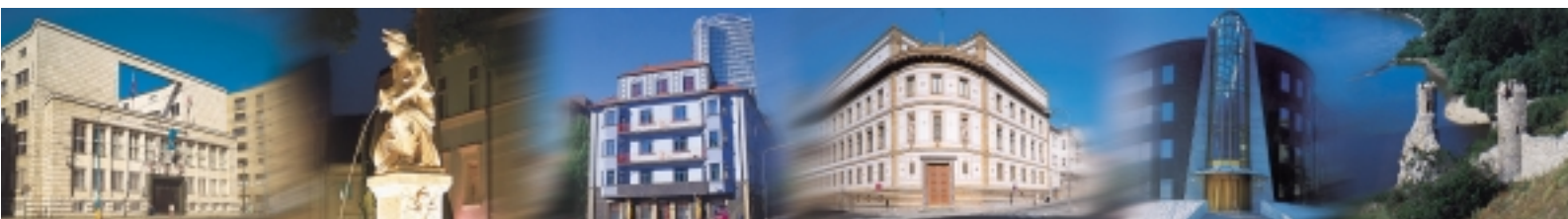




NÁRODNÁ BANKA SLOVENSKA



Annual Report 1999

Contents

Foreword	4
-----------------------	---

A. The External Economic Environment

1. The World Economy	11
2. Economic Development in Transition Economies	16

B. Report on Monetary Development in the SR in 1999

1. Economic Development	21
1.1. Price Development	21
1.2. Gross Domestic Product	27
2. Balance of Payments	38
2.1. Current Account	38
2.2. Capital and Financial Account	41
2.3. Development of Foreign Exchange Reserves	43
2.4. The External Debt of the Slovak Republic	45
2.5. Licensing Activity of the NBS	45
3. The Public Sector	48
4. Monetary Policy and Monetary Development	52
4.1. Monetary Development	52
4.2. Structure of the Money Supply	54
4.3. Bank Lending	55
4.4. Interest Rate Development	57
4.5. Implementation of Monetary Policy	59
4.6. Instruments of Monetary Policy	61
4.7. Monetary Calendar	63
5. Financial Markets	65
5.1. Money Market	65
5.2. Capital Market	68
5.3. Foreign Exchange Market	70

C. Banking Supervision in 1999

1. Development of the Banking Sector	75
2. Characteristics of the Banking Sector	77
3. Evaluation of Prudential Banking Behavior	78
3.1. Capital Adequacy	78
3.2. Credit Exposure	79
3.3. Liquidity	79
3.4. Open Foreign Exchange Positions	79
3.5. Classification of Claims	80

D. Issuing Activity of the NBS and Currency in Circulation	81
1. Issues of Slovak Banknotes and Coins	83
1.1. Currency in Circulation	83
1.2. Banknotes and Coins in Circulation in Proportion to Total Cash Supply	85
1.3. Relationship between Currency in Circulation and Selected Macroeconomic Indicators	87
2. Counterfeit Money Seized in the Slovak Republic	89
2.1. Main Trends	89
2.2. Slovak Currency Counterfeits	89
2.3. Foreign Currency Counterfeits	91
E. International Activities	93
1. Co-operation of the NBS with the European Union	95
2. Co-operation of the NBS with International Institutions	96
F. Auditors' Report	101
G. Appendices	119



Foreword

Macroeconomic and monetary development recorded a change in 1999 towards mitigation of macroeconomic imbalances from previous years, particularly the fiscal deficit and the shortfall in the current account of the balance of payments. To solve the problem of economic instability, the Government of the SR adopted a strategy for the acceleration of economic reforms in May 1999. Based on a complex of measures, the strategy was designed to improve budgetary performance in public finances and to reduce the dynamics of domestic demand by freezing the level of wages in public administration, adjusting the lower rate of value-added tax, and raising excise duties. At the same time, price anomalies gradually began to be straightened out through increases in regulated prices. In addition to measures taken in the area of domestic demand, the solution of the problem of the increased current account deficit was supported by an increase in the import surcharge. The aforementioned measures began to produce results in the second half of 1999.

The National Bank of Slovakia and the economy as a whole, gradually learnt to live with the conditions of a floating exchange rate, which was stabilised successfully with the help of the economy policy of the Government. Over the course of the year, further steps were taken towards liberalisation, with a positive effect on monetary development. As a result of the measures taken by the Government, particularly in the area of domestic demand, the trend of development began to change in both deficits - the fiscal deficit and that of the current account - in the second half of the year.

In 1999, the balance of payments on current account resulted in a deficit of Sk 44.8 billion (US\$ 1.1 billion), representing an improvement of 40% compared with the previous year. The share of the deficit in gross domestic product decreased from 10.1% in 1998 to 5.8% in 1999. The improvement in the balance on current account was due mainly to a reduction in the trade deficit (Sk 37.2 billion, to Sk 45.7 billion) and improvement in the balance of services, while the shortfall in the income balance increased and the surplus in current transfers diminished. During 1999, the foreign exchange reserves of the NBS increased by US\$ 720.5 million (Sk 30.1 billion) to US\$ 3.4 billion, and sufficed to cover 3.1 times the volume of average monthly imports of goods and services into Slovakia in 1999.

The absolute annual change in net credit to the Government and the Fund of National Property, which roughly corresponds to the size of the fiscal deficit in general government, reached Sk 28.9 billion (i.e. 3.7% of GDP) in 1999. In comparison with 1998, the share of net credit to the Government in gross domestic product decreased by 2.8 percentage points and contributed to stabilisation of the Slovak economy.

The measures adopted by the Government in 1999 were designed to mitigate the effects of macroeconomic imbalances and therefore focused on domestic demand, which fell in real terms by 4.0%. In 1999, gross domestic product grew in real terms by 1.9%, compared with 4.4% in 1998.

In addition to a slowdown in the rate of growth in GDP, the stabilisation measures of macroeconomic policy led to a rise in domestic price levels in the short term. Due to increases in regulated prices, Slovakia's inflation rate, expressed in terms of the consumer price index, reached a two-digit figure. At the end of 1999, the annual rate of inflation stood at 14.2%. However, the rise in inflation was of a short-term nature and the effects of the administrative measures are to disappear after 12 months. The effect of the increase in regulated prices on inflation was partly offset by a fall in domestic demand; by monetary policy, which did not compensate the rise in price levels by supplying excess liquidity; and by government measures taken in the area of wages, i.e. the freezing of the volume of wages resources in public administration at the level of the previous year. This prevented the start of an inflationary spiral in the Slovak economy, which had a positive influence on the deficit of trade, and started the process of convergence in price levels in Slovakia and EU countries.

The conduct of monetary policy focused on quantitative liquidity control in the banking sector and placed emphasis on trading through REPO tenders in particular. From the beginning of the year, monetary policy aimed at lowering the relatively high rates of interest on the interbank market, which had persisted since the period of turbulence on the financial market in September 1998. The steady development in the exchange-rate area had a favourable effect on the level and volatility of interbank deposit rates: the rates for one-month deposits fell in December by an average of 3 percentage points in comparison with January 1999.

A positive result of the restoration of macroeconomic balance in the Slovak economy was the invitation of the Slovak Republic to start negotiations on accession to the European Union, which was approved at the Helsinki summit of the EU in December 1999. In this connection, the exchange rate of the Slovak currency started to appreciate. During 1999, the crown strengthened against the euro by 1.5%, mainly during the second half of the year.

In response to the actual development of the Slovak economy during the first months of the year, Moody's Investors Service reassessed the country's credit rating and changed its outlook from stable to negative, which had an unfavourable effect on the Bank's attempt to lower the level of interest rates at that time and contributed to the destabilisation of exchange rate development. At the beginning of the last quarter of 1999, the major rating agencies reacted favourably to the measures adopted by the Government for the stabilisation of the country's economy. In October, Moody's Investors Service changed its rating of Slovakia back to stable from negative. Standard & Poor's took a similar step in November.

In 1999, bank restructuring commenced at selected commercial banks (VÚB, Slovenská sporiteľňa, IRB), with an increase in their registered capital and the transfer of classified assets to

Konsolidačná banka, š.p.ú. (Consolidation Bank, state financial institution) and Slovenská konsolidačná, a.s. (state agency), in the total amount of Sk 82.3 billion. Thus, the loan portfolio of the banking sector changed in structure: the share of classified loans decreased and that of standard loans increased.

With respect to the favourable trend of development in fiscal matters, foreign trade, and exchange rates, we may be satisfied with the year 1999, which was a turning point in the development of the Slovak economy with prospects for a qualitative change in macroeconomic development. The slowdown in economic growth and the rise in inflation are to be viewed, on the one hand, as a price to pay for improvement in some of the macroeconomic indicators and, on the other hand, as a temporary phenomenon that will disappear over the next few years.

May 2000

Marián Jusko
Governor



Members of the Bank Board

From left to right:

Elena Kohútiková, Executive Director, Monetary Division

Jozef Magula, Director, General Relations Department

Marián Jusko, Governor

Ján Mathes, Executive Director, Currency Division

Jozef Mudrik, Vice-Governor

PUBLICATIONS OF THE NATIONAL BANK OF SLOVAKIA

Regular publications

Menový prehľad / Monetary Survey (monthly bulletin)
Výročná správa / Annual Report

BIATEC - Banking Journal (monthly, with selected articles in English)

Other publications

- Národná banka Slovenska / National Bank of Slovakia
- Medzibankový platobný systém v SR / SIPS - The Slovak Interbank Payment System
- Pobočky NBS / NBS Branch-offices

- Laws and decrees:

Zákon o Národnej banke Slovenska / National Bank of Slovakia Act
Banking Act

Foreign Exchange Act

Zákon o stavebnom sporení / Home Savings Act

Zákon o ochrane vkladov / Act on Protection of Bank Deposits

Opatrenie NBS č. 3/1995 / Decree of the NBS No. 3/1995

Opatrenie NBS č. 5 - 10/1998 / Decrees of the NBS Nos. 5 - 10/1998

Decrees of the NBS Nos. 2, 3, 4/2000 on prudential banking

- Working papers of the Institute of Monetary and Financial Studies of the NBS:

Money Supply in the Slovak Republic (1995)

Hypotekárne nástroje (1995)

Mortgage Instruments(1995)

Zahraničný kapitál v ekonomike Slovenska (1996)

Foreign Capital in the Economy of Slovakia (1996)

Zahraničný kapitál v ekonomike Slovenska II. (1997)

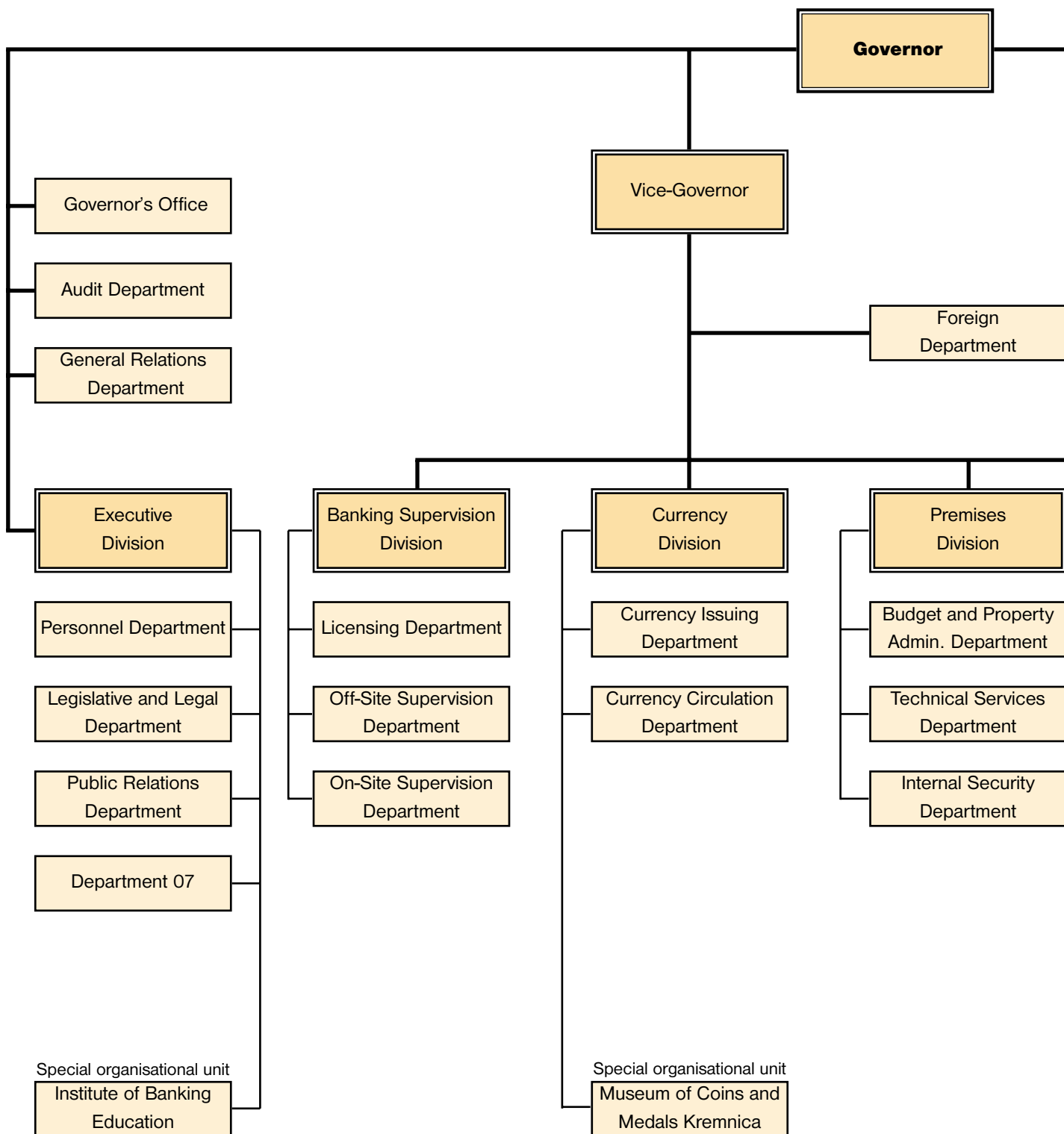
Foreign Capital in the Economy of Slovakia II. (1997)

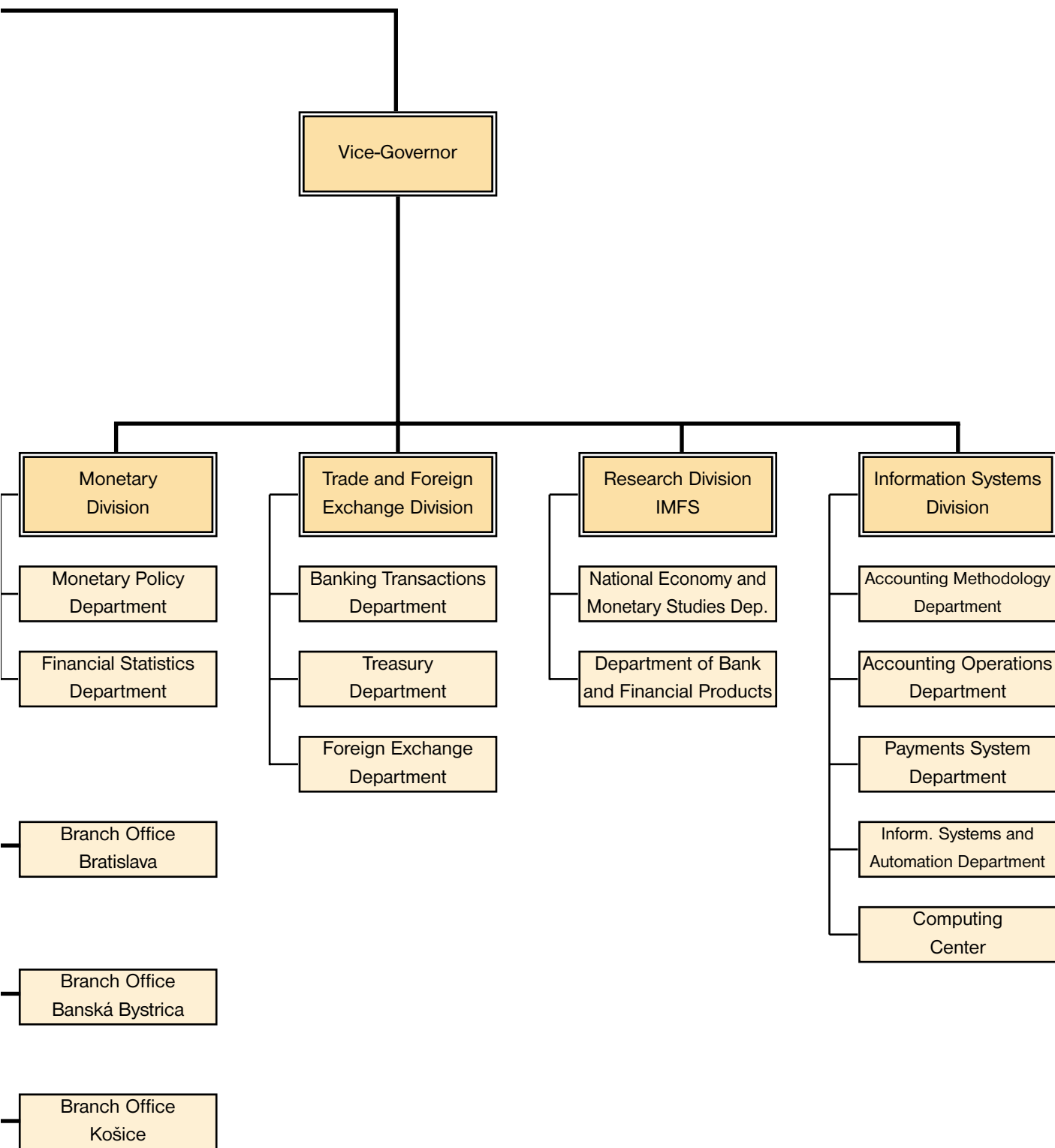
Vývoj peňažnej zásoby v SR. Analýza štruktúry peňažného agregátu M2 (1998)

The Development of Money Supply in the Slovak Republic. An Analysis
of the Structure of the M2 Monetary Aggregate (1998)

- Information on Slovak banknotes, coins, and commemorative coins

Organisation of NBS as at 31 December 1999





Published by:

Národná banka Slovenska
Štúrova 2
813 25 Bratislava
Slovakia

National Bank of Slovakia
Public Relations Department
Tel.: ++ 421 / 7 / 5953 3501, 5953 3547
Fax: ++ 421 / 7 / 5296 2171

Internet: <http://www.nbs.sk>