



NATIONAL BANK OF SLOVAKIA

**MONETARY SURVEY**

**APRIL 1995**

## I. THE REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

| Indicators                                |   | 1993  | 1994  | 1995   |        |       |       |       |
|---|---|-------|-------|--------|--------|-------|-------|-------|
|   |   |       |       | Jan.   | Febr.  | March | Q1    | April |
| GDP                                       | Value <sup>1/</sup> (Sk <sup>2/</sup> billions) | 173.8 | 182.2 |        |        |       | 59.8  |       |
|   | Growth rate <sup>3/</sup> (%)                   | -4.1  | 4.8   |        |        |       | 5.8   |       |
| Output <sup>3/4/</sup>                    | Industrial production (%)                       | -13.5 | 6.4   | 4.45/  | 6.65'  | 6.05' | 5.7   | 8.7   |
|   | Construction (%)                                | -23.8 | 5.3   | -5.45' | 10.95' | 5.55' | 3.1   | 1.8   |
| Unemployment                              | Number (thous.of persons)                       | 368.1 | 371.5 | 387.1  | 384.9  | 371.6 | 371.6 | 354.1 |
|   | Unemployment rate (%)                           | 14.4  | 14.8  | 15.2   | 15.1   | 14.6  | 14.6  | 13.9  |
| Foreign Trade <sup>6/7/</sup><br>(f.o.b.) | Exports (Sk billions)                           | 95.7  | 135.3 | 17.9   | 36.7   |       |       |       |
|   | Imports (Sk billions)                           | 125.9 | 149.4 | 18.6   | 37.4   |       |       |       |
|   | Balance (Sk billions)                           | -30.2 | -14.1 | -0.7   | -0.7   |       |       |       |

1/ In constant prices of 1 January 1984

2/ Sk - abbreviation of the Slovak crown

3/ Change compared with the corresponding period of last year

4/ Data in current prices

5/ Data adjusted to small businesses

6/ Cumulative values

7/ In 1993 and 1994 convertible currencies, 1995 consolidated balance

**Consumer prices** continued to rise slowly in April. The inflation rate increased by 0.4% and, since the beginning of the year, it has increased by 2.6%. Compared with the corresponding period of last year, the price level increased by 11.2%, and the average annual rate of inflation reached 11.4%.

The growth in consumer prices was due to a moderate fall in food prices, the reverse development in the prices of public catering, the slowdown in the growth rate of service prices, and the increased rate of growth in the prices of industrial goods.

In April, the food price level dropped by 0.2%, mainly due to the continuing fall in the prices of meat and meat products (1.5%), fats (0.6%), and an increase in the prices of milk and dairy products (0.4%), spirits (0.6%), soft drinks (0.8%), and prices of sugar and sugar products (1.1%). The price level of services increased by 0.5%, as a result of the growth in personal service prices (1.7%), prices of recreation, healthcare and social facilities (1.0%), and an increase in the cost of community facilities (0.9%). The 0.9% growth in the price level of industrial goods was mainly due to an increase in the prices of travelling and sports requisites (2.7%), as well as the increased cost of Skoda-Felicia cars, and cultural needs (1.8%). The price of textile products increased by 0.6%, and the price of shoes by 0.4%.

Compared with the figure for April 1994, the volume of **industrial production** (Sk 37.4 billion) increased by 8.7%, but compared with the March 1995 level, it fell by 10.1%, due to a reduced working week.

Average daily production increased to Sk 2.1 billion and exceeded the previous month's level by 14.9%, which was almost equal to the figure for April 1994. Labour productivity per employee amounted to Sk 60,843, with a 10.7% month-on-month decrease. Compared with the figure for the corresponding period of last year, productivity increased by 4.1%.

Production of companies with more than 25 employees amounted to Sk 38.4 billion. Exports accounted for 43.5% of this figure. The actual volume of exports (Sk 16.7 billion) represented 89.6% of the figure for March, but exceeded the March 1994 level by 16.2%.

In April, **construction industry output** increased to Sk 3.6 billion, which was almost identical with the previous month's figure. Compared with April 1994, the output increased by 1.8%. The private sector accounted for 79.8% of the total output.

The average daily production (Sk 199 million) increased by 26.5% in comparison with March 1995, and by 7.5%, when with April 1994. Labour productivity per employee at Sk 23,810 represented only 98.3% of the March 1995 figure, although it slightly exceeded the April 1994 figure by 0.5%.

On a country wide basis, companies with at least 25 employees recorded construction activity worth Sk 3.0 billion (83.3% of the total output). Compared with previous month's figure, the volume of domestic construction activity fell by 2.8%, and by 4.2% in comparison with April 1994. Construction activity abroad (Sk 0.6 billion) exceeded the figure for March by 10.1%. In April, the volume of construction activity abroad was higher by 54.4%.

There were a number of positive features in the **unemployment** figures for April. The biggest month-on-month decrease (17,400) ever, was recorded in the number of registered unemployed. The total number of unemployed fell to 354,100 and the unemployment rate fell to 13.9%. Compared with April 1994, the number of unemployed decreased by 2%.

This development was linked with the continued decrease in the figures for newly registered unemployed and increase in the number of people recently removed from the register. There was a substantial increase in the number of people finding jobs via labour offices. Compared with the figure for March, the number of newly registered unemployed dropped to 21,300; the number of persons removed from the register was 38,700 (an increase of 3,400), of which 82.5% were newly employed (33.6% of these found jobs through labour offices, 48.9% in other ways).

The number of vacancies increased by 900 to 14,200. The continuing downward trend in unemployment was due to the active employment policy in seasonal and public works. In April, the numbers of unemployed fell in all regions of Slovakia.



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## II. THE EXTERNAL ECONOMY

| Indicators  | 1993    | 1994    | 1995    |         |         |         |                       |  |
|---|---------|---------|---------|---------|---------|---------|-----------------------|--|
|   |         |         | Jan.    | Febr.   | March   | Q1      | April                 |  |
| Current Account <sup>1/</sup> Balance in convertible currencies (Sk billions) | -21.1   | -3.1    | -0.06   | -0.7    |         |         |                       |  |
| Foreign Exchange Reserves <sup>2/</sup> (USD millions)                        |         |         |         |         |         |         |                       |  |
| Banking system  | 1,402.2 | 3,095.5 | 3,159.4 | 3,324.3 | 3,569.7 | 3,569.7 | 3,614.7 <sup>7/</sup> |  |
| Commercial banks  | 952.7   | 1,350.5 | 1,418.9 | 1,511.1 | 1,600.8 | 1,600.8 | 1,593.1 <sup>7/</sup> |  |
| NBS <sup>3/</sup>   | 449.5   | 1,745.0 | 1,740.5 | 1,813.2 | 1,968.9 | 1,968.9 | 2,021.6 <sup>7/</sup> |  |
| Gross Foreign Debt <sup>2/</sup> (USD billions)                               | 3.6     | 4.3     | 4.3     | 4.5     |         |         |                       |  |
| Average Exchange Rates <sup>4/</sup>  |         |         |         |         |         |         |                       |  |
| USD/SKK   | 32.968  | 32.039  | 30.970  | 30.619  | 29.401  | 29.401  | 29.037                |  |
| DEM/SKK   | 19.283  | 19.759  | 20.196  | 20.356  | 20.875  | 20.875  | 21.057                |  |

1/ Cumulative values

2/ End-of-period figures

3/ Including gold at a book value of 42 22 USD/oz

4/ Exchange rate midpoint

7/ Preliminary data

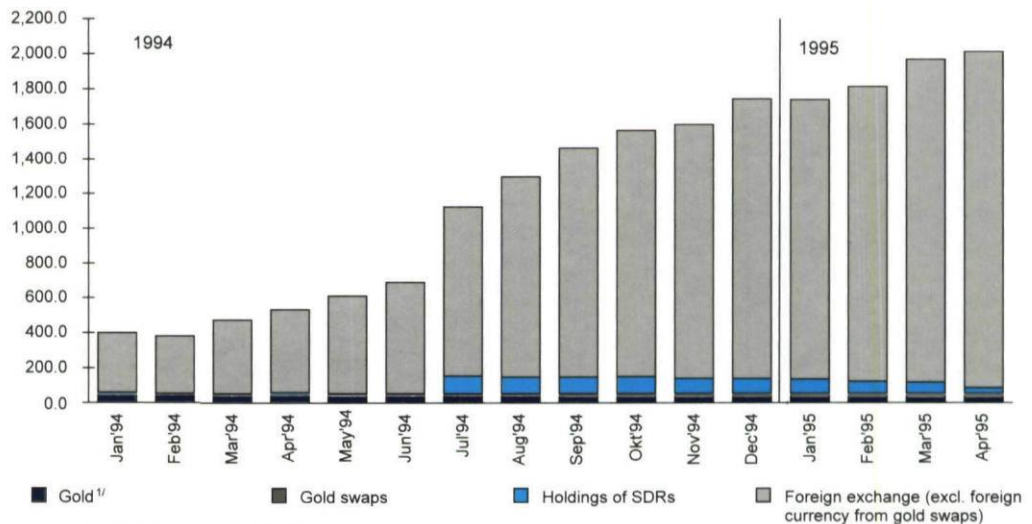
In comparison with the previous month, **the total foreign exchange reserves of the NBS** grew by USD 44.2 million, representing USD 2, 021.6 million at the end of April.

The development of foreign exchange reserves was positively influenced mainly by the USD 145.1 million transfer from the Czech Republic; this amount being a surplus on the clearing account (78% of the total revenue), as well as by the USD 38.9 million increase in the volume of deposits received. Other revenues of the NBS reached USD 1.7 million.

The development in foreign exchange reserves was negatively affected by the sale of foreign currency in the NBS foreign exchange fixing (USD 103.2 million, i. e. 67% of the total expenditure), payments of principal on IMF loans in the amount of USD 32.0 million, payments of NBS debt service worth USD 19.6 million (of that, payments from the Central Forex Resources represented USD 18.7 million, and other expenses amounted to USD 0.2 million).

### Development of NBS Foreign Exchange Reserves

(USD millions)



1/ Gold at a book value of 42 22 USD/oz

## III. MONETARY DEVELOPMENTS

| Indicators                                       | 1993                | 1994         | 1995 |       |       |      |             |  |
|--|---------------------|--------------|------|-------|-------|------|-------------|--|
|  |                     |              | Jan. | Febr. | March | Q1   | April       |  |
| Inflation Rate                                   |                     |              |      |       |       |      |             |  |
| Monthly <sup>1/</sup> (%)                        |                     |              | 1.4  | 0.5   | 0.3   | 2.2  | 0.4         |  |
| Yearly (%)                                       | 25.1                | 11.7         | 11.7 | 11.4  | 11.3  |      | 11.2        |  |
| Money Supply M2 <sup>2/3/</sup> (%)              | 18.5 <sup>4/</sup>  | 18.8         | -1.6 | -0.1  | -0.4  | -0.4 | 1.2         |  |
| Credits from Commercial Banks <sup>3/</sup> (%)  | 13.0 <sup>4/</sup>  | 1.5          | -0.4 | 0.5   | 3.8   | 3.8  | 4.6         |  |
| Deposits with Commercial Banks <sup>3/</sup> (%) | 18.3 <sup>4/</sup>  | 17.9         | -1.7 | 0.9   | 0.7   | 0.7  | 2.6         |  |
| Discount Rate (%)                                | 12.0 <sup>5/</sup>  | 12.0         | 12.0 | 12.0  | 11.0  |      | 11.0        |  |
| Lombard Rate <sup>6/</sup> (%)                   | 14.0                |              | 13.1 | 13.1  | 13.1  |      | 13.1        |  |
| Average Interbank Deposit Interest Rates         |                     |              |      |       |       |      |             |  |
| SKIBOR (%)                                       |                     |              |      |       |       |      |             |  |
| 1-day deposits                                   | 16.73 <sup>7/</sup> | <b>13.18</b> | 5.12 | 2.11  | 2.23  | 3.17 | <b>3.91</b> |  |
| 7-day deposits                                   | 17.20 <sup>7/</sup> | 13.89        | 5.48 | 2.38  | 2.46  | 3.45 | 4.04        |  |
| 14-day deposits                                  | 17.50 <sup>7/</sup> | 14.63        | 5.90 | 2.70  | 2.70  | 3.78 | 4.15        |  |
| 1-month deposits                                 | 17.86 <sup>7/</sup> | 15.62        | 6.78 | 3.94  | 3.39  | 4.71 | 4.29        |  |

1/ End of period

2/ M2 • Currency, demand and time deposits, savings deposits, foreign currency deposits

3/ 31 December of the previous year = 100 (change)

4/ 1 January of current year = 100 (change)

5/ Since 20 December 1993

6/ Monthly average

7/ Average for the 2nd half of 1993



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The **money supply** in terms of the M2 aggregate increased in April by Sk 6.3 billion to Sk 298.1 billion, thus representing the highest month-on-month increase in 1995. This development was due mainly to an increase in transaction components of the M1 aggregate. Quasi-money recorded only a slight increase, mainly due to an increase in hard currency deposits. A large part of the increase in money supply, and its M1 aggregate transaction component, was due to the increase in demand deposits. This development reflected the struggle of businesses to find the cash to meet their liabilities, particularly during the previous period when tax payments were due.

April saw the maximum increase of currency in circulation outside banks, because of a higher demand for cash before the Easter holidays and payments of quarterly benefits.

**Crown deposits**, as part of the M2 aggregate increased in April by Sk 4.0 billion, while the increase in deposits of enterprises, including insurance companies, was higher than that of households.

Compared with March, the overall **bank lending in crowns and foreign exchange** had increased by Sk 1.9 billion to Sk 285.3 billion by the end of the month. Compared with the beginning of the year, the volume of loans rose by Sk 11.8 billion.

The month-on-month increase in loans was caused exclusively by crown loans, the amount of which rose by Sk 2.7 billion, compared with March, and by Sk 9.7 billion compared with the beginning of the year. The total amount of crown lending amounted to Sk 267.9 billion at the end of April.

Compared with the previous month, the structure of sectors did not experience a substantial change. Crown loans to public sector rose by Sk 1.9 billion, to private sector by Sk 1.2 billion. Loans designated for the extra-budgetary requirements of central and local authorities fell by Sk 0.3 billion. Lending to households and business entities remained at the same level.

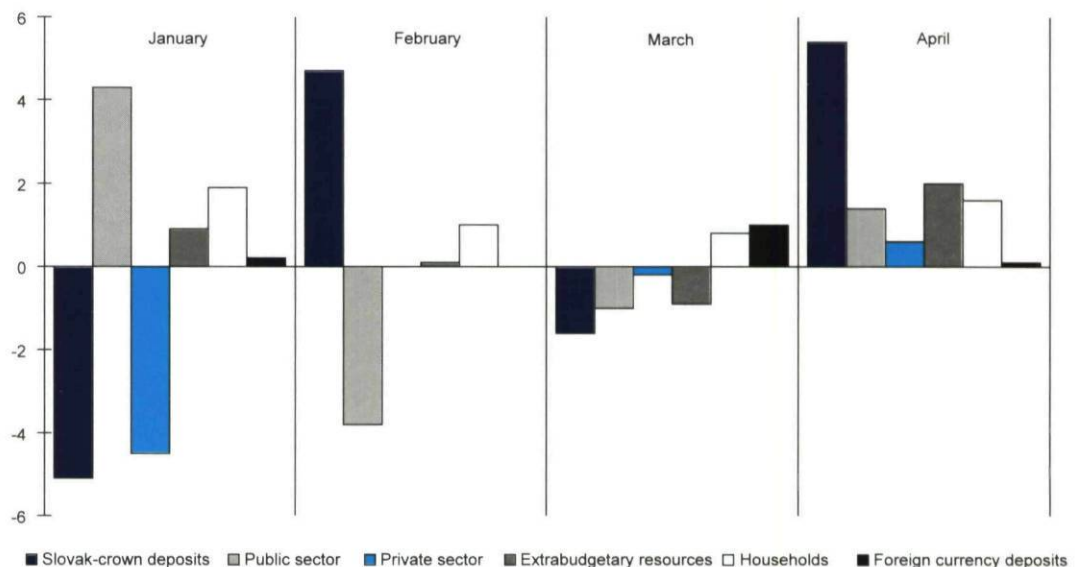
Compared with the figure for March, foreign currency loans in April increased by Sk 0.8 billion, amounting to Sk 17.4 billion at the end of month. Foreign currency loans rose by Sk 2.1 billion from the beginning of the year.

In April, the **average rate of interest** on the total volume of bank credit (excluding loans with zero interest rates) was the same as for the first quarter of 1995 (16.0%). Compared with the previous month, there was little change in interest rates on credit and loans with respect to the payment schedules. The average rate of interest on short-term loans fell to 18.81%; on long-term loans to 12.71%, and medium-term lending rates remained the same, i. e. 18.69%. Substantial changes occurred in average loan interest rates, where the short-term rate of interest fell to 18.17%, medium-term rate to 18.93%, and long-term rate to 13.40%. The average rate of interest on the total volume of loans fell from 18.49% to 17.92%.

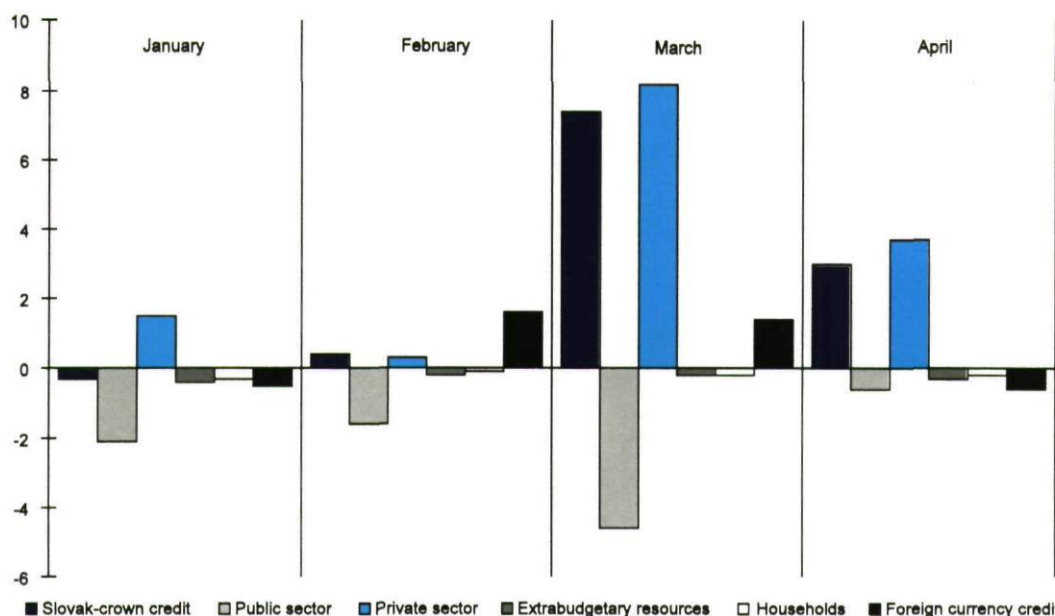
In April, the prices of primary resources continued to rise and the total **average rate of interest on crown deposits** increased by 0.07 percentage points to 9.52%, compared with the figure for March. The average interest rate on short-term deposits experienced a slight month-on-month increase; however, the March interest rates on medium and long-term deposits fell by 0.05 and 0.11 points respectively, in comparison with the previous month.

Compared with primary resources, the average interest rates on interbank deposits and loans decreased substantially from 14.03% to 12.61% in March, due mainly to the rates on demand loans to other banks (from 15.21% to 7.02%) and on short-term deposits (from 12.26% to 9.95%). The interest rates on other term loans increased from 2.02% to 8.84%, compared with the previous month, as a result of a surplus of short-term resources and lack of medium and long-term funds on the interbank money market.

**Monthly Changes in Crown and Foreign Currency Deposits (at end of month, Sk billions)**



**Monthly Changes in Crown and Foreign Currency Credits (at end of month, Sk billions)**



Compared with February, the **credit margin** of commercial banks fell by 0.11 percentage points (from 6.59 to 6.48 points in March).

At the end of April, money market activity had no significant effect on the **asset and liability account of the NBS**. The balance of assets and liabilities fell by Sk 1.2 billion (0.09%). By the end of the month, this had brought about a change in the net position of economic sectors vis-a-vis the NBS. The net foreign exchange position in assets and liabilities increased by Sk 0.2 billion. The net debt of the government sector to the NBS increased by Sk 2.2 billion, reaching Sk 34.4 billion. The net debt of commercial banks fell by Sk 1.5 billion, to a total deficit of Sk 17.6 billion.

In April, in accordance with the schedule for the second quarter of 1995, the Ministry of Finance of the SR issued five **Treasury bills**. In the light of a relatively favourable state budget performance, the Ministry issued Treasury bills only at the final auction in April, whereby it accommodated a demand amounting to Sk 100 million. The interest rate on the issue was 3.17%. The volume of Treasury bills covering the deficit in the current state budget fell from Sk 7.0 billion at the beginning of the month, to Sk 3.8 billion at the end of the month. This amount fully covered the needs of the state budget. The decrease in the number of issues was reflected in the growth of excessive liquidity in the banking sector. To deal with this negative development, the NBS issued bills at a 14-day maturity and withdrew funds from the banking sector equivalent to 1,050 bills. The taxable yield on the issue amounted to 3.97%. In combination with NBS interventions in the secondary market for Treasury bills (in the form REPO transactions), the issue had the effect of reducing the excessive liquidity to such an extent that the required minimum reserves (RMR) was fulfilled to 102.4% by the end of the month. At the same time, monthly interest rates continued to stabilize. Monthly deposit rates ranged from 2.08 to 3.70%. The maximum rates for three-month deposits were steadier, ranging from 4.31 to 4.70%. During April, more than Sk 30 billion in deposits were traded, with a daily average of Sk 1.7 billion. The April turnover on the secondary market for Treasury bills was Sk 24.5 billion. The share of the NBS in the turnover of Treasury bills was 83.0% (Sk 20.4 billion). Almost all NBS transactions were conducted in the form of REPO. In April, the NBS did not take part in primary purchase of Treasury bills.

In April, the volume of **government bonds** traded on the Bratislava Stock Exchange (BCPB) amounted to Sk 2,254 million. At this amount, government bonds accounted for 97.17% (Sk 2,190 million). Most trading concerned issues No. 008 and 009, at Sk 739 million and Sk 1,451 million respectively.

A positive feature of trading on BCPB was the fact that the share of government bonds in the total trade amounted to 82.19%, and the bonds have become an important security on the Slovak capital market.

#### IV THE GOVERNMENT SECTOR

| Indicators                                      | 1993  | 1994  | 1995 |       |       |      |       |
|---|-------|-------|------|-------|-------|------|-------|
|   |       |       | Jan. | Febr. | March | Q1   | April |
| Budget Revenues <sup>1/</sup> (Sk billions)     | 144.5 | 139.1 | 11.1 | 17.7  | 33.2  | 33.2 | 47.6  |
| Budget Expenditures <sup>1/</sup> (Sk billions) | 167.5 | 162.0 | 9.1  | 21.9  | 37.3  | 37.3 | 50.6  |
| State Budget Balance (Sk billions)              | -23.0 | -22.9 | 2.0  | -4.2  | -4.1  | -4.1 | -3.0  |

<sup>1/</sup> Cumulative values





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Subsequent to the temporary budget for the first quarter of 1995, the economy is now subject to Statute No. 58/1995 Coll. of Laws on the state budget and its amendments (since 1 April 1995). The total revenue of the state budget is expected to be Sk 146.4 billion, expenditure Sk 167.4 billion, and the resultant deficit Sk 21.0 billion.

At the end of April, budget performance resulted in a deficit of Sk 3.0 billion, representing a decrease of Sk 1.1 billion compared with the previous month's figure. The entire budget deficit was covered with the issue and sale of Treasury bills.

Budget revenue amounted to Sk 47.6 billion, i. e. Sk 1.2 billion less than budgeted. This development was due mainly to the repayment of over-charged value-added taxes and delays in excise tax receipts. On the other hand, income tax receipts show a positive trend (receipts exceeded the budgeted figure by Sk 3.9 billion).

The budget expenditure (Sk 50.6 billion) was fulfilled to 30.2%, and was considerably affected by clearing with the Czech Republic (Sk 6.7 billion). After excluding these effects, budget performance may be considered favourable, since the state budget generated a surplus of about Sk 3.7 billion.

The internal debt of the Government vis-a-vis the banking sector reached Sk 67.8 billion at the end of April. Of this amount, the NBS credited Sk 34.4 billion and commercial banks Sk 33.4 billion.

## **V. INFORMATION**

- On 12 June 1995, Vladimír Masár, Governor of the NBS, took part in the 65th annual meeting of the Bank for International Settlements. The National Bank of Slovakia became a member of BIS two years ago, and currently the NBS concludes transactions with BIS in accordance with its investment strategy.
- On 14 June 1995, the NBS Governor Vladimír Masár, met in Kiev with senior representatives of the Ukrainian Central Bank. As a follow-up to this meeting, discussion will be held between experts of the two banks.
- On 20 June 1995, the NBS Governor Vladimír Masár, took part in the meeting of the European Parliament sub-committee responsible for the EU monetary policy, with respect to the anticipated third stage of economic and monetary union. The EP sub-committee for monetary issues has expressed satisfaction with the macroeconomic results of the Slovak Republic.
- On 20 June 1995, the Budgetary Committee of the Slovak National Council discussed the draft Foreign Exchange Act, presented by NBS Vice-Governor, Marian Jusko. "In the short-term, the NBS is to pursue the policy of using Slovak currency for the settlement of international payments, at least within Central Europe", said the Vice-Governor. All members of Parliament present supported the draft law and recommended its enactment by the Council.
- Istrobanka will shortly be making credit cards (Eurocard, Mastercard) available for customers. Holders will be able to obtain cash from ATM outlets and to pay for consumer goods in shops.

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