



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

FEBRUARY 1995

I. THE REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators		1993	1994		1994	7995	
			Nov.	Dec.		Jan.	Feb.
GDP	Value ^{1/} (Sk ^{2/} billions)	173.8			182.2		
	Growth rate ^{3/} (%)	-4.1			4.8		
Output ^{3/4/}	Industrial production (%)	-13.5	8.3	9.7	6.4	6.3	8.5
	Construction (%)	-23.8	1.3	-1.9	5.3	-8.9	8.0
Unemployment	Number (thous. of persons)	368.1	363.0	371.5	371.5	387.1	384.9
	Unemployment rate (%)	14.4	14.3	14.6	14.6	15.2	15.1
Foreign Trade ^{5/6/} (f.o.b.)	Exports (Sk billions)	95.7	121.6	135.3	135.3		
	Imports (Sk billions)	125.9	134.6	149.4	149.4		
	Balance (Sk billions)	-30.2	-13.0	-14.1	-14.1		

^{1/} In constant prices as 1 January 1984

^{2/} Sk - abbreviation of the Slovak crown

^{3/} Change compared with the corresponding period of last year

^{4/} In current prices

^{5/} Cumulative values

^{6/} Convertible currencies

In February 1995, Slovakia's **inflation rate** slowed to one-third of the previous month's figure. It rose by 0.5% and reached 1.9% within two months. This development was due primarily to the 0.3% drop in the level of food prices, and to the considerable slowdown in the rise in prices of industrial goods (from 1.6% to 0.6%) and public catering (from 1.7% to 0.7%). The services sector recorded a 1.1% price increase. In comparison with the corresponding period of last year, the level of consumer prices in February was 11.5% higher, while food prices rose by 17.4%.

In February, the volume of **industrial production** reached Sk 36.6 billion, exceeding the previous month's figure by 0.5%, and that of last February by 8.5%. The output of industrial production in the private sector continued to grow (by 5% compared with the figure for January) to the detriment of public sector output, which suffered a 5.3% decline. The average daily production reached Sk 1.8 billion, exceeding the previous month's level by 5.5%, and that of February 1994 by 8.5%. The productivity of labour per employee reached Sk 62,198, representing a monthly increase of 0.2% and an annual growth of 7.1%.

In February, the volume of industrial sales of companies with at least 25 employees totalled Sk 36.4 billion, exceeding the previous month's figure by Sk 784 million (2.2%) and that of February 1994 by Sk 1.3 billion (3.7%).

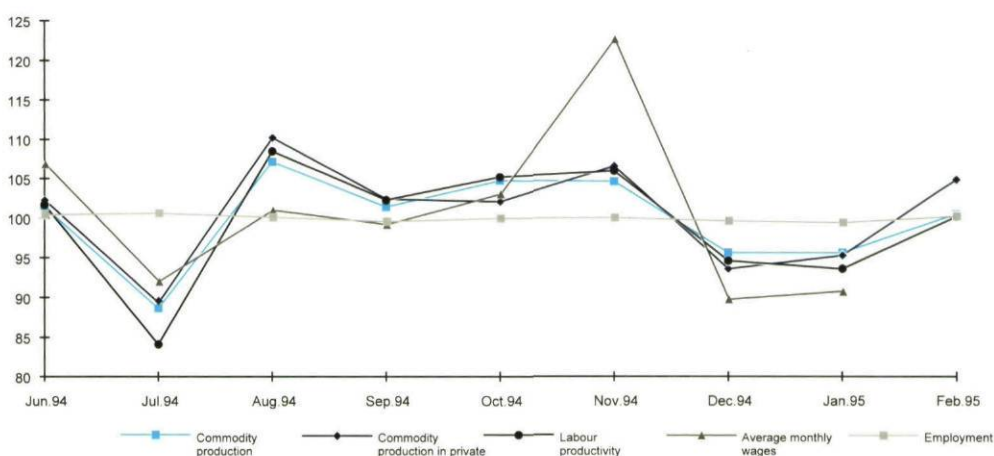
The volume of exports reached Sk 15.5 billion, representing 72.5% of February's total sales. Compared with the previous month's level, the volume of exports increased by 5.4%, exceeding the February 1994 figure by 18.4% (Sk 2.4 billion).

In February, the output of the **construction sector** totalled Sk 2.8 billion, exceeding the previous month's figure by Sk 289 million (11.5%) and that of February 1994 by Sk 208 million (8.0%). The average daily production (Sk 140 million) recorded a month-to-month increase of 17.1%, and an annual growth of 8.0%. In February, the productivity of labour increased by 11.8% compared with the previous month.

The volume of construction activity abroad of companies with at least 25 employees reached Sk 236 million, representing 8.4% of the total output of the construction sector. The volume of foreign construction orders surpassed the previous month's level by 34.9%, and that of the corresponding period of last year by 56.3%. Domestic construction output reached Sk 1.6 billion, exceeding January's figure by 16.0%, but remaining 2.7% behind the level recorded in the corresponding period of last year.

In February, Slovakia's **unemployment rate** fully reflected the trend of development in this period. The number of registered unemployed dropped by 2.2 thousand (0.6%), to 384.9 thousand, bringing down the rate of unemployment to 15.1%. This development was due to the drop in the number of newly registered unemployed and the growth in the number of those recently removed from the register. The number of vacancies continued to increase, reaching 13.7 thousand at the end of February. The majority of these job openings were for skilled blue-collar workers and employees in the trade and services sector. The number of unemployed per vacancy dropped from 29.3 to 28.1.

Indicators of Slovakia's Industrial Development (in %, previous month = 100)



Source: Statistical Office of the Slovak Republic



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II. THE EXTERNAL ECONOMY

Indicators	1993	1994		1994	1995	
		Nov.	Dec.		Jan.	Feb.
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-21.1	-46	-3.1	-3.1		
Foreign Exchange Reserves ^{2/} (USD millions)						
Banking system	1,402.2	2,928.3	3,095.5	3,095.5	3,131.5	3,286.9
Commercial banks	952.7	1,329.9	1,350.5	1,350.5	1,390.6	1,473.7
NBS ^{3/}	449.5	1,598.4	1,745.0	1,745.0	1,740.9	1,813.2
Gross Foreign Debt ^{2/} (USD billions)	3.6	4.2	4.3	4.3		
Average Exchange Rates ^{4/}						
USD/SKK	32.968	31.061	31.465	32.039	30.970	30.619
DEM/SKK	19.283	20.201	20.000	19.759	20.196	20.356

1/ Cumulative values
2/ End-of-period figures

3/ Including gold at a book value of 42.22 USD/oz
4/ Exchange rate midpoint

At the end of February, the total **foreign exchange reserves of the NBS** reached USD 1,813.2 million, representing an increase of USD 72.3 million compared with the previous month's level.

The development of foreign exchange reserves was positively affected mainly by the USD 51.7 million transfer made by the Czech Republic on account of having exceeded the credit limit in the clearing account; the drawing of loans from the Japanese Eximbank and the European Investment Bank in the total amount of USD 14.4 million; the USD 3.4 million increase in the volume of deposits received; the interest payments accepted from the IMF in the amount of USD 1.2 million; and other NBS revenues including interest on investments and FIXBIS (NBS deposit of securities in BIS) totalling USD 1.1 million.

The development of foreign exchange reserves in this period was negatively influenced by the USD 25 million deficit in NBS foreign exchange fixing (56% of the total expenditure), the payment of regular quarterly charges to the IMF in the amount of USD 9.3 million, the payments of principal on IMF loans in the amount of USD 7.5 million, and the NBS debt service expenditures in the amount of USD 2 million.

III. MONETARY DEVELOPMENTS

Indicators	1993	1994		1994	1995	
		Nov.	Dec.		Jan.	Feb.
Inflation Rate						
Monthly ^{1/} (%)		0.7	0.6		1.4	0.5
Yearly ^{2/} (%)	25.1	109	11.7	11.7	11.7 ^{9/}	11.4 ^{9/}
Money Supply M2 ^{3/4/} (%)	18.1 ^{5/}	8.7	18.8	188	-1.6	-0.1
Credits from Commercial Banks ^{4/} (%)	13.0 ^{5/}	0.7	1.5	1.5	-0.3	0.4
Deposits with Commercial Banks ^{4/} (%)	18.3 ^{5/}	7.8	17.9	17.9	-1.3	-0.1
Discount Rate (%)	12.0 ^{6/}	12.0	12.0	12.0	12.0	12.0
Lombard Rate ^{7/} (%)	14.0	13.1	13.1		13.1	13.1
Average Interbank Deposit Interest Rates						
SKIBOR (%)						
1-day deposits	16.73 ^{8/}	3.75	3.95	13.18	5.12	2.11
7-day deposits	17.20 ^{8/}	4.45	4.36	13.89	5.48	2.38
14-day deposits	17.50 ^{8/}	5.13	4.85	14.63	5.90	2.70
1-month deposits	17.86 ^{8/}	6.29	5.92	15.62	6.78	3.94

1/ End of period

2/ December of the previous year = 100 (change)

3/ M2 = Currency, demand and time deposits, savings deposits, foreign currency deposits

4/ 31 December of the previous year = 100 (change)

5/ 1 January 1993 = 100 (change)

6/ Since 20 December 1993

7/ Monthly average

8/ Average for the 2nd half of 1993

9/ Same period of previous year = 100 (change)

In February, Slovakia's monetary development was determined by the following factors: the budget surplus in the accounts at the NBS after two new issues of State Treasury bills, the issue of government bonds, the continuing growth of foreign assets in the banking system, the growth of the country's money supply, the enduring state of excessive liquidity of commercial banks, the issue of NBS Treasury bills, and the lower average interbank offered rates (both daily and monthly) compared with the previous month's figures.

The money supply of the Slovak economy showed a propensity for growth. The **monetary aggregate M2** recorded a month-to-month increase of Sk 4.4 billion and reached Sk 294.6 billion at the end of February, representing only a negligible drop compared with the level of M2 at the beginning of the year. A positive development in February was that time deposits became the fastest growing component of the money supply: they exceeded not only the previous month's level, but also the figures recorded at the beginning of the year. Demand deposits also experienced a month-to-month increase in February, but they fell below the end-December 1994 level. However, the amounts of currency in circulation and foreign currency deposits recorded only small month-to-month changes. At the end of February, the volume of currency in circulation outside banks reached Sk 28.6 billion. In February, the daily cycle of the accounting balance of currency in circulation remained unchanged, but its minimum amount dropped by Sk 0.25 billion compared with January's figure, reaching Sk 30.8 billion - the lowest level of currency in circulation to date. The maximum volume reached Sk 33.6 billion, representing a drop of Sk 1.2 billion compared with January's figure.

In comparison with the previous month, the structure of the money supply did not undergo any significant changes. However, changes occurred in comparison with the beginning of the year. The share of time deposits and foreign currency deposits increased, while the share of currency in circulation

and demand deposits decreased. The composition of deposit holders also changed in February. The structure of crown deposits was dominated by households. Compared with the corresponding period of last year, the share of quasi-money in the money supply increased in comparison with that of M1.

Crown deposits, after a decline in January, increased by Sk 4.7 billion and reached Sk 243.1 billion at the end of February. The uneven development of crown deposits in 1995 can be attributed to changes in current accounts and overdraft facilities, of which corporate customers paid their taxes and other charges. This fact was reflected in the development of demand deposits, which decreased in January and remained at the same level throughout the course of February as well. In 1995, the development of crown deposits continued to show growth potential. In January, the volume of crown deposits increased by Sk 2.2 billion, while in February, crown deposits grew by Sk 4.7 billion.

The dominant part of the total month-to-month increase in these deposits in February was formed by enterprise sector deposits (Sk 3.6 billion) and household deposits (Sk 1.0 billion). The increase in crown deposits was a result of the growth of enterprise and household sector incomes.

The volume of **foreign currency deposits** remained at January's level; only deposits held by corporate customers dropped by Sk 0.6 billion as a result of a decline in foreign currency revenues and the depreciation of the dollar. Household deposits in foreign currency increased by Sk 0.6 billion. The growth of these deposits can be attributed to incomes earned abroad, funds obtained for business trips abroad, foreign currency purchased at commercial banks for travel and redeposited in bank accounts, and the purchase of foreign currency on the off-exchange market.

At the end of February, the volume of crown and foreign currency deposits totalled Sk 283.3 billion, representing a drop of Sk 0.2 billion compared with the beginning of the year. In comparison with the figure for the corresponding period of last year, the volume of these deposits increased by Sk 6.2 billion.

The development of **bank lending in crowns** did not undergo significant changes in the course of 1995. Compared with the Sk 0.3 billion drop in January, the volume of crown loans in February recorded a month-to-month increase of Sk 0.4 billion. At the end of February, the volume of crown credit totalled Sk 257.7 billion. The dominant part of this increase was generated by the private enterprise sector (Sk 0.3 billion), on account of the general tendency to increase bank lending to this sector. Minor changes were recorded in lending to households and in loans allocated for the extrabudgetary needs of central and local authorities.

In February, the volume of **foreign currency loans** increased by Sk 1.6 billion. A part of this amount (Sk 0.9 billion) was granted as a loan for the payments of the costs of crude oil supply, and a part (Sk 0.3 billion) was raised by converting crown loans into foreign currency loans. The remaining Sk 0.4 billion represented a common month-to-month increase. At the end of February, the total volume of foreign currency loans amounted to Sk 16.4 billion.

At the end of February, the total volume of crown and foreign currency loans reached Sk 274.1 billion, exceeding the level recorded at the beginning of the year by Sk 1.2 billion, and that of the corresponding period of last year by Sk 4.7 billion.

In February, the **average rate of interest** on the total volume of bank loans dropped by 0.22 percentage points, to 14.17%, continuing the decline which started in the second half of 1994.

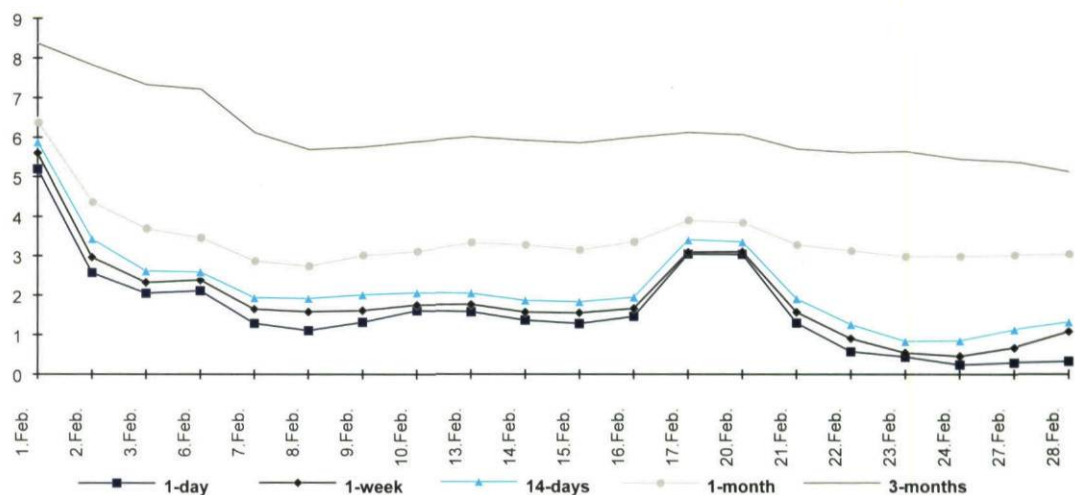
The average lending rate for short-term loans decreased by 0.85 percentage points, to 15.66%, while the average rate of interest on medium-term loans remained approximately at December's level (17.40%), causing the drop in the prices of primary and secondary resources. The average lending rate for long-term loans increased by 0.32 points, as a result of the repayment of the so-called loans of social nature and loans extended in the past years for investments and housing development projects at an interest rate of up to 3%, while new credit and loans of such a nature were no longer provided.

The interest rate policy of commercial banks has not changed during the last few months. The basic lending rates remained unchanged and ranged between 17.0% and 24.0%.



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Average Interbank Deposit Rates (%)



Source: National Bank of Slovakia



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The majority of commercial banks derive their interest rates from the prices of primary and secondary resources. In the course of January, the average rate of interest on the total volume of time deposits dropped from 13.89% to 13.79%, and within the framework of these deposits, the rates of interest on all types of deposits were lowered by, according to the term of notice, 0.07 to 0.33 percentage points, which was the primary reason for the considerable decrease in the rate of interest on short-term loans.

The **credit margin** of commercial banks decreased from 5.16 percentage points in December to 4.76 points in January.

For 1995, a **system of monetary instruments** was approved, according to which direct monetary instruments - credit limits - are to be applied only to commercial banks with lending activities of Sk 20.0 billion or more. The credit limit for bank lending to households and enterprises (in both Sk and fully convertible currency), which was set at Sk 270.9 billion, was utilized to 99.2% (Sk 268.7 billion) by the end of February, according to preliminary results. The loan activities of commercial banks grew at a faster rate in February than in the previous month. Compared with the beginning of 1995, the total volume of bank credit extended to the economy increased by Sk 1.8 billion, and reached a level exceeding that of the corresponding period of last year by Sk 7.1 billion. **The** month-to-month increase in the volume of loans amounted to Sk 3.4 billion. This year the development of loan activity is uneven. According to the January results, the volume of loans fell below the initial level, and February may be characterized by an expansion of bank credit (according to preliminary results). In the period to come, the development of bank lending is expected to become more balanced, which will ensure the utilization of the credit limit set for the first quarter of 1995.

The practices implemented into the system of refinancing in the second half of 1994 remained effective during the first quarter of 1995. The liquidity of commercial banks ensured a sufficient level of short-term funds for the interbank money market. The NBS provided refinancing funds only through bills of exchange deals for the support of agriculture and export trade. Bills of exchange discounted for export promotion (Sk 750 million) were utilized at 36.2% (Sk 271.4 million). For financing the needs of agriculture, there were two drafts available in the total amount of Sk 2.0 billion. One of these drafts was the classic form of providing support to agriculture in the amount of Sk 1.5 billion, and the second consisted of instalments on a special bills of exchange issue provided by the State Fund of Market Regulation in the amount of Sk 0.5 billion for financing the purchase of wheat and barley from last year's harvest. Bills of exchange for covering the overall needs of agriculture were utilized at 49.9% (Sk 998.7 million).

At the end of February, the total volume of bills of exchange deals recorded a month-to-month drop of Sk 307.3 million, while rediscounted bills of exchange decreased (by Sk 321.5 million) and discounted bills of exchange slightly increased (by Sk 14.2 million). The lack of interest of commercial banks in bills of exchange deals was due to the seasonal nature of agricultural bills as well as the price of available short-term liquid funds in February. The price of the aforementioned funds remained below the discount rate and constituted the price of NBS bills of exchange deals.

For February, the level of **minimum required reserves** was set at Sk 15.35 billion. The minimum reserve requirement was fulfilled to 109.96% (Sk 16.88 billion) at an average daily difference of Sk 1.5 billion. During February, the actual level of reserves significantly exceeded the set level both at the beginning and the end of the month with a provisional decline over the course of eight days in the middle of the month. This occurrence was reflected in the development of interest rates on the interbank money market, where the interest rates reached their lowest level during the period of development under consideration (below 1.0%). To eliminate the excessive liquidity of the banking sector, the NBS floated an issue of Treasury bills in the amount of Sk 4.1 billion on 17 February 1995.

In February, the Ministry of Finance of the SR floated four issues of **State Treasury bills** with a 28-day maturity and one issue with a 6-month maturity, in accordance with the schedule of issues for the 1st quarter of 1995. Of the total number of issues, only three were realized and the volume of offers accepted in the course of February amounted to Sk 4.2 billion. The amount of negotiable bills issued from the beginning of the year reached Sk 4.8 billion at the end of February. The total volume of marketable bills and State Treasury bills issued in the previous year reached Sk 29.4 billion in February.

The average interest rates on the 4-week issues fell below the previous month's level and reached 2.25% in the first and 2.69% in the second issues of this type.

On the primary market, the NBS continued to use its right to purchase 10% of the accepted volume of offers of issue. For the purpose of secondary trading, the NBS kept its portfolio bills at the nominal value of Sk 1.5 billion and conducted operations in the form of REPO transactions on the free market. The turnover on the secondary market amounted to Sk 14.6 billion, i.e. 62% of the total turnover of State Treasury bills.

In accordance with Act No. 184/1994 Z.z. concerning the issue of government bonds in the SR, **government bonds** of the issue No. 010 were issued in the amount of Sk 2.3 billion. The bonds were sold by American auction. The auction was attended by 15 banking institutions and 2 non-bank entities. The Ministry of Finance of the SR accepted the offers of 13 entities. The total demand represented Sk 4.6 billion with the minimum offered price of Sk 8,810 and the maximum price of Sk 10,050. Of the accepted amount of Sk 2.3 billion, 94% was bought by banks and 6% by non-bank entities. The minimum accepted price was Sk 9,845 with YTM (yield to maturity) of 11.49%; the average price was Sk 9,918 with YTM 11.26%, and the maximum price was Sk 10,050 with a 10.84% YTM. On 2 February 1995, the maturity of government bonds issue No. 007 in the total nominal value of Sk 1.0 billion expired.

At the end of February, the effects of monetary processes compared with the previous month caused the sum of assets and liabilities of the **NBS balance** to drop by Sk 2.8 billion (1.53%).

The changes in the decisive assets and liability items of the NBS balance affected the net position of the Slovak economic sectors towards the NBS. The net debts of commercial banks dropped by Sk 0.7 billion, reaching a deficit of Sk 18.1 billion, while a rather serious problem was the redistributive loans made to two commercial banks, which tied up the resources of the NBS (in the amount of Sk 32.8 billion) indefinitely. The net debt of the Government sector vis-a-vis the NBS reached Sk 34.6 billion, and the net foreign exchange position recorded an increase of Sk 0.6 billion compared with the previous month's level.

IV. THE GOVERNMENT SECTOR



NATIONAL BANK OF SLOVAKIA

Indicators		1993	1994		1994	1995	
			Nov.	Dec.		Jan.	Feb.
Budget Revenues ^{1/}	(Sk billions)	144.5	124.0	139.1	139.1	11.1	17.7
Budget Expenditures ^{1/}	(Sk billions)	167.5	140.7	162.0	162.0	9.1	21.9
State Budget Balance	(Sk billions)	-23.0	-16.7	-22.9	-22.9	2.0	-4.2

^{1/} Cumulative values

After the budget surplus reached in January, the budgetary situation changed in February. The growth rate of budget revenues slowed considerably as a result of the repayment of excess amounts of value added tax payments. The monthly revenues reached only Sk 6.6 billion, representing a drop of approximately Sk 5.0 billion compared with the usual monthly average. The total budget revenue in the first two months of the year dropped by Sk 2.1 billion, compared with the corresponding period of 1994, mainly in non-tax revenues, value added and excise tax revenues. Personal and corporate income tax and capital gains tax revenues experienced a more favourable development.

The budget expenditures reached Sk 21.9 billion within two months, representing both a drop of Sk 3.4 billion compared with the aliquot part of the provisional budget for the first quarter of 1995 and a decrease of Sk 1.5 billion compared with the corresponding period of last year. Savings were achieved mainly in the non-investment expenditures of budgetary organizations and investment subsidies to the enterprise sector.

As a result of these effects, the State budget showed a deficit of Sk 4.2 billion at the end of February. The budget deficit was fully covered by the issues and the subsequent sale of State Treasury bills. After excluding the effect of clearing with the Czech Republic (Sk 1.3 billion), the State budget deficit amounted to Sk 2.9 billion at the end of February 1995.

At the end of February, the total internal debt of the Slovak Government vis-a-vis the banking sector, reduced by the Government's deposits at the NBS and commercial banks, reached a level of Sk 69.0 billion, representing a drop of Sk 3.3 billion compared with the year-end level. Of this amount, the National Bank of Slovakia credited Sk 34.6 billion, the remaining Sk 34.4 billion was provided by commercial banks.

V. INFORMATION

- Standard & Poor's, the American financial rating agency, has raised the long-term hard currency liability rating of the National Bank of Slovakia from a BB- to a BB+ with stable prospects. The improved rate has been attributed to Slovakia's recent economic growth, contained inflation, improved external balance of payments position, and achievements in restructuring of the economy. The improved rate is also attributable to the further reduction in Slovakia's traditionally low external debts.
- On 7 April 1995, the National Council of the Slovak Republic discussed and approved the "Report on Monetary Development in the SR for 1994", which was submitted to Parliament by NBS Governor V. Masár.
- At the end of December 1994, Slovakia's external debt totalled USD 4.3 billion. The per capita debt in the country (only USD 800) was by far the lowest among transition economies.
- The European Bank for Reconstruction and Development has granted, for the first time in Slovak history, a nearly one-billion crown loan to Slovnaft Bratislava without requiring a guarantee from the Slovak Government.
- On 11 April 1995, the Slovak Government approved the Memorandum on Economic Policy, which was submitted by Minister of Finance S. Kozlík, after his negotiations with the IMF about a new stand-by loan for Slovakia.

National Bank of Slovakia
Monetary Department
Štúrova 2, 818 54 Bratislava
Slovakia

Published by:
Public Relations Department
Tel.: +42/7/364 349, 210 34 05, 210 34 14
Fax: +42/7/210 34 12