



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

MAY 1995

I. THE REAL ECONOMY



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Indicators		1993	1994	1995			
				March	Q1	April	May
GDP Value	^{1/} (Sk ^{2/} billions)	173.8	182.2		59.8		
	Growth rate ^{3/} (%)	-4.1	4.8		5.8		
Output ^{3/4/}	Industrial production (%)	-13.5	6.4	6.0 ^{5/}	5.7	8.7	6.2
	Construction (%)	-23.8	5.3	5.5 ^{5/}	3.1	1.8	5.0
Unemployment	Number (thous.of persons)	368.1	371.5	371.6	371.6	354.1	338.9
	Unemployment rate (%)	14.4	14.8	14.6	14.6	13.9	13.3
Foreign Trade ^{6/7/} (f.o.b.)	Exports (Sk billions)	95.7	135.3	59.8	59.8		
	Imports (Sk billions)	125.9	149.4	59.1	59.1		
	Balance (Sk billions)	-30.2	-14.1	0.7	0.7		

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/ Data adjusted to small businesses

6/ Cumulative values

7/ In 1993 and 1994 convertible currencies, 1995 consolidated balance

In May, the rate of **inflation** reached 0.4%, representing an increase of 3.0% from the beginning of the year; the annual rate of inflation was 11%. The average annual rate of inflation reached 11.4%. This development indicates that the moderate rise in consumer prices continued in May.

The food price level increased by 0.2%, representing a change in the downward trend in these prices in the course of April. The main factors affecting the upswing in food prices were the continuing rise in the prices of sugar and sugar-based products by 1.4%, soft drinks (by 0.7%), spirits (by 0.6%), and partly the rise in price of milk and dairy products. The price level of meat and meat products fell by 0.6%, fats by 1.1%, eggs and related products by 6.6%.

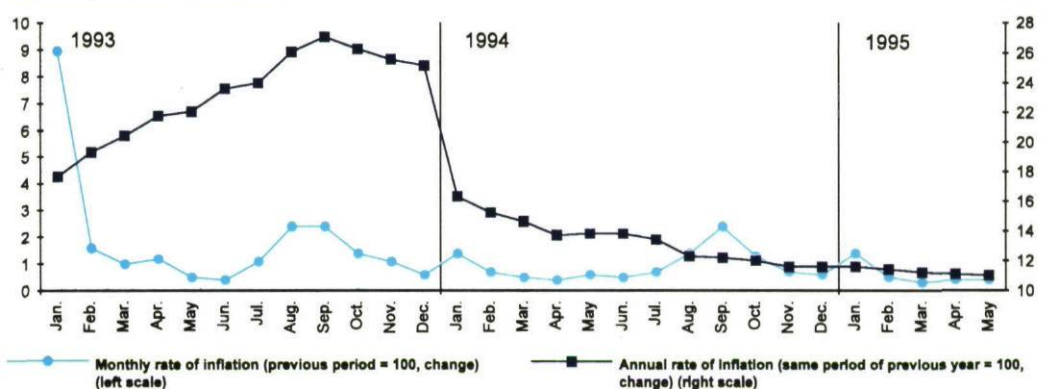
The price level of industrial goods rose by 0.5%, mainly due to the increase in the prices of textiles (0.8%), cultural needs (0.7%), building materials (0.7%), and travelling and sports requisites (0.6%). The prices of fuel, tobacco products, and community facilities saw a minor decrease. Prices in public catering rose by 0.4%, as a result of price increases in restaurants and canteens (prices of drinks and food). The price growth in services continued to slow and reached 0.1%. Prices in education, culture, entertainment, sport and recreation, medical welfare services, and social facilities increased by 0.7%.

In May, the volume of **industrial production** reached Sk 41.6 billion, representing an increase of 6.2% compared with the corresponding period of last year. With respect to the increased number of working days in May, the output of industrial production surpassed April's level by 10.7%. Average daily production in May amounted to Sk 1,893 million, representing an increase of 6.2% in comparison with May 1994. Labour productivity in commodity production reached Sk 67,643; exceeding the April 1995 figure by 10.6%, and that of May 1994 by 2.5%. In companies with 25 and more employees, production reached Sk 36.3 billion and exceeded the figure for May 1994 by 7.4%. Within this group of companies, the sales of goods in May amounted to Sk 42.1 billion. Of that volume, imports accounted for 30.7%, i.e. 14.3% more than last year. The private sector accounted for 62.3% of the total volume of industrial production. Private sector production increased by 12.1%.

In May, **construction industry output** (Sk 4.2 billion) recorded a 16.4% month-on-month increase, exceeding the figure for May 1994 by 5.0%. Private sector accounted for 79.9% of the total output. Compared with the previous month's figure, the average daily output (Sk 191 million) fell by 4.8%, although it exceeded the May 1994 figure by 5.0%. Compared with April, labour productivity (Sk 27,745) increased by 15.8%, and in comparison with May 1994, by 5.2%.

In May, the number of **unemployed** fell by 15,200 to 338,900, which is the lowest figure recorded since July 1993. The rate of unemployment decreased to 13.3%. Compared with the corresponding period of last year, the number of unemployed fell by 4.3%. This favourable development was a slight increase in the figures for newly registered (21,600) and decrease in the number of people recently removed from the register (36,800). The number of vacancies increased to 14,600. There were 23 applicants per vacancy. More than 7,300 applicants were employed within the sector of public works and services. This development was favourably affected by increases in seasonal jobs in construction, agriculture and forestry, short-term jobs in the Czech Republic, increase in the number of newly created vacancies, and an increased interest of employers in the labour market.

Development of Inflation (in %)



II. THE EXTERNAL ECONOMY

Indicators	1993	1994	1995			
			March	Q1	April	May
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-21.1	-3.1	-0.7	-0.7		
Foreign Exchange Reserves ^{2/} (USD millions)						
Banking system	1,402.2	3,095.5	3,569.7	3,569.7	3,614.7	3,753.9"
Commercial banks	952.7	1,350.5	1,600.8	1,600.8	1,593.1	1,568.0"
NBS ^{3/}	449.5	1,745.0	1,968.9	1,968.9	2,021.6	2,185.9"
Gross Foreign Debt ^{2/} (USD billions)	3.6	4.3				
Average Exchange Rates ^{4/}						
USD/SKK	32.968	32.039	29.401	29.401	29.037	29.496
DEM/SKK	19.283	19.759	20.875	20.875	21.057	20.955

^{1/} Cumulative values

^{2/} End-of-period figures

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

^{4/} Exchange rate midpoint

^{*/} Preliminary data



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In the first quarter 1995, the development of Slovak external relations continued in the last year trend. The **current account** was affected by factors generating surplus. The overall current account of the balance of payments vis-a-vis abroad reached a surplus of Sk 5.0 billion. The **capital account** produced an offset effect upon the current account. While the current account deficit in convertible currencies was covered by an inflow of capital in the capital and financial account, reverse trends were recorded in relations with the Czech Republic. The high surplus in current account (Sk 5.7 billion) was offset by the outflow of capital, resulting in crediting the Czech economy in the amount of Sk 4.6 billion.

By the end of the first quarter of 1995, Slovakia's overall trade balance reached a surplus of Sk 659 million. The continuing economic recovery in developed countries made it possible to maintain high rate of growth in exports. The total volume of exports increased by 26.5%; of that, exports in convertible currencies by 33.7%. The decisive portion of this figure was held by EU countries (Germany, Italy), as well as V4 countries and the former Yugoslavia. The recorded growth rate of exports (index 116.9) is linked with the revitalization of the economy and its reliance on raw material imports.

The main source of the current account surplus was the balance of services, which accounted for Sk 4.5 billion of the total surplus (Sk 5.0 billion) in current account. Income from foreign tourism amounted to Sk 4.0 billion and remained about at last year's level. In spite of the increased limit on foreign exchange earmarked for tourism, Slovak citizens showed little interest in the purchase of foreign currency. During the first quarter of 1995, foreign currency was only purchased by about 95,000 inhabitants, whereby the average purchase per inhabitant amounted to Sk 7,340. Increases were also recorded in revenues from transportation (index 120) and other services, such as telecommunications, legal, financial services, accounting and management consultancy, etc. (index 109).

The deficit in the balance of yields (Sk 340 million) reflected increased payments of interests from the IMF and the business sector. The revenues of the yield balance were adversely affected by foreign currency earnings of residents working abroad, which accounted only for a half of the amount achieved in the first quarter of 1994, due to the regulations applied in neighbouring countries.

Money transfers abroad did not record any significant deviations and showed, at the end of the period, a slight surplus of USD 146 million. Private transfers of convertible currencies had a decisive influence on the resulting balance of transfers.

The influx of foreign capital was realized mainly in the form of bank credit extended to domestic companies directly from abroad. In economic terms, such credit may be characterized as a source of long-term funds for the Slovak economy.

The capital and financial account of the balance of payments produced a deficit of Sk 1.5 billion.

The total **foreign exchange reserves of the NBS** recorded a month-on-month increase of USD 104.3 million, reaching USD 2,185.9 million at the end of May.

The development of foreign exchange reserves was positively influenced mainly by the USD 217 million transfer from the Czech republic, on account of having exceeded the credit limit in the clearing account (70% of the total revenues), draw-down of loans from international financial institutions (USD 81.5 million) (EXIM Bank of Japan and EIB), proceeds from the sale of state financial assets, from deblocking the liabilities in the amount of USD 0.7 million, as well as from other revenues of the NBS (USD 8.3 million).

The foreign exchange reserves were unfavourably affected mainly by the USD 104.2 million deficit in the foreign exchange fixing of the NBS (i.e. 78% of the total expenditure), payments of regular quarterly instalments to the IMF (USD 9.3 million), instalments of principals of IMF loans (USD 7.8 million), debt service of the NBS (USD 4.7 million), of that payments from the Central Forex Resources amounted to USD 3.7 million), by the decrease in the volume of accepted deposits (by USD 3.7 million), and by other expenses of the NBS worth USD 3.3 million.

At 28 February 1995, the total **gross foreign debt** amounted to USD 4.5 billion (of that USD 4.4 billion in convertible currencies). Compared to January, the foreign exchange obligations of commercial banks and the business sector substantially increased from USD 1.9 billion, to USD 2.1 billion. In February, the second tranche (JPY 1.0 billion) of the Two Step Loan from the EXIM Bank of Japan was drawn, as well as the third tranche of the AGL loan from EIB (USD 3.6 million). At 28 February, 1995, the official debt of the Slovak Government and the NBS totalled USD 2.3 billion.

III. MONETARY DEVELOPMENTS

Indicators	1993	1994	1995				
			March	Q1	April	May	
Inflation Rate	Monthly ^{1/} (%)		0.3	2.2	0.4	0.4	
	Yearly (%)	25.1	11.7	11.3		11.2	11.4
Money Supply M2 ^{2/3/} (%)		18.5 ^{4/}	18.8	-0.4	-0.4	1.2	1.7
Credits from Commercial Banks ^{3/} (%)		13.0 ^{4/}	1.5	3.8	3.8	4.6	5.0
Deposits with Commercial Banks ^{3/} (%)		18.3 ^{4/}	17.9	0.7	0.7	2.6	3.0
Discount Rate (%)		12.0 ^{5/}	12.0	11.0		11.0	11.0
Lombard Rate ^{6/} (%)		14.0	17.5	13.1		13.1	13.1
Average Interbank Deposit Interest Rates							
SKIBOR (%)		16.73 ^{7/}	13.18	2.23	3.17	3.91	5.44
		17.20 ^{7/}	13.89	2.46	3.45	4.04	5.61
		17.50 ^{7/}	14.63	2.70	3.78	4.15	5.73
		17.86 ^{7/}	15.62	3.39	4.71	4.29	5.89

1/ End of period

2/ M2 = Currency, demand and time deposits, savings deposits, foreign currency deposits

3/ 31 December of the previous year = 100 (change)

4/ 1 January of current year = 100 (change)

5/ Since 20 December 1993

6/ Average of period

7/ Average for the 2nd half of 1993

In May, the **money supply**, expressed by the M2 aggregate, increased by Sk 2.9 billion and reached Sk 299.6 billion by 31 May 1995. This growth was due mainly to the development in time deposits, which began to increase again after a period of stagnation in April.

At the end of May, **crown deposits** amounted to Sk 230.4 billion, exceeding the figure for April, as well as the figures recorded at the beginning of the year. Corporate and household deposits had an equal share in the increase in crown deposits.

Compared with the previous month's figure, the total volume of **crown and foreign exchange deposits** increased in May by Sk 0.3 billion, reaching Sk 286.1 billion by the end of the month. Compared with the beginning of the year, this figure represents an increase of Sk 12.6 billion.

The slight month-on-month increase was due exclusively to bank lending in crowns (Sk 0.5 billion). At the end of month, the crown loans amounted to Sk 268.7 billion, exceeding the figure recorded at the beginning of the year by Sk 10.5 billion. Lending to the private sector accounted for Sk 1.1 billion in the total month-on-month increase. Loans to the public sector recorded a decrease of Sk 0.8 billion. Loans extended to cover the extra-budgetary requirements of central and local authorities and other enterprises, as well as loans to households did not experience significant changes.

Foreign currency loans continued to fall, and dropped by Sk 0.2 billion in May. Since the beginning of the year, the foreign exchange loans increased by Sk 2.1 billion.

In April, commercial banks extended a total of Sk 10.4 billion in new loans; of that, short-term loans accounted for Sk 8.2 billion, medium-term loans for Sk 1.6 billion, and long-term loans for Sk 0.6 billion. The volume of newly extended loans dropped by Sk 2.1 billion, compared with March.

Compared with March, the **average interest rate on the total volume of crown credits** slightly dropped in April, from 16.0% to 15.94%, due to the conflicting impacts of various factors, i.e. the decrease in basic interest rates since 1 April, 1995 on one hand, and the increase in the volume of loans with so-called penalty interest rates, on the other. A marked decrease was recorded in newly extended (drawn) credits, representing 1.47 point (from 17.92% to 16.45%). The change in the NBS discount rate and mainly the surplus in short-term sources initiated this decrease in current interest rates. The short-term interest rates on extended loans decreased from 18.17% to 16.42% (by 1.75 points). Medium-term rates dropped from 18.93% to 17.23% (by 1.7 points). On the other hand, the average interest rates on long-term credits rose from 13.40% to 14.71% (by 1.31 points).

Compared to March, the **average interest rate on primary deposits** (8.49%) recorded a considerable decline (by 1.03 points), due mainly to the decrease in interest rates on short-term time deposits (by 1.75 points), which accounted for 30% of the total deposits. The average rate of interest on medium-term deposits fell from 15.39% to 14.61% (by 0.78 points), on long-term deposits by 0.14 points, and on demand deposits by 0.43 points. The decrease in interest rates was also affected by changes in principal interest rates of commercial banks, mainly on demand and short-term deposits held with commercial banks, by 2 to 3%, since 1 April, 1995. The decrease in average interest rates on medium-term deposits was affected by a decrease in basic interest rate on crown deposits (0.5 points).

Compared with March, the price of secondary resources (mainly interbank loans and deposits), increased in average by 0.32 points, to 12.93%. The time deposits and loans increased by 0.57 points and demand deposits and loans fell by 1.15 points (from 6.02% to 4.87%). The interest rates on short term loans extended to other banks showed an upward trend.

Compared with March, the **interest margin** of commercial banks increased from 6.48 to 7.45 points, mainly due to the decrease in average interest rate on crown deposits.

In May, in accordance with the "Schedule of Treasury bill issues for the first quarter of 1995", the Ministry of Finance of the SR scheduled 6 auctions of **Treasury bills**. Due to the favourable development in the state budget performance, the Ministry had cancelled two of these auctions, at the beginning and the end of the month, respectively. Three of the 4 Treasury bills were with a maturity of 28 days (the volume of Treasury bill issues totalled to Sk 3,904 million) and one with



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175-day maturity (with 2,970 Treasury bills issued). The NBS took part in two short-term Treasury-bill auctions in the primary market and purchased a total of 349 Treasury bills. Within the two short-term issues, non-bank entities bought 85 Treasury bills.

The average interest rate on 1-month issues amounted to 3.91%, 4.51%, and 4.08%. All three issues surpassed the interest rate achieved in one April issue, with the same maturity, by about 1%. The average yield of 6-month issue of Treasury bills amounted to 5.99%.

In May, the April issue of Treasury bills in the amount of Sk 100 million, became due. In May, the volume of Treasury bills designed to cover the state budget deficit increased from Sk 3.830 billion to Sk 10.604 billion. The total volume of marketable Treasury bills amounted to Sk 35.245 billion at the end of the month.

During the first week of May, NBS started to reduce the liquidity of the banking sector with an issue of own Treasury bills with 7-day maturity. 2,600 NBS bills were sold, and thus the NBS reduced bank liquidity by Sk 2,597.8 million. The taxable yield from this issue amounted to 4.29%. In May, the NBS T-bills worth Sk 3,650 million were repaid.

The size of NBS portfolio fluctuated between 0 and 2,350 securities, with an average holdings of 920 securities. In May, Sk 33,889 million worth of securities were traded in the secondary market for Treasury bills, with a daily average of Sk 1,540 million. The NBS accounted for 83% (Sk 28,259 million) of the turnover. The bulk of Treasury-bill trade in the interbank market was made through REPO transactions.

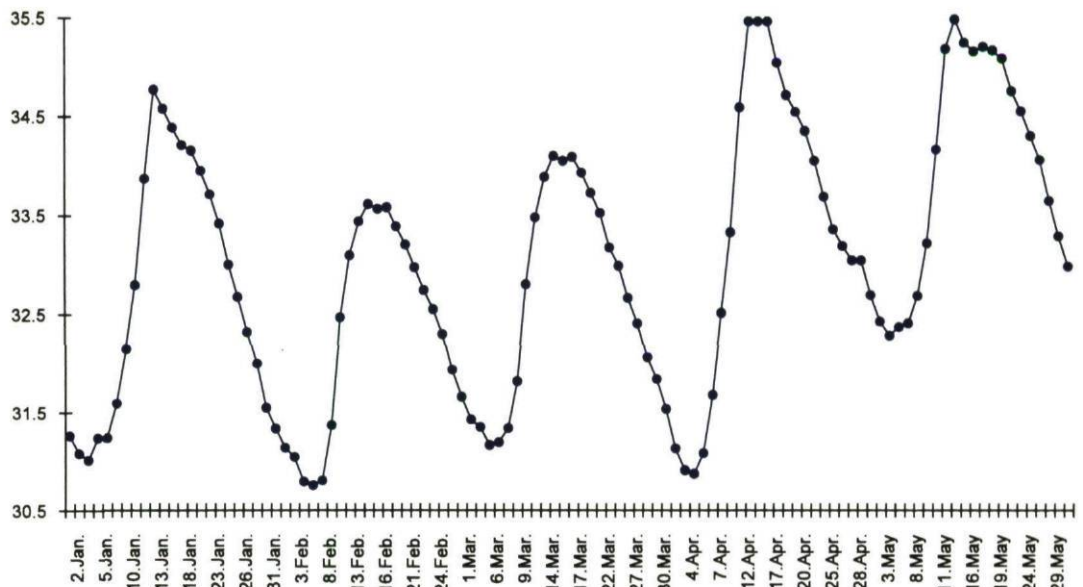
The interest rates on the interbank deposit market recorded a relatively steady development. One-month deposits were sold at the average interest rate of 5.89%, which is 1.64% more than in April (the specific rates varied between 5.00% and 6.54%). Compared with the previous month, the average rate on 3-month deposits also increased, from 5.5% to 6.28%. The real interest rates varied from 5.70% to 6.78%.

In May, pursuant to the Act No. 184/1994, Coll. of Laws on the issue of **government bonds**, the Ministry of Finance of the SR extended the bond issue No. 011, in the amount of Sk 6.04 billion. This issue was introduced in the market through the so-called American type of auction. Sixteen entities took part in the auction, of that 14 were banks and 2 were non-bank entities. The Ministry accepted offers from 14 entities. The total demand amounted to Sk 7.23 billion, with a minimum offered price of Sk 7,785 and a maximum price of Sk 10,347.

In May, the volume of trade in listed bonds accounted only for 5% of April's trade volume. Again, mostly government bonds were traded. Issues No. 006 and 008 were traded on the Bratislava Stock Exchange (BCPB) in May, both in the form of direct transactions. The government bonds No. 006 were sold in the amount of Sk 22,160 for the price of 103% and bonds No. 008 were sold in the amount of Sk 66,523,472 for the price of 105.8%.

Currency in Circulation

(Sk billion)



IV. THE GOVERNMENT SECTOR

Indicators	1993	1994	1995			
			March	Q1	April	May
Budget Revenues ^{1/} (Sk billions)	144.5	139.1	33.2	33.2	47.6	60.4
Budget Expenditures ^{1/} (Sk billions)	167.5	162.0	37.3	37.3	50.6	66.4
State Budget Balance (Sk billions)	-23.0	-22.9	-4.1	-4.1	-3.0	-6.0

^{1/} Cumulative values



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At the end of May, the budget performance ended with a deficit of Sk 6.0 billion, representing a month-on-month increase of Sk 3.0 billion. The entire budget deficit was covered with the issue and subsequent sale of Treasury bills.

The budget revenues in the amount of Sk 60.4 billion actually corresponded with the anticipated performance, mainly due to the favourable tax revenues (41.1% of the annual budget), whereby the income tax of juridical and natural persons (Sk 22.1 billion) surpassed the aliquot part of the budgeted amount by Sk 2.3 billion, and the value added tax was exceeded by Sk 0.4 billion.

The state budget expenditure (Sk 66.4 billion) was fulfilled to 39.7%, and its development, like in the previous month, was affected by the clearing account with the Czech Republic (Sk 8,5 billion). Excluding this effect, the budgetary performance may be considered as favourable, i.e. the state budget deficit would record a surplus of about Sk 2.5 billion. The entire structure of expenditure may be evaluated as favourable. A slight surpassing of expenditure was recorded in non-investment expenses of the budgetary organisations of the Ministry of Labour, Social Affairs, and Family (49.5%), in subsidies to the local administration (50.7%) and in current transfers to the business sector (42.2%).

In May, the internal debt of the Slovak Government vis-a-vis the banking sector reached Sk 67.6 billion. Of this amount, the NBS credited Sk 22.7 billion, and commercial banks Sk 44.9 billion. Compared to the beginning of the year, this amount represents a decrease by Sk 2.8 billion. The size of the internal debt remains at the level of Sk 69 billion, with the changing structure of particular items. In May, the state financial assets held with the NBS were raised through the allocation of a loan from the EXIM Bank of Japan, valued in crowns (Sk 1.7 billion). Due to the May auction of bonds designed to cover the 1993 state budget deficit, with the demand of commercial banks worth Sk 6,04 billion being accepted, the participation of the NBS and commercial banks in the coverage of the debt was changed. The government debt is transferred to commercial banks, which currently cover almost 67% of the debt recorded within the entire banking sector.

V. INFORMATION

- On 23 June, 1995, the Bank Board of the NBS approved the Report on Monetary Developments in Slovakia for the first quarter of 1995. Furthermore, the Board approved to increase the foreign exchange limit for the purposes of sales to citizens, up to Sk 30,000 (equivalent of USD 1,000), effective from 1 July, 1995.
- The regular quarterly meeting of the NBS top management with representatives of 23 commercial banks and foreign bank branches took place on 3 July in Bratislava. According to the NBS Governor, Vladimír Masár, the monetary developments were in accordance with the monetary program of the NBS.
- Euromoney, one of the leading journals on international capital market, awarded Tatra banka, a. s. being the best performing bank in Slovakia. Last year, Tatra banka, a. s., generated a profit in the amount of Sk 264 million.
- On 27-30 June, 1995, an international seminar on counterfeit bank notes was held at the Banking Training Institute of the NBS. The participants of the seminar agreed that the mutual exchange of information is the most effective instrument to fight against forgery.
- On 3 July, 1995, VUB, as the first commercial bank in Slovakia, issued bonds in the amount of Sk 1.2 billion using American type of auction.

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