



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY
AUGUST 1994

I. THE REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators		1993	1994			
			Q1	M1	July	August
GDP (at constant prices)	Value (Sk ^{2/} billions)	172.2	43.1	45.5 ^{7/}		
	Growth rate (%) ^{1/}	-4.1	3.6	5.6 ^{7/}		
Output ^{1/}	Industrial production (%)	-13.5	2.6	6.7	15.2	7.5
	Construction (%)	-23.8	-11.3	-11.5	-5.7	-0.4
Unemployment	Number (thous. of persons)	368.1	370.5	360.0	370.4	366.5
	Unemployment rate (%)	14.4	14.5	14.1	14.5	14.4
Foreign Trade ^{3/} (f.o.b.)	Exports (Sk billions)	95.7	26.7	60.5		
	Imports (Sk billions)	125.9	33.1	68.0		
	Balance (Sk billions)	-30.2	-6.4	-7.5		

^{1/} Change compared with the corresponding period of last year, ^{2/} Sk - abbreviation of the Slovak crown, ^{3/} Cumulative values, ^{7/} Q 2

In August, the growth of **consumer prices** was affected by measures following the Government's decision to increase tariff rates, to modify VAT rates and consumer tax imposed on beer, liquor, tobacco and hydrocarbon products, as well as by the complications in agriculture, particularly in stock-breeding. Compared with last month's figure, the consumer price index doubled, and the rate of inflation increased by 1.4%. In comparison with the figure at the beginning of 1994, the rate of consumer price inflation rose by 6.3%. Compared with the same period of last year, consumer prices rose by a total of 12.4%.

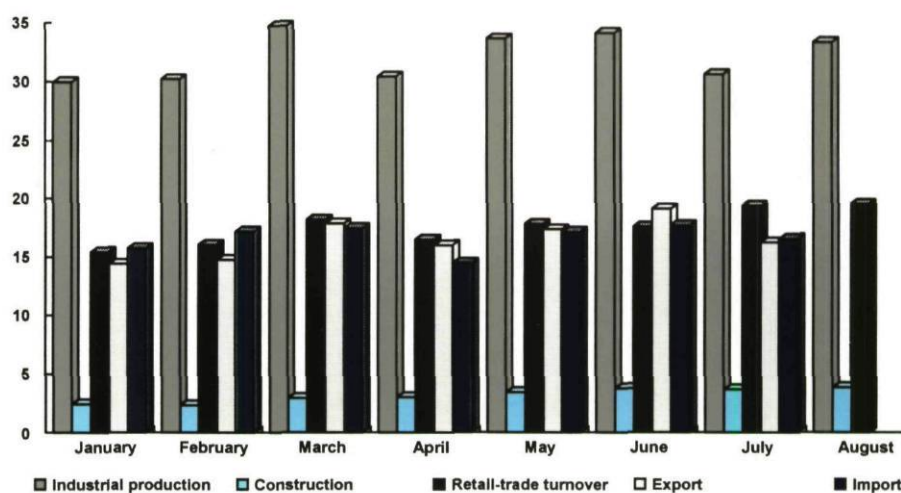
The growth of consumer prices can be attributed to the 2.9% increase in food prices, and price increases in public catering (1.5%) and services (1.0%). The rate of increase in the prices of industrial goods remained at the previous month's level (0.6%).

The total volume of **industrial production** (Sk 33.3 billion) in August and the related economic indicators can be characterized as follows:

- in comparison with July's figure, the output of industrial production grew by 7.1% (Sk 2.7 billion), representing an increase of 7.5% (Sk 2.3 billion) compared with the production volume in the corresponding period of last year;
- the private sector's share of the total output of industrial production continued to grow in August (25.0% in January, 55.7% in July, and 57.4% in August);
- as there were more working days in the month under consideration than in July, the value of daily production dropped by Sk 17 million (2.6%) to Sk 1,515 million; however, the average daily production was Sk 106 million higher (7.5%) than in the corresponding period of last year;
- compared with last month's figure, the labour productivity per worker (Sk 56,227) grew by 6.9% (Sk 4,482), representing a 7.1% (Sk 3,728) increase in comparison with the August 1993 level;
- the total sales volume of companies with at least 25 employees amounted to Sk 34 billion, exceeding the July figure by Sk 2.4 billion (5.8%) and that of August 1993 by Sk 1.9 billion (5.8%);
- commensurate with the development of sales, the volume of exports increased to Sk 14.2 billion, exceeding the July level by Sk 1.4 billion (9.1%) and that of August 1993 by Sk 964 million (7.3%);
- there was a favourable trend in the development of labour productivity and the growth of average a labour productivity recorded an increase of 10.2% (Sk 5,141).

Macroeconomic Indices

(Sk billions)



The **output of the construction sector** reached Sk 3.8 billion, exceeding last month's figure by Sk 167 million (3.4%), but falling behind the August 1993 figure by Sk 15 million (0.4%).

The development of the basic indicators of the construction sector can be illustrated as follows:

- compared with last month's figure, the average daily production fell by Sk 9 million (6%) and



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- totalled Sk 175 million, representing a Sk 1 million (0.4%) decline compared with the corresponding period of last year;
- the share of the private sector in the total output of the construction sector increased from 65.9% in January to 76.9% in August 1994;
- the labour productivity per worker (Sk 25,078) experienced an increase of 2.6% (Sk 636) compared with July's figure, and 3.6% (Sk 871) compared with the same period of 1993;
- the volume of domestic construction projects completed by companies with at least 25 employees increased by Sk 40 million (0.5%); however, it remained below the August 1993 level by Sk 226 million (8.4%);
- the volume of foreign construction orders increased by Sk 48 million (13.8%) compared with last month's figure, exceeding the August 1993 level by Sk 141 million (55.3%);
- the average monthly wages in construction (Sk 6,967) were Sk 170 (2.5%) higher than in July, while labour productivity per worker recorded an increase of 4.9% (Sk 1,288);

In August, the **rate of unemployment** decreased to 14.4%. The number of registered unemployed fell by 3.9 thousand, totalling 366.5 thousand. The number of newly registered unemployed dropped by 9.5 thousand, while the number of those removed from the register increased by 4.8 thousand compared with the previous month's figures. The number of newly employed rose by 1.6 thousand, reaching 7.8 thousand at the end of August. The number of vacancies increased by 400, reaching a total of 11.8 thousand. The number of unemployed school-leavers and university graduates grew by 2.2 thousand in August.

II. THE EXTERNAL ECONOMY

Indicators	1993	1994			
		Q1	M1	July	August
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-21.1	-4.1	-2.4		
Foreign Exchange Reserves ^{2/} (USD millions)					
Banking system	1,402.2	1,490.2	1,851.3	2,280.2	2,381.2
Commercial banks	952.7	1,015.7	1,162.1	1,159.4	1,089.7
NBS ^{3/}	449.5	474.5	689.2	1,120.8	1,291.5
Gross Foreign Debt ^{2/} (USD billions)	3.6	3.6	3.6	4.0	
Average Exchange Rates ^{4/}					
SKK/USD	32.968	33.160	32.806	31.511	31.423
SKK/DEM	19.283	19.241	19.389	20.075	20.087

1/ Cumulative values, 2/ End-of-period figures, 3/ Including gold at a book value of 42.22 USD/oz, 4/ Exchange rate midpoint

The overall **balance of payments** for the first half of 1994 reached a surplus of Sk 7.9 billion. The current account surplus (Sk 6.7 billion) was mainly a result of the balance of trade (Sk -1.5 billion) and services (Sk +8.3 billion). The surplus of the services balance was due primarily to the favourable balance of transportation (Sk +5.9 billion) and travel (Sk +4.0 billion).

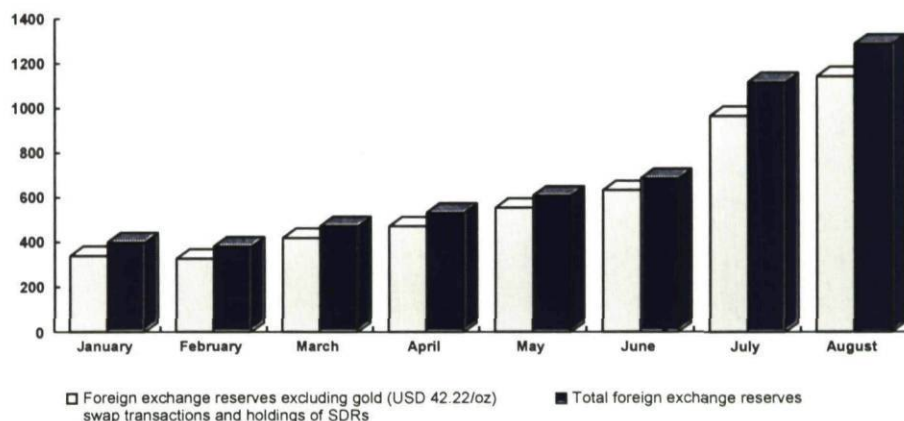
The capital and financial account generated a deficit of Sk 16.5 billion. The unfavourable balance of the capital account was a result of the short-term capital account and the clearing account balance with the Czech Republic.

At end-August 1994, the **total foreign exchange reserves of the NBS** reached USD 1,291.5 million (or USD 1,237 million excluding gold), representing an increase of USD 170.7 million compared with the previous month's level. The development of reserves was positively affected by the following factors:

- a transfer made by the Czech Republic for exceeding the ceiling on credit in the clearing account by USD 94.2 million,
- the USD 83.6 million surplus in the NBS foreign exchange fixing,
- the USD 2.6 million increase in the volume of accepted deposits.

Development of Foreign Exchange Reserves of the NBS

(USD millions)



III. MONETARY DEVELOPMENTS

Indicators	1993	1994				
		Q1	M1	July	August	
Inflation Rate	Monthly (%) ^{1/}	25.1	2.6	-0.1	0.7	1.4
	Yearly (%) ^{2/}				4.9	6.3
Money Supply M2 ^{3/} (%) ^{7/}	18.1 ^{4/}	-2.4	-0.1	2.4	3.7	
Credits from Commercial Banks (%) ^{7/}	13.0 ^{4/}	-1.8	-2.3	-2.2	-1.6	
Deposits with Commercial Banks (%) ^{7/}	18.3 ^{4/}	-5.0	-1.8	0.7	2.3	
Discount Rate (%) ^{5/}	12.0	12.0	12.0	12.0	12.0	
Lombard Rate (%) ^{6/}	14.0			13.8	13.1	
Average Interbank Deposit Interest Rates						
SKIBOR (%)	16.73 ^{8/}	20.00	20.82	8.33	7.00	
		20.54	21.47	9.29	7.98	
		20.73	21.89	10.34	8.97	
		20.90	22.34	12.18	11.55	

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 August, the **money supply** of the Slovak economy expressed by the **monetary aggregate M2** reached Sk 262.7 billion, representing an increase of Sk 3.5 billion (1.4%) compared with the previous month's figure. Increases were recorded in both basic components of the money supply. Compared with last month's figures, the **monetary aggregate M1** grew by Sk 1.7 billion (1.5%), while **quasi-money** recorded a Sk 1.8 billion increase, reaching Sk 150.2 billion at the end of August.

A breakdown of M1 indicates that the amount of currency in circulation outside banks increased by Sk 0.8 billion (2.6%). The volume of currency in circulation reached Sk 31.8 billion, representing a Sk 6.7 billion growth since the beginning of the year. The volume of demand deposits increased by Sk 0.9 billion (excluding the extrabudgetary resources of local authorities), reaching Sk 80.7 billion at the end of August.

Within the framework of quasi-money, foreign currency deposits grew at a faster rate than those of crown time deposits. Of the total increase, the foreign currency deposits of residents (converted at the current rate of exchange) grew by Sk 0.9 billion (an increase of 2.6%), while crown deposits experienced an increase of Sk 0.9 billion (0.8%).

At end-August 1994, the **crown deposits** of nonbank entities reached Sk 207.1 billion, representing an increase of Sk 3.0 billion compared with the previous month's figure. The volume of these deposits remained below the level recorded at the beginning of the year by Sk 1.8 billion. In comparison with last August, when crown deposits suffered a decline of Sk 2.0 billion, this year's results were more favourable.

The favourable development of crown deposits in August is attributable to increases in deposits held by public sector enterprises (Sk 1.6 billion), the deposits of central and local authorities (Sk 1.5 billion), and in deposits held by organizations under foreign control and those not included in sectors (Sk 0.2 billion). Government sector deposits dropped by Sk 0.9 billion. Deposits held by households and individuals increased by Sk 0.6 billion.

The **foreign currency deposits** of residents and nonresidents increased from Sk 36.5 billion to Sk 37.3 billion. In comparison with the figure recorded at the beginning of 1994, the volume of these deposits grew by Sk 7.5 billion, representing a 25.2% increase in relative terms.

The **total volume of deposits** in crowns and foreign currencies increased by Sk 3.8 billion (1.6%), reaching Sk 244.4 billion at the end of August.

At the end of August, the **total volume of crown credits** reached Sk 252.0 billion, representing an increase of Sk 0.7 billion compared with the previous month's figure. Thus the total decline in crown lending since the beginning of the year dropped to Sk 8.8 billion.

The growth in the volume of crown credits in August consisted of loans extended to the private sector (Sk 0.9 billion), loans to central and local authorities for extrabudgetary purposes (Sk 0.1 billion), and credit extended to the public sector (Sk 0.1 billion). Increases were also recorded in loans granted to other business organizations (Sk 0.2 billion) and in loans to households (Sk 0.2 billion).

Declines in lending activities were reported by two major Slovak banks, where loans and advances decreased by Sk 0.7 billion. Increases in crown credits were reported by Slovak banks with foreign capital participation (Sk 0.8 billion) and by branches of foreign banks (Sk 0.6 billion).

Compared with July's figure, **bank credit in foreign currency** increased by Sk 0.9 billion (7.8%), reaching Sk 12.5 billion at the end of August. Compared with the level at the beginning of the year, the volume of these credits increased by Sk 4.4 billion (54.3%).

At the end of August, the **total volume of crown and foreign currency credits** reached Sk 264.5 billion. Of this volume, bank credit extended to organizations and households amounted to Sk 260.2 billion.



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For the third quarter of 1994, the credit limit for bank lending to enterprises and households was set at Sk 269.2 billion. In August, the credit limit allowed commercial banks to extend loans and advances in the total amount of Sk 267.8 billion. This limit was utilized to 97.1%, while Sk 7.7 billion remained undrawn.

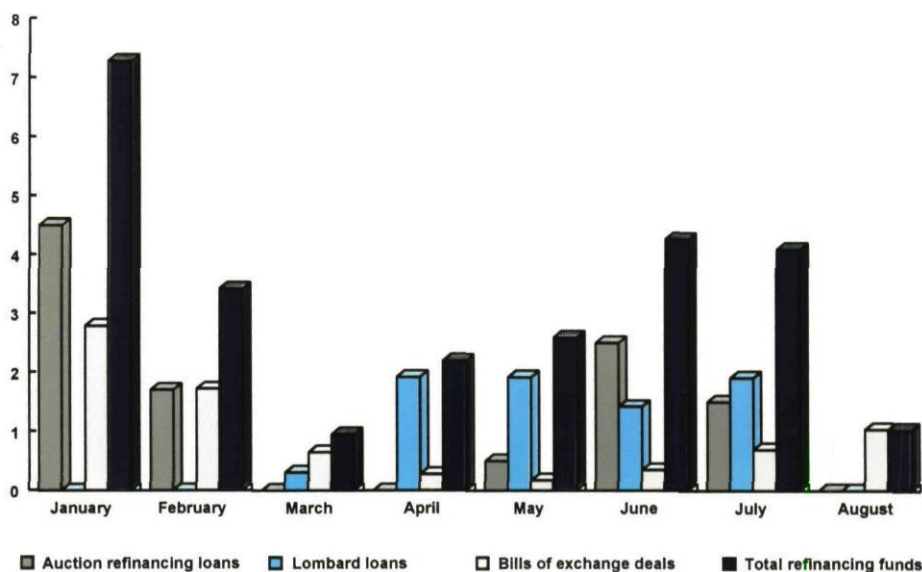
In August, the **refinancing of commercial banks** was restricted. At end-August 1994, the total volume of refinancing funds reached Sk 1.0 billion, representing a monthly decline of Sk 3.1 billion. The NBS stopped the refinancing of banks through auction refinancing loans. The average monthly volume of auction refinance loans reached Sk 0.5 billion, at an average monthly lending rate of 12.5%.



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Development of Refinancing

(Sk billions)



Lombard loans were not offered in the course of August. The only form of refinancing applied in August were **bills of exchange deals** for the support of agriculture. The bills of exchange limit was increased from the original Sk 0.5 billion to Sk 1.5 billion. By the end of August, refinancing funds offered through bills of exchange deals were utilized at 33.3%, representing an amount of Sk 0.5 billion. Bills of exchange deals for export promotion were utilized at 62.5%, which represents Sk 0.5 billion. The value of bills of exchange discounted for the support of privatization totalled Sk 8.5 million, representing a drop of Sk 1.5 million compared with the previous month's figure.

In August, **redistributional issue resources** were drawn in the total amount of Sk 33.4 billion, as in the previous month.

For the month of August, the **required minimum reserves** were set at Sk 13.1 billion for the whole banking sector. The reserve requirement was fulfilled to 101.8%, i.e. the actual volume of reserves reached Sk 13.3 billion.

In the course of August, the Ministry of Finance of the SR floated six regular issues of **Treasury bills** in the short-term securities market. The total number of Treasury bills negotiable in the market reached 18,259 by 25 August 1994, with a total book value of Sk 18.1 billion, representing the greatest volume of Treasury bills traded in the short-term securities market since the beginning of 1994. The increased demand for Treasury bills resulted in a slight increase in the average interest rates on auctioned Treasury bills. The interest rate on a twelve-week issue increased by 0.4% compared with the same issue of last month.

In August, the subscription of **government bonds** of the 008 issue began in order to cover the 1993 state budget deficit. The volume of the bond issue was not limited. By end-August 1994, the amount of subscribed bonds reached Sk 1.7 billion. The most liquid bonds traded on the Bratislava Stock Exchange (BCPB) were government bonds of the 006 issue, with a total volume of sales reaching Sk 199.5 million. Direct transactions were concluded in the total amount of Sk 197 million. The average price of these bonds ranged from 103.0% to 103.5% of their nominal value. At these prices, the net yield upon maturity ranged between 15.5% and 15.1%.

At the end of August, the net position of the economy vis-à-vis the NBS was as follows:

- the **net foreign exchange position** of the NBS improved by Sk 3.5 billion (due to an increase in assets and a drop in liabilities), and changed from a debit balance of Sk 3.4 billion into a credit balance of Sk 0.1 billion.
- the **net debit balance of commercial banks** fell by Sk 3.6 billion, with liabilities amounting to Sk 21.8 billion.
- the **net debt of the government sector** increased by Sk 1.7 billion, totalling Sk 46.4 billion.

IV. THE GOVERNMENT SECTOR

Indicators		1993	1994			
			Q1	M1	July	August
Budget Revenues ^{1/}	(Sk billions)	144.5	32.5	67.8	81.3	90.7
Budget Expenditures ^{1/}	(Sk billions)	167.5	38.5	78.3	91.9	105.7
State Budget Balance	(Sk billions)	-23.0	-6.0	-10.5	-10.6	-15.0

^{1/} Cumulative values

In August, the **state budget deficit** of the Slovak Republic increased by Sk 4.4 billion (from Sk 10.6 billion to Sk 15.0 billion), as a result of Slovakia's increased balance surplus resulting from clearance with the Czech Republic (the equivalent of Sk 3.0 billion, by which the credit limit was exceeded was repaid by the Czech Republic on 5 September 1994). Compared with the end-July figure, the total budget revenue increased by Sk 9.4 billion; however, it remained below the budgeted level by Sk 1.8 billion. The budget revenue was fulfilled at 67.4%, exceeding the aliquot part of the annual budget by Sk 0.9 billion.

In August, the budget expenditure reached a level of Sk 10.8 billion (falling behind the time based assessments of the annual budget by Sk 1.6 billion). Of this amount, social expenditures accounted for 85.1%, investment costs of budgetary organizations reached 84.4%, and investment subsidies granted to the enterprise sector represented 80.9%. The total budget expenditure, including the effects of clearing, was fulfilled at 71.1% (exceeding the budgeted amount by Sk 6.6 billion), while the budget deficit reached a level of Sk 15.0 billion by 31 August 1994. After deducting the amount that the SR "credits" to the Czech Republic in the clearing account, the budget deficit dropped to Sk 6.6 billion. For the end of August, a balance of Sk 9.3 billion was expected for the 1994 state budget.

The **internal debt of the Government vis-à-vis the banking sector** reached a level of Sk 64.6 billion, representing an increase of Sk 2.6 billion compared with the previous month's level. Of this amount, the National Bank of Slovakia credited Sk 46.4 billion, the remaining Sk 18.2 billion was provided by commercial banks.

V. INFORMATION

Questions concerning the development of Slovakia's banking sector were the main topics discussed at the professional seminar held in Bratislava in the third week of September. The seminar was attended by Robert Rocha, World Bank representative for Hungary, who works in Budapest. Mr. Rocha informed chief executives and senior officials of commercial banks of the World Bank's complex programme for restructuring the banking sectors in Central European countries. Slovakia's banking sector received a positive evaluation. Mr. Stefan Adamec, Director of the NBS's Monetary Department, pointed to the interdependence between the banking sector and the microsphere, i.e. the real economy of Slovakia. He said that the efficiency of the banking sector depended on dimensions closely connected with the allocation of funds, the level of competition, and the development of lending rates.

- On 4 October 1994, Juan Carlos I, King of Spain, formally opened the 49th Annual Meeting of the International Monetary Fund and affiliated financial institutions and investment companies. The Slovak Republic was represented by B. Schmögnerova, R. Filkus, and M. Trávníček. The meeting was presided over by M. Saifur Rachman, Chairman of the IMF Board of Directors. The IMF Meeting was preceded by a two-day event organized to mark the 50th anniversary of the Bretton-Woods Conference.

On 11-13 October 1994, the bank boards of the International Bank for Economic Cooperation (IBEC) and the International Investment Bank (IIB) held their regular meeting in Ulanbatar, the Capital of Mongolia. The NBS was represented by Š. Pavúk and V. Martvoň.

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