



NATIONAL BANK OF SLOVAKIA

**MONETARY SURVEY**  
**AUGUST 1993**

## I. REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators		1992	1993			
			1st Qtr	1st Half	July	August
GDP (at constant prices)	Value (Sk <sup>2/</sup> billions)	177.9	44.4	93.1		
	Growth rate (%) <sup>1/</sup>	-7.0	-6.5	-6.2		
Output <sup>1/</sup>	Industrial production (%)	-13.7	-16.6 <sup>3/</sup>	-15.2	-17.2	-9.8
	Construction (%)	6.4	-21.1	-21.8	-23.6	-23.9
Unemployment	Number (thous.of persons)	260.3	306.1	318.1	339.4	344.8
	Unemployment rate (%)	10.4	12.0	12.5	13.3	13.5
Foreign Trade	Exports (Sk billions)	102.4	33.2	76.1	13.9	13.2
	Imports (Sk billions)	100.7	33.1	75.6	12.3	10.9
	Balance (Sk billions)	1.7	0.1	0.5	1.6	2.3

<sup>1/</sup> Change compared with the corresponding period in 1992

<sup>2/</sup> Sk - abbreviation of the Slovak crown

<sup>3/</sup> Data revised by the Slovak Bureau of Statistics

In comparison with August 1992, **consumer prices** increased by a total of 26%. The most rapid price increases were recorded in the public catering (37%) and services (29.5%). Food and non-food commodity prices grew at the same rate, i.e. by 23.9%.

Consumer prices experienced a 2.4% increase compared with last month's level. Food prices rose by 3.0%, the prices of non-food products and public catering grew by 2.6%, and the price level in services by 1.0%.

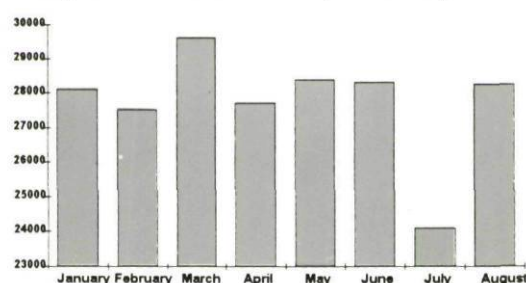
The price increases were mostly due to the devaluation of the Slovak crown in July, the increase in the VAT and consumer tax rates, and the rise in agricultural prices.

Although **industrial production** (Sk 28.3 billion) recorded an increase of Sk 4.1 billion compared with the previous month, it was 9.8% below last year's level (by Sk 3.1 billion). The downward trend in industrial development is due primarily to the decline in labour productivity, the stagnation of consumer demand, and the growth of unemployment.

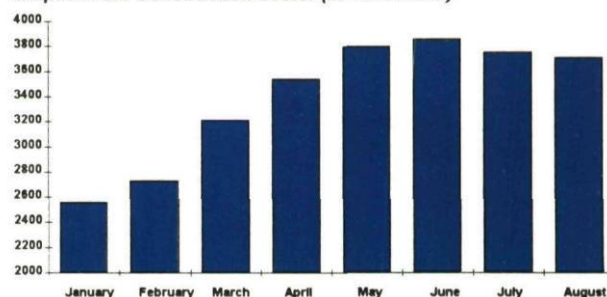
However, the 4.3% increase in the private sector's share in total industrial production and the 1.4% growth of industrial exports represented some positive developments within the sector.

Developments in **construction** were influenced by the current recession in the building industry, i.e. the continuing insolvency of companies, the decline in employment and labour productivity within the whole sector. The volume of construction work (Sk 3.7 billion) fell by 23.9 % compared with the same period last year.

Development of Industrial Production (in Sk millions)



Output of the Construction Sector (in Sk millions)



The decline in the output of the construction sector was reflected in the 23.2% decrease in the export of production capacities and, particularly, in the more than 1/3 drop in domestic construction orders (for construction companies with 25 and more employees).

In **agriculture**, the production of the livestock sector continued to decline. Cattle stock numbers fell by 2.7% compared with the previous month, causing a 12.9% drop in sales.

The continuing decline in animal production and the crop failure in plant production (due to extreme weather conditions) have unfavourably influenced the economy of agricultural companies this year.

At the end of August 1993, there were 344,767 registered unemployed in the SR, representing an unemployment rate of 13.5%. In comparison with August 1992, the number of job seekers grew by 71,451, and the rate of unemployment increased by 2.63%. At the end of August 1993, there were 9,406 unfilled vacancies in the SR, i.e. one vacancy for 37 applicants.



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## II. EXTERNAL ECONOMY

Indicators		1992	1993			
			1st Qtr	1st Half	July	August
Current Account <sup>1/</sup>	Balance in convertible currencies (Sk billions) <sup>5/</sup>		-09	-1.1	-1.1	
Foreign Exchange Reserves <sup>2/</sup> (US\$ billions)	Banking system <sup>5/</sup>		0.7	09	<b>1.0</b>	1.1
	Commercial banks		0.5	0.6	0.7	0.7
	NBS <sup>3/</sup>		0.2	0.3	0.3	0.4
Gross Foreign Debt <sup>2/</sup>	(US\$ billions)	2.3	2.4	2.3		
Average Exchange Rates <sup>4/</sup>	SKK/USD	28.29	29.096	29.002	32.092	32.921
	SKK/DEM	18.12	17.794	17.838	18.721	19.368

<sup>1/</sup> Cumulative values

<sup>2/</sup> At the end of period

<sup>3/</sup> Including gold at a book value of 42.22 US\$/oz

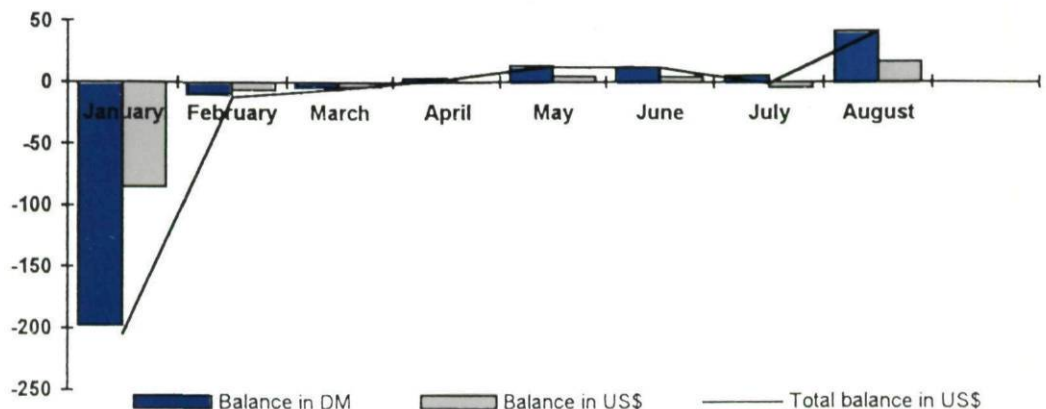
<sup>4/</sup> Exchange rate midpoint

<sup>5/</sup> Figures revised because of methodical changes

In comparison with the previous month, the total foreign exchange reserves of the NBS increased by US\$ 48.6 million in August, reaching a level of US\$ 393.3 million at the end of the month.

This growth was mostly the result of the positive balance of sales and purchases in the foreign exchange fixing in the amount of US\$ 42 million and the drawing a lot of IMF loan in the amount of US\$ 16 million on August 2, 1993.

**Balance of the Sales and Purchases in the Foreign Exchange Fixing (in US\$ millions)**



Average change rates between January 1 and August 31, 1993. Sk 29.879/US\$, Sk 18.147/DM

### III. MONETARY DEVELOPMENTS



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Indicators	1992	1993			
		1st Qtr	1st Half	July	August
Inflation Rate					
Monthly (%) <sup>1/</sup>				1.1	24
Yearly (%) <sup>2/</sup>	10.0 <sup>4/</sup>	11.7	14.2	15.5	183
Money Supply M2 <sup>3/</sup> (%) <sup>2/</sup>		-3.3 <sup>5/</sup>	0.6 <sup>5/</sup>	3.8 <sup>5/</sup>	3.7
Credits from Commercial Banks (%) <sup>2/</sup>		2.0	6.8	8.5	9.2
Deposits in Commercial Banks (%) <sup>2/</sup>		1.6 <sup>5/</sup>	3.0 <sup>5/</sup>	4.8	4.6
Discount Rate (%)	9.5	9.5	9.5	9.5	9.5
Lombard Rate (%)	14.0	14.0	14.0	14.0	14.0
Average Interbank Deposit Interest Rates (%) <sup>5/</sup>					
7-day deposits		14.14	16.44	18.08	18.19
14-day deposits		14.64	16.88	18.46	18.31
1-month deposits		15.35	17.44	18.82	18.57

<sup>1/</sup> End of period

<sup>2/</sup> January 1, 1993 = 100 (change)

<sup>3/</sup> M2 = Currency, demand deposits, time and savings deposits, foreign currency deposits

<sup>4/</sup> December 1991 = 100 (change)

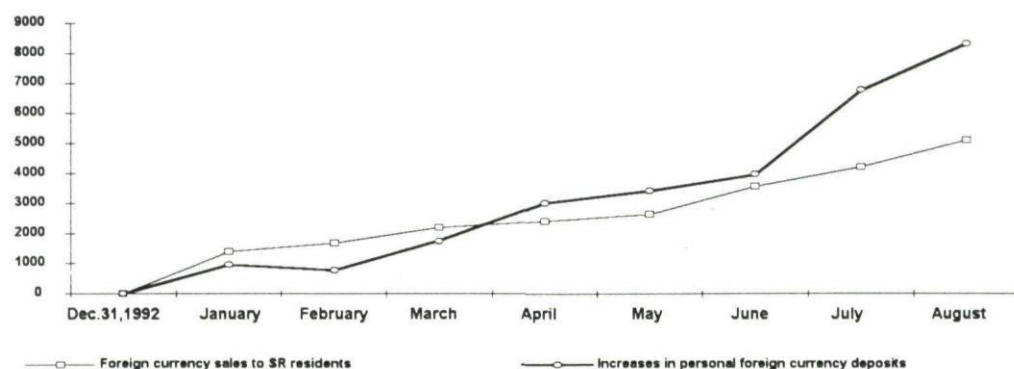
<sup>5/</sup> Revised (definite) data

At the end of August, the money supply (M2) of the Slovak economy amounted to Sk 222.4 billion, representing a decrease of Sk 0.2 billion compared with previous month.

The monetary aggregate M1 (currency) fell by Sk 1.0 billion, while quasi-money increased by Sk 0.9 billion.

Within the framework of M1, demand deposits fell by Sk 1.7 billion, while the amount of currency in circulation increased by Sk 0.6 billion. By the end of August, the volume of currency reached Sk 25.9 billion, excluding the cash held by the commercial banks and the NBS. The increase in quasi-money was a result of the Sk 1.3 billion growth of foreign currency deposits, which was offset by a drop in time deposits in crowns.

**Foreign Currency Sales to Inhabitants and Increase in Personal Foreign Currency Deposits (in Sk millions)**



Crown loans granted to the enterprise and household sectors have recorded a moderate monthly increase of Sk 0.7 billion (0.3%) and a total growth of Sk 13.7 billion (5.8%) since the beginning of the year. The total volume of these loans reached Sk 249.7 billion by August 31, 1993.

The development of loans extended to enterprises was marked by greater frequency in the private sector, in which small businessmen and tradesmen enjoyed the most significant loan support. Loans granted to state companies and organizations recorded a slight decline.

Based upon the foreign exchange holdings of banks, foreign currency loans continued to grow and totalled Sk 1 billion in August. The total amount of loans in both domestic and foreign currencies reached Sk 258.4 billion by the end of the month.

In August, the primary crown deposits of non-bank authorities in financial institutions amounted to Sk 186.3 billion, representing a drop of Sk 2.0 billion in comparison with the July figure.

The monthly fall in deposits included declines in the public and household sectors amounting to Sk 2.9 billion (2.1%), which was partly offset by an increase in private sector deposits. Foreign currency deposits continued to grow. The volume of these deposits increased by Sk 1.4 billion (6.3%) compared with the previous month. Deposits (in both crowns and foreign currencies) totalled Sk 210.6 billion at the end of August.



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The NBS monetary policy for the third quarter of 1993 enabled the commercial banks and the NBS to grant loans up to the amount of Sk 260.6 billion. By the end of August, 99.2% of this credit line had been utilized. In comparison with their initial amounts, foreign currency loans grew more rapidly (index 395.5%) than crown loans (index 106.2%).

The NBS continued to apply restrictive measures in providing refinance loans. At the end of August 1993, the total amount of refinance loans (Sk 7.6 billion) consisted of lombard loans (Sk 1.8 billion, i.e. 23.7%) and rediscount loans (Sk 5.8 billion, i.e. 76.3%). Transactions in bills of exchange for export promotion accounted for 41.4% (Sk 2.4 billion).

Of the total amount of treasury bill issues worth Sk 9.0 billion, commercial banks purchased treasury bills in the amount of Sk 1.7 billion.

#### IV. GOVERNMENT SECTOR

Indicators	1992	1993			
		1st Qtr	1st Half	July	August
Budget Revenues <sup>1/</sup> (Sk billions)	115.9	23.0	64.4	79.2	90.7
Budget Expenditures <sup>1/</sup> (Sk billions)	123.8	34.0	79.2	93.3	105.1
State Budget Balance (Sk billions)	-7.9	<b>-11.0</b>	-14.8	-14.1	-14.4
Net Position of the Government vis-a-vis the Banking System <sup>2/</sup> (Sk billions)	42.9	51.0	55.1	47.2	47.5

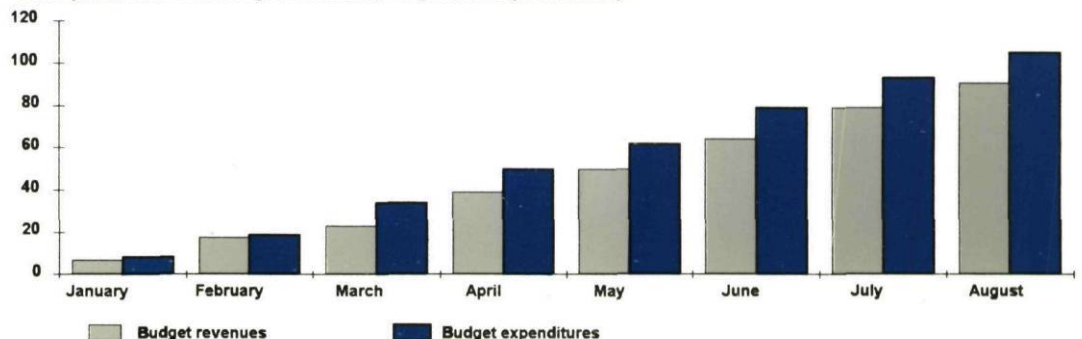
<sup>1/</sup> Cumulative values, <sup>2/</sup> Without foreign loans

During the last three months, the state budget deficit has stabilized at Sk 14 billion. The deficit amounting to Sk 14.4 billion on August 31, 1993 was caused by the low level of budget revenues (Sk -14.7 billion), though expenditures were Sk 0.3 billion lower than expected in the 1993 budget due to restrictive measures.

Contributions to the social security fund (health insurance fund, old-age pension fund, and unemployment fund) fell from Sk 9.2 billion on July 31, 1993 to Sk 10.2 billion on August 31, 1993. In the sphere of tax collections, VAT revenues increased, while consumer tax receipts (from beer, wine, spirits, tobacco products, fuel, and lubricants) were still below their budgeted level. Income tax collections from legal entities showed a Sk 2 billion deficit.

Budget expenditures were affected by restrictive measures adopted by the SR Government on transfers to the private sector (Sk -2.9 billion) and to households (Sk -1.0 billion).

Development of the State Budget Revenues and Expenditures (in Sk billions)



The net position of the SR Government vis-a-vis the banking system (excluding bank guarantees for foreign loans from state financial assets) amounted to Sk 47.5 billion, of which Sk 40.6 billion belonged to the NBS. The slight increase, i.e. by Sk 0.3 billion, in the SR Government's foreign debt compared with the previous month's figure was caused by a growth of the current budget deficit and a decline in the deposits of municipal and local bodies with commercial banks.

## **V. INFORMATION**



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The issuance of the new Slovak banknotes was completed on November 15, 1993, when the Sk 500 notes were put into circulation. The new series of Slovak banknotes were printed by two of the world's leading printing houses of notes and securities. One of them is the Canadian printing house British-American Banknote, which printed the Sk 20 and Sk 50 notes. The Sk 100, Sk 500, and the Sk 1,000 notes were printed by the Malta-based subsidiary of the British company Thomas De La Rue and Comp. Ltd.

NBS Vice-Governor Marian Jusko formally opened the Banska Bystrica branch office of the NBS. The National Bank of Slovakia now has three branches (in Bratislava, Banska Bystrica, and Košice) and 12 sub-branches in Slovakia.

The results of the Slovak Government's economic policy has been evaluated by a mission of the International Monetary Fund to Slovakia. The results of the policy were analyzed by working groups of IMF experts at the Ministry of Finance, the Bureau of Statistics, and the National Bank of Slovakia. Negotiations were held to evaluate the budget performance of the Slovak Republic and the monetary policy of the NBS. According to the mission's preliminary report, the development of the balance of payments had been favourable and inflation had been kept under control despite the effects of currency devaluation.

So far 17 commercial banks have obtained a licence from the NBS for rendering banking services in Slovakia. Sixteen of them are already operating. They submit regular reports on their activities to the Department of Banking Statistics of the NBS. At the end of September, the total subscribed capital of commercial banks amounted to Sk 11.4 billion.

In the first half of 1993, the NBS granted 41 Slovak entrepreneurs permission for property participation abroad. The total amount of Slovak capital (predominantly in the form of a material contribution) reached Sk 159.3 million.

The first bond issue of the NBS in the international capital markets was organized by Nomura International PLC. On the basis of a mutual agreement, Nomura International has been nominated as the official financial adviser to the NBS on obtaining financial resources in the international capital markets by making bond issues. Nomura Research Institute has analyzed the general economic situation of the Slovak Republic and has drawn up a strategy for obtaining resources for the Slovak bank of issue - the NBS.

The Slovak-American Enterprise Fund has approved 31 projects in the total value of US\$ 19 million. Being a subsidiary of the American-based holding company with its headquarters in Washington D.C., the Fund mainly provides loans with five-year maturities in combination with property participation.

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