



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

JUNE 1995

I. THE REAL ECONOMY

Indicators		1993	1994	1995			
				Q1	April	May	June
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	5.7	8.7	6.2	3.9
	Construction (%)	-23.8	5.3	3.1	1.8	5.0	6.6
Unemployment	Number (thous.of persons)	368.1	371.5	371.6	354.1	338.9	339.0
	Unemployment rate (%)	14.4	14.8	14.6	13.9	13.3	13.3
Foreign Trade ^{5/6/} (f.o.b.)	Exports (Sk billions)	95.7	135.3	59.8	79.8		
	Imports (Sk billions)	125.9	149.4	59.1	78.7		
	Balance (Sk billions)	-30.2	-14.1	0.7	1.1		

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/ In 1993 and 1994 convertible currencies, 1995 consolidated balance



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In June, the level of **consumer prices** rose by 0.1%, and the rate of inflation experienced an increase of 3.1% from the beginning of 1995. Compared with the corresponding period of last year, the price level increased by 10.6%. The recorded month-on-month increase in prices was the lowest since April 1992.

This development was due mainly to the 1.4% fall in food prices, representing the sharpest decrease in 1995. The level of food prices fell by 1.1% from the beginning of the year, indicating that foodstuffs represented a stabilizing factor in the development of inflation. In June, the sharpest decreases were recorded in the prices of eggs (4.2%), meat and meat products (1.1%). However, the prices of dairy products (0.1%), bakery and pastry products (0.4%) continued to increase; these products offered consumers a compensation for the shortage and excessive price of potatoes. The price level of sugar and sugar products (2.4%) and soft drinks (1.3%) also increased.

The price level of industrial goods increased by 0.7% (by 0.5% in May). The most significant increases were recorded in the prices of home appliances (1.2%), shoes and leather goods (1.0%), travelling and sports requisites (0.9%), and textile goods (0.8%). The prices of public catering increased by 0.5%, in services by 0.4%, while the highest increase was recorded in personal services (1.5%). The price development in June was considerably influenced by the increased price limits of fuels.

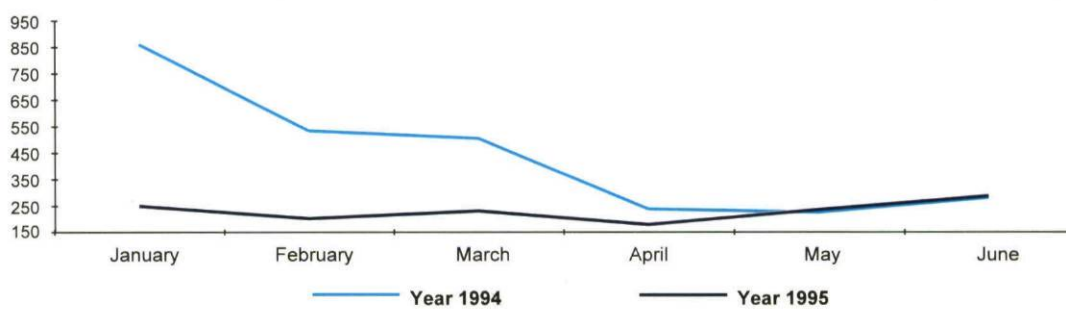
In June, the volume of **industrial production** reached Sk 41.6 billion, making June and May the most productive months of the year. The average daily production reached Sk 1.9 billion. In comparison with the June 1994 figure, both the average daily and total production increased by 3.9%, while labour productivity per employee (Sk 67,516) rose by 0.6%. In companies with more than 25 employees, the volume of sales amounted to Sk 42.6 billion, exceeding the June 1994 figure by 3.5%. Exports accounted for 46% of this figure, i.e. Sk 19.6 billion. The volume of exports increased by 12.6% in comparison with the figure for last June.

The favourable trend in construction has continued since the beginning of the year. In June, **construction industry output** reached Sk 4.6 billion, exceeding the figure for the same period of last year by 6.6%. The average daily production (Sk 209 million) increased by 6.6% in comparison with the figure for June 1994. Labour productivity per employee (Sk 30,202) exceeded last June's level by 8.3%. The volume of domestic construction activity amounted to Sk 3.7 billion, reaching only 97.9% of the June 1994 level. Construction activity abroad (Sk 0.9 billion) exceeded the figure for June 1994 by 72.3%.

In June, the number of **registered unemployed** reached 339 thousand (the unemployment rate was 13.3%). Compared with the June 1994 figure, the number of people out of work dropped by 5.8%. Although the number of unemployed school leavers and university graduates grew by more than 11.1 thousand, the total number of unemployed increased by only 116 people. This is an indication of the continuing favourable trend in unemployment resulting from the increasing offer of vacancies and increased activity in employment policy. The number of newly registered unemployed increased by 11.7 thousand, to 33.3 thousand; the number of persons removed from the register dropped by 3.6 thousand, to 33.1 thousand people; the share of newly employed increased to 86.5%. In June, more than 7.9 thousand job applicants were involved in public services and public works. The number of vacancies increased by 2.4 thousand, to 17.0 thousand, bringing down the number of unemployed per vacancy to 20.

Sale of Foreign Currency to Private Individuals

(Sk millions)



II. THE EXTERNAL ECONOMY

Indicators	1993	1994	1995			
			Q1	April	May	June
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-21.1	-3.1	-0.7	-1.7		
Foreign Exchange Reserves ^{2/} (USD millions)						
Banking system	1,402.2	3,095.5	3,569.7	3,614.7	3,753.9	4,179.5 ^{*/}
Commercial banks	952.7	1,350.5	1,600.8	1,593.1	1,568.0	1,558.1 ^{*/}
NBS ^{3/}	449.5	1,745.0	1,968.9	2,021.6	2,185.9	2,621.4 ^{*1}
Gross Foreign Debt ^{2/} (USD billions)	3.6	4.3	4.8			
Average Exchange Rates ^{4/}						
USD/SKK	32.968	32.039	30.297	29.037	29.496	29.427
DEM/SKK	19.283	19.759	20.490	21.057	20.955	20995

^{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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The development of Slovakia's external relations during the first four months of 1995 was characterized by a gradual increase in the current account surplus of the balance of payments, while the surplus produced in the exchange of goods and services between the SR and the CR exceeded the deficit in trade and services in convertible currencies. The inflow of capital in the form of foreign investments, long-term credit to the enterprise sector, and short-term loans to commercial banks failed to offset the outflow of capital, which was due mainly to the extension of credit to the Czech economy, the repayment of government and corporate loans, and the growth in commercial banks' deposits abroad.

The **current account** of Slovakia's external balance of payments showed a surplus of Sk 8.5 billion at the end of April. The balance of services surplus continued to increase and reached Sk 7.7 billion by the end of April. On the revenue side, the most significant increases were recorded in the category of other services such as telecommunications, financial services, accounting and management consultancy, and other (index 119).

The overall trade balance resulted in a Sk 1.1 billion surplus in April. The volume of commodity exports grew by 25.3%, while exports in convertible currencies recorded an increase of 31%. The growth in exports was due primarily to the increased volume of iron and steel exports. In comparison with the same period of last year, the total volume of exports increased by 20% (of which exports in convertible currencies equalled 25%). The commodity structure of imports can be characterized by an increased demand for mineral fuels, Pharmaceuticals, and organic chemicals. The volume of goods imported into Slovakia by private individuals during the period under consideration amounted to Sk 248 million (car imports accounted for 68% of this figure). The balance of foreign trade improved by Sk 2.6 billion as a result of the fact that exports grew at a faster rate than imports. The unfavourable balance of trade in convertible currencies was due primarily to the deficit of trade with Russia, which increased by Sk 0.7 billion compared with the corresponding period of last year as a result of the growth of imports and stagnation of exports.

The income balance deficit was affected by the payment of interest on borrowings from the IMF and the corporate sector.

The inflow of foreign capital into the economy was mainly in the form of foreign investments, which were allocated to portfolio investments. April saw an increase in the volume of securities, which were purchased by Czech investors through clearing in the amount of Sk 2.5 billion, while the total amount had reached Sk 4.9 billion by the end of April. The other long-term forms of foreign capital inflow, such as direct investments, corporate and government loans showed no significant change and remained at the previous month's level. The sum by which the credit limit was exceeded by the Czech Republic in January, February, and March was repaid in the total amount of Sk 7.4 billion, i.e. US\$ 251.4 million at the beginning of April.

The outflow of funds from Slovakia took place mainly in the form of short-term capital. Long-term capital flows were only affected by the payments of principal on IMF loans in the total amount of Sk 2.8 billion, which the SR had inherited as an obligation from the former federation. In the field of investment and provision of long-term loans abroad, the activities of Slovak enterprises and commercial banks were negligible. The outflow of short-term capital was influenced by the growth in Slovak bank deposits abroad by Sk 4.1 billion, and the payment of import obligations by the corporate sector, in the amount of Sk 3.9 billion. An important item on the expenditure side of the capital account was the clearing balance associated with the extension of credit to the CR, while the growth in liabilities to the CR increased to Sk 14.5 billion from the beginning of the year.

The capital and financial account of the balance of payments recorded a net outflow of capital in the amount of Sk 4.6 billion during the first four months of 1995.

Compared with the previous month's level, the **total foreign exchange reserves of the NBS** increased by US\$ 435.5 million, reaching US\$ 2,621.4 million at the end of June, i.e. an amount 3.1 times larger than the expected volume of average monthly imports of goods and services to the SR (average volume of imports = US\$ 854 million).

The development in foreign exchange reserves was positively affected mainly by the US\$ 261.3 million (55% of the total revenue) transfer made by the Czech Republic for having exceeded the credit limit in the clearing account; the US\$ 157.4 million surplus in the foreign exchange fixing of NBS; the US\$ 44.2 million revenue of Department 07; the proceeds from the sale of state financial

assets and from the unblocking of liabilities in the amount of US\$ 3.7 million; the share of the SR in the profit of IMF in the amount of US\$ 0.6 million; and other revenues of the NBS in the amount of US\$ 9.1 million.

In this period, the development of foreign exchange reserves was negatively affected by the US\$ 20.4 million fall in deposits from customers (46% of the total expenditure), payments of NBS debt service worth US\$ 16.1 million (whereof payments from Central Forex Resources accounted for US\$ 13.2 million), payments of principal on IMF loans in the amount of US\$ 6.5 million, and other expenditures of the NBS in the amount of US\$ 1.4 million.

At 31 March 1995, the **total gross foreign debt** amounted to US\$ 4.8 billion (whereof debt in foreign currency represented US\$ 4.7 billion). At the end of March, the official debt of the Slovak Government and the NBS totalled US\$ 2.4 billion. In comparison with February, the foreign currency liabilities of commercial banks and the enterprise sector increased from US\$ 2.1 billion to US\$ 2.3 billion.



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III. MONETARY DEVELOPMENTS

Indicators	1993	1994	1995				
			Q1	April	May	June	
Inflation Rate	Monthly ^{1/} (%)			0.4	0.4	0.1	
	Yearly (%)	25.1	11.7	11.3	11.2	11.4	10.6
Money Supply M2 ^{2/3/} (%)		18.5 ^{4/}	18.8	-0.4	1.2	1.7	3.1
Credits from Commercial Banks ^{3/} (%)		13.0 ^{4/}	1.5	3.8	4.6	5.0	5.6
Deposits with Commercial Banks ^{3/} (%)		18.3 ^{4/}	17.9	0.7	2.7	3.0	3.7
Discount Rate (%)		12.0 ^{5/}	12.0		11.0	11.0	11.0
Lombard Rate (%)		14.0	13.1		13.1	13.1	13.1
Average Interbank Deposit Interest Rates BRIBOR (%)	1-day deposits	16.73 ^{7/}	13.18	3.17	3.91	5.44	6.78
	7-day deposits	17.20 ^{7/}	13.89	3.45	4.04	5.61	6.96
	14-day deposits	17.50 ^{7/}	14.63	3.78	4.15	5.73	7.17
	1-month deposits	17.86 ^{7/}	15.62	4.71	4.29	5.89	7.38

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 for period

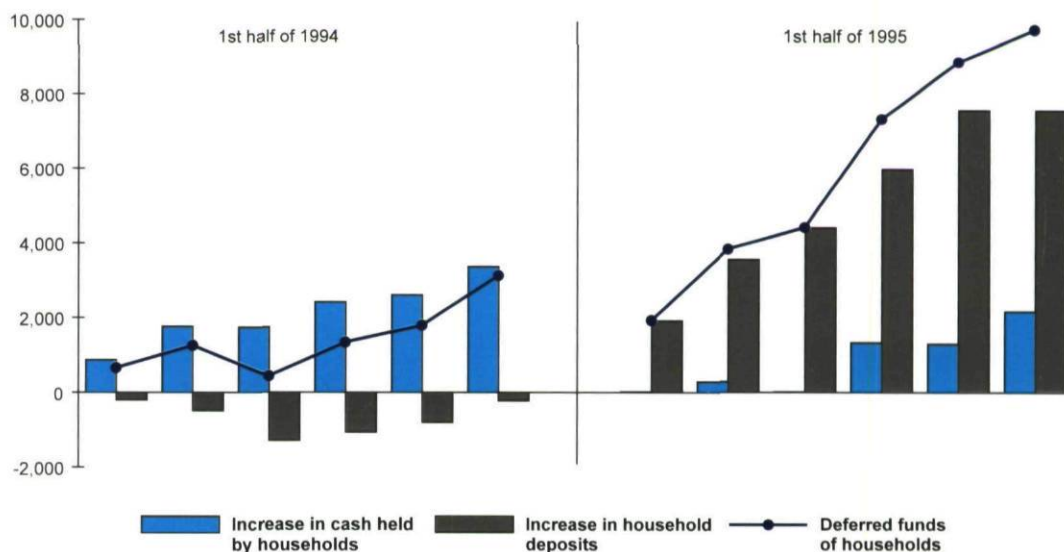
7/ Average for the 2nd half of 1993

In June, the **money supply** of the Slovak economy in terms of the M2 aggregate increased by Sk 5.0 billion to Sk 303.6 billion. This development was due to the continuing increase in time deposits, foreign currency deposits, and to the seasonal increase in the amount of currency in circulation. In comparison with the beginning of the year, the M2 monetary aggregate increased by an index of 103.1.

At the end of June, **crown deposits** amounted to Sk 233.3 billion, representing an increase of Sk 3.3 billion compared with the previous month's figure. This development was due mainly to the growth in household deposits.

Compared with May, **bank lending in crowns** increased by Sk 1.9 billion, reaching Sk 270.9 billion at the end of June. This development was due mainly to the Sk 2.2 billion growth in the volume of crown loans to private enterprises. Apart from this, minor increases were recorded in loans made to the public sector (Sk 0.1 billion), and to organizations under foreign control and those not incorporated into sectors (Sk 0.4 billion). Loans designated for the extra-budgetary requirements of central and local authorities fell by Sk 0.7 billion, and loans to households dropped by Sk 0.1 billion. The total amount of crown loans rose by Sk 12.7 billion compared with the figure for the beginning of the year.

Unrealized Purchasing Power of Households by Structure (cumulative figures in Sk millions)





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At the end of June, the amount of **foreign currency loans** totalled Sk 17.4 billion, representing a decrease of Sk 0.3 billion in comparison with the figure for May. Foreign currency loans rose by Sk 2.1 billion from the beginning of the year.

At the end of June, the total volume of crown and foreign currency loans reached Sk 288.3 billion, representing an increase of Sk 14.8 billion compared with the figure recorded at the beginning of the year.

The **average rate of interest** on the total amount of bank loans in May dropped by 0.11 percentage points, to 15.83%. This development was due mainly to a further decrease in the basic rate of interest on short-term loans to small and medium-sized commercial banks. The average rate on borrowings remained at the April level (16.44%). The average lending rate for short-term loans continued to fall (from 16.42% to 16.24% in May). The average rate of interest on medium-term loans increased to 17.81% (by 0.58 points), and on long-term loans to 16.45% (by 1.74 points). The difference between the development of interest rates on loans and borrowings was due to the proportion of medium-term and mainly long-term loans to the total volume of bank loans.

The **average rate of interest on primary crown deposits** continued to fall from 9.04% to 8.86%. The sharpest decrease was recorded in the average interest rate on time deposits in crowns from 13.19% to 12.88%, while their share of the total volume of crown deposits increased from 59.0% to 59.6%.

The average rate of interest on crown deposits tied-up for a period of more than two years increased by 0.1 to 0.3 points, especially on household deposits, which may be regarded as a stimulus to increase in household savings. The average rate of interest on demand deposits fell to 3.09% (by 0.07 points). The actual interest rate on deposits at one year's notice was 2.34%.

The prices of secondary resources increased by 0.21 points to 13.14%, compared with April's figure. The highest increases were recorded in the rates of interest on demand interbank loans (by 2.44 points to 12.18%), overnight loans (by 0.80 points to 3.97%), and short-term interbank deposits (by 0.93 to 11.64%). The interest rates on other interbank loans and deposits recorded insignificant month-on-month changes.

Compared with April, the **interest margin** of commercial banks fell from 7.45 to 6.97 percentage points, while the average interest rate on deposits recorded a sharper decrease (by 0.18 points) than those on the total volume of bank credit (by 0.11 points).

In June, the results of financial processes had a significant effect on the **asset and liability account of the NBS**. The balance of assets and liabilities increased by Sk 8.2 billion (4.6%) compared with the previous month's figure. On the asset side, this development was due mainly to the Sk 12.3 billion (12.9%) increase in foreign assets resulting from payments for exceeding the credit limit in the clearing account with the CR. On the liability side, the most significant change was recorded in NBS liabilities to domestic banks, which grew by Sk 5.1 billion as a result of the increase in the reserve requirements for banks. The changes in the balance of assets and liabilities affected the net position of Slovakia's economic sectors vis-a-vis the NBS. The net foreign exchange position increased by Sk 14.1 billion as a result of the increase in assets and decrease in liabilities. The net debt of the government sector to the NBS fell by Sk 4.6 billion, to a deficit of Sk 18.3 billion. The net debt of commercial banks also dropped by Sk 5.6 billion, to a deficit of Sk 18.1 billion.

In line with the schedule of **Treasury bill issues** for the 2nd quarter of 1995, five Treasury bills were to be issued in June (four with a 28-day maturity and one maturing in 175 days). However, in the light of the favourable state budget performance, the Ministry of Finance of the SR cancelled all Treasury bill auctions. In June, three issues of Treasury bills became due in the amount of Sk 3.9 billion.

The volume of Treasury bills covering the current state budget deficit fell from Sk 10.6 billion at the end of May 1995 to Sk 6.7 billion at the end of June. The total volume of negotiable Treasury bills dropped from Sk 35.2 billion to Sk 31.3 billion.

In June, the NBS held 3,276 Treasury bills per day on average, exceeding May's figure by 2,356. The difference was a result of the increased daily limit for the amount of Treasury bills held in the portfolio of the NBS from Sk 3.0 billion to Sk 5.0 billion. The number of Treasury bills held in the portfolio of NBS ranged between 2,000 and 5,000 in June.

In June, transactions on the secondary market for Treasury bills reached a turnover of Sk 52.6 billion, exceeding the previous month's figure by Sk 18.7 billion). The average amount of daily transactions in Treasury bills was Sk 2.4 billion. The NBS had a 69.3% share in this turnover, falling behind May, when the Bank's share in the total turnover reached 83.0%. In terms of crowns, NBS transactions on the secondary market amounted to Sk 36.4 billion.

In accordance with legislation governing the issuance of **government bonds** in the SR (Act No. 184/1994 Coll.), two issues of government bonds were floated in the course of June (Issue No. 012 and No. 013). Both issues were sold on the primary market by American auction, where the sum of the bonds are not limited. The auction of the No. 012 issue was attended by 14 banks and 1 non-bank institution; and that of Issue No. 013 was attended by 13 banking institutions.

In June, the downward trend in trading in government bonds on the Bratislava Stock Exchange (BCPB) continued. The volume of transactions in government bonds totalled Sk 35.2 million, representing the lowest level since the beginning of the year. Trading in government bonds (Sk 22.1 million) accounted for 62.9%, i.e. the largest share in the total volume of bond transactions, and 71.4% of transactions in listed bonds.

Most trading concerned Issue No. 010, which was first traded on BCPB on 20 June 1995. The volume of transactions totalled Sk 22.0 million, at a price of 102% with a 10.32% net yield until maturity. The price of the 004 issue dropped from 120% to 115%, representing a 12.10% yield until maturity.

IV. THE GOVERNMENT SECTOR

Indicators		1993	1994	1995			
				Q1	April	May	June
Budget Revenues ^{1/}	(Sk billions)	144.5	139.1	33.2	47.6	60.4	75.4
Budget Expenditures ^{1/}	(Sk billions)	167.5	162.0	37.3	50.6	66.4	75.3
State Budget Balance	(Sk billions)	-23.0	-22.9	-4.1	-3.0	-6.0	0.1

^{1/} Cumulative values

At the end of June, the budget performance resulted in a slight deficit of Sk 97 million, representing a significant improvement in budget performance in comparison with the Sk 6.0 billion deficit in May.

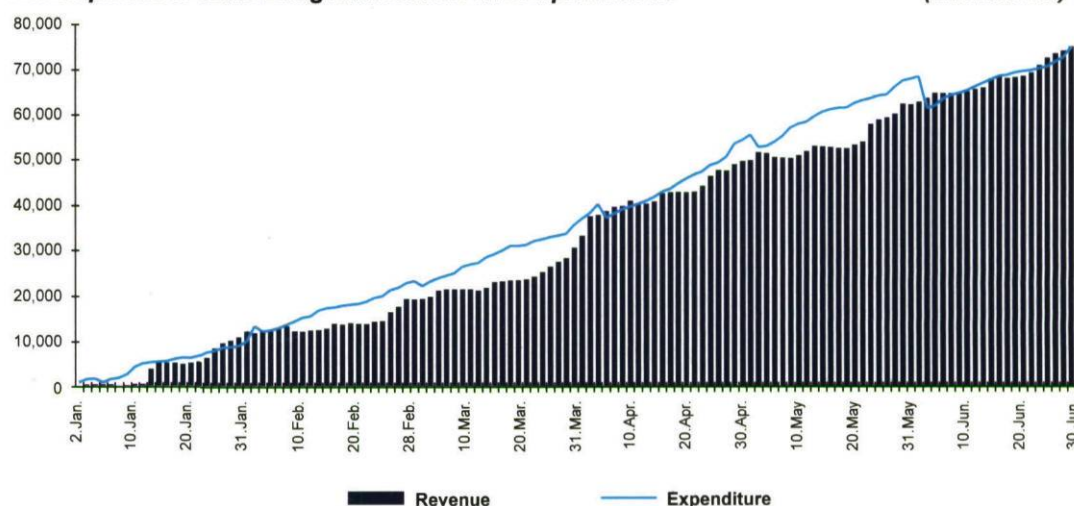
Budget revenue amounted to Sk 75.4 billion, i.e. Sk 2.2 billion more than budgeted. This development was due mainly to an improvement in tax revenue (50.9% of the annual budget), while value-added tax revenue (Sk 24.6 billion) exceeded the budgeted figure by Sk 3.0 billion, and income tax revenue (Sk 25.9 billion) by Sk 2.2 billion. An unfavourable development was recorded in excise tax revenue (a shortfall of nearly Sk 5 billion compared with the aliquot part of the budget). Non-tax revenues demonstrated a positive trend (56% of the annual budget); of that amount, Sk 600 million (50% of the budget item) was transferred to the gas industry.

Budget expenditure (Sk 75.3 billion) represented 45% of the budgeted figure, and had a considerable influence on the clearing account with the Czech Republic (Sk 3.1 billion). Without this influence, the state budget would have had a surplus of about Sk 3.2 billion. The structure of spending was in line with the time schedule of the budget, except expenditure of the Ministry of Labour, Social and Family Affairs, which are not subject to regulation, as they are predominantly payments of benefits of an obligatory nature (56.7%). Budget expenditure was also exceeded in the field of subsidies to local government (59.6%), which are earmarked for covering the costs of local administration and municipal public transport, and in the area of investment expenses of budgetary organizations (54.4%).



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Development of State Budget Revenues and Expenditures (Sk millions)



At the end of June, the internal debt of the Slovak Government vis-a-vis the banking sector reached Sk 61.3 billion. Of this amount, NBS accounted for Sk 16.5 billion and commercial banks Sk 44.8 billion. The significant drop in the net position of the Government (by Sk 9 billion compared with the beginning of 1995, and by Sk 6.4 billion in comparison with the last 2 or 3 months) was clearly due to the state budget performance. In June, a further two government bonds were issued to cover the 1993 state budget deficit; the volume of issued bonds was set according to the actual demand (Sk 5.08 billion). The sale of bonds to commercial banks brought about a decrease in the volume of loans provided by the National Bank of Slovakia.

V. INFORMATION

- The European Investment Bank extended a loan of ECU 50 million to the National Bank of Slovakia for the support of small- and medium-sized companies in industry, tourism, and industry-related services, and for the funding of projects in the field of energy efficiency improvement and environmental protection.
- CSOB (Czechoslovak Commercial Bank) is planning to issue bonds denominated in Slovak crowns worth Sk 2.5 billion in October. The bonds with a maturity of 4 years and a nominal value of Sk 10.000 are expected to earn an annual yield in the range of 11.5 to 12%.
- On 16 August 1995, the Bank Board of the National Bank of Slovakia approved the final version of the Foreign Exchange Bill and submitted it to Parliament for discussion.

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