



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

OCTOBER 1993

I. REAL ECONOMY



Indicators		1992	1993			
			1st Qtr	1st Half	3rd Qtr	October
GDP (at constant prices)	Value (Sk ^{2/} billions)	177.9	41.6	84.9	44.0	
	Growth rate (%) ^{1/}	-7.0	-5.5	-5.3	-4.1	
Output ^{1/}	Industrial production (%)	-13.7	-16.6	-15.2	-13.5	-12.6
	Construction (%)	6.4	-21.1	-21.8	-23.6	-24.4
Unemployment	Number (thous. of persons)	260.3	306.1	318.1	350.0	351.6
	Unemployment rate (%)	10.4	12.0	12.5	13.7	13.8
Foreign Trade	Exports (Sk billions)	102.4	33.2	76.1	46.9	15.6
	Imports (Sk billions)	100.7	33.1	75.6	53.8	16.8
	Balance (Sk billions)	1.7	0.1	0.5	-6.9	-1.2

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

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

In the month evaluated, the total **volume of industrial production** amounted to Sk 30.1 billion. It was the most productive month since the beginning of the year. Compared with January 1993, the average daily production increased by 7.3%, the share of the private sector grew by 4.3%, and the overall volume of sales also increased (by Sk 4.533 thousand) along with exports (by Sk 5.441 thousand).

Compared with October 1992, we were still behind in commodity production by 12.6%, in the volume of daily production by 8.3%, in the productivity of labour by 6.1%, and in sales by 15.9%.

The analysis of commodity production by quarter indicates that the third quarter was the weakest. The value of this indicator (Sk 82,023 million) is Sk 3,179 million lower than that of the first quarter, and compared with the second quarter, it is Sk 2,338 million lower.

Compared with the third quarter of 1992, the 13.5% drop in commodity production was reflected by a 7% decrease in the productivity of labour and in a 16.9% drop in sales.

The **volume of construction work** reached Sk 3,990 million. Although this figure represented the peak of development since the beginning of the year (November was in fact the best month), the volume fell behind that of October 1992 by 24.4%.

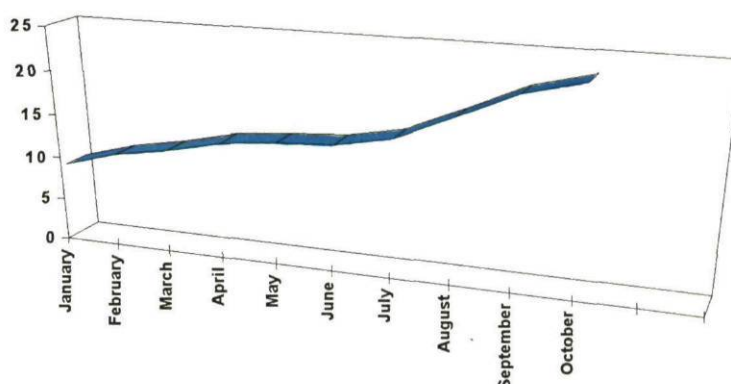
These results were mostly affected by a decline in the export of construction production capacities (down to one half of the October 1992 level) and also by the 35.2% drop in domestic construction orders.

Compared with the first quarter of the year, there were some signs of revival in the third quarter. However, the results did not exceed those of the second quarter and reached only 76.4% compared with the third quarter of 1992.

While in the first half of the year the changes observed in **prices** were very low, prices in the third quarter rose dynamically. The average consumer price index reached 4%. However, the price level increased during the period and the inflation rate reached 6%. This increased price movement was mostly a result of a significant increase in food prices (by 9.7%), particularly, in September (by 4.9%).

The main factors influencing the increased movement of prices in the third quarter were the devaluation of the currency, increased VAT rates and the development of the economic situation in agriculture.

Inflation Rate in 1993 (in %)





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These tendencies in consumer prices continued, to a smaller extent, also in October. The price level increased by 1.4%, therefore, prices rose and the rate of inflation reached 22.9% since the beginning of the year. The most significant increase was again recorded in food prices (by 2%), while the prices of industrial goods remained almost stabilized (by 1.4%).

Compared with the corresponding period of last year, the level of prices in October was 26.2% higher.

In the third quarter of 1993, the number of registered **unemployed** increased by 31.9 thousand, reaching 350 thousand. This brought the rate of unemployment from 12.5% up to 13.7%. **This** development was mostly due to the following factors: an increase in the number of the newly registered unemployed to 112.3 thousand, which is characteristic for this period of the year, a drop in the number of successful job applicants, stagnation in the number of vacancies, negligible increase in vacancies in public service, and a declining tendency in the number of vacancies for public works.

In October, the increase in unemployment (1.6 thousand people) fell to the lowest level in the last 5 months. The total number of unemployed reached 351.6 thousand, yielding an unemployment rate of 13.8%.

II. EXTERNAL ECONOMY

Indicators	1992	1993			
		1stQtr	1stHalf	3rd Qtr	October
Current Account ^{1/}					
Balance in convertible currencies (Sk billions)		-0.9	-1.1	-2,5 ^{*/}	
Foreign Exchange Reserves ^{2/} (US\$ billions)					
Banking system		0.7	0.9	1.3	1.3
Commercial banks		0.5	0.6	0.7	0.8
NBS ^{3/}		0.2	0.3	0.6	0.5
Gross Foreign Debt ^{2/} (US\$ billions)	2.3	2.4	2.3	3.0	3.0
Average Exchange Rates ^{4/}					
SKK/USD	28.29	29.096	29.002	30.149	32.227
SKK/DEM	18.12	17.794	17.838	18.333	19.758

^{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

Compared with the previous month, the total foreign exchange reserves of the National Bank of Slovakia dropped by USD 28.9 million, reaching a level of USD 545.2 million by the end of October. This drop was mostly due to the expenditures of debt service in the amount of USD 19.7 million. A mild outflow of foreign exchange was caused by the unfavourable balance of sales and purchases in foreign exchange fixing in the amount of USD 2.7 million. The growth of foreign exchange reserves is partly due to the USD 3 million increase in the volume of foreign currency swaps compared with the previous month.

III. MONETARY DEVELOPMENTS

Indicators	1992	1993			
		1stQtr	1stHalf	3rd Qtr	October
Inflation Rate					
Monthly (%) ^{1/}					1.4
Yearly (%) ^{2/}	1CK ^{3/}	11.7	14.2	21.2	22.9
Money Supply M2 ^{4/} (%) ^{5/}		-3.3	0.4	3.4	4.4
Credits from Commercial Banks (%) ^{5/}		2.0	6.8	8.7	10.3
Deposits in Commercial Banks (%) ^{5/}		1.6	3.0	5.1	7.4
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 (%)					
7-day deposits		14.14	16.44	18.29	17.27
14-day deposits		14.64	16.88	18.51	17.50
1-month deposits		15.35	17.44	18.82	18.07

^{1/} End of period

^{2/} December 1992 = 100 (change)

^{3/} December 1991 = 100 (change)

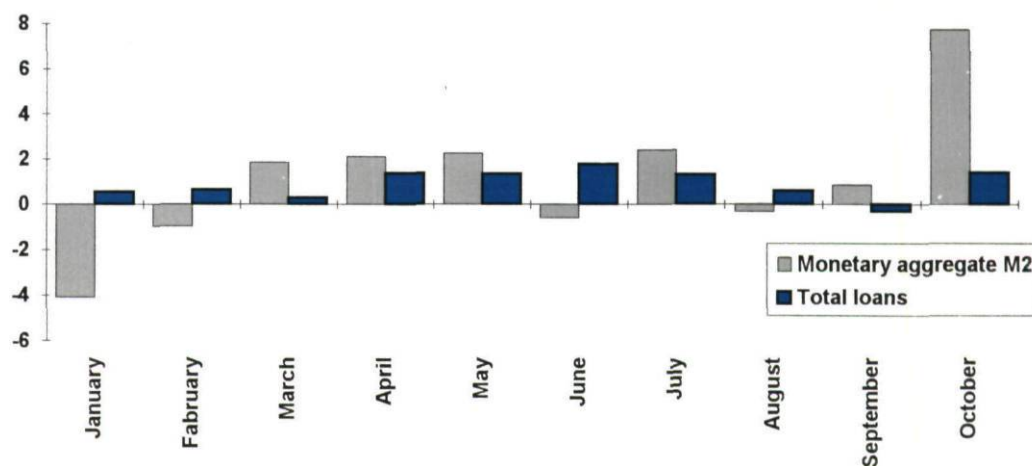
^{4/} M2 = Currency, demand deposits, time and savings deposits, foreign currency deposits

^{5/} January 1, 1991 = 100 (change)

The money supply expressed by the monetary aggregate M2 increased by Sk 2.1 billion in October, reaching Sk 223.8 billion by the end of the month. This increase is mostly attributable to the customers' deposits in bank accounts, which affected the development of both fundamental components of the money supply (monetary aggregate M1 and quasi-money).

The aggregate M1 (currency + demand deposits) reported a Sk 2.9 billion increase in demand deposits, accompanied by a Sk 2.7 billion drop in currency. This structural change in the development of M1 was associated with the extraordinary circumstances of the replacement of thousand-crown notes, which were withdrawn from circulation and returned to the vaults of banks with a portion of them being deposited in savings accounts.

Month by month changes in M2 and total loans (M2 seasonally unadjusted, in %)



It was due to the above circumstances that the volume of cash receipts of banks was 60.8% higher in October than in the corresponding period of the previous year, and its growth rate exceeded the increase in cash disbursements by 24.9 points.

Similarly, the Sk 1.9 billion increase in quasi-money was affected solely by the growth of the time deposits of households, which was also associated with depositing thousand-crown notes in savings accounts.

Compared with September, **crowns loans** in October granted by financial institutions (including the NBS) to both the business and household sectors recorded an increase of Sk 2.9 billion (i.e. 1.2%). By October 31, 1993, their total volume reached Sk 252.8 billion, representing an increase of Sk 16.8 billion (i.e. 7.1%) since the beginning of the year.

While the volume of loans in the sectors of public enterprises and households remained unchanged, or slightly dropped in October, loans extended to the private sector increased by Sk 3.0 billion (3%) compared with last month's figures. However, there were some contradictory tendencies in their structural development. While loans to private non-financial organizations including cooperatives increased by as much as 4.4%, i.e. by Sk 3.9 billion, loans granted to small businesses dropped by Sk 0.9 billion (8.2%). Since the beginning of the year, loans extended to the private sector increased by Sk 22.7 billion and their total volume exceeded Sk 100 billion.

The tendency for growth in **foreign currency loans** continued in October. The Sk 0.9 billion increase compared with the previous month exceeded the average monthly increase in this year by Sk 0.3 billion. By October 31, 1993, the volume of these loans reached Sk 8.3 billion, which is almost four times more than the volume at the beginning of the year.

The total volume of loans in crowns and foreign currencies, which at the end of October amounted to Sk 261.1 billion, increased by 1.5% compared with September, and by 9.6% (i.e. Sk 22.9 billion), compared with volume at the beginning of the year.

The primary crown deposits of nonbanks in financial institutions (including the NBS) reached the amount of Sk 189.5 billion by the end of October. The 2.0% increase in deposits since September can be attributed to the measure taken by the NBS in connection with the withdrawal of thousand-crown notes from circulation. The reported Sk 3.8 billion increase in the deposits made by the household sector may be evaluated only as a forced change.

In the business sector, the deposits of private companies and organizations continued to increase. Their growth against the previous month represented Sk 3.1 billion, i.e. 11.0%. Compared with September, the deposits made by public enterprises and organizations fell by 7.2% (i.e. Sk 2.8 billion), while non-financial institutions had a 60.5% share in this drop.

In October, **foreign currency deposits** increased. The volume of these deposits increased by Sk 0.9 billion and reached Sk 26.7 billion by the end of October, representing twice the volume of their increase compared with the beginning of the year.

On October 31, 1993, deposits in crowns and foreign currencies stood at Sk 216.2 billion, which, compared with the previous month represented an increase of 2.2%, and compared to the beginning of the year, an increase of Sk 14.2 billion, i.e. 7.0%.

In order to cover the deficit of the 1993 state budget of the SR, the Ministry of Finance of the SR came up with four issues of state treasury bills in the course of October. Four earlier issues of treasury bills maturing in October at the overall value of Sk 8.8 billion also entered the evaluated period. The total value of marketable state treasury bills totalled Sk 9.2 billion at the end of the month.

The average interest rates on the primary market ranged from 11.94% to 11.99% p.a., i.e. they were within the interest rate limit set by the Ministry of Finance of the SR. Trading in treasury bills on the secondary market was limited to deals between the NBS and commercial banks. The Central Bank remained the market maker on the secondary market.

In October, the number of state bond issues did not change. The repeated primary sale of state bonds continued, selling the issues No. 006 and 007 at a nominal value of Sk 5.000. State bonds worth Sk 102.5 million were sold from the issue No. 006, bringing the total volume of bonds sold since the beginning of the year to Sk 696.5 million, representing 62% of the value of bond issues. Bonds worth Sk 2.9 million from issue No. 007 were sold on the primary market. Bonds worth Sk 4.9 million, i.e. 0.5% from the total volume of bond issues, were sold.

Bonds of both issues were traded also on the secondary market through sales to first owners - physical persons.

By the end of October 1993, commercial banks together with the NBS granted loans worth Sk 259.9 billion to companies and households (this figure does not incorporate the government sector). Compared with January 1, 1993, the index of growth was 109.5%, while foreign currency loans increased more rapidly (by Sk 6.0 billion, index 372.7%) than loans in crowns (increased by Sk 16.7 billion, index 107.1%).

By the end of October, the volume of refinance reached loans the highest volume since the beginning of 1993 (Sk 10.8 billion) and the average volume of refinance loans reached a peak value (Sk 11.1 billion) in October compared to the previous months' figures.

In the total volume of refinance loans, bills of exchange represented 56.5% (Sk 6.1 billion), lombard loans 20.4% (Sk 2.2 billion), and auction refinance loans 23.1% (Sk 2.5 billion).

At the end of October, the **bill of exchange** deals reached the highest level, compared with ends of the previous months in 1993. The highest volume was achieved through the bills of exchange rediscount (Sk 5.5 billion). In order to support exports, bills of exchange were discounted in the amount of Sk 0.6 billion.

At the end of October, the volume **lombard loans** dropped by Sk 1.2 billion compared with the previous month' figure.

Auction refinance loans, which were offered at 4 auctions in October, reached the overall volume of Sk 2.5 billion. The requirements of commercial banks (Sk 9.0 billion) were satisfied only at 27.8%. The interest rates achieved at auctions ranged from 16.8% to 18.0%. The auctions were attended by 7 to 9 banks.

The required reserves were set at Sk 12.2 billion for the whole banking sector for the tenth month of the year. The actual average monthly volume of reserves in the amount of SK 12.9 billion shows a 105.4% compliance.

IV. GOVERNMENT SECTOR

Indicators		1992	1993			
			1st Qtr	1st Half	3rd Qtr	October
Budget Revenues ^{1/}	(Sk billions)	115.9	23.0	64.4	104.6	115.2
Budget Expenditures ^{1/}	(Sk billions)	123.8	34.0	79.2	120.5	132.0
State Budget Balance	(Sk billions)	-7.9	-11.0	-14.8	-15.9	-16.8
Net Position of the Government vis-a-vis the Banking System ^{2/}	(Sk billions)	42.9	51.0	55.1	49.5	50.1

^{1/} Cumulative values

^{2/} Without foreign loans

In October, the state budget deficit increased by approximately Sk 1 billion reaching the level of Sk 16.8 billion, which was mostly caused by a further decline in revenues. Mostly the payments of retirement, benefits, allowances for the infirm, health insurance, and the contributions to the employment fund that were in arrears (Sk 11.1 billion), along with the income tax (Sk 4.1 billion) and local taxes on goods and services (Sk 4.0 billion), were lower than budgeted. The budget revenues were positively affected by the income from the National Bank of Slovakia in the amount of Sk 4.0 billion. After summarizing all these elements it can be concluded that the overall budget deficit in the ten-month period of 1993 amounted to Sk 16.6 billion.

Due to the restrictive measures adopted to cut the expenditures of the individual portions of the budget, the overall expenditures were at the budgeted level (exceeded only by Sk 0.2 billion).



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The average monthly deficit of the SR state budget reached Sk 16.3 billion in the month evaluated, representing the highest monthly deficit of the state budget since the beginning of the year. The daily position of the SR state budget ranged from Sk -13.2 billion to Sk -18.7 billion in October.

The average value of state treasury bills earmarked to cover the fluctuations in the day to day budget performance reached Sk 8.9 billion in October. The difference between the actual daily position of the budget deficit and its part covered by state treasury bills was directly financed by the NBS. In October, the amount of this loan ranged from Sk 4.1 to 9.8 billion, bringing the monthly average to Sk 7.4 billion (the highest figure for the year).

The net position of the Slovak Government vis-a-vis the banking sector increased by Sk 0.6 billion and reached Sk 46.1 billion (including foreign loans), or Sk 50.1 billion (without foreign loans) by October 31, 1993.



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V. INFORMATION

The December meeting of the World Bank's Board of Directors in Washington resulted in the approval of a loan for the Slovak Republic in the amount of USD 80 million. The loan will have a variable interest rate over the course of 17 years. In the first five years, the loan will not be redeemed. The payment of the loan, i.e. principal, can be delayed by 5 years; however, this does not apply to the interest. The interest is subject to changes in half-year intervals. The loan will be utilized for restructuring the economy and will help to support the balance of payments.

NBS Governor Vladimír Masár and Rudolf Autner, the State Secretary of the Ministry of Finance of the SR, held negotiations with financial institutions and investment banks in Japan. With the Export-Import Bank of Japan, they clarified the conditions of the loan that is being arranged with the co-financing by the World Bank. V. Masár also met with representatives of Nomura International. In Singapore and Hong-Kong, they established contacts with representatives of financial and investment companies and institutions.

At its 15th meeting, the Bank Council of the NBS approved the monetary programme for 1994. Next year, the National Bank of Slovakia expects a -2% to 0% growth of GDP, a 10 to 13.2% rise in inflation, a state budget deficit ranging from Sk 14 to 18 billion, and an USD 500 million increase in foreign exchange reserves. On these assumptions, the money supply is expected to grow by 13.2%, which will represent an annual increase in money supply from Sk 241.4 billion to Sk 273.3 billion. Loans extended to enterprises and households will increase by 6%, i.e. from Sk 265 billion to Sk 280.8 billion.

The Bank Council of the NBS passed a decision on increasing the limit for the purchase of foreign currency by citizens from the hitherto 7,500 Sk to 9,000 Sk as of January 1, 1994.

The Bank Council of the NBS decided to increase the discount interest rate from 9.5% to 12% and to change the method of setting the lombard interest rate, which will be 1% above the rate of interest on auction refinance loans.

The Bank Council of the NBS also decided to increase the capital required for establishing a new bank. As of January 1, 1994, finance capital of Sk 500 million will be required for the establishment of a new bank.

On January 1, 1994, the agreement on the abolition of double taxation between the USA and the Slovak Republic will take effect. The measure is expected to increase American Investments in Slovakia.