

**B. Report on Monetary Development**

**in the Slovak Republic for 1994**

# 1. MONETARY DEVELOPMENTS

The presentation of monetary developments follows the standard differentiation of monetary-policy objectives (inflation, foreign exchange reserves), monetary-policy instruments (money supply, loans and deposits, interest rates), and the monetary environment (budget performance, balance of payments, borrowings from abroad, debt service, and the creditor-debtor positions of economic sectors).

## 1.1 Inflation

The results achieved in 1994 have confirmed the feasibility of the Bank's ambition to lower the rate of inflation from 25.1% in 1993 to 10-13.2% in 1994.

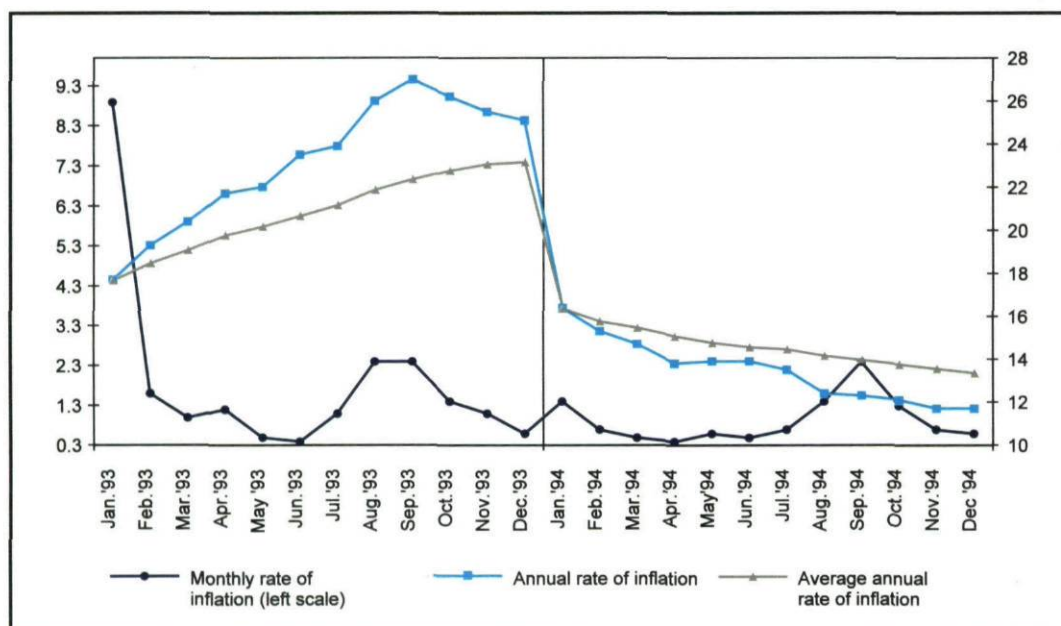
Inflation, expressed by the consumer price index, reached 11.7% in 1994, and its development was affected mainly by the following factors:

- changes in the rates of excise tax (as of 1 January 1994 and 1 August 1994) charged on beer, wine, alcoholic beverages, tobacco products, and hydrocarbon-based products;
- the modification of VAT rates (as of 1 August 1994), when certain goods and services were removed from the group subject to a 6% VAT and placed into the group carrying a 25% VAT.
- increases in the maximum prices of heating and hot water effective as of 1 July 1994, which, together with other increased charges for services related to housing, were gradually put into practice;
- governmental measures associated with fees and charges, the categorization of the prices of medication, the maximum prices of fuels, and adjustments in the charges for telecommunication services;
- the introduction of the social insurance fund;
- the unfavourable development in agriculture and the cut in government subsidies granted to this sector, which resulted in an increase in food prices;
- increases in producer prices and seasonal effects;
- the lack of a properly-functioning competitive environment.

In comparison with the previous year, the development of consumer prices in 1994 may be regarded as favourable.

Consumer-Price Inflation

(%)



### Development of Consumer Prices

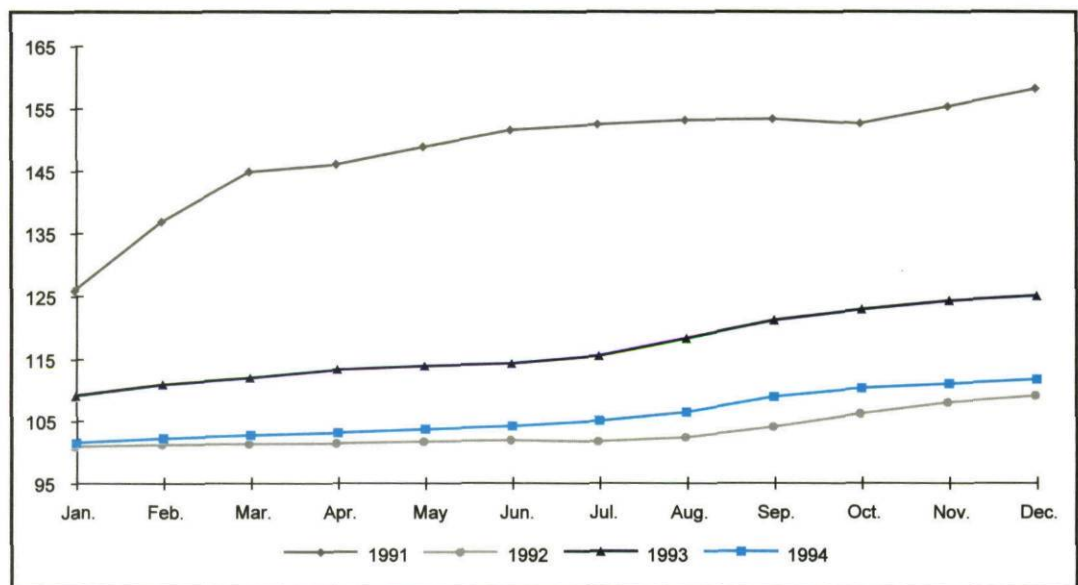
(%)

	Q1	Q2	Q3	Q4	Year
Total	102.6	101.5	104.6	102.6	111.7
food	101.7	101.7	110.6	103.3	118.3
industrial goods	102.5	101.6	101.9	101.9	108.2
public catering	103.6	100.9	104.2	104.6	113.8
services	103.9	100.7	102.4	102.0	109.2

With regard to the development of consumer prices in 1994, considerable differences were recorded between the basic groups.

While the rise of the general price level of industrial goods became relatively stable - fluctuated about 0.6% per month, the prices of food and public catering recorded an accelerated rate of growth in the second half of the year, and required some counter measures to be adopted during the 4th quarter. The course of Slovakia's inflation was mostly affected by the development of food prices, which reflected the negative consequences of the unfavourable weather conditions that hit agricultural production in 1994. In the past year, food prices rose by 18.3%; the highest increases were recorded in the prices of meat and meat products (25.7%), fats (21.1%), and eggs (20.2%).

### Development of Consumer Prices between 1991 and 1994 (December of the Previous Year = 100)



The producer prices of industrial commodities rose by 9.4%, representing one half of the previous year's figure (18.8%). More significant price increases were recorded in February and over the 3rd quarter of the year. The increase in the prices of building materials and products used in construction (9.0%) remained behind the 1993 figure; the costs of construction work rose by roughly one-third, representing a 7.8% rise of the price level. The prices of agricultural produce experienced the highest increases during the last three years. The general price level rose by 18.3%, representing an increase corresponding to that recorded during the previous two years. The prices of animal products also experienced a significant increase (18.5%).

## 1.2 Development of Foreign Exchange Reserves

At the end of December, the volume of the Bank's foreign exchange reserves totalled US\$ 1,745 million, representing an increase of US\$ 1,295.5 million compared with the level recorded at the end of 1993.

The total foreign exchange reserves of the NBS are defined as foreign currency funds deposited in NBS accounts held with foreign banks in fully convertible currencies, securities held by the NBS, gold delimited after the division of the former CSFR, and holdings of SDRs in an account kept with the International Monetary Fund.

#### Development of NBS Foreign Exchange Reserves

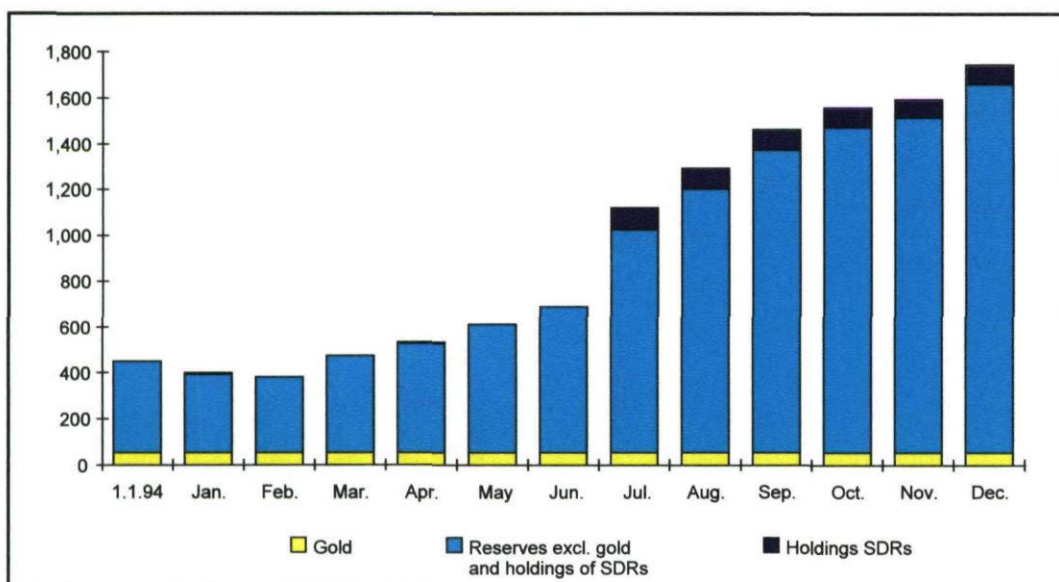
Year 1994	Reserves excl. gold and holdings of SDRs <sup>1/</sup> (US\$ millions)	Gold holdings <sup>2/</sup> (US\$ millions)	Holdings of SDRs (US\$ millions)	Total foreign exchange reserves (US\$ millions)
1.1.94	394.7	54.5	0.3	449.5
January	339.0	54.5	7.3	400.8
February	327.1	54.5	0.4	382.0
March	419.6	54.5	0.4	474.5
April	472.4	54.5	6.9	533.8
May	556.1	54.5	0.6	611.2
June	634.1	54.5	0.6	689.2
July	969.7	54.5	96.6	1,120.8
August	1,147.3	54.5	89.7	1,291.5
September	1,315.3	54.5	89.7	1,459.5
October	1,414.7	54.5	89.7	1,558.9
November	1,458.0	54.5	82.2	1,594.6
December	1,605.2	54.5	85.3	1,745.0

1/ In addition to swap transactions in gold

2/ Value of gold = US\$ 42.22/oz

#### Development of NBS Foreign Exchange Reserves

(USD million)



Over the course of 1994, the foreign exchange reserves of the NBS were affected by various factors. One of the decisive factors in the field of revenues was the volume of foreign currency funds obtained from commercial banks through the foreign exchange fixing of the NBS. The debt service expenditures of the NBS affected the expenditure side of the budget.

The development of foreign exchange reserves in 1994 was positively affected by the following factors:

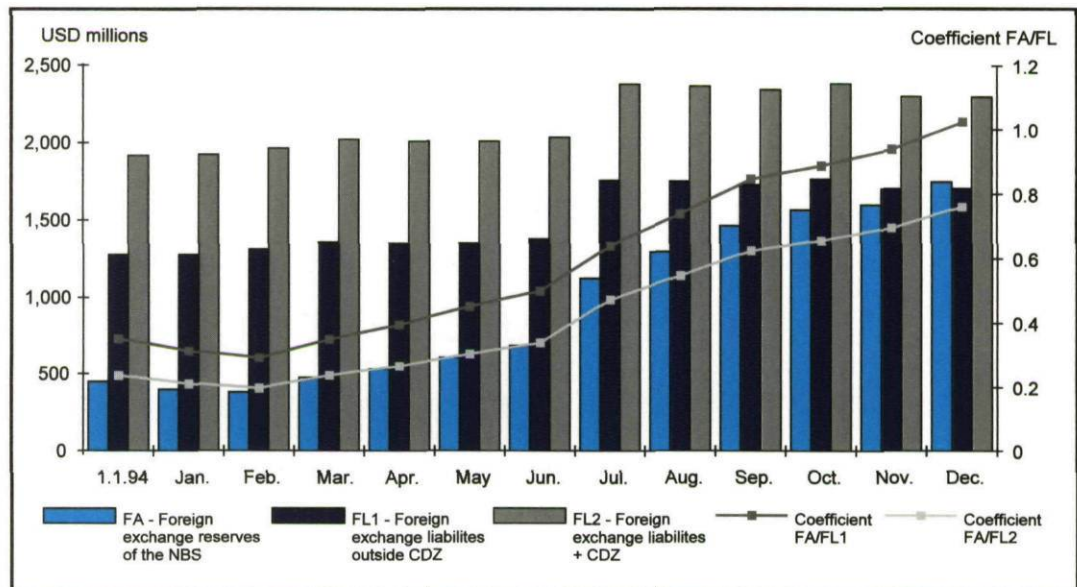
- the US\$ 830.4 million surplus of the balance of the NBS foreign exchange fixing (the income amounted to US\$ 867.9 million, representing 45% of the total revenue);
- payments made by the Czech Republic on account of having exceeded the credit limit in the clearing account in July, August, September, and December in the amount of US\$ 370.3 million (19% of the total revenue);

- the issue and placement of NBS bonds on the Samurai public bond market in the amount of US\$ 254.5 million;
- borrowings from international financial institutions in the amount of US\$ 245.6 million (IMF, World Bank, EXIM Bank of Japan, and the EIB);
- other NBS revenues, including interest receipts from deposit operations, investments, interest on securities and FIXBIS, etc. in the total amount of US\$ 35.1 million;
- earnings on assets, proceeds from the sale of assets, and the positive rectification of principals in the area of CDZ (Central Foreign Exchange Resources) in the amount of US\$ 20.9 million;

The development of foreign exchange reserves was negatively affected by the following factors:

- the debt service expenditures of the NBS in the amount of US\$ 249 million (38.7% of the total expenditure), including payments in the field of CDZ (US\$ 136.1 million), the repayment of government loans (US\$ 27.4 million), and the repayment of principal and interest on bonds issued by the former SBCS (State Bank of Czechoslovakia) in London (US\$ 68.7 million);
- payments for having exceeded the Credit limit in the clearing account with the Czech Republic in the period between December 1993 and January 1994 in the amount of US\$ 95 million (15% of the total expenditure);
- principal repayments loans issued by the International Monetary Fund (IMF) in the amount of US\$ 82 million;
- the payment of regular quarterly fees to the IMF in the amount of US\$ 30.7 million;
- other expenditures of the NBS, including interest on deposits received, debit interest, charges for transmission and communications, payment of NBS invoices, and other expenses in the total amount of US\$ 7.7 million.

**Development of NBS Foreign Exchange Reserves, Foreign Exchange Liabilities, and their Relative Coefficients**



A positive development in the growth of the central bank's exchange reserves was the fact that share of the foreign exchange fixing surplus in the total growth of the NBS foreign exchange reserves was greater than the share of new foreign currency funds obtained from abroad. The analysis of the development of relative coefficients in the foreign exchange position of the NBS, expressed as the ratio of the total foreign exchange assets to the total foreign exchange liabilities (FA/FL), even

after including the Government's foreign exchange liabilities from the CDZ (Central Forex Resources) in the total foreign exchange liabilities of the NBS, has confirmed a significant increase in the value of this coefficient from 0.35 at the beginning of the year to 0.76 at the end of 1994.

In compliance with the criteria for setting the optimum level of a central bank's foreign exchange reserves, the foreign exchange reserves of the NBS covered the volume of Slovakia's 2.6-month total imports of goods and services, which is close to the limit value of 3-month imports (the average monthly imports of goods and services into Slovakia amounted to US\$ 683.1 million in 1994). In comparison with the 1993 figure, the level of forex reserves significantly increased. At the end of 1993, the level of reserves was equivalent to the volume of 0.7-month imports of goods and services into Slovakia. In the area of fully convertible currencies, the level of reserves was proportional to the level of Slovakia's 3.7-month total imports of goods and services in convertible currency (in 1993, the value of this coefficient was 0.9).

The category of foreign exchange reserves held by commercial banks may be delimited as short-term foreign exchange assets vis-a-vis non-residents. At the beginning of 1994, the volume of these assets amounted to US\$ 952.7 million. Over the course of 1994, the level of foreign exchange reserves held by commercial banks rose by US\$ 395.3 million, reaching US\$ 1,348.0 million by end-December 1994. After taking into account the sale of foreign currency funds by commercial banks to the National Bank of Slovakia through foreign exchange fixing, the level of foreign exchange reserves held by commercial banks rose by 129% in the course of 1994.

When evaluating the development of the overall foreign exchange reserves of the banking sector, an increase of US\$ 1,690.8 million can be reported. At the beginning of 1994, the foreign exchange reserves of the banking sector amounted to US\$ 1,402.2 million; by the end of the year, they increased to US\$ 3,093.0 million. The value of the relative coefficient expressing the foreign exchange position of the whole banking sector increased from 0.62 at the beginning of the year, to 1.12 by the end of 1994.

### 1.3 Money Supply

On 31 December 1994, the money supply of the Slovak economy expressed by the monetary aggregate M2 reached Sk 300.3 billion, representing an increase of Sk 47.1 billion (18.6%) compared with the initial figure recorded at the beginning of 1994. The M1 aggregate grew by Sk 12.6 billion (10.8%), while quasi-money recorded a Sk 34.5 billion (25.2%) increase. At the end of the year, the share of these components in the volume of money supply represented 42.9%, and 57.1% respectively.

#### Development of the Money Supply

(Sk billions)

	1.1.1994	IQ/94	II.Q/94	III.Q/94	IV.Q/94
<b>Money Supply [M2]</b>	<b>253.2</b>	<b>241.3</b>	<b>253.0</b>	<b>266.1</b>	<b>300.3</b>
Currency [M1]	116.3	100.3	105.9	115.2	128.9
Currency in circulation outside banks [M0]	25.1	27.6	29.8	32.3	34.1
Demand deposits	91.2	72.7	76.1	82.9	94.8
Quasi-Money [QM]	136.9	141.0	147.1	150.9	171.4
Time deposits	108.4	109.6	113.0	115.3	133.0
Foreign currency deposits	28.5	31.4	34.1	35.6	38.4

The development of the individual components of the money supply differed over the course of the year. The monetary aggregate M1 rose above the initial level only in the 3rd quarter, and recorded the highest increase in December as a result of the interest accrued and posted to passbooks at the end of the year. Currency in circulation outside banks recorded regular month-to-month increases with the exception of March. During the 1st quarter of 1994, the level of demand deposits dropped, while in the following quarters, the volume of these deposits recorded month-to-month increases. A more rapid growth began after the 1st quarter, especially in the enterprise sector, where the volume of deposits grew by Sk 2.8 billion (4.8%). The high increase in demand deposits in December was due to the interest accrued and a part of interest on time deposits posted into current accounts. Demand deposits held by households experienced only a slight increase.

#### Development of the Money Supply

(Sk billion)

	Position					Quarterly changes				Yearly change 31.12.94- 1.1.94	Index 31.12./ 1.1.94
	1.1.	31.3.	30.6.	30.9.	31.12.	Q1	Q2	Q3	Q4		
<b>Money Supply [M2]</b>	<b>253.2</b>	<b>241.3</b>	<b>253.0</b>	<b>266.1</b>	<b>300.3</b>	<b>-11.9</b>	<b>11.7</b>	<b>13.1</b>	<b>34.2</b>	<b>47.1</b>	<b>118.6</b>
Monetary aggregate [M1]	116.3	100.3	105.9	115.2	128.9	-16.0	5.6	9.3	13.7	12.6	110.8
Currency in circulation <sup>1/</sup>	25.1	27.6	29.8	32.3	34.1	2.5	2.2	2.5	1.8	9.0	135.9
Demand deposits <sup>2/</sup>	91.2	72.7	76.1	82.9	94.8	-18.5	3.4	6.8	11.9	3.6	103.9
Households	31.3	30.1	30.0	30.0	31.5	-1.2	-0.1	0.0	1.5	0.2	100.6
Enterprises	58.9	41.2	45.3	51.7	61.7	-17.7	4.1	6.4	10.0	2.8	104.8
Insurance comp.	1.0	1.4	0.8	1.2	1.6	0.4	-0.6	0.4	0.4	0.6	160.0
Quasi-Money [QM]	136.9	141.0	147.1	150.9	171.4	4.1	6.1	3.8	20.5	34.5	125.2
Time deposits <sup>2/</sup>	108.4	109.6	113.0	115.3	133.0	1.2	3.4	2.3	17.7	24.6	122.7
Households	82.2	82.0	83.2	84.7	98.0	-0.2	1.2	1.5	13.3	15.8	119.2
Enterprises	11.8	12.6	14.8	16.0	20.2	0.8	2.2	1.2	4.2	8.4	171.2
Insurance comp.	14.4	15.0	15.0	14.6	14.8	0.6	0.0	-0.4	0.2	0.4	102.8
Foreign currency deposits <sup>3/</sup>	28.5	31.4	34.1	35.6	38.4	2.9	2.7	1.5	2.8	9.9	134.7
Households	24.1	27.0	29.2	30.6	32.3	2.9	2.2	1.4	1.7	8.2	134.0
Enterprises	4.4	4.4	4.9	5.0	6.1	0.0	0.5	0.1	1.1	1.7	138.6

1/ Excluding cash in bank tills

2/ Excluding extrabudgetary funds held by the government sector and the National Property Fund

3/ Include only deposits held by residents (converted at the current rate)

Quasi-money grew at a faster rate compared with the M1 monetary aggregate. In comparison with the figure recorded at the beginning of 1994, the volume of quasi-money increased by Sk 34.5 billion (25.2%). Its development was favourably influenced by both components. Time and savings deposits experienced month-to-month increases during the whole year, with the exception of March, and grew by Sk 24.6 billion (22.7%) since the beginning of the year. Considerable increases were reported especially in the area of household deposits, which recorded a total increase of Sk 15.8 billion (19.2%) at the end of the year. Time deposits in the corporate sector also experienced a favourable development, with a total increase of Sk 8.4 billion (71.2%). In the first few months of the year, the demand deposits of enterprises sustained a clear decline, while time deposits recorded an increase. This development was indicative of the existence of a rational approach to liquidity management in the enterprise sector, the transfer of temporarily desposable resources into time deposits bearing a higher rate of interest. Increases in time and

savings deposits held by households and enterprises, were recorded mainly in the field of short-term deposits. In the corporate sector, increases were recorded mainly in one to three-month deposits, and in deposits at nine to twelve months' notice.

Over the course of 1994, foreign currency deposits maintained a relatively high rate of growth, with an average month-to-month increase of Sk 0.8 billion. By the end of the year, the volume of these deposits increased by Sk 9.9 billion (34.7%) compared with the figure for the beginning of 1994. The increase in foreign currency deposits in the households sector (Sk 8.2 billion) played a significant role in this development. After a period of stagnation in the 1st quarter of 1994, the development of foreign currency deposits in the enterprise sector continued with some fluctuations, and their volume increased by Sk 1.7 billion, representing 38.6% in terms of relative figures.

Comparing the growth rates of money supply components, the most rapid increases were recorded in time deposits held by enterprises, followed by the demand deposits of insurance companies, currency in circulation, and foreign currency deposits held by households and enterprises. Demand deposits in Sk experienced only a slight increase; they remained below their initial level during the whole year, and exceeded it only in December 1994.

At the end of December 1994, the enterprise sector (including insurance companies) had a 38.2% share in the M2 aggregate; thus the household sector maintained its dominant position by achieving a 61.8% share by the end of the year.

The indicator of household savings, calculated as the ratio of deposited purchasing power (including the increase in cash and Slovak-crown savings deposits) to the total money income of households, increased from 3.3% in the previous year to 7.2%. The amount of interest accrued and posted to passbooks, which considerably changed the development of money incomes at the end of the year (with regard to the annual interest on deposits), was reflected in the growth of the savings ratio in the last quarter of the year.

Without posting the interest accrued to passbooks on a quarterly basis, the level of this indicator did not change and the annual savings ratio remained at the level of 4.0%.

A comprehensive view of the development of M2 shows the development of assets (domestic as well as foreign) in the banking sector.

In the 1st quarter of 1994, the M2 monetary aggregate suffered a sharp decline, and reached a low in March (Sk 241.3 billion). This development was due to the monetary policy measures taken by the NBS (credit limits, restricted refinancing), which were designed to eliminate the development of lending to the Government at the end of the previous year, supported by a negative trend in the development of net foreign assets in January and February, causing a decline in the money supply. Which was also supported by the growth of other net items, associated with the creation of reserves, reserve funds, adjustments, etc. and by the increase in profits, decrease in losses, and the increases in other liability accounts. The decline in the M2 aggregate was coupled with the considerable growth of interest rates on the interbank market, which peaked in April.



In the following months, the development of the money supply showed a tendency to increase, and the M2 aggregate exceeded its initial level in July. The factors that most stimulated the growth of M2 were the net foreign assets and foreign currency loans. The growth of foreign assets amounted to Sk 50.2 billion, and was due primarily to the favourable balance of clearing with the Czech Republic, the increase in foreign exchange assets held by commercial banks, the current surplus of the balance of foreign exchange fixing, and foreign loans to the Government. The growth of the money supply was held back by the increase in other net items, which was considerably reduced in December by the posting of interest accrued to passbooks and the resulting decreases in the temporary liability accounts. The same effect was exerted by the December cut in the volume of net credit extended to the National Property Fund, caused by the repayment of a part of its obligations.

#### 1.4 Development of Deposits and Loans

At the end of December, the total volume of Slovak-crown and foreign-currency deposits held by non-bank entities in the banking sector including the NBS reached Sk 283.5 billion, representing an increase of Sk 44.8 billion compared with initial figure. In 1994, the increase in deposits exceeded the 1993 figure by Sk 8.4 billion. The development of deposits in 1994 was marked by a Sk 12.1 billion drop in the 1st quarter, and a Sk 37.1 billion increase in the 4th quarter of the year.

The share of Slovak-crown deposits in the total volume of deposits reached 85.9%, while that of foreign-currency deposits amounted to 14.1%. The growth rate of crown deposits exceeded the 1993 figure by 5.9 percentage points, while that of foreign currency deposits fell by 83 points.

The increase in the total volume of deposits was affected by the sum of interest accrued and posted to passbooks (Sk 17.8 billion) at the end of the year, and the growth in the money incomes of enterprises and households.

The annual increase in crown deposits was shared by Slovak banks with foreign capital participation (Sk 15.0 billion), Slovak banks (Sk 13.6 billion), and branches of foreign banks (Sk 5.9 billion).

##### Composition of Deposits by Customer (Sk billions)

	1993			1994			Index 94/93
	1 Jan.	31 Dec.	Difference	1 Jan.	31 Dec.	Difference	
Slovak-crown and foreign currency deposits <sup>1/</sup>	202.4	238.7	36.3	238.7	283.5	44.8	118.9
Slovak-crown deposits	188.6	208.9	20.3	208.9	243.5	34.5	116.6
Corporate customers	89.2	95.5	6.3	95.5	114.0	18.4	119.2
Private customers	99.4	113.4	14.0	113.4	129.5	16.1	114.2
Foreign-currency deposits	13.8	29.8	16.0	29.8	40.0	10.2	134.2
Corporate customers	2.8	5.0	2.2	5.0	7.0	2.0	140.0
Private customers	11.0	24.8	13.8	24.8	33.0	8.2	133.1

1/ Held by residents and non-residents

Household deposits had a dominant share in the annual growth of overall deposits; the former increased by Sk 24.3 billion (17.6%), of which crown deposits represented Sk 16.1 billion of the total increase. The growth rate of household

deposits in foreign currency exceeded that of Slovak-crown deposits held by households by 18.9 points. In comparison with the 1993 figure, the volume of foreign currency purchased in commercial banks for travel and redeposited into foreign currency bank accounts dropped by more than one-third, mainly as a result of the low interest on foreign currency deposits compared with that earned on crown deposits.

The overall development of crown deposits during the year was influenced by the unbalanced development of deposits held by enterprises and organizations, with month-to-month changes ranging from a decrease of Sk 5.6 billion to an increase of Sk 11.3 billion. Increases were recorded in deposits held by private enterprises (including cooperatives) (Sk 11.0 billion), the extrabudgetary deposits of central and local authorities (Sk 6.4 billion), and deposits held by organizations not incorporated into sectors and those under foreign control (Sk 3.7 billion). Crown deposits in the public enterprise sector dropped by Sk 2.6 billion.

#### Time Structure of Deposits

(Sk billions)

	1993			1994		
	1 Jan.	31 Dec.	Difference	1 Jan.	31 Dec.	Difference
Crown (Sk) and foreign currency deposits <sup>1/</sup>	202.4	238.7	36.3	238.7	283.5	44.8
Demand deposits	102.1	112.7	10.6	112.7	119.9	7.2
Time deposits	100.3	126.0	25.7	126.0	163.6	37.6
Slovak-crown deposits	188.6	208.9	20.3	208.9	243.5	34.6
Demand deposits	69.3	69.3	0	69.3	76.0	6.7
Time deposits	26.2	33.8	7.6	33.8	49.2	15.4
Savings deposits	93.1	105.8	12.7	105.8	117.7	11.9
Guarantee deposits	0	0	0	0	0.6	0.7
Foreign-currency deposits	13.8	29.8	16.0	29.8	40.0	10.2
Demand deposits	7.3	13.2	5.9	13.2	15.6	2.4
Time deposits	6.5	16.6	10.1	16.6	24.4	7.8

<sup>1/</sup> Held by residents and non-residents

The growth of demand deposits in 1994 was influenced mainly by the fluctuating development of deposits held by enterprises and organizations in current accounts, while their total increase since the beginning of the year (Sk 9.4 billion) was affected by the Sk 10.5 billion month-to-month increase in December. The share of demand deposits held by enterprises and organizations in the total volume of demand deposits amounted to 55%.

The volume of time deposits in crowns, including savings and collateral time deposits, recorded a considerable growth throughout the year and reached Sk 139.1 billion by the end of December, exceeding the figure recorded at the beginning of 1994 by Sk 29.7 billion. The share of these deposits in the total volume of crown deposits increased from 52.4% in January to 57.2% in December. The highest increase in deposits was recorded in the category of short-term time deposits at one year's notice, because of their ease with which they are converted into cash and the corresponding high rate of interest earned (14% on average). The share of time deposits held by households in the total volume of time deposits totalled 76% at the end of the year.

The time structure of crown deposits was rather unfavourable with regard to the demand for medium- and long-term loans. Short-term deposits had a dominant share (73.6%), while medium-term deposits represented 22.9%, and long-term deposits only 3.5% of the volume of crown deposits. This limited the possibilities of providing medium- and long-term loans.

The growth of foreign currency deposits exceeded that of crown deposits by 17.6 percentage points (index 134.2%), increasing from 75.5% in short-term foreign currency deposits.

At the end of 1994, the total volume of bank lending in Slovak crowns and foreign currencies (to residents and non-residents) reached a level of Sk 272.9 billion, representing an increase of Sk 4.0 billion compared with the initial level. Slovak-crown credit dropped by Sk 3.2 billion, while foreign-currency credit increased by Sk 7.2 billion in the course of the year.

**Composition of Domestic Credit (Sk billions)**

	1993			1994			Index
	1 Jan.	31 Dec.	Differ.	1 Jan.	31 Dec.	Differ.	94/93
Lending in Sk and foreign currency <sup>1/</sup>	239.7	268.9	29.2	268.9	272.9	4.0	101.5
Slovak-crown credit	236.0	260.8	24.8	260.8	257.6	-3.2	98.8
Corporate customers	216.2	242.2	26.0	242.2	241.1	-1.1	99.5
Private customers	19.8	18.6	-1.2	18.6	16.5	-2.1	88.7
Foreign-currency credit <sup>2/</sup>	3.7	8.1	4.4	8.1	15.3	7.2	188.9

1/ Held by residents and non-residents

2/ Almost the total amount was extended to legal entities

The most serious decline in Slovak-crown credit (Sk 7.0 billion) was recorded in the 1st quarter of the year. In the following two months, the development of crown lending stabilized; however, new decreases were reported again in June and July in the total amount of Sk 3.1 billion. In the following months, the volume of Slovak-crown credit increased again. The total decline in Slovak-crown credit (Sk 3.2 billion) in 1994 reflected Slovakia's economic conditions, and especially the tight credit policy applied by banks to commercial lending.

The decline in Slovak-crown lending in 1994 was mainly reflected in public-sector loans (Sk 7.9 billion), and loans to households (Sk 2.1 billion). Credit extended to the private enterprise sector increased by Sk 5.3 billion. In other sectors of the economy, no significant changes were reported over the course of 1994.

With regard to the sectoral classification, the highest increase in Slovak-crown lending (Sk 4.1 billion) in the course of the year was recorded in trade, sales, public catering, accommodation, agriculture, hunting and fishery (Sk 1.3 billion) at the end of December 1994. Bank credit to the processing industry dropped by Sk 1.7 billion, of which loans for metallurgy and machine engineering fell by Sk 2.8 billion. Credits extended to other sectors of the economy recorded only negligible changes at end-December compared with the figure for the beginning of the year.

The time structure of Slovak-crown lending developed in favour of short-term loans, which increased by 2.4% since the beginning of the year, reaching Sk 95.9 billion at end-December. The share of medium-term loans dropped by 2.3%, and that of long-term loans by 0.1%.

The development in the composition of Slovak-crown credit by purpose was marked by a considerable decrease in investment loans (Sk 19.9 billion) at end-December, and loans for current assets (Sk 4.4 billion). Current account and debit balances dropped by Sk 2.0 billion, and lending for covering the temporary lack of resources by Sk 1.4 billion.

The slowdown in the process of privatization, the repayment of outstanding loans, and the negligible volume of new loans made for the support of privatization resulted in the Sk 3.4 billion decrease in overall Slovak-crown lending at the end of December 1994.

The time structure of Slovak-crown lending did not undergo any significant changes over the course of the year; short-term loans continued to have a dominant share (82.2%), compared with those of medium-term (10.3%) and long-term loans (7.5%).

Foreign-currency lending recorded a balanced growth during the year, with the exception of May, June, and September, when stagnation was reported. On 31 December 1994, the volume of foreign-currency loans totalled Sk 15.3 billion, representing an increase of Sk 7.2 billion compared with the figure recorded at the beginning of the year. Within the time structure, short-term loans accounted for 52.0%, long-term loans made up 36.0%, and the rest was represented by medium-term loans.

Since the beginning of the year, the volume of non-performing loans (including foreign currency, excluding the government sector) increased by Sk 30.1 billion. The most significant growth was recorded in the 1st quarter (Sk 10.6 billion), but appreciable increases were reported in the following quarters as well.

**Non-Performing Loans and Funds for their Coverage** (Sk billion)

	Non-performing (loss-making) loans	Total credit to customers	Capital	Valuation reserves (adjustments)	Total reserves <sup>2/</sup>	Total MZK <sup>1/</sup>	Non-performing loans as a % of total credit to customers
<b>12/93</b>	7.27	264.17	13.22	2.40	34.62	50.24	2.75
<b>January</b>	10.81	259.62	13.37	2.42	33.78	49.57	4.16
<b>February</b>	18.66	261.21	13.47	2.46	34.10	50.03	7.14
<b>March</b>	17.87	259.26	14.10	2.78	37.68	54.56	6.89
<b>April</b>	19.52	260.48	14.04	3.46	36.67	54.18	7.49
<b>May</b>	21.22	260.02	14.04	3.57	36.78	54.39	8.16
<b>June</b>	24.14	257.99	14.05	3.67	37.38	55.11	9.36
<b>July</b>	25.02	259.47	14.05	3.69	37.60	55.34	9.64
<b>August</b>	26.00	261.04	13.98	3.59	38.05	55.62	9.96
<b>September</b>	29.68	261.22	14.61	5.09	38.23	57.93	11.36
<b>October</b>	33.75	263.82	14.57	6.16	37.81	58.54	12.79
<b>November</b>	35.89	266.84	14.82	7.18	37.90	59.89	13.45
<b>December</b>	37.33	268.42	17.05	8.43	41.85	67.33	13.91

1/ MZK = Possible Sources of Coverage = Reserves + reserve funds + adjustments + capital + profit from last year + undistributed profits from previous years.

2/ Total reserves = reserves + reserve funds + profit from last year + undivided profits from previous years.

Notes:

Data on two banks, which started operating during 1994 and have no classified claims, are not included in the table.

Data from the balance sheets of commercial banks.

Including foreign currency, without the government sector.

## 1.5 Interest Rate Development

The development of average interest rates on the total volume of Slovak-crown deposits was rather unbalanced over the course of the year. In the 1st quarter, the average deposit rates increased from 8.67% to 9.55% by June, and dropped to 9.23% by end-December 1994.

The average interest rates on Slovak-crown deposits were mainly influenced by the rates of interest on time deposits, the share of which increased from 52.4% at the beginning of the year to 59.5%, while deposit rates ranged between 13.89% and 14.42%. Compared with the figure for the beginning of the year, deposit rates dropped to 13.89%. With regard to structure of time deposits, the most significant drop was recorded in long-term deposits (2.03 percentage points, i.e. from 16.51% on 1 January 1994 to 14.48% by 31 December 1994). The average interest rates on short-term and medium-term deposits recorded only insignificant decreases.

The average nominal interest rate on Slovak-crown deposits at one year's notice reached approximately 15%, which represented a favourable real interest accrued on these deposits (before tax) with regard to the average annual rate of inflation (13.4%).

The development of average interest rates on the total volume of Slovak-crown deposits ranged from 14.30% on 1 January 1994 to 14.77% in June, and decreased to 14.39% in December.

Over the course of the year, the average interest rates on short-term and medium-term loans increased from 16.11% to 17.88%. The level of lending rates for long-term loans ranged from 11.06% at the beginning of the year to 11.30% in December.

#### Development of Average Lending Rates

	Volume of credit			Credit drawn		
	1 Jan.	30 June	31 Dec.	1 Jan.	30 June	31 Dec.
Average interest rates						
Up to 3% <sup>1/</sup>					1.04	1.00
Above 3% <sup>2/</sup>					20.97	19.55
Average interest rates - total	14.13	14.77	14.39		20.23	19.09
Public sector	14.96	15.70	15.18		21.33	19.82
Private sector	14.20	15.03	14.83		19.07	19.20
Households	5.52	5.01	4.29		14.77	18.35
Short-term	16.29	17.27	16.51		21.03	19.37
Medium-term	16.62	17.77	17.63		20.14	19.18
Long-term	11.06	11.55	11.30		12.03 <sup>3/</sup>	16.11

1/ Long-term loans of a so-called social nature extended in the previous years to the private sector, and for housing development projects, or the construction of nuclear power plants, etc.

2/ Implicit interest rates depending on changes in the discount rate, or the base rate + deviation.

3/ The average interest rate was affected by the drawing of credit for housing development at a 1% interest rate.

The average interest rates on loans extended (statistically monitored since May 1994) slightly decreased during the period under consideration, partly under the influence of structural changes in the allocation of new loans to individual customers, and partly as a result of developments on the interbank market. The average interest rates on these loans dropped from 19.41% in May to 19.09% in December. In the household sector, lending rates dropped by 0.84 percentage points, and in the private sector, by 0.85 points. The average interest rates on public sector loans increased by 0.50 points (from 19.32% in May to 19.82% in December 1994).

The interest margin of commercial banks, expressed as the difference between the average nominal interest rate on the total volume of Slovak-crown credit and the total volume of credit at the end of 1994, was 5.16 percentage points. The credit margin dropped by 0.61 points compared with the figure recorded at the beginning of 1994.

## 1.6 Budget Performance and the Internal Debt of the Government

The 1994 state budget design was based on the following macroeconomic assumptions:

- a zero economic growth (GDP in constant 1993 prices);
- a 12% rate of inflation;
- a maximum unemployment rate of 17%.

The budget performance in 1994 was influenced by the balance of clearing with the Czech Republic, in which the SR became a creditor after having been a debtor. The total balance (Sk 14.0 billion) consists of two parts:

- a deficit of Sk 5.8 billion repaid on 1 January 1994,
- a favourable balance of Sk 8.2 billion on 31 December 1994.

A significant change compared with 1993 was the separation of the National Insurance Fund from the State budget, which reduced both the revenue and the expenditure sides of the budget by almost one third.

Over the course of the year, these were periods of relative stability combined with those marked by a growing State budget deficit. The most serious downturns were recorded in June (from Sk 2.3 billion to Sk 10.5 billion) and in December (from Sk 16.7 billion to Sk 22.8 billion).

State Budget Revenues and Expenditures

(Sk millions)

	Cumulative revenues	Month-to-month increase	Cumulative expenditures	Month-to-month increase	Difference
January	7,127	7,127	11,822	11,822	-4,695
February	16,695	9,568	23,436	11,614	-6,741
March	32,527	15,832	38,482	15,046	-5,955
April	48,367	15,840	52,226	13,744	-3,859
May	58,813	10,446	61,104	8,878	-2,291
June	67,771	8,958	78,283	17,179	-10,512
July	81,335	13,564	91,956	13,673	-10,621
August	90,714	9,379	105,689	13,733	-14,975
September	101,171	10,457	118,363	12,674	-17,192
October	113,034	11,864	128,870	10,507	-15,835
November	124,047	11,012	140,731	11,861	-16,684
December	139,148	15,101	162,002	21,271	-22,854

The total 1994 budget revenue was exceeded by Sk 4.5 billion, mainly in the field of income tax revenues (Sk 3.9 billion). On the contrary, value-added tax revenues recorded a shortfall of Sk 3.6 billion. Excise tax revenues reached roughly their budgeted level. The revenue side of the budget was favourably affected by the surcharge on import (Sk 2.2 billion) and the tax revenues from the former system of taxation (Sk 2.1 billion). On the other hand, the total budget expenditures were also exceeded (including clearing) by Sk 12.7 billion. After excluding the impact of clearing, a saving of Sk 1.3 billion was recorded, mainly in the field of investment subsidies granted to the enterprise sector and non-investment expenditures of budgetary organizations.

The overall state budget deficit of the Slovak Republic, excluding the favourable balance of clearing with the Czech Republic, reached Sk 14.6 billion in 1994.

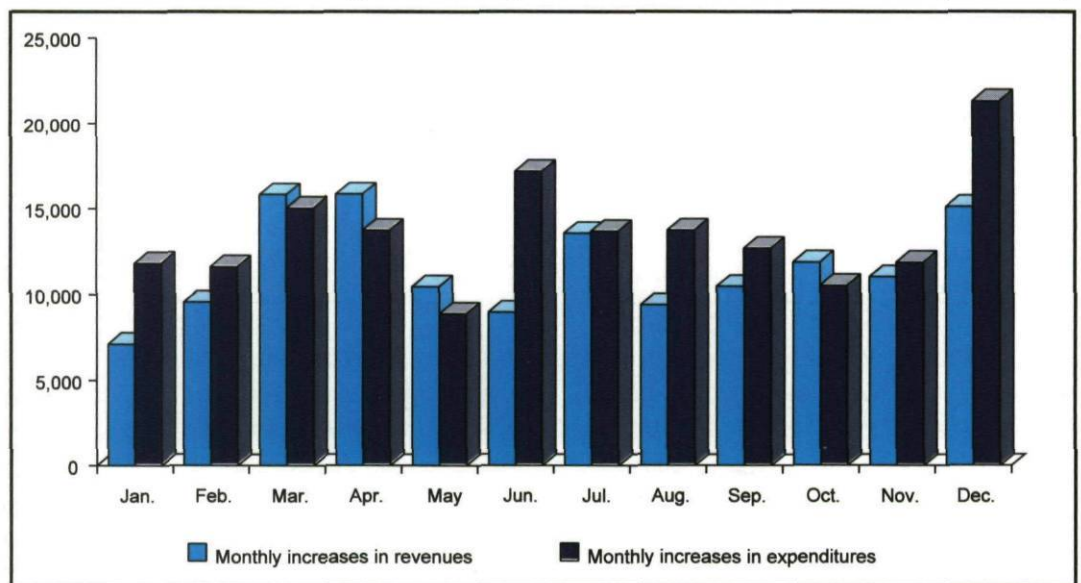
The partial budget deficits in the first half of 1994 ranged between Sk 0.3 billion and Sk 14.2 billion. In the second half of the year, the deficit recorded a considerable increase, which culminated in December, when the shortfall reached a level of Sk 16.5 to 24.1 billion.

With regard to overall development in 1994, we may state that, in the second half of the year, the state budget deficit of the SR was partially covered by an issue and subsequent sale of State Treasury bills. The so-called technical 5-day debit for elimination the unfavourable situation in financing the state budget deficit within a time limit, was exceeded 7 times.

**Fulfilment of the State Budget of the SR in Treasury (Sk million)**

	Current state budget performance		State Treasury bills (TB)		Overall state budget position including TBs	
	1993	1994	1993	1994	1993	1994
January	-1,688	-4,695	574	4,738	-1,114	43
February	-1,515	-6,742	6,878	5,999	5,363	-743
March	-11,031	-5,955	8,695	3,067	-2,337	-2,888
April	-11,025	-3,859	7,588	3,435	-3,438	-424
May	-11,844	-2,291	8,829	7,278	-3,015	4,987
June	-14,823	-10,512	8,900	8,241	-5,923	-2,271
July	-14,099	-10,621	9,024	14,557	-5,075	3,936
August	-14,380	-14,975	8,917	17,660	-5,463	2,685
September	-15,899	-17,192	8,537	18,615	-7,362	1,423
October	-16,802	-15,835	9,489	18,000	-7,313	2,165
November	-16,074	-16,684	8,224	17,884	-7,850	1,200
December	-23,011	-22,854	7,891	22,892	-15,120	38

**Performance of the State Budget in Treasury (Sk million)**

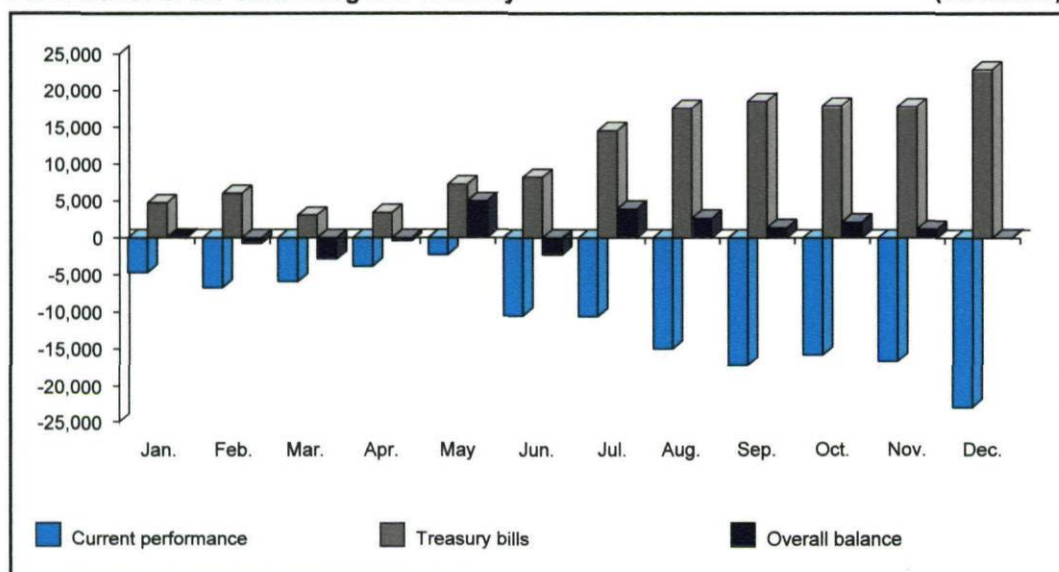


Compared with the figure for 1 January 1994 (Sk 5.2 billion), the volume of state financial assets held in the form of deposits with the NBS increased by Sk 2.3 billion, reaching Sk 7.5 billion at end-December 1994. This development was mainly a result of the drawing of an Economic Recovery Loan from the World Bank in the equivalent of Sk 2.4 billion for the strengthening of the country's balance of payments. State financial liabilities (i.e. other direct liabilities of the Government vis-a-vis the NBS

inherited from the former federation) did not undergo any changes by the end of 1994 (Sk 21.7 billion).

At the end of 1994, the volume of financial assets in the accounts of government funds totalled Sk 1.5 billion, representing an increase of Sk 0.7 billion compared with the figure for 1 January 1994. This growth can be attributed to the establishment of new state funds in the course of the year. After taking into account the loans extended by banks, the financial resources of state funds amounted to Sk 0.6 billion at end-December 1994. The highest balance surplus (Sk 0.8 billion) was recorded in the account held by the State Fund for the Support of Agriculture and Food Industry, of which Sk 0.5 billion represented a part of the income from the privatization of state enterprises that fell within the jurisdiction of the Ministry of Agriculture of the SR.

**Performance of the State Budget in Treasury (Sk million)**



At end-December 1994, the net position of the public sector vis-a-vis the banking system reached a level of Sk 72.1 billion, representing an increase of Sk 18.8 billion compared with the initial figure. The level of indebtedness reflected the growth in budget deficit over the course of the year, which was fully covered by an issue of Treasury bills by the end of the year. The structure of indebtedness consisted of debts from the previous years (Sk 24.7 billion), state financial liabilities (Sk 21.7 billion), and government bonds (Sk 15.1 billion). On the other hand, the position of the Government was favourably affected by state financial assets, deposits of local authorities, government funds, the National Insurance Fund, and other state-owned deposits in the total amount of Sk 16.5 billion. Over the course of the year, government bonds were issued to cover the 1993 budget deficit (Sk 8.0 billion). In this way, the direct credit extended by the National Bank of Slovakia was reduced, and the debt servicing burden was partly transferred to commercial banks. By the end of the year, the National Bank of Slovakia credited Sk 37.9 billion to cover the national debt, the remaining Sk 34.2 billion was provided by commercial banks.

## 1.7 Balance of Payments

The development of the Slovak Republic's external trade relations in 1994 in the current account of the balance of payments was marked by increased foreign trade



activity, which was reflected in the more rapid growth of exports compared with that of imports, and the growth of income from active tourism. In the capital account, the inflow of long-term foreign funds into the economy that began in July continued, and largely compensated for the payment of foreign loans, the increase in short-term assets held by commercial banks, and the clearing account balance. In the final analysis, this development caused an equilibrium in the balance between the revenue and expenditure items of the capital account.

The favourable balance of payments on current account (Sk 22.8 billion) was a result of business transactions, transactions in services, and unrequited private transfers.

The Sk 3.4 billion trade balance surplus was, according to data from the Slovak Statistical Office, a result of the 28.5% growth in exports compared with the previous year's figure. This extraordinary achievement, incomparable with those of the previous years, was due to the increase in the volume of exports to countries of the European Union and the European Free Trade Association (EFTA) and reflected the continuing revival of major European economies. The results of foreign trade with the CR (a 12.5% growth in exports, and 10.5% decrease in imports) were significantly affected by protectionist (a surcharge on imports, trade certificates), monetary, and financial measures adopted by the Slovak Republic.

The favourable balance of services, which reached Sk 21 billion in 1994, represented a stable factor affecting the growth of current account surplus. Compared with the previous years, income from foreign tourism increased by almost 50%, reaching Sk 18.2 billion (i.e. US\$ 568 million), while it accounted for 6.3% of the exports of goods and services. Foreign visitors to Slovakia spent an average of US\$ 26 per capita per day. The majority of foreign visitors came from Germany, Poland, Hungary, and the Czech Republic. Slovak citizens showed less interest in drawing from the foreign currency limit earmarked for personal travel than in 1993. Foreign currency was drawn by approximately 14% of the population in that period. The average volume of foreign currency sold in 1995 (US\$ 200) remained below the 1994 level. The total volume of foreign currency spent on individual and package tours, and business trips reached Sk 9 billion.

The income balance ended with a deficit of Sk 3.8 billion owing to the payment of interest accrued on foreign currency borrowings. The income side of the balance was negatively affected by the lower earnings of workers abroad, which fell by almost 50% compared with the 1993 level.

The capital and financial account generated a moderate surplus of Sk 3.4 billion.

Over the course of 1994, the influx of capital from abroad was inclined to growth, reaching Sk 56.4 billion at the end of the year.

The revenue side of the capital and financial account was dominated by net foreign investments (Sk 14.1 billion), which were allocated mainly as portfolio investments. One of the most important items of these portfolio investments was the issue and placement of NBS bonds on the Japanese capital market Samurai in July 1994 in the amount of US\$ 254.5 million, i.e. Sk 8.0 billion. In November, the first repayment of principal on bonds issued by the State Bank of Czecho-Slovakia in 1991 was effected in the amount of US\$ 63 million, i.e. Sk 2.0 billion.

**Balance of Payments of the Slovak Republic in 1994**

	Convertible currency		Non-convertible currency		Czech Republic		Consolidated balance of payments	
	Sk millions	USD millions	Sk millions	USD millions	Sk millions	USD millions	Sk millions	USD millions
<b>Trade balance</b>	-14,139	-441	140	4	17,369,	542	3,370	105
Exports (f.o.b)	135,269	4,222	241	8,	80,012,	2,497	215,522	6,727
Imports (f.o.b)	149,408	4,663	101	3,	62,643,	1,955	212,152	6,622
<b>Services balance</b>	12,245	382	-8	0	8,814	275	21,051	657
<b>Revenues</b>	46,789	1,460	77	2	25,418	793	72,284	2,256
Transportation	13,216	412	0	0	4,031	126	17,247	538
Travel	13,779	430	40	1	4,383	137	18,202	568
Other services	19,794	618	37	1	17,004	531	36,835	1,150
<b>Expenditures</b>	34,544	1,078	85	3	16,604	518	51,233	1,599
Transportation	3,933	123	0	0	1,227	38	5,160	161
Travel	7,365	230	49	2	1,671	52	9,085	284
Other services	23,246	726	36	1	13,706	428	36,988	1,154
<b>Income balance</b>	-3,412	-106	1	0	-415	-13	-3,826	-119
<b>Interest income</b>	-4,670	-146	1	0	-327	-10	-4,996	-156
Income	2,355	74	1	0	201	6	2,557	80
Payments	7,025	219	0	0	528	16	7,553	236
<b>Investment</b>	-38	-1	0	0	-165	-5	-203	-6
Income	780	24	0	0	77	2	857	27
Payments	818	26	0	0	242	8	1,060	33
<b>Employee Compensation</b>	1,296	40	0	0	77	2	1,373	43
Income	1,468	46	0	0	93	3	1,561	49
Payments	172	5	0	0	16	0	188	6
<b>Current transfers</b>	2,155	67	4	0	58	2	2,217	69
Official	201	6	0	0	0	0	201	6
Private	1,954	61	4	0	58	2	2,016	63
<b>Current account</b>	-3,151	-98	137	4	25,826	806	22,812	712
<b>Capital transfers</b>	0	0	0	0	2,788	87	2,788	87
<b>Net medium and long-term financial account</b>	30,416	965	78	2	-285	-9	30,209	959
<b>Direct investments</b>	5,731	179	0	0	-301	-9	5,430	169
<b>Portfolio investment</b>	8,429	263	0	0	275	9	8,704	272
<b>Loans from abroad</b>	10,545	345	2	0	-300	-9	10,247	336
Disbursements	25,379	825	2	0	334	10	25,715	835
Repayments	-14,834	-480	0	0	-634	-20	-15,468	-499
<b>Lending abroad</b>	5,711	178	76	2	41	1	5,828	182
Disbursements	-616	-19	-1	0	-55	-2	-672	-21
Repayments	6,327	197	77	2	96	3	6,500	203
<b>Net short-term financial account</b>	-12,886	-461	10	0	-3,477	-109	-16,353	-569
<b>Clearing balance (-, surplus)</b>					-21,649	-623	-21,649	-623
<b>Payment for exceeding the credit limit</b>					8,408	275	8,408	275
<b>Capital and financial account</b>	17,530	505	88	3	-14,215	-378	3,404	129
<b>Errors and omissions</b>	20,039	608	-225	-7	-3,203	-153	16,611	449
<b>Overall balance</b>	34,419	1,015	0	0	8,408	275	42,827	1,290
<b>Changes in reserves (-, growth)</b>	-34,419	-1,015	0	0	-8,408	-275	-42,827	-1,290
Gold holdings	105	0					105	0
Holdings of SDRs	-2,561	-82					-2,561	-82
Foreign exchange assets	-28,614	-933			-8,408	-275	-37,023	-1,208
Valuation changes	-3,348						-3,348	

Note: Exchange rate applied: USD = 32 091 Sk

Net foreign direct investments amounted to Sk 5.4 billion, a sum roughly corresponding to the 1993 level; growth was most pronounced during the last quarter. The territorial distribution of these funds remained unfavourable, as the majority of investments were directed to the region of Bratislava.

The volume of official loans amounted to Sk 8.0 billion. Loans from the IMF (Sk 4.4 billion) and the World Bank (Sk 2.5 billion) were earmarked for the strengthening of the balance of payments. In addition to these funds, the official loans included those from the EXIM Bank of Japan, the European Investment Bank, and the Slovak-American Enterprise Fund in the total amount of Sk 1.1 billion, which are NBS liabilities, but are earmarked for the financing of projects within the entrepreneurial sector.

The banking and enterprise sectors of the national economy received Sk 17.7 billion of the volume of long-term loans from abroad; 67% of this amount went to the enterprise sector. These loans came mostly from Austria and France, and were used for capital investment and the purchase of technological equipment. The loans included those extended by international institutions for the funding of projects in the amount of Sk 3.5 billion, or by various enterprises for financing concrete corporate projects.

The repayment of government receivables from the Russian Federation contributed Sk 5.1 billion to the increase in the revenue side of the capital account.

The dealings with the CR reflected the repayment of debts owed by the Ministry of Finance of the SR to CSOB Praha, which were not settled through clearing. The amount in question (Sk 2.8 billion) was provided to CSOB Bratislava for the creation of its own funds, and was reflected in the income side of the "capital transfers" item as well.

In trade with the CR, collections were growing at a faster rate than payments for goods and services. As a result of this development, the credit limit in the clearing account was exceeded several times by the CR in the course of 1994, and the debts incurred had to be settled in convertible currency. After making transfers for January and February in the amounts of US\$ 43.5 million and US\$ 51.5 million, the Slovak side collected foreign currency in the amount of US\$ 371 million in the period between July and December.

In 1994, the outflow of capital from the country reached a level of Sk 53 billion.

The clearing account balance, representing an increase of Sk 21.6 billion in liabilities towards the CR, became a decisive item on the expenditure side of the capital account.

Another factor supporting the outflow of capital was the repayment of loans received in the amount of Sk 18.8 billion. The specified sum included the following items:

- payments of CDZ (Central Forex Resources) and IMF in the amount of Sk 5.7 billion;
- payments of long-term credits to commercial banks and enterprises in the amount of Sk 9.7 billion; repayments by enterprises represented 70% of this amount;
- payments of short-term loans by Slovak enterprises to foreign creditors in the amount of Sk 3.4 billion;

Repayments for long-term and medium-term resources of the national economy, together with the payment of interest accrued on these funds, amounted to Sk 24 billion, i.e. 8.4% of the volume of annual exports of goods and services.

The growth in deposits held by Slovak commercial banks with foreign financial institutions in the amount of to Sk 11.3 billion is one of the factors that influenced the outflow of capital from the country.

The overall balance of payments for 1994 reached a level of Sk 42.8 billion, i.e. US\$1.3 billion.

## 1.8 Debt Service by the NBS and Slovak Government

As of 1 January 1994, the gross official foreign currency debt, i.e the gross indebtedness of the Slovak Government and the NBS, amounted to US\$ 1.982 billion, and after including the debts of the banking sector and entrepreneurial entities, totalled US\$ 3.682 billion.

At end-December 1994, the total gross foreign currency debt of the Slovak Republic amounted to US\$ 4.285 billion. By 31 December 1994, the official debt of the Slovak Government and the NBS reached a level of US\$ 2.275 billion. At end-December 1994, Slovakia's foreign debt in convertible currencies totalled US\$ 4.144 billion. The US\$ 141 million difference represents the estimated debt in non-convertible currencies owed to the former German Democratic Republic.

The high increase in the official debt was mainly a result of the issue and placement of NBS bonds on the Japanese capital market Samurai in the amount of JPY 25 billion, the drawing of the second tranche of the Systemic Transformation Facility loan from the IMF in the amount of SDR 64.35 million, the drawing of an Economic Recovery Loan from the World Bank in the amount of US\$ 80 million, and two tranches of a Stand-by loan from the IMF in the total amount of US\$ 46.9 million.

### Development of Foreign Debt

Date	Official debt of the Government and the NBS (US\$ billions)	Total gross debt of Slovakia (US\$ billions)	Net gross foreign debt per capita in SR (US\$)
31 Dec. 1993	1.982	3.682*/	695
30 June 1994	2.020	3.614	682
31 Dec. 1994	2.275	4.285	808

\*/ Initial level; the differences between these figures and the originally published debt statistics were caused by the additional verification of the statistical data reported by the entrepreneurial sector.

The absolute increase in the total gross foreign currency debt included the growth of export obligations of entrepreneurial entities, as well as the increase in foreign exchange liabilities of commercial banks.

In October 1994, an exceptional increase was recorded in the foreign exchange liabilities of commercial banks. In comparison with September's level, the increase in the gross debt of the SR amounted to US\$ 81.7 million; of this amount, the highest increase was recorded in short-term debts owed by commercial banks.

	<b>Debt service - total (in US\$)</b>	<b>Of which: principal (in US\$)</b>	<b>Of which: interest (in US\$)</b>
<b>January</b>	7,250,607.38	8,165,693.37	-915,085.99
<b>February</b>	-356,405.57	171,432.79	-527,838.36
<b>March</b>	-13,992,769.65	-1,787,984.48	-12,204,785.17
<b>April</b>	-5,007,804.32	-579,983.30	-4,427,821.02
<b>May</b>	-5,341,872.10	-1,188,496.95	-4,153,375.15
<b>June</b>	-19,672,670.11	-15,346,647.95	-4,326,022.16
<b>July</b>	-48,048,850.75	-38,660,004.44	-9,388,846.31
<b>August</b>	-1,148,016.57	-504,131.99	-643,884.58
<b>September</b>	-40,183,455.40	-7,316,388.19	-32,867,067.21
<b>October</b>	-13,941,763.92	-2,037,482.98	-11,904,280.94
<b>November</b>	-85,427,034.49	-74,888,163.28	-10,538,871.21
<b>December</b>	-8,686,309.16	-6,300,415.63	-2,385,893.53
<b>Total in USD</b>	-234,556,344.66	-140,272,573.03	-94,283,771.63
<b>Total in Sk<sup>1/</sup></b>	-7,514,950,726.56	-4,494,192,967.31	-3,020,757,759.25

1/ For conversion, the following average annual exchange rate was applied: US\$ 1 = Sk 32.039

In 1994, the principal on financial credits within the CDZ (Central Forex Resources) was repaid in the amount of US\$ 87.2 million. The amount of negative rectification (revaluation) of principals on DEM tranches, which were settled within the CDZ block, reached US\$ 10.0 million. The total amount of IMF principal paid reached SDR 61.9 million, representing US\$ 88.7 million. In November, the largest instalment of the year was paid in the amount of US\$ 63 million. It was a principal on bonds issued by the former SBCS on the Eurodollar capital market in 1991.

An important factor influencing the debt service were the correcting entries, especially the US\$ 349.8 million transfer made by the CR on account of having exceeded the credit limit in clearing with the SR. This sum did not include the amount by which the credit limit was exceeded in December 1994, as it was repaid by the Czech side in the amount of US\$ 20.5 million only in January 1995.

In addition to the transfer made by the CR for having exceeded the credit limit in clearing with the SR in the amount of US\$ 349.8 million, earning assets were also received in connection with the sale of foreign exchange state assets and the rectification of principals in the total amount of US\$ 20.9 million.

The total level of liabilities settled in 1994 reached US\$ 234.6 million (Sk 7.515 billion), of which principals represented US\$ 140.3 million (Sk 4.494 billion) and the interest accrued amounted to US\$ 94.3 million (Sk 3.021 billion).

The volume of repaid liabilities (US\$ 234.6 million) include the amount of proceeds (US\$ 20.9 million) from the sale of state financial assets and the rectification of CDZ principals received. These foreign exchange revenues continuously modified the level of debt service performance, and represented 8.2% of the total volume of settled liabilities (excluding instalments to IMF).

## **1.9 Foreign Exchange Licences**

In 1994, the National Bank of Slovakia issued, within the framework of the balance of payments in the capital account, 601 new foreign exchange licences and 82 supplements.

For capital participation abroad, the NBS issued 417 foreign exchange licences a supplements, while 9 of these foreign exchange licences were not used at all.

The total amount of capital participation of Slovak entrepreneurs and corporations in the establishment of joint ventures abroad, or in increasing the equity capital of already existing companies, reached Sk 1,245.32 million.

**Structure, Location, and Amount of Capital Invested in Foreign Companies (Sk millions)**

Country	Number of licences issued (utilized)	Volume of invested capital	of which				
			finance capital	tangible property	purchase of shares	purchase of shares	other capital
Czech Republic	255	986.54	145.17	5.85	40.34	790.02	5.15
Ukraine	28	145.69	5.12	140.58	0.00	0.00	0.00
Hungary	23	26.80	9.51	17.29	0.00	0.00	0.00
Germany	21	25.81	25.36	0.44	0.00	0.00	0.00
Russia	25	18.60	2.25	15.53	0.00	0.18	0.62
Austria	14	14.73	14.73	0.00	0.00	0.00	0.00
Poland	3	8.23	1.00	0.79	0.00	6.44	0.00
Latvia	2	8.09	8.09	0.00	0.00	0.00	0.00
Liechtenstein	1	2.42	2.42	0.00	0.00	0.00	0.00
Switzerland	1	2.32	2.32	0.00	0.00	0.00	0.00
France	8	2.03	0.37	0.00	1.66	0.00	0.00
USA	3	1.34	0.06	1.28	0.00	0.00	0.00
Cyprus	12	0.81	0.81	0.00	0.00	0.00	0.00
Rumania	2	0.55	0.41	0.14	0.00	0.00	0.00
India	2	0.52	0.00	0.52	0.00	0.00	0.00
Croatia	1	0.41	0.41	0.00	0.00	0.00	0.00
Slovenia	1	0.20	0.00	0.20	0.00	0.00	0.00
Bulgaria	4	0.14	0.14	0.00	0.00	0.00	0.00
Sweden	1	0.07	0.07	0.00	0.00	0.00	0.00
Great Britain	1	0.02	0.02	0.00	0.00	0.00	0.00
<b>Total</b>	<b>408</b>	<b>1,245.32</b>	<b>218.27</b>	<b>182.63</b>	<b>42.00</b>	<b>796.65</b>	<b>5.77</b>

Note: exchange rate as at 31 December 1994

The returnability of capital invested in equity in the form of a money deposit does not exceed 2 years, in the form of tangible property 3 years, while capital participation was mostly directed to countries which have already signed an interstate treaty with the SR on the mutual protection of investments.

The main fields of Slovak entrepreneurial activities abroad were: business activity (80%), consultancy and intermediating, assembly and construction work, travel agency services, leasing, transport, and marketing.

Of the total number of decisions (109) concerning securities, the NBS issued 97 foreign exchange licences for the purchase of foreign securities (18 legal entities, and 79 individuals), while 5 of these licences were not used. Ten licences were issued for the transfer of property participation abroad in the form of selling shares to foreign exchange residents.

Within regard to trade in foreign securities, 92 licences were issued for the purchase of foreign securities - stocks and shares within the pre-emptive right of Slovak entities - shareholders, 3 licences were issued for individual purchase, and 1 licence for the purchase of employee shares. On the basis of these foreign exchange licences, foreign securities were purchased in the total volume of Sk 42.0 million, and sold in the amount of Sk 87.49 million.

Over the course of the year, the NBS issued 188 new licences and 68 supplements to previously issued foreign exchange licences for loans from abroad. In 18 cases, the licences were issued only after the credit agreements had been signed, or after the credit had already been drawn; again 17 licences were not used at all. The total volume of foreign-currency loans amounted to Sk 15,622 million. In 9 cases, an exemption was granted from the obligation to offer the foreign currency for conversion, and hard currency in the equivalent of Sk 1,162 million was left in foreign currency accounts. This amount accounted for 7.4% of the total volume of foreign currency loans.

**Borrowings approved in 1994, their expected drawing and repayment (Sk billions)**

Years	1992	1993	1994	1995	1996	1997	1998	1999
<b>Drawing</b>	0.002	0.038	11.19	3.93	0.46	-	-	-
<b>Repayment</b>	-	-	2.03	2.94	2.76	1.57	1.41	1.53
<b>Balance</b>	0.002	0.038	916	0.99	-2.30	-1.57	-1.41	-1.53

Years	2000	2001	2002	2003	2004	2005	after 2005	Total
<b>Drawing</b>	-	-	-	-	-	-	-	15.62
<b>Repayment</b>	1.09	0.78	0.62	0.49	0.14	0.05	0.21	15.62
<b>Balance</b>	-1.09	-0.78	-0.62	-0.49	-0.14	-0.05	-0.21	-

Note: exchange rate as at 31 December 1994

**Structure of Creditors**

	Number of permissions	%	Volume in Sk million	%
<b>Banks</b>	46	26.90	9,644.8	61.74
<b>Non-banks</b>	125	73.10	5,977.2	38.26
<b>Total</b>	171	100.00	15,622.0	100.00

**Structure of Credit by Maturity**

	Number of permissions	%	Volume in Sk million	%
<b>Short-term loans</b>	44	25.73	3,446.8	22.06
<b>Medium-term loans</b>	72	42.11	4,671.0	29.90
<b>Long-term loans</b>	55	32.16	7,504.2	48.04
<b>Total credit</b>	171	100.00	15,622.0	100.00

Government guarantees were granted in 7 cases for borrowings in the total amount of Sk 3,280 million, and bank guarantees in 24 cases for Sk 3,428.6 million worth of loans (of which, in 13 cases the guarantee was granted by VUB, in 8 cases by CSOB, and in one case by IRB, Ludova banka, and Slovenska sporiterna).

**Composition of Loans by Purpose**

	Volume in Sk million	%
Investments, purchase of real estate	10,054.2	64.36
Privatization	397.1	2.54
Purchase of technology from abroad	1,576.7	10.09
Operating expenses	3,594.0	23.01
<b>Together</b>	<b>15,622.0</b>	<b>100.00</b>

### Structure of Foreign Loans by Country

Country	Number of licences		Volume	
	number	in%	in Sk million	in%
Austria	62	36.26	2,401.5	15.37
Germany	24	14.04	548.2	3.51
Great Britain	18	10.53	9,261.5	59.29
Switzerland	14	8.19	747.5	4.78
USA	8	4.68	1,021.7	6.54
Czech Republic	8	4.68	195.8	1.25
The Netherlands	7	4.10	234.7	1.50
France	6	3.51	568.5	3.64
Italy	4	2.34	41.9	0.27
Luxembourg	3	1.76	3.2	0.02
Hungary	3	1.76	2.3	0.01
Israel	2	1.17	62.2	0.40
Belgium	2	1.17	37.5	0.24
Cyprus	2	1.17	12.5	0.08
Denmark	1	0.58	343.7	2.20
Finland	1	0.58	78.2	0.50
United Arab Emirates	1	0.58	31.3	0.20
Panama	1	0.58	14.0	0.09
Spain	1	0.58	8.0	0.05
Ukraine	1	0.58	6.3	0.04
Norway	1	0.58	1.0	0.01
Canada	1	0.58	0.5	0.01
<b>TOTAL</b>	<b>171</b>	<b>100.00</b>	<b>15,622.0</b>	<b>100.00</b>

The current account of the balance of payments was affected by 249 foreign exchange licences and 99 supplements.

The NBS issued 91 new foreign exchange licences and 46 supplements to previously issued licences for the opening of foreign-currency accounts in foreign banks for the purpose of financing construction and assembly work abroad. These licences were issued to enable Slovak entrepreneurs to implement construction and assembly projects abroad in the total amount of Sk 3,500 million.

For the purpose of financing the costs of business trips abroad, 71 foreign exchange licences and 14 licence supplements were issued to establish an operational foreign currency accounting base.

A total of 32 foreign exchange licences and 39 supplements were issued for the opening of foreign currency accounts at domestic banks. Of this number, 18 foreign exchange licences were granted for re-export operations. The others were issued for re-export, guarantee operations, bailment, and payments to the Bratislava International Commodity Exchange, grants from the EU within the PHARE programme, and the provision of foreign currency funds for entrepreneurs having contracts for work abroad.

In addition, the NBS issued foreign exchange licences for forwarding services, the export of Slovak currency and commemorative coins, the export of domestic securities, the purchase of foreign currency in cash, and licences for the conversion and transfer of funds (Sk) in Slovak financial institutions. Licences to transfer money to the Czech Republic were granted to 9 legal entities for a total amount of Sk 71.36 million, and to 3 private individuals up to Sk 0.42 million, for the total amount of Sk 71.78 million.



This amount was considerably affected by money transfers from the local account of Czechoslovak Airlines, a.s. Praha, foreign representation in Slovakia, which reached Sk 70 million by end-December 1994.

By 31 December 1994, the NBS issued three foreign exchange licences to the local units of foreign corporations in the total amount of Sk 21 million, and one licence to a private individual for the amount of Sk 21.85 million.

### **1.10 Creditor-Debtor Position of Economic Sectors vis-a-vis the NBS**

By the end of December 1994, the monetary processes caused an increase of Sk 42.3 billion in the balance sum of the NBS, compared with the figure recorded in the corresponding period of the previous year.

On the asset side of the balance, the most significant increase was recorded in foreign assets (113.6%) by the end of the period under consideration, while deposits with foreign banks and securities denominated in convertible currencies grew by Sk 42.7 billion. The chief factors that considerably affected their growth were: operations in the foreign exchange fixing of the NBS, the placement of NBS bonds on the international capital market, loans from abroad, and transfers made by the CR on account of having exceeded the credit limit in the clearing account.

Liabilities to commercial banks dropped by Sk 4.5 billion. This decrease was mainly a result of the drop in the volume of refinance loans. Auction refinance loans were not drawn by commercial banks from the NBS (by the end of 1993, auction refinance credit was drawn in the amount Sk 3.0 billion). The volume of bills of exchange deals dropped by approximately Sk 1.4 billion.

The liabilities of the NBS to the State budget recorded only a very slight increase (Sk 0.02 billion), which is attributable to the growth in the volume of Treasury bills and government bonds held in the portfolio of the NBS.

On the liability side, a considerable growth was recorded in foreign liabilities (23%) as a result of the increase in liabilities to foreign banks and securities denominated in convertible currency (a total of Sk 7.2 billion), and the increase in liabilities to international institutions in both convertible and non-convertible currencies (Sk 6.7 billion). These liabilities increased mainly as a result of loans from abroad (the 2nd tranche of the Systemic Transition Facility loan from the IMF, and the first and second tranches of the Stand-by loan II granted by the EXIM Bank of Japan and the EIB), and the placement of NBS bonds on the international capital market.

The liabilities of the NBS towards domestic banks increased by Sk 5.2 billion compared with the 1993 level. This development was due primarily to the increased level of required minimum reserves of commercial banks.

The liabilities of the NBS vis-a-vis the State budget grew by Sk 3.3 billion as a result of the increases in the accounts of state financial assets (Sk 2.3 billion) and those of government funds maintained in the NBS (Sk 1.0 billion).

The above changes in the decisive asset and liability items of the NBS balance influenced the net position of Slovakia's economic sectors vis-a-vis the NBS in comparison with the end-of-1993 figures as follows:

a) The net foreign exchange position improved by Sk 35.5 billion, as a result of the growth in assets and liabilities, and changed from a debit balance of Sk 15.7 billion to a credit balance of Sk 19.8 billion.

b) The net position of commercial banks dropped by Sk 9.7 billion (reaching a deficit of Sk 18.5 billion).

c) The net position of the government sector vis-a-vis the NBS fell by Sk 3.3 billion (to Sk 37.8 billion) as a result of the fact that the financing of the budget deficit had been transferred to commercial banks through issues and sales of Treasury bills and government bonds.

## 2. MONETARY POLICY

The implementation of the monetary policy of the National Bank of Slovakia for 1994 was based on the regulation of the money supply (or domestic credit) through the monetary base, and the application of direct and indirect monetary policy instruments.

### 2.1 Regulation of the Money Supply

The monetary policy for 1994 was based on the principle of regulating the development of the M2 monetary aggregate with regard to the growth in the nominal value of GDP. The increase in net foreign assets, associated with the necessary growth of foreign exchange reserves and the considerable amount of foreign loans made to enterprises, was counterbalanced by a moderate growth in domestic credit to households and enterprises.

Development of the Money Supply M2 by Component

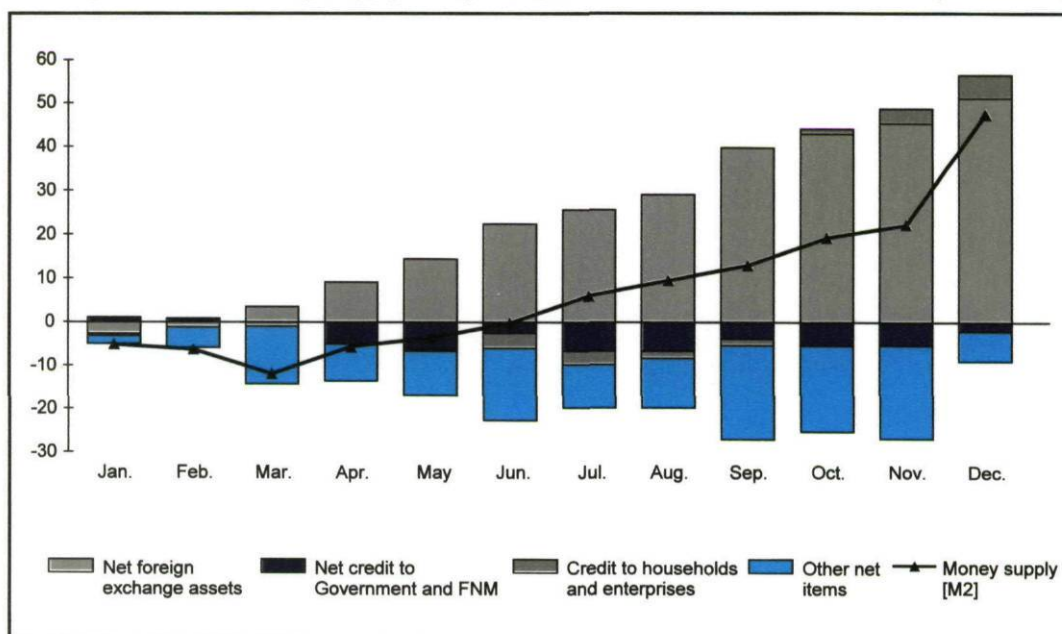
	Q1	Q2	Q3	Q4
<b>Money supply [M2]</b>	<b>-4.7</b>	<b>-0.1</b>	<b>5.1</b>	<b>18.8</b>
<b>of which</b>				
- Net foreign assets	1.4	8.8	15.7	20.3
- Net credit to Government and FNM	0.0	-1.0	-1.5	-0.8
- Credit to households and enterprises	-0.8	-1.3	-0.6	2.1
- Other net assets	-5.2	-6.6	-8.5	-2.7

Note: FNM - National Property Fund

The above Table clearly shows that the net foreign assets had a dominant and stimulating effect on the development of the monetary aggregate M2.

Development of the Money Supply M2 by Component

(Sk billions)

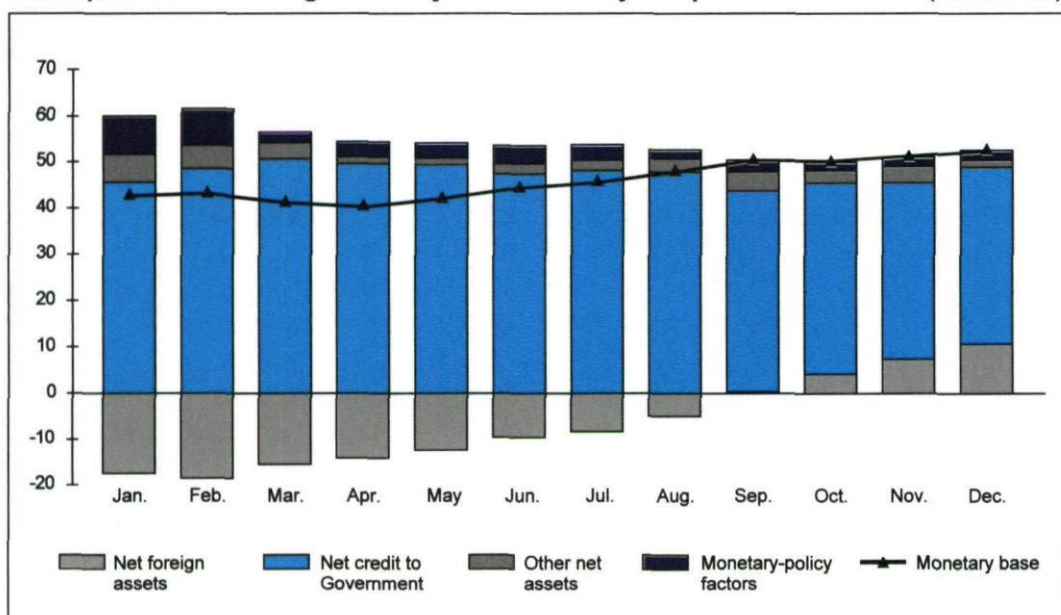


The NBS influences the development of M2 and its components indirectly by controlling the monetary base, which represents the consolidated balance of the NBS. The effects of operations, which are conducted within the regulation of the monetary base, are reflected in the macroeconomic variables (components of M2 and M2itself) through the multiplication of money.

The asset side - the sources of the monetary base - is divided into autonomous factors and monetary-policy factors.

The autonomous factors comprise mainly the net foreign assets of the NBS and the accounts of the State budget, which the NBS is able to influence only indirectly through the Slovak crown's exchange rate, or the regulation of interest rates. In 1994, the autonomous factors had a stimulating effect on the growth of the monetary base. With regard to this effect, the most significant items were the net foreign exchange assets, which were determined by the balance of foreign exchange fixing and the development of clearing with the Czech Republic - in the form of payments made for having exceeded the credit limit.

**Development of the Average Monetary Base in 1994 by Component (Sk billions)**



Another component, the net credit to the Government (dependent on the current budget performance as well as the changes in receivables from the State budget for the previous years), caused a decline in the monetary base. This situation was partly due to the overfinancing of the 1994 budget deficit by issues of Treasury bills, which were purchased mainly by commercial banks; and partly a result of the securitization of Government claims on the NBS in the second half of the year.

The NBS monetary-policy factors include all operations by which the NBS directly influences the liquidity of the banking sector. The application of such operations depends exclusively on NBS decisions (unlike the case of autonomous factors).

This group of factors comprises the individual tranches of refinance loans, transactions in government securities, and foreign exchange swaps with commercial banks.

In response to the inadequate growth in money supply in December 1993, the Bank Board of the NBS approved, on 18 February 1994, the concrete goals of monetary policy for the first quarter of 1994, together with the concrete values of monetary variables for the this quarter. Under this monetary policy, the provision of auction credit was stopped and the volume of bills of exchange discounted and

rediscounted reduced. After having evaluated the first half of 1994, the NBS eased its monetary policy and renewed the provision of auction refinance loans, as well as bills of exchange transactions.

The situation in the national economy - the surplus in foreign currency receipts over payments - brought about a growth in foreign exchange reserves held by commercial banks during the following months, and after conversion in the foreign exchange fixing of the NBS, an increase in liquid Slovak-crown resources in the banking sector. As a result of this development, the provision of auction refinance loans, Lombard loans, and transactions in foreign currency swaps were stopped. As of July 1994, the only monetary instruments applied by the NBS were transactions in Treasury bills and bills of exchange deals.

The liability side of the monetary base - the use of the monetary base - delimits the main liability items in the NBS balance vis-a-vis households and enterprises on the one hand (issuance of currency), and the liabilities to commercial banks on the other (reserves of commercial banks maintained in the NBS).

The issue of currency considerably affected the growth of the monetary base, and is accountable for its cyclic development within the individual months, and for the upward trend over the course of the year. The volume of currency issue is determined by the allocation of the activities of households and enterprises.

Nevertheless, the other component of the monetary base - reserves of commercial banks - may be largely influenced by NBS decisions affecting the banking sector.

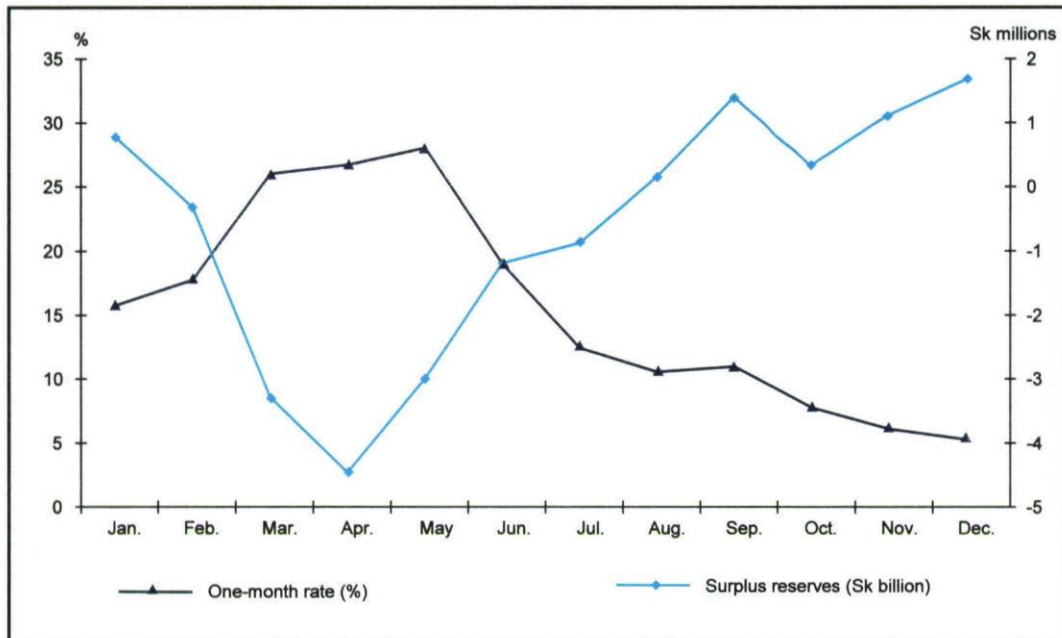
The reserves of commercial banks held with the NBS have two important functions. By setting the level of required minimum reserves (RMR), the NBS may influence the currency multiplier of the monetary base in relation to the monetary aggregate M2, and organize the system of payments and settlements within the SR through these instruments.

For the purpose of monitoring the monetary processes, the reserves of commercial banks are divided into set reserves (RMR given by the share of primary deposits by type) and the so-called surplus reserves, which serve as an indicator of commercial bank liquidity.

During the first half of 1994, the excess reserves reached negative values in connection with the previously mentioned NBS regulation adopted in February 1994 for the elimination of possible inflationary pressures. The level of liquidity in the commercial banking sector was also reflected in the development of interbank interest rates, which reached a level of 30% in that period.

In the second half of 1994, the development in bank liquidity took a principal turn. The surplus reserves of commercial banks reached positive values, and the demand for financial resources for the needs of financing the current budget deficit fell short of the commercial banks' excessive offer of funds. As a result of this development, the interbank offered rates as well as the rates of interest on Treasury bills sustained a decrease.

### One-Month Interbank Deposit Rates and the Surplus Reserves of Commercial Banks in the NBS



In the second half of 1994, the National Bank of Slovakia did not take any measures to eliminate the surplus reserves of the banking system. After the first signs of economic recovery, the monetary policy focused on the support of economic growth by providing loans to entrepreneurs. The surplus reserves created a potential basis for the provision of commercial loans, and exerted a downward pressure on lending rates to non-bank customers. The second reason why the excessive liquidity of banks was tolerated, was the development of the capital market. A portion of the excess reserves was consumed by the conversion of the Government's debt vis-a-vis the NBS (for the 1993 budget deficit) through an issue of securities. In addition to the clearing of the NBS balance, another positive result was achieved for the 1995 monetary policy - the development of Slovakia's capital market, the creation of a real basis for trading in government bonds.

## 2.2 Monetary Policy Instruments

### 1. Interest rate policy:

- Discount rate = 12%
- Lombard rate = 1% above the last interest rate achieved on auction refinance loans.
- Sanction rate applied to stand-by credit = 3 x the discount rate = 36%.
- Sanction rate for exceeding the time limit of the technical debit in the State budget performance = 2 x the discount rate = 24%.

### 2. Minimum reserve requirements:

- the ratio of primary deposits for the calculation of the level of required reserves = 3% of time deposits and 9% of demand deposits;
- the minimum required reserves (RMR) are calculated from the sum of individual RMRs for each commercial bank;
- for the determination of RMR for the month N, the amounts of primary deposits is used for three 10-day periods: 2nd period of month N-2, 3rd period of month N-2, and 1st period of the month N-1.

3. Credit limits
  - A direct instrument for the regulation of asset portfolios of commercial banks.
4. System of refinancing
  - The refinancing of commercial banks took one of the following forms:
    - a) Auction refinance loans (monthly) for an auction interest rate;
    - b) Redistributive loans:
      - classic loans - interest rate = 9.5%
      - soft loans - interest rate = 7.5%
    - c) Lombard loans - loans associated with the pledge of securities for a Lombard interest rate.
    - d) Bills of exchange rediscounted - the rediscount rate is equal to the discount rate; this form of refinancing incorporated traditional commercial bills, bills of exchange for the support of agriculture and export promotion, and bills for privatization.
5. Auctions of Treasury bills
  - An operative instrument for the financing of the State budget deficit;
  - An instrument for the liquidity management of commercial banks through:
    - a) Secondary sales and purchases,
    - b) REPO transactions (repurchase agreements).
6. Exchange rate and foreign exchange policy
  - a) A change in the currency basket of the Slovak crown

**Currency Basket of the Slovak crown as of 10 July 1993**

Currency	USD	DEM	ATS	CHF	FRF
<b>Weight</b>	49.06 %	36.16 %	8.07 %	3.79 %	2.92 %
<b>Sk exchange rate</b>	33.062	19.255	2.741	21.637	5.669

The turnover of foreign currency receipts and payments according to the payment items specified in groups 1 to 6 in 1994 reached a level of Sk 367.2 billion. The average monthly turnover amounted to Sk 30.6 billion. In comparison with 1993, when the annual turnover totalled Sk 161.6 billion, and the average monthly turnover was Sk 13.5 billion, this represented an increase of 127%.

The currency structure of the turnover of foreign currency receipts and payments was relatively stable over the course of the year. The leading currencies (DEM and USD) had a significant share in this turnover (38% both). The other currencies, showing a strong correlation in relation to DEM (i.e. European currencies, especially ATS) accounted for 22%. Together with DEM, these currencies represented about 60% of the turnover.

The analysis of the currency structure of foreign exchange receipts and payments necessitated a change in the currency basket of the Slovak crown which took effect as of 14 July 1994.

**Currency Basket of the Slovak Crown as of 14 July 1994**

Currency	USD	DEM
<b>Weight</b>	40%	60%
<b>Sk exchange rate</b>	31.209	20.227

- b) Management of the foreign exchange positions of commercial banks  
 - approach to the NBS foreign exchange fixing in the case of a FA/FL ratio (foreign exchange assets/foreign exchange liabilities) other than 1.05; i.e. the commercial bank could adjust its foreign exchange position to equate to the coefficient 1.05 at any time by the sale or purchase of foreign exchange instruments on the interbank foreign exchange market, or at the NBS foreign exchange fixing. The Auction Committee of the NBS was responsible for putting these measures into practice.
- c) Foreign exchange policy towards the population;  
 - In 1994, every citizen of the Slovak Republic was allowed to purchase foreign currency in financial institutions equivalent to, but not in excess of Sk 9,000.

### 2.3 Utilization of Monetary Policy Instruments

To achieve the goals of monetary policy for 1994, the NBS used both direct (credit limits, though a number of banks regulated by these limits had changed) and indirect monetary-policy instruments, in various forms depending on the actual requirements).

The intention to apply direct monetary-policy instruments (credit limits) in 1994 only to a group of commercial banks with lending activity exceeding Sk 20.0 billion was modified as a result of the inadequate growth in the budget deficit and the worsening of the net position of the National Property Fund vis-a-vis the banking sector toward the end of 1993. For this reason, temporary credit limits were set for financial institutions in the first quarter with effect until the end of the first half of 1994.

In the third quarter of 1994, the NBS gave up the idea of setting credit limits for commercial banks with lending activities below Sk 1.0 billion, and in the fourth quarter, the NBS used credit limits only for the regulation of monetary institutions with loan activity exceeding Sk 20.0 billion.

In 1994, Slovak-crown lending to enterprises and households remained behind the initial level. At the end of the year, the volume of Slovak-crown and foreign currency credit exceeded the figure recorded at the beginning of the year by Sk 5.0 billion. The credit limit, which was set at Sk 267.5 billion, was utilized to 99.7% by end-December 1994.

**Bank Lending to Households and Enterprises in 1994** (Sk billion)

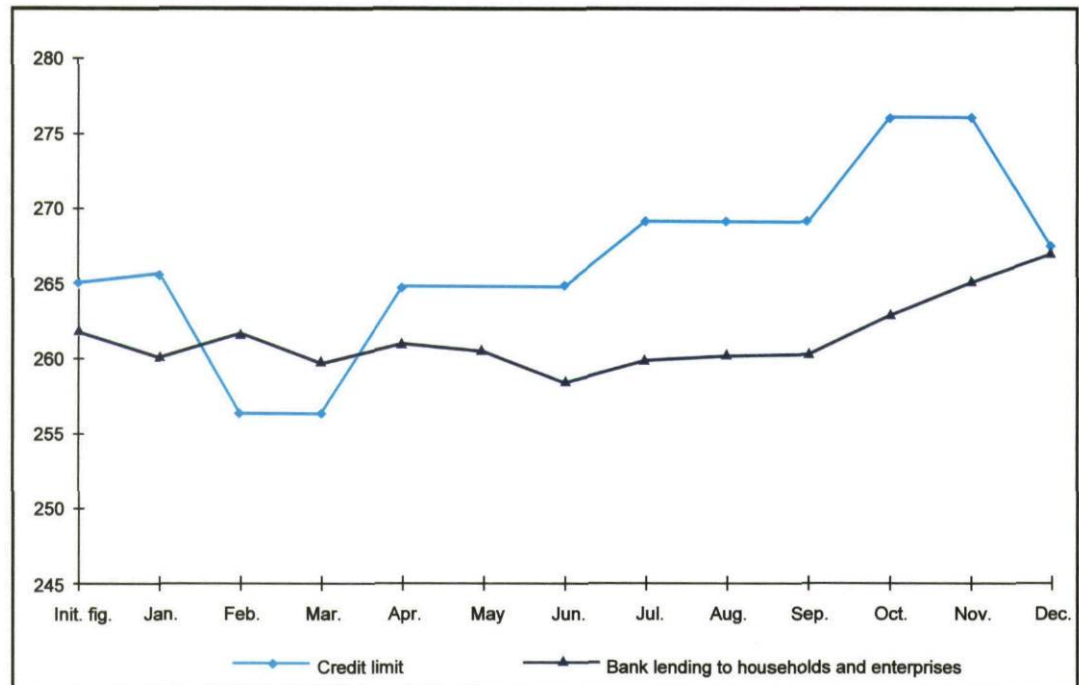
	Credit limit	Slovak-crown (Sk) credit	Foreign-currency credit	Total domestic credit	Credit limit fulfilment %
<b>Initial figure</b>	265.0	253.6	8.1	261.7	98.8
<b>January /<sup>*</sup></b>	265.6	251.0	9.0	260.0	97.9
<b>February</b>	256.3	251.9	9.7	261.6	102.1
<b>March</b>	256.3	249.3	10.3	259.6	101.3
<b>April</b>	264.8	250.0	10.9	260.9	98.5
<b>May</b>	264.8	249.8	10.6	260.4	98.3
<b>June</b>	264.8	247.6	10.7	258.3	97.5
<b>July</b>	269.2	247.1	12.7	259.8	96.5
<b>August</b>	269.2	247.7	12.4	260.1	96.6
<b>September</b>	269.2	247.7	12.5	260.2	96.7
<b>October</b>	276.2	249.9	12.9	262.8	95.1
<b>November</b>	276.2	251.6	13.4	265.0	95.9
<b>December</b>	267.5	252.5	14.4	266.7	99.8

<sup>\*</sup> For this period, only the credit margin was set without the credit limit



**Bank Lending to Households and Enterprises in 1994**

(Sk billion)



The significance of indirect monetary instruments in 1994 increased, while they were continuously updated. Compared with last year, the following systemic changes were introduced:

- at the beginning of the year, a principle change was introduced in the structure of refinancing in favour of the market-oriented form - the auction refinance loan. The theretofore commonly used Lombard loan became the last possibility for obtaining refinancing funds, before drawing stand-by loans. At the same time, a measure was introduced to regulate the support of bills of exchange transactions;
- the fixed rate of interest on Lombard loans was replaced by floating interest rates, depending directly on the rates of interest achieved on auction refinance loans.

In the first quarter, with respect to the development of the money supply and liquidity in the banking sector, all forms of refinancing were considerably restricted. The total amount of NBS refinancing funds dropped from the Sk 6.4 billion at the beginning of January to Sk 1.0 billion by the end of March 1994.

The development of monetary aggregates in the second quarter made it possible to release refinancing funds for commercial banks. In May, a channel was opened for providing refinancing funds through bills of exchange deals in the amount of Sk 500 million for the support of agriculture, and Sk 750 million for export promotion. The provision of auction refinance loans was temporarily renewed (the last auction was held on 19 July 1994). With regard to the favourable situation on the money market and the surplus of liquid funds in the banking sector, the NBS provided refinancing funds in the period from August to December only through bills of exchange deals for the support of agriculture and export, while the volume of funds earmarked for bills of exchange discounted for export promotion remained at the level of Sk 750 million. Two channels were opened for providing funds for the needs of agriculture: a common one in the amount of Sk 1.5 billion (after being increased by Sk 1.0 billion in August) and a special bills of exchange product to finance the purchase of corn and barley harvested in 1994 through the State Fund of Market Regulation in the amount of Sk 0.5 billion. These amounts were not utilized according to expectations. The amount assigned for the support of agriculture was utilized to 85% (Sk 1.7

billion), and that earmarked for export promotion only to 43.7% (Sk 0.3 billion). Bills of exchange transactions for the support of privatization ended when the last bill of exchange was repaid in the amount of Sk 7.5 million in October.

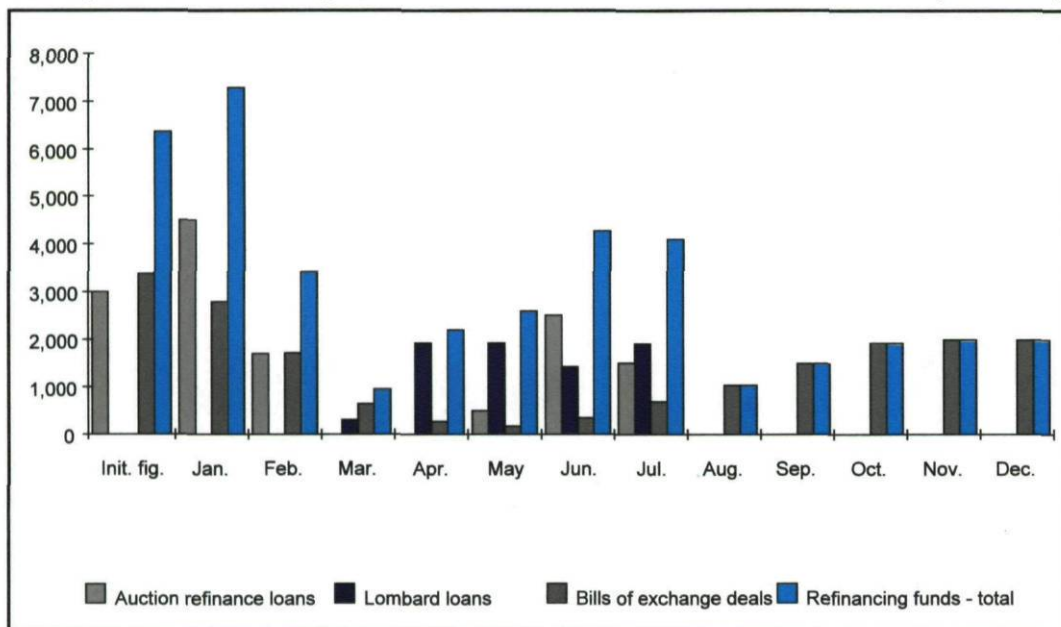
**Development of Refinancing Loans in 1994**

(Sk million)

	Auction refinance loans	Lombard loans	Bills of exchange deals	Refinancing funds - total
Initial figure	3,000.0	0.0	3,367.6	6,367.6
January	4,500.0	0.0	2,787.4	7,287.4
February	1,700.0	0.0	1,717.4	3,417.4
March	0.0	307.5	645.5	953.0
April	0.0	1,920.0	277.7	2,197.7
May	500.0	1,920.0	174.8	2,594.8
June	2,500.0	1,420.0	350.3	4,270.3
July	1,500.0	1,905.0	693.6	4,098.6
August	0.0	0.0	1,032.0	1,032.0
September	0.0	0.0	1,487.9	1,487.9
October	0.0	0.0	1,912.0	1,912.0
November	0.0	0.0	1,987.1	1,987.1
December	0.0	0.0	1,979.1	1,979.1

**Development of Refinancing Loans**

(Sk million)



The money market recorded an unbalanced development of interest rates on refinance loans. The spread of interest rates on auction refinance loans ranged from 12.1% to 25.0%, which directly determined the rate of interest on Lombard loans.

In 1994, the NBS continued to provide redistributive funds to two commercial banks for their perpetual stock turnover (Sk 16.7 billion), (without repayments planned for 1994), for housing development schemes (initial figure: Sk 11.6 billion), and for the construction of the Nuclear Power Plant at Mochovce (initial figure: Sk 5.3 billion). Over the course of the year, two unplanned instalments were paid on redistributive loans provided for housing projects (in February and December) in the total amount of Sk 0.5 billion. Of the planned amount of instalments on the redistributive loan provided for financing the Nuclear Power Plant at Mochovce in 1994 (Sk 1.1 billion), an instalment was paid in December in an amount corresponding to one-third of the amount planned to be repaid, i.e. Sk 0.4 billion. The volume of redistributive loans reached Sk 32.7 billion by the end of December.

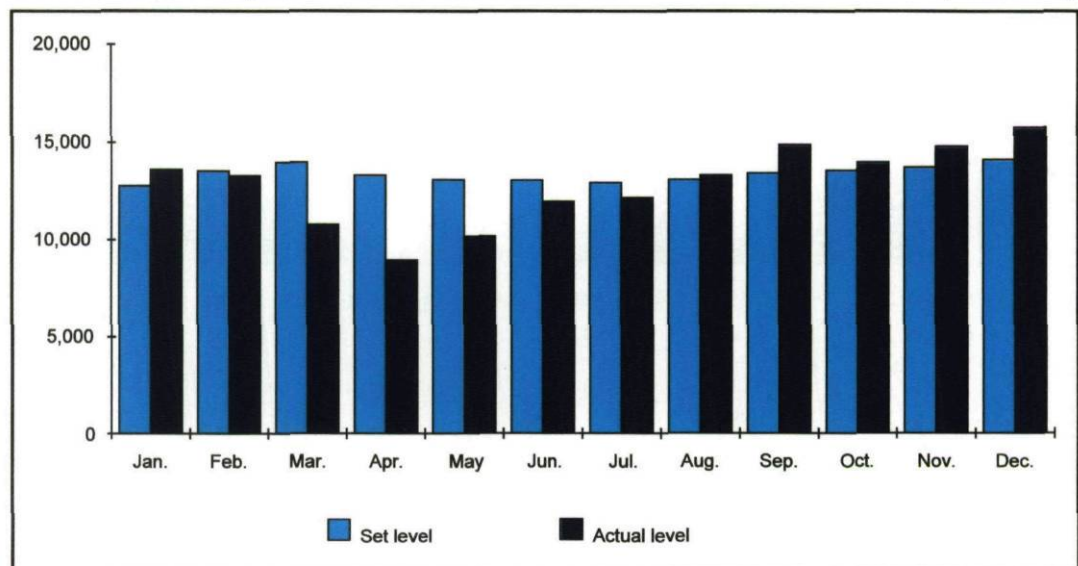
The development of the required minimum reserves (RMR) in the banking sector was marked by considerable differences between the actual level of RMR and the set level of RMR in the individual months of the year, with subsequent impact on the development of interbank deposit rates.

**Fulfilment of the Required Minimum Reserves in 1994 (Sk million)**

	Set volume	Actual volume	Fulfilment (%)
January	12,785.7	13,624.0	106.56
February	13,546.6	13,294.4	98.14
March	13,988.6	10,774.7	77.02
April	13,315.6	8,922.1	67.00
May	13,097.1	10,176.7	77.70
June	13,072.6	11,958.8	91.48
July	12,937.3	12,139.2	93.83
August	13,072.0	13,311.5	101.83
September	13,418.4	14,903.1	111.06
October	13,543.7	13,954.8	103.03
November	13,707.8	14,810.3	108.04
December	14,074.2	15,783.0	112.14

At the beginning of 1994, the NBS was forced to take special measures vis-a-vis the banking sector in order to eliminate the excessive liquidity maintained by commercial banks. As a result of these measures, which included the suspension of providing refinancing funds, the liquidity problems of some commercial banks worsened.

**Fulfilment of the Required Minimum Reserves in 1994 (Sk million)**



The above restriction on refinancing was reflected in level of set RMR particularly in March, April, and May. The liquidity problems of the banking sector persisted until the end of July 1994.

At the beginning of August, the situation in the banking sector was marked by consolidation. The situation improved considerably because of the sale of foreign currency funds held by commercial banks to the National Bank of Slovakia in the foreign exchange fixing. From this month to the end of the year, the banks managed to maintain the set level of required minimum reserves (RMR).

### 3. FOREIGN CREDIT AND CAPITAL RELATIONS

In 1994, the Slovak Government and the NBS continued in their efforts to acquire foreign resources, primarily through the so-called balance financing, i.e. direct acquiring of funds to strengthen the foreign exchange reserves of the NBS. In terms of the 1994 monetary policy, cooperation with IMF became the key issue of NBS strategy. Upon successful completion of talks with this leading international financial institution, the NBS obtained foreign currency funds under the second tranche of the Systemic Transformation Facility (STF) loan and a new Stand-by loan for the Slovak Republic.

In compliance with the monetary program of the NBS, the Economic Recovery Loan from the World Bank became another important source of foreign currency reserves. This form of foreign currency release is similar to the method of balance financing.

Moreover, the NBS finished talks with the EXIM Bank of Japan in 1994 and was granted a Two Step Loan for the support of small and medium-sized enterprises. The first tranche of this loan was incorporated into the foreign exchange reserves of the NBS.

The growth of NBS reserves was positively affected by the Bank's membership in the Bank for International Settlements (BIS) based in Basel, and by the restructuralization of CSOB. The first tranches of the Apex Global Loan from the European Investment Bank (EIB) also had significant impact on the foreign exchange reserves of the banking sector in 1994.

#### ***The International Monetary Fund***

On 22 July 1994, following the agreement with the Slovak Government, the IMF Board of Directors approved the second tranche of the Systemic transformation Facility (STF) and a new US\$ 167.97 million (SDR 115.8 million) Stand-by loan for Slovakia.

On 27 July 1994, at the request of the Ministry of Finance of the SR, the first tranche of the US\$ Stand-by loan in the amount of US\$ 22.37 million (SDR 15.42 million) was transferred to the nostro account of the NBS. At the same time, Slovakia received US\$ 93.34 million (SDR 64.35 million) under the second (and last) tranche of the STF loan; the amount was transferred to Slovakia's current account with the IMF. With the second tranche, Slovakia received the whole amount of the STF loan (US\$ 186.68 million) from the IMF.

At the request of the Slovak Ministry of Finance, the IMF released the second tranche of the Stand-by loan in the amount of US\$ 24.41 million (SDR 16.73 million) on 30 November 1994. The amount was transferred to the nostro account of the NBS.

At the beginning of 1994, the NBS started to repay the principals of the Stand-by and CCFF loans on behalf of the Slovak Government. These financial liabilities had been inherited from the former Czechoslovak federation. The total amount of principal repaid in 1994 was US\$ 89.35 million (SDR 61.87 million). In 1994, the NBS paid US\$ 31.72 million (SDR 21.89 million) in interest and fees in the amount of US\$ 0.94 million (SDR 0.65 million) to the IMF.

### ***International Bank for Reconstruction and Development (IBRD)***

In February 1994, the Slovak Government and IBRD signed an agreement on a US\$ 80 million Economic Recovery Loan to Slovakia. The loan was designed to support economic reform in Slovakia and to strengthen the country's balance of payments. The money was channelled through the National Bank of Slovakia. Of the total amount of the loan (US\$ 80 million), US\$ 79.47 million was drawn by the end of December 1994. The hard currency was used to increase the foreign exchange reserves of the NBS, and the equivalent amount in Slovak crowns was transferred to the account of the country's financial assets. In August 1994, the NBS paid, on behalf of the Ministry of Finance, US\$ 0.43 million in interest on the ERL loan to the World Bank.

In August 1994, the NBS made the second payment (US\$ 0.39 million) of the obligation to increase Slovakia's capital deposit with the International Financial Corporation (IFC).

At the end of September 1994, the NBS paid US\$ 0.50 million for the purchase of 1,393 shares in the General Capital Increase in IBRD, approved in 1988. This obligation from the election of Slovakia to IBRD membership. In October 1994, following the payment order of the Slovak Ministry of Finance, the National Bank of Slovakia transferred Sk 141.65 million to the IBRD account. This amount represents the Slovak-crown part of the General Capital Increase in IBRD.

### ***EXIM Bank of Japan***

The National Bank of Slovakia and EXIM Bank of Japan signed an agreement on a JPY 4.290 billion Two Step Loan, with a maturity of 15 years and a 4-year delay in principal repayment. The first tranche of the loan amounting to JPY 2.145 billion (approximately US\$ 21 million) was released in March 1994. The funds received were incorporated into the foreign exchange reserves of the NBS. Hence NBS acquired long-term foreign exchange resources under favourable conditions. Compared with current market conditions, the business sector gained access to new and advantageous sources of funds. In addition, the borrowed funds are not included in the credit limits of banks. The loan has been designed to support small and medium-sized private businesses and joint ventures.

The EXIM Bank of Japan has selected the following mediators for the Two Step Loan: Všeobecná úverová banka (General Credit Bank, VÚB), ČSOB (Czechoslovak Commercial Bank) Branch Office in Slovakia, Slovenska poľnohospodárska banka (Slovak Agricultural Bank, SPB), and Tatra banka (TB). In total, the NBS released Sk 488.2 million (which in JPY accounts for 36.1% of the loan) by 31 December 1994. Fifty-five projects received financial assistance under the loan.

### ***European Investment Bank***

In 1994, the NBS continued to fulfil the agreement on the Apex Global Loan signed with the European Investment Bank in 1993 (ECU 28 million). This loan was earmarked for the support of projects in industry, travel, environmental protection, and energy efficiency improvement in Slovakia.

The European Investment Bank appointed VÚB and Tatra Bank as lending banks. By 31 December 1994, the European Investment Bank approved financial assistance for three projects in the amount of ECU 13.8 million (of this amount, two projects were granted full assistance, one project received partial financial coverage). The amount released was not incorporated into the NBS foreign exchange reserves,

but through the lending banks, it became part of the foreign exchange reserves of the banking sector.

### ***Bank for International Settlements***

Compared with the previous year (after the division of the former SBCS's share in BIS), the share of the NBS in BIS did not change in 1994. The NBS held 2,670 shares, worth 2,500 golden francs each. The Bank's share of BIS equity did not exceed 1%. However, the importance of NBS membership in this renowned and veteran international financial institution by far outweighs the actual size of NBS share. The capital participation given hereabove grants the National Bank of Slovakia the right to vote and right of representation at Annual General Meetings, as well as the right to receive yearly dividends. In fiscal year 1993/94 (ending 31 March 1994), the NBS received dividends worth CHF 640,800. These were incorporated into the foreign exchange reserves of NBS. The value in Slovak crowns represented Sk 15.1 million and was assigned to the revenue account of the NBS.

### ***The European Union***

In 1991, the Government of the CSFR signed an agreement on an ECU 375 million government loan from the European Community (represented by the EC Commission) for the support of the country's balance of payments. The loan was extended in 2 tranches: ECU 185 million in 1991 with a maturity of 7 years, and ECU 190 million in 1992 with a five-year maturity. The loan was drawn and repaid by the Czechoslovak State Bank, acting on behalf of the Czechoslovak Government.

With respect to the passed constitutional laws No. 542/1992 concerning the dissolution of the CSFR on 1 January 1993, and No. 541/1992 on the division of the federal property, it was decided that the loans of the CSFR would be divided between the two successor states (CR and SR) in a ratio of 1 to 2. Slovakia assumed responsibility for 1/3 of obligations resulting from this credit, i.e. ECU 61.7 million from the first tranche, and ECU 63.3 million from the second tranche. The National Bank of Slovakia became the debtor's agent responsible for interest payments. The process of assuming the obligation will be finished in 1995.

### ***European Bank for Reconstruction and Development (EBRD)***

Following the split of the CSFR, the Slovak Republic gained EBRD membership on 1 January 1993. Slovakia subsequently assumed the obligation to pay a capital deposit. As stated in the Agreement on the foundation of EBRD, the membership deposit is paid in five instalments, and the amount for Slovakia is US\$ 14.9 million. Under the Czechoslovak federation, two payments were made, of which US\$ 5.9 million fell to the SR (after the division of membership deposit in a ratio of 1 to 2). In 1993, Slovakia paid the third part (US\$ 2.9 million), and in May and June 1994 a portion (US\$ 2.0 million) of the fourth part of the capital deposit. The rest of the fourth payment will be paid in 1995 and 1996.

### ***Swiss National Bank***

On 20 April 1994, the National Bank of Slovakia signed an agreement with the Swiss National Bank on succession to the credit extended to the government of former CSFR by the Swiss Government on 18 November 1991, to strengthen the country's balance of payments. Through this agreement, Slovakia officially confirmed that it had assumed one third of the financial obligations resulting from the Swiss Government's credit to the former CSFR.

In May 1994, the NBS paid US\$ 261.400 in interest to the Swiss National Bank, and in November 1994, the interest payment amounted to US\$ 361,900.

### ***NBS Participation in CSOB***

CSOB, a.s. (Czechoslovak Commercial Bank), a bank enjoying highly favourable reputation abroad, paid a significant role in Slovakia's balance of payments. To guarantee the continuity of Slovakia's foreign payments and maintain its interest in CSOB, the Slovak Government decided to increase its capital participation in CSOB by Kc 1.055 billion. Hence, the current share of the NBS in CSOB amounts to Kc 1.232 billion (Sk 1.441 billion). With 1,978 shares, the NBS became a holder of a 24.13% share in CSOB. Further 847 shares are owned by other Slovak shareholders; thus the total share of the Slovak Republic in CSOB equity amounts to 25.79%.

### ***Participation in IIB and IBEC***

The Slovak Republic is a member of the International Investment Bank (MB) and International Bank for Economic Cooperation (IBEC) based in Moscow.

Slovakia has a 6% share in the equity capital of IBEC, with paid-up capital amounting to ECU 8.6 million. The country's share in the equity capital of MB is 4.83%, with paid-up capital amounting to ECU 10.4 million.

## 4. FINANCIAL MARKET DEVELOPMENTS

### 4.1 Money Market

To cover the 1994 state budget deficit, the Ministry of Finance launched 60 Treasury-bill auctions. The auctions took place at weekly intervals in compliance with the issue calendar. Compared with the previous year, the issuer (Ministry of Finance) floated new issue of Treasury bills with a maturity of 84 days, and by end of the year, the Ministry issued Treasury bills maturing in 287 days. Of the total amount of offerings, seven issues with a maturity of 287 days, six issues with 84 day's maturity, and 46 issues with a maturity of 28 (or 27) days were sold at the auctions.

The total volume of T-bills sold amounted to Sk 128, 936 million (at face value), i.e. Sk 2.2 billion per issue. The volume of negotiable Treasury bills was affected by the level of the state budget deficit; it increased from Sk 3.2 billion to Sk 26 billion by the end of the year. In all cases, the primary sale of Treasury bills was organized in the form of American-style auctions, whereby the volume of issues was open or not announced in advance. After the initial rate of interest (15.05%) achieved at the first auction, the average interest rates showed a tendency to increase, as a result of the development in the interbank monetary market. In May, the rates reached a high, and the average rate of interest for the primary sale of Treasury bills reached a level of 17.71%. During the following months, the development of interest rates on Treasury bills showed a downward trend, favourable to the issuer. With the last issue (28-day maturity) the interest rate dropped to 3.52%, despite the relatively high volume of offered bills (almost Sk 4.4 billion).

Due to the high and tax-free interest revenues, the number of Treasury-bill investors increased. Compared with the end of 1993, the number of registered investors almost tripled by the end of 1994. At 31 December 1994, the total number of investors (95) comprised 23 commercial banks and 70 indirect participants. Most non-bank entities invested in Treasury bills during the period of high interest rates, and their purchased more than 35% of Treasury bills (Sk 1.6 billion). By the end of May, the share of non-bank entities dropped below 10%, and by the end of October, this portion was only 1%.

With the exception of the first quarter, the NBS purchased only about 10% of the Treasury bills placed on the primary market. The largest Treasury-bill investors were the commercial banks. The share of banks in the holdings of Treasury bills never fell below 50% of the total issue; in the last quarter, this share was permanently above 90%.

Over the course of 1994, the NBS monitored the liquidity of Treasury bills on the secondary market, together with bank liquidity in the entire banking sector. To achieve these goals, the NBS used direct purchases, or direct sales of Treasury bills, and REPO transactions (normal and reversed REPO contracts).

The limit on secondary trading (originally set to Sk 1 billion) was increased in the course of the first quarter to Sk 2 billion. However, one of the major problems was the low volume of disposable Treasury bills within the NBS portfolio, due to the limited activities of NBS in the primary market. Within the specified limitations and restrictions, the NBS carried out free market-style operations. With the changing market, the priorities of the use of particular instruments have also changed. During the first five months, when the interest rates on the market increased, due to the growing demand for liquidity, the NBS used mostly direct purchases or reversed REPO transactions. From June to November, trading was dominated by a direct sale of Treasury bills from the NBS portfolio, while the number of reversed REPO transactions substantially decreased. During the last two months of 1994, when the



Ministry of Finance issued only Treasury bills with a maturity of 287 days, the NBS changed its market policy again. Since legally it was not possible for the NBS to sell Treasury bills with a maturity of less than 3 months on the primary market, the NBS stopped the direct sale of Treasury bills from its portfolio and intervened only through reversed REPO transactions. Apart from occasional direct purchases, the NBS managed to create a disposable portfolio of Treasury bills worth Sk 1.5 billion, as the basis for free-market operations planned for the year to come. The overall development in the secondary market for Treasury bills was favourable, which is documented by the fact that a substantial part of Treasury-bill transactions was carried out among commercial banks, as opposed to 1993. Moreover, the banking system was capable of finding a solution to the lack of liquidity by transfers of Treasury bills within the market.

A positive contribution to the development of the market was the issue of Treasury bills with a longer maturity. In reaction to these activities on the part of the Ministry of Finance, the market prolonged the quotation of interbank deposits by 3 months.

The development of interest rates on the interbank deposit market was closely linked with the liquidity of commercial banks and the underdeveloped structure of that market.

The liquidity development had a substantial impact on the interbank market rates. These rates recorded a rapid increase in the first four months of 1994. They reached a high in April, with daily rates over 30%. There were little differences between 1 day forward rates and futures with a longer maturity.

June and July saw a considerable decrease in interest rates on the interbank market. Interest rates slightly dropped in August and September, with an increase in the difference between one-day and three-month rates. November and December also saw a decrease of long-term interest rates. At the same time, the rates for one-day contracts remained virtually unchanged. During the relevant months, the daily interest rates on the interbank deposit market increased at the beginning of the month and decreased at the end.

## **4.2 Capital Market**

In the course of 1994, government bonds of the 006 and 007 issues were sold out in primary market. These bonds were issued in 1993 in the amount of Sk 1.124 billion and Sk 1.0 billion respectively. In total, 10 commercial banks and 2 investment companies took part in trading in the 006 issue, and purchased 95.1% of the amount issued. Of the total amount of the 007 issue, 99.5% were purchased by 6 commercial banks and 1 investment company.

On 9 September 1994, government bonds were floated (issue No. 008) in the amount of Sk 4.460 billion to cover the 1993 state budget deficit with 2 years maturity. Eleven businesses (including 1 insurance company) took part in the subscription of this issue. A positive aspect was that, for the first time in the history of trading in Slovakia, a foreign investor purchased government bonds through a domestic broker.

On 9 November 1994, the second issue of government bonds to cover the 1993 state budget deficit was floated. Eleven commercial banks and 1 broker-dealer took part in the auction; the banks purchased 99.4% of the issued bonds.

### Issue of Government Bonds

No. of issue (tranche)	Date of issue (tranche)	Volume of issue in Sk (Kčs) millions	Nominal value in Sk (Kčs) thousands	Annual yield in%	Payments of yields	Time of maturity in years	Form of primary sale	Volume of bonds sold in Sk (Kčs) million	Secondary market on BCPB-transactions in Sk (Kčs)
<b>001/A</b>	27.3.1992	2,000	10,000		annually		direct sale	2,000	
<b>001/B</b>	3.7.1992	1,200	10,000	8.0		5		1,200	n
<b>001/C</b>	28.9.1992	1,000	10,000					1,000	
<b>002</b>	1.10.1992	6,000	10,000	15.0	semi-annually	4	auction	100 500	n
<b>004</b>	14.12.1992	4,500	1,000	D+12.5	semi-ann.	4	auction	1,950	7,963
<b>005</b>	1.3.1993	1,200	5	D+8.5	semi-ann.	3	auction	76	5,375
<b>006</b>	3.6.1993	1,124	5	D+5.5	semi-ann.	3	periodic	1,124	590,623
<b>007</b>	2.8.1993	1,000	5	D+4.0	semi-ann.	1.5	periodic	1,000	0
<b>008</b>	9.9.1994	4,460	10	15.0	semi-ann.	2	subscription	4,460	7,950
<b>009</b>	9.11.1994	3,520	10	10.9	quarterly	1.25	auction	3,520	n*
<b>Total</b>		26,004						16,930	611,911

Note: D - NBS discount rate  
n - Issue not listed on BCPB  
n\* - Trading will start on 1 February 1995  
Issues No. 004 to 008 were listed on BCPB  
BCPB - The Bratislava Stock Exchange

In the first half of 1994, the Bratislava Stock Exchange traded only three issues of government bonds. The number of bonds increased in July and November, when upon subscription, issues No. 007 and No. 008 started to be traded.

Trading in government bonds on the secondary market was unfavourably affected in the first months of 1994 by the sale of the 007 issue on the primary market, and the increased rates of interest on the interbank market. Following the decline in trading on the Stock Exchange, the investors focused on fixed- interest bearing securities in June. Trading in bonds reached its high in July, when the volume of transactions reached Sk 376.3 million. The volume of trading dropped sharply in September, due to the decision of the Ministry of Finance to float a new issue of bonds (No. 008), the increase in bank liquidity and the subsequent decrease in interbank market rates. This situation continued until the end of the year. In November, following the primary sale of the 009 issue, for the first time, no government bonds were traded on the Bratislava Stock Exchange.

### Monthly Amounts of Government Bond Transactions on BCPB in 1994 (Sk)

Month	Number of issue					Total
	004	005	006	007	008	
<b>January</b>	2,123,385	0	-	-	-	2,123,385
<b>February</b>	2,450,032	0	152,868	-	-	2,602,900
<b>March</b>	186,028	0	1,468,564	-	-	1,654,592
<b>April</b>	429,267	0	820,400	-	-	1,249,667
<b>May</b>	638,142	0	0	-	-	638,142
<b>June</b>	330,783	5,375,454	1,212,948	-	-	6,919,185
<b>July</b>	432,883	0	376,279,921	0	-	376,712,804
<b>August</b>	69,292	0	199,013,885	0	-	199,083,177
<b>September</b>	814,573	0	599,054	0	-	1,413,627
<b>October</b>	489,428	0	6,669,412	0	-	7,158,840
<b>November</b>	0	0	0	0	0	0
<b>December</b>	0	0	4,405,560	0	7,950,000	12,355,560
<b>Total</b>	7,963,813	5,375,454	590,622,612	0	7,950,000	611,911,879

Government bonds have gradually become one of the key products of the secondary market. In 1994, trading in such bonds accounted for 71.53% of the total volume of transactions, and 75.10% of the total volume of listed bonds.

A positive development was the increase in the number of government bond holders among non-bank institutions. On 31 December 1994, the structure of investors holding listed securities was as follows: 0.38% private individuals, 20.54% corporate investors, and 0.70% foreign investors.

**Structure of Bondholders at 31 December 1994** (Sk thousand)

Issue No.	Commercial banks	Individual investors	Corporate investors	Foreign investors	NBS	Total
001	4,200,000	0	0	0	0	4,200,000
002	600,000	0	0	0	0	600,000
004	824,695	6,285	1,119,020	0	0	1,950,000
005	70,460	3,105	2,435	0	0	76,000
006	1,008,675	19,890	95,435	0	0	1,124,000
007	931,660	45	56,815	0	11,480	1,000,000
008	3,795,370	3,630	461,000	200,000	0	4,460,000
009	3,500,000	0	20,000	0	0	3,520,000
<b>Total</b>	<b>14,930,860</b>	<b>32,955</b>	<b>1,754,705</b>	<b>200,000</b>	<b>11,480</b>	<b>16,930,000</b>
<b>in%</b>	<b>88.19</b>	<b>0.19</b>	<b>10.36</b>	<b>1.18</b>	<b>0.07</b>	<b>100</b>

## 5. THE BANKING SECTOR

### 5.1 Development of the Banking Sector

At the end of 1994, there were 29 banks operating in Slovakia, of which 10 banks were branches of foreign banks. The NBS refused to grant a banking license to one commercial bank (Dopravná banka, a.s. Banská Bystrica) and one foreign bank (AB Banka, a.s. Mladá Boleslav, Branch Office in Bratislava).

In 1994, five foreign banks opened representative offices in Slovakia: Societe Generale, Paris; European Bank for Reconstruction and Development, London; Carpathian Commercial Bank "Lisbank", Ukraine; Bank Austria, Vienna; Magyar Kulkereskedelmi Bank, RT, Budapest.

Most of commercial banks operating in Slovakia were registered as joint stock companies (17 banks); only two of them were state-owned financial institutions. Most of these commercial banks have their headquarters in Bratislava - 16 banks operate out of Bratislava; the remaining three are based in Žilina, Banská Bystrica, and Kosice with 1 bank in each location. Of the total number of banks (18), 14 banks had been granted a general banking license, and 4 were holders of a specialized banking license for limited scope of activities.

Foreign exchange operations were conducted by 10 banks having a foreign exchange license for borrowing funds from foreigner residents and purchasing foreign securities. Two banks were granted a licence to deal in foreign currency, including dealing in foreign securities; one bank was licensed to receive loans from foreign creditors, and two banks were granted a license to conduct foreign exchange operations, except trading abroad; dealing in foreign securities; receiving credits from foreigners, and foreign payments. Four specialized banks did not receive a license to conduct foreign exchange transactions.

In terms of capital, the total volume of registered capital in the banking sector amounted to Sk 14.8 billion. Of the total amount of paid-up capital, foreign participation accounted for 12.5%, i.e. Sk 1.9 billion.

One of the commercial banks (Creditanstalt, a.s. Bratislava) was 100% controlled by foreign capital, three banks recorded foreign capital participation exceeding 50% (Credit Lyonnais, a.s. Bratislava, Ľudová banka, a.s., and Prvá stavebná sporiteľňa, a.s.). Most foreign capital came from Austria (60.6%) and France (14.6%).

At 31 December 1994, there were 1,170 operational units registered in the Slovak banking sector. Of that, 38 were registered as branches of foreign banks. Compared with 1 January 1994, the number of bank entities increased by 84.

### 5.2 Prudent Conduct of Bank Business

The evaluation of activity in 1994 is based on the new rules of conduct, which entered into effect on 18 February 1994. Compared with the regulations used by the former SBCS, these are stricter and include the monitoring of the activities of foreign bank branches and focus on revitalization of the banking sector.

The capital adequacy (total capital to risk weighted assets ratio) was different in the individual banks. According to capital adequacy, the banking sector can be

divided into two groups. The indicator of capital adequacy grew in two banks and the specified value was achieved by all banks. The capital adequacy in this group was between 6.92% and 8.70% (preliminary data).

The second group consisted of banks which by far surpassed the value of capital adequacy (between 9.16 and 160.62%). The criteria for categorization were the size of the bank and period of operation. However, it is supposed that with consistent performance of the NBS rules governing the classification of assets and the creation of funds for risk coverage, the indicator should drop in several banks in 1995.

The measure on credit exposure was designed to reduce the risk of loss the bank was exposed to when the debtor was not able to meet his obligations. The limits for net credit exposure in the case of one debtor or a group of debtors was set at 40% (for non-bank clients) and 80% (for bank clients) of the bank's equity. Five banks exceeded the limit of credit exposure by depositing their free funds with other banks.

One of the major problems in the prudent conduct of bank business was liquidity. The banks continued to use short-term funds to cover their needs, and in some cases even long-term requirements. The liquidity situation was complicated by the insufficient inflow of funds back to the banks (credit payments) due to the clients' failure to meet their loan repayment schedules. These were mainly loans granted through the use of administrative methods, without taking into consideration the client's future financial position under market conditions.

The correct risk assessment and creation of risk reserves is one of the most complicated tasks in commercial banking. Mechanisms inherited from the centrally planned economy, the involvement of banks in both small and large scale privatization, support of entrepreneurs in the process of economic transition, made a significant contribution to the emergence of classified assets. Except for business plans, the majority of newly established entities did not have the documents necessary for credit risk assessment. For that reason, the procedures commonly used in market economies for credit assessment could not be applied. In auditing the commercial banks' financial statements for 1993, the NBS initiated procedures based on the international standards used for classification of assets and risk coverage. At the same time, discussions were held about the possibility of introducing new regulations for the classification of bank assets in accordance with international standards. In the course of 1994, the banks began to apply stricter internal rules for the classification of assets, thereby preparing for the new strict regulations. Therefore, the data on the credit portfolios of commercial banks became more realistic. The quality of credit portfolios did not grow substantially worse, only its assessment became more realistic. This process was facilitated by bank inspections as well. By the end of 1994, the resources necessary to cover the risks were estimated in 17 banks (excluding foreign bank branches, Dopravná banka, a.s. Banská Bystrica, which was not yet granted a banking license, also excluding Creditanstalt, a.s. Bratislava which commenced operations in the last days of 1994). It was recommended that resources for risks in the amount Sk 22.1 billion be created by the end of December.

Based on the individual data, calculations, and analyses in three major commercial banks, the requirements for the creation of resources to cover the risks in the whole banking sector could be set at Sk 19.1 billion.

For a realistic classification of bank assets, the NBS has defined "The Rules Governing the Evaluation of Risks Involved in Receivables, or Resulting from the Off-Balance Payables of Banks and for the Creation of Resources to Cover these Risks" in addition to a programme for restructuring the credit portfolios of commercial banks.