



NATIONAL BANK OF SLOVAKIA

**MONETARY SURVEY**

**NOVEMBER 1995**

## I. THE REAL ECONOMY

Indicators		1993	1994	1995				
				H1	Sep.	Q3	Oct.	Nov.
GDP Value <sup>1/</sup> (Sk <sup>2/</sup> billions)		173.8	182.2	95.4		107.4 <sup>7/</sup>		
	Growth rate <sup>3/</sup> (%)	-4.1	4.8	6.1		7.4 <sup>7/</sup>		
Output <sup>3/4/</sup>	Industrial production (%)	-13.5	6.4	7.7	12.9	9.6	13.2	10.1
	Construction (%)	-23.8	5.3	4.0	1.9	3.8	6.5	1.6
Unemployment	Number (thous. of persons)	368.1	371.5	339.0	336.0	336.0	325.5	326.3
	Unemployment rate (%)	14.4	14.8	13.3	13.2	13.2	12.8	12.8
Foreign Trade <sup>5/6/</sup> (f.o.b.)	Exports (Sk billions)	95.7	135.3	124.6	187.4	187.4		
	Imports (Sk billions)	125.9	149.4	125.7	185.4	185.4		
	Balance (Sk billions)	-30.2	-14.1	-1.1	2.0	2.0		

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

7/ Figures based on constant prices for 1993

In November, the level of **consumer prices** rose by 0.4%, exceeding the figure recorded at the beginning of the year by 6.9%. Compared with the corresponding period of last year, the price level increased by 7.6%.

The November development in prices was due primarily to a slowdown in the rate of increase in all basic categories, especially in food prices. The level of food prices rose only by 0.1%; the same figure was recorded in service prices (0.1%). The price of industrial goods increased by 0.5%, that of public catering rose by 0.4%.

The most significant increases were recorded in the prices of eggs, soft drinks, and fats. In industrial goods, considerable increases were recorded in the prices of shoes and leather goods, textile goods, chemicals and Pharmaceuticals, households requisites and appliances, cultural needs, and fuels. In public catering, the most rapid increases were recorded in the price of food and beverages. In services, where the price level rose only slightly, the most significant increases were recorded in the price of education, culture, entertainment, and sports (0.5%), and other services (0.4%).

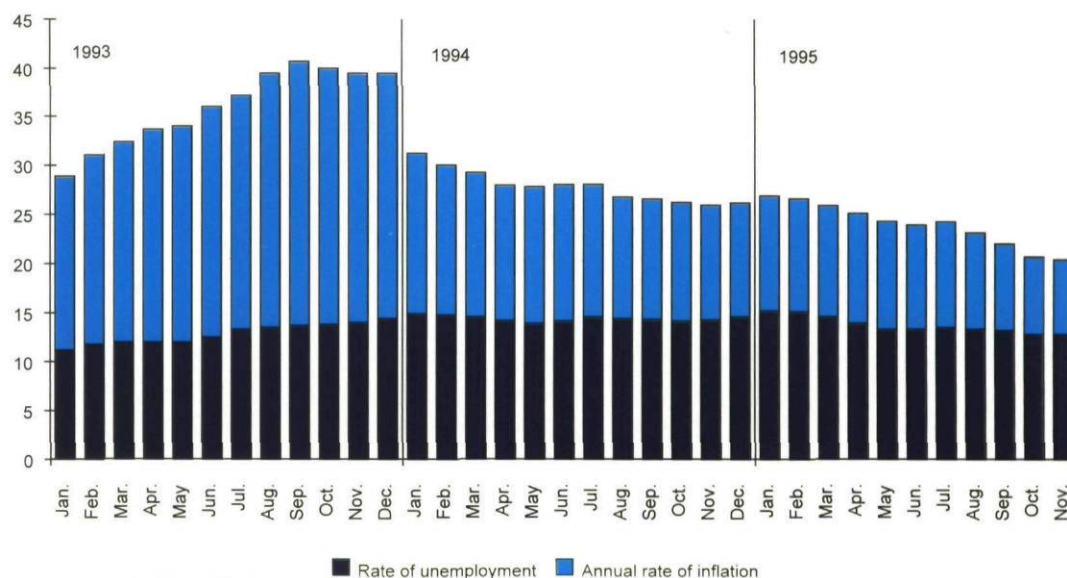
In November, the growth in **industrial production** continued: the output of the sector increased to Sk 47.1 billion, the largest monthly volume since the beginning of the year, exceeding the previous month's figure by 1.6% and that of November 1994 by 10.1%. Average daily production reached Sk 2.2 billion, exceeding the figure for the corresponding period of 1994 by 10.1%. After a 5.0% year-on-year increase, labour productivity per employee reached Sk 74,752, making November the most productive month of the year. The private sector accounted for 67.7% of the total output of industrial production.

In companies with more than 25 employees, the volume of sales increased to Sk 47.7 billion, exceeding the figure for last November by 10.8%. Exports accounted for 42.1% (Sk 20.1 billion) of this figure, exceeding the November 1994 figure by 10.1%.

In November, **construction industry output** amounted to Sk 4.7 billion, representing a year-on-year increase of 1.6%. However, the volume of production remained lower than the previous month's figure. Labour productivity per employee (Sk 30,637) recorded a year-on-year increase of 4.8%; but compared with the previous month's level, fell by 5.1%.

The volume of domestic construction activity (Sk 4.1 billion) exceeded the figure for November 1994 by 1.0%. Construction activity abroad grew at a faster rate (5.6%), reaching a volume of Sk 0.6 billion at the end of November.

### Poverty Level Index in the SR (the sum of unemployment and inflation rates) (in %)



Source: National bank of Slovakia

In November, the number of registered unemployed increased by 0.8 thousand, to 326.3 thousand, reversing the favourable trend of development reported in the last few months. Compared with the figure for November 1994, the number of people out of work fell by 10.1%. The **rate of unemployment** remained at the previous month's level (12.8%). The development in unemployment was due to an increase in the figure for newly registered unemployed (1.9 thousand) and a considerable fall in the number of those recently removed from the register (9.4 thousand). The share of newly employed amounted to 84.5%; whereof 34.2% found work through labour offices, 11.9% in public services or public works, and 38.4% on an individual basis. The number of vacancies fell to 16.2 thousand, increasing the number of job applicants per vacancy to 20.2.

## II. THE EXTERNAL ECONOMY



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Indicators	1993	1994	1995					
			H1	Sep.	Q3	Oct.	Nov.	
Current Account <sup>1/</sup> Balance in convertible currencies (Sk billions)	-21.1	-3.1	-6.2	-6.6	-6.6			
Foreign Exchange Reserves <sup>2/</sup> (USD millions)								
Banking system	1,402.2	3,095.5	4,202.7	4,406.6	4,406.6	4,429.4	4,636.2 <sup>*/</sup>	
Commercial banks	952.7	1,350.5	1,580.9	1,581.2	1,581.2	1,556.3	1,590.2 <sup>*/</sup>	
NBS <sup>3/</sup>	449.5	1,745.0	2,621.8	2,825.4	2,825.4	2,873.1	3,046.0 <sup>*/</sup>	
Gross Foreign Debt <sup>2/</sup> (USD billions)	36	4.3	5.0	48	4.8			
Average Exchange Rates <sup>4/</sup>								
USD/SKK	32.968	32.039	29.338	30.132	29.744	29.490	29.447	
DEM/SKK	19.283	19.759	20.999	20.603	20.802	20.844	20.803	

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

Slovakia's foreign trade performance during the first nine months of 1995 made a significant contribution to the economic growth of the country. During the third quarter, exports grew at a faster rate than imports; consequently the balance of trade for the period January to September resulted in a surplus of Sk 2.8 billion. On the capital account, the inflow of capital in the form of foreign investment and corporate loans exceeded the outflow of capital by SK 6.3 billion, owing to the accelerated repayment of foreign loans.

During the nine months under consideration, the **current account of Slovakia's balance of payments** produced a surplus of Sk 17.7 billion, i.e. US\$ 595 million. The overall balance was influenced by the current account surplus of the balance of payments vis-a-vis the Czech Republic (Sk 24.0 billion), which offset the deficit in convertible currency.

Foreign trade activity increased in nine months by 21.6%, at a 21.9% year-on-year increase in exports and 21.3% in imports, and resulted in a surplus of Sk 2.0 billion, according to the applied balance of payments methodology (the import figure includes consumer goods imported by private individuals in the amount of Sk 871 million).

At the end of September, the share of services in the total volume of exports increased to 23.3%, and the considerable surplus of exports over imports resulted in a favourable balance of services amounting to Sk 16.0 billion. A significant source of surplus in the services balance was the country's net income from transportation (Sk 7.1 billion). Within this sector, the Slovak economy obtained funds mainly for gas transport (use of gas pipeline) across the country, in the form of gas supply. Net income from tourism reached Sk 7.2 billion, representing 39% of the total balance of services surplus.

In the area of foreign transfers, the revenue side of the balance recorded significant increases during the third quarter. The favourable balance of transfers (Sk 1.8 billion) was due primarily to private transfers (i.e. transfers of money, alimony, legacies, allowances, and gifts to private individuals), which accounted for 80% of the total net income.

The **capital and financial account** of the balance of payments resulted in a surplus of Sk 6.3 billion (US\$ 217 million). The structure of capital inflow was dominated by long-term funds, which accounted for 80% of the total inflow.

The volume of foreign capital invested in companies based in the SR reached Sk 4.3 billion in nine months, representing 1.2% of the growth in GDP. Official loans amounted to Sk 2.9 billion.

The enterprise sector continued to show an increased demand for long-term loans from abroad, which increased by Sk 3.3 billion, to Sk 8.3 billion in the third quarter. Financial credits amounted to Sk 6.8 billion. The outflow of short-term capital, which fell to a level of Sk 1.7 billion, was due to a decrease in short-term assets and liabilities within the corporate sector.

The balance of payments with the Czech Republic was influenced by an increase in assets earned by transactions in the current and capital account of the balance of payments. In the period under consideration, the clearing account balance increased to Sk 28.0 billion, representing an increase in receivables from the CR. The Czech side exceeded the credit limit in the clearing account each month. The total sum by which the limit had been exceeded (from January to August) amounted to US\$ 876 million, i.e. Sk 25.8 billion, in foreign currency.

Compared with the previous month's level, the **total foreign exchange reserves of the NBS** increased by US\$ 172.9 million, reaching US\$ 3,046 million at the end of November 1995. The amount was 3.4 times greater than the expected volume of average monthly import of goods and services to Slovakia in 1995 (expected volume of imports = US\$ 899.4 million).

At the end of September, the **total gross foreign debt of the SR** stood at US\$ 4.8 billion, while the official debt of the Slovak Government and the NBS amounted to US\$ 2.1 billion. The indebtedness of commercial banks and entrepreneurs was at the level of US\$ 2.5 billion, the remaining amount represented Slovakia's estimated debt to the former German Democratic Republic.

### III. MONETARY DEVELOPMENTS

Indicators		1993	1994	1995				
				H1	Sep.	Q3	Oct.	Nov.
Inflation Rate	Monthly <sup>1/</sup> (%)			3.1	1.4	2.9	0.5	0.4
	Yearly (%)	25.1	11.7		<b>8.8</b>		7.9	7.6
Money Supply M2 <sup>2/4/</sup> (%)		18.5 <sup>3/</sup>	<b>18.8<sup>3/</sup></b>	3.1	7.9	7.9	8.5	10.7
Credits from Commercial Banks <sup>4/</sup> (%)		13.0 <sup>3/</sup>	1.5	5.6	9.0	9.0	10.6	10.8
Deposits with Commercial Banks <sup>4/</sup> (%)		18.3 <sup>3/</sup>	17.9	3.7	10.2	10.2	11.7	<b>13.5</b>
Discount Rate (%)		12.0 <sup>5/</sup>	12.0		11.0	11.0	9.75	9.75
Lombard Rate <sup>6/</sup> (%)		14.0			13.1	13.1	13.1	13.1
Average Interbank Deposit Interest Rates								
BRIBOR (%)								
	1-day deposits	16.73 <sup>7/</sup>	13.18	4.28	6.01	6.68	4.96	<b>8.21</b>
	7-day deposits	17.20 <sup>7/</sup>	13.89	4.91	6.34	<b>7.17</b>	5.30	8.22
	14-day deposits	17.50 <sup>7/</sup>	14.63	4.74	6.55	7.39	5.46	8.29
	1-month deposits	17.86 <sup>7/</sup>	15.62	5.29	6.82	7.69	5.94	8.37

<sup>1/</sup> End of period

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

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

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

<sup>5/</sup> Since 20 December 1993

<sup>6/</sup> Average for period

<sup>7/</sup> Average for the 2nd half of 1993



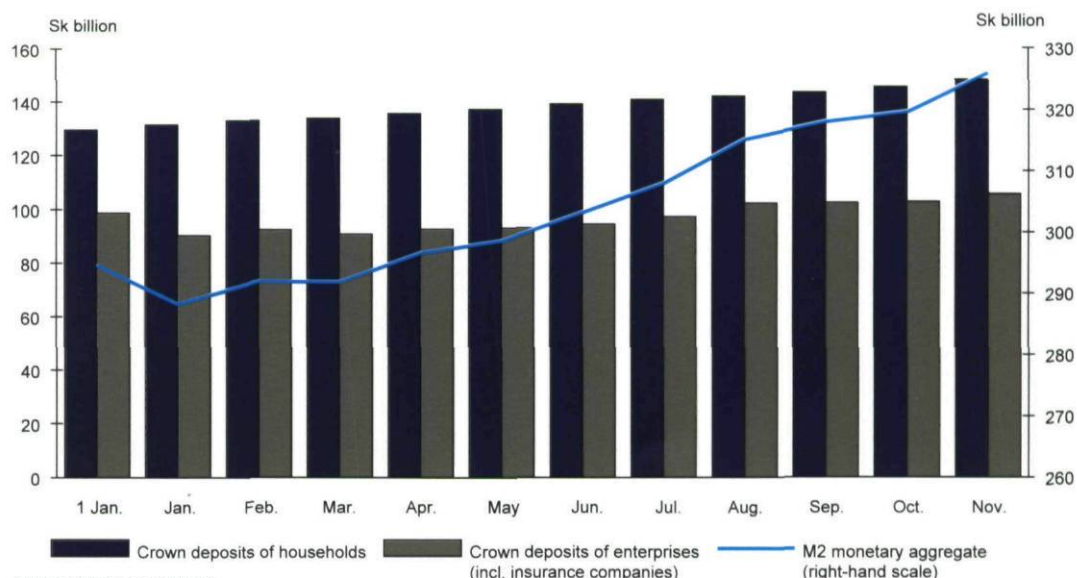
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In the course of November, Slovakia's **money supply** increased by 2.1% (since the beginning of the year by 10.7%), reaching Sk 326.3 billion at the end of the month. The growth of the money supply was due to increases in both categories of Slovak-crown deposits. The volume of currency in circulation outside the banking sector experienced a month-on-month increase of Sk 0.8 billion. The volume of currency in circulation ranged between a minimum of Sk 35.6 billion (at 7 November) and a maximum of Sk 39.2 billion (at 20 November 1995). After a decline in October, the growth in demand deposits continued in November. Quasi-money increased as a result of a growth in time deposits. Foreign currency deposits recorded only a slight increase in November.

**Crown deposits**, as part of M2, increased in November by Sk 5.7 billion, reaching Sk 254.0 billion at the end of the month. The growth in crown deposits was due to increases in both household and corporate sector deposits.

Within the M2 monetary aggregate, the volume of M1 recorded a slight increase, while that of quasi-money decreased in November, compared with the figures for the end of October.

#### Structure of Crown Deposits and Development of the M2 Monetary Aggregate



Source: National bank of Slovakia

For the first time in 1995, **bank lending in Slovak crowns and foreign currency** fell by Sk 1.3 billion in November, to Sk 301 billion at the end of the month. Crown loans remained basically at the previous month's level (Sk 281.3 billion), while foreign currency loans decreased by Sk 1.2 billion. Since the beginning of the year, the total volume of bank loans increased by Sk 27.5 billion. In comparison with the same period of last year, when a month-on-month increase of Sk 3.3 billion was recorded, the November development in bank lending was rather unfavourable.

The sectoral structure of crown loans saw significant changes in favour of the private sector. Loans to the private sector increased by Sk 3.4 billion in November, though the total volume of crown loans remained unchanged. Loans in the public sector fell by Sk 3.3 billion. A gradual decrease was recorded in lending to households: the volume of loans fell by Sk 0.2 billion in November, compared with the previous month's figure. Loans to other sectors saw no significant changes.

The volume of **bank credit drawn** in October fell by Sk 5.2 billion, compared with the previous month's figure. The structure of credit continued to be dominated by short-term loans, which accounted for 72.4% of the total volume of borrowings. The proportion of medium-term loans continued to increase in October (by 19.5%), maintaining the upward trend that started in April 1995.





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In November, **bank loans in foreign currency** fell by Sk 1.2 billion, to Sk 19.7 billion at the end of the month. Since the beginning of the year, the volume of foreign currency loans increased by Sk 4.4 billion. In comparison with the same period of last year, when a month-on-month increase of Sk 1.3 billion was recorded, the current development in foreign currency lending is rather unfavourable.

In October, the **average rate of interest on the total volume of loans** fell by 0.62 percentage points, to 15.15%, representing the most significant cut in lending rates since the beginning of the year. Average interest rates were cut on all types of fixed term loans: lending rates for short-term and long-term loans fell by 0.74 points and 0.71 points respectively. The average rate of interest on medium-term loans fell only by 0.22 points.

The **rate of interest on new loans** drawn in October was below the level of interest rate on the total volume of loans. The rate stood at 14.67%, which was 0.81 points lower than that in September. In comparison with the September level, the average rate of interest on short-term loans decreased by 0.98 points to 14.2%, that on medium-term loans by 0.5 points to 16.5% (accounting for 19.5% of the total volume of drawings), and that on long-term loans fell by 0.49 points to 15.36% (representing a 8.1% share).

As a result of the moderate cut in nominal interest rates on crown deposits (fixed for up to 2 years) and the relatively stable interest rates on other types of deposits, the average rate of interest on total deposits fell only by 0.02 points, to 8.8%.

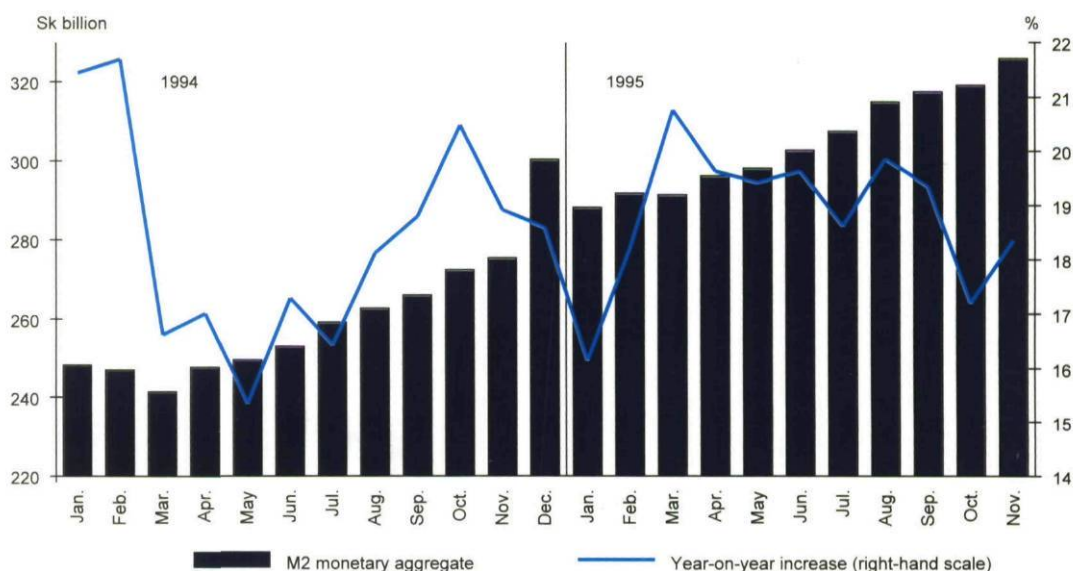
Compared with the previous month, the result of financial transactions in November had a significant effect on the **asset and liability account of the NBS**. the balance total increased by Sk 23.9 billion (11.99%).

By the end of November, monthly changes in the balance of NBS had influenced the **net position of Slovakia's economic sectors vis-a-vis the NBS**. The net position vis-a-vis the rest of the world increased by Sk 5.5 billion. The net debt of the Government vis-a-vis the NBS increased by Sk 7.9 billion, to a deficit of Sk 22.1 billion, as a result of an increase in NBS receivables (Sk 2.4 billion) and decrease in NBS liabilities (Sk 5.5 billion). The net debt of commercial banks decreased by Sk 13.9 billion, to a deficit of Sk 10.6 billion, as a result of increases in NBS receivables (Sk 1.5 billion) and liabilities (Sk 15.4 billion).

The credit limit on **bank lending to households and enterprises** set for the 4th quarter represents a decrease of Sk 7.4 billion in comparison with the actual volume of loans extended to households and enterprises by the end of the 3rd quarter of 1995. By 30 November 1995, the credit limit on lending to households and enterprises (Sk 285.9 billion) had been exceeded by Sk 11.4 billion, despite a month-on-month decrease of Sk 0.3 billion.

In November, NBS **bills of exchange transactions** recorded a moderate growth (a month-on-month increase of Sk 294.4 million). The bills of exchange business was oriented at the rediscounting of bills of exchange issued in support of primary agricultural production at 6 months sight. In November, bills exchanged for the support of agriculture represented 70.7% of the limit (Sk 1,500 million), and those for export promotion accounted for 17.9% of the total (Sk 750 million).

### Development of the M2 Monetary Aggregate



Source: National bank of Slovakia

The average level of **required minimum reserves** set for the month of November in the amount of Sk 17.1 billion was fulfilled to 100.6% (the actual average monthly volume reached Sk 17.2 billion).

In the course of November, the Ministry of Finance of the SR launched three issues of **State Treasury bills** with maturities of up to 1 month. The total volume of these issues was Sk 7.0 billion. In the period under consideration, three issues of State Treasury bills became due in the amount of Sk 7.5 billion. The volume of Treasury bills covering the current State budget deficit fell from Sk 7.8 billion at 31 October 1995, to Sk 7.3 billion at the end of November.

In November, the Bank launched four issues of **NBS Treasury bills** with maturities of 21 to 30 days, in the total amount of Sk 31.6 billion. In the course of November, two issues of NBS Treasury bills became due in the amount of Sk 23.9 billion. The volume of NBS Treasury bills in circulation

increased from Sk 16.4 billion at the end of October, to Sk 24.1 billion at the end of November. Trading on the secondary market was conducted primarily in the form of reverse REPO operations.

On the interbank money market, interest rates on one-month deposits ranged from 6.85% to 8.85% in the course of November. The average rate of interest was 8.37%, i.e. 2.44% higher than the figure for the previous month. Interest rates on three-month deposits ranged between a minimum of 7.52% and a maximum of 9.08%. The average rate of interest on these deposits was 8.57%, i.e. 1.17% higher than in October. Interest rates on short-term and long-term deposits were equal in November.

The sale of **government bonds** for the purpose of covering the 1994 State budget deficit ended on 23 October 1995. In November, government bonds were not traded on the primary market.

In November, the volume of transactions in **NBS foreign exchange fixing** increased to 118% of the previous month's figure, and continued to be the most significant component of the interbank foreign exchange market in the SR. The volume of such transactions in November (US\$ 469.1 million) accounted for 56% of the total volume traded on the interbank foreign exchange market (US\$ 835.4 million). The number of transactions concluded in foreign exchange fixing reached 233, representing an daily average of 11 transactions. The monthly balance of the NBS in foreign exchange fixing amounted to US\$ 216.6 million. In comparison with the previous month, the balance figure increased by 39% (US\$ 156.3 million in October). The currency structure of transactions based on fixing rates was: 52.5% US\$ and 47.5% DEM of the total volume. The balance of foreign exchange fixing was in DEM (56.9%) and US\$ (43.1%).

Compared with the previous month's figure, the volume of interbank foreign exchange transactions between Slovak banks increased by 52.5%, to US\$ 366.3 million. Although the number of transactions concluded by banks in the course of November (473) exceeded the number of those in foreign exchange fixing, the volume of interbank transactions was smaller than the volume traded in foreign exchange fixing. Most interbank trading was concluded in DEM (51.0%), followed by US\$ (36.2%), and other European currencies (12.7%). The volume of transactions concluded with foreign banks in November amounted to US\$ 15.9 million. This figure is negligible in comparison with the volume traded on the interbank foreign exchange market. The volume of deals negotiated with foreign banks was not significant in November.

#### IV. THE GOVERNMENT SECTOR

Indicators		1993	1994	7995				
				H1	Sep.	Q3	Oct.	Nov.
Budget Revenues <sup>1/</sup>	(Sk billions)	144.5	139.1	75.4	114.3	114.3	130.9	142.6
Budget Expenditures <sup>1/</sup>	(Sk billions)	167.5	162.0	75.3	117.2	117.2	133.1	150.4
State Budget Balance	(Sk billions)	-23.0	-22.9	0.1	-2.9	-2.9	-2.2	-7.8

<sup>1/</sup> Cumulative values

At the end of November, the **state budget** of the Slovak Republic recorded a deficit of Sk 7.8 billion, representing an increase of Sk 5.6 billion compared with the level of the previous month.

The **budget revenue** (Sk 142.6 billion) exceeded the budgeted figure by Sk 8.4 billion. This development was due mainly to an improvement in tax revenues: value-added tax revenue exceeded the budgeted level by Sk 8.6 billion and income tax revenue by Sk 0.9 billion. The unfavourable development in excise tax revenue (a shortfall of Sk 5.7 billion compared with the corresponding part of the annual budget) continued in November. A favourable development was recorded in non-tax revenue, which exceeded the budgeted figure by Sk 3.8 billion.

**Budget expenditure** (Sk 150.4 billion) was fulfilled to 89.8% in November. Budget expenditure during the eleven months of the year lagged behind the budgeted amount by Sk 3.1 billion, and its structure may be described in general as favourable. Budget expenditure was slightly exceeded in the following areas: investment and non-investment costs of budgetary organisations; labour, social affairs, and family; current transfers to the enterprise sector; investment and non-investment subsidies to local authorities.

At 30 November 1995, the internal debt of the Slovak Government vis-a-vis the banking sector amounted to Sk 64.1 billion. Of this amount, the NBS accounted for Sk 22.1 billion and commercial banks Sk 42.0 billion. The period under consideration saw considerable changes in the method of budget financing: the volume of State Treasury bills was not always large enough to cover the growing State budget deficit, the difference was temporarily covered by increased loans extended by the National Bank of Slovakia.

#### V. INFORMATION

On 25-26 January 1996, NBS Governor Vladimír Masár took part in a round-table conference organised by the Slovak Government in Bratislava. Governor Masár contributed to the debate with a report on the monetary policy of the NBS. The conference was attended by representatives of foreign and domestic banks and companies from various sectors of the economy, including telecommunications, Pharmaceuticals, data processing, and other industries.

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