



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY
NOVEMBER 1993

I. REALECONOMY



Indicators		1992	1993				
			1st Qtr	1st Half	3rd Qtr	Oct.	Nov.
GDP	Value (Sk ^{2/} billions)	177.9	41.6	84.9	44.0		
	(at constant prices) 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	-8.6
	Construction (%)	6.4	-21.1	-21.8	-23.6	-24.4	-28.6
Unemployment	Number (thous. of persons)	260.3	306.1	318.1	350.0	351.6	357.8
	Unemployment rate (%)	10.4	12.0	12.5	13.7	13.8	14.0
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 November, the total volume of **industrial production** reached Sk 32.7 billion, i.e. Sk 2.6 billion more compared with that of the previous month, and Sk 3.0 billion less than in November 1992.

The volume of average daily production amounted to Sk 1.487 billion and was Sk 28 thousand lower than in October 1993. However, in comparison with the corresponding period of 1992, it fell behind by as much as Sk 216 thousand.

Although the **labour productivity** per 1 employee in industry reached only 98.1% of the November 1992 level, the fact that the public and private sectors recorded a higher labour productivity than in November 1992 (in the public sector by 1.3%, in the private sector by 0.2%) was a positive development. These results were, however, affected by a significant 27.5% drop in other sectors (associations, political parties, and churches).

While the volume of goods for sale (Sk 35.4 billion) fell by 7.8% compared with that of November 1992, export sales (Sk 13.4 billion) increased by 10.6%.

Another positive development was the fact that, compared with other months of the year, the November results in relative terms were commensurate with the results achieved in the corresponding months of 1992 (the difference was 8.6% in November, 12.6% in October, and 13.8% in September).

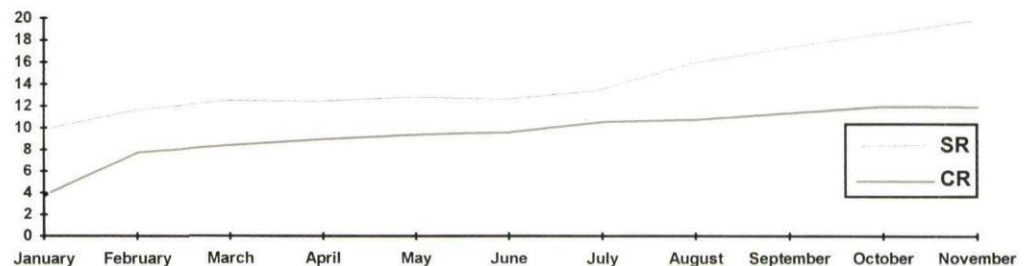
The volume of **construction work** reached Sk 3.951 billion in November, falling behind that of the previous month by Sk 39 million. However, compared with the corresponding month of 1992, the volume dropped by Sk 1.6 billion, i.e. 28.6%. This significant decline was caused by problems with both domestic (a decrease of 32.7% compared with November 1992) and foreign construction orders (a decrease of as much as 61.3%).

Private companies had the largest share in the output of the construction sector. Compared with the corresponding period of last year, their share rose from 32.6% (November 1992) to 51.2% (November 1993).

In November, the rate of increase in **consumer prices** continued to slow down and was lower than in the corresponding periods of the last two years.

Development of Producers' Prices in Industry (in %)

(December 1992 = 100, change)



In comparison with October, the general price level increased by 1.1%. The inflation of prices was primarily due to a more moderate increase in food prices. The price rise was higher in public catering (1.6%) and in services (0.9%).

Consumer prices have increased since the beginning of the year (compared with December 1992) and the rate of inflation reached 24.3%.

In November, the number of **registered unemployed** increased by 6.2 thousand and totalled 357.8 thousand. The unemployment rate stood at 14%. This development was caused by a slight increase in the number of newly registered unemployed, but mainly by a drop in the number of the recently employed (8.4 thousand). While the number of vacancies for public works increased, the number of new openings in public service dropped.

The highest rate of unemployment was again reported in the districts of Rimavská Sobota (25%), Spišská Nová Ves (22.4%), and Michalovce (22%), while the lowest unemployment rate was recorded in Bratislava (4.5%), in the District of Trenčín (7.8%), and in Kosice (10%).

II. EXTERNAL ECONOMY

Indicators	1992	1993					
		1st Qtr	1st Half	3rd Qtr	Oct.	Nov.	
Current Account ^{1/} Balance in convertible currencies(Sk billions)		-0.9	-1.1	-2.5*/			
Foreign Exchange Reserves ^{2/} (USD billions)		0.7	0.9	1.3	1.3	1.3	
	Banking system	0.5	0.6	0.7	0.8	0.8	
	Commercial banks	0.2	0.3	0.6	0.5	0.5	
	NBS ^{3/}						
Gross Foreign Debt ^{2/} (USD billions)	2.3	2.4	2.3	3.0	3.0		
Average Exchange Rates ^{4/}							
	SKK/USD	2829	29.096	29.002	30.149	32.227	32.891
	SKK/DEM	18.12	17.794	17.838	18.333	19.758	19.365

^{1/} Cumulative values

^{2/} At the end of period

^{3/} Including gold at a book value of 42.22 USD/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 30.0 million, reaching a level of USD 515.2 million by the end of November. This drop was due mostly to the debt service expenditures in the amount of USD 13.4 million and the regular quarterly payments of fees to the International Monetary Fund in the amount of USD 7.3 million. A mild outflow of foreign exchange was caused by the unfavourable balance of sales and purchases in the foreign exchange fixing in the amount of USD 1.2 million. The volume of foreign currency swaps decreased by USD 6.0 million compared with the previous month.

III. MONETARY DEVELOPMENTS

Indicators	1992	1993					
		1st Qtr	1st Half	3rd Qtr	Oct.	Nov.	
Inflation Rate							
	Monthly (%) ^{1/}				1.4	1.1	
	Yearly (%) ^{2/}	10.0 ^{3/}	11.7	14.2	21.2	22.9	24.3
Money Supply M2 ^{4/} (%) ^{5/}			-3.3	0.4	3.4	4.2	6.5
Credits from Commercial Banks (%) ^{5/}			2.0	6.8	8.7	10.3	11.2
Deposits in Commercial Banks (%) ^{5/}			1.6	3.0	5.1	7.4	9.5
Discount Rate (%)	9.5		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	18.29	17.27	16.10
	14-day deposits		14.64	16.88	18.51	17.50	16.35
	1-month deposits		15.35	17.44	18.82	18.07	16.52

^{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 1.1993 = 100 (change)

Money supply expressed by the monetary aggregate M2 reached Sk 228.4 billion by the end of November. Compared with the figure from the end of the previous month, it was Sk 5.1 billion (i.e. 2.3%) higher.

Both fundamental components of the money supply recorded an increase. The monetary aggregate M1 (including currency and demand deposits) grew by Sk 3.5 billion, while quasi-money (crown and foreign currency deposits) increased by Sk 1.6 billion.

Within the aggregate M1, the currency in circulation outside banks increased by Sk 1.5 billion. This development was mostly due to a gradual withdrawal of cash that had been amassed in the vaults of banks during the previous month in connection with the replacement of thousand-crown banknotes. Demand deposits, representing the other part of the M1 aggregate, increased by Sk 2.0 billion.

Quasi-money recorded an increase because of a Sk 0.7 billion growth in time deposits and a Sk 0.9 billion increase in foreign currency deposits.

In comparison with the previous month, **crown loans** extended to the economy by commercial banks (including the NBS) recorded an increase of Sk 1.9 billion, representing a month-to-month growth of 0.8%. By November 30, 1993, the total volume of loans reached Sk 254.8 billion, representing an 8% increase (i.e. Sk 18.8 billion) since the beginning of the year.

The November increase in crown loans was utilized in the business sector with a differentiated development in individual sectors and groups of organizations and companies. The most significant monthly increase in loans was recorded in the private sector (by Sk 1.3 billion, i.e. 1.3%). The rest of the increase totalling Sk 1.3 billion was equally shared by companies under foreign control and companies or organizations not yet included in sectors. The state sector experienced a reverse development evidenced by a Sk 0.5 billion drop in the volume of loans. The downward tendency in loans extended to households and individuals continued.

The monthly data on the foreign exchange position of banks shows that the volume of **foreign currency loans** (Sk 8.5 billion) recorded only a slight increase (Sk 0.2 billion) compared with the previous month.

By the end of November 1993, the **total volume of loans** in crowns and foreign currencies reached Sk 263.3 billion, representing a growth index of 110.6% compared with the beginning of the year.

The **primary crown deposits** of non-bank entities with commercial banks including the NBS in the amount of Sk 192.2 billion increased in November by Sk 2.7 billion, i.e. by 1.4%, in comparison with the previous month. The enterprise sector had a significant share in this increase with a monthly growth of deposits amounting to Sk 2.6 billion, representing a 3.5% increase. Almost one half of this amount (Sk 1.2 billion) was formed by the increase in deposits in publicly owned enterprises and organizations. The deposits of private companies and organizations including small businesses were of the same monthly increase. Deposits of households experienced only a slight increase of 0.1% in November, after they increased significantly in October.

Foreign currency deposits of both local and foreign private or legal entities (residents and non-residents) continued to grow. The monthly increase of Sk 1.3 billion was commensurate with the average monthly increase. On November 30, 1993, the volume of Sk 28.0 billion represented more than twice the volume reported at the beginning of the year.

As a result of the Sk 4.0 billion monthly increase in both crown and foreign currency deposits, the total volume of deposits increased to Sk 220.2 billion, i.e. by 9.0% , compared with the volume at the beginning of the year.

In November, **loan interest rates** began to fall. Compared with October, they decreased by 0.14 percentage points and their average level for all the banks reached 13.86%.

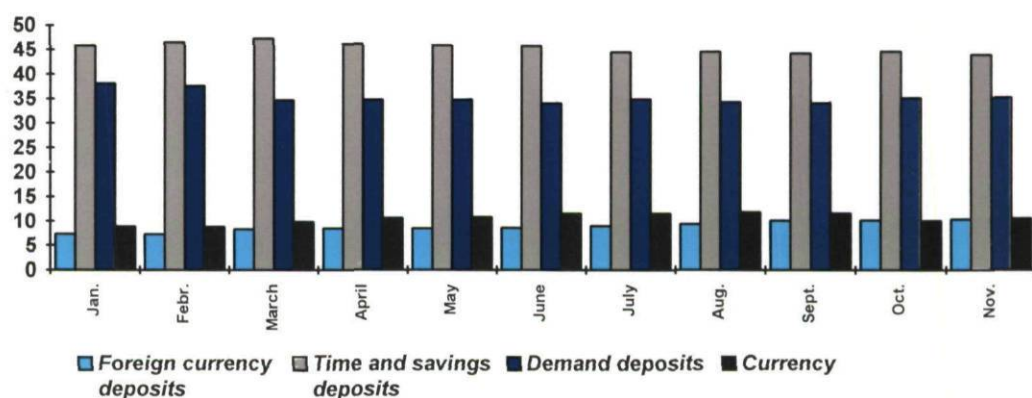
Interest rates on medium term loans increased from 16.43% to 16.62%, and interest rates on long-term loans from 9.90% to 10.39%. Interest rates on short-term loans dropped from 16.18% to 16.07%.

In the private and household sectors, the average interest rates on loans increased from 14.20% to 14.39%, and from 5.31% to 5.28%. The interest rates applicable to the public sector dropped from 15.15% to 14.52%.

Compared with October, the average **interest rates on deposits** increased from 8.27% to 8.88% mostly because of the increase in the interest rates on time deposits (from 13.13% to 14.25%). Demand deposits, which represented a 44.3% share in the total deposits, increased only slightly. Long-term deposits recorded a more significant drop in the average interest rate (from 17.71% in October to 15.63% in November). Compared with October, interest rates on short-term deposits increased from 12.40% to 13.59%, while those applicable to medium-term deposits grew from 13.32% to 14.81%. The average interest rates on household deposits increased from 9.92% in October to 11.06% in November.

In order to cover the state budget deficit, the Ministry of Finance of the SR floated four regular issues of state treasury bills in the course of November. At the same time, four issues from October were also included in the evaluated month. In November, the average volume of state treasury bills on the market reached Sk 8.6 billion.

The Structure of the Monetary Aggregate M2 (in %)



In November, two issues of state bonds (numbers 006 and 007) continued to be sold on the capital market. In November, bonds of the 006 issue worth Sk 250 million were sold, increasing the cumulated volume of sales to Sk 946.5 million, i.e. 84.2% of the total value of bond issue. Bonds of the 007 issue worth Sk 526.03 million were sold in November, increasing the cumulated sales to Sk 531.13 million, i.e. 53.1% of the total volume of bonds issued.

The credit limit set for the banking sector to be applied when extending loans to companies and households was reduced from the original Sk 269.5 billion to Sk 265.0 billion. By November 30, 1993, the allowed credit limit was utilized at 99.0%, the undrawn amount reaching Sk 2.6 billion. The index of growth reached 110.6% compared with the initial figure. In November, the effects of the measures imposed in order to balance the volume of refinance loans through individual refinance tranches became more visible.

By November 30, 1993, the **bill of exchange deals** reached Sk 5.2 billion (51.0% of the total volume of refinancing), representing an Sk 0.9 billion drop compared with October. There was also a steady drop in the bills of exchange rediscount as well as in the bills of exchange discount for export promotion.

Auction refinance loans, which should become a main tool of refinancing, had a 49.0% share (Sk 5.0 billion) in the total volume of cumulated refinancing. By the end of the month, the total volume of auction refinance loans increased by Sk 2.5 billion compared with the last month's figure. This was the highest monthly increase since the beginning of the year. Five auctions took place in November, in which the NBS offered a total of Sk 7 billion. Depending on the interest rates quoted by individual commercial banks, these funds were placed with 9 financial institutions. The interest rates quoted at individual auctions ranged from 14.7% to 17.4%.

At the end of November, the **lombard loan** reached a zero balance as a result of the restrictive measures imposed on this type of refinancing.

For the month of November, the **required reserves** for the whole banking sector were set at Sk 12.1 billion. The actual reported average of Sk 12.3 billion shows a 101.7% compliance with the required reserves.



NÁRODNÁ BANKA SLOVENSKA

IV. GOVERNMENT SECTOR

Indicators	1992	1993				
		1st Qtr	1st Half	3rd Qtr	Oct.	Nov.
Budget Revenues ^{1/} (Sk billions)	115.9	23.0	64.4	104.6	115.2	129.7
Budget Expenditures ^{1/} (Sk billions)	123.8	34.0	79.2	120.5	132.0	145.7
State Budget Balance (Sk billions)	-7.9	-11.0	-14.8	-15.9	-16.8	-16.0
Net Position of the Government vis-a-vis the Banking System ^{2/} (Sk billions)	42.9	51.0	55.1	49.5	50.1	51.1

^{1/} Cumulative values

^{2/} Without foreign loans

Compared with October 31, in November, the status of the **state budget** of the Slovak Republic slightly improved as the deficit was reduced from Sk 16.8 billion to Sk 16.0 billion. The budget revenue showed a positive development (the deficit decreased from Sk 16.6 billion to Sk 15.3 billion), which was mostly due to the non-tax receipts, the collection of customs duties, and some improvements in the retirement and health insurance, allowances for the infirm, and contributions to the employment fund. The income tax and the local tax on goods and services (i.e. VAT and consumer taxes) were collected at the level of the aliquot part of the annual budget.

On the other hand, the budgeted monthly expenditures were exceeded by Sk 0.5 billion, mostly because of the growth of expenses associated with the national debt. It is obvious that the annual budgeted requirement was underestimated. The unfavourable development of this item was partly offset by savings in non-investment expenditures of budgetary and allocative organizations, and in common transfers to the business sector.

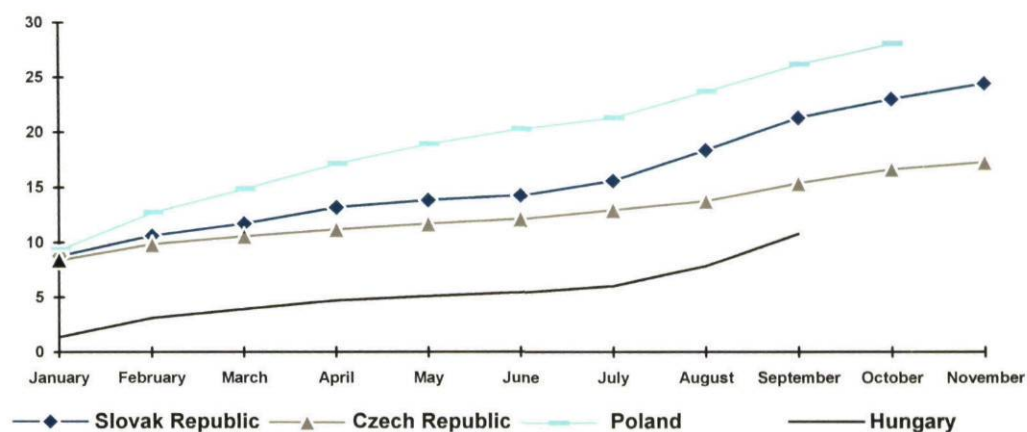
The daily status of budget deficit in the evaluated month ranged from Sk 16.1 to 18.7 billion.

As the state treasury bills did not cover the fluctuations of the state budget, a direct NBS loan continued to be required to cover the state budget deficit, which in November ranged from Sk 6.7 to 9.0 billion.

On November 30, 1993, the net position of the SR Government vis-a-vis the banking sector (including the crown coverage of foreign loans) was Sk 47.0 billion, of which the NBS credited Sk 34.0 billion.

Consumer Price Indices (in %)

(December 1992 = 100, change)



V. INFORMATION

- On January 10, 1994, the last stamped federal Sk 500 banknotes became invalid. Since this day, only the new Slovak notes and coins have been used as legal tender.
- On January 12, 1994, the European Bank for Reconstruction and Development (EBRD) and the Board of the Závod SNP (Aluminium Works) at Žiar nad Hronom, a joint stock company, started negotiations about a loan for the modernization and extension of aluminium production. The EBRD intends to grant USD 110 million to Závod SNP and, at the same time, to invest USD 15 million in the newly established Slovalco Company, one of the daughter companies of Závod SNP. The negotiations should result in extending additional tranches.
- World Bank experts paid a one-week working visit to Bratislava. The mission helped the Ministry of Labour, Social Issues, and Family of the SR to finalize the project of the transformation of the social sector in Slovakia.
- After a detailed analysis of the banking system in Slovakia, the European Bank for Reconstruction and Development (EBRD) has decided to invest a part of its capital into Polnobanka and Tatra banka.
- As of January 1, 1994, Slovakia has been removed from the COCOM list - a list of countries into which the export of high technologies is banned.
- On January 19, 1994, representatives of the Slovenský energetický podnik (SEP), a state-owned company, and Electricite de France signed the deed of foundation of Elektrárne Mochovce (EMO - Mochovce Nuclear Power Plant), a joint stock company. According to the shareholders' agreement, the French side shall have a 51% equity share and SEP a 49% equity share. The new company shall take over the first and the second blocks of the nuclear power plant at Mochovce. The agreement enables the participation of other foreign investors (in particular, the German Bayernwerk) and some financial engagement of the European Bank for Reconstruction and Development and other institutions can be expected, too.
- Shell, the biggest international company engaged in the extraction, transportation, and processing of crude oil, natural gas, and other raw materials, has entered the Slovak market by founding Shell Slovakia, Ltd. Shell will offer its products and services to drivers in Slovakia through its planned network of petrol stations. The annual investments of Shell in Slovakia are expected to reach USD 6 to 8 million.
- According to a study prepared by the British firm Corporate Locations, Bratislava is the second city in the world with the best long-term prospects for economic development. The study was based on an opinion poll taken among representatives of leading advisory institutions.



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