

REPORT ON MONETARY DEVELOPMENT IN THE SR IN THE 1ST HALF OF 2002

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INTRODUCTION

Macro-economic and monetary development in the first half of the year was characterised by an acceleration in the disinflation process, continued revival of economic growth driven by domestic demand, and the persistent trade and current account deficits.

The slowdown in the 12-month rate of inflation was affected, within the scope of domestic cost factors, by a slowdown in the process of regulated prices adjustments, the disappearance of the secondary effects of these cost factors on the rise in the prices of market services, and a significant fall in the dynamics of food prices. From the point of view of external factors, a downward effect on the level of year-on-year inflation was exerted by the gradual appreciation of the Slovak crown against the US dollar and the stable development of oil prices. Price development was thus determined by cost effects particularly, the action of which cannot be affected by monetary policy measures. Despite dynamic growth in domestic demand, the first half of the year saw no demand pressure on the level of consumer prices.

In the first half of 2002, GDP growth was determined by domestic demand, while foreign demand continued to be affected by the slowdown in the rate of economic growth in the countries of our trading partners. These factors, together with the high import intensity of the Slovak economy, were responsible for the large deficit in the balance of trade and that of payments on current account in the period under review. The change in the structure of domestic demand in comparison with the same period a year earlier in favour of final consumption in the household and public administration, accompanied with a significant fall in investment demand, reflected in the structure of imports by commodity. The dynamic growth in final consumption was due to wage developments, mainly the acceleration in the rate of growth in real wages (5.4 percentage points) in comparison with the same period a year earlier.

The continued deficit in the trade balance, together with the emergence of risks in the area of public finances and the potential stimulus of privatisation proceeds on demand, were the reasons for the tightening of monetary policy with regard to the absence of real government measures. At the end of April, the Bank Board of the NBS decided to raise the key rates of NBS by 0.5 of a percentage point. Thus, the overnight refinancing rate was increased to 9.50%, the overnight sterilisation rate to 6.50%, and the limit rate for standard two-week repo tenders to 8.25%. The decision of the Bank Board to increase the level of key NBS interest rates was, despite a marked slowdown in price dynamics, a reaction to the accumulation of risks in the future course of economic development. The depreciation in the exchange rate of the Slovak crown against euro in May and June was caused by the growing degree of uncertainty in the expectations of economic entities. With regard to the previous trend of appreciation in the exchange rate, which did not take the basic economic fundamentals of the Slovak economy into account, a certain correction in the rate of exchange was desirable and necessary. However, the rate of depreciation was to some extent inadequate and required central bank intervention on the foreign exchange market.

In 2002, monetary-policy instruments continued to be adjusted to the instruments applied by the European Central Bank. With effect from 1 January, the ratio of required reserves was reduced by 1 percentage point, to 4%. At the same time, bills-of-exchange transactions, Lombard loans, and the Lombard rate were cancelled. The method of setting the discount rate was changed: the discount rate now corresponds to the limit rate

for standard two-week NBS repo tenders. In connection with the change in the setting of the discount rate, and its expected cancellation on the day of entry into the EMU, it will be necessary to make some legislative changes, i.e. amendments to laws referring to the discount rate. The NBS also recommends that this term should no longer be applied in business contracts and similar documents.

In May, the Bank Board of the NBS approved the Revised Monetary Programme of the NBS for 2002. With regard to the emergence of risks in the area of public finances and the expected increase in the fiscal deficit to 4.5% of GDP in comparison with the budgeted figure (3.5%), the NBS increased its estimate of the trade deficit and the deficit of the current account. Despite the increased trade deficit, the NBS expects a moderate acceleration in the rate of GDP growth in the Revised Monetary Programme (within the original range, i.e. 3.5 to 3.8%), due mainly to dynamic growth in domestic demand. At the same time, the NBS left the projected intervals for overall (3,5 – 4,9%) and core inflation (3,2 – 4,7%) unchanged. Although the actual predictions indicated a high probability of a fall in the year-end rate of inflation towards the lower limit of the projected interval, the risks involved in public budgets and the increased pressure on the exchange rate of the Slovak crown, created no room for a reduction in the projected intervals of inflation. The development of domestic demand and monetary aggregates in 2002 is also affected by a relatively high inflow of privatisation receipts and their use, particularly. This effect may be expected in the second half of the year.

1. ECONOMIC DEVELOPMENT

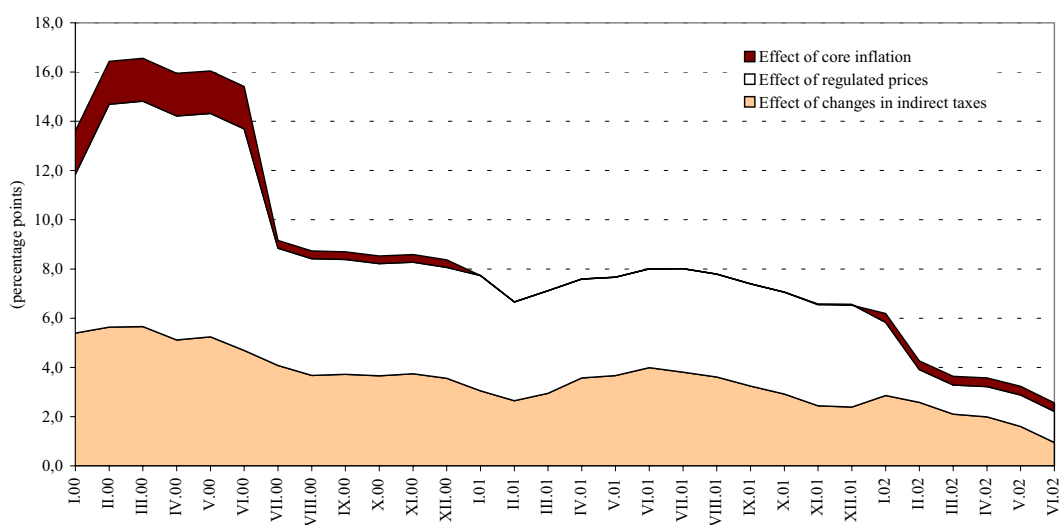
1.1. Price Developments

Consumer prices

The 12-month rate of inflation, expressed in terms of the consumer price index¹, reached 2.6% in June 2002, representing a fall of 3.8 percentage points in comparison with December 2001 (6.4%). The sector of regulated prices contributed 1.27 percentage points, the changes in indirect taxes 0.35 of a percentage point, and core inflation 0.95 of a percentage point to the year-on-year increase in consumer prices in June. In the first half of 2002, the average rate of inflation stood at 3.9%.

As for domestic factors, inflation was affected by a slowdown in price deregulation (in comparison with 2001) and the favourable trend in food prices. External factors included the appreciation of the Slovak crown against the US dollar and the relatively stable price of oil, which fluctuated within the reference zone of OPEC).

Structure of the year-on-year increase in consumer prices



The level of consumer prices was determined by the volatile items of the consumer basket. Thus, the slowdown in the year-on-year dynamics of food prices and the year-on-year fall in fuel prices contributed to the slowdown in the rate of overall inflation.

¹ As of 2002, Statistical Office of the SR (SO SR) uses a consumer price index attached to a revised consumer basket, based on the structure of household expenditures (from the statistics of family accounts) in 2000. The consumer price index based on the new consumer basket is calculated on the basis of prices from December 2000. According to calculations of SO SR, the inflation rate, expressed in terms of the new index, reached 6.4% in 2001, representing a fall of 0.1 of a percentage point compared with the figure recorded on the basis of the old basket.

Consumer price developments (year-on-year increase)

	Constant weight in %	XII-01	I-02	II-02	III-02	IV-02	V-02	VI-02
Total	100,0	6,4	6,2	4,3	3,6	3,6	3,2	2,6
Regulated prices in %	21,1	18,8	13,4	5,7	5,1	5,3	5,6	5,5
<i>Share of total, in % points</i>		3,98	2,97	1,33	1,18	1,22	1,28	1,27
Effect of changes in indirect taxes on non-regulated prices - Share of total, in % points		-0,07	0,36	0,35	0,35	0,35	0,35	0,35
Core inflation in %	78,9	3,1	3,7	3,4	2,7	2,6	2,1	1,2
<i>Share of total, in % points</i>		2,46	2,86	2,58	2,10	1,99	1,60	0,95
of which:		4,0	4,5	5,6	4,2	3,6	3,1	0,0
Food prices in % ^{1/}	21,4	0,86	0,96	1,16	0,88	0,75	0,65	0,00
<i>Share of total, in % points ^{1/}</i>		4,6	4,5	4,6	2,8	2,5	2,5	2,4
Processed foods in % ^{1/}	12,0	0,55	0,54	0,55	0,33	0,30	0,30	0,28
<i>Share of total, in % points ^{1/}</i>		3,2	4,5	6,8	6,0	4,9	3,8	-2,9
Unprocessed foods in % ^{1/}	9,4	0,30	0,42	0,62	0,54	0,45	0,35	-0,28
<i>Share of total, in % points ^{1/}</i>		0,6	1,6	1,4	1,3	1,6	0,7	0,7
Tradeable goods in % ^{1/}	39,5	0,23	0,64	0,52	0,49	0,62	0,28	0,27
<i>Share of total, in % points ^{1/}</i>		2,2	2,4	2,4	2,3	2,3	2,1	2,0
Tradeable goods excl. fuels in % ^{1/}	35,3	0,77	0,83	0,81	0,79	0,77	0,72	0,68
<i>Share of total, in % points ^{1/}</i>		-12,9	-5,3	-7,6	-7,9	-3,9	-10,5	-10,2
Fuels in % ^{1/}	4,2	-0,54	-0,20	-0,29	-0,30	-0,16	-0,44	-0,41
<i>Share of total, in % points ^{1/}</i>		9,6	10,8	11,2	10,4	9,5	9,1	8,8
Lubricants in % ^{1/}	0,0	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<i>Share of total, in % points ^{1/}</i>		7,6	7,0	5,0	4,1	3,5	3,8	3,8
Market services in % ^{1/}	18,0	1,37	1,26	0,89	0,74	0,63	0,68	0,67
<i>Share of total, in % points ^{1/}</i>		1,37	1,26	0,89	0,74	0,63	0,68	0,67
Net inflation (excluding the effect of changes in indirect taxes) in %	57,5	2,8	3,3	2,5	2,2	2,2	1,7	1,7
<i>Share of total, in % points</i>		1,60	1,89	1,41	1,22	1,25	0,96	0,94

Source: Statistical Office of the SR (SO SR)

1/ Estimates of the NBS based on data from SO SR.

2/ The sum of weights is not equal to 100 due to the method of adjustment for changes in indirect taxes.

Net inflation – includes price increases in the sectors ‘tradeable goods’ and ‘market services’.

Core inflation

Over the first half of 2002, the 12-month rate of core inflation fell by 1.9 percentage points in comparison with December 2001, to 1.2% in June. Prices followed a different course of development in the individual sectors.

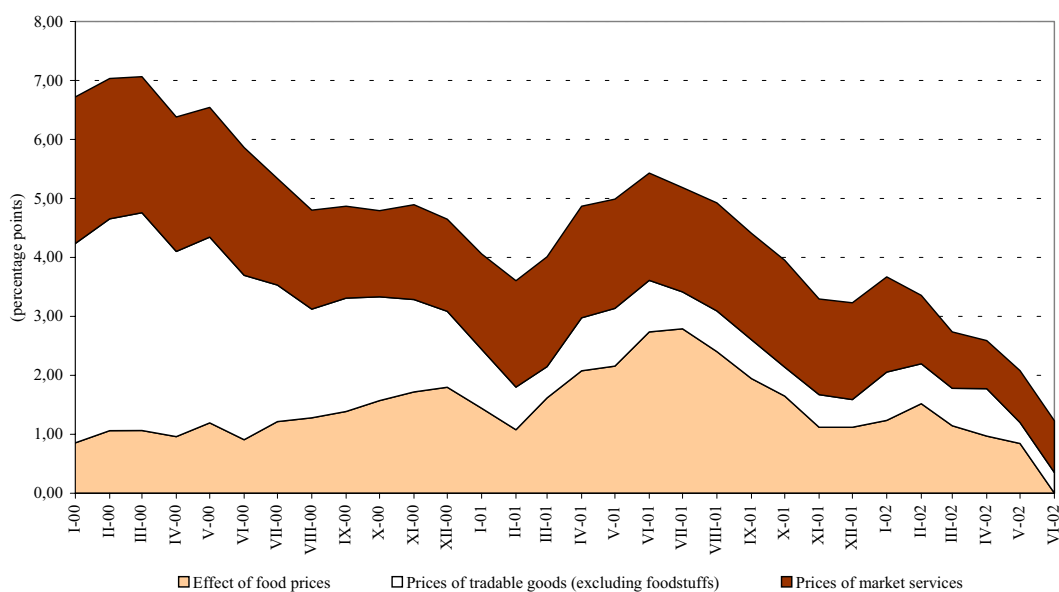
A stabilising effect on core inflation was exerted by food prices, which remained unchanged on a year-on-year basis at the end of June (in December 2001, they showed a year-on-year increase of 4.0%, compared with 9.2% in the same period a year earlier). The gradual fall in the dynamics of food prices was connected with the slowdown in the rate of increase in agricultural producer prices, caused by the good crop in 2001, and the excess of supply over demand on the market for animal products and cheap imports.

Prices in the tradeable sector also had, like food prices, a dampening effect on core inflation. Their year-on-year dynamics diminished to 0.7% in June. This was due primarily to a year-on-year fall in fuel prices (more than 10%), which reacted to the reduction in the price

of oil, the strengthening of the Slovak crown against the US dollar, and developments in fuel prices on the commodity markets. The rate of increase in the prices of tradeable goods was also dampened by the absence of other cost factors and the growing competition in the retail trade.

The rate of year-on-year increase in prices for market services slowed gradually, from 7.6% in December 2001 to 3.8% in June 2002. This was due to a slowdown in the process of price deregulation and the disappearance of its secondary effects.

Structure of the 12-month rate of core inflation



Regulated prices and excise duties

The increase in regulated prices was due to a reduction in the range of adjustments in comparison with the same period a year earlier. The first half of the year saw administrative price adjustments in heating, solid waste disposal, health care, prices for meals at educational facilities, and legal services (the price adjustments contributed 1.3 percentage points to the rise in consumer price levels). At the same time, excise duties were increased on cigarettes and tobacco, which contributed 0.4 of a percentage point to the increase in consumer prices.

Over the first half of 2002, the year-on-year dynamics of regulated prices slowed to 5.5% in June, compared with 16.4% in the same period a year earlier (18.8% in December 2001). Nevertheless, the sector of regulated prices remained a major factor in the price increase, with a share of roughly 50% in the 12-month rate of inflation.

Producer prices

Price development in the production sector during the 1st half of 2002 was characterised by a marked fall in the intensity of domestic pressures on the general price increase in the economy. The price increase moderated in all sectors under review, especially in agriculture. The prices of agricultural products remained at the level of the same period a year earlier, which was positively reflected in the consumer prices of foodstuffs. Industrial producer

prices recorded the lowest year-on-year increase in the last three years and the rate of price increase also slowed in construction.

Development of producer prices

Average price index (same period of the previous year = 100)	1st half of 2001	Year 2001	1st half of 2002
Industrial producer prices	108.9	106.5	102.0
- price of industrial products	107.2	104.3	99.9
- price of mining and quarrying products	111.2	108.5	106.5
- price of electricity, gas, steam, and hot water	116.5	116.6	109.5
Construction prices	107.2	106.8	105.2
Building material prices	107.6	106.8	103.5
Agricultural prices	109.0	107.8	100.0
- price of plant products	123.1	111.2	95.8
- price of animal products	107.0	106.6	100.7

The rate of increase in industrial producer prices slowed on a year-on-year basis, from 6.5% in 2001 to 2.0% in the 1st half of 2002. The relatively marked fall in dynamics took place mainly in the prices of industrial products, which remained below the level of the same period a year earlier. A negative phenomenon in the above trend was the persistent oversupply of finished goods in the economy. This was connected with the fact that the moderate fall, and/or stabilisation, in the prices of industrial products was caused by the reduced intensity of cost pressures and the fall in foreign demand caused by the effects of economic recession abroad. The low level of foreign demand led to a fall in the year-on-year dynamics of prices of most industrial products. At the end of June, the price increase was renewed, mainly in the categories ‘basic metals and finished metal products’ and ‘transport equipment’ (especially motor vehicles).

The weakening of the cost factors in the 1st half of the year was connected with the appreciation in the exchange rate of the Slovak crown to the US dollar and the favourable trend in the price of oil in the environment of moderate adjustments to regulated prices and other administrative effects on price formation. Within the scope of administrative measures, the price of natural gas was increased. The reduced range of regulated price adjustments in comparison with the same period a year earlier, caused the rate of year-on-year increase in the price of electricity, gas, steam, and hot water to slow, from 16.6% in 2001 to 9.5% in the 1st half of 2002. However, the price of energy and water remained the most dynamic component in industrial producer prices.

The year-on-year dynamics of producer prices of foodstuffs, beverages, and tobacco fell to a level of 2% (from 8.2% in 2001). The prices of foodstuffs and beverages, excluding tobacco, the price of which was also effected by adjustments to excise duties, rose by only 1.5% on a year-on-year basis. This development was affected positively by the prices of agricultural products.

The prices of agricultural products remained unchanged on a year-on-year basis (after an increase of 7.8% in 2001). The stabilisation of prices in agriculture was a result of a fall in the price of plant produce (4.2%) and a moderate increase in the price of animal products (0.7%). The fall in the price of plant products was due to the above-average cereal crop in 2001, which was achieved with the help of financial aid provided to farmers by the State as compensation for the damage caused by the drought in 2000. The slower rate of increase in the price of animal products was supported mainly by the price

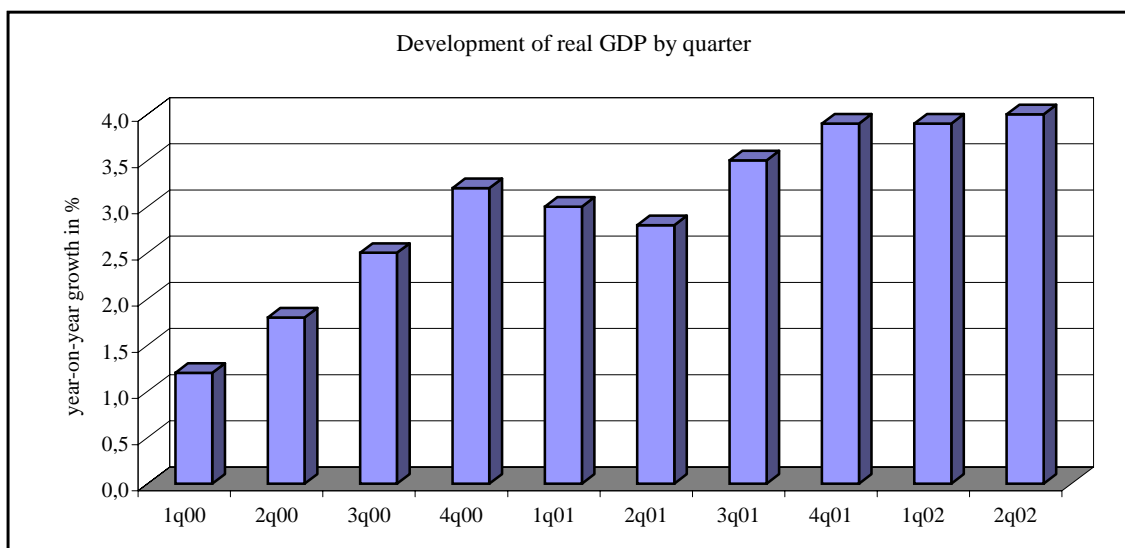
of beef and pork, which fell as a result of an increase in supply and imports. A dampening effect on agricultural prices was also exerted by the prices of agricultural inputs from industry, in particular the price of energy, lubricants, and animal fodder.

Construction prices increased year-on-year by 5.2% (compared with 6.8% in 2001). The producer prices of materials and products used in construction rose by an average of 3.5% (compared with 6.8% in 2001). The price increase was dampened mainly by the price of materials used in repair and maintenance work of construction nature. The falling dynamics of construction prices in the 1st half of the year were a reflection of growing competition in Slovakia, resulting from a fall in investment demand in Western Europe and the subsequent shift of construction activities to Central and Eastern Europe.

The increase in construction prices reflected the current level of demand for building investments, mainly in the construction of industrial parks and the reconstruction and/or modernisation of the infrastructure. Within the structure of construction works, the steepest increase was recorded in the price of site preparation works (6.5%), while the price of carcassing works (buildings and engineering structures, mainly railways) rose by 5.3%.

1.2. Gross Domestic Product

During the first half of 2002, gross domestic product reached, according to preliminary data from the Statistical Office of the SR, Sk 517.6 billion (at current prices), representing a year-on-year increase of 7.9%. At constant prices, the increase was 1 percentage point higher than in the same period a year earlier and amounted to 3.9%. The real economic growth in the 1st half of the year was a result of relatively balanced development in the individual quarters, when GDP grew by 3.9% in the first quarter and 4.0% in the second quarter.



The creation of GDP was affected mainly by its growth in other services² (9.5% at constant prices), which accounted for 31.2% of the volume of GDP, i.e. 1.5 percentage points more

² Banking and insurance; real estate, leasing, and business services; research and development; services related to housing; public administration and defence; education; health and social care; other community, social, and individual services; private households.

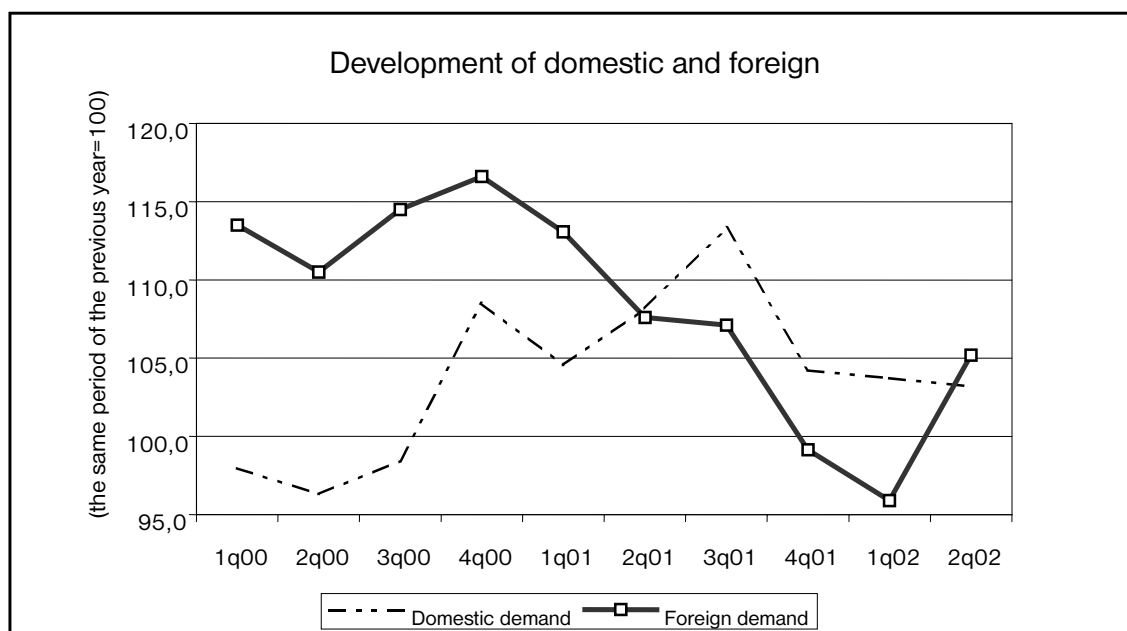
than in the same period a year earlier. Pronounced GDP growth was also achieved in construction (12.5%) and agriculture (10.6%).

In industry, GDP creation remained at the level of the previous year (with growth at a rate of 0.2%). Its development was affected mainly by a fall in industrial production (1.9%). The year-on-year decline in GDP creation in industrial production in the 1st quarter and the subsequent growth in the 2nd quarter, corresponded to the export possibilities of the Slovak industry. In the structure of industrial production, GDP creation fell mainly in the production of metals and metal goods. In electricity, gas, and water supply, the creation of GDP grew by 32.6% as a result of large-scale investments after marked slowdown a year earlier. However, the high rate of growth was affected by the low basis of comparison and was therefore not an indication of the sector's renewed ability to produce added value.

The volume of GDP was lower than a year earlier in postal and telecommunications services, transport, trade, hotels and restaurants, due to some extent to the high basis of comparison in the same period a year earlier.

From the point of view of GDP creation, a substantial increase (9.6% at constant prices) was recorded in the volume of taxes (value-added tax, excise duties, and tax on imports), adjusted for subsidies and imputed costs of banking services.

From the point of view of demand, the growth in GDP over the 1st half of 2002 was affected by an increase in domestic demand (3.4%) and a slight increase in foreign demand (0.6%) due to renewed growth in the 2nd quarter.



Domestic demand

A major factor with a pro-growth effect on domestic demand was final consumption, which increased by 5.8% and showed a tendency to accelerate in the individual quarters. The most significant increase took place in final consumption of public administration (6.8%), mostly due to wage developments in public sector. The growth in wages and other incomes, combined with the persistently strong tendency of households to spend, led to an increase in final consumption of households (5.6%). Private consumption continued to grow, with the rate of growth achieved in the second quarter (5.9%) being the highest since the beginning of 1999.

Gross capital formation (including changes in inventories) fell by 1.8% and was due mainly to the lower level of fixed investments in comparison with the same period of the previous year (by 0.3%), which was characterised by a higher rate of growth in investment.

A downturn in investment activity was recorded in all sectors of the Slovak economy, with the exception of financial corporations. Although capital expenditure was allocated in large part to the development of technological potential in the form of machinery, the year-on-year fall in fixed capital was connected with the decline in investment in machinery. On the other hand, capital expenditure on buildings increased somewhat as a result of investment in other structures (excluding residential buildings).

Structure of gross fixed capital formation in the 1st half of 2002*

	Gross fixed capital formation (Sk millions)	Share in the economy of the SR (%)	Index <u>1st half of 2002</u> 1st half of 2001
Economy of the SR in total	151,245	100.0	99.7
<i>of which (by production):</i>			
Construction	52,955	35.0	100.3
of which: residential buildings	9,098	6.0	96.1
other structures	43,857	29.0	101.3
Mech. Engineering	89,007	58.9	99.2
of which: metal goods and machines	67,556	44.7	99.4
transport equipment	21,451	14.2	98.6
<i>of which (by sector):</i>			
Non-financial corporations	101,236	66.9	99.0
Financial corporations	19,591	13.0	109.6
Public administration	9,008	6.0	91.4
Households	20,744	13.7	98.5
Non-profit institutions	666	0.4	80.5

* The volumes are at current prices, the indices at constant prices.

Net exports

Over the first half of 2002, the deficit in net exports reached Sk 7.4 billion at constant prices (compared with Sk 10.4 billion in the 1st half of 2001). The improvement in the balance of foreign trade in goods and services, including a statistical estimate of the non-registered economy, was due to a year-on-year increase in exports (0.6%) and a fall in imports (0.5%).

Export performance, expressed in terms of the ratio of exports of goods and services to GDP (at constant prices), fell by 2.5 percentage points in comparison with the 1st half of 2001, to 77.2%. The decline in exports resulting from global economic recession and a downturn in export activity in the motor industry, was accompanied by a fall in the import-intensity of the economy. The fall in import-intensity (3.6 percentage points, to 79.2%) was due to decline in investment demand, mainly for machines investment, which are largely dependent on imports.

Wage development

During the first half of 2002, the average monthly nominal wage of an employee in the Slovak economy increased year-on-year by 9.6%, to Sk 12,811. Wages grew 2 percentage points faster than a year earlier. Over the period under review, the dynamics of nominal wages increased, from 8.6% in the 1st quarter to 10.5% in the 2nd quarter.

Nominal wages increased in comparison with the first half of 2001 in all sectors of the economy. The greatest year-on-year increases took place in health and social care (21.1%); other community, social, and individual services (16.6%); education (13.9%); banking and insurance (11.0%), and real estate, leasing, and business services (10.6%). The lowest wage increase was recorded in construction (2.8%).

The increased wage dynamics in the sectors of non-market services, mainly in the second quarter (in health care, other public and social services, and in education) were connected with the enactment of laws on state and public services with effect from April 2002. Nevertheless, wage levels in the above sectors remained below the average wage in the economy.

Real wages grew over the 1st half of the year by 5.5% on a year-on-year basis, representing an increase of 5.4 percentage points in wage dynamics in comparison with the same period of the last year. The growth in real wages was affected by developments in nominal wages and average consumer prices, which increased by 3.9%, representing a slowdown of 3.6 percentage points in comparison with the 1st half of 2001.

Development of average monthly wages in the Slovak economy

	1.Q. 2001	2.Q. 2001	1.-2.Q. 2001	1.Q. 2002	2.Q. 2002	1.-2.Q. 2002
Nominal wage (Sk)	11,315	12,064	11,693	12,287	13,329	12,811
(index, same period of the previous year =100)	107.8	107.5	107.6	108.6	110.5	109.6
Real wage (index, same period of the previous year =100)	100.6	99.7	100.1	103.7	107.2	105.5
Consumer prices (index, same period of the previous year =100)	107.2	107.8	107.5	104.7	103.1	103.9

2. BALANCE OF PAYMENTS

2.1. Current Account

The dynamic growth in domestic demand and its high import-intensity, coupled with a slowdown in the rate of economic growth in the countries of our trading partners, were the reasons behind the persistently large deficit in the balance of payments on current account, which reached Sk 41.2 billion in the 1st half of 2002, representing a year-on-year increase of Sk 2.2 billion.

Balance of payments on current account		Sk billions	
	1st half of 2002	1st half of 2001	
Trade balance	-41.9	-41.5	
Balance of services	8.4	7.8	
Balance of income	-11.1	-10.5	
Unilateral transfers	3.4	5.2	
Current account in total	-41.2	-39.0	

In the first half of 2002, as in 2001, the current account deficit was caused mainly by the trade balance, which resulted in a deficit of Sk 41.9 billion due to a fall in both imports and exports, while the year-on-year fall in exports slightly exceeded the decline in imports. The fall in imports and exports was also affected by the appreciation of the Slovak crown against the US dollar and the fall in the price of strategic raw materials on the world market.

According to preliminary data from the Statistical Office of the SR, goods were exported in the 1st half of 2002 in the amount of Sk 306.4 billion, which was 0.4% less than in the same period a year earlier (an increase of 1.3% in USD and 1.5% in EUR).

Year-on-year changes in exports by sector and the contributions of individual sectors to the changes

Year	1st half	1st half	1st half	1st half	Contribution in % 2002	Contribution in % 2001
	2002	2001	2002	2001		
	Sk billion	Sk billion	in %	in %		
Raw materials	-2.2	5.0	-8.2	22.9	-0.7	1.9
Chemicals and semi-finished products	2.0	14.3	1.8	14.8	0.6	5.5
Machinery and transport equipments	-4.6	21.6	-3.6	10.4	-1.4	8.4
Agricultural and industrial products	3.5	8.5	8.2	24.9	1.1	3.3
EXPORTS in total	-1.3	49.4	-0.4	19.1	-0.4	19.1

The decline in exports in the 1st half of 2002 (Sk 1.3 billion) was caused by the slowdown in the rate of economic growth in the countries of our trading partners and developments in raw material prices. The greatest fall in exports took place in the category 'machinery and transport equipment'. Apart from a fall in car exports (which was due to a time delay in export registration at customs offices), the export of machines also remained below the level of the previous year and consisted mainly of automatic data processing machines, pumps, bearings, etc.

Decline in exports was also recorded in raw materials, due to trading in oil and oil products, as a result of a fall in the prices of these commodities on the world market. The price of oil in Slovak crowns (including the effect of the exchange rate) fell year-on-year

by 13.2%, which affected not only the export of oil products, but that of some chemicals as well. This development also led to decline in the import of mineral-based fuels and thus the negative balance of exports and imports of mineral-based fuels diminished, from Sk 34.3 billion to Sk 29.9 billion.

The manufacturers of electrical machines and equipment, certain industrial products and foodstuffs maintained, as in 2001, their competitiveness on international markets, when the export of these commodities showed a gradual increase in year-on-year dynamics over the 1st half of the year. In electrical industry, growth was recorded in the export of cables, radio and television sets, and videophone devices. In finished goods, exports increased in the production of furniture, clothing, footwear, cereal and sugar products, etc.

The massive trade deficit from 2001 persisted in the 1st half of 2002, due to dynamic growth in domestic demand stimulated by final household consumption and the growing deficit in public finances.

The volume of goods imported in the 1st half of 2002 amounted to Sk 348.4 billion, equivalent to a year-on-year fall of 0.2% in SKK (an increase of 1.5% in USD and 1.7% in EUR).

Year-on-year changes in imports by sector and the contributions of individual sectors to these changes

Year	1st half 2002 Sk billions	1st half 2001 Sk billions	1st half 2002 in %	1st half 2001 in %	Contribution in % 2002	Contribution in % 2001
Raw materials	-9.4	12.2	-14.4	22.9	-2.7	4.5
Chemicals and semi-finished products	4.1	24.2	4.0	30.5	1.2	9.0
Machinery and transport equipment	1.4	25.5	1.3	31.3	0.4	9.5
Finished products	3.1	18.9	4.2	34.5	0.9	7.1
of which:						
- agricultural and industrial products	2.7	9.9	6.1	29.5	0.8	3.7
- passenger cars	0.3	4.5	2.6	65.2	0.1	1.7
- mech. and electrical consumer goods	0.1	4.5	0.6	34.1	0.0	1.7
IMPORTS in total	-0.8	80.8	-0.2	30.1	-0.2	30.1

The year-on-year fall in imports (Sk 0.8 billion) took place exclusively in raw materials. The fall in oil and gas imports was affected mainly by the prices of strategic raw materials on the world market and the exchange rate of the US dollar (the price of oil expressed in Sk fell year-on-year by 13.2% and that of gas by 23.1%). Other imports (excluding the import of raw materials) increased by 3%.

After steep increases in imports of machines and transport equipment (excluding passenger cars) in previous years, the stagnation in investment demand led to a marked slowdown in the rate of growth (to 1.3%). In the import of technological equipment for the individual sectors of the economy, which remained roughly at the level of the 1st half of 2001, only machines for metallurgy and machine engineering recorded a moderate increase in imports.

The import of semi-finished goods and finished industrial and agricultural products grew at a faster rate (4.0 and 4.2% respectively) than that of machinery and transport equipment. The import of semi-finished goods accelerated mainly in the 2nd quarter, and took place in commodities such as plastics, rubber, paper, and iron and steel in particular, including iron and steel products.

Within the scope of finished industrial and agricultural products, year-on-year increases in imports were recorded in pharmaceuticals, clothing, footwear, books, toys, meat, vegetables, and fruit; car imports also began to grow in June.

In the first half of 2002, the balance of services resulted in a surplus of Sk 8.4 billion, representing a year-on-year increase of Sk 0.6 billion, while receipts from exports grew by 7.8% and payments for imports 7.7%.

The positive balance of services was affected first and foremost by transport, the surplus of which increased year-on-year by Sk 2.5 billion, to Sk 14.3 billion. Within the scope of transport services, the largest item was the income from the transit of gas and oil from the Russian Federation (RF) to the Czech Republic and Western Europe. The import of natural gas from the RF in payment for the transit charges, together with direct payments for its transit, amounted to Sk 16.6 billion and was somewhat below the level of the previous year.

Even without the transit of gas and oil, transport showed a marked improvement in the 1st half of 2002, when its deficit diminished from Sk 5.6 billion in 2001 to Sk 2.3 billion. Within the scope of transport services, the most dynamic growth took place in net income from freight transport, the share of which in the turnover of freight transport increased to a significant extent. In expenditures, other transport services remained below the level of last year, while their fall was connected with the overall decline in imports.

After increase in the previous two years, net receipts from foreign tourism fell year-on-year by Sk 1.1 billion in the 1st half of 2002. Receipts from foreign tourism increased year-on-year by Sk 2.8 billion, to Sk 12.1 billion. The fall in the positive balance of tourism was due to increased drawing of foreign exchange by Slovak citizens, which exceeded the growth in foreign exchange receipts from foreign tourists. The amount of foreign exchange drawn by Slovak citizens increased by Sk 3.9 billion, to Sk 10.6 billion. The steep increase in foreign exchange drawings was probably connected with the strengthening of the Slovak crown (in March and April, the exchange-rate value of the euro fell below Sk 42) and the accumulation of foreign exchange by Slovak entities.

The balance of 'other services in total' (telecommunications, construction, insurance, financial, leasing, computer engineering, advertising, business, and technical services, etc.) remained in deficit as in previous years. In the 1st half of the year, the deficit in the balance of 'other services in total' reached Sk 7.5 billion, representing a year-on-year increase of Sk 0.8 billion.

The greater fall in income from exports than in expenditure on imports was reflected mainly in profit-making operations in goods (direct re-export), agency and technical services (site supervision, architectural and structural design, etc.), which belong, together with other services, to the category 'services in other activities' within the services balance.

The growth in deficit in the category ‘other services in total’, which had persisted for several years, was realised in business services and was connected with the growing activity of the corporate sector in the export of services, which form the subject of business services (expert opinions, organisation of trade fairs and exhibitions, etc.).

The growth in the deficit was also partly due to insurance and financial services, which recorded an increase in their turnover abroad, but expenses on imports grew at a faster rate than receipts from exports.

The balance of income resulted in a deficit of Sk 11.1 billion, representing a year-on-year increase of Sk 0.6 billion. Receipts from investments reached Sk 8.0 billion and remained approximately at the level of the 1st half of 2001. Within the structure of receipts, interest receipts from deposits abroad were shifted to interest receipts from portfolio investments – securities.

The moderate increase in the size of the deficit was caused by growth in expenditure on interest payments as a result of an increase in the volume of securities issued by domestic entities in Sk in the holdings of non-residents. Interest payments by entrepreneurial entities increased only slightly, while interest payments in the government sector including the NBS (mainly on government bonds) remained at the level of the previous year.

In the first half of 2002, the balance of current transfers generated a surplus of Sk 3.4 billion, which was Sk 1.8 billion less than in the same period of 2001. This was due to a fall in receipts of companies based in the SR from unilateral transfers from abroad, which were reflected in the transfers of corporate entities (e.g. benefits, damages, compensation from non-life insurance, etc.).

2.2. Capital and Financial Account

The capital and financial account resulted in a surplus of Sk 14.5 billion, representing a fall of Sk 10.7 billion (more than 40 %) in comparison with the same period a year earlier.

Capital and financial account of the balance of payments Sk billions

	1st half of 2002	1st half of 2001
Capital account	1.8	0.1
Direct investment	12.6	32.0
SR abroad	-0.3	-2.5
in the SR	12.9	34.5
of which: privatisation	6.0	18.1
Portfolio investment	11.4	-3.9
SR abroad	5.0	-11.0
in the SR	6.4	7.1
Other long-term investment	-4.2	-1.9
Assets	2.4	-1.2
Liabilities	-6.6	-0.7
Short-term investment	-7.1	-1.1
Assets	2.4	-11.2
Liabilities	-9.5	10.1
Capital and financial account	14.5	25.2

Foreign direct investment in net terms (difference between FDI by foreign investors in Slovakia and FDI by Slovak entities abroad) amounted to Sk 12.6 billion, and resulted from an inflow of foreign capital into Slovakia in the form of direct investment in the amount of Sk 12.9 billion and an outflow of capital through the activities of Slovak economic entities abroad in the amount of Sk 0.3 billion.

Foreign direct investments in Slovakia can be divided into three basic categories. The first category comprises the privatisation activities of the Government through the FNM. Their volume reached Sk 6.0 billion and included the last payment for the privatisation of Slovenská sporiteľňa and proceeds from the privatisation of Transpetrol.

Foreign direct investment destined for increases in the equity capital of companies and banks, which belongs to the second category of FDI, reached Sk 12.3 billion. Of this amount, 11% was employed in the individual sectors of industry, where the said amount was distributed over a large number of companies. The structure of investments by sector was similar to that in 2001, when significant investments were made only in the production of foodstuffs and beverages, chemical, rubber, and plastic products (as in the previous year). The situation also remained unfavourable for investment in the equity capital of companies in machine and electrical industries, the products of which could ensure growth in exports even at lower inputs into the economy.

	Sk billions	
	1st half of 2002	1st half of 2001
<i>Foreign direct investment (FDI) in the SR</i>	12,9	34,5
of which: capital participation	18,3	27,6
of which: privatisation FDI	6,0	18,1
other capital investment	12,3	9,5
Other capital	-5,4	6,9

Foreign investors continued to show interest in sectors characterised by a large proportion of inexpensive, often less skilled labour. Trade, business services, transport, storage, and telecommunications accounted for 55% of the total increase in equity capital. The banking sector, finance and insurance absorbed roughly 17% of FDI (excluding privatisation) in the first half of 2002.

The third category was formed by other capital, including receivables and payables vis-à-vis direct investors. While other capital contributed to FDI in Slovakia in 2001 (Sk 6.9 billion in the 1st half of 2001), the year 2002 is showing the opposite trend. An outflow of other capital was recorded in the amount of Sk 5.4 billion, due mainly to growth in the activity of Slovak entities in providing commercial loans in connection with commodity exports and an increase in short-term financial loan repayments. In the case of short-term loans, drawing was usually not renewed after repayment.

Portfolio investment in net terms recorded an inflow of capital in the amount of Sk 11.4 billion. In 2002, the assets side was affected by the sale of foreign securities held by commercial banks in the form of bonds in the amount of Sk 5.0 billion (the sale of foreign securities was connected, as the fall in the deposits of commercial banks abroad, with the insufficient inflow of funds from abroad for the financing of the current account deficit and other commitments of the commercial sector). Portfolio investments on the side of liabilities, which include the issue of securities by domestic entities on foreign markets and trading in domestic equity and debt securities, reached Sk 6.4 billion.

The increase in equity securities, which come under the category ‘non-debt capital’, like direct investments, reached Sk 1.1 billion in the 1st half of 2002.

The inflow of portfolio investments in the form of debt securities amounted to Sk 5.3 billion. A significant role in their structure was played by government and corporate bonds. Corporate bonds were issued in the amount of Sk 6.8 billion and were directed mainly to transport. In trading in crown-denominated government bonds by non-residents, purchases were exceeded by sales, which resulted in an outflow of Sk 2.6 billion. Government bonds were traded, as in the previous year, in large volumes, while these transactions followed a rather volatile course of development during the 1st half of the year (the excess of purchases over sales on the part of non-residents in January and February, was followed by increased sales in March, April, and May, and growth in the interest of non-residents in June).

Other long-term investments recorded an outflow of funds in the amount of Sk 4.2 billion, which was due mainly to the excess of repayments over drawings on the side of liabilities (Sk 6.6 billion) in the corporate and government (including the NBS) sectors.

In the corporate sector, financial credits were drawn in the amount of Sk 8.5 billion, which represented 75% of the figure for the same period a year earlier. The structure of credits drawn by sector followed the trend from 2001, with the share of trade, business services, banking and finance increasing further (to almost 50%). Industrial production absorbed 13% of the credits provided. The funds were distributed over a large number of companies.

Financial credits were repaid in the corporate sector in the amount of Sk 12.7 billion, which was 34% less than in the same period a year earlier, due probably to the decline in drawings in recent years.

The outflow of long-term funds took place in the government sector, including government agencies and the NBS (Sk 2.3 billion). The repayment of government loans and NBS loans was accompanied by the drawing of a loan for the State Road Fund in the amount of Sk 0.9 billion.

Short-term capital, which showed increased volatility in the 1st half of the year (on both sides of the balance sheet), recorded an outflow of Sk 7.1 billion. In short-term assets (an inflow of Sk 2.4 billion), a significant role was played by the deposits of commercial banks abroad and other receivables from abroad, which recorded an inflow of Sk 14.1 billion from the beginning of the year to the end of June. A different trend was recorded in lending activities, when new loans provided by the corporate (commercial credits) and banking (financial credits) sectors to non-residents exceeded repayments by Sk 11.8 billion.

The volume of short-term liabilities was affected substantially (a fall of Sk 9.5 billion) by the activities of the NBS. The repayment of liabilities arising from repo operations conducted within the scope of foreign exchange reserve control, led to an outflow of funds in the amount of Sk 7.8 billion. The volume of short-term capital in the banking sector was affected, throughout the period, by a fall in the deposits of non-residents at commercial banks in the SR (which was due partly to the application of funds deposited at commercial banks in connection with the process of privatisation after audit). Repayments were also

exceeded by drawings in the case of short-term commercial credits in the corporate sector and other short-term liabilities of commercial banks (subsidiaries and similar funds).

2.3. Foreign Exchange Reserves

In accordance with the requirements of the ECB and IMF, the rules governing the reporting of foreign exchange reserves by the NBS and commercial banks were changed with effect from 1 January 2002. The new method of reporting lies in the evaluation of gold at market price and a change in the reporting of repo operations and gold swaps. Part of the long-term assets of commercial banks has been included in their foreign exchange reserves. These changes affected not only the total volume of foreign exchange reserves, but the level of gross and net external debt as well. With the introduction of the new method, the foreign exchange reserves of the banking sector increased by US\$ 1,130.8 million (as of 1 January 2002). The foreign exchange reserves of the NBS grew by US\$ 602.4 million and those of commercial banks by US\$ 528.4 million.

At the end of June 2002, the foreign exchange reserves of the NBS stood at US\$ 4,780.9 million, representing a fall of US\$ 10.2 million compared with the beginning of the year. The key factors affecting revenues were proceeds from the privatisation activities of the Government. Expenditures were determined by debt service payments effected on behalf of the Government and central bank interventions. Over the first six months, the foreign exchange reserves of the NBS were affected significantly by the exchange rates of fully convertible currencies on international financial markets.

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

- proceeds from the privatisation activities of the Government in the amount of US\$ 127.0 million (39.6% of the total revenue);
- yields from deposits and securities held in the portfolio of the NBS in the amount of US\$ 85.4 million;
- the drawing of government loans from foreign financial institutions in the amount of US\$ 18.1 million;
- other revenues of the NBS in the amount of US\$ 90.5 million, of which receipts in the foreign currency accounts of NBS clients in connection with PHARE projects accounted for US\$ 46.1 million.

The expenditure side of foreign exchange reserves was affected by:

- debt services payments by the Government in the amount of US\$ 200.6 million (27% of total expenditure), of which the payment of interest on government eurobonds issued in previous years accounted for US\$ 134.5 million;
- debt services payments by the NBS in the amount of US\$ 20.3 million;
- the sale of foreign exchange to commercial banks on the interbank foreign exchange market in the amount of US\$ 195.7 million;
- the discharge of liabilities arising from repo operations in the amount of US\$ 169.7 million;
- other expenditures of the NBS in the amount of US\$ 145.6 million, incurred mostly in connection with the realisation of cross-border payments for NBS clients (US\$ 62.7 million).

At the end of June 2002, the foreign exchange reserves of the NBS were 3.4 times greater than the volume of average monthly imports of goods and services during the first six months of the year, which corresponded to the figure for the end of 2001.

The foreign exchange reserves of commercial banks reached US\$ 1,899.4 million at the end of June, representing an increase of US\$ 122.4 million compared with the beginning of the year. The volume of foreign exchange reserves in the banking sector, including the NBS, stood at US\$ 6,680.3 million at the end of June (compared with US\$ 6,568.1 million at the beginning of the year).

2.4. External Debt of the SR

In accordance with the new methodology of reporting, the external debt of Slovakia includes, with effect from 1 January 2002, liabilities arising from gold swaps (part of the medium and long-term liabilities of the NBS) and repo operations of the NBS (part of the short-term debt of the NBS), as a result of which the total gross external debt of the SR increased by US\$ 338 million.

On 1 January 2002, the liabilities of the State Road Fund (roughly US\$ 350 million) were included in the direct external debt of the Slovak Government. Until 31 December 2001, these liabilities had been reported as part of the liabilities of government agencies. The change in the classification of these liabilities had no impact on the total external debt of the SR.

In millions of US\$	31.12.2001	01.01.2002*	30.06.2002*
Total external debt of the SR	11,042.5	11,380.5	12,032.1
of which:			
1) Official debt of the Government and the NBS	2,784.6	3,305.9	3,356.7
of which: Official short-term debt	4.1	164.5	33.4
2) Government agencies	574.1	222.3	243.1
3) Municipalities	96.9	96.9	106.5
Foreign liabilities in the commercial sector	7,586.8	7,586.8	8,325.3
of which:			
4) Commercial banks	874.8	874.8	962.5
5) Entrepreneurial entities	6,712.0	6,712.0	7,363.3
Medium- and long-term foreign liabilities in the commercial sector	4,517.9	4,517.9	5,045.2
of which:			
Commercial banks	95.2	95.2	143.2
Entrepreneurial entities	4,422.7	4,422.7	4,902.0
Short-term liabilities in the commercial sector	3,068.9	3,068.9	3,280.5
of which:			
Commercial banks	779.6	779.6	819.3
Entrepreneurial entities	2,289.3	2,289.3	2,461.2
Foreign assets	8,460.4	9,400.9	9,915.6
Net external debt	2,808.1	1,979.6	2,116.5

* New methodology in effect since 1 January 2002.

The development of the external debt over the 1st half of 2002 indicates that foreign liabilities in the commercial sector increased by an equivalent of US\$ 738 million, of which US\$ 651 million took place in the liabilities of entrepreneurial entities. Medium and long-term liabilities in the commercial sector increased during the period under review by US\$ 527 million, of which the liabilities of entrepreneurial entities accounted for US\$ 479 million. By the end of the 1st half of 2002, short-term liabilities in the commercial sector had increased by US\$ 211 million, of which the short-term liabilities of business entities accounted for US\$ 172 million USD.

Net external debt – expressed as the difference between gross foreign debt, i.e. US\$ 12.0 billion (liabilities of the Government and the NBS, liabilities of commercial banks, and liabilities of the corporate sector - except capital participation), and foreign assets, i.e. US\$ 9.9 billion (foreign exchange reserves of the NBS, foreign assets of commercial banks and the corporate sector - except capital participation), reached US\$ 2.1 billion at the end of June, representing an increase of US\$ 0.1 billion since the beginning of the year.

3. PUBLIC SECTOR

Budgetary performance

At the end of the 1st half of 2002, budgetary performance resulted in a deficit of Sk 24.7 billion. This result was due mainly to the application of Article 11 of Act No. 586/2001 Z. z. on the State Budget, when bonds were issued for the restructuring of banks in the amount of Sk 9.6 billion. Leaving this effect out of consideration, the budget deficit reached Sk 15.1 billion, representing roughly 40% of the projected annual figure.

For the year 2002, budget revenue was set at Sk 219.9 billion. By 30 June, actual budget revenue had reached Sk 102.8 billion, i.e. 46.7% of the annual figure (Sk 7.2 billion less than the aliquot part of the budget). In the first half of 2002, budget revenue fell behind the figure for the same period a year earlier by Sk 1 billion. The most significant contribution to the growth in budget revenue (roughly 90%) came from tax revenue (Sk 92.6 billion), which reached 51.2% of the figure planned for the year (a surplus of Sk 2.3 billion). In comparison with the same period a year earlier, tax revenue increased by Sk 11.4 billion, due mainly to revenue from value-added tax. On the other hand, non-tax revenues recorded a marked year-on-year fall (Sk 6.9 billion). During the 1st half of 2002, non-tax revenues reached Sk 9.2 billion (32.5% of the budgeted figure).

In the 1st half of the year, revenue from value-added tax remained Sk 0.6 billion below the budgeted level, but was Sk 5.1 billion higher than in the same period a year earlier. At the end of June, individual income tax revenue was Sk 0.4 billion below the budgeted figure. In comparison with the 1st half of 2001, however, the revenue was Sk 1 billion higher. Revenue from corporate income tax exceeded the budgeted level by Sk 4.2 billion and was Sk 3.6 billion higher than in the same period a year earlier. Revenue from excise duties was Sk 1.1 billion below the budgeted level, but was Sk 1 billion higher than in the same period a year earlier.

For 2002, budget expenditure was set at Sk 257.9 billion, including the costs of bank restructuring. Over the 1st half of the year, budget expenditure reached Sk 127.5 billion, but remained Sk 1.5 billion below the budgeted level (in comparison with the 1st half of 2001, the expenditure was Sk 10.2 billion higher). Excluding the costs of bank restructuring, budget expenditure amounted to Sk 117.9 billion and was Sk 11.1 billion less than the figure projected for the 1st half of the year.

State financial assets

State financial assets kept in the form of deposits with the NBS amounted to Sk 46.4 billion at the end of the 1st half of the year. Over the period under review, state financial assets fell by Sk 2.6 billion, due to transfers to the account of credit operations.

Relationship between the NBS and the State Budget of the SR

The National Bank of Slovakia continued to apply the method of interest paid on the balance of the summary memorandum account of the SR (approved by the Bank Board of the NBS, with effect from 1 January 2001), at the current overnight sterilisation rate of the National Bank of Slovakia. For the first half of 2002, the NBS paid interest to the Ministry of Finance of the SR in the amount of Sk 213.7 million. Of the remaining profit of the NBS, no transfer was made to the State Budget.

State funds

By 31 December 2001, 9 State funds had been cancelled and the State Fund for Market Regulation in Agriculture had been transformed into the Intervention Agricultural Agency of the SR. Two funds remained in operation, the State Fund for the Liquidation of Nuclear Engineering Facilities and Handling of Spent Fuels and Radioactive Waste under the Ministry of Economy of the SR and the State Housing Development Fund under the Ministry of Construction and Regional Development of the SR. At the end of the 1st half of 2002, the above funds had Sk 10.0 billion at their disposal.

Privatisation bonds of the National Property Fund

At the end of the 1st half of 2002, there were 49,287 unredeemed bonds in the amount of Sk 671.3 million (issued in 1995 and due on 31 December 2000). The volume of renewed liabilities (i.e. liabilities of the NPF vis-à-vis legal entities, arising from a loan provided for the redemption of privatisation bonds held by these legal entities) reached almost Sk 4.5 billion.

Government guarantees

Under Act No. 586/2001 Z. z. on the State Budget for 2002, the limit for new government guarantees was set at 13% of the budget revenue, i.e. Sk 28.6 billion. Of this amount, government guarantees had, by the end of June, been provided for bank loans to Železničná spoločnosť, a.s. [Railway Company], Bratislava (Sk 3 billion); ŽSR, a.s. [Slovak Railways] (Sk 8.7 billion); and Metro, a.s., Bratislava (Sk 0.4 billion).

Of the budget of the National Property Fund, Sk 5.1 billion was earmarked for the payment of government guarantees in 2002 (through the so-called memorandum item, receipts from privatisation), i.e. Sk 2.1 billion for the liabilities of NPF from 2001 and Sk 3 billion for the year 2002. In the 1st half of the year, guarantees were realised for PT, a.s., Žilina (Sk 124.3 million); Vodohospodárska výstavba, state co., Bratislava (Sk 349.9 million); and IMUNA, a.s., Šarišské Michaľany (Sk 23.1 million).

4. MONETARY POLICY AND MONETARY DEVELOPMENT

During the first half of 2002, the NBS implemented its monetary policy in an environment characterised by a revival in domestic economic activity and a slowdown in the rate of inflation, while the risks in the fiscal area persisted and the external imbalances showed no signs of improvement. The growth in domestic demand, supported by an increase in real wages, posed another risk to macro-economic development. The effect of these factors was also reflected in exchange rate developments. Since the beginning of the year, the Slovak koruna maintained a trend of appreciation until April, when a dynamic depreciation began. The development of exchange rate of SKK/EUR required central bank interventions on the foreign exchange market at the end of the 1st half of the year, as a result of which the SKK/EUR stabilised.

The overall depreciation in the exchange rate of the koruna to the euro had no unfavourable effect on inflation. On the contrary, the continuous appreciation of the Slovak koruna in relation to the US dollar represented, through the prices of strategic commodities, a dampening factor of price development.

In April, the Bank Board of the NBS decided to increase its key interest rates by 0.5 of a percentage point, i.e. the rate for overnight sterilisation to 6.50%, that for overnight refinancing to 9.50%, and the limit rate for standard repo tenders to 8.25%. In so doing, the NBS responded to the deepening external economic imbalances, mainly the continued growth in the trade deficit, the increasing internal imbalance in the public sector, and the absence of adequate measures for the elimination of risks involved in this development.

Commercial banks reacted to the increase in key interest rates by raising the corresponding rate for all maturities on the interbank market. The increased rates were fully reflected in the interest requirements of banks at repo tenders and issues of NBS bills for the portfolios of commercial banks. The change in key interest rates was also reflected, with a time delay of one month (in June), in customer interest rates, mainly in rates for new loans. Increases were also recorded in rates for issued government securities.

4.1. Monetary Aggregates

In the first half of 2002, the development of monetary aggregates was affected by the winding-up of Konsolidačná banka, a.s. and its take-over by Slovenská konsolidačná, a.s., which was placed, on the proposal of the Statistical Office, under the public administration sector (central state administration). Thus, the redistribution loan provided by the NBS to Konsolidačná banka was changed, in statistical reporting, from an interbank loan to a loan to the public administration sector and led to an increase in net credit to the Government. At the same time, the volume of loans to households and enterprises fell by the volume of loans provided by Konsolidačná banka.

Compared with the beginning of the year, the money supply (at fixed 1993 exchange rates) fell in volume by Sk 3.5 billion and its year-on-year dynamics reached 8.6%. The fall in the money supply was affected by the increased deficit in the current account, while domestic assets had a pro-growth effect.

Within the scope of domestic assets, growth in the money supply was stimulated by net credit to the Government, which (excluding the effects of the conversion of a redistribution loan to Konsolidačná banka into a loan to the public sector and the issue of bonds for restructuring) increased during the first six months by Sk 21.4 billion and was affected

mainly by the deficit in current budgetary performance (Sk 24.7 billion). In comparison with the same period a year earlier, net credit to the Government increased by almost Sk 7.2 billion.

Since the beginning of the year, the debtor position of the National Property Fund (FNM) vis-à-vis the banking sector had increased by Sk 1.4 billion, to Sk 9.8 billion. Sk. Net credit to the FNM was favourably affected by the inflow of privatisation proceeds. The FNM used the funds thus obtained for the payment of part of the liabilities arising from FNM bonds and for the payment of a due government guarantee. The budgetary performance of FNM in the first half of the year was also affected significantly by the provision of funds in the amount of Sk 5.5 billion to the MF SR for the redemption of part of the restructuring bonds.

The actual recorded volume of loans to households and enterprises fell over the 1st half of the year by Sk 13.4 billion, in connection with the merger of Konsolidačná banka with Slovenská konsolidačná agentúra. Konsolidačná banka ceased to operate as a banking entity on 1 February 2002. At 31 January, Konsolidačná banka had loans in its portfolio (methodologically included in the aggregate 'loans to households and enterprises') in the amount of Sk 31.5 billion, which means that the statistically recorded volume fell by this amount after the bank ceased to operate). If we exclude this one-off accounting operation, which has no real effect on the economy, the total volume of loans to households and enterprises increased during the first six months by Sk 18.1 billion, representing almost twice the increase in the same period a year earlier. Crown loans contributed Sk 17.1 billion to this increase, mainly loans to enterprises (Sk 13.9 billion). Loans to households increased by Sk 3.2 billion and loans in foreign currency by Sk 1.0 billion.

During the first six months, the adjusted time series of loans to households and enterprises showed relatively high dynamics, reaching a two-digit figure, with a tendency to increase. At the end of the 1st half of the year, the annual rate of growth slowed somewhat, to 11.0%. The upturn in lending activity was connected with the restructuring and privatisation of selected commercial banks. The consolidation of the banking sector led to the release of tied-up funds and the creation of room for new lending activities.

4.2. Structure of the Money Supply

During the 1st half of 2002, the M2 money supply (at fixed 1993 exchange rates) fell by Sk 3.5 billion, to Sk 647.7 billion. The fall in M2 was concentrated in the first quarter (Sk 13.4 billion), due mainly to the discharge of tax obligations by legal entities, the volume of which was higher than in the same period a year earlier. The year-on-year rate of growth in the money supply slowed from 11.9% in December 2001 to 8.6% in June 2002. The M1 sub-aggregate fell over the first six months by Sk 9.8 billion, with the rate of year-on-year growth slowing down to 15.2% (from 22.1% in 2001), while quasi-money increased by Sk 6.3 billion (year-on-year by 5.5%, in December 2001 by 7.1%).

Over the period under review, currency in circulation outside banks fell in volume by Sk 1.4 billion, while the rate of year-on-year growth slowed from 20.9% in December 2001 to 14.9% in June 2002. While the 1st quarter saw an acceleration in year-on-year dynamics (to 22.7% in March), currency in circulation in the 2nd quarter was characterised by a significant slowdown in the rate of growth, while its volume remained unchanged.

Slovak-crown deposits (demand and time deposits) have fallen since the beginning of the year by Sk 8.4 billion and their year-on-year growth dynamics diminished from 10.6% in December 2001 to 6.0% in June 2002. The fall in crown deposits took place exclusively in demand deposits, while the volume of time deposits remained unchanged in comparison with the beginning of the year. The rate of year-on-year growth in demand deposits slowed by 7.3 points (to 15.4%) and the dynamics of time deposits by 3.4 points (to 2.7%). The fall in crown deposits took place in household deposits and corporate deposits (including the deposits of insurance companies) roughly in the same proportion.

	Change since the beginning of the year in billions of Sk	
	June 2001	June 2002
Household deposits		
- demand deposits	6.5	2.8
- time deposits	-1.4	-7.3
- in foreign currency	2.9	3.5
Corporate deposits		
- demand deposits	-6.2	-11.2
- time deposits	12.3	7.3
of which: insurance companies	5.3	0.6
- in foreign currency	-0.2	2.8

The development of crown deposits in the 1st half of the year continued to be characterised by a trend of preference for highly liquid assets in the individual sectors of the economy. This trend was apparent mainly in the deposits of corporate entities, of which demand and short-term deposits accounted for roughly 96% (their share was stable and remained virtually unchanged over the period under review). Although the fall in demand deposits was accompanied by an increase in time deposits (Sk 7.3 billion) within the structure of corporate deposits, the increase was concentrated in short-term deposits (Sk 7.2 billion), while the volume of longer-term deposits was stagnant. A significant contribution to the increase in short-term deposits was made by deposits with a maturity of up to one month (an increase of Sk 10.7 billion), which was probably affected by the fact that interest rates rose by 0.8 of a point during the 1st half of the year. The overall interest rate differential between demand and time deposits increased by 0.3 of a percentage point, to 4.97 points, while the average rate for time deposits increased at a faster rate (0.5 of a point) than that for demand deposits (0.2 of a point).

The trend of preference for short-term and demand deposits has continued as in the case of household deposits. In comparison with December 2001, their share in the total crown deposits of households increased by 2.2 points, to 79%. This was due, unlike in the case of corporate deposits, to an increase in demand deposits, while short-term time deposits recorded no marked change. The time deposits of households as a whole fell by Sk 7.3 billion. The fall in time deposits took place predominantly in longer-term deposits: long-term savings deposits fell by Sk 4.5 billion, medium-term deposits by Sk 2.2 billion, and deposits with an agreed maturity of up to 3 years by Sk 1.4 billion (the fall was probably connected with the cut in interest rates on medium- and long-term household deposits of 0.6 of a percentage point). Although the interest rate differential, i.e. the difference between interest rates on demand and time deposits in the household sector increased somewhat (by 0.1 of a percentage point, to 3.36 points), the level of interest rates fell (the rate for demand deposits by 0.5 of a point and that for time deposits by 0.4 of a point). Thus, interest rates on household deposits followed a different trend during the 1st half of the year than the rates for corporate deposits, which increased the differences in interest

rates on time deposits in the individual sectors (in December 2001, corporate deposits attracted an interest rate 1 percentage point higher than household deposits; the rate in June 2002 was 2 points higher).

Deposits in foreign currency grew in volume over the 1st half of the year by Sk 6.3 billion (19.5%), representing an increase of 7.6 points in year-on-year dynamics in comparison with December 2001. The increase in the foreign-currency deposits of households and enterprises was concentrated in the second quarter (Sk 7.9 billion in total), after a fall in the first quarter. One of the factors that could affect the development of foreign-currency deposits in the 2nd quarter was the exchange rate of the Slovak koruna. In April, the value of the koruna appreciated, which could motivate economic entities to accumulate foreign exchange with regard to the approaching holiday season. In May, the exchange rate began to depreciate, which could lead to the placement of free funds in foreign exchange in expectation of further depreciation with regard to the run-up to the elections.

Within the structure of foreign-currency deposits, the trend of preference for demand and short-term deposits also applied to the corporate and household sectors, which accounted for almost 100% of foreign-currency deposits. The rate of year-on-year growth in household deposits in foreign currency accelerated to 22.1% in June, from 19.0% in December 2001. The proportion of household deposits in foreign currency of total household deposits increased, from 12.9% in December 2001 to 14.1% in June, due to increased dynamics. The year-on-year rate of growth in corporate deposits in foreign currency accelerated, from 1.1% in December 2001 (the low rate of growth was connected with the high basis of comparison a year earlier caused by the inflow of foreign resources) to 15.3% in June 2002, which led to an increase in their share in the total volume of corporate deposits, from 13.5 to 15.4%.

4.3. Lending Activities

Loans in Sk and foreign currency provided to the entrepreneurial sector, households, central and local authorities for extra-budgetary purposes, are loans reported by the banking sector according to the rules of statistical reporting. They are not adjusted for data on banks which have been closed, accounting transfers connected with restructuring from previous years, and from a procedural point of view, they are not to be confused with loans to households and enterprises according to the methodology of the monetary survey, which does not include the government sector.

The volume of loans in Sk and foreign currency provided to the entrepreneurial sector, households, central and local authorities for extra-budgetary purposes, and to non-residents by commercial banks and the NBS, fell by Sk 3.8 billion in June 2002, compared with the end of 2001. Slovak-crown loans fell in volume by Sk 5.8 billion, while loans in foreign currency increased by Sk 1.9 billion. At the end of period under review, the total volume of loans reached Sk 334.5 billion, of which crown loans accounted for Sk 274.3 billion and loans in foreign currency Sk 60.2 billion.

The development of crown loans was affected by the winding-up of Konsolidačná banka, state financial institution, and its take-over by Slovenská konsolidačná a. s. - agency, which is not a bank and comes under the public administration sector³. Leaving this change out of account, crown loans increased by Sk 14.2 billion during the first half of 2002. Within the structure of crown loans by term, the increase was concentrated in long-term loans (Sk 8.8 billion). Short-term loans grew by Sk 3.6 billion and medium-term loans by Sk 1.8 billion.

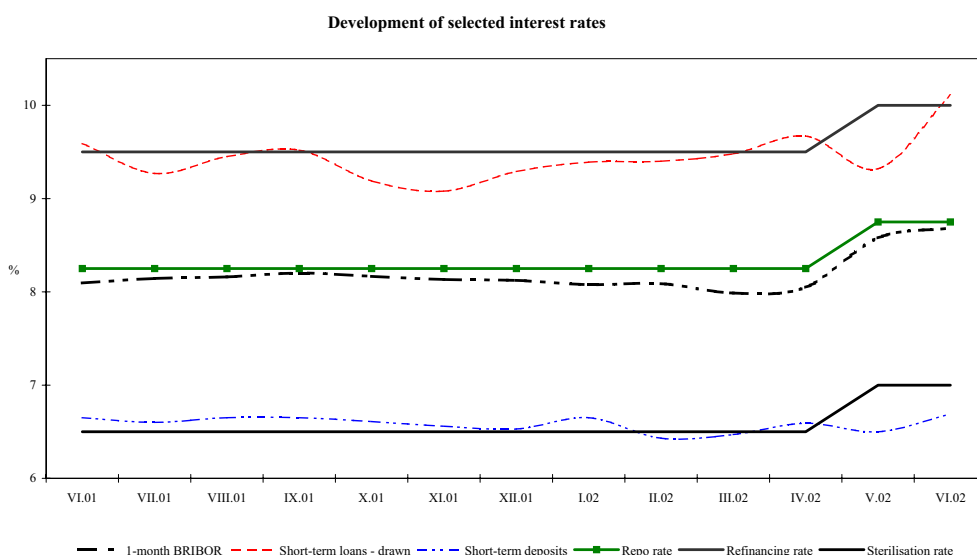
Short-term loans in foreign currency increased by Sk 2.8 billion, medium-term loans by Sk 1.0 billion, while long-term loans in foreign currency fell by Sk 1.9 billion.

Of the total volume of new loans provided in the first half of 2002 (Sk 363.0 billion), loans to the entrepreneurial sector accounted for 95.1% and were predominantly under foreign control. Most new loans were short-term loans (89.6%). Households accounted for 3.8% of the total volume of new loans.

With regard to the structure of new loans by purpose, operating loans and overdraft facilities accounted for 80% of the volume of new loans in the first half of 2002.

4.4. Interest Rate Developments

In the first half of 2002, customer interest rates continued to be affected by the level of key NBS interest rates and its changes. The increase at the end of April (0.5 of a percentage points) was reflected, at a month's delay, in the rates for new short-term loans in particular (they recorded a fall in May). In the area of deposits, the reaction of commercial banks to the change in the official rates of the NBS was less pronounced.



The average interest rate on new loans increased during the first six months by 0.7 of a percentage points (from 8.92 to 9.61%). Its development was affected mainly by the price of short-term loans, which accounted for almost 90% of the volume of new loans.

³ As a result of this operation, the volume of loans to non-financial organisations fell by Sk 31.5 billion, while the volume of loans to the public administration sector increased by Sk 11.5 billion (the redistribution loan provided by the NBS to Konsolidačná banka changed within the structure from an interbank loan to a loan to the public administration sector).

Over the first four months, the average rate for new short-term loans was characterised by a trend of moderate rise and did not react to the increase in key NBS rates in May. On the contrary, the rate for new short-term loans fell. The change in monetary-policy conditions (increase in key NBS rates) was reflected in the prices of new short-term loans of commercial banks in June, when the average rate rose slightly above the level of NBS's overnight refinancing rate. In total, the average interest rate on new short-term loans increased during the 1st half of 2002 by 0.8 of a percentage point (from 8.79 to 9.61%).

While short-term interest rates on new loans relatively flexibly adjusted (at a month's delay) to the increased rates of the NBS, the price of longer-term loans did not react to the change. The average rate for medium-term loans fell over the first half of 2002 by 0.4 of a percentage point (from 9.89 to 9.47%), while these loans accounted for 9.0% of the total volume of new loans. The average rate for long-term loans fell by 0.4 of a percentage point (from 10.11 to 9.33%).

Within the structure of loans by purpose, interest rates increased during the first six months mainly on overdraft facilities (from 11.17 to 11.48%) and operating loans (from 8.39 to 9.12%), which together accounted for 80.1% of the total volume of new loans. The most significant fall took place in the average rate for development loans (from 10.40 to 10.22%).

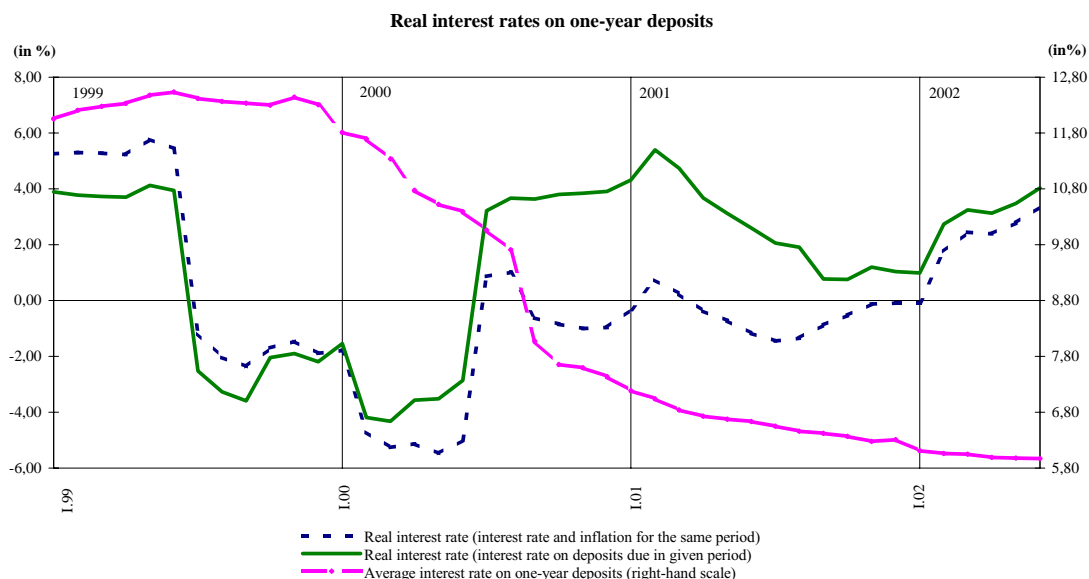
The average interest rate on the total volume of loans fell by 0.3 of a percentage point over the 1st half of the year, to 9.51%. Within the structure of loans by term, interest rates fell in all maturities: the average rate for short-term loans fell by 0.2 of a percentage point (to 10.14%); that for medium-term loans by 0.4 of a percentage point (to 9.85%); and the rate for long-term loans by 0.2 of a percentage point (to 8.69%).

The average interest rate on deposits remained virtually unchanged in the first half of 2002 (with a fall of 0.02 of a percentage point, to 4.85%). The average rate for demand deposits fell by 0.18 of a percentage point (to 2.29%) and that for time deposits by 0.06 of a point (to 5.92%).

Commercial banks responded to the change in key NBS interest rates only by adjusting the price of short-term deposits, which increased, as the price of loans, at a month's delay (by 0.2 of a percentage point in June), after a fall in May. However, interest rates on short-term deposits increased to a lesser extent than lending rates and remained below the level of the central bank's sterilisation rate. Compared with December 2001, the average interest rate on short-term deposits increased by 0.1 of a percentage point, to 6.19%. Within the scope of short-term deposits, the steepest increases were recorded in average interest rates on deposits redeemable at a period of notice of up to 7 days (0.9 of a percentage point, to 6.90%) and deposits at up to one month's notice (0.1 of a percentage point, to 5.97%). Within the structure of interest rates on short-term deposits by sector, the first half of the year was characterised by a different course of development in households and corporate deposits. Short-term interest rates on household deposits fell by 0.29 of a percentage point, while interest rates on corporate deposits rose by more than 0.6 of a percentage point.

Over the first half of 2002, average interest rates on medium- and long-term deposits fell equally by 0.6 of a percentage point, to 6.70 and 3.12% respectively.

In June 2002, the real interest rate (the average interest rate compared with the 12-month rate of inflation in the same period) on one-year deposits reached a positive value of 3.37%, representing an increase of 3.5 percentage points in comparison with the end of 2001. The real interest rate was affected by a fall in year-on-year inflation (from 6.40 to 2.60%), which was more pronounced than the fall in the average rate for one-year deposits (from 6.31 to 5.97%).



4.5. Implementation of Monetary Policy

In the first half of 2002, the NBS implemented monetary policy in an environment characterised by an increase in the sterilisation position of the NBS vis-à-vis the banking sector. In the area of monetary-policy instruments, the process of convergence of the instruments applied by the NBS to those of the ECB has continued. One of the instruments of monetary policy was another cut in the ratio of required reserves for the banking sector, from 5 to 4%, with effect from 1 January 2002. January 2002 also saw changes in other monetary-policy instruments. Bills of exchange transactions and Lombard loans were cancelled, and the discount rate was set as an equivalent to the limit rate of the NBS for standard two-week repo tenders with commercial banks.

The liquidity surplus in the banking sector persisted, so monetary policy had a sterilisation nature. The daily volume of sterilisation ranged from Sk 41 to 78 billion; the maximum was recorded in March and the minimum in June. In the 1st half of 2002, the average sterilisation position of the NBS vis-à-vis the banking sector reached Sk 66.6 billion, representing an increase of Sk 10.7 billion in comparison with 2001 (Sk 55.9 billion).

In accordance with the Monetary Programme of the NBS for 2002, a liquidity-providing factor in the 1st half of the year was the utilisation of part of the privatisation proceeds of FNM deposited at the NBS. These proceeds came from the privatisation of Transpetrol (Sk 3.3 billion) and the release of tied-up funds from the sale of SLSP (Sk 2.6 billion).

Other significant liquidity-providing factors were the budgetary performance, the January cut in the ratio of required reserves (the difference between required reserves in December 2001 and January 2002 amounted to Sk 5.7 billion), and the release of deposits of extra-budgetary funds at the beginning of the year (ca Sk 4 billion).

In the 1st half of the year, a downward effect on the reserves of commercial banks was exerted by the sector 'government securities' and the foreign exchange operations of the NBS. During that period, the Ministry of Finance issued government securities at a total book value of Sk 92.7 billion and repaid such securities in the amount of Sk 70.0 billion. The depreciation in the exchange rate of the Slovak crown against the euro required central bank intervention on the foreign exchange market, which led to a fall of Sk 9.1 billion in the crown liquidity of the banking sector.

In comparison with the previous year, the proportion of excess liquidity sterilised through standard repo tenders increased in the 1st half of 2002 (from 66% in 2001 to 80%), while the share of NBS-bill issues for the portfolios of commercial banks decreased (from 32% in 2001 to 18%).

The increase in key NBS interest rates was accompanied by a moderate rise in the price of resources, obtained by the Ministry of Finance of the SR on the internal market for the servicing of the country's external debt. In comparison with the previous year, the price of 3-year government bonds increased by an average of 0.4 of a percentage point and that of 1-year bonds by 0.2 of a percentage point.

In contrast with 2001, when the structure of government bonds issued was dominated by securities with a maturity of 5, 7, and 10 years (due mainly to government-bond issues for loan portfolio restructuring at selected banks), the focus shifted to 1-year government bonds in the 1st half of 2002, which accounted for 52% of the total volume of government bonds issued.

The actual level of required reserves maintained in the banking sector was stable over the first half of 2002. In the conditions of marked liquidity surpluses and continued sterilisation measures, the prescribed ratio of required reserves was observed in each month of the first half of 2002 and was not exceeded to a significant extent. After NBS interventions, average surplus reserves ranged from Sk 0.02 to 0.07 billion .

On average, the maximum fluctuation in the daily level of money reserves in the individual periods ranged from a surplus of Sk 6.0 billion to a shortage of Sk 4.4 billion

(in billions of Sk and %)

	Reserve requirement	Reserve requirement fulfilment	
		average	fulfilment in %
January	26.56	26.59	100.08
February	26.92	26.95	100.10
March	26.79	26.86	100.27
April	26.83	26.84	100.07
May	26.48	26.52	100.14
June	26.61	26.67	100.25

5. FINANCIAL MARKETS

5.1. Money Market

Primary market for Treasury bills

During the first half of 2002, the deficit in the State Budget (SB) was financed smoothly, without marked fluctuation in liquidity. In view of the adequate amount of funds in the summary account of the State, the Ministry of Finance (MF SR) conducted no auctions in Treasury bills (T-bills) in the first quarter.

The first sale of T-bills took place in April. The total volume of T-bills sold in 13 issues reached Sk 39.25 billion, representing 47.8% of total demand for T-bills (Sk 82.15 billion). The T-bills were auctioned with an unlimited issue-amount. The time of maturity was set at 21 to 91 days for all issues.

The average interest yield achieved at the primary sale of T-bills over the first six months was 8.10%, representing an increase of 0.37 points compared with the same period a year earlier. The yield on T-bills fluctuated at the level of the BRIBOR rate, corresponding to the T-bills issue in terms of maturity. At primary sale, foreign investors accounted for 77% of the volume of T-bills auctioned.

Secondary market

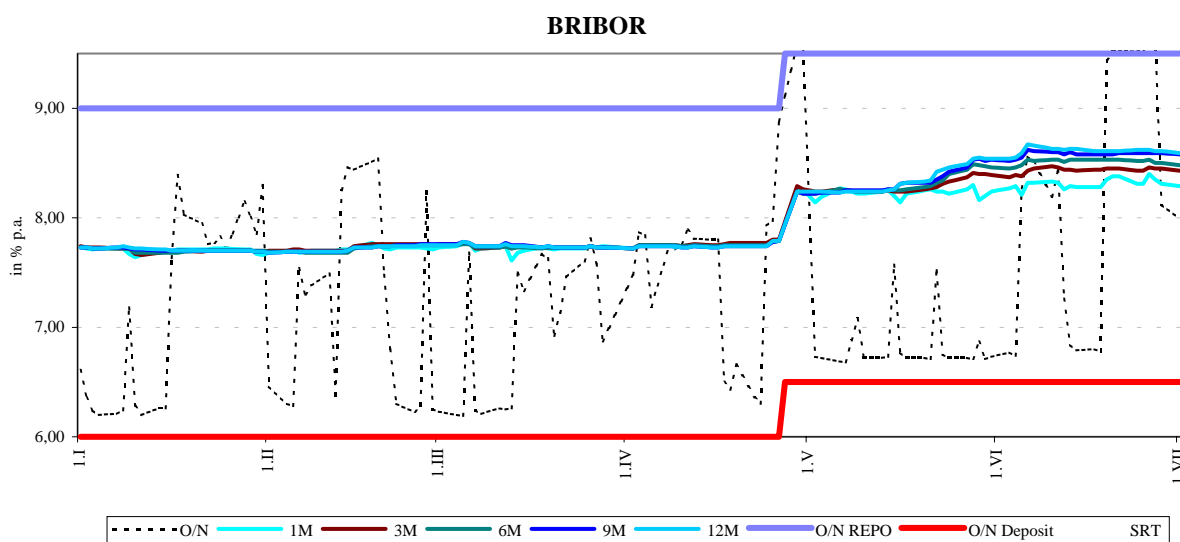
During the first half of the year, the implementation of monetary policy was characterised by an increase in the sterilisation position of the NBS vis-à-vis the banking sector, which was affected by a cut in the ratio of required reserves at the beginning of the year (from 5 to 4%). Another factor affecting the need for sterilisation was the balance in the summary account of the State Budget (mainly in March and May as a result of increased government bond redemption, and/or increased budget expenditure). At the end of the first half, part of the excess liquidity was drained through the foreign exchange interventions of the NBS, which was reflected in the increased use of overnight refinancing operations.

The largest volume was sterilised through standard two-week repo tenders. In total, the NBS announced 26 repo tenders, while the volume accepted was exceeded by demand on the part of banks only at six tenders. As a rule, banks adopted a cautious approach to the sterilisation of free resources on a bi-weekly basis and deposited, where required, the daily surplus in the form of overnight deposits. Overnight sterilisation transactions were used mostly at the end of the month. The share of two-week repo tenders in the total sterilisation position of the NBS ranged from 71 to 88%, depending on the interest of commercial banks in longer-term forms of sterilisation, such as the accumulation of excess liquidity in three-month NBS bills. Interest in this form of long-term sterilisation was affected, with regard to limit on the maximum rate to be accepted at auction, by the expectations of banks in respect of the future development of interest rates. Eight auctions were announced in NBS bills, but zero demand was recorded only in one case. Their share in liquidity sterilisation initially increased, and reached a maximum (Sk 18.7 billion) in April. After the NBS had raised its key interest rates, the attractiveness of NBS bills diminished and their proportion started to show a tendency to fall in the middle of the year.

Sk billions

	2001	2002					
	December	January	February	March	April	May	June
SRT	-44.255	-55.060	-55.623	-57.046	-48.978	-50.981	-50.302
O/N	-0.708	-2.872	-0.896	-1.924	-0.341	-3.786	0.681
PP NBS	-5.512	-5.502	-7.179	-14.246	-17.510	-16.885	-11.052
TOTAL	-50.475	-63.434	-63.698	-73.216	-66.829	-71.652	-60.673

The development of BRIBOR rates was affected during the 1st half of the year by various factors. The effort to utilise the initial excess of liquidity resulting from a cut in required reserves at auctions in government bonds at the beginning of the year, led to a fall in the level of yields required with a downward effect on the prices of longer maturities. The fall was also supported by the interest of non-residents in making crown deposits of funds obtained from swap operations. The rise in interest rates on longer maturities in February was connected with a growth in interest in investment in NBS bills, which stimulated increase of demand for deposits with a corresponding maturity. The repeated fall in the price of deposits in March was also affected by a successful auction in ten-year government bonds. The step-like upward movement of the yield curve at the end of April caused the key rates of the NBS to increase, as a reaction to the persistently high deficit in the balance of trade and the occurrence of risks in the fiscal area. The subsequent depreciation in the exchange rate of the Slovak crown to the euro in May stimulated interest in the purchase of crown deposits with an upward effect on their price. This was accompanied by an increase in the spread between individual maturities. The continued weakening of the SKK/EUR rate in June and the concern of banks about another increase in key NBS rates stimulated growth in demand for longer-term deposits with an upward effect on their price.



In June, the NBS, working closely with commercial banks, started to quote the overnight rate SKONIA, first as a test and later officially as well. This rate expresses the weighted average of overnight unsecured transactions in interbank deposits conducted between reference banks, where the weight represents the volume of transactions.

5.2. Capital Market

Primary market

Government bonds

In the first half of the year, 26 government-bond issues were made in the total amount of Sk 53.9 billion, representing a fall of Sk 1.8 billion compared with the same period a year earlier. Two issues were not accepted by the issuer, due to lack of demand on the part of investors (with a maturity of two and five years). Demand for government bonds reached Sk 66.1 billion over the first six months, and was satisfied to 81.6%. The average amount per issue was Sk 2.3 billion. In the last issues, the MF SR changed the nominal value of government bonds (from Sk 1 million to Sk 100 thousand) in order to allow room for smaller investors, since the minimum amount of a purchase had been set at 10 pieces and the integral multiples of the minimum amount.

In the period under review, re-opening issues were also made (gradual sale after a certain period of time). The reason for the introduction of re-openings was the issuer's intention to create large liquid issues, regardless of the amounts of sales at individual auctions. All issues were placed on the primary market through American-style auction, limited by the issue rate (below and above the nominal value) and the total amount. Of 26 issues, 22 were one-off issues and four were made by a new method.

In April, investors raised the level of yields required in response to the increase in key NBS interest rates. This was due partly to uncertainty in respect of the use of funds obtained from the privatisation of SPP. The average interest yield achieved at the primary sale of government bonds reached 7.75% in the first half of 2002 (compared with 7.74% in the 1st half of 2001, excluding restructuring bonds).

The structure of government bonds issued by maturity changed in comparison with the same period a year earlier, and continued to be dominated by government bonds issued with shorter maturities. The largest share in the first half of the year was achieved by one-year bonds (51.7%).

Non-government bonds

During the first half of the year, 26 issues of negotiable non-government bonds were floated in the total amount of Sk 749.5 million (in increase of Sk 249.5 million compared with the same period a year earlier), with a non-public form of sale. At the same time, one issue of mortgage bonds was made in the amount of Sk 500 million. A relatively significant volume (EUR 4.1 million) was achieved by issues of non-government bonds denominated in EUR (made mostly by small issuers).

Secondary market

In the first half of the year (121 trading days), 6,383 transactions were concluded on the Bratislava Stock Exchange (BCPB) in the total amount of Sk 329.1 billion. Price-setting transactions reached Sk 24.7 billion (7.56% of the total volume of trading). Trading in bonds accounted for 95.9% of the total volume of transactions and trading in shares 4.1%.

Bonds

Bonds were traded in the total amount of Sk 315.6 billion, accounting for 95.9% of the total volume of transactions in the 1st half of 2002. Most trading took place in government bonds, mainly in Issue No. 131 (turnover Sk 31.1 billion); Issue No. 143 (turnover Sk 29.2 billion); and Issue No. 142 (turnover Sk 23.2 billion). At the end of the first half of 2002, the market capitalisation of bonds reached Sk 310.1 billion, representing an increase of 5.6% compared with the figure for the end of 2001.

SDX index

The average price of the government bond portfolio in the SDX base reached 192.6% at the end of the first half of 2002, representing an increase of 3.3% compared with the beginning of the year. The average yield reached 7.9% and duration 2.1 years. During the period under review, the component of SDX for corporate and bank bonds increased by 4.2%, to 209.7% of the nominal of its portfolio, with an average yield of 9.1% to maturity and a duration of 1.8 years.

Shares

During the first six months, shares were traded in a total amount of Sk 13.5 billion, which accounted for only 4.1% of the total volume of transactions in the 1st half of 2002. Most trading took place in the shares of Doprastav and Slovnaft. The market capitalisation of all tradeable shares registered on the stock market has fallen by 41.5% since the end of 2001, to Sk 98.0 billion; the market capitalisation of shares with a market price (at least one exchange transaction was concluded) has fallen by 13.6%, to Sk 64.4 billion.

SAX index

The Slovak Share Index (SAX) closed the first half of the year at 114.6 points, which represented a fall of 5.1% since the beginning of the year. The maximum value was recorded on 10 January (121.9 points) and the minimum on 20 May (106.5 points).

5.3. Foreign Exchange Market

Operations on the foreign exchange market

In the first months, the exchange rate of the Slovak koruna was characterised by a stable development, with a trend of moderate appreciation. This was followed by a gradual depreciation, which started in the second half of April and accelerated in June, to a level of just below SKK/EUR 45.000. With regard to the excessive rate of depreciation, the NBS decided to intervene in the foreign exchange market in order to support the exchange rate of the Slovak koruna. The interventions took place on the 11th, 18th, and 19th of June. The first intervention was a surprise for the market, hence a relatively small amount of foreign exchange sufficed to stabilise the situation on the foreign exchange market. On subsequent days, however, the exchange rate continued to weaken, so the NBS had to use more foreign exchange reserves for intervention on the 18th and 19th of June. The total volume of interventions reached EUR 205 million; the NBS applied exclusively direct interventions.

By the end of June, the exchange rate of the Slovak koruna (SKK/EUR 44.305) had weakened from 31 December 2001 (SKK/EUR 42.760) by 3.6%. The exchange rate of the SKK reached its strongest level (SKK/EUR 41.457) on 16 April and the weakest (SKK/EUR 44.807) on 16 June, so the difference between the strongest and weakest levels reached 8%. Spot transactions conducted between foreign and domestic banks during the first six months resulted in a negative balance (US\$ 302.1 million), indicating that foreign banks sold mostly foreign exchange and purchased SKK.

The exchange rate of the Slovak koruna against US dollar appreciated by 7.2%, from SKK/USD 48.467 (31 December 2001) to SKK/USD 44.955 (28 June). The SKK/USD rate reached its strongest level on 27 June (SKK/USD 44.949) and the weakest on 4 February (SKK/USD 49.368).

Interbank foreign exchange market

In the 1st half of 2002, the volume of trading on the interbank foreign exchange market totalled US\$ 79,339.8 million. Of this volume, 85.0% took place in swap operations, which were conducted mostly in USD (88.4%). Spot transactions accounted for 14.8% of the total volume (98.5% of these deals took place in EUR), while the average daily turnover on the spot market reached US\$ 94.7 million and the average volume of a transaction amounted to US\$ 1.3 million.

During the same period, the volume of transactions between domestic commercial banks reached US\$ 21,343.0 million. Most trading took place in USD (71.7%), followed by EUR (28.2%) and other currencies (0.7%). Transactions between domestic banks accounted for 26.9% of the total turnover.. Of the total volume of transactions between domestic banks, swap operations accounted for 79.1% and spot contracts 20.8%.

The volume of trading between domestic and foreign banks reached US\$ 57,812.7 million. Most trading was conducted in USD (76.8%), followed by EUR (20.2%) and other currencies (2.9%). In the 1st half of the year transactions between domestic and foreign banks accounted for 72.9% of the country's foreign exchange market. Trading between domestic and foreign banks also took place predominantly in the form of swap contracts (87.2%), while spot transactions accounted for 12.6% and forwards 0.2% only.

6. BANKING SECTOR

6.1. Banking Sector Development

At 30 June 2002, twenty banking entities (eighteen banks and two branches of foreign banks) and nine representative offices of foreign banks were active in the Slovak banking sector. Of the eighteen banks, one is a state financial institution and three are home savings banks. Of the fourteen universal banks, six banks and one branch of a foreign banks are authorised to conduct mortgage business (HVB Bank Slovakia, a.s. Bratislava; Istrobanka, a.s. Bratislava; Slovenská sporiteľňa, a.s., Bratislava; Tatra banka, a.s., Bratislava; UniBanka, a.s., Bratislava; Všeobecná úverová banka, a.s., Bratislava; and Československá obchodní banka, a.s., branch office in the SR). With effect from 1 April 2002, Poľnobanka, a.s. changed its business name to UniBanka, a.s.

The volume of subscribed registered capital of banks (excluding the NBS) fell by Sk 14.4 billion over the 1st half of the year, from Sk 53.2 billion (31 December 2001) to Sk 38.8 billion (30 June 2002). The volume of registered capital was affected by the winding-up of Konsolidačná banka Bratislava, š.p.ú. (Consolidated Bank, state financial inst.) with effect from 31 January 2002 without liquidation (by Sk 13.8 billion), accounting for losses from previous years at UniBanka, a.s. (by Sk 1.1 billion), and the subscription of new shares at Istrobanka, a.s. (by Sk 0.5 billion).

Funds provided by foreign banks to their branch offices fell by Sk 2.0 billion, from Sk 4.9 billion to Sk 2.9 billion (due to a change in accounting for funds provided to branches of foreign banks).

The share of foreign investors in the total subscribed capital of banks and the funds provided by foreign banks to their branch offices increased significantly during the 1st half of 2002, from 60.6% (31 December 2001) to 83.6% (30 June 2002). The increase was caused by the entry of foreign investors into the banking sector.

On 4 April 2002, the shares of Investičná a rozvojová banka, a.s. (Investment and Development Bank, plc.) were transferred to OTP Bank Rt., Budapest. At present, OTP Bank Rt., Budapest owns 95.74% of the shares of Investičná a rozvojová banka, a.s. With effect from 1 August 2002, the bank changed its business name to OTP Banka Slovensko, a.s., Bratislava.

The National Property Fund of the SR announced the third tender for the sale of Banka Slovakia shares. Banka Slovakia, a.s. requested permission from the National Bank of Slovakia to provide information on matters covered by banking secrecy. Of the applications submitted by Banka Slovakia, a.s., the National Bank of Slovakia issued only one preliminary permission to a foreign investor, MEINL BANK Aktiengesellschaft, Vienna.

With the approval of the National Bank of Slovakia, Bank für Arbeit und Wirtschaft Aktiengesellschaft of Vienna acquired a 100% stake in Istrobanka, a.s.. On the basis of this fact, the Bank für Arbeit und Wirtschaft Aktiengesellschaft notified the National Bank of Slovakia of the closure of its representative office in Bratislava, with effect from 30 June 2002.

Slovenská konsolidačná, a.s. (Slovak Consolidated, plc.), a shareholder in Poštová banka, a.s. (Postal Bank, plc.), announced a tender for the sale of its stake (55.16%) in the said bank. Based on this, the bank requested permission from the National Bank of Slovakia to provide information on matters covered by banking secrecy. The NBS gave preliminary permission to provide information to Tatra banka, a.s. Bratislava; Kulczyk Holding S.A., Warsaw; ING Bank N.V., Amsterdam; and Česká pojišťovna, a.s. Prague. Of these companies, Kulczyk Holding S.A., Warsaw did not take the opportunity to obtain information covered by bank secrecy. Bids for the purchase of shares were submitted by Tatra Banka, a.s., Bratislava and Česká pojišťovna, a.s., Prague.

On 17 June 2002, Konsolidačná banka Bratislava, š.p.ú. (Consolidated Bank Bratislava, state financial inst.) was deleted from the Commercial Register.

6.2. Business Results in the Banking Sector

Apart from a moderate increase in the balance total, the first half of 2002 saw an improvement in some of the financial indicators and a favourable trend in the compliance with the ratios of prudential banking behaviour.

From the end of 2001 to 30 June 2002, the balance-sheet total (sum of assets in net terms) of the banking sector increased by Sk 1.1 billion (0.11%), to Sk 929.9 billion. Excluding the effect of the consolidated balance (KOBL), the increase was Sk 3.3 billion, since total assets in the KOBL amounted to Sk 2.2 billion (in net terms) and the OP created by them Sk 31.5 billion.

The balance-sheet total of the banking sector was affected by an increase in primary resources (Sk 3.0 billion, i.e. 0.45%), to Sk 663.8 billion (the effect of KOBL was negligible). Due to the transformation of bearer passbooks, the volume of non-anonymous deposits increased by Sk 30.2 billion (8.31%), to Sk 393.1 billion. Secondary resources fell by Sk 22.2 billion (13.34%), to Sk 144.4 billion, while the effect of KOBL was Sk 12.3 billion.

Total claims from loans registered by banks at 30 June 2002 amounted to Sk 324.9 billion. Classified loans fell by Sk 33.3 billion (i.e. 44.67 %), to Sk 41.2 billion, while the effect of KOBL accounting for Sk 31.5 billion of the fall. Classified loans continued to be concentrated in industry, agriculture, and construction. Banks had provisions in the amount of Sk 29.0 billion. At the end of the period under review, classified loans were covered by provisions up to 70.25%. The share of classified receivables in total loans decreased to 12.69%.

The proportion of earning assets in the banking sector reached 90.42% on 30 June, due mainly to the placement of free funds in securities.

At the end of June, banks recorded a net profit of Sk 5.6 billion. Loss was reported by only one bank.

Banking sector of the SR	31.12.2001	30.6.2002	Difference 06/02-12/01	% change 06/02-12/01
Number of employees	21,324	20,324	- 1,000	-4.69%
Number of banks in the SR	19	18	-1	-5.26%
Branch offices of foreign banks in the SR	2	2	0	0.00%
Representative offices of foreign banks in the SR	10	9	-1	-10.00%
Number of branches in the SR	302	277	-25	-8.28%
Number of sub-branches in the SR	750	720	-30	-4.00%
Number of branches in other countries	1	1	0	0.00%
Number of sub-branches in other countries	1	1	0	0.00%
Number of represent. offices in other countries	4	1	-3	-75.00%
Total assets	928,808,622	929,872,495	1,063,873	0.11%
Earning assets	846,437,823	840,810,497	-5,627,326	-0.66%
Total interbank assets	305,902,162	288,979,005	-16,923,157	-5.53%
Total foreign exchange assets	171,926,887	164,930,951	-6,995,936	-4.07%
Securities	251,069,631	270,538,845	19,469,214	7.75%
Total loans	338,661,341	324,907,179	-13,754,162	-4.06%
- of which: classified loans	74,519,912	41,233,124	-33,286,788	-44.67%
Share of classified loans in total loans (%)	22.00	12.69	-9.31	x
Estimated uncovered loss	7,168	45,375	38,207	533.02%
Provisions for classified loans	61,474,702	28,967,189	-32,507,513	-52.88%
Legal reserves	4,031,782	4,247,810	216,028	5.36%
Equity capital	53,153,968	38,762,458	-14,391,510	-27.08%
Own funds	116,611,762	100,444,470	-16,167,292	-13.86%
Secondary funds	166,645,557	144,410,768	-22,234,789	-13.34%
Primary funds	660,864,735	663,819,544	2,954,809	0.45%
- of which: non-anonymous deposits	362,934,016	393,089,984	30,155,968	8.31%
Current profit*	10,705,605	5,614,842	-3,845,490	-40.65%
Current loss*	1,634,604	4,790	- 420,534	-98.87%
Net profit and loss*	9,071,001	5,610,052	-3,424,956	-37.91%
Accumulated profit or loss	-25,129,947	11,941,633	41,202,867	-140.81%
Capital adequacy ratio in %	13.37	20.98	7.61	x
Banking sector excluding KOBL	31.12.2001	30.6.2002	Difference 06/02-12/01	% change 06/02-12/01
Total assets	926,579,563	929,872,495	3,292,932	0.36%
Earning assets	845,756,090	840,810,497	-4,945,593	-0.58%
Total interbank assets	305,607,471	288,979,005	-16,628,466	-5.44%
Total foreign exchange assets	171,926,887	164,930,951	-6,995,936	-4.07%
Securities	251,069,631	270,538,845	19,469,214	7.75%
Loan receivables	306,942,277	324,907,179	17,964,902	5.85%
- of which: classified receivables	43,016,528	41,233,124	-1,783,404	-4.15%
Share of classified receivables in total loans (%)	14.01	12.69	-1.32	x
Estimated uncovered loss	7,168	45,375	38,207	533.02%
Provisions for classified loans	30,346,045	28,967,189	-1,378,856	-4.54%
Legal reserves	4,017,625	4,247,810	230,185	5.73%
Registered capital	39,403,029	38,762,458	- 640,571	-1.63%
Own funds	102,390,990	100,444,470	-1,946,520	-1.90%
Total funds – banking sector	154,345,557	144,410,768	-9,934,789	-6.44%
Total funds – non-banking sector	660,863,528	663,819,544	2,956,016	0.45%
- of which: non-anonymous deposits	362,934,016	393,089,984	30,155,968	8.31%
Current profit*	10,567,847	5,614,842	-3,648,541	-39.39%
Current loss*	1,634,604	4,790	- 420,534	-98.87%
Balance of profit and loss*	8,933,243	5,610,052	-3,228,007	-36.52%
Accumulated profit or loss*	7,511,642	11,941,633	8,620,469	259.56%
Capital adequacy	19.75	20.98	1.23	x

Note: * figures compared on a year-on-year basis.

6.3. Banking Supervision and Compliance with the Prudential Regulations

The main task and function of banking supervision is to ensure the stability and sound development of banks, the banking system as a whole, and protection of the interests of depositors. In the first half of 2002, five on-site inspections were carried out at five banks. The Banking Supervision Division of the NBS issued 89 decisions, partly in the area of licensing activity and partly in the form of proceedings, including proceedings in matters concerning transgression of the law.

The basic regulatory instruments of banking supervision are the rules governing the prudential banking behaviour and the limits set therein.

The capital adequacy of the banking sector reached 20.98% on 30 June 2002. At the end of period under review, the capital adequacy limit was met by all banks.

In the first half of 2002, an improvement was recorded in the fulfilment of credit exposure limits. At 30 June 2002, the limit prescribed for non-bank customers was not met by two banks. Limits concerning bank customers, persons with a special relationship to a bank, and the aggregate net credit exposure limit were met by all banks.

At 30 June 2002, the monthly liquidity limit (the ratio of monthly assets and liabilities may not fall below 0.9) was not met by one bank. The limit for the ratio of the sum of fixed and non-liquid assets to own funds and reserves (which may not exceed 1.0) was achieved by all banks.

Compliance with the limits regarding unsecured foreign exchange positions stabilised and all banks had met the prescribed limits by the end of the period under review.

In comparison with the end of 2001, the uncovered estimated loss of the banking sector increased by Sk 38.2 million, to Sk 45.4 million on 30 June 2002. Six banks reported an uncovered estimated loss for the period under review.

6.4. International Cooperation

Since the beginning of 2002, the National Bank of Slovakia has signed a Memorandum of Understanding (MoU) with Bundeaufsichtsamt für das Kreditwesen (Germany) and the Hungarian Financial Supervisory Authority (Hungary).

Talks on the amendment to the MoU between the National Bank of Slovakia and the Czech National Bank were affected by the performance of banking supervision and the enactment of a new banking law.

7.1. Monetary Policy Instruments

1. Interest rate policy

- a) *Limit rate for standard two-week repo tenders* conducted by the NBS:
 - from 26 March 2001 7.75%
 - from 27 April 2002 8.25%
- b) *Interest rate for overnight refinancing operations* conducted by the NBS with commercial banks:
 - from 26 March 2001 9.00%
 - from 27 April 2002 9.50%
- c) *Interest rate for overnight deposits* of commercial banks with the NBS:
 - from 26 March 2001 6.00%
 - from 27 April 2002 6.50%
- d) *Discount rate*:
 - from 13 January 1996 8.80%
 - from 1 January 2002 equals the limit rate for standard two-week NBS repo tenders.

2. Monetary policy instruments of the NBS

2.1. Open market operations

- a) *Main instrument*:
 - *standard repo tender with a maturity of two weeks* – conducted by the NBS with commercial banks at regular weekly intervals. The NBS sets a limit rate for such operations.
- b) *Instrument for longer-term liquidity control*:
 - *issue of NBS bills* for the portfolios of commercial banks – an instrument of the NBS for longer-term liquidity control in the banking sector. Auctions in NBS bills are conducted at irregular intervals with a maturity of 3 months, by using the Dutch auction technique.
- c) *Fine-tuning instrument*:
 - *quick tender* – an instrument of the NBS for fine-tuning the liquidity of commercial banks. During the first half of 2002, no quick tender was conducted.
- d) *Structural operations*:
 - *individual transactions* – an instrument of the NBS enabling direct purchase or sale of government securities for and from the portfolio of the NBS. During the first half of 2002, no individual transaction was conducted.

2.2. Automatic operations (standing facilities)

- a) *Overnight refinancing operations*:
 - commercial banks have automatic access to refinancing (provided there is a sufficient amount of acceptable securities) at the announced rates of interest.
- b) *Overnight sterilisation operations*:
 - commercial banks are allowed to deposit surplus funds in the form of non-secured deposits at the announced rates of interest.

2.3. Other instruments

Redistribution loans:

- Traditional: interest rate = *rate for two-week repo tender* + 0.5%;
- Soft loans: interest rate = *rate for two-week repo tender* - 2% + 0.5%.

3. Reserve requirements

With effect from 1 January 2002, commercial banks are required to maintain minimum reserves in the amount of 4% of primary crown and foreign-currency deposits (held by residents and non-residents); crown and foreign-currency deposits of foreign banks; bills of exchange and bonds issued, and other liabilities to non-bank customer. The ratio of required reserves for home savings banks was 3%. Maintained reserves were evaluated on a monthly basis. Required reserves attracted an interest rate of 1.5%, up to the amount prescribed for the given month.

4. Exchange rate and foreign exchange policy

a) *Exchange rate system*

The National Bank of Slovakia applies a floating exchange rate regime with the euro as a reference currency. The exchange rate of Slovak koruna against euro depends on the supply and demand for the Slovak koruna on the foreign exchange market. The National Bank of Slovakia may intervene in the interbank foreign-exchange market in the event of excessive volatility of the exchange rate of the Slovak koruna.

b) *Nominal exchange rate of the SKK*

In relation to the euro, the nominal exchange rate of the Slovak koruna (SKK) depreciated by 3.6% during the 1st half of 2002, to SKK/EUR 44.305 on 28 June 2002. The opposite trend was recorded in the exchange rate of the SKK to the USD, which appreciated over the same period by 7.2%, to SKK/USD 44.955.

c) *Nominal and real effective exchange rates of the SKK*

The depreciation in the exchange rate of the SKK to the reference currency in June had a favourable effect on the competitiveness of domestic production and was reflected in the nominal effective exchange rate of the Slovak koruna (NEER), which depreciated during the first six months by 4.6% and year-on-year by 6.1%.

The real effective exchange rate of the Sk (REER), calculated on the basis of the producer price index, depreciated during the first half of the year by 2.6% and year-on-year by 4.0%. The value of the real effective exchange rate (REER), based on the consumer price index, fell during the first six months by 4.0% and year-on-year by 5.5%.

e) *Evaluation of the currency structure of foreign exchange receipts and payments of the SR*

The turnover of foreign exchange receipts and payments in convertible currencies in payment categories 1 to 6 over the first half of 2002 reached Sk 641.6 billion and the average monthly turnover (Sk 106.9 billion) increased year-on-year by 5.4%. During the period under review, the negative balance of foreign exchange receipts and payments reached Sk 14.5 billion in cumulative terms. The turnover took place mostly in EUR (62,1%); USD (25,0%); and CZK (9,4%); while other currencies (HUF, DKK, NOK, SEK, CHF, GBP, AUD, JPY, CAD) accounted for 3.5%.

7.2. Monetary Calendar

January

- On 1 January 2002, the euro became legal tender in twelve euro-zone countries.
- President of the SR, R. Schuster, appointed Ivan Šramko as Vice-Governor of the NBS.

February

- Fitch Ratings, the international rating agency, confirmed the ratings assigned to the long-term liabilities of Slovakia, at BB+ for foreign exchange liabilities and BBB+ for crown liabilities. The rating for short-term liabilities denominated in foreign currency remained at B level. Thus, the rating of the Slovak Republic is still in the speculative zone.
- The first tranche of an EFSAL loan granted by the World Bank for the restructuring of the banking and corporate sectors was drawn by the SR in the amount of Sk 151.378 million, for the payment of interest on a redistribution loan from Konsolidačná banka Bratislava.

March

- The mission of the IMF completed the Staff-Monitored Programme (SMP). In the final report, the representatives of the IMF stated that the programme had fulfilled the expectations in the area of fiscal and monetary policy. At the same time, however, they pointed out that the economic situation was rather complicated. Although the economy had shown signs of revival over the past few months, the macro-economic imbalances were also on the increase.
- In its financial sector assessment programme (FSAP), the World Bank stated that the NBS meets the demanding principles of transparency in the area of monetary policy formulation and implementation.

April

- OTP Bank of Hungary acquired a 92.55 per cent stake in Investičná a rozvojová banka (IRB - Investment and Development Bank). The National Property Fund of the SR received Sk 270 million for the sale of Investičná a rozvojová banka. The shareholders of the IRB approved that the bank should be renamed to OTP Banka Slovakia.
- The Bank Board of the NBS raised the limit rate for two-week repo tenders to 8.25%; the rate for overnight deposits to 6.5%, and that for refinancing operations to 9.5%.

May

- The Bank Board of the NBS approved the Revised Monetary Programme for 2002, which foresees a year-end inflation rate of 3.5 to 4.9%, corresponding to an average annual inflation rate of 3.6 to 4.2%. Core inflation is expected to range from 3.2 to 4.7%.

7.3. Licensing Activity of the NBS

During the 1st half of 2002, the licensing activity of the NBS was affected by a legislative amendment made to the foreign exchange regime with effect from 1 January 2002, consisting in the liberalisation of trading in foreign securities. By 30 June 2002, foreign exchange permits and licences had been issued as follows:

- foreign exchange permits: 249 permits and 8 supplements;
- foreign exchange licences: 36 licences and 22 supplements.

Foreign exchange permits

Investment abroad

In the 1st half of 2002, the NBS issued 6 foreign exchange permits for direct investment in countries that are not members of the OECD or the European Economic Area (EEA), in the amount of Sk 10,559.9 thousand.

Structure of investment by country:

Country	Number of permits	Investment in Sk thousand
Libya	1	8,991.0
Ukraine	3	1,417.2
Croatia	1	106.8
Kazakhstan	1	45.0
Total	6	10,559.9

Note: Direct investment in OECD and EEA countries has been liberalised.

Trading in foreign securities

- 15 foreign exchange permits were issued for the exchange of foreign shares for foreign participation certificates.

Trading in financial derivatives

- 190 foreign exchange permits were issued for the writing of option contracts for the purchase of employee shares and other preferential foreign securities, of which 73 foreign exchange permits were for the opening of accounts at foreign banks.

Opening of foreign-currency accounts at foreign banks

- 22 foreign exchange permits and 6 supplements were issued for the opening of accounts at foreign banks, for the purpose of covering necessary expenses incurred in connection with construction, assembly, and repair work abroad, in the total amount of Sk 714,122.2 thousand (estimated on the basis of contracts).
- 7 foreign exchange permits and 2 supplements were issued for the opening of accounts at foreign banks and for exemption from the transfer requirement in connection with the acceptance of loans from non-residents in the amount of Sk 844,397.4 thousand, for payments for goods and services abroad or services related to the repayment of these loans from receipts abroad;

- 3 foreign exchange permits were issued in connection with the issue of bank guarantees, 1 foreign exchange permit for the financing of re-exports, 3 foreign exchange permits in connection with the provision of services abroad (tourism, the introduction of payment systems), 1 foreign exchange permit was issued to a dealer in securities for the placement of funds in the accounts of foreign brokers and 1 permit for cash pooling.

Foreign exchange licences

- 30 foreign exchange licences and 20 supplements were issued for trading in foreign currencies and traveller's cheques (to non-bank exchange offices);
- 6 foreign exchange licences were issued for trading in foreign securities (to dealers in securities) and 2 supplements for the provision of financial services to and from abroad.