

# **EVALUATION OF THE LEVEL OF FOREIGN DEBT OF THE SLOVAK REPUBLIC AND DEBT SERVICING IN 2001**

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## **Development of foreign debt in the Slovak Republic in 2001**

The Slovak Republic (SR) reported as at 31 December 2001, according to preliminary data, a total gross foreign debt in the amount of USD 11.042 billion, representing an increase of USD 238 million on the previous year. The increase of this aggregate indicator had several causes: short-term debt of the commercial sector, primarily of commercial banks and partially also of the Ministry of Finance SR (MF SR) through its drawing down of the first tranche of an EFSAL loan from the World Bank in the amount of EUR 58 million. Foreign funds drawn down by the state highways fund represented EUR 28 million. In the course of 2001 the MF SR did not float any bond issue on the foreign capital markets. Its borrowing strategy was directed primarily at the domestic market. The foreign debt of the SR government and the NBS was at the level of USD 2.781 billion, representing a decline of USD 131.9 million against the balance as at 31. 12. 2000. Total foreign debt of the commercial sector, i.e. commercial banks and business subjects (including foreign debt liabilities in SKK in respect of non residents) as at the end of December 2001 totalled USD 7.587 billion (at the end of the year 2000 this was at the level USD 7.420 billion). The debt of municipal bodies represented USD 96.9 million.

**Table 1. Overview of the development of total gross foreign debt of the SR**  
(USD billion)

Period	Total foreign debt of the SR	Medium-term and long-term debt	Short-term debt
December 2000	10.804	8.389	2.415
Januar 2001	10.663	8.382	2.280
February 2001	10.878	8.425	2.453
March 2001	11.484	8.500	2.984
April 2001	11.043	8.304	2.739
May 2001	10.576	7.941	2.634
June 2001	10.654	7.972	2.681
July 2001	10.715	7.788	2.926
August 2001	10.746	7.994	2.752
September 2001	10.975	8.076	2.898
October 2001	11.112	8.022	3.089
November 2001	10.972	7.928	3.044
December 2001	11.042	7.969	3.073

The foreign debt of governmental agencies totalled USD 574.1 million, an increase on the end of the year 2000 by more than USD 200 million is a consequence of

**Table 2. Purchase of government bonds and T-bills of the SR by foreign investors**  
(USD million)

Period	Government bonds	T-bills
December 2000	198.2	0.0
Januar 2001	177.4	0.0
February 2001	269.3	0.0
March 2001	479.6	0.0
April 2001	196.9	0.0
May 2001	191.4	5.6
June 2001	313.8	0.0
July 2001	173.6	0.0
August 2001	183.5	0.2
September 2001	185.7	0.0
Oktober 2001	145.0	51.8
November 2001	151.3	4.1
December 2001	390.9	4.1

**Table 3. Gross foreign debt of the SR as at 31. 12. 2000 and 31. 12. 2001**  
(USD million)

	31. 12. 2000	31. 12. 2001*
<b>Total foreign debt of the SR</b>	10 804.2	11 042.5
<b>Total medium- and long-term debt of the SR</b>	8 389.2	7 969.4
of which: Official debt of the SR gov't and NBS	2 916.5	2 780.5
Gov't agencies	371.9	574.1
Municipal authorities	95.6	96.9
<b>Foreign debt of the business sector</b>	5 005.2	4 517.9
of which:		
Commercial banks	316.7	95.2
Non-bank subjects	4 688.5	4 422.7
<b>Total short-term debt Foreign debt</b>	2 415.0	3 073.0
of which:		
SR Government and NBS	0	4.1
Commercial banks	366.7	779.6
Non-bank subjects	2 048.3	2 289.3

\*preliminary data



foreign borrowing activity of the National Property Fund. Of the total gross foreign debt of the SR, medium-term and long-term foreign liabilities represented as at the end of the year 2001 USD 7.969 billion. The share of the overall gross foreign debt per capita of the SR in the year 2001 amounted to 2 053 USD (where the figure for the year 2000 was 2021 USD). The share of the total short-term debt in the overall gross foreign debt of the SR was in 2001 27.83%, as at 31. 12. 2000, representing a proportion of 22.35%. Short-term foreign debt in the year 2001 totalled

USD 3.073 billion, which in comparison with the year 2000 is a growth of USD 658 million. The increase in short-term debt was influenced by an unexpected significant worsening of the balance of trade of the SR in the last months of the year 2001, which was reflected in a high current account deficit in the balance of payments.

One significant aspect is the development of the indicator – foreign liabilities of the government denominated in SKK, which represents the purchases of government bonds (a component of medium-term and long-term foreign debt) and T-bills (short-term foreign liabilities) denominated in SKK by foreign investors). From table 2 it can be seen that it was foreign investors who most owned government bonds denominated in SKK in the months of March and December. Interest among foreign investors in the purchase of T-bills was in 2001 greatest in October and in other months either no or minimal interest. In connection to this, however, doubts continue to persist about the actual interest of foreign subjects in investing in T-bills.

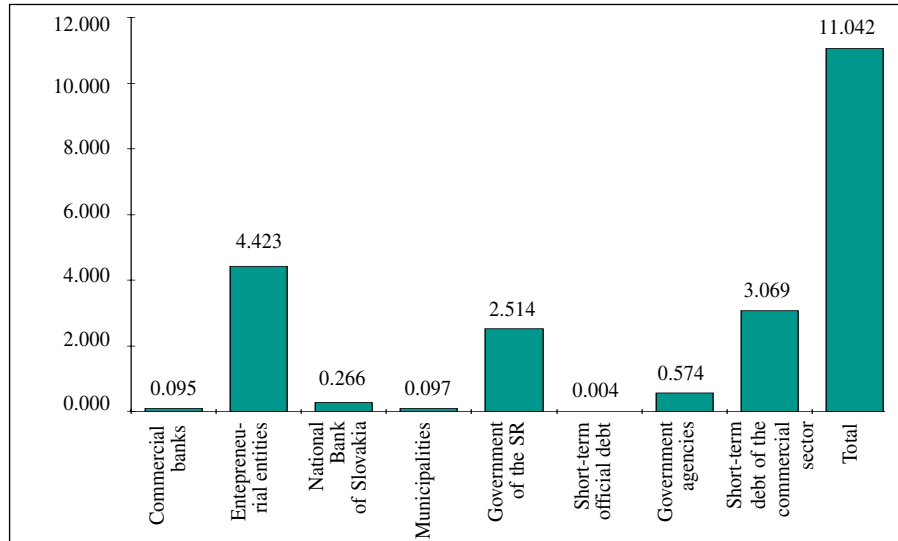
The increase in the total gross foreign debt to the value of USD 11.042 billion was influenced also by the development of the euro against the US dollar, since a large part of foreign debt of the SR is denominated in euro.

### Basic ratio indicators concerning the level of foreign debt

The following basic ratio indicators in general indicate the possible risks resulting from the increase in debt. The individual ratio indicators reached last year do not represent any significantly dramatic changes in the development

Structure of gross foreign debt of the SR in 2001

(billion USD)



of foreign debt. There occurred a certain growth (by more than 5%) in comparison with the year 2000 in the case of the indicator of the share of the increase in short-term foreign debt against the total gross foreign debt increase. Nevertheless in 2001 the share of short-term foreign debt did not exceed the acceptable 30% limit.

#### 1. Interest Service Ratio (in %)

1993	1994	1995	1996	1997	1998	1999	2000	2001
3.70	3.65	3.28	3.12	6.38	6.37	6.39	4.69	4.22

#### 2. External Debt to Exports (in %)

1993	1994	1995	1996	1997	1998	1999	2000	2001
67.50	67.99	65.82	90.35	122.47	116.29	104.93	93.37	87.63

#### 3. External Debt over GDP (in %)

1993	1994	1995	1996	1997	1998	1999	2000	2001
28.99	31.27	38.10	40.35	49.52	58.52	54.53	57.71	55.49

#### 4. Debt Service over Exports (in %)

1993	1994	1995	1996	1997	1998	1999	2000	2001
15.58	14.87	14.97	19.59	24.66	23.29	25.40	25.64	17.75

#### 5. Short Term Debt to International Reserves (in %)

1993	1994	1995	1996	1997	1998	1999	2000	2001
131.16	70.83	50.13	84.82	130.72	157.51	79.00	59.24	56.51

#### 6. Ratio of Short Term Debt to Total Outstanding Debt (in %)

1993	1994	1995	1996	1997	1998	1999	2000	2001
17.29	26.52	30.18	38.42	43.96	38.69	25.73	22.35	27.83

### Foreign debt servicing for the period January to December 2001

Total foreign debt servicing of the government of the SR and the NBS for the 12 months of the year 2001 totalled

**Table 4. Overview of the development of foreign debt and debt servicing in 2001 with forecast for 2002** (million USD)

	2001	2002*
<b>Foreign debt total (IB):</b>	10 804.23	11 380.56
– of which medium and long-term (IB):	8 389.21	8 142.99**
<b>Total debt servicing**</b>	2 205.48	2 140.97
of which principal	1 704.90	1 551.00
interest	500.58	589.97
<b>New borrowing</b>	1 436.90	1 695.10
<b>Short-term debt (IB)</b>	2 415.02	3 237.53**
Change in balance of short-term debt	736.00	505.30
Adjustment item	-229.77	0.00
<b>Foreign debt total (IB):</b>	<b>11 042.461</b>	<b>2 029.96</b>
of which medium and long-term (FB):	7 969.39	8 287.09
<b>Short-term debt (FB)</b>	<b>3 073.07</b>	<b>3 742.87</b>

IB: Initial Balance

FB: Final balance

\* forecast

\*\* adjustments relating to the beginning of 2002 are also included here. This is an estimate of the growth of the foreign debt of the NBS in total by 338.1 million USD, of which 173.6 million represents medium and long-term debt and 164.5 million USD short-term debt, for reason of the change in methodology in stating foreign currency reserves and foreign liabilities of the NBS.

**Table 5. Comparison of the development of foreign debt with the development of foreign currency reserves** (million USD)

Period	NBS foreign currency reserves	Foreign currency reserves of commercial banks	Total Foreign currency	Total foreign debt
December 2000	4 076.8	1 504.1	5 580.9	10 804.2
Januar 2001	3 972.9	1 361.7	5 334.6	10 663.8
February 2001	3 971.1	1 338.0	5 309.1	10 878.1
March 2001	3 863.0	1 414.2	5 277.2	11 484.6
April 2001	4 089.4	1 573.5	5 662.9	11 043.9
May 2001	3 780.0	1 381.6	5 161.6	10 576.2
June 2001	3 715.9	1 366.6	5 082.5	10 654.4
July 2001	3 762.0	1 515.0	5 277.0	10 715.4
August 2001	3 866.6	1 465.6	5 332.2	10 746.6
September 2001	3 846.1	1 298.1	5 144.2	10 975.1
Oktober 2001	3 825.3	1 452.2	5 277.5	11 112.2
November 2001	4 108.0	1 350.7	5 458.7	10 972.9
December 2001	4 188.7	1 248.6	5 437.3	11 042.5

USD 441.1 million. Foreign liabilities of the SR were calculated to total USD 36.8 million, of which repayments of principal represent USD 20.6 million. Liabilities of the government of the SR settled are in the amount of USD 404.3 million, of which repayments of principal are USD 254.5 million.

The largest repayment of a foreign liability was the repayment of three-year government bonds issued in 1998 in the amount of JPY 15 billion, or USD 125.3 million. The NBS on the basis of a resolution of the Bank's Board in December repaid early a part of the foreign liabilities in

respect of the European Investment Bank (AGL II) in the amount of USD 7 million (EUR 7.7 million).

Total foreign debt servicing (private and public sector) in 2001 totalled USD 2.205 billion, which is approximately USD 255 million less than in the year 2000. Of this amount repayments of principal represent USD 1.705 billion and the rest USD 501 million are interest payments.

### Forecast for the development of foreign debt and debt servicing of the SR in 2002

In the framework of the forecast for the development of foreign debt and foreign debt servicing we expect in the year 2002 a growth in the total gross foreign debt by USD 988 million to USD 12.030 billion. Of which USD 338.0 million is a forecast growth in medium-term and long-term as well as short-term liabilities of the NBS for reason of changes in the methodology of stating foreign-currency reserves and foreign liabilities of the NBS. A significant part of the growth in foreign debt in the year 2002 shall comprise primarily this forecast total increase in liabilities of non-bank business subjects.

Long-term and medium term foreign debt in 2002 according to preliminary estimates shall reach the value of USD 8.287 billion. The foreign debt item of the government of the SR, after a taking into account principal repayments of foreign liabilities (USD 102 million) and under the assumption that the government of the SR will not undertake a new issue of bonds in the foreign capital market and will draw down the declared foreign funds, should at the end of the year 2002 reach the amount of USD 2.538 billion. In this forecast are not taken into account foreign liabilities of the government of the SR resulting from ow-

**Table 6. Medium-term forecast for the development of foreign debt and debt servicing in 2003 – 2005** (million USD)

	2003	2004	2005
<b>Foreign debt total (IB):</b>	12 029.96	11 600.96	12 080.06
of which medium and long-term (IB):	8 287.09	7 550.79	7 809.89
<b>Total debt servicing **</b>	2 993.47	2 518.36	2 086.84
of which principal	2 414.55	1 911.70	1 480.20
interest	578.92	606.66	606.64
<b>New borrowing</b>	1 678.25	2 170.80	1 613.60
<b>Short-term debt (IB)</b>	3 451.97	3 759.27	3 979.27
Change in balance			
short-term debt	307.30	220.00	172.00
Adjustment item	0	0	0
<b>Foreign debt total (FB):</b>	<b>11 600.96</b>	<b>12 080.06</b>	<b>12 385.46</b>
of which medium and long-term (FB)	7 550.79	7 809.89	7 943.29
<b>Short-term debt (FB)</b>	4 050.17	4 270.17	4 442.17

IB: Initial Balance

FB: Final balance

\*\* contains also interest on short-term debt

**Table 7. Foreign debt (end of the period)**

(USD million)

	Czech. Rep.	Hungary	Poland	Romania	Slovenia	Slovakia
1998	24 348	23 483	59 135	9 074	4 915	11 902
1999	22 861	24 643	65 444	8 279	5 400	10 518
2000	21 386	25 018	68 758	9 832	6 217	10 804
2000 1Q	21 216	24 355	65 633	8 083	5 798	10 590
2Q	20 714	24 266	66 752	8 674	5 886	11 453
3Q	19 920	23 612	65 234	8 795	5 800	10 956
4Q	21 386	25 018	68 758	9 832	6 217	10 804
2001 1Q	21 370	24 053	70 018	9 858	6 107	11 485
2Q	21 001	25 244	68 734	10 740	6 459	10 654
3Q	21 825	25 899		10 906	6 755	10 975

**Tab. 8 Foreign debt per capita (end of the period)**

(USD)

	Czech. Rep.	Hungary	Poland	Romania	Slovenia	Slovakia
1998	2 366	2 327	1 529	405	2 485	2 209
1999	2 221	2 455	1 693	369	2 718	1 952
2000	2 082	2 501	1 779	438	3 124	2 021
2000 1Q	2 065	2 428	1 698	361	2 918	1 981
2Q	2 016	2 422	1 727	387	2 961	2 143
3Q	1 939	2 356	1 688	392	2 914	2 050
4Q	2 082	2 501	1 779	438	3 124	2 021
2001 1Q	2 080		1 812	441	3 069	2 149
2Q	2 044		1 779	481	3 244	1 993
3Q	2 125			488	3 391	2 040

nership of government bonds denominated in SKK by foreign currency non-SR subjects.

In consequence of a change to the methodology of reporting foreign currency reserves and foreign liabilities of the NBS, the value of this indicator shall according to the forecast grow by USD 173.6 million (a component of medium-term and long-term foreign debt) to the level of USD 440 million at the start of the year 2002, or respectively USD 391 million at the end of the year 2002. In the framework of applying the new methodology in effect from 1. 1. 2002 there was incorporated into the balance of foreign debt of the SR also the amount USD 164.5 million relating to NBS repo trades, (a component of short-term foreign debt).

In October 2000 and to the liabilities of the National Property Fund are payable in the amount of SKK 6.5 billion and euro 100 million registered in the part (item) government agencies.

In the case of short-term foreign debt of the commercial sector we expect new borrowing in the amount of USD 505 million (a change in the balance of short-term foreign debt). After taking into account the methodology changes which were incorporated into the growth of the respective balance variables in the framework of official short-term debt (NBS) it is possible to make a realistic estimate of the growth of the total short-term foreign debt of the SR, this in the total amount of USD 670 million. In 2002 we expect the financing of growing imports of goods of a consumer

and investment nature. We estimate as at the end of the year the amount (balance) of total short-term foreign debt at USD 3.743 billion.

From the aspect of the amount of the estimated debt servicing we expect a slight decrease in comparison with the year 2001. Total foreign debt servicing for the year 2002 is estimated at USD 2.141 billion. Overall repayments of principal should in this case total USD 1.551 billion. The potential payment of foreign liabilities for reason of the realisation of state guarantees is not a component of the forecast level of debt servicing of the Government of the SR. Such payments are a component of the estimate of debt servicing of the business sector. The estimated total amount of interest payable including interest on short-term foreign loans is USD 590 million.

Newly drawn official foreign sources as well as total foreign debt servicing of the government of the SR and the NBS did not have a significant influence in the year 2001 on the level of official foreign currency reserves of the SR.

The realisation of state guarantees in the year 2001 did not influence the level of foreign currency reserves of the SR, since in the previous year these were met primarily by means of the National Property Fund. A negative factor however remains the rate of return of realised state guarantees provided from the state budget, since it is not rare that debtors do not repay their liabilities pursuant to the agreed conditions of repayment. The rate of return of realised state guarantees for the year 2001 represented 15.6%. In 2001 state guarantees of SKK 26.5 billion were paid.

### **Medium-term forecast of the development of foreign debt and debt servicing of the SR in the years 2003 to 2005**

The forecast total amortisation of foreign debt of the SR in the year 2003 represents USD 2.4 billion (a growth of USD 0.9 billion against the year 2002), in the year 2004 USD 1.9 billion, where the last projected year 2005 shows a declining trend, where the total repayment of debt should on the basis of current estimates reach USD 1.5 billion. In the item new medium-term and long-term loans there will in 2003 occur only a very slight decline on the year 2002, in the case of there being maintained the same level of borrowing at the level of USD 1.7 billion. In the year 2004 in comparison with the year 2003 there is in this item expected a growth of USD 0.5 billion and in 2005 we expect a more significant decline in new borrowing, down to below the level of 2003 or 2002 (USD 1.6 billion).

In 2003 government bonds are payable in the amount of USD 750 million and euro-yen and bonds of the capital of the SR, Bratislava, in the calculated amount of USD 100 million. In the following year 2004 is payable an issue of government bonds in the amount of euro 500 million. The SR since 1993 has settled all its liabilities in respect of foreign lenders within the repayment term and in the agreed amounts. Taking into account the expected total foreign debt servicing of the state, as well as the potential refinancing in the coming years of amounts owing it may be expressed with certainty that the NBS will as previously ensure settlement of payable liabilities to foreign debtors on a steady basis and without interruption.

The forecast for the development of foreign debt and foreign debt servicing was similarly as the forecast for the balance of payments compiled on the basis of a forecast inflow of direct foreign investment into the SR economy. If, however, the development of direct foreign investment turns out to be different from the expectations incorporated into the predictions a subsequent adjustment will be necessary. A significant factor is primarily the use of revenues from the sale of the Slovak gas company, SPP, for the repayment of state debt.

The forecast for the development of foreign debt and debt servicing of the SR in the years 2003 to 2005 is based on a forecast of its consistence with the forecast for the development of the balance of payments. Liabilities of the former state highways fund have since 2002 been a component of the forecast for government debt (official foreign debt of the SR).

### Conclusion

The level of foreign debt of the Slovak Republic in the past year made be considered as appropriate and stabilised, which may be evidenced also by ratio indicators measuring foreign debt to, for example exports, gross domestic product or foreign currency reserves (the development of ratio indicators is stated in tables of this article). A certain growth in comparison with year to 2000 will occur in the case of the indicator of the share of short-term foreign debt to the total level of gross foreign debt, though in 2001 this share did not exceed the acceptable limits and is below the 30% level. In the next period it will be desirable in the case of financing public needs to give preference to domestic sources over foreign sources.