



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 2

MONETARY DEVELOPMENTS



2 MONETARY DEVELOPMENTS

The development of Slovakia's economic fundamentals in 2008 took place against the backdrop of the external financial crisis, which caused a slowdown in real economic activity in advanced economies in particular, but later (in the final quarter of 2008) in emerging economies as well. In 2008, Slovakia's economic growth reached 6.4%, with its dynamics weakening gradually from 9.3% in the first quarter to 2.5% in the fourth quarter. Parallel with the slowdown in foreign demand, the growth in the investment component of domestic demand also slowed, when non-financial corporations restricted their investment activities. Owing to faster growth in the consumption component of domestic demand, overall domestic demand maintained its growth dynamics approximately at the level of the previous year. The growth in gross domestic product led to a rise in employment levels and a fall in unemployment. Non-financial and financial corporations operating in Slovakia generated lower profits than in 2007. In 2008, the deficit in the balance of payments on current account increased in comparison with the previous year. The increase was caused by the worsened balances of services and current transfers. On the other hand, the income balance improved and the trade deficit remained virtually unchanged.

In line with the global trend, the price increase in Slovakia accelerated, with the rate of HICP inflation reaching 3.5% at the end of the year, 1 percentage point more than a year earlier. The price increase in Slovakia was determined by factors outside the control of monetary policy, i.e. developments in the world prices of energy-producing and agricultural commodities. These factors affected inflation through regulated price adjustments and increases in fuel prices, processed and unprocessed food prices. Prices were also affected by an increase in excise tax on cigarettes.

To eliminate the risk of unjustified price increases in connection with the changeover to the new currency, all prices for goods and services had to be displayed in both Slovak koruna and euro with effect from August 2008 (dual price display). As from 1 August, the Statistical Office of the SR

started to monitor the prices of selected consumer-basket goods and services in the Slovak koruna and the euro at ten-day intervals. The aim of this project was to monitor consumer price developments in SKK and EUR during the period of dual pricing. Národná banka Slovenska followed the monetary policy decisions of the European Central Bank and reduced its base rate in three stages from October 2008, by a total of 175 basis points (to 2.5%). Interest rates in the Slovak money market reflected roughly the changes in the key NBS rates.

2.1 ECONOMIC DEVELOPMENTS

2.1.1 PRICE DEVELOPMENTS

Consumer prices

Inflation as measured by the Harmonised Index of Consumer Prices

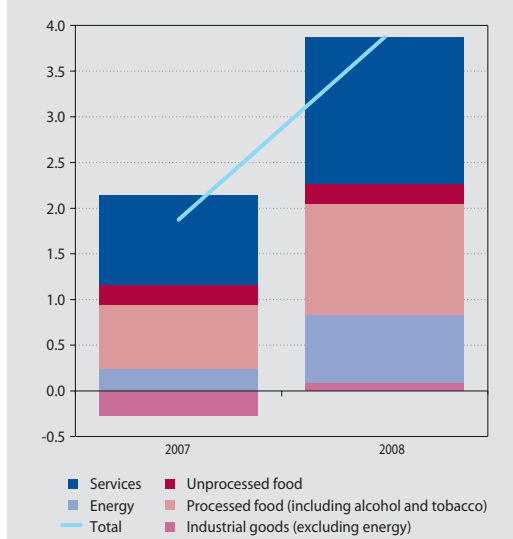
Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), had increased year-on-year by 3.5% by the end of December 2008, representing an acceleration of 1.0 percentage point in comparison with the end of 2007. The average inflation rate reached 3.9% in 2008 (compared with 1.9% in 2007), with the prices of goods and services rising by 3.5% and 4.8%, respectively. The year-on-year rate of core inflation (overall inflation, excluding energy and unprocessed food prices) averaged 3.9% in 2008 and was 2.0 percentage points higher than in the previous year.

Price developments in 2008 were determined by external factors: domestic price levels were influenced by the world prices of energy-producing (crude oil) and agricultural commodities. These factors affected inflation through regulated price adjustments and developments in fuel prices, and in prices of processed and unprocessed food. Processed food prices were also influenced by a change in indirect taxes on cigarettes.

In its Monetary Programme for 2005-2008 in December 2004, Národná banka Slovenska defined its monetary policy as inflation targeting under

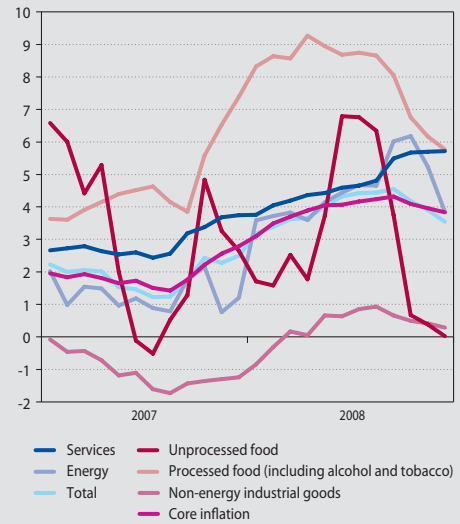


Chart 13 Structure of HICP inflation (contributions to headline inflation of particular components in percentage points)



Source: Statistical Office of the SR and NBS calculations.

Chart 14 Year-on-year changes in the HICP inflation components (%)



Source: Statistical Office of the SR.

the conditions of ERM II. The main anchor of such monetary policy was the setting of an inflation target. For December 2008, the year-on-year inflation rate had been set at 2%, but the actual end-year figure was 1.5 percentage points above the target. The inflation target was exceeded as a result of factors outside the control of monetary policy, i.e. global increases in food and energy prices, which were also reflected in the consumer prices of food and energy (heating and fuels) in the first three quarters of 2008.

Goods

Energy prices, as well as food prices (both processed and unprocessed), were elements that had a dynamising effect on goods prices in 2008. The accelerating rate of increase in energy prices, from 1.3% in 2007 to 4.5% in 2008 on average, was the result of developments in fuel and heating prices. Heating prices were influenced by the world-market price of natural gas. Fuel prices recorded an average rise of 6.4% in 2008, compared with an average fall of 4.9% in 2007. The rising trend in agricultural commodity prices that began at the end of 2007 and continued at the beginning of 2008 was reflected in food price developments. Food prices rose by an average of 6.4%, due to increases in both processed and unprocessed food prices (8.0% and 3.0%, respectively). Processed food prices were also

affected by the excise tax on cigarettes, which was increased with effect from January 2008, but the increase started to be reflected in consumer price levels only in October, due to pre-stocking on cigarettes before the tax increase. Non-energy industrial goods prices rose by 0.4% on average in 2008, after falling in 2007 by 1.1% (this fall was, however, caused by a reduction in VAT on pharmaceuticals and by methodological changes in the consumer basket in the area of pharmaceuticals). Within the structure of this sub-aggregate, the steepest increases occurred in the prices of non-durable industrial goods (2.7% on average), while the prices of durable industrial goods dropped by an average of 4.6%.

Services

In 2008, prices for services rose by an average of 4.8%, representing an acceleration in dynamics compared with 2007 (2.9%). The most dynamic increases were recorded in the prices of dental, restaurant (due to food prices), and transport services (bus fares, driving school fees). The dynamics of these prices markedly increased in the second half of 2008. Only communication services recorded a price fall (0.8%).

Producer prices

Producer price developments in 2008 were influenced by price fluctuations in the world mar-

**Table 2 Consumer price developments in terms of HICP (average for the period)
(annual percentage changes)**

	2007		2008				
	Dec.	Average	Mar.	June	Sep.	Dec.	Average
Total	2.3	1.9	3.4	4.0	4.5	3.9	3.9
Goods	1.6	1.4	3.0	3.8	4.2	3.0	3.5
Industrial goods	-0.4	0.0	1.3	1.9	2.5	2.2	2.0
Non-energy industrial good	-1.3	-1.1	-0.3	0.4	0.8	0.4	0.4
Energy	0.8	1.3	3.7	4.1	5.1	5.1	4.5
Food	5.5	4.1	6.3	7.3	7.6	4.3	6.4
Processed food (including alcohol and tobacco)	6.5	4.7	8.5	9.0	8.5	6.2	8.0
Unprocessed food	3.3	3.0	1.9	4.1	5.6	0.4	3.0
Services	3.7	2.9	4.0	4.5	5.0	5.7	4.8
Core inflation (total, excluding energy and unprocessed food prices)	2.6	1.9	3.4	4.0	4.2	4.0	3.9
Total, excluding energy prices	2.6	2.0	3.3	4.0	4.4	3.6	3.8

Source: NBS calculations based on data from the Statistical Office of the SR.

Table 3 Average year-on-year developments in producer prices (%)

	2007	2008				
		Q1	Q2	Q3	Q4	Q1-Q4
Industrial producer prices	1.8	4.9	6.1	6.6	6.7	6.1
Raw materials prices	-2.2	7.5	12.9	18.5	28.4	16.8
Manufacturing products prices	0.2	2.9	3.1	2.4	-0.6	2.0
Energy prices	4.2	7.7	10.1	12.1	16.4	11.6
Water rates and sewage charges	-0.1	2.4	6.9	7.1	7.3	5.9
Construction works prices	4.0	4.7	5.7	6.3	5.7	5.6
Construction materials prices	5.6	4.2	5.0	2.6	1.3	3.3
Agricultural products prices	5.4	13.1	13.8	8.9	-12.4	4.1
Plant products prices	24.0	44.0	45.9	13.2	-26.1	1.6
Animal products prices	-2.0	6.8	9.8	5.8	-0.9	5.3

Source: Statistical Office of the SR.

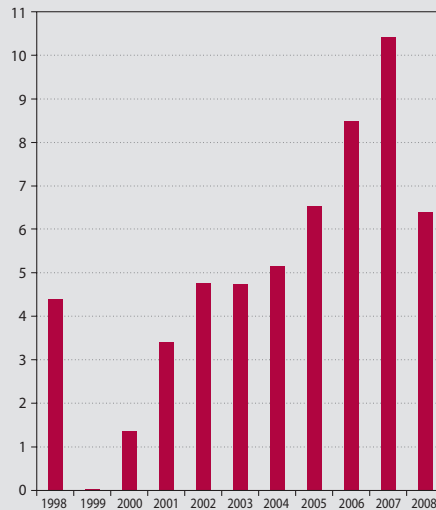
Note: Data based on the revised statistical classification of economic activities (SK NACE Rev. 2).

kets for oil and food products in particular. After peaking in July 2008, oil prices started plummeting. Until October 2008, industrial producer price developments had been dampened by the appreciation of the Slovak koruna, in particular against the US dollar. After peaking in July 2008, the rise in agricultural products prices began to slow. This was followed by a year-on-year decline, starting from September. As a result of these fac-

tors, a marked acceleration was recorded in the dynamics of industrial producer prices (compared with 2007), accompanied by a moderate slowdown in the overall year-on-year increase in agricultural products prices. In 2008, construction works prices continued to rise on a year-on-year basis more dynamically than in 2007 (on average), but the prices of construction materials increased more slowly than a year earlier.



Chart 15 Annual real GDP growth (annual percentage growth)



Source: Statistical Office of the SR.

2.1.2 GROSS DOMESTIC PRODUCT

According to a preliminary estimate by the Statistical Office of the SR, gross domestic product (GDP) increased year-on-year by 6.4% at constant prices in 2008. Compared with 2007, the pace of economic growth slowed by 4.0 percentage points.

In terms of consumption, economic growth in 2008 was influenced primarily by domestic demand. In terms of production, the slowdown in GDP growth compared with 2007 took place mostly in industry. The nominal volume of GDP generated in the period under review amounted to SKK 2,028.4 billion (EUR 67.3 billion), which was 9.5% more than a year earlier.

Broken down by quarter, real economic growth gradually slowed during 2008, from 9.3% in the first quarter to 2.5% in the fourth quarter.

Table 4 GDP creation by component (index, same period a year earlier = 100, constant prices)

	2007	2008				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross output	110.9	108.3	109.9	105.2	101.4	106.0
Intermediate consumption	111.2	107.3	110.8	103.9	100.1	105.3
Value added	110.4	110.2	108.6	106.9	103.6	107.2
Net taxes on products ¹⁾	110.7	99.9	101.7	103.7	93.7	99.4

Source: Statistical Office of the SR.

¹⁾ Value added tax, excise tax, import tax, minus subsidies.

Table 5 GDP growth by sector (index, same period a year earlier = 100, constant prices)

	2007	Q1 08	Q2 08	Q3 08	Q4 08	2008
	2006	Q1 07	Q2 07	Q3 07	Q4 07	2007
Gross domestic product (GDP)	110.4	109.3	107.9	106.6	102.5	106.4
of which:						
Agriculture	109.2	106.4	97.1	106.0	113.9	109.2
Industry	113.0	111.4	106.9	90.7	79.8	96.3
Construction	107.8	107.3	106.6	108.7	129.3	114.0
Trade, hotels and restaurants, transport	114.1	116.2	113.6	119.4	118.8	117.0
Financial intermediation, real estate business	104.2	105.5	107.2	116.8	111.6	110.5
Public administration, education, health care, other community, social, and personal services	108.2	106.3	108.0	107.8	104.8	106.7
Net taxes on products ¹⁾	110.7	99.9	101.7	103.7	93.7	99.4

Source: Statistical Office of the SR.

¹⁾ Value added tax, excise tax, import tax, minus subsidies.

**Table 6 Structure of GDP by consumption (index, same period a year earlier = 100, constant price)**

	2007	2008				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Gross domestic product (GDP)	110.4	109.3	107.9	106.6	102.5	106.4
Domestic demand	106.5	109.5	107.0	107.2	102.8	106.4
Final consumption:	104.9	106.6	106.5	105.8	104.0	105.7
households	107.1	108.4	105.7	106.0	104.7	106.1
general government	98.7	100.7	109.6	105.3	102.3	104.3
non-profit institutions serving households	102.0	101.9	101.0	100.4	102.2	101.4
Gross fixed capital formation	108.7	107.5	111.8	107.3	101.4	106.8
Exports of goods and services	113.8	111.2	108.1	102.7	92.2	103.2
Imports of goods and services	108.9	110.6	107.7	103.6	93.3	103.3

Source: Statistical Office of the SR.

Supply side of GDP

GDP growth in 2008 was positively influenced by value added creation, which grew year-on-year by 7.2% at constant prices (compared with 10.4% a year earlier), while net taxes on products (value added tax, excise tax, import tax, minus subsidies) had a dampening effect on GDP creation (a fall of 0.6%, compared with a growth of 10.7% in 2007).

In 2008, value added growth was achieved in all sectors, except in industry; stronger real growth than in 2007 was recorded in trade, hotels and restaurants, transport, financial intermediation, and in real estate business.

Demand side of GDP

Economic growth in 2008 was influenced by both foreign and domestic demand. Foreign demand grew in real terms by 3.2%, which represented a slowdown of 10.6 percentage points compared with the figure for 2007.

Within the scope of domestic demand, the most rapid growth in 2008 was recorded in investment demand (6.8% in real terms), which was 1.9 percentage points less than a year earlier. The growth in the consumption component accelerated on a year-on-year basis by 0.8 of a percentage point, to 5.7%.

Domestic investment demand

Gross fixed capital formation was mostly affected by the purchase of new fixed assets (a growth

of 6.6% at constant prices). Broken down by the sector of national accounts, investment activity accelerated in the general government and household sectors, while recording a slowdown in non-financial corporations.

According to revised data from the Statistical Office of the SR, investments increased in both machines and buildings, with the most rapid growth recorded in investment in transport vehicles and residential buildings. Compared with 2007, the share of investments in machinery and equipment increased (by 3.1 percentage points), but that of investments in buildings decreased (by 0.5 of a percentage point).

Domestic consumer demand

In 2008, final consumption expenditure increased year-on-year by 5.7%, due to growth in all sectors. Within the structure of final consumption, the dynamics of general government final consumption strengthened in 2008 (compared with the previous year), mainly as a result of faster growth in wages, intermediate consumption, and social benefits in kind. In 2008, final consumption by households grew year-on-year by 6.1% in real terms, and its share of total GDP reached 51.8% (compared with 51.9% a year earlier).

An analysis of household final consumption in 2008 showed that the most significant year-on-year increases took place in the expenses of households on furnishings, household equipment, and the routine maintenance of dwellings



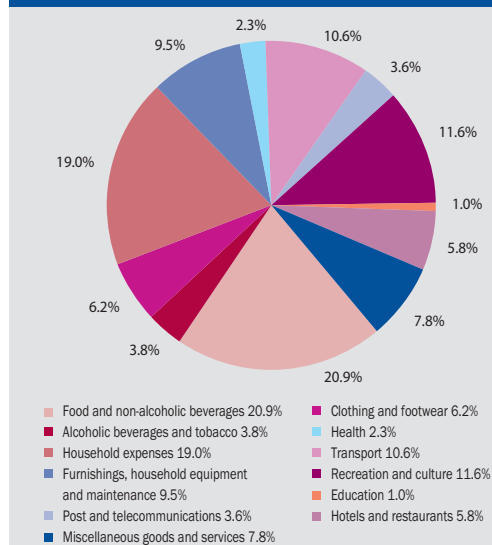
MONETARY DEVELOPMENTS

Table 7 Structure of gross fixed capital formation in 2008 (current prices)

	Gross fixed capital formation		Proportion (%)	Indices	
	(SKK billions)	(EUR billions)		2007/2006	2008/2007
Economy of the SR in total	526.2	17.5	100.0	110.0	108.8
of which (by sector):					
Non-financial corporations	361.4	12.0	68.7	112.6	105.6
Financial corporations	7.1	0.2	1.4	100.5	91.7
General government	40.6	1.3	7.7	95.7	117.0
Households	115.8	3.8	22.0	107.8	118.5
Non-profit institutions	1.1	0.04	0.2	109.2	105.0
of which (by production):					
Machinery and equipment	220.0	7.3	41.8	104.5	117.6
of which: other machines and equipment	160.9	5.3	30.6	103.2	117.2
transport vehicles	59.0	2.0	11.2	108.2	118.6
Buildings and structures	267.9	8.9	50.9	106.8	107.9
of which: residential buildings	51.7	1.7	9.8	112.3	118.6
other structures	216.2	7.2	41.1	118.6	105.6

Source: NBS calculations based on data from the Statistical Office of the SR.

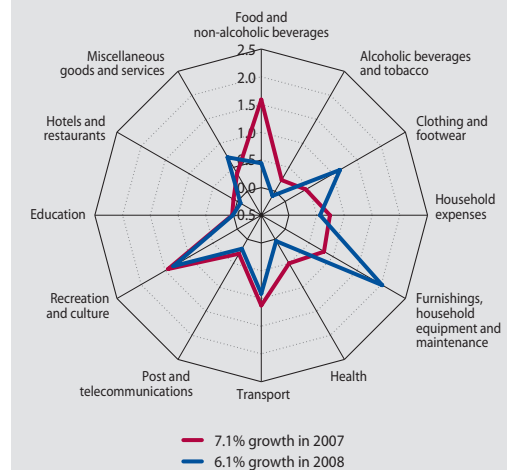
Chart 16 Structure of household final consumption in 2008 (percentage shares)



Source: Statistical Office of the SR.

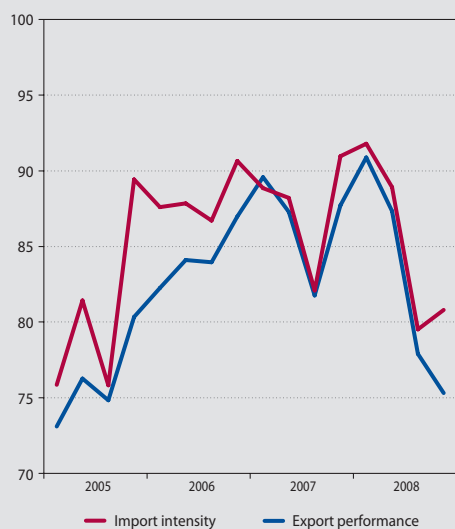
(25.1% at constant prices), clothing and footwear (20.9%), and recreation and culture (12.0%). In percentage terms, the largest consumption component (20.9%) was, as in the previous year, spending on food and non-alcoholic beverages.

Chart 17 Contributions of consumer expenses to growth in household final consumption (p.p.)

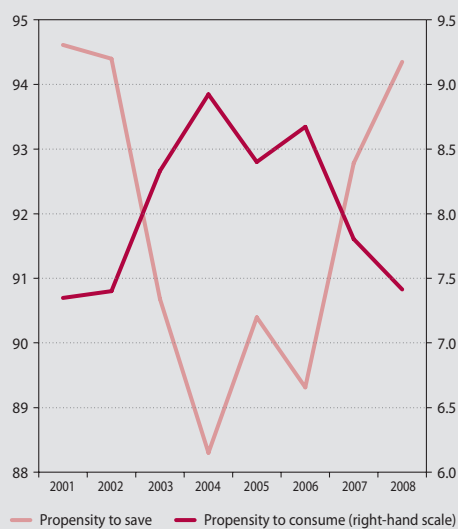


Source: NBS calculations based on data from the Statistical Office of the SR.

The second largest component was household expenses (19.0%). Compared with 2007, the share of these two components in household consumption decreased by 0.8 and 0.6 of a percentage point, respectively, while the steepest

Chart 18 Export performance and import intensity (%)


Source: Statistical Office of the SR.

Chart 19 Propensity of households to save and to consume (%)


Source: Statistical Office of the SR, NBS calculations.

year-on-year increases were recorded in the proportions of furnishings, household equipment, and the routine maintenance of dwellings, and in clothing and footwear.

The year-on-year growth in household final consumption was stimulated mostly by consumer spending on furnishings, household equipment and the routine maintenance of dwellings, and on clothing and footwear.

Exports and imports of goods and services

In 2008, both exports and imports of goods and services remained below the level of last year in terms of dynamics: exports grew by 4.6% and imports by 6.4% at current prices (compared with 14.4% and 10.7%, respectively in 2007). Nominal net exports resulted in a deficit of SKK 49.4 billion (EUR 1.6 billion), compared with a shortfall of SKK 19 billion (EUR 0.6 billion) a year earlier.

The export performance of the Slovak economy deteriorated year-on-year by 3.9 percentage points in 2008, when the exports of goods and services as a share of GDP reached 82.6% at current prices. Import intensity weakened on a year-on-year basis, to 85.0% (from 87.5% a year earlier). The openness of the Slovak economy, expressed in terms of the ratio of exports and imports of goods and services to nominal GDP, stood at 167.6% in 2008.

2.1.3 LABOUR MARKET DEVELOPMENTS

Employment

Employment as defined in the European System of Accounts 1995 (ESA95) grew year-on-year by 2.8% in 2008, compared with 2.1% in 2007. Looking at the breakdown of employment by sector, the year under review saw growing demand for labour in selected services, which led to dynamic employment growth in hotels and restaurants, transport, real estate business, and trade. On the other hand, employment in other community services, health care, and education remained below the previous year's level in terms of dynamics. Among the production sectors, construction recorded a rapid employment growth in 2008.

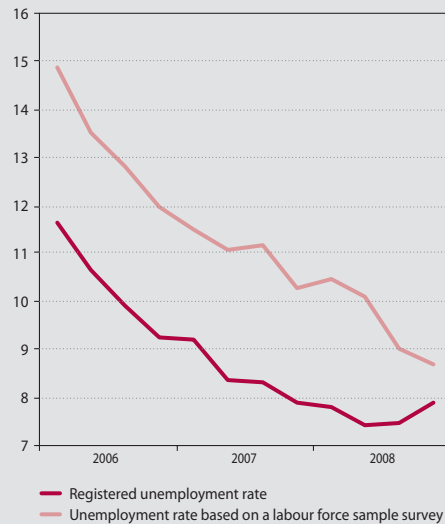
The trend in the outflow of labour to foreign countries underwent a change in 2008. The number of persons working abroad decreased on a year-on-year basis by 6.4%. Within the domestic economy, the number of employees increased by 2.5% and that of entrepreneurs by 10.2% (entrepreneurs without employees by 11.6% and those with employees by 6.0%).

Unemployment

The continuing demand for labour was also reflected in the level of unemployment. According to a labour force sample survey (LFSS), the



Chart 20 Unemployment (%)



Source: The Office for Labour, Social Affairs and Family and the Statistical Office of the SR.

number of people out of work decreased year-on-year by 11.8% in 2008. This decrease was also mirrored in the unemployment rate, which reached 9.6% in 2008, representing a drop of 1.4 percentage points compared with 2007. The falling trend in unemployment was also confirmed by data on registered unemployment. According to the registers of Office for Labour, Social Affairs and Family, the average unemployment rate in 2008 was 7.7%, representing a fall of 0.8 of a percentage point compared with 2007, but as of November 2008 the registered unemployment rate began to rise in comparison with the previous periods.

The continuing year-on-year growth in labour supply (i.e. persons in productive and post-productive age) was mainly reflected in the growing number of economically active persons in 2008. As a result of this development, the rate of economic activity reached 59.4%, representing a year-on-year increase of 0.6 of a percentage

Table 8 Labour market indicators

	2007	2008				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Nominal wage (SKK)	20,146	20,443	21,459	21,226	23,991	21,782
Nominal wage (EUR)	668.7	678.6	712.3	704.6	796.4	723.0
Nominal wage (index)	107.2	110.0	109.5	108.8	104.6	108.1
Real wage (index)	104.3	105.8	104.8	103.5	99.8	103.3
Nominal compensation per employee, ESA95 (index)	108.8	110.9	110.4	109.2	106.2	109.0
Real compensation per employee, ESA95 (index)	106.0	106.5	105.2	104.3	102.4	104.4
Labour productivity of GDP (index, current prices)	109.0	109.9	108.4	106.3	102.9	106.7
Labour productivity of GDP (index, constant prices)	107.7	106.4	105.1	103.2	100.8	103.7
Labour productivity of GDP, ESA95 (index, current prices)	109.4	109.8	108.1	106.3	102.5	106.5
Labour productivity of GDP, ESA95 (index, constant prices)	108.1	106.3	104.8	103.2	100.4	103.5
Employment according to statistical records (index)	102.5	102.7	102.7	103.2	101.7	102.6
Employment based on an LFSS ¹⁾ (index)	102.4	102.8	102.9	104.5	102.8	103.2
Employment based on the ESA95 (index)	102.1	102.8	102.9	103.2	102.1	102.8
Registered unemployment rate (%)	8.4	7.8	7.4	7.5	7.9	7.7
Unemployment rate based on an LFSS ¹⁾ (%)	11.0	10.5	10.1	9.0	8.7	9.6
Unit labour costs in nominal terms (ULC) ²⁾	100.6	104.4	105.3	105.8	105.8	105.3
Consumer prices (average index)	102.8	104.0	104.5	105.1	104.8	104.6

Source: Statistical Office of the SR and NBS calculations based on data from the SO SR.

1) Labour force sample survey (LFSS).

2) Ratio of growth in compensation per employee (at current prices) to growth in labour productivity as defined in ESA95 (at constant prices).



point. Among the economically active population, the increasing share of persons in employment led to a rise in the employment rate, by 1.6 percentage points year-on-year, to 62.3% in 2008.

Wages and labour productivity

In 2008, the average monthly nominal wage in the Slovak economy increased year-on-year by 8.1%, to SKK 21,782 (EUR 723). Compared with 2007, the rate of wage growth accelerated by 0.9 of a percentage point. The strongest nominal wage growth in 2008 took place in mining and quarrying (12.8%), health and social care (11.9%), trade (9.8%), other community services (9.5%), and real estate, leasing and business activities (9.2%). The smallest nominal wage increases were recorded in hotels and restaurants (2.9%) and financial intermediation (3.6%).

The dynamics of real wages weakened in comparison with 2007 by 1 percentage point (from 4.3% to 3.3%). Real wage growth in 2008 was achieved in all sectors of the economy, except in financial intermediation, hotels and restaurants.

Labour productivity (GDP per employee) grew more slowly than in 2007, when a 3.7% increase was recorded in real terms. The growth rate of real labour productivity exceeded the dynamics of real wages by 0.4 of a percentage point.

Unit labour costs increased year-on-year by 5.3% in 2008, while the annual HICP inflation rate stood at 3.9%. This represented an acceleration of 4.7 percentage points compared with 2007.

This was mainly the result of faster growth in nominal compensation per employee (by 0.2 of a percentage point compared with 2007, to 9.0%), which, accompanied by slower growth in real labour productivity (its dynamics weakened year-on-year by 4.6 percentage points, to 3.5%), lead to faster growth in unit labour costs.

2.1.4 FINANCIAL RESULTS OF CORPORATIONS

According to preliminary data from the Statistical Office of the SR, financial and non-financial corporations generated a total profit of SKK 268.6 billion (EUR 8.9 billion) in 2008. This profit was 18.2% lower than the figure for 2007; the earnings of non-financial corporations dropped by 7.4% and financial corporations recorded a loss of SKK 17.1 billion (EUR 0.6 billion).

Non-financial corporations achieved lower profits mainly in manufacturing; transport and storage; post and telecommunications; hotels and restaurants; and other community, social, and personal services. On the other hand, higher profits were earned in wholesale trade, retail trade, the sale of motor vehicles and fuels; construction; real estate, renting, and business activities; agriculture; and education.

Financial corporations recorded a loss of SKK 17.1 billion (EUR 0.6 billion). Their deteriorated financial performance can be attributed to the weaker financial results of insurance corporations and pensions funds, and to the losses of other financial intermediaries and the NBS. Commercial financial institutions achieved a profit of SKK 21.4 billion (EUR 0.7 billion) in 2008.

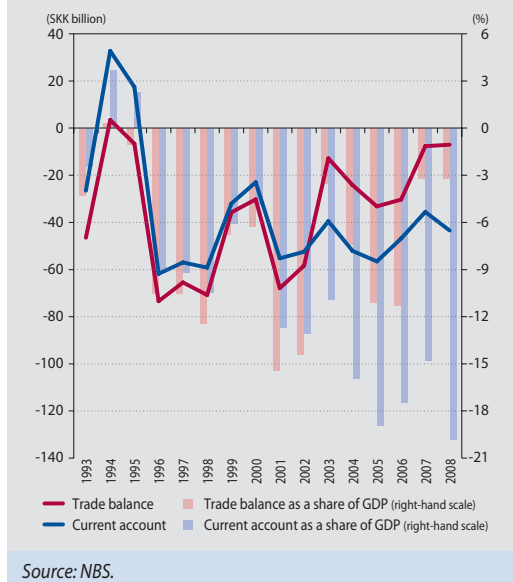
Table 9 Financial results of corporations (current prices)

Financial result (before taxation)	2006		2007		2008		Index 2008/2007
	SKK billions	EUR billions	SKK billions	EUR billions	SKK billions	EUR billions	
Non-financial and financial corporations in total	268.4	9.0	328.0	10.9	268.6	8.9	81.9
of which:							
Non-financial corporations	280.4	9.3	308.6	10.2	285.7	9.5	92.6
Financial corporations	-12.0	-0.4	19.4	0.6	-17.1	-0.6	-
of which: NBS	-45.1	-1.5	-19.5	-0.6	-37.0	-1.3	-
Financial corporations, excluding NBS	33.2	1.1	38.8	1.2	19.9	0.6	51.2

Source: Statistical Office of the SR, NBS.



Chart 21 Trade balance and current account developments in 1993-2008 (%)



in the current account deficit was a deterioration in the services and current transfers balances. On the other hand, the income balance improved in comparison with 2007 and the trade deficit remained virtually unchanged. The current account deficit as a share of GDP at current prices reached 6.5%, representing a year-on-year increase of 1.2 percentage points (the share of the current account balance, excluding dividends and reinvested earnings, was negative (-1.4%), while 2007 saw a surplus of 1.5%). The trade deficit as a share of GDP decreased to 1.1% in 2008 (the value of this ratio stood at 1.2% in 2007).

The trade balance resulted in a deficit of SKK 21.5 billion (EUR 0.7 billion), which virtually corresponded to the figure recorded in 2007. The growth in exports, as well as imports, slowed considerably on a year-on-year basis, which was markedly influenced by the exchange rate of the koruna, for the dynamics of exports and imports in euro were more than twice as strong (in US dollars nearly three times).

2.2 BALANCE OF PAYMENTS

2.2.1 CURRENT ACCOUNT

Current account

In 2008, the balance of payments on current account resulted in a deficit of SKK 132.2 billion (EUR 4.4 billion), which was SKK 43.4 billion (EUR 1.1 billion) more than in the previous year. The main factor behind the year-on-year increase

According to preliminary data from the Statistical Office of the SR, goods were exported during 2008 in the total amount of SKK 1,492.6 billion (EUR 49.5 billion), which was 5.1% (21.6% in US dollars and 13.4% in EUR) more than in 2007.

Over the twelve months of 2008, exports increased most significantly in comparison with

Table 10 Balance of payments current account

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Balance of trade	-21.5	-0.7	-21.4	-0.7
Exports	1,492.6	49.5	1,420.7	47.2
Imports	1,514.1	50.3	1,442.1	47.9
Balance of services	-14.7	-0.5	13.1	0.4
Balance of income	-69.1	-2.3	-79.4	-2.6
of which: investment income	-108.0	-3.6	-114.1	-3.8
of which: reinvested earnings	-16.8	-0.6	-23.3	-0.8
Current transfers	-26.9	-0.9	-11.1	-0.4
Current account in total	-132.2	-4.4	-98.8	-3.3
Current account as a share of GDP in %	-6.5		-5.3	
Current account (excluding dividends and reinvested earnings) as a share of GDP in %	-1.4		1.5	

Source: NBS, Statistical Office of the SR (GDP).



Table 11 Year-on-year changes in exports by segment

	Year-on-year changes				Contributions to the year-on-year changes	
	January – December				January – December	
	2008		2007		2008	2007
	SKK billions	EUR billions	SKK billions	EUR billions	p.p.	p.p.
Raw materials	11.6	0.4	-5.2	-0.2	0.8	-0.4
Chemicals and semi-finished goods	4.8	0.2	15.4	0.5	0.3	1.3
of which: Chemical products	-4.0	-0.1	1.7	0.06	-0.3	0.1
Semi-finished goods	8.7	0.3	13.7	0.5	0.6	1.1
Machinery and transport equipment	46.3	1.5	168.0	5.6	3.3	13.6
of which: Machinery	59.2	2.0	72.5	2.4	4.2	5.9
Transport equipment	-12.8	-0.4	95.5	3.2	-0.9	7.7
Finished products	9.1	0.3	9.7	0.3	0.6	0.8
Exports in total	71.8	2.4	187.9	6.2	5.1	15.2

Source: NBS.

Table 12 Year-on-year changes in imports by segment

	Year-on-year changes				Contributions to the year-on-year changes	
	January – December				January – December	
	2008		2007		2008	2007
	SKK billions	EUR billions	SKK billions	EUR billions	p.p.	p.p.
Raw materials	42.1	1.4	-14.5	-0.5	2.9	-1.1
Chemicals and semi-finished goods	6.1	0.2	32.7	1.1	0.4	2.5
of which: Chemical products	-0.7	-0.02	7.5	0.3	-0.1	0.6
Semi-finished goods	6.8	0.2	25.2	0.8	0.5	1.9
Machinery and transport equipment	-9.5	-0.3	91.1	3.0	-0.7	7.0
of which: Machinery	1.9	0.06	56.0	1.8	0.1	4.3
Transport equipment	-11.4	-0.4	35.1	1.2	-0.8	2.7
Finished products	33.2	1.1	24.7	0.8	2.3	1.9
of which: Agricultural and industrial products	13.2	0.4	20.6	0.7	0.9	1.6
Passenger cars	12.5	0.4	7.1	0.2	0.9	0.5
Machines and electrical consumer goods	7.5	0.2	-3.0	-0.1	0.5	-0.2
Imports in total	71.9	2.4	134.0	4.4	5.0	10.2

Source: NBS.

the same period a year earlier in the 'machinery and transport equipment' category (television sets and passenger cars). This increase was, however, approximately a quarter of the figure for

the same period in 2007. The smaller increase was due to a year-on-year decline in the exports of chemical products (mainly plastics), accompanied by slower growth in the exports of semi-



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finished goods (the increase in iron and steel exports was significantly reduced by a year-on-year fall in the exports of aluminium and aluminium products). A somewhat smaller year-on-year increase was recorded in the 'finished products' category, where footwear and toy exports grew most dynamically. The increased exports of raw materials were caused mainly by increased refined oil exports, while the increase in exports was partly due to price developments.

The volume of goods imported in 2008 totalled SKK 1,514.1 billion (EUR 50.2 billion), representing a year-on-year increase of 5.0% (corresponding to 21.6% in US dollars and 13.3% in EUR).

The largest year-on-year increase in imports was recorded in mining and quarrying, i.e. more than 58% of the total increase in imports. This was to a large extent caused by a year-on-year rise in oil and gas prices, which stimulated growth in the imports of these two commodities. Marked increases were also recorded in the imports of black coal and refined petroleum oils. Stronger import growth than last year was recorded in the 'finished products' category, mainly in the imports of machines and electrical products (consumer electronics), passenger cars and, to a lesser extent, industrial products (toys, phar-

maceuticals, footwear). In finished products, a smaller increase was recorded in the imports of agricultural products (tobacco). The year-on-year increase in imports in 'chemicals and semi-finished goods' also contributed to the year-on-year growth in total imports, but was more than 80% smaller than in 2007. The increased imports of semi-finished goods were concentrated in iron and steel, and iron and steel products. In the 'chemical products' category, the increase in imports took place mostly in plastics. In contrast with the other categories, where imports grew on a year-on-year basis, goods imports in the 'machinery and transport equipment' category declined in comparison with 2007. The decline in imports was caused by a year-on-year fall in the 'transport equipment' sub-category (motor vehicle parts, components, and accessories), which resulted from the decline in car exports in the final quarter in particular.

Trade in services resulted in a deficit of SKK 14.7 billion (EUR 0.5 billion) in 2008, representing a year-on-year deterioration of SKK 27.8 billion (EUR 0.9 billion). The change from last year's surplus to a deficit was mainly caused by 'other services in total' and, to a lesser extent, by tourism and transport services. The balance of 'other services in total' (telecommunications, construc-

Table 13 Balance of services

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Transport	9.7	0.3	10.2	0.4
Tourism	9.2	0.3	12.0	0.4
Other services	-33.6	-1.1	-9.1	-0.3
Balance of services	-14.7	-0.5	13.1	0.4

Source: NBS.

Table 14 Income balance

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Compensation of employees	38.9	1.3	34.7	1.2
Direct investment	-94.2	-3.1	-109.2	-3.6
of which: reinvested earnings	-16.8	-0.6	-23.3	-0.8
Portfolio and other investments	-13.8	-0.5	-4.9	-0.2
Income balance	-69.1	-2.3	-79.4	-2.6

Source: NBS.

**Table 15 Balance of current transfers**

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Government	-5.2	-0.2	0.5	0.02
Other	-21.7	-0.7	-11.6	-0.4
Balance of current transfers	-26.9	-0.9	-11.1	-0.4

Source: NBS.

tion, insurance, financial, renting, computer engineering, advertising, business, and technical services, etc.) remained in deficit, but the size of the deficit increased year-on-year by SKK 24.5 billion (EUR 0.8 billion). The increased deficit in the balance of 'other services in total' was caused mainly by a marked increase in payments (accompanied by a fall in receipts) for financial and other services provided (mainly intermediation services and lower receipts from cultural services). The overall balance was negatively affected by construction and telecommunications services, where the growth in receipts was exceeded by the growth in expenses, and by legal, accounting, and consulting services, where the growth in expenses was accompanied by a fall in receipts. The year-on-year deterioration in the balance of tourism services was caused by accelerated growth in the expenses of Slovak residents on services related to tourism, which exceeded the growth in receipts from tourism services provided. The surplus in transport services decreased on a year-on-year basis, mainly as a result of increased expenses on passenger air transport services provided, accompanied by a fall in receipts from these services. The decrease in the surplus was slowed to some extent by increased receipts from the transit of oil and natural gas (by SKK 2.6 billion (EUR 0.1 billion)).

In 2008, the income balance resulted in a deficit of SKK 69.1 billion (EUR 2.3 billion). This represented an improvement of SKK 10.3 billion (EUR 0.3 billion) compared with the previous year's balance. Receipts increased year-on-year by SKK 14.5 billion (EUR 0.5 billion), while payments increased by only SKK 4.3 billion (EUR 0.1 billion). The main factor behind the decrease in the deficit was a lower estimate of the profits of foreign investors, which led to lower dividend payments to foreign investors (by SKK 10.6 billion (EUR 0.4 billion)) and to a lower estimate of the profits paid to foreign investors, which were

reinvested in Slovakia. Within the overall income balance, the diminishing deficit was supported by an increase in the incomes of Slovak residents from abroad, coupled with an increased surplus in employee compensation.

The balance of current transfers resulted in a deficit of SKK 26.9 billion (EUR 0.9 billion) in 2008. This represented a year-on-year deterioration of SKK 15.8 billion (EUR 0.5 billion), which was caused mainly by developments in the balance of private transfers, where the growth in expenses well exceeded the growth in receipts. The most significant increases took place in payments of allowances, foreclosure charges, bail for legal entities, and in income and property tax payments. The balance of government transfers also recorded a deterioration (an increase in payments to the EU budget accompanied by a fall in receipts from eurofunds).

2.2.2 CAPITAL AND FINANCIAL ACCOUNT

The balance of payments on capital and financial account resulted in a surplus of SKK 176.8 billion (EUR 5.9 billion), which was SKK 8.9 billion (EUR 0.3 billion) less than in the previous year. The structure of financial flows also changed during the year. In 2007, the dominant inflow took place in short-term capital for the banking sector. In 2008, capital inflows were dominated by direct and portfolio investments, which were accompanied by a substantially lower year-on-year inflow of short-term capital. In terms of financing the current account deficit, the structure of the b.o.p. capital and financial account improved in comparison with the previous year, while the deficit was fully covered by inflows of funds other than short-term funds.

The balance of payments on capital account resulted in a surplus of SKK 24.3 billion (EUR 0.8 billion) in 2008. This represented a year-on-year increase of SKK 13.0 billion (EUR 0.4 billion) in the



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Table 16 Balance of payments capital and financial account

	2008		2007	
	SKK billions	EUR billions	SKK billions	EUR billions
Capital account	24.3	0.8	11.3	0.4
Direct investment	63.7	2.1	71.2	2.4
SR abroad	-5.6	-0.2	-9.5	-0.3
of which: equity capital abroad	-4.6	-0.2	-6.0	-0.2
reinvested earnings	-1.2	-0.04	-1.2	-0.04
In the SR	69.3	2.3	80.7	2.7
of which: equity capital in the SR	27.7	0.9	27.4	0.9
of which: FDI other than privatisation	27.7	0.9	27.4	0.9
reinvested earnings	18.0	0.6	24.5	0.8
Portfolio investment and financial derivatives	47.5	1.6	-16.2	-0.5
SR abroad	4.9	0.2	-19.7	-0.7
In the SR	42.6	1.4	3.5	0.1
Other long-term investment	4.7	0.2	19.0	0.6
Assets	-13.6	-0.5	-6.4	-0.2
Liabilities	18.3	0.6	25.4	0.8
Short-term investment	36.6	1.2	100.4	3.3
Assets	-3.4	-0.1	-29.3	-1.0
Liabilities	40.0	1.3	129.7	4.3
Capital and financial account in total	176.8	5.9	185.7	6.2

Source: NBS.

Table 17 Capital inflows in other investment by sector

	January – December 2008		January – December 2008		Year-on-year changes	
	SKK billions	EUR billions	SKK billions	EUR billions	SKK billions	EUR billions
Banks	54.7	1.8	88.4	2.9	-33.7	-1.1
Enterprises	-14.8	-0.5	36.1	1.2	-50.9	-1.7
Government + NBS	1.4	0.05	-5.2	-0.2	6.6	0.2
Total	41.3	1.4	119.3	4.1	-78.0	-2.6

Source: NBS.

surplus and was generated by increased inflows from eurofunds, while the inflow of funds in capital transfers markedly exceeded the decrease in current transfers.

From January to December 2008, foreign direct investment recorded an inflow of SKK 63.7 billion (EUR 2.1 billion), representing a decline of SKK 7.5 billion (EUR 0.3 billion) in comparison

with 2007. The year-on-year change in the balance of direct investments was mainly the result of a lower estimate of earnings reinvested in the economy by foreign investors, and of a smaller inflow in the form of other capital. Concerning assets, the overall decrease in inflows was moderated by lower interest among residents in foreign direct investment abroad (inflows in the form of equity participation and other capital).



Portfolio investment resulted in a net inflow of SKK 47.5 billion (EUR 1.6 billion), compared with a net outflow of SKK 16.2 billion (EUR 0.5 billion) in the previous year. The year-on-year change from an outflow to an inflow was influenced on the assets side by a fall in demand for foreign equity and debt securities among Slovak residents. On the liabilities side, the increased inflow resulted from an increase in demand for bond issues among foreign investors.

In other investments, an inflow of SKK 41.3 billion (EUR 1.4 billion) was recorded in 2008, compared with SKK 119.4 billion (EUR 3.9 billion) recorded in 2007. Virtually the entire year-on-year change was connected with developments in the corporate and banking sectors. In the corporate sector, the outflow resulted mainly from the repayment of import liabilities, accompanied by growth in deposits on accounts abroad. The lower inflow of funds into the banking sector resulted from the fact that inflows from financial loans were exceeded by a year-on-year decline in short-term deposits on non-resident accounts at Slovak banks. The year-on-year decline in short-term deposits on bank accounts was to a large extent the result of exchange rate stabilisation, while the strong inflow in 2007 was caused by the expectations of exchange rate appreciation (for the koruna) among investors.

2.2.3 FOREIGN RESERVES

At the end of 2008, the foreign reserves of Národná banka Slovenska stood at USD 18.8 billion (EUR 13.4 billion), representing a fall of USD 0.1 billion since the beginning of the year. The total foreign reserves of NBS were influenced by numerous factors during the year. The main factor positively influencing revenues was income from deposits and securities held in the Bank's portfolio. Expenditures were mainly determined by debt service payments made on behalf of the Government and cross-border payments effected for NBS clients. The deficit in the balance of revenues and expenditures in 2008 (USD-0.2 billion) was partly offset by positive exchange rate differentials (USD 0.04 billion), which resulted from the appreciation of the euro against the US dollar in international financial markets.

The revenue side of foreign reserves was determined in 2008 by the following factors:

- yields from deposits and securities held in the portfolio of NBS in the amount of USD 0.4 billion;
- income from new government loans in the amount of USD 0.1 billion.

The expenditure side of foreign reserves was affected in that period by:

- debt service payments for the Government in the amount of USD 0.5 billion, of which the payment of interest on government eurobonds issued in previous years accounted for USD 0.3 billion;
- other NBS expenditures in the amount of USD 0.3 billion, given by the difference between the funds received and paid in cross-border payments for NBS clients.

At the end of 2008, the foreign reserves of NBS were 2.7 times greater than the volume of average monthly imports of goods and services to Slovakia in 2008. The ratio of foreign reserves to the amount of payments for goods and services, recorded in banking statistics, reached 3.5 times the volume of average monthly imports of goods and services in 2008.

The foreign reserves of commercial banks reached USD 3.9 billion (EUR 2.8 billion) at the end of 2008. The volume of foreign reserves in the banking sector, including NBS, stood at USD 22.7 billion (EUR 16.1 billion) at the end of the year.

2.2.4 EXTERNAL DEBT OF SLOVAKIA

At the end of December 2008, Slovakia's total gross external debt stood at USD 52.5 billion (EUR 37.3 billion), representing a year-on-year increase of USD 8.2 billion (EUR 7.1 billion). Total long-term foreign debt grew year-on-year by USD 4.7 billion, while total short-term foreign debt increased by USD 3.5 billion. The increase in Slovakia's external debt during 2008 was significantly influenced by the EUR/USD cross rate.

Concerning long-term external debt, the foreign liabilities of the Government and NBS increased year-on-year by USD 0.8 billion. This increase was caused by strong interest in the purchase of SKK-denominated government bonds. Long-term foreign debt in the commercial sector increased by USD 3.9 billion, with the foreign liabilities of commercial banks growing by USD 1.2 billion (of which bonds and bills of exchange accounted



Table 18 External debt of Slovakia				
	USD billions		EUR billions	
	31.12.2007	31.12.2008	31.12.2007	31.12.2008
Total external debt of Slovakia	44.3	52.5	30.1	37.3
Long-term external debt	20.7	25.4	14.1	18.0
Government and NBS ¹⁾	9.5	10.3	6.5	7.3
Commercial banks	2.2	3.3	1.5	2.4
Entrepreneurial entities	9.1	11.8	6.2	8.4
Short-term external debt	23.6	27.1	16.1	19.2
Government and NBS ¹⁾	0.0	0.0	0.0	0.0
Commercial banks	12.1	15.3	8.2	10.9
Entrepreneurial entities	11.5	11.8	7.8	8.4
Foreign assets	37.0	40.0	25.2	28.4
Net external debt	7.3	12.5	5.0	8.9
SKK/USD and SKK/EUR rates	22.870	21.385	33.603	30.126
EUR/USD cross exchange rate	-	-	1.469	1.409

Source: NBS.
1) Including government agencies and municipalities.
Note: The totals may not sum up due to rounding.

for USD 1.0 billion) and the foreign liabilities of entrepreneurial entities increasing by USD 2.7 billion (of which loans accounted for USD 2.6 billion).

Within the scope of short-term foreign debt, the short-term foreign liabilities of commercial banks increased by USD 3.2 billion (mostly in the form of loans, cash, and deposits) and those of entrepreneurial entities grew by USD 0.3 billion.

At the end of December 2008, Slovakia's total per-capita gross external debt stood at USD 9,764, compared with USD 8,237 at the end of December 2007. The share of short-term foreign debt in the country's total gross external debt decreased year-on-year by 1.7 percentage points, from 53.3% at the end of December 2007 to 51.6% at the end of December 2008.

The net external debt of Slovakia, calculated as the difference between gross foreign debt, i.e. USD 52.5 billion (liabilities of NBS and the Government, commercial banks, and the corporate sector – except for equity participations), and foreign assets, i.e. USD 40.0 billion (foreign reserves of NBS, foreign assets of commercial banks and the corporate sector – except for equity participations), reached USD 12.5 billion (debtor position)

at the end of December 2008. This represented a year-on-year increase of USD 5.2 billion.

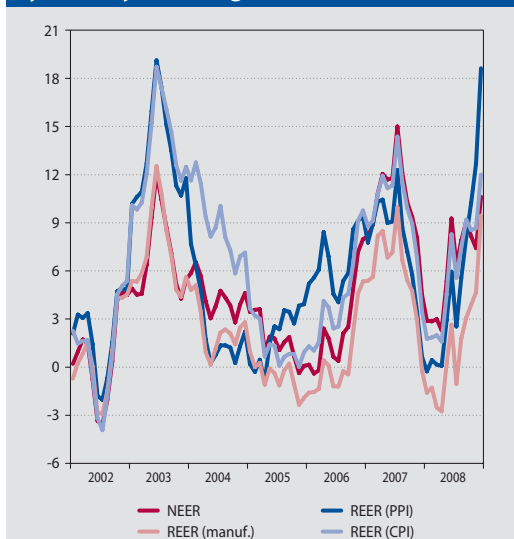
According to preliminary data, Slovakia's total gross external debt as a share of GDP at current prices reached 55.4% on 31 December 2008, representing an increase of 0.7 of a percentage point compared with 2007.

2.2.5 NOMINAL AND REAL EFFECTIVE EXCHANGE RATES OF THE SLOVAK KORUNA

The average year-on-year appreciation of the nominal effective exchange rate (NEER) of the Slovak koruna slowed to 6.3% in 2008, from 10.2% in the previous year. The biggest contributions to the appreciation of the NEER index came from the strengthening of the koruna against the euro (a contribution of 4.4 percentage points), the Russian ruble (0.9 of a percentage point), the pound sterling (0.6 of a percentage point), and the US dollar (0.4 of a percentage point). The appreciation of the NEER index was dampened by the weakening of the Slovak currency against the Czech koruna (a contribution of -0.5 of a percentage point).

The slower strengthening of the Slovak koruna in 2008 (in nominal terms) led to slower appreciation in the real effective exchange rate (REER).

Chart 22 Developments in the NEER and REER indices (16 trading partners) (year-on-year changes in %)



Source: NBS.

Note: + appreciation, – depreciation.

The average year-on-year appreciation of the REER index, defined on the basis of consumer prices, slowed in comparison with the previous year by 3.8 percentage points, to 6.0%. In the case of the REER index, defined on the basis of industrial producer prices, the rate of appreciation slowed by 2.3 percentage points, to 5.5%. The appreciation of the REER index, defined on the basis of manufacturing products prices, slowed by 4.5 percentage point, to an average of 1.4% in 2008. The slower appreciation of the individual real effective exchange rate indices in comparison with the nominal effective exchange rate was the result of lower inflation in the Slovak economy, compared with the weighted average of the country's foreign trading partners.

2.3 GENERAL GOVERNMENT

Budgetary performance in the general government sector during 2008 resulted in a deficit corresponding to 2.2% of GDP. Compared with the approved deficit (2.3% of GDP), the actual outcome was somewhat better.

The better outcome was mainly attributable to the Social Insurance Agency's improved budgetary performance. This was mainly due to higher-

than-expected social security contributions. In addition to the Social Insurance Agency, the favourable result of the general government sector can also be ascribed to the higher surplus achieved in state funds, owing to an unplanned capital income from the sale of emission quotas in the Environmental Fund, and to the reduced budget deficits of self-governing territorial units. The state budget's contribution to the favourable general government performance was insignificant. A strong negative contribution came from the budgetary performance of the National Property Fund, which greatly exceeded its planned deficit by assuming risky guarantees, while its income from dividends decreased. Budgetary performance in the general government sector was also negatively affected by the remission of uncollectible receivables in the state budget. Funds drawn from the EU budget reached 70% of the figure planned for 2008.

In 2008, the gross debt of the general government sector reached 27.6% of GDP, which was less than the budgeted figure (31% of GDP).

The parameters of the sector's deficit and debt recorded in 2008 did not exceed the reference values set for the Member States of the European Union.

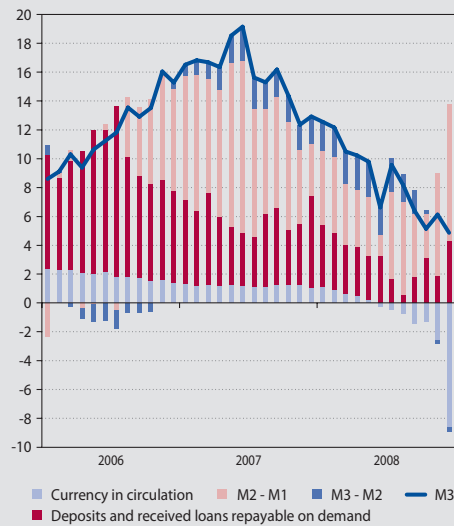
2.4 MONETARY DEVELOPMENTS

2.4.1 MONETARY AGGREGATES

At the end of 2008, M3 monetary aggregate amounted to SKK 1,135.3 billion (EUR 37.7 billion), representing an increase of SKK 52.5 billion (EUR 1.7 billion) compared with 2007 (an increase of SKK 124.4 billion (EUR 4.1 billion)). The year-on-year rate of M3 growth slowed throughout the year, from 12.9% in December 2007 to 4.9% at end-2008. Among the money supply components, the slowdown took place mostly in currency in circulation and, during the first half of the year, in deposits and received loans repayable on demand. Deposits and received loans with an agreed maturity of up to two years grew mainly towards the end of the year in connection with the prepared cash changeover. The slowdown in the growth of less liquid deposits was the result of developments in deposits in the non-financial corporations sector, while the dynamics of household deposits remained un-



Chart 23 Contributions to year-on-year M3 growth from its main components



Source: NBS.

changed during the year. Among the counterparts of M3, the growing trend continued in MFI loans to the private sector, but at a much slower pace, which, after more than three years, slowed in the fourth quarter of 2008 below 20%.

Main components of M3

Developments in deposits and received loans repayable on demand were determined by household deposits, which followed a growing trend in the first half of the year and stagnated in the second half, and by deposits in the sector of non-financial corporations. The most liquid corporate deposits experienced a slowdown in dynamics and decline in volume virtually throughout the period. A modest increase was recorded in December 2008, which, however, was connected with the euro adoption. Non-financial corporations transferred their funds from demand deposits to deposits with an agreed maturity of up to two years and vice versa throughout the

Table 19 Developments in the main M3 components and counterparts

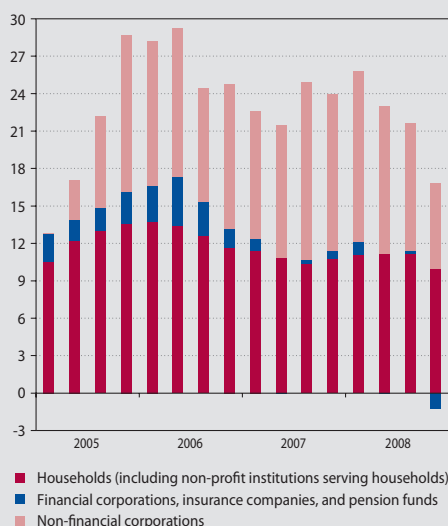
	Change in ¹⁾				Annual dynamics in ¹⁾		Volume	
	2007		2008		2007	2008	as at 31.12.2008	
	SKK billions	EUR billions	SKK billions	EUR billions	(%)	(%)	SKK billions	EUR billions
Currency in circulation	10.5	0.4	-93.5	-3.1	8.0	-66.0	48.2	1.6
Deposits and received loans repayable on demand	61.3	2.0	46.8	1.6	14.4	9.7	527.7	17.5
M1	71.9	2.4	-46.7	-1.6	12.9	-7.5	575.9	19.1
Deposits and received loans with an agreed maturity of up to 2 years	36.9	1.2	103.4	3.4	10.7	27.0	486.1	16.1
M2	106.9	3.5	56.0	1.9	11.7	5.5	1 071.0	35.6
M3 monetary aggregate	124.4	4.1	52.5	1.7	12.9	4.9	1 135.3	37.7
Counterparts of M3								
MFI loans and securities	151.2	5.0	131.3	4.36	16.9	12.5	1 178.2	39.1
of which: general government	6.9	0.2	10.6	0.4	3.1	3.5	272.3	9.0
other residents	144.3	4.8	120.7	4.0	23.6	15.5	905.9	30.0
Net foreign assets	6.2	0.2	-81.8	-2.7	-0.7	-33.1	180.4	6.0
Long-term financial liabilities (excluding capital and reserves)	19.3	0.6	9.4	0.3	15.7	6.7	151.3	5.0
Other items net (including capital and reserves) ²⁾	-13.8	-0.5	12.5	0.4	25.9	-3.7	-72.0	-2.4

Zdroj: NBS.

1) Since monetary aggregates and the counterparts of the M3 aggregate (according to ECB methodology) are not evaluated as at 1 January of the given year, the values recorded as at 31 December of the previous year are used in the table and the further text as initial values for the year.

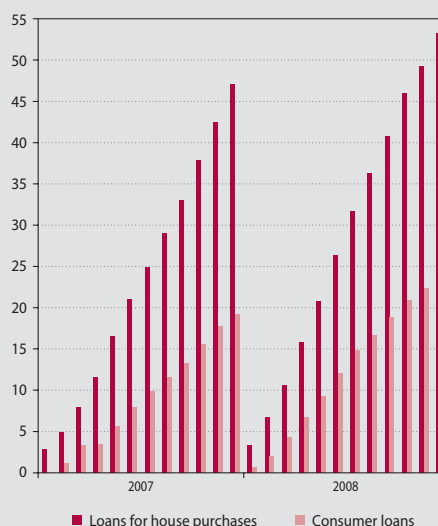
2) Other items net, including central government deposits. The values are calculated as follows: M3 = loans to the general government sector + loans to other residents + net foreign assets – long-term financial liabilities + other items net.

Chart 24 Contributions to the year-on-year growth in MFI loans to the private sector (p.p.)



Source: NBS.

Chart 25 Increases in loans to households since the beginning of the year (SKK billions)



Source: NBS.

year. Currency in circulation recorded a gradual fall in volume in connection with the changeover preparations. The Slovak koruna's gradual withdrawal from circulation led to a slowdown in the dynamics of currency in circulation, to -66.0% at the end of the year. These developments made negative contributions to the money supply growth.

The contribution of less liquid money supply components (M2-M1) to the overall dynamics of M3 growth diminished gradually over the first half of 2008, but this diminishing trend turned in the second half of the year, mainly at end-2008. This was attributable to household deposits, mainly in the final quarter (when currency in circulation decreased in volume, in connection with the euro changeover). After increasing gradually over the first half of 2008, the contribution of marketable instruments (M3-M2) to money supply growth markedly decreased in the second half of the year, mainly as a result of a marked outflow of funds in money market fund shares/units in October, and turned negative in the fourth quarter of 2008. Owing to the deepening financial crisis and stock market slump, interest in investment in open-end investment fund shares/units waned rapidly in September. The increase (M3-M2) shrank on a year-on-year basis by approximately SKK 21.0 billion (EUR 0.7 billion).

MFI loans to the private sector

At the end of 2008, the monetary financial institutions (MFIs) loans to the private sector (excluding securities) reached SKK 887.5 billion (EUR 29.5 billion), representing an increase of SKK 117.6 billion (EUR 3.9 billion) compared with the end of the previous year. This increase took place mostly in loans to households and, in the first half of the year, in loans to non-financial corporations. The dynamics of lending to households stagnated, mainly at the beginning of the year. The second half of the year saw a slowdown in the rate of growth, to 25.5% in December 2008 (28.5% in December 2007). MFI loans to non-financial corporations experienced a marked slowdown, from the second quarter in particular. They closed the year with a year-on-year increase of 13.1% (compared with 24.1% in December 2007).

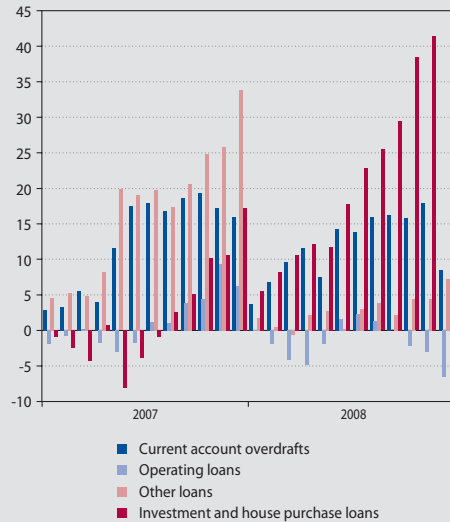
MFI loans to households

In 2008, as in the previous year, households used credit resources mostly for long-term investments. Within the structure of loans by purpose, the steepest year-on-year increase was recorded in loans for house purchases¹ (SKK 53.2 billion (EUR 1.8 billion)), which contributed 17.5 percentage points to the year-on-year growth in loans to households. Consumer loans and other loans recorded an absolute year-on-year increase of SKK 23.0 billion (EUR 0.8 billion), which was

¹ Loans to households (including non-profit institutions serving households) broken down by purpose comprise house purchase loans, consumer loans, and other loans.



Chart 26 Increases in loans to non-financial corporations since the beginning of the year (SKK billions)



Source: NBS.

more than a year earlier. Their contribution to the growth dynamics of loans to households was stable over the first three quarters, before diminishing somewhat in the final quarter (to 7.1 percentage points). Consumer loans and other loans represented one of the sources of growth in household final consumption. Their share in household final consumption had increased by 1.1 percentage points since the end of the previous year, to 10.8% (2007 also witnessed an increase of 1.1 percentage points, to 9.7%). It was, however, lower than in the euro area and other V4 countries.

The growth in MFI loans to households was accompanied by a rise in the level of indebtedness (expressed in terms of the ratio of MFI loans to households to GDP), which increased year-on-year by 2.3 percentage points and reached 18.8% at the end of the year. Similar developments in

connection with the process of real convergence were also recorded in the other new EU Member States, while household indebtedness in these countries was much lower than in the euro area (53.2% in December 2008).

MFI loans to non-financial corporations

In terms of purpose, the increase in MFI loans to non-financial corporations was concentrated in investment loans and house purchase loans (an increase of SKK 38.2 billion (EUR 1.3 billion)), and increased gradually, mainly in the second half of the year. Current account overdrafts and other loans also recorded a modest increase in comparison with the previous year. On the other hand, operating loans decreased, mainly at the end of the year. Regarding the time structure of loans, the growth in MFI loans to non-financial corporations took place mostly in long-term loans (over five years), which recorded a slight increase in their year-on-year growth dynamics. The most significant slowdown took place in short-term loans (up to one year), the dynamics of which weakened by 25.7 percentage points, to 4.3%.

Investment through open-end investment funds

The negative effects of the global financial crisis and stock market slump were mainly observed in the fourth quarter of 2008, in the unfavourable results of most types of investment funds. In 2008, open-end investment funds (OIFs) of all types operating in Slovakia in Slovak koruna or foreign currency achieved negative net sales in the total amount of SKK 30.5 billion (EUR 1.0 billion)², which represented an outflow of funds in the amount of SKK 53.6 billion (EUR 1.8 billion).

Negative net sales in 2008 were recorded by money market funds in the amount of SKK 15.2 billion (EUR 0.5 billion) and other types of funds (mainly bond funds, the funds of funds, mixed funds, and equity funds) in the total amount

² The different amounts of monthly and cumulative net sales can be explained by the fact that the data of the Slovak Association of Asset Management Companies (SASS) obtained from regular weekly statistical reports and the data of individual OIFs (www.openiazoch.sk) sometimes refer to different periods (SASS makes data releases on Fridays, but some of its members issue data on Thursdays) and the number of investment funds is recorded differently. Investment funds mergers and their year-end conversion into euro have led to a significant fall in the number of investment funds (from ca 550 to 460), as well as a marked decrease in the number of foreign-currency funds and/or an increase in the number of euro funds.

Table 20 Cumulative net sales of open-end investment fund shares/units

	2007		2008	
	SKK billions	EUR billions	SKK billions	EUR billions
OIF shares/units in Slovakia ¹⁾	23.1	0.8	-30.5	-1.0
Non-money market OIF shares/units	9.1	0.3	-15.3	-0.5
Money market OIF shares/units	14.0	0.5	-15.2	-0.5

Source: NBS calculations based on data from the Slovak Association of Asset Management Companies (SASS).
1) Denominated in domestic currency (Slovak koruna) and in foreign currency in total.



of SKK 15.3 billion (EUR 0.5 billion). Positive net sales were achieved by other funds (secured funds in particular), in the amount of SKK 2.4 billion (EUR 0.08 billion).

2.4.2 LEASING, FACTORING, AND CONSUMER CREDIT COMPANIES

The receivables of leasing, factoring, and consumer credit companies from the private sector increased by SKK 22.6 billion (EUR 0.8 billion) compared with the previous year, to SKK 146.7 billion (EUR 4.9 billion) at the end of 2008. Their growth dynamics weakened gradually during the year. Other receivables³ contributed 18.2% to their increase.

Broken down by sector, the most significant increases in receivables were recorded in relation to non-financial corporations (finance lease receivables, hire purchase receivables, and consumer credit receivables). In the household sector, the growth dynamics of factoring, leasing, and consumer credit receivables weakened somewhat, to 14.9% at the end of the year, when their volume reached SKK 40.7 billion (EUR 1.4 billion).

2.4.3 INTEREST RATE DEVELOPMENTS

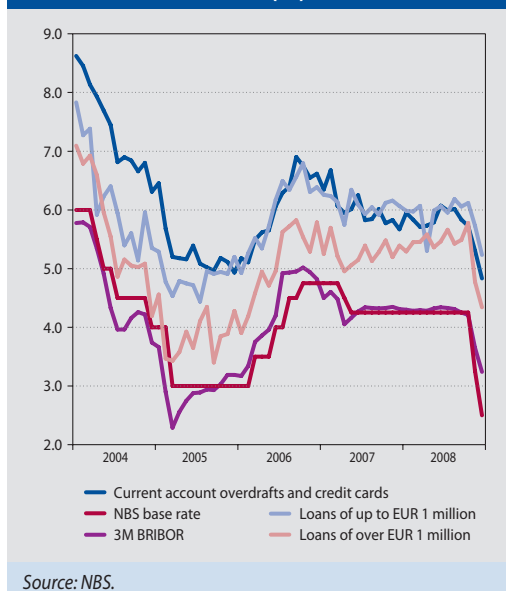
Customer interest rates

Customer interest rates were characterised in 2008 by a relatively stable course. At the end of the year, however, the ECB (and later NBS) reduced its key interest rates in three stages, by a total of 1.75 percentage points. This reduction was also reflected to some extent in the interbank market rates. Before the end of 2008, however, the key interest rate reduction had not been fully reflected in the market rates. Hence, customer interest rates were affected only very slightly. The market rates were most intensely reflected in customer rates on loans to non-financial corporations and deposits from non-financial corporations. The interest rates on household loans and deposits reacted rather inflexibly.

Interest rates on loans to non-financial corporations

Interest rates on loans to non-financial corporations remained relatively stable virtually throughout 2008. At the end of the year, the key interest rate and market rate reductions were already reflected in the interest levels. Interest rates fell on loans to small and medium-sized enterprises (up

Chart 27 Interest rates on loans to non-financial corporations, 3-M BRIBOR, and the NBS base rate (%)



to EUR 1 million) and to large companies (over EUR 1 million). Broken down by the period of initial rate fixation, short-term rates experienced a fall, while long-term rates showed a more or less rising tendency over the second half of the year. This was caused by a change in risk assessment at the end of the year as a result of the spreading financial markets problems, when interest rates on loans for operating activities (current account overdrafts and operating loans) reacted more intensely to the falling market rates, while interest rates on long-term loans (mainly investment loans and house purchase loans) reacted inflexibly. The financial market problems were also reflected in the smaller volumes of new loans to non-financial corporations at the end of the year.

Interest rates on loans to households

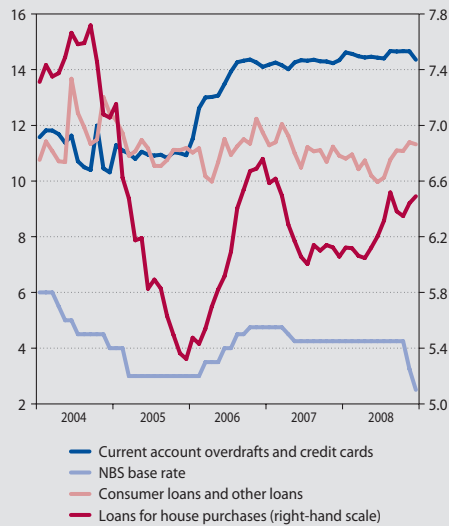
Lending rates to households did not react to the key interest rate and market rate cuts from the end of the year. Interest rates on loans to households showed a rising tendency virtually throughout the year. The only exceptions were interest rates on current account overdrafts, which represent the highest interest bearing type of credit. Interest rates on house purchase loans rose virtually throughout the year. They included mainly mortgage loans and, to a lesser extent, other loans for house purchases. On the other hand, interest rates fell somewhat on

³ In terms of purpose, factoring, leasing, and consumer credit receivables from the private sector are divided into finance lease receivables and other receivables. Other receivables comprise hire purchase receivables and consumer credit receivables.



MONETARY DEVELOPMENTS

Chart 28 Interest rates on loans to households by type (%)



Source: NBS.

Chart 29 Interest rates on deposits from non-financial corporations (%)



Source: NBS.

home savings bank loans, which are not dependent largely on the financial market. Interest rates on consumer loans followed a slowly falling trend over the first half of the year, before rising steeply in the following period. Interest rates on these types of loans were affected by the euro-area interbank market rates, which were higher than the rates in the Slovak interbank market.

Interest rates on deposits from non-financial corporations

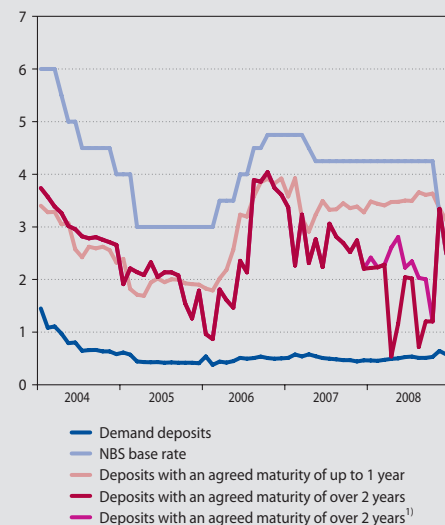
Interest rates on deposits from non-financial corporations followed a stable development in 2008, except in the last two months. The slightly more volatile course of demand deposit rates was caused by the liquidity situation in the interbank market on the last few days of the individual months, and by the relatively large fluctuations in the shortest-term rates. Over the first three quarters, interest rates on deposits with agreed maturity were stable and relatively high. In the following period, however, they fell significantly, in response to a fall in market rates.

Interest rates on household deposits

Unlike deposit rates for non-financial corporations, interest rates on household deposits did not react to changes in the interbank market rates. This was mainly the result of marketing campaigns aimed at gaining new customers in connection with the currency changeover. Within the scope of compe-

tion, banks offered relatively high interest rates for fixed-term deposits. Therefore, interest rates on household deposits remained virtually unchanged. A moderately rising trend was recorded in rates for deposits with an agreed maturity of up to one year. On the other hand, longer-term deposit rates were reduced during the year.

Chart 30 Interest rates on household deposits (%)



Source: NBS.

1) For months when structured deposits were recorded, the interest rates were adjusted for such deposits because banks set very low interest rates for such deposits, for they could not determine their yield in the future.