

## **B. REPORT ON MONETARY DEVELOPMENT IN THE SR IN 2000**



## **1. ECONOMIC DEVELOPMENT**

Economic development in 2000 was affected by measures adopted by the Government of the SR in May 1999, in the interest of improving the economy. The positive effects of stabilisation measures were reflected in the macroeconomic balance – the size of the trade deficit diminished and the situation in public finances improved.

The first sign of economic revival was an improvement in industrial production. After a fall in 1999, the output of the sector began to grow again as early as February 2000. The situation in the construction industry also improved, the rate of decline in production moderated substantially in comparison with the previous year. In July, the output of the construction sector exhibited a tendency to grow.

The price increase was less dynamic than in 1999 and the 12-month rate of inflation fell to a one-digit figure during the 2nd half of 2000. The most significant pro-inflation factors were the rise in energy prices and the continued increase in oil prices. In an environment marked by the crown's stable exchange rate against the reference currency and growing competition in retail trade, the low consumer demand became a crucial factor dampening the consumer-price increase.

Measures taken for the stabilisation of the economy coupled with inadequate restructuring in the corporate sector, led to a slowdown in the dynamics of nominal wages, a fall in real wages and employment, and deterioration in the rate of unemployment. The implementation of the programme of public works in the second half of the year affected the rate of unemployment and to a certain extent the level of the average wage. The growth in labour productivity continued in relation to real GDP, and exceeded the dynamics of real wages.

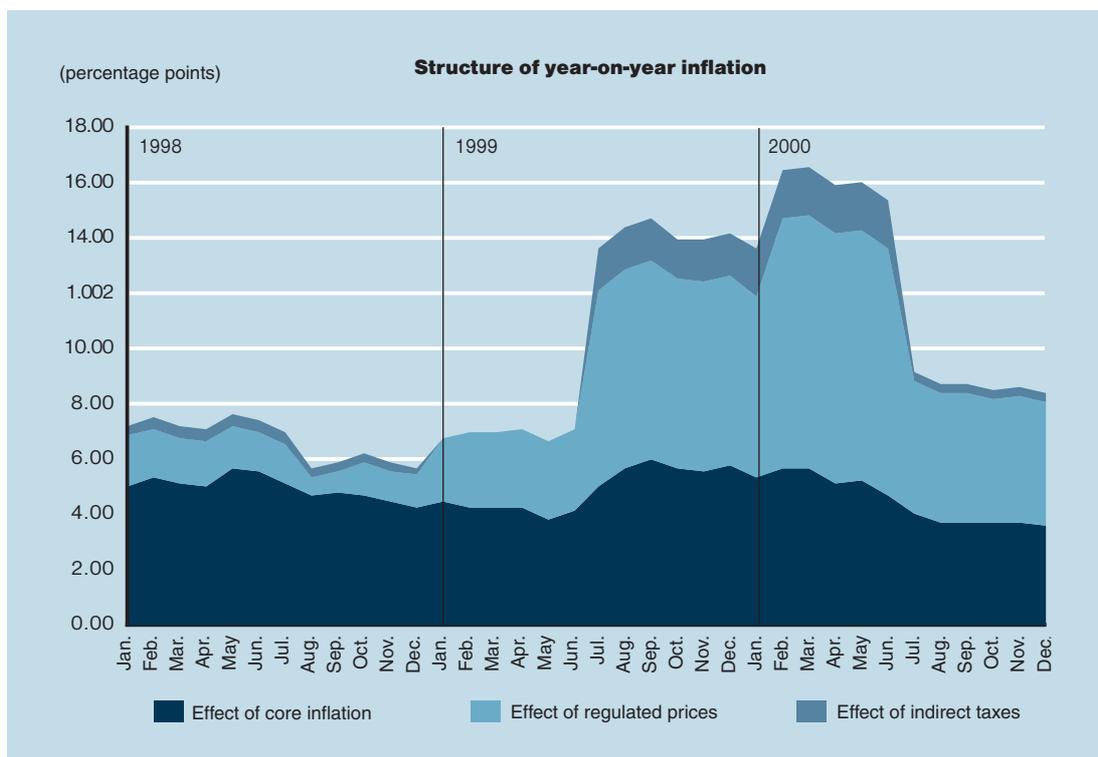
### **1.1. Price Development**

In 2000, the rate of price increase slowed considerably in comparison with 1999, when the 12-month rate of inflation, expressed in terms of the consumer price index, reached 8.4% (compared with 14.2% in the same period a year earlier). The accelerated year-on-year increase in consumer prices during the first half of the year contributed to the rise in the average rate of inflation, which reached 12.0% in 2000.

During the year, the 12-month rate of overall inflation recorded two marked changes. In February, inflation rose above 16% as a result of adjustments to regulated prices, and fluctuated at this level throughout the first half of 2000. In July, the effects of the large-scale administrative adjustments of July 1999 faded away, and the rate of year-on-year inflation fell to a one-digit figure. Inflation fluctuated at this level (around 8.5%) until the end of the year. The year-end rate of inflation was somewhat lower than the figure projected in the Revised Monetary Programme of the NBS (8.8 to 9.9% for the end of the year).

The slowdown in the rate of year-on-year increase in consumer prices in 2000 was due primarily to the fewer price adjustments and changes in indirect taxes, as well as the lower rate of core inflation compared with the previous year (price increases in the sectors of market services and tradeable goods adjusted for the effects of changes in indirect taxes). Of the total increase in consumer prices (8.4%), core inflation accounted for 3.55 percentage points. Administrative adjustments to regulated prices contributed 4.51 percentage points to the total increase in consumer prices and the effect of changes in indirect taxes on non-regulated prices represented 0.31 percentage points.

The increase in consumer prices in 2000 was due to the contradictory effects of cost and demand factors. The external environment added to the excessive volatility of prices, caused by marked fluctuations in the prices of imported



industrial commodities, especially oil, and by the exchange rate of the crown to the US dollar. High cost domestic factors included the rise in energy prices, which exerted pressure on the level of final prices via producer prices. On the other hand, the drop in final consumption of households had a stabilising effect on price levels. In this environment, the influence of growing competition began to be felt at the end of the year with the opening of foreign retail chains. The significance of individual factors was

reflected in the differences between price increases in the individual sector according to the structural composition of the consumer basket.

### Regulated Prices

A factor determining the development of consumer prices in 2000 was the administrative measures of the Government, which were

### Consumer Prices (year-on-year changes)

Structure of the consumer basket	1999	2000			
		March	June	September	December
Total in %	14.2	16.6	15.4	8.7	8.4
Regulated prices in %	38.2	47.4	46.6	21.3	20.7
Share of total, in % points	6.87	9.16	9.00	4.66	4.51
Effect of changes in indirect taxes on non-regulated prices					
Share of total, in % points	1.56	1.74	1.72	0.31	0.31
Core inflation in %	7.0	7.0	5.8	4.9	4.6
Share of total, in % points	5.75	5.66	4.69	3.72	3.55
of which: food prices in %	1.3	3.3	2.9	4.6	6.0
Share of total, in % points	0.33	0.84	0.71	1.06	1.38

Source: Statistical Office of the SR

adopted, as in 1999, for the elimination of macroeconomic imbalances and price anomalies between regulated and market prices. The price of items in the consumer basket, which were regulated in 2000, had risen year-on-year by 20.7% by the end of December 2000. They contributed more than 50% to overall inflation in 2000. In comparison with the previous year, however, the range of these adjustments was less, so the sector of regulated prices contributed significantly to the slowdown in the rate of increase in consumer prices to a one-digit figure. Large-scale adjustments were made to regulated prices in the first two months of the year. In January, the price of heat energy was raised by 20.7% and rents in municipal flats by 59.2% (with effect from 1 January 2000). With effect from 1 February, regulated prices were increased in the following categories: electricity (41.3%), natural gas (25.5%), water supply and sewage disposal (26.9%), and postal services (7.6%). This was followed by price increases in bus (16.1%) and railway transport (29.3%). In August, prices for some telecommunications services were also increased. Their impact on consumer prices was almost fully offset by the introduction of free call-units. The steep increase in oil prices during the year was reflected in the prices of fares in municipal public transport, which rose by an average of 11.4%. The increase in energy prices not only affected the sectoral inflation of regulated prices, but also indirectly generated a gradual rise in prices in other sectors, especially in market services.

### **Changes in Indirect Taxes**

The increase in consumer prices in 2000 was due partly to changes in indirect taxes. At the beginning of the year, excise duties were raised on hydrocarbon fuels, alcohol, and tobacco. The total effect of these measures generated an increase of 0.31 percentage points in the rate of inflation.

### **Core Inflation**

The course of core inflation in 2000 was characterised by a downward trend with the year-on-year dynamics reaching 4.6% at the end of the year. The rate of core inflation at the end of the year was somewhat below the figure projected in the Revised Monetary Programme of the NBS for 2000 (4.7 to 5.8%).

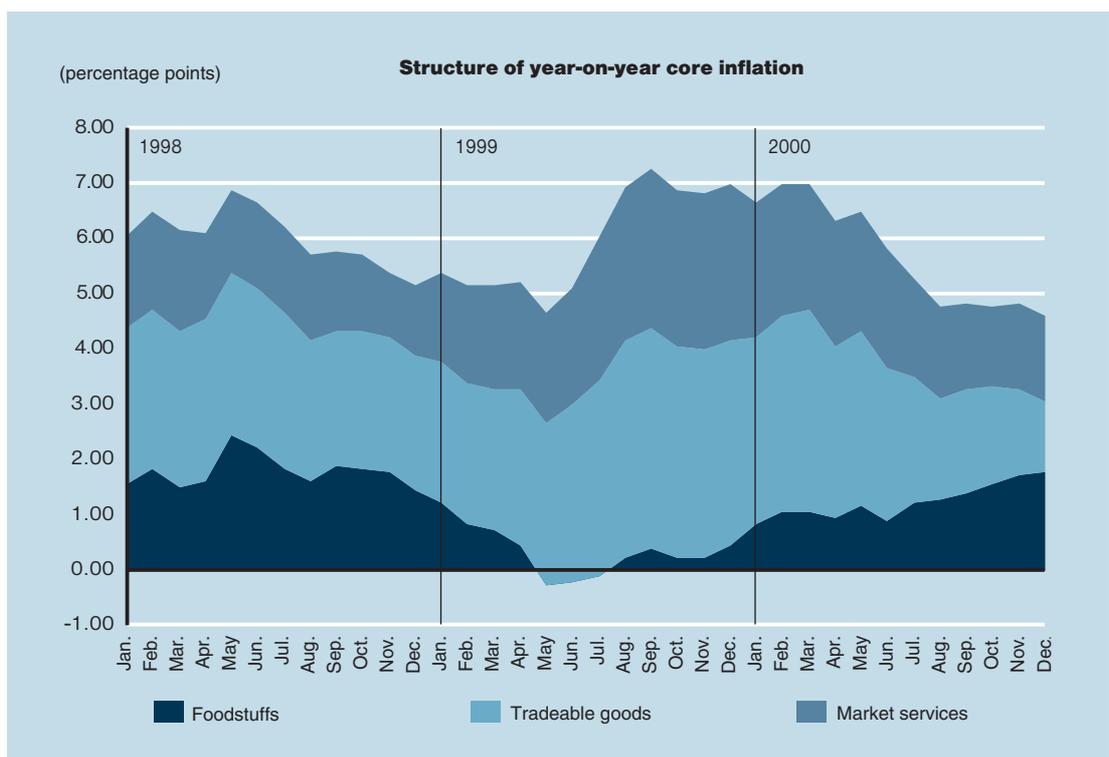
During the first months of the year, the 12-month rate of core inflation fluctuated around the level of December 1999 (7.0%). In June, July, and August, the rate recorded a marked fall, then fluctuated slightly below the level of 5.0% during the remaining months, with a subsequent fall in December.

The structure of core inflation underwent a marked change over the course of the year, when the share of food prices in core inflation increased gradually, to 38.7% in December 2000 (from 6.0% in December 1999). The share of the other components of core inflation (market services and tradeable goods excluding foodstuffs) decreased during the year. The course of core inflation was affected by numerous external and internal factors. The low purchasing power of households, supported not only by a fall in real wages but also by the withdrawal of a considerable amount of households income as a result of an increase in the dwelling costs (including energy prices), had a dampening effect on the prices of tradeable goods and market services. The accelerated rise in food prices can be ascribed to the increased costs of producers.

Food prices (excluding non-alcoholic beverages), as a component of core inflation, showed a year-on-year increase of 6.0%. This was a considerably faster rate of increase than a year earlier (1.3%). During the first half of the year, the development of food prices was marked by the convergence of long-term under-average price increases with those of other tradeable commodities. They showed high correlation with

the prices of agricultural producers, especially in manufacturing industry. Food prices showed high dynamics in the first two months of the year, when they were affected by cost pressure and administrative adjustments to the purchase price of milk from primary producers. This led to increases in the prices of dairy products and eggs. In the following months, the said factors were dampened by competition on the retail market and food prices had a stabilising effect on the level of core inflation. The second half of the year saw a change in the trend, when the domestic cost pressure of agricultural producers increased again and caused an acceleration in the dynamics of prices of some food commodities. The imbalance between demand and supply on the meat market led to an accelerated increase in the consumer price of meat and meat products. In this category, prices had risen by 12.6% by the end of the year. Due to the high weight of meat in the consumer basket, meat prices made a significant contribution to the acceleration in the dynamics of food prices. The seasonally volatile components of food prices had a dampening effect on price levels during the year, as fruit prices fell year-on-year by 0.8% and vegetable prices rose by 1.2%.

In 2000, the prices of tradeable goods (excluding foodstuffs) showed a marked slowdown in their year-on-year dynamics, from 7.8% in December 1999 to 2.6% in December 2000 (excluding fuel prices, to only 2.4%). The fall in these components made the most significant contribution to the reduction in core inflation. This development resulted from the positive effects of several factors. The slowdown in the dynamics of prices of tradeable goods took place in an environment marked by growing competition in retail trade, which accelerated in the second half of the year due to the opening of foreign retail chains. A stabilising effect was exerted by the moderate appreciation in the exchange rate of the crown against the reference currency (euro) and the reduction in the import surcharge, from 7 to 5% in January, and to 3% in July. The most important dampening factor was the persistently low purchasing power of households supported by the high rate of unemployment, which allowed little room for demand to exert pressure upon price increase in this sector. Low dynamics were shown mainly in the prices of durables (year-on-year fall in the price of furniture, household goods, and electronics).



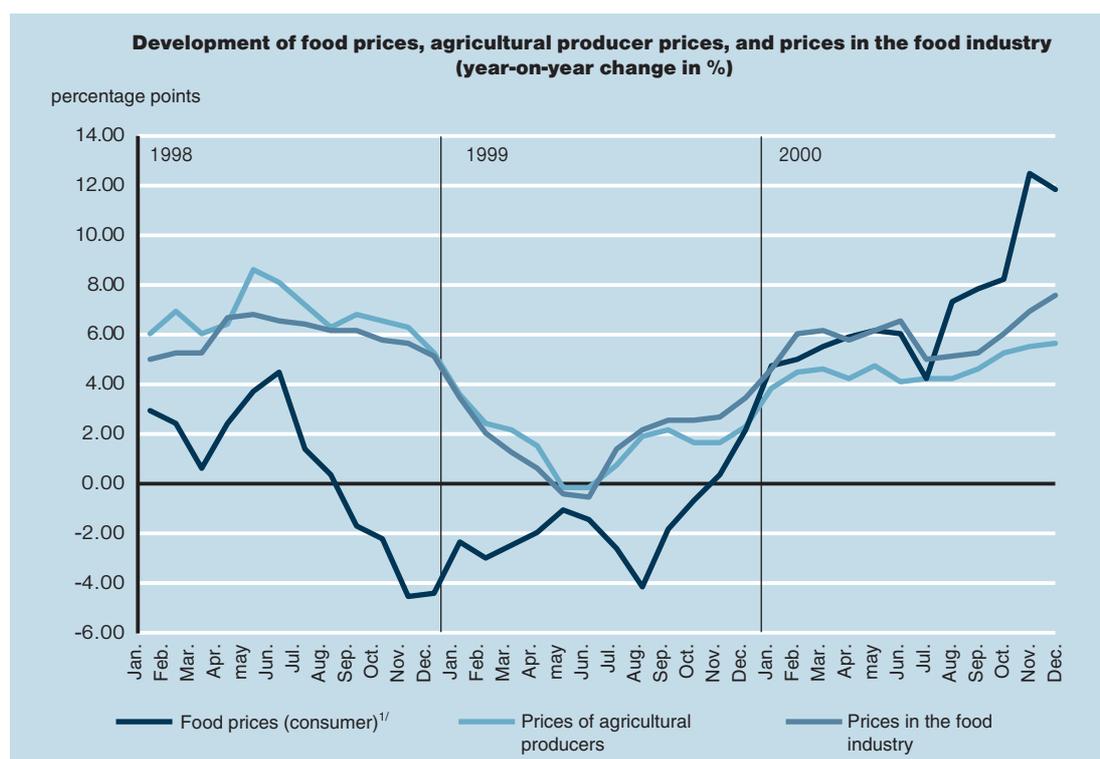
The rate of price increase in the tradeable sector decelerated despite the effects of cost factors. Inflation in 2000 was due mainly to the high dynamics of industrial producer prices, which increased during the year more than the 12-month rate of core inflation. A factor that increased the volatility of prices in the tradeable sector and of overall inflation, was the unfavourable trend in oil prices on the world market. The steep increase and fluctuation in oil prices coupled with an appreciation in the exchange rate of the dollar against the crown, were reflected in the level of fuel prices, which rose year-on-year by almost 35% during the first half of the year. This cost factor was also mirrored in the prices of other commodities. Over the last few months of the year, however, the above factors stabilised and fuel prices fell, hence their direct effect on the year-end rate of inflation was virtually nil.

Like the prices of tradeable goods, prices for market services also recorded a fall in their year-on-year dynamics in 2000 compared with the previous year (7.5%, compared with 14.6% in 1999). Prices of market services nonetheless increased at a substantially faster rate than the

prices of tradable goods, which was affected by inflationary pressures, exerted mainly by the increase in energy prices. The lack of competition and the limited room for growth in productivity allowed increased costs to be reflected in consumer prices to a greater extent. The rate of price increase exceeded the level of core inflation in almost all basic categories of market services. An exception was the rise in prices for services related to the clothing sector, which increased by 4.1%. The rise in the prices of market services was due mainly to the development of prices in the sector 'dwelling'. The administrative increase in rents for municipal flats led indirectly to a rise in the charges for co-operative flats and in imputed rents. The same increase was recorded in other charges for services related to dwelling.

### Producer Prices

The increase in the prices of imported energy-producing materials, administrative price adjustments, and unfavourable climatic conditions in agriculture were the main factors



1/ Consumer prices (including beverages and tobacco) are adjusted for changes in VAT rates.

that caused a marked acceleration in the rate of increase in producer prices in 2000. They were reflected mainly in the prices of industrial producers, agricultural product prices, and to a lesser extent in the construction material prices. A slowdown in the dynamics of increase was recorded in construction work prices.

The acceleration in the rate of increase in industrial producer prices, from 3.8% in 1999 to 9.8% in 2000, was caused primarily by external factors, especially the effect of global prices for energy-producing materials on the prices of domestic products. The highest average annual price increases were reported by producers specialising in natural gas and oil refining (38% in the prices of refined petroleum products and 14.8% in chemicals and chemical products), and contributed more than a third to the total price increase. The prices of domestic natural gas and oil also increased due to the rise on world markets. Import prices also contributed to an increase in the producer price of pulp, paper, and paper products (12.7%). The exchange rate of SKK to USD and the trend of globalisation in the Slovak steel industry resulted in an accelerated increase in the price of basic metals (8%), which substantially influence the total increase in industrial producer prices through their weight in the turnover of Slovak industry.

The pro-growth effect of the above-mentioned external factors on industrial producer prices was multiplied under domestic conditions by an increase in excise duties (in January) and the regulated prices of energy and water (in February). The increase in the prices of electrical energy, gas, steam, and hot water (13.2%), whilst

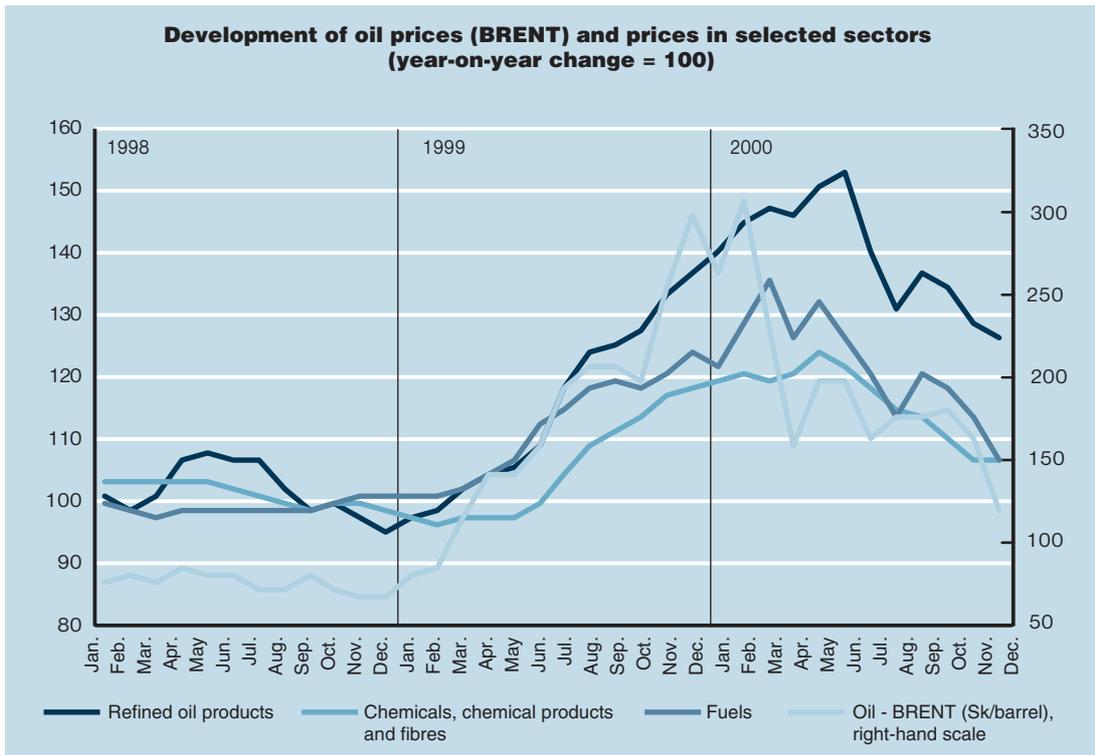
representing increased costs for industrial producers, did not, however, cause any general rise in the prices of their products. In industrial production, the effects of increases in regulated prices were only reflected in certain sectors.

The increased costs in industrial production (resulting from multiple increases in the prices of energy, water, and fuels) were in a large part compensated without price adjustments. Room for their compensation was created to some extent by the rationalisation of energy consumption as a natural consequence of the elimination of price anomalies, but mainly through a marked excess of labour productivity over wage increase. The continued fall in nominal unit wage costs in industrial production was a sign of the general reduction in the level of wage costs. The rate of increase in the prices of industrial products intended almost exclusively for final consumption (regardless of whether they are used predominantly or exclusively in intermediate consumption) remained unchanged, at the level of previous years (with a positive effect on consumer prices). The price increase was presumably dampened by the prices of imported goods or stagnation in domestic sales on the durable goods market (machines, equipment, transport vehicles, furniture, household appliances), with the exception of the price of foodstuffs and beverages, which rose under pressure exerted by the prices of agricultural primary producers coupled with increases in energy, water, and fuel prices.

The high rate of increase in construction work prices slowed down as a result of a fall in demand

#### **Development of producer prices**

<b>Average annual price index</b>						
<i>Same period of previous year = 100</i>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Consumer prices	109.9	105.8	106.1	106.7	110.6	112.0
Industrial producer prices	109.0	104.1	104.5	103.3	103.8	109.8
Construction work prices	112.0	115.0	109.7	108.9	111.0	109.0
Construction material prices	112.2	107.4	107.6	107.3	101.8	106.0
Agricultural product prices	102.4	105.4	105.6	99.7	98.2	107.2
GDP deflator	109.7	104.5	106.6	105.1	106.6	106.5



(to 9%), while the construction material prices recorded an accelerated increase. The acceleration in the rate of increase in the construction material and component prices (from 1.8% in 1999 to 6.0% in 2000) was another partial result of the rise in the regulated prices of energy and other inputs.

The greatest acceleration in comparison with 1999 (9 percentage points) was recorded in agricultural product prices, which rose by 7.2%. Their development was affected, to the same extent, by the prices of vegetable (7.2%) and animal products (7.1%). The acceleration in the rate of increase in the price of vegetable produce was due mainly to cereal prices, which rose as a result of a poor crop, due to drought. The inadequate supply of cereals and the repeated imbalances in some markets (mainly the meat market), combined with the inadequacies of market mechanisms in agriculture, exerted demand-based pressure on price levels. The demand-based effects on price levels were accompanied by a marked increase in cost pressure, especially the increased prices of fuels, electricity, water, sewage disposal, and telecommunications services. This resulted in

a general rise in the prices of agricultural primary producers (the highest since 1995), and had a negative effect on the producer and consumer prices of foodstuffs. Some of the price increase, mainly due to conditions on the cereals market, was absorbed by state subsidies to farmers and by other administrative measures adopted by the Government in its effort to cushion the increase in food prices.

Though the change in price levels in agriculture caused some improvement in the financial situation, but the long-term problem of insufficient price compensation to primary food producers was not solved (subsidies represented a partial solution). The accelerated rate of increase in agricultural prices (7.2%) was due to the low initial level of comparison in 1999.

### GDP Deflator

The deflator of gross domestic product (GDP) increased by 6.5% in comparison with 1999. The most rapid increases were recorded in the import-deflator (12.3%), owing to the trend in the price of

### Gross domestic product formation (Sk billions, constant prices 1995)

	1998	1999	2000	index 1999/1998	index 2000/1999
Gross production	1 555.2	1 531.9	1 637.7	98.5	106.9
Intermediate consumption	982.6	944.8	1 038.8	96.2	109.9
Added value	572.6	587.1	598.9	102.5	102.0
Other <sup>1/</sup>	68.5	66.2	68.8	103.1	103.9
Gross domestic product	641.1	653.3	667.7	101.9	102.2

<sup>1/</sup>Value added tax, excise tax, customs duties, subsidies, imputed production of banking services.

imported energy-producing materials and the exchange rate of the crown, and in the export-deflator (12.2%), due probably to the dynamic increase in prices in intermediate consumption and in export prices. The development of the GDP deflator was affected by an accelerated increase in consumer prices, which led to growth in the deflator of final household consumption (11.3%).

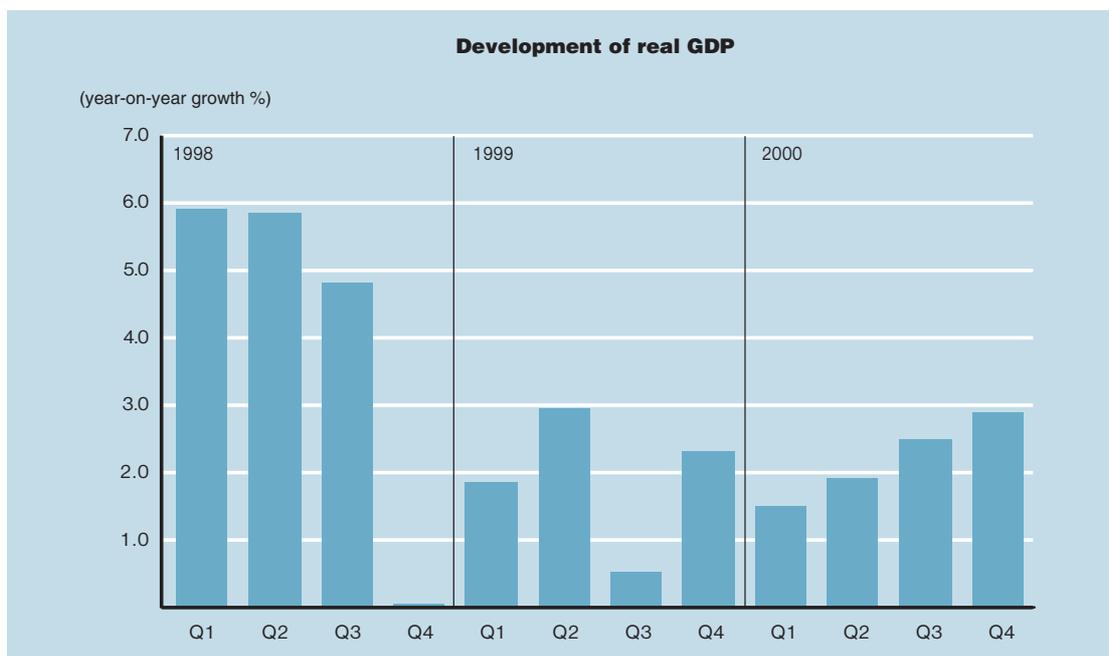
In the individual quarters, GDP growth was characterised by an increase in its dynamics. While the first quarter saw a year-on-year increase of 1.5% at constant prices, the rate of GDP growth accelerated to 2.9% in the fourth quarter. The structure of GDP also recorded some changes during the year, when domestic demand experienced a revival after a near two-year period of decline.

## 1.2. Gross Domestic Product

The development of gross domestic product was marked throughout the entire year by a moderate acceleration in the rate of year-on-year growth. At constant prices, GDP grew year-on-year by 2.2% (in 1999, by 1.9%), and at current prices by 8.8%.

### Aggregate Supply

Gross domestic product (domestic supply) recorded numerous changes in comparison with the previous year. The share of intermediate consumption in gross production increased from 61.7% to 63.4% at constant prices. This indicates



**Gross domestic product by sector (Sk billions, const. prices 1995)**

	1998	1999	2000	Index 1999/98	Index 2000/99
<b>GDP</b>	641.1	653.3	667.7	101.9	102.2
<b>of which:</b>					
<b>Agriculture, forestry, fishing</b>	29.3	31.9	32.9	108.8	103.1
<b>of which: Agriculture</b>	25.3	28.1	29.0	110.7	103.2
<b>Industry</b>	171.9	184.4	188.9	107.3	102.5
<b>of which: Manufacturing</b>	149.6	154.0	162.5	102.9	105.5
<b>Construction</b>	35.5	24.7	21.0	69.5	85.0
<b>Market services</b>	258.7	265.2	278.8	102.5	105.1
<b>of which: Trade, hotels, restaurants</b>	85.9	89.3	99.7	103.9	111.7
<b>Transport</b>	49.3	51.5	50.6	104.4	98.3
<b>Non-market services</b>	84.7	84.1	85.4	99.4	101.5
<b>Other <sup>1/</sup></b>	61.1	63.0	60.8	103.1	96.5

1/ Value added tax, excise tax, customs duties, subsidies, imputed production of banking services.

that the appreciation of material, labour, and capital inputs in the production of goods and services has no real effect in the Slovak economy. The volume of added value grew year-on-year by 2%, while gross production increased by 6.9% and intermediate consumption by 9.9%.

In GDP formation by sector, the weight of added value in market services increased, due mainly to a marked increase in added value in trade, hotels and restaurants. The rate of growth in added value in industry slowed; the creation of added value fell in the production and distribution of electricity, gas, and water supply and in mining and quarrying. However, the added value in industry showed favourable development, due mainly to growth in foreign demand. As a result of a revival in demand for construction work, the rate of decline in added value moderated in the construction sector. Added value in agriculture and non-market services exerted a slight pro-growth effect on the development of GDP.

### **Agriculture**

In 2000, agriculture contributed almost Sk 29 billion to GDP formation, representing a year-on-year increase of 3.2% (at constant prices). Despite this, however, the share of the sector in

the formation of GDP remained at the level of the previous year.

Receipts from the sale of agricultural products amounted to Sk 34.1 billion, representing a year-on-year decline of 8.3% (at constant prices). The sharpest fall took place in sales of plant products (16.8%). Sales of animal products fell by 3.5% year-on-year. In terms of volume, sales of agricultural products were lower than a year earlier in all categories, with the exception of potatoes and vegetables in 'plant products' and milk in 'animal products'.

The downturn in the sale of products and subsequent fall in receipts were due primarily to decline in crops and the continued fall in the number of cattle and pigs.

According to preliminary statistical data, agricultural firms with 20 or more employees recorded a loss of Sk 590 million, which was 70% less than in 1999.

The deficit in foreign trade in agricultural commodities and foodstuffs increased by Sk 1.6 billion compared with the previous year. The increase in the size of the deficit was caused mainly by the need to compensate for the decline in crop-production, due to the unfavourable weather conditions.

## Industry

Industrial production, expressed in terms of the industrial production index<sup>1/</sup>, increased year-on-year by 9.1% in 2000. This development was due mainly to growth in the manufacture of rubber and plastic products (33.5%), manufacture of transport equipment (31.9%), manufacture of wood and wood products (22.1%), and manufacture of electrical and optical equipment (18.7%). Decline in production was recorded only in the mining and quarrying of energy producing materials (8.3%).

The development of industrial production over the course of the year was characterised by a gradual acceleration in the rate of growth.

A positive trend was also recorded in receipts from industrial activity, which increased year-on-year by 8.1% at constant prices. The steepest increases took place in receipts from the manufacture of transport equipment (27.8%); the manufacture of coke, refined petroleum products, and nuclear fuel (15.6%); the manufacture of rubber and plastic products (12.2%); and in manufacture of leather and leather products (12.1%). A year-on-year fall in receipts was recorded in the electricity, gas, and water supply (6.3%); the manufacture of textiles and textiles products (2.4%); and in the manufacture of other non-metallic mineral products (0.6%).

## Construction

The output of the construction sector was rather unbalanced during the year 2000. The decline in production during the first half of the

year (except May) reversed into growth in July, and this growth appeared to be permanent. During the last four months of the year, production in the construction sector underwent dynamic growth. Despite these positive trends, the output of the sector fell year-on-year by 0.4% at constant prices. Revival in production was concentrated in new construction projects, reconstruction and modernisation in the private sector. The volume of construction work abroad remained below the level of the previous year (by 16.6%).

## Services

The share of market services in GDP formation increased by 1.2 points in 2000, due mainly to trade-related services.

Receipts from retail sales recorded, after stagnation or decline in some months in the first half of the year, a year-on-year increase of 2.3% (at constant prices), with year-on-year dynamics 7.5 percentage points lower than in 1999. The modest year-on-year growth was due to an increase in receipts from the sale of motor vehicles, growth in non-consumer sales and in non-specialised and specialised retail trade. Decreases were recorded in receipts from the sale of foodstuffs, pharmaceuticals, cosmetics, and from the retail sale of fuels. Receipts in hotels and restaurants continued to fall in 2000.

Dynamic growth compared with last year (18.4% at current prices) was recorded in the receipts of transport organisations, more than three quarters of whose receipts came from freight transport, where receipts rose by 18.5% due mainly to an increase in transport charges. In passenger transport, receipts increased year-on-year by

<sup>1/</sup> The industrial production index is based on the statistics of industrial production and is calculated from the results of statistical surveys at industrial companies with 20 or more employees and at selected companies with a staff of up to 19. The industrial production index is based on the change of volume of selected products and on the two-stage weight system. The processing of data for December 2000 was coupled with the revision of data for the year as a whole. At the same, a new method was introduced for adjusting data of the effect of the number of working days, which takes into account the activities of companies with continuous operation, work during public holidays, and Sundays. Subsequently, all indices of industrial production were revised, w.e.f. January 1998. The industrial production index is stated at constant prices.

17.9%. Output in freight transport remained below the level of the previous year, while the volume of goods transported grew by 5.3%.

In post and telecommunications services, receipts increased by 11.4% (at current prices) in comparison with 1999. More than 80% of total receipts came from telecommunications services.

Receipts from selected market services remained virtually unchanged during the year. The structure of receipts was dominated by receipts from other business services (55.8%). With the exception of computer engineering services, where receipts increased by 2.6%, other services remained below the level of the previous year in all of the categories.

### **Wages and Labour Productivity**

The development of wages and labour productivity was marked, as in 1999, by a fall in real wages and growth in labour productivity in relation to real GDP.

In 2000, the average nominal monthly wage of employees in the Slovak economy reached Sk 11,430, representing a year-on-year increase of 6.5%. The rate of growth gradually slowed from 8.4% in the 1st quarter to 4.8% in the 3rd quarter, and accelerated by 6.5% in the 4th quarter. The dynamics of nominal wages slowed by 0.7 percentage points. In the 3rd and 4th quarters, wage levels were to a considerable extent affected by the implementation of the public works project. Excluding this effect, nominal wages would have increased by 5.7% in the third quarter, 8.9% in the fourth quarter, and by 7.4% on a yearly basis.

The slowdown in the dynamics of nominal wages and acceleration in the year-on-year increase in average consumer prices of goods and services led to a year-on-year fall of 4.9% in real wages (or 4.1% excluding the effect of public works).

Labour productivity in relation to real GDP per employee increased year-on-year by 2.8%, whilst the dynamics of growth slowed by 1.4 percentage points compared with 1999.

The growth in labour productivity, accompanied by a fall in real wages, led to an increase in the excess of growth in labour productivity over that of real wages, from 7.3 percentage points in 1999 to 7.7 points in 2000. Excluding the effect of employment in public works, the dynamics of labour productivity at current and constant prices remained roughly at the level of the previous year. The resulting relationship between wages and labour productivity created no pressure on cost-push inflation.

### **Employment and Unemployment**

The labour market has been characterised by a fall in demand for labour for three consecutive years. This led to a fall in employment and to a high rate of unemployment, mainly during the first half of the year. In 2000, the average number of employees in the Slovak economy was 1,977 thousand.

The year-on-year fall in employment took place mostly in industry and construction, and since the beginning of the year in trade and repair-work. The largest fall in employment was recorded in construction (8.1%). The number of jobs in the economy decreased by roughly 38 thousand in 2000. The number of employees increased in other public, social, and personal services, by 21.9 thousand (public works for the long-term unemployed, for a definite period, i.e. till the end of 2000). An increase in the number of employees was also recorded in health and social care, research, leasing/rentals, real estate, and business services.

In most sectors, the fall in employment, together with growth in GDP, reflects ongoing restructuring accompanied by lay-offs and an increase in pressure on labour productivity.

According to the National Labour Office, the absolute number of registered unemployed reached 506,497 at the end of December, i.e. 5.4% less than in December 1999. The rate of unemployment, based on the disposable number of unemployed, fell by 1.3 percentage points, to 17.9%. With the effect of public works excluded, the number of registered unemployed would have exceeded 555 thousand and the rate of unemployment would have reached 19.7% at the end of December. In 2000, the average number of registered unemployed was 518 thousand and the average annual rate of unemployment based on the disposable number of registered unemployed stood at 18.2%.

Amendment No. 292/1999 to the Act on Employment, which became effective in December 1999, made it harder for job offers to be refused and reduced the maximum amount and period of unemployment benefits. As a result, the average number of job applicants receiving unemployment benefits decreased by 15.1% in 2000 (to 112 thousand), which led to a fall in expenditure on unemployment benefits including transfers to funds for registered unemployed.

The most effective measure was the passing of Amendment No. 245/2000 to the Act on

Employment with effect from 1 August 2000, which provided a legal framework for the creation of public works jobs for the long-term unemployed, funded by the State Budget for this purpose (from Sk 2 billion reserved for the Ministry of Labour, Social Affairs, and Family, Sk 1.3 billion was provided to the National Labour Office to find jobs on public works). Subsequently, the number of registered unemployed recorded its greatest month-on-month decrease at the end of August and 65,626 jobs were created on public works from August to the end of December. Nearly two thirds of these jobs were in regions with the highest rates of unemployment and the highest share of long-term unemployment. All this contributed to the reduction of the rate of unemployment (from 19.4% in July to 17.8% in December), the mitigation of inter-regional differences in unemployment, and to reduction of the share of long-term unemployment in total unemployment.

Despite the significant contribution of the public works programme to the reduction of unemployment, this tool does not represent a viable long-term solution. Furthermore, it makes demands on the State Budget in the form of an increase in social benefits and on the budget of the National Labour Office in connection with the payment of unemployment benefits.

#### **GDP by use (Sk billions, const. prices 1995)**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>Index 1999/98</b>	<b>Index 2000/99</b>
<b>Gross domestic product</b>	641.1	653.3	667.7	101.9	102.2
<b>Domestic demand</b>	710.8	678.1	669.3	95.4	98.7
<b>of which:</b>					
<b>Final consumption in total</b>	477.4	467.1	454.5	97.8	97.3
<b>Households</b>	333.8	334.2	322.7	100.1	96.6
<b>Non-profit institutions serving households</b>	4.5	3.4	3.5	75.6	102.9
<b>Government</b>	139.1	129.5	128.3	93.1	99.1
<b>Gross capital formation</b>	233.4	211.0	214.8	90.4	101.8
<b>Gross fixed capital formation</b>	236.8	192.2	190.9	81.2	99.3
<b>Change in inventories</b>	-3.4	18.8	23.9	x	x
<b>Net exports</b>	-69.7	-24.8	-1.6	x	x
<b>Exports of goods and services</b>	433.3	448.0	519.2	103.4	115.9
<b>Imports of goods and services</b>	503.0	472.8	520.8	94.0	110.2

## Aggregate Demand

The growth in aggregate demand in 2000 was stimulated, for the most part, by external demand.

## Net Exports

External demand was a crucial factor throughout the year, stimulating the Slovak economy as in the previous year. The persistence of economic growth in EU countries and the revival in the Czech economy encouraged the export of goods and services from Slovakia, which grew in volume by 15.9% at constant prices.

The import of goods and services grew in real terms by 10.2% year-on-year. The accelerated growth in imports compared with 1999 was connected with the growth in imports for refinery based productions, and with the growth in

demand for consumer goods and investments, which led to growth in imports in the second half of the year.

The excess of growth in exports of goods and services over growth in imports during the first three quarters had a favourable effect on the overall balance of foreign trade, which, though still in deficit, fell by more than Sk 23 billion compared with the previous year. In absolute terms, the balance of trade resulted in a deficit of Sk 1.6 billion at constant prices (0.2% of GDP).

## Domestic Demand

Though domestic demand recorded a real year-on-year fall of 1.3%, the rate of decline moderated in comparison with 1999, and moved into growth in the fourth quarter after two years. In 2000, domestic demand was affected mainly by a fall in final household consumption; in 1999 the level fell due to a downturn in gross capital formation.

## Income and expenditure of households (at current prices)

	Year 2000 (Sk millions)					Index (same period of previous year = 100)				
	1.Q.	2.Q.	3.Q.	4.Q.	year	Q1 2000	Q2 2000	Q3 2000	Q4 2000	2000
						Q1 1999	Q2 1999	Q3 1999	Q4 1999	1999
Compensation of employees (in all sectors)	80,140	87,851	92,459	105,686	366,136	104.6	103.1	104.6	108.3	105.2
of which: Gross wages and salaries	61,839	68,595	70,853	81,384	282,671	104.6	103.3	104.7	108.5	105.4
Gross mixed income	40,852	39,412	39,047	50,543	169,855	114.3	111.9	119.5	109.5	113.4
Income from property - received	10,387	9,750	8,583	10,222	38,942	101.3	93.8	72.1	80.6	86.1
Social benefits	29,368	27,283	27,350	27,848	111,849	109.8	105.5	103.8	104.2	105.8
Other current transfers received	5,393	5,814	5,689	6,599	23,495	101.4	127.9	122.0	126.7	119.0
of which: Non-life insurance claims	2,083	1,865	1,681	1,885	7,514	119	104.6	97.7	96.9	104.4
<b>Current income in total</b>	<b>166,140</b>	<b>170,110</b>	<b>173,128</b>	<b>200,898</b>	<b>710,277</b>	<b>107.4</b>	<b>105.5</b>	<b>105.6</b>	<b>106.6</b>	<b>106.3</b>
Income from property - paid	1,415	1,054	848	1,173	4,490	123.3	85.0	66.1	79.8	87.4
Current tax on income, property, etc.	7,610	5,944	6,885	8,260	28,699	92.4	79.3	78.1	83.0	83.2
Social contributions	25,293	26,484	29,233	32,627	113,637	102.3	104.4	106	108.2	105.5
Other current transfers - paid	7,523	5,788	6,527	6,217	26,055	117.1	108.9	109.5	107	110.8
of which: Net general insurance premiums	5,543	3,491	3,458	3,809	16,301	120.5	117.8	112.6	118.8	117.8
<b>Current expenditure in total</b>	<b>41,841</b>	<b>39,270</b>	<b>43,493</b>	<b>48,277</b>	<b>172,881</b>	<b>103.2</b>	<b>99.6</b>	<b>99.7</b>	<b>101.8</b>	<b>101.1</b>
<b>Gross disposable income</b>	<b>124,299</b>	<b>130,840</b>	<b>129,635</b>	<b>152,621</b>	<b>537,396</b>	<b>108.9</b>	<b>107.4</b>	<b>107.7</b>	<b>108.2</b>	<b>108.0</b>
<b>Final household consumption</b>	<b>109,085</b>	<b>117,187</b>	<b>118,652</b>	<b>124,037</b>	<b>468,959</b>	<b>108.7</b>	<b>105.3</b>	<b>106.3</b>	<b>109.8</b>	<b>107.5</b>
<b>Gross savings of households</b>	<b>15,214</b>	<b>13,653</b>	<b>10,983</b>	<b>28,584</b>	<b>68,437</b>	<b>110.4</b>	<b>130.3</b>	<b>126.7</b>	<b>101.7</b>	<b>112.0</b>
<b>Rate of gross savings</b>	<b>12.24</b>	<b>10.43</b>	<b>8.47</b>	<b>18.73</b>	<b>12.73</b>	x	x	x	x	x

The final consumption of households was by 3.4% lower (at constant prices) than a year earlier and showed uneven development during the year. It fell by 7% in the first two quarters, then moderated in the third quarter, and closed the year with an increase of 2.4% after almost two years of decline. In the structure of expenditure, the most rapid year-on-year increases were recorded in expenses on education, health, and telecommunications, while spending on transport, dwelling, clothing, and shoes declined.

The level of final consumption was connected mainly with the development of real household incomes, especially real wages, which was reflected in the creation and use of incomes in the household sector.

According to preliminary data from the Statistical Office of the Slovak Republic, the current incomes of households increased in 2000, by 6.3% in nominal terms, while falling in real terms by 5.1%. Remuneration to employees accounted for 51.5% of current incomes. Gross mixed income (including the profits of tradesmen in addition to income spent on own-household consumption) accounted for 23.9% of current incomes and social benefits 15.7%.

In comparison with 1999, the slowest increase was recorded in the remuneration of employees (5.2%), the highest (19%) in 'other current transfers

received', which consist of receipts from insurance events. Within the structure of social benefits, which increased by 5.8%, an increase was recorded only in pensions, while unemployment and sickness insurance benefits fell.

Income from property was 13.9% lower than a year earlier. This income came from the ownership of financial assets, i.e. deposits, bonds, etc., or the ownership of tangible non-production assets (land, underground resources), which the owner obtained as a reward for putting the said assets at the disposal of another institutional unit. The year-on-year fall in this item was connected with the lowering deposit rates for natural persons.

Current household expenditure increased year-on-year by 1.1%. The structure of expenditures was dominated by social contributions paid as part of general social insurance, including compulsory social, health, and sickness insurance (65.7%) and by current tax on income and property (16.4%). The most dynamic growth (10.8%) was recorded in 'other current transfers paid' (premium payments for general insurance, life, and health insurance – except compulsory social insurance, contributions to foundations, etc.), which, however, accounted for only 15.1% of current expenditure. A marked year-on-year fall was recorded in current taxes on income and property (16.8%), due primarily to tax adjustments at the beginning of 2000.

#### Development of investments and savings (in %)

	1998	1999	2000
<b>Constant prices 1995</b>			
<b>Rate of savings <sup>1/</sup></b>	25.5	28.5	32.0
<b>Rate of gross investments <sup>2/</sup></b>	36.4	32.3	32.2
<b>Rate of fixed investments <sup>3/</sup></b>	36.9	29.4	28.6
<b>Coverage of investments by savings <sup>4/</sup></b>	70.1	88.2	99.3
<b>Current prices</b>			
<b>Rate of savings <sup>1/</sup></b>	25.2	26.5	27.6
<b>Rate of gross investments <sup>2/</sup></b>	36.1	31.9	30.0
<b>Rate of fixed investments <sup>3/</sup></b>	38.0	30.8	30.0
<b>Coverage of investments by savings <sup>4/</sup></b>	69.7	83.2	92.0

1/ Share of gross domestic savings (GDP less final consumption in total) in GDP.

2/ Share of gross capital formation in GDP.

3/ Share of gross fixed capital formation in GDP.

4/ Share of gross domestic savings in gross investments.

**Structure of investments (% , current prices)**

	<b>1999</b>	<b>2000</b>
<b>Investments in total</b>	100.0	100.0
<b>By use</b>		
<b>Tangible fixed assets in total</b>	97.2	97.4
<b>of which: Buildings, structures, halls</b>	41.7	36.2
<b>Machinery and equipment</b>	50.4	56.3
<b>Other investments</b>	5.1	4.9
<b>Intangible fixed assets in total</b>	2.8	2.6
<b>By sector in the national account:</b>		
<b>Non-financial organisations</b>	63.9	65.1
<b>Financial organisations</b>	10.1	10.0
<b>Government sector</b>	10.5	10.2
<b>Household sector</b>	14.5	13.9
<b>Private non-profit institutions</b>	1.0	0.8

After the payment of current expenses from current incomes, the gross disposable income of households was 8.0% higher than a year earlier. Households used this income mostly for final consumption (82.0%); the remainder went into gross savings. The rate of gross savings, expressing the proportion of gross savings to gross disposable income, reached 12.7% and was 0.4 percentage points higher than in the same period a year earlier.

Investment demand also showed signs of revival. Gross fixed capital formation fell year-on-year by 0.7% at constant prices, and increased during the second half of the year. The development of fixed investments still was behind the growth in GDP, which led to a moderate year-on-year fall in the actual percentage of fixed investments, to 28.6%. On the other hand, the percentage of gross investments reached nearly the same value as a year earlier (at constant prices) as a result of accelerated growth in inventories.

The improvement in the macroeconomic balance during the year under review led to a reduction in the gap between gross domestic savings (the unconsumed part of GDP) and gross investments. The values of the two indicators at constant and current prices clearly indicate that in connection with the growth in gross household

savings, the possibility of financing investments from domestic resources has improved in Slovakia.

Investment in 2000 was influenced by several factors, especially improvement in the financial situation of business entities, increased inflow of foreign capital in the form of direct investment, improved offer of domestic credit resources as a result of a fall in interest rates and the release of funds for motorway construction at the end of the year.

The revival of investment demand was reflected in the volume of investment in machinery, which grew year-on-year by 24.9% at current prices, while investment in buildings and construction fell in volume by 3.1% compared with 1999. Within the structure of machinery and equipment, marked growth was recorded in investment in machines, instruments, equipment, small and other tangible fixed assets, and in investment in transport vehicles.

With regard to the structure of investments by sector, the steepest increase (13.9% at current prices) took place in investments made by non-financial organisations, which accounted for more than 65% of the total volume of investments. In non-financial organisations with 20 or more employees, investment demand showed

a revival in almost all sectors, first and foremost in manufacturing, agriculture, business services, trade, and repair services. Investment in manufacturing increased by 18.1% (at current prices), due mainly to growth in investment in the manufacture of metals and metal products, manufacture of rubber and plastic products, and in the manufacture of machinery and equipment.

Investments in the financial sector grew in volume by 11.1% at current prices, due probably to the higher earnings of financial institutions. In contrast with previous years, the financial sector invested primarily in machines and equipment, while investment in construction fell in volume.

Final consumption of government (expenditures on administration and in public services in general) fell at constant prices by 0.9% during the year. The decline during the first three quarters was followed by an increase of 8.9% in the fourth quarter. As the level of government consumption is closely connected with the volume of current budget expenditures, we may assume that the atypical course of development was caused by the regulation of current expenditures in the first 11 months of the year and the enormous increase in December.

## **Financial Results of Organisations**

A positive aspect of economic development in 2000 was the continued improvement in the results of non-financial organisations, whose earnings increased by almost 60%. A different trend was recorded in the financial sector, where profits before taxation<sup>2/</sup> reached only 33% of the level of the previous year. In the fourth quarter, both sectors recorded a loss, while the loss of non-financial organisations amounted to Sk 9 billion. These factors combined to affect the financial results of all

the companies. The total earnings of financial and non-financial organisations came to Sk 88 billion, representing a year-on-year increase of 15.5%.

The positive results of non-financial organisations were due mainly to an increase in profits in industry (313.2%); hotels and restaurants (141.3%); construction (130%); and in other public, social, and personal services (81.4%). Transport, storage, postal and telecommunications services had run into the greatest loss for three consecutive years (it grew in size by 64.3% compared with the previous year). Agriculture and hunting also recorded a loss, but its size was 81.5% less than in 1999.

The marked increase in profits in industrial production took place mainly in the manufacture of basic metals and fabricated metal products, which have a significant place in the volume of production in the economy. A substantial contribution to the growth in profits was made by the manufacture of other non-metallic mineral products, manufacture of coke, refined petroleum products and nuclear fuel, manufacture of chemicals, chemical products and man-made fibres, and by the manufacture of transport equipment. A loss was recorded only in the manufacture of machinery and equipment n. e. c., but its size was 72.9% less than a year earlier.

## **2. BALANCE OF PAYMENTS**

### **2.1. Current Account**

The external imbalance of the Slovak economy recovered to some extent in 2000, with the deficit in the current account of the balance of payments diminishing by Sk 7.7 billion (19%) compared with 1999. The ratio to gross domestic product decreased from 5.0% in 1999 (revised figure)<sup>3/</sup> to 3.7% in 2000.

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*2/ Absolute data and indices are expressed at current prices and exclude the results of small businesses.*

*3/ During the compilation of the balance of payments for 2000, data for 'receipts from transport services' were revised within the services balance. Receipts for the transit of gas were increased. The addition of missing data to the balance of payments (ca Sk 5-6 billion per year) caused the ratio of the current account deficit to GDP to decrease by an average of 0.8% in the years 1995 to 1999. The current account deficit fell from 5.8 to 5.0% in 1999.*

In 2000, Slovakia's foreign trade resulted in a deficit of Sk 42.4 billion, which represented 93.6% of the figure for 1999. As a result of the balanced average year-on-year increases in the indicators of foreign trade in the second half of 2000, the marked excess of growth in exports over growth in imports, amounting to more than 11 percentage points on a monthly basis in the first half of the year, had fallen to 3.4 percentage points by the end of the year.

During the period January to December, goods were exported from Slovakia (according to preliminary data from the Statistical Office of the SR) in the total amount of Sk 449.0 billion, which represented a year-on-year increase of 30.6% (18.4% in US\$ and 36.4% in EUR). The volume of goods imported reached Sk 472.9 billion, representing a year-on-year growth of 25.2% (13.5% in US\$ and 30.8% in EUR).

The rate of growth in Slovak exports was affected by the favourable conditions for the sale of Slovak products on the markets of advanced economies, growing demand for Slovak goods in transition economies, and an expansion in export-oriented production. Exports recorded a total year-on-year increase of Sk 124.7 billion. The most significant increase in exports took place in the category 'machinery and transport equipment' (Sk 49.8 billion year-on-year). The share of machinery and transport equipment in the total increase in exports (40%) indicates that foreign direct investments – besides other positive factors acting on the Slovak economy – played an important role in the revival of foreign demand for Slovak products.

Economic revival in EU countries, which are our most important trading partners, was stimulated by growth in the exports of semi-finished products, which recorded a year-on-year increase of Sk 30.2 billion and their share in the total increase reached 24%. The dominant position of iron and steel exports in the category confirmed that production in the metallurgical industry had consolidated in 2000. The year-on-year increases in exports in the other two

categories, i.e. mineral-based fuels (Sk 18.2 billion) and chemicals (Sk 10.1 billion), which accounted for 23% of the total increase in exports, were caused, as the growth in imports, mainly by a rise in the price of oil and oil products on world markets.

The prices of strategic raw materials on world markets considerably affected the size of the trade deficit. For the Slovak economy, which is dependent on the imports of energy-producing raw materials, the price of oil and gas is a crucial factor in the balance of trade and that of payments on current account. Of the total year-on-year growth in imports (Sk 121.8 billion), the increase in the import of mineral-based fuels (Sk 42.7 billion) accounted for 35%. As a result of the high price of oil and gas on the world market and the appreciation of the US dollar, the price effect was responsible for 92.7% of the year-on-year increase in imports of mineral-based fuels and 32.5% of the year-on-year growth in total imports.

Another dominant factor with regard to imports was the growth in imports for intermediate consumption (raw materials and semi-finished goods such as iron and steel, non-ferrous metals, textile yarn, paper, etc.). The year-on-year increase in the import of these commodities, which was associated with the revival of industrial production, reached, together with some commodities in the category 'chemicals' (an increase in the import of organic chemicals and plastics, which generated roughly 60% of the growth in imports) a total of Sk 36.2 billion, representing 29.7% of the total increase in imports.

The increased international co-operation and growth in imports for investment led to an increase in the import of machinery and transport equipment (Sk 33.6 billion), which accounted for 27.6% of the year-on-year growth in imports (according to the estimates of NBS, deliveries involving international co-operation represented 50% of the said increase, imports for consumption 20%, and imports for investment 30%). The slow growth in the import of food and industrial products (compared with other

categories) was reflected in the share of these imports (7.7%) in the total year-on-year increase.

In 2000, the balance of services generated a surplus of Sk 20.3 billion, which represented a year-on-year increase of Sk 11.3 billion. Despite an increase in the dynamics of trade in services (receipts increased by 21.5% and payments by 9.3%), the share of services in the total turnover of goods and services continued to show a tendency to fall (by 1.2 points, to 14.1%).

The largest surplus in the balance of services was, as in 1999, recorded in transport services, in the amount of Sk 25.9 billion (Sk 6.0 billion more than in 1999). Receipts from transport services reached Sk 45.9 billion, representing a year-on-year increase of Sk 10.3 billion. The improvement in the balance of transport services was, to a considerable extent, affected by non-economic factors. In terms of volume, the largest item within transport services was the income from the transit of gas and oil from Russia to the Czech Republic, Western and Southern Europe. Charges for the transit of gas and oil, which increase slightly every year, represent a regular revenue for the foreign exchange economy of the SR. The value of natural gas supplied from Russia as payment in kind for the transit charges was estimated to be worth Sk 26.5 billion. This amount includes the value of compressor gas (Sk 7.4 billion), which technically ensures the transport of gas through the territory of the SR. The value of compressor gas, which increases the level of income from transit, was eliminated by an increase in imports (in the same amount), which offset any effect on the balance of the current account.

The year-on-year increase in payments for transport services (Sk 4.3 billion, to Sk 20.0 billion) was due to increased payments for freight transport and other freight services in connection with the high rate of growth in imports.

Development in the area of foreign tourism showed no marked change in 2000 compared with the previous year. Net receipts from foreign tourism in the SR amounted to Sk 6,3 billion, representing

a year-on-year increase of Sk 1.3 billion. The trend of moderate increase in foreign exchange receipts in Sk, accompanied by a fall in the travelling expenses of Slovak citizens abroad, followed the course of development of the previous year and ensured that the stability of net receipts from foreign tourism over the course of the year was unaffected. Foreign exchange receipts from foreign tourism reached Sk 19.9 billion, giving a year-on-year increase of Sk 0.9 billion, i.e. 4.5% (receipts in US\$ fell by US\$ 29.1 million, i.e. 6.3%, as a result of a depreciation in the exchange rate of the crown to the dollar). The contribution to GDP creation continued to show a falling tendency, from 2.4% in 1999 to 2.2% in 2000. The persistent fall in the amount spent by Slovak citizens on foreign travel resulted in a year-on-year fall of Sk 0.4 billion (2.9%) in the level of expenses, to Sk 13.6 billion (in US\$, expenses fell year-on-year by 13%).

Unlike transport and tourism, which generated a surplus, the balance of 'other services' (communications, construction, insurance, financial, leasing, computer engineering, advertising, business, and technical services, etc.) resulted in a deficit of Sk 11.9 billion in 2000. The reduction in the size of the deficit in comparison with 1999 (by Sk 4.0 billion) was due mainly to an improvement in the area of business services, where receipts increased and costs fell. The results of business services reflected the existing financial situation of economic entities and their increased activity on domestic and foreign markets in obtaining expert advice, organising fairs and exhibitions, etc.

Despite the faster rate of growth in receipts than payments, most services within the balance of 'other services' remained in deficit in 2000. This group included financial services, legal services, accounting and consulting services, licensing, technical services, etc., where the range and quality of services were inferior to the level of services offered from abroad. The proportion of foreign capital inflow into the service sector in the form of direct investment to the total volume of foreign direct investment was very low, except for traditional services such as hotel services. The shortage of investments was also reflected in the

area of so-called strategic services, such as centres for customer support, research and development, software development, etc..

In 2000, the balance of payments on current account was negatively affected by the growing deficit in the balance of income. The size of the deficit reached Sk 16.3 billion, representing a year-on-year increase of Sk 3.8 billion. This was due primarily to an increase in interest payments on foreign loans, and reflected the high inflow of foreign loans and the rise in the level of foreign debt from previous years. Apart from the corporate sector, where interest payments on financial loans increase every year, the continued issue of government bonds on foreign markets led to an increase in interest revenue for the government sector.

Another item that recorded a deterioration in comparison with the same period a year earlier, was the balance of current transfers, where the surplus fell year-on-year by Sk 2.7 billion, to Sk 5.4 billion. This was due to a fall in receipts in connection with the transfer of funds from abroad by natural and legal persons in the form of benefits, damages, etc.. Within the scope of government transfers, the SR received funds in the form of subsidies from international organisations in the amount of Sk 44 million; on the other hand, contributions paid to international organisations abroad reached Sk 279 million.

## **2.2. Capital and Financial Account**

The deficit in the current account was financed from the surplus in the capital and financial account, while the inflow of foreign capital in the form of direct investment (excluding privatisation) covered the current account deficit by more than 100%. The investment requirements of domestic entities was covered from foreign resources, via foreign banks and financial companies. A significant element of financing was the increase in the diversification of relevant financial flows. A view of the capital and financial account shows that its structure was dominated by direct and portfolio investments.

Direct foreign investment in net terms (the difference between direct investments made by Slovak entities abroad and foreign entities in Slovakia) amounted to Sk 95.1 billion and resulted from the inflow of capital into Slovakia in the form of direct investment in the amount of Sk 95.9 billion and the outflow of capital via the activities of Slovak economic entities abroad in the amount of Sk 0.8 billion.

Direct investment in the SR was marked by an increase in the capital interests of foreign investors in Slovakia (Sk 91.3 billion). The increased inflow of foreign capital in 2000 was documented by the fact that the volume of capital invested by foreign companies in the Slovak economy in the form of increases in capital interests, almost corresponded to the total volume reached in previous years. This growth was caused by the entry of foreign investors into companies and banks based in the SR and to the sale of state property to foreign investors. Foreign direct investment (excluding privatisation activities) reached Sk 49.2 billion, which was 250% more than in 1999.

Owing to the privatisation activities of the State, the interest of foreign investors focused on transport and communications (46% of the total inflow). A change was also recorded in the allocation of foreign direct investments excluding privatisation funds, when the interests of foreign investors in industrial production increased. Investment in industries, such as metal working, oil refinery, paper and pulp production, etc., is not a sign of revival of sophisticated production, but may play a significant role in the further revival of foreign trade in Slovakia.

The inflow of funds in the category 'net portfolio investment' (assets minus liabilities) reached Sk 36.4 billion. In 2000, domestic investors began to show increased interest in foreign securities. The outflow of capital in the amount of Sk 9.3 billion took place mainly through the purchase of foreign debt securities by commercial banks and the corporate sector.

Portfolio investments on the side of liabilities, which include the issue of securities by domestic entities on foreign markets and the purchase and sale of securities issued in Sk by non-residents, reached Sk 45.6 billion.

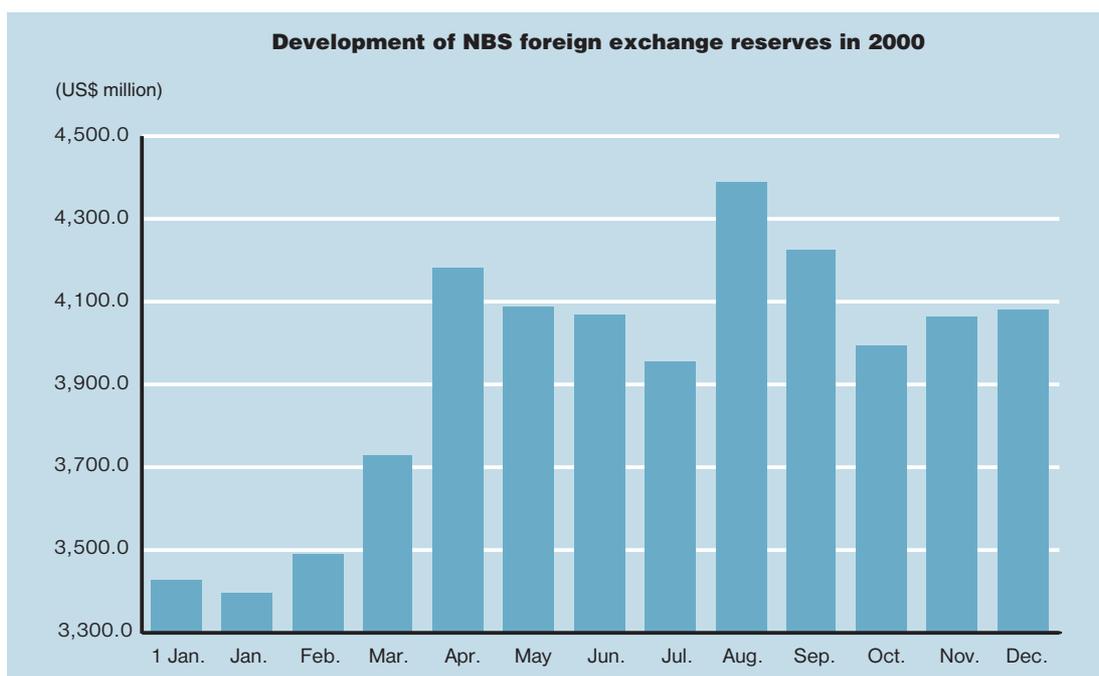
The structure of portfolio investments on the side of liabilities was dominated by debt securities (Sk 48.2 billion) due to the issue and sale of government and corporate bonds. Government bonds in the holdings of non-residents reached Sk 27.0 billion, and were the result of bond issues on foreign markets and trading in bonds issued in Slovak crowns. Apart from government bonds, portfolio investments were affected by issues of corporate securities on foreign markets, in the amount of Sk 21.2 billion.

The growth in interest in debt securities among foreign investors was accompanied by the continued decline in interest in Slovak stocks and shares, while the sale of stocks and shares by non-residents reached Sk 2.6 billion.

A substantial change was recorded in other long-term investments, which saw a capital outflow of Sk 23.9 billion. This was due partly to a change in the structure of long-term capital provided, when part of the financial loans was replaced by an issue

of government or corporate bonds on foreign markets. Another factor which affected the development of other long-term investments was an increase in the repayment of financial loans granted during the previous period. Within the scope of other long-term capital, the repayment of financial loans (Sk 75.6 billion) exceeded drawings (Sk 54.9 billion), while the outflow of capital reached Sk 20.7 billion. The structure of other long-term capital by sector was dominated by the corporate sector, both in drawings and repayments.

In the corporate sector, most financial loans were provided to industry (54.3%), predominantly the textile industry and the production of rubber and plastic goods. The change in the structure of financial loans by sector compared with the previous year, when the drawing of financial loans was concentrated in transport and communications, production and distribution of electricity, gas, and water, was due partly to a change in the structure of long-term capital inflow from abroad by sector and partly to a change in the structure of transactions concluded on the financial account. Funds obtained from issues of bonds on foreign markets as part of portfolio investments, were also allocated to the sectors 'transport and communications' and 'the production and distribution of gas'.



As for other short-term investments, the net outflow of capital from Slovakia reached Sk 48.4 billion. The volume of short-term capital was affected by transactions on the side of short-term assets (Sk -41.8 billion) and that of short-term liabilities (Sk -6.5 billion). The development of short-term assets was determined by the banking sector. The outflow of capital in the form of short-term deposits and other short-term assets in the banking sector contributed 85% to the total outflow of short-term assets from the SR. The asset side was also affected by the provision of commercial loans abroad in connection with export. An outflow of short-term capital was also recorded on the side of liabilities. Its volume was affected during the year mainly by the excess of repayments over drawings of short-term financial loans in the corporate sector.

In 2000, the foreign exchange reserves of the NBS increased by Sk 34.1 billion, i.e. US\$ 823.7 million (excluding exchange rate differentials).

### **2.3. Foreign Exchange Reserves**

The foreign exchange reserves of the NBS totalled US\$ 4,076.8 million at the end of 2000. The key factors that positively affected revenues were the issues of Eurobonds by the Slovak Government on foreign financial markets, receipts from the purchase of foreign exchange from commercial banks on the interbank foreign exchange market, and income from the privatisation of Slovak Telecom. The expenditure side was determined by debt service payments by the NBS and loan repayments by the Government within the scope of guarantee fulfilment. During the year, the level of foreign exchange reserves was also affected by the development of cross-rates between fully convertible currencies on world financial markets. The positive balance of revenues and expenditures (US\$ 823.7 million) was partly offset by negative exchange rate differences (US\$ -172.1 million), which resulted from the weakening of other fully convertible currencies (especially the euro) against the US dollar on international financial

markets. Thus, the foreign exchange reserves of the NBS grew by US\$ 651.6 million compared with December 1999.

The revenue side of foreign exchange reserves was determined by the following factors:

- the drawing of government loans from foreign financial institutions in the amount of US\$ 643.0 million (34% of total revenue), of which the Government's Eurobond issues on foreign financial markets accounted for US\$ 473.8 million;
- purchase of foreign exchange from commercial banks on the interbank foreign exchange market through direct transactions and central bank interventions, in the amount of US\$ 536.6 million (28% of total revenue);
- income from the privatisation of Slovak Telecom in the amount of US\$ 533.8 million;
- yields from deposits and securities held in the portfolio of the NBS in the amount of US\$ 115.6 million;
- borrowings of the NBS from the European Investment Bank in the amount of US\$ 4.4 million;
- other receipts of the NBS in the amount of US\$ 76.1 million.

The expenditure side of foreign exchange reserves was affected by:

- other expenditures of the NBS in the amount of US\$ 452.3 million (42% of total expenditure), incurred mostly in connection with the realisation of cross-border payments for NBS clients (US\$ 358.6 million), but were also significantly affected by loan repayments in December within the scope of government-guarantee fulfilment;
- debt service payments by the NBS in the amount of US\$ 250.4 million, of which the last repayment of an IMF loan accounted for US\$ 127.1 million (including the repayment of an STF in the amount of US\$ 98.3 million). In this way, the Slovak Republic fully settled its liability to the IMF;
- debt services payments by the Government in the amount of US\$ 177.9 million, of which US\$ 107.1 million was used for the repayment of

### External Debt of the SR (US\$ millions)

	31.12.1999	31.12.2000
<b>Total external debt of the SR</b>	10,517.9	10,804.2
<b>Official debt of the Government and the NBS</b>	2,547.0	2,916.5
<b>Official short-term debt</b>	6.0	0.0
<b>Government agencies</b>	208.4	371.9
<b>Municipalities</b>	64.1	95.7
<b>Foreign liabilities in the commercial sector</b>	7,698.4	7,420.2
<b>Commercial banks</b>	680.4	683.5
<b>Entrepreneurial entities</b>	7,018.0	6,736.8
<b>Medium and long-term foreign liabilities in the commercial sector</b>	4,998.3	5,005.2
<b>Commercial banks</b>	345.4	316.7
<b>Entrepreneurial entities</b>	4,652.9	4,688.5
<b>Short-term liabilities in the commercial sector</b>	2,700.1	2,415.0
<b>Commercial banks</b>	335.0	366.8
<b>Entrepreneurial entities</b>	2,365.1	2,048.3

interest on Eurobonds issued by the Government;

- the sale of foreign exchange to commercial banks on the interbank foreign exchange market through direct transactions and central bank interventions in the amount of US\$ 200.6 million.

At the end of December 2000, the foreign exchange reserves of the NBS were 3.4 times greater than the volume of average monthly imports of goods and services to Slovakia during the year 2000, which represented an increase of 0.3 months in coverage compared with the figure recorded at the end of 1999. This increase was due primarily to growth in foreign exchange reserves during the year, which was partly offset by an increase in the volume of average monthly imports of goods and services (11% in US\$).

The foreign exchange reserves of commercial banks (defined as short-term foreign exchange assets vis-à-vis non-residents) reached US\$ 1,504.9 million on 31 December 2000, representing an increase of US\$ 542.7 million compared with the end of 1999. At the end of 2000, the volume of foreign exchange reserves in the banking sector including the NBS, stood at US\$ 5,581.7 million (compared with US\$ 4,387.7 million at the beginning of the year).

### 2.4. External Debt of the Slovak Republic

At 31 December 2000, the total gross external debt of the Slovak Republic amounted to US\$ 10.804 billion. At the same date, the official debt of the Government and the NBS stood at US\$ 2.917 billion.

The level of debt in the commercial sector, i.e. commercial banks and entrepreneurial entities (including foreign debt liabilities vis-à-vis non-residents in Sk), reached US\$ 7.420 billion at the end of December. The indebtedness of municipalities (bonds issued by the municipality of Bratislava, capital of the SR) amounted to US\$ 95.7 million. The level of foreign direct debt owed by government agencies (State Road Fund) stood at US\$ 371.9 million.

With regard to the structure of Slovakia's gross external debt, total gross medium and long-term foreign liabilities accounted for US\$ 8.389 billion. At the end of December, the volume of short-term liabilities totalled US\$ 2.415 billion. Per-capita gross external debt amounted to US\$ 2.021. The share of total short-term debt in the country's total gross foreign debt came to 22.35%.

The net external debt of the SR – expressed as the difference between gross foreign debt, i.e. US\$ 10.8 billion (liabilities of the Government and the NBS, liabilities of commercial banks and the corporate sector – except capital participation), and foreign assets, i.e. US\$ 7.9 billion (foreign exchange reserves of the NBS, foreign assets of commercial banks and the corporate sector – except capital participation), reached US\$ 2.9 billion at the end of December. At the beginning of 2000, net foreign debt stood at US\$ 4.4 billion. As a result of privatisation, the level of new foreign debt fell significantly during the year 2000 (by US\$ 1.5 billion), with the most significant falls being recorded in the sector of commercial banks (US\$ 0.8 billion) and that of businesses (US\$ 0.5 billion).

## 2.5. Licensing Activity of the NBS

In 2000, the licensing activity of the NBS was affected by the legislative adjustments made to the foreign exchange regime with effect from 1 January and comprised the following measures:

- liberalisation of the provision of financial loans to OECD countries with a maturity of at least one year and loans to OECD countries to pay for goods and services;
- liberalisation of the acceptance of loans with a maturity of at least one year and loans from OECD countries to pay for goods and services;
- liberalisation of the issue of guarantees for the liabilities of foreigners with a term of at least one year.

Foreign exchange permits and licences were issued as follows:

- foreign exchange permits: 825 permits and 49 supplements;
- foreign exchange licences: 62 licences and 36 supplements.

## Foreign Exchange Permits

### Investment Abroad

In 2000, the NBS issued 28 foreign exchange permits, of which 26 permits for direct investment abroad (except OECD countries) in the amount of Sk 466.1 million and 2 permits for portfolio investment in the amount of Sk 2.3 million.

Of the total number of permits issued for investment abroad, 26 foreign exchange permits were for investment in the form of cash deposits in the amount of Sk 343.2 million, and 2 permits for investment in securities (shares) in the amount of Sk 125.2 million.

### Structure of investment by country

Country	Number of permits	Investments (in Sk millions)
Bulgaria	4	314.7
Ukraine	8	134.5
Lebanon	1	6.8
Georgia	1	4.7
Libya	1	2.4
Island	1	2.2
Rumania	6	1.4
Russia	2	1.2
Lithuania	1	0.4
Cyprus	3	0.1
Total	28	468.4

*Note: Direct investment in OECD countries has been liberalised.*

### Acceptance of Financial Credits from Abroad

In 2000, the NBS issued 24 foreign exchange permits and 23 supplements relating to borrowing from abroad, in the total amount of Sk 20,388.3 million.

With regard to structure by term, credits with a maturity of up to one year represented 5.1% (Sk 1,041.4 million) and medium and long-term loans with the possibility of early repayment within a year accounted for 94.9% (Sk 19,346.9 million).

The largest volume of loans was provided by entities based in Great Britain (Sk 16,413.1 million), Luxembourg (Sk 2,199.8 million), and in Germany (Sk 1,086.5 million).

In four cases, the NBS granted exceptions to the transfer requirement for financial loans from abroad in the amount of Sk 16,057.7 million, including 2 cases where the opening of a foreign bank account was involved (Sk 469.4 million).

#### ***Covering the Obligations of Nonresidents by Residents***

To secure the obligations of subsidiary or partner companies abroad, the NBS issued 9 foreign exchange permits and 1 supplement to domestic entities, in the total amount Sk 343.3 million.

#### ***Provision of Financial Credits to Non-residents***

In 2000, 7 foreign exchange permits were issued for the provision of financial credits abroad, in the amount of Sk 7.0 million.

#### ***Trading in Foreign Securities***

For the sale and purchase of foreign securities, the NBS issued 590 foreign exchange permits and 1 supplement in the total amount of Sk 164.2 million. Of this amount, 7 foreign exchange permits were for the sale of foreign securities in the amount of Sk 124.3 million, 583 permits for purchase, and 1 supplement in the amount of Sk 39.9 million.

For trading in foreign securities in Slovakia, the NBS issued 4 foreign exchange permits in the amount of Sk 820.0 million and 1 supplement to a foreign exchange permit for the placement of foreign securities on the domestic market.

#### ***Trading in Financial Derivatives***

The NBS issued 86 foreign exchange permits for the conclusion of option contracts for the purchase of foreign securities (employee shares) and 1 supplement to a foreign exchange permit for trading in financial derivatives, in connection with the repayment of loans received in foreign currency.

#### ***Opening Foreign-currency Accounts at Foreign Banks***

- 54 foreign exchange permits and 21 supplements were issued for the opening of foreign-currency accounts at foreign banks for the purpose of covering necessary expenses incurred in connection with construction, assembly, and repair work abroad, in a total amount of Sk 3,195.4 million (estimated in the contracts);
- 2 foreign exchange permits for the opening of currency accounts at foreign banks in connection with the acceptance of loans from non-residents;
- 18 foreign exchange permits were issued in connection with the issue of bank guarantees;
- 5 foreign exchange permits and 1 supplement exempting the holder from the transfer requirement in connection with the acceptance of financial credits from non-residents as payment for goods and services abroad and the repayment of these loans from foreign receipts, in connection with the coverage of hedging operations on commodity markets and the issue of licences for trading in financial derivatives and foreign securities.

#### ***Foreign Exchange Licences***

- 55 foreign exchange licences and 34 supplements were issued for trading in foreign currencies and traveller's cheques (non-bank exchange offices);
- 4 foreign exchange licences and 2 supplements for transactions in foreign securities;

- 3 foreign exchange licences for trading in financial derivatives.

### 3. PUBLIC SECTOR

#### Budgetary Performance

Budgetary performance in 2000 was regulated by Act No. 372 on the State Budget of 16 December 1999, with revenue projected in the amount of Sk 183.8 billion and expenditure estimated at Sk 201.8 billion. The budget deficit for 2000 was set at Sk 18 billion, but Article 12 of the Act allowed this deficit to be increased by the amount of bonds issued for bank restructuring, the discharge of liabilities arising from government guarantees for bank loans, and the acceptance of new credits for loan portfolio restructuring at specific banks, and for the financing of social security projects, in the total amount of Sk 43 billion.

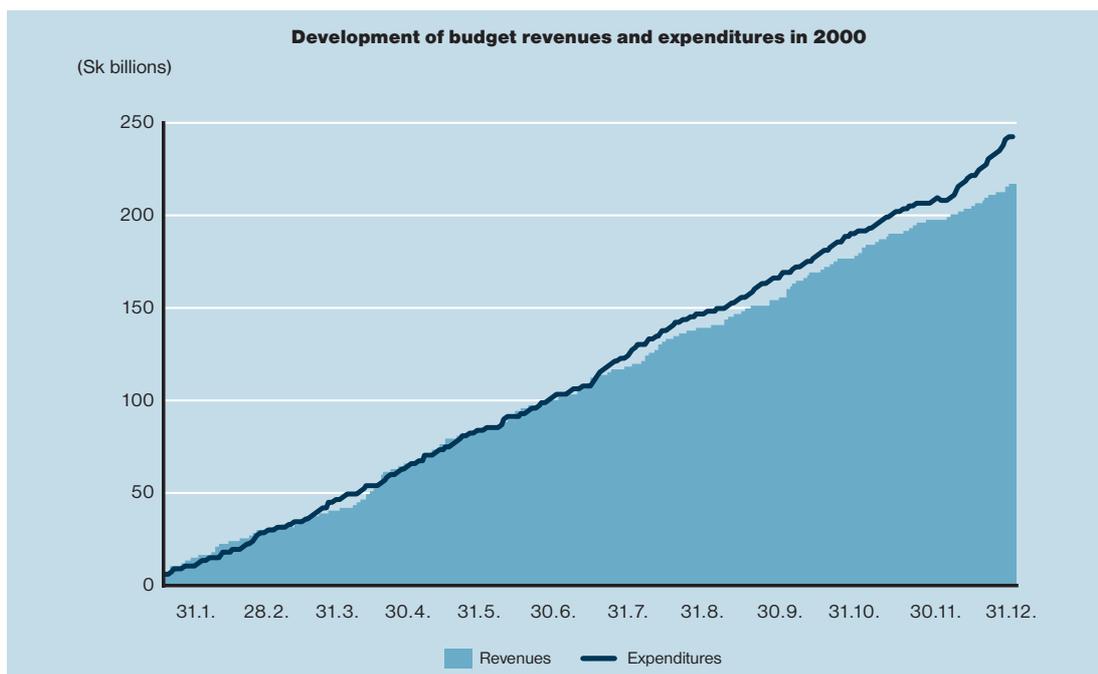
At the end of the year, the State Budget resulted in a deficit of Sk 27.6 billion. This figure consists of a shortfall in the current performance of the State Budget (Sk 14.7 billion) and the permitted increase

pursuant to Article 12 of the State Budget Act, through the bonds issued for the restructuring of selected banks (Sk 8.5 billion) and the discharge of liabilities arising from government guarantees covering the loans of Vodohospodárska výstavba, š. p. (Water Resources Management Company, state comp.) (Sk 4.4 billion). With regard to the fact that the said increase had neither a direct effect on domestic demand, nor on the level of inflation or the balance of trade, the increase may be left out of consideration from the monetary policy point of view.

Total budget revenue reached Sk 213.5 billion, exceeding the budgeted figure by 16.1%. Total revenue and expenditure must be adjusted for unbudgeted grants and transfers, as they are only incidental to the budget (are not real revenue). In 2000, net revenue reached Sk 191.3 billion, exceeding the budgeted figure by Sk 7.5 billion.

The most significant contribution to the growth in budget revenues was derived from value-added tax, which exceeded the budgeted figure by Sk 7.7 billion and the figure for the previous year by Sk 11.6 billion.

Revenue from excise duties exceeded the budgeted level by 5.4% (i.e. Sk 1.4 billion) and the figure for the previous year by Sk 3.3 billion.



Revenue from corporate income tax was 2.5% above the budgeted level and Sk 3.1 billion higher than in 1999. In the area of personal income tax, however, the budgeted revenue was not fulfilled. Compared with the budgeted Sk 27.1 billion, personal income tax was collected in the amount of Sk 25.4 billion. In 2000, revenue from personal income tax remained Sk 5.0 billion below the level of 1999.

Real development confirmed the expectation that budget revenue had been underestimated. With regard to the favourable fulfilment of corporate income tax revenues, corporate entities were allowed to make advance payment of this tax at a reduced rate (29%).

Budget expenditure reached Sk 241.1 million (19.5% more than the amount fixed in the State Budget Act), while expenditure without grants and transfers, expenses on bank restructuring, and the realisation of guarantees for VHV (Vodohospodárska výstavba) loans reached Sk 206.1 billion, which was Sk 4.3 billion above the budgeted level.

On the whole, it is possible to say that the budgetary levels laid down in the State Budget Act were basically observed. The deficit of the country's standard budgetary performance remained under the planned level and reached approximately 82% of the budgeted figure.

### **Government Guarantees**

Principal of government guarantees in 2000 amounted to Sk 35.3 billion, and concerned mainly loans to Slovak Railways, the Slovak Power Company, and the State Road Fund. The volume of guarantees taken up was Sk 10 billion higher than in 1999.

The volume of realised government guarantees was also higher than in the previous year, and amounted to Sk 15.5 billion, of which Sk 9.8 billion was covered by income from privatisation, which is not included in the balance of budget revenues and expenditures.

### **Relationship Between the NBS and the State Budget**

In 2000, the relationship between the National Bank of Slovakia and the Ministry of Finance of the SR was based on market principle, rather than on a fixed basis, which meant that interest rates on the assets of the State held in the summary memorandum account of the Slovak Republic at the NBS were realised subject to the fluctuations in interest levels on the interbank money market. In the period concerned, interest was calculated on the basis of the average overnight BRIBOR rate less 2%. In accordance with the decision of the Bank Board of the NBS, this interest payment regime was first applied on 1 January 2000.

Interest was paid to the Treasury in the amount of Sk 1.16 billion in 2000, from the summary memorandum account of the SR at the NBS.

Pursuant to Act No. 372/1999 on the State Budget for 2000, the National Bank of Slovakia was to transfer Sk 2.0 billion of its profit to the State Budget of the Slovak Republic. The actual amount of transfer to the State Budget reached Sk 7.346 billion, of which Sk 4.0 billion was transferred in 2000 and Sk 3.346 billion entered in the relevant account as budget revenue in 2001.

### **Development of State Financial Assets and Liabilities in 2000**

State financial assets maintained in the form of deposits at the NBS amounted to Sk 1.1 billion at the end of 2000. Over the course of the year, a marked change was recorded in the assets: they fell by Sk 14.4 billion compared with the initial level in 2000 (Sk 15.5 billion). Since the relevant legal regulations enabling the transfer of NBS's remaining profit to state financial assets had been approved in 1999, large volumes of funds were accumulated within state assets, which were used over the course of the year, as follows:

- Sk 4 billion was employed to settle the liabilities of Slovak Railways vis-à-vis the Social

Insurance Corporation and the Joint Health Insurance Company;

- Sk 10 billion was transferred to the account of ČSOB under the terms of a Revolving Loan Agreement signed between IMF and ČSOB;
- Sk 0.4 billion was used in out-of-court restitution.

State financial liabilities reached a zero value at the end of the year.

### **State Funds**

At the end of 2000, the overall position of State funds was that of a debtor, in the amount of Sk 26.7 billion. This position was in large part due to domestic and foreign credit facilities, totalling Sk 36.2 billion at the end of December. The dominant part of these credits (96.7%) was granted to the State Road Fund, for the financing of motorway construction in Slovakia. Excluding credit resources and funds which were allocated from the State Housing Development Fund to individual entities but remained unused (Sk 1.5 billion), State funds had Sk 8.0 billion at their disposal for the financing of their activities. In comparison with 1 January 2000, the volume of credits increased by Sk 8.5 billion. During the year, the largest balance was recorded in the account of the State Fund for the Liquidation of Nuclear Power Engineering Facilities and Handling of Spent Fuels and Radioactive Waste, which stood at Sk 3.7 billion at 31 December 2000.

### **National Property Fund**

The position of the National Property Fund of the SR (NPF) vis-à-vis the banking sector was predominantly that of a debtor throughout the year, and amounted to Sk 0.1 billion at the end of December. A creditor position was achieved only during the period August to November, due to income from the privatisation of the State holding in Slovenské telekomunikácie, a.s. (Slovak Telecom), which was, however, used for the

discharge of government guarantees and the funding of development programmes in conformity with the wishes of the Slovak Government.

A total of 309,845 bonds were redeemed in 2000, mostly by using bonds for the repayment of the liabilities of the debtors of NPF. At 31 December 2000, the redemption date, 1,921,058 bonds remained in circulation, which represents roughly Sk 27 billion in financial terms.

### **Budgetary Performance of Public Finances**

In 2000, the budgetary performance of public administration (State Budget, State funds, NPF, Slovak Land Fund, Social Insurance Corporation, health insurance companies, National Labour Office, and municipalities) resulted, according to data from the Ministry of Finance, in a total fiscal deficit of Sk 30.2 billion (roughly 3.4% of GDP) according to IMF methodology. This amount included interest paid in connection with bank restructuring and expenses incurred in connection with the discharge of government guarantees for the loans of Vodohospodárska výstavba, š. p. (VHV).

## **4. MONETARY POLICY AND MONETARY DEVELOPMENT**

In 2000, the National Bank of Slovakia implemented its monetary policy in an environment marked by continued macroeconomic stabilisation. Compared with the previous year, the balance of payments on current account continued to improve, the ratio of fiscal deficit to GDP fell, the dynamics of prices slowed, and the rate of economic growth increased. This development encouraged stabilisation of the money and foreign exchange markets as well as a qualitative change in monetary policy. The shift to direct setting of the NBS rates for transactions with the banking sector led to a fall in volatility and the level of interbank

rates. In view of the favourable trend in macro-economic development, the NBS gradually reduced its key interest rates over the course of 2000. This was, in turn, reflected in lower interest rates for customers. In 2000, the conduct of monetary policy was also affected by the privatisation activities of the Government, which led to growth in the money supply and a rise in the level of liquidity in the banking sector. As a result, the NBS sterilised an average of Sk 40 billion per day in 2000.

The fall in interest rates on loans, the reduction in the ratio of required reserves, and the increase in excess liquidity, paved the way for further development of the economy.

#### **4.1. Monetary Development**

The activities of the NBS were affected in 2000 by the favourable development of the economy not only in the area of prices but also in foreign trade, the sale of the State holding in Slovak Telecom, and the ongoing restructuring of selected commercial banks. These factors were reflected in the exchange rates area and the development of monetary aggregates, as well as in the implementation of monetary policy.

The favourable trend in the capital and financial account of the balance of payments, coupled with the utilisation of interest rate differentials by foreign investors, caused the exchange rate of the Sk to appreciate during the first months of the year, which the NBS dampened through interventions on the foreign exchange market. The NBS intervened against further depreciation of the crown, in the light of the effects of non-economic factors during the second half of the year, a steep increase in imports in the last quarter and seasonal development in the exchange rate of the crown towards the end of the year. On a year-on-year basis, the exchange rate of the SKK to EUR depreciated by 3.76%. In relation to the US dollar, the crown depreciated by 12.56%, due to external factors such as the development of the US

economy and the USD/EUR cross-currency rate. With regard to the fact that the reference currency for the Slovak crown is the euro, the exchange rate of the crown to the US dollar remained outside the scope of central bank intervention.

The depreciation in the nominal exchange rate of the crown against the currencies of our trading partners was not offset by a rise in the level of domestic inflation - expressed in terms of the producer price index - contrary to the dynamics of prices in the countries of our trading partners. As a result, the real effective exchange rate depreciated by 1.3% and represented a moderate improvement in the price competitiveness of Slovak producers on foreign markets.

The privatisation activities of the Government had no direct effect on exchange rate development as receipts from privatisation were automatically converted at the NBS before being deposited in a special account at the National Property Fund. This eliminated any one-off effect on the exchange rate, but the sterilisation position of the NBS increased as a result.

The development of monetary aggregates in 2000 was affected by the situation in the banking sector, the end of operations and reporting at some commercial banks, the restructuring of selected banks, and the privatisation activities of the Slovak Government.

The growth in the money supply was stimulated by both foreign and domestic resources. Net foreign assets increased (at fixed 1993 exchange rates) by Sk 28 billion and the rate of growth reached 68.7%. Net domestic assets recorded a year-on-year increase of Sk 44.0 billion (9.4%), due primarily to growth in the volume of net credit to the Government.

The position of the National Property Fund (NPF) improved by Sk 1.1 billion compared with the beginning of the year. In comparison with August (when Slovak Telecom was sold), however, the position of NPF had deteriorated, i.e. the volume of deposits in net terms fell by Sk 19.8 billion. Part of

these funds affected the development of M2, part was reflected in the budgetary performance of social security funds, and part was used for the payment of guarantees on foreign loans, i.e. had no expanding effect on the domestic economy.

The volume of net credit to the Government, which grew during the year by Sk 23.9 billion (at fixed 1993 exchange rates), was affected by budgetary performance, which resulted in a deficit lower than expected, and by bank restructuring expenditure. In this context, the increase in the level of debt in the public sector is acceptable.

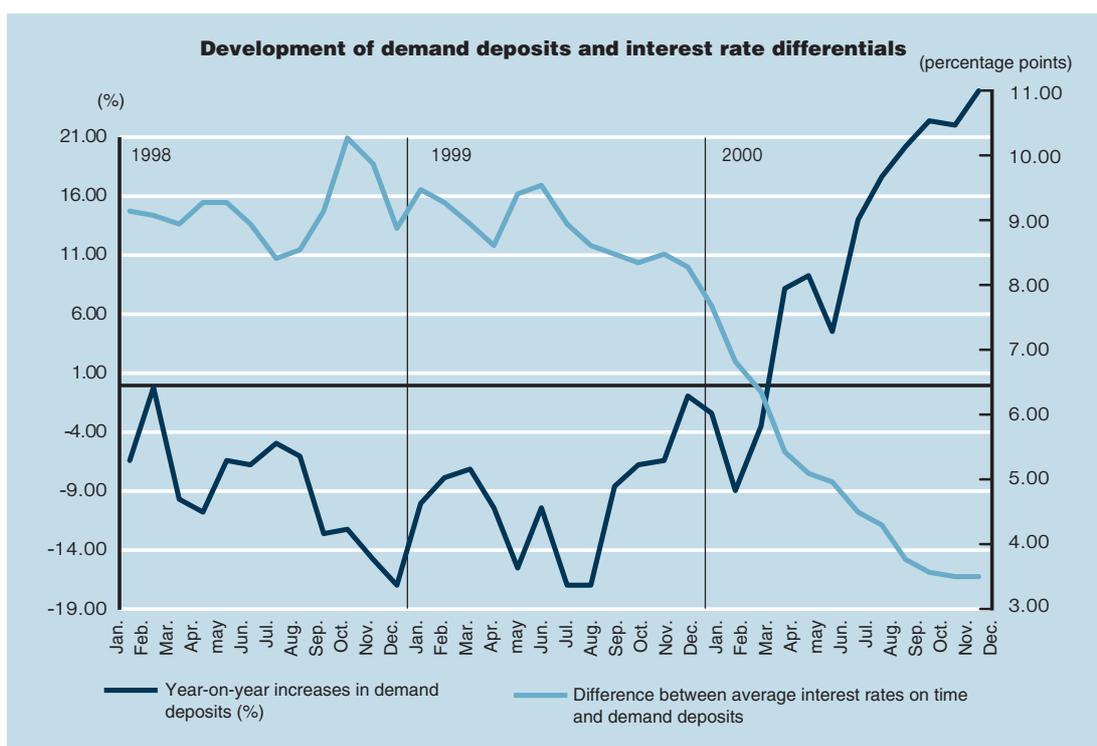
Within the domestic resources of M2, an absolute fall was recorded in bank lending (Sk 1.0 billion; 0.2%). In evaluating the total volume of bank loans, however, it is necessary to take into account factors which had, compared with 1999, one-off, artificial, and temporary effects, and included the winding-up of operations and reporting at three commercial banks and loan portfolio restructuring at selected banks. This led to a fall in the capitalisation of non-performing loans, the use of provisions, and the reclassification of loans. After adjusting the total volume of loans for the given effects and creating a homogenous time series

comparable with 1999, the volume of loans shows a year-on-year increase of 4.1%. This roughly corresponds to the rate of growth projected in the monetary programme and the figure from the end of 1999. This would indicate that bank lending was not totally stagnant, but that the structure of the increase had changed in favour of households.

#### 4.2. Structure of the Money Supply

In 2000, the M2 money supply (at fixed 1993 exchange rates) increased by Sk 72.1 billion, due to growth in both quasi-money (Sk 38.7 billion) and the M1 aggregate (Sk 33.4 billion). At the end of the year, the volume of the money supply reached Sk 580.4 billion.

The dynamics of year-on-year growth in the M2 aggregate gradually increased during the year (the marked increase in the rate of year-on-year growth in August and September was caused by the sale of part of the State holding in Slovak Telecom to a foreign investor), reaching 14.2% at the end of December, which represented an increase of 3.3 percentage points in comparison with 1999. The



M1 aggregate grew by 21.7% (compared with a fall of 4.6% in 1999) and quasi-money by 10.9% (compared with 13.9% in 1999) on a year-on-year basis.

The value of currency in circulation outside banks grew year-on-year by Sk 9.5 billion (16.5%) and its development during the year was characterised by a marked acceleration in its year-on-year dynamics. The payment of insured deposits to the clients of banks which had ceased to be operative (AG Banka, Slovenská kreditná banka, and Dopravná banka) had a stimulating effect on the issuing cycle.

Demand deposits increased during the year by Sk 23.8 billion and the year-on-year dynamics reached 24.7%. The increase took place in household (Sk 13.5 billion) and corporate deposits (Sk 10.3 billion). In the same period a year earlier, demand deposits had fallen in volume by Sk 1.1 billion (1.1%), of which household deposits by Sk 1.1 billion (2.7%) and corporate deposits by Sk 0.2 billion (0.3%). The development of demand deposits was affected by the diminishing interest rate differential between time and demand deposits. This was reflected mainly in the demand deposits of households, which had negative growth dynamics in the first months of 2000, but the rate of year-on-year growth accelerated considerably with the reduction in the difference between interest rates on time and demand deposits. The development of demand deposits in the corporate sector was affected, apart from the diminishing interest-rate differentials, by seasonal fluctuations in connection with the discharge of liabilities vis-à-vis the State Budget.

Time deposits grew in volume by Sk 29.7 billion (10.0%) during the year 2000. The most significant increase took place in corporate time deposits (Sk 13.9 billion), the annual growth dynamics of which increased by 3.2 percentage points, to 33.7%. The increase in corporate time deposits took place mostly in deposits at up to 1-month notice (13.8%), which accounted for 67.4% of total time deposits in the corporate sector, and in deposits at up to 3-month notice (13.4%), representing almost 10% of the total. Time deposits with a maturity of up to 1

year (representing 11.2% of total time deposits in the corporate sector) grew only slightly (by 1.8%). In the insurance sector, time deposits increased in volume by 22.9% (Sk 3.9 billion). Due to the small differences between short-term and long-term deposit rates, the corporate sector continued to prefer short-term deposits in 2000.

In the household sector, time deposits recorded an increase of Sk 11.9 billion in 2000. The year-on-year dynamics of time deposits have been on the decline since 1998. The attractiveness of time deposits fell considerably in the household sector in 2000, due probably to the reduction in the interest rate differential between demand and time deposits. The rate of year-on-year growth in time deposits reached only 5%, representing a slowdown of 7.7 percentage points in comparison with 1999. Within the structure of time deposits, the most significant increase took place in deposits at up to 3-month notice (4.9%) and deposits at up to 1-year notice (6.0%). Compared with 1999, the ratio of short-term deposits to time deposits of households increased slightly (by 2%), to 69% in 2000.

Slovak-crown deposits (demand and time) increased in volume by Sk 53.5 billion (13.6%) during 2000. The increase was due to growth in both household (Sk 25.4 billion) and corporate deposits (Sk 23.9 billion). In the household sector, the rate of growth in crown deposits slowed to 9.1% in 2000 (from 10.1% in 1999; 10.6% in 1998; 17.7% in 1997). This reflects the low purchasing power of households, the slow growth in nominal wages, and the high rate of unemployment. In the corporate sector, the rate of year-on-year growth in crown deposits increased by 11.9 percentage points, to 24.8%. In previous years (1997 and 1998), these deposits had shown negative growth dynamics, which could have been a result of improvement in the financial situation of business entities. The deposits of insurance companies grew by Sk 4.2 billion.

Foreign-currency deposits increased by Sk 9.0 billion (15.6%) in 2000 and their annual growth dynamics increased considerably in comparison with 1999 (Sk 3.5 billion; 6.5%). Household

deposits increased by only Sk 0.9 billion (2.3%), but corporate deposits grew by Sk 8.1 billion, representing a year-on-year increase of 44.0%. The marked increase in corporate deposits was due to an inflow of foreign funds in connection with the privatisation of strategic companies (increase in registered capital).

### 4.3. Lending Activities

Bank loans in Sk and foreign currency to the entrepreneurial sector, households, central and local authorities for extrabudgetary purposes, are loans reported by the banking sector according to the rules for statistical reporting<sup>4/</sup> (i.e. they are not adjusted for data on banks which have been closed, accounting transfers connected with restructuring, etc.; from a procedural points of view, they are not to be confused with loans to households and enterprises, which do not include the government sector).

At the end of the year, the total volume of bank loans reached Sk 407.6 billion, of which crown loans accounted for Sk 351.8 billion and loans in foreign currency Sk 55.8 billion. In comparison with December 1999, the total volume of loans fell by Sk 3.1 billion (0.8%), while crown loans increased by Sk 1.6 billion (0.5%) and foreign-currency loans declined by Sk 4.7 billion (7.8%).

Within the structure of crown loans, the most significant increases took place in loans to households (Sk 7.9 billion) and loans to non-financial organisations (Sk 0.9 billion). At the same time, bank loans to small businesses fell by Sk 5.7 billion, loans to central and local authorities for extrabudgetary purposes by Sk 1.3 billion, and loans to the financial sector by Sk 0.8 billion.

With regard to the structure of loans by sector, the

share of loans in the entrepreneurial sector decreased, while that of loans to households increased. At the same time, the share of loans in the public sector increased and that of loans in the private sector decreased. The changes in the structure of loans by sector were connected with the transfer of restructured loans to the public sector (i.e. loans originally made to the private sector).

In the structure of crown loans by term, the share of short-term loans increased by 2.7 percentage points (to 35.3%), that of medium-term loans by 0.1 points (to 37.5%), while the share of long-term loans decreased by 2.8 points (to 27.1%). Comparison with the initial state is, to some extent, distorted by loan portfolio restructuring at the three largest banks (the share of short-term loans increased as a result).

During the year, the structure of crown loans by sector changed with the shift of restructured loans to the category 'other loans', the share of which increased by 9 points. The share of loans in the production and distribution of electricity, gas, and water also increased slightly, by 1.6 percentage points. The most significant decreases took place in the percentage of loans in the following sectors: trade, repairs to consumer goods and motor vehicles, hotels and restaurants (from 16.8 to 11.7%); and industrial production (from 24.4 to 21.5%). In other sectors, the loan percentage decreased to a lesser extent.

Of the total volume of bank credit extended in 2000 (Sk 430.8 billion), loans to entrepreneurial entities accounted for 95% and were mostly short-term loans. The household sector absorbed 3.9% of the total volume of new loans.

With regard to the structure of new loans by purpose, operating loans accounted for 61.3% and overdraft facilities 20.0%. Loans granted for developmental programmes represented only 4.1%

*4/ Bank lending over the course of the year was affected mainly by loan portfolio restructuring at selected banks. In December 1999, classified loans were transferred to Slovenská konsolidačná, a.s. in the amount of Sk 61.7 billion and to Konsolidačná banka, š.p.ú. in the amount of Sk 11.4 billion. In June 2000, within the second stage of restructuring, Sk 30.9 billion was transferred to Slovenská konsolidačná, a.s.. The loans transferred were all provided at a rate of 10.30%. In connection with restructuring, several accounting transfers were made with the aim of reducing the reported volume of loans and influencing lending rates. The factors that affected the volume of bank lending included the ending of business operations and reporting at certain banks, an increase in the use of securities as an alternative to loans, and greater caution on the part of commercial banks when granting new loans.*

of the total volume of credit extended, which was associated with their structure by term. Short-term loans with a maturity of up to 1 year accounted for 96.1% of the volume of new loans. June 2000 saw the second stage of loan portfolio restructuring at selected banks, which distorted the structure of loans by term and purpose to some extent.

#### **4.4. Interest Rate Development**

The qualitative control of monetary policy through key interest rates of the NBS when faced by excess liquidity in the banking sector, led to a gradual fall in customer interest rates on loans and deposits at commercial banks.

From April, average interest rates on new loans followed a downward trend, thus copying the NBS's key interest rate adjustments. During the year 2000, the level of these rates was steadily approaching the overnight refinancing rate of the NBS.

The development of interest rates in 2000 was considerably affected by the transfer of loans to Slovenská konsolidačná, a.s. in connection with restructuring of the banking sector. The transfers affected the rates of interest on both the volume of existing loans and on new loans. They took place in December 1999 and June 2000.

The price of new loans fell by 1.77 points compared with December 1999 (to 10.78%). However, loans transferred in connection with loan portfolio restructuring were not included in the average rate of interest for December 1999. During that month, loans were transferred to Slovenská konsolidačná, a.s. in the amount of Sk 61.7 billion at a rate of 10.30%, which considerably affected the figure for the comparison period. Without the restructuring effect, the interest rates would have fallen by 5.35 points.

During the year under review, the rates for short-term loans fell by 5.66 percentage points, to 10.74%. With regard to the dominant proportion of

short-term loans (96.0%), short-term rates contributed significantly to the fall in the average rate of interest on new loans. Average interest rates on long-term loans fell by 4.54 points, to 9.56%. The ending of operations and reporting at certain banks also contributed to the fall in average interest rates.

Average interest rates on operating loans fell year-on-year by 11.03 percentage points, to 9.91% in December 2000. Interest rates on current accounts reached 14.25%, representing a fall of 8.55 points compared with 1999. Average interest rates on consumer loans to households fell year-on-year by 0.39 points, to 10.40%.

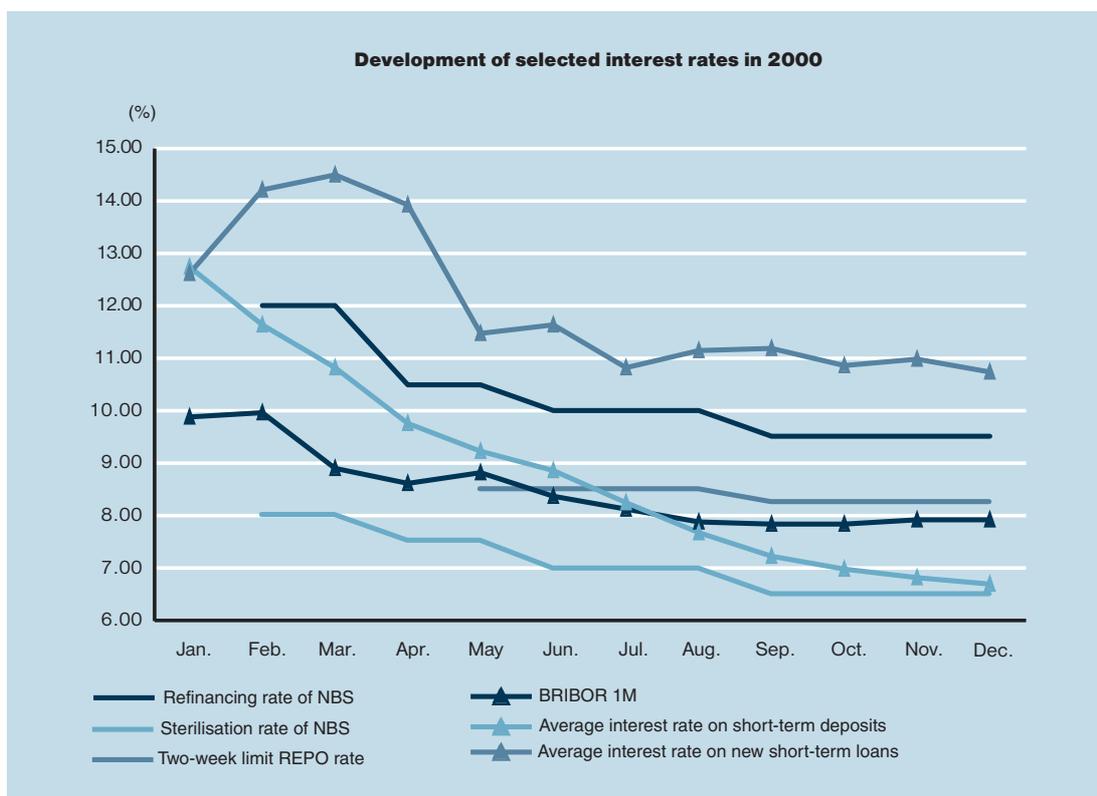
Real interest rates on new short-term loans, reduced by the rate of inflation expressed in terms of the consumer price index, reached 2.34% in December. In December 1999, they stood at 2.20%. Real interest rates, reduced by industrial producer prices, reached 1.64% in December 2000 (compared with 8.70% in the same period a year earlier).

The average interest rate on the total volume of loans fell by 3.95 percentage points, to 10.05% at the end of 2000. The average rate for short-term loans fell by 7.35 points (to 11.10%), that for medium-term loans by 3.10 points (to 9.54%), and the rate for long-term loans by 1.50 points (to 9.36%).

The development of interest rates on crown deposits during 2000 was characterised by a downward trend, which reacted to changes in the key rates of NBS more sensitively than the interest rates on loans.

In December 2000, the average interest rate for total crown deposits was 4.28 percentage points lower than in December 1999. The average rate for time deposits fell by 5.53 points (to 6.55%) compared with December 1999. The level of interest rates on demand deposits fell from 3.76% to 3.08%.

The fall in average interest rates for time deposits was due mainly to a change in average interest



rates for short-term deposits. The average rate for these deposits fell from 13.68% in December 1999 to 6.71% in December 2000, representing a fall of 6.96 percentage points. In December 2000, the average interest rate for medium-term deposits reached 7.81% (a year-on-year fall of 3.65 percentage points) and that for long-term deposits 4.55% (an increase of 0.08%).

In December 2000, real interest rates on one-year deposits were negative, at the level of 0.96%, as in December 1999 (1.89%). The level of real interest rates on short-term deposits, expressed as the difference between the average annual rate of interest on short-term deposits and average annual inflation, reached a negative value (3.1%) in 2000, which had been positive a year earlier (3.93%).

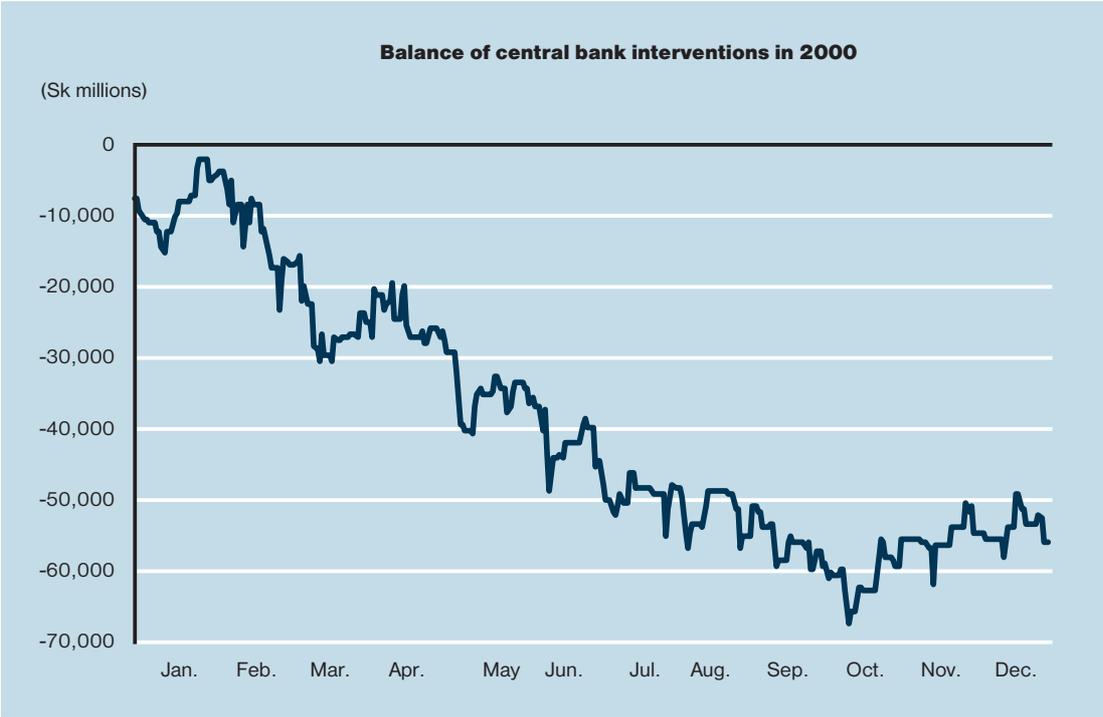
#### 4.5. Implementation of Monetary Policy

The implementation of monetary policy in 2000 was affected mainly by the shift to qualitative

monetary control, which was in line with the harmonisation of instruments employed by ECB. Another characteristic feature of monetary development was the increase in the sterilisation position, to Sk 56.3 billion at the end of 2000, from Sk 8.0 billion at the beginning of the year. The sterilisation of excess liquidity took place mainly through two-week REPO tenders and issues of three-month NBS bills.

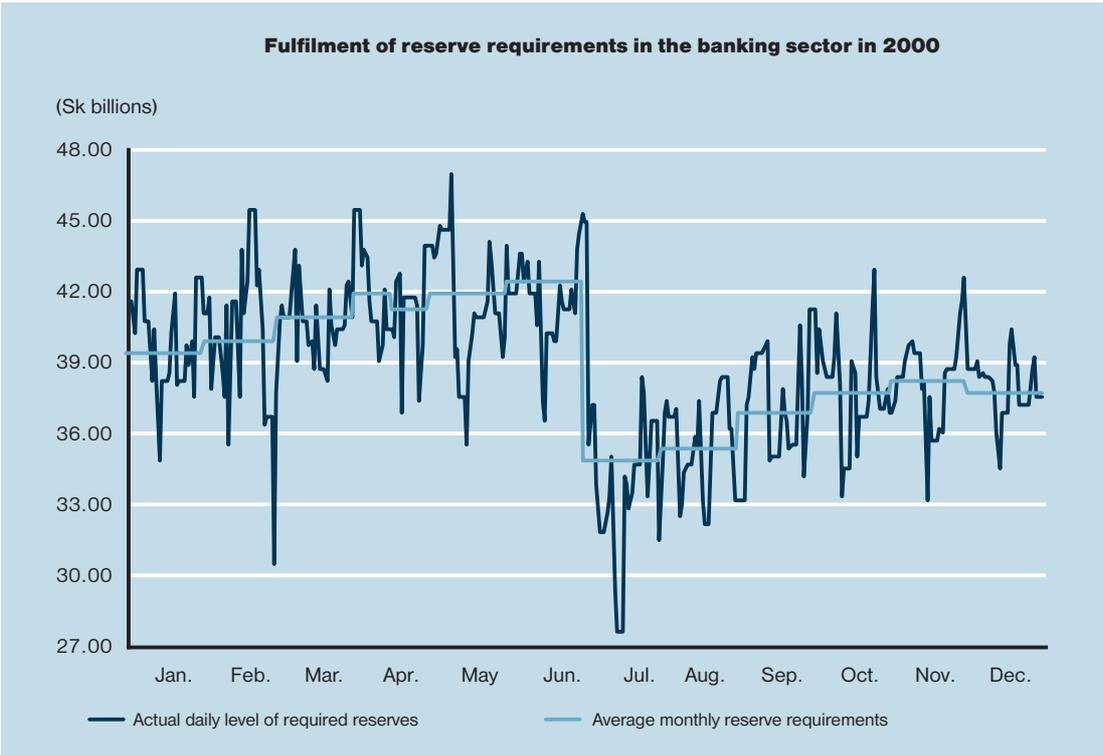
The change in the implementation of monetary policy was due to the fact that the NBS began to set interest rates for overnight transactions with commercial banks (from 1 February) and a limit rate for two-week REPO tenders (from May). In so doing, the NBS took another step towards the standardisation of its monetary instruments and increasing the transparency of monetary control. In comparison with the rate for overnight operations, the two-week REPO rate represents a strong signal from the NBS for the desired development of interest rates and the expected course of monetary and economic development.

The NBS decided to change the conduct of monetary policy in view of the favourable trend in



macroeconomic development, with the aim of stabilising the level of interbank interest rates and reducing the price of money in the economy. The favourable course of inflation, reasonable development in public finance, the balance of payments, and the exchange rate of the SKK, led to a gradual fall in the interest rates of the NBS during

the year. The cut was reflected in the level of other interest rates, first on the interbank money market, then on the market for government securities, and finally in the rates of interest for primary customers. Thus, the favourable macroeconomic development made it possible for the NBS to support lending activity. At the same time, the ratio of required



**Required reserves****(Sk billions, %)**

	Required reserves		Fulfilment in 1st period		Fulfilment in 2nd period	
	Set	Actual	Average	% fulfilment	Average	% fulfilment
January	39.24	39.84	40.03	102.02	39.66	101.07
February	39.78	39.88	39.88	100.24	39.88	100.26
March	40.73	40.66	40.76	100.06	40.56	99.56
April 1	41.78	41.49	41.68	99.76	x	x
April 2	41.16	41.49	x	x	41.30	100.34
May	41.71	41.40	41.73	100.05	41.10	98.52
June	42.31	41.49	41.47	98.02	41.52	98.13
July <sup>1/</sup>	34.78	34.28	34.19	98.31	34.35	98.77
August	35.31	35.39	35.31	100.00	35.46	100.44
September	36.72	36.88	36.85	100.35	36.91	100.53
October	37.56	37.71	37.77	100.56	37.66	100.27
November	38.10	38.19	38.19	100.23	38.19	100.22
December	37.66	37.85	37.83	100.47	37.87	100.57

*1/ With effect from 1 July 2000, the ratio of required reserves was reduced from 8.0 to 6.5%, the difference between the level of required reserves in June and July 2000 was Sk 7.5 billion.*

reserves in the banking sector was reduced from 8.0% to 6.5%, i.e. by Sk 7.5 billion, with the aim of increasing the competitiveness of domestic banks (in December 2000, the Bank Board of the NBS lowered the ratio still further, to 5.0%, with effect from 1 January 2001).

Interventions on the foreign exchange market in the form of purchases of foreign exchange, reduction in reserve requirements, the financing of debt servicing through issues of Eurobonds, the use of receipts from privatisation in the account of NPF with the NBS, and the payment of compensation for inaccessible bank deposits by the Deposit Protection Fund, represented the main sources of liquidity for the banking sector in 2000. The increase in surplus liquidity and the excess in volume of repayments of government securities (including yields due on government bonds) over the volume of government bonds issued, caused a fall in interest levels. Despite the fall, however, the interest of foreign investors in government securities showed a tendency to grow.

The budget deficit in the amount of Sk 27.7 billion and debt servicing commitments from previous years were financed at considerably lower costs than in previous years (by 7 percentage points in the case of 1-year bonds). At

the same time, the excess liquidity, fall in interest rates, and the positive forecasts for economic development, made possible the issue of government securities with longer maturities, i.e. 5, 7, and 10 years.

In 2000, the reserve requirements often remained unfulfilled in the banking sector, mainly from the second period in March to the end of July, when reserve requirements were fulfilled to over 100% only in two periods out of nine. The non-fulfilment of reserve requirements was due to liquidity problems at some commercial banks.

The maximum fluctuations in the daily volume of required reserves in the individual periods ranged from a surplus of Sk 3.6 billion to a deficit of Sk 4.0 billion in reserves.

## **4.6. Monetary Policy Instruments**

### **1. Interest rate policy**

- a) Limit rate for standard two-week REPO tenders conducted by the NBS:
- |                        |       |
|------------------------|-------|
| from 29 May 2000:      | 8.50% |
| from 31 August 2000:   | 8.25% |
| from 27 December 2000: | 8.00% |

b) Interest rate for overnight refinancing operations conducted by NBS with commercial banks:

from 1 February 2000:	12.00%
from 27 March 2000:	10.50%
from 29 May 2000:	10.00%
from 31 August 2000:	9.50%
from 27 December 2000:	9.25%

c) Interest rate on overnight deposits placed by commercial banks with the NBS:

from 1 February 2000:	8.00%
from 27 March 2000:	7.50%
from 29 May 2000:	7.00%
from 31 August 2000:	6.50%
from 27 December 2000:	6.25%

d) Discount rate:

from 13 January 1996:	8.80%
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e) Lombard rate:

from 1 January 1999:BRIBOR + 5.0%
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## **2. System of banking operations**

a) *Open market operations:*

Until the end of January, the NBS co-ordinated irregular, quantitatively limited REPO tenders with commercial banks, according to the situation on the money market. Since February, the NBS has co-ordinated REPO tenders with a standard maturity of 14 days, at regular weekly intervals. With effect from 29 May 2000, the NBS set a limit rate for standard two-week REPO tenders.

With effect from 1 February 2000, the NBS enabled commercial banks to have automatic access to overnight sterilisation and refinancing resources at the announced rates of interest. With effect from April, overnight sterilisation REPO tenders were replaced by the non-collateralised commercial banks' deposits with the NBS.

b) *Issues of NBS bills for the portfolios of commercial banks* – a fine-tuning instrument of the NBS for long-term liquidity control in the banking sector. Auctions in NBS bills were co-ordinated at regular intervals, by using the Dutch auction technique.

c) *Bills-of-exchange operations* – bills of exchange were rediscounted at the discount rate.

d) *Lombard loans* – loans backed by the

pledge of securities granted at Lombard rate. The NBS may grant Lombard loans for a period of 7 calendar days (1 W), 14 calendar days (2W), and for 1 month (1M).

e) *Redistribution loans:*

- Traditional: at a rate of 9.5%;

- Soft loans: at a rate of 7.5%.

## **3. Reserve requirements**

With effect from 1 January 2000, commercial banks were required to maintain minimum reserves in the amount of 8% of primary deposits, (including foreign exchange and crown liabilities vis-à-vis non-residents); of crown and foreign-currency deposits with foreign banks; of bills of exchange, bonds, and other liabilities to non-bank customers. The ratio of required reserves for home savings banks remained unchanged (3%). Required reserves attract interest at the rate of 1.5%. In accordance with convergence to standard monetary-policy instruments applied in EMU, the ratio of required reserves was reduced from 8.0 to 6.5% with effect from 1 July 2000.

## **4. Exchange-rate and foreign-exchange policy**

a) *Floating exchange rate:*

With effect from 1 October 1998, the National Bank of Slovakia ceased to guarantee a fixed nominal exchange rate for the Slovak crown against a currency basket within a fluctuation band. The value of the Slovak crown is tied to a reference currency, which is the euro (EUR) – the single currency of the European Monetary Union (as of 1 January 1999). The exchange rate of the Sk now depends on the exchange rate of EUR to USD on world markets, the development of supply and demand for the Slovak crown on the foreign exchange market, and the policy and goals of the central bank. The National Bank of Slovakia may intervene in the event of excessive volatility in the crown's exchange rate through foreign exchange transactions, i.e. purchases and sales of foreign currencies on the foreign exchange market.

*b) Nominal exchange rate of the SKK:*

In relation to EUR, the nominal exchange rate of the Slovak crown depreciated by 3.8% during 2000, to SKK/EUR 43.996 on 29 December 2000. In relation to central parity (applied in the former fixed exchange rate regime), the crown depreciated by 9.20 percentage points, to 27.47%, due primarily to the appreciation of the US dollar against the euro on international foreign exchange markets. During the period under review, the exchange rate of the crown weakened in relation to the dollar by 12.6%, to SKK/USD 47.389.

*c) Real effective exchange rate of the SKK:*

The real effective exchange rate (REER) of the Slovak crown, calculated on the basis of the producer price index, as an indicator of change in the competitiveness of domestic production vis-à-vis abroad (for the country's nine major trading partners: USA, Great Britain, Austria, France, Germany, Italy, the Netherlands, Switzerland, and the Czech Republic), depreciated by 1.0 percentage point over the course of 2000, i.e. the price-based competitiveness of Slovak exports increased. The trend of slowdown in the year-on-year appreciation of the REER index began in the middle of the year and the attainment of negative values in the fourth quarter represented a moderate increase in the level of price-based competitiveness. The REER index, based on the consumer price index, reached the same value as at the end of the previous year, i.e. recorded a zero year-on-year change at the end of December 2000.

## **4.7. Monetary Calendar**

### **January**

- With effect from 1 January 2000, the import surcharge applied in Slovakia (since June 1999) was reduced from 7% to 5%.
- With effect from 1 January, excise duty on tobacco, alcohol, and beer was increased and income taxes for natural persons and corporate entities were reduced. For

corporate entities, the tax rate was lowered from 40% to 29%; for natural persons, the tax zones were extended and deductible items increased.

### **February**

- On 1 February, the NBS began to set rates for overnight sterilisation and refinancing operations.
- The Government approved another increase in the price of electrical power (40%); natural gas (30%); water and sewage disposal (27%); postal services (10%); rail-fares (30%) and bus transport (20%). As a result, the NBS modified the estimated rate of year-end inflation from 9.5% to 10.5%.
- The World Bank placed crown-denominated Eurobonds on the market in the amount of Sk 750 million, with a coupon yield of 10.25% and maturity on 11 February 2002.

### **March**

- On 28 March, President of the Slovak Republic R. Schuster appointed Mrs Elena Kohútiková, Chief Executive Director of the Monetary Division and a Member of the Bank Board, a Vice-Governor of the NBS.
- The Government of the SR issued Eurobonds in the amount of EUR 500 million, with a maturity of 10 years. The bonds offered an annual yield of 7.375%, i.e. 217 base points more than the bonds of the Bundesbank. The rating agency Standard & Poor's assigned a BB+ rating to the issue.

### **April**

- To simplify the administrative procedure to be followed in sterilisation and to ensure conformity with the rules applied in the European Union, commercial banks were allowed to place their free funds with the NBS in the form of deposits, without being secured by a pledge of securities on the part of the NBS.
- The NBS revoked the banking licence of AG Banka, a.s. Nitra and the Regional Court in

Bratislava initiated bankruptcy proceedings against the bank. Slovenská kreditná banka, a.s. Bratislava (Slovak Credit Bank, plc.) was placed by NBS under the control of a receiver on account of financial difficulties.

### **May**

- With effect from 29 May 2000, the Bank Board of the NBS introduced a limit rate for standard two-week REPO operations (the limit rate represents a maximum for sterilisation operations and a minimum for the NBS's refinancing operations with commercial banks).

### **June**

- The NBS set the 12-month BRIBOR reference rate for the first time.
- The National Council of the SR passed a new law on bankruptcy and settlement and related amendments to the bankruptcy laws. The new law accelerates the process of bankruptcy proceedings and strengthens the rights of creditors. The law became effective on 1 August 2000.

### **July**

- With effect from 1 July 2000, the import surcharge was reduced from 5% to 3%.
- The NBS imposed, at the recommendation of banking supervision, receivership upon Dopravná banka, a.s. Banská Bystrica. The reason was the growing uncovered loss of the bank and its inability to create provisions for classified loans.
- The Board of the Organisation for Economic Co-operation and Development (OECD) decided to invite the Slovak Republic to become the 30th member of OECD.

### **September**

- The Government of the SR approved the repayment of liabilities to the IMF in the amount of approximately US\$ 100 million before maturity (they were due at the end of

2004). Early repayment was possible mostly due to the favourable foreign exchange reserves situation.

### **October**

- The Government of the SR approved the State Budget for 2001. The projected size of the deficit was Sk 37.195 billion. The deficit in general government was expected to reach Sk 37.849 billion (3.87% of GDP). According to the NBS, the approved budget with a deficit of up to 4 per cent should not have a negative effect on currency stability, the exchange rate of the crown, and the level of interest rates.
- The NBS ceased, after seven years, to set and publish reference interest rates for the BRIBOR financial market. The task was taken over by the Telerate Company.
- The National Council of the SR ratified the proposal for the accession of the SR to the Treaty on OECD.

### **November**

- The international rating agency Moody's Investors Service changed the rating for Slovakia from 'stable' to 'positive'. This change improved the country's foreign exchange rating within the Ba1 and the rating for bank deposits within the Ba2. Government bonds, NBS bonds, and bonds guaranteed by the SR in foreign currency received a rating of Ba1. A similar step was taken by the rating agency Standard & Poor's.
- The Government of the SR approved the appointment of three new members to the Bank Board of NBS: Karol Mrva - Chief Executive Director of the Trade and Foreign Exchange Division; Jozef Košnár - lecturer at the University of Economics in Bratislava; and Eugen Jurzyca - Director of the Central European Institute for Economic and Social Reform.

### **December**

- The Government of the SR approved the draft

amendments to the National Bank of Slovakia Act and the Banking Act.

- The Bank Board of the NBS decided to lower the ratio of required reserved to 5%, with effect from 1 January 2001.

## 5. FINANCIAL MARKETS

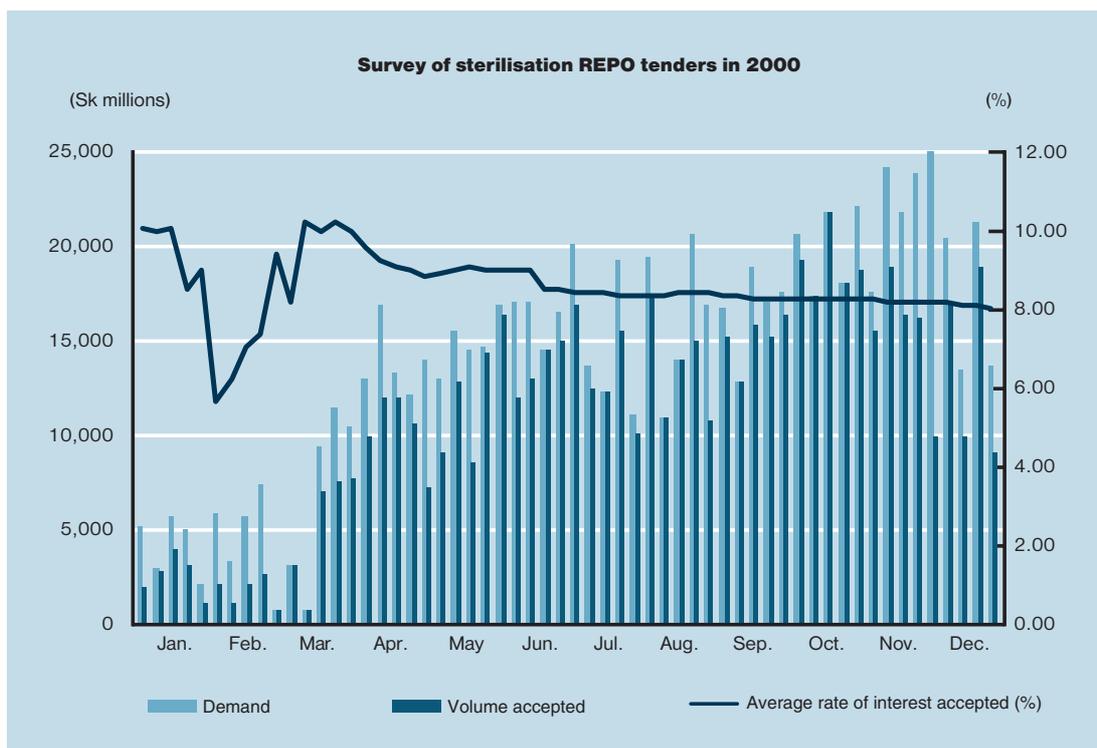
### 5.1. Money Market

#### Primary Market for Treasury Bills

In 2000, Treasury bills were placed on the market in the total amount of Sk 18.4 billion, with an average yield of 7.361%. Demand for Treasury bills reached Sk 46.0 billion, and was 2.5 times higher than the volume of bills sold. Treasury bills were put up for sale predominantly with a fixed maximum yield to maturity, which led to a reduction in the differences between the values of minimum, maximum, and average yields. In 1999, Treasury bills were sold directly for the portfolio of the central bank (in 11 issues with an average amount of Sk 3.4 billion per issue). In 2000, the NBS was not involved in the financing of the budget deficit.

A positive development in 2000 was the fall in the amount of interest paid in connection with budget financing. The average yield achieved on Treasury bills sold (7.361%) was 8.539% lower than in 1999. The fall in interest costs was due to the gradual reduction in the key rates of the NBS and the surplus of liquidity in the banking sector. Investors were willing to purchase Treasury bills at a price below the listed BRIBOR rate for the relevant maturity.

The financing of the budget deficit during 2000 was regular, without marked fluctuations in liquidity. Due to the fact that the State Budget had resulted in an average deficit of Sk 1 billion in the first quarter (at the end of 3 months) and a surplus of Sk 1.6 billion at the end of April (due to tax payments), the Ministry of Finance cancelled all sales of Treasury bills planned for this quarter due to having sufficient funds in the summary account of the State. The subsequent course of development was affected by the inflow of funds from a Eurobond issue in the amount of EUR 500 million in April. In the light of the growth in the budget deficit, the Ministry of Finance put Treasury bills up for sale again in June. In 2000, the Ministry of Finance focused its issuing policy



on covering the budget deficit projected for the end of the year; the maturity of Treasury bills was set accordingly, at 273 and 364 days. Treasury bills at shorter maturities were not issued.

The share of foreign investors in the primary purchase of Treasury bills reached 90%, representing a marked increase in comparison with 1999 (14%). Their share in the holdings of Treasury bills on the register of NBS was, however, almost zero, since foreign entities sold them to domestic financial institutions the day following the issue, which was probably connected with the system of taxation.

### **Secondary Market**

With effect from 1 February 2000, the NBS began to set the values of key rates for overnight refinancing and sterilisation REPO operations. In March and May, the Bank Board of the NBS moved to lower these rates to 7% for sterilisation and 10% for refinancing purposes (rates valid in June 2000). Starting in April, overnight sterilisation REPO tenders were replaced by the non-collateralised deposits of commercial banks at the NBS, which significantly simplified this form of sterilisation. With effect from 29 May, the NBS began to set a limit rate for standard two-week REPO tenders as well.

In 2000, the NBS conducted its monetary policy with the use of a new set of instruments. The main change in comparison with the previous periods was more intense control of the banking sector through interest rates, with the aim of reaching the parameters set out in the approved monetary programme. On 1 February, the National Bank of Slovakia began to set interest rates for overnight refinancing and sterilisation operations. Through these transactions, banks may control and/or replenish their liquidity on an individual basis. The conduct of monetary policy through open market operations continued to rely on bulk REPO deals conducted in the form of auctions, i.e. REPO tenders. A change in procedure was the introduction of a regular

weekly cycle with the day of auction falling on Tuesday and financial settlement on the following day – Wednesday. With the introduction of a maturity of 14 days, the length of tenders was also standardised. In addition to standard tenders, the NBS has reserved the possibility of intervention in the market on an ad hoc basis through so-called ‘quick tenders’, where the date of announcement and realisation are identical with the date of settlement. Apart from other monetary instruments, the NBS continued to absorb funds on the market through auctions in own-bills in the presence of increased and persistent liquidity surplus.

The practical implementation of monetary policy was marked by the continued excess of liquidity in the banking sector and the sterilisation nature of monetary policy. The growth in the surplus of funds was affected by an increase in the registered capital of banks in connection with restructuring, at the beginning of the year. An additional inflow of liquidity was represented by crown resources as a counter-value of foreign-exchange interventions by the NBS to ward off excessive appreciation in the domestic currency. The growing surplus of liquidity in the banking sector was accompanied by a steady fall in money market rates. This trend was substantially accelerated by the publication of the preliminary and subsequently the definitive results of budgetary performance. The shift in interest rates was reflected mainly in long-term rates, which fell from a level above 12% (monthly rates) and 13% (6-month rates) to 10% at the end of January.

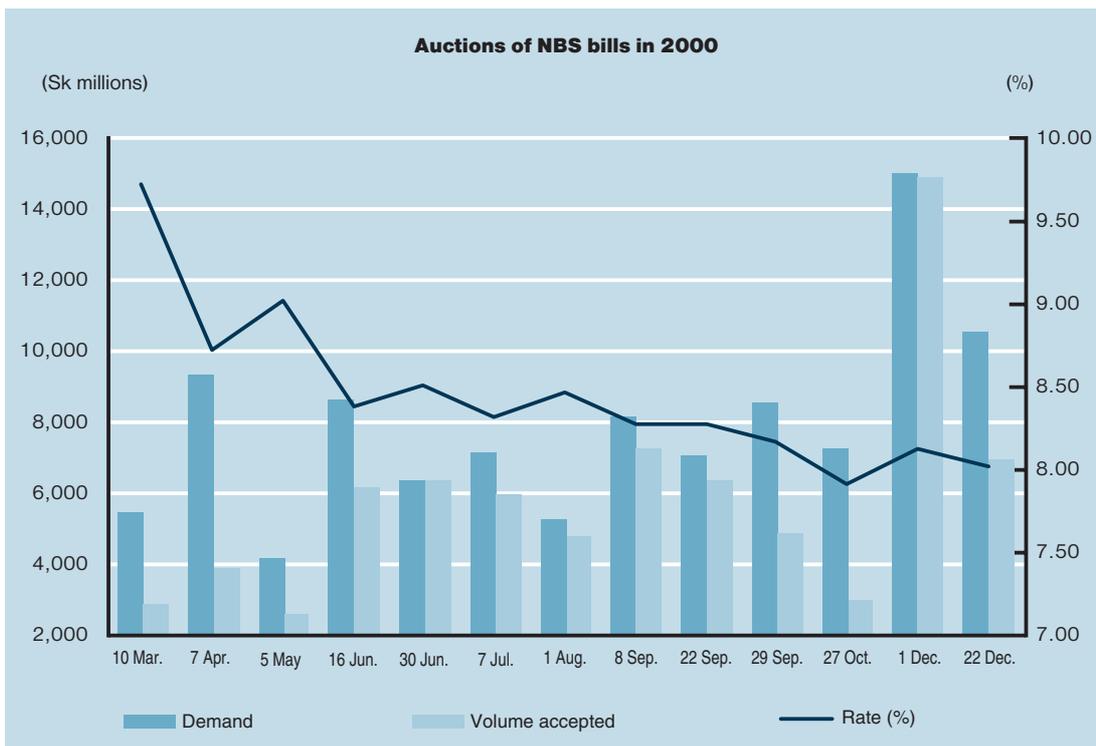
In introducing the new set of monetary instruments at the beginning of February, the NBS relied on the current levels of the above rates and set the refinancing rate at 12% and the sterilisation rate at 8%. At the same time, REPO tenders conducted on an ad hoc basis were replaced by regular weekly tenders. The initial adaptation of the banking sector to the new form of monetary policy was affected by speculative acting to affect interest rates development on the part of banks with an adequate amount of free funds. To ensure a better rate of interest for these funds, an artificial

shortage was created on the money market through sterilisation transactions with the NBS, which was followed by a rise in short-term rates. At higher rates, it was advantageous to place funds in deposit accounts. This approach had a negative effect on the level of short-term rates and added to the uneven development of required reserves during the initial period. With the inflow of further crown liquidity from foreign exchange interventions and awareness of the advantage of placing funds in long-term sterilisation operations, banks ceased speculating. In trading with the NBS, banks again began to prefer 14-day tenders over overnight deposits, which eventually became marginal. Interest in this form of transaction was concentrated in the periods of required-reserve fulfilment.

At the end of the first quarter, the process of adaptation to the new system of monetary-policy control and implementation was completed as far as the banking sector was concerned. The first positive signs appeared in the stabilisation of the money market in the form of decreases in spreads, i.e. the differences between the purchasing and selling prices of deposits. The reduction in spreads was connected with a further

fall in interest rates, below 8% for all maturities. Another sign of stabilisation was the tendency of banks to fulfil the reserve requirements more evenly, and a significant reduction in fluctuation in overnight facilities in comparison with the previous year. At the same time, initial experience from this period indicated that the differences between daily fluctuations in liquidity and deposit rates were gradually falling. In view of the favourable economic situation and the positive signals from the banking sector, the NBS lowered the refinancing rate to 10.5% and the sterilisation rate to 7.5% with effect from 27 March. In comparison with the rates originally announced, the NBS also reduced the spread between the two rates as the original 4% spread had been set as a result of concern about the possibility of speculation by commercial banks. During the following period, the yield curve of money market rates followed an inverse course reflecting expectations of further reduction in NBS rates.

Due to the continued inflow of liquidity resulting from the excess of due government securities over new issues and from further interventions, the NBS increased its sterilisation activity, which led to a rise in the rates accepted at regular



tenders. The yield accepted at auctions in 3-month NBS bills conducted by the NBS in the second quarter also increased. The increase in money market rates towards 9% in response to the rise in rates at tenders and auctions in NBS bills, came to a halt at the end of May, when the NBS again lowered its rates. At the same time, the Bank took another decisive step towards qualitative monetary-policy control by introducing a limit rate for REPO tenders. Whereas the growth in liquidity before the introduction of the limit rate had been paradoxically accompanied by a rise in interest rates as a result of an increase in the sterilisation activity of the NBS, the introduction of the maximum rate acceptable at tenders put an end to this trend. Subsequently, banks accepted gradually falling average yields at tenders and/or auctions in NBS bills in the effort to place their surplus funds with the NBS. In the middle of July, rates stabilised within the range of 8.2 to 7.8% for all maturities, except overnight rates, which continued to show increased fluctuation. After the last reduction in key rates (by 25 base points on 27 December), the entire yield curve of the money market moved below the level of 8%.

Despite the sporadic utilisation of refinancing transactions on the part of banks, monetary policy became steadily more sterilising in nature. The average sterilisation position exceeded Sk 9.2 billion in January and reached a maximum in October (Sk 61.4 billion). Open market operations were dominated by standard REPO tenders with a share of more than 50%. They formed, together with NBS-bill issues, the core of the Bank's currency operations in SKK. Overnight refinancing and sterilisation operations have shown, since the adoption of this instrument, a tendency to fall in percentage terms,

to a level of 1% in the last quarter. After the initial phase of adaptation to the new form of open market operations, commercial banks used this form of liquidity replenishment mainly during the last days of the periods of reserve-requirement fulfilment. Despite this, however, the introduction of the possibility of individual replenishment through refinancing and sterilisation operations made a significant contribution to the stabilisation of the money market, as it helped to reduce the dominance of overnight transactions. The gradual transition to interbank transactions with longer maturities led to the extension of quotations to 9 and 12-month BRIBOR rates at the beginning of June. At length, more than five years after the introduction of BRIBOR rates, it became possible to create, on the basis of quotations by reference banks, a yield curve for the money market with standard maturities.

The introduction of a limit rate for REPO tenders ended the phase of quantitative monetary-policy control and made it possible for the NBS to regulate monetary developments indirectly, through key interest rates. This development was reflected in the fluctuations of the entire yield curve of the money market in accordance with the changes in the level of key rates.

## 5.2. Capital Market

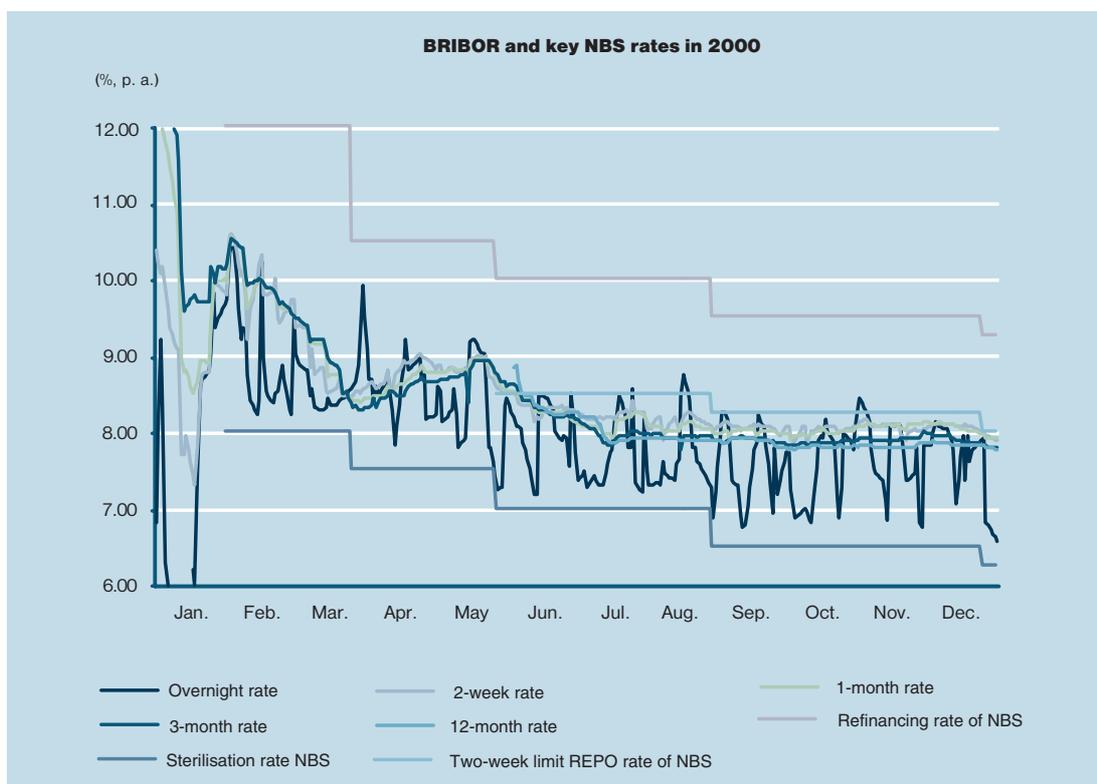
### *Primary market*

#### *Government bonds*

The primary market for government bonds followed, despite some problems accompanying

#### **Key rates of the NBS**

Effective from	Overnight rates of the NBS		Limit rate of the NBS for standard 2-week
	refinancing	sterilisation	REPO tenders
1 February 2000	12.00%	8.00%	x
27 March 2000	10.50%	7.50%	x
29 May 2000	10.00%	7.00%	8.50%
31 August 2000	9.50%	6.50%	8.25%
27 December 2000	9.25%	6.25%	8.00%



the development stage of the Slovak financial market, a positive trend of development, moving towards a more advanced and transparent market. The primary market for government bonds was characterised in 2000 by a fall in interest yields achieved at government bond auctions, which reduced the costs of debt servicing and extended the maturity of the debt portfolio.

In 2000, twenty government-bond issues were floated on the domestic market. Total demand for bonds reached Sk 157.5 billion, of which Sk 69.5 billion was accepted at the auctions. In comparison with 1999, the volume of government bonds issued on the domestic market grew by 13.46%, while the number of issues fell from 34 (in 1999) to 20. Total demand increased year-on-year by 89.26%, and the take-up rate at auctions reached 100% (compared with 89.47% in 1999). The average volume of an issue was Sk 3.47 billion (an increase of 92.78%).

The increase in the amount of bonds issued and total demand reflected the situation on the interbank market. The surplus of liquidity and the restriction in bank lending made it possible for the

issuer to obtain cheaper financing through issues of government bonds. The reduction in the number of issues and increase in their average amount represent a marked qualitative shift towards the creation of a liquid secondary market and may well whet the interest of foreign investors in government bonds. The successful auctions and the fact that no issue was below Sk 1 billion indicate that the issuer's market estimation had improved, which in turn increased the transparency of the primary market and the level of confidence in the market.

The year 2000 saw a marked change in the structure of bond issues by maturity. While in 1999 only one-, two-, and three-year bonds were issued (one-year bonds accounted for 57% of the total volume of bonds issued), the range of issues in 2000 was enhanced by five-, seven-, and ten-year bonds and the share of one-year bonds fell to 22.38%. The Ministry of Finance issued, for the first time, ten-year bonds with a coupon of 8.5% p.a. and an average yield of 8.42% p.a. The issue of bonds with a maturity of 5 or more years created conditions for benchmark issues at the long end of the yield curve. The success of

auctions in long maturities clearly demonstrated that investors viewed the development of the Slovak economy as favourable.

The average yield accepted at auctions fell from 13.53% p.a. for the first one-year issue to 7.95% p.a. for the last two-year issue. The average yield on all issues, regardless of maturity, was 9.49% p.a., representing a distinct fall in comparison with 1999 (16.99% p.a.).

The favourable situation was reflected in the frequency of auctions. In the first three months, auctions were held with at weekly intervals. After the first auction in April, however, the issuer cancelled all the auctions planned for the second quarter. The reason behind the cancellation was an adequate amount of funds in the issuer's account for financing the redemption of government bonds during the ensuing period, which was connected with the placement of a Eurobond issue on the foreign market. In the third quarter, the issuer reduced the frequency of auctions in the issuing schedule to one month; in the fourth quarter, no issuing schedule was announced.

In terms of technical conditions and organisation, a significant change took place in the primary market for government securities. From the beginning of 2000, a new market order came into effect. The new order was accepted by the investor base (consisting of 94 investors in 2000), fully and without reservation. The new market order has ensured easier access to the primary market and extended the circle of investors in government bonds to include non-resident legal entities.

In 2000, twelve foreign investors were registered on the primary market for government bonds, who stimulated 1.85% of total demand and purchased 2.68% of the total volume of government bonds at the auctions. That the interest of foreign investors in government bonds had grown in 2000, is indicated by an increase in the holdings of government bonds from 1.3% at the end of 1999 to 9.39% at the end of 2000.

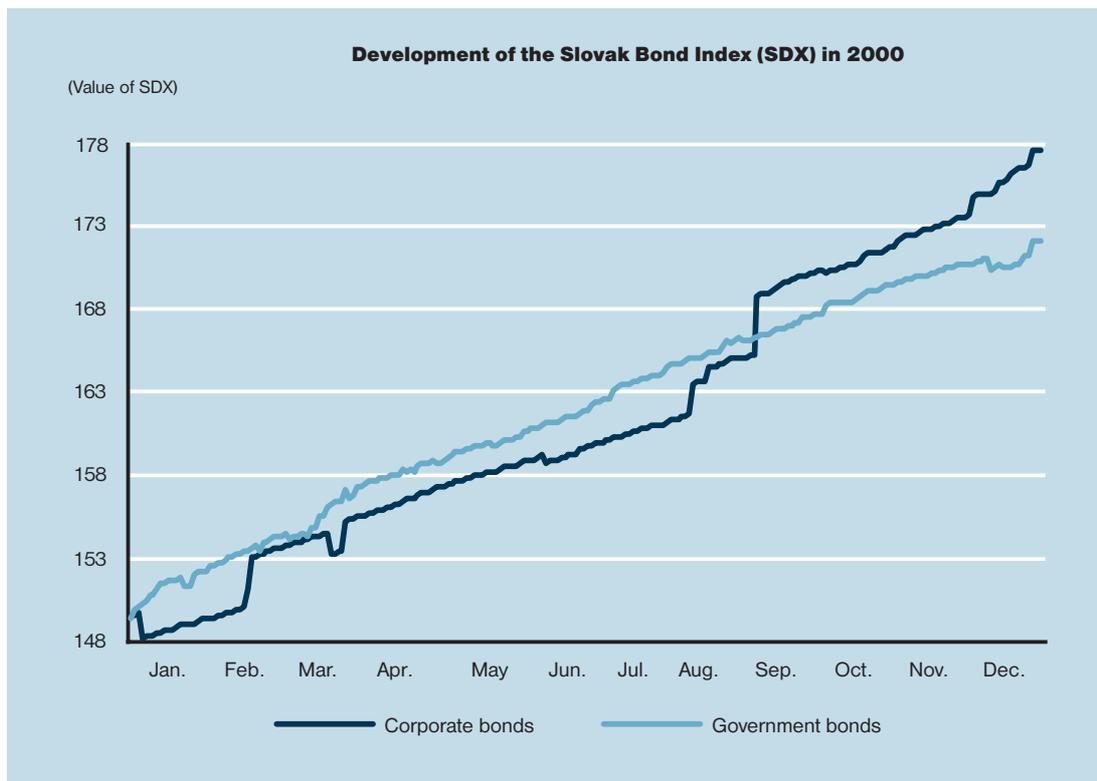
### *Non-government bonds*

In 2000, the primary market for non-government bonds saw a revival: the total volume of non-government bonds issued (according to data reported to the NBS) reached Sk 8.667 billion at the end of the year, representing an increase of 356% (Sk 1.9 billion) compared with 1999. Of this amount, publicly negotiable non-government bonds accounted for 54.81%, an increase in volume of 171.43% compared with 1999. The year 2000 saw, for the first time, four issues of publicly negotiable non-government bonds denominated in foreign currencies (two issues in euro in the total amount of EUR 59 million and two in US dollar in the total amount of US\$ 8.315 million). The revival of the primary market for non-government bonds can be ascribed mainly to the liberalisation of bond issuing and the fall in yields on the primary market for government bonds.

### *Secondary market*

In 2000 (during 242 trading days), 18,748 transactions were conducted on the Bratislava Stock Exchange (BCPB). The total volume of trading reached Sk 255.51 billion, representing an increase of 35.6% compared with the figure for 1999. The upward trend was reflected in the volume of trading in shares as well as bonds. Shares were traded in the total amount of Sk 25.1 billion (a year-on-year increase of 24.0%) and bonds in the amount of Sk 205.4 billion (an increase of 22.1%). The growth in the volume of trading on the BCPB floor was affected significantly by trading in FNM (National Property Fund) bonds, which commenced on 19 July 2000. The volume of transactions in FNM bonds reached Sk 25.0 billion (during 109 trading days), representing a share of almost 10% in the total volume of trading.

The share of foreign investors in the total turnover of the Stock Exchange increased to 38%, reaching 26% for sales and 50% for purchases, due probably to the interest of investors in FNM bonds arising from the attractive yield they offer.



## Bonds

Bonds were traded in the total amount of Sk 205.45 billion (80.41% of the total volume of trading in 2000), of which transactions in government bonds accounted for 89.03%. Most trading took place in government bonds of Issue No. 076 (Sk 9.11 billion), Issue No. 131 (Sk 8.89 billion), and Issue No. 133 (Sk 8.62 billion).

The volume of price-setting transactions fell year-on-year by 1.3%, to Sk 25.6 billion, while direct contracts grew in volume by 26.4%, to Sk 179.8 billion.

The market capitalisation of bonds increased year-on-year by 3.2%, to Sk 117.4 billion; of this amount Sk 107.1 billion was in listed bonds, which recorded an even greater increase in market capitalisation (8.4% compared with 1999).

The value of the Slovak Bond Index (SDX) followed an upward trend throughout the year: the component for government bonds rose year-on-year by 16.1% and closed the year at 172.03% of the nominal value of its portfolio, with an average yield of 8.786% and a duration of 2.1 years. The

index reached a minimum (149.31%) on 7 January and a maximum (172.03%) on 22 December.

The component of SDX for bank and corporate bonds recorded a year-on-year increase of 19.6% and reached 177.51% of the nominal value of its portfolio, offering an average yield of 10.998% to maturity and a duration of 1.2 years. The index reached a minimum (148.07%) on 12 January and a maximum (177.51%) on 22 December.

On the stock market, the year 2000 again confirmed the trend of development from previous years, characterised by a high share of transactions in bonds, particularly in government bonds. The growth in interest in bonds reflected the continuous increase in both components of the bond index (SDX). Although the total volume of bond transactions increased year-on-year, the fall in the volume of anonymous contracts pointed to the long-term problem of the Slovak capital market, i.e. the low liquidity and the resulting low reporting value of prices. A highly positive role in this situation was played by the system of market makers for government bonds, the members of



which are obliged to quote the purchasing and selling prices. From these quotations, the Stock Exchange compiles and publishes the yield curve on a daily basis. This system creates a price even when no transaction is concluded and offers investors the possibility of immediate purchase or sale of a limited selection of bonds.

#### *Shares*

The share market recorded a modest revival in 2000. The total volume of trading reached Sk 25.1 billion (an increase of 24% compared with 1999). A positive development was the year-on-year growth in the volume of anonymous contracts (6.3%, to Sk 1.9 billion). Although the volume of transactions in shares accounted for only 9.8% of the total volume of trading, the aforementioned growth, accompanied by an increase in the volume of anonymous contracts, indicated that the interest of investors in this type of securities was on the increase. Most trading took place in the shares of Slovnaft (Sk 5.7 billion), Nafta Gbely (Sk 4 billion), VÚB (Sk 3.1 billion), and registered VSŽ shares (Sk 4.5 billion).

Since the end of 1999, the market capitalisation of stocks and shares had increased by 2.7%, to

Sk 154.9 billion. The market capitalisation of shares with a market price (in which at least one price-setting contract was concluded) increased by 27.1%, to Sk 57.1 billion at the end of the year. The market capitalisation of listed shares increased by 20%, to Sk 20.8 billion.

The value of the Slovak Share Index (SAX) closed the year at 91.9 points (a year-on-year increase of 19.24%). The index reached a minimum on 10 March (70.19 points), due mainly to a sharp fall in the price of VSŽ shares, and a maximum on 23 October (98.74 points), when the price of VSŽ shares reached their highest level.

Although the share market underwent a revival in 2000, the persistent problem of this market is the low level of liquidity, which affects its attractiveness to a significant extent. The Stock Exchange began to tackle this problem in 2000 by introducing the system of market makers for selected share issues, i.e. a system similar to that adopted for government bonds. Trading within this system began in the shares of Slovnaft and Slovakofarma (on 6 December) and in those of Železiarne Podbrezová (in January 2001). Apart from the system of market makers, the stock

market could be made more attractive in future by the introduction of a 'new market'. The new market will allow trading in the shares of small and medium-sized fast-growing companies with a short business history. The rules of the new market came into effect on 11 December, but no issue had been made on the market by the end of the year.

### **5.3. Foreign Exchange Market**

#### ***NBS Operations on the Foreign Exchange Market***

At the beginning of 2000, the National Bank of Slovakia continued its operations on the foreign exchange market and attempted to prevent the exchange rate of the crown from unjustified appreciation. The Bank gave preference to individual transactions. The NBS used this form of intervention in an effort to carry out interventions in a discrete manner, since the permanent presence of the central bank (from 7 December 1999 to 3 May 2000) on the foreign exchange market is rather non-standard. To test the justification of its presence on the foreign exchange market, the NBS withdrew from the market for a certain period at a rate of SKK/EUR 42.300, at the end of February 2000.

Subsequently, the exchange rate of the SKK began to appreciate, hence the NBS began to intervene against excessive appreciation, at a rate below SKK/EUR 41.600. In doing so, the NBS had purchased a total of EUR 538 million on the domestic market since the beginning of the year. Of this amount, EUR 361 million was purchased in individual transactions and EUR 177 million by direct interventions.

The sale of SKK by foreign banks at the beginning of May caused the exchange rate of the crown to weaken, to SKK/EUR 43.204. The NBS intervened in support of the SKK on the foreign exchange market via direct interventions and sold EUR 115 million in the space of one week. During the following period (up to the end

of the year), the NBS purchased no foreign exchange from commercial banks (except one case) neither in direct interventions nor individual transactions.

In 2000, the NBS purchased a total of EUR 333 million from commercial banks. Over the course of the year, the exchange rate of the Slovak crown to EUR depreciated by 3.76% and to USD by 12.56%.

#### ***Interbank Foreign Exchange Market***

The volume of transactions between Slovak commercial banks totalled US\$ 21,911.5 million, representing a decline of 20.1% compared with 1999. The maximum monthly turnover was recorded in December (US\$ 2,149.7 million) and the minimum in February (US\$ 1,403.1 million). The number of transactions decreased from 13,257 in 1999 to 10,218 in 2000. On a daily basis, 41 transactions were conducted on average, with an average amount of US\$ 2.1 million per contract (US\$ 2.1 million in 1999). The structure of transactions by currency has changed: most trading between Slovak banks took place in US\$ (65.9%; compared with 46.8% in 1999), followed by EUR (33%; compared with 50.7% in 1999), and other currencies (1.1%; compared with 2.5% in 1999).

Transactions between Slovak commercial banks took place mostly in the form of swap contracts (71.6%), while spot transactions accounted for 27.3% and forward dealings only 1.1%.

Trading between Slovak and foreign banks maintained its dominant share of the country's foreign exchange market (69%) and its development was characterised by an increase in its share (53% in 1998; 58.5% in 1999). The total volume of transactions reached US\$ 50,418.2 million (an increase of 29% compared with 1999). Most trading was conducted in US\$ (76.2%; compared with 64.2% in 1999), followed by EUR (22.6%; compared with 35.2% in 1999), and other currencies (1.2% of the total

### Basic characteristics of the Slovak foreign exchange market in 2000

	USD			DEM			Other currencies			Total	
	Volume	Number	Number	Volume	Number	Number	Volume	Number	Number	Volume	Number
	(US\$ mn)	(%)	of trans.	(US\$ mn)	(%)	of trans.	(US\$ mn)	(%)	of trans.	(US\$ mn)	of trans.
<b>NBS</b>	0.0	0.0	0	705.4	100.0	221	x	x	x	705.4	221
<b>Transactions between Slovak banks</b>											
(without foreign banks)	14,442.9	65.9	3,560	7,225.0	33.0	6,243	243.5	1.1	415	21,911.5	10,218
<b>Interbank foreign exchange market:</b>											
<b>NBS + Slovak commercial banks</b>	14,442.9	63.9	3,560	7,930.4	35.1	6,464	243.5	1.1	415	22,616.9	10,439
<b>Transactions between Slovak and foreign banks</b>											
	38,404.5	76.2	8,632	11,376.9	22.6	6,143	636.9	1.3	253	50,418.3	15,028
<b>Foreign exchange market in the SR - total</b>											
	52,847.4	72.4	12,192	19,307.3	26.4	12,607	880.4	1.2	668	73,035.2	25,467

volume of trading). Transactions between local and foreign banks took place predominantly (90%) in the form of swap contracts, while spot transactions accounted for only 10%.

Trading between domestic and foreign banks resulted in a positive balance of US\$ 456.9 million (compared with US\$ 59.3 million in 1999).