A. Economic Development in 1995

1. THE WORLD ECONOMY

1.1 Global Macroeconomic Development

The development of the world economy in 1995 can be characterised as favourable with long-term differences in the pace of economic revival in the major industrial countries of OECD and other global economic groupings.

The output of the world economy grew by 3% in 1995, and gross domestic product (GDP) in OECD countries increased by 2.7% year-on-year. The rate of recovery in developing countries was substantially higher. In Latin American countries, GDP growth ranged from 5 to 8%; the high rate of long-term economic growth was maintained in the region of south-east Asia, where the most rapid growth was recorded in China (9.8%) and South Korea (9.3%). Within the group of transition economies, CEFTA countries showed clear signs of revival, while the other economies remained in recession.

In OECD countries, the business cycle cumulated in 1995 with characteristic differences between the rates of recovery in the member states of this economic grouping. The highest rate of economic growth was recorded in the US (3.3%), followed by the European Union (2.6%), and Japan (1%). However, economic activity in the USA already recorded a moderate decline this year; while the rate of economic growth in the European Union increased in comparison with 1994, and the Japanese economy only slowly began to recover from the long-lasting economic recession.

Price developments in 1995 confirmed again the non-inflationary nature of the ongoing business cycle: the average rate of inflation in OECD countries and the European Union reached 3%; in the US 2.8%; and in Japan only 0.1%. In 1995, inflationary pressures were reduced to a considerable extent even in some Latin American countries with traditionally inflationary economies. However, some of the fastest growing economies in south-east Asia were in danger of becoming overheated, e.g. inflation rate in China reached 15.4%.

The rates of unemployment in OECD countries averaged 7.4%, representing a moderate fall compared with the level of 1994. However, considerable differences were recorded between the rates of unemployment and labour market conditions in various economic regions. Japan's unemployment rate rose to 3.4%, while that of the USA fell to 5.7%. The average rate of unemployment in the European Union also fell slightly, but remained above the two-digit level (10.8%).

1.2 The European Union

In the European Union, increased attention was paid to the qualitative characteristics of economic stability, which precondition successful implementation of a single currency by 1999. The unbalanced process of adjusting the national monetary and financial indicators to the convergence criteria of the Maastricht treaty led to the confirmation of the 'two-stage', or 'multi-stage' conception of monetary union. The criterion for the successful implementation of the project is the formation of a sound basis in the most stable economies, which should ensure the credibility and stability of the single European currency on international financial markets.

In meeting the criteria for convergence, the individual member states of the EU achieved different results in the individual monetary and financial indicators in 1995.

The results in the field of price inflation were basically satisfactory in most EU countries, the rate of inflation continued to fall, and the differences between the rates of inflation in the individual countries also decreased. The convergence criterion for prices was met by eleven of the fifteen EU member states in 1995. The chief factors behind this favourable development were the moderate increase in wages and the considerable growth in labour productivity.

The pace of convergence of long-term interest rates slowed down in 1995. This development was associated with the weakening of the fast effect produced by the reduction in inflation on this indicator, and the difficult task of reducing national budget deficits. The interest rate criterion was met by 10 countries.

Favourable development was recorded in the area of exchange rates as well. This applied especially to the currencies included in the European exchange rate mechanism which were relatively stable. This development was due partly to monetary-policy measures adopted in the individual member countries, and the economic growth which enlarged possibilities for economic-policy decisions. The criterion for longer-term (two-year) stability of exchange rates was satisfied by 7 member countries of the European Monetary System.

Fulfilment of convergence criteria was least satisfactory in the field of reducing public expenditure. The consolidation in budget performance did not make the best use of the possibilities arising from the increasing rate of economic growth. In a number of countries, budget deficits were too high in relation to GDP despite the adoption of a policy of budgetary restrictions. The convergence limit (3%) was fulfilled by only three countries. The process of lowering the level of public debt to 60% of GDP was also rather slow. This criterion was met by only four member countries of the EU.

1.3 Foreign Exchange Markets

In 1995, the exchange rates of the world currencies - the US dollar (US$), the German mark (DEM), and the Japanese yen (JPY) - on international foreign exchange markets were affected by the gradual recovery of the US dollar after the Mexican crisis at the end of 1994, and the relative stability of currencies within the European exchange rate mechanism (ERM) during the last phase of preparation for the European Monetary Union. On 1 January 1995, the Austrian schilling (ATS) became the 9th currency to join ERM, as the only currency from among the new member states of the European Union.

The exchange rates of the dollar against the German mark and the Japanese yen fell until April, when they hit the lowest average monthly figures: 1.38 DEM/US$ and 83.87 JPY/US$. At the end of March, the Bundesbank lowered the discount rate by 0.5%, to 4%. In April, the Bank of Japan reduced its discount rate by 0.75%, to 1%. In June, the situation in foreign exchange markets stabilised somewhat. The dollar began to rise at a moderate pace, and the economic summit of the G7 in Halifax, Canada, did not result in any serious recommendations to be taken with the aim of co-ordinating exchange-rate policies.

After August, the US dollar firmed both against the yen and the D-mark. The changes in foreign exchange markets were due to central banks interventions in support of the dollar. The expected easing of monetary policies in Europe and Japan also played a significant role in this development. At the end of August, the Bundesbank lowered the discount and Lombard rates by 0.5%, to 3.5% and 5.5% respectively. This move was immediately followed by other central banks in ERM member countries. In September, the Bank of Japan reduced its discount rate to an extremely low level (0.5%), which helped the dollar to break through the 100 JPY/US$ limit.

In 1995, the position of the US dollar on foreign exchange markets against the Japanese yen firmed: from 99.73 JPY/US$ (in January) to 103.15 JPY/US$ (in December). On the other hand, the position of the German mark against the dollar improved, due mainly to the considerable weakening of the dollar in the first half of the year. The exchange rate of the D-mark appreciated from 1.53 DEM/US$ (in January) to 1.43 DEM/US$ (in December).

In 1995, within the European monetary system, significant progress was made in the stabilisation of the European exchange rate mechanism. The devaluation of the Spanish peseta (by 7%) and the Portuguese escudo (by 3.5%) in March significantly stabilised the exchange rates of these currencies, which joined ERM in the middle of the year. After a period of temporarily increased volatility during the presidential elections, the exchange rate of the French frank against the German mark also stabilised. After August, a factor stabilising the ERM was the rise of the US dollar against the D-mark. In 1995, the weakest currency of the ERM was again the Irish pound, continuing the long-term downward trend.

Among currencies outside the ERM, the Swedish crown was slightly revalued in 1995 against the D-mark, after a temporary decline associated with the lack of faith in Sweden's public finance. The exchange rate of the Swiss franc also improved: it reached 0.80 CHF/DEM, the highest rate against the German mark in the last 9 years, despite the 2% cut in the Swiss discount rate.

1.4 World Trade

In 1995, world trade continued growing at a faster rate than production in 1995. The total volume of trade in goods and services exceeded US$ 6 trillion for the first time in history. International commodity trading reached a level of US$ 4.9 trillion, increasing by 8% compared with the figure for 1994. The volume of trade in services stood at US$ 1.2 trillion, i.e. 14% more than in 1994.

The most dynamic development in world trade was recorded in manufactured goods, especially in the export of high-tech products, the volume of which had increased by more than a quarter.

The dynamic growth in world trade was due mainly to countries of south-east Asia, Latin America, and Central and Eastern Europe. The dominant share of world trade - estimated at 2/3 of the total volume - was generated by multinational companies, which earned huge profits from the extension of free business zones, especially in newly industrialised countries.

2. ECONOMIC DEVELOPMENT IN CENTRAL EUROPEAN TRANSITION ECONOMIES

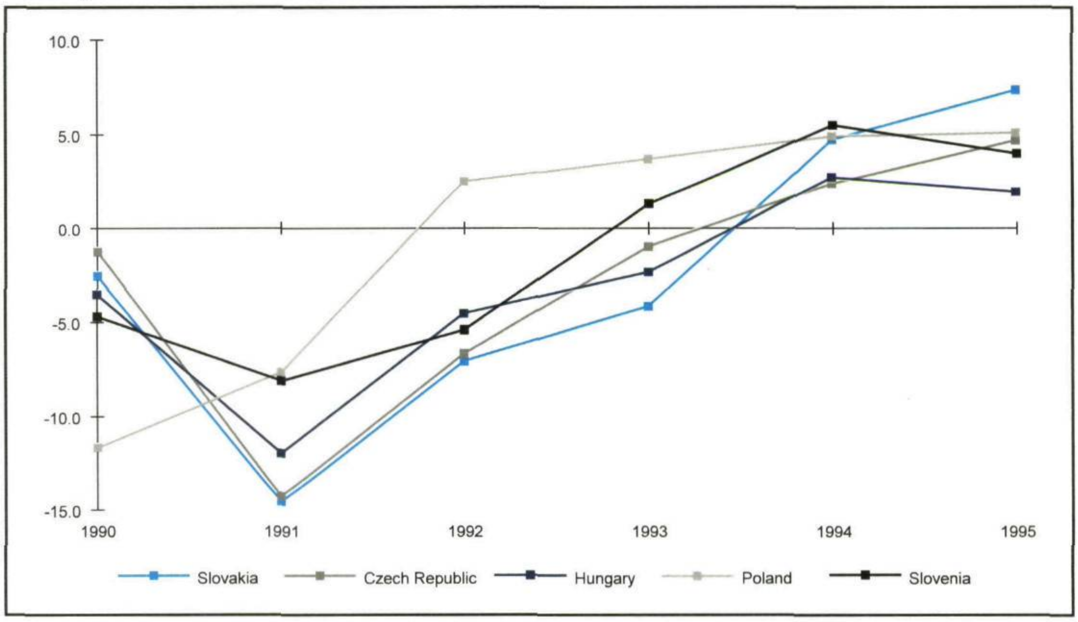
The economic revival in Poland, Hungary, Slovenia, the Czech Republic and Slovakia continued in 1995. The upward trend in industrial production was successfully maintained in all five economies, due mainly to the increased export to advanced countries. With the exception of Hungary, the rate of increase in price inflation slowed down. A new factor influencing economic development was the inflow of short-term capital, as reflected in the level of foreign exchange reserves in these countries. With regard to long-term development, a significant trend is the revival of investment activity in all countries of Central Europe.

In 1995, all the above countries made considerable efforts to make their national currencies convertible. The common objective was to satisfy the basic criterion of currency convertibility - to remove all restrictions on current account transactions. The reason for this is that currency convertibility is a precondition for entry into international economic structures.

2.1 Gross Domestic Product

In 1995, the economic growth in terms of GDP that started in the previous years (in Poland in 1992, in Slovenia in 1993, and in the other economies in 1994) continued. In the Czech Republic, Poland, and Slovakia, the rate of growth in GDP increased in comparison with 1994. The growth of GDP declined somewhat in Slovenia. Hungary maintained its rate of GDP growth, which, however, remained below the level achieved in comparable countries.

Development of Real GDP in the V4 Countries ***(%)***



In the Czech economy, the most important pillar of economic growth was the output of industry, construction, and trade. In the field of demand, the main stimuli were household consumption and investment demand, whereas government spending declined. The economic results of Hungary were affected by measures restricting government spending, which led to a fall in real wages and incomes, and a consequent decline in consumer demand and domestic trade. However, the upward trend in industrial production and investment demand was maintained. In Poland, economic revival continued owing to a growth in exports and investment demand, while the growth in industrial production and construction output was maintained. In

Slovakia, the main driving forces of economic revival were the continuing growth in export trade, increase in private consumption, and recovery in investment activity. In Slovenia, the main stimulus to economic growth was the significant increase in investment demand accompanied by a growth in consumer demand.

2.2 Price Developments

In 1995, the most moderate increases in consumer prices were recorded in Slovakia and the Czech Republic. The rate of price inflation also slowed down considerably in Slovenia. In Poland, economic growth was accompanied by a high rate of inflation. Inflationary pressures were due mainly to strong consumer demand and inadequate supply nevertheless, the change in exchange rate mechanism introduced in May 1995 made a significant contribution to the decline in consumer-price inflation. In Hungary, price development was influenced by the continued deregulation of prices, devaluation of the forint, and the introduction of a surcharge on imports, which gave rise to a further increase in inflation.

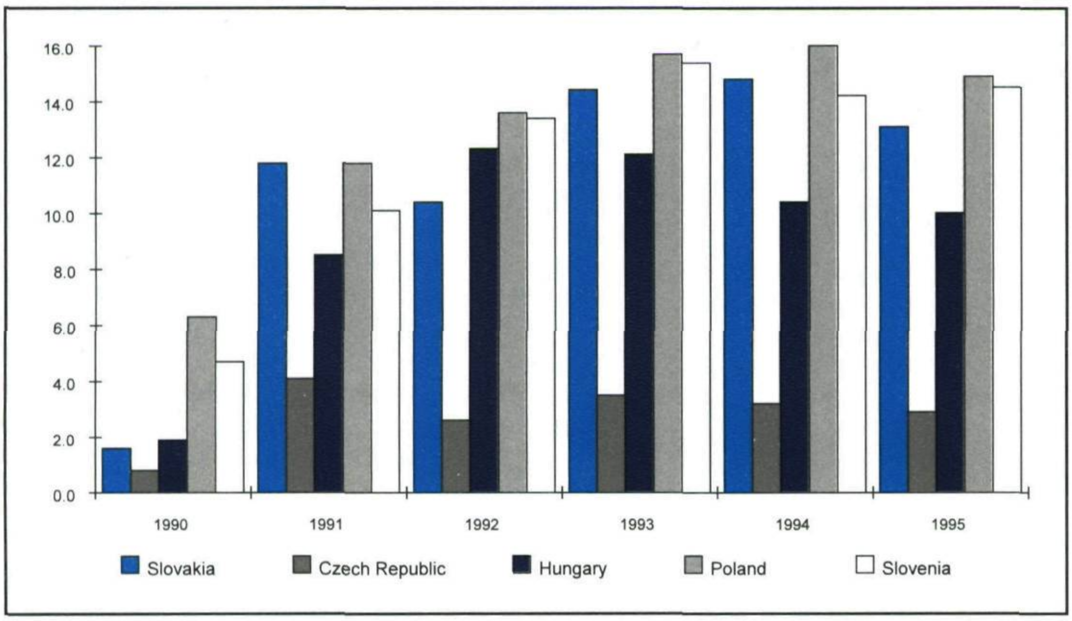
2.3 State Budget

With the exception of Hungary, state budget deficits did not exceed the level of 3% of GDP in any of the countries under consideration. In the Czech Republic, the state budget in 1995 resulted in a surplus, as in the previous years.

2.4 Labour Market

A positive factor in labour market development in the countries under consideration, with the exception of Slovenia, was a moderate fall in the rate of unemployment. In this group of countries, the highest level of unemployment was again recorded in Poland.

Unemployment Rates by Country *(%)*



2.5 Foreign Trade

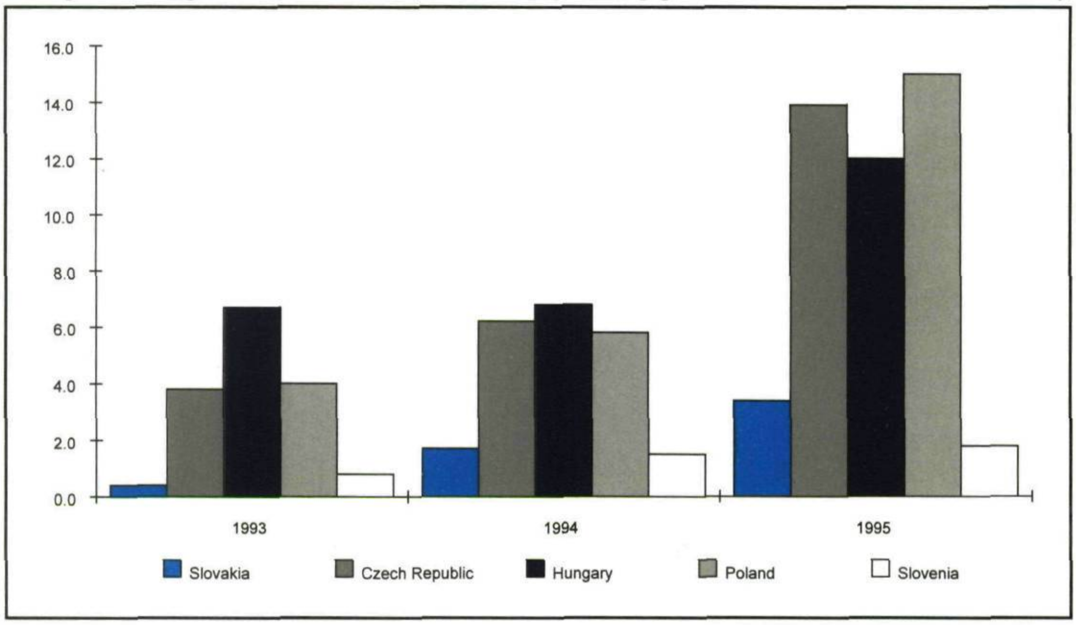
The volume of exports and imports in the above countries has increased each year since the beginning of the 90s. However, the trade balance in most of these countries was unfavourable due to great demand for commodity imports. The orientation of foreign trade towards advanced market-economy countries continued in 1995. Over the course of the year, mutual trade among CEFTA countries was further liberalised, and an agreement was signed on the extension of this grouping to include Slovenia.

In 1995, the unfavourable balance of Hungary's foreign trade significantly improved due to introduction of a surcharge on imports and devaluation of the forint. A similar development was recorded in Poland, where accelerated growth in export made a significant contribution to reduction of the trade deficit. In the Czech Republic and Slovenia, the trade deficit grew due to a decline in the rate of growth in export and an increase in import. In 1995, Slovakia was the only country to achieve a positive balance of foreign trade.

2.6 Foreign Exchange Reserves

One of the main preconditions for the introduction of currency convertibility in the analysed countries in 1995 was to achieve an adequate level of foreign exchange reserves.

Foreign Exchange Reserves of Central Banks (excluding gold) ***(US$ billions)***



2.7 Complex Comparison

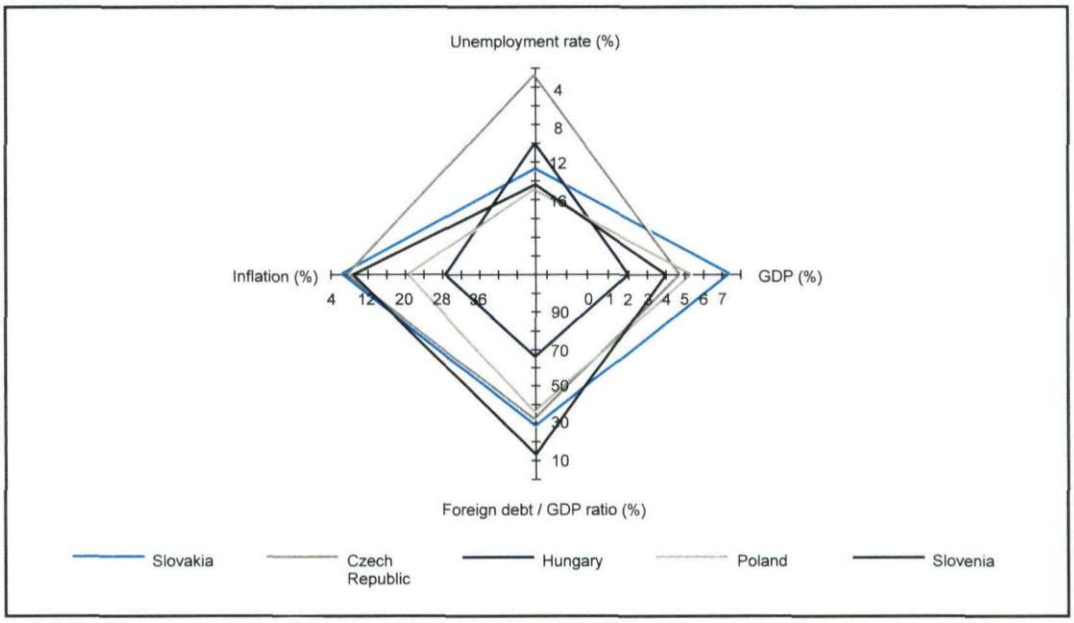
The concrete results of interaction between governmental economic and monetary policy in the fields of economic growth, labour market conditions, price development, and foreign debt are illustrated in the accompanying diagram, the so-called magic square, in which the largest square represents the best economic performance.

Of the group of analysed countries, the most stable macroeconomic development was recorded in the Czech Republic, which achieved similarly favourable results in all four indicators.

The above comparison shows that Slovakia's macroeconomic indicators in 1995 were among the best in the group of countries under consideration. The most positive result was deceleration in the rate of increase in consumer prices and the dynamic economic growth expressed as a percentage of GDP. The position of Slovakia with regard to unemployment was less favourable.

Poland achieved a high rate of economic growth, but the level of inflation, unemployment, and foreign debt remained relatively high. Of the transition economies, Hungary recorded a slower rate of growth in real GDP, a high level of foreign debt in relation to GDP, and the highest rate of inflation. Slovenia recorded the lowest level of foreign debt in relation to GDP, a high year-on-year increase in GDP, and a single-digit annual rate of inflation; however, the unemployment rate remained relatively high.

Basic Macroeconomic Indicators in 1995



Current economic development in Central Europe suggests that, after a period of non-standard deviation and economic recession, a phase of stabilisation is now under way. The most significant contribution to the achieved results came from monetary policy, which stabilised prices, improved the competitiveness of foreign trade through exchange rate control, and strengthened monetary and budgetary discipline in each country.

The stabilisation of macroeconomic development made a significant contribution to the revival of domestic consumer and investment demand, and strengthening of the function of the internal engines of economic growth in all countries under consideration.

3. ECONOMIC DEVELOPMENT IN SLOVAKIA

3.1 General Situation

In 1995, the revival of the Slovak economy continued to accelerate, with a 7.4% growth in GDP. Slovakia's annual rate of inflation expressed in terms of the consumer price index reached 7.2%, and the average annual rate of inflation 9.9%. Government spending resulted in a budget deficit of Sk 8.3 billion (i.e. 1.6% of GDP). The balance of foreign trade and services generated a surplus of Sk 16,944 billion.

The achieved results indicate that, in addition to the upward trend in development of the real sector, the macroeconomic balance of the Slovak economy further stabilised, due to positive effects of the interaction between various internal and external factors. One of these factors was continued revival of the world economy, which made it possible to sell relatively large volumes of Slovak goods on foreign markets. Another factor was the slightly growth-oriented anti-inflationary monetary policy of the NBS, which was supported by the monetarily neutral financial policy of the Government, designed to reduce the State budget deficit.

With regard to stimuli to economic growth, an important development in 1995 was revival of consumer and investment demand in the domestic economy in comparison with 1994, when foreign demand was the only driving force of economic growth. However, the dynamics of gross fixed capital formation was not maintained in 1995. Economic growth in Slovakia was due primarily to the utilisation of free capacity in production, and required additional labour only to a lesser degree. Consequently, the rate of unemployment in Slovakia remained relatively high, reaching an average of 13.8% per annum.

In 1995, extensive activity was recorded in the area of Slovakia's systemic transformation. To regulate the process of transformation of ownership rights, four new laws were enacted. The new laws define the positions of the entities taking part in this process. One of these laws was the amendment to the Large Privatisation Act (No. 190/1995 Z.z. and Act No. 92/1991 Zb. on the transfer of state property to other persons) which closed the ongoing discussion about the legal aspects of privatisation in favour of standard methods. The second wave of privatisation in Slovakia was replaced by the so-called bond method. According to this, an individual registered in the 2nd wave of privatisation is entitled to a bond issued by the National Property Fund (NPF) at a par value of Sk 10,000, with maturity at 31 December 2000, which may be used for specified purposes. This amendment increased the powers of the NPF, and considerably accelerated the process of privatisation in the form of direct sale, as well as public tender and sale of shares on the capital market.

Subsequent to this legislation, a law was passed to secure the interests of the State in the privatisation of strategically important public enterprises and corporations. This law (NC SR No. 192/1995 Z.z.) defined which companies could only be privatised with government approval.

The amendment to the law on investment companies and investment funds (Act No. 191/1995 Z.z. and Act No. 248/1992 Zb. with subsequent amendments) put these entities in the position of portfolio investors, and set out the conditions of government supervision in this field.

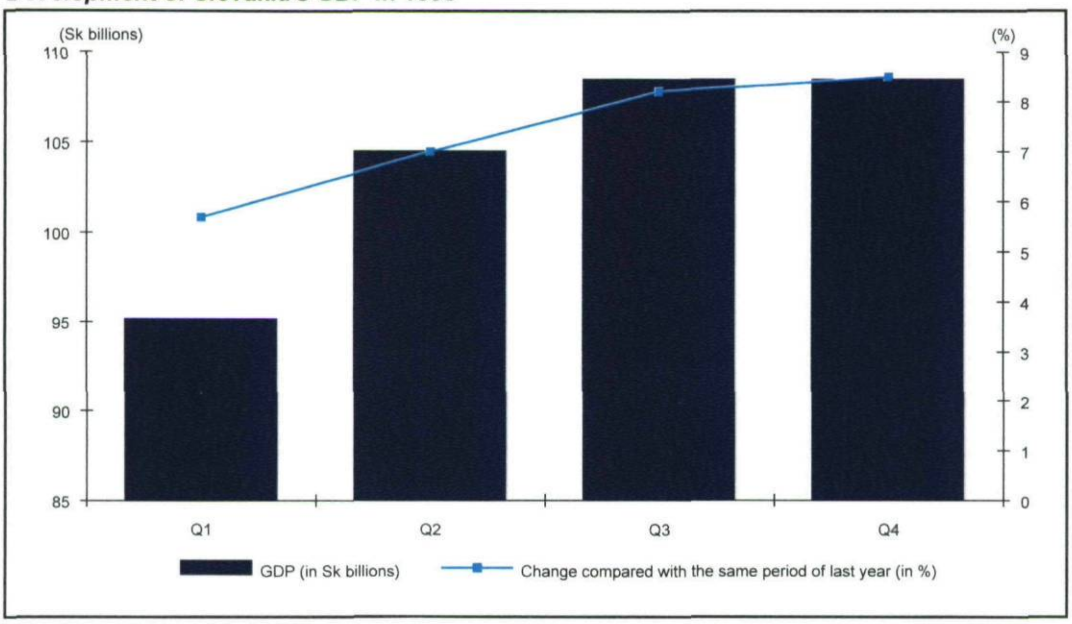
To increase the transparency of trading in securities, an amendment was made to the Securities Act (NC SR No. 171/1995 Z.z.), which explicitly stipulates that transactions in securities may only be conducted on the public market.

The favourable trend in the development of external economic relations, the considerable increase in NBS foreign exchange reserves and weakening of their dependence on foreign loans, and the overall strengthening of the country's macroeconomic balance, paved the way for new foreign exchange legislation. The Foreign Exchange Act (NC SR No. 202/1995 Z.z.) of 1995 made the Slovak crown convertible for current account payments with effect from 1 October 1995. The liberalisation of Slovakia's foreign exchange regime included the standardisation of payments, and the termination of the clearing account agreement with the Czech Republic.

3.2 GDP and Development in Key Sectors of the Economy

In 1995, Slovakia's gross domestic product (based on 1993 constant prices) increased by 7.4%, to Sk 416.7 billion. The rate of growth in GDP was increasing throughout the year (increases in GDP between the individual quarters in comparison with the same periods of the previous year represented: 5.7%, 7.0%, 8.2%, and 8.5%).

Development of Slovakia's GDP in 1995



Note: At constant prices of 1993

Economic growth in 1995 was marked by two features, one of which was a convergence of economic sector shares in the creation of GDP. The proportion between the outputs of productive and service sectors in particular achieved a better balance, which had a stabilising effect on the share of market products and services in the added value. The second feature was the generally high rate of growth in production and services - the rate of growth in industrial production increased, the decline in public freight transport was brought to a halt, and the revival in construction continued. Development in agriculture continues to be problematic: the output of the sector expressed in terms of added value decreased in comparison with the level of 1994.

The volume of industrial production (in terms of commodity production) increased by 8.3%, due primarily to the output of small businesses (with less than 24 employees), while the volume of production in large and medium-sized enterprises grew by only 5.2%. A favourable aspect of development in industrial production (compared with 1994) was that its growth was due solely to the high rate of growth in manufacturing industry (10.2%). The output of mining and power industry fell by 0.4 and 1.1 % respectively.

A positive trend was also reported in manufacturing industry as well. Within the structure of manufacturing, the most rapid growth was recorded in the production of machines and equipment (15%), which in 1994 was in relatively deep recession. The outputs of chemical and metal-working industries were also increasing faster than total industrial production (10.8% and 9.1% respectively), while the rate of growth in the production of coke, petroleum products, and nuclear fuels slowed down (6.1%). Output of the food industry continued to decline (by 2.1%).

In 1995, the growth in industrial production (in statistically analysed medium and large-sized companies) continued to be dependent mostly on foreign demand. The volume of export sales increased in comparison with the 1994 figure, which resulted in a further increase in the share of production for export in the total volume of industrial sales, to 43.2% (compared with 40.4% in 1994).

After a period of recession, the construction sector also showed some signs of revival in 1995. The output of the construction sector (at current prices) increased by 4.2% year-on-year. With regard to the market decline in construction during previous years, this development should be seen as gradual recovery from recession rather than real growth. A special feature of revival in this sector was that it was stimulated by a significant increase in the volume of construction projects abroad (16.9%), while the annual volume of domestic construction work remained roughly at the level of 1994 (an increase of 0.9%). The share of construction work abroad in the total output of the construction sector reached 14.4% in 1995.

In connection with overall economic growth, the rate of increase in the volume of public freight transport changed considerably. In comparison with 1994, the volume of freight increased by 6.4% (in 1994, it fell by 14.4% in comparison with the figure for 1993).

Agricultural production in 1995 was unable to reverse the unfavourable trend of previous years. The volume of produced added value (in current prices) dropped by 2.2%, or after taking into account price development, by 5.4%. The proceeds of agricultural companies were 2.2% higher than in 1994; after taking into account price development, however, they were 1 % below the level of last year.

The growth in consumer demand was reflected in a 19.6% increase in retail sales at current prices, representing an increase of 8.9% at constant prices.

3.3 Price Development and Inflation

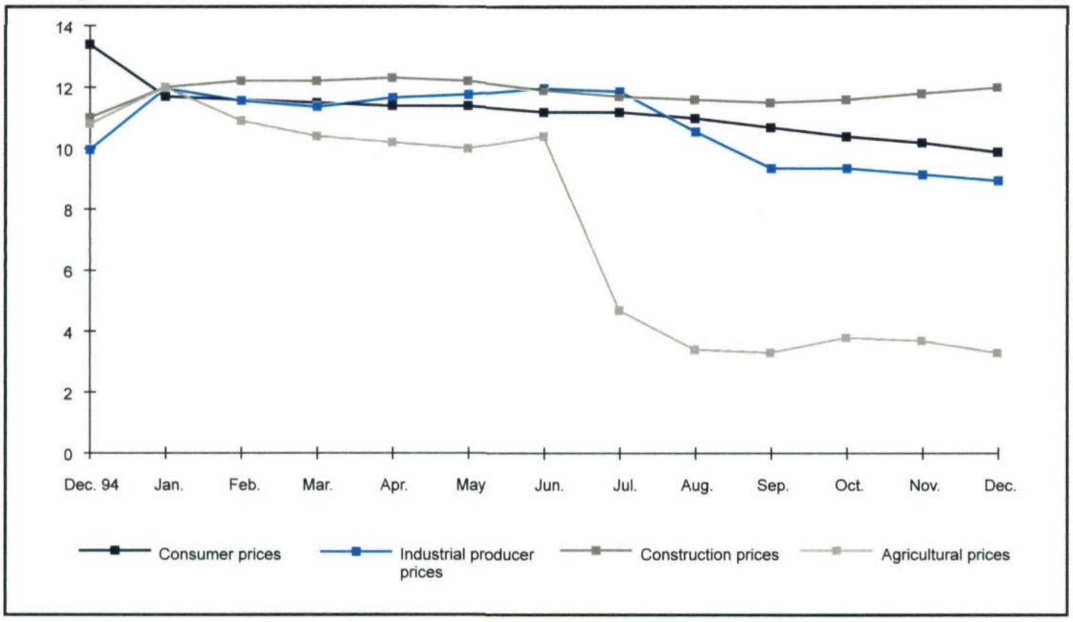
In 1995, the annual rate of inflation expressed in terms of the consumer price index reached, for the first time from the beginning of transformation, a one-digit figure (7.2%). This represented a reduction in inflation of more than one-third compared with the figure for 1994. The average rate of inflation was 9.9%.

The fall in the rate of inflation was due to three factors: government economic policy for 1995 did not contain potencially inflation measures; the stability of the fiscal system, increased tax revenue and restricted government spending made a significant contribution to the improvement in State budget performance and the considerable weakening of the inflationary effects of the budget deficit; favourable balance of payments.

Measures carrying a risk of inflation were adjustments of prices, charges, and tariffs in various sectors of the economy. The increase in consumer prices was caused by shortcomings in agricultural production and an increase in industrial producer prices.

In comparison with the same period of the previous year, a key factor stabilising the level of consumer prices was the development of prices in agriculture, which recorded an average yearly increase of 3.5%. Along with the producer prices of industrial goods, agricultural prices increased at a much lower rate than consumer prices, especially in the second half of the year. On the other hand, the cost of construction work was above the level of consumer prices throughout the year. Industrial producer prices rose by an average of 9%, and construction prices recorded an increase of 12.4%; this development corresponded to the trend in prices during the previous year.

Average Annual Increase in Prices ***(%)***



With regard to the structure of commodities, the development of consumer prices was marked by a tendency to fall during the first half of the year. Noticeable month-on-month fluctuations of seasonal nature were recorded mainly in the prices of services and foodstuff goods during the summer months.

The rise in consumer prices resulted in a yearly average increase in the cost of living of 9.5%, which was relatively evenly distributed over individual social groups.

3.4 Wages and Labour Productivity

Accelerated economic growth, and the removal of wage restraints applied during the previous year were reflected in a relatively high rate of increase in nominal wages. The average monthly nominal wage in industry (organisations with at least 25 employees) reached Sk 7,492, representing an increase of 15.2% compared with the level of 1994. In construction, the average monthly wage amounted to Sk 7,503, representing an increase of 14.9%. Average monthly wages in transportation reached Sk 7,733 (an increase of 17.9%), in trade Sk 5,669 (an increase of 13.2%).

The average monthly wage per employee in the Slovak economy reached Sk 7,195, representing an increase of 14.1% compared with the level of 1994.

The year-on-year increase in the average monthly real wage in industry reached 5.2%, in construction 4.9%, in transportation 7.7%, and in trade 3.4%. The average level of real wages in the economy rose by 4.4%. The relatively high increase in real wages resulted form the non-inflationary trend in the development of consumer prices.

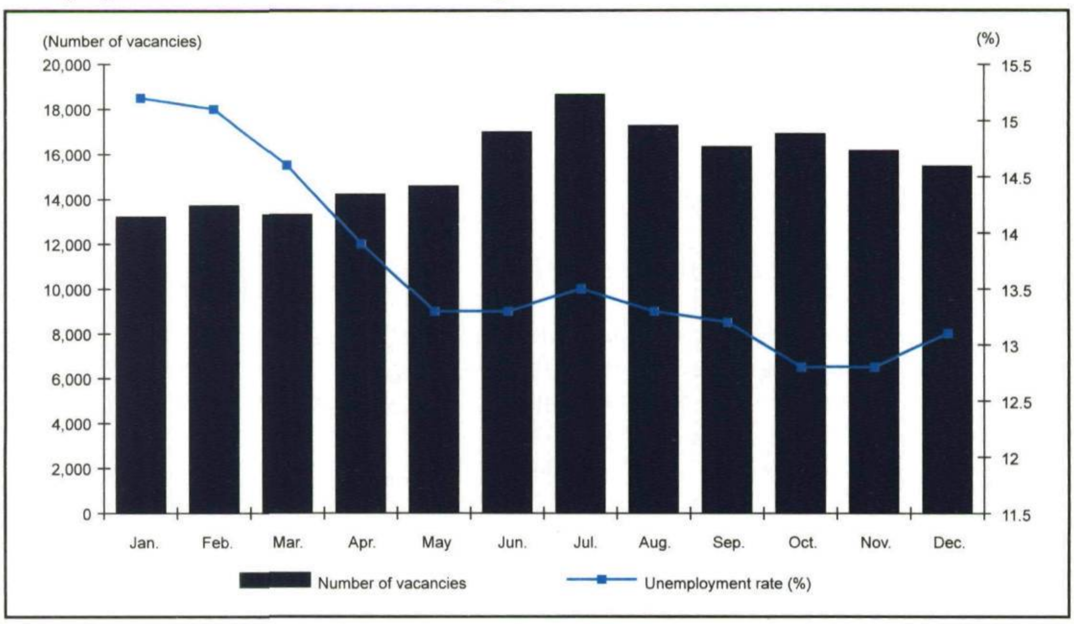
The relation between the increase in real wages and the growth in labour productivity recorded a less favourable development in 1995 than in 1994. In nominal terms, the increase in the average monthly wage exceeded the growth of labour productivity expressed as a percentage of GDP, by 0.2%. The rate of increase in real wages corresponded to the rate of growth in labour productivity in terms of GDP at comparable prices.

3.5 Labour Market

The upturn in economic activity gave rise to a gradual improvement in labour market conditions during the 2nd quarter of 1995. In the individual sectors of the economy, the number of employees developed differently. The largest increase in employment (6.5% compared with the level of December 1994) was recorded in trade and industry (4.4%). The level of employment in transport remained virtually unchanged (a rise of only 0.6%), while the number of employees in construction decreased by 3.4%.

In all sectors of the economy, the level of employment was affected by a significant increase in the private sector. The largest increase in the number of private sector employees was recorded in transport (31.6%); however, the share of the private sector in the total number of employees in transport remained very low (15.8% compared with 12.2% in December 1994). Another considerable increase in the number of employees in the private sector was recorded in trade (10.5%); the proportion of this figure to total employment in trade reached 93.7%. In industry, the number of employees in the private sector increased by 15%, and its share in the total number of industrial employees reached 68.9%. In construction, despite a general decline in employment, the number of people working in the private sector increased by 2.4%, and its share in total employment within the sector reached 84.4%.

Unemployment and Number of Vacancies by Month



At the end of December, Slovakia's unemployment rate reached 13.1%, representing an decrease of 1.7% year-on-year. The number of unemployed per vacancy also decreased (to 22 in December 1995, from 28 in December 1994), which may be attributed partly to the upswing in the economy, and partly to the increased activity of job offices in the labour market. The inadequately slow year-on-year decrease in the average rate of unemployment with regard to the fast rate of economic growth was an indication of the fact that there is still extensive latent unemployment in the Slovak economy. The beneficial effects of increased production are in this case absorbed by over-employment, which explains why the increased level of economic activity is only partially reflected in the official unemployment figures.

3.6 Private Sector

In 1995, 64.9% of Slovakia's GDP was generated by the private sector (including co-operatives), which employed 56.5% of the total Slovak labour force. The private sector accounted for 64.6% of the total annual volume of industrial production, 81.8% of the total output of the construction sector, 92.2% of total retail trade turnover, and 62.1% of the volume of road haulage.

At the end of December 1995, the number of profit-based organisations doing business in the Slovak Republic totalled 43,636, representing an increase of 7,449 (20.6%) compared with the figure recorded at the beginning of the year. The share of organisations in private ownership (partial or whole) in the total number of such organisations represented 96.4%, i.e. 0.9% more than at the end of 1994.

During 1995, the number of private entrepreneurs registered in the Slovak Republic decreased by 4.1%, to 275,110 persons. This development was, to some extent, a reflection of the process of differentiation within the group of small private businesses, due to measures regulating their activities (mainly the introduction of cash-registers). The sharpest decrease was recorded in the number of private farmers (5.7%); whereas the number of those self-employed (physicians, lawyers, etc.) almost tripled during the course of the year.

At 31 December 1995, the number of organisations with foreign capital participation in the Slovak Republic totalled 9,520, representing an increase of 26.6% compared with the figure for the beginning of the year.

3.7 Foreign Capital

The flow of foreign investment capital into the Slovak Republic slowed down in the first half of 1995, for various non-economic reasons. However, development in the second half of the year indicated rather a temporary wait-and-see attitude on the part of foreign investors. At the end of 1995, the volume of foreign capital invested in the Slovak Republic reached Sk 21.9 billion, representing a year-on-year increase of Sk 5.3 billion. Of this amount, Sk 4.4 billion (i.e. 82%) was invested during the second half of the year.

In terms of invested capital, the largest investors in 1995 were Austria, Germany, the Czech Republic, and the USA. The share of these countries in the total volume of foreign capital in the SR ranged from 12.4% (USA) to 23.4% (Austria), and they together accounted for 70% of the total volume of foreign capital investment. Significant capital inflow came also from Great Britain, the Netherlands, France, Sweden, and Italy (5.7% to 2.2% of the total). The share of other countries did not exceed 1% of the total amount of invested capital.

By sector, foreign investors gave preference to industry in 1995. At the end of the year, the share of industry in the total volume of foreign capital in the Slovak economy reached 43.4%; followed by trade (32.4%) and the financial sector (15.7%) in third place.

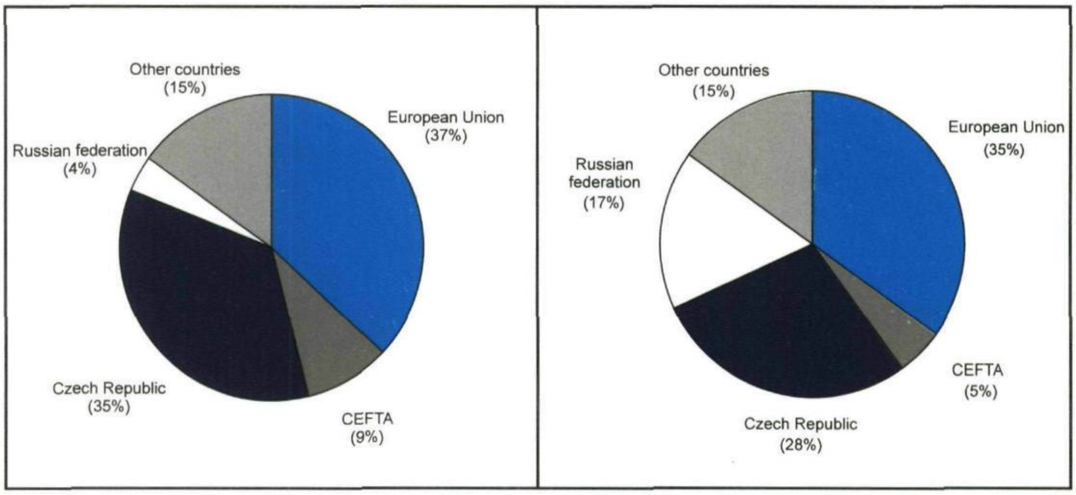
With regard to allocation of foreign investment, 62.1% of the capital was invested in Bratislava, the capital of Slovakia. In 1995, certain increases were reported in the flow of capital investment into regions with low levels of foreign capital and high rates of unemployment.

3.8 Foreign Trade

In 1995, Slovakia's foreign trade continued to benefit from the ongoing business cycle of the world economy. The turnover of foreign trade reached Sk 507,481 million, representing an increase of 18.9% compared with the 1994 figure. The growth of exports and imports began to show tendencies reflecting an upswing in the economy and increase in domestic demand, and a gradual diminishing of the effects of devaluation.

Territorial Structure of Slovakia's Foreign Trade in 1995

Exports ***Imports***



The rate of annual growth in exports decreased to 18.5% (compared with 28.5% in 1994), while imports increased by 19.1% in 1995 (compared with 8.5% in 1994). As a result of a faster rate of growth in imports than exports, the balance of foreign trade achieved only a moderate surplus (Sk 717 million) in 1995. The high surplus of exports over imports in the service sector generated a positive balance of services amounting to Sk 16.2 billion.

The export performance of the economy (measured as a ratio of the exports of goods and services to GDP at current prices) fell from 72.2% in 1994, to 62.7% in 1995, as a result of increased domestic demand.

In 1995, Slovakia achieved a positive balance of trade (Sk 7.4 billion) with countries of the European Union (including a surplus of Sk 11.6 billion with Germany, Sk 0.5 billion with Italy, and Sk 0.2 billion with the Netherlands). Trade with CEFTA countries resulted in a surplus of Sk 29.6 billion (including Sk 20.2 billion with the Czech Republic, Sk 6 billion with Hungary, and Sk 4.2 billion with Poland). A favourable trade balance was achieved with the Ukraine, India, Egypt, Rumania, and Bulgaria as well.

Slovakia had a deficit of Sk 1 billion in trade with OECD countries (including Sk 3.1 billion with Japan, Sk 3 billion with the US, Sk 0.3 billion with Australia, and Sk 2.3 billion with EFTA countries), a deficit of Sk 1.2 billion with China, and Sk 1.5 billion with Taiwan. Trade deficit with the Russian federation remained high (Sk 33.2 billion) in 1995.

In the territorial structure of Slovakia's foreign trade, the change in orientation towards major industrial countries continued, especially in favour of the European Union. The share of EU countries in Slovakia exports reached 37.4%, in imports 34.7%. In this group, the most significant trading partner of the SR was Germany, with a 18.8% share in Slovak exports and 14.4% in imports.

The process of restructuring in trade with transition economies was marked by a decline in commodity trading with countries of the former USSR and the Czech Republic, and increase in trade with CEFTA countries. The share of CEFTA countries in Slovakia's foreign trade turnover remained below 10% without the Czech Republic. However, the rate of growth in trade with these countries is on the increase, whereas the share of the Czech Republic is on the decrease. Despite the downward trend, the Czech Republic remained the most important trade partner of Slovakia: at the end of 1995, the CR accounted for 35.2% of the total volume of Slovak exports, and 27.5% of the volume of imports.

In 1995, the commodity structure of Slovakia's foreign trade was influenced by two factors: the structure of exports continued to reflect the advantageous exchange rate of the Slovak koruna, which created favourable conditions for the export of goods with a high price flexibility and low degree of added value. The structure of imports was affected by the growth of the economy, which created increased demand for the import of raw-materials and investment inputs.

The structure of exports continued to be dominated by semi-finished products. The commodity groups SITC 2, 3, 4, 5, 6, which include raw materials and semi-finished products, accounted for 63% of Slovakia's total exports. The export of these items grew at a faster rate than other exports in 1995; consequently, their share in the structure of exports increased in comparison with 1994. The proportion of machines and equipment (SITC 7) reached 18.8%, and that of industrial goods (SITC 8) was 12.2%.

Commodity Structure of Slovakia's Foreign Trade in 1995 ***(% of total volume)***

	Export	Import
(SITC 0) Foodstuffs	5.0	6.8
(SITC 1) Beverages	0.9	1.1
(SITC 2) Raw materials	5.0	5.8
(SITC 3) Mineral fuels and lubricants	4.2	17.9
(SITC 4) Animal and vegetable oils and fats	0.1	0.2
(SITC 5) Chemicals	13.2	13.5
(SITC 6) Market products	40.5	17.6
(SITC 7) Machines and transport equipment	18.8	29.0
(SITC 8) Industrial goods	12.2	8.0

The structure of imports into the Slovak Republic reflected the upturn in economic activity, which required increased raw material and commodity imports. The import of these commodity groups (SITC 2, 5, 6) grew at a faster rate than the total volume of imports. A more rapid increase was recorded in the imports of machines and equipment (SITC 7) as well. At the same time, despite the surcharge on imports, a relatively robust increase was recorded in the import of products mostly for private consumption (including foodstuffs), which was a reflection of the faster increase in nominal household income. The most significant import items were machines and equipment (29%), followed by mineral fuels (17.9%), market products (17.6%), and chemicals (13.5%). Industrial goods accounted for 8% of the volume of imports; foodstuffs represented 6.8% of the total.

The commodity structure of Slovak exports indicates that further development of Slovakia's foreign trade depends on successful implementation of structural changes in the production sector of the economy. It is necessary to reduce the high energy, raw material, and material intensity of production, which is covered predominantly by imports, and to gradually restructure Slovakia's exports, i.e. from semi-finished products (highly sensitive to price competition), in favour of products with a higher degree of added value.