The development of the balance of payments in the 1st quarter of 2009

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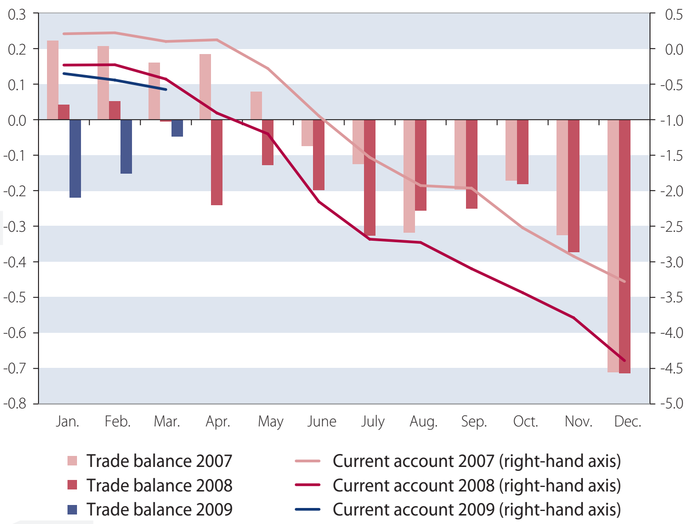
Chart 1 Development of the trade balance and current account in 2007 to 2009 (cumulative numbers)



Source: NBS and Statistical Office of the Slovak Republic.

Table 1 Current account of the balance of payments (mil. EUR)

	January – March	
	2009	2008
Balance of trade	-46.7	-5.6
Exports	9,125.4	12,730.3
Imports	9,172.1	12,735.9
Balance of services	-396.2	-92.9
Balance of income	-78.6	-116.2
of which: Income from investment	-344.6	-411.6
of which: Reinvested profit	-304.5	-139.4
Current transfers	-54.9	-215.8
Current account in total	-576.4	-430.5
Share of current account balance to GDP in %	-3.9	-2.8
Share of current account balance (excluding dividends and reinvested profit) to GDP in %	-1.5	-1.2

Source: NSB and Statistical Office of the Slovak Republic.

Development of the balance of payments on current account

The balance of payments on current account for January to March 2009 deteriorated on a year-on-year basis by €145.9 million, and resulted in a deficit of €576.4 million.

The year-on-year increase in the deficit was mainly supported by the worsening balance of services and, to a lesser extent, by a worsening trade balance. On the other hand, the overall increase in the negative current account balance was moderated by smaller deficits in the current transfers balance and, in part also, income balance. The financial and economic crisis affected negatively the development of individual items of the balance of payments on current account, but, on the imports side, its impact on the balance was eliminated in part by the existing import intensity, lower investment imports, as well as a decrease in inventories in the economy.

Compared with the first quarter of 2008, exports fell by 28.3% over the first three months of 2009 and imports contracted by 28.0%. The higher year-on-year export and import dynamics at the beginning of the year was entailed by the economic and gas crisis, due to which the highest decrease was recorded in January and February, while the year-on-year decrease moderated in part in Mach.

The development of exports and subsequently also imports was negatively affected by foreign demand, which declined as a result of the financial and economic crisis.

Export development

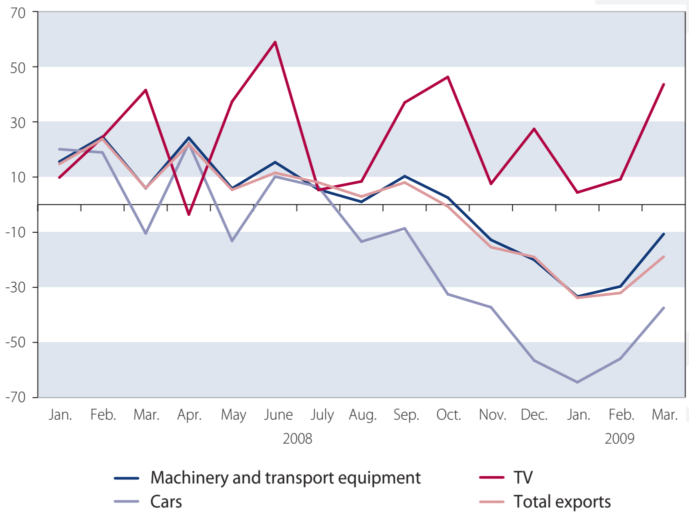
In the first quarter of 2009, the sharpest decline in comparison with the same period of the previous year occurred in exports of machinery and transport equipment. The year-on-year decline in exports was almost two times as high as the increase of the previous year and it constituted almost 50% of the total decline in exports. The year-on-year decline in exports in the machinery and transport equipment category was mainly caused by a year-on-year decrease in exports in the transport equipment sub-category due to lower passenger car exports. The lower exports of transport equipment were the result of lower demand for passenger cars; the percentage of the lower exports of this good category was almost 88% of the total decrease in exports of the machinery and transport equipment category. Lower exports were also recorded in the machinery sub-category, where there was a year-on-year decrease in exports particularly of washing machines, pumps, shafts and bearings. The decline in exports in the machinery sub-category was slowed down considerably by a year-on-year (18.4%) increase in TV set exports.

In addition to machines and transport vehicles, chemical products and semi-finished goods also recorded a marked decrease in export volumes. The lower exports were caused both by a year-on-year decrease in the exports of semi-finished goods (iron and steel and objects made of iron and steel and, to a lesser extent, also aluminum, copper and products made of aluminum and copper) and by lower exports of chemical products, which could be influenced by falling prices of oil products (especially caoutchouc and products made of caoutchouc). A year-on-year decline in exports was also recorded in the finished products category, where exports of footwear were the main item to decrease. Lower raw material exports were due to lower exports of processed oil products, associated mainly with price developments.

Chart 2 Year-on-year dynamics of exports and imports

Source: NBS and Statistical Office of the Slovak Republic.

Chart 3 Year-on-year dynamics of exports



Source: NBS and Statistical Office of the Slovak Republic.

Import development

Similarly to the exports, the sharpest year-on-year decline in imports was recorded in the machinery and transport equipment category. The decrease in imports of this goods category was almost 45% of the total decrease in imports. The lower imports were connected with the pronounced decline in exports; this was reflected mostly in the imports of components for the automotive industry in the transport equipment sub-category. In the machinery sub-category, imports of components for the electrical industry, especially liquid crystal products, recorded the most marked decline. The year-on-year decrease in imports in this good category accompanied by simultaneous increase in TV set exports is the result of a lower import intensity of electrical industry by means of TV display production carried out in Slovakia.

A considerable year-on-year reduction in imports was also achieved in the chemical products and semi-finished goods category, which significantly contributed to the year-on-year fall in total imports. The lower imports of semi-finished goods were concentrated in the decrease of the imports of iron and steel and products made of iron and steel. In the chemical products category, the lower imports were reflected most in the imports of plastics and caoutchouc. The decrease in raw material imports was, similarly to the case of the exports, markedly affected by the world-market oil price, which led to a decline in crude oil imports. A decrease in the imports of natural gas and processed mineral oils was also recorded. The lowest year-on-year decrease in imports was recorded in the finished products category, where the most significant fall occurred mainly in car imports.

The balance of services showed a deficit of €396.2 million in January to March 2009, which represented a deterioration by €303.3 million compared to the same period of 2008. The year-on-year increase in the negative balance of services was mainly due to smaller receipts in all three main service sub-categories. The higher deficit in the services balance was mainly the result of lower receipts from services provided. The main reasons for a higher deficit of the balance of "other services total" was a decrease in receipts for services provided in computer and information services and services in other activities (above all intermediation services). The year-on-year deterioration in the balance of travel services was also due to a more marked decrease in the receipts for travel services provided during the first three months of the year. As regards transport services, the year-on-year reduction of surplus was mainly due to lower receipts from gas and oil transit (a decrease by €92.5 million), which were in part due to the gas transit outage in January (resulting from the gas crisis).

The year-on-year improvement in the income balance by €38.8 million in the first quarter of 2009 was caused by a decrease in the negative balance of investment income, which exceeded

Table 2 Exports in January to March, year-on-year changes

	Year-on-year change in millions of EUR		Contribution to the year-on-year change in % points	
	2009	2008	2009	2008
Raw materials	-283.5	184.7	-2.2	1.7
Chemical products and semi-finished goods	-1,338.7	290.3	-10.5	2.6
Machinery and transport equipment	-1,741.5	920.0	-13.7	8.3
Finished products	-241.2	216.4	-1.9	1.9
Exports in total	-3,604.9	1,611.3	-28.3	14.5

Source: NBS calculations based on data of the Statistical Office of the Slovak Republic.

Table 3 Imports in January to March, year-on-year changes

	Year-on-year change in millions of EUR		Contribution to the year-on-year change in % points	
	2009	2008	2009	2008
Raw materials	-681.0	695.2	-5.3	6.3
Chemical products and semi-finished goods	-1,111.8	241.9	-8.7	2.2
Machinery and transport equipment	-1,596.2	507.5	-12.5	4.6
Finished products	-174.8	332.0	-1.4	3.0
of which: agricultural and industrial products	-36.5	237.9	-0.3	2.2
passenger cars	-126.4	79.1	-1.0	0.7
machines and electrical consumer goods	-11.8	15.0	-0.1	0.1
Imports in total	-3,563.7	1,776.6	-28.0	16.2

Source: NBS calculations based on data of the Statistical Office of the Slovak Republic.

the decrease in the employee compensation surplus. The decrease in the balance of compensation of employees was connected with the impact of the economic crisis, which negatively affected employment. The lower deficit of investment was the result of lower payments of interest on portfolio investment and other short-term interest as a result of decreasing interest rates.

The year-on-year decrease in the current transfers deficit by €160.9 million was mainly caused by positive developments in the balance of government transfers, resulting from an increase in receipts from the EU budget.

THE DEVELOPMENT OF THE CAPITAL AND FINANCIAL ACCOUNT

Over the first three months of 2009, the balance of payments on capital and financial account resulted in a surplus of €866.1 million (compared to a surplus of €673.8 million in the same period of 2008). The year-on-year decrease in inflows within the balance of portfolio investments, caused by a fall in demand for government bonds among non-residents, was exceeded by a year-on-year increase in inflows in other financial and capital account items.

The balance of foreign direct investment (FDI) recorded an inflow of €175.8 million, which represents a year-on-year change by €371.6 million compared with the same period of 2008. The year-on-year change in the balance of direct investment was particularly due to a higher inflow in the form of other capital and, to a lesser extent, also by a higher estimate of reinvested profit, which was invested by foreign investors in the economy, and a higher inflow in the form of increases in equity capital. The total inflow within assets was moderated by a higher interest of residents in investment abroad in the form of FDI (inflow in the form of equity capital and other capital).

The net outflow of funds in portfolio investment was €648.8 million, while in the first quarter of the previous year, there was a net inflow of €657.2 million The lower year-on-year net inflow was mainly the result of a decrease in the demand for government securities on the part of non-residents. On the assets side, the total outflow was only partially compensated for by sales of foreign securities from the NBS investment portfolio.

The item other investment recorded an inflow of €1,086.2 million between January and

Table 4 Balance of payments capital and financial account (EUR millions)

	January to March	
	2009	2008
Capital account	253.0	139.4
Direct investment	175.8	-195.9
SR abroad	-216.7	-49.8
of which: equity capital abroad	-194.6	-26.6
reinvested capital	20.4	-10.0
in the SR	392.5	-146.1
of which: equity capital in the SR	65.3	46.5
of which: other than privatization	65.3	46.5
reinvested profit	284.1	149.4
Portfolio investment and financial derivatives	-648.8	657.2
SR abroad	1,209.8	175.9
in the SR	-1,858.6	481.3
Other long-term investments	-31.6	232.4
Assets	-34.3	-6.6
Liabilities	2.7	239.0
Other short-term investments	1,117.7	-159.3
Assets	-3,122.1	391.7
Liabilities	4,239.8	-551.0
Capital and financial account	866.1	673.8

Source: NBS.

Table 5 External debt of Slovakia

	In millions of USD		In millions of EUR	
	31.12.2008	31.3.2009	31.12.2008	31.3.2009
Total external debt of the SR	52,526.5	53,262.7	37,286.0	40,023.1
Long-term external debt	25,414.7	22,038.7	18,040.6	16,560.5
Government and the NBS[1)]	10,313.3	7,368.9	7,320.9	5,537.2
Commercial banks	3,334.6	3,182.2	2,367.0	2,391.2
Entrepreneurial entities	11,766.8	11,487.6	8,352.7	8,632.1
Short-term external debt	27,111.8	31,224.0	19,245.4	23,462.6
Government and the NBS	0.0	16,798.0	0.0	12,622.5
Commercial banks	15,321.6	3,096.2	10,876.1	2,326.6
Entrepreneurial entities	11,790.2	11,329.8	8,369.3	8,513.5
Foreign assets	40,007.8	38,284.5	28,399.6	28,768.0
Net external debt	12,518.7	14,978.2	8,886.4	11,255.1
SKK/USD and SKK/EUR rates	21.385	–	30.126	–
EUR/USD cross exchange rate	–	1.3308	–	–

Source: NBS.
1) Including government agencies and municipalities.

March 2009, while an inflow of €73.1 million was recorded in the same period of the previous year. the year-on-year increase by €1,013.1 million resulted mainly from the development in the government and NBS sector, where the inflow exceeded the outflow recorded in the banking sector. The inflow in the government sector resulted from policies of the central bank following the accession to the euro area, as the central bank did not use its original foreign exchange reserves to fulfill its obligations to the banking sector, but borrowed those funds from the Eurosystem by means of TARGET2. In the banking sector, the outflow was reflected mainly in a year-on-year decrease of short-term deposits of non-residents in the accounts of Slovak banks, which was associated with the euro adoption (euro accounts are of no use anymore) and was in part also associated with the financial crisis.

The foreign exchange reserves of the NBS decreased by €537.5 million (excluding exchange rate differences) in the first quarter of 2009.

External debt of Slovakia on 31 March 2009

The total external debt at the end of March 2009 increased by 0.7 billion USD to €53.3 million as compared to the beginning of 2009 when it amounted to €40.0 million The total long-term external debt at the end of March 2009 decreased by USD 3.4 billion, with the total short-term external debt having increased by USD 4.1 billion

Foreign liabilities of the government of Slovakia and NBS decreased by USD 2.9 billion due to a lower demand for the purchase of government bonds. The long-term external debt of the commercial sector fell by a total of USD 0.5 million over the period under review; the external debt of commercial banks decreased by USD 0.2 billion and foreign liabilities of businesses decreased by USD 0.3 billion

A contradictory development was recorded within short-term external debt: Short-term liabilities of the government of Slovakia and NBS increased by USD 16.8 billion due to a negative balance in the NBS-ECB-TARGET2 account, while short-term liabilities of commercial banks decreased by USD 12.2 billion (the USD 10.2 billion decrease related to the item cash and deposits, while the USD 2.0 billion decrease related to the borrowing item) and short-term external debt of entrepreneurial entities by USD 0.5 billion, of which the decrease by 0.4 billion related to trade credits.

The total gross external debt per capita in Slovakia was USD 9,901 at the end of March. The ratio of total short-term external debt to total gross external debt of Slovakia recorded a year-on-year increase by 7.0 percentage points as at the last day of March 2009 and reached a level of 58.6%.

The net external debt was at a debtor position of USD 15.0 billion at the end of March 2009 and it increased by USD 2.5 billion compared with the 2009 base.