



EVALUATION OF THE FOREIGN DEBT OF THE SLOVAK REPUBLIC AND DEBT SERVICING IN 2002

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Development of the Slovak Republic's foreign debt in 2002

The Slovak Republic as at 31 December 2002 reported an overall gross foreign debt of USD 13.188 billion, which in comparison with the balance as at 1.1.2002 represents a growth of USD 1.808 billion. Historically, for the first time, the level of gross foreign debt exceeded the USD 13 billion limit. Its increase was brought about primarily by movements of the exchange rate of the EUR against the USD, i.e. by strengthening of the EUR exchange rate against the USD. The ratio of the EUR/USD at the end of 2001 was 0.88225; at the end of 2002 1.04211. At the end of the preceding year the USD exchange rate weakened significantly also against the SKK, reaching 82.60% of the level of the exchange rate at the end of 2001. The SKK exchange rate against the EUR in the period assessed did not record any dramatic changes.

The foreign debt of the Government of the SR and the NBS, including the foreign debt of government agencies and municipalities (USD 107 million), was as at 31.12.2002 at the level of USD 3.740 billion, representing an increase against the state as at 1.1.2002 of USD 115.1 million. A component of the SR's foreign debt reporting is, pursuant to the new methodology as

of the beginning of 2002, foreign liabilities resulting from gold swaps (a part of the long-term foreign debt) and repo transactions (a part of the short-term foreign debt) of the NBS. The overall foreign debt of the commercial sphere, i.e. commercial banks and corporations (including foreign debt liabilities towards non-residents in SKK) at the end of the last year reached USD 9.448 billion (at the end of 2001 it was at the level of USD 7.587 billion) and grew on a year-on-year basis by USD 1.861 billion.

Long-term foreign liabilities as at the end of 2002 represented a balance of USD 8.952 billion. Total short-term foreign debt in 2002 reached the amount of USD 4.237 billion, which is an increase on 1 January 2002 of almost USD 1 billion. The share of the total gross foreign debt per capita in the SR at the end of last year reached USD 2 452 (as at 1.1.2002 this figure was USD 2 116).

The share of total short-term debt in the total gross foreign debt of the SR in 2002 was at the level of 32.12%, as at 1.11.2002 this share was 28.45%. This increase in the short-term foreign debt was caused partially by the impact of the deterioration in the balance of trade of the SR over the last months of 2002. The transitional increase in the short-term debt was also affected by transactions of certain commercial banks vis-à-vis their subsidiaries.

The short-term foreign liabilities of commercial banks and corporations compared to 2001 grew by USD 1.168 billion and at the end of 2002 reached USD 4.237 billion, of which short-term foreign liabilities of commercial banks represented USD 1.290 billion (of which short-term koruna liabilities of commercial banks were USD 351.2 billion) and short-term foreign liabilities of corporations subjects USD 2.947 billion. The prevailing part of short-term foreign liabilities of business subjects however concerns liabilities from supplier credits (USD 2 494.0 billion). Foreign liabilities from financial loans represented from the total short-term liabilities of businesses USD 431.6 million.

Also important is the development of the indicator "foreign liabilities of the government denominated in SKK", which repre-

Gross foreign debt of the SR as at 31.12.2001 and 31.12.2002

	31.12.2001	01.01.2002	31.12.2002
Total foreign debt of the SR	11 042.5	11 380.5	13 188.2
Total long-term foreign debt	7 969.5	8 143.1	8 951.5
– of which official debt of the Government of the SR and NBS	2 780.5	3 305.9	3 633.2
government agencies	574.1	222.3	0.0
municipalities	96.9	96.9	107.0
Foreign debt of the commercial sphere	4 517.9	4 517.9	5 211.3
– of which			
commercial banks	95.2	95.2	245.7
corporations	4 422.7	4 422.7	4 965.6
Total short-term foreign debt	3 073.0	3 237.5	4 236.6
– of which Government of the SR and NBS	4.1	168.6	0.0
commercial banks	779.6	779.6	1 289.5
corporations	2 289.3	2 289.3	2 947.1

**Overview of the development of the total gross foreign debt of the SR**

(in billion USD)

Period	Total gross foreign debt of the SR	Long-term debt	Short-term debt
XII/2001	11.042	7.969	3.073
I/2002	11.380*	8.143	3.237
I/2002	11.308	8.306	3.002
II/2002	11.499	8.370	3.129
III/2002	11.220	8.198	3.022
IV/2002	11.297	8.194	3.103
V/2002	11.479	8.295	3.184
VI/2002	12.032	8.718	3.314
VII/2002	12.210	8.626	3.584
VIII/2002	11.974	8.543	3.431
IX/2002	11.881	8.594	3.287
X/2002	12.200	8.546	3.654
XI/2002	12.170	8.434	3.736
XII/2002	13.188	8.951	4.237

* new methodology

sents purchases of treasury bonds (a component of long-term foreign debt) and treasury bills (short-term foreign liabilities) denominated in SKK by foreign investors. The table below indicates that foreign investors owned most treasury bonds denominated in SKK in the months February and December 2002. The interest among foreign investors in the purchase of treasury bills had from April to July 2002 a gradually growing trend.

Foreign debt servicing in 2002

The total foreign debt servicing (private and public sector) in 2002 reached USD 2.010 billion, which is

Purchase of treasury bonds and treasury bills by foreign investors

(in mill. USD)

Period	Treasury bonds	Treasury bills
December 2001	390.9	4.1
January 2002	394.4	4.1
February 2002	485.8	4.1
March 2002	444.0	0.0
April 2002	277.2	10.8
May 2002	228.9	21.4
June 2002	238.0	33.4
July 2002	357.4	86.1
August 2002	273.6	0.0
September 2002	327.7	0.0
Oktober 2002	293.8	0.0
November 2002	301.4	11.3
December 2002	485.2	0.0

approx. USD 195 million less than in 2001. From this amount USD 1.396 billion represents repayments of principal and the remainder, USD 614.0 million, interest.

The total foreign debt servicing of the Government of the SR and the NBS for the 12 months of 2002 reached USD 591.7 million. Foreign liabilities of the NBS were USD 40.8 million, of which repayments of principal represented USD 32.2 million. Settled liabilities of the Government represented USD 550.8 million, of which repayments of principal were USD 343.6 million. The largest repayments were the settlement of fiduciary credit of the FNM (government agencies) in the amount of EUR 100 million and SKK 6.5 billion, made in the 4th quarter of 2002.

Short-term forecast of the foreign debt and debt servicing of the SR in 2003

In the framework of the forecast of the development of foreign debt and foreign debt servicing, which is fully in accordance with the forecast development of the balance of payments for 2003, similarly as in past years in the case of the commercial sector (business subjects), a method of qualified estimate has been applied. The basis for drawing up the whole projection of the development of foreign debt of the SR and foreign debt servicing of the state, including the public sector, were in particular the instalment schedules and available information on intentions of the borrowing

Overview of the development of foreign debt and debt servicing in 2002 with a forecast for 2003

(in mill. USD)

	2002	2003*
Total foreign debt (IB)	11 380.5	13 188.2
– of which long-term debt (IB)	8 143.0	8 951.5
Total debt servicing**	2 010.0	2 914.0
– of which principal	1 396.0	2 270.6
– interests	614.0	643.4
New loans	1 962.6	2 172.6
Short-term debt (IB)	3 073.1	4 236.7
Change of the level of the short-term debt	526.3	390.0
Adjusting item	1 052.9	173.60**
Total foreign debt (CB)	13 188.2	13 653.8
of which long-term debt (CB)	7 969.5	8 287.1
short-term debt (CB)	4 236.7	4 626.7

* Forecast

** a specific adjusting item relating to the beginning of 2002 (2003). It represents an estimate of the growth of the long-term foreign debt of the NBS by USD 173.6 million due to a change of the methodology of reporting foreign exchange reserves and the foreign liabilities of the NBS.

IB – initial balance

CB – closing balance


Comparison of the development of foreign debt with the development of foreign exchange reserves (Forex Reserves) in mill. USD

Period	Forex Reserves of NBS	Forex Reserves of commercial banks	Forex Reserves Total	Total foreign debt
December 2001	4 188.7	1 249.5	5 438.2	11 042.5
January 2002	4 688.8	1 775.1	6 463.9	11 307.5
February 2002	4 651.6	1 766.2	6 417.8	11 499.0
March 2002	4 735.2	1 575.1	6 310.3	11 220.1
April 2002	4 845.9	1 571.7	6 417.6	11 297.4
May 2002	4 906.3	1 584.8	6 491.1	11 479.0
June 2002	4 780.9	1 899.4	6 680.3	12 032.0
July 2002	7 544.8	2 079.9	9 624.7	12 209.9
August 2002	7 544.4	1 950.2	9 494.6	11 973.6
September 2002	7 907.9	1 772.8	9 680.7	11 881.1
Oktober 2002	8 058.6	1 586.4	9 645.0	12 199.7
November 2002	8 790.9	1 212.2	10 003.1	12 169.8
December 2002	9 195.5	1 116.4	10 311.9	13 188.2

strategy of the Government of the SR and central bank in 2003. In 2003 we expect a growth in the total gross foreign debt of USD 465.6 million to USD 13.654 billion. An important part of this is formed also by the expected increase in the short-term liabilities of commercial banks and corporations.

The short-term forecast of foreign debt of the SR for 2003, its individual published structural data as well as the overall projected state may be modified in connection with the development of the EUR/USD exchange rate and on the basis of the more accurate information on the state's borrowing intentions.

The largest repayments in the framework of the state's foreign debt servicing for 2003 are the Eurobonds of the Ministry of Finance of the SR, issued in 1998 in the amount of DEM 1 billion and USD 300 million. The Ministry of Finance of the SR re-financed (repaid) a part of these liabilities through issuing new bonds in the amount of EUR 500 million.

The long-term foreign debt will in 2003 reach, according to a preliminary estimate, the value of USD 9.027 billion. We expect that the foreign debt of the Government of the SR should as at the end of 2003 reach USD 3.226 billion, after taking account of repayments of principal of foreign liabilities (USD 1.0 billion), taking account of the realised new issue of bonds on foreign capital markets and the drawing of notified foreign resources from the World Bank (EFSAL loan). However, this forecast includes also foreign liabilities of the Government of the SR ensuing from the ownership of treasury bonds denominated in SKK by non-residents.

The forecast of foreign debt servicing of the NBS for 2003, besides the regular repayments of principal and interest instalments on loans, also covers a preliminary repayment of a part of loans provided from JBIC (Two

Step Loans I to III) and EIB (Appex Global Loan II) in the amount of USD 170 million.

An increase in short-term debt is expected in the amount of USD 390 million. As at the end of 2003 we estimate the amount of total short-term foreign debt, including the short-term official debt of the Government of the SR and NBS in the amount of USD 4.627 billion.

The total foreign debt servicing for 2003 is estimated at USD 2.914 billion. The total repayments of principal should, though, reach USD 2.271 billion, of which approximately USD 1 billion will be repaid directly by the Government of the SR.

A possible repayment of foreign liabilities does not form a component of the forecast amount of the debt servicing of the Government of the SR due to the realisation

of state guarantees. These instalments are a component of an estimate of debt servicing of the business sector. The forecast total amount of interest due, including interest on short-term foreign loans, is in the amount of USD 643.4 million.

The total foreign debt servicing of the Government of the SR and NBS (in conversion USD 591.7 million) did not in 2002 have any particular impact on the level of official foreign exchange reserves of the SR.

Medium-term forecast of foreign debt and debt servicing of the SR for 2004 – 2006

The total projected amortisation of foreign debt of the SR in 2004, including the repayment of the principal of five-year treasury bonds in the amount of EUR 500 million, represents USD 1.6 billion (a fall of USD 0.7 billion against 2003), in the same amount as in 2005. The total repayment of debt (principal) is in 2006 to reach USD 1.1 billion. In the item new long-term loans a decline to USD 1.1 billion is expected in 2004, compared to 2003, where the slightly falling trend in this item is projected also in the subsequent two years.

The prediction of the development of foreign debt and foreign debt servicing was, similarly as the prediction of the balance of payments, drawn up taking account of the inflow of foreign direct investment into the Slovak economy. An important task will continue to be played by the real use of revenues from expected privatisation sales.

Conclusion

From the evaluation of the development of foreign debt and debt servicing above it results that the incre-



ase in the balance of foreign debt reported at the end of 2002 was in large part caused by exchange rate differences resulting from the movement of the cross exchange rate of the EUR vis-à-vis the USD (approx. 60%). At the end of last year a certain deterioration occurred in the case of the ratio indicator share of short-term foreign debt in the total short-term foreign debt to the level of 32.12% (the level of 30% is generally considered as an acceptable limit), however, with regard to the structure of the Slovak short-term foreign debt this excess may not be deemed dramatic. Further ratio indicators of foreign debt, such as the share of total gross foreign debt against the gross domestic product – in the amount of 49.2%, the share of total gross foreign debt in respect of exports – 81.1%, as well as the share of debt servicing to export reaching in 2002 11.4%, may be evaluated as generally positive.

From the aspect of future development various risks exist, clustering in particular in public finance, where mainly micro-economy is not always able to create sufficient resources. This fact may lead in the coming period to an increase in foreign debt. A more marked increase in the foreign debt of the SR was recorded in 2003 due to the development of the EUR/USD exchange rate.

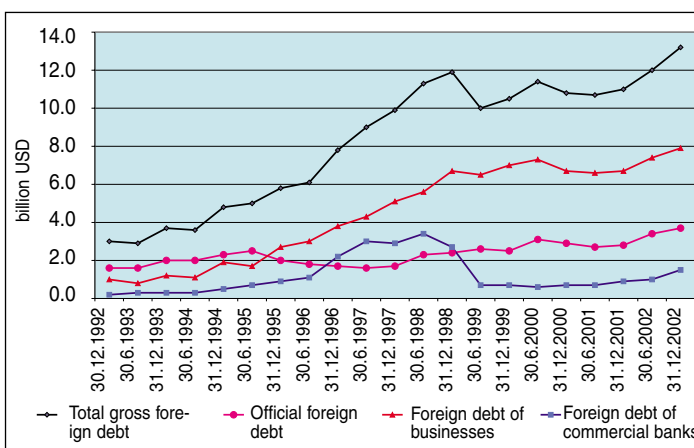
Nonetheless, as regards the payment ability of the Slovak Republic, taking account of the expected total foreign debt servicing of the state, as well as the potential re-financing of amounts owed, it may be said that all official liabilities due in respect of foreign creditors will be, as they have so far been, paid regularly and without fault.

The Slovak Republic since its founding in 1993 to 1995 has reported only a slight growth in the total gross foreign debt, which from an initial balance of USD 3.0 billion as at 1 January 1993 reached USD 5.8 billion as at the end of 1995. Compared with other Central and East European countries, the SR's foreign debt in this period was relatively low, and this not only in absolute terms, but also per capita or in terms of the level in respect of the GDP created and export.

Since 1996 a dynamic growth of foreign debt of the commercial sector has been reported, as a consequence of the dynamics in the investment processes and acceleration of domestic demand. The total foreign debt of the SR as at the end of 1998 increased on a year-on-year basis by USD 2 billion, where by the close of the year it had reached USD 11.9 billion. The increase in foreign debt in 1998 was affected to an important rate by the issuing of bonds by the Ministry of Finance of the SR in the recalculated amount of USD 1 billion.

In 1999 an important qualitative change in the reporting of foreign debt statistics occurred. The main criterion for inclusion of a liability into the category of foreign debt has since 1 January been in particular its long-term character, as well as the fact that it represents a relation between a resident and a non-resident. Since 1 January 1999 the framework of reporting foreign debt of the SR includes in its full value the reporting of koruna liabilities against non-residents-banks, treasury bonds and treasury bills in the ownership of non-residents. The second important fact that influenced the balance of the foreign debt of the SR was the NBS notification on cancelling the coefficient of open exchange rate positions for monetary purposes, in consequence of which there occurred a reduction mainly in the short-term foreign liabilities of commercial banks roughly by USD 2.2 billion. This change also caused in 1999 a substantial reduction to the total gross foreign debt to the level of USD 10.5 billion. In 1999 the Ministry of Finance of the SR issued Eurobonds in the amount of EUR 500 million.

Development of total gross foreign debt in 1993 – 2002



In 2000 a year-on-year growth of USD 0.3 billion occurred in the gross foreign debt, to USD 10.8 billion at the end of the year. The Government of the SR contributed to this growth through issuing 10-year treasury bonds in the amount of EUR 500 million, government agencies and state enterprises. The NBS through repaying 7-year bonds in the amount of JPY 10 billion and residual liabilities in respect of the IMF, in recalculation to USD 127 million, reduced as at the end of 2000 the balance of its foreign long-term liabilities to the historically lowest value of USD 324 million.

Foreign debt reported in 2001 in the amount of USD 11.0 billion was considered as appropriate and stabilised, which was proven also by ratio indicators measuring foreign debt. An overview of the development of



Gross foreign debt in 2002

(mill. USD)

	31. 3. 2002	30. 6. 2002	30. 9. 2002	31. 12. 2002*
I. Government:	2 856.8	2 907.1	2 902.7	3 305.5
Short-term debt	0.0	33.4	0.0	0.0
Money market instruments	0.0	33.4	0.0	0.0
Loans	0.0	0.0	0.0	0.0
Commercial credits	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0
Long-term debt	2 856.8	2 873.7	2 902.7	3 305.5
Bonds and bills	2 069.1	2 028.8	2 106.8	2 361.5
Loans	787.7	844.9	795.9	944.1
Commercial credits	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0
II. Central Bank (NBS):	509.3	449.7	448.8	434.7
Short-term debt	86.5	0.0	19.6	0.0
Money market instruments	0.0	0.0	0.0	0.0
Loans	86.5	0.0	19.6	0.0
Cash and deposits	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0
Long-term debt	422.8	449.7	429.2	434.7
Bonds and bills	0.0	0.0	0.0	0.0
Loans	249.2	276.1	255.6	261.1
Cash and deposits	0.0	0.0	0.0	0.0
Other liabilities	173.6	173.6	173.6	173.6
III. Banks:	793.7	962.5	825.3	1 535.2
Short-term debt	645.2	819.3	687.4	1 289.5
Money market instruments	0.0	0.0	0.0	0.0
Loans	33.0	35.2	53.4	60.6
Cash and deposits	577.5	667.8	540.0	901.1
Other liabilities	34.8	116.2	94.0	327.8
Long-term debt	148.5	143.2	137.9	245.7
Bonds and bills	1.1	3.5	6.0	1.2
Loans	44.0	47.0	47.3	75.7
Cash and deposits	44.5	52.0	52.0	64.4
Other liabilities	58.9	40.8	32.5	104.4
IV. Other sectors:	5 593.5	6 167.8	6 100.4	6 050.1
Short-term debt	1 619.3	1 856.4	1 925.7	2 183.5
Money market instruments	8.9	1.6	1.9	5.0
Loans	166.3	198.9	206.1	241.0
Cash and deposits	0.0	0.0	0.0	0.0
Obchodné úvery	1 444.1	1 655.9	1 717.7	1 937.4
Other liabilities	0.0	0.0	0.0	0.0
Long-term debt	3 974.2	4 311.4	4 174.7	3 866.7
Bonds and bills	222.9	398.9	408.1	422.3
Loans	3 678.5	3 834.9	3 678.5	3 351.6
Cash and deposits	0.0	0.0	0.0	0.0
Commercial credits	72.8	77.6	88.1	92.7
Other liabilities	0.0	0.0	0.0	0.0
V. Direct investment: inter-business loans	1 466.7	1 545.0	1 603.9	1 862.7
Liabilities in respect of businesses of direct investment abroad	1.1	1.6	1.4	1.5
Liabilities in respect of direct foreign investors	1 465.6	1 543.4	1 602.5	1 861.2
GROSS FOREIGN DEBT	11 220.0	12 032.1	11 881.1	13 188.2

*forecast data



gross foreign debt of the SR in 1993 – 2002 is shown in the graph below.

In the period of 1993 – 2002 the equivalent of USD 4.5 billion was settled through the NBS in the framework of meeting foreign debt servicing of the state.

The individual structured data on foreign debt of the SR have been since 2002 published also on website of the NBS: <http://www.nbs.sk>. This data is in accordance with the requirement of the International

Monetary Fund in the framework of the project of the SDDS – Special Data Dissemination Standard. The total gross foreign debt of the SR is divided into the government sector, monetary institution sector (NBS), banking sector, and other sectors and in direct investment, which include business and inter-business loans (liabilities in respect of direct investments abroad and liabilities in respect of direct foreign investors).