



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

AUGUST 1995

I. THE REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators		1993	1994	1995			
				June	H1	July	Aug.
GDP	Value ^{1/} (Sk ^{2/} billions)	173.8	182.2		95.4		
	Growth rate ^{3/} (%)	-4.1	4.8		6.2		
Output ^{3/} ^{4/}	Industrial production (%)	-13.5	6.4	3.9	7.7	5.6	10.6
	Construction (%)	-23.8	5.3	6.6	4.0	3.4	7.2
Unemployment	Number (thous.of persons)	368.1	371.5	339.0	339.0	343.1	338.8
	Unemployment rate (%)	14.4	14.8	13.3	13.3	13.5	13.3
Foreign Trade ^{5/6/} (billions Sk, f.o.b.)	Exports (Sk billions)	95.7	135.3	124.6	124.6		
	Imports (Sk billions)	125.9	149.4	125.7	125.7		
	Balance (Sk billions)	-30.2	-14.1	-1.1	-1.1		

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/ Cumulative values

6/ In 1993 and 1994 convertible currencies. 1995 consolidated balance

In August, consumer prices rose by 0.5% compared with the previous month's figure. Since the beginning of 1995, the price level has increased by 4.6%. The recorded year-on-year increase in prices (9.8%) fell below the 10% limit in August for the first time in the past three years.

The growth in consumer prices was due primarily to the continuing increase in food prices, which rose by 1% as a result of the increase in the price of soft drinks (1.6%), meat and meat products (1.1%), sugar and sugar products (1.1%).

The price level of industrial goods increased by 0.4%. The most significant increases were recorded in the price of tobacco products (0.8%), requisites and appliances for households, building materials (0.6%), and fuels (0.5%).

The prices of public catering rose by 0.4%. The most rapid increase (0.6%) was recorded in the prices of drinks and catering in restaurants.

Although the level of service prices recorded only a minor increase (0.7%), prices in culture, entertainment, and sports grew significantly (by 2.1%). Fees and charges increased by 0.4% as a result of the measures adopted in the area of administrative charges with effect from 1 August 1995.

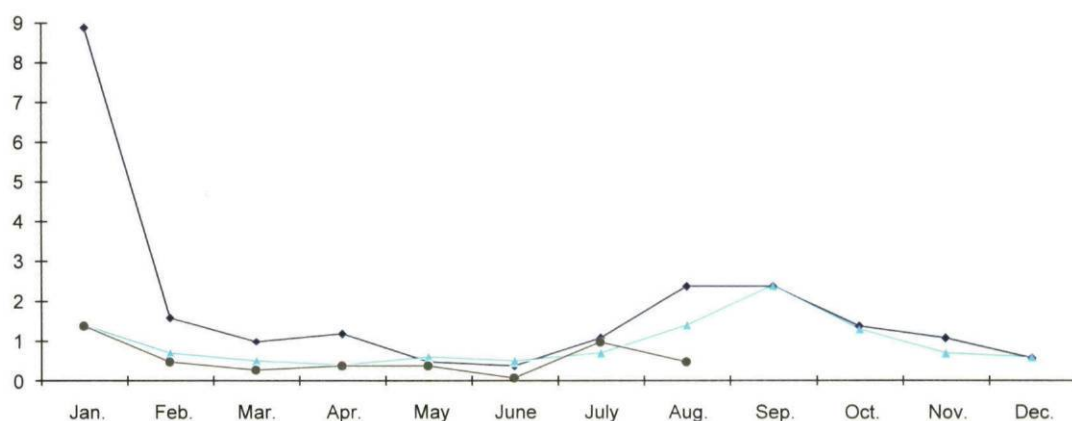
In August, the volume of **industrial production** increased to Sk 41.9 billion, exceeding the previous month's figure by 10.3%, and that recorded in August 1994 by 10.6%. The value of average daily production reached Sk 1.9 billion in August, representing an increase of 10.6% compared with the corresponding period of last year. Increasing at a slower rate, labour productivity per employee (Sk 67,191) exceeded the August 1994 level by 7.1%. In companies with at least 25 employees, the volume of sales amounted to Sk 39.9 billion (6.3% more than in August 1994). Exports accounted for 43.4% (i.e. Sk 17.3 billion) of the total output of industrial production.

In August, **construction industry output** reached Sk 4.7 billion, exceeding the previous month's level by 7.5%, and that of August 1994 by 7.2%. Labour productivity per employee (Sk 30,509) grew by 9.3% in comparison with the figure for August 1994. The volume of construction activity abroad (Sk 0.8 billion) exceeded the figure for the corresponding period of 1994 by 52.6%. The volume of domestic construction activity (Sk 3.9 billion) increased by 1.4% in comparison with the August 1994 level.

In July, the number of registered unemployed fell by 4.3 thousand, to 338.8 thousand, and the **rate of unemployment** reached 13.3%. Compared with the figure for August 1994, the number of people out of work fell by 7.6%. The development in unemployment was due to the fall in the figures for those newly registered (11.7 thousand) and recently removed from the register (3.3 thousand). The number of newly employed increased to 86.1%. For the first time, the number of vacancies decreased by almost 1.4 thousand, to 17.3 thousand, increasing the number of job applicants per vacancy to 20.

Monthly Rate of Inflation

(in %)



Source: Statistical Office of the SR

—●— 1993 —▲— 1994 —●— 1995

II. THE EXTERNAL ECONOMY

Indicators	1993	1994	1995			
			June	H1	July	Aug.
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-21.1	-3.1	-6.2	-6.2		
Foreign Exchange Reserves ^{2/} (USD millions)	1,402.2	3,095.5	4,202.7	4,202.7	4,224.8	4,283.5 ^{2/}
Banking system	952.7	1,350.5	1,580.9	1,580.9	1,594.4	1,575.4 ^{2/}
Commercial banks	449.5	1,745.0	2,621.8	2,621.8	2,630.4	2,708.1 ^{2/}
NBS ^{3/}						
Gross Foreign Debt ^{2/} (USD billions)	3.6	4.3	5.0	5.0		
Average Exchange Rates ^{4/}						
USD/SKK	32.968	32.039	29.427	29.427	29.250	29.857
DEM/SKK	19.283	19.759	20.995	20.995	21.051	20.749

^{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



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The development of Slovakia's external relations during the first half of 1995 was characterised by a further opening of the Slovak economy. Foreign trade figures indicate that Slovakia has managed to maintain its rate of development of the beginning of 1995. The exports of goods and services in financial terms increased by a further 19.4%, and its share in the gross domestic product (GDP) increased to 72%. On the capital account, the inflow of capital in the form of foreign investment, government and corporate loans exceeded the outflow of capital by Sk 2.7 billion, owing to the repayment of foreign loans, the growth in short-term assets of commercial banks, and the extension of credit to the Czech Republic.

During the first six months of 1995, the **current account** of Slovakia's balance of payments produced a surplus of Sk 9.5 billion. The overall balance was influenced by the current account surplus of the balance of payments vis-a-vis the Czech Republic, which offset the deficit in convertible currency.

The trade balance resulted in a Sk 1.1 billion deficit as a result of the faster growth in imports than exports (the import figure includes consumer goods imported by private individuals in the amount of Sk 504 million). From the territorial point of view, the foreign trade activities of Slovak companies in 1995 continued to be oriented towards advanced market-economy countries, the share of which in the total foreign trade turnover amounted to 42%. The most important trading partners were countries of the European Union (38%), especially Germany, Italy, and Austria.

The dynamic growth of foreign trade manifested itself in the field of services as well. The proportion of services in the total exports of goods and services increased to 23%, and the considerable surplus of exports over imports ensured an Sk 10.8 billion surplus of the services balance. A decisive source of surplus in the services balance was the net income from transportation in the amount of Sk 4.7 billion. Within this sector, the Slovak economy obtained funds mainly for the transit of gas, in the form of gas supply. Net income from tourism reached Sk 4.2 billion, and its share in the exports of goods and services remained at the level of 5%.

The capital and financial account of the balance of payments resulted in a slight surplus of Sk 2.7 billion.

Foreign investors showed relatively little interest in entering into international co-operation with Slovak enterprises in the form of direct investment. The volume of foreign capital invested in companies operating in the SR during the first six months of 1995 reached Sk 1.1 billion, whereof 90% was realised in the form of purchasing, or increasing the equity of, enterprises directly by the foreign investor. In June, Slovak companies placed shares on foreign capital markets in the amount of Sk 0.9 billion. These resources, which form a part of portfolio investments, are predominantly of long-term nature, and are used by companies for funding investment projects. Official loans amounted to Sk 2.8 billion.

The enterprise sector continued to show a rapidly growing demand for long-term loans from abroad, which increased to Sk 5.0 billion. Financial loans amounted to Sk 3.8 billion. Repayments of long-term loans by the enterprise sector amounted to Sk 2.8 billion. The net volume of long-term and short-term funds drawn by banks from abroad increased by Sk 5.1 billion.

The deposits of Slovak commercial banks at foreign financial institutions amounted to Sk 4.5 billion in the period under consideration.

The balance of payments with the Czech Republic was influenced by an increase in assets earned by transactions in the current and capital account of the balance of payments. In the period under consideration, the Czech side exceeded the credit limit in the clearing account each month. The total sum (for January to May) by which the limit was exceeded amounted to US\$ 730 million (Sk 21.5 billion) in foreign currency.

The total balance of payments reached Sk 22 billion, i.e. US\$ 0.7 billion, over a period of six months.

Compared with the previous month's level, the **total foreign exchange reserves of the NBS** increased by US\$ 77.7 million, reaching US\$ 2,708.1 million at the end of August, i.e. an amount 3.2 times larger than the expected volume of average monthly imports of goods and services to the SR in 1995.



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The **gross foreign debt of the SR** recorded in May amounted to US\$ 5.0 billion. Half of the foreign debt consisted of the official debt of the Slovak Government and the NBS. At 31 May 1995, foreign debt in convertible currency (US\$ 4.8 billion) accounted for 97% of total gross external debt. At the end of May, the indebtedness of commercial banks and entrepreneurs amounted to US\$ 2.3 million. In May, the principal on IMF loans was paid in the amount of US\$ 7.8 million, funds were drawn in the amount of US\$ 77.3 million (US\$ 5.1 million from EIB, the remaining US\$ 72.2 million from EXIM Bank of Japan).

According to preliminary data, Slovakia's gross foreign debt stood at US\$ 5.0 billion and official debt US\$ 2.5 billion at 30 June 1995. The indebtedness of the commercial sector amounted to US\$ 2.4 billion at the end of June. Considerable changes were recorded in the structure of the commercial sector's foreign exchange liabilities in comparison with May. After the conversion of Slovakia's indebtedness to a US dollar basis, a US\$ 92.6 million increase was recorded in the indebtedness of the commercial sector. Of this, the greatest increase was recorded in the short-term liabilities of entrepreneurs (US\$ 71.5 million). In June, principal on IMF loans was paid in the amount of US\$ 6.5 million and principal within the CDZ (Central Forex Resources) block in the amount of US\$ 8.8 million (after conversion).

III. MONETARY DEVELOPMENTS

Indicators	1993	1994	1995			
			June	H1	July	Aug.
Inflation Rate	Monthly ^{1/} (%)		0.1	3.1	1.0	0.5
	Yearly (%)	25.1	11.7	10.6		10.8
Money Supply M2 ^{2/4/} (%)	18.5 ^{3/}	18.8 ^{3/}	3.1	3.1	4.7	7.1
Credits from Commercial Banks ^{4/} (%)	is.o ^{3/}	1.5	5.6	5.6	5.6	8.3
Deposits with Commercial Banks ^{4/} (%)	18.3 ^{3/}	179	3.7	3.7	6.2	9.5
Discount Rate (%)	12.0 ^{5/}	12.0	11.0		11.0	11.0
Lombard Rate ^{6/} (%)	14.0		13.1		13.1	13.1
Average Interbank Deposit Interest Rates						
BRIBOR (%)						
	16.73 ^{7/}	13.18	6.78	5.44	7.89	5.94
	17.20 ^{7/}	13.89	6.96	5.61	8.17	6.77
	17.50 ^{7/}	14.63	7.17	5.73	8.36	7.05
	17.86 ^{7/}	15.62	7.38	5.89	8.52	7.48

^{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/} Average for period

^{7/} Average for the 2nd half of 1993

In July, **money supply** in terms of the M2 aggregate increased by Sk 7.1 billion (2.3%), reaching Sk 315.2 billion at the end of the month. Its subaggregates, quasi-money and M1, also increased. A significant increase was recorded in quasi-money, especially in time deposits (Sk 4.2 billion), while the volume of foreign currency deposits had not changed in comparison with the previous month.

The M1 aggregate increased by Sk 2.9 billion as a result of the Sk 2.1 billion growth in demand deposits. The volume of currency in circulation outside banks increased by Sk 0.8 billion, representing a relatively high month-on-month increase compared with the previous month's figure.

Crown deposits, as part of M2, had a decisive influence on the growth of money supply. They increased by Sk 6.3 billion in August. The most significant increases were recorded in enterprise sector deposits, which grew by Sk 5.0 billion. Households deposits increased by Sk 1,3 billion. This growth was a continuation of the upward trend in households deposits that started at the beginning of the year.

Within the M2 monetary aggregate, notable changes were not recorded in the course of August. The most significant change was an increase in volume of time deposits and a fall in volume of foreign currency deposits without a noticeable effect on the volume of quasi-money and M1.

The growth in **bank loans in Slovak crowns and foreign currency** continued in August, though at a slower rate. At the end of August, the volume of loans amounted to Sk 295.9 billion, representing an increase of Sk 3.2 billion compared with the July figure. Increases were recorded only in crown loans, while foreign currency loans experienced a growth of Sk 0.7 billion.

The sectoral structure of the development of crown loans was differentiated. A significant increase (Sk 7.9 billion) was recorded in loans to the private sector, while the total volume of loans extended to the private sector fell by Sk 5.9 billion. Loans to other sectors saw no significant changes.

In July, the volume of **credit drawn** decreased by Sk 3.3 billion, compared with the previous month's figure. Of the total volume of loans (Sk 12.9 billion), the largest part was drawn by the private sector (Sk 9.0 billion). Within the time structure of loans, short-term loans accounted for 80.6%.

In July, the **average rate of interest on the total amount of loans** continued to fall by 0.05 percentage points, to 15.73%. The average lending rate for short-term loans recorded a more significant drop (0.26 points), while the volume of these loans to total credit is at the level of 40.1%. The average rate of interest on medium-term loans remained practically unchanged.

The **rate of interest of new loans** drawn in July did not change, and remained at the previous month's level (15.94%). The share of medium-term loans in the total volume of new loans was 11.6%, that of long-term loans 7.8%, and that of short-term loans 80.6%.



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The price of primary and secondary resources did not change significantly, in comparison with June. The **average rate of interest on total crown deposits** fell slightly by 0.16 points, to 8.99%.

The development of **interest rates on interbank deposits and loans** saw no significant changes. The average rate of interest increased slightly from 13.52% in June to 13.60% in July.

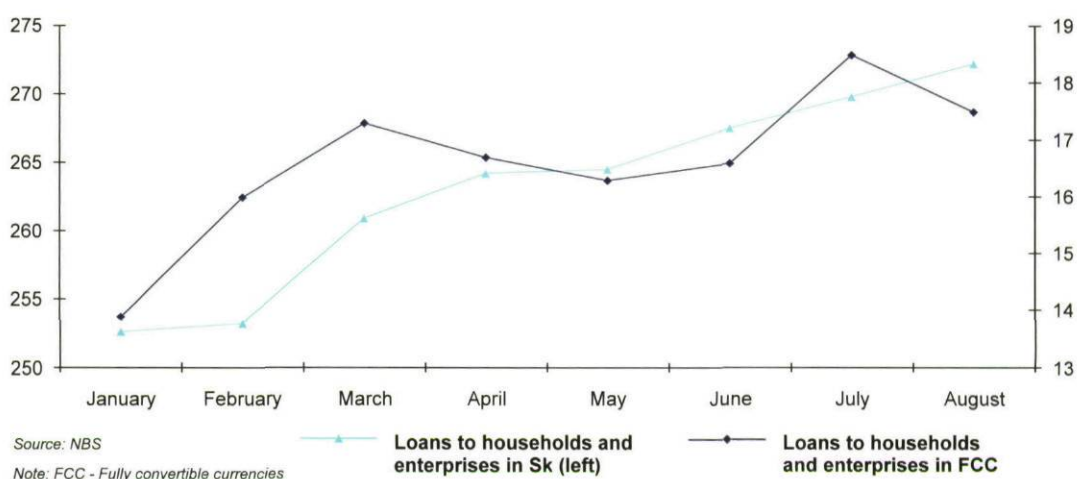
Compared with May, the **interest margin** of commercial banks increased from 6.63 to 6.74 percentage points.

Compared with the previous month, the results of financial transactions in August had a significant effect on the asset and liability account of the NBS; the balance of assets and liabilities increased by Sk 7.1 billion (3.8%).

By the end of August, the monthly changes in the balance of NBS had influenced the **net position of Slovakia's economic sectors vis-a-vis the NBS**. The net position vis-a-vis the rest of the world increased by Sk 3.7 billion. As a result of a decrease in assets (Sk 2.2 billion) and increase in liabilities (Sk 0.5 billion), the net debt of the government sector vis-a-vis the NBS increased by Sk 2.7 billion, to a deficit of Sk 14.2 billion. The net debt of commercial banks decreased by Sk 3.7 billion, to a deficit of Sk 20.1 billion, as a result of an increase in NBS assets (Sk 4.2 billion) and increase in liabilities (Sk 0.5 billion).

The credit limit (Sk 287.4 billion) on **bank loans to households and enterprises** set for the 3rd quarter of 1995 was exceeded by Sk 3.2 billion in August (Sk 290.6 billion). Within the structure of loans extended to households and enterprises by 31 August 1995, loans in Slovak crowns recorded a more significant increase (Sk 19.5 billion compared with the initial figure), than loans in fully convertible currencies (an increase of Sk 4.4 billion).

Loans to Households and Enterprises in Sk and FCC (Sk billion)



The development of bank liquidity was uneven in the course of August. The first and second thirds of the month were marked by excessive liquidity in the banking sector, which was partly offset in the last third. The **required minimum reserves** were fulfilled to 103.0% (at RMR set at Sk 15.95 billion, the actual average position amounted to Sk 16.43 billion). The average daily excess liquidity amounted to Sk 481.9 million in August. During the month, there was no demand for emergency or Lombard loans.

The total volume of bills of exchange transactions increased by Sk 94.3 million compared with the previous month's figure (rediscount increased by Sk 104.7 million, while discount fell by Sk 10.4 million). Bills of exchange utilized for the support of agriculture represented 16.9% of the limit, i.e. Sk 1.5 billion, (a decrease of 15.4% compared with the initial figure), and bills of exchange for export promotion accounted for 23.7% of the limit, i.e. Sk 750 million (a drop of 56.4% compared with the initial figure).

In the light of the favourable state budget performance, the Ministry of Finance of the SR issued no **Treasury bills** in the month of August. The total number of short-term government securities had decreased from 31,341 to 26,921 by the end of the month.

Four NBS Treasury bills auctions were held in August at weekly intervals, at which 14,547 bills were issued, while 8,550 matured in the month under consideration.

The average interest rate on deposits in the interbank money market was 7.55% for 1-month deposits (a drop of 1% compared with the previous month), an 8.19% for 3-month deposits (compared with 8.74% in the previous month).

In the course of August, the volume of transactions on the secondary market for Treasury bills fell by Sk 11.8 billion compared with July's figure, and reached a turnover of Sk 45.4 billion, which represents a daily average of Sk 2.06 billion (a drop of Sk 0.8 billion). The share of the NBS in the turnover amounted to Sk 34.2 billion, i.e. 75.33%, in comparison with July, when the NBS had a 71% share in these transactions. Activity on the interbank money market increased, i.e. turnover grew by Sk 11.4 billion to Sk 59.0 billion.

In accordance with legislation governing the issuance of **government bonds** in the SR (Act No. 141/1995 Coll.), the Ministry of Finance launched the No. 015 issue of government bonds worth Sk

4.86 billion in August. It was the first issue of government bonds intended for covering the 1994 state budget deficit. The issue was put on the market via an American-style auction. The auction was attended by 13 banking institutions. Non-bank institutions were not present at the auctions. The Ministry of Finance accepted the offers of 11 investors.

Trading on the Bratislava Stock Exchange showed an upward trend in August. The volume of transactions in government bonds amounted to Sk 469.7 million, representing 29% of the total volume of deals, compared with 3% in July. Most trading (67.2% of the total volume) concerned the No. 006 issue of government bonds in the amount of Sk 315.6 million, at a price of 102% to 105.2% with a 13.79% to 9.16% yield on maturity.



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IV. THE GOVERNMENT SECTOR

Indicators		1993	1994	1995			
				June	H1	July	Aug.
Budget Revenue ^{1/}	(Sk billions)	144.5	139.1	75.4	75.4	90.9	102.0
Budget Expenditure ^{1/}	(Sk billions)	167.5	162.0	75.3	75.3	92.3	102.9
State Budget Balance	(Sk billions)	-23.0	-22.9	0.1	0.1	-1.4	-0.9

^{1/} Cumulative values

At the end of August, the **state budget of the SR** showed a deficit of Sk 0.9 billion, representing a decrease of Sk 0.5 billion compared with the previous month's level. The budget deficit was fully covered by issues and subsequent sales of Treasury bills.

The **budget revenue** (Sk 102.0 billion) exceeded the budgeted figure by Sk 4.4 billion. This development was due mainly to an improvement in tax revenue (68.3% of the annual budget), while value-added tax revenue (Sk 34.2 billion) exceeded the budgeted level by Sk 5.4 billion, and income tax revenue (Sk 32.7 billion) by Sk 1.1 billion. The unfavourable development in excise tax revenue (a shortfall of Sk 5.4 billion compared with the part of the budget) continued in July. A favourable development was recorded in non-tax revenue (80.7% of the annual budget), exceeding the part of the budget by Sk 2.3 billion.

Budget expenditure (Sk 102.9 billion) was fulfilled to 61.5%, and was considerably influenced by the clearing account with the Czech Republic (Sk 0.7 billion). Without this influence, the state budget would have had a deficit of Sk 0.2 billion. Budget expenditure during the first eight months of the year lagged behind the budgeted amount by Sk 8.7 billion, and its structural development may be evaluated in general as favourable. Budget expenditure was slightly exceeded in the following areas: non-investment expenses of budgetary organizations - work, social affairs, and family (78.7%), investment costs of budgetary organizations (78.3%), current transfers of the corporate sector (70.2%), and non-investment subsidies of the local governments (71.1%).

The internal debt of the Slovak Government vis-a-vis the banking sector reached Sk 58.8 billion at the end of July 1995. Of this amount, the NBS accounted for Sk 14.2 billion and commercial banks Sk 44.6 billion. In comparison with the previous month, the Government's indebtedness decreased by approximately Sk 3 billion. This development was due mainly to an increase in state deposits (Sk 1.8 billion), insurance funds (Sk 0.6 billion), and the favourable budget performance (Sk 0.5 billion drop in deficit compared with July). On 31 August 1995, government bonds were issued to cover the 1994 budget deficit amounting to Sk 4.8 billion, while the volume of due State Treasury bills was only Sk 3.3 billion. Since the beginning of the year, the internal debt of the Government vis-a-vis the banking sector has fallen by Sk 11.7 billion.

V. INFORMATION

- On 7 October 1995, negotiations started in Washington, DC, between representatives of the NBS and the International Monetary Fund on bilateral relations between Slovakia and IMF. The Slovak delegation headed by Minister of Finance S. Kozlik and representatives of the NBS took part in the Annual Meeting of the IMF and the World Bank.
- On 16 October 1995, NBS Governor V. Masár and Vice-Governor J. Mudrik met with Hans Tietmeyer, President of Deutsche Bundesbank, during their visit to Germany. They discussed questions related to the European Customs Union, the tasks of Germany in its formation, and problems of monetary policy.
- On 17 October 1995, NBS Governor V. Masár held talks with A. Lamfalussy, President of the European Monetary Institute (EMI) about the preparation of the European Customs Union and related issues. At the meeting, V. Masár received an official invitation for Slovakia to the prepared seminar on the coordination of the operations of central banks of the V4 countries, at which EMI will present its concrete recommendations.

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