Foreword

In 1997, the monetary policy of the National Bank of Slovakia aimed at maintaining the internal and external stability of the national currency, while restraining the development of monetary aggregates and adopting a new system of liquidity management in the banking sector. At a stable level of exchange rates, the country's inflation reached 6.4%, gross domestic product at constant prices grew by 6.5%, the budget deficit increased to Sk 37 billion, and the deficit in the current account of the balance of payments fell to 6.9% of GDP, according to preliminary data from the Statistical Office of the SR. In 1997, the rate of unemployment rose by 0.4 points, to 13.0%. Over the course of the year, the structure of gross domestic product gradually improved in favour of foreign demand, which may be regarded as a favourable development despite the slower growth in real economy in comparison with 1996.

In 1997, the chief priority of the country's monetary policy was to restrict the growth of domestic demand with a view to reducing the deficit of foreign trade. On the part of the central bank, the level of domestic demand can be best influenced by regulating the lending activities of commercial banks, which represent a source of disposable funds for the economy. In 1997, the modification of the central bank's monetary-policy instruments was based mainly on the quantitative operative management of liquidity in the Slovak banking sector. The gradual application of new monetary-policy measures as part of the overall monetary strategy of the National Bank of Slovakia, based on the regulation of the growth in the money supply and the provision of credits to the government sector, households and enterprises, was driven by the intention to renew the equilibrium of the country's economy.

The slowdown in the rate of growth in monetary aggregates and the prudent monetary policy favourably influenced development of consumer prices as well, where the accelerating price increase in the tradable sector during the last quarter of 1997, induced by a rise in the import surcharge from zero to 7% (which was not taken into account when the monetary programme for 1997 was prepared), was not reflected significantly in the development of other components of the consumer basket.

In comparison with the previous year, the funds allocated by the banking sector for the economy were employed mostly in the public sector, which thus became the main source of growth for the money supply. The surplus of demand for financial resources over supply led to a rise in the level of interest rates, as a result of which private investments are being replaced by government investments in accordance with the forecasts of the National Bank of Slovakia.

The increased volatility and price of money were due to the situation on the foreign exchange market in May 1997, when the National Bank of Slovakia managed to maintain the stability of the Slovak crown's exchange rate, by restricting the refinancing of commercial banks, which is a basic precondition for the transformation of the Slovak economy.

The continued high rate of investment during the previous year was realised mostly in infrastructural projects with long-term rates of return. The process of restructuring in the microeconomy did not accelerate substantially even in 1997, with regard to the lower share of investment in the modernisation of technological elements. During the period to come, the growing deficit of trade may negatively influence the level of the Bank's official reserves and the external debt of the SR. The net external debt - calculated as the difference between gross external debt, i.e. US$ 9.9 billion, and foreign assets, i.e. US$ 8.0 billion, reached US$ 1.9 billion at the end of December 1997. At the end of 1996, Slovakia's net external debt amounted to US$ 0.7 billion.

In 1997, twenty-nine banking entities were operating in the Slovak banking sector. Of this number, twenty-four banks had the legal form of a joint stock company, two banks had been established as state-owned financial institutions, and four as branches of foreign banks.

The process of restructuring of transforming banks failed to achieve the parameters set by the National Bank of Slovakia. The process was affected by the situation on the money market; the present state of legislation in the field of accounting, tax regulations, and the possibilities for out-of-court settlement.

At the end of 1997, the National Bank of Slovakia imposed receivership upon Investičná a rozvojová banka, a.s. Bratislava (Investment and Development Bank), the first Slovak bank to experience this. The reason behind this decision was the deterioration in the bank's liquidity situation, caused mainly by unsolved problems in the structure of the loan portfolio, which is dominated by bank loans granted before delimitation. The economic results of the bank were also influenced by the behaviour of the main shareholders.

The year under review saw the establishment of EXIMBANKA SR, the Export-Import Bank of the Slovak Republic, charged with supporting foreign trade through providing export guarantees for Slovak entities and granting import and export credits.

The results achieved in 1997 indicate that the selected monetary policy was correct. The high level of interest rates, the low nominal and negative real increase in bank lending in 1997, however, limited, or even exhausted, the span necessary for the implementation of monetary policy, which in turn calls for the adoption of further measures in economic and fiscal policies. Interest rates can be best lowered by means of a conservative fiscal policy, which represents, at the same time, indirect support for the development of the private sector. The transformation of the economy; restructuring of the microsphere; adoption of sophisticated measures for strengthening the competitiveness of the economy; reducing import levels; encouraging domestic savings; supporting direct foreign investment, and reducing the involvement of the public sector in the economy, are crucial to the maintenance of the crown's exchange rate; reduction in price inflation, and improvement in the structure of gross domestic product in favour of foreign demand.

May 1998

Vladimír Masár
Governor

Members of the Bank Board

from left:
Ján Mathes, Executive Director, Currency Division
Jozef Mudrík, Vice-Governor
Vladimír Masár, Governor
Marián Jusko, Vice-Governor
Elena Kohútiková, Executive Director, Monetary Division
Jozef Magula, Director, General Relations Department