



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

MARCH 1995

I. THE REAL ECONOMY

Indicators		1993	1994	1995		
				Jan.	Febr.	March
GDP	Value ^{1/} (Sk ^{2/} billions)	173.8	182.2			
	Growth rate ^{3/} (%)	-4.1	4.8			
Output ^{3/4/}	Industrial production (%)	-13.5	6.4	6.3	8.5	7.6
	Construction (%)	-23.8	5.3	-8.9	8.0	3.0
Unemployment	Number (thous.of persons)	368.1	371.5	387.1	384.9	371.6
	Unemployment rate (%)	14.4	14.6	15.2	15.1	14.6
Foreign Trade ^{5/6/} (f.o.b.)	Exports (Sk billions)	95.7	135.3	17,9 ^{7/}		
	Imports (Sk billions)	125.9	149.4	18,6 ^{7/}		
	Balance (Sk billions)	-30.2	-14.1	-0,7 ^{7/}		

1/ In constant prices of 1 January 1984

2/ Sk - abbreviation of the Slovak crown

3/ Change compared with the corresponding period of last year

4/ Data in current prices

5/ Cumulative values

6/ Convertible currencies

7/ Consolidated balance



NATIONAL BANK OF SLOVAKIA

In March, the growth of **consumer prices** continued to slow. The rate of inflation rose by 0.3% and reached 2.2% within three months. In comparison with the figure for the corresponding period of last year, the price level increased by 11.3%.

The growth of consumer prices was due primarily to the continued 0.5% drop in food prices stemming from both the increases in the prices of meat, meat products, and eggs, and the drop in the prices of services from 1.1% to 0.6%. The prices of industrial goods (0.6%) and public catering (0.7%) increased at the same rate as in the previous month.

The upswing in **industrial production** continued in March. The volume of industrial output reached Sk 41.7 billion, exceeding the previous month's level by 20.0% in current prices, and with regard to the price development, by 7.6%. The productivity of labour (in the field of commodity production) continued to grow at a slower rate; it recorded a growth of 6.3%, while the number of employees increased by 1.2%. The development in this sector favourably influenced the labour market, and represented a continuation of the process started in the third quarter of 1994.

The volume of production of companies with at least 25 employees, which had a 86.2% share in the total output of the industrial sector, reached Sk 35.9 billion at the end of March. This volume exceeded the March 1994 figure by 5.3%. The productivity of labour in these companies increased by approximately 6%, falling behind the growth of average wages, which recorded an increase of 14.0%, at an 0.7% increase in the number of employees.

A positive development in March was the change in the correlation between the volume of production and sales. The total volume of industrial sales grew by 6.1%, while the volume of exports increased at a faster rate (11.2%). The volume of exports represented 43.3% of March's total sales.

The favourable trend in **construction** has continued since the beginning of the year. In March, the output of the construction sector reached Sk 3.4 billion, exceeding the figure for the same period of last year by 14.1% (in current prices) and by 3.0% (with regard to the development of prices).

The productivity of labour increased by 3.5%, while the number of workers dropped by 0.5%. The average daily production exceeded February's level by 4.0%; the volume of production increased by Sk 579 million due to the extension of working hours.

The volume of construction activity of companies with at least 25 employees increased by 4.4%, bringing up labour productivity by 13.1%. The growth of average monthly wages (by 13.8%) only slightly surpassed labour productivity, and had a positive impact on the development of this ratio over the previous two months.

With regard to construction work, construction activity abroad recorded a more rapid growth than domestic construction output, and the volume of reconstruction work exceeded that of new construction projects.

In March 1995, the **rate of unemployment** fully reflected the trend of development in this period. Compared with last month's figure, the number of registered unemployed dropped by 13.3 thousand, to 371.6 thousand, exceeding the March 1994 figure by 0.3%. Slovakia's unemployment decreased at a faster rate during the first three months than in the course of last year. The rate of unemployment dropped to 14.6%, and was equivalent to the December 1994 level.

This development was due to the drop in the number of newly registered unemployed and the considerable growth in the number of those recently removed from the register, while the share of newly employed through job offices and other forms increased to 81.4%. The number of vacancies dropped by 0.4 thousand, to 13.3 thousand.

A positive result of the active employment policy was the continued increase in the number of openings in the sector of public services and public works.

A sign of positive development in March was the fact that the unemployment rate dropped in all districts. The highest rates of unemployment were reported in the districts of Rimavská Sobota (28.0%), Rožňava (24.7%), and Trebišov (23.6%). The 20% level of unemployment was exceeded in 10 districts.

II. THE EXTERNAL ECONOMY

Indicators	1993	1994	1995		
			Jan.	Febr.	March
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-21.1	-3.1	-0.06		
Foreign Exchange Reserves ^{2/} (USD millions)					
Banking system	1,402.2	3,095.5	3,159.4	3,324.2	3,562.9 ^{7/}
Commercial banks	952.7	1,350.5	1,418.9	1,511.1	1,594.0 ^{7/}
NBS ^{3/}	449.5	1,745.0	1,740.5	1,813.1	1,968.9 ^{7/}
Gross Foreign Debt ^{2/} (USD billions)	3.6	4.3	4.3		
Average Exchange Rates ^{4/}					
USD/SKK	32.968	32.039	30.970	30.619	29401
DEM/SKK	19.283	19.759	20.196	20.356	20875

1/ Cumulative values

2/ End-of-period figures

3/ Including gold at a book value of 42.22 USD/oz

4/ Exchange rate midpoint

7/ Preliminary data



NATIONAL BANK OF SLOVAKIA

The development of Slovakia's external trade, which was reflected in the current account of the **balance of payments**, was, at the beginning of 1995, marked by a more rapid increase in revenues than expenditures, and affected by transactions in the services sector. In January, the capital and financial account was affected by an outflow of capital caused by the extension of credit to the Czech economy and the repayment of government and corporate loans.

The current account of Slovakia's external balance of payments generated a surplus of Sk 1.0 billion. The volume of foreign trade in January remained at the level of 1994. The Sk 730 million deficit of trade resulted from the increased import of crude oil in the amount of Sk 2.0 billion. The volume of imports in January, excluding the import of oil, remained at the level of the second half of 1994 and consisted mainly of commodities - mineral fuels, mineral oils, pumps, compressors, and machine tools.

The trade balance deficit was covered by the surplus balance of services, especially in the field of travel and transport, including the transcontinental gas pipeline. Foreign visitors who came to Slovakia through individual or organized tours spent a total of Sk 1.3 billion in the country. Slovak citizens showed little interest in the purchase of foreign currency. In January, 31 thousand persons bought foreign currency in the average amount of Sk 8,000 per capita.

Capital flows were determined by the long-term and short-term outflow of capital. An important item on the expenditure side of the capital account was the clearing balance associated with the extension of credit to the Czech Republic, while the growth of liabilities to the CR increased by Sk 1.6 billion.

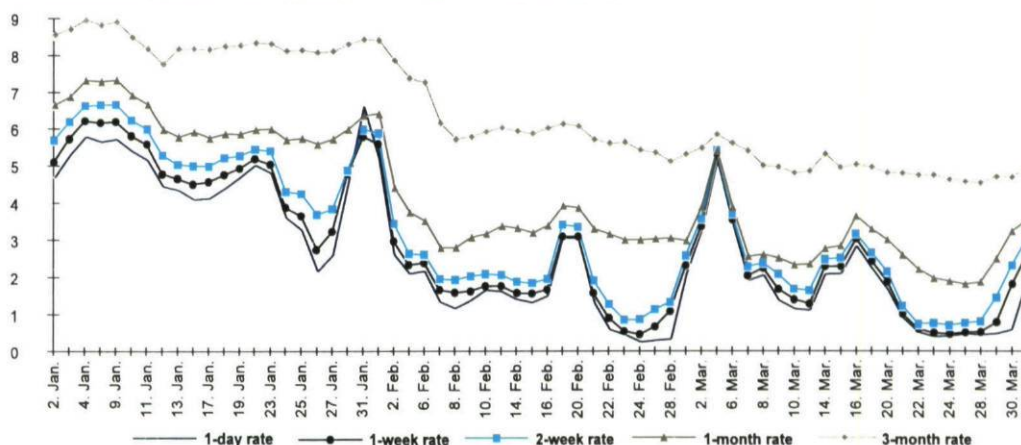
The inflow of funds into the Slovak economy took place in the form of direct and portfolio foreign investments. The capital and financial account of the balance of payments recorded a net outflow of capital in the amount of Sk 3.4 billion.

At the end of March, the total **foreign exchange reserves of the NBS** reached USD 1,968.9 million, representing an increase of USD 155.7 million compared with the previous month's level.

The development of foreign exchange reserves was positively affected mainly by the USD 106.2 million transfer made by the Czech Republic on account of having exceeded the credit limit in the clearing account (59% of the total revenue); the USD 26.0 million increase in the volume of deposits received; the USD 11.1 million surplus in NBS foreign exchange fixing; the proceeds from the sale of state financial assets and from the deblocking of liabilities in the amount of USD 1.7 million, and other revenues of the NBS in the amount of USD 2.4 million.

The development of foreign exchange reserves was negatively influenced mainly by the Bank's debt service expenditures in the amount of USD 13.2 million (65% of the total expenditure), of which USD 10.6 million represents the payment of interest on government loans. Other factors were the payments of principal on IMF loans in the amount of USD 6.4 million, and other expenditures of the NBS in the amount of USD 0.8 million.

Interbank Deposit Rates (Daily Average • Midpoint, %)



III. MONETARY DEVELOPMENTS

Indicators	1993	1994	1995			
			Jan.	Febr.	March	
Inflation Rate	Monthly ^{1/} (%)		1.4	0.5	0.3	
	Yearly ^{2/} (%)	25.1	11.7	11.7	11.4	11.3
Money Supply M2 ^{3/4/} (%)		18.1 ^{5/}	18.8	-1.6	-0.1	-0.4
Credits from Commercial Banks ^{4/} (%)		13.0 ^{5/}	1.5	-0.3	0.7	3.7
Deposits with Commercial Banks ^{4/} (%)		18.3 ^{5/}	17.9	-1.7	0.9	0.3
Discount Rate (%)		12.0 ^{6/}	12.0	12.0	12.0	11.0
Lombard Rate ^{7/} (%)		14.0	13.1	13.1	13.1	13.1
Average Interbank Deposit Interest Rates						
SKIBOR (%)						
	1-day deposits		13.18	5.12	2.11	2.23
	7-day deposits	17.20 ^{8/}	13.89	5.48	2.38	2.46
	14-day deposits	17.50 ^{8/}	14.63	5.90	2.70	2.70
	1-month deposits	17.86 ^{8/}	15.62	6.78	3.94	3.39

^{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

In March, Slovakia's monetary development was determined by the following factors: the budget surplus in the accounts maintained at the NBS, the continuing growth of foreign assets in the banking system, the initial growth of the country's money supply and its decrease in the last ten days of March, the state of excessive liquidity of commercial banks, and the lowered discount rate of the NBS.

In March, the **money supply** of the Slovak economy dropped by Sk 0.9 billion (0.3%), reaching Sk 293.5 billion at the end of the month. The decline was due to the development of the transaction components of the M1 aggregate, i.e. demand deposits and currency in circulation outside banks. The decrease in the money supply was mainly the result of the drop in demand deposits, which is attributable to the payment of taxes for 1994.

The maximum volume of currency in circulation increased to Sk 34.1 billion, exceeding February's level by more than Sk 0.6 billion. Compared with the previous month's figure, the minimum volume increased by Sk 0.4 billion and reached Sk 31.2 billion. At the end of March, the volume of currency in circulation outside banks (excluding cash on hand at banks) reached Sk 28.2 billion.

In March, time deposits continued to show a propensity for growth, which was slowed by the payment of taxes. Foreign currency deposits also recorded a certain increase. The development of the money supply varied in March. In the first two ten-day periods, all components of the money supply recorded an increase; however, in the last ten days, the development showed the opposite trend, with the exception of foreign currency deposits. The most rapid growth was recorded in demand and time deposits during the first twenty days of March, which clearly indicates that the upswing that had begun in the previous months (demand deposits from February, time deposits from January 1995) continued in March and was only interrupted by a seasonal decline.

Crown deposits, as part of the money supply, remained below the previous month's level as well as that recorded at the beginning of the year. The development of crown deposits varied by sector. While deposits held by enterprises (including insurance companies) recorded a relatively rapid decline, household deposits increased. Compared with the corresponding period of last year, the money supply and its components recorded a more moderate decline in March.

During the first three months of 1995, crown deposits experienced a more moderate decline compared with that recorded in the same period of last year. From the sectoral point of view, the development of household deposits in crowns showed a different trend. While in 1994, the volume of these deposits suffered a decline, in 1995, it recorded a relatively high rate of growth. This trend resulted from the higher preference given to the holding of crown deposits compared with cash (the volume of currency dropped in March and recorded only a slight increase since the beginning of 1995) and foreign currency deposits (they recorded smaller increases than last year). As far as the structure of the money supply is concerned, the share of quasi-money and time deposits increased, while that of currency in circulation and demand deposits decreased.

In March, the share of households in holding crown deposit increased, continuing the surge which started at the beginning of the year.

In March, bank **lending in crowns** recorded an increase of Sk 7.1 billion. The total volume of crown loans reached Sk 264.9 billion by the end of March. Foreign currency loans increased by Sk 1.3 billion. At the end of March, the total volume of crown and foreign currency loans reached Sk 283.0 billion, representing an increase of Sk 10.1 billion compared with the figure recorded at the beginning of the year. In comparison with the same period of 1994, this year's development improved by Sk 14.9 billion.

In February, commercial banks extended new crown loans in the amount of Sk 18.4 billion, of which 85% were short-term loans owing to the sufficient level of short-term resources. In comparison with January's figure, the volume of crown loans recorded an increase of Sk 0.5 billion.

In March, the **average rate of interest** on the total volume of bank credit (excluding loans with unpaid interest, so-called zero interest bearing loans) did not change and remained at the level of 16.04%. The average lending rate for short-term loans increased by 0.16 percentage points, to



NATIONAL BANK OF SLOVAKIA



NATIONAL BANK OF SLOVAKIA

18.87%; while the rate of interest on medium-term loans decreased by 0.14 points to 18.68%, and the rate for long-term loans dropped by 0.10 points, to 12.75%. The rate of interest on new loans increased in March from 17.79% to 18.49%, as a result of the change in the composition of customer solvency.

The average rate of interest on the total volume of deposits increased by 0.05 percentage points, to 9.45%, as a result of the increase in the average rate of interest on demand deposits from 2.90% to 3.19%. The interest rates on time deposits were lowered by 0.16 points, to the level of 13.64%.

The prices of secondary resources, especially those of interbank loans and deposits, dropped from 14.54% to 14.03%, compared with the prices of primary resources. Considerable month-to-month decreases were recorded in one-day interbank loans (from 9.80% to 1.10%) and short-term interbank deposits (from 13.66% to 12.26%), while short-term interbank deposits represented 46% of the total volume of interbank loans and deposits. The decline in interbank offered rates was a result of the excessive liquidity of commercial banks.

The **credit margin** of commercial banks was on the level of 6.59 percentage points.

In March, the results of monetary processes did not have any significant effects on the **balance of the NBS**. The sum of assets and liabilities increased by Sk 1.9 billion (1.03%) compared with last month's figure.

The changes in the decisive asset and liability items of the NBS balance affected the net position of Slovakia's economic sectors vis-a-vis the NBS. The net debts of commercial banks increased by Sk 1.0 billion, while the NBS's receivables from commercial banks fell by Sk 0.6 billion and its liabilities by Sk 1.6 billion, reaching a deficit of Sk 19.1 billion. By the end of March, the net foreign exchange position increased by Sk 1.8 billion; while the net debt of the Government sector to the NBS reached Sk 32.2 billion, representing a drop of Sk 2.4 billion compared with February's level.

In March, the Ministry of Finance of the SR floated five issues of **State Treasury bills** with a 28-day maturity, and one issue maturing in 266 days. The volume of securities sold at the auctions depended mainly on the current state budget performance. With regard to the favourable development of the government budget, the issuer refused all orders made by commercial banks for the last planned issue at the end of March.

Interest rates on the primary market were lowered again. At the auction held on 22 March 1995, the average rate of interest on government bonds with a 28-day maturity reached the lowest level in its history (1.95% p.a.), while Treasury bills with a 9-month maturity were auctioned at an average interest rate of 7.64% p.a. With regard to the low interest rates, non-bank entities continued to show no interest in State Treasury bills.

The maximum amount of State Treasury bills in the portfolio of the NBS reached Sk 380 million (in nominal value) with an average daily sales rate of 100 Treasury bills. Such a relatively low portfolio volume can be attributed to the excessive liquidity in the banking sector.

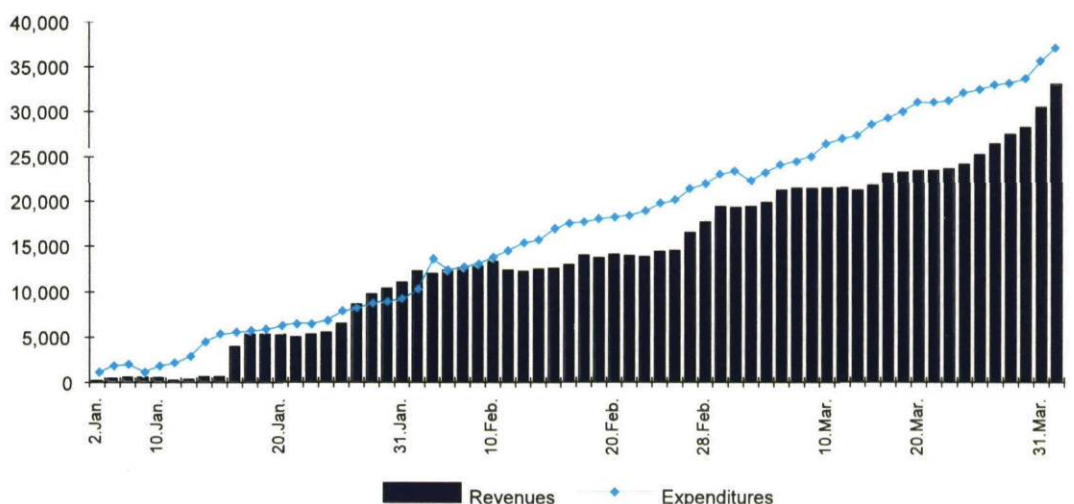
On the primary market, the NBS continued to exercise its right to the preferential purchase of 10% of the total volume of accepted offers for Treasury bills at the auction. On the secondary market, the NBS conducted primarily reverse REPO transactions with the maximum maturity of 7 days.

In March, the volume of **government bonds** traded on the Bratislava Stock Exchange (BCPB) totalled Sk 1,668,915 thousand. The dominant part of this amount consisted of deals in the issue No. 008 worth Sk 1,667,858 thousand at a price of 108.3%, representing a 8.85% yield until maturity. An interesting case is represented by issue No. 005 in the amount of Sk 965 thousand at a price of 100% with a 19.5% net yield until maturity, because this issue is being traded for the second time in the course of 18 months.

With regard to the atypical nature of the achieved prices and the anonymity of trading on the BCPB, it is possible to assume that the deals at the given prices were REPO transactions between the individual participants.

State Budget Revenues and Expenditures

(Sk millions)



IV. THE GOVERNMENT SECTOR

Indicators		1993	1994	1995		
				Jan.	Febr.	March
Budget Revenues ^{1/}	(Sk billions)	144.5	139.1	11.1	17.7	33.2
Budget Expenditures ^{1/}	(Sk billions)	167.5	162.0	9.1	21.9	37.3
State Budget Balance	(Sk billions)	-23.0	-22.9	2.0	-4.2	-4.1

^{1/} Cumulative values

At the end of March, the budget deficit remained on the previous month's level. Favourable monthly fulfilment was recorded in tax revenues (exceeding the aliquot part of the annual budget by Sk 3.5 billion), especially in personal and corporate income tax revenues. As a result of the deduction of value-added tax in February, the total revenue for three months remained behind the projected level by Sk 3.4 billion.

The expenditure side of the budget was considerably affected by the effects of clearing with the Czech Republic (Sk 4.2 billion at end-March). After excluding the effect of clearing, the total budget expenditure showed a saving of Sk 8.7 billion especially in the case of budgetary and subsidized organizations. The net position of the State budget was balanced (excluding clearing).

At the end of March, the total internal debt of the Slovak Government vis-a-vis the banking sector, reduced by the Government's deposits with the NBS and commercial banks, reached a level of Sk 69.4 billion. Of this amount, the National Bank of Slovakia credited Sk 32.2 billion, the remaining Sk 37.2 billion was provided by commercial banks.

V. INFORMATION

- On 11 May 1995, the session of the National Council of the SR approved the Government's proposal to appoint Jozef Mudrík, former president of VÚB, a.s. Bratislava, as Vice-Governor of the National Bank of Slovakia. According to law, the Vice-Governor of the NBS shall be formerly appointed by the President of the SR. The new Chairman of the Board of Directors of VÚB has become Jan Gabriel and the new Vice-President Jozef Pamětický.
- On 15 May 1995, Moody's Investors Service raised the hard currency liability rating of the Slovak Republic, represented by the NBS, to Baa 3. The improved rating is an indication of the fact that Slovakia has been included in the most successful transition economies.
- With an equity capital of Sk 1,001 million, Priemyselná banka, a.s. Kosice (Industrial bank, Inc.) ranks among the leading banks in Slovakia. By 31 December 1994, the volume of the bank's assets almost doubled compared with the previous year's figure. On the basis of a foreign exchange licence, Priemyselná banka established correspondent banking ties with more than 100 foreign banks.
- In 1995, the First Building Society (Prvá stavebná sporiteľňa) concluded 58,000 contracts on building savings with clients for the total amount of Sk 7.3 billion. At present, this savings bank has a clientele of 450,000.



NATIONAL BANK OF SLOVAKIA

National Bank of Slovakia
Monetary Department
Štúrova 2, 818 54 Bratislava
Slovakia

Published by:
Public Relations Department
Tel.: +42/7/364 349, 210 34 05, 210 34 14
Fax: +42/7/ 210 34 12