

B. Report on Monetary Development

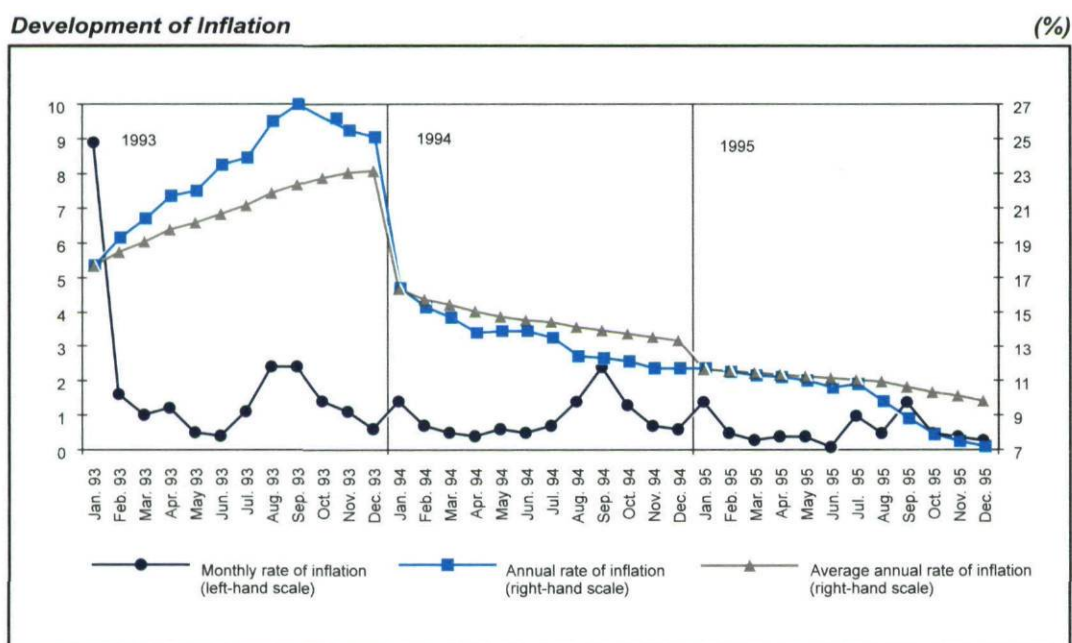
in the SR for 1995

1. MONETARY DEVELOPMENTS

1.1 Development of Inflation

Slovakia's inflation rate, expressed in terms of the consumer price index, reached 7.2% at the end of 1995; this result represented an improvement compared with the Bank's monetary programme objective for 1995 - to keep the annual rate of inflation within the range of 8 to 10%. The development of inflation was due primarily to factors influencing basic inflation, and was only slightly affected by administrative measures and the situation in agriculture, which was responsible for the most rapid growth of inflation in the months of January, July, and September, as in the previous years.

The development of basic inflation, influenced by the existing free-market mechanisms of the transforming economy, exhibited a downward tendency in comparison with the previous year. While in 1993 and 1994, the basic rate of inflation ranged from 6 to 7% per annum, i.e. 0.5 to 0.6% monthly, the annual rate of inflation in 1995 was roughly 5%, representing 0.4 to 0.5% monthly.



The development of inflation was positively influenced mainly by the stability of the tax system, the removal of certain measures in the field of central price control, budgetary discipline, and monetary policy based on strengthening the stability of the national currency.

The development of inflation was negatively affected mainly by the following factors:

- adjustment in the guaranteed price of milk at 1 January 1995 and changes in the maximum prices of fuels;
- increases in fees and charges for public services (fees at pre-school, school, educational, and social facilities, charges for accommodation in dormitories, and fees for certain medical services);
- production failures in the paper and pulp industry;
- adjustments in charges for city transport, railway and road passenger transport, telecommunications and cable television services;
- the introduction of a new schedule of administration fees in accordance with Act No. 145/1995 Z.z. of the Slovak National Council;
- increases in producer prices and seasonal price fluctuations.

Despite a seasonal increase in the third quarter, the price of food had a stabilising effect on consumer price levels; the level of food prices recorded the smallest increase (only 5.3%) among the basic categories of consumer goods, compared with the level of December 1994.

The price level of industrial goods rose by 7.9%, and showed a tendency to fall during the year; whereas prices in public catering and services recorded fluctuations due to seasonal effects, and the implementation of measures with regard to time (in services).

Development of Prices in the Basic Groups of Consumer Goods (%)

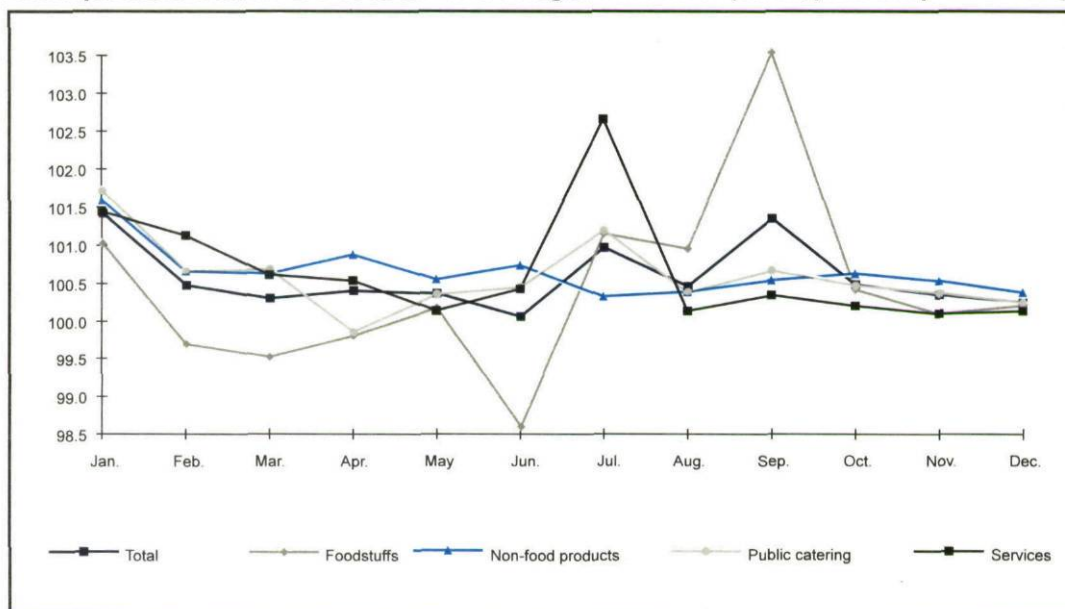
	1995	1st quarter	2nd quarter	3rd quarter	4th quarter
Total	107.2	102.2	100.9	102.9	101.2
of which					
- foodstuffs	105.3	100.3	98.6	105.8	100.7
- industrial goods	107.9	102.8	102.1	101.2	101.5
- public catering	107.4	103.1	100.8	102.3	101.2
- services	108.1	103.2	101.0	103.1	100.4

*/ Based on monthly data from the Statistical Office of the SR

The development of prices within the individual categories was influenced by a variety of factors in comparison with 1994. In the category of foodstuffs, increases were recorded mainly in the prices of meat and meat products (0.5%), and eggs and egg products (13.1%). The most significant increases were recorded in the price of milk and dairy products (6.9%), flour milling, bakery, and pastry products (5.8%), sugar and sugar products (16.9%) - due to the lack of adequate direct reaction on the part of entities that are to offset the seasonal deviations and imbalances in the market for agricultural produce - and in soft drinks (12.9%).

In the category of industrial goods, the most significant increases were recorded in the prices of textiles (7.4%), shoes (8.5%), household utensils (6.6%), and entertainment (13.7%).

Development of Consumer Prices in Basic Categories in 1995 (index, previous period = 100)



In public catering, increases were reported mainly in the prices of meals (8.2%) and beverages (7.2%). In services, the most rapid increases were recorded in the prices of transport and communications (16.6%), recreation, health and social care (16.0%), education, culture, and sports (15.0%), and personal services (9.6%).

In 1995, the producer prices of industrial goods rose by 7.1% (in industrial production - excluding mineral-mining, water and gas supply, and electricity generation and distribution - by 7.2%), which corresponded to the rate of growth in consumer prices. The development of producer prices reflected some irregularities and sectoral differences. The most significant increases were recorded in the prices of pulp, paper, and paper products (27.2%), and transport equipment (34.4%). In the category of foodstuffs and beverages, the price level rose by 2.3%. Prices in the tobacco industry increased by 4.2%, in the textile industry by 2.8%, in furniture production by 5.3%, and in the wood-working industry by 9.1%. In the clothing industry, the price level fell by 2.7%.

The costs of construction work increased by 14.6%, the prices of building materials by 12.3%, and those in timber industry by 19.5%. By the end of the year, the price of agricultural produce had fallen by 4.5%; the price of plant produce had risen by 9.1%, and that of animal products had fallen by 5.5%.

1.2 Development of Foreign Exchange Reserves

Throughout 1995, the foreign exchange reserves of the NBS continued to be affected by a variety of factors. One of the key factors positively influencing the revenue side of the budget was payments received from the Czech Republic. The expenditure side of the budget was affected by debt service payments.

At the end of 1995, the Bank's foreign exchange reserves totalled US\$ 3,418.4 million, representing an increase of US\$ 1,673.4 million compared with the level at the end of December 1994.

Development of NBS Foreign Exchange Reserves

	Gold */	Holdings of SDRs	Foreign exchange	Total reserves
January	54.5	82.6	1,603.4	1,740.5
February	54.5	68.0	1,690.7	1,813.2
March	54.5	64.4	1,850.0	1,968.9
April	54.5	33.0	1,934.1	2,021.6
May	54.5	18.8	2,112.6	2,185.9
June	54.5	12.8	2,554.4	2,621.7
July	54.5	0.6	2,575.2	2,630.3
August	54.5	2.7	2,650.9	2,708.1
September	54.5	26.4	2,732.4	2,813.3
October	54.5	19.2	2,799.5	2,873.2
November	54.5	5.7	2,985.9	3,046.1
December	54.5	58.0	3,305.9	3,418.4

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

The development of foreign exchange reserves in 1995 was positively affected by the following factors:

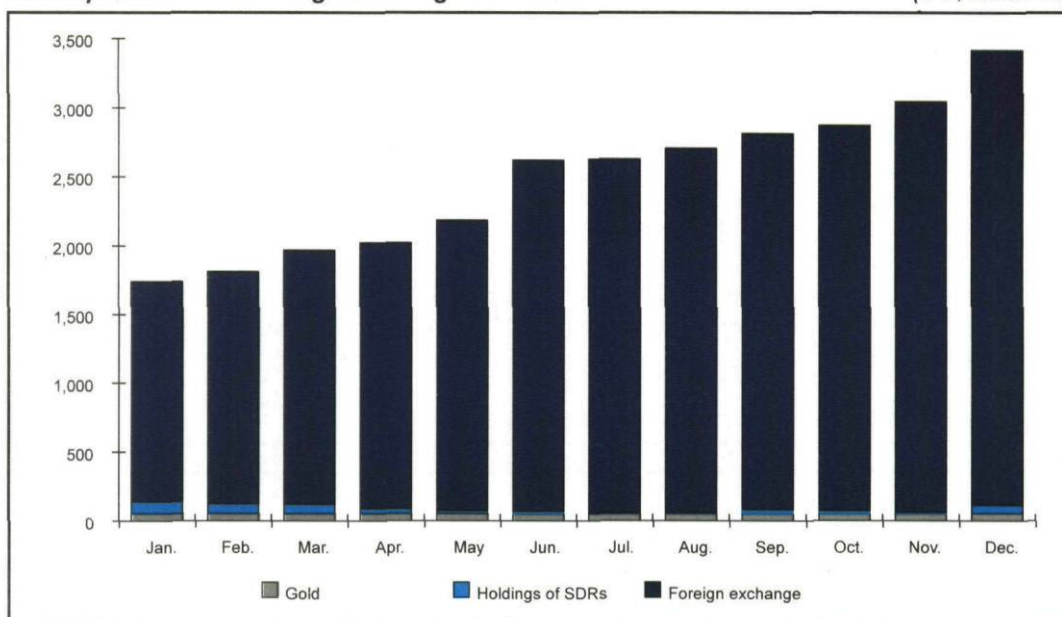
- payments made by the Czech Republic in respect of having exceeded the credit limit in the clearing account and the repayment of 3/4 of the credit limit, totalling US\$ 1.034 million (44% of total revenue);
- the US\$ 959.3 million surplus in the balance of NBS foreign exchange fixing (41% of total revenue);
- other NBS revenues totalling US\$ 109 million (interest receipts on deposits, coupons, etc.)
- loans from international financial institutions totalling US\$ 84.6 million (World Bank, EXIM Bank of Japan);
- repayment of government assets, proceeds from the sale of the same, and the rectification of principal within the CDZ block (Central Foreign Exchange Resources) in the amount of US\$ 56.3 million;
- interest receipts and charges received from the IMF in the amount of US\$ 5.5 million.

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

- debt service expenditure totalling US\$ 369.7 million (40% of total expenditure), of which payments in respect of CDZ (interest + principal) accounted for US\$ 279.8 million;
- principal repayments on IMF loans totalling US\$ 201 million;
- payment of interest and charges to the IMF totalling US\$ 32.2 million;
- miscellaneous expenditure of the NBS totalling US\$ 22.3 million.

At the end of 1995, the foreign exchange reserves of the NBS covered the volume of Slovakia's average imports of goods and services during a four-month period in 1995, whereas at the end of 1994, the level of reserves was equivalent to a 2.5-month import average.

Development of NBS Foreign Exchange Reserves (US\$ millions)



Value of gold = US\$ 42.22 / oz

The category of foreign exchange reserves held by commercial banks may be defined as short-term foreign exchange assets vis-a-vis non-residents. At the beginning of 1995, the volume of these assets amounted to US\$ 1,348 million. Over the course of 1995, the level of foreign exchange held by commercial banks rose by US\$ 267.6 million, reaching US\$ 1,615.6 million at 31 December 1995.

At the beginning of 1995, the total foreign exchange reserves of the banking sector including the NBS, amounted to US\$ 3,093 million; by the end of the year, this figure had increased to US\$ 5,034 million. The value of the relative coefficient expressing the foreign exchange position of the banking sector as a whole, expressed as the ratio of total foreign exchange assets to total foreign exchange liabilities, increased from 1.12 at the beginning of the year, to 1.76 at the end of 1995.

1.3 Money Supply

At 31 December 1995, Slovakia's money supply in terms of the M2 monetary aggregate (at the current rate of exchange) reached Sk 357.2 billion, representing a year-on-year increase of Sk 62.5 billion (21.2%).

The growth of the money supply differed over the course of the year. In the first quarter of 1995, the money supply experienced a decline due to the January fall in

demand deposits in the corporate sector. In March, the M2 aggregate decreased only slightly despite the tax payments made at the end of the month. In subsequent quarters, development of the money supply showed an upward tendency; in April, the M2 monetary aggregate had already exceeded the level recorded at the beginning of the year. The highest month-on-month increase in the money supply was recorded in December owing to the interest credited to accounts. The development of quasi-money and the M1 aggregate also fluctuated over the course of the year. The development of quasi-money was characterised by a steady upward trend throughout the year, with the exception of September; whereas the M1 monetary aggregate was subject to fluctuation.

Currency in circulation outside the banking sector increased month-by-month throughout the year, with only insignificant exceptions. The circulation of money was affected by seasonal factors such as the Easter and Christmas holidays, and the summer holiday season.

Development of the Money Supply in 1995

(Skbillions)

	Volume					Quarterly changes				Annual change	Index
	1.1.	31.3.	30.6.	30.9.	31.12.	Q1	Q2	Q3	Q4	31.12.95 -1.1.95	31.12.95 /1.1.95
Money supply M2	294.7	292.0	303.3	318.1	357.2	-2.7	11.3	14.8	39.1	62.5	121.2
Money M1	123.2	114.6	121.2	130.7	148.4	-8.6	6.6	9.5	17.7	25.2	120.5
Currency ^{1/}	28.1	28.2	30.3	32.0	34.5	0.1	2.1	1.7	2.5	6.4	122.8
Demand deposits ^{2/}	95.1	86.4	90.9	98.7	113.9	-8.7	4.5	7.8	15.2	18.8	119.8
- households	31.5	32.1	33.6	34.8	37.4	0.6	1.5	1.2	2.6	5.9	118.7
- enterprises	62.0	51.8	55.5	62.1	75.0	-10.2	3.7	6.6	12.9	13.0	121.0
- insurance comp.	1.6	2.5	1.8	1.8	1.5	0.9	-0.7	0	-0.3	-0.1	93.8
Quasi-money	171.5	177.4	182.1	187.4	208.8	5.9	4.7	5.3	21.4	37.3	121.7
Time deposits ^{2/}	133.1	138.3	142.5	147.1	169.1	5.2	4.2	4.6	22.8	36.0	127.0
- households	98.0	101.8	105.4	108.6	125.7	3.8	3.6	3.2	17.1	27.7	128.3
- enterprises	20.3	21.7	21.6	22.7	27.7	1.4	-0.1	1.1	5.0	7.4	136.5
- insurance comp.	14.8	14.8	15.5	15.8	15.7	0	0.7	0.3	-0.1	0.9	106.1
Foreign currency deposits ^{3/}	38.4	39.1	39.6	40.3	39.7	0.7	0.5	0.7	-0.6	1.3	103.4
- households	32.3	33.8	34.7	35.3	35.4	1.5	0.9	0.6	0.1	3.1	109.6
- enterprises	6.1	5.3	4.9	5.0	4.3	-0.8	-0.4	0.1	-0.7	-1.8	70.5

1/ Excluding cash in bank vaults

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

3/ Includes only deposits held by residents (converted at the current rate of exchange)

Demand deposits increased by Sk 18.8 billion in 1995. This was due mainly to the development of demand deposits in the corporate sector, which had a decisive share in the structure of demand deposits. The upward trend characteristic of the year as a whole culminated in the final month of the year with an increase in the lending activities of commercial banks. Demand deposits in the household sector recorded month-on-month increases throughout the year (with the exception of March). In the same period, demand deposits held by insurance companies fluctuated to some extent, but without significantly affecting the money supply.

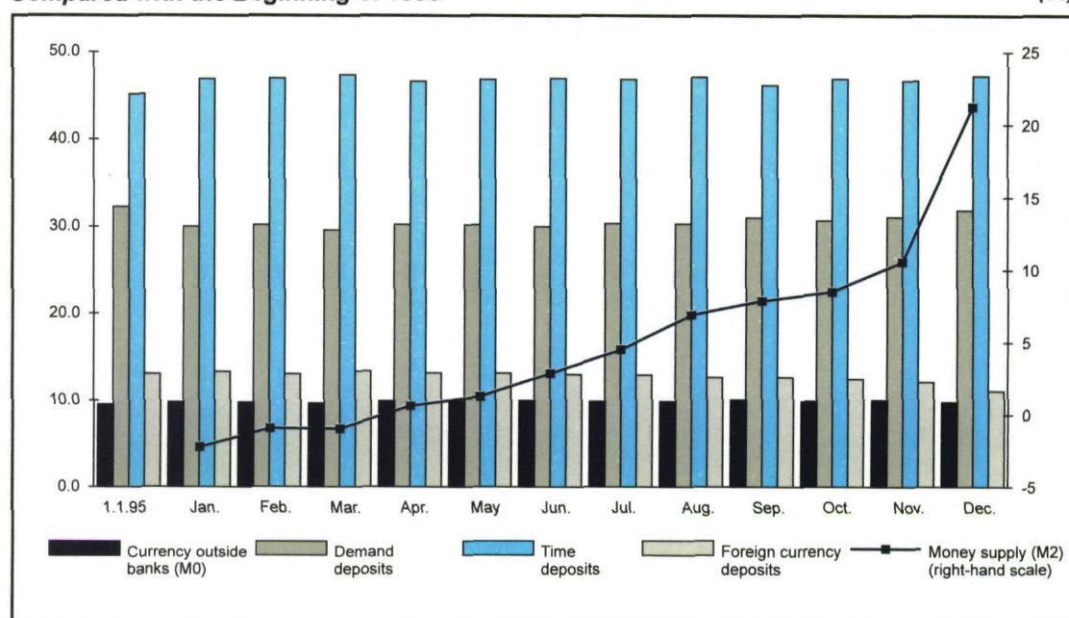
Time deposits increased in 1995 by Sk 36 billion, and recorded regular monthly increases throughout the year, with the exception of September. The upward trend in time deposits was particularly apparent in the first quarter, when the volume of time deposits grew despite the decline in the money supply (M2). The trend in time deposits in the corporate and household sectors reflected the utilisation of the interest-rate differential of demand and time deposits. Another factor positively influencing the growth rate of time deposits was consolidation of liquid assets in the

corporate sector. This development was also influenced by the increase in economic activity and growth of revenue in individual sectors.

Within the structure of corporate time deposits, the proportion of medium- and long-term deposits increased to the detriment of short-term deposits. The proportion of medium-term corporate deposits increased to 13.5%, from 7.5%; this category of deposits was dominated by up to 2-year deposits. Time deposits held by households recorded no monthly decreases during the period under consideration. The highest increase in these deposits was recorded in December as a result of the interest accrued and credited to accounts. In household deposits by term, the proportion of long-term deposits increased over the course of the year. This development was substantially affected by the February change in the methodology of reporting building savings deposits, which had been classified as medium-term deposits up to that time. The proportion of short term deposits also recorded a moderate decrease. Deposits held by insurance companies remained more or less unchanged in 1995.

**Weights of Money Supply (M2) Components and Changes in M2
Compared with the Beginning of 1995**

(%)



Foreign currency deposits increased slightly in 1995, by Sk 1.3 billion, with but few monthly changes. The growth in foreign currency deposits was solely due to household deposits, as deposits in the corporate sector showed a decline.

Structure of the Money Supply (M2)

	1.1.1995	31.3.1995	30.6.1995	30.9.1995	31.12.1995
Money supply [M2]	100.0	100.0	100.0	100.0	100.0
Money [M1]	41.8	39.2	40.0	41.1	41.6
Currency outside banks [MO]	9.5	9.7	10.0	10.1	8.7
Demand deposits	32.3	29.6	30.0	31.0	31.9
Quasi-money [QM]	58.2	60.8	60.0	58.9	58.4
Time deposits	45.2	47.4	47.0	46.2	47.3
Foreign currency deposits	13.0	13.4	13.0	12.7	11.1

Within the structure of the money supply, there was little change in the proportion of quasi-money to the M1 aggregate. In comparison with the beginning of 1995, a significant change had occurred in the structure of quasi-money by the end of the year: the proportion of time deposits had increased, and that of foreign currency deposits had decreased. This development confirmed the dominant orientation of account holders towards crown deposits, reflecting increased faith in the domestic

currency. In individual quarters, this structure was not predominant and changed according to the seasonal effects caused by tax payments, summer holidays, and interest accrued and credited.

1.4 Bank Lending

The development of bank lending in 1995 was characterised by:

- high increase in crown loans, a considerable part of which comprised interest on non-performing loans;
- slowdown in the monthly increase in foreign currency loans;
- considerable growth in the share of the private sector in total crown lending, which exceeded 50% in June and reached 57.2% at the end of 1995;
- dominance of short-term loans in the total volume of new loans, with a tendency to decrease gradually (from 89.6% in January, to 75.5% in December);
- decrease in the volume of loans for investment purposes;
- considerable increase in standard receivables with reserves and classified receivables, due primarily to the reclassification of loans in accordance with Decree No.3 of the NBS, stipulating regulations for the valuation of receivables and off-balance sheet liabilities of banks according to risk incurred and for the creation of recourses designed to cover the same.

After a decline in January, bank lending in Slovak crowns and foreign currency in 1995 recorded a significant increase mainly in the period from July to October and in the month of December. The total growth in domestic credit amounted to Sk 37.3 billion (13.7%), due partly to the crediting of interest on non-performing loans after the introduction of a new method of credit classification. In respect of bank lending, Slovak-crown loans accounted for 80%, and loans in foreign currency accounted for 20% of the total increase.

Most of the total increase in crown lending (89.3%) was due to bank loans to non-financial organisations in the entrepreneurial sector. The share of loans to small businesses was low and showed little change throughout the year; this was due partly to the strict security requirements of commercial banks for bank lending. The structure of loans by sector underwent a significant change: the share of the private sector increased from 44.4% at the beginning of the year, to 57.4% at year end. The share of the public sector fell to 32.3%, from 44.7%, chiefly as a result of privatisation and restricted bank lending (newly granted loans in the public sector amounted to Sk 39.8 billion, whereas loan repayments represented Sk 62.2 billion).

The development of bank lending during 1995, with the exception of December (interest credited to accounts), was characterised by a steady decline in loans to households. The decline represented, from the beginning of the year, an average of Sk 0.2 billion per month owing to the relatively high interest rates on newly granted loans, i.e. generally 15% (19% on short-term loans).

Development of Bank Lending in Sk and Foreign Currencies

	1.1.1995		30.6.1995		31.12.1995	
	Sk billions	share in %	Sk billions	share in %	Sk billions	share in %
Loans in Sk and foreign currencies	273.5	100.0	288.6	100.0	310.8	100.0
of which:						
Short-term loans	104.1	38.1	116.5	40.4	117.0	37.6
Medium- and long-term loans	169.4	61.9	172.1	59.6	193.8	62.4

The time structure of total domestic credit was characterised by fluctuations in the total of short-term loans, unchanged medium-term loans, and a decrease in long-term loans. The relatively high proportion of long-term loans was due to the high

initial level, comprising loans made in the past for housing development schemes and large-scale investment projects.

Short-term loans represented one third (34.6%) of the total increase in bank lending in crowns and foreign currency, the remainder (65.4%) consisted of medium- and long-term loans. Of the total increase, short-term loans in Slovak crowns accounted for 25.8% and short-term loans in foreign currency accounted for 8.8%.

In a sectoral breakdown, a significant increase was reported in the volume of bank loans in trade, sales, public catering, and accommodation sectors (Sk 14.5 billion). This growth was in some measure due to the rapid development of these sectors, and change in the forms of ownership and subsequent emergence of new business entities. In the production sector, significant increases were recorded in loans to the food industry (Sk 3.1 billion), and metallurgy and machine engineering (Sk 8.1 billion); these funds were allocated for the reconstruction of companies and the modernisation of technology.

Of the total volume of bank credit drawn in 1995, loans in the private entrepreneurial sector accounted for 53.3%. The time structure of loans developed in favour of short-term loans (71 to 90% of the total volume), which could not be used for the financing of development programmes in the individual sectors and served mainly to cover current operating needs of business entities.

Bank lending in foreign currency was rather unstable during the 1st half of 1995; there was, however, a dynamic and stable growth in the second half of the year. At the end of December 1995, the volume of foreign-currency loans totalled Sk 22.7 billion, and the proportion of the total volume of bank credit had increased to 7.3%, from 5.6%. The year-on-year increase amounted to Sk 7.4 billion.

1.5 Interest Rate Development

The development of interest rates in 1995 was marked by the improved macroeconomic position of the SR, and especially by the reduction of inflation and subsequent reductions in the discount rate in March and October. This reduction indirectly influenced interest rates on loans and deposits in the banking sector. This was reflected mainly in the lowering of basic interest rates for various categories of bank customers (interest rates were cut in April and May by 1.5 to 3.5 points, in November and December by 2.5 points). Real interest rates changed to a lesser degree, as they were affected by various factors such as the proportion of loans to deposits by term, the type of customer (in the case of loans), and the structure of loans by purpose. There was a shortage of medium- and long-term resources, and a surplus of short-term funds (despite the change in the time structure of deposits).

The average interest rate on the total volume of loans fell to 14.78% in December (i.e. by 1.27 points), from 16.05% in January. The most significant month-on-month decreases were recorded in May and November, due to the reduction in the discount rate of the Bank. The most significant reductions were recorded in interest rates on short-term loans (by 2.54 points, to 17.17%), and medium-term loans (by 1.05 points, to 16.77%); the least significant on long-term loans (by 0.73 points, to 12.12%).

The interest rate policy of commercial banks was aptly characterised by the level of interest rates on new loans, which included neither social loans nor administratively determined loans at the old fixed-interest rates. The average lending rate for new loans was lowered significantly from 19.59% to 14.04% (by 5.55 points), due to the cut in the NBS discount rate and the surplus in short-term funds for the year. The interest rate on short-term loans was cut from 19.77% in January, to 13.68% in December, i.e. by 6.09 points. With regard to the shortage of funds and the

surplus of demand over supply, the average interest rate on medium-term loans fell by only 2.95 points, to 16.17%, and that on long-term loans by 2.42 point, to 14.37%. The most significant reductions were recorded in April, November, and December.

Average Lending Rates of Commercial Banks (%)

	1995											
	1	2	3	4	5	6	7	8	9	10	11	12
1. TOTAL VOLUME OF LOANS ^{3/}	16.05	16.04	16.00	15.94	15.83	15.78	15.73	15.75	15.77	15.15	14.90	14.78
A) Loans by sector of which:												
- Public sector	17.07	17.29	17.07	17.05	16.91	1680	16.81	1687	16.95	15.79	15.54	15.52
- Private sector (incl. cooperatives)	16.56	16.36	16.50	16.45	16.34	16.39	16.33	16.30	1628	15.91	15.65	15.59
- Household sector	5.49	5.13	5.39	5.18	5.22	5.17	5.17	5.21	5.25	5.08	5.01	5.06
B) Loans by term of which:												
- Short-term	18.71	18.87	18.81	18.39	18.03	1788	17.62	17.60	17.46	16.72	16.43	16.17
- Medium-term	1882	18.68	18.69	18.65	18.63	18.40	18.34	18.21	1820	17.98	17.77	17.77
- Long-term	12.85	12.75	12.71	12.80	12.83	12.81	12.89	12.89	13.15	12.44	12.20	12.12
2. NEW LOANS IN TOTAL	1959	18.49	17.92	16.45	16.44	15.97	15.94	1625	15.48	14.67	14.91	14.04
A) Loans by sector of which:												
- Public sector	19.73	19.39	18.56	18.40	17.63	1780	17.47	16.69	1658	15.47	17.37	14.23
- Private sector (incl. cooperatives)	19.51	18.80	18.22	16.50	16.62	1634	16.24	17.21	16.02	16.35	16.01	14.89
- Household sector	15.43	14.98	18.54	16.83	17.40	10.43	16.42	16.41	11.28	15.49	16.12	15.44
B) Loans by term of which:												
- Short-term	1977	18.91	18.17	16.42	16.24	15.83	15.58	15.83	15.18	14.20	14.35	13.68
- Medium-term	19.12	19.30	18.93	17.23	17.81	17.17	17.91	17.44	16.65	16.15	16.83	16.17
- Long-term	16.79	13.46	13.40	14.71	16.45	15.14	16.75	17.06	15.85	15.36	16.19	14.37
C) Average rates up to 3% ^{1/}	1.00	0.98	0.42	0.58	1.02	0.45	1.12	1.05	0.92	1.04	0.97	0.57
Loans by term of which:												
- Short-term	1.00	1.00	0.12	0.49	1.00	0.24	1.00	1.00	1.00	1.00	0.97	0.52
- Medium-term	0.05	0.92	1.02	0.97	1.01	0.06	1.04	1.00	0.46	1.05	0.94	0.08
- Long-term	1.18	0.95	1.05	0.82	1.14	1.11	1.33	1.22	1.04	1.43	1.01	1.05
D) Average rates above 3% ^{2/}	1973	18.97	18.25	17.15	16.76	16.59	16.08	16.46	16.17	15.04	15.60	14.55
Loans by term of which:												
- Short-term	19.83	19.23	18.23	17.08	16.51	16.14	15.67	16.08	15.64	14.65	15.17	14.09
- Medium-term	19.45	19.37	19.33	17.43	18.35	18.55	18.03	17.45	17.65	16.17	16.86	16.75
- Long-term	17.73	15.09	19.04	17.32	17.07	16.97	17.39	17.24	17.31	15.76	16.88	15.99

1/ Long-term loans from previous years (for housing projects, construction of nuclear power plants, family houses, house purchases, furnishings, etc.)

2/ Interest rates updated with regard to changes in the discount rate, or the base rate + deviations

3/ Excluding loans at zero interest rate

The same policy was applied in the case of deposits, where the most significant reduction was recorded in 2-year deposit rates.

Average Interest Rates on Crown Deposits (%)

	1995											
	1	2	3	4	5	6	7	8	9	10	11	12
Total deposits	9.80	9.48	9.77	9.04	8.86	9.15	8.99	8.92	8.82	8.80	8.20	8.23
of which:												
Demand deposits	3.67	3.53	3.82	3.16	3.09	3.38	3.38	3.37	3.34	3.34	3.29	3.40
Time deposits	13.67	13.54	13.65	13.19	12.88	12.88	12.83	12.73	12.68	12.60	11.20	10.98
- 7-day deposits	9.12	8.90	5.78	5.54	7.04	7.00	7.01	6.78	5.65	6.20	6.69	6.29
- 1-month	7.43	8.05	6.87	9.04	6.99	7.73	7.60	7.24	7.07	6.86	6.65	6.30
- 3-month	8.20	8.84	7.77	9.86	9.09	9.27	9.07	8.85	8.93	8.80	8.78	8.59
- 6-month	7.71	7.00	8.38	12.37	11.66	11.00	10.64	9.29	9.18	8.98	8.96	9.90
- 9-month	9.48	10.25	10.45	4.61	4.70	4.81	5.08	5.68	5.25	5.03	4.34	10.29
- 12-month	12.74	12.99	12.77	13.41	13.74	13.68	13.55	13.38	13.37	13.31	11.54	11.46
- 18-month	15.95	16.03	15.89	11.63	13.75	13.55	13.89	13.93	13.82	13.74	13.48	13.02
- 2-year	-	-	-	15.81	15.67	16.16	15.98	16.00	15.95	15.72	12.62	12.53
- 3-year	16.41	9.66	15.70	15.73	15.86	15.80	15.41	15.41	15.40	14.44	14.35	14.26
- 4-year	13.48	14.42	14.40	15.05	15.54	15.50	15.50	15.50	15.51	14.98	14.97	14.78
- 5-year	16.02	17.59	17.38	18.35	18.33	18.75	18.71	18.70	18.71	18.67	18.65	18.91
- above 5 years	5.81	3.60	3.53	3.87	3.43	3.77	3.75	3.72	3.82	3.74	3.70	3.07

Note: Calculated according to V (NBS) 11-12

With regard to the average deposit rate, interest rates on time deposits fell by 2.69 points, exceeding the reduction in the rate for demand deposits (0.27 points).

For time deposits, the most significant reductions were recorded in the interest rates on deposits with a period of maturity:

- up to 7-day deposits (by 2.83 points),
- up to 1-month deposits (by 1.13 points),
- up to 1-year deposits (by 1.28 points),
- up to 18-month deposits (by 2.93 points),
- above 3-year deposits (by 2.15 points).

Due to the average interest rate on one-year deposits and the annual rate of inflation, the real interest rate remained positive throughout the year, increasing gradually from 1.08% in January, to 2.91% in October 1995. It fell, however, to 1.34% in November as a result of the cut in the annual deposit rate. In December, the real interest rate increased slightly to 1.56%.

The nominal interest margin reached its lowest level (6.23 points) in March and the highest (7.07 points) in May. At the end of December, the gross margin stood at 6.55 points. The interest margin was calculated as the difference between the average nominal interest rate on the total volume of crown loans and that on crown deposits. The real interest margin was substantially lower as a result of the large amount of unpaid interest on classified assets, accounting procedure, and taxation of bank earnings.

1.6 Budget Performance and the Internal Debt of the Government

In 1995, the fiscal policy of the Slovak Government was implemented in two different regimes. During the first three months, a provisional budget was applied. Government spending for this period was budgeted at Sk 37.9 billion. This amount was intended to cover the most necessary non-investment and investment requirements, as well as payments and subsidies to the country's production and non-production sectors. Revenues were set only for budget-financed and subsidised organisations.

The State budget of the Slovak Republic for 1995 was approved by Decree No. 58/1995 Z.z, of 7 March 1995, of the National Council of the SR, based on the following macroeconomic forecasts:

- 5% growth in GDP in constant prices;
- 9% rate of inflation;
- maximum unemployment rate of 14%.

The total revenue of the State budget was budgeted at Sk 146.4 billion; total expenditure at Sk 167.4 billion, and the budget deficit at Sk 21 billion.

Over the course of the year, there were periods of relative stability combined with periods marked by an increase in the State budget deficit. The most favourable budget performance was recorded in June (excluding months covered by the provisional budget), when revenue and expenditure were relatively well balanced (the budget surplus reached Sk 97 million at the end of the month). A less favourable development was reported in the months of May (a deficit of Sk 6 billion), November (a deficit of Sk 7.8 billion), and December (a deficit of Sk 8.3 billion). The performance of the State budget was considerably influenced by the balance of the clearing account with the Czech Republic (i.e. until the termination of the clearing account agreement on 30 September 1995).

Budget revenue in 1995 reached a level of Sk 163.1 billion, exceeding the budgeted figure by Sk 16.7 billion, as a result of an improvement in tax revenue (84%). State budget expectations were significantly exceeded mainly in the area of value-added tax revenue (Sk 9.1 billion). Budgetary performance was favourable in other respects as well, with the exception of excise tax revenue, which remained below the budgeted figure.

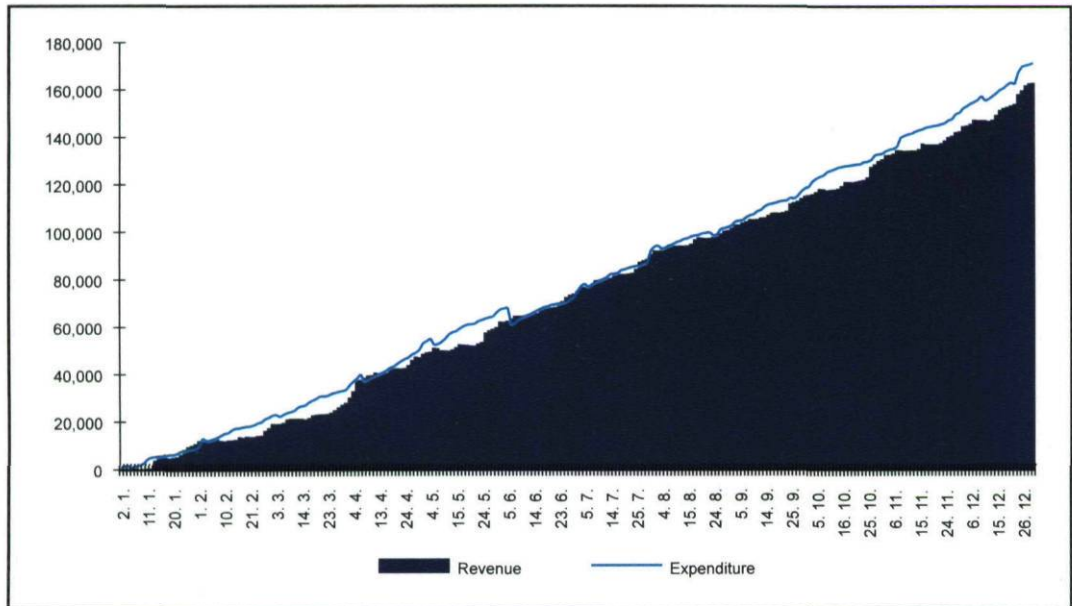
Government spending in 1995 exceeded the budget expenditure by Sk 4 billion. This amount was covered by revenue surplus derived from payment transferred from the Czech Republic for having exceeded the credit limit on the clearing account and from supplementary resources.

State financial assets in deposit accounts with the NBS increased by Sk 1.8 billion compared with the figure for 1 January 1995. This development was mainly due to the drawing of an Economic Recovery Loan from the Export-Import Bank of Japan. The resulting funds were used to strengthen the foreign exchange reserves of the NBS.

State financial liabilities (i.e. so-called direct obligations of the Government vis-a-vis the NBS inherited from the former federation) remained unchanged through 1995.

At the end of 1995, the volume of deposits in accounts held by State funds increased by Sk 1.7 billion compared with the figure at the beginning of 1995. This increase was due mainly to the establishment of a State fund for the elimination of nuclear power facilities and disposal of consumed nuclear fuel rods and other radioactive waste, and the activities of other State funds. The newly established fund recorded the highest positive balance closely followed by the State Fund for the Support of Agriculture and Food Industries.

State Budget Revenue and Expenditure in 1995 (Sk millions)



At 31 December 1995, the net position of the Slovak Government vis-a-vis the banking sector stood at Sk 63.9 billion, representing a reduction of Sk 6.5 billion compared with the figure for the beginning of the year. The level of government debt ranged from Sk 58 billion to Sk 69 billion, while the tendency towards fluctuation was due primarily to the actual performance of the State budget.

With regard to debt-structure, changes were recorded mainly in the method of covering the 1993 State budget deficit, when government bonds (Issues No. 010-014) were sold in the total amount of Sk 15.1 billion to replace the direct credit of the National Bank of Slovakia.

Further changes were recorded in the gradual conversion of Treasury bills into government bonds to cover the 1994 State budget deficit (Sk 23.1 billion). Of the other sub-items, which had a positive effect on the level of public debt, significant changes were recorded in State financial assets (an increase of Sk 1.8 billion), funds of local authorities (an increase of Sk 1.7 billion as a result of an issue of municipal bonds by the City of Bratislava in December), the volume of social insurance funds (an increase of Sk 6.2 billion due to more resources being available for the pension fund), and other government deposits (an increase of Sk 0.8 billion compared with the figure for the beginning of 1995). At the beginning of the year, the burden of government debt was carried by the National Bank of Slovakia (53.9%), which provided funds to cover debts incurred in previous years. However, the debt servicing burden was gradually transferred to commercial banks. At the end of the year, commercial banks financed 78.8% of the total debt owed by the government.

1.7 Balance of Payments

The external conditions for the development of the Slovak economy and the extension of the country's foreign relations remained relatively favourable in 1995. The continuing economic growth in advanced countries, especially in Germany, Italy, and Austria, and the improving economic situation in Central and Eastern European countries, enabled a further growth in exports even though the rate slowed down by almost 10% compared with the 1994 figure (the annual growth in exports in 1994 amounted to 27.8%, compared with 18.5% in 1995). A different trend was recorded in import: the annual growth in imports increased by 11% compared with the 1994 figure (commodity imports increased in 1994 by 8.2% year-on-year, compared with 19.2% in 1995). In the capital account, the inflow of foreign funds into the economy in the form of investment capital, bank and corporate loans showed a tendency to grow during the whole year and exceeded the outflow of capital, which was due primarily to loan repayments by the Government and the NBS, by Sk 29.4 billion (US\$ 994 million). The development of Slovakia's balance of payments in convertible currencies was accompanied by increasing faith in the Slovak koruna and further liberalisation of current account transactions. The rate of growth in foreign currency deposits slowed down in the households sector: the volume of deposits increased only by Sk 3.1 billion during the period under consideration, compared with Sk 8.2 billion in the corresponding period of 1994.

The development of Slovakia's balance of payments vis-a-vis foreign countries resulted in a Sk 19.3 billion (US\$ 649 million) surplus in the current account.

The trade balance generated a surplus of Sk 0.7 billion according to balance of payments data (the figure for imports includes goods imported by private individuals to the value of Sk 1.1 billion). The favourable balance of trade was due to a 18.5% year-on-year increase in exports and a 19.2% growth in imports. With regard to the territorial structure of foreign trade, the trend that characterised development in previous years continued in 1995: the share of advanced European market economies increased, whereas that of the Czech Republic decreased, and that of other CEFTA countries showed a slight increase. These countries accounted for 82% of the total volume of commodity exports, and almost 70% of the volume of imports (the share of the Russian federation fell to 17%, from 18% year-on-year). In 1995, the commodity structure of trade remained virtually unchanged: it continues to be dominated by export of products in the 6 SITC category (raw materials and semi-finished products). The existing large gap between exchange rate and purchasing

power parity still left sufficient room for exporters to benefit from price competition in the specified group of products (raw materials and semi-finished products), where the differences in quality or technical level are negligible or insignificant. In imports, above-average increases were recorded in chemicals (22.2%), raw materials (24.5%), and machines and transport equipment (24.6%). Despite the revival in investment activity, the share of machines and equipment in total imports increased only by 1.3 points, to 29% (while motor vehicles accounted for 18.5% and transport equipment 21% of this commodity group).

Consolidated Balance of Payments for 1995

(Sk millions)

	Q 1	Q 1-2	Q 1-3	Q 1-4
Trade balance	135.0	-555.0	2,333.0	717.0
Exports (f.o.b)	59,530.0	124,978.0	188,111.0	254,099.0
Imports (f.o.b)	59,395.0	125,533.0	185,778.0	253,382.0
Services balance	4,529.0	10,850.0	16,002.0	16,242.0
Revenues	16,977.0	36,842.0	56,547.0	70,656.0
Transportation	4,545.0	8,680.0	13,909.0	18,296.0
Travel	3,963.0	7,960.0	13,278.0	18,505.0
Other services	8,469.0	20,202.0	29,360.0	33,855.0
Expenditures	12,448.0	25,992.0	40,545.0	54,414.0
Transportation	1,880.0	3,980.0	6,764.0	8,930.0
Travel	1,699.0	3,714.0	6,225.0	9,526.0
Other services	8,869.0	18,298.0	27,556.0	35,958.0
Income balance	248.0	1,540.4	152.0	-408.0
Interest income	26.0	1,199.4	-206.0	-894.0
Income	1,092.0	3,758.0	5,184.0	6,322.0
Payments	1,066.0	2,558.6	5,390.0	7,216.0
Investment	-44.0	-98.0	-196.0	-204.0
Income	390	159.0	237.0	315.0
Payments	83.0	257.0	433.0	519.0
Employee Compensation	266.0	439.0	554.0	690.0
Income	275.0	468.0	595.0	766.0
Payments	9.0	29.0	41.0	76.0
Current transfers	146.0	461.0	1,802.0	2,742.0
Official	40.0	-90.0	345.0	497.0
Private	106.0	551.0	1,457.0	2,245.0
Current account	5,307.4	12,296.4	20,289.0	19,293.0
Capital transfers	700.0	1,360.0	1,360.0	1,360.0
Net medium and long-term fin. account	2,426.0	7,773.0	9,171.0	22,977.0
Direct investments	895.0	1,003.0	4,171.0	3,984.0
Portfolio investment	-489.0	2,587.0	2,928.0	7,317.0
Loans from abroad	1,276.0	3,533.0	-54.0	9,633.0
Disbursements	8,308.0	17,280.0	24,580.0	23,407.0
Repayments	-7,032.0	-13,747.0	-24,634.0	-21,596.0
Lending abroad	744.0	650.0	2,126.0	2,043.0
Disbursements	-34.0	-683.0	-723.0	-2,325.0
Repayments	492.0	1,282.0	2,849.0	4,321.0
Net short-term financial account	-2,131.6	-2,185.0	-1,705.0	-2,715.0
Clearing balance (-, surplus)	-7,842.0	-24,954.0	-28,158.0	-28,158.0
Payment for exceeding the credit limit	3,236.0	21,552.0	25,819.0	30,501.5
Capital and financial account	-3,611.6	3,546.0	6,487.0	29,395.5
Errors and omissions	760.9	6,131.6	1,611.2	-1,741.5
Overall balance	2,207.3	21,974.0	28,387.2	46,947.0
Changes in reserves (-, growth)	-2,207.3	-21,974.0	-28,387.2	-46,947.0
Gold holdings		-16.0	-58.6	-58.0
Holdings of SDRs	793.2	2,313.0	1,891.4	950.0
Foreign exchange assets	-3,000.5	-24,271.0	-30,220.0	-47,839.0
Valuation changes				

Note: Exchange rate applied: US\$ = 29.735 Sk

The positive balance of services, which reached Sk 16.2 billion in 1995, represented a stable factor affecting the growth of the current account surplus. The main source of surplus in the services balance was the export of transportation services including income from oil and gas pipelines transiting Slovak territory and tourism. Income from foreign tourism reached Sk 18.5 billion, i.e. US\$ 622 million, and accounted for 5.7% of the exports of goods and services. Slovak nationals showed less interest in drawing on the foreign currency allowance for personal travel

(which was twice increased during 1995, i.e. to Sk 30,000 on 1 July, and to Sk 60,000 on 1 October) than in 1994. In that period, foreign currency was drawn by roughly 10% of the population, and the average volume of sales amounted to Sk 6,840. The total volume of foreign currency spent on individual travel, package tours, and business trips reached Sk 9.5 billion.

A substantial part of the income balance, which resulted in a deficit of Sk 408 million, was formed by interest payments and receipts on foreign currency loans. The expenditure side of the balance amounted to Sk 7.2 billion and was concentrated in three basic sections: interest on loans granted to the former CSFR (Sk 4 billion), interest on borrowings from the IMF (Sk 1 billion), and loan interest paid by banks and enterprises (Sk 2.3 billion). The income side of the balance (Sk 6.3 billion) was positively affected by the one-off payment of interest by Russia on its trade debt with Slovakia, and the interest receipts from deposits, FIXBIS, and coupons on foreign securities held by the NBS totalling Sk 4.3 billion.

Under current transfers, the most significant items were private transfers from abroad (pensions, allowances, alimony payments, legacies, benefits, and gifts to private individuals), which represented Sk 2.7 billion in the balance and accounted for 80% of the total volume of transfers.

The capital and financial account generated a surplus of Sk 29.4 billion, i.e. US\$ 994 million, due to increased flow of funds into the entrepreneurial and banking sectors. These trends were accompanied by changes in the structure of capital inflow, caused by a fall in the volume of official borrowings from financial institutions in favour of private sources.

The capital account, comprising capital transfers from the Czech Republic, amounted to Sk 1.4 billion.

The revenue side of the financial account was dominated by net foreign investment (Sk 11.3 billion), which was posted mainly as portfolio investment. One of the more important examples of the latter was the sale of shares issued by Slovak and Czech companies to the Czech Republic in the period from March to May 1995. These portfolio investments are regarded as passive portfolio investments characterised by immediate return, and where the key role is played by exchange and interest rates. Net foreign direct investment amounted to Sk 4 billion and remained below the level of 1994. The volume of foreign capital invested in the Slovak Republic is an indication of the relative lack of interest of foreign investors in entering into international co-operation with Slovak companies. With regard to the basic structure of foreign capital, development in 1995 was characterised by a higher inflow of portfolio than direct investment, which is hardly likely to bring about the desired changes in competitiveness and structural reform.

The contribution of the entrepreneurial sector to the financial account surplus amounted to Sk 16.1 billion. In the form of foreign currency loans to the enterprise sector (drawing was considered without repayment), the Slovak economy had received long-term capital in the amount of Sk 11.7 billion by the end of November.

The drawing of long-term loans showed an upward trend during the year, and reached Sk 20.4 billion at year end. Of this amount, long-term trade credit for the import of goods and services represented Sk 2.6 billion. Corporate financial credit was provided in the amount of Sk 17.8 billion for the financing of domestic activities in the investment area. These funds were employed in agriculture, water management (completion of the hydro-electric project at Gabčíkovo), power and chemical industries. In terms of loans by country, the first place was occupied by Great Britain (46%); this led to a reduction in the proportion in loans from international

banks such as EBRD and EIB, to 32%. Of the other countries, most loans of private nature came from Austria (8.5%) and Germany (8.3%). The repayment of commercial loans from previous years exceeded the drawing of new loans, and reached Sk 5.7 billion. The repayment of financial credit represented Sk 3 billion.

Net short-term capital in the entrepreneurial sector representing the difference between corporate liabilities and receivables amounted to Sk 4.2 billion. Short-term borrowings by the entrepreneurial sector from abroad in the amount of Sk 4.4 billion, and loans granted abroad in amount of Sk 0.2 billion were mainly in the form of supplier credit. Short-term loans to the entrepreneurial sector from abroad consisted of commercial loans for the promotion of commodity imports in the amount of Sk 2.3 billion and financial credits in the amount of Sk 2 billion.

The financial account surplus in the period under consideration was generated by the inflow of net capital into the banking sector (liabilities minus assets) in the amount of Sk 6.3 billion. The increased amount of long-term and short-term funds drawn by commercial banks from abroad (drawing is considered without repayment in the analysed period) in the amount of Sk 14.7 billion was used to cover increased imports and to provide foreign currency loans to domestic entities.

The surplus of loan repayments by the Slovak Government and the NBS over revenue resulted in an outflow of capital in the amount of Sk 8.2 billion. The drawing of official loans was at a relatively low level in comparison with previous years. Loans made to the Government and the NBS in the amount of Sk 3 billion were channelled through the EXIM Bank of Japan (Sk 2.5 billion) and the European Investment Bank (Sk 0.5 billion). Loan repayments totalled Sk 12.9 billion. Of this amount, the repayment of IMF loans accounted for Sk 6 billion (47%). In 1995, another portion of government receivables was repaid to the Slovak Republic in the amount of Sk 1.7 billion, while 86% of this amount was repaid in the form of natural gas from Russia.

In the period from January to September 1995, payments between the SR and CR continued to be settled according to the clearing account agreement signed in February 1993, and which was terminated with effect from 1 October 1995. The development of the reciprocal payments and settlement account in 1995 was characterised by a permanent surplus in favour of the Slovak Republic. The faster growth of receipts over payments in the clearing account was reflected in the cumulative balance of clearing (Sk 28.2 billion) at the end of September. The amount by which the balance had been exceeded was repaid in hard currency on a monthly basis. The Slovak side received a total of US\$ 908 million. The credit limit was repaid in accordance with the agreed schedule (3/4 of ECU 130 million was settled in December 1995, and 1/4 will be repaid in 1996 in the form of commodity imports).

1.8 Debt Servicing by the NBS and the Slovak Government

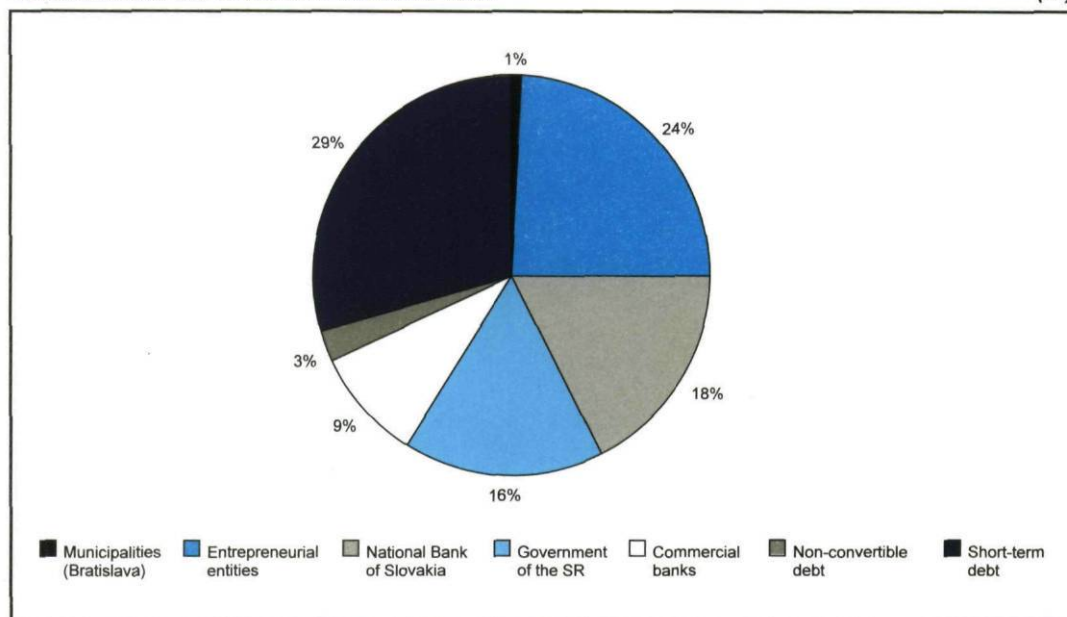
At 31 December 1995, the total gross debt of the Slovak Republic in convertible and non-convertible currencies amounted to US\$ 5.8 billion. On the same date, the official debt of the Slovak Government and the NBS stood at US\$ 2 billion. Slovakia's foreign debt in convertible currency totalled US\$ 5.7 billion. The difference (US\$ 0.1 billion) represented the estimated debt in non-convertible currencies owed to the former German Democratic Republic.

The total indebtedness of the commercial sector, i.e. commercial banks and entrepreneurial entities, amounted to US\$ 3.7 billion at the end of 1995. The largest increase was recorded in short-term liabilities, which reached a level of US\$ 1.6 billion in October 1995. This represented an increase of US\$ 0.5 billion compared with the level of short-term debt in September 1995.

The absolute growth in the total gross debt of the Slovak Republic was due mainly to the gradual increase in the import obligations of entrepreneurial entities and growth in the hard currency liabilities of commercial banks. Substantial changes in the structure of hard currency liabilities were recorded in the commercial sector in March and June 1995. These changes were reflected in the increased external debt of the Slovak Republic at year end.

Gross Debt of the SR at 31 December 1995

(%)



The highest increase in Slovakia's foreign currency debt was due to a change in the methodology of accounting the liabilities vis-a-vis the CR with effect from October 1995. The change in the method of debt reporting vis-a-vis the CR is associated with the fact that the Czech koruna was made convertible with effect from 1 October 1995 after the termination of the clearing account agreement between the SR and the CR. As a result of the change in methodology, the total gross debt of the SR increased by US\$ 0.4 billion, and affected the growth of indebtedness after October 1995.

In connection with the development of external debt, it should be emphasised that the official debt of the Slovak Government and the NBS reported on a monthly basis, and the total gross hard currency debt of the Slovak Republic were influenced by the exchange rate fluctuations of fully convertible currencies against the US dollar, and are updated regularly on a monthly basis.

The volume of repaid foreign exchange liabilities, i.e. the gross debt service of the SR, reached an equivalent of US\$ 602.9 million in 1995. Of this amount, principal repayments accounted for US\$ 439.7 million (principal repayments within the CDZ block amounted to US\$ 238 million) and the payment of interest and charges represented US\$ 163.2 million. Of the total of US\$ 602.9 million, the volume of liabilities repaid to the IMF in 1995 amounted to an equivalent of US\$ 232.2 million (of which, repayments of principal accounted for US\$ 201.1 million).

The largest amounts of foreign exchange liabilities repaid as part of debt servicing in 1995, were the repayments of principal on two independent issues of five-year bonds launched in the total amount of US\$ 490 million by CSOB Prague in 1991 (both issues were guaranteed by the former State bank of Czechoslovakia). The repayments were realised in July and October in the amount of US\$ 82.5 million each. In repaying the principal with interest, the Slovak Republic had fully discharged its liability in this respect.

Other hard currency receipts, derived primarily from the sale of state financial assets, revenue from the deblocking of government receivables, and the positive rectification of principal on DEM tranches accepted in 1995 in the equivalent of US\$ 13.3 million, gradually corrected the amount of discharged foreign exchange liabilities. These revenue items accounted for 2.21% of the total volume of Slovakia's repaid foreign exchange liabilities. After taking into account the hard currency revenues from other foreign exchange operations, the total volume of other foreign currency receipts amounted to US\$ 22.6 million.

After taking into account revenue in fully convertible currencies in the amount of US\$ 1.1 billion (including the amounts transferred by the CR on account of having exceeded the credit limit in the clearing account for December 1995), the net debt servicing of the Slovak Republic reached a level of US\$ 474 million. The volume of Slovakia's foreign exchange liabilities repaid in 1995 was influenced by adjusting items, mainly the foreign currency inflow resulting from the clearing account settlement between the SR and the CR. These receipts in fully convertible currencies directly reduced the level of debt servicing, and achieved a positive value.

Development of Slovakia's Foreign Debt

Date	Official debt owed by Government and NBS (US\$ billions)	Total gross debt of the Slovak Republic (US\$ billions)	Total gross debt per capita in the SR (US\$)
31.12.1993	2.0	3.7	695
31.03.1994	2.0	3.6	685
30.06.1994	2.0	3.6	682
30.09.1994	2.3	4.1	774
31.12.1994	2.3	4.3	808
31.03.1995	2.4	4.8	907
30.06.1995	2.5	5.0	952
30.09.1995	2.1	4.8	900
31.12.1995*/	2.0	5.8	1,099

*/ Since October 1995, a change in methodology

1.9 Issue of Foreign Exchange Licences and Permits

The National Bank of Slovakia acted as foreign exchange authority in accordance with the country's foreign exchange policy. By 31 December 1995, the NBS had issued foreign exchange licences and foreign exchange permits as follows:

- 904 foreign exchange permits including 120 extensions, and 30 foreign exchange licences for transactions in foreign exchange assets - trade in foreign securities, within the capital account of the balance of payments;
- 541 foreign exchange permits including 171 extensions, for transactions related to the current account of the balance of payments.

In 1995, the NBS issued 313 foreign exchange permits including 22 extensions, to Slovak residents for capital participation abroad. The total amount of capital to be invested by Slovak participants in newly established joint ventures abroad, or in increasing the equity capital of already existing companies, was not to exceed Sk 714.1 million

The return on capital invested in a company in the form of a financial deposit did not exceed 5 years, or 6 years in the case of share purchase.

With regard to the area of business, activity abroad continues to be dominated by trade (75%). Investment in production and tourism increased in comparison with the level of the previous year.

From 1 January to 31 December 1995, a total of 263 foreign exchange permits were issued for trade in foreign securities, of which, 46 were for the purchase of

securities (in the amount of Sk 89.2 million) and 217 for the sale of foreign securities (in the amount of Sk 75.4 million). Foreign exchange permits in the amount of Sk 10.6 million were issued for the purchase of foreign securities (government bonds) as payment for receivables from abroad.

Capital Participation Abroad

(Sk millions)

Country	Number of permits, licences, and extensions	Maximum amount of invested capital					
		Finance capital	Tangible assets	Capitalisation of receivables	Know-how	Stocks and shares	Total
Czech Republic	173	416.44	2.11	0.20	0.11	89.15	508.01
Austria	12	62.50	0.00	0.00	0.00	0.00	62.50
Ukraine	39	19.15	42.27	0.00	0.00	0.00	61.42
Lithuania	1	0.00	25.02	0.00	0.00	0.00	25.02
Croatia	3	17.67	0.00	0.00	0.00	0.00	17.67
Australia	1	7.73	3.31	0.00	0.00	0.00	11.04
Spain	3	7.15	0.00	0.00	0.00	0.00	7.15
Hungary	28	2.57	0.00	3.20	0.00	0.00	5.77
Germany	4	5.44	0.00	0.00	0.00	0.00	5.44
Slovenia	1	2.02	0.00	0.00	0.00	0.00	2.02
Poland	11	1.11	0.04	0.59	0.00	0.00	1.74
Russia	16	1.29	0.41	0.00	0.00	0.00	1.70
Liechtenstein	1	1.28	0.00	0.00	0.00	0.00	1.28
Other	20	2.64	0.74	0.00	0.00	0.00	3.38
Total	313	546.99	73.90	3.99	0.11	89.15	714.14

Note: Exchange rate as at 29 December 1995

In the period under review, the NBS granted 373 foreign exchange permits for borrowing from abroad; of this, 225 permits were issued for the acceptance of bank loans from abroad, 38 permits for the repayment of foreign loans, and 98 existing permits were extended. In 12 cases, the foreign exchange permits were not utilised.

Borrowing from abroad was sanctioned in the total amount of Sk 25,355.8 million, including Sk 102 million of loans drawn in 1994. Exemption from the obligation to convert the foreign currency into Slovak crowns was granted in 16 cases, and the amount held in foreign currency accounts equalled Sk 3,315.1 million. This amount accounted for 13.07% of the total volume of foreign currency loans.

Estimated Drawing and Repayment of Approved Loans at 31 December 1995 (Sk millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	after 2005
Drawing	20,111	4,294	550	18	18	0	0	0	0	0	0	0
Repayment	1,859	5,315	3,027	1,524	1,687	8,278	431	1,431	433	318	446	605
Balance	18,252	-1,021	-2,477	-1,506	-1,669	-8,278	-431	-1,431	-433	-318	-446	-605

Note: Exchange rate as at 29 December 1995

The volume of approved loans from banking institutions amounted to Sk 17,606.4 million (69%), and borrowing from non-bank entities totalled Sk 7,749.5 million (31%).

With regard to maturity, one-year loans were approved in the amount of Sk 5,554.8 million (22%), two-year loans in the amount of Sk 2,724.8 million (11%), three- to five-year loans in the amount of Sk 11,855.9 million (46%), and loans with a maturity of five and more years in the amount of Sk 5,220.3 million (21 %).

Of the total volume of approved loans from abroad, Slovak banks were offered guarantees in 29 cases to cover Sk 5,846.9 million of loans (23.06%). Government guarantees were granted in 10 cases: Slovenské telekomunikácie, state company, Bratislava, (twice); Slovenský plynárenský priemysel, state company, Bratislava; Solivary a.s. Prešov; ZTS state company, Dubnica nad Váhom (5 times); and

Vodohospodárska výstavba, state company, Bratislava, to a total amount of Sk 9,558.1 million (37.7%).

Structure of Loans by Creditor Country

Country	Number of licences	Volume (Sk millions)
Great Britain	27	11,437.81
Austria	101	5,155.49
Czech Republic	18	2,463.82
Germany	63	1,973.50
Luxembourg	4	1,901.86
USA	2	1,064.48
The Netherlands	11	656.87
France	3	266.03
Italy	9	188.88
Switzerland	8	87.21
Other countries	17	159.88
Total	263	25,355.83

Structure of Loans by Sector

Sector	Number of licences	Volume (Sk millions)
Industrial production	78	9,587.96
Building and construction	9	8,015.91
Trade, catering, accommodation	117	3,082.93
Generation and distribution of energy	5	1,940.56
Transport, tourism, communications	6	983.98
Agriculture	4	543.93
Forestry and timber industry	1	1866
Mining of minerals	0	0.00
Other	43	1,181.90
Total	263	25,355.83

With regard to purpose, the largest volume of approved foreign loans was earmarked for investment and real estate purchases (59%), coverage of operating expenses (30%), purchase of technology from abroad (10%), and for privatisation (1%).

For operations related to the current account of the balance of payments, the NBS issued 370 foreign exchange permits and 171 extensions (between 1 January and 31 December 1995) primarily for:

- the opening of foreign currency accounts in foreign banks;
- the opening of foreign currency accounts in domestic banks;
- the establishment of an operational foreign currency base for financing the cost of business trips abroad;
- for the transfer of funds from crown accounts held abroad to the Czech Republic;
- the establishment of a foreign exchange accounting unit and the cash purchase of foreign currency for forwarding services;
- for the import and export of foreign banknotes and coins through tourism or by post.

2. MONETARY POLICY

The implementation of monetary policy in 1995 was based on the regulation of the money supply expressed in terms of the M2 aggregate as a partial monetary objective with respect to the development of other monetary variables and key indicators of the real economy.

2.1 Objectives and Implementation of Monetary Policy

The primary objective of the monetary policy of the National Bank of Slovakia for 1995 was to maintain the internal and external stability of the domestic currency, at the same time as supporting economic growth.

With regard to internal stability, the Bank's task was to keep consumer price increases within the limits of 8 to 10%. The fall in consumer prices made it possible for the NBS to lower the discount rate from 12% to 11% in March, and to 9.75% in October 1995.

The external stability of the domestic currency is defined by the fixed exchange rate of the Slovak crown against other currencies. In 1995, the NBS continued to maintain the crown's fixed nominal exchange rate against the basket of currencies. The stable exchange rate, the growth in foreign exchange reserves, and the favourable development of the economy created conditions for making the Slovak crown convertible within the current account of the balance of payments with effect from 1 October 1995.

The dynamic growth of the economy in comparison with 1994 was documented by Slovakia's favourable economic indicators. The gross domestic product, converted at 1993 prices, increased by 7.4% during 1995.

Under the influence of the twin factors of the growth in real income and the positive level of real interest rates, households continued to receive financial benefit from the various forms of savings accounts offered by commercial banks.

The increase in the unrealised purchasing power of households amounted to Sk 39.5 billion, of which the growth in Slovak-crown deposits represented Sk 33.5 billion and the increase in cash held by households accounted for Sk 6 billion. The ratio of saving, expressed as the increase in unrealised purchasing power in relation to household incomes in cash, reached 7.7% (in comparison with 7.2% in 1994).

2.2 Valuation of Monetary Development

The monetary survey presents the consolidated balance of payments of the SR (NBS and commercial banks) at a fixed rate of exchange.

The money supply increased by Sk 62.3 billion (21.1%), due to increases in both domestic and net foreign assets.

Net foreign assets increased by Sk 46 billion compared with the initial level. This growth was due to the inflow of funds from abroad via the balance of payments account.

Newly created domestic resources expressed in terms of net domestic assets increased by Sk 16.3 billion. This growth was due primarily to the positive influence of domestic credit moderated by the development of other net items.

The Sk 29.3 billion growth in total domestic credit (including net credit to the Government, net credit to the National Property Fund, and loans to households and enterprises), was affected by the rate of growth in loans to households and enterprises, while Slovak-crown loans recorded an increase of Sk 31 billion at the end of 1995, with an accelerated rate of growth in the second half of the year. Over the course of the year, increases were also recorded in foreign currency loans to residents, which helped commercial banks to provide cheaper loans to solvent clients from their lower priced foreign and domestic foreign exchange resources.

The development of net credit to the Government had a diminishing effect on domestic credit not only during the first half of the year (owing to the provisional budget and the payment of corporate and personal income tax), but also during the last month of 1995. The improvement in the Government's position vis-a-vis the banking sector (by Sk 7.3 billion) tended to slow down the growth of the money supply.

The Sk 13 billion increase in other net items within the structure of net domestic assets exerted, in relation to other components of domestic resources, an eliminating effect on the growth of the money supply. This development was due mainly to the growth in correcting items. The volatility of other net items during 1995 was influenced mainly by accrued items, both actively (concentration of payment orders from tax payers at the end of 1995) and passively (accumulation of funds for the payment of interest on deposits).

The average monetary base (adjusted balance of the NBS designed to monitor the development of liquidity and the employment of funds in the banking sector) increased by Sk 22.1 billion, compared with the figure for the beginning of the year.

With regard to the monetary base, the main stimulating elements were the autonomous factors, the development of which is influenced by the National Bank of Slovakia only indirectly and to a limited extent. The overall effect of autonomous factors, which increased by Sk 24.4 billion (the elements of which developed differently), had a stimulating effect on the growth of free funds in the banking sector.

The most significant changes were recorded in net foreign assets, which increased in 1995 by Sk 43.1 billion, due to the surplus in foreign exchange fixing and the balance of the clearing account with the Czech Republic.

During 1995, the volume of net credit to the Government fell by Sk 21.9 billion, and part of the NBS's creditor position was transferred to commercial banks through issues of bonds designed to cover the 1993 State budget deficit.

In 1995, monetary-policy factors fell by Sk 2.3 billion, and contributed to the decrease in the monetary base. After a considerable decline in the first half of the year, the volume of dealing in bills of exchange recorded an increase after July 1995; it remained, however, below the initial level. Refinancing through bills of exchange was influenced by the discount rate of the NBS and favourable developments in agriculture.

On the liability side (application of the monetary base), the resources created were partially absorbed by the issue of new currency. The average volume of currency in circulation increased in 1995 by Sk 4.3 billion (14.8%), compared with the 1994 figure.

The average volume of funds held by commercial banks in accounts with the NBS as required reserves increased - in accordance with the growth in primary

deposits held by commercial banks - by Sk 2.75 billion, from Sk 14.53 billion in January to Sk 17.28 billion in December.

In 1995, the NBS concentrated its effort to reduce the excessive liquidity of the banking sector, generated by increased domestic lending activity (fear of possible inflationary effects), through issues of NBS bills (Central Bank bills), and the securitisation of the Government's debt to the NBS, through the sale of government bonds to banks and non-bank entities. In August 1995, the NBS commenced periodic auctions of NBS bills. In the last two months, these auctions were supplemented by auctions of NBS bills for the Bank's own portfolio, earmarked for the adjustment and optimisation of the development of free liquidity of commercial banks (of the average amount of Sk 23 billion, the NBS held NBS bills worth Sk 9 billion an average in its portfolio).

2.3 Utilisation of Monetary-Policy Instruments

The instruments of monetary policy in 1995 were marked by a systemic change consisting of the creation of conditions for transition to qualitative control of monetary variables.

Direct monetary-policy instruments employed by the central bank in 1995 included credit limits on a group of five commercial banks with loans exceeding Sk 20 billion. In these banks, the limits related to borrowings from foreign sources (EBRD, EIB, EXIM Bank of Japan, PHARE, NARMSP - National Agency for the Support of Small- and Medium-Sized Businesses). At the end of 1995, in the category of banks with limited lending, loans were made from the specified sources in the amount of Sk 1.8 billion. Other commercial banks were not limited in this way.

Bank Lending to Households and Enterprises in 1995

(Sk billions)

	Initial figure	1	2	3	4	5	6	7	8	9	10	11	12
Credit limit	267.5	270.9	270.9	270.9	273.6	277.5	277.5	287.4	287.4	287.4	285.9	285.9	285.9
Loans in Slovak crowns	252.8	252.6	253.2	260.9	264.2	264.9	267.5	269.8	271.8	273.4	276.8	277.2	283.8
Loans in hard currency	14.4	13.9	16.0	17.3	16.7	16.8	16.6	18.1	18.8	19.9	20.8	21.3	22.7
Bank lending in total	267.2	266.5	269.2	278.2	280.9	281.7	284.1	287.9	290.6	293.3	297.6	298.5	306.5
Credit limit fulfilment %	99.9	98.4	99.4	102.7	102.7	101.5	102.4	100.2	101.1	102.1	104.1	104.4	107.2

To ensure the goals of monetary policy, the NBS set a credit limit for the whole banking sector in the amount of Sk 285.9 billion. At the end of December, the volume of bank loans to households and enterprises amounted to Sk 306.5 billion, exceeding the credit limit by Sk 20.6 billion (representing fulfilment to 107.2%). Lending in fully convertible currencies accelerated at a faster rate (index of growth: 157.6%) than lending in Slovak-crowns (index of growth: 112.3%).

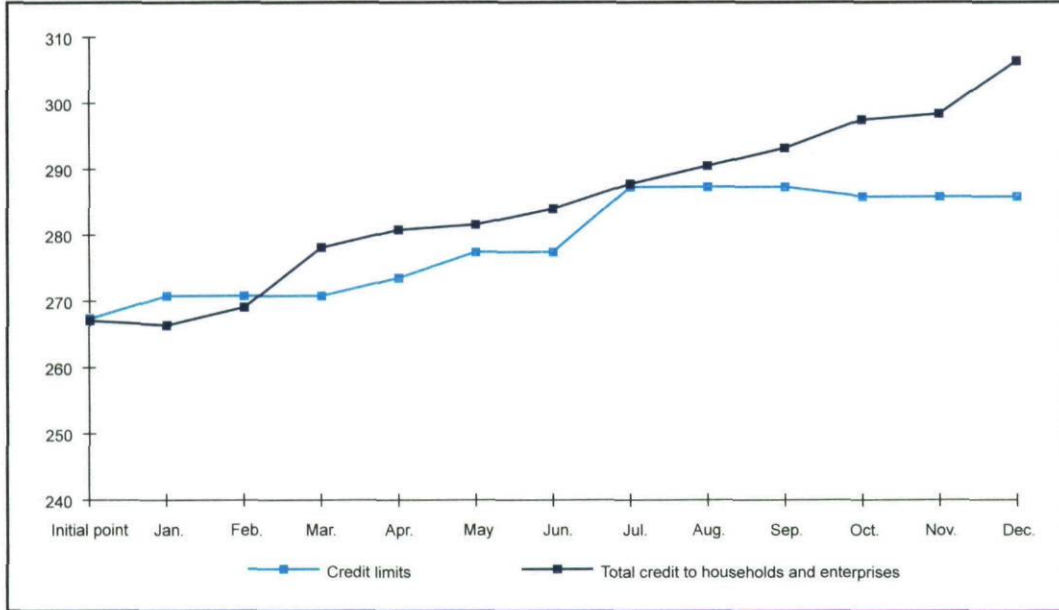
The exceeding of the credit limit determined by monetary-policy objectives considerably influenced the development of lending by banks not subject to credit limit.

The structure of bills of exchange transactions concluded by the NBS in 1995 was as follows:

- rediscounting of bills for the support of agriculture,
- discounting of bills for financing the export activities of domestic producers.

Bank Lending to Households and Enterprises

(Sk billions)



In 1995, the NBS did not have to provide refinancing funds through credit auctions or Lombard loans to bridge over the short-term liquidity problems of commercial banks.

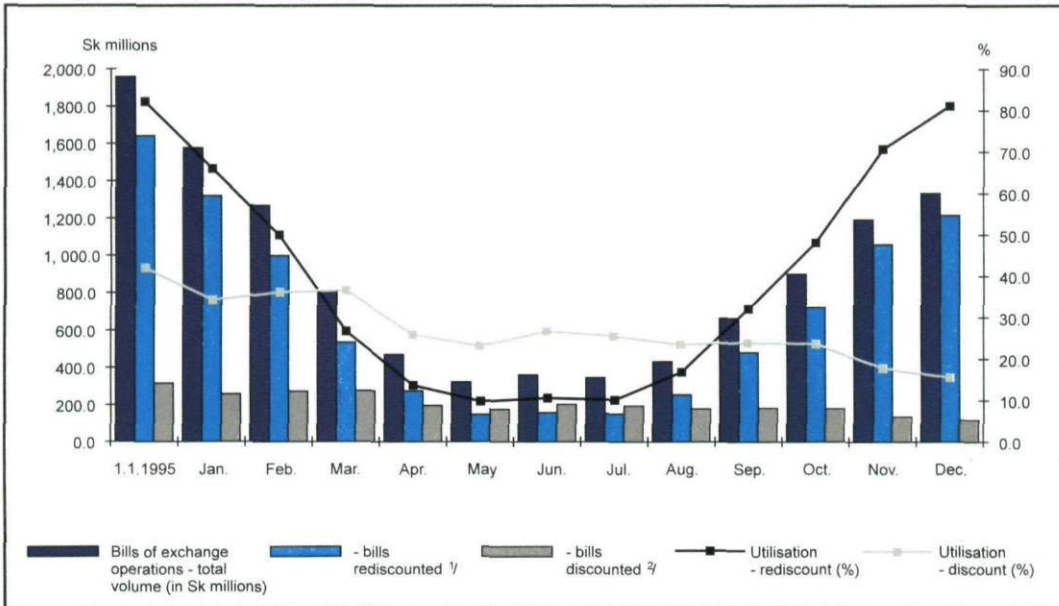
Bills of Exchange Operations of the NBS

(Sk millions)

End-of-month figures	1995											
	1	2	3	4	5	6	7	8	9	10	11	12
Bills of exchange operations in total	1,577.4	1,270.1	810.6	469.8	322.4	360.7	345.6	431.1	662.6	900.0	1,194.4	1,334.0
- rediscounting of bills ^{1/}	1,320.2	998.7	535.2	274.0	147.3	158.7	152.2	253.1	481.4	721.3	1,059.8	1,215.9
- discounting of bills ^{2/}	257.2	271.4	275.4	195.8	175.1	202.0	193.4	178.0	181.2	178.7	134.6	118.1
Utilisation - rediscount (%)	66.0	49.9	26.8	13.7	9.8	10.6	10.1	16.9	32.1	48.1	70.7	81.1
Utilisation - discount (%)	34.3	36.2	36.7	26.1	23.3	26.9	25.8	23.7	24.2	23.8	17.9	15.7

Survey of Bills of Exchange Operations in 1995

(Sk millions)



1/ From January to April 1995, Sk 2,000 million was allocated for the rediscounting of bills; after May 1995, the amount was Sk 1,500 million

2/ The amount earmarked for export promotion was Sk 750 million

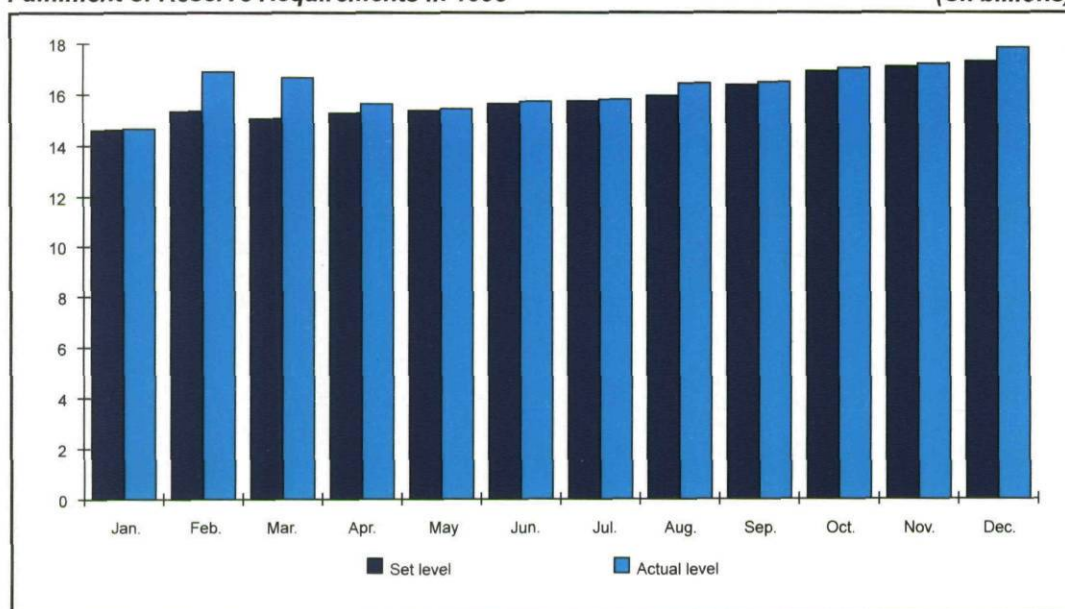
In 1995, the NBS continued to provide redistribution loans to two commercial banks. The volume of loans granted for perpetual stock turnover remained unchanged (Sk 16.7 billion). The volume of loans granted for financing the construction of the Nuclear Power Plant at Mochovce, reduced by repayments (Sk 280 million), amounted to Sk 4.7 billion at 31 December 1995. The volume of preferential redistribution loans provided for housing projects, of which Sk 400 million was repaid in 1995, amounted to Sk 10.7 billion at the end of the year.

The development of required reserves (RR) in the banking sector was characterised by adequate liquid assets, as reflected in the smooth fulfilment of reserve requirements set for the individual months of the year, for the banking sector as a whole, as well as individual commercial banks. This is the reason why bills of exchange operations and other methods of NBS refinancing were not employed.

Fulfilment of Reserve Requirements in 1995 (Sk millions)

	Set level	Actual level
January	14,612.4	14,665.3
February	15,354.0	16,883.5
March	15,055.2	16,647.9
April	15,275.5	15,637.5
May	15,376.1	15,438.7
June	15,645.7	15,728.2
July	15,744.2	15,807.3
August	15,949.1	16,430.7
September	16,366.1	16,480.7
October	16,906.5	17,017.9
November	17,075.2	17,179.4
December	17,276.4	17,825.5

Fulfilment of Reserve Requirements in 1995 (Sk billions)



2.4 Instruments of Monetary Policy

1. Interest rate policy

a) From 1 January 1995:

- Discount rate = 12%;
- Lombard rate = 1% above the current interest rate for auction refinance loans;

- Penalty rate on stand-by loans = three times the discount rate = 36%;
- Penalty rate for exceeding the technical debit of the State budget performance = 18%.

b) From 17 March 1995:

- Discount rate = 11%;
- Lombard rate = 13.1%;
- Penalty rate on stand-by loans = three times the discount rate = 33%.

c) From 6 October 1995:

- Discount rate = 9.75%;
- Penalty rate on stand-by loans = three times the discount rate = 29.25%.

2. Reserve requirements

- The ratio of primary deposits for the calculation of the level of required reserves = 3% of time deposits, 9% of demand deposits, and 1% of building saving deposits (from 1 April 1995).

3. Credit limits

- A direct instrument for the regulation of asset portfolios held by commercial banks;
- Credit limits are imposed only on those banks whose lending exceeds Sk 20 billion.

4. System of refinancing

- The refinancing of commercial banks took one of the following forms:
 - a) Auction refinance loans (monthly) at auction interest rates (not drawn);
 - b) Redistribution loans:
 - Traditional - at a rate of 9.5%;
 - Soft loan - at a rate of 7.5%;
 - c) Lombard loans - loans associated with the pledge of securities at Lombard interest rate (not drawn);
 - d) Rediscounting of bills - bills of exchange are rediscounted at the discount rate; this form of refinancing included bills discounted for export promotion and bills rediscounted for the support of agriculture.

5. Treasury bills

- An effective means of financing the State budget deficit;
- A means of managing the liquidity of commercial banks through:
 - a) Secondary sales and purchases;
 - b) REPO operations (repurchase agreements).

6. NBS bills

- An instrument used by the central bank to influence liquidity of commercial banks via the same trading sectors as for Treasury bills;

7. Exchange-rate and foreign-exchange policy

a) The currency basket of the SKK as of 14 July 1994:

Currency	USD	DEM
Weight	40%	60%
Exchange rate SKK	31.209	20.227

Absolute definition of the currency basket:
 $1 \text{ IDX} = 0.012817 \text{ US\$} + 0.029663 \text{ DEM}$

b) Evaluation of the currency basket of the SKK:

- The turnover of foreign exchange transactions (according to the payment items specified in groups 1 to 6 in convertible currencies) reached a level of Sk 441.8 billion in the period January to November 1995. The average monthly turnover amounted to Sk 40.2 billion, representing an increase of 35.8% compared with the same period of last year. The currency structure of the turnover of foreign exchange transactions was stable in the period under consideration, and corresponded to the structure of the currency basket to which the exchange rate of the Slovak crown is pegged. The leading currencies (DEM and US\$) had a dominant share in this turnover (39.2% and 36.3% respectively). The other European currencies, with a strong correlation to DEM, accounted for 22.5%. Together with DEM, these currencies represented 61.7% of the total turnover. The share of non-continental currencies including GBP was substantially lower (2%), which, together with US\$, accounted for 38.3% of the turnover.

c) Management of the foreign exchange position of commercial banks:

- Approach to NBS foreign exchange fixing in the case of a FXA/FXL ratio (foreign exchange assets / foreign exchange liabilities) was lower than 1.05; i.e. the commercial bank can adjust its foreign exchange position to adjust to the 1.05 coefficient at any time, by the sale or purchase of foreign exchange upon foreign exchange fixing by the NBS.

d) Exchange rate fluctuation:

- The exchange rates of the Slovak crown against fully convertible currencies upon foreign exchange fixing are influenced by the rate of IDX/SKK, which represents the effect of demand and supply on the part of commercial banks. The IDX/SKK rate may move within the fluctuation band ($\pm 1.5\%$).

2.5 Monetary Calendar

January

- 1st January: the Monetary Programme of the NBS for 1995 came into effect;
- 1st January: the Act No. 374/1994 Z.z. of the National Council of the SR on the adoption of measures relating to the State budget of the SR for 1995 (provisional budget) came into effect.

February

- The Association Agreement between the European Union and the Slovak Republic made it possible for Slovak investors to establish and operate enterprises in EU countries from 1st February 1995;
- The Board of the Bank approved a decree stipulating the terms and conditions of rendering exchange office services by legal entities and private individuals, and the NBS Decree stipulating the terms and conditions of transactions in foreign exchange by non-bank entities;
- Release of the 3rd tranche of the loan from the European Investment Bank;
- The first issue of Central Bank bills (NBS bills).

March

- 3rd March: the Board of the Bank approved a decree setting regulations for evaluating the receivables and off-balance sheet liabilities of banks according to the risk incurred and for the creation of resources to cover such risk;
- 17th March: lowering of the discount rate from 12% to 11%;
- The American rating agency Standard & Poor's raised the the hard currency long-term liability rating of the NBS to BB+ with stable outlook.

April

- The decision of Bank's Board to set reserve requirements for building savings banks at 1% of deposits, came into effect.

May

- The Board of the Bank decided to revalue the clearing XCU by 4% with effect from 19 May 1995. The new rate was set at $XCU/ECU = 1.01$;
- 23rd May: the President of the SR appointed Jozef Mudrik as Vice-Governor of the NBS;
- Moody's Investment Service assigned a hard currency debt rating of Baa3 (investment grade) to the SR as represented by the NBS.

June

- The Board of the Bank decided to raise the limit on the sale of foreign currency to citizens for 1995 to Sk 30,000, or the equivalent of US\$ 1,000, with effect from 1 July 1995;
- 27th June: the application of the SR for admission to the EU was officially filed in Cannes.

July

- The signing of an agreement with the European Investment Bank on an ECU 50 million loan for financing small and medium-sized businesses in selected areas of the economy;
- 3rd July; the official fixing of interest rates on the interbank money market BRIBOR was introduced.

September

- The NBS decided to revalue the clearing XCU by 1% with effect from 5 September; thus the value of XCU rose to the ECU level;
- 30th September: the clearing account agreement between the Slovak Republic and the Czech Republic was terminated.

October

- 1st October: the Foreign Exchange Act (No. 202/1995 Z.z.) came into effect. The new law made the Slovak crown convertible for current account payments in accordance with Article 8 of the International Monetary Fund Agreement. At the same time, the NBS decrees issued by the Board to implement the Foreign Exchange Act also came into effect;

- The Board of the Bank decided to lower the discount rate from 11% to 9.75%, with effect from 6 October 1995;
- The NBS included the exchange rate of the Czech crown, and the Czech National Bank that of the Slovak crown, in its official list of daily exchange rates.

November

- The Government of the SR approved the 1996 State Budget Bill (No. 304/1995 Z.z.) with a deficit of Sk 27 billion, a minimum of 5% growth in GDP, and an annual rate of inflation between 6 and 8%.

December

- The Government of the SR approved an amendment to the Banking Act. The amendment introduced mortgage banking and strengthened the powers of the Banking Supervision Department of the NBS;
- 21st December: the Board of the Bank approved the Monetary Programme and Monetary Instruments of the NBS for 1996.

3. INTERNATIONAL RELATIONS AND FOREIGN LOANS

The foreign activities of the National Bank of Slovakia in 1995 were based on the general conception of Slovakia's foreign policy and were determined by the Bank's long-term monetary-policy objectives, as well as its specific tasks for the year.

One of the Bank's priorities in the area of foreign relations was the further improvement of cooperation with major international economic groupings such as the Organisation for Economic Cooperation and Development (OECD) and the European Union (EU). The banking sector gradually fulfilled the requirements for Slovakia's integration into the European Union and OECD in accordance with the country's ambition to gain full membership of these organisations. On 1 February 1995, the Association Agreement between the European Union and the Slovak Republic came into effect.

To achieve the goals in the area of foreign credit and capital relations in 1995, the Bank continued to expand its international activities, which were based on the fulfilment of commitments arising from Slovakia's membership in leading international institutions such as the International Monetary Fund (IMF), the World Bank (WB), the Bank for International Settlements (BIS), the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development (IBRD), and the International Investment Bank (IIB).

An important part of the Bank's foreign activities in 1995 was the further development of bilateral relations, especially the expansion of cooperation with the central banks of neighbouring countries and those of the European Union.

3.1 Foreign Credit and Capital Relations

The International Monetary Fund

In July 1994, the IMF Board of Directors approved, upon agreement with the Slovak Government, a Stand-by loan for the Slovak Republic in the amount of US\$ 183.41 million. Of this loan, only two tranches were drawn in the 2nd half of 1994 in the total amount of US\$ 46.78 million. After talks with IMF representatives, the Government of the SR issued a new memorandum on economic policy in January 1995. In this connection, the Government decided that further tranches would not be drawn from this Stand-by loan in 1995. Due to the favourable development of macroeconomic indicators, especially the growth in foreign exchange reserves in 1995, the Government of the SR did not apply to IMF for the drawing of the remaining part of the Stand-by loan in 1995.

According to the agreement with the International Monetary Fund, the Slovak Republic may draw the remainder of the Stand-by loan in the amount of US\$ 136.63 million by the middle of March 1996.

In meeting the financial obligations of the Slovak Republic, the National Bank of Slovakia ensured the repayment of principal on loans received from the International Monetary Fund according to the schedule of repayments and the payment of interest on the outstanding amount of these loans. In 1995, the NBS repaid US\$ 200.87 million in principal, and US\$ 32.21 million in interest.

On 1 September 1995, the IMF Board of Directors discussed the conclusions drawn from consultations with the Slovak Republic according to Article IV of the IMF Agreement, which are held once a year with each member country. The economic

results of the Slovak Republic, due partly to the monetary policy of the NBS, were evaluated by the International Monetary Fund as very positive.

With effect from 1 October 1995, the Slovak Republic accepted the provisions of Article 8 of the IMF Agreement, in which the Government undertook to make the Slovak crown convertible for payments and financial transactions on the current account of the balance of payments.

The World Bank

The last loan made to the Slovak Republic by the World Bank was a US\$ 80 million Economic Recovery Loan (ERL) in 1994. The remaining part of this loan amounting to US\$ 0.5 million was drawn in January 1995. The borrowed funds were incorporated into the foreign exchange reserves of the NBS, and the equivalent amount in Slovak crowns was transferred to the account of State financial assets.

In meeting the financial obligations of the Slovak Republic, the National Bank of Slovakia paid US\$ 16.67 million in interest on World Bank loans. The repayment of principal of World Bank loans will start in 1997.

In 1995, representatives of the Slovak Government, the NBS, and the ministries concerned continued to negotiate with World Bank officials for an Enterprise and Financial Sector Adjustment Loan (EFSAL) for the restructuring of the country's enterprise and banking sector.

The EXIM Bank of Japan

Two Step Loan

In 1995, the National Bank of Slovakia continued to draw funds under the Two Step Loan which was granted to Slovakia by the EXIM Bank of Japan in 1994 in the total amount of JPY 4,290 million. The loan was earmarked for the support of small and medium-sized private businesses and joint ventures. After the loan agreement had been signed, the first tranche of the loan amounting to JPY 2,145 million was released in March 1994. The funds received were incorporated into the foreign exchange reserves of the NBS. The second tranche of the loan was released on 15 February 1995 in the amount of JPY 1,072.5 million. The third and last tranche of the loan was transferred to the account of the NBS on 16 May 1995 in the amount of JPY 1,072.5 million.

The NBS was in the position of debtor vis-a-vis the Japanese side; the selected commercial banks played the role of mediators and debtors vis-a-vis the NBS. The EXIM Bank of Japan selected the following mediators for the Two Step Loan: Všeobecná úverová banka (VÚB), Československá obchodná banka, foreign branch in Slovakia (ČOB), Slovenská poľnohospodárska banka (SPB), and Tatra banka (TB).

By 31 December 1995, the NBS had released a total of Sk 1,347 million for the above commercial banks (which in JPY represents 99.41% of the loan). By the end of 1995, a total of 172 projects had been financed from these funds.

Economic Recovery Loan

Preparations for the next loan from the EXIM Bank of Japan in the form of joint financing of a World Bank Economic Recovery Loan began on the basis of Slovakia's application for financial assistance from the EU/G-24 countries in the amount of roughly US\$ 300 million. At the meeting of the G-24 in July 1994, the Japanese

government undertook to extend a loan to the Slovak Republic through the EXIM Bank of Japan.

On 28 February 1995, the Government of the SR gave its consent to the conclusion of the loan agreement (Decision No. 115). The agreement between the EXIM Bank of Japan and the Ministry of Finance of the SR was signed on 7 March 1995. The EXIM Bank of Japan released the loan in Japanese yen equivalent to US\$ 60 million.

On 8 May 1995, the EXIM Bank of Japan transferred the whole amount of the loan to the account of the NBS. The funds received were used to strengthen the Bank's foreign exchange reserves; the equivalent amount in Slovak crowns was transferred to the account of the Ministry of Finance of the SR.

The European Investment Bank

Apex Global Loan

In 1995, the National Bank of Slovakia continued to draw funds under the Apex Global Loan (AGL) Agreement signed with the European Investment Bank in 1993 for ECU 28 million. The loan was earmarked for the support of projects in the field of environmental protection, tourism, and energy efficiency improvement. The costs of such projects may be financed from EIB funds up to 50%.

The European Investment Bank selected two commercial banks to channel the funds: Všeobecná úverová banka (VÚB) and Tatra banka.

By the end of 1995, a total of five projects had been submitted to and approved by EIB; four of which were granted full financial assistance, one project received partial financial coverage. The total amount approved for funding was ECU 22.05 million, i.e. roughly 80% of the volume of AGL. By 31 December 1995, the NBS had drawn 7 tranches of the loan (of which, 5 were drawn in 1995) at the request of commercial banks.

With regard to the smooth realisation of the first loan and the large volume of approved funds, the European Investment Bank offered the NBS another loan of the same type. The new loan agreement (Apex Global Loan II) for ECU 50 million was signed in Luxembourg on 18 July 1995.

In addition to the larger volume, AGL II provides more flexible conditions and extended drawing rights.

The AGL and AGL II loans provided Slovak entrepreneurs with the possibility of drawing relatively inexpensive long-term funds, which are still in short supply in the Slovak financial market.

The European Bank for Reconstruction and Development

Slovakia's subscribed capital in EBRD represents 4,267 shares with a nominal value of ECU 10,000 per share. In 1995, the payment of capital deposit, i.e. ECU 12.8 million, continued with five annual instalments amounting to ECU 2.56 million, i.e. US\$ 2,987,779.

By the end of 1995, EBRD had financed a total of 13 investment projects in the Slovak Republic (of which, six projects in 1995) in the total amount of ECU 367.7 million. Projects were approved in the amount of ECU 321.7 million. Nine transactions were funded directly, and four projects were financed through investment funds, credit lines, and so-called multi-project techniques. Most of the

funds (84%) were invested in the private sector, only three transactions were backed by government guarantee.

Bank for International Settlements

In 1993, at the request of the NBS and the CNB, the Bank for International Settlements (BIS) cancelled the originally Czechoslovak issue of 8,000 shares and replaced it with Slovak and Czech issues. According to the resolution of the Extraordinary General Meeting of BIS in 1993, the NBS acquired 2,670 shares, with a nominal value of 2.500 gold francs each, and membership in BIS. The NBS has a 0.56% share in the subscribed capital of BIS. However, the importance of NBS membership in this renowned and experienced international financial institution (founded in 1930) by far outweighs the actual size of NBS share. The above mentioned capital participation grants the NBS the right to vote (corresponding to the weight of its shares) and the right of representation at annual general meetings.

On the basis of its capital participation, the NBS received dividends worth CHF 667,500 for the fiscal year 1994/95 (ending 31 March 1995). The equivalent amount in Slovak crowns represented Sk 16,921,800.

Payments Between the SR and the CR

Mutual payments and settlement between the SR and the CR continued according to the Clearing Account Agreement, which came into effect on 4 February 1993. The Clearing Account Agreement between the SR and the CR was terminated by the Czech side with effect from 1 October 1995. Subsequently, the two central banks agreed to include the other country's currency in their daily lists of exchange rates.

After the termination of the Clearing Account Agreement, it was necessary to settle the clearing account balance up to the amount of the credit limit, i.e. ECU 130 million, which the Czech side owed to the NBS.

On 14 December 1995, an agreement was signed between the governments of the SR and the CR on settlement of the clearing account balance and the balance of receivables and payables of businesses in the two republics after the termination of the Clearing Account Agreement of 4 February 1993. According to this agreement, three-quarters of the credit limit was to be settled in freely convertible currency (the payment was made by the CR on 19 December 1995), and one-quarter through supply of Czech made products. On the basis of this inter-state agreement, the two sides started to make preparations for the signing of an agreement between the NBS and ČSOB, a.s. on the technical and financial conditions for the discharge of the Czech Republic's obligations to the Slovak Republic arising from the termination of the Clearing Account Agreement, and an agreement on financial transactions between the Ministry of Finance of the SR and the NBS in account No. 8010-026564903/0300 at ČSOB, a.s. Prague. According to the specified technical agreements, one-quarter of the credit limit will be discharged through the delivery of goods.

Czechoslovak Commercial Bank (ČSOB)

In 1995, ČSOB (Československá obchodná banka, a.s.) continued to play a significant role in Slovakia's cross-border payments within the framework of international trade. The capital participation of the NBS in ČSOB, a.s. amounted to Kč 1,232 million (Sk 1,441 million). The NBS held a total of 1,978 shares, representing a 24.13% stake in the equity capital of ČSOB. A further 847 shares were owned by

other Slovak shareholders. At 31 December 1995, Slovakia's total share of ČSOB equity amounted to 25.79%.

In July 1995, the National Bank of Slovakia received dividends from ČSOB for 1994 in the total amount of Kč 104,694,500. In 1995, the NBS was represented on the Supervisory Board of ČSOB.

The International Investment Bank and the International Bank for Economic Cooperation

The NBS conducted activities arising from Slovakia's membership in the International Investment Bank (IIB) and the International Bank for Economic Cooperation (IBEC), and pushed for measures designed to improve the difficult financial situation of banks due to the non-payment of loans by some member states.

The Slovak Republic has a 6% share in the equity capital of IBEC, with paid-up capital amounting to ECU 8.6 million. The share of the SR in the equity capital of MB is 4.83%, with paid-up capital amounting to ECU 10.4 million. In 1995, the Slovak Republic received dividends from MB for 1994 in the amount of US\$ 313,916.25. IBEC paid no dividends in 1995.

At its autumn session in Krakow, the Board of MB decided to create the post of fourth vice-chairman of the General Meeting of MB. The new post was to be held by a representative of the SR from 1 January 1996. In 1995, the Slovak Republic was represented in IBEC by a member of the General Meeting.

Agreements on Taking Over the Financial Obligations of the Former CSFR

AB Svensk Exportkredit (Sweden)

On 18 January 1995, NBS Governor V. Masár signed an agreement with AB Svensk Exportkredit, representing the Swedish government, on taking over the loan extended to the government of the former CSFR by Sweden in 1991 for the support of the country's balance of payments. Within the division of the federal property, the Slovak Republic inherited financial obligations in the amount of US\$ 8.3 million; the NBS acting as the Government's representative.

The European Union

On 13 April 1995, NBS Governor V. Masár signed an agreement between the European Economic Community (EEC) and the SR on taking over loans extended to the government of the former CSFR by the European Community (represented by the European Commission) in 1991 and 1992, for the support of the country's balance of payments. Within the division of federal property, the Slovak Republic inherited financial obligations in the amount of ECU 125 million; the NBS acting as the Government's representative.

Finnish Export Credit (Finland)

On 2 November 1995, NBS Governor V. Masár signed an agreement concluded between Finnish Export Credit Ltd (creditor), the Slovak Republic (debtor), and the National Bank of Slovakia (debtor's agent) on the taking over of loans granted to the former CSFR in 1991 and 1992, for the support of the country's balance of payments. As successor to the former CSFR, the Slovak Republic took over financial obligations in the amount of US\$ 5 million.

3.2 Foreign Relations of the NBS with Respect to Slovakia's Integration into the European Union

The European Union

With the Europe Agreement Establishing an Association between the European Communities and their Member States, of the one part, and the Slovak Republic on the other part (Europe Agreement) coming into effect on 1 February 1995, Slovakia gained a qualitatively new position in relation to the European Union.

The implementation of the Europe Agreement in the field of banking in line with the time schedule, i.e. during a temporary period of roughly 10 years, forms the basis for the creation of a legal and economic environment compatible with that of the European Union.

During 1995, in accordance with Article 104 of the Europe Agreement, a supreme joint authority was constituted for the implementation of the Agreement - the Association Board. Under Article 108 of the Agreement, an Association Committee was established to facilitate the implementation of measures recommended by the Association Board. By Decree No. 10 of 3 January 1995, the Slovak Government established a government committee to coordinate the integration of the SR into the European Union. The NBS had a representative on the Government's committee for Slovakia's integration into the EU.

The material aspects of creating a legal environment in Slovakia compatible with that of the EU are specified in the 'White Book - Preparation of Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the EU', which was prepared and approved, after consultations with the individual associated countries, by the European Commission on 3-10 May 1995. After approval at the meeting of the European Committee in Cannes in June 1995, the White Book became the official document of assistance to the associated countries in their integration into the EU.

In the appendix, the White Book presents 23 official regulations governing the internal market of the EU. The National Bank of Slovakia is directly involved in the regulations governing the free flow of capital (Chapter 1) and the internal market of financial services (Chapter 13). The individual chapters of the White Book are being analysed by groups of experts specially appointed for this purpose. The NBS is represented in the following groups: Free Flow of Capital, Financial Services, Protection of Personal Data, Accountancy, and Customs Union.

To support the implementation of the directives laid down in the White Book on banking and public finance, and the articles of the Association Agreement, the EU established the PHARE Programme of technical assistance. The aim of technical assistance under PHARE is to support the development of central banks and the restructuring and privatisation of commercial banks. The PHARE Programme is based on Slovakia's ambition to join the EU in the near future, its prime task is therefore to ensure the implementation of the Europe Agreement as described in the White Book by 1999.

PHARE Programme

The Project Management Unit (PMU) of PHARE at the Foreign Department of the NBS was established to control and coordinate the implementation of programmes designed to strengthen the position of the central bank, and to ensure long-term stability of the banking sector.

Since 1995, funds within the PHARE Programme have been applied directly by PMU PHARE in the form of financial aid. Upon approval by the European Commission, the PMU keeps the funds allocated within the framework of individual work programmes (WP) in the nostro account of the NBS at the Bank Generate in Brussels. In this way, the allocated funds benefit the foreign exchange reserves of the NBS.

In 1995, technical assistance to the NBS and Slovak commercial banks under PHARE was requested simultaneously by financial resolutions, especially the financial resolution of 1993 and the remaining funds of GTAF 2, which were allocated to the PMU before 1995 and which were subject to special requirements.

Within the framework of the WPI 9302 and WPII 9302 working programmes, a total of ECU 1,444,461 was provided, i.e. roughly 73% of the total volume of funds to be granted before the end of the three-year term of validity of the 1993 financial resolution. Of the remaining funds of GTAF 2, ECU 87,775 was granted for the FOREX training programme.

In December 1995, within the framework of the Indicative Programme and the Country Operational Programme 1995, a total of ECU 1.8 million was allocated for the banking sector. These funds may be drawn by 31 July 1998.

The most significant PHARE activity in 1995 was the implementation of a project for the Investment and Development Bank, a.s. A Consortium of AIB International Consultants of Ireland in close cooperation with Gartside Miller Associates of Great Britain, and Grupo Espirito Santo of Portugal, worked on the project designed to strengthen the strategy and activity of this bank with the aim of ensuring its primary position among Slovak investment banks.

As one of the long-term priorities of the PHARE Programme is to ensure the stability of the Slovak banking sector, the Fund regularly allocates resources to the Banking Supervision Department of the NBS. In addition, the Bank has acquired a special advisor for long-term cooperation in the person of Mr Philippe Aquera, general inspector of the Bank of France, whose responsibilities are coordinated with the requirements of the Monetary and Exchange Affairs Department of the International Monetary Fund.

Though the restructuring of the Slovak banking sector is still awaiting major decisions, the PHARE programme has allocated considerable amounts for projects of technical assistance, which will be available for the banks as soon as the method of their restructuring has been approved. In May 1995, the Bank's Foreign Department obtained a special advisor to PMU PHARE in the person of Mr Charles De Smet, who has prepared and coordinated technical assistance projects for Slovak commercial banks, and who has prepared a so-called twinning programme for Všeobecná úverová banka, a.s. (VÚB).

In the field of training, the PHARE Programme funded a large-scale project in connection with the introduction of par-time banking study. In accordance with the results of public tender, the implementation of the project will be coordinated by Instituto de Formacao Bancaria of Lisbon, a Portuguese-French-Austrian consortium.

Organisation for Economic Cooperation and Development

In accordance with the priorities of foreign activities, the Slovak Republic applied for full membership of the Organisation for Economic Cooperation and Development (OECD) in February 1994. In November 1995, the Economic Department of OECD

dispatched a mission to the SR with the aim of obtaining data for the preparation of the 'Economic Survey of the SR'. During the mission, the OECD representatives paid a visit to the NBS to discuss the country's macroeconomic results, monetary-policy objectives, and foreign exchange policy. With regard to Slovakia's integration into OECD, a matter of key importance for NBS is the application of the liberalisation codes of OECD in the field of capital flow and current invisible transactions. With regard to the fact that the NBS had some objections to the chapters of the Code of Liberalisation concerning capital flows and current invisible operations, negotiations were held between the NBS and OECD, during which the Bank's representatives explained the philosophy behind the new foreign exchange legislation, and the principle of non-discrimination and deregulation of the balance of payments current account. In accordance with the requirements of OECD and the EU, the NBS made preparations for the amendment to Banking Acts No. 21/1992 Zb. and 264/1992 Zb. The Foreign Department initiated the removal of reciprocity and the liberalisation of the foreign exchange regime in line with the requirements of OECD.

In 1995, the NBS held negotiations with the highest representatives of OECD and provided information about the Slovak banking sector for the 'Economic Survey of the SR' and the 'Survey of the Financial and Banking Sector of the SR'. During preparation of the planned liberalisation of foreign exchange operations and its time schedule, the NBS coordinated the activities of OECD and the EU. In the course of 1995, cooperation between representatives of OECD and NBS was very intense with regard to the important position of the NBS and the Ministry of Finance of the SR in the evaluation and liberalisation of financial flow from the Slovak Republic to OECD countries.

World Trade Organisation

On 1 January 1993, the Slovak Republic joined the General Agreement on Tariffs and Trade (GATT). In this way, Slovakia took over the rights and obligations of the former CSFR to GATT member states, and commenced the application of customs duties based on the most-favoured-nation clause, in respect of all GATT member countries.

As a full member of GATT, the Slovak Republic took part in the Uruguay round of multilateral trade negotiations, where the member countries of GATT verified Slovakia's List of Customs Concessions and the List of Initial Obligations in Trade and Services, which is a key part of GATS (General Agreement on Trade in Services). In this way, the Slovak Republic acquired all rights to become one of the founding members of the World Trade Organisation (WTO), which commenced operations on 1 January 1995.

The establishment of WTO and Slovakia's membership in this organisation means that international trade will be conducted in accordance with the agreed rules which guarantee that the member countries will pursue a non-discriminative and open trade policy under the supervision of the other member states. The rules of this organisation will gradually remove trade policy instruments which create barriers in foreign trade relations.

In 1995, talks on the liberalisation of trade in financial services continued within the framework of WTO. The session of the WTO Committee for Financial Services and the bilateral talks with the US in May 1995 were attended by the representative of the NBS. In July 1995, the Slovak Republic submitted a revised List of Concessions in Trade in Services and in the field of financial services in accordance with the new Foreign Exchange Bill and the amendment to the Banking Act.

In June 1995, the delegation of the SR (in which the NBS was represented by Vice-Governor M. Jusko) took part in the negotiations on the extension of the validity of the 10% surcharge on imports at a meeting of the Committee for Balance of Payments of WTO in Geneva. The Committee agreed with the application of the import surcharge until not later than 30 June 1996.

The Secretariat of WTO included the Slovak Republic in the list of countries required to submit a survey of their trade policies to other member countries for approval. Two such surveys had been prepared. The first survey of trade policy was prepared by the staff of the Secretariat of WTO based on data obtained during their first visit to Slovakia in March 1995. The second survey submitted to WTO by the Slovak Government, was prepared by the staff of the Ministry of the Economy in cooperation with other ministries. In December 1995, the two surveys of Slovakia's economic policy were discussed in the relevant committee of WTO. The course and results of this presentation, which was attended by NBS representatives, confirmed that the SR has received a favourable evaluation as far as its trading practices and legislation are concerned.

Loans Received

At the end of December 1995, the structure of loans received by the National Bank of Slovakia was as follows:

Source	Type of loan	Year of maturity	Volume of loan		
			in foreign currency		in SKK
			currency	amount (thousands)	amount (thousands)
EXIM Bank of Japan	Two Step Loan	2009	JPY	4,290,000	1,236,979
European Investment Bank	Apex Global Loan	2008	USD	10,514	310,880
			DEM	5,785	119,439
			CHF	10,813	277,327
			FRF	16,600	100,164
International Monetary Fund	Compensatory and Contingency Financing Facility (CCFF) Stand-by Loan I	1997	SDR	36,247	1,593,197
		1999	SDR	110,446	4,854,555
		2004	SDR	128,700	5,656,880
		2004	SDR	32,150	1,413,121

Capital Participation

At the end of December 1995, the National Bank of Slovakia had interests in the following financial institutions:

	Number of shares	Book value			Share in capital (%)
		in foreign currency		in SKK	
		currency	amount (thousands)	amount (thousands)	
Shares and other variable dividend securities of which: Bank for International Settlements (BIS), Basle, Switzerland	2,670	GF	6,675	24,816 24,784	0.56
Shares in other banks and institutions of which: Czechoslovak Commercial Bank (ČSOB, a.s.), Prague, Czech Republic	– 1,978	– CZK	– 1,231,700	1,484,724 1,364,724	– 24.13

4. FINANCIAL MARKET DEVELOPMENTS

4.1 Money Market

To cover the State budget deficit, the Ministry of Finance launched 33 issues of Treasury bills in 1995, i.e. 27 less than in the previous year. In all cases, the sale of Treasury bills was organised in the form of American-style auctions, whereby the volume of issues was not announced in advance.

Review of Treasury-bill Issues in 1995

Registration Number	Date of issue	Date of maturity	Time to maturity	Volume of T-bills sold (pcs)	of which: to NBS	Average interest (% p.a.)
50202001	5 January	2 February	28	2,561	200	5,901
50902102	12 January	9 February	28	0	0	-
50604303	12 January	6 April	84	528	48	7,765
51602104	19 January	16 February	28	880	80	4,932
52302105	26 January	23 February	28	0	0	-
50203106	2 February	2 March	28	0	0	-
50903107	9 February	9 March	28	1,155	105	2,446
51603108	16 February	16 March	28	2,200	200	2,691
51008609	16 February	10 August	175	880	0	6,450
52303110	23 February	23 March	28	0	0	-
53003111	2 March	30 March	28	1,157	105	2,551
50604112	9 March	6 April	28	610	0	2,213
51304113	16 March	13 April	28	1,320	120	2,206
50712914	16 March	7 December	266	2,850	0	7,639
52004115	23 March	20 April	28	836	76	1,951
52704116	30 March	27 April	28	0	0	-
50405117	6 April	4 May	28	0	0	-
51105118	13 April	11 May	28	0	0	-
51805119	20 April	18 May	28	0	0	-
51307320	20 April	13 July	84	0	0	-
52505121	27 April	25 May	28	100	0	3,169
50806122	11 May	8 June	28	1,375	125	3,915
51506123	18 May	15 June	28	484	44	4,507
50911624	18 May	9 November	175	2,970	0	5,989
52206125	25 May	22 June	28	2,045	180	4,081
51611126	19 October	16 November	28	1,999	200	3,900
53011127	9 November	30 November	21	2,499	200	6,018
51412128	16 November	14 December	28	2,500	250	6,875
52112129	30 November	21 December	21	2,000	200	6,835
52112130	7 December	21 December	14	5,000	500	6,845
52609931	14 December	26 Sep. 96	287	4,000	0	7,579
50310932	21 December	3 October 96	287	7,830	0	7,354
51010933	28 December	10 October 96	287	3,000	0	7,462

The Ministry of Finance of the SR sold Treasury-bill issues with the following maturities:

28 days, or up to 28 days:	25 issues
84 days:	2 issues
175 days:	2 issues
266 days:	1 issues
287 days:	3 issues

The volume of Treasury bills issued in 1995 totalled Sk 50.8 billion, falling behind the previous year's figure by Sk 78.2 billion. This development was due to the balance of the State budget, which ranged from a surplus of Sk 2.9 billion to a deficit of Sk 10.2 billion. The average volume of Treasury bills sold was roughly Sk 1.5 billion per auction, i.e. Sk 0.7 billion less than in the previous year. At 9 auctions, the Ministry of Finance did not accept a single bid. At the remaining 24 auctions, the volume of accepted bids ranged from Sk 0.1 billion to Sk 7.8 billion at par values.

In 1995, the largest Treasury-bill investors were the commercial banks. They had a 94% share in the volume of Treasury bills sold on the primary market. In comparison with 1994, the number of direct investors registered in the NBS short-term securities register increased to 28, from 23. Non-bank investors had only a 1% share in the volume of primary trading in the period under review, due to the relatively low rates on the primary market. On the primary market, the National Bank of Slovakia purchased Treasury bills with maturities up to 3-months, in the amount of max. 10% of the total volume accepted at auction. The National Bank of Slovakia had a 5% share in the volume of primary trade on the Treasury-bill market.

Development in 1995 was marked by excessive liquidity in the banking sector. Due to the absence of Treasury bills on the market, the Bank made an issue of its own bills (NBS bills) to reduce the level of liquidity in the banking sector. Regular issues of NBS bills began in August. The National Bank of Slovakia sold a total of 18 issues by Dutch auction and 3 issues for its own portfolio. The NBS used these three Treasury-bill issues for reverse REPO deals as part of open market operations.

The maturity of these issues varied considerably, between a minimum of 5 and a maximum of 30 days. Before October, central bank bills had been issued exclusively with a maturity of 14 days; in November and December, the Bank began issuing 1-month bills for trading on the secondary market.

In 1995, the volume of NBS bills sold on the primary market totalled Sk 127.8 billion, of which bills worth Sk 97.8 billion were sold at auction, and Sk 30 billion for the Bank's own portfolio. The minimum volume of NBS bills sold at a single auction was Sk 1 billion, the maximum amounted to Sk 16.367 billion. Of each issue made for the Bank's portfolio, bills were sold in the amount of Sk 10 billion.

Interest rates on the primary market for NBS bills were influenced by the fact that interest receipts on NBS bills are subject to 15% withholding tax. The interest rates accepted in primary sale showed a tendency to increase. They were most influenced by short-term interbank deposit rates.

Survey of NBS Bill Issues in 1995

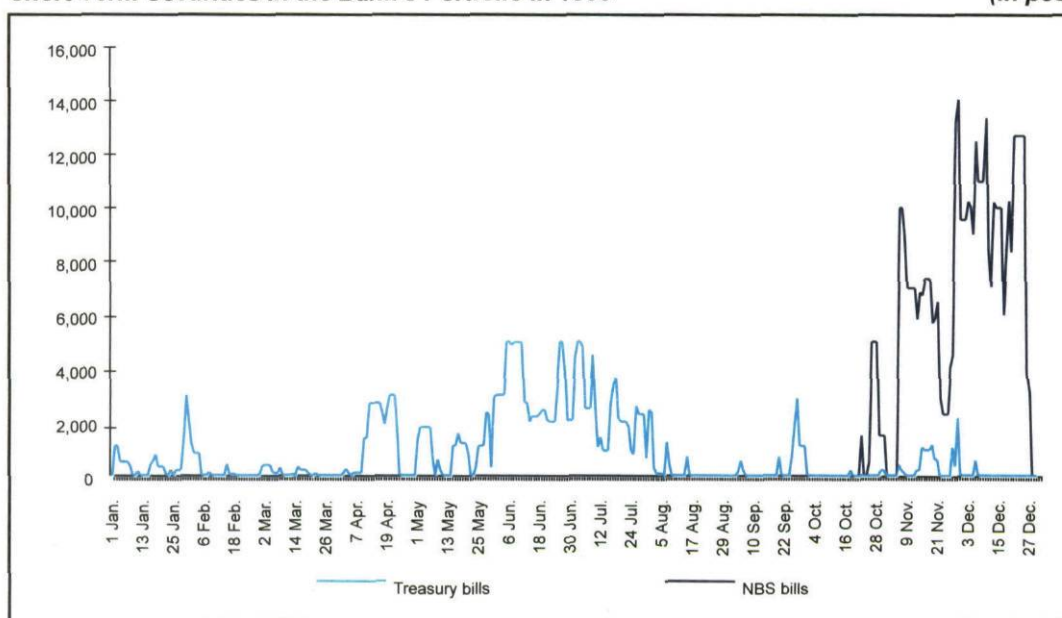
Survey of NBS Bill Issues in 1995 No. of issue	Date of issue	Date of maturity	Time to maturity	Volume of bills sold (pcs)	Accepted interest (% p.a.)
92402001	17 February	24 February	7	4,130	3.20
90505002	21 April	5 May	14	1,050	3.97
91205003	5 May	12 May	7	2,600	4.29
91808004	11 August	18 August	7	2,650	5.50
93008005	16 August	30 August	14	4,000	5.30
93108006	23 August	31 August	8	1,900	5.50
90709007	31 August	7 September	7	5,997	5.30
91409008	7 September	14 September	7	6,650	5.30
92109009	14 September	21 September	7	1,350	5.30
92809010	21 September	28 September	7	11,810	5.30
91210011	2 October	12 October	10	2,040	5.30
91210012	5 October	12 October	7	4,400	5.30
91910013	12 October	19 October	7	10,259	5.30
90211014	19 October	2 November	14	16,367	4.25
92311015	2 November	23 November	21	7,540	5.50
90512016	7 November	5 December	28	10,000	X
92112017	23 November	21 December	28	4,084	7.20
92912018	29 November	29 December	30	10,000	X
92912019	5 December	29 December	24	10,000	X
91801020	21 December	18 January 96	28	4,860	7.40
90301021	29 December	3 January 96	5	6,150	7.20

In addition to issuing its own securities, the NBS applied the following open market operations to influence the level of liquidity and interbank deposit rates:

- trading in short-term securities (Treasury bills and NBS bills) on the basis of repurchase agreement, i.e. refinancing and reverse REPO operations,
- direct purchase and sale of Treasury bills and NBS bills (i.e. purchase and sale until maturity).

In 1995, the National Bank of Slovakia concluded transactions on the secondary market in short-term securities in the amount of almost Sk 586 billion, with a balance amounting to Sk 29 billion in favour of purchase. In comparison with 1994, the volume of trade increased by roughly Sk 551 billion, due to the increase in the number of investors in short-term securities, increased interest in short-term securities, and, in particular, the management of liquidity in the banking sector by the National Bank of Slovakia through open market operations. The NBS laid great emphasis on secondary trading through REPO deals with a maturity of up to 7 days. In 1995, the average daily volume of short-term securities in the Bank's portfolio amounted to Sk 1.4 billion.

Short-Term Securities in the Bank's Portfolio in 1995 (in pcs)

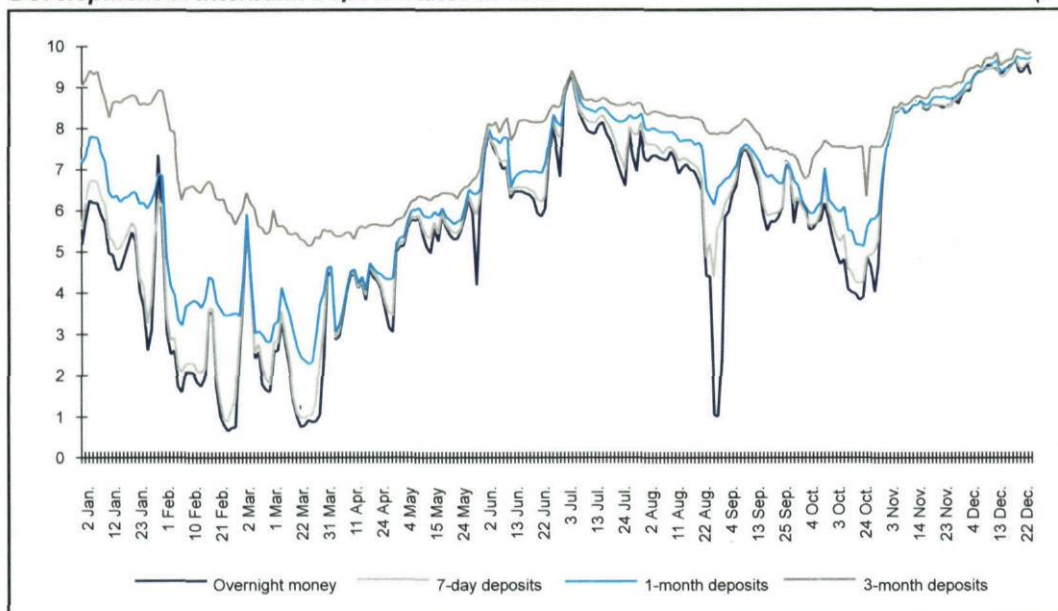


The National Bank of Slovakia set the daily fixing rates for interbank deposits on the basis of quotes of eight reference banks. With regard to the increased transparency of interest rates, the situation on the interbank market required standardised interest rates. For that reason, the NBS initiated the introduction of Bratislava InterBank Offered Rates (BRIBOR), as official interbank deposit rates for 1-month and 3-month deposits in July, and for 2-month deposits in October. BRIBOR represents an important source of information for the NBS about the actual situation on the money market, and necessary for its operations on the open market. For commercial banks, BRIBOR represents a survey of interest rates on the interbank deposit market.

Over the course of 1995, interest rates on interbank deposits displayed considerable fluctuations. At the end of the year, interbank deposit rates began to stabilise, due primarily to central bank intervention. At the same time, this period was a turning point in the course of influencing the money market, as positive real interest rates were achieved on short-term interbank deposits as well.

Development of Interbank Deposit Rates in 1995

(%)



The National Bank of Slovakia conducted operations on the open market in the form of REPO deals, direct trading, and issues of own bills, to influence the level of liquidity in the banking sector, and the development of interbank deposit rates.

4.2 Capital Market

Under Act No. 184/1994 Z.z. on Slovak government bonds and Act No. 141/1995 Z.z. on the issue government bonds to cover the 1994 State budget deficit, a total of ten government bond issues were launched in 1995 (issues 010 to 019) in the total amount of Sk 38,166 million. The issues were sold by American-style auction with unlimited issue-amount.

Issues of Government Bonds in 1995

No. of issue	Date of issue	Maturity in years	Par value in Sk	Yield in %	Yield payment	Demand in Sk thousands		Yield until maturity in %		
						total	accepted	min.	average	max
010	28.2.1995	4	10,000	11.00	semi-annually	4,630,000	2,310,000	10.84	11.26	11.49
011	16.5.1995	5	10,000	10.90	semi-annually	7,230,000	6,040,000	10.00	10.97	11.10
012	15.6.1995	3	20,000	10.50	semi-annually	7,460,000	620,000	10.50	10.50	10.50
013	27.6.1995	2	10,000	10.00	semi-annually	5,560,000	4,460,000	9.99	10.17	10.28
014	18.7.1995	2	10,000	9.50	semi-annually	3,000,000	1,670,000	9.50	10.16	10.20
015	31.8.1995	3	10,000	9.50	semi-annually	6,430,000	4,860,000	9.50	10.13	10.25
016	14.9.1995	4	20,000	10.00	semi-annually	5,760,000	4,260,000	10.00	10.18	10.20
017	28.9.1995	5	20,000	9.80	semi-annually	8,620,000	6,640,000	9.80	10.00	10.08
018	12.10.1995	3	50,000	9.00	semi-annually	6,060,000	4,000,000	8.89	9.59	10.12
019	23.10.1995	4	50,000	9.50	semi-annually	7,340,000	3,305,500	9.40	9.48	9.50
Total						62,090,000	38,165,500			

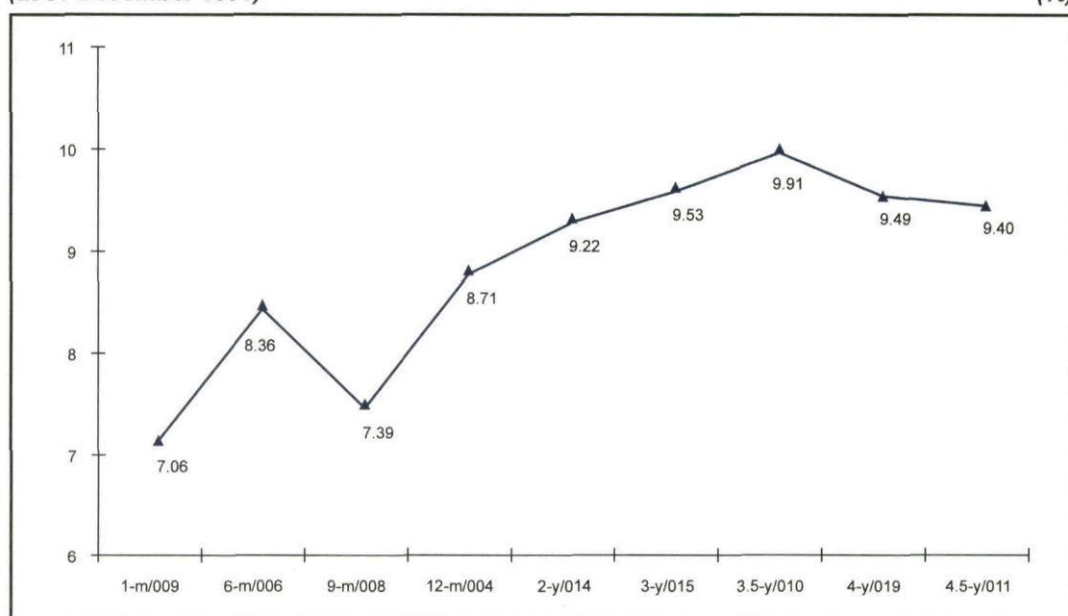
The government bond auctions held in 1995 were attended by 21 commercial banks, which purchased bonds at a book value of Sk 37,387 million. Non-bank entities purchased government bonds in the amount of Sk 500 million, representing 1.3% of the total volume of bonds sold at auction.

At the end of 1995, the volume of government bond issues (No. 001 to 019) totalled Sk 55,096 million, and the volume of existing bond issues reached Sk 54,096 million. The difference was caused by the redemption of the 007 issue in the amount of Sk 1,000 million in February.

The positive consequences of government bond issues in 1995 were the following:

- through issues of bonds in the period under review, the government fully repaid the direct credit it had received from the National Bank of Slovakia for covering the 1993 State budget deficit amounting to Sk 15,100 million;
- the bond issues fully covered the 1994 State budget deficit in the amount of Sk 22,854 million;
- the issues reduced excessive liquidity in the banking sector in the total amount of Sk 37,387 million;
- the yield curve of government bonds issues sold on the primary market was augmented and reduced, providing a useful indicator for potential issuers of fixed-interest securities;
- the spread of yields on the total demand gradually decreased at auctions, the yield spread fell from 7.77% (Issue No. 011) to 1.88% (Issue No. 019);
- the total amount of government bonds issued increased from Sk 16,930 million to Sk 54,096 million, representing an increase of 219.5%, compared with the figure for 31 December 1994.

Yield Curve of Government Bond Issues on the Primary and Secondary Market (at 31 December 1995)



In 1995, the volume of publicly negotiable non-government bonds issues (corporate and municipal bonds) gradually increased, while the most significant increase was recorded in the second half of the year. The total volume of bonds issued reached Sk 10,940 million, representing an increase of 726.3% compared with the figure for 1994.

A positive development in the issue of non-government bonds was, in addition to the growth in volume, the increase in maturity and decrease in yield, due to the reduction of inflation and the issue of government bonds. The average yield fell to 14.75% in 1995, from 19.03% in 1994.

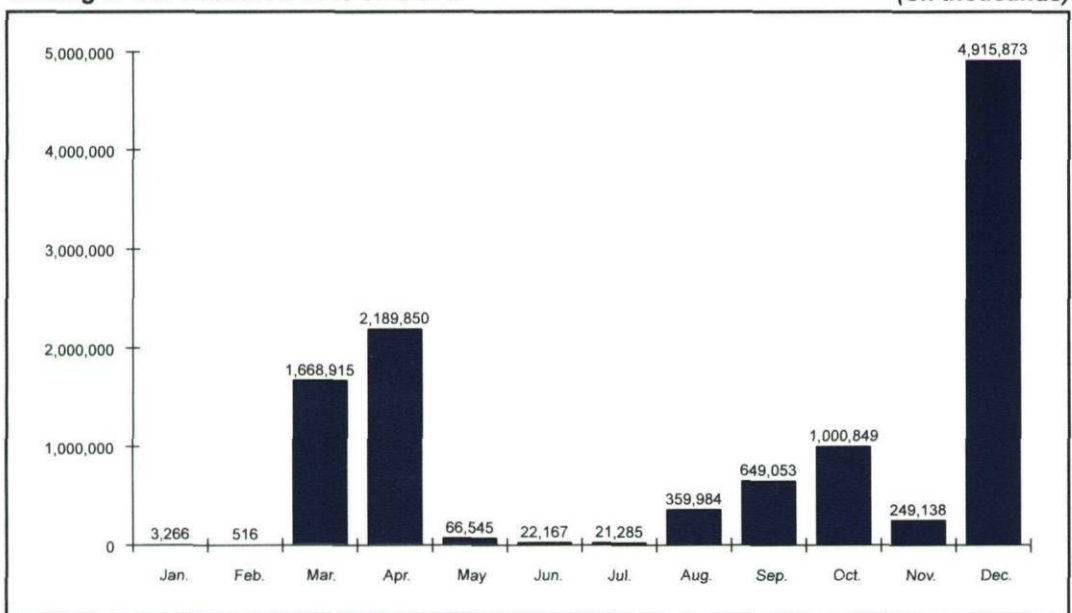
Certificates of deposit were issued by commercial banks in the total amount of Sk 4,710 million, representing an increase of 119.1% compared with the 1994 figure (issuers: ČSOB, VÚB, Slovenská sporiteľňa, Polhobanka, IRB, Poštová banka, Prvá komunálna banka, and Istrobanka).

Over the course of 1995, eleven issues of government bonds (No. 009 to 019) were traded on the Bratislava Stock Exchange (BCPB). With completion of trading in the 007 issue in February, a total of 15 issues of government bonds had been traded on the market in the amount of Sk 49,286 million by the end of December 1995.

Trading in bonds on BCPB was affected by the high level of liquidity in the banking sector, falling interest rates on the interbank market, and the issue of government bonds on the primary market.

In January and February 1995, the market was characterised by continuing absence of offers for sale. This development was due mainly to the reduction in interest rates on fixed-interest securities and the resulting lack of interest in selling assets, which paid high yields compared with the potential return on investment. Trading in February was influenced by a new issue of government bonds (Issue No. 010) with a maturity of 4 years, designed to confirm the trend in interest rates on fixed-interest securities with medium-term maturity.

Trading in Government Bonds on BCPB (Sk thousands)



In March and April, BCPB saw the largest trading volumes since the beginning of trading in government bonds. This development was due mainly to the high level of liquidity in the banking sector, the issuer's reluctance to accept bids for the 010 issue (Sk 2,320 million), and the generally high demand for bonds issued by non-bank entities. The subsequent three months witnessed a sharp decline in trading due to the increased interest of investors in the primary market for government bonds. Between August and October, the monthly volumes of transactions in government bonds significantly increased. This growth was due mainly to the amendment to the Securities Act, which allowed trading in securities solely on the public market. The last two months of the year were marked by a sharp decline in trading, for more or less the same reasons as during the first months of the year. The only exceptions were four direct transactions in the 011 issue totalling Sk 4,884 million in December, which should only be regarded as an increase in the market valuation of the portfolios held by the owners of this issue.

With regard to the Bank's activity on the bond market, the last day of October 1995 was an important event: the NBS started trading on the Bratislava Stock Exchange. The total volume of transactions reached Sk 2,303 million at the end of the year. These transactions were conducted in accordance with the National Bank of

Slovakia Act No. 566/1992 Zb. passed by the National Council of the SR, with the aim of providing refinancing funds for commercial banks.

A positive aspect of trading in government bonds was the fact that the yield curve of government bond issues on the secondary market gradually stabilised. Another positive development was that government bonds continued to have a decisive share in the volume of trading on BCPB. In 1995, transactions in government bonds accounted for 92.4% of the volume of trade in listed bonds (compared with 75% in 1994). Government bonds accounted for 72.7% (71.5% in 1994) of the total volume of bond transactions, and 27.8% (9.7% in 1994) of the total volume of trade on the Bratislava Stock Exchange.

In a breakdown of government bond holders, the share of commercial banks increased in 1995 to 95.6%, from 89% (at 31 December 1994), due mainly to their high proportion of purchases on the primary market. In proportion to this increase, the share of corporate investors fell to zero, from 1.2%. The share of individual investors remained virtually unchanged.

Structure of Bondholders at 31 December 1995 (Sk thousands)

Issue No.	Commercial banks	Corporate investors	Individual 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	876,505	1,067,770	5,725	0	0	1,950,000
005	71,270	735	3,995	0	0	76,000
006	987,270	118,470	18,260	0	0	1,124,000
008	4,239,440	217,500	3,060	0	0	4,460,000
009	3,448,000	52,000	20,000	0	0	3,520,000
010	2,122,030	147,970	40,000	0	0	2,310,000
011	5,933,800	104,200	2,000	0	0	6,040,000
012	270,000	350,000	0	0	0	620,000
013	4,440,000	20,000	0	0	0	4,460,000
014	1,660,310	9,690	0	0	0	1,670,000
015	4,822,550	37,450	0	0	0	4,860,000
016	4,260,000	0	0	0	0	4,260,000
017	6,540,840	99,160	0	0	0	6,640,000
018	3,932,000	68,000	0	0	0	4,000,000
019	3,304,500	1,000	0	0	0	3,305,500
Total	51,708,515	2,293,945	93,040	0	0	54,095,500
in%	95.59 %	4.24 %	0.17%	0.00 %	0.00 %	100.00%

4.3 Foreign Exchange Market

In 1995, the volume of transactions in NBS foreign exchange fixing reached US\$ 4,553.7 million, representing an increase of 111.2% compared with the 1994 figure. With regard to the currency structure of transactions in foreign exchange fixing, most trading was concluded in DEM (54.7%), followed by US\$ (45.3%), and other European currencies. The number of contracts in foreign exchange fixing increased to 2,321, exceeding the previous year's figure more than twice (979 contracts). On a daily basis, an average of 10 transactions were concluded at an average volume of US\$ 2 million per contract.

In 1995, the NBS purchased funds in foreign exchange fixing from commercial banks in the total amount of US\$ 959.3 million, i.e. 16% more than in the previous year. In comparison with 1994, when the ratio of US dollars to D-marks purchased in fixing transactions corresponded well to their ratio within the currency basket, the situation in 1995 had changed considerably. The structure of funds purchased in foreign exchange fixing was as follows:

- US\$123.7 million (12.8%),
- DEM 1,203.1 million (87.2%).

Volume of Trading in NBS Foreign Exchange Fixing in 1995

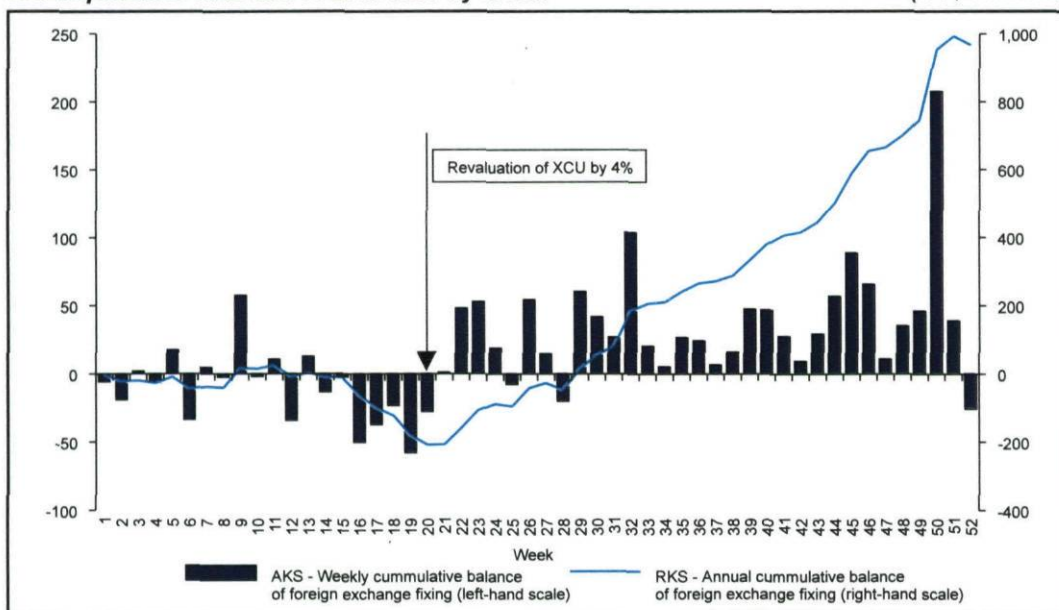
	US\$		DEM			Total		Average contract (US\$mil.)	
	Turnover	Number of transactions	Turnover	Number of transactions	Turnover (US\$ mil.)	Number of transactions			
January	124.1	49.6	67	125.9	50.4	77	250.0	144	1.7
February	147.6	48.8	68	155.0	51.2	76	302.6	144	2.1
March	135.7	36.4	80	236.9	63.6	102	372.6	182	2.0
April	152.8	47.4	79	169.7	52.6	86	322.5	165	2.0
May	139.2	41.2	89	198.5	58.8	112	337.7	201	1.7
June	186.9	55.2	98	151.9	44.8	121	338.8	219	1.5
July	127.7	44.0	90	162.6	56.0	114	290.3	204	1.4
August	225.2	47.3	107	251.2	52.7	121	476.4	228	2.1
September	154.3	45.0	80	188.9	55.0	110	343.2	190	1.8
October	191.9	48.3	96	205.7	51.7	117	397.6	213	1.9
November	246.1	52.5	109	223.0	47.5	124	469.1	233	2.0
December	230.8	40.3	88	341.3	59.7	110	572.1	198	2.9
Year 1995	2,062.3	45.3	1,051	2,491.4	54.7	1,270	4,553.7	2,321	2.0

During the first months of 1995, the balance of trade in foreign exchange fixing was negative.

A turn in the development of foreign exchange fixing, caused by speculative transactions based on exchange rate deviations within clearing settlement between the SR and the CR, was recorded in the second half of May after revaluation of the clearing XCU from 1.05 to 1.01. Previously the balance of trade in foreign exchange fixing had been negative; from that date (19 May 1995), the negative balance started to decrease gradually, until it turned eventually positive.

Development of AKS and RKS in 1995 by Week

(US\$ millions)



Another significant factor was the dynamic increase in the positive balance in November and December, when the growth in foreign exchange reserves was supported by a syndicated loan extended to Vodohospodárska výstavba, state company (Water Resources Development), and the subsequent sale of the borrowed foreign exchange to the NBS, and the issue of municipal bonds by the City of Bratislava on the Japanese capital market.

The volume of foreign exchange transactions among Slovak banks in 1995 did not even reach half the volume of foreign exchange fixing; however, it had increased by 106.6%, to US\$ 2,215.3 million compared with the previous year's figure. The number of contracts concluded by banks during the year totalled 2,807, and was

comparable with the number of transactions in NBS foreign exchange fixing. Most trading was concluded in DEM (50.1%), followed by US\$ (35.1%), and other European currencies (14.7%). On a daily basis, an average of 12 transactions were concluded at an average volume of US\$ 0.8 million per contract.