money markets. The enhanced



correlation shows in prices of deposits rising in response to the weakening of an exchange rate of crown against euro and conversely, these prices falling on the strengthening of the exchange rate.



Development of liquidity of the banking sector and NBS operations in the Money Market

In the 1st half of 2003, the NBS monetary policy retained its sterilisation orientation. From January till April, the sterilisation position of the NBS vis-à-vis the banking sector happened to widen, although at a milder rate than in 2002. The said development was mainly influenced by the completion of the process of privatisation of state-owned equity interests in undertakings and commercial banks, which in 2002 was a decisive factor in increasing the volume of sterilisation operations on the part of the NBS. In May, a decline was recorded in the average sterilisation position of the NBS vis-à-vis the banking sector and in June it still did not reach the average April level, which was due to the conversion of a portion of matured foreign debt of the government to internal debt.

In conformity with the process of harmonisation of the NBS monetary instruments with the package of ECB instruments, beginning with 1 January 2003 the NBS launched further reduction of MRR rate from 4% to 3%, thus achieving unification with the level set for home savings banks. The interest accrual system, the MRR calculation base and periods for evaluating the MRR fulfilment were preserved. As a result of a reduction in the MRR rate, the need for sterilisation at the beginning of the year increased by SKK 6.5 billion (over December 2002).

In volume terms, the most distinct source of the banking sector's increased liquidity in the 1st half of 2003 was presented by NBS foreign exchange interventions against inadequate strengthening of the Slovak koruna exchange rate, which caused the banking sector's liquidity to rise by SKK 25.9 billion.

The growth of liquidity of commercial banks was also aided by deficit results of the state budget operation. As a result of the current state budget expenditure on commercial banks (including the disbursement of yields from government bonds in the amount of SKK 13 billion) outmatching the current revenue from commercial banks to the state budget, the banking sector's reserves in the 1st half of 2003 increased by SKK 5.1 billion.

The growth of liquidity was also impacted by the application of the NPF proceeds from privatisation deposited in a special account in the NBS (approximately SKK 3 billion) and the release of funds from other NBS balance sheet accounts.

Pro-liquidity action of the aforementioned factors was partially countered by government bond issues (with the book value of SKK 90.4 billion) surpassing their redemptions (with the nominal value of SKK 59.5 billion), which caused funds in the amount of SKK 30.9 billion to be withdrawn from commercial banks and had to do with the raising of funds from the banking sector in order to redeem matured issue of government eurobonds in the amount of USD 300 million.

In the conditions of prevailing pro-liquidity impacts, the NBS sterilisation position vis-à-vis the banking sector enlarged from SKK 143.9 billion (as at 1 January) to SKK 165.8 billion (as at 30 June), with its average level equal to SKK 161.2 billion.

In the 1st half of 2003, the fulfilment of MRR for the banking sector as a whole was even. Under the conditions of distinct surplus liquidity and continued sterilisation interventions of the NBS, the set volume of MRR was met in all months of the 1st half of 2003 but one case. Following the NBS interventions, the average surplus reserves fluctuated between SKK 0.02 billion and SKK 0.16 billion. The maximum fluctuations of daily money reserves in individual periods ranged from surplus reserves of SKK 6.1 billion on the average through to insufficient reserves in the amount of SKK 4.3 billion. The most distinct volatility as to the development of reserves of commercial banks in the 1st half of the year was recorded in May, which was due to NBS operations in the foreign exchange market in connection with excessive pressures towards the appreciation of the Slovak koruna exchange rate.

(SKK billion and %)

	Set	Reserve requirement fulfilment	
	MRR	average	% fulfilment
January	21.28	21.32	100.19
February	21.44	21.60	100.76
March	21.41	21.44	100.12
April	21.32	21.37	100.23
May	21.40	21.43	100.15
June	21.20	21.22	100.10

In the 1st half of the year, the NBS announced twenty six sterilisation repo tenders with a two-week maturity and, with the exception of three tenders, the banks' demand was as a rule satisfied in its entirety. A volume lesser than the demanded one was accepted at the time when NBS interventions were performed in the foreign exchange market as a result of the strengthening exchange rate of Slovak crown. Average yield achieved at auctions for repo tenders was 6.49%, with a volatility of \pm one base points, except for one tender announced in May, in which case an average yield of 6.34% was achieved as a result of the banks' striving to succeed in the tender after previous considerable cut downs.

Banks responded to fluctuations of daily liquidity by almost regular utilisation of both sides of overnight operations with the NBS. Several times the refinancing and sterilisation overnight operations were executed on the same day, and despite more advantageous prices of overnight deposits in the interbank market, the funds were deposited with the NBS. The maximum achieved volume of deposits (SKK 20.3 billion) was recorded in May on account

of enlarged volume of crown liquidity from realised foreign exchange interventions and the fact that it was not invested in the tender.

The greatest volume of refinancing was also achieved in May, when, despite the large volume of issued government bonds (SKK 16.2 billion), banks excessively raised their interest in the repo tender, which represented an increase of SKK 23.9 billion compared to the matured volume. On its full acceptance, the banking sector found itself in the largest daily liquidity lack ever since the introduction of new monetary instruments in 2000. In order to be able to execute interbank payments, banks borrowed funds worth SKK 19.2 billion from the NBS.

The NBS continued to regularly renew matured issues of its bills (NBS bills). Dutch-style auctions enabled banks to keep their yield at the level of 6.5% p.a. during the whole period. Banks responded to the range of margin between 3M BRIBOR and the prerequisites amount of yield from NBS bills by changing the magnitude of their demand. An increased demand was also supported by expectations on the part of banks with regard to the decreasing of key rates by the NBS. The upward trend in demand caused the volume of bills issued to rise from SKK 42.5 billion in January to SKK 61.4 billion in June.

In June, on banks' initiative, the third time band (from 1 p.m. till 1.30 p.m.) started to be employed in the SIPS (Slovak Interbank Payment System) with a view to sending priority payments between the central bank and banks with a default parameter for overnight sterilisation deposits (during second time band, priority payments may be sent until 1 p.m.). Thus the banks are able to manage their daily liquidity in a more optimum way, even if having accepted payments from customers without a prior notice.

Form of intervention	2002		2003					
	1. half of the year	2. half of the year	January	February	March	April	May	June
SRT	-52.992	-92.329	-102.267	-106.516	-111.966	-115.382	-107.082	-101.312
O/N	-1.552	-2.791	-5.924	-3.356	-3.598	137	-477	-3.523
NBS bills	-12.119	-21.224	-44.480	-47.746	-51.402	-52.420	-52.197	-57.698
TOTAL	-66.663	-116.344	-152.671	-157.618	-166.966	-167.665	-159.756	-162.533

5.2 Capital market

Primary market

Government bonds

In terms of individual issues executed, the 1st half of 2003 was quite untypical. All in all, 12 government bond issues totalling SKK 91.7 billion were undertaken, which represented an increase of 70.13% compared to a corresponding period of the previous year. In the 1st half of the year, the method for determining interest income was changed, and issues were floated with a zero coupon and a price subject to no limitations. The issue amount was limited. Such type of issue was realised six times with the following maturities: three 1-year issues and three 1.5-year issues. One issue was not accepted because of a low demand on the part of investors (SKK 3.0 million). The distribution of issues by maturity has changed as well.

Distribution of government bond issues by maturities		(%)
	2002	1half of 2003
1-year	45.8	15.3
1.5-year	-	18.0
2-year	18.4	16.4
3-year	2.1	-
5-year	19.5	16.4
7-year	-	16.4
10-year	14.2	17.5

Overall demand for government bonds in the 1st half of 2003 was SKK 168.6 billion which represented an increase of 114.2% compared to a corresponding period of the previous year. The average issue amount was SKK 5.1 billion, whilst in the 1st half of 2002 it was SKK 2.4 billion. Such a marked increase in the issue amount over the 1st half of 2002 was due to the floating of more sizeable issue volumes. Of the total number of issues (12), only 4 were tap issues.

Investors showed increased interest in all zero-coupon issues. Demand for issues reached SKK 5.6 to 18.7 billion, fluctuating from 140.0% to 332.2% in relative terms. The high demand for these issues indicates that investors were interested in short-term issues, which was due to the fact that during the given period there were no T-bills issued and there was a marked surplus of liquidity prevailing in the banking sector. Investors' demand for government bonds by respective maturities was as follows: for 2-year issues up to 135.9%, for 5-year issues as much as 186.0%, for 7-year bonds 212.0% and for 10-year issues 158.9%.

As of 30 June, there were 24 foreign investors listed in the primary market for government bonds, who accounted for 18.5% of the total number.

Government bond payout and payments

In the 1st half of 2003, yields from government bonds totalling SKK 16.9 billion were disbursed, of which SKK 11.1 billion were disbursed to foreign investors (65.7% of the total amount), SKK 5.8 billion to local investors (34.3% of the total) and SKK 0.3 billion to pledgees (1.8% of the total).

In the 1st half of the year, a year-on-year increase in the yields disbursed from government bonds was 2% (SKK 16.6 billion in the 1st half of 2002), with the yield disbursed to foreign investors raising by 30% (SKK 8.5 billion), and the yields disbursed to local investors declining by 28% (SKK 8.1 billion in the 1st half of 2002). Over this period, 23 issues with the nominal amount of SKK 59.5 billion were redeemed. The nominal value of SKK 48.2 billion was disbursed to foreign investors (81% of the total volume), of SKK 9.6 billion to local investors (16.13%) and that of SKK 2.3 billion to pledgees (3.86%). In the surveyed period, yields and nominal value disbursed totalled SKK 76.4 billion.

Non-government bonds

In the 1st half of 2003, there was an increase in non-government bond issues. All in all, 48 issues were undertaken. This was 16 issues more than in a corresponding period of 2002. The total amount of non-government bonds issued was SKK 14.9 billion, which was more

by SKK 1.3 billion compared to a corresponding period of 2002. Four foreign currency issues in the amount of EUR 15.2 million were undertaken whereas in the 1st half of 2002 there were five issues of foreign currency non-government bonds in the amount of EUR 4.1 million.

Secondary market

In the course of the 1st half of 2003, Act No. 566/2003 on Securities and Investment Services was amended by Act No. 163/2003, which, apart from other things, extends a time limit for the creation of over-the-counter market (OTC) to 60 days from the grant of membership to the first member of the First Central Depository. The amendment became effective on 1 June 2003.

On 13 April 2003, new stock exchange rules harmonised with Act No. 429/2002 on the Stock Exchange came into effect.

General overview of stock exchange trading

In 121 trading days, 16 561 transactions (a year-on-year increase of 59.9%) were carried out at Burza cenných papierov Bratislava (the Bratislava Stock Exchange, BSSE). The volume of transactions reached SKK 481.4 billion, on a year-on-year increase of 46.3%. The volume of transactions with equity securities reached SKK 14.5 billion, with their share in the total volume of trade being 3.0%. EOB (electronic order book, i.e. price setting) reached SKK 48.0 billion (accounting for 10% of the total volume). An upward trend in the financial volume of debt securities was also preserved in the 1st half of the year.

Trading in bonds

The volume of trade in bonds for the 1st half of 2003 was SKK 467.0 billion (at a year-on-year increase of 48.0%). The share of government bonds transactions was 98.5% (with 1248 transactions). The most frequently traded issues were government bonds transactions of series 142 (SKK 77.8 billion), series 143 (SKK 44.4 billion) and series 152 (SKK 39.4 billion). As for non-government bond issues, the most successful were listed bonds Poľnobanka III (SKK 2.3 billion) and VÚB VII (SKK 1.6 billion). The highest volume of transactions in the EOB market was recorded by the issue of government bond of series 149. The highest number of closed transactions (130) achieved by the government bond of series 187.

The total number of issues on BSSEs markets as of 30 June was 575, of which 61 issues were on the listed main market, 14 were listed on the parallel listed market, no one was on the new listed market and 500 issues were traded on the free market. 2 issues in the free market involve eurobonds.

The share of foreign investors on BSSE total turnover in the 1st half of 2003 was 48.3% (at an increase of 58.59% over 2002), of which 54.2% were on the buy side (at an increase of 61.25% compared to a corresponding period of 2002) and 42.4% on the sell side (an increase of 55.42% over the 1st half of 2002).

As of the last trading day of the surveyed period in the market makers' module (MTT) could be closed with 8 issues of government bonds were traded in the market-maker module

(namely series 131, 133, 147, 166, 174, 187, 188, 189) along with 4 issues of corporate bonds (B.O.F. 04, Bond CAC 1, Bond SHS II, Železiarne Podbrezová II) and 3 issues mortgage bonds (HZL VÚB VI, HZL Tatrabanka 01, HZL Istrobanka I). The volume of transactions with the aforementioned bonds in MTT amounted to SKK 464 million (29 transactions), accounting for 1.0% of all EOB transactions with bonds.

The Market capitalisation of bond issues as of the last trading day of that half of the year stood at SKK 334.1 billion (a year-on-year increase of 7.8%), of which SKK 287.4 billion were listed issues (a year-on-year increase of 11.0%).

SDX index

On the last trading day of the period, the SDX index, which covers bank and corporate bonds, closed with a gain of 4.2% (compared to its closing value in 2002) and of 10.8% per annum, averaging at 232.3% of nominal value and 6.4% average yield-to-maturity of and duration of 1 year. The minimum (223.0%) was achieved on 7 January and the maximum (232.3%) on 24 June.

The average price of portfolio of government bonds in the SDX basis as of the end of June was 215.3%, which meant a half-yearly increase of 3.3%, with the average yield of 5.0% and duration of 3.7 years. Within this section, the minimum of 208.2% was reached on 7 January, and the maximum of 215.4% on 16 June.

Trading in shares

Transactions with 504 share issues (of 417 issuers) were concluded over the 1st half of the year, of which 9 issues were on the listed main market, 7 issues were on the parallel listed market and 488 were on the free market. No share issue happened to be accepted for trading on the new listed market during this semi-annual period.

The performance of market for shares declined compared to corresponding semi-annual periods of previous years, markedly lagging behind the bond market. At the volume of SKK 14.5 billion, it only accounted for 3% of the overall trading. The most successful share issues in terms of the financial volume of transactions were Slovnaft (SKK 10.1 billion, 837 transactions), Slovnaft 2 (SKK 1.2 billion, 39 transactions), Slovakofarma (SKK 0.4 billion, 240 transactions) and VÚB (SKK 227 million, 868 transactions). The highest number of transactions was closed with shares of Majetkový holding, a.s. (3503 items). The highest volume of EOB transactions was realised in respect of the first Slovnaft issue.

In MTT 4 share issues (Novitech, Slovnaft, Slovakofarma and Železiarne Podbrezová) were traded as of the end of June. The volume of transactions reached SKK 1.1 million in 10 transactions (accounting for 0.2% of the total volume of EOB operations with shares).

SAX index

The SAX index started the year with a 3.3% decline against the year 2002's closing value at 135.37 points, which was at the same time the half-year low. On 20 March, the index recorded its half-yearly maximum (reaching the level of 175.21 points). Such a development was driven by Slovnaft, which strengthened by 48.2% against the year 2002's closing value,

Nafta with a gain of 38.8% and Slovakofarma, which appreciated by 31.8%. The greatest appreciation rate was recorded by the SES Tlmače issue, which yielded SKK 64 per share and appreciated by almost 85%. The transaction with Slovnaft shares of 20 March adversely affected the development of the SAX index, since, following the transaction, for as long as until 9 June, the index continued to consistently decline (having dropped 30.26 points to 145 points during the period under review). Its decline was driven by the development of prices of shares of Slovnaft and Nafta (a decrease of 9% and 41.3% respectively). Only the shares of VÚB and Biotika developed contrariwise (an increase of 6.1% and 1.9% respectively). The level of index only raised in the second decade of June, notably due to the dividend income from the issuer VÚB in the amount of SKK 58 per share. The SAX index closed at 157.36 points, having strengthened by 12.4% compared to the beginning of the year (by 37.3% on a year-on-year basis).

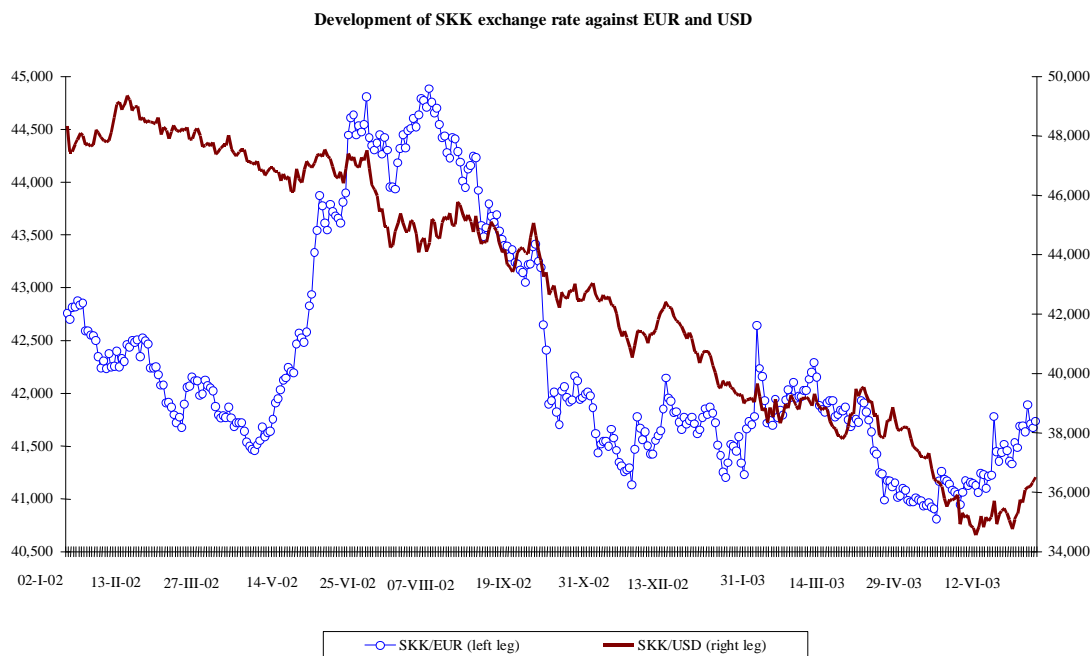
5.3 Foreign Exchange Market

Operations in the foreign exchange market

At the end of June, the exchange rate of Slovak crown (41.737 EUR/SKK) weakened by 0.04% compared to its rate as of 31 December 2001 (41.722 EUR/SKK). The SKK exchange rate reached the strongest position (40.810 EUR/SKK) on 6 May and the weakest position (42.643 EUR/SKK) on 24 January, with a difference between the strongest and weakest position being 4.5%.

The balance of spot operations of foreign banks vis-à-vis local banks was negative for the last period (USD 73.0 million), which means that foreign banks tended to sell more foreign currency and buy more local currency.

The exchange rate of Slovak crown against US dollar appreciated by 8.8%, from 40.036 EUR/SKK (31 December 2002) to 36.509 EUR/SKK (30 June), reaching the strongest position on 28 May (34.582 EUR/SKK) and the weakest one on 7 January (39.765 EUR/SKK).



During the 1st half of 2003, regarding the too rapid strengthening of crown, the National Bank of Slovakia intervened in the foreign exchange market, buying EUR 250 million in the form of direct interventions in May. At the same time, it also accepted several bids to buy foreign currency from commercial banks, purchasing EUR 378 million through direct intervention. These interventions were supported by MM operations.

Interbank foreign exchange market

The volume traded in the interbank foreign exchange market totalled USD 191.4 billion. In terms of types of deals, 89.4% were formed of swap transactions, the prevailing part of which were conducted in USD (85.3%). Spot transactions accounted for 10.5% of the total volume, with 97.2% the business transacted in EUR. An average daily turnover at the spot market stood at USD 162.8 million, at the average per transaction being USD 1.66 million.

The volume of trade between local commercial banks stood at USD 34.2. The largest share in trading was held by USD (75.4%), followed by EUR (24.1%) and other currencies (0.5%).

Local banks accounted for 17.9% of total trading in the interbank foreign exchange market. In terms of types of operations, 82.1% of the total volume of trade between local banks was conducted in the form of swap operations, with spot deals accounting for 17.9%.

Trade with foreign banks reached USD 156.6 billion. Likewise, the major volume was transacted in USD (76.8%), followed by trading in EUR (13.7%) and other currencies (7.8%). Operations with foreign banks still constitute a major part of the overall foreign market (with a share of 82.1%).

Like in the case of operations between local banks, also in trading with foreign banks the major part of trade involved swaps (91.0%), spots (8.9%) and forwards (0.1%).

6. BANKING SECTOR

6.1 Banking sector

At 30 June, twenty banking entities (eighteen banks and two branch offices of foreign banks) along with nine representative offices of foreign banks operated in the Slovak banking sector. Of these eighteen banks, three were home-savings banks. Of fifteen universal banks, eight banks and one branch office of a foreign bank have a mortgage banking licence (HVB Bank Slovakia, a.s., Istrobanka, a.s., Ľudová banka, a.s., OTP Banka Slovensko, a.s., Slovenská sporiteľňa, a.s., Tatra banka, a.s., UniBanka, a.s., Všeobecná úverová banka, a.s. and Československá obchodní banka, a.s., a branch office of a foreign bank in the SR).

The volume of subscribed share capital of banks (excluding the NBS) increased by SKK 2.0 billion to SKK 40.5 billion over the end of 2002. The development of share capital was influenced by the subscription of new shares in two banks.

No change has occurred in the funds provided by foreign banks to their branch offices, which as at 30 June stood at SKK 2.8 billion.

The share of foreign investors in the total subscribed share capital of banks and the funds provided by foreign banks to their branch offices increased from 85.3% to 85.9% during the 1st half of 2003. This growth was mainly caused by an increase in the share capital of two banks affected by foreign investors.

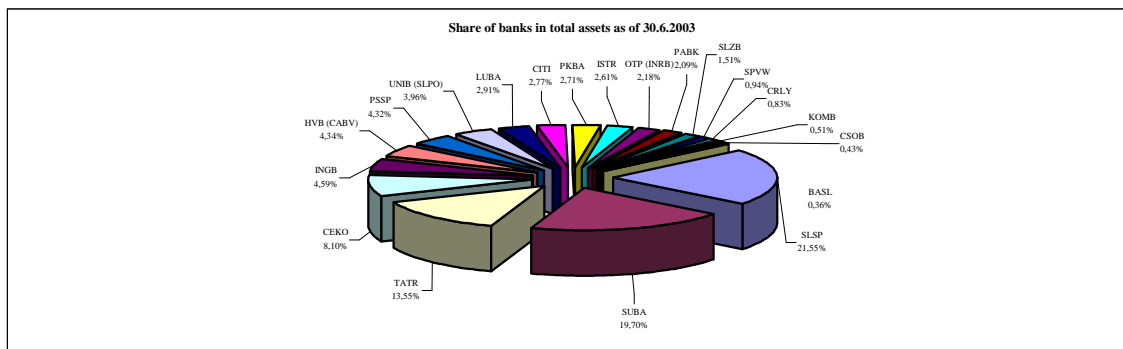
Through its decision dated 28 February 2003, the National Bank of Slovakia withdrew a license to operate as a bank from Dopravná banka, a. s., Banská Bystrica. Since 2000 Dopravná banka, a. s. has been classified to the group of banks subject to a special regime; on 1 July 2000 the National Bank of Slovakia imposed receivership upon the said bank owing to the bank violating the Banking Act and generally applicable legislation in its operations. On the grounds of the bank's unceasing problems, the Regional Court of Banská Bystrica granted a bankruptcy petition on the company's estate on 22 August 2000.

On 25 April 2003, the National Bank of Slovakia granted a prior consent to the foreign investor, MEINL BANK Aktiengesellschaft, Vienna for the acquisition of a 60.07% interest in the share capital of Banka Slovakia, a. s. The said interest was transferred from the NPF SR to the foreign investor on 4 July (according to an extract from the Securities Centre).

6.2 Financial results of the banking sector

As at 30 June, the balance sheet amount (the sum total of net value of assets) for twenty banks within the banking sector of the SR decreased by SKK 60.3 billion (5.9%) to SKK 953.7 billion from the end of 2002.

The development of the banking sector's total assets was influenced by a decrease of SKK 88.8 billion in secondary resources (by 46.8%) to SKK 100.9 billion. The volume of non-anonymous deposits rose by SKK 3.2 billion (by 0.8%) to SKK 403.3 billion. Primary resources dropped by SKK 9.8 billion (by 1.4%) to SKK 676.5 billion.



Compared to the end of 2002, the volume of interest-bearing assets of the banking sector fell by SKK 21.2 billion to SKK 906.8 billion. During the 1st half of 2003, the proportion of interest-bearing assets trended upwards, reaching 95.1% as of 30 June.⁷

Total claims on loans reported by twenty banks as of 30 June amounted to SKK 356.1 billion. Claims on classified loans dropped by SKK 0.75 billion to SKK 37.5 billion, i.e. by 1.9%. The major portion of classified claims continued to be concentrated in the branches of industry, trade, agriculture and construction. Banks reported created provisions worth SKK 27.5 billion. At the end of the period under review, classified loans were covered by provisions to 73.3%. The share of classified claims in total claims fell to 10.5%.

Banks reported net profits of SKK 6.2 billion for the period ending 30 June. Compared to year ago, this represents an increase of SKK 0.6 billion (by 10.1%). As of 30 June, no bank reported a loss as the results of its operations for the current period (as of 30 June 2002, a loss was reported by one bank).

⁷ A decrease (in absolute terms) in certain indicators of the banking sector (total assets, interest-bearing assets, etc.) was influenced by a change in the methodology of accounting, especially for repo deals. Their volume at the 2002 year-end amounted to approximately SKK 50 billion.

Slovak banking sector	31.12.2002	30.6.2003	SKK '000	
			Difference 06/03-12/02	% change 06/03-12/02
Staff size	19 717	19 736	19	0.10%
Number of banks in the SR	18	18	0	0.00%
Number of branches of foreign banks in the SR	2	2	0	0.00%
Number of representative offices of foreign banks in the SR	7	8	1	14.29%
Number of branches in the SR	418	421	3	0.72%
Number of junior organisational units in the SR	602	594	-8	-1.33%
Number of branches in other countries	1	1	0	0.00%
Number of junior organisational units in other countries	1	2	1	100.00%
Number of representative offices in other countries	1	1	0	0.00%
Total assets	1 014 014 402	953 749 813	-60 264 589	-5.94%
Interest-bearing assets	927 994 293	906 828 393	-21 165 900	-2.28%
Total foreign exchange assets	132 076 340	126 522 892	-5 553 448	-4.20%
Securities	299 508 256	353 947 432	54 439 176	18.18%
Claims on loans	342 341 430	356 051 119	13 709 689	4.00%
of which: classified claims	38 294 476	37 537 958	-756 518	-1.98%
Share of classified claims in total loans (%)	11.19%	10.54%	-0.01	x
Uncovered presumptive loss	28 411	8 617	-19 794	-69.67%
Provisions raised on classified loans	27 744 404	27 532 189	-212 215	-0.76%
Legal reserves	4 424 029	4 297 468	-126 561	-2.86%
Share capital	40 242 176	40 442 576	200 400	0.50%
Own resources	103 081 726	107 142 719	4 060 993	3.94%
Total resources - banking sector	189 703 380	100 884 854	-88 818 526	-46.82%
Total resources - non-banking sector	686 325 355	676 528 052	-9 797 303	-1.43%
- of which: guaranteed deposits	400 016 993	403 272 068	3 255 075	0.81%
Profit for current period	5 614 842	6 176 923	562 081	10.01%
Loss of current period	4 790	0	-4 790	-100.00%
Difference between profit and loss	5 610 052	6 176 923	566 871	10.10%
Cumulative profit /loss*	11 941 633	26 311 602	14 369 969	120.34%
Capital adequacy	21.30	22.78	1.48	x

*) year-on-year comparison

6.3 Performance of banking supervision and evaluation of prudential banking

The main task and function of banking supervision is to promote the stability and sound development of banks, the banking system as a whole, and to protect the interests of depositors. During the 1st half of 2003, there were seven on-site inspections carried out. The on-site inspections were performed in five banks holding a universal license and in two home-savings banks. All the instances involved scheduled inspections according to the plan adopted for the year 2003.

In the 1st half of 2003, the National Bank of Slovakia issued 69 licensing decisions (such as a decision to withdraw a license to operate as a bank, a decision on suspended proceedings, a

decision on proceedings on the violation of law, a decision on the enforcement of remedial action).

One of the principal regulatory instruments of banking supervision are the rules for prudential banking business and the limits set therein.

As of June 2003, capital adequacy of the Slovak banking sector grew by 1.48% compared to the end of 2002, reaching the value of 22.78%. In the course of the 1st half of 2003, the capital adequacy limit was observed by all the banks.

No significant changes were observed in respect of the compliance with credit exposure limits during the same period. As of 30 June, the set limit of exposure to non-banking entities was not observed by two banks. Limits on exposure to related persons, bank entities and the aggregate net credit exposure limit were met by all banks.

Monthly liquidity limit (a ratio between monthly assets and liabilities that may not be less than 1.0) was met by all the banks and a limit on the ratio of the sum of fixed and illiquid assets to own funds and reserves (which may not be more than 1) was not met by one bank.

6.4 International Cooperation

During the period under review, two bilateral agreements were concluded on co-operation in the performance of banking supervision:

- on 17 February 2003, Memorandum of Understanding (MoU) was concluded and signed between the National Bank of Slovakia and De Nederlandsche Bank (the Netherlands);
- on 12 June 2003, MoU was signed between the National Bank of Slovakia and the Central Bank of Cyprus.

7. TEXT APPENDICES

7.1 Monetary policy instruments

1. Interest rate policy

- a) *Limit interest rate of the NBS on standard two-week repo tenders:*
from 18 November 2002 6.50%
- b) *Interest rate on overnight refinancing operations* conducted by the NBS with commercial banks:
from 18 November 2002 8.00%
- c) *Interest rate for overnight deposits* of commercial banks in the NBS:
from 18 November 2002 5.00%
- d) *discount rate*
from 1 January 2002 equals the limit interest rate on standard two-week NBS repo tenders
from 1 January 2003 discount rate = basic interest rate of the NBS¹

2. Monetary policy instruments of the NBS

Open market operations

- a) *main instrument*
 - *standard repo tender with a maturity of two weeks* – conducted by the NBS with commercial banks at regular weekly intervals. The NBS concurrently announces a limit interest rate for such standard operations.
- b) *instrument for longer-term liquidity control:*
 - *issuing of NBS bills* for the portfolios of commercial banks – an instrument of the NBS for longer-term control of liquidity in commercial banks. Auctions of NBS bills were held irregularly, usually using the Dutch method.
- c) *fine-tuning instrument:*
 - *a quick tender* – an instrument of the NBS for an ad hoc fine-tuning of the liquidity in commercial banks.
- d) *structural operations*
 - *individual deals* – an instrument of the NBS enabling direct purchase or sale of government securities for and from the portfolio of the NBS.
- e) *foreign currency swaps*
 - an instrument destined to temporarily fine-tune the koruna liquidity using a foreign exchange transaction with settlement in the future.

2.2 Standing facilities

- a) *Overnight refinancing operations:*
 - commercial banks have automatic access to refinancing (provided there is a sufficient amount of acceptable securities) at an announced rate of interest.
- b) *overnight sterilisation operations*

¹ On 12 December 2002, the Bank Board of the NBS decided to introduce a basic interest rate of the NBS with effect from 1 January 2003. The NBS basic interest rate is identical with a limit interest rate on standard two-week NBS repo tenders. The term „discount interest rate of the National Bank of Slovakia“ or “ discount interest rate of the State Bank of Czecho-Slovakia“ used in generally applicable legislation is taken to mean a basic interest rate of the National Bank of Slovakia.

- commercial banks are allowed to deposit surplus funds in the form of non-collateralised deposits at an announced rate of interest.

3. Other instruments

a) redistribution loan:

- traditional - interest rate = *rate for two-week repo tender* + 0.5%;
- soft loan - interest rate = *rate for two-week repo tender* - 2% + 0.5%.

b) - with a view to maintaining a bank's liquidity, the NBS may exceptionally provide the bank with a short-term loan for a period of no more than three months. Such a loan was not granted in the 1st half of 2003.

c) During the imposition of receivership over a bank, the NBS may make loans under a separate law for a maximum period of six months. Such a loan was not granted in the 1st half of 2003.

4. Minimum reserve requirements

With effect from 1 January 2003, commercial banks are required to keep minimum reserves at the level of 3% of primary koruna and foreign currency deposits (held by residents and non-residents); koruna and foreign currency deposits of foreign banks; bills of exchange and bonds issued, and other payables to non-bank customer. The ratio of minimum required reserves for home savings banks was 3%. The minimum required reserves were evaluated on a monthly basis. The minimum required reserves remunerated an interest rate of 1.5%, up to the amount prescribed for the given month.

5. Exchange rate and foreign exchange policy

a) exchange rate regime

The National Bank of Slovakia applies a floating exchange rate regime. The exchange rate of Slovak koruna is determined in relation to a reference currency, namely the euro. Its development depends on the development of supply of and demand for Slovak koruna in the foreign exchange market. The National Bank of Slovakia may intervene in the foreign exchange market in order to eliminate an excessive volatility of the exchange rate of Slovak koruna.

b) nominal exchange rate of SKK

Nominal exchange rate of Slovak koruna against EUR depreciated by 0.04% in the 1st half of 2003, reaching the value of 41.737 SKK/EUR on 30 June 2003. In the period under review, the development of an exchange rate of Slovak koruna against USD was marked by an appreciation of 8.81%, to the level of 36.509 SKK/USD.

c) nominal and real effective exchange rates of SKK²

In the 1st half of the year, the development of an index of nominal effective exchange rate (NEER) was influenced by the appreciation of an average monthly rate of SKK against USD, which in June 2003 was appreciated by 15.9% compared to December 2002. The

² The IMF calculation methodology of indices of the nominal and real effective exchange rates of the Slovak koruna (NEER and REER) is used. It is based on the producers price index PPI (the prices of industrial manufacturing products PPI) in the initial year 1999 and for the sixteen major trade partners of the Slovak Republic, representing together about 86 and 89 percent of the volume of Slovakia's foreign trade in the period of 1993 to 2002: Germany, the Czech Republic, Italy, Austria, France, Holland, the U.S.A., Great Britain, Switzerland, Poland, Hungary, Ukraine, Russia, Japan, China and Turkey.

dynamics of revaluation of koruna over the 1st half of the year was slightly higher than the appreciation of currencies of significant trade partners of the SR.

In June 2003, the year-on-year growth rates of the NEER index intensified, reaching 12.1% compared to its increase by 4.5% in last December. In June, as a result of price developments in Slovakia this year, the index of real effective exchange rate (REER) based on the producer price index appreciated by 19.0% year-on-year and by 4.7% compared to its December level. A year-on-year rate of growth of the REER index based on prices of industrial output, i.e. excluding the prices of raw minerals and energy prices increased by 12.4 % in June, whilst equal to 4.5% in December 2002 .

d) evaluation the currency structure of foreign exchange incomes and payments of the Slovak Republic

The turnover of foreign exchange incomes and payments falling under the payment purpose categories 1 to 6 in convertible currencies for the 1st half of 2003 reached SKK 719.2 billion. An average monthly turnover for 6 months (SKK 119.9 billion) increased by 12.1% compared to a year ago. Notably owing to a favourable development in the 2nd quarter (SKK +4,5 billion), the balance of foreign exchange incomes and payments in the 1st half of 2003 was on the whole positive and stood at SKK 1.4 billion.

In the 1st half of the year, the ratio between the turnover of foreign exchange incomes and payments to GDP at current prices increased to 127.5% compared to the same period a year earlier as a result of a higher annual rate of growth of turnover compared to the rate of growth of GDP (compared to 124.0% in the 1st half of 2002).

The turnover was to a decisive extent driven by EUR (68.1%) and USD (20.4%), with the share of EUR increasing mainly at the expense of the share of USD, and the share of non-European currencies (AUD, JPY, CAD) slightly rising as well. CZK accounted for 8.2% and other currencies accounted for 3.4% of the total turnover.

7.2 Monetary Calendar

January

- Japanese agency R&I (Rating and Investment Information) raised the rating of long-term obligations of the SR in local currency from BBB- to BBB.

March

- Agency Fitch Ratings improved the rating of Slovakia. The rating of long-term foreign exchange debt was increased from BBB- to BBB, and the rating of long-term obligations in local currency was increased from BBB+ to A-.

April

- The NBS gave its consent to the acquisition of a 60.07 % in the share capital of Banka Slovakia, a.s., to the Austrian company BASL Beteiligungverwaltungs GmbH, which is part of the financial group Meinl Bank Aktiengesellschaft.

May

- The Central Commission for Referendum published the results to the effect that citizens supported entry of Slovakia into the European Union, with 92.46 percent of present voters being in favour of this step. 52.15 percent of citizens entered in the register of electors showed up at polling booths.

- The NBS Bank Board approved an updated Monetary Programme for the Year 2003. The end-of-year level of inflation is expected to be within the range of 8.4 and 9.7%. The NBS lowered both the average and core inflation predictions. The original interval of 2.7 - 5.0% was reduced and narrowed down to 2.1 - 3.6%. The estimation of the development of global crude oil prices, the exchange rate of koruna, as well as the modification of the scope of administrative interventions impacting upon the development of price levels still remain to be subject to certain risks. A deficit on the current account of the balance of trade should reach 4.5% of GDP compared to the originally estimated 6.2%. Positive factors include high dynamics of exports so far, decelerating growth of imports and the strengthening of Slovak koruna against US dollar. A favourable development of foreign trade was also reflected in an increase in the expected economic growth from 3.9% to 4.1%, which should be first of all facilitated by foreign trade.

7.3 Foreign Exchange Licensing Activities of the NBS

In the 1st half of 2003, the foreign exchange licensing activities of the NBS were carried out in accordance with foreign exchange regulations marked by liberalisation of operations with financial derivatives in comparison with the previous year.

As at 30 June 2003, foreign exchange permits and foreign exchange licenses were granted as follows:

- foreign exchange permits: 77 permits and 6 supplements;
- foreign exchange licences: 15 licences and 21 supplements.

Foreign exchange permits

Investments in foreign countries

In the 1st half of 2003, the NBS issued 8 foreign exchange permits for direct investment in countries that are not members of the OECD or of the European Economic Area (EEA) totalling SKK 11 795 thousand. Direct investment in OECD and EEA countries has been liberalised.

Structure of investment by countries:

Country	Number of permits	Investment (SKK '000)
Ukraine	5	11 500.2
Chroatia	2	108.6
Russia	1	186.2
Total	8	11 795.0

Setting up foreign currency accounts with foreign banks

- 34 foreign exchange permits and 5 supplements were issued for the opening of accounts with foreign banks destined to cover necessary costs associated with the conduct of construction, assembly and repair work abroad. The forecast volume of work to be performed abroad under the contracts made amounts to SKK 1 244 017.1 thousand.
- 13 foreign exchange permits were issued for the opening of accounts by residents in foreign banks and for an exemption from transfer obligation in connection with financial loans received from non-residents in the amount of SKK 1 610 633.4 thousand, destined to cover the goods and services abroad, the construction of business centers in the SR and in connection with the repayment of these loans from foreign collections.
- 2 foreign exchange permits to set up an account abroad were issued on the grounds of delivery of services abroad, 2 on the grounds of engagement in the system of financing through cash pooling, 1 permit was issued on the grounds of a debt assumed on behalf of a foreign company and 6 foreign exchange permits were issued on the grounds of involvement in an employee programme established by a foreign investor.
- 4 foreign exchange permits and 1 supplement were issued for the depositing of funds on accounts held abroad with a view to getting involved in the system of financing applied in the concern in question, 6 foreign exchange permits were issued for the depositing of funds on an account abroad with a view to purchasing employee shares and 1 permit was issued in order to allow for trading in financial derivatives.

Foreign exchange licences

- 14 foreign exchange licences and 18 supplements to such licenses were issued for trading in foreign currencies and traveller's cheques (non-bank exchange offices);
- 1 foreign exchange license was issued to a securities trader for the conduct of operations with financial derivatives and 3 supplements to foreign exchange licenses were issued for the delivery of financial services to and from foreign countries.