



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

MARCH 1994

I. THE REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators		1993					1994		
		1st Qtr	1st Half	3rd Qtr	4th Qtr	1993	Jan.	Febr.	March
GDP	Value (Sk ^{2/} billions)	41.6	84.9	44.9	42.4	172.2			42.8*/
	(at constant prices) Growth rate (%) ^{1/}	-5.5	-5.3	-4.3	-1.6	-4.1			4.1 ^{1/}
Output ^{1/}	Industrial production (%)	-16.6	-15.2	-13.5	-10.3	-13.5	4.5	3.2	6.4
	Construction (%)	-21.1	-21.8	-23.6	-27.0	-23.8	-1.2	-14.9	-13.0
Unemployment	Number (thous. of persons)	306.1	318.1	350.0	368.1	368.1	379.2	376.0	370.5
	Unemployment rate (%)	12.0	12.5	13.7	14.4	14.4	14.9	14.8	14.5
Foreign Trade ^{3/} (f.o.b.)	Exports (Sk billions)	19.0	41.4	66.2	66.2	92.3	8.7		
	Imports (Sk billions)	21.2	52.8	83.7	83.6	126.0	11.0		
	Balance (Sk billions)	-2.2	-11.4	-17.5	-17.4	-33.7	-2.3		

^{1/} Change compared with the corresponding period of last year

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

^{3/} Cumulative values

* / Data for the 1st Qtr

In March 1994, **consumer prices** rose by 0.5%, representing an overall increase of 2.6% since the beginning of the year. The most rapid price rise (1.1%) was recorded in catering. The general price level of industrial goods increased by 0.6%, while that of services rose by 0.5%. Food prices experienced only a negligible increase of 0.1%.

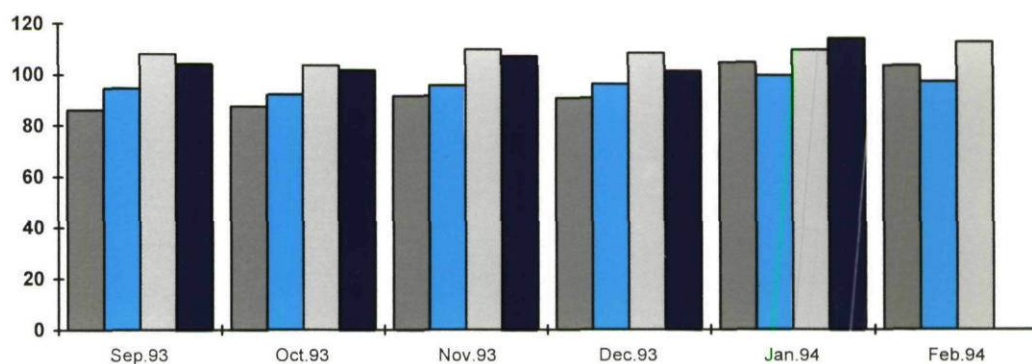
The total volume of **industrial production** reached Sk 34.9 billion, indicative of an increase of Sk 2.1 billion (6.4%) compared with the volume recorded in the corresponding period of 1993. In comparison with the figure for February, the volume of industrial production grew by Sk 4.7 billion (15.6%).

The output of the **construction industry** increased by Sk 610 million (24.3%) compared with the previous month's figure; however, it was 13.0% lower than the March 1993 level. The only exception to the downward trend in the industry is the private sector, which recorded an annual growth of 3.5%. The decline in the output of the construction sector was caused by decreases in both domestic and foreign construction orders. The former decreased by 11.7%, while the latter dropped by 19.4%. The labour productivity in construction recorded only a slight increase of 0.6%.

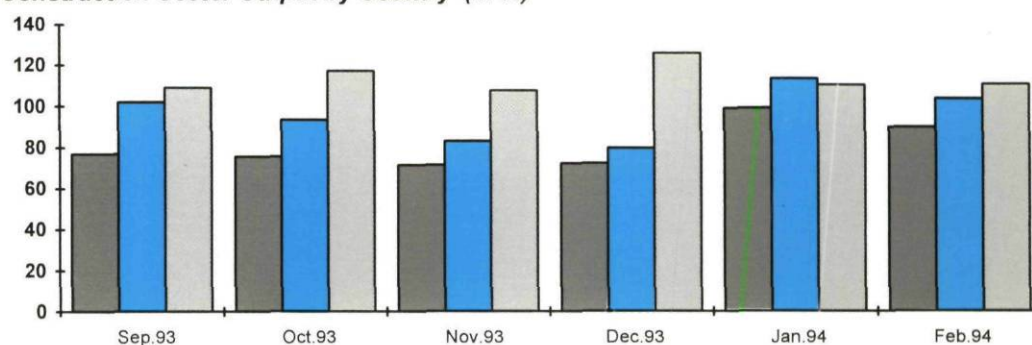
The **rate of unemployment** dropped to 14.5%, representing a 5.5-thousand decrease in the number of registered unemployed and thus bringing the total unemployment figure to 370.5 thousand. This favourable development was followed by an increase in the number of job vacancies (1,049 new job openings). The number of job applicants per vacancy dropped from 46 to 40. The increase in the number of newly employed and the fact that the number of persons removed from the register continued to exceed the number of newly registered unemployed were both signs of favourable development.

The highest rates of unemployment were again reported in the districts of Rimavská Sobota (26.3%), Spišská Nová Ves (23.7%), and Vranov nad Topľou (23.4%). The lowest unemployment rate was recorded in Bratislava (4.3%), the District of Trenčín (7.9%), and Kosice (9.9%).

Development of Industrial Production by Country (in %)



Construction Sector Output by Country (in %)



■ Slovakia

■ Czech Republic

■ Poland

■ Hungary

The same period of last year = 100 %

II. THE EXTERNAL ECONOMY

Indicators	1993					1994		
	1stQtr	1stHalf	3rd Qtr	4th Qtr	7993	Jan.	Febr.	March
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-0.9	-6.0	-6.7	-10.1*	-21.5**	-1.2**		
Foreign Exchange Reserves ^{2/} (USD millions)								
Banking system	797.5	870.0	1,324.1	1,402.2	1,402.2	1,334.1	1,392.0	1,490.2
Commercial banks	605.7	619.4	7500	952.7	952.7	933.3	1,010.0	1,015.7
NBS ^{3/}	191.8	250.6	574.1	449.5	449.5	400.8	382.0	474.5
Gross Foreign Debt ^{2/} (USD billions)	24	2.3	3.0	3.6	3.6	3.5	35	
Average Exchange Rates ^{4/}								
SKK/USD	29.096	29.002	30.149	32.710	32968	33.389	33.344	33.799
SKK/DEM	17.794	17.838	18.333	19.460	19 283	19.160	19.182	19.364

^{1/} Cumulative values

^{4/}

Exchange rate midpoint

^{2/} At the end of period

Preliminary data

^{3/} Including gold at a book value of 42.22 USD/oz

The Slovak Republic's **total consolidated balance of payments** reached a deficit of Sk 1.6 billion in January 1994.

The **current account** deficit of the consolidated balance of payments (Sk -1.2 billion) was mainly a result of the balance of foreign trade. In January, the capital and financial account showed a deficit of Sk 5.4 billion.

Compared with the previous month's figure, the **total foreign exchange reserves** of the National Bank of Slovakia increased by USD 92.5 million, reaching a level of USD 474.5 million by the end of March 1994. The growth of foreign exchange reserves in this month was favourably influenced by the USD 91.8 million sales and purchases surplus in the NBS foreign exchange fixing.

III. MONETARY DEVELOPMENTS

Indicators	1993					1994		
	1stQtr	1stHalf	3rd Qtr	4th Qtr	1993	Jan	Febr.	March
Inflation Rate								
Monthly (%) ^{1/}						1.4	0.7	0.5
Yearly (%) ^{2/}	11.7	14.2	21.2	25.6	25.1	1.4	2.1	2.6
Money Supply M2 ^{3/} (%) ^{4/}	-3.3	0.4	3.4	18.1	18.1	-1.0 ^{5/}	-1.6^{7/}	-2.1^{7/}
Credits from Commercial Banks (%) ^{4/}	2.0	6.8	8.7	130	13.0	-0.8	-1.3	-1.8
Deposits at Commercial Banks (%) ^{4/}	1.6	3.0	5.1	183	18.3	-2.2	-26	-5.0
Discount Rate (%)	9.5	9.5	9.5	12.0 ^{5/}	12.0 ^{5/}	12.0	12.0	12.0
Lombard Rate (%)	14.0	14.0	14.0	^{6/}	^{6/}	^{6/}	^{6/}	^{6/}
Average Interbank Deposit Interest Rates (%)								
SKIBOR								
7-day deposits	14.14	16.44	18.29	16.11	17.20 ^{8/}	16.57	18.63	25.30
14-day deposits	14.64	16.88	18.51	16.49	17.50 ^{8/}	16.79	18.89	25.41
1-month deposits	15.35	17.44	1882	1690	17.86 ^{8/}	17.27	19.12	2530

^{1/} End of period

^{2/} December of the previous year = 100 (change)

^{3/} M2 = Currency, demand and time deposits, savings deposits, foreign currency deposits

^{4/} 1 January 1993 = 100 (change)

^{5/} Since 20 December 1993

^{6/} Since 20 December 1993, auction interest rate + 1%

^{7/} 31 December 1993 = 100 (change)

^{8/} Average for the 2nd half of 1993

The money supply of the Slovak economy expressed by the **monetary aggregate M2** decreased by Sk 5.0 billion (2.0%) in February according to preliminary data. This development is attributable to all basic components of the money supply except foreign currency deposits.

The **monetary aggregate M1** experienced a decline of Sk 4.2 billion as a result of the Sk 4.0 billion drop in the volume of demand deposits. At the same time, the amount of currency in circulation outside banks recorded a moderate decline of Sk 0.2 billion as a result of the accelerated circulation of currency caused by the increased consumer spending before the Easter holidays.

The Sk 0.8 billion decrease in **quasi-money** was a consequence of the Sk 1.7 billion drop in time deposits.

At the end of March, the **money supply** stood at Sk 246.2 billion, falling behind the figure at the beginning of the year by Sk 7.0 billion.

In March, the **primary crown deposits** of non-bank entities with financial institutions including the NBS reached Sk 193.8 billion, representing a decrease of Sk 6.5 billion (3.2%) compared with the February figure. The volume of these deposits has fallen by Sk 15.1 billion since the beginning of the year.

This decline was due mainly to the Sk 5.6 billion fall in enterprise sector deposits, which included declines in the deposits of private companies (Sk 1.3 billion), state enterprises (Sk 1.0 billion), organizations under foreign control, non-resident entities, and organizations not included in economic sectors (Sk 3.3 billion). The deposits of households and individuals dropped by Sk 0.8 billion.

Contrary to the development of crown deposits, the volume of foreign currency deposits of resident and non-resident customers increased by Sk 0.8 billion (2.2%) compared with the February figure, and totalled Sk 32.8 billion at end-March 1994. This increase in foreign currency deposits fell behind that of the corresponding period of last year by Sk 1.7 billion.



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At end-March 1994, the total volume of primary deposits in Slovak crowns and foreign currencies fell below the February level by Sk 5.7 billion (2.5%) as a result of a decline in crown deposits. On 31 March 1994, the total volume of primary deposits amounted to Sk 226.6 billion, representing a Sk 12.1 billion drop compared with the figure at the beginning of 1994.

At the end of March, the volume of **crown loans and advances** totalled Sk 253.8 billion, representing both a decrease of Sk 2.0 billion (0.7%) compared with the February figure and a decline of Sk 7.0 billion since the beginning of the year.

The sharpest monthly drop in crown loans, i.e. Sk 2.6 billion (2.1%), was recorded in the government sector. The total volume of crown loans extended to other organizations of the enterprise sector and to the sector of households and individuals decreased by Sk 0.6 billion. Loans and advances to the private sector recorded a Sk 0.7 billion increase, while the volume of loans extended to cover the extrabudgetary expenditures of the central government authorities grew by Sk 0.5 billion.

In March, the volume of **foreign currency loans** increased from Sk 9.7 billion to Sk 10.3 billion, representing a growth of Sk 2.2 billion compared with the figure at the beginning of the year.

The total volume of crown and foreign currency loans reached Sk 264.1 billion by the end of March. After excluding the Sk 4.4 billion worth of loans extended to cover the extrabudgetary expenses of central and local government authorities, the volume of bank lending to the corporate and household sectors amounted to Sk 259.6 billion.

The **monetary policy** of the NBS enabled commercial banks to grant loans and advances to enterprises and households up to the amount of Sk 256.3 billion during the first quarter of 1994. Since February, credit margins have been in force for all financial intermediaries. The credit limit on bank lending to enterprises and households was exceeded by Sk 3.3 billion (1.3%) by 31 March 1994. Compared with the initial figure, the volume of loans decreased by Sk 4.9 billion (index 98.1%) as a result of the Sk 7.0 billion drop in crown loans and the Sk 2.2 billion increase in loans denominated in convertible currencies.

Compared with the corresponding period of last year, the volume of loans extended to enterprises and households by commercial banks recorded an increase of Sk 18.9 billion (index 107.9%) at the end of the first quarter of 1994. The growth rate of foreign currency loans (index 183.9%) exceeded that of crown loans (index 106.0%).

In order to achieve the goals of monetary policy, the NBS continued to use indirect tools as well, i.e. the restriction of refinancing provided to commercial banks, along with the above specified direct methods. These measures were reflected in the volume of NBS refinancing funds provided for commercial banks. By the end of March, the **volume of refinance loans** reached Sk 952.9 million, which represents 15.0% of the initial volume of refinancing, 14.2% of the volume recorded in the corresponding period of last year, and a drop of Sk 2.5 billion compared with the previous month's level. Bills of exchange deals held a dominant 67.7% share (Sk 645.4 million) in the total volume of refinancing, while Lombard loans represented a 32.3% share (Sk 307.5 million). Auction refinance loans were not drawn in the course of March.

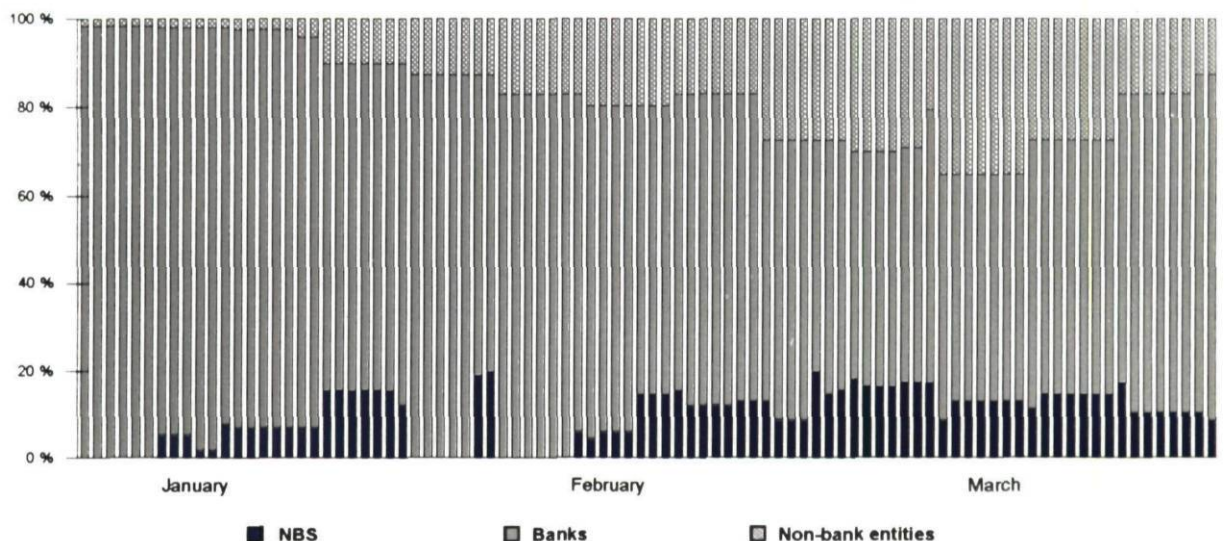
The restrictions on the provision of refinancing funds through **bills of exchange deals**, which were imposed in February, continued to be applied in March. Only repurchase transactions were concluded, as a result of which the volume of bills of exchange deals dropped by Sk 1.1 billion compared with the previous month's figure. The volume of bills of exchange deals for the purpose of privatization decreased to Sk 10.2 million.

Since the beginning of 1994, only in one case has a **Lombard loan** been drawn. It was extended at an interest rate of 19.1%, representing the most recent rate of interest offered on auction refinance loans.

By ordinance of the Auction Committee, no auction was held in March 1994. The average interest rate on auction refinance loans that were extended during the previous month stood at 21.0%. Since the beginning of 1994, the average rate of interest on auction refinancing loans has reached 20.1%.

By 31 March 1994, **redistributive loans** were drawn in the total amount of Sk 33.4 billion.

Share of Individual Investors in the Short-Term Securities Market





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After the introduction of a methodological change in the setting of **minimum reserve requirements** in February 1994, the average monthly level of required reserves was set at Sk 13.99 billion for commercial banks. The average monthly volume of required reserves reached Sk 10.8 billion, which shows a 77.0% compliance with the volume of required reserves for the whole banking sector.

In the course of March, the Ministry of Finance of the SR floated five regular **issues of Treasury bills**. The volume of Treasury bills negotiable on the money market dropped from Sk 6 billion to Sk 3.1 billion during the month. However, this amount was not enough to cover the budget deficit of the Slovak Republic. At the same time, the volume of Treasury bills in the NBS portfolio also decreased, reaching Sk 300 million by the end of the month.

Interest rates on the **primary market** stabilized at a level of 15.5%. The National Bank of Slovakia's dealings in Treasury bills on the secondary market were limited to REPO transactions, restricted to small amounts only. During the month, REPO transactions were the only sources of refinancing the NBS provided to commercial banks.

In March 1994, **government bonds** of the 007 issue continued to be sold through periodic auctions on the capital market. The volume of sales reached Sk 108.9 million, increasing the cumulative sales of bonds to Sk 810.4 million, i.e. 81.0% of the total volume of bond issues.

The volume of government bonds (except state restitution bonds) traded on the Bratislava Stock Exchange (BCPB) reached Sk 3.1 million, representing a 21.8% increase compared with the February level.

IV. THE GOVERNMENT SECTOR

Indicators		1993				1994			
		1st Qtr	1st Half	3rd Qtr	4th Qtr	1993	Jan.	Febr.	March
Budget Revenues ^{1/}	(Sk billions)	23.0	64.4	104.6	144.5	1445	7.1	16.7	32.5
Budget Expenditures ^{1/}	(Sk billions)	34.0	79.2	120.5	167.5	167.5	11.8	23.4	38.5
State Budget Balance	(Sk billions)	-11.0	-14.8	-15.9	-23.0	-23.0	-4.7	-6.7	-6.0

Cumulative values

In March, the **state budget deficit** decreased by Sk 0.7 billion (from Sk 6.7 billion to Sk 6.0 billion) compared with its level at end-February 1994.

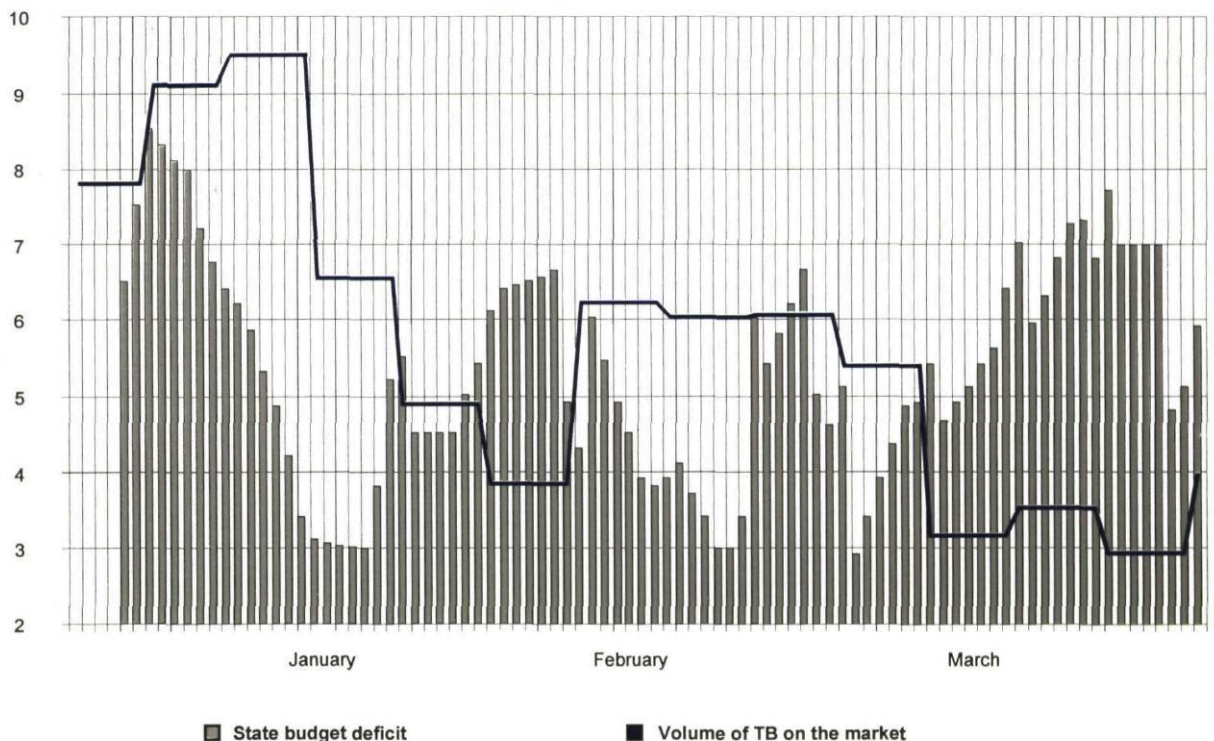
Positive results have been achieved in the field of budget revenues, which recorded an increase of Sk 15.8 billion in March (exceeding the aliquot part of the annual budget by Sk 5.4 billion). The total revenue in three months reached 26.1% of the budgeted amount, exceeding the aliquot part of the budget by Sk 1.4 billion.

In March, the budget expenditures reached Sk 15.1 billion, exceeding the aliquot part of the state budget by Sk 3.6 billion (by Sk 3.9 billion since the beginning of the year). The budget deficit of Sk 6.0 billion was only partly covered by issues and sales of Treasury bills (Sk 3.1 billion). The remaining part (Sk 2.9 billion) was covered by a direct loan extended by the National Bank of Slovakia.

By 31 March 1994, the **net position of the Government vis-a-vis the banking sector** reached a level of Sk 60.3 billion. Of this volume, Sk 52.0 billion was credited by the NBS, the remaining Sk 8.3 billion was extended by commercial banks. Compared with 1 January 1994, the internal indebtedness of the Slovak Government increased by Sk 6.8 billion within a period of three months.

Coverage of the State Budget Deficit by Treasury Bills

(in Sk billions)



V. INFORMATION

- On 30 March 1994, an agreement was signed between the National Bank of Slovakia and the Hungarian National Bank (MNB) on mutual payments and settlements. The interbank agreement was signed by NBS Governor Vladimír Masár and Peter Ákos Bod, President of the MNB. The concluded agreement will simplify the transfer of some non-commercial payments (collection orders) made between Slovak and Hungarian private individuals and/or legal entities. The transfer agreement will enable both sides to use their national currencies for mutual payments of a non-commercial nature.



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NBS Governor Vladimír Masár and Vice-Governor Marian Justko attended the 3rd Annual Meeting of the European Bank for Reconstruction and Development (EBRD), which was held in St. Petersburg on 18th and 19th April 1994. During the meeting, the NBS delegation met Mr. de Larosiere, President of EBRD, Mr. Unwin, President of the European Investment Bank, delegates of the Eximbank of Japan, and representatives of other major commercial banks and investment companies. The delegates of the NBS held 22 bilateral negotiations and attended the presentation given by the Slovak Republic for foreign investors.

- At the end of April, the Swiss National Bank and the National Bank of Slovakia signed a contract of succession for the loan the Swiss Government had granted to the former CSFR for the support of the country's balance of payments and foreign exchange reserves. The signing of this contract has completed the process by which the Slovak Republic is to assume the liabilities arising from the Swiss Government's loan. On the basis of this agreement, the foreign exchange liabilities involved will be met directly by the National Bank of Slovakia within the framework of servicing the national debt of the Slovak Republic.
- On 24 April 1994, Brigita Schmögnerová and Rudolf Filkus, members of the Slovak Government, and NBS Governor Vladimír Masár attended the meeting between the Interim Committee of the International Monetary Fund and the Development Committee of the World Bank in Washington, D.C. During the talks with top IMF and WB representatives, the Slovak delegates concentrated on the conditions of a stand-by loan for Slovakia. Vladimír Masár informed the Committee that the NBS had continued to fulfil its monetary programme, increasing Slovakia's chances of obtaining the stand-by loan. Vladimír Masár met representatives of American-based investment companies and banks with the aim of gaining support for the implementation of both the National Bank of Slovakia's monetary objectives and the recovery plan for the whole Slovak banking sector.

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