



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

MAY 1994

I. THE REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators		1993	1994		
			Q1	April	May
GDP (at constant prices)	Value (Sk ^{2/} billions)	172.2	43.1		
	Growth rate (%) ^{1/}	-4.1	3.6		
Output ^{1/}	Industrial production (%)	-13.5	2.6	-0.5	9.2
	Construction (%)	-23.8	-11.3	-18.5	-11.8
Unemployment	Number (thous. of persons)	368.1	370.5	361.1	354.0
	Unemployment rate (%)	14.4	14.5	14.2	13.9
Foreign Trade ^{3/} (f.o.b.)	Exports (Sk billions)	95.5	26.7	36.3	
	Imports (Sk billions)	125.4	33.1	43.6	
	Balance (Sk billions)	-29.9	-6.4	-7.3	

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

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

^{3/} Cumulative values

In May, the **rate of inflation** reached 0.6%, representing a 3.6% increase since the beginning of the year. In comparison with the figure for May 1993, the inflation rate increased by 13.9%.

The growth of inflation was mainly a result of the 0.9% increase in food prices (compared with the 0.4% rise in April) and the 0.4% price advance in public catering (compared with 0.1% in April). The rate of increase in the prices of industrial goods remained at the previous month's level (an increase of 0.5% was recorded).

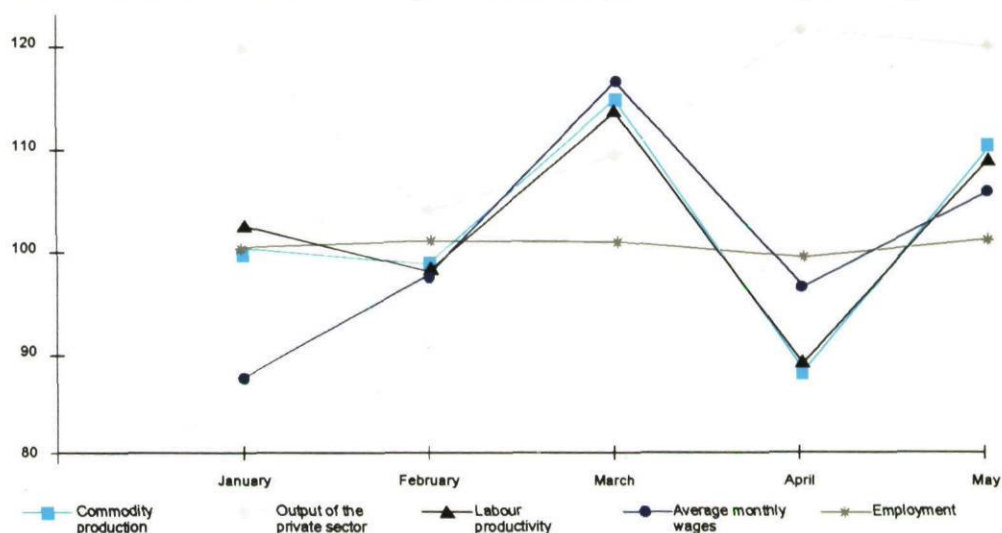
In May, the volume of **industrial production** reached Sk 33.6 billion, representing a Sk 3.2 billion increase (i.e. 10%) compared with the April's figure. Compared with May 1993, the output of industrial production increased by Sk 2.8 billion (i.e. by 9.2%).

The achieved results were mainly due to the accelerated development of the private sector, which recorded a growth of 16.8% compared with May 1993, representing an increase of 19.6% compared with last month's figure.

A favourable development was recorded in labour productivity per employee, which increased by Sk 4,975 (i.e. 8.9%) in absolute terms compared with last month's figure. In comparison with May 1993, the productivity of labour increased by 11.6%.

Parallel with the growth of production, the volume of sales also experienced a considerable increase, reaching Sk 35.1 billion at the end of May. Compared with the corresponding period of last year, the volume of sales in May was 12.0% higher, exceeding last month's level by 9.7%. The volume of exports amounted to Sk 14.6 billion, representing an increase of Sk 1.9 billion (14.7%) compared with the figure for May 1993. In comparison with April, exports grew by 13.9%, representing an absolute increase of Sk 1.9 billion.

Basic Indicators of Industrial Development in the SR (in %, index - the previous period = 100)



Source: National Bank of Slovakia

The **output of the construction sector** reached Sk 3.4 billion and was 13.2% (Sk 404 million) higher than in April, but it lagged behind last May's figure by 11.8%.

The productivity of labour in construction reached Sk 25,626, representing a Sk 3,939 (18.1%) increase compared with April's figure; however, it remained below the May 1993 level by Sk 443 (1.7%).

Compared with the April results, both domestic and foreign construction orders experienced an increase. The former increased by 20% (Sk 398 million) and the latter by 7.7% (Sk 17 million). However, the volume of construction work remained below the May 1993 level (domestic by 11.4%, abroad by 12.9%).

The **rate of unemployment** dropped from 14.2% in April to 13.9% in May. The number of registered unemployed fell by 7.1 thousand and totalled 354 thousand in May. The number of jobless persons per vacancy dropped from 36.2 to 34.8.

II. THE EXTERNAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators	1993	1994		
		Q1	April	May
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-17.7	-4.1	-3.9	
Foreign Exchange Reserves ^{2/} (USD millions)				
Banking system	1,402.2	1,490.2	1,565.9	1,684.9
Commercial banks	952.7	1,015.7	1,032.1	1,073.7
NBS ^{3/}	449.5	474.5	533.8	611.2
Gross Foreign Debt ^{2/} (USD billions)	3.6	3.6		
Average Exchange Rates ^{4/}				
SKK/USD	32.968	33.160	32.827	32.436
SKK/DEM	19.283	19.241	19.331	19.556

^{1/} Cumulative values

^{2/} End of period

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

^{4/} Exchange rate midpoint

In the first four months of 1994, Slovakia's **consolidated balance of payments** reached a surplus of Sk 2.8 billion.

The favourable balance on current account (Sk 1.8 billion) was due primarily to the services balance (Sk 4.9 billion) and current transfers (Sk 1.7 billion). The current account balance was unfavourably influenced by the foreign trade deficit (Sk -3.9 billion) and the income deficit (Sk -0.9 billion).

The unfavourable balance of the capital and financial account (Sk -9.2 billion) was mainly caused by an outflow of short-term capital within the corporate sector.

At end-May 1994, the volume of **foreign exchange reserves** held by the National Bank of Slovakia (excluding gold) reached USD 640.2 million. The foreign exchange reserves of Slovak commercial banks totalled USD 1,075.71 million on the same day. The total foreign exchange reserves held by the NBS (including gold) and the commercial banking system amounted to USD 2,130.8 million.

III. MONETARY DEVELOPMENTS

Indicators	1993	1994		
		Q1	April	May
Inflation Rate				
Monthly (%) ^{1/}			0.4	0.6
Yearly (%) ^{2/}	25.1	2.6	3.0	3.6
Money Supply M2 ^{3/} (%) ^{7/}	18.1 ^{4/}	-2.4	-1.5	-0.7
Credits from Commercial Banks (%) ^{7/}	13.0 ^{4/}	-1.8	-1.5	-1.4
Deposits with Commercial Banks (%) ^{7/}	18.3 ^{4/}	-5.0	-2.7	-2.5
Discount Rate (%) ^{5/}	12.0		12.0	12.0
Lombard Rate (%) ^{6/}	14.0		19.1	20.1
Average Interbank Deposit Interest Rates				
SKIBOR (%)				
1-day deposits	16.73 ^{8/}	20.00	27.94	23.62
7-day deposits	17.20 ^{8/}	20.54	28.49	24.36
14-day deposits	17.50 ^{8/}	20.73	28.61	24.90
1-month deposits	17.86 ^{8/}	20.90	28.42	25.57

^{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/} Monthly average

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

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

At the end of May, the money supply of the Slovak economy expressed by the **monetary aggregate M2** reached Sk 249.6 billion, representing an increase of Sk 2.0 billion (0.8%) compared with the end-of-month figure for April 1994. The money supply dropped by Sk 3.6 billion compared with the level at the beginning of the year.

As far as the structure of the **monetary aggregate M1** is concerned, the amount of currency dropped by Sk 1.1 billion, while quasi-money increased by Sk 3.1 billion.

The decline in the monetary aggregate M1 was a result of the Sk 1.3 billion drop in demand deposits, representing a decrease of 1.7% compared with the previous month. The amount of currency in circulation outside banks recorded a moderate increase (Sk 0.2 billion), reaching Sk 28.8 billion at the end of May.

Quasi-money - the second basic component of the money supply - increased by Sk 3.1 billion (2.2%) in May, including an increase of Sk 2.0 billion (1.8%) in time deposits and a Sk 1.1 billion (3.4%) growth in the foreign currency deposits of Slovak residents converted at the current rate of exchange.

The **crown deposits** of non-bank entities with commercial banks and the NBS reached Sk 197.4 billion, representing a drop of Sk 1.0 billion (0.5%) compared with the April figure. From the beginning of the year till the end of May, the overall decline in crown deposits amounted to Sk 11.5 billion.

The general decline in deposits was caused by the Sk 2.2 billion drop in the volume of deposits held by the National Property Fund and the Sk 1.4 billion decrease in the deposits of organizations under foreign control and those not incorporated into sectors. This decline in deposits was partly offset by a Sk 1.7 billion increase in private sector deposits, and a Sk 1.0 billion increase in deposits held by central and local government authorities, the public sector, and households.

The **foreign currency deposits** of residents and non-residents recorded a monthly increase of Sk 1.1 billion, representing a cumulative increase of Sk 0.5 billion compared with the May 1993 figure. The overall increase in foreign currency deposits was caused by the Sk 0.6 billion increase in deposits held by private individuals. These deposits had an 83.2% share in the total volume of foreign currency deposits.

At end-May 1994, the total volume of crown and foreign currency deposits reached Sk 232.6 billion.

At the end of May, **crown loans and advances** extended to the customers of commercial banks and the NBS reached Sk 254.4 billion, representing an increase of 0.2% (Sk 0.4 billion) compared with last month's figure. In comparison with the level at the beginning of the year, loans in crowns dropped by Sk 6.4 billion (i.e. 2.6%). However, the volume of crown loans increased by Sk 2.9 billion compared with the May 1993 figure. As far as the sectoral structure of crown loans is concerned, the volume of loans extended to the public sector recorded a drop of Sk 0.4 billion, while lending to unincorporated organizations decreased by Sk 0.6 billion. Loans granted to the private sector increased by Sk 0.9 billion, while those extended to the local bodies of the government sector grew by Sk 0.7 billion. The higher instalments of loans provided to households and individuals during the previous years reduced their volume by Sk 0.2 billion.

Loans in foreign currency decreased by Sk 0.2 billion (1.8%), reaching Sk 10.7 billion by the end of the month. Compared with the figure at the beginning of the year, the total volume of these loans increased by Sk 2.6 billion (i.e. 32.1%).

The **total volume of crown and foreign currency loans** reached Sk 265.1 billion at the end of May. Excluding the loans granted to cover the extra-budgetary needs of central and local authorities in the amount of Sk 4.7 billion, the volume of loans provided to organizations and private residents amounted to Sk 260.4 billion.

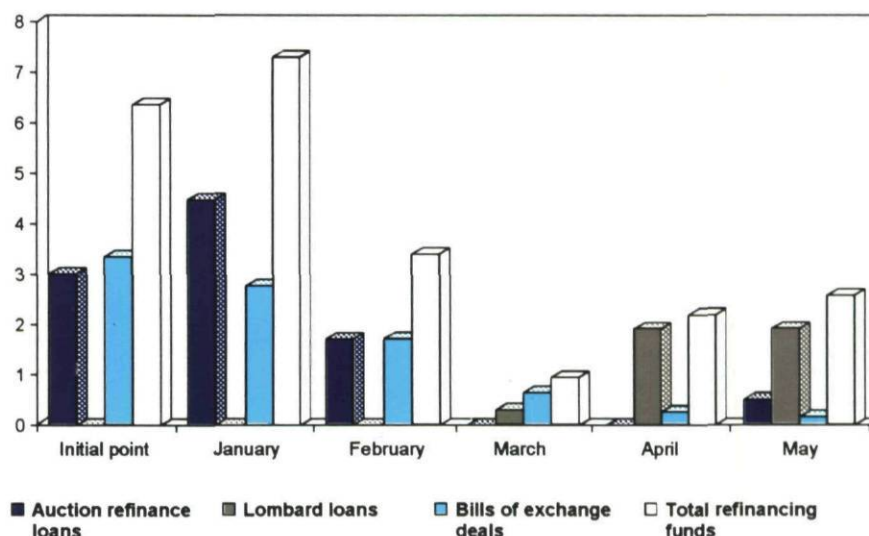
For the period of the second quarter of 1994, the credit limit for bank lending to companies and households was set at Sk 264.8 billion for the whole the banking sector. The credit limit was utilized at 98.3%, i.e. the actually recorded amount of loans was Sk 260.4 billion.

Compared with the initial amount, the volume of loans extended to enterprises and households dropped by Sk 4.1 billion as a result of the Sk 6.6 billion decrease in crown loans and the Sk 2.5 billion increase in foreign currency loans.

At the end of May, commercial banks extended loans to enterprises and households in an amount exceeding that of the corresponding period of last year by Sk 13.0 billion. Crown loans recorded an increase of 3.6%, while lending in foreign currency increased by Sk 68.3%.

The refinancing of commercial banks was freed to a certain extent in May. The total volume of provided refinancing funds increased by Sk 0.4 billion by the end of May, compared with the previous month's figure. The volume of refinance loans reached Sk 2.6 billion, representing 40.8% of the initial amount recorded at the beginning of the year. Lombard loans had a 74.0% share (Sk 1.9 billion) in the total volume of refinancing, while auction refinance loans represented a 19.3% share (Sk 0.5 billion) and bills of exchange deals accounted for 6.7% (Sk 0.2 billion).

Development of Refinancing (Sk billions)



Source: National Bank of Slovakia

In May, **Lombard loans** had a dominant share in bank lending, reaching the highest average volume (Sk 1.9 billion) since the beginning of the year. The average interest rate for the period since the beginning of the year reached 20.0%.



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In the last two weeks of May, two auctions for **refinancing loans** were organized. The amount of refinancing funds offered at these two auctions was Sk 0.5 billion. The rates of interest ranged from 22.0% to 23.1%. During this five-month period of the year, the average rate of interest on auction refinance loans reached a level of 20.3%.

At the beginning of May, refinancing funds were offered through **bills of exchange deals** for the support of agriculture (in the amount of Sk 0.5 billion) and export promotion for small and medium-sized businesses (in the amount of Sk 0.8 billion).

Within the framework of global refinancing, the average rate of interest for the period from the beginning of the year to end-May was 16.2%.

Issue **resources of a redistributive nature** represented a total amount of Sk 33.4 billion.

In the course of May, emergency loan was drawn only in one case (in the minimum amount of Sk 11.9 thousand).

In May, the Ministry of Finance of the Slovak Republic floated four regular issues of **Treasury bills**. The amount of Treasury bills negotiable on the market increased from Sk 3.5 billion to Sk 7.3 billion. The share of Treasury bills held in commercial banks reached 95%. The average interest rate on the primary market for Treasury bills dropped to 14.32%.

In May, **government bonds** issued to finance housing projects continued to be sold on the primary market through periodic auctions. The volume of sales reached Sk 66.6 million, increasing the cumulative sales of bonds to Sk 0.9 billion, i.e. 89.8% of the total volume of bond issues.

The Bratislava Stock Exchange (BCPB) marketed government bonds issued to finance the Hydroelectric Project at Gabčíkovo. The volume of sales reached Sk 0.6 million. The government bonds were traded and sold at an unchanged price calculated as 122% of the nominal value, which ensured a net yield of 14.1% by the date of maturity at the beginning and the end of the month.

IV. THE GOVERNMENT SECTOR

Indicators		1993	1994		
			QI	April	May
Budget Revenues ^{1/}	(Sk billions)	144.5	32.5	48.4	58.8
Budget Expenditures ^{1/}	(Sk billions)	167.5	38.5	52.2	61.1
State Budget Balance	(Sk billions)	-23.0	-6.0	-3.8	-2.3

^{1/}Cumulative values

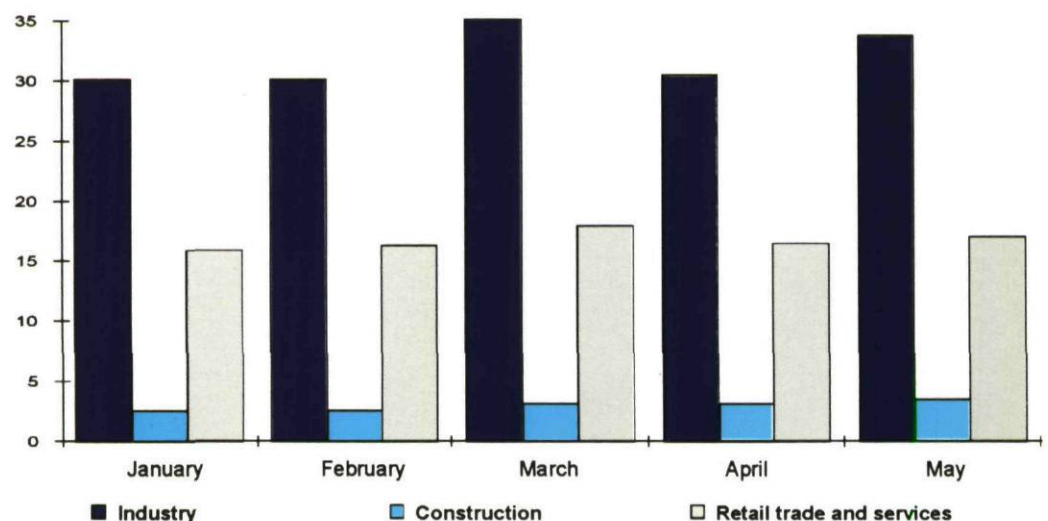
In May, the **state budget deficit** decreased by Sk 1.5 billion (from Sk 3.8 billion to Sk 2.3 billion).

Budget receipts in May totalled Sk 10.4 billion, exceeding the aliquot part of the annual budget by Sk 7 billion. The budget expenditures were Sk 2.6 billion lower than the budgeted amount, however, the total budget expenditures for the five-month period were exceeded by Sk 3.4 billion. The state budget deficit was Sk 3.5 billion lower than the time based assessments of the Slovak Republic's annual budget deficit.

The amount of Treasury bills traded on the money market (Sk 7.3 billion) was sufficient to fully cover the budget deficit and to create public resources amounting to Sk 5.0 billion in the National Bank of Slovakia.

The **net position of the Government vis-a-vis the banking sector** reached a level of Sk 53.1 billion. Of this volume, Sk 44.0 billion was credited by the NBS, the remaining Sk 9.1 billion was granted by commercial banks. In May, the internal indebtedness of the Government dropped by Sk 1.0 billion.

Performance of Industry, Construction, and Retail Trade (Sk billions)



Source: National Bank of Slovakia

V. INFORMATION

Vladimir Masár, Governor of the National Bank of Slovakia, attended the annual meeting of the Bank for International Settlements held in Basel on 11 June 1994.

- On 13 June 1994, Brigita Schmögnerová, Vice-Chairwoman of the Slovak Government, Rudolf Filkus, Minister of Finance, and Marian Jusko, Vice-Governor of the National Bank of Slovakia, signed the Memorandum of Economic Policy, which is a commitment made by the Slovak Government in order to obtain a stand-by loan from the International Monetary Fund. The USD 169 million stand-by loan was approved on 22 July 1994. The first tranche of the loan in the amount of USD 22 million is already at Slovakia's disposal.



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At its 20 June 1994 meeting, the Board of the NBS approved the Provisions of the NBS, which define the conditions of foreign exchange transactions effected by commercial banks. The NBS Provisions relate to the trading activities of commercial banks and branches of foreign banks operating in the Slovak Republic in foreign securities on their own or customers' accounts. The approved Provisions of the NBS lay down the conditions of trading in foreign securities, provide a clear explanation of the provisions of the Foreign Exchange Act concerning this field of activity of foreign exchange banks, and set unambiguous terms for trading in foreign securities on own account.

On 24 June 1994, an intergovernmental agreement was signed in Moscow on the settlement of the national debt owed by the former Soviet Union and the Russian Federation to the Slovak Republic. The debt owed by Russian enterprises to Slovakia will be settled through the capitalization of a part of Russia's debt and the delivery of goods from Russia.

The Government of the Slovak Republic has approved the figures for the preparation of the state budget of the Slovak Republic for 1995. The proposal is based on the following expectations: GDP growth - up to 2%, inflation - up to 8%. The state budget for 1995 is planned with a deficit, which should not exceed 3% of the gross domestic product (GDP). According to the Government, a 15% unemployment rate is to be expected in 1995.

At the beginning of July, the Japanese rating agency Japan Bond Research Institute assigned a preliminary rating of BBB to the Slovak Republic represented by the National Bank of Slovakia. This classification, which is within the investment range of the rating scale, makes it possible for Slovakia to enter the Japanese public bond market "Samurai" through the National Bank of Slovakia. The favourable result of rating improves the credibility of Slovakia and encourages the inflow of foreign capital into the country.

- The decision of the NBS Board on changing the original five-component currency basket used for setting the daily exchange rates of the Slovak crown against freely convertible currencies, into a two-component basket came into force on 15 July 1994. The currency basket consists of two currencies - USD (weight ratio 40%) and DEM (60%). The new basket of currencies will adequately express the Slovak Republic's balance of payments, and create better conditions for the assessment and management of the exchange risks of banks and entrepreneurs.
- On 15 July 1994, NBS Governor Vladimír Masár met Gabriel Singson, Governor of the Philippine Central Bank, and Gunter Schulz, Vice-President of the Asian Development Bank, in Manila. During the meeting, the three executives discussed the possibilities of establishing mutual cooperation between their institutions.

Representatives of the European Bank for Reconstruction and Development (EBRD), the National Property Fund of the Slovak Republic, and the Slovalco joint-stock company signed an agreement on a USD 110 million loan earmarked for the modernization of aluminium production at the SNP Aluminium Works of Ziar nad Hronom. The loan represents the highest amount provided by EBRD for a single project and it will be drawn in three tranches. For EBRD, the modernization of the production technology will be guaranteed by the Norwegian company Hydroaluminium.

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