



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY
JANUARY 1995

I. THE REAL ECONOMY

Indicators		1993	1994			1994	1995
			Oct.	Nov.	Dec.		
GDP	Value ^{1/} (Sk ^{2/} billions)	1738				182.2	
	Growth rate ^{3/} (%)	-4.1				4.8	
Output	Industrial production (%)	-13.5	10.7	8.3	9.7	6.4	6.3
	Construction (%)	-23.8	-1.3	1.3	-1.9	5.3	-8.9
Unemployment	Number (thous. of persons)	368.1	359.9	363.0	371.5	371.5	387.1
	Unemployment rate (%)	14.4	14.1	14.3	14.6	14.6	15.2
Foreign Trade ^{5/6/} (f.o.b.)	Exports (Sk billions)	95.7	107.0	121.6			
	Imports (Sk billions)	125.9	120.7	134.6			
	Balance (Sk billions)	-30.2	-13.7	-130			

^{1/} In constant prices as 1 January 1984
^{2/} Sk - abbreviation of the Slovak crown

^{3/} Change compared with the corresponding period of last year
^{4/} In current prices

^{5/} Cumulative values
^{6/} Convertible currencies



NATIONAL BANK OF SLOVAKIA

In January, the level of **consumer prices** rose by 1.4%, reaching the same level as in the corresponding period of the previous year. In comparison with the January 1994 figure, the price level increased by 11.7%. The January growth of consumer prices can be attributed to the 1.6% increase in the prices of industrial goods. In this category, the most rapid increases were recorded in the prices of cultural needs (6.2%), fuels (2.8%), and sporting and travelling essentials (2.4%). Prices in public catering rose by 1.7% as a result of increases in the prices of food and beverages. The services sector recorded a 1.4% price increase, mainly in recreational, healthcare, and social facilities (by 6.2%). Food prices increased by 1.0%; major upsurges were recorded in the prices of milk and dairy products (3.4%) as a result of changes in the guaranteed retail prices of milk and fat (by 2.2%).

In January, the volume of **industrial production** (Sk 35.9 billion) decreased by 4.4% (Sk 0.8 billion) compared with the previous month's figure. In comparison with January 1994, the volume of industrial output increased by 6.3% (Sk 2.1 billion). The average daily production (Sk 1.7 billion) fell below December's level by 4.4% (Sk 73 million), but exceeded the January 1994 figure by 1.2%.

In January, the productivity of labour per employee in companies with at least 25 employees (Sk 61,161) fell below the previous month's level by 3.9%.

In January 1995, the volume of industrial sales totalled Sk 35.2 billion, falling behind the December 1994 figure by 15.3%, and that of January 1994 by 3.3%. The volume of exports amounted to Sk 14.4 billion, representing 40.8% of January's total sales.

In January, the output of the **construction sector** totalled Sk 2.5 billion, falling behind the previous month's figure by Sk 1.5 billion (38.5%) and that of January 1994 by Sk 241 million. The decline in construction was caused by seasonal factors and the January increase in unemployment accompanied by a decrease in labour productivity. The average daily production (Sk 117 million) in January lagged behind the previous month's figure by 38.5%.

Domestic construction output in companies with at least 25 employees remained behind December's figure by Sk 1.1 billion. The volume of foreign construction orders dropped by Sk 348 million, and represented 7.9% of the total output of the construction sector.

In January, the **number of registered unemployed** increased by 15.6 thousand, to 387.1 thousand. The rate of unemployment reached 15.2%. This development was due to the 40% increase in the number of newly registered unemployed, which grew to 40.3 thousand. The number of unemployed recently removed from the register grew by 21.4% (24.7 thousand), and the number of newly employed increased by 14.1%. The highest rates of unemployment were reported in the districts of Rimavská Sobota (28.9%), Rožňava (24.3%), and Třebišov (24.0%); while the lowest unemployment rates were recorded in Bratislava (5.1%), and in the districts of Trenčín (7.7%) and Bratislava-Environs (8.7%).

II. THE EXTERNAL ECONOMY

Indicators		1993	1994			1994	1995
			Oct.	Nov.	Dec.		
Current Account ^{1/}	Balance in convertible currencies (Sk billions)	-21.1	-5.5	-4.6			
Foreign Exchange Reserves ^{2/} (USD millions)	Banking system	1,402.2	2,933.4 ^{3/}	2,928.3 ^{3/}	3,095.5**	3,095.5 ^{3/}	3,131.5**
	Commercial banks	952.7	1,368.2 ^{3/}	1,329.9 ^{3/}	1,350.5**	1,350.5 ^{3/}	1,390.6 ^{3/}
	NBS ^{3/}	449.5	1,565.2**	1,598.4 ^{3/}	1,745.0 ^{3/}	1,745.0 ^{3/}	1,740.9**
Gross Foreign Debt ^{2/}	(USD billions)	36	4.2	4.2			
Average Exchange Rates ^{4/}	SKK/USD	32.968	30.885	31.061	31.465	32.039	30.970
	SKK/DEM	19.283	20.288	20.201	20.000	19.759	20.196

^{1/} Cumulative values
^{2/} End-of-period figures

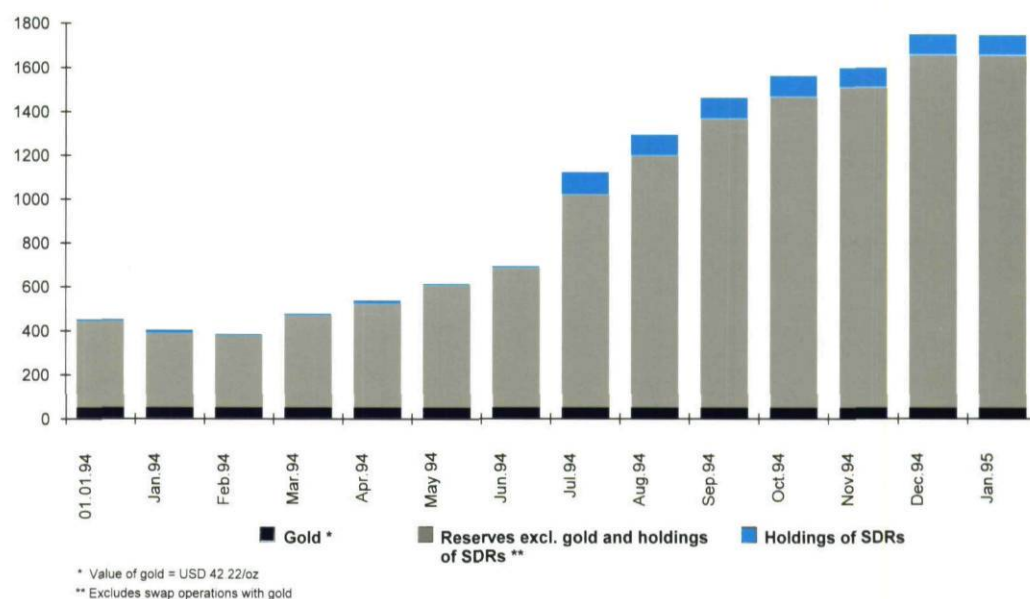
^{3/} Including gold at a book value of 42.22 USD/oz
^{4/} Exchange rate midpoint

^{**} Data revised because of change in methodology

At the end of January, the total **foreign exchange reserves** of the NBS reached USD 1,740.7 million, representing a drop of USD 4.3 million compared with the figure recorded at the end of 1994.

The development of FOREX reserves was positively affected by returns on assets, proceeds of the sale of assets, and the positive rectification of principals in the CDZ block (Central Forex Resources) in the amount of USD 1.2 million, as well as other NBS revenues including interest on investments and FIXBIS (NBS deposit of securities in BIS) in the amount of USD 0.7 million.

Development of the Total Foreign Reserves of the NBS (in USD millions)



The development of foreign exchange reserves in this period was unfavourably influenced by the payments of principal on IMF loans in the amount of USD 31.8 million (59% of the total expenditure), the expenditures of the NBS including payments for swap operations, debit interest, interest on deposits received, the settlement of invoices by the NBS in the amount of USD 12.2 million, the USD 3.4 million drop in the volume of accepted deposits, and debt service expenditures in the amount of USD 0.9 billion.

At the end of November 1994, the **total gross national debt** of the Slovak Republic reached a level of USD 4.2 billion. The foreign exchange liabilities of commercial banks and enterprises totalled USD 1.8 billion, representing an increase of USD 22.5 million compared with October's level. On 30 November 1994, the official indebtedness of the Slovak Government and the NBS amounted to USD 2.3 million.

III. MONETARY DEVELOPMENTS

Indicators	1993	1994			1994	1995	
		Oct.	Nov.	Dec.			
Inflation Rate	Monthly ^{1/} (%)		1.3	0.7	0.6	1.4	
	Yearly ^{2/} (%)	25.1	10.2	10.9	11.7	11.7	
Money Supply M2 ^{3/4/} (%)	18.1 ^{5/}	7.6	8.7	188	18.8	1.8	
Credits from Commercial Banks ^{4/} (%)	13.0 ^{5/}	-05	0.7	1.5	1.5	-03	
Deposits with Commercial Banks ^{4/} (%)	18.3 ^{5/}	5.8	7.8	17.9	17.9	-1.3	
Discount Rate (%)	12.0 ^{6/}	12.0	12.0	12.0	12.0	12.0	
Lombard Rate ^{7/} (%)	14.0	13.1	13.1	13.1		13.1	
Average Interbank Deposit Interest Rates SKIBOR (%)	1-day deposits	16.73 ^{8/}	3.82	3.75	395	13.18	512
	7-day deposits	17.20 ^{8/}	4.80	4.45	4.36	13.89	548
	14-day deposits	17.50 ^{8/}	5.92	5.13	4.85	14.63	5.90
	1-month deposits	17.86 ^{8/}	7.94	6.29	5.92	15.62	6.78

^{1/} End of period

^{2/} December of the previous year = 100 (change)

^{3/} M2 = Currency, demand and time deposits, savings deposits, foreign currency deposits

^{4/} 31 December of the previous year = 100 (change)

^{5/} 1 January 1993 • 100 (change)

^{6/} Since 20 December 1993

^{7/} Monthly average

^{8/} Average for the 2nd half of 1993

At the end of January, the money supply of the Slovak economy expressed by the **monetary aggregate M2** amounted to Sk 290.1 billion, representing a drop of Sk 4.7 billion (1.6%) compared with the previous month's figure. The Sk 7.5 billion decrease in the volume of M1 aggregate was partly offset by the Sk 2.8 billion increase in quasi-money.

The decrease in the **monetary aggregate M1** was mainly a result of a drop in demand deposits held by customers, while a part of these deposits was transferred to interest-earning time deposits. The volume of currency in circulation increased by Sk 0.1 billion in the course of January.

Quasi-money - the second basic component of the money supply - recorded an increase of Sk 2.8 billion (1.6%) compared with the previous month's level. The increase was a result of the Sk 2.3 billion growth in time deposits. Foreign currency deposits (converted at the current rate of exchange) increased by Sk 0.5 billion.

Crown deposits of nonbank entities at commercial banks and the NBS dropped by Sk 4.7 billion compared with the December 1994 level. At the end of January, the volume of these deposits reached Sk 238.8 billion. The decline in crown deposits is attributable to decreases in private enterprise sector deposits (Sk 5.9 billion) and public sector deposits (Sk 1.2 billion). Household deposits in local currency recorded a month-to-month increase of Sk 1.3 billion, while the

extrabudgetary deposits of central and local authorities increased by Sk 0.7 billion; deposits of organizations not incorporated into sectors and those under foreign control grew by Sk 0.4 billion.

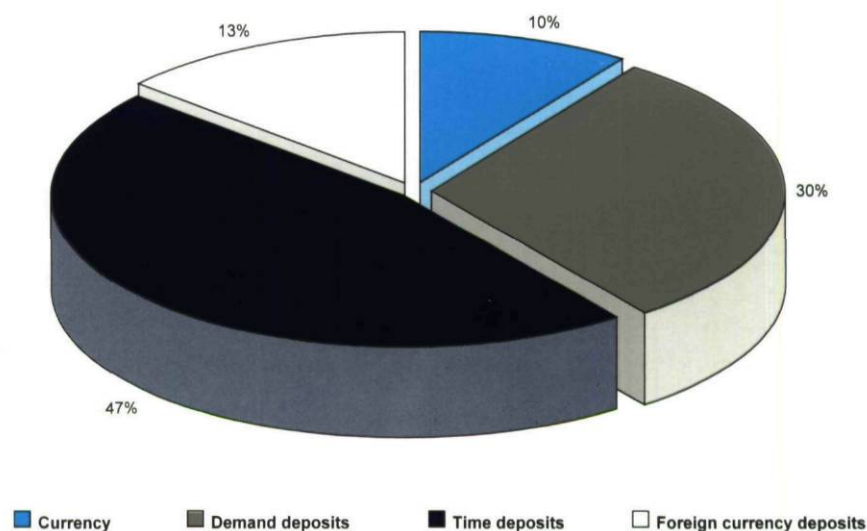
In January, the volume of **foreign currency deposits** increased by Sk 0.3 billion, reaching Sk 40.3 billion at the end of the month.

At the end of January, the volume of crown and foreign currency deposits totalled Sk 279.1 billion, representing a drop of Sk 4.4 billion compared with the previous month's level.

Structure of the M2 Aggregate as of 31 January 1995



NATIONAL BANK OF SLOVAKIA



In comparison with the figure for December, the total volume of **crown loans** extended by commercial banks and the NBS decreased by Sk 0.5 billion, reaching Sk 257.1 billion at the end of January. The decrease in crown credit included loans allocated to the public sector (Sk 3.1 billion), loans made to cover the extrabudgetary needs of central and local authorities (Sk 0.5 billion), and loans to households (Sk 0.1 billion). The volume of loans extended to private sector enterprises increased by Sk 1.1 billion, and loans to non-sector organizations and companies under foreign control grew by Sk 2.1 billion.

At the end of January, **foreign currency loans** totalled Sk 13.8 billion, representing a decrease of Sk 1.5 billion compared with previous month's level.

In January, the **average interest rate** on crown deposits dropped from 9.25% to 9.23%. The average long-term deposit rate decreased by 0.78 percentage points, reaching 13.89%. The average rates of interest on short- and medium-term crown deposits did not change considerably.

In January, the average interest rate on bank credit in crowns dropped by 0.16 percentage points, to 14.39%. Within the framework of loans, decreases were reported in average lending rates for long-term loans (from 11.68% to 11.30%) and medium-term loans (from 14.89% to 14.82%) compared with the previous month's figures.

The average rate of interest on the total volume of loans (19.09%) remained at the previous month's level. The average lending rate for long-term loans increased from 15.13% to 16.11% in the course of January.

The **credit margin** of commercial banks amounted to 5.16 percentage points in December.

At the beginning of January 1995, the **monetary policy** was determined by three factors affecting monetary development: the undue growth of money supply at the end of 1994, the provisional budget, and the enduring state of excessive liquidity of commercial banks.

By the end of January, the volume of bank lending dropped by Sk 1.6 billion compared with the beginning of 1995. The credit limit set for the 1st quarter of the year was utilized by commercial banks only to 97.9% (Sk 265.3 billion) in January.

With regard to the fact that liquidity of the banking sector remained unchanged (i.e. the money market had a sufficient amount of short-term resources), the practices implemented into the system of **refinancing** at the beginning of the 2nd half of 1994 remained effective in the course of January. Refinancing funds were provided only through bills of exchange deals for the support of agriculture and export trade. By 31 January 1995, bills of exchange discounted for the support of agriculture were utilized at 65.0% (Sk 1.3 billion). By the end of January, the volume of refinancing funds dropped by Sk 0.4 billion compared with the figure recorded at the beginning of the year.

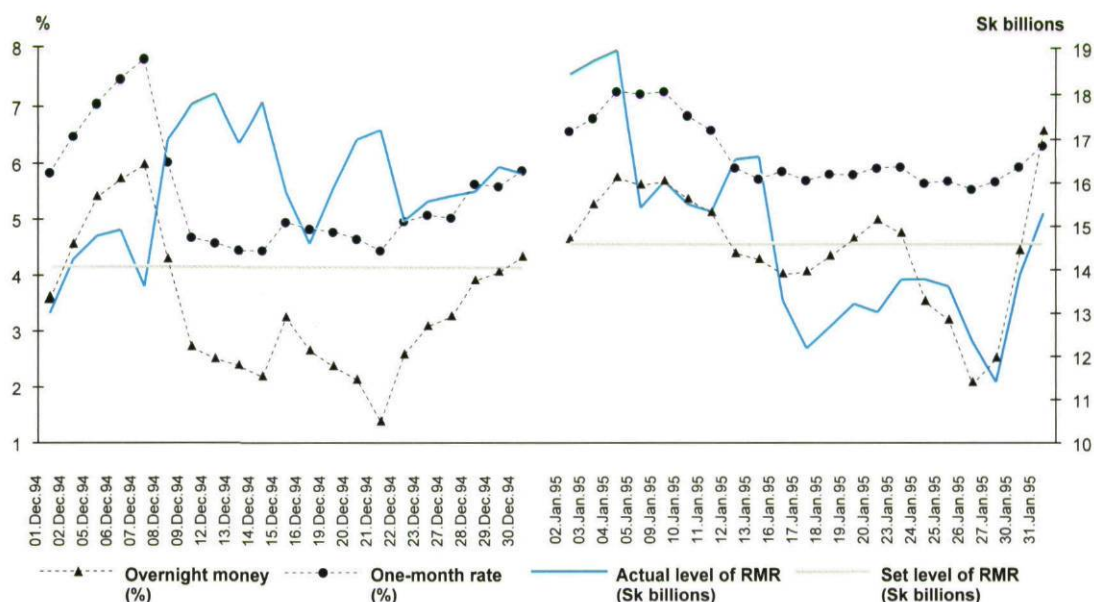
At the end of January 1995, the number of **State Treasury bills** on the short-term securities market reached 28,610; of this amount 24,641 were Treasury bills issued in 1994 to cover the budget deficit with a maturity date in 1995.

In the course of January, the National Bank of Slovakia took part in the primary auctions of Treasury bills, and purchased 10% of the accepted offers of commercial banks.



NATIONAL BANK OF SLOVAKIA

Required Minimum Reserves and Interbank Offered Rates



As a result of a change in the concept of refinancing of commercial banks for 1995, marked by a shift of refinancing to free-market operations, the auction committee decided to increase the limit on the holdings of State Treasury Bills in the portfolio of the NBS from Sk 2.0 billion to Sk 3.0 billion. With regard to the development in the money market, marked by a surplus of liquid assets in the banking sector, the above limit was not utilized by the NBS in January.

In January, the following issues of **government bonds** were traded on the Bratislava Stock Exchange (BCPB): No. 006, 007, and 008 (except restoration bonds). From the point of view of negotiability on the stock market, the most successful issues of government bonds were No. 007 with a total volume of Sk 652.7 thousand sold at a price of 101.5%, and No. 008 with a total volume of Sk 533.5 thousand sold at a price of 102%, representing a 13.45% yield until maturity. In direct transactions, the best-selling government bonds were issues No. 006, sold in the amount of Sk 1,537.8 thousand, and No. 008 with a total volume of sales worth Sk 541.4 thousand.

The total volume of transactions concluded on the Bratislava Stock Exchange in January reached Sk 4.7 billion, representing 75% of the total volume of deals in 1994. Listed bonds had a 13% share in this volume.

The results of financial transactions only slightly influenced the **balance of the National Bank of Slovakia** at the end of January. The amount of the balance increased by Sk 2.7 billion (1.5%).

On the asset side, the change of balance was mostly a result of the Sk 3.0 billion month-to-month increase in receivables from the State Budget. The growth of these receivables caused an increase in the Treasury bill portfolio of the NBS.

On the liability side, the balance sum was most significantly affected by the Sk 4.8 billion increase in the liabilities of the NBS to the State budget, while the item of current performance grew by Sk 4.4 billion, government financial assets by Sk 0.1 billion, and public funds by 0.3 billion.

Foreign currency liabilities in convertible and non-convertible currencies dropped slightly by Sk 2.1 billion (2.8%), mainly as a result of the decrease in liabilities to international institutions.

The above changes in the key items of assets and liabilities of the NBS had no significant effects on the net position of the Slovak economy vis-a-vis the NBS in January 1995.

IV. THE GOVERNMENT SECTOR

Indicators		1993	1994			1994	1995
			Oct.	Nov.	Dec.		Jan.
Budget Revenues ^{1/}	(Sk billions)	144.5	113.0	124.0	139.1	139.1	11.1
Budget Expenditures ^{1/}	(Sk billions)	167.5	128.8	140.7	162.0	162.0	9.1
State Budget Balance	(Sk billions)	-23.0	-15.8	-16.7	-22.9	-22.9	2.0

^{1/} Cumulative values

The budget performance in January was based on a provisional budget.

The total revenues of the state budget reached Sk 11.1 billion, exceeding the figure for the corresponding period of last year by Sk 1.8 billion. The fulfilment of the budgeted level of value-added tax revenues and income tax revenues (both personal and corporate) improved considerably.

The budget expenditures totalled Sk 9.1 billion in January, representing a drop of Sk 4.9 billion compared with the January 1994 level, and Sk 3.5 billion compared with the aliquot part of the provisional budget for the first quarter of 1995.

As a result of all these effects, the government budget showed a surplus of Sk 2.0 billion as at 31 January 1995 compared with the Sk 4.7 billion deficit recorded as at 31 January 1994. After including the Sk 1.1 billion increase in the favourable clearing account balance with the Czech Republic, the State budget surplus reached Sk 3.1 billion.

According to preliminary data, the net position of the Slovak Government vis-a-vis the banking system reached approximately Sk 69.5 billion, falling below the end-1994 level by Sk 2.7 billion.

V. INFORMATION



NATIONAL BANK OF SLOVAKIA

- Effective 17 March 1995, the National Bank of Slovakia lowered its discount rate from 12 to 11%. The change in discount rate was contingent upon three conditions, which had been fulfilled. The State budget for 1995 was approved, commercial banks were informed of the possible changes at a meeting with the members of the Bank Board on 2 March 1995, and the rate of inflation reached 0.5% in February.
- On 27 February 1995, the third tranche of the loan extended to Slovakia by the European Investment Bank was released in the amount of USD 3,603 thousand.
- On 7 March 1995, Slovakia signed an agreement with Export Import Bank of Japan on the cofinancing of an Economic Recovery Loan from the World Bank in the amount of USD 60 million.
- On 20 March 1995, V. Masár, Governor of the NBS, met with W. Rill, Executive Director of the World Bank, who is in charge of the Belgian Constituency, of which the Slovak Republic is also a member. W. Rill was mainly interested in the current performance of the Slovak economy, and the possibilities of further cooperation with the World Bank in line with the programme of the Slovak Government. The Governor of the NBS suggested that the cooperation should concentrate on three areas, i.e. support for the country's infrastructure, restructuring of the banking and corporate sectors through an EFSAL loan, and the provision of know-how through cofinancing or technical assistance.
- On 19 March 1995, Vladimír Mečiar and Gyula Horn, the prime ministers of Slovakia and Hungary respectively, signed a "Treaty on Good Neighbourly Relations and Friendly Cooperation between the SR and the HR" at Matignon Palace in Paris, the seat of E. Balladur, Prime Minister of France.
- On 21 March 1995, the Slovak Government approved its "Clean Hands" programme, aimed at preparing and introducing measures against corruption and related abuses in society. The Government dismissed all members of the commission for the division of federal property, and appointed S. Kozlík as the commission's new chairman. The new members of the commission are: ministers A. Rezeš and P. Bisák, State Secretary of the Ministry of Finance, J. Magula, and NBS Governor V. Masár.
- After carefully considering and evaluating the case of PSIPS, Investment Fund, a.s. Banská Bystrica, the Ministry of Finance of the SR has revoked the Fund's business licence (Decision No. 001/1995/SAN of 3 March 1995) in accordance with Act No. 248/1992. The Ministry of Finance, as an agent of State supervision over the capital market, will regard any activity performed by PSIPS, a.s. Banská Bystrica as unauthorized business activity.
- On 17 March 1995, Prime Minister V. Mečiar, accompanied by S. Kozlík, J. Ducky, and NBS Governor V. Masár, paid a visit to the State Mint in Kremnica, during his visit to the District of Ziar nad Hronom. Because of its special nature of production, the Kremnica Mint is not up for privatization.

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