

B. REPORT ON MONETARY DEVELOPMENT IN THE SR IN 2001



1. ECONOMIC DEVELOPMENT

In terms of macro-economic indicators, economic development in 2001 was characterised by an increase in economic performance, which led to a rise in the level of employment, moderate growth in real wages, slowdown in the rate of increase in consumer and producer prices, and continued growth in profits in the entrepreneurial sector. On the other hand, economic growth was accompanied by a deterioration in its structure, with domestic demand becoming the main stimulus and the deficit in trade in goods and services recording a relatively steep increase. It turned out that the macro-economic balance established in the previous two years was only of a temporary nature.

The year 2001 saw a fall in both overall and core inflation on a year-on-year basis. The 12-month rate of inflation fluctuated below the level of December 2000 throughout the year. Consumer prices followed a different course of development in the first and second halves of 2001. The significant fall in the first two months was connected with the reduced range of adjustments to regulated prices in comparison with the previous year and the favourable trend in core inflation. In the following months, however, the rate of increase in the prices of some components of core inflation began to accelerate. This renewed the trend of increase in overall inflation, which culminated in the middle of the year. During the second half, inflationary pressures gradually disappeared, which led to stagnation in prices and a downward trend in year-on-year inflation.

The development of gross domestic product (GDP) continued to follow a trend of moderate acceleration in the rate of growth, but in the conditions of minimum changes on the supply side. In terms of structure by sector, GDP creation remained virtually unchanged, even though the long-term trend of growth in market services to the detriment of industry continued. On the side of GDP utilisation, the accelerated

rate of economic growth was a result of increased domestic demand, which generated pressure for imports of goods and services due to the relatively poor adaptability of domestic producers. This fact, coupled with a deterioration in the export conditions for Slovak producers, increased the negative effect of net exports on the development of gross domestic product.

A positive development in the Slovak economy in 2001 was a rise in the level of employment, influenced mainly by market services. The situation on the labour market was complicated by a relatively high increase in the number of working age population, as a result of which the rate of unemployment did not fall despite an increase in the number of vacancies in comparison with the previous year. The number of registered unemployed remained high, over 500 thousand in most months of the year.

The rate of growth in nominal wages accelerated in 2001, causing the level of real wages to rise again after two years, while inflation was falling. Labour productivity, expressed in terms of real gross domestic product, continued to exceed the dynamics of real wages, but the gap between labour productivity and real wages was narrowing.

1.1. Price Developments

Consumer prices

In 2001, the rate of increase in consumer prices slowed in comparison with 2000, when the 12-month rate of inflation, expressed in terms of the consumer price index, reached 6.5% in December (compared with 8.4% in the same period a year earlier). The average rate of inflation stood at 7.3% in 2001.

The fall in the year-on-year dynamics of consumer prices in 2001 (compared with the previous year) was due to a slowdown in the rate of price increase in all basic sectors of the consumer

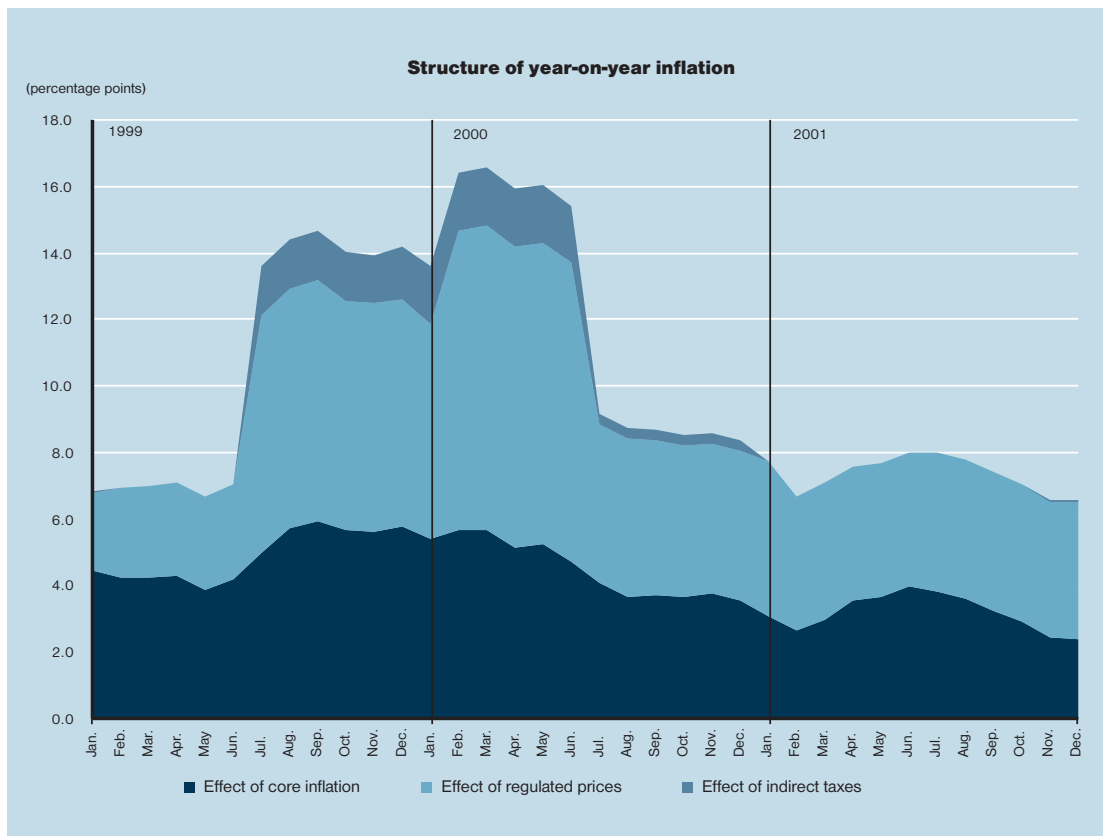
basket. Of the total increase in consumer prices (6.5%), core inflation accounted for 2.39 percentage points. Administrative adjustments to regulated prices contributed 4.17 percentage points (compared with 4.51 points in 2000 and 6.87 points in 1999) to the total increase in consumer prices. In non-regulated prices, adjustments to indirect tax rates contributed 0.03 of a percentage point to the fall in overall inflation. In 2001, the increase in price levels was ascribable, as in the previous two years, to administrative measures.

During the year under review, the 12-month rate of inflation fluctuated below the level of December 2000. Consumer prices followed a divergent course of development in the first and second halves of the year.

The rise in price levels, after a marked fall in January and February, was caused by the synergistic effect of external and internal cost factors over the remaining months of the first half of 2001. The effect of external cost factors

was connected with the volatile development in the prices of energy-producing raw materials and the exchange rate of the Slovak crown to the US dollar (the depreciation of SKK against USD was determined by the exchange rate of EUR to USD). Domestic cost pressures were determined mostly by the continued process of deregulation and the transmission of increased input prices in the production sector to consumer prices.

During the second half of the year, the cost pressures diminished step by step, which led to a marked slowdown in the rate of increase in consumer prices, due to low imported inflation, a relatively stable exchange rate, and low demand-based stimuli to inflation. This resulted in a downward trend in both overall and core inflation on a year-on-year basis. A marked contribution to the reduction in inflation was made by the slowdown in the rate of global economic growth and the related fall in the prices of energy-producing raw materials, especially oil, on world markets.



Consumer price developments**(year-on-year change)**

Structure of the consumer basket	1999	2000	2001			
			Mar.	Jun.	Sept.	Dec.
Total in %	14.2	8.4	7.1	8.0	7.4	6.5
Regulated prices in %	38.2	20.7	17.1	16.4	17.0	17.2
Share of total, in % points	6.87	4.51	4.17	4.01	4.15	4.17
Effect of changes in indirect taxes on non-regulated prices						
share of total, in % points	1.56	0.31	0.00	0.00	0.00	-0.03
Core inflation in %	7.0	4.6	4.0	5.4	4.4	3.2
Share of total, in % points	5.75	3.55	2.95	3.99	3.24	2.39
of which:						
Food prices in %	1.3	6.0	5.3	9.2	6.5	3.7
Share of total, in % points	0.33	1.38	1.19	2.02	1.44	0.83
Tradable goods in % ^{1/}	7.8	2.6	1.1	1.8	1.4	1.0
Share of total, in % points ^{1/}	3.10	0.99	0.39	0.64	0.49	0.35
Market services in % ^{1/}	14.6	7.5	8.9	8.6	8.4	7.7
Share of total, in % points ^{1/}	2.34	1.20	1.38	1.34	1.33	1.22
Net inflation (excluding the effect of changes in indirect taxes) in %	9.7	4.1	3.4	3.8	3.5	3.0
Share of total, in % points	5.42	2.18	1.75	1.97	1.81	1.56

Source: Statistical Office of the SR (end-of-period figures).

^{1/} Estimates of NBS based on data from SO SR.

Regulated Prices

A factor determining the development of consumer prices in 2001 was, as in the previous two years, the use of administrative measures in the area of regulated prices. The continued process of price deregulation caused the level of regulated prices to rise by 17.2% by the end of the year (compared with 20.7% in the same period of 2000), thus this sector accounted for almost two thirds of the total price increase. In the first months of the year, practically all regulated prices were increased: the price of heating (by 20%); electricity (by 16.2%); natural gas (by 17.9%); fares in domestic railway traffic (by 12.8%); regular bus transport (by 20.2%); water supply and sewage disposal (by 20.3%); postal services (by 8.9%); net rents in rented flats (by 38.4%); compulsory third-party insurance for motor vehicles (in January by approximately 30%; in December by 20%); and other regulated prices. The following months saw only moderate price adjustments in health care, municipal public

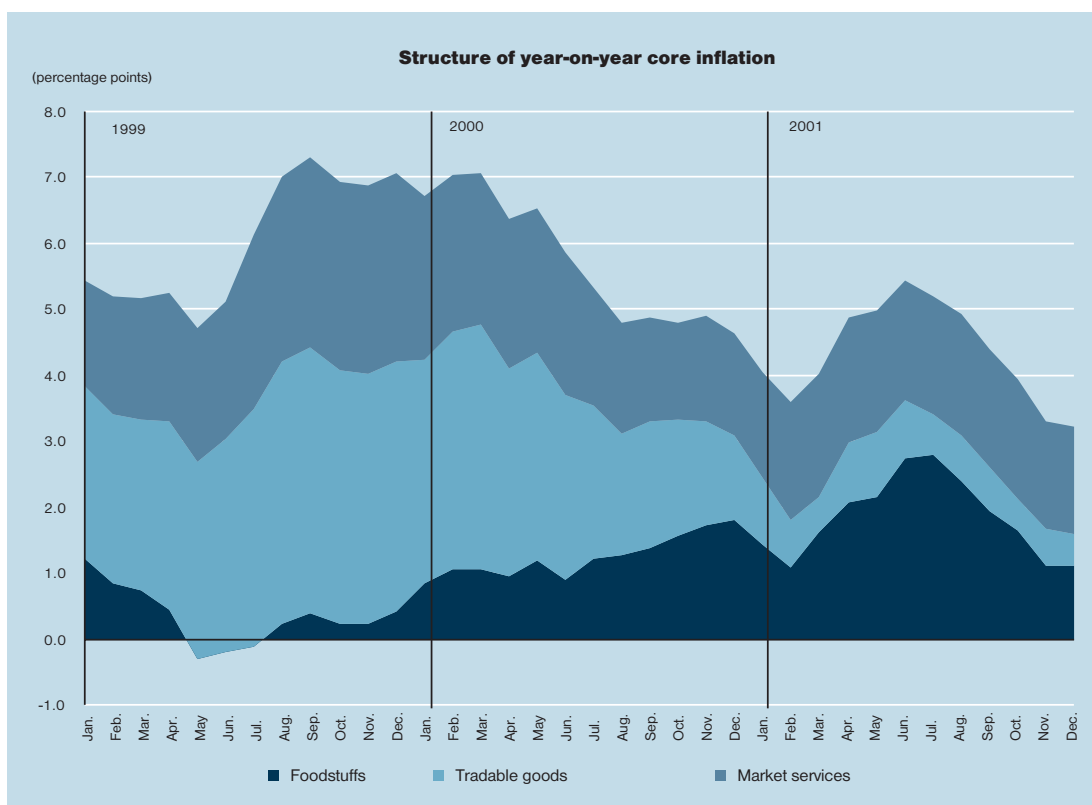
transport, and education. An exception was July, when the prices of telecommunications services were increased by 15.4%.

Changes in Indirect Taxes

Price development in 2001 was also affected by changes in indirect taxes. With effect from November 1, the rates of excise tax on wines were modified as follows: the rates for sparkling wines and intermediate products were raised slightly, while the rate for wine was reduced. The final effect of these measures was a fall of 0.03 of a percentage point in overall inflation.

Core inflation

In December 2001, core inflation reached 3.2%, representing a fall of 1.4 percentage points in comparison with the same period of 2000. The course of core inflation during the year was



characterised by increased volatility in energy (especially oil) and food prices on the world market on the one hand and stable development in the other components of core inflation on the other. This led to stagnation in net inflation (the prices of market services and tradable goods excluding foodstuffs), adjusted for the effects of fuel prices, at a level of around 4.0% throughout the year.

The upward trend in core inflation during the first half of the year was due to cost-push inflation, which was connected with the growing input costs of primary producers and manufacturers. The effects of inflationary factors were reflected in consumer prices with varying intensity and time lag. This resulted in different price dynamics in the individual groups of the consumer basket. The effects of cost factors led to acceleration in the rate of core inflation and culminated in June, when its value reached 5.4%. The gradual disappearance of cost pressures led to stagnation in prices and a fall in the 12-month rate of core inflation in the second half of the year.

The basic structure of core inflation followed the trend from the year 2000, when the dominant sector was that of food prices. While core inflation had been dominated by net inflation until 1999, the gradual acceleration in the dynamics of food prices caused their share in core inflation to increase to more than 50% in June 2001. The reason for this change was the continued non-inflationary effect of consumer demand, reflected in the relatively low values of net inflation, and the persistence of cost pressures on the part of agricultural producers, reflected in the level of food prices.

Food prices (excluding non-alcoholic beverages), as a component of core inflation, recorded a year-on-year increase of 3.7% at the end of the year, showing a high correlation with the prices of agricultural primary producers and manufacturers. Due to the softening effect of competition in the retail trade, however, the consumer prices of foodstuffs recorded lower dynamics than the prices of manufacturers. Apart from cost pressure, developments in food prices were affected by the imbalance between the supply of,

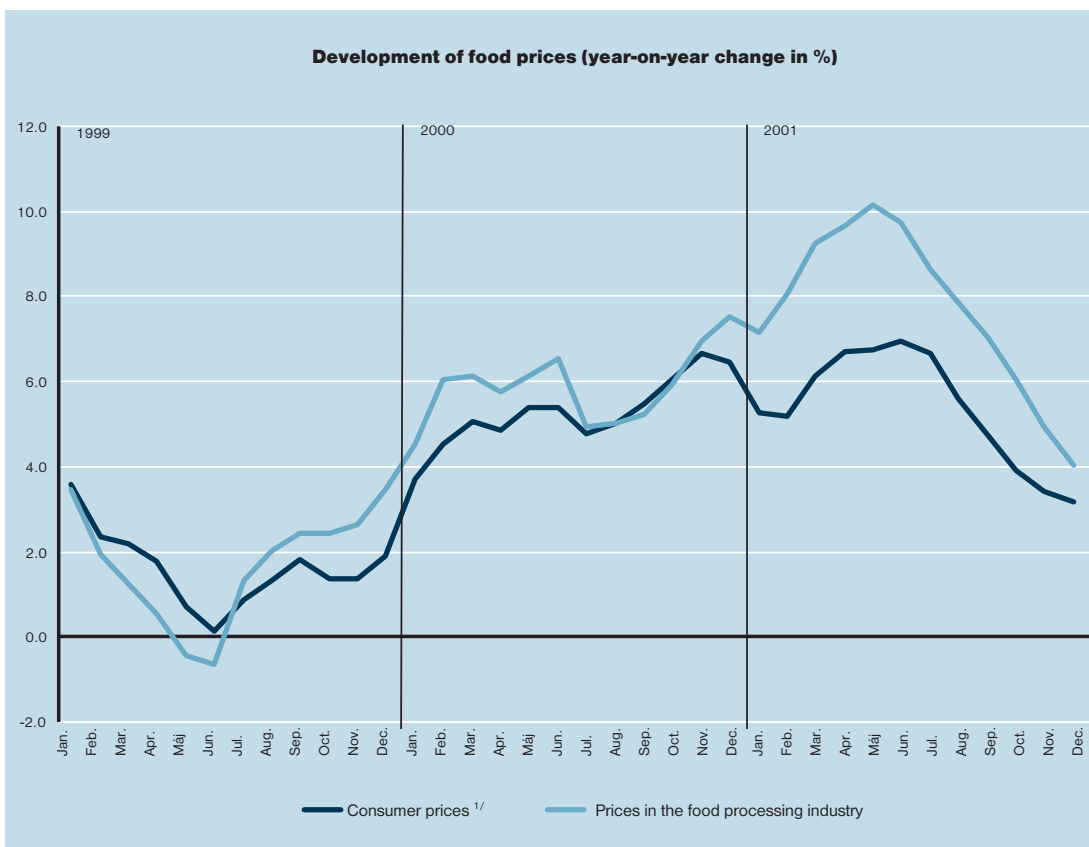
and demand for, basic food commodities. During the first half of the year, food prices had an upward effect on core inflation, when their year-on-year dynamics were on the increase. In July, they reached 9.4%, which represented the fastest rate of price increase since 1995. This acceleration was attributable to cost pressures exerted by producers and the effects of unfavourable climatic conditions on crops in 2000. The insufficient domestic production of food commodities (especially cereals) was compensated by expensive imports, as a result of which the consumer prices of cereal products increased significantly.

The trend of development in food prices was determined by the price of non-processed foodstuffs. Increased seasonality in comparison with the previous year, was shown by the volatile prices of fruit and vegetables in particular. In some categories, prices rose year-on-year by more than 40%. Meat prices were influenced by the widely publicised news about BSE disease.

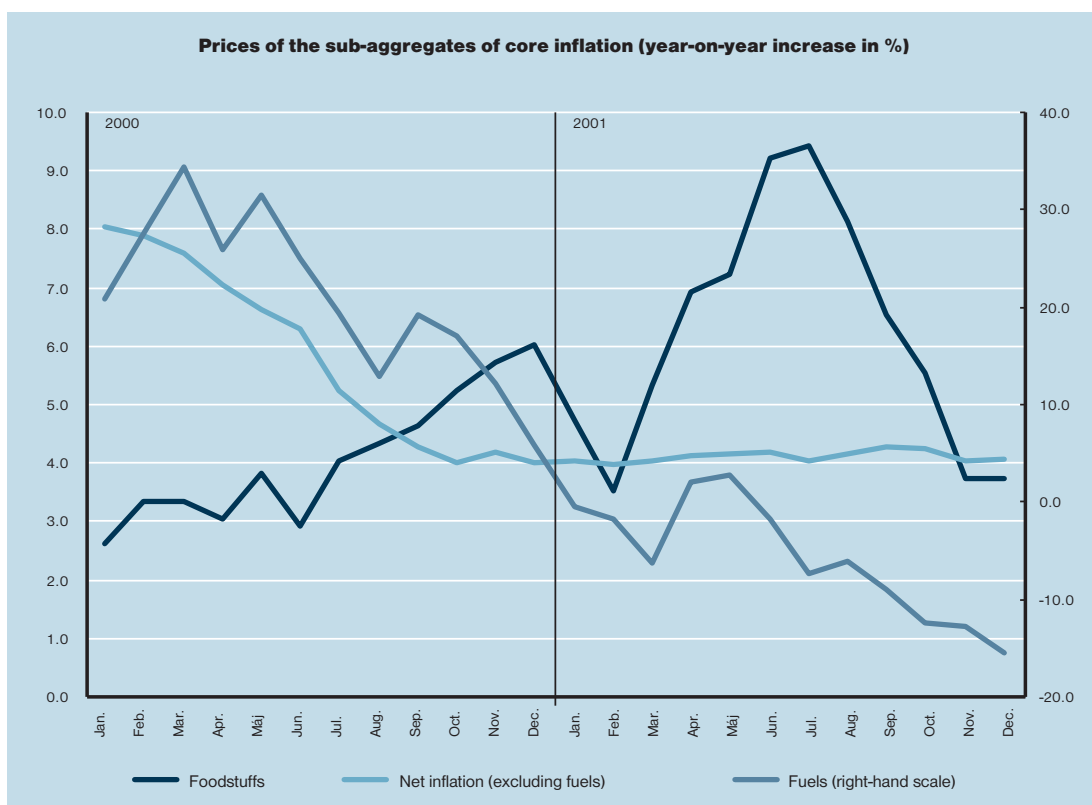
The fall in demand for beef was compensated by a shift in consumption to other types of meat. This, however, exerted no pressure for an acceleration in the rate of price increase. In the second half of the year, supply began to exceed demand on the market for unprocessed foodstuffs, which led to a lower seasonal increase in meat prices and a more pronounced fall in fruit and vegetable prices. Thus, while the prices of processed foods followed a stable course, the year-on-year dynamics of prices fell across the whole sector of foodstuffs.

Apart from volatility in fuel prices, net inflation showed no significant fluctuation over the course of 2001. It was, however, still characterised by the existence of dual inflation (difference in dynamics of the prices of market services and tradable goods), which reached values of around 7 percentage points during the year.

The rate of core inflation was dampened by the prices of tradable goods, the year-on-year



1/ Consumer prices, including beverages and tobacco, excluding fruit and vegetable prices.



dynamics of which reached 1.0% in December. The slow rate of price increase in the tradable sector was due to several factors. In the given environment, marked by strong competition in the retail trade and increasing labour productivity in industry, the growth in domestic demand exerted no pressure for a rise in price levels. On the consumer market characterised by a large proportion of imported goods, the slowdown in the rate of price increase in the tradable sector was supported by the stable exchange rate of the crown to the reference currency (euro) and the cancellation of the import surcharge with effect from 1 January 2001.

In the sector of tradable goods, increased volatility was recorded in fuel prices, which reacted flexibly to changes in the price of oil, the exchange rate of the crown to the dollar, and to developments in fuel prices on the commodity markets. From January to September, the price of this strategic commodity fluctuated within the upper half of the reference band declared by OPEC countries (US\$ 22-28/barrel). In the last three months, however, demand for oil fell in

connection with the slowdown in the rate of economic growth in the world, as a result of which, oil prices fell below the reference band, causing fuel prices to fall as well. Thus, fuel prices fell in 2001 by more than 20% and contributed roughly 0.7 of a percentage point to the fall in core inflation.

The prices of market services, which are determined mostly by domestic factors, increased at a higher rate than prices in other categories of core inflation. At the end of 2001, the rate of year-on-year price increase in this sector reached 7.7%, roughly the same figure as a year earlier. The underdeveloped competitive environment created room for the smooth transmission of increased costs resulting from the rise in energy prices, together with wage costs, into the price of services. The most rapid increases were recorded in prices in leisure and culture (10.4%) and dwelling (8.8%). At the same time, price developments in the dwelling category made the greatest contribution to the price increase in the market services sector.

Producer Prices

The prices of imported energy producing and other industrial raw materials, administrative price adjustments, and the remaining effects of unfavourable climatic conditions were the main factors that affected the development of producer prices in 2001. On the one hand, they caused a slowdown in the year-on-year dynamics of industrial producer prices, and on the other hand an acceleration in the rate of increase in the prices of agricultural products. Construction prices, which are dependent on the level of demand for construction work, rose to a lesser extent than a year earlier, while the prices of materials and products used in construction showed an increase in dynamics.

Industrial producer prices

The slowdown in the average rate of increase in industrial producer prices, from 9.8% in 2000 to 6.6% in 2001, was caused mainly by the effects of external cost factors, which were visible especially in the second half of the year. One of the stimuli was the stabilisation of oil prices on the world markets in the first quarter. The price of oil recorded a significant fall after the September events in the USA as a result of slowdown in the rate of economic growth in the world as a whole and subsequent fall in demand for this strategic commodity. As a consequence of the fall in demand, the price of oil fluctuated below the reference band of OPEC over the fourth quarter. This was reflected mainly in the prices of

producers specialising in oil and gas processing. In 2001, the prices of refined oil products remained virtually unchanged, at the level of 2000, rising year-on-year by only 0.1% compared with 38% increase a year earlier. The rate of increase in the prices of chemicals, chemical products, and man-made fibres fell by 12.8 percentage points (to 2.0%) in comparison with the figure for 2000.

The fall in raw material prices on the world markets was reflected in the prices of basic metals and metal products only towards the end of the year, as a result of which the average increase in 2001 (8.6%) was 0.6 of a percentage point higher than in the previous year. Price fluctuation on the world markets also affected price levels in the pulp and paper industry, which rose by an average of 3.0%, representing a slowdown of 9.7 percentage points in year-on-year dynamics.

With regard to domestic cost factors, price development in industry was affected mainly by an increase in regulated prices in February 2001. This was the most extensive price adjustment in the production sector in connection with the elimination of price anomalies. The price of electrical energy for enterprises was raised by an average of 12% and that of natural gas by 15% (for households) and 25% (for enterprises). The direct result of these administrative measures was an increase in the price of electricity, gas, steam, and hot water (16.6% on average), and represented the greatest contribution to the rise in industrial producer prices in 2001.

Development of producer prices (average for the period, the same period of the previous year = 100)

	1999	2000	2001				Year
			Q1	Q2	Q3	Q4	
Industrial producer prices	103.8	109.8	108.7	108.1	106.1	103.8	106.6
- price of industrial products	103.4	109.1	107.2	105.9	103.8	101.2	104.5
Construction prices	111.0	109.0	107.0	107.3	106.7	106.1	106.8
Building material prices	101.8	106.0	107.6	107.4	107.0	105.2	106.8
Prices of agricultural goods	98.2	107.2	109.5	108.8	109.1	104.7	107.8
- prices of plant products	96.7	107.2	121.7	124.6	110.2	104.2	111.2
- prices of animal products	98.8	107.1	107.0	107.1	107.8	104.4	106.6

The effects of increased energy prices were gradually transferred into the prices of products in other energy-intensive sectors. For that reason, a substantial increase was recorded in the prices of other non-metallic mineral products (cement, lime, bricks), which rose by an average of 9.6% in 2001 (compared with 5.5% in 2000).

Within the scope of internal cost factors, price levels in food industry were affected, apart from increased energy prices, by the prices of agricultural primary producers (in plant and animal production). In connection with the rise in input prices, the producer price of meat, dairy and flour products, as well as animal-feed increased at an accelerated rate over the first half of the year.

Construction prices

Construction prices increased year-on-year by 6.8% in 2001 (compared with 9.0% in 2000) due to the persistence of low demand for construction work. The prices of materials and products used in construction rose year-on-year by 6.8% (compared with 6.0% in 2000). This development was affected mainly by a rise in the prices of other non-metallic mineral products.

Agricultural prices

In producer prices, the most rapid increase was recorded in agricultural prices, which rose year-on-year by an average of 7.8% (compared with 7.2% in 2000). A significant increase was recorded in the prices of plant products including fruit and vegetables (11.2%), which was connected with the higher price of imported grain, as a result of drought in 2000. The

increase in grain prices subsequently led to an acceleration in the rate of increase in the producer price of flour products, starch, and starch products.

The average year-on-year increase in the price of animal products slowed by 0.5 of a percentage point in comparison with 2000 (to 6.6%), but the year-on-year dynamics reached higher figures in the first three quarters than in 2000. Apart from cost factors, an upward effect on the prices of animal products was exerted in this period by the excess of demand over supply. In the last quarter, however, the rate of price increase slowed significantly. Of the main types of animal products, the rate of increase slowed in the price of pork and poultry, the average year-on-year dynamics of which continued to exceed the average for animal products. The persistent rapid increase in the prices of these two categories was caused by structural changes in meat consumption in favour of poultry and pork, at the expense of beef (the fall in beef consumption was connected with the BSE epidemic).

Agricultural prices are closely connected with the prices of agricultural inputs. In 2001, the average year-on-year increase in the prices of supplies to agriculture reached 9.3% (compared with 9.1% a year earlier). This increase was due mostly to the prices of goods and services for general consumption, particularly the price of electricity, fertilisers, and animal-feed.

GDP deflator

The increase in GDP deflator fell from 6.5% in 2000 to 5.3% in 2001, in line with the slowdown

Development of the GDP deflator (average for the period, the same period of the previous year = 100)

	1999	2000	2001				Year
			Q1	Q2	Q3	Q4	
Consumer prices	110.6	112.0	107.2	107.8	107.7	106.7	107.3
Industrial producer prices	103.8	109.8	108.7	108.1	106.1	103.8	106.6
GDP deflator	106.6	106.5	106.8	105.0	104.7	104.7	105.3

in the dynamics of consumer and domestic producer prices. The deflator was below the rate of increase in consumer and industrial producer prices for the second consecutive year.

The GDP deflator was affected by the deflator of domestic demand and the relation between the export and import deflators. The increase in the deflator of domestic demand (7.4%) was due to growth in the deflator of final consumption (5.3%) and that of gross investment (12.8%). The relatively marked change in prices in the segment of gross investment was due to increase/decrease in inventories in terms of prices. The increase in the deflator for fixed investments was the smallest in the range of actual deflators recorded, and reached its lowest level since 1994 (3.5%).

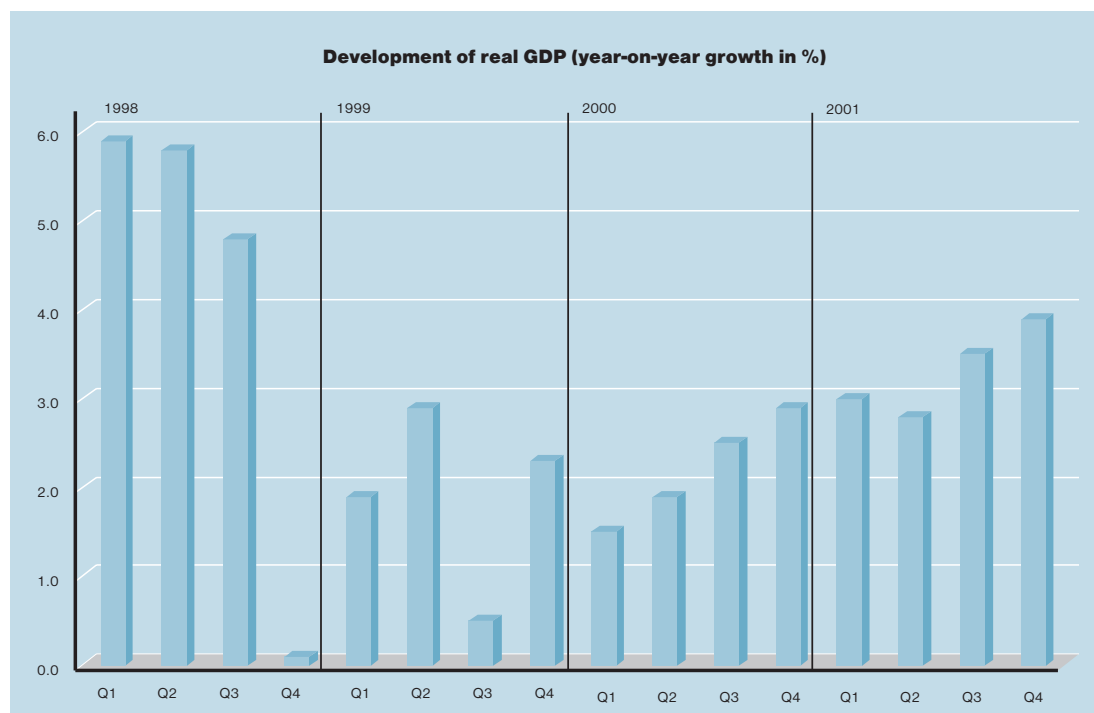
A downward effect on the GDP deflator was exerted by the development of foreign trade deflators. Export prices developed in line with the fall in dynamics of the prices of domestic producers and the slowdown in the rate of economic growth in the world. The faster growth in the import deflator was due primarily to the prices of imported strategic commodities.

1.2. Gross Domestic Product

The development of gross domestic product in 2001 followed the trend of gradual acceleration in the rate of economic growth in Slovakia. On a year-on-year basis, GDP increased by 3.3% at constant prices (compared with 2.2% in 2000). The rate of GDP growth accelerated from 3.0% in the first quarter, after a moderate slowdown in the second quarter, to 3.9% in the fourth quarter. The volume of GDP at current prices reached Sk 964.6 billion, which was 8.7% more than a year earlier.

The acceleration in the rate of real GDP was caused by an increase in domestic demand, while foreign demand had a reduced pro-growth effect. Domestic demand (including statistical discrepancy) grew by 7.3% (compared with a fall of 1.3% in 2000). After exceeding domestic demand for four years, the growth in foreign demand (exports of goods and services) decelerated, to 6.5% in 2001 (after increasing by 15.9% in 2000).

The development of domestic and foreign demand led to growth in aggregate demand



Development of aggregate demand and coverage**(constant 1995 prices)**

	Volume in billions of Sk				Structure in %			
	1998	1999	2000	2001	1998	1999	2000	2001
Aggregate demand	1,144.1	1,126.1	1,188.5	1,271.2	100.0	100.0	100.0	100.0
of which:								
Domestic demand ^{1/}	710.8	678.1	669.3	718.4	62.1	60.2	56.3	56.5
Foreign demand	433.3	448.0	519.2	552.8	37.9	39.8	43.7	43.5
Coverage of aggr. demand								
Domestic supply	641.1	653.3	667.7	689.7	56.0	58.0	56.2	54.3
Foreign supply	503.0	472.8	520.8	581.5	44.0	42.0	43.8	45.7

1/ Including statistical discrepancy.

(7.0% at constant prices, compared with 5.5% in 2000). The share of domestic and foreign demand in aggregate demand remained unchanged, roughly at the level of the previous year. The acceleration in domestic demand and slowdown in foreign demand in comparison with the previous year caused no changes in the structure of aggregate demand, but ended the long-term trend of increase in the share of foreign demand, which began in 1996.

In contrast with the virtually unchanged structure of aggregate demand, the structure of coverage showed a shift towards foreign production. Foreign supply (import of goods and services) grew by 11.7% (compared with 10.2% in 2000), as a result of which, its share in the coverage of aggregate demand increased by almost 2 percentage points, at the cost of domestic supply (GDP). The increase in the share of foreign supply in the coverage of aggregate demand is an indication of growth in import-intensity in relation to domestic production, satisfied domestic demand on the one hand, and low competitiveness of domestic production in relation to domestic and foreign markets on the other.

Supply Side of GDP

A positive development in real GDP in terms of creation and its components was the slower growth in intermediate consumption than gross production, as a result of which the growth in added value accelerated from 2.0% in 2000 to 3.5% in 2001. However, the excess of growth in added value over intermediate consumption was not high enough to reduce the gap between the faster growth in intermediate consumption than added value, in the long term.

The Slovak economy is dependent on the intermediate consumption of goods and services of short-term nature, which are consumed or transformed during the production process. The share of intermediate consumption in gross production remained at the level of the previous year (more than 63%), which corresponds to the long-term average. This indicates that the effective transformation of inputs in the process of production of goods and services is a chronic problem in the Slovak economy.

Creation of gross domestic product and components**(Sk billions, constant 1995 prices)**

	1999	2000	2001	Indices		
				1999/98	2000/99	2001/00
Gross production	1,531.9	1,637.7	1,688.7	98.5	106.9	103.1
Intermediate consumption	944.8	1,038.8	1,068.7	96.2	109.9	102.9
Added value	587.1	598.9	620.0	102.5	102.0	103.5
Other ^{1/}	66.2	68.8	69.7	96.6	103.9	101.3
GDP	653.3	667.7	689.7	101.9	102.2	103.3

1/ Value added tax, excise tax, import taxes, subsidies.

Breakdown of gross domestic product by sector

(Sk billions, constant 1995 prices)

	1999	2000	2001	Indices ^{1/}		
				1999/98	2000/99	2001/00
Gross domestic product (GDP)	653.3	667.7	689.7	101.9	102.2	103.3
of which:						
Agriculture, hunting, fishing, forestry	31.9	32.9	33.7	108.8	103.1	102.5
of which: agriculture	28.1	29.0	30.0	110.7	103.2	103.3
Industry	184.4	188.9	188.7	107.3	102.5	99.9
of which: manufacturing	154.0	162.5	171.5	102.9	105.5	105.5
Construction	24.7	21.0	21.3	69.5	85.0	101.4
Market services	265.2	278.8	296.9	102.5	105.1	106.5
of which:						
trade, hotels, restaurants	89.3	99.7	104.5	103.9	111.7	104.8
transport	51.5	50.6	59.1	104.4	98.3	116.8
Non-market services	84.1	85.4	87.8	99.4	101.5	102.8
Other ^{2/}	63.0	60.8	61.4	103.1	96.5	101.0

1/ Indices expressed in thousands of Sk.

2/ Value added tax, excise duty, import tax, subsidies, imputed production of banking services.

The maintenance of a stable share of intermediate consumption is connected with the fact that the accelerated growth in added value was induced at a time of minimum changes on the supply side of GDP. The basic structure by sector of GDP creation remained virtually unchanged in comparison with the year 2000, and the long-term trend of increase in the weight of market services to the detriment of industry was preserved.

The share of market services in GDP creation increased by 1.2 percentage points in comparison with the year 2000 (to 43%), which was connected with a marked increase in added value in transport. The creation of added value in industry fell slightly, due mainly to the production and supply of electricity, gas, and water, the share of which in GDP reached a historical minimum. Manufacturing continued to grow at a favourable rate as a result of renewed domestic demand and direct foreign investment. The gradual revival of investment demand in the category 'buildings' encouraged a moderate growth in added value in the construction sector. The share of construction in GDP creation remained stable after a long-term trend of decline. Added value had a slightly pro-growth effect on GDP in agriculture, hunting, fishing, forestry, and non-market services.

Agriculture

Gross domestic product in agriculture grew in volume by 3.3% in 2001 in comparison with the previous year, with the share (4.3% of GDP) remaining at the level of the previous year.

A positive moment in the development of this sector was the fact that, while the proceeds of agricultural firms from the sale of their products fell year-on-year by 8.3% (at constant prices) in 2000, the year 2001 saw an increase of 9.7%, representing the highest figure since 1996. Proceeds from the sale of animal products grew by 2.3% and accounted for more than 62% of total receipts. As a result of decline in stocks of cattle and pigs, sales of beef and pork fell year-on-year by 10.1%. Sales of poultry increased by 9.6% compared with the previous year, milk by 4.2%, and eggs by 0.8%.

The low comparable level of 2000 (result of extreme drought) and the end of the effects of government aid for the elimination of the economic consequences of the drought, had a significant effect on the rate of year-on-year growth in receipts from the sale of plant produce. Agricultural companies achieved an increase in sales of all types of plant products, and total

proceeds from the sale of plant products grew by 24.1% in comparison with the previous year.

The year 2001 saw a change in the financial situation of the sector. According to preliminary data, agricultural companies as a whole achieved a profit for the first time since 1990. More than 50% of the total number of companies were profitable. The improved budgetary performance was also evident from the fact that companies achieved, after a long time, a positive return on costs and net production.

The year-on-year improvement in the economic results of agricultural firms was caused by several factors – the continued liquidation of loss-making and insolvent companies, gradual restructuring of companies, improvement in the attitude of companies to lending possibilities, government aid for the mitigation of the consequences of drought and compensation for crops, and the continued gradual reduction in the difference between input and output prices.

A persistent problem was the deficit in foreign trade in agricultural produce and food commodities, which reached Sk 20.3 billion in 2001, i.e. a year-on-year increase of Sk 3.4 billion. The increase in the deficit was due to both replaceable (cereals, potatoes, oil, and oil-seeds, fruit, meat, meat products, etc.) and irreplaceable commodities (coffee, tea, bananas, citrus fruit, cocoa beans, rice, spices, etc.). A relatively significant contribution to the deficit came from increased imports of cereals and a fall in exports (as a result of drought in 2000).

Industry

In 2001, the volume of GDP in industry fluctuated slightly below the level of the previous year and fell year-on-year by 0.1% at constant prices. The fall in GDP creation in industry took place in mining and quarrying; electricity, gas,

and water supply; while GDP in manufacturing grew by 5.5%. Thus, the share of industry in total GDP decreased to 27.4%, from 28.3% in 2000.

The different course of development in the basic sectors of industry is confirmed by data on industrial production. The level of industrial production, expressed in terms of the industrial production index (adjusted for the effect of working days)^{1/}, was 6.8% higher (at constant prices) in 2001 than in the previous year. This increase was due exclusively to growth in manufacturing, i.e. 9.8% on a year-on-year basis (compared with 9.9% in 2000). The level of the previous year was not achieved in the production and supply of electricity, gas, and water (a fall of 1.6%, compared with an increase of 6.4% in 2000) and mining and quarrying (a fall of 13.0%, compared with 2.1% in 2000).

In manufacturing, the average volume of production grew in all sectors in 2001. During the year, a marked increase was recorded in the manufacture of electrical and optical equipment (30.9% year-on-year) in sectors with a high share of companies with foreign capital participation. A relatively fast, more than 10% at constant prices, growth in production was recorded in the following sectors: manufacture of transport vehicles; manufacture of leather and leather goods; manufacture of pulp, paper, and paper products, printing and publishing; and the production of other non-metallic mineral products.

Production in these sectors increased mainly as a result of higher year-on-year increases in the first half of the year. In the second half, in connection with the decline in the world economy (restricting the export opportunities of Slovak companies), numerous sectors recorded a slowdown in dynamics, resulting in a fall in production in the last months of the year. These sectors included: the manufacture of basic

1/ The industrial production index expresses any change in the volume of production in natural terms. The index is based on the change of volume of selected products and industrial services and on the two-stage weight system. With effect from January 2002, the average month of 2000 was selected as a base period for the index, but data for the years 2000 and 2001 were also revised. The industrial production index is stated at constant prices.

metals and fabricated metal products; plastic products; and the production of coke, refined petroleum products and nuclear fuels. In that period, the manufacture of vehicles also recorded a fall in output, which was due to external factors and the preparation of a new type of car.

Receipts from own-output and goods^{2/} in industry recorded a year-on-year growth of 6.2% at constant prices, which was 5.5 percentage points less than a year earlier. This development was also affected by receipts in manufacturing, which increased by 8.1%.

In manufacturing, receipts grew in almost all sectors, except for the production of coke, refined petroleum products, and nuclear fuels. Receipts increased significantly in wood-production and the manufacture of wood products (23.4%); the manufacture of rubber and plastic products; and the manufacture of electrical and optical equipment.

Certain progress in the restructuring of industry (though still insufficient) was indicated by the continued growth in the profits of industrial companies, increase in labour productivity, and the creation of new jobs. According to preliminary data, profits in industry (before taxation) increased year-on-year by almost 65%, of which manufacturing accounted for more than 70%. Growth in profits was also recorded in mining and quarrying (more than 20%) and electricity, gas, and water supply (more than 56%).

Although the rate of growth in labour productivity (in manufacturing) slowed year-on-year by 6.5 percentage points, to 5.7% at constant prices, the level of employment in industry increased by 1.0% (in the previous year, the growth in labour productivity was accompanied by a fall of 3.1% in employment). In industry, the number of vacancies increased in production.

Construction

In 2001, after three years of continuous decline, gross domestic product in the construction sector grew at constant prices by 1.4% on a year-on-year basis. The sector followed a rather unbalanced course of development during the year. In the first half of the year, GDP in construction showed a year-on-year increase of 10.3% (at constant prices), which was followed by a fall of 4.3% in the second half. In 2001, the average share of the sector in total GDP reached 3.1%, which was at the level of the previous year.

A trend of stagnation, leading to a gradual decline in construction, was also recorded in production and employment in the sector. In 2001, production (by own employees and non-construction organisations) grew year-on-year by 0.8% at constant prices (after a fall of 0.4% in 2000), but after signs of revival in the first seven months, a change occurred in August, followed by a gradual decline. This development was caused mainly by a downturn in new construction, modernisation, and reconstruction orders, and continued fall in the volume of construction work abroad.

New construction, reconstruction, and modernisation projects increased by 1.8%, repair and maintenance work by 6.6%, while construction work abroad fell by 9.2%. An unfavourable factor was the decreasing weight of domestic construction companies and the growth in output of foreign construction firms.

The low demand for construction work forced construction firms to change their structure, increase the productivity of labour, and to take rationalisation measures. In 2001, construction organisations increased production by 0.9% at constant prices, while the level of employment fell by 2.3%. This led to growth in nominal labour productivity (in construction) by 3.3% per employee. As a result of cost-saving measures, the average nominal monthly wage in the

^{2/} Receipts from own-output, goods and services, received by a company for all its activities (excluding VAT).

construction sector recorded the smallest increase of all sectors (4.8%) and the average real monthly wage fell by 2.3%.

Services

Market services generated a relatively high year-on-year increase in gross domestic product (6.5% at constant prices) and contributed substantially to its creation. They accounted for 43% of the GDP created in 2001, which was 1.2 percentage points more than a year earlier. In market services, the most significant increase took place in the share of transport (from 7.6% in 2000 to 8.6% in 2001), while that of 'trade, hotels and restaurants' and 'postal and telecommunications services' increased only moderately.

The dynamic development in market services was confirmed by data on receipts from own-output and goods, which recorded a relatively steep increase in almost all sectors (except the wholesale trade, hotels, and restaurants, where receipts fell). In the retail trade, receipts grew year-on-year by 8.3% at constant prices, due mainly to growth in proceeds from the sale and maintenance of motor vehicles and the retail sale of fuels (23.5%). Receipts in other retail units recorded an increase of 4.5%, and were, to a considerable extent, affected by the growth in receipts of large chain stores.

In real estate, leasing, and business services, receipts from own-output and goods increased year-on-year by 7.8% at constant prices. Receipts increased across the board, i.e. real

estate services, leasing of machinery and equipment, computer engineering and related activities, and other business services.

Developments in transport were affected by the upward trend in economic activity. Receipts from transport services and warehousing recorded a year-on-year increase of 26% in 2001 (at current prices), which was due, first and foremost, to a marked increase in receipts from secondary and auxiliary activities in transport and growth in receipts from road transport. In postal and telecommunications services, receipts increased year-on-year by 22.7% (at current prices), due mainly to telecommunications services^{3/}.

Demand side of GDP

In the structure of GDP by use, the pro-growth effect of domestic demand strengthened, after having fallen for two years as a result of the package of government measures adopted in May 1999. As the domestic production base was insufficiently flexible, the increased domestic demand exerted pressure for import of goods and services. This fact, combined with the existence of limited opportunities for Slovak exporters, caused a deterioration in net exports (difference between exports and imports of goods and services), as a result of which the negative effect of net exports on GDP increased. The contribution of domestic demand (7.3 percentage points) not only offset the negative contribution of net exports (4.0 percentage points), but accelerated the rate of GDP growth as well.

Absolute year-on-year increases in GDP and contributions

(constant 1995 prices)

	1998		1999		2000		2001	
	Sk billion	contribution	Sk billion	contribution	Sk billion	contribution	Sk billion	contribution
GDP	25.2	4.1	12.2	1.9	14.4	2.2	22.0	3.3
Domestic demand	61.5	10.0	-32.7	-5.1	-8.8	-1.3	49.1	7.3
Net exports	-36.3	-5.9	44.9	7.0	23.2	3.5	-27.1	-4.0

^{3/} Only current prices are recorded.

Gross domestic product by use**(Sk billions, constant 1995 prices)**

	1999	2000	2001	Indices		
				1999/98	2000/99	2001/00
Gross domestic product	653.3	667.7	689.7	101.9	102.2	103.3
Domestic demand	678.1	669.3	718.4	95.4	98.7	107.3
of which:						
Final consumption in total	467.1	454.5	474.2	97.8	97.3	104.3
Households	334.2	322.7	335.6	100.1	96.6	104.0
Non-profit institutions	3.4	3.5	3.6	75.6	102.9	102.9
Government	129.5	128.3	135.0	93.1	99.1	105.2
Gross capital formation	211.0	214.8	244.2	90.4	101.8	113.7
Gross fixed capital	192.2	190.9	213.1	81.2	99.3	111.6
Change in inventories ^{1/}	18.8	23.9	31.1	x	x	x
Net exports	-24.8	-1.6	-28.7	x	x	x
Exports of goods and services	448.0	519.2	552.8	103.4	115.9	106.5
Imports of goods and services	472.8	520.8	581.5	94.0	110.2	111.7

1/ Including statistical discrepancy, which has been shown by the SO of the SR separately (not included in domestic demand) since the first quarter of 2001.

Domestic demand

The growth in domestic demand was due primarily to increased investment demand and renewed consumer demand. After two years of stabilisation, the structure of the contribution of domestic demand to GDP was renewed so that it was almost identical to the structure of 1998 (the ratio of investment and consumer demand was 60 to 40).

Domestic investment demand

Fixed investments grew year-on-year by 11.6% at constant prices (compared with a fall of 0.7% in 2000). The two-digit rate of growth in fixed investments exceeded the growth of GDP 3.5 times, as a result of which the share of fixed investments in GDP increased to 30.9% (i.e. 2.3 percentage points more than in 2000).

Inventory volume increased significantly. The change in volume reached the highest figure in

Development of investments and savings**(%)**

	1998	1999	2000	2001
Constant 1995 prices				
Rate of savings ^{1/}	25.5	28.5	31.9	31.2
Rate of gross investments ^{2/}	36.4	32.3	32.2	35.4
Rate of fixed investments ^{3/}	36.9	29.4	28.6	30.9
Coverage of investments by savings ^{4/}	70.1	88.2	99.3	88.2
Current prices				
Rate of savings ^{1/}	25.2	26.5	27.6	26.8
Rate of gross investments ^{2/}	36.1	31.9	30.1	35.5
Rate of fixed investments ^{3/}	38.0	30.8	30.0	31.9
Coverage of investments by savings ^{4/}	69.7	83.2	91.7	75.6

1/ Share of gross domestic savings (GDP less final consumption in total) in GDP.

2/ Share of gross capital formation in GDP.

3/ Share of gross fixed capital formation in GDP.

4/ Share of gross domestic savings in gross investments.

relation to GDP (4.5% of GDP) since 1993, due mainly to developments in foreign trade. The dynamic growth in commodity imports was also reflected in stocks, especially that of commercial goods. Due to a fall in foreign demand, the positive balance of stocks of finished goods was maintained in the dominant part of the tradable sector. The massive growth in stocks caused the proportion of gross investments to increase significantly in relation to the year 2000 (by 3.2 percentage points, to 35.4%).

On the other hand, the rate of coverage of gross investments by domestic savings fell. The share of other than domestic resources in the financing of investment demand increased. The financial account of the balance of payments indicates that part of the investment demand in selected sectors could be encouraged and financed by foreign loans. The gap between gross domestic savings, i.e. unused part of GDP, and gross investments widened.

The main stimuli to investment demand were an increase in the inflow of foreign capital in the form of direct investment (in 2000 and 2001) and growth in the profits of companies. The massive investment demand was an indication of ongoing

restructuring, mainly in the corporate sector, including the restructuring of production at major exporters and the preparation of the infrastructure for the construction of industrial parks. It could also be a sign of pre-privatisation in selected branches of the non-financial sector.

At current prices, the largest volume was invested in machines with a view to improving the country's technical potential (more than 54%). Investment in machines was covered mostly by imports, but domestic producers also responded to the demand with increased production. The virtually equal prices for domestic and imported technology argued in favour of imports of machines and equipment of higher quality from abroad. The lower demand for machine investments in the second half of the year led to a slowdown in the rate of growth in imports at the end of 2001.

In the second half of the year, a change was recorded in the structure of investment – from investment in machines to investment in buildings. Investment in buildings and civil engineering structures, the coverage of which stems mainly from domestic capital, accounted for 40% of total gross fixed capital formation. The structural changes took place mostly in the third quarter,

Structure of gross fixed capital formation in 2001

	Gross fixed capital formation (Sk millions)	Share in the economy of SR (%)	Index 2001/00
Economy of the SR in total	307,356	100.0	111.6
of which (by production):			
Structures	122,804	40.0	118.2
of which: residential buildings	19,161	6.2	90.4
other structures	103,643	33.8	125.1
Machinery	166,344	54.1	108.6
of which: metal goods and machines	126,642	41.2	106.7
transport equipment	39,702	12.9	114.8
of which (by sector):			
Non-financial corporations	194,201	63.2	109.0
Financial corporations	39,325	12.8	140.3
Government	26,998	8.8	116.2
Households	44,787	14.6	102.6
Private non-profit institutions	2,045	0.6	90.6

Note: The volumes are at current prices, the indices at constant 1995 prices.

when capital expenditure on buildings increased by 53% on a year-on-year basis. This development was a result of dynamic growth in investment in other types of buildings (halls and buildings for production and services, other industrial buildings, bridges, roads, and other civil engineering structures, flood protection and other water engineering works). Investment in residential buildings remained below the level of the previous year.

Most investments (63.2%) were made by non-financial companies with a year-on-year growth of 9% at constant prices. With regard to the structure of investors by sector, the largest volume of funds was used for the acquisition of gross fixed capital by entities in industrial production, e.g. manufacturers of transport vehicles, metals, and metal products. The sectors of market services also made a number of investments. The total volume of investments increased mostly in sectors with a marked share of foreign capital (manufacture of vehicles) and/or sectors, in which the stakes of foreign investors increased

to a significant extent during 2000 and 2001 (production of metals and metal goods, banking, retail trade).

Demand for investment was shown predominantly by large companies with 1,000 or more employees, which accounted for almost 40% of the total volume of gross fixed capital formation. In the same category, a marked increase was recorded in earnings.

Domestic consumer demand

After almost two years of decline, final consumption recorded an increase in 2001 (4.3% at constant prices). Consumer demand was in large part (more than 70%) stimulated by final household consumption, which increased by 4.0% at constant prices (after falling by 3.4% in 2000).

The growth in consumer demand in the household sector can be attributed to the structure and development of incomes, the system of collection

Incomes and expenditures of households

(at current prices)

Sk billions	Indices ^{1/}		Share in %			
	2000	2001	2000/99	2001/00	2000	2001
Compensation of employees (all sectors)	366.1	399.9	105.2	109.2	51.5	52.1
of which: Gross wages and salaries	282.7	308.6	105.4	109.2	39.8	40.2
Gross mixed income	169.9	192.8	113.4	113.5	23.9	25.1
Income from property - received	38.9	31.6	86.1	81.1	5.5	4.1
Social benefits	111.8	117.1	105.8	104.7	15.7	15.3
Other current transfers - received	23.5	25.8	119.0	109.9	3.3	3.4
of which: non-life insurance claims	7.5	8.5	104.4	113.0	1.1	1.1
Current income in total	710.3	767.2	106.3	108.0	100.0	100.0
Income from property - paid	4.5	4.8	87.4	106.3	2.6	2.5
Current tax on income, property, etc.	28.7	31.3	83.2	109.2	16.6	16.5
Social security contributions	113.6	124.7	105.5	109.7	65.7	65.6
Other current transfers - paid	26.1	29.4	110.8	112.9	15.1	15.5
of which: net general insurance premiums	16.3	19.2	117.8	117.7	9.4	10.1
Current expenditure in total	172.9	190.2	101.1	110.0	100.0	100.0
Gross disposable income	537.4	577.0	108.0	107.4	100.0	100.0
Final household consumption	469.0	514.6	107.5	109.7	87.3	89.2
Gross savings of households	68.4	62.4	112.0	91.1	12.7	10.8

1/ Indices calculated from data in Sk millions.

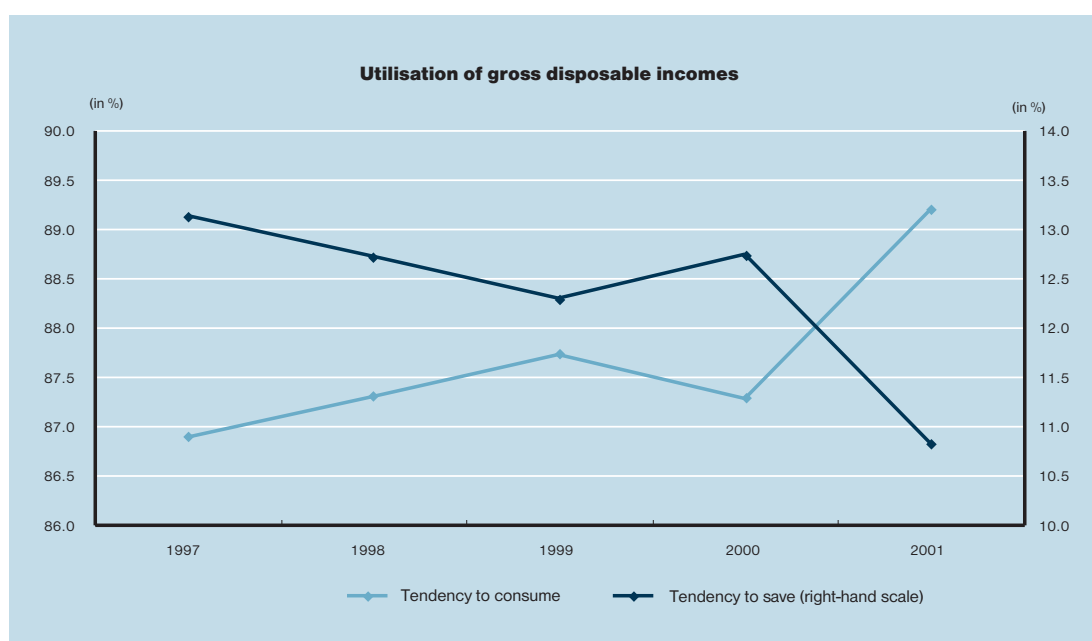
of incomes for redistribution (taxes, social payments), and the tendency of households to spend. The rate of growth in final household consumption was restored in 2001 by a change in the distribution of gross disposable income.

According to preliminary data, the current incomes of households increased in nominal terms by 8.0% in 2001 (compared with 6.3% in the previous year). Current expenditures of households (paid to other sectors and not spent on direct consumption) increased in nominal terms by 10% (compared with 1.1% in 2000). In real terms, current incomes recorded a year-on-year increase of 0.7% (compared with a fall of 5.1% in 2000) and current expenses grew by 2.5% (compared with 9.7% in 2000).

The development of current incomes was affected mainly by an increase in income from work and business activity – compensation of employees (9.2%, compared with 5.2% in 2000) and gross mixed households incomes, which include the incomes of tradesmen for their households as well as their business profits (13.5%, compared with 13.4% in 2000). In 2001, the share of these receipts in current income in total increased year-on-year by 1.8 percentage points, to 77.3%.

The volume of social benefits (old-age, social security, and unemployment benefits) increased by 4.7%, but the share in total income decreased slightly in comparison with the previous year. Income from property (from the ownership of financial assets, i.e. deposits, bonds, etc., or the ownership of land, underground resources, etc., which the owner had obtained in compensation for putting the said assets at the disposal of another entity) fell further in 2001, by 18.9% (which was 5 percentage points more than a year earlier). The fall was due probably to a fall in interest rates on household deposits.

Of current household expenditures, the most dynamic growth was recorded in 'other current transfers paid' (12.9%, compared with 10.8% in 2000) as a result of payments for general insurance premiums. Such transfers accounted for 15.5% of total current expenditure. The structure of current expenditures was dominated by social security contributions (65.6%) paid as part of general social insurance by employers and employees. Growth accelerated in 2001 by 4.2 percentage points in comparison with the previous year, to 9.7% year-on-year, and was probably connected with the rise in the level of employment and wages, on which these expenses are dependent.



After reducing current income by current expenditure, the disposable income of households amounted to Sk 577 billion, which was 7.4% more than in the same period a year earlier. Of this amount, 89.2% (1.9 percentage points more than a year earlier) was used for final consumption, the remainder went on gross savings, which fell year-on-year by 8.9%. Gross household savings also include the investment activities of citizens and small businesses in addition to their crown deposits.

In 2001, the tendency of households to consume increased to a significant extent at the cost of gross savings, which means that household consumption was in part financed from savings. The tendency of households to save fell to the lowest level since 1996, while the volume of gross household savings (at current prices) remained below the level of 2000.

The growth in the propensity to consume seems to be a relatively clear result of the persistently low levels of income and consumption in the household sector. In addition to these long-term factors, the tendency to consume was strengthened by the redemption of bonds by the National Property Fund (FNM) and the extension of the systems of consumer credits, instalment sales, and other advantages offered by sellers. The funds paid by the FNM, the dominant part of which was used probably for consumption, contributed to the growth in final household consumption and the tendency to consume. Methodologically, this led to a fall in savings, which represents, in other words, the financing of consumption. On the one hand, the fall in interest rates reduced the motivation of households to save, but on the other hand led to growth in consumer credits.

Final consumption of government increased by 5.2% at constant prices (compared with a fall of 0.9% in 2000). The more than 1.5 times faster growth in comparison with GDP was, according to the Statistical Office of the SR, connected with the increased creation of added value in the sub-sector 'social security funds'. Within this sub-sector, the most significant increase was recorded in the

payments of health insurance institutions, mainly to hospitals, which were also affected by the use of some of the funds from privatisation. The expenditures of the National Labour Office and the Social Insurance Company grew at a slower rate. In the sub-sector financed from the State Budget, increases were recorded in current expenditure on defence in connection with accession to trans-Atlantic structures, current expenditure on regional authorities established within the scope of reform in public administration, and current expenditure on the educational system.

Net exports

The growth in investment demand, increase in inventories, and renewed growth in consumer demand, coupled with the inadequate reaction of domestic supply, caused the rate of growth in the imports of goods and services to accelerate. The acceleration in import dynamics, mainly in the category 'consumer goods', was also supported by a change in the structure of retail entities. The trend of monopolisation and development of trading units has an upward effect on the import of foreign goods to the detriment of domestic production. Imports of goods and services increased year-on-year by 11.7% at constant prices (compared with 10.2% in 2000).

On the other hand, the rate of growth slowed in foreign demand. The dynamics of exports of goods and services fell to 6.5% (from 15.9% in 2000), due partly to a slowdown in the rate of economic growth in the countries of our trading partners. The deficit in foreign trade increased, from Sk 1.6 billion in 2000 to Sk 28.7 billion in 2001 (at constant prices).

Developments of the Labour Market

Employment and unemployment

The upward trend in employment, which started in the last quarter of 2000, when there were 2.0 million employees in the Slovak economy on

average (1.5% more than a year earlier), continued in 2001.

The increase in employment took place mostly in market services. The number of people employed in this sector increased year-on-year by 2.5% and accounted for 34.5% of the total number of employees in Slovakia. Except transport, postal and telecommunications services, banking and insurance, the level of employment increased in all sectors, particularly in real estate, renting, and business services, research and development (by 5.9%). Of non-market services, employment increased mostly in other community, social, and personal services, where the number of employees increased by 13.4%, due mainly to implementation of the public works programme. A modest increase was also recorded in other sectors (except education).

In production sectors, positive development was recorded only in manufacturing, where employment increased by 1.7%. The level of employment continued to fall in agriculture including hunting, fishing and forestry; mining and quarrying; electricity, gas and water supply; and construction.

The course of employment was characterised by increased year-on-year dynamics in the first two quarters, a slowdown in the third quarter, and stagnation in the fourth quarter. This trend was connected mainly with developments in trade and repair activities, hotels and restaurants, and manufacturing, the dynamics of which slowed during the second half of the year (but was relatively high during the first six months). A similar trend was recorded in other community, social, and personal services. This was connected with the fall in employment on public works, the growth of which slowed significantly in the last quarter as a result of the high basis of comparison in 2000 (the public works programme for the long-term unemployed began to be implemented in August 2000).

The situation on the labour market in 2001 was marked by a relatively high increase in the number

of people of working age, as a result of which the level of employment remained unchanged, though the number of vacancies increased in comparison with the previous year. This fact was confirmed by the persistent high number of registered unemployed, which exceeded 500 thousand in most of the months. In 2001, the average number of registered unemployed was 520.6 thousand and the average rate of unemployment based on the disposable number of unemployed stood at 18.25% (compared with 18.23% in the previous year).

At the end of December, the number of registered unemployed reached 533.7 thousand, i.e. 27.2 thousand more than in December 2000. The high increase in the number of unemployed was caused by the fact that the number of people employed on public works at the end of the year was 32.7 thousand less than in the same period a year earlier. This fact was also reflected in the rate of unemployment (based on the disposable number of unemployed), which rose by 0.7 of a percentage point, to 18.6% at the end of the year.

On the one hand, unemployment was increased by traditional seasonal factors, which caused the rate to increase at the beginning and end of the year, as well as in June and July, when school-leavers were registered as unemployed at labour offices. On the other hand, a positive effect was exerted by certain activities, e.g. pilot programmes offering university graduates a chance to gain professional experience and programmes providing employment to the young, which also contributed to the reduction in the number of school-leavers signing on at labour offices (by almost 9 thousand compared with 2000). Unemployment was reduced, though only in the short term, by the programme of public works for the long-term unemployed. Within this programme, more than 50 thousand jobs were created during the year, which contributed 0.85 of a percentage point to the reduction in the rate of unemployment (according to data from the National Labour Office).

Development of wages, labour productivity, and employment (index, the same period of the previous year = 100)

	2000	2001				Year
		Q1	Q2	Q3	Q4	
Nominal wage (Sk)	11,430	11,315	12,064	12,080	13,989	12,365
Nominal wage (index)	106.5	107.8	107.5	108.3	109.3	108.2
Real wage (index)	95.1	100.6	99.7	100.6	102.4	100.8
Labour productivity of GDP (index, current p.)	109.4	107.5	105.4	107.1	108.6	107.1
Labour productivity of GDP (index, const. p.)	102.8	100.7	100.3	102.3	103.8	101.8
Employment (index)	99.4	102.3	102.5	101.1	100.1	101.5
Consumer prices (average index)	112.0	107.2	107.8	107.7	106.7	107.3

The number of vacancies was on the increase, but the creation of new jobs failed to satisfy the needs of the labour market. While in 2000 there were 7,697 vacancies per month on average, the number increased to 9,763 in 2001. Thus, the average monthly number of unemployed per vacancy decreased, from 72 in 2000 to 55 in 2001.

A chronic problem was the structure of unemployment, with a dominant share of persons with elementary or lower education among the long-term unemployed. The regional differences in unemployment persisted. The difference between the districts with the highest and lowest unemployment rates reached 31.7 percentage points in December. The number of districts with unemployment above 20% increased, from 34 in December 2000 to 38 at the end of 2001.

Wages and Labour Productivity

In 2001, the average monthly nominal wage of an employee in the Slovak economy reached Sk 12,365, representing a year-on-year increase of 8.2%. The rate of growth was 1.7 percentage points faster than a year earlier. The development of nominal wages during the year was characterised by slower growth during the first six months and gradual acceleration over the second half, which picked up speed at the end of the year. This development was due to the negative effect of public works on wage levels and a slowdown in the rate of growth in employment. The growth in nominal wages and fall in inflation were reflected in the development of real wages,

which increased (after falling for two years) by 0.8% in 2001.

Nominal wages followed a different course of development in the individual sectors. The most significant wage increases were recorded in electricity, gas, and water supply (12.6%) and health and social care (11.4%) in connection with the wage increase in health care with effect from 1 July 2001. Higher than average wage increases were also recorded in real estate, renting, and business services; research and development; banking and insurance; manufacturing; transport and storage; postal and telecommunications services; and mining and quarrying. Wages continued to show low dynamics in construction and, after a temporary increase in 2000, in the educational system.

Wages continued to show marked differences in the individual sectors. The highest average monthly nominal wage, which was achieved in banking and insurance (Sk 24,409), was 2.8 times higher than the lowest wage, recorded in other community, social, and personal services (Sk 8,879), compared with 2.7 times a year earlier. Lower than average wages were recorded in seven sectors, of which three belonged to non-market services.

Labour productivity (GDP per employee in the Slovak economy) increased year-on-year by 1.8% at constant prices, representing an excess of 1 point over growth in real wages (0.8%). In 2000, the difference between growth in wages and labour productivity amounted to 7.7 percentage points (real labour productivity grew by 2.8%,

**Development of labour productivity and wages
in selected sectors in 2001**

(index, the same period of the previous year = 100)

	Nominal		Real	
	Labour productivity	Wages	Labour productivity	Wages
Economy of the SR in total	107.1	108.2	101.8	100.8
of which:				
Agriculture, hunting, fishing, and forestry	114.0	108.1	103.7	100.7
Industry	102.5	110.2	98.9	102.7
Mining and quarrying	111.7	108.3	102.4	100.9
Manufacturing	107.1	110.1	103.8	102.6
Electricity, gas and water supply	74.1	112.6	58.0	104.9
Construction	110.4	104.8	103.8	97.7
Trade, hotels, and restaurants	105.0	105.9	101.9	98.7
Transport, post and telecommunications	124.0	109.4	115.9	102.0

Source: Estimates of NBS based on data from the SO of the SR.

while real wages fell by 4.9%), which was affected significantly in that period by a fall in the real wage.

The relationship between labour productivity and the real wage followed a favourable course in transport, postal and telecommunications services, in which labour productivity exceeded the rate of wage increase by 13.9 percentage points. In construction, labour productivity exceeded wage dynamics by 6.1 percentage points, while both real wages and employment recorded a fall. Real labour productivity exceeded the growth in real wages to a relatively small extent in agriculture, trade, hotels and restaurants, mining and quarrying, and manufacturing.

A rather unfavourable relationship between real growth in labour productivity and wages was recorded in the production and supply of electricity, gas, and water. Despite a fall in labour productivity on a year-on-year basis (by almost 50%), this sector recorded the most dynamic growth in real wages of all sectors under review.

Financial Results of Enterprises

A positive aspect of economic development in 2001 was the continued growth in profits in the entrepreneurial sector. Profits in the non-financial

and financial sectors (before taxation) increased by a total of 55% in comparison with the previous year. Of the total volume of profits (Sk 134.8 billion), almost 91% was generated by non-financial organisations with a year-on-year growth of 56.0% in profits, while the profits of financial corporations increased by 46.1%.

In the non-financial sector, positive economic results were achieved in all sectors including agriculture, transport, postal and telecommunications services, which had recorded a loss in the past. The positive financial results of the sector were due mainly to an increase in profits in manufacturing (70.2%), trade (26.6%), and construction (45.8%).

The marked increase in profits in manufacturing took place mainly in the manufacture of basic metals and fabricated metal products, which has a significant share in the volume of production in the economy. A substantial contribution to the growth in profits was made by the manufacture of pulp, paper, and paper goods, printing and publishing; production of coke, refined petroleum products, and nuclear fuels; and chemicals, chemical products and man-made fibres. On the other hand, the manufacture of food products, beverages, and tobacco reached only 63% of the level of profits in 2000.

Of the total number of companies (6,242) in the non-financial sector (with 20 or more employees), 4,356 were profitable (71.5%) and 1,886 sustained a loss. During the year, the number of successful companies increased by 45, while that of loss-making firms fell by 813.

In a breakdown by size, most profits (48.2%) were generated at large companies, which also recorded the highest rate of year-on-year growth in earnings. Small-sized enterprises accounted for 38.2% of total profits and medium-sized 13.6%.

2. BALANCE OF PAYMENTS

After two years of stable development of the balance of payments in 2001, the Slovak economy again found itself in an environment marked by deepening external macro-economic imbalances. The prime impulse was growth in domestic demand stimulated by an imbalance in public finances. The fiscal deficit and growth in the indebtedness of the public sector had a negative effect on overall macro-economic development in the medium term. Despite the smooth financing of the current account deficit from a surplus in the capital and financial account (generated mostly by foreign direct investment – including privatisation), such development is unsustainable in the long term. A strategic solution lies in the use of supportive measures on the side of domestic supply and the continuation of structural reforms in the public and entrepreneurial sectors (at the small-business level).

2.1. Current Account

The year 2001 saw a change in development in the balance of payments on current account. In comparison with the period of stabilisation in the previous two years, the deficit in the current account increased in 2001, to Sk 84.9 billion. This represented a proportion of 8.8% of GDP (compared with 3.7% in 2000 and 5.0% in 1999).

Balance of payments on current account

	2001	2000
Balance of trade	-103.2	-41.7
Balance of services	23.2	20.2
Balance of income	-15.1	-16.3
Unilateral transfers	10.2	5.4
Current account in total	-84.9	-32.4

The current account deficit was caused mainly by the balance of trade, which resulted in a deficit of Sk 103.2 billion (representing 10.8% of GDP in comparison with 4.8% in 2000 and 5.5% in 1999).

According to preliminary data from the Statistical Office of the SR, goods were exported in 2001 in the amount of Sk 610.7 billion (63.3% of GDP), which was 11.3% more than in the same period a year earlier (6.4% in USD and 9.5% in EUR). In 2001, the volume of exports recorded a year-on-year increase of Sk 62.2 billion, or roughly half of the figure for 2000.

In export, one of the reasons behind the growth in the trade deficit was the slowdown in

Year-on-year change in Slovak exports

	Year-on-year change				Contribution to the growth in %	
	in billions of Sk		in %		2000	2001
	2000	2001	2000	2001	2000	2001
Chemical products	12.5	5.1	24.9	8.1	3.0	0.9
Intermediate goods	29.5	16.9	27.3	12.3	7.0	3.1
Finished industrial and agricultural products	12.1	16.7	19.6	22.7	2.9	3.0
Machines, equipment, and instruments	18.6	19.4	22.8	19.3	4.4	3.5
Transport equipment	33.7	1.4	37.2	1.1	8.0	0.3
Raw materials	18.5	2.6	59.7	5.3	4.4	0.5
Exports in total	124.9	62.2	29.5	11.3	29.5	11.3

Year-on-year change in Slovak imports

	Year-on-year change				Contribution to	
	Sk billions		in %		the growth in %	
	2000	2001	2000	2001	2000	2001
Raw materials	45.9	9.0	64.6	7.7	9.8	1.5
Intermediate products	32.6	36.7	22.6	21.5	7.0	6.2
Import for investment	29.2	43.9	19.7	24.8	6.2	7.4
of which: Transport equipment	14.8	9.4	36.0	16.8	3.2	1.6
Machinery and equipment	14.4	34.5	13.5	28.4	3.1	5.8
Import for consumption ^{1/}	13.6	34.0	13.3	27.4	2.9	5.8
of which: Import of machinery for final consumption	5.5	9.0	21.2	28.7	1.2	1.5
Car exports	0.8	8.5	5.2	52.8	0.2	1.4
Import of industrial and agricultural goods	7.3	15.6	23.3	20.6	1.6	2.6
Import in total	121.4	123.6	25.9	20.9	25.9	20.9

1/ Including passenger cars (adjusted for transport equipment) and consumer electronics and machine engineering products (adjusted for machinery and equipment).

economic development in the countries of our trading partners. The effect of this external factor was reflected mainly in the category 'intermediate goods' (iron and steel), where the rate of year-on-year growth slowed in comparison with 2000. The decline in the year-on-year dynamics of export in 2001 was also affected by a change in the manufacture of motor vehicles and the stable development of raw material prices, as a result of which the exports of chemicals and raw materials recorded a much lower year-on-year increase in 2001 than a year earlier.

The decline in export dynamics and the competitiveness of goods of raw material nature and semi-finished products, indicated that the utilisation of comparative advantages has its limits and showed that the export performance of the Slovak economy could be increased only through restructuring, modernisation, and specialisation in new and top-quality products.

Such goods could be the products of machine and electronic industries, which represent a stable component in Slovak exports with a share of roughly 20% of total exports. The need to increase the weight of products with a higher share of added value in Slovak exports is also indicated by the fact that exports in the categories 'finished goods' and 'machinery and equipment' achieved a higher year-on-year

increase than in 2000 and made, despite a slowdown in the rate of economic growth in the EU, a significant contribution to the development of Slovakia's export trade.

In 2001, goods were imported in the amount of Sk 713.9 billion (74.0% of GDP), equivalent to a year-on-year increase of 20.9% (15.6% in USD and 18.9% in EUR).

The reduction in the size of the trade deficit in 1999 and 2000 was affected by economic-policy measures, which were designed to restrict domestic demand and imports. The short-term effect of these measures, coupled with increased spending in public administration, led to growth in the imports of goods for investment purposes and goods for final consumption. Although the price of oil and gas had a favourable effect on raw material imports, the rate of growth in Slovak imports reached a high level.

The inflow of foreign capital into the SR in the form of direct investment in previous years, improvement in the budgetary performance of the corporate sector, fall in interest rates, improvement in the credit rating of Slovakia, and investments deferred for a few years, stimulated demand for investments in industrial companies and growth in exports of machinery and equipment.

In the structure of imported goods, imports in the category 'machines and components, electrical machines and instruments', which are in large part of investment nature, recorded a year-on-year increase of Sk 34.5 billion, representing 27.9% of the total growth in imports.

A more detailed view of the structure of this category reveals that only part of it may be regarded as technology import. According to the estimates of NBS, the imports of technological equipment for the individual sectors of the national economy with a possible impact on export, increased by Sk 17.6 billion and their share in the total growth of imports reached 14.2%.

The pro-growth effect of technology imports on the trade deficit is acceptable, as these imports are mainly financed by foreign direct investment and represent a potential for growth in the export performance of the SR.

Part of 'consumer goods' is the category 'consumer products of machine and electrical engineering'. The year-on-year growth in imports in this category included an increase in the imports of consumer electronics, mainly cameras, video recorders, TV sets, etc.

Apart from an increase in consumer machines and equipment, the year 2001 saw an increase in the imports of other consumer goods, particularly pharmaceuticals, clothing, books, footwear, etc. Car imports grew year-on-year by Sk 8.5 billion, representing the second highest increase since 1996, when measures were introduced to improve the vehicle situation. In analysing the revival of imports for final consumption, we should not overlook the connection with the relatively small volume of imports of these commodities in the previous two years and, in the case of passenger cars, the periodic renewal of the vehicle fleet as well.

In 2001, the balance of services generated a surplus of Sk 23.2 billion. Although the surplus was greater than in 2000, its positive effect on the current account balance was smaller. While the surplus in the balance of services in 2000 sufficed to cover almost a half of the trade deficit, the ratio of coverage fell to roughly 20% in 2001.

The balance of transport resulted in a surplus of Sk 24.3 billion (a year-on-year fall of Sk 1.5 billion). In terms of volume, the largest item within transport services was the income from the transit of gas and oil from Russia to the Czech Republic, Western and Southern Europe, totalling Sk 34.4 billion. The level of income, however, fell somewhat in comparison with 2000. A moderate year-on-year fall took place in the transit of gas used to drive compressor stations, which technically ensure the transport of gas through the territory of the SR.^{4/}

Of the other components of transport services, expenses increased on other services, mainly business expenses related to additional import services (storage, insurance, etc.).

The only item within the services balance, which recorded an improvement, was foreign tourism. The marked excess of the rate of growth in receipts over expenses led to a year-on-year increase of Sk 10.7 billion in net foreign exchange receipts from tourism, to Sk 17.0 billion.

Receipts from foreign tourism amounted to Sk 31.0 billion, representing a year-on-year increase of Sk 11.0 billion. The share of receipts from foreign tourism in GDP reached 3.2%. In 2001, however, receipts from foreign tourism included part of the increase in the amount of funds on the foreign currency accounts of natural persons (foreign exchange in the amount of circa 50% of the year-on-year increase in receipts, which could be obtained by citizens in previous years and which were deposited in

^{4/} The value of compressor gas, as well as the remainder of the unpaid transit, form part of receipts from transport on the one hand, and is included in gas imports on the other (in the same amount), so its effect on the current account is eventually offset.

currency accounts with commercial banks in connection with the conversion of the national currencies of EMU Member States into euro, mainly in the last few months). Thus, growth in receipts from foreign tourists does not necessarily mean the beginning of a trend of visible improvement in the contribution of tourism to the foreign exchange economy of the SR.

Unlike transport and tourism, which generated a surplus, the balance of 'other services in total' (telecommunications, construction, insurance, financial, leasing, computer engineering, advertising, business, and technical services, etc.) was deep in deficit throughout the year. The size of the deficit reached Sk 18.1 billion in 2001, i.e. a year-on-year increase of Sk 6.2 billion.

Of all services falling within the above category, the trend of development changed in 2001 only in computer engineering services, the negative balance of which reached a state of equilibrium. Thus, computer engineering services joined telecommunications services, which had maintained a positive balance for a longer period.

The rapid growth in the deficit in the category 'other services in total' was affected by developments in construction and business

services throughout the year. The increase in expenditure on the import of construction services was connected with the growth in investment in buildings and increased involvement of foreign firms in their realisation. The improvement in the financial situation of economic entities led to increased efforts to hire foreign firms for the provision of certain services, especially business services (expert opinions, organisation of trade fairs and exhibitions, etc.). As in previous years, a relatively high surplus of payments over receipts was recorded in services related to the utilisation of intangible assets and ownership rights (patents, trade marks, copyrights, etc.), agency services, and services of technical nature (site supervision, architectural and structural design, etc.). The above activities, together with other services which produced smaller deficits, belong to the category 'services in other activities' within the balance of services. (The growth in the deficit of 'other services in total' was probably also affected by the transfers of earnings to foreign investors.)

In 2001, the balance of income resulted in a deficit of Sk 15.1 billion, which was Sk 1.2 billion less than in the same period a year earlier. The increased receipts were concentrated in two categories within the structure of income. Interest on portfolio investments and deposits

Capital and financial account of the balance of payments

(Sk billions)

	2001	2000
Capital account	3.8	4.3
Direct investment	70.6	96.8
SR abroad	-0.7	-1.0
in the SR	71.3	97.8
of which: privatisation	33.9	42.1
Portfolio investment	-10.5	36.4
SR abroad	-24.4	-9.2
in the SR	13.9	45.6
Other long-term investment	-10.6	-23.5
Assets	-0.5	-3.7
Liabilities	-10.1	-19.8
Short-term investment	29.9	-46.1
Assets	1.5	-39.8
Liabilities	28.4	-6.3
Capital and financial account	83.2	67.8

	2000			2001		
	Sk billion	Share of FDI in %	Share of C/A in %	Sk billion	Share of FDI in %	Share of C/A in %
Foreign direct investment in SR	97.8		301.9	71.3		84.0
of which: Equity capital	93.4	95.5	288.3	57.0	79.9	67.1
- privatisation FDI	42.1	43.0	130.0	33.9	47.5	39.9
- other capital investment	51.3	52.5	158.3	23.1	32.4	27.2
Other capital	4.4		x	14.3		x

increased throughout the year. Both items were connected with the level and structure of the foreign exchange reserves of the NBS and commercial banks. Increased interest payments were recorded in direct investments, due to growth in property-related payments to direct investors and subsequent transfer to abroad. In yield payments, the year 2001 saw a change in structure, while the increase in interest paid on portfolio investments was offset by a fall in interest paid on loans. The shift was connected with a change in the source of acquisition of foreign funds, from traditional loans to the acquisition of funds on the capital market.

Another item that showed an improvement in comparison with the previous year was the balance of current transfers, which generated a surplus of Sk 10.2 billion in 2001 (Sk 4.8 billion more than in 2000). Receipts from unilateral transfers from abroad, which were accepted by citizens and firms in the SR and were of non-investment nature, increased throughout the year and took place in the form of transfers made by natural and legal entities (e.g. benefits, damages, insurance premiums, and lotteries) and non-investment subsidies (non-repayable subsidies granted to banks and firms exclusively for operational purposes).

2.2. Capital and Financial Account

The capital and financial account resulted in a surplus of Sk 83.2 billion, but failed to cover the current account deficit in full. In comparison with the same period a year earlier, the surplus was Sk 15.4 billion (i.e. almost 23%) higher in 2001.

The most suitable form of financing the deficit in the current account (C/A) is through non-debt capital, mainly foreign direct investment (FDI). The inflow of such capital in net terms (difference between FDI by foreign entities in Slovakia and FDI by Slovak entities abroad) reached Sk 70.6 billion (the gross inflow amounted to Sk 71.3 billion and outflow Sk 0.7 billion).

Foreign direct investment in Slovakia takes place in the form of equity capital and other capital investment. The volume of FDI destined for increases in equity capital, consists of inflow in connection with the privatisation activities of the Government and inflow of other investment. In 2001, the inflow of FDI from privatisation reached Sk 33.9 billion and was connected with the activities of the FNM (National Property Fund) and Slovenská konsolidačná, a.s. (Slovak Consolidated, plc.), and took place exclusively in the banking sector.

Foreign direct investment in the Slovak economy, in the form of increases in equity capital (not connected with privatisation), reached Sk 23.1 billion. Of this amount, 27% was employed in the individual sectors of industry, where the said amount was distributed over a large number of companies. Foreign investors continued to show interest in sectors characterised by a large proportion of simple, often less qualified labour. Trade, business services, transport, storage, and telecommunications accounted for 43% of the total increase in equity capital. Growing interest in trade is also connected with the relatively low cost of labour, the possibility to increase the sales of goods in the SR, and to expand the country's potentials that may be utilised by investors for export.

In 2001, foreign direct investment in the form of equity capital (excluding privatisation activities) sufficed to cover the current account deficit up to 27.2% (compared with 158.3% in 2000).

Portfolio investment in net terms recorded an outflow of capital in the amount of Sk 10.5 billion. On the assets side, domestic investors – commercial banks – showed increased interest in foreign securities issued in foreign currency or Sk. The outflow of capital, caused mainly by the purchase of debt securities (in the form of bonds and short-term money market instruments), reached Sk 24.4 billion (the purchase of foreign securities is connected with the investment of funds acquired by commercial banks and represents, like deposits at foreign banks, one of the forms of assets).

Portfolio investments, which include the issue of securities by domestic entities on the foreign markets and trading in domestic equity and debt securities, reached Sk 13.9 billion.

The increase in marketable stocks, which fall into the category 'non-debt capital', like direct investments, reached Sk 8.9 billion.

The inflow of portfolio investments in the form of debt securities amounted to Sk 5 billion. A significant role in their structure was played by government bonds. Their volatile course during the individual months (purchase on the part of non-residents in March, June and December, and their subsequent sale in April and July) indicates that these are only short-term investments, which have no substantial effect on the financing of the current account deficit and are probably connected with the utilisation of the reciprocal agreement on non-taxation of yield payments.

The outflow of long-term capital reached Sk 10.6 billion and was caused mainly by the excess of repayments over drawings on the side of liabilities (Sk 10.1 billion) in the banking and corporate sectors.

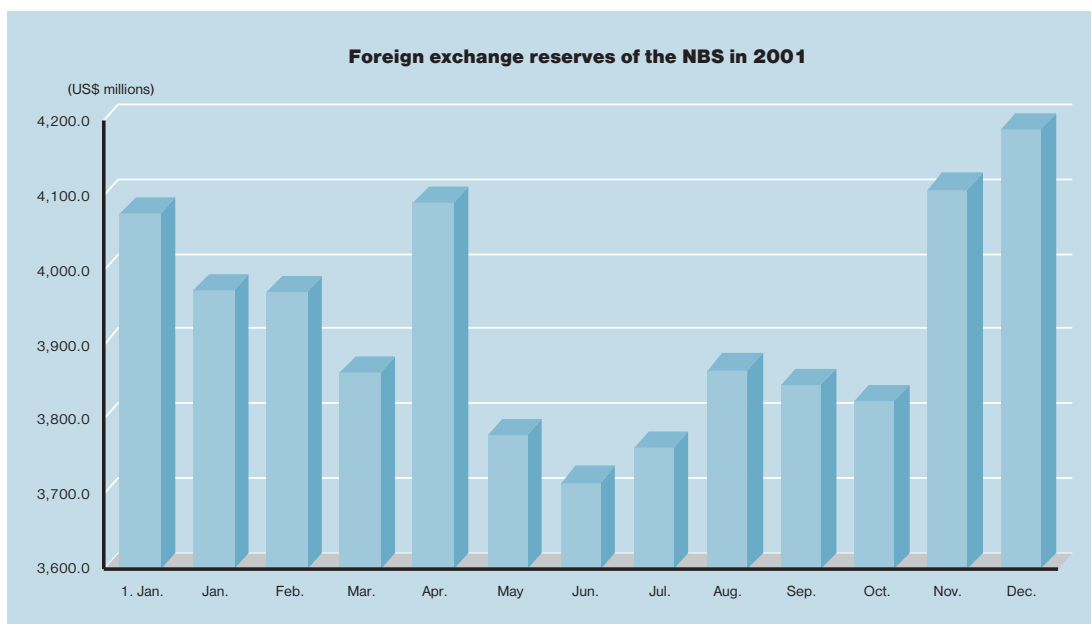
In the corporate sector, financial credits were drawn in the amount of Sk 36.0 billion and thus fell roughly to the level of 1998 and 1999 (after an increase in 2000). A difference in comparison with the past years was recorded in the structure of credits drawn. While loans in previous years were concentrated in the generation and distribution of electricity, gas and water supply, and transport, most loans in 2001 were provided to industry, trade, and business services.

In the corporate sector, financial loans were repaid in the amount of Sk 42.8 billion, mainly in 'electricity, gas, and water supply' and 'transport and communications', i.e. sectors that had received the largest volumes of foreign loans in the past (usually with government guarantees). As a result of discrepancy between the long average period of return on investment in these sectors and the maturity of these loans, coupled with the sector's inability to repay them, the loans were again repaid in 2001 by the Government and/or the FNM under guarantee (government guarantees were paid through the FNM in the amount of almost Sk 8 billion in 2001). The excess of repayment over drawing caused an outflow of funds in the amount of Sk 6.8 billion.

A distinct outflow of capital from the banking sector (Sk 9.9 billion) took place in the last quarter, when subordinated debt was repaid at two commercial banks.

The outflow of long-term funds from the corporate and banking sectors was partly offset by an inflow of capital into the government sector including the NBS and government agencies (Sk 8.4 billion).

The drawing of foreign loans took place mostly through government agencies (FNM and the State Road Fund). The first tranche of the loan from the World Bank was drawn at the end of the year. As for government loan repayment, the year saw the repayment of principal on a debt to the former GDR in addition to standard loan repayments (World Bank, G-24, EXIM).



In 2001, there was marked fluctuation in short-term capital, which recorded an inflow of Sk 29.9 billion in cumulative terms, from January to December. Short-term capital was made up of transactions on the side of short-term liabilities in particular, while their volume was affected substantially by the banking sector. The inflow of short-term capital into the banking sector was determined during the year by increases in the deposits of non-residents at commercial banks in the SR, which resulted from the deposit of foreign exchange at commercial banks in connection with the process of privatisation (foreign investors deposited part of the purchase price, the release of which was conditional on the results of audit). Drawing also exceeded repayment in short-term financial loans, in both the banking and corporate sectors.

2.3. Foreign Exchange Reserves

At the end of 2001, the foreign exchange reserves of the NBS reached US\$ 4,188.7 million, representing a year-on-year increase of US\$ 111.9 million. The level of reserves was affected by several factors during the year. The expenditure side was determined mostly by debt service payments effected on behalf of the Government. The surplus in the balance of

revenues and expenditures (US\$ 141.3 million) was partly offset by negative exchange rate differentials (US\$ -29.4 million), which resulted from the weakening of other fully convertible currencies (especially the euro) in relation to the US dollar on international financial markets.

The revenue side of foreign exchange reserves was determined by the following factors:

- part of the proceeds from the privatisation of Slovenská sporiteľňa (SLSP) and Všeobecná úverová banka (VÚB) in the amount US\$ 502.6 million (58% of the total receipts);
- yields from deposits and securities held in the portfolio of the NBS in the amount of US\$ 133.1 million;
- the drawing of government loans from foreign financial institutions in the amount of US\$ 77.1 million, whereby the first tranche of an EFSAL loan from the World Bank accounted for US\$ 52.0 million;
- other revenues of the NBS in the amount of US\$ 153.9 million, of which receipts in the foreign currency accounts of NBS clients for PHARE projects accounted for US\$ 60.3 million.

The expenditure side of foreign exchange reserves was affected by:

- debt service payments by the Government in the amount of US\$ 389.8 million (54% of total

External Debt of the SR	(US\$ millions)	
	31.12.2000	31.12.2001
Total external debt of the SR	10,804.2	11,042.4
Total medium- and long-term foreign debt	8,389.2	7,969.4
of which: Official debt of the Government and NBS	2,916.5	2,780.5
Government agencies	371.9	574.1
Municipalities	95.6	96.9
Foreign debt in the commercial sector	5,005.2	4,517.8
- commercial banks	316.7	95.1
- entrepreneurial entities	4,688.5	4,422.7
Total short-term foreign debt	2,415.0	3,073.0
of which: Government and the NBS	0	4.1
Commercial banks	366.7	779.6
Non-bank entrepreneurial entities	2,048.3	2,289.3

expenditure), of which the payment of principal and interest on government eurobonds issued in previous years accounted for US\$ 259.2 million;

- debt service payments by the NBS in the amount of US\$ 37.4 million;
- other expenditures of the NBS in the amount of US\$ 256.6 million, incurred mostly in connection with the realisation of cross-border payments for NBS clients (US\$ 150.3 million);
- the sale of foreign exchange to commercial banks on the interbank foreign exchange market through direct transactions and central bank interventions during January, in the amount of US\$ 41.7 million.

At the end of 2001, the foreign exchange reserves of the NBS were 3.0 times greater than the volume of average monthly imports of goods and services to the Slovak Republic in 2001. Despite a moderate rise in the level of foreign exchange reserves, an increase in average monthly imports of goods and services (15% in US\$) caused the coverage of imports to decrease by 0.4 of a month in 2001, compared with the end of the past year.

The foreign exchange reserves of commercial banks reached US\$ 1,248.6 million at the end of 2001, representing a year-on-year fall of US\$ 255.5 million.

At the end of 2001, the volume of foreign exchange reserves in the banking sector including the NBS, stood at US\$ 5,437.3 million, representing a fall of US\$ 143.6 million compared with the beginning of the year.

2.4. External Debt of the SR

On 31 December 2001, the total gross external debt of the Slovak Republic amounted to US\$ 11.042 billion (according to preliminary data), representing a year-on-year increase of US\$ 238.2 million.

With regard to the structure of Slovakia's gross external debt, total gross medium- and long-term foreign liabilities accounted for US\$ 7.9 billion at the end of 2001. Short-term foreign debt totalled US\$ 3.1 billion, representing an increase of US\$ 658.0 million compared with the year 2000. Per-capita gross foreign debt had increased to US\$ 2,053 by the end of 2001 (from US\$ 2,021 at the end of 2000).

The share of total short-term debt in the total gross external debt of the SR reached 27.8% at the end of December 2001 (compared with 22.35% at the end of 2000). In 2001, short-term foreign debt amounted to US\$ 3.073 billion (an increase of US\$ 721 million).

Structure of investment by country

Country	Number of permits	Investments (in thousands of Sk)
Bosnia - Herzegovina	1	162,769.6
Georgia	1	16,880.6
Jordan	3	14,540.1
Rumania	6	6,824.3
Libya	1	4,846.7
Argentina	1	969.3
Ukraine	3	657.8
Byelorussia	1	487.1
Russia	4	487.1
Croatia	6	408.8
Algeria	1	324.9
Yugoslavia	1	240.5
Cyprus	1	75.2
Total	30	209,512.0

Note: Direct investment in OECD countries has been liberalised.

Net external debt – expressed as the difference between gross foreign debt, i.e. US\$ 11.0 billion (liabilities of the Government and the NBS, liabilities of commercial banks and the corporate sector – except capital participation), and foreign assets, i.e. US\$ 8.5 billion (foreign exchange reserves of the NBS, foreign assets of commercial banks and the corporate sector – except capital participation), reached US\$ 2.5 billion at the end of December, representing a year-on-year fall of US\$ 0.4 billion.

2.5. Licensing Activity of the NBS

In 2001, the licensing activity of the NBS was affected by the legislative adjustments made to the foreign exchange regime with effect from 1 January 2001, and comprised the following measures:

- liberalisation of the provision of financial credits;
- liberalisation of the acceptance of financial credits;
- liberalisation of the issue of guarantees for the liabilities of foreigners.

By 31 December 2001, foreign exchange permits and licences had been issued as follows:

- foreign exchange permits: 309 permits and 33 supplements;
- foreign exchange licences: 61 licences and 54 supplements.

Foreign Exchange Permits

Investment abroad

In 2001, the NBS issued 30 foreign exchange permits for direct investment in countries that are not members of the OECD, in the amount of Sk 209,512 thousand.

Trading in foreign securities

- 15 foreign exchange permits were issued in the total amount of Sk 896.4 thousand for the purchase of foreign securities;
- 2 foreign exchange permits in the total amount of Sk 2,005.5 thousand for the sale of foreign securities;
- 1 foreign exchange permits and 4 supplements for trading in foreign securities in Slovakia, in the amount of Sk 849.0 thousand.

Trading in financial derivatives

- 183 foreign exchange permits and 4 supplements were issued for the writing of option contracts for the purchase of employee shares or other preferential foreign securities.

Opening of foreign-currency accounts at foreign banks

- 56 foreign exchange permits and 21 supplements were issued for the opening of accounts at foreign banks, for the purpose of covering necessary expenses incurred in connection with construction, assembly, and repair work abroad, in a total amount of Sk 7,143,530.9 thousand (estimated in the contracts);

- 8 foreign exchange permits and 2 supplements for the opening of accounts at foreign banks in connection with the acceptance of financial credits from foreign residents in the amount of Sk 719,030.3 thousand, for payments for goods and services abroad or services related to the repayment of these credits from receipts abroad;
- 10 foreign exchange permits were issued in connection with the issue of bank guarantees in the amount of Sk 257,848.1 thousand;
- 1 foreign exchange permit for the payment of charges in connection with the settlement of claims abroad;
- 3 foreign exchange permits and 2 supplements exempting the holder from the transfer requirement in connection with the acceptance of loans, the coverage of hedging deals on commodity markets, and the issue of licences for trading in financial derivatives and foreign securities.

Foreign Exchange Licences

- 52 foreign exchange licences and 53 supplements were issued for trading in foreign currencies and traveller's cheques (non-bank exchange offices);
- 6 foreign exchange licences and 1 supplement for transactions in foreign securities (for dealers in securities);
- 1 foreign exchange licence for trading in financial derivatives; and
- 2 foreign exchange licences for the provision of financial services to and from abroad.

3. PUBLIC SECTOR

Budgetary Performance

Budgetary performance in 2001 was regulated by Act No. 472/2000 Z.z. on the State Budget, with revenue projected in the amount of Sk 180.6 billion and expenditure estimated at Sk 217.8 billion. The budget deficit was set at Sk 37.2 billion (Article 1), but Article 12 of the Act allowed the deficit to be increased by the amount

of government bonds issued for the financing of motorway construction (up to Sk 6.5 billion) and bank restructuring (up to Sk 9.8 billion).

At the end of 2001, the State Budget resulted in a total deficit Sk 44.4 billion. The deficit in current budgetary performance amounted to Sk 36.4 billion, i.e. the actual deficit accounted for roughly 97.8% of the budgeted figure. In accordance with Article 12, Sk 8.0 billion was used for bank restructuring, while the construction of motorways was financed from the current budget, primarily from the higher than projected budget revenue.

Total budget revenue reached Sk 205.3 billion, exceeding the budgeted figure by Sk 25 billion. This was due to grants and transfers, which are in fact unbudgeted revenues, as they only 'pass through' the budget, and must therefore be excluded from both revenues and expenditure. In 2001, net revenue reached Sk 191.6 billion (exceeding the budgeted figure by Sk 11.0 billion), which represented a budget fulfilment of 106.1%.

Non-tax revenues were affected significantly by the transfer of the profits of the NBS in the amount of Sk 5.3 billion, and a special transfer from the profits of Slovenský plynárenský priemysel, š. p. (Slovak Gas Industry, state comp.), in the amount of Sk 5.0 billion.

The most significant contribution to the growth in budget revenues was derived from value-added tax, which exceeded the budgeted figure by Sk 8.6 billion and thus fulfilled the budget to 113.2%. Revenue from value added-tax was roughly Sk 3 billion higher than in 2000. Revenue from excise duties remained Sk 0.3 billion below the budgeted level, representing a budget fulfilment of 98.8%. In 2001, revenue from excise duties was roughly at the level of the previous year. Despite a cut in the tax rate, revenue from corporate income tax exceeded the budgeted level by Sk 1.7 billion (i.e. the budget was fulfilled to 109.1%), but was Sk 4.8 billion lower than in 2000. De facto revenue from personal income

tax corresponded to the budgeted figure, and was Sk 2.4 billion higher than in 2000.

Budget expenditure reached Sk 249.7 billion, representing 114.7% of the budgeted level (ca. Sk 32 billion more). Excluding grants and transfers in the amount of Sk 13.7 billion, the expenditure amounted to Sk 236.0 billion, which represented 108.4% of the budgeted figure.

The deficit in the State Budget was kept at the budgeted level, but revenues above the planned level were used for an increase in expenditure rather than for a reduction in the budget deficit.

Government Guarantees

In 2001, the Government of the SR provided guarantees in the total amount of Sk 37.8 billion, mainly for Slovenské elektrárne, a.s. (Slovak Power Plants, plc.); Železnice SR, a.s. (Slovak Railways, plc.); and Metro Bratislava, a.s. The guarantee for Imuna, state comp., Šarišské Michalany was also paid from the State Budget, in the total amount of Sk 14.6 million.

Through FNM, the so-called memorandum item (receipts from privatisation), government guarantees were paid in 2001 in the amount of Sk 8 billion for Vodohospodárska výstavba, state comp., Bratislava; Solivary Prešov, a.s.; Calex Zlaté Moravce, a.s., and other companies.

Relationship Between the NBS and State Budget

The Bank Board of NBS decided that, with effect from 1 January 2001, interest on the balance of the summary account of the SR would be calculated at the overnight sterilisation rate of the NBS. At the same time as Act No. 149/2001 Z.z. (amending the National Bank of Slovakia Act) came into effect, an agreement was signed with the Ministry of Finance of the SR on the payment of interest on the credit

balance of the summary memorandum account of the Slovak Republic, with effect from 1 May 2001.

The possibility of having time deposits at a more advantageous rate of interest was not utilised by the MF SR in 2001. Interest paid on the balance of the summary memorandum account of the Slovak Republic held by the NBS, reached Sk 495.3 million during the year.

Apart from paying interest on the summary memorandum account to the State Budget, the National Bank of Slovakia transferred Sk 5.3 billion to the State Budget, i.e. Sk 3.3 billion for 2000 and Sk 2.0 billion for 2001. In total, the NBS contributed Sk 5.8 billion to the budget revenue in 2001.

State Financial Assets and Liabilities

State financial assets kept in the form of deposits with the NBS amounted to Sk 2.6 billion at the end of 2001, representing an increase of Sk 1.5 billion since the beginning of the year. A marked increase (Sk 2.6 billion) was caused by the depositing of the crown equivalent of an EFSAL loan from the World Bank, granted for the restructuring of the corporate and financial sectors. A fall in funds was recorded in the so-called deposit account (Sk 0.9 billion), due mainly to the payment of principal on SAL loans from JEXIM Bank and the World Bank, and the settlement of a commitment to Germany. Funds for the conversion of arms production fell by Sk 0.2 billion. State financial liabilities reached zero value at the end of 2001.

State Funds

At the end of the year, the position of State funds was that of a debtor, in the amount of Sk 27.7 billion. This position was in large measure due to domestic and foreign credit facilities, amounting to Sk 38.2 billion at the end of

December. A dominant part of these credits (Sk 35.4 billion) was granted to the State Road Fund, for the financing of motorway construction in Slovakia. Excluding credit resources and funds which were allocated from the State Housing Development Fund to individual entities but which remained unused (Sk 2.1 billion), State funds had Sk 8.4 billion at their disposal. In comparison with the beginning of the year, the volume of credits increased by Sk 2 billion. During the year, the largest balance was recorded in the account of the State Fund for the Liquidation of Nuclear Power Engineering Facilities and Handling of Spent Fuels and Radioactive Waste.

National Property Fund (FNM)

The year 2001 saw the redemption of FNM bonds issued in 1995, which fell due on 31 December 2000. By 31 December 2001, a total of 1,905,342 bonds had been redeemed in the amount of Sk 26.5 billion. A total of 1,013,360 bonds were redeemed by natural persons (of which, 1,012,973 by residents and 387 by non-residents) in the amount of Sk 13.9 billion. By the end of the year, the National Property Fund (FNM) had redeemed 47,941 bonds for domestic legal entities in the amount of Sk 0.6 billion, and 483,740 bonds for foreign legal entities in the amount of almost Sk 7.0 billion. In addition, the FNM is to repay Sk 4.5 billion to domestic entities in 2002, in settlement of liabilities for 327,421 bonds (bonds replaced by loans). On 1 January 2002, there were 60,098 unredeemed bonds in the amount of Sk 0.8 billion, belonging to owners who had failed to notify the RMS with a request for bond redemption.

Budgetary Performance of Public Finances

For 2001, the deficit in the public budget was set at Sk 37.8 billion, i.e. 3.9% of GDP (in accordance with Article 1, paragraph 2, of the State Budget Act of 2001). According to data

from the Ministry of Finance of the SR, the fiscal deficit (excluding the costs of bank restructuring and guarantees) reached Sk 37.3 billion (3.9% of GDP) in 2001, i.e. within the budgetary limit for this area.

4. MONETARY POLICY AND MONETARY DEVELOPMENT

4.1. Monetary Development Assessment

In 2001, the National Bank of Slovakia implemented its monetary policy in the environment marked by the decreasing rate of inflation, persistent economic growth, and the change in trend of the balance of foreign trade. A factor stabilising the economic development throughout the year was the situation on the foreign exchange and money markets. The favourable development of inflation and the expectations of its further decrease in particular, were the main reasons behind the decision of the NBS to lower its key interest rates by 0.25 percentage points at the end of the first quarter of 2001. With regard to the deepening deficit of the public finance and the trade deficit, the NBS had not found it necessary to adjust its interest rate policy in respect of the favourable inflation development till the end of 2001. Monetary development in 2001 was also affected by the restructuring of selected banks, the redemption of FNM bonds to legal and natural persons, the cessation of operations of Devín banka, a.s. (Devín Bank, plc.), and by the continued privatisation of state property. The use of privatisation funds and the cut in the ratio of required reserves for the banking sector led to an increase in the NBS's sterilisation position.

The exchange rate of the Slovak koruna to the reference currency, the euro, remained relatively stable during the year, showing a moderate appreciation trend (by 2.8%). In reaction to the EUR/USD cross-currency rate, the Slovak koruna weakened against the US dollar, by

2.3%. The real effective exchange rate (REER), calculated on the basis of the producer price index (for the nine most important trading partners of Slovakia)^{5/}, depreciated in 2001 by 0.5 percentage points, indicating a favourable trend in the price-based competitiveness of domestic products in comparison with foreign goods.

The M2 rate of growth (at the fixed exchange rate 1993) slowed to 11.9% in 2001, from 14.2% in 2000. In contrast with 2000, the growth in M2 was created by net domestic assets, as net foreign assets had recorded a fall.

Net foreign assets (at the fixed exchange rate 1993) fell year-on-year by Sk 9.2 billion in absolute terms. The fall was influenced by the significant current account deficit of the balance of payments, coupled with an outflow of long-term capital from the corporate sector. These effects were, however, partly offset by an inflow of privatisation funds.

Net domestic assets increased year-on-year by Sk 78.3 billion. Within their structure, there were several non-standard and one-off operations during the year. In January and March the government issued the bonds for loan portfolio restructuring of selected commercial banks. The restructured loans in the portfolios of these banks were replaced with holdings of government securities. This operation led to a decrease of Sk 93.6 billion in the volume of loans to households and enterprises. Another non-standard factor, affecting the development of loans to households and enterprises, was the cessation of operations of Devín banka (a.s.) in October 2001. The cancellation of the bank's reporting obligation caused a one-off decrease in the total volume of loans, equivalent to the amount of loans provided by Devín banka.

Adjusted for the effect of restructuring bonds on lending activities, loans to households and enterprises grew by 5.4% in 2001, in comparison with 4.1% in 2000. Bank lending showed

only a slight increase in dynamics, representing no additional stimulus for growth of domestic demand and the current account deficit.

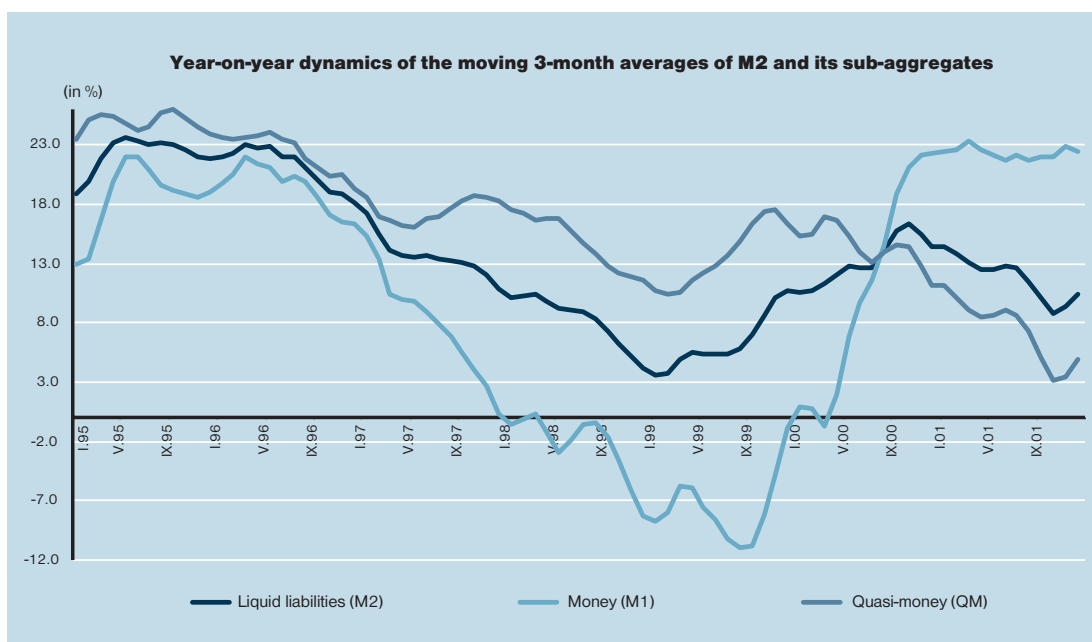
Apart from the decrease in the volume of loans, the loan portfolio restructuring and the issue of restructuring bonds led to growth in the volume of net credit to the Government (in the total amount of Sk 105 billion). Excluding the effect of these operations, the rate of growth in net credit to the Government and the FNM reached 33.4% (compared with 15.7% in 2000). The volume of net credit to the Government including the FNM (excluding the effect of the restructuring bonds issued) grew year-on-year by Sk 55.8 billion (compared with Sk 22.7 billion in 2000).

4.2. Structure of the Money Supply

In 2001, the M2 money supply (at the fixed exchange rate 1993) increased by Sk 69.1 billion, to Sk 649.2 billion at the end of the year. The increase took place mostly during the last quarter (Sk 37.6 billion), due to the seasonal crediting of interest to accounts at the end of the year and the redemption of FNM bonds. Despite the pro-growth effect of this operation, the rate of year-on-year growth in the money supply slowed by 2.3 percentage points in comparison with December 2000, to 11.9% in December 2001.

Factors that contributed to the relative volatility in the year-on-year dynamics of the money supply in the second half of the year, included developments at Devín banka. With the cessation of its operations, reporting also came to an end, so the volume of deposits fell by Sk 12.4 billion for accounts purposes. From November 5, however, protected deposits were repaid to customers by the Deposit Protection Fund and became part of the money supply again (by the end of the year, protected deposits had been refunded in the total amount of Sk 11.5 billion).

5/ The USA, Great Britain, Austria, France, Germany, Italy, the Netherlands, Switzerland, and the Czech Republic.



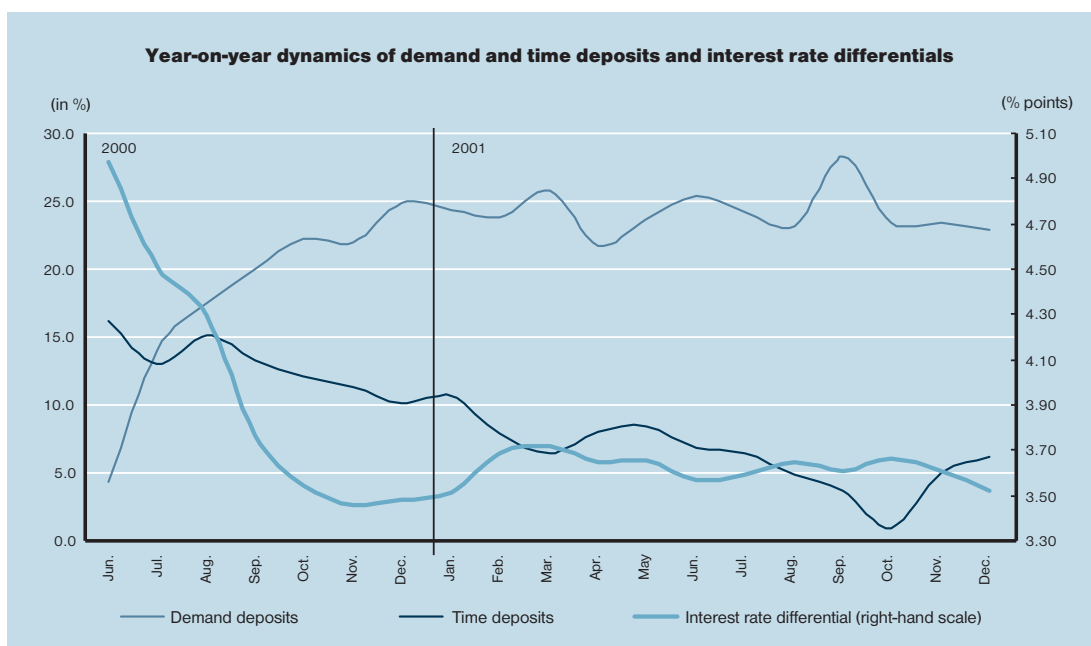
The M1 monetary aggregate increased year-on-year by Sk 41.3 billion, i.e. 22.1% (compared with 21.7% in 2000), and quasi-money by Sk 27.8 billion, i.e. 7.1% (compared with 10.9% in 2000). Within the structure of the money supply, the proportion of M1 gradually increased over the course of 2001 (from 32.3% to 35.2%).

The volume of currency outside banks recorded a year-on-year increase of Sk 14.0 billion, i.e. 20.9% (compared with 16.5% in December 2000). The rate of year-on-year growth showed a tendency to slow until August, then accelerated during the remaining months of the year (except December), due mainly to the repayment of protected deposits to the clients of Devín banka and the redemption of FNM bonds. This led to growth in the share of currency in the money

supply, a trend which started in the second quarter of 2000 (10.3% in March 2000; 11.5% in December 2000; and 12.5% in December 2001).

The growth in Slovak-crown deposits (demand and time deposits) reached Sk 47.2 billion, i.e. 10.6% (compared with Sk 53.5 billion in 2000, i.e. 13.6%). The contribution of crown deposits to the expansion of the money supply diminished in 2001. Of the year-on-year increase in M2, 68.3% was allocated in crown deposits, compared with 74.3% in 2000 and 77.6% in 1999. Demand deposits increased during the year by Sk 27.3 billion, and their year-on-year dynamics reached 22.7%. This increase took place in the deposits of enterprises and insurance companies, as well as household deposits in roughly the same

	Year-on-year change in %			Year-on-year change in Sk billions		
	1999	2000	2001	1999	2000	2001
Household deposits	8.8	8.3	7.8	25.7	26.4	26.7
- demand deposits	-2.7	33.4	24.3	-1.1	13.5	13.1
- time deposits	12.7	5.0	2.4	26.8	12.0	6.0
- in foreign currency	0.2	2.4	19.0	0.1	0.9	7.6
Corporate deposits	14.2	27.3	16.8	16.5	36.2	28.4
- demand deposits	0.1	18.6	21.5	0.1	10.4	14.2
- time deposits	28.7	30.4	18.3	13.0	17.7	13.9
of which: insurance cos.	25.0	23.1	9.1	3.4	3.9	1.9
- in foreign currency	22.9	43.8	1.1	3.5	8.1	0.3



proportion. The relatively high rate of growth in demand deposits was due mainly to the relatively low interest rate differential between time and demand deposits, which had been relatively stable since October 2000 (3.5 points in December 2001; 3.5 points in December 2000; 8.3 points in December 1999), and probably did not sufficiently motivate economic entities to open fixed-term deposit accounts. The growth in time deposits in 2001 (Sk 19.9 billion, i.e. 6.1%) slowed in comparison with the previous year (Sk 29.7 billion in 2000, i.e. 10.0%). Accelerated growth was recorded in corporate deposits, but their year-on-year dynamics diminished significantly in comparison with 2000. The rate of growth in the time deposits of private individuals also slowed during the year.

In the development of crown deposits, the trend of preference for highly liquid deposits continued in the individual sectors of the economy. This trend was apparent mainly in the deposits of corporate entities, of which demand and short-term deposits accounted for more than 90%. Their share was relatively stable and increased very slowly (by 1.8 percentage points from January 1999, to 96.4% in December 2001). The dominant part of the increase in corporate time deposits was concentrated in 1-month

deposits (a year-on-year increase of Sk 15.6 billion) and 6-month deposits (an increase of Sk 4.0 billion), while 3-month and 12-month deposits fell on a year-on-year basis (by Sk 3.6 billion and Sk 2.6 billion respectively).

Short-term deposits and deposits redeemable on demand are also preferred by households. The increase in their proportion (of 7.8 percentage points from January 1999, to 76.8% in December 2001) was due mainly to dynamic growth in demand deposits, which started to be preferred by households as a result of a reduction in the interest rate differential between rates for time and demand deposits. The fall in interest yields on time deposits in comparison with demand deposits, was reflected in the small increases in the time deposits of households and their growing tendency to consume. At the same time, part of household savings could be used in other forms of investment. The dominant part of the increase in time deposits was concentrated in 6-month deposits (a year-on-year increase of Sk 3.4 billion), 1-month deposits (Sk 2.9 billion), and other short-term savings deposits (Sk 2.2 billion), while the greatest fall was recorded in medium-term savings deposits (Sk 2.5 billion) and 2-year deposits (Sk 1.6 billion).

Deposits in foreign currency increased in 2001 by Sk 7.9 billion (11.9%), representing a slowdown in year-on-year dynamics in comparison with 2000 (Sk 9.0 billion, i.e. 15.6%). The increase took place mostly in household deposits, while corporate deposits recorded only a moderate increase. The rate of year-on-year growth in household deposits accelerated to 19.0% in December 2001, from 2.4% in December 2000. The dominant part of this growth took place in the last month of the year, which was connected with the placement of foreign currencies on currency accounts for the purpose of conversion into euro. Despite an increase in dynamics, the foreign-currency deposits of households maintained a relatively stable share in total household deposits (12.5% in December 1999; 11.7% in December 2000; and 12.9% in December 2001). The rate of year-on-year growth in corporate deposits in foreign currency fell, from 43.8% in December 2000, to 1.1% in December 2001 (the marked fall in dynamics was due to their high level caused by an inflow of foreign funds in connection with the privatisation of strategic companies in 2000, which were deposited in accounts at commercial banks). The share of corporate foreign-currency deposits in the total volume of corporate deposits fluctuated somewhat in the course of 2001 and decreased on a year-on-year basis, from 15.7% to 13.5%.

4.3. Lending Activities

Loans in Sk and foreign currency provided to the entrepreneurial sector, households, central and local authorities for budgetary purposes, are loans reported by the banking sector according to the rules for statistical reporting (i.e. they are not adjusted for data on banks which have been closed, accounting transfers connected with restructuring, etc.); from a procedural point of view, they are not to be confused with loans to

households and enterprises (according to the methodology of the monetary survey), which do not include the government sector.

The statistically recorded volume of loans in Sk and foreign currency to the entrepreneurial sector, households, central and local authorities for extra-budgetary purposes, non-resident commercial banks and the NBS, fell year-on-year by Sk 69.3 billion. Slovak-crown loans fell in volume by Sk 71.8 billion, while foreign-currency loans grew by Sk 2.5 billion. At the end of the year, the total volume of loans reached Sk 338.3 billion, of which crown loans accounted for Sk 280.0 billion and loans in foreign currency Sk 58.2 billion.

During the first half of 2001, the development of crown loans was affected by issues of government bonds (in January and March), which were used to replace restructured loans in the portfolios of selected banks, in the amount of Sk 93.6 billion. The continued restructuring of commercial banks again affected the statistically recorded volume of loans in 2001. Leaving the issue of restructuring bonds out of account, crown loans increased by Sk 21.8 billion and loans in total by Sk 24.0 billion.^{6/ 7/}

In the structure of loans by sector, the most significant increase took place in the share of state administration and private individuals, while that of the entrepreneurial sector (mainly the private sector including co-operatives and households) decreased.

Within the structure of crown loans, year-on-year increases were recorded in loans in the following sectors: transport, storage, postal and telecommunications services (Sk 8.5 billion); electricity, gas, and water supply (Sk 4.6 billion); and other sectors (Sk 14.3 billion). In agriculture, hunting, and fishing, loans recorded a year-on-year fall of Sk 0.4 billion.

6/ In the text below, the volume of loans under analysis is adjusted for (increased by) the issue of government bonds.

7/ In October, reporting was ended at Devín banka, so the volume of loans statistically recorded as at 31 December 2001 does not include the loans of Devín banka, but these loans were included in the total volume of loans at the end of 2000. If these loans are included in the reported volume of loans, the year-on-year growth in crown loans reaches Sk 25.4 billion and in total loans Sk 27.9 billion.

In the structure of crown loans by term, the proportion of short-term loans decreased by 5.9 points (to 29.5%), while the share of medium-term loans increased by 4.0 percentage points (to 41.5%) and that of long-term loans by 1.9 percentage points (to 29.0%).

Of the total volume of bank new loans (Sk 636.4 billion), loans to the entrepreneurial sector accounted for 95.3% and were predominantly short-term loans (89%). Private individuals received 3.0% of the total volume of new loans.

With regard to the structure of new loans by purpose, operating loans accounted for 77.0% and overdraft facilities 10.9%.

4.4. Interest Rate Developments

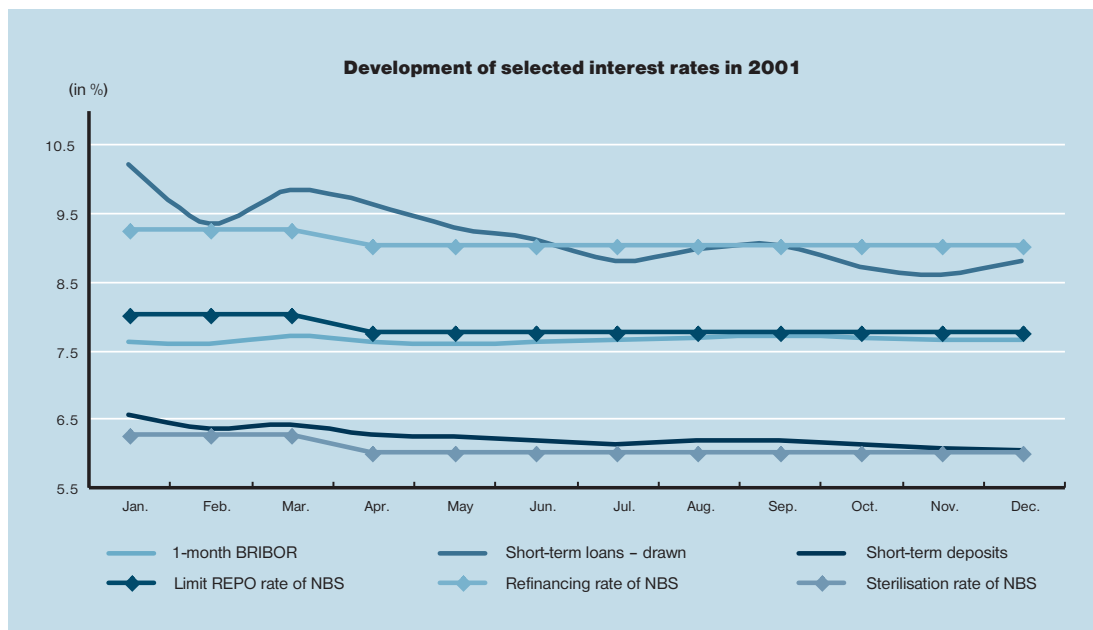
The qualitative control of monetary policy through the key interest rates of the NBS determined the course of customer interest rates, which copied the central bank's key interest rate adjustments. Thus, customer interest rates on loans and deposits followed a trend of moderate fall.

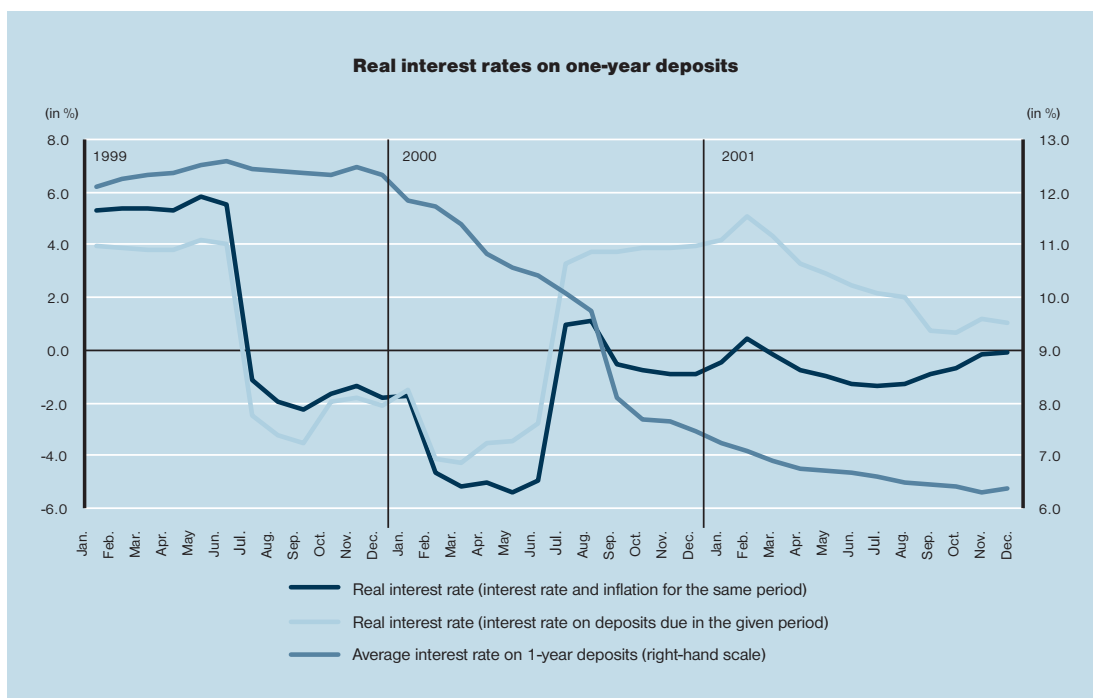
The price of new loans fell year-on-year by 1.82 points in 2001, to 8.96%. With regard to

the large share of short-term loans (89.0%), short-term rates had a substantial influence on the average rate of interest on new loans. The average interest rate on short-term loans fell by 1.93 percentage points, to 8.81%. The average rate for medium-term loans fell by 1.71 percentage points, to 9.93%. At the same time, interest rates on long-term loans rose slightly, by 0.54 of a percentage point, to 10.10%.

Within the structure of new loans by purpose, average interest rates fell year-on-year on all types of loans with the exception of consumer loans for private individuals. The average rate for overdraft facilities fell by 2.60 percentage points, to 11.16%. The price of operating loans also fell, by 1.47 percentage points, to 8.44%. A marked fall was recorded in the category 'other loans' (2.15 percentage points, to 8.98%). The average interest rate on consumer loans to private individuals increased year-on-year by 1.10 percentage points, to 11.50%.

The average interest rate on the total volume of loans fell by 0.27 percentage points over the course of 2001, to 9.78%. The average rate for short-term loans fell by 0.76 percentage points (to 10.34%), that for medium-term loans rose by 0.67 percentage points (to 10.21%), and the rate for long-term loans fell by 0.46 percentage





points (to 8.90%). The level of interest rates on short and medium-term loans was affected by the conversion of restructured loans into holdings of government bonds. Loans with a rate of 10.30% (and/or 8.80%) were removed from the portfolios of banks, which led to a rise in interest levels (interest rates on restructured loans were lower than the average rate for other loans).

The development of interest rates on crown deposits during 2001 was characterised by stagnation or a trend of moderate fall, which was determined by the key interest rates of the NBS, while their level copied the overnight sterilisation rate. The average interest rate on total crown deposits fell year-on-year by 0.7 percentage points, to 4.78%. The average rate for time deposits fell by 0.58 percentage points (to 5.98%) and that for demand deposits by 0.61 percentage points (to 2.47%).

The fall in average interest rates on time deposits was due mainly to a change in the average rate for short-term deposits, which fell by 0.56 percentage points, to 6.14%. The average interest rate for medium-term deposits fell by 0.50 percentage points (to 7.31%) and

that for long-term deposits by 0.69 percentage points (to 3.76%).

The real interest rate (when the average rates of interest and year-on-year inflation are compared in the same period, e.g. the interest rate in December 2001 and inflation in December 2001) on one-year deposits increased over the course of 2001 by 0.80 percentage points and reached a negative value (0.16%). This was due to a fall in both the 12-month rate of inflation (from 8.4 to 6.5%) and the average rate of interest on one-year deposits (from 7.44 to 6.34%).

If, however, the average rate of interest on one-year deposits in a period when they were kept at a commercial bank is compared with the 12-month rate of inflation at the time when the deposits fell due (e.g. interest rate in December 2000 and inflation in December 2001), the real interest rate reaches a positive value (0.94%). In comparison with the same period a year earlier, the real interest rate fell by 2.97 percentage points. This was due to a greater fall in the average rate for one-year deposits in 2000 compared with 1999 (4.87 percentage points) than in inflation in 2001.

4.5. Implementation of Monetary Policy

In 2001, the NBS implemented its monetary policy with respect to the overall macro-economic development, which was marked by a decrease in inflation and a revival in economic growth, and a deterioration in the macro-economic imbalance in the form of an increase in the trade balance deficit. The exchange rate showed low volatility in 2001, with a tendency of moderate appreciation. The implementation of monetary policy was also affected by the sale of state property.

In 2001, the NBS continued to apply a qualitative method of monetary control through setting up its key interest rates, and also in convergence process of the NBS monetary-policy instruments with those of the ECB. This included another cut in the ratio of required reserves, from 6.5 to 5.0% with effect from 1 January 2001, and the extension of the period of reserve-requirement fulfilment for commercial banks, from 14 days to one month.

On 1 January 2001, the two-week limit rate for the standard REPO tender was set at 8.00%, the overnight refinancing rate at 9.25% and the sterilisation rate at 6.25%.

Interest rate development on the interbank deposit market was, apart from an apparent correlation with the sterilisation position, affected mainly by the level of central bank key rates, especially the limit rate for the two-week REPO tender. Changes in its current level, and expectations connected with its change, became the main factors determining the level of long-term interest rates in 2001. In reaction to information on key macro-economic indicators, the banking sector revealed its expectations about the further development of NBS key rates and interest rates in general through the shape of the yield curve on the interbank market. Over the course of the year, the shape of the yield curve changed several times.

In deciding on the orientation of monetary policy, i.e. setting the level of interest rates for two-week REPO tenders and overnight sterilisation/refinancing open market operations, the National Bank of Slovakia took both the actual course of macro-economic development and its expectations for the coming period into account.

The favourable course of inflation and other variables, coupled with favourable expectations of the macro-economic indicators in the second half of the year, led to a decrease in the interest rates of the NBS announced for the first quarter of 2001. With effect from March 26, the Bank Board of NBS lowered its key interest rates by 0.25 percentage points (the two-week limit rate for standard REPO tenders to 7.75%, the overnight refinancing rate to 9.00%, and the sterilisation rate to 6.00%).

The reduction in key interest rates also affected the level of interest rates on the interbank market – interest rates on loans fell together with the level of yields on government securities. In this connection, the Ministry of Finance obtained resources for the national debt servicing on the domestic market at slightly more favourable interest rates than in 2000. The most significant fall was recorded in interest rates on one-year government bonds (3.3 percentage points on average), three-year bonds (2.3 percentage points), and two-year bonds (1.2 percentage points).

In the following months, foreign trade gradually deteriorated, the deficit in the balance of payments current account increased, therefore the NBS did not lower its interest rates in response to the inflation decrease. In this way, the central bank signalled that the macro-economic imbalance was deepening. Nominal interest rates remained unchanged until the end of 2001, but in real terms they increased, which was connected with the slowdown in inflation. Thus, the real interest rate reached, after a long period, a positive value, i.e. it rose to 0.94%, from -2.03% at the beginning of the year. This indicates that the NBS monetary policy gradually began to have a restrictive character.

In 2001, the conduct of monetary policy was also affected by the privatisation activities of the Slovak Government, which led to an increase in the NBS sterilisation position within the scope of open market operations vis-à-vis commercial banks. The growth in the volume of sterilisation was also supported by the January reduction in required reserves, as a result of which excess liquidity had to be absorbed in the amount of Sk 8.5 billion. In November and December, the level of liquidity in the banking sector was affected by the payments of compensation for inaccessible deposits to the clients of Devín banka from the Deposit Protection Fund (Sk 11.5 billion).

Foreign exchange resources from the sale of the State property holdings were converted by the NBS into korunas and deposited in National Property Fund accounts. In this way, the NBS indirectly intervened to the exchange rate of the koruna, i.e. eliminated the effect of privatisation proceeds on its appreciation. The use of privatisation funds led to an inflow of free liquidity into the banking sector during the year, which had to be sterilised.

As a result of these effects, the average daily involvement of the NBS in the banking sector (excluding transactions in agricultural bills) reached Sk 55.9 billion, which represented an increase of Sk 16.6 billion compared with 2000. By absorbing the free resources of commercial banks, the NBS indirectly intervened against the unfavourable development of monetary aggregates, which could potentially affect the development of inflation and create further pressures on the current account of the balance of payments.

4.6. Monetary Policy Instruments

Interest rate policy

- a) *Limit rate for the standard two-week REPO tender conducted by the NBS:*
- | | |
|------------------------|-------|
| from 27 December 2000: | 8.00% |
| from 26 March 2001: | 7.75% |

- b) *Interest rate for overnight refinancing operations conducted by the NBS with commercial banks:*

from 27 December 2000:	9.25%
from 26 March 2001:	9.00%

- c) *Interest rate on overnight deposits of commercial banks with the NBS:*

from 27 December 2000:	6.25%
from 26 March 2001:	6.00%

- d) *Discount rate:*

from 13 January 1996:	8.80%
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- e) *Lombard rate:*

from 1 January 1999:	BRIBOR + 5.00%
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System of banking operations

- a) *Open market operations:*

- The NBS conducted standard two-week REPO tenders with commercial banks, at regular weekly intervals throughout the year. The NBS set a limit rate for such operations.
- The NBS enabled commercial banks to have automatic access to overnight refinancing resources and to non-collateralised deposits at the announced rates of interest.

- b) *Issues of NBS bills for the portfolios of commercial banks – a fine-tuning instrument of the NBS for longer-term liquidity control in the banking sector. Auctions in NBS bills were conducted at irregular intervals, by using the Dutch auction technique.*

- c) *Bills-of-exchange operations*

- bills of exchange were rediscounted at the discount rate. Bills-of-exchange operations ceased on 30 September 2001.

- d) *Lombard loans – loans backed by the pledge of securities granted at Lombard rate. The NBS grants Lombard loans for a period of 7 calendar days, 14 calendar days, and for one month.*

- e) *Redistribution loans:*

- Traditional: interest rate = rate for two-week REPO tender + 0.5%;
- Soft loans: interest rate = rate for two-week REPO tender – 2% + 0.5%.

Reserve requirements

With effect from 1 January 2001, commercial banks were required to maintain minimum reserves in the amount of 5% of primary deposits (including foreign exchange and crown liabilities vis-à-vis non-residents); of the crown and foreign-currency deposits of foreign banks; of bills of exchange issued, bonds, and other liabilities to non-bank customers. The ratio of required reserves for home savings banks remained unchanged (3%). Required reserves attracted an interest rate of 1.5%. Maintained reserves were evaluated on a monthly basis.

Exchange-rate and foreign-exchange policy

a) Floating exchange rate system:

With effect from 1 October 1998, the National Bank of Slovakia ceased to guarantee a fixed nominal exchange rate for the Slovak koruna against a currency basket within a fluctuation band. The value of the Slovak koruna is pegged to a reference currency, which is the euro (EUR) – the single currency of the European Monetary Union (as of 1 January 1999). The exchange rate of the Sk now depends on the exchange rate of EUR to USD on world markets, the level of supply and demand for the Slovak koruna on the foreign exchange market, and the central bank policy and goals. The National Bank of Slovakia may intervene in the interbank foreign exchange market in the event of excessive volatility in the exchange rate of the Slovak koruna.

b) Nominal exchange rate of the SKK:

In relation to EUR, the nominal exchange rate of the Slovak koruna (SKK) appreciated by 2.8% during 2001, to SKK/EUR 42.760 on 31 December 2001. During the period under review, the exchange rate of the koruna weakened in relation to the US dollar by 2.3%, to SKK/USD 48.467.

c) Real effective exchange rate of the SKK:

The real effective exchange rate of the Slovak koruna (REER), calculated on the basis of the

producer price index, is an indicator of change in the price-based competitiveness of domestic production vis-à-vis abroad. The REER index of the Slovak koruna (including the country's nine most important trading partners: the USA, Great Britain, Austria, France, Germany, Italy, the Netherlands, Switzerland, and the Czech Republic), depreciated by 0.5 percentage points over the course of 2001. The value of REER, based on the consumer price index, appreciated by 0.4 percentage points.

4.7. Monetary Calendar

February

- Regulated prices were increased in the following categories: rents in municipal flats (by 45%); water supply and sewage disposal (by 20.3%); natural gas (by 20%); heating (by 20%); bus transport (by 20%); electricity (by 15%); railway transport (by 15%); and postal services (by 9.9%).
- Fitch, the international rating agency, improved the Slovak Republic's rating for long-term foreign exchange and crown liabilities to 'positive'. The rating for foreign exchange liabilities remained at the level of BB+ and that for crown liabilities at BBB+.
- The National Council of the SR approved an amendment to the Constitution of the SR, which increases the central bank's independence and enables the bank to issue generally binding legal regulations within its permit. This amendment brought the position of the NBS into line with the legal status of the European Central Bank.

March

- The Bank Board of the NBS decided, on March 26, to lower the level of key interest rates by 0.25 percentage points for overnight transactions, i.e. to 6.00% for sterilisation and 9.00% for refinancing purposes. The limit rate for two-week REPO tenders was reduced to 7.75%.

- The Government of the SR approved an amendment to the Banking Act: in accordance with directives of the EU and international financial institutions, the Act governs the rules and authority of banking supervision.
- The Japanese Rating Agency 'Rating Invest Information, Inc.' increased the rating for the Slovak Republic, from BB+ to BBB-.

April

- The National Council of the SR passed an amendment to the National Bank of Slovakia Act, with effect from 1 May 2001. The main aim of the amendment was to bring Slovak legislation into harmony with the law of the European Union.
- The Government of the SR approved acceptance of the Fourth Amendment to the IMF Agreement, which is connected with a special one-off allocation of SDRs to the Slovak Republic, in the amount of SDR 75.47 million (in the equivalent of US\$ 97 million).

June

- The IMF announced that talks with Slovakia about the Staff Monitored Programme had come to an end. Valid until March 2002, the Programme was a prerequisite for the receipt of an EFSAL loan from the World Bank for the coverage of part of the costs of restructuring in the financial sector of the Slovak Republic.

August

- The Executive Board of the World Bank approved an EFSAL loan for Slovakia in the amount of US\$ 177.3 million. The loan was granted with a maturity of 14 years and repayment deferred by 5 years, for the reform of the banking and corporate sectors, especially for financing the restructuring of selected banks and the solution of problems at medium-sized banks. The loan will also be used for improvement in the

legal framework of bankruptcy proceedings and business management.

- The Banking Supervision Division of the NBS placed Devin banka (a.s.) under receivership (forced administration). This decision was necessitated by chronic deficiencies in the bank's financial performance and the inadequate coverage of risks arising from classified assets.

September

- The NBS declared Devin banka unable to refund deposits. In accordance with the Deposit Protection Act, the bank's customers received compensation for their inaccessible deposits from the Deposit Protection Fund.

October

- The National Council of the SR passed an amendment to the Banking Act, the purpose of which is to bring the Act into harmony with the relevant EU directives.
- Standard & Poor's, the rating agency, increased the rating for the country's long-term liabilities denominated in domestic currency, from BBB+ to A- with a stable outlook. The rating for long-term liabilities denominated in foreign currency was raised from BB+ to BBB- with a positive outlook. At the same time, Standard & Poor's increased the rating for short-term foreign-currency liabilities, from B to A-3, and confirmed the rating for short-term liabilities in domestic currency, at A-2. This rating moved Slovakia from the speculative zone to the investment zone.

November

- Moody's Investors Service, the international rating agency, increased the rating for Slovakia's long-term liabilities denominated in foreign currency, from Ba1 to Baa3, and the rating for long-term bank deposits, from Ba2 to Ba1. As a result, the Slovak Republic moved

from the speculative zone to the investment zone. Other debts in foreign currency also received a rating of Baa3. The rating for government debts in domestic currency was changed to A3, from Baa2. All ratings were assigned with a stable outlook.

- The Regular Report from the European Commission on Slovakia's Progress Towards Accession confirmed that the Slovak Republic had become a functioning market economy, which should be able to cope with competition on the single market of the European Union in the near future, provided that the structural reform and macro-economic stabilisation continue.

total sales volume of Treasury Bills in 2001 was Sk 39.4 billion (demand for Treasury Bills was Sk 82.4 billion) at an average yield of 7.729%.

During the year, the state borrowed at an average rate of 11 base points below the quoted 9-month interbank rates via Treasury Bill issues. 95% of Treasury Bills sold by primary purchase at auctions were bought by foreign investors, i.e. an increase of 4.4% compared to 2000. The high share of non-residents in the primary purchase of Treasury Bills was caused by the system of taxation for Treasury Bills. Treasury Bills purchased in this fashion are usually subsequently resold to domestic entities.

5. FINANCIAL MARKETS

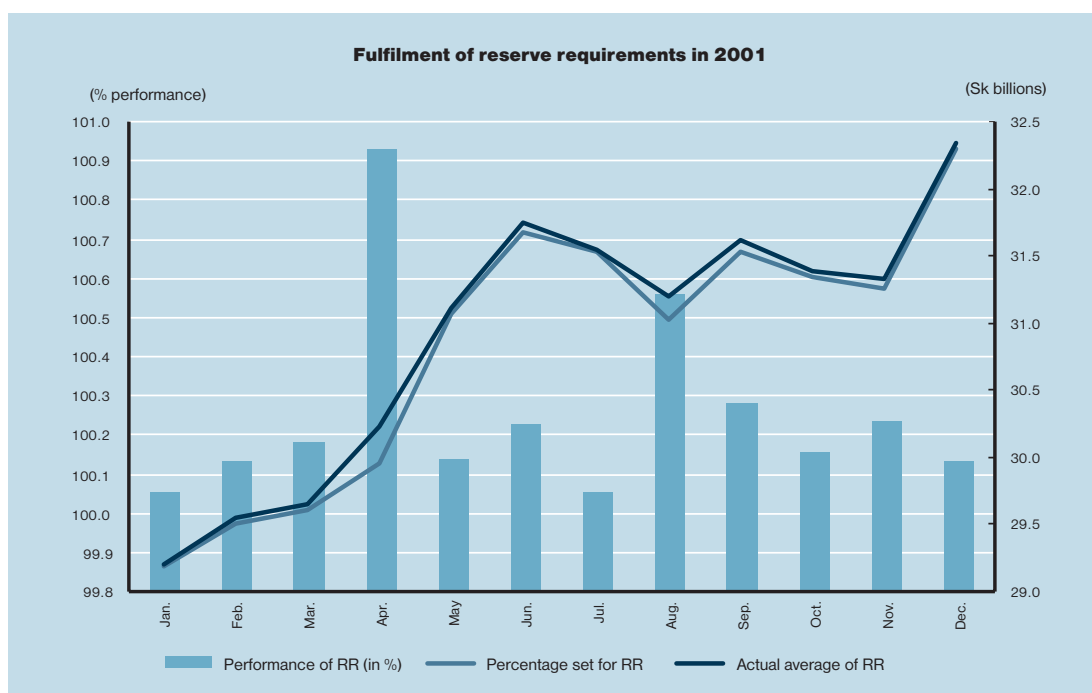
5.1. Money Market

Primary Market for Treasury Bills

In 2001, the MF SR did not begin to issue Treasury Bills until May. Treasury Bills were sold predominantly with a fixed issue amount. All issues had a fixed maturity period (273 days). The

Secondary Market

In 2001, the National Bank of Slovakia continued to conduct its monetary policy by means of interest rates. The focus of open market trading continued to be on regular two-week tenders held weekly. The stability of money market rates within a specific band was secured by margin rates for NBS overnight refinancing and sterilisation operations. The central bank continued to issue its own Treasury Bills on a regular monthly



Required reserves of banks in 2001**(Sk billions, %)**

	Set RR	Actual performance of RR		Excess reserves		
		average	% performance	average	max	min
January	29.17	29.18	100.05	0.01	8.20	-5.13
February	29.50	29.53	100.13	0.04	4.29	-5.98
March	29.59	29.64	100.18	0.05	5.29	-6.17
April	29.94	30.22	100.93	0.28	3.70	-6.94
May	31.06	31.10	100.14	0.04	3.90	-4.05
June	31.66	31.73	100.23	0.07	4.50	-4.30
July	31.51	31.53	100.05	0.02	2.35	-4.98
August	31.02	31.19	100.56	0.17	4.77	-4.78
September	31.51	31.60	100.28	0.09	2.51	-2.39
October	31.33	31.38	100.15	0.05	3.69	-7.51
November	31.25	31.32	100.24	0.07	4.60	-7.43
December	32.28	32.32	100.13	0.04	6.86	-10.08

basis. This is one of the methods of reducing the liquidity surplus in the banking sector. Available instruments also include so-called „quick” tenders, with the aim of balancing short-term liquidity imbalances during the period between two standard tenders, with the option of carrying out direct sales with individual banks. During 2001, such instruments remained unused.

In 2001, money market development was characterised by a continuing liquidity surplus and the continuing sterilisation nature of monetary operations, implemented by means of individual forms of open market trading. From the beginning of the year to the end of April, the growing liquidity trend in the banking sector persisted and was accompanied by an increasing volume of NBS sterilisation activity. The marked increase in the sterilisation position in January to Sk 63.8 billion was mainly caused by a reduction of the percentage set for required reserves of banks (RR). From May, the average monthly NBS sterilisation position gradually fell to the lowest level for the year of Sk 42.3 billion (in October). In November and December, the sterilisation activity of NBS gradually increased again. The December level of the sterilisation position of Sk 50.5 billion was well below the starting level for 2001, despite the growth compared to the previous period.

The set volume of RR was complied with during every month and there were no major

violations. The volume of set reserves also gradually increased (as a consequence of an increase in deposits). Over the year as a whole they increased by Sk 3.1 billion (10.7%).

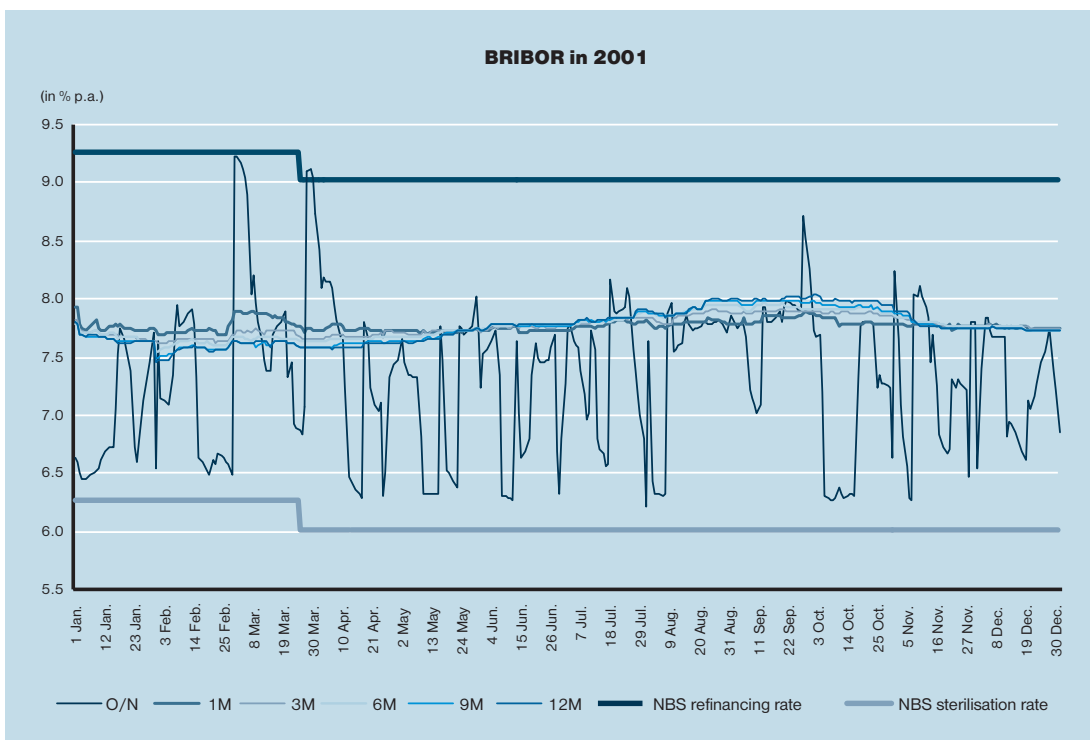
The maximum daily fluctuations in required reserves during individual periods ranged on average from Sk 4.6 billion of excess reserves up to insufficient reserves in the amount of Sk 5.8 billion.

The yield curve acquired an inverse nature, influenced by key rate adjustments in December 2000 to 8% for the limit rate of two-week tenders, and expectations of further reduction. At the end of March, the NBS reduced its key interest rate by 0.25 percentage points, thus fulfilling the expectations of the banking sector, which was reflected in a straightening of the yield curve which had been inverse until then. In June, the curve of money market interest rates acquired a growing structure and its overall level increased. In September, the level of the yield curve acquired its highest level, with the average annual rate reaching 8%. In the next period, the form of the yield curve became moderately inverse. The reason was the renewed anticipation of reduced rates by the banking sector. By the end of the year, due to this influence, the level of average interest rates from one month to one year reached the level set for the limit rate for two-week REPO tenders (7.75%).

Short interest rates, i.e., interest rates for overnight to two-week funds were not influenced by the expected changes in key rates, but rather by the liquidity situation on the money market. Overnight rates, traded with a validity of the actual date, i.e., overnight, or tomnext (overnight funds traded with next day validity), reacted most sensitively to the daily market development, as in the previous period. Due to the continuing liquidity surplus in the banking sector, levels were mostly in the lower part of the corridor, and were limited by the rate for overnight sterilisation trading of the NBS. During the year, mainly due to a short-term lack of funds caused by increased purchases of Treasury Bills by banks and the sterilisation activities of the NBS, the shortest interest rate also reached the top limit of the corridor formed by the rate for NBS overnight refinancing operations. This was mainly related to the reaction of the shortest rate to the volume result of tenders. The fall of rates to a level close to the rate for NBS overnight sterilisation trading was, particularly during the first quarter, accompanied by a quite significant realisation of NBS overnight deposits in volume terms. Overnight trading continued to represent the most significant form of trading on the deposit market, with a share of over 75%.

Seven- and fourteen-day rates also reacted relatively sensitively to the results of REPO tenders. Periodic movement due to the reduction and subsequent correction of rates to the level of the interest result of the sterilisation REPO tender was most obvious in the first two months of the year. Because there were marked deviations between the average rate achieved in tenders and the limit rate set for this type of operation, interest rates also showed increased elasticity. From March, the average interest rate stabilised moderately below the limit rate valid for the current period, due to a higher acceptance of bids in tenders. One- and two-week deposit rates adapted to this fact and their periodical deviations became less marked. Together with overnight trading, this category of short funds represented 80 to 85% of all trading conducted.

As regards implementation of monetary policy by open market trading, a change occurred compared to the previous year related to the time preference of auctions of state securities ahead of NBS sterilisation tenders. The MF SR, together with the NBS, initiated this change in May due to the decreasing interest in government bonds and Treasury Bills. Despite the fact that



government bonds and Treasury Bill sterilisation tenders were not in direct competition as regards investment opportunities mainly due to the different maturities, this new arrangement allowed the central bank to better reflect the liquidity situation on the interbank market.

As regards sterilisation activities of the NBS, regular two-week tenders (conducted with a weekly periodicity) dominated throughout the year. The share of two-week tenders of the total of open market trades during the first four months was around 56 – 57%. They were conducted as American auctions with a set limit rate. The NBS used its own treasury bills as collateral for these REPO trades. As of May, the share of tenders increased and by the end of the year it was almost 88%. The reason for this was the gradual decrease of the share of the second most important NBS sterilisation activity – the issue of its own treasury bills. The change in this share was related to the absorption capacity of commercial banks for securities as a whole, which gradually decreased, particularly in the second half of the year, due to increased MF SR issuing activity. The highest share was achieved by the issue of NBS Bills in March (approximately 43%). Unlike tenders, NBS bill issues were normally realised once a month, with a total of 13 auctions conducted. Issues had a standard 84 days maturity and were conducted by means of so-called Dutch auction without a set limit rate. Despite this, the NBS did not accept a rate in auctions higher than the limit rate for sterilisation REPO tenders. This fact also contributed to a decrease in interest in this form of investment activity by commercial banks during a period of an increasing yield curve on the interbank market.

The lowest volumes were recorded by trades with maturity on the following business day, i.e. deposits, or individual NBS refinancing REPO trades. The share in overall NBS sterilisation activity ranged from 3.4% in January to 0% in September. Despite these low volumes, they were an irreplaceable part of the system of instruments, as they allowed individual banks to individually correct their liquidity position via

trades with the NBS. At the same time, overnight NBS transactions created a corridor for money market interest rates. With respect to the overall sterilisation nature of the conduct of monetary operations, they also dominated this group of trade instruments for reducing the liquidity of banks, i.e. deposits. During an average month they were used only sporadically, and predominantly at the month's end. The exception were periods of marked daily liquidity surplus due to low participation in tenders, or sudden and unpredicted inflows of funds, when banks reduced their surpluses in the short-term in this manner. The NBS used overnight refinancing only relatively exceptionally. The banking sector as a whole only corrected its short position by means of refinancing trading, during two months. In other cases, these were individual disbursements at a time of balanced status in the sector. As regards the realisation of refinancing REPO trades, the NBS accepted Treasury Bills, Government Bonds, and NBS Bills.

Though the structure of monetary policy instruments applied in 2001 formally remained the same as for the preceding year, their method of use changed qualitatively. A significant change occurred in March, when the NBS altered its approach as regards the acceptance of bids in tenders and auctions of bills. During the preceding period, NBS gave priority in the decision process to efforts to balance banking sector liquidity flows during the current month. This resulted in a more frequent reduction of bids by banks in individual sterilisation activities, and was reflected in the deviation of the average interest rate attained in tenders from the limit rate set by the NBS Bank Board. The banks themselves interpreted this as a signal, i.e. the announcement of a change in key rates. Rates approached each other due to the restrictive conduct of monetary policy in the form of a higher acceptance of bids, despite the eventual cost of potential refinancing impacts. During the next period, the average rate accepted in REPO tenders stabilised at one hundredth of a percent below the NBS limit rate, and significantly improved the credibility and acceptance of NBS key rates.

5.2. Capital Market

Primary Market

Government Bonds

2001 was exceptional from the point of view of the volume of government bonds issued. A total of 25 government bond issues with a value of Sk 168.9 billion were realised, which, represented an increase of Sk 99.4 billion compared to 2000. The increased amount of government bond issues was mainly due to 6 issues designated for the restructuring of selected banks in the total amount of Sk 105.0 billion. These issues were floated on the primary market by means of direct subscription. Two of them (in the amount of Sk 44.5 billion) were 5-year bonds, two 7-year bonds (Sk 32.5 billion) and the remaining two 10-year bonds (Sk 28.0 billion). The coupon for both 5-year issues was fixed at 8%, the other 4 issues had a floating coupon set as the arithmetic average of 6M BRIBOR for the whole calendar quarter preceding the interest period. The amount of coupon up to the first disbursement of yield on 30 January 2002 was 7.88% p.a. The frequency of disbursement of yield of all six issues will be changed after the first year from annual to semi-annual. All issues of restructuring bonds are publicly tradable.

In 2001, total bids for government bonds, not including government restructuring bonds, reached Sk 106.33 billion, which in comparison to 2000 (Sk 157.5 billion) represented a decrease

by 32.49%. The average issue amount was Sk 6.8 billion. This significant increase in the average size of the issue compared to 2000, when the average amount per issue was Sk 3.5 billion, was distorted by the above mentioned issues of restructuring bonds which had issue amounts markedly above average. Excluding restructuring bonds, the average issued amount was Sk 3.4 billion and compared to 2000, there was a moderate decrease (2.9%). The average accepted yield in auctions fell from 8.07% p.a. in the first annual issue to 7.83% p.a. in the last annual issue. The average accepted yield on issues with a fixed coupon sold by auction was, irrespective of maturity, 7.76% p.a., and compared to 2000 (9.49% p.a.), it fell significantly.

The demand for government bonds was extraordinary high, mainly during the first quarter, when it reached Sk 70.6 billion. This exceptional interest was mainly for one-year bonds. The high interest in these issues underlined the trend of preference for short maturities by investors. Demand of investors for government bonds fell in the second quarter to Sk 22.9 billion, caused mainly by the issues of restructuring bonds and frequent alteration to reopened issues. These facts, together with the reduced space for a decrease in interest rates, caused changes in the issuing policy of the issuer, who, in an effort to create sufficient demand for government bonds, reduced the maturity of issues and initiated a moderate increase in offered yield. In the third quarter, when the issue programme for 2001 was completed, the overall demand for

Structure of state bonds by maturity

(including government bonds designated for restructuring of loan portfolios of commercial banks) (%)

	Share of the overall amount of government bonds issued		
	2000	2001	2001 ^{1/}
1-year government bonds	22.38	18.51	48.93
2-year government bonds	13.33	8.62	22.79
3-year government bonds	26.07	7.64	20.20
5-year government bonds	24.47	26.35	-
7-year government bonds	3.50	19.24	-
10-year government bonds	10.25	19.64	8.08

^{1/} excluding government bonds designated for restructuring of loan portfolios of commercial banks

government bonds reached Sk 12.8 billion. This quarter was the only one in the year when bonds were sold by auction with a maturity in excess of 3 years. Two issues of 10-year bonds were issued, one with a variable yield based on 12M BRIBOR, increased by an interest margin with an annual disbursement of yield. The issuer limited the issue amount to Sk 3 billion, which was fulfilled with total bids of Sk 5.85 billion.

Issues of restructuring bonds also markedly influenced the structure of issued maturities. Thus in 2001 maturities of 5, 7 and 10 years dominated, which comprised a total of 64% of the amount of issued government bonds. The share of annual bonds was reduced to approx. 19%. If we exclude government restructuring bonds, it is clear that, as regards issues sold by auction, one-year bonds dominated with a share of 49%.

A positive feature of 2001, was the expansion of primary sales of government bonds by a new type of sale - the periodical repeated issue, thus enabling the repeated and gradual sale of government bonds of a subscribed issue. Of 19 issues placed on the primary market for government bonds by multiple-price auction, 17 were one-time and two were sold by the new method of repeated sale. The issuer intended by the implementation of this new form of primary sale to create large liquidity issues, regardless of the sale amount in individual auctions, which had a positive influence on the secondary market in government bonds.

The first issue of this type was a three year issue with a planned maximum amount of Sk 11.0 billion, with the start of sale in February. By the end of the year, it had been opened an additional six times and, of the planned maximum amount, Sk 5.4 billion (48.91%) had been issued. The second reopened issue was for two years, with a planned maximum amount of Sk 12.0 billion. It was successfully opened in March, and reopened a further six times, and government bonds were issued in the amount of Sk 9.31 billion (77.58%). None of the reopened issues reached

the subscribed maximum issue amounts. The reasons for this included the similar maturities of 2 and 3 years, and the frequent alternation of auctions of both issues in close sequence. The success of issues was mostly influenced by a change in market conditions. On the one hand the amount of restructuring bonds influenced the amount of bids, and on the other, the space for a reduction of interest rates diminished and investors started to demand higher yields prior to maturity.

At the end of 2001, 20 foreign investors were registered on the primary market in government bonds, their bids comprised 1.94% of overall demand, and they purchased 2.68% of the overall issued amount of government bonds at auction.

Non-government Bonds

In 2001, the primary market for non-government bonds registered a remarkable decline in the total amount of issued bonds, despite a relatively low reduction in the number of issues by 4, to 50. The total volume of issued non-government bonds reached Sk 4.1 billion at the end of the year, representing a decline of 59.59% compared with 2000. Publicly traded non-government bonds comprised 71.34%, and volume fell by 49.66%, compared with 2000. Only one issue of publicly non-tradable non-government bonds was issued in a foreign currency in a volume of EUR 660,000, as against four issues in total in 2000, comprised of two issues of EUR 59.0 million and two of US\$ 8.3 million.

The principal reason for the decreased activity on the primary market for non-government bonds in 2001 was the lack of interest of investors related to the extraordinarily high increase in issuing activities in 2000, caused by the liberalisation of the process of issuing non-government bonds and by the decline of yields on the primary market in government bonds.

Secondary Market

In 2001, during 243 trading days, 20,169 transactions were conducted on the Bratislava Stock Exchange (BCPB). The total volume of trading reached Sk 393.5 billion. Compared to 2000, this represented an increase of 54.0%, which was mainly related to the issues of restructuring bonds. This trend was reflected in the volume of traded shares and bonds. The trade volume for bonds increased by 69.24% to Sk 347.7 billion and the trade volume for shares increased by 82.35% to Sk 45.8 billion. Listed bonds dominated the market (86.9%), followed by listed shares 6.7%, non-listed shares 5.0% and non-listed bonds 1.4%.

The share of foreign investors of the total turnover on BCPB reached 29.95%, 23.98% of sales, and 35.92% of purchases.

Bonds

The overall amount of traded bonds on the BCPB reached Sk 347.7 billion, i.e. 88.37% of the overall amount of trades in 2001. Bonds again comprised the major share of turnover at the BCPB, with 96.29% (Sk 334.8 billion) of bond trade value consisting of government bonds. Of these, the highest volume was attained by price-setting trading of government bonds No. 132 (Sk 6.3 billion) and government bonds No. 138 (Sk 3.4 billion). As regards the overall amount of trading, excluding restructuring bond trades, which were in fact transfers to the portfolios of three selected banks, government bonds Nos. 132 (Sk 26.3 billion) and 131 (Sk 21.9 billion) achieved the highest volumes. As regards non-government bonds the highest volume of trading was achieved by the listed bank bonds of Bank Austria Creditanstalt 1 (Sk 1.6 billion), VÚB V (Sk 1.1 billion), Istrobanka (Sk 0.8 billion) and the corporate bonds of Slovenské elektrárne 3 (Sk 0.8 billion). The share of price-setting trading compared to 2000 fell by 8.98% to Sk 23.3 billion; direct trading on the other hand increased, due to the transfer of

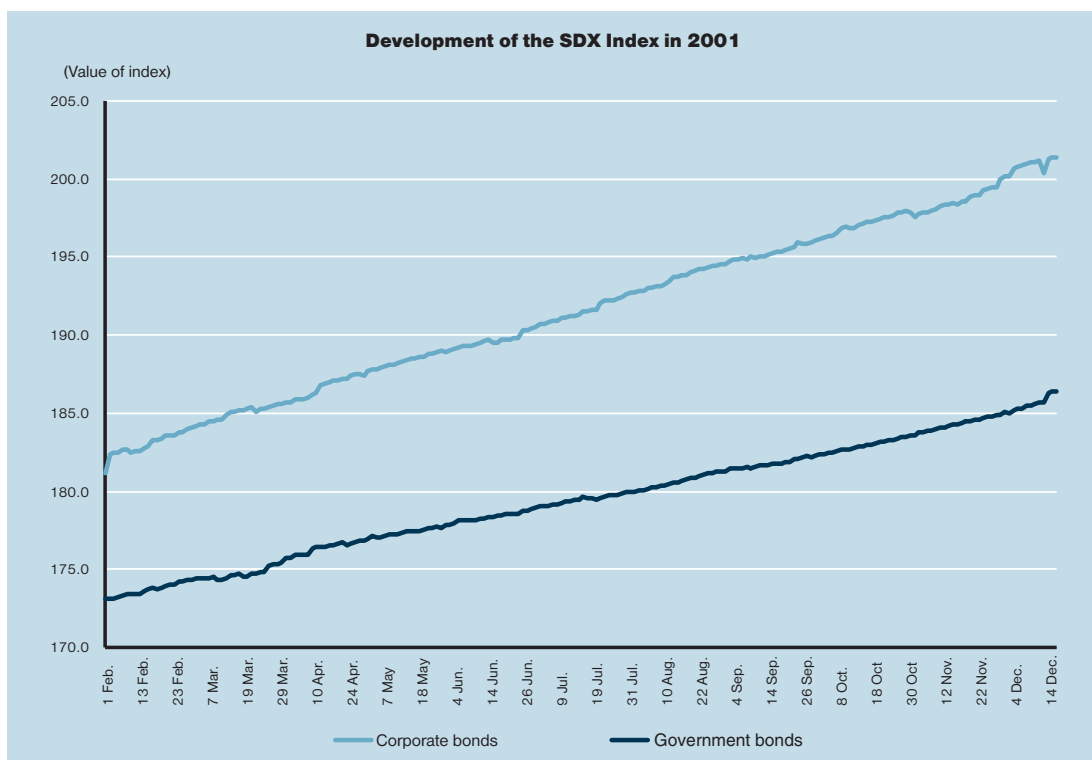
government restructuring bonds, by 80%, and reached Sk 324.4 billion. The volume of trading within the market maker system reached Sk 0.8 billion, i.e. 3.4% of price-setting transactions with bonds.

Market capitalisation increased year-on-year by 150.1% to Sk 293.6 billion; of this amount Sk 239.8 billion was in listed bonds, and their market capitalisation increased year-on-year compared to 2000, by 123.9%. The increased capitalisation resulted from the acceptance of 6 issues of restructuring bonds and 3 issues of Eurobonds by the main market of the BCPB.

The SDX index for bonds grew throughout the year, the component of business bonds and government bonds recorded a year-on-year increase of 8.31% and closed the year at 186.3% of the nominal value of its portfolio, with an average yield of 7.88% and a duration of 1.7 years. The minimum of 172.34% was recorded on 8 January (first trading day of the year); the maximum of 186.32% was recorded on 21 December (last trading day). The banking and corporate bond component of the SDX recorded a year-on-year increase of 13.41%, and attained 201.3% of the nominal value of its portfolio, with an average yield of 9.14% and a duration of 1.9 years. The minimum of 177.57% was recorded on 8 January (first trading day of the year); the maximum of 201.30 was recorded on 21 December (last trading day).

Shares

The share market saw a revival in 2001. The total volume of trading reached Sk 45.8 billion and increased by 82.35% compared with 2000. A positive feature was the year-on-year increase in the volume of anonymous trades of 26.9% to Sk 2.4 billion. Share transactions accounted for 11.63% of the total volume of trading; their aforementioned growth was accompanied by an increase in the volume of anonymous trades indicating increased interest of investors in this type of security. Most trading took place in listed shares of VÚB (Sk 13.5



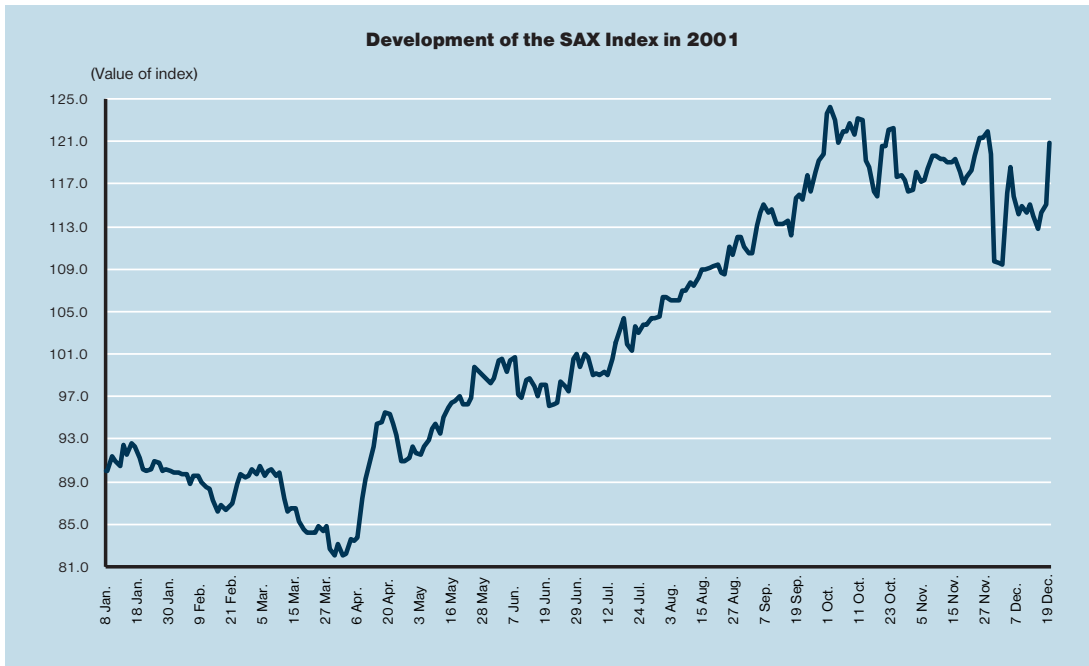
billion), Slovnaft (Sk 6.0 billion) and VSŽ (Sk 4.3 billion), and the most traded unlisted share was Doprastav (Sk 4.9 billion). The share of the above mentioned shares in the overall volume of share trades in 2001 was 67.47%. As regards the low proportion of share trades (11.63%) in the overall volume of transactions on the BCPB in 2001, the share of most traded shares was 7.85%.

Since the end of 2000, the market capitalisation of all property securities grew by 8.2% to Sk 167.6 billion. The market capitalisation of shares with an existing market price (in which at least one price-setting trade was concluded), excluding shares of investment funds and participating certificates had increased by 31.1% to Sk 74.8 billion by the end of the year. The listed issues recorded an increase in capitalisation of 25.6%, to Sk 26.1 billion. The capitalisation of investment funds and share certificates increased year-on-year by 28.92%, to Sk 27.5 billion, indicating development of this form of investment.

The value of the SAX share index closed the year at 120.77 points, which represented a year-on-year increase of 31.4%. Thus 2001 became the second most successful year since 1994,

when the SAX recorded an annual growth of almost 100%. The index recorded a minimum of 81.89 points on 30 March, due mainly to a decrease in the VSŽ price, and a maximum value of 124.14 points was reached by the SAX on 3 October.

In 2001, the secondary market was characterised by an increase in the total volume of trades, which was largely influenced by transfers of restructuring bonds via the BCPB. Development from previous years persisted in trading. Bond trading, particularly in government bonds, recorded a high share. Although the overall volume of bond trading recorded a year-on-year increase, a decrease in the volume of anonymous trades points to a long-lasting problem in the Slovak capital market, i.e. low liquidity and the related low predictive ability of prices. A positive sign in 2001 on the Stock Exchange market, was the revival of share trading, which was characterised by an increase in the overall volume of trading, and also by the increased share of price-setting trading. In 2001, the Stock Exchange market underwent, with the application of the new Securities Exchange Act, some changes, including the introduction of a new market structure.



5.3. Foreign Exchange Market

Operations on the Foreign Exchange Market

During the year, the exchange rate of the Slovak koruna to the EUR appreciated by 2.8% (from 43.996 SKK/EUR to 42.760 SKK/EUR). The highest value for the exchange rate of the Slovak koruna was reached on 6 July (42.025 SKK/EUR) and the lowest on 4 January (43.945 SKK/EUR). The average exchange rate was 43.309 SKK/EUR.

At the beginning of the year, the trend of a weakening of the SKK exchange rate persisted from the previous period. In the following period up to the middle of the year, the exchange rate strengthened to 42.025 SKK/EUR and subsequently weakened slightly.

During 2001, the NBS entered the interbank foreign exchange market only three times (on 2, 3 and 17 January). On these dates, it corrected the excess volatility of the foreign exchange rate by foreign exchange intervention (sale of foreign exchange funds). The total value of interventions reached EUR 44 million, and 33 trades were

conducted at a weighted average exchange rate of 43.859 SKK/EUR.

The main factors influencing the SKK/EUR foreign exchange rate included the activities of large Slovak companies, the domestic political situation, the improved creditworthiness of Slovakia abroad (classification of Slovakia by rating agencies Standard & Poor's and Moody's at investment level), the situation on the foreign exchange markets of neighbouring countries (Czech Republic, Poland, and Hungary) and issues of Crown bonds by non-residents.

The exchange rate of the Slovak koruna to the US Dollar weakened by 2.3%, from 47.389 SKK/USD to 48.467 SKK/USD. The exchange rate of the Slovak koruna to the USD is calculated from the EUR/USD exchange rate, and the NBS cannot directly influence it by its activities on the interbank foreign exchange market.

Interbank Foreign Exchange Market

The overall traded volume on the interbank foreign exchange market (excluding interventions) totalled US\$ 113,387.9 million. And, compared to 2000, it increased by 56.8% (of which: trading in

USD - 80.9%, in EUR - 18.3% and in other currencies - 0.7%). The most marked increase in trading (by 73.6%) was recorded in USD. Volume of trading in EUR increased by 11.7%; in other currencies it fell by 5.4%. Swaps comprised 86.5% of transactions (84.4% in 2000), followed by spot foreign currency conversions (spots) - 13.2% (14.8% in 2000) and forward trades - 0.3% (0.8% in 2000).

The average turnover on the spot market was US\$ 60 million. Trading in EUR had a dominant position, accounting for 92.9% of the overall volume, due to the EUR being the reference currency. Trading between Slovak banks and between Slovak and foreign banks on the spot market was almost equal (47% for Slovak banks and 53% for foreign banks). The overall balance of trading of foreign banks as against local banks in 2001, was negative (US\$ 145.1 million), i.e. foreign banks sold more foreign currency and bought more Slovak crowns.

The trading volume between Slovak commercial banks increased by 53.7% to US\$ 33,673.6

million. The USD had the largest share of trading at 73.8% (65.9% in 2000), followed by the EUR, with a share of 25.6% (33.0% in 2000), with other currencies accounting for 0.6%. On the overall interbank foreign exchange market, trading by Slovak banks accounted for 29.7% (in 2000 it was 30.0%).

In terms of type of trading, 78.9% of the overall volume of trading between Slovak banks were swap transactions (71.6% in 2000) and spot foreign currency conversions accounted for 21% (27.3% in 2000).

Trading with foreign banks also recorded a marked year-on-year increase (58.1%) to US\$ 79,714.4 . The maximum volume was conducted in USD - 83.9% (76.2% in 2000), followed by trading in EUR, which accounted for 15.3% (22.6% in 2000), with other currencies accounting for 0.8%. Trade volume with foreign banks represented a substantial part of the foreign currency market and accounted for 70.3%.

Basic characteristics of foreign currency market in the SR in 2001

	USD			EUR			Other currencies			Total	
	Volume		Trading	Volume		Trading	Volume		Trading	Volume	Trading
	US\$ million	(%)	Amount	US\$ million	(%)	Amount	US\$ million	(%)	Amount	US\$ million	Amount
NBS	-	-	-	39.4	-	33				39.4	33
Trading of Slovak banks											
not involving foreign banks	24,858.0	73.8	4,656	8,622.5	25.6	6,416	193.1	0.6	457	33,673.6	11,529
Interbank foreign exchange market NBS + Slovak											
commercial banks	24,858.0	73.7	4,656	8,661.8	25.7	6,449	193.1	0.6	457	33,712.9	11,562
Trading of Slovak banks with foreign banks											
foreign banks	66,909.5	83.9	10,479	12,165.2	15.3	7,470	639.7	0.8	274	79,714.4	18,223
Foreign currency market in the SR in total											
in the SR in total	91,767.5	80.9	15,135	20,827.0	18.4	13,919	832.8	0.7	731	113,427.3	29,785