



NATIONAL BANK OF SLOVAKIA

**MONETARY SURVEY**

**OCTOBER 1995**

## I. THE REAL ECONOMY

Indicators		1993	1994	1995				
				H1	Aug.	Sep.	Q3	Oct.
GDP	Value <sup>1/</sup> (Sk <sup>2/</sup> billions)	173.8	182.2	95.4			107.4 <sup>7/</sup>	
	Growth rate <sup>3/</sup> (%)	-4.1	4.8	6.1			7.4 <sup>7/</sup>	
Output <sup>3/4/</sup>	Industrial production (%)	-13.5	6.4	7.7	10.4 <sup>7/</sup>	12.9 <sup>**</sup>	9.6	13.2
	Construction (%)	-23.8	5.3	4.0	6.2 <sup>7/</sup>	1.9 <sup>**</sup>	3.8	6.5
Unemployment	Number (thous.of persons)	368.1	371.5	339.0	338.8	336.0	336.0	335.5
	Unemployment rate (%)	14.4	14.8	13.3	13.3	13.2	13.2	12.8
Foreign Trade <sup>5/6/</sup> (f.o.b.)	Exports (Sk billions)	95.7	135.3	124.6	165.2			
	Imports (Sk billions)	125.9	149.4	125.7	164.5			
	Balance (Sk billions)	-30.2	-14.1	-1.1	0.1			

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

7/ Figures based on constant prices for 1993

<sup>7/</sup> Revised figures

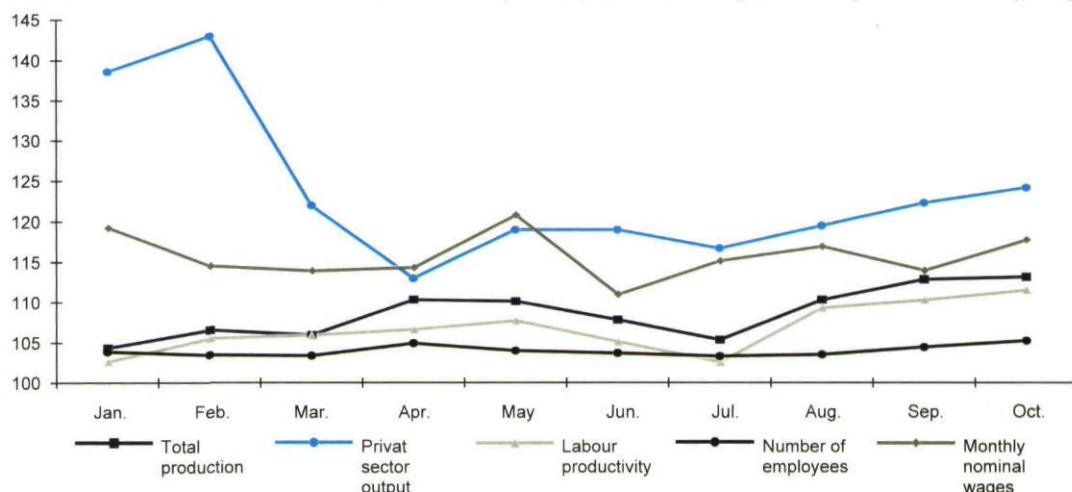
In October, the level of **consumer prices** rose by 0.5% compared with the previous month's figure. Since the beginning of 1995, the price level has increased by 6.5%. In comparison with the figure for last October, the annual rate of inflation fell to 7.9%. The October growth in consumer prices was due primarily to the rate of increase in food prices, which slowed considerably (by 0.5%) compared with the rate of growth recorded in September (3.5%). The sharpest decreases were recorded in the rates of increase in the prices of meat and meat products (from 7.1% to 2.5%) and soft drinks (from 1.7% to 0.4%). Further increases were recorded in the price of eggs and egg products (8.7%), fats (0.9%) and sugar products, while the price of sugar remained unchanged.

The growth in the price of industrial goods remained at the level of the monthly average (0.6%), while the most rapid increases were recorded in the price of fuels (2.1%), shoes and leather goods (1.1%), and textile goods (0.8%). In these categories, prices grew at a faster rate in October than in the previous month.

In public catering, where the price level rose by 0.5%, the most rapid increases were recorded in the price of meals served in restaurants (0.7%) and beverages in canteens (1.5%). In services, where the price level rose by 0.2%, the most significant increases were recorded in the price of education, culture, entertainment, and sports (0.9%); personal services (0.4%); and transport and communications (0.3%).

In October, the volume of **industrial production** increased to Sk 46.6 billion, the largest monthly volume since the beginning of the year, exceeding the previous month's figure by 6.3% and that of last October by 13.2%. Average daily production reached Sk 2.1 billion, representing a year-on-year increase of 8.0%. Increasing at a slower rate (7.6%), labour productivity per employee reached Sk 73,795, making October the most productive month of the year. In companies with more than 25 companies, the volume of sales amounted to Sk 43.8 billion (the largest monthly volume since January), exceeding last October's figure by 5.7%. Exports accounted for 42.4% (Sk 18.6 billion) of this figure, exceeding the figure for October 1994 by 6.7%.

**Indicators of Industrial Production in 1995 (same period of last year = 100) (in %)**



In October, **construction industry output** reached Sk 5.0 billion, the largest monthly volume since January, exceeding the previous month's level by 2.5%, and that of last October by 6.5%. The most significant year-on-year increase (8.7%) was recorded in labour productivity per employee, which reached Sk 32,252 in absolute value in October. The volume of construction activity abroad (Sk 0.7 billion) exceeded the figure for the corresponding period of last year by 6.9%. The volume of domestic construction activity (Sk 4.3 billion) experienced a year-on-year increase of 6.4%.

The favourable trend in unemployment continued in October. The number of registered unemployed fell by 10.5 thousand, to 325.5 thousand, bringing down the **rate of unemployment** to 12.8% (the lowest since the second half of 1992). Compared with the figure for October 1994, the number of people out of work fell by 9.6%.



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The development in unemployment was due to a fall in the figure for newly registered unemployed (3.9 thousand, to 30.5 thousand) and an increase in the number of those recently removed from the register (3.9 thousand, to 41 thousand). A favourable trend in this development was the drop (almost 6.9 thousand) in the number of unemployed school leavers and university graduates. The level of unemployment was also influenced by some legal regulations (Act 197/95) defining the reasons for removing a jobless person from the register. The share of newly employed fell slightly, to 84.4%; whereof 28.9% found work through labour offices, 47.1% on an individual basis, and 8.4% in public services and public works. The number of vacancies increased to 16.9 thousand, bringing down the number of job applicants per vacancy to 19.

## II. THE EXTERNAL ECONOMY



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Indicators	1993	1994	1995				
			H1	Aug.	Sep.	Q3	Oct.
Current Account <sup>1/</sup> Balance in convertible currencies (Sk billions)	-21.1	-3.1	-6.2	-6.0			
Foreign Exchange Reserves <sup>2/</sup> (USD millions)	1,402.2	3,095.5	4,202.7	4,295.9	4,406.6	4,406.6	4,429.4 <sup>7/</sup>
Banking system	952.7	1,350.5	1,580.9	1,587.8	1,581.2	1,581.2	1,556.3 <sup>7/</sup>
Commercial banks	449.5	1,745.0	2,621.8	2,708.1	2,825.4	2,825.4	2,873.1 <sup>7/</sup>
NBS <sup>3/</sup>							
Gross Foreign Debt <sup>2/</sup> (USD billions)	3.6	4.3	5.0	4.8			
Average Exchange Rates <sup>4/</sup>							
USD/SKK	32.968	32.039	29.338	29.857	30.132	29744	29.490
DEM/SKK	19.283	19.759	20.999	20.749	20.603	20.802	20.844

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

Compared with the previous month's level, the **total foreign exchange reserves of the NBS** increased by US\$ 47.7 million, reaching US\$ 2,873.1 million at the end of October 1995, i.e. an amount 3.2 times greater than the expected volume of average monthly import of goods and services to Slovakia in 1995 (expected volume of imports = US\$ 899.4 million). The development of foreign exchange reserves in October was positively influenced by a surplus in the balance of NBS foreign exchange fixing and transfers made by the Czech Republic for having exceeded the credit limit in the clearing account. The development of foreign exchange reserves in this period was negatively affected by debt service payments and payments of principal on IMF loans.

At the end of August, the **total gross foreign debt of the SR** stood at US\$ 4.8 billion, while the gross official debt of the Slovak Government and the NBS amounted to US\$ 2.2 billion. The indebtedness of commercial banks and entrepreneurs was at the level of US\$ 2.4 billion, the remaining amount represented Slovakia's estimated debt to the former German Democratic Republic.

## III. MONETARY DEVELOPMENTS

Indicators	1993	1994	1995				
			H1	Aug.	Sep.	Q3	Oct.
Inflation Rate Monthly <sup>1/</sup> (%)			3.1	0.5	1.4	2.9	0.5
Yearly (%)	25.1	11.7		9.8	8.8		7.9
Money Supply M2 <sup>2/4/</sup> (%)	18.5 <sup>3/</sup>	18.8 <sup>3/</sup>	3.1	7.1	7.9	7.9	8.5
Credits from Commercial Banks <sup>4/</sup> (%)	13.0 <sup>3/</sup>	1.5	5.6	8.3	9.0	9.0	10.6
Deposits with Commercial Banks <sup>4/</sup> (%)	18.3 <sup>3/</sup>	17.9	3.7	9.5	10.2	10.2	11.7
Discount Rate (%)	12.0 <sup>5/</sup>	12.0		11.0	11.0	11.0	9.75
Lombard Rate (%)	14.0			13.1	13.1	13.1	13.1
Average Interbank Deposit Interest Rates							
BRIBOR (%)							
1-day deposits	16.73 <sup>7/</sup>	13.18	4.28	5.94	6.01	6.68	4.96
7-day deposits	17.20 <sup>7/</sup>	13.89	4.91	6.77	6.34	7.17	5.30
14-day deposits	17.50 <sup>7/</sup>	14.63	4.74	7.05	6.55	7.39	5.46
1-month deposits	17.86 <sup>7/</sup>	15.62	5.29	7.48	6.82	7.69	5.94

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 October, **money supply** in terms of the M2 aggregate increased by Sk 1.7 billion (0.5%), reaching Sk 319.8 billion at the end of the month. Time deposits represented the only component that supported the growth of the money supply.

The **M1 aggregate** fell by Sk 1.1 billion as the result of a decline in demand deposits (Sk 1.0 billion) and the volume of currency in circulation (Sk 0.2 billion). The volume of currency in circulation outside the banking sector ranged between a minimum of Sk 35.4 billion (4 October 1995) and a maximum of Sk 39.1 billion (13 October 1995). The previous maximum figure recorded in September was exceeded by Sk 0.4 billion.

**Quasi-money** increased by Sk 2.9 billion owing to the Sk 3.3 billion growth in time deposits and a slight decrease in foreign currency deposits (Sk 0.4 billion).

**Crown deposits**, as part of M2, increased by Sk 2.3 billion. The most significant increase was recorded in deposits of households, which exceeded the growth rate of corporate deposits.



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Within the M2 monetary aggregate, both components of M1 decreased in the course of October in comparison with the figures for the previous month and the beginning of the year. The volume of time deposits increased, making a significant contribution to the growth in the proportion of quasi-money to M2, despite the fall in the volume of foreign currency deposits.

At the end of October, the total volume of **bank loans in Slovak crowns and foreign currency** reached Sk 302.3 billion, representing an increase of Sk 4.2 billion compared with the previous month's figure. Crown loans increased by Sk 3.4 billion; loans in foreign currency by Sk 0.8 billion. The favourable development in bank lending to the private sector continued with a month-on-month increase of Sk 4.0 billion, which was partly a result of the ongoing privatisation. The volume of loans in the public sector continued to fall by Sk 1.7 billion. Loan to other sectors saw no significant changes. The total increase in bank loans exceeded the figure for the corresponding period of last year by Sk 1.4 billion.

After a month-on-month increase of Sk 0.8 billion, bank loans in foreign currency reached Sk 20.9 billion by the end of October. In comparison with last October, when loans had increased by Sk 0.4 billion compared with the figure for September, the month-on-month increase in foreign currency loans doubled this year.

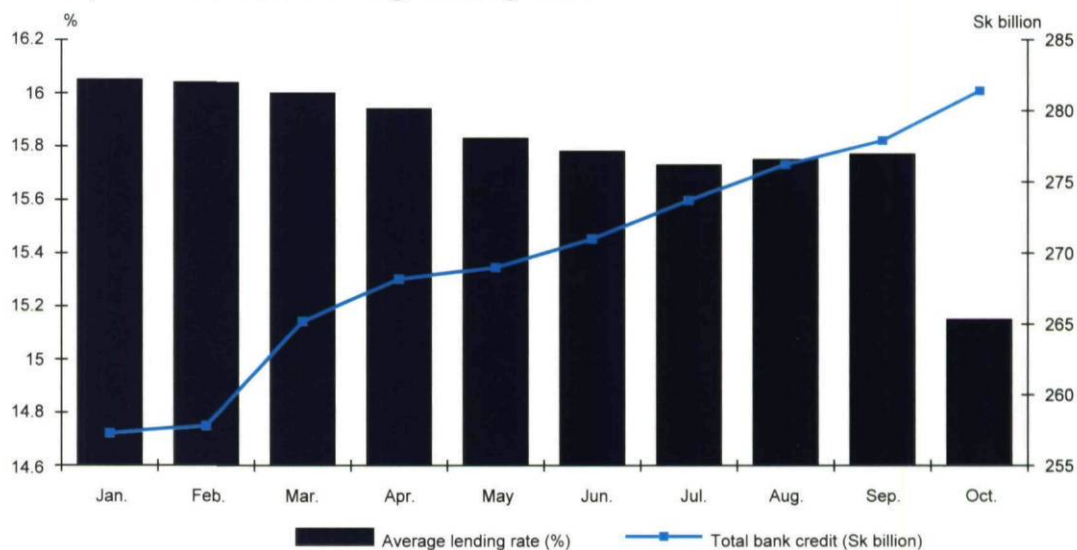
In September, the **average rate of interest on the total volume of bank loans** remained basically unchanged, at the level of 15.77%. Changes were only recorded in the average lending rates for fixed term loans: interest rates on short-term loans fell by 0.14 percentage points (to 17.46%), while the rate on long-term loans increased by 0.26 points (to 13,15%).

On the other hand, the **rates of interest on new loans** drawn fell considerably. Compared with the previous month's figure, the average lending rate fell by 0.77 points, to 15.48%. Decreases were recorded in interest rates on all types of loans: the interest rate on short-term loans fell by 0.65 points, that on medium-term loans by 0.79 points, and that on long-term loans by 1.21 points. The decrease in lending rates was due to the general decline in the price of short-term resources and the consequent reduction of basic interest rates on loans made by commercial banks drawn since April. As a result of the small amount of medium- and long-term loans drawn and the changes in their structures by interest rate (loans for housing development, employee loans, etc. with an interest rate up by 3%), considerable fluctuations were recorded in the average interest rate on the total volume of these loans by month.

The **average rate of interest on primary deposits** fell in October by 0.10 points, to 8.82%. The sharpest decreases were recorded in interest rates on time deposits, mainly on less than 7-day deposits (1.13 points), 9-month deposits (0.43 points), 1-month deposits (0.17 points), 18-month deposits (0.11 points), and on 6-month deposits (0.11 points).

The **average rate of interest on secondary resources**, i.e. interbank deposits and loans, increased in September by 0.37 points compared with the previous month's figure. The interest rate on demand deposits increased by 0.77 points, that on time deposits by 0.20 points. The share of interbank time deposits and loans of the volume of total deposits was 96.3%.

#### Development of Loans and Average Lending Rates



Compared with the previous month, the result of financial transactions in October did not have a significant effect on the **assets and liabilities account of the NBS**: the balance total fell by Sk 1.2 billion (0.6%).

By the end of October, 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 3.1 billion as a result of a decrease in both assets (Sk 0.6 billion) and liabilities (Sk 3.7 billion). The net debt of the government fell by Sk 4.8 billion, to a deficit of Sk 14.2 billion as the result of a decrease in NBS claims on the State budget (by Sk 2.1 billion) and an increase in liabilities (Sk 2.7 billion). The net debt of commercial banks increased by Sk 16.4 billion, to a deficit of Sk 24.4 billion, owing to a decrease in claims (Sk 1.2 billion) and liabilities (Sk 17.6 billion).

By 31 October 1995, the credit limit on bank lending to households and enterprises had been exceeded by Sk 10.8 billion. The volume of loans extended to households and enterprises (Sk 296.7 billion) represented a month-on-month increase of Sk 3.4 billion in bank lending.

In comparison with the previous month-on-month increases, bills of exchange transactions saw no significant growth in October. Compared with the previous month's figure, the total volume of bills of exchange transactions increased by Sk 238.1 million (rediscounted bills increased by Sk 240.6 million, while discounted bills fell by Sk 2.5 million). In October, bills exchanged for the support of agriculture in the amount of Sk 1.5 billion represented 48.1% of the limit, and those for export promotion (Sk 750 million) accounted for 23.8% of the total.

The unfavourable development in bank liquidity necessitated a further NBS intervention in October to reduce the excessive liquidity in the banking sector. The average level of **required minimum reserves** set for the month of October (Sk 16.9 billion) was fulfilled to 100.6% (the actual average monthly level reached Sk 17.0 billion).

In October, after a five-month break, the Ministry of Finance of the SR launched a new issue of **State Treasury bills** with a 28-day maturity. The average interest rate on the issue reached 4.9%; the volume of accepted offers totalled 1,999 items. Of the total volume, the NBS purchased 200 Treasury bills for its portfolio.

The demand for Treasury bills issued in October exceeded supply by almost Sk 13.3 billion, which was an indication of a continuing excess of liquidity on the money market. The NBS offset these relatively excessive funds in regular issues of **NBS Treasury bills**. In the course of October, the NBS floated four issues of Treasury bills with maturities of from 7 to 14 days. The maximum rate of interest was set at 5.3% for all NBS Treasury bill auctions; however, in the last issue, the interest rate fell to 4.25% as a result of a fall in demand. The individual transactions of the NBS were conducted almost exclusively in the form of repurchase agreements (REPO). During the first three weeks, the NBS used this method only for reducing bank liquidity. At the end of the month, the structure of repos was dominated by refinancing-type transactions (ordinary REPO) made with the aim of replenishing the level of required reserves. For the first time in this period, the NBS accepted government bonds and NBS Treasury bills in these transactions, in addition to State Treasury bills.

In October, two issues of **government bonds** were launched: issues No. 018 and No. 019 in the amount Sk 4.0 billion and Sk 3.3 billion respectively. These issues closed the series of five government bond issues intended for the conversion of State Treasury bills issued for covering the 1994 state budget deficit. The bonds were put on the market through American-style auctions at unlimited-issue amounts. The auctions were attended by banking institutions only. The issues influenced the yield curves of government bonds on the primary market. The increase in yield spread was a result of the fact that, at the last two issues (No. 018 and No. 019), the participants in the auction responded to the lowering of the discount rate from 11% to 9.75%.

On 31 October 1995, for the first time in the history of the Bratislava Stock Exchange, the National Bank of Slovakia entered this market by concluding a deal in government bonds (Issue No. 009) in the amount of Sk 827 million.

In October, the volume of transactions in **NBS foreign exchange fixing** increased to 115.8% of the previous month's figure, and continued to be the most significant component of the interbank foreign exchange market in the SR. The volume of such transactions in October (US\$ 397.6 million) accounted for 62.3% of the total volume traded on the interbank foreign exchange market (US\$ 637.8 million). The number of transactions concluded in foreign exchange fixing reached 213, representing an average of 10 transactions per day. The monthly balance of the NBS amounted to US\$ 156.3 million. Compared with the previous month, the balance figure increased by 71.1% (US\$ 91.4 million in September). The currency structure of transactions concluded in the foreign exchange fixing was: 48.3% US\$ and 51.7% DEM of the total volume. The balance of foreign exchange fixing was in DEM (64.7%) and US\$ (35.3%).

Compared with the previous month's figure, the volume of mutual foreign exchange transactions between Slovak banks increased by 48.5%, to US\$ 240.2 million. Most interbank trading was concluded in DEM (60.5%), followed by US\$ (28.6%), and other currencies (10.9%). In this month, the volume of transactions concluded with foreign banks amounted to US\$ 10.9 million.

#### IV. THE GOVERNMENT SECTOR

Indicators		1993	1994	1995				
				H1	Aug.	Sep.	Q3	Oct.
Budget Revenues <sup>1/</sup>	(Sk billions)	144.5	139.1	75.4	1020	114.3	114.3	130.9
Budget Expenditures <sup>1/</sup>	(Sk billions)	167.5	162.0	75.3	102.9	117.2	117.2	133.1
State Budget Balance	(Sk billions)	-23.0	-22.9	0.1	-0.9	-2.9	-2.9	-2.2

<sup>1/</sup> Cumulative values

At the end of October, the **state budget** of the Slovak Republic showed a deficit of Sk 2.2 billion, representing a decrease of Sk 0.7 billion compared with the level of the previous month. The budget deficit was fully covered by the issue and sale of State Treasury bills.

The **budget revenue** (Sk 130.9 billion) exceeded the budgeted figure by Sk 8.9 billion. This development was due mainly to an improvement in tax revenue (87.4% of the annual budget), while value-added tax revenue exceeded the budgeted level by Sk 8.8 billion and income tax revenue by Sk 0.9 billion. The unfavourable development in excise tax revenue (a shortfall of Sk 5.6 billion compared with the corresponding part of the annual budget) continued in October. A favourable development was recorded in non-tax revenue (105.4% of the annual budget), which exceeded the budgeted figure by Sk 3.7 billion.



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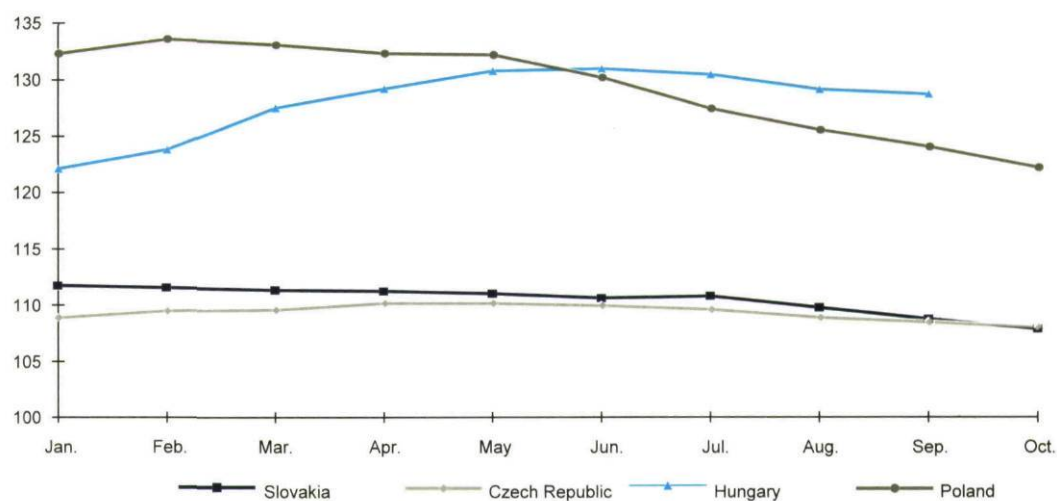


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**Budget expenditure** (Sk 133.1 billion) was fulfilled to 79.5% in October. Budget expenditure during the first ten months of the year lagged behind the budgeted amount by Sk 6.4 billion, and its structural development may be described in general as favourable. Budget expenditure was slightly exceeded in the following areas: investment and non-investment costs of budgetary organisations, current transfers to the enterprise sector, and subsidies to local governments.

The internal debt of the Slovak Government vis-a-vis the banking sector amounted to Sk 57.6 billion at the end of October. Of this amount, the NBS accounted for Sk 14.2 billion and commercial banks Sk 43.4 billion. In comparison with the previous month's level, government indebtedness decreased by Sk 1.9 billion. This development was due mainly to the improvement in budget deficit (by Sk 0.7 billion compared with the September figure), the moderate increase in state deposits (Sk 0.3 billion) and insurance funds (Sk 0.9 billion). In October, the last two government bonds were issued to cover the 1994 budget deficit. In this way, the conversion of State Treasury bills into government bonds was completed. Owing to these transactions, the indebtedness of the National Bank of Slovakia decreased in October by Sk 3.7 billion (by Sk 23.7 billion compared with the beginning of the year) and the debt owed by the government sector was transferred to commercial banks.

**Consumer Prices Index (same period of last year = 100)** (in %)



## V. INFORMATION

On 5 December 1995, the Government of the SR approved an amendment to the Banking Act of 1993. A significant part of the amendment is the section relating to mortgage banking. The amendment also contains provisions designed to strengthen the position and powers of NBS Banking Supervision.

On 21 December 1995, the Board of the NBS approved the Bank's monetary policy for 1996. The characteristic feature of the monetary programme is its anti-inflationary nature.

The chief objectives of monetary policy for 1996 are:

- an annual rate of inflation between 6.0 and 7.5%;
- a stable exchange rate for the Sk, with an extended fluctuation band;

at the following forecast of monetary development:

- annual growth of GDP: 5.8%;
- net foreign assets at the end of the year: Sk 91.6 billion  
(change compared with beginning of year: 50.2%);

while the following development of monetary instruments is consistent with these priorities and assumptions:

- growth rate of M2: 13.2%;
- growth in loans to households and enterprises: 6.6%;

The first syndicated loan granted to Slovakia backed by government guarantee in the amount of US\$ 200 million, is earmarked for the completion of the hydroelectric project at Gabčíkovo (65%) and the construction of a dam at Žilina. The banking house of J.P.Morgan joined a group of 26 leading investment banks from all over the world to make a loan under extremely favourable terms and conditions. The amount offered by these banks exceeded Slovakia's demand by US\$ 80 million. The transaction has confirmed that there is a great interest in Slovakia on the international financial market.

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Published by:  
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