



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

SEPTEMBER 1993

I. REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

<i>Indicators</i>		1992	1993				
			1st Qtr	1st Half	July	Aug.	Sept.
GDP	Value (Sk ² billions)	177.9	41.6	84.9			
	(at constant prices) Growth rate (%) ^{1/}	-7.0	-5.5	-5.3			
Output ^{1/}	Industrial production (%)	-13.7	-16.6	-15.2	-17.2	-9.8	-13.8
	Construction (%)	6.4	-21.1	-21.8	-23.6	-23.9	-23.2
Unemployment	Number (thous. of persons)	260.3	306.1	318.1	339.4	344.8	350.0
	Unemployment rate (%)	10.4	12.0	12.5	13.3	13.5	13.7
Foreign Trade	Exports (Sk billions)	102.4	33.2	76.1	13.9	13.2	14.6
	Imports (Sk billions)	100.7	33.1	75.6	12.3	10.9	13.9
	Balance (Sk billions)	1.7	0.1	0.5	1.6	2.3	0.7

^{1/} Change compared with the corresponding period in 1992

^{2/} Sk - abbreviation of the Slovak crown

In September, the accelerated increase in inflation, which had started two months ago, continued. Compared with August, the rate of inflation increased by 2.4%, bringing the index of the growth since the beginning of the year to 121.2%.

Further increase in the rate of inflation can be attributed mostly to the 4.9% increase in food prices and to the 1.9% rise in the prices of public catering. A rapid increase in food prices has been recorded since the beginning of July, while the increase in the prices of industrial goods and services has slowed down.

In September, the main factors affecting the development of prices were as follows: the deteriorating situation in agricultural production, a higher VAT rate, and a rise in producers' prices.

In September 1993, the total volume of **industrial production** amounted to Sk 29.7 billion, representing an increase of Sk 1.4 billion compared with the previous month; however, when compared with the corresponding period of last year, a decline of 13.8% (Sk 4.7 billion) is evident.

Parallel with the tendencies in the output of industrial production, the derived indicators portended the following development, when compared with those of September 1992:

- average daily production dropped by 13.8%, i.e. by Sk 216 thousand;
- labour productivity per 1 employee dropped by 7.6%, i.e. by Sk 4,240;
- volume of sales dropped by 14.0%, i.e. by Sk 5,050 thousand.

The share of the private sector in the overall volume of industrial production reported a positive development (an increase of 4%), as this form of ownership increased the volume of production (by 5.6%).

The volume of **construction work** reached Sk 3.9 billion and was 3.5% (Sk 175 million) higher than in August 1993. Compared with September 1992, however, the output of the construction sector recorded a significant drop of 3.2%, causing an annual deficit of Sk 1.2 billion.

Compared with the corresponding period of the previous year, the declining tendency of the principal indicator of the construction industry was also followed by a drop in other ratios:

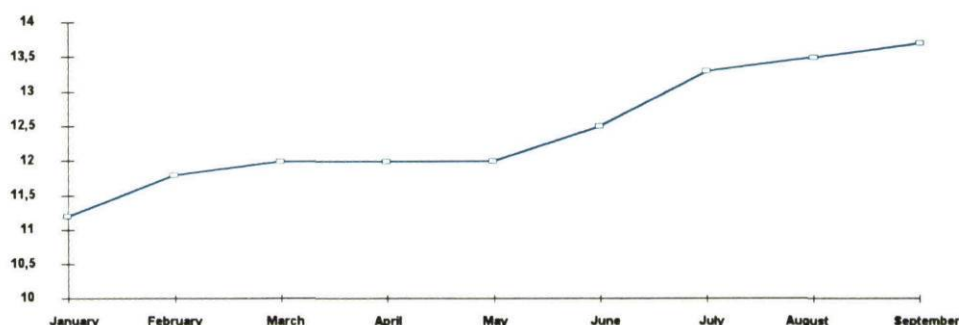
- average daily production dropped by 23.2% (by Sk 53 million);
- domestic construction orders dropped by 37.6%, construction work abroad dropped by 16.3%;
- labour productivity dropped by 25.2%, i.e. by Sk 8.431.

At the end of September, the number of registered *unemployed* reached 350 thousand, which represented an increase of 5 thousand more people compared with the previous month's figures. Compared with September 1992, the number of unemployed increased by 83.881.

The development of the number of job applicants resulted in a 13.7% rate of unemployment, which was 0.2% more than in the previous month, and 3.1% more than in the corresponding period last year.

If compared with the previous month, the number of vacancies increased by 122; however, because of the movements in the number of unemployed, the number of applicants per 1 vacancy remained unchanged (37).

Rate of Unemployment (in %)



II. EXTERNAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators	1992	1993					
		1st Qtr	1st Half	July	Aug.	Sept	
Current Account ^{1/}	Balance in convertible currencies (Sk billions)	-0.9	-1.1	-1.1		-2.5*/	
Foreign Exchange Reserves ^{2/} (US\$ billions)	Banking system	0.7	0.9	1.0	1.1	1.3	
	Commercial banks	0.5	0.6	0.7	0.7	0.7	
	NBS ^{3/}	0.2	0.3	0.3	0.3	0.6	
Gross Foreign Debt ^{2/} (US\$ billions)	2.3	2.4	2.3			3.0	
Average Exchange Rates ^{4/}	SKK/USD	28.29	29.096	29.002	32.092	32.921	32.147
	SKK/DEM	18.12	17.794	17.838	18.721	19.368	19.782

^{1/} Cumulative values
^{2/} At the end of period
^{3/} Including gold at a book value of 42.22 US\$/oz
^{4/} Exchange rate midpoint
 */ Preliminary data

By September 30, 1993, the balance of payments in **convertible currencies** reached a surplus of Sk 5.3 billion.

The deficit on current account (Sk 2.5 billion) can be attributed to the surplus of the services balance (Sk 12.5 billion) and to unrequited transfers (Sk 0.8 billion) on the one hand, and to the trade balance deficit (Sk 14.2 billion) and the income balance deficit (Sk 1.6 billion) on the other.

During the period of 9 months, the capital account reached a surplus of Sk 8.6 billion, which is a result of the surplus on long-term capital account (Sk 23.0 billion) and the deficit on short-term capital account (Sk 14.4 billion).

On September 30, 1993, the total of the current and capital accounts for **non-convertible currencies** showed a surplus of Sk 281 million.

The balance of the current account (Sk -32 million) is mostly attributable to the trade balance deficit (Sk 104 million). The capital account balance (Sk 313 million) reflects the inflow of short-term capital (Sk 266 million) as well as long-term capital (Sk 47 million).

On September 30, 1993, Slovakia's balance of payments with the Czech Republic showed a deficit of Sk 14 million in the clearing account, which mostly reflects the difference between aggregate payments and receipts.

The surplus on current account (Sk 4.2 billion) was positively influenced by the trade balance surplus amounting to Sk 1.8 billion (incorporating only the movement of goods across the border), the services balance surplus (Sk 1.5 billion), and unrequited transfers (Sk 0.9 billion).

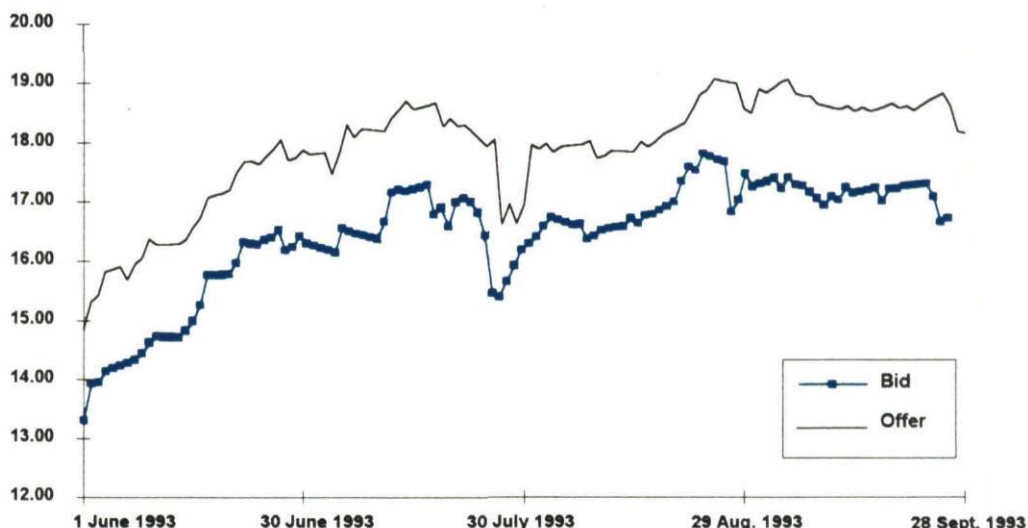
Vis-a-vis the Czech Republic, Slovakia reported a deficit of Sk 1.6 billion on capital account. The volume of the deficit is mostly attributable to the outflow of both long-term capital (Sk 861 million) and short-term capital (Sk 759 million).

By September 30, 1993, the Slovak Republic's **overall consolidated balance** reached a surplus of Sk 5.3 billion, which is due primarily to the favourable balance of both the current account (Sk 1.7 billion) and the capital account (Sk 7.3 billion), and the negative volume of errors and omissions in the amount of Sk 3.7 billion.

The current account of the consolidated balance (Sk 1.7 billion) was favourably influenced by the balance of services (Sk 14.1 billion) and unrequited transfers (Sk 1.7 billion). The total volume of surpluses in these categories was, however, compensated by the trade deficit of Sk 12.5 billion and the income deficit of Sk 1.6 billion.

The capital account of the consolidated balance is mostly a result of the surplus on long-term capital account (Sk 22.2 billion) and the deficit on short-term capital account (Sk 14.9 billion).

Interbank Deposit Interest Rates in the SR (in %, p.a.)



In comparison with the previous month, the total **foreign exchange reserves** of the National Bank of Slovakia increased by US\$ 181.8 million, reaching a level of US\$ 574.1 million by the end of September. This growth was mostly a result of the issue of bonds by the National Bank of Slovakia in the amount of JPY 25.000 million (appr. US\$ 240 million).

The increase in foreign exchange outflow was caused by a deficit of the balance of sales and purchases in the foreign exchange fixing (US\$ 28 million), and the expenditures of the debt service also reached US\$ 25 million, the high for this year. Certain outflow of foreign exchange can also be attributed to the US\$ 2 million drop in the volume of foreign currency swaps compared with last month's volume.

III. MONETARY DEVELOPMENTS



NATIONAL BANK OF SLOVAKIA

Indicators	1992	1993					
		1st Qtr	1st Half	July	Aug.	Sept	
Inflation Rate	Monthly (%) ^{1/}			1.1	2.4	2.4	
	Yearly (%) ^{2/}	10.0 ^{3/}	11.7	14.2	15.5	18.3	21.2
Money Supply M2 ^{4/} (%) ^{5/}			-3.3	0.4	2.8	2.5	3.4
Credits from Commercial Banks (%) ^{5/}			2.0	6.8	8.5	9.2	8.7
Deposits in Commercial Banks (%) ^{5/}			1.6	3.0	4.8	4.6	5.1
Discount Rate (%)	95	9.5	9.5	9.5	9.5	9.5	
Lombard Rate (%)	14.0	14.0	14.0	14.0	14.0	14.0	
Average Interbank Deposit Interest Rates (%)	7-day deposits		14.14	16.44	18.08	18.19	18.63
	14-day deposits		14.64	16.88	18.46	18.31	18.76
	1-month deposits		15.35	17.44	18.82	18.57	19.09

1/ End of period

2/ December 1992 = 100 (change)

3/ December 1991 = 100 (change)

4/ M2 = Currency, demand deposits, time and savings deposits, foreign currency deposits

5/ January 1, 1991 = 100 (change)

Money supply expressed by the monetary aggregate M2 increased by Sk 1.9 billion in September, reaching Sk 221.7 billion. Almost all the increase is associated with quasi-money, which increased by Sk 1.8 billion mostly because of a significant increase in foreign currency deposits.

In September, the monetary aggregate M1 (incorporating the currency and demand deposits in crowns) remained almost unchanged. Its growth was due to the Sk 0.3 billion increase in demand deposits accompanied by a Sk 0.2 billion drop in currency outside the banks' circulation.

On September 30, 1993, **crown loans** granted by financial institutions to both the business and household sectors totalled Sk 249.9 billion. Compared with last month's figure, the overall volume remained almost unchanged, and since the beginning of the year, it has increased by 5.9%.

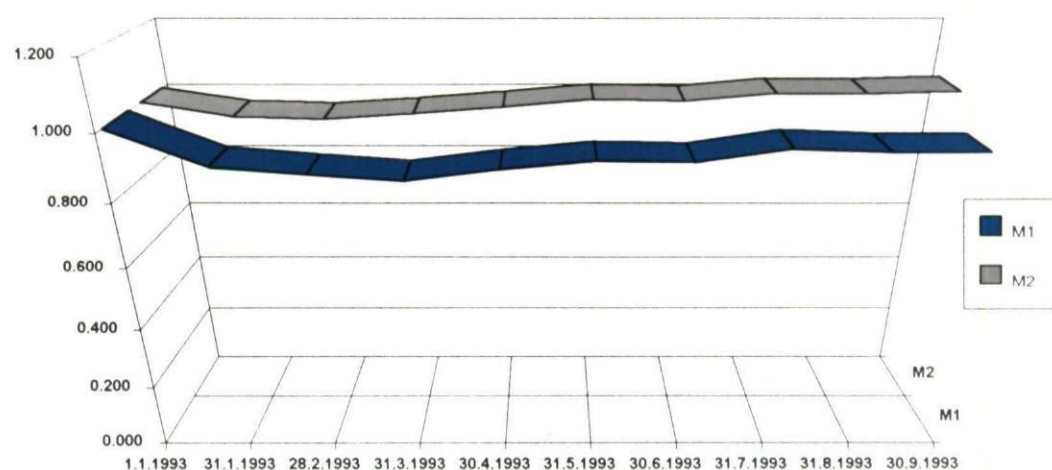
Looking at the division by sectors, the monthly increase in loans extended to the private sector continued (by 1.6%). However, in the state sector loans dropped by 0.9%.

At the end of September, the data on the foreign exchange position of banks confirmed the drop in foreign currency loans by 16.0% compared with the previous month. Their total volume of Sk 7.4 billion was three times greater than that at the beginning of the year.

By September 30, 1993, the level of loans in crowns and foreign currency represented Sk 257.3 billion.

Monetary Aggregates M1 and M2

Fixed rate: 29 SKK/USD (January 1, 1993)



The primary crown deposits of non-bank entities with financial institutions reached Sk 185.8 billion in September. Compared with August, deposits dropped by Sk 0.6 billion, representing a 1.5% decline (Sk 2 8 billion) since the beginning of the year.

The monthly development of deposits was unfavourably affected by the drop in deposits of private individuals, small businesses, and private entrepreneurs engaged in production and insurance businesses. This drop was partly offset by an increase in the deposits of organizations and state companies, including the insurance sector.

Foreign currency deposits reached Sk 25.8 billion by the end of September. The monthly increase in this type of deposits was 6.0%, while the increase since the beginning of the year amounted to 92.2%. This growth in foreign currency deposits affected the overall position of deposits, which reached Sk 211.6 billion - an increase of 4.7% when compared with the level of deposits at the beginning of the year.

In September, there was no new issue of state bonds on the capital market. The primary market continued to sell the issues No. 006 and 007, using the form of periodical auctions. Bonds worth Sk 10 million were sold with issue 006, increasing the cumulated sales to Sk 594 million, i.e. 52.8% from the value issued; bonds worth Sk 1.2 million were sold with the issue 007, increasing the sales to Sk 2.2 million, i.e. 0.2% of the volume issued.

By September 30, 1993, commercial banks could have utilized the credit available from the NBS not in the excess of Sk 260.6 billion. With the volume of trading executed by commercial banks reaching Sk 257.2 billion, the allowed credit was utilized at 98.7%, the undrawn amount reaching Sk 3.4 billion. By the end of September, the amount of loans granted to corporations and private individuals increased by the index of 108.3%, compared with January 1, 1993. Foreign currency loans were increasing more rapidly (index 331.8%) than loans in crowns (index 106 3%).

The development of **banking deals** resulted in different tendencies in individual financial institutions. The NBS reacted by updating, i.e. decreasing the allowed volumes, and used the subsequent savings to increase the credit limits for commercial banks.

In the sphere of **refinance**, which serves as an indirect tool for controlling the monetary development, restrictive measures introduced for the third quarter of 1993 continued to be applied in September 1993. The NBS introduced an individual evaluation of each rediscount loan exceeding Sk 100 million in one bill of exchange deal.

The total volume of refinanced resources offered to commercial banks, which reached Sk 10.4 billion by September 30, 1993, consisted of rediscount loans of Sk 6.0 billion (57.7%), lombard loans of Sk 3.4 billion (32.7%), and auction refinance loans of Sk 1.0 billion (9.6%). The share of individual tranches in the total volume of refinancing did not change against the previous month. The rediscount loan preserved its dominant position against the lombard and auction refinance loans.

At the end of September, **rediscount loans** peaked at Sk 6.0 billion, if compared with the figures at the end of the previous months even despite the measures taken in order to regulate this type of refinancing. From the total volume of the bills of exchange transactions, the export bills of exchange represented Sk 2.7 billion, i.e. 44.4%.

Lombard loans were drawn at the level of Sk 3.4 billion by September 30, 1993, which is an increase of Sk 1.6 billion compared with that of the previous month.

On the last auction day in September, refinancing through auction refinance loans was renewed. To the auction with a 1 month maturity, the NBS offered Sk 1.0 billion. The requirements of commercial banks generated Sk 4.2 billion with the interest rate quoted as ranging between 9.5% and 19.5% (the actual interest rate was 17.9%)

The NBS **refinancing funds** offered to commercial banks in the form of redistribution loans reached Sk 33.7 billion by September 30, 1993.

Given the applicable methodology of the required reserves, the banking sector was obliged to maintain the average level of reserves at Sk 12.3 billion in September. The actual average monthly volume of reserves of Sk 12.4 billion shows a 100.0% compliance.

IV. GOVERNMENT SECTOR

Indicators	1992	1993				
		1st Qtr	1st Half	July	Aug.	Sept.
Budget Revenues ^{1/} (Sk billions)	115.9	23.0	64.4	79.2	90.7	104.6
Budget Expenditures ^{1/} (Sk billions)	123.8	34.0	79.2	93.3	105.1	120.5
State Budget Balance (Sk billions)	-7.9	-11.0	-14.8	-14.1	-14.4	-15.9
Net Position of the Government vis-a-vis the Banking System ^{2/} (Sk billions)	42.9	51.0	55.1	47.2	47.5	49.5

^{1/} Cumulative values
^{2/} Without foreign loans

After a two month stabilization of the Slovak Republic's state budget deficit at Sk 14 to 14.4 billion, in September the deficit increased again, and reached Sk 15.9 billion by September 30, 1993.

With regard to revenue, there was a delay in the income tax (Sk 3.2 billion) as well as in the payments of retirement, sick, and health insurance (Sk 10.7 billion). The collection of local taxes on goods and services improved, in particular VAT (the deficit decreased from Sk 5.0 to 4.1 billion). The collection of consumer taxes was stagnating. The revenue portion of the budget was positively affected by the income from the National Bank of Slovakia (Sk 6.0 billion), which was not scheduled in the annual budget.



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Due to the regulation of budgetary expenses, some savings were generated against the aliquot share of the annual budget.

The expenditures associated with the debt servicing were exceeded (by Sk 1.6 billion) as well as the interest that was not incorporated in the budget (Sk 8.0 billion).

The net position of the Government of the Slovak Republic vis-a-vis the banking sector, including foreign credits, amounted to Sk 45.4 billion, of which the NBS credited Sk 34.4 billion.

By comparing the net position of the central government vis-a-vis the banking sector, excluding foreign credits, at the end of individual quarters of this year, it becomes apparent that there is a drop that arises from transferring the coverage of the 1992 state budget deficit (at the level of Sk 7.9 billion) from state financial assets.



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V. INFORMATION

The second conference of Banking Training Institutes of Central and Eastern Europe took place on October 4 - 6, 1993. It was attended by the representatives of banking training from Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Poland, Romania, and Slovakia, as well as by the representatives of all significant funds active in the developed western countries that support the development of banking in countries of Eastern Europe

- The Euromarket Award of the European Market Research Centre in Brussels was given to the Vagonka Poprad company. This award honours the capability of companies from non-EC countries to compete with EC countries and to meet the standards common to the EC with respect to both the price and quality of products as well as marketing, market saturation, and ability to analyze the market.
- Debt clearance (recapitalization) amounting to Sk 2.8 billion, which falls under the control of the Ministry of the Economy of the SR, will be executed by the Consolidation Bank, which has taken over all the debts of the companies.
- The Board of Directors of the World Bank has approved a loan for the Slovak Republic in the amount of US\$ 80 million. The Economic Recovery Loan shall be utilized for restructuring the economy and help to support the balance of payments.
- The American Agency for International Development with the help of the US Labor Department and the Boston based consultancy E.I.I. has prepared a project to support the economic growth of the regions of Banska Bystrica, Brezno, Dubnica nad Váhom, Nitra, Humenne, and Rimavská Sobota.
- At the end of September, foreign capital in the Slovak Republic reached Sk 10.1 billion, i.e. more than US\$ 350 million. It is concentrated mostly in the processing industry (over Sk 5 billion), trade, transportation, and services (approximately Sk 2 billion), finance and insurance business (over Sk 1 billion), and real estate (over Sk 551 million). Direct foreign capital participation has occurred in 4.521 organizations in Slovakia. Austria has the highest, 24% representation, followed by Germany with 21%. American capital with 14%, Czech capital with 11%, and France with only 9%.
- On December 7, 1993, a measure by the NBS has come into effect devaluating the Slovak crown vis-a-vis the clearing ECU by 5%. This step shall support a stable balance of the clearing account that is used for settling trade with the Czech Republic.
- Since the beginning of December, the National Bank of Slovakia has been connected to SWIFT - an international computer network system used for transferring messages associated with foreign payments and for the exchange of other financial information.
- The development of the foreign exchange reserves of the National Bank of Slovakia allowed, as of November 18, 1993, the elimination of the measure introduced by the NBS in February 1993, which was covering some payments in foreign currency to foreign entities; furthermore, the NBS is ready to satisfy all the foreign exchange needs of commercial banks.
- In November, the top representatives of the financial circles of 9 member states of the International Bank for Economic Cooperation and 10 member states of the Moscow-based International Investment Bank met in Bratislava.