



NATIONAL BANK OF SLOVAKIA

**MONETARY SURVEY**

**OCTOBER 1994**

## I. THE REAL ECONOMY

Indicators		1993	1994			
			Q1	M1	Q3	Oct.
GDP (at constant prices)	Value (Sk <sup>2/</sup> billions)	172.2	43.1	89.9	47.2	
	Growth rate (%) <sup>1/</sup>	-4.1	3.6	4.4	3.7	
Output <sup>1/</sup>	Industrial production (%)	-13.5	2.6	6.7		10.7
	Construction (%)	-23.8	-11.3	-11.5		-1.3
Unemployment	Number (thous. of persons)	368.1	370.5	360.0	363.5	359.9
	Unemployment rate (%)	<b>14.4</b>	<b>14.5</b>	14.1	<b>14.3</b>	14.1
Foreign Trade <sup>3/4/</sup> (f.o.b.)	Exports (Sk billions)	95.7	26.7	60.5	95.2	
	Imports (Sk billions)	125.9	33.1	68.0	106.8	
	Balance (Sk billions)	-30.2	-6.4	-7.5	-11.6	

<sup>1/</sup> Change compared with the corresponding period of last year, <sup>2/</sup> Sk - abbreviation of the Slovak crown, <sup>3/</sup> Cumulative values, <sup>4/</sup> Convertible currencies



NATIONAL BANK OF SLOVAKIA

Slovakia's **inflation rate** slowed slightly in October. In comparison with the previous month's level, consumer prices increased by 1.3%. The rate of inflation has edged up to 10.2% since the beginning of the year. When compared with the figure for the corresponding period of last year, the price level rose by 12.1% in October. The growth of inflation can be attributed to price increases in public catering (2.3%), food (1.9%), and services 1.4%). The rate of increase in the prices of industrial goods remained at the previous month's level (0.7%).

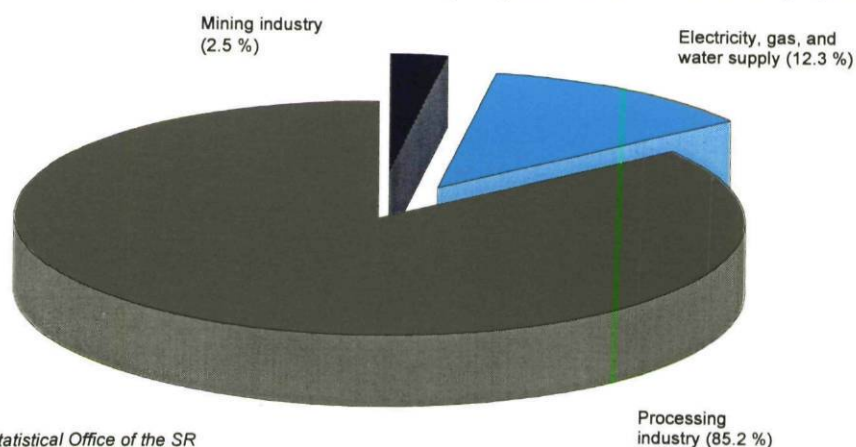
According to the volume of **industrial production** (Sk 36.3 billion), October can be regarded as the most productive month in 1994. Compared with last month's figure, the output of industrial production increased by 4.9% (Sk 1.7 billion), exceeding the October 1993 level by 10.7% (Sk 3.5 billion). The average daily production (Sk 1.7 billion) remained behind the September level by 0.1% (Sk 11 million), but exceeded last October's figure by 5.4% (Sk 89 million).

The volume of industrial production in the private sector reached Sk 20.5 billion, exceeding the previous month's figure by Sk 0.6 billion (2.2%), and that of October 1993 by Sk 2 billion (10.9%).

The average monthly wages in companies with at least 25 employees reached Sk 6,616, exceeding the September level by 3.1% (Sk 199) and that of October 1993 by 11.5% (Sk 682). The productivity of labour per employee in this category of companies (Sk 61,161) grew by 5.2%, exceeding the increase in average wages. Compared with the corresponding period of last year, labour productivity recorded a growth of 8.0%, falling behind the increase in Slovak workers' average monthly pay.

The total volume of sales in October reached Sk 37.7 billion, exceeding the September figure by Sk 1.8 billion (5.0%) and that of October 1993 by Sk 3.3 billion (9.7%). The volume of exports amounted to Sk 15.5 billion, remaining below the September level by 0.5%; however, in comparison with last October's level, exports increased by 11.3% (Sk 1.6 billion). The volume of exports reached 49.2% of the total output of industrial production.

### Structure of Industrial Production in the SR in October (companies with at least 25 employees)



Source: Statistical Office of the SR

The output of the **construction sector** reached Sk 4.1 billion, falling behind last month's figure by Sk 37 million (0.1%) and that of October 1993 by Sk 54 million (1.3%). The decline in construction was concentrated in the public sector, while development in the private sector showed an increasing tendency.

The average daily production (Sk 196 million) reached only 95.2% of the last month's level, and 94.0% of that of October 1993. The volume of construction work remained below the September 1993 level both at home (5.7%) and abroad (22.9%). In comparison with October 1993, the volume of domestic construction projects fell by 11.2%, while that of foreign construction orders increased considerably (by 95.2%).

The average monthly wages in construction reached Sk 6,906, exceeding last month's level by Sk 109 (1.6%) and that of last October by Sk 843 (13.9%). The ratio between the growth of average monthly wages and the growth of labour productivity cannot be regarded as optimum. With regard to the increase in average monthly wages in construction, the per-capita productivity of labour dropped by 3.3% compared with the figure for September. In comparison with last October, the growth rate of labour productivity (5.1%) remained behind the increase in average monthly wages during this period.

In October, the number of unemployed and the rate of unemployment continued to decrease, while the number of vacancies further increased. The number of registered unemployed dropped by 3.7 thousand, to 359.9 thousand. The **unemployment rate** dropped to 14.1% in October. Compared with the previous period, the numbers of newly registered unemployed and those removed from the register dropped, while the share of newly employed grew from 24.2% to 27.8%. The number of vacancies increased to 13.4 thousand, providing a basis for the reduction of unemployment.

## II. THE EXTERNAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators	1993	1994			
		Q1	M1	Q3	Oct.
Current Account <sup>1/</sup> Balance in convertible currencies (Sk billions)	-21.1	-4.1	-2.4		
Foreign Exchange Reserves <sup>2/</sup> (USD millions)					
Banking system	1,402.2	1,490.2	1,851.3	2,701.9	2,901.1
Commercial banks	952.7	1,015.7	1,162.1	1,242.4	1,342.2
NBS <sup>3/</sup>	449.5	474.5	689.2	1,459.5	1,558.9
Gross Foreign Debt <sup>2/</sup> (USD billions)	36	36	3.6	4.1	
Average Exchange Rates <sup>4/</sup>					
SKK/USD	32.968	33.160	32.806	31.395	30 885
SKK/DEM	19.283	19.241	19.389	20.101	20.288

<sup>1/</sup> Cumulative values, <sup>2/</sup> End-of-period figures, <sup>3/</sup> including gold at a book value of 42 .22 USD/oz, <sup>4/</sup> Exchange rate midpoint

The overall **balance of payments** for the first eight months of 1994 reached a surplus of Sk 28.0 billion. At the end of October, the balance of trade (including goods imported by private individuals in the amount of Sk 0.4 billion) recorded a deficit of Sk 0.1 billion. Excluding the volume of private exports, the trade balance generated a surplus of Sk 0.3 billion. The trade balance surplus (resulting from the Sk 10.3 billion surplus balance of trade with the Czech Republic and the Sk 10.0 billion deficit of trade with other countries) represented an increase of Sk 0.9 billion compared with the figure recorded at the end of July.

The surplus of the services balance (Sk 13.7 billion), which was due primarily to the favourable balance of transportation and travel (including transit), made it possible to maintain the favourable balance of payments on current account.

A significant contribution to the balance of payments was made by the earnings Slovak nationals abroad (Sk 1.1 billion) and by unrequited transfers in the amount of Sk 1.9 billion.

The current account was unfavourably affected by the income balance, which was a result of the payment of interest on loans accepted in the previous period in the amount of Sk 4.6 billion. The capital and financial account generated a deficit of Sk 0.5 billion.

Direct investments in the corporate sector reached Sk 1.2 billion at the end of the eight-month period. In long-term capital transactions with foreign countries, the net capital increased to Sk 9.0 billion.

At end-October 1994, the **total foreign exchange reserves of the NBS** reached USD 1,558.9 million, representing an increase of USD 99.4 million compared with the previous month's level. The development of reserves was mostly affected by the USD 92.2 million transfer made by the Czech Republic for exceeding the ceiling on credit in the clearing account and by the drawing of the second tranche of the World Bank loan in the amount of USD 29.5 million. Apart from this, the growth of foreign exchange reserves was affected by the deblocking of CDZ assets (Central Foreign Exchange Resources) in the amount of USD 1.3 million and other income in the amount of USD 6.5 million, including interest on deposit operations, interest on investments, etc. The NBS reserves were negatively affected by the USD 18.6 million foreign exchange fixing deficit, the payment of principal for an IMF credit in the amount of USD 17.8 million, and the debt service expenditure in the amount of USD 14.3 million.

## III. MONETARY DEVELOPMENTS

Indicators	1993	1994			
		Q1	M1	Q3	Oct.
Inflation Rate Monthly (%) <sup>1/</sup>					1.3
Yearly (%) <sup>2/</sup>	25.1	2.6	4.1	4.6	10.2
Money Supply M2 <sup>3/</sup> (%) <sup>7/</sup>	18.1 <sup>4/</sup>	-2.4	-0.1	5.1	7.6
Credits from Commercial Banks (%) <sup>7/</sup>	13.0 <sup>4/</sup>	-1.8	-2.3	-1.5	-0.5
Deposits with Commercial Banks (%) <sup>7/</sup>	18.3 <sup>4/</sup>	-5.0	-1.8	3.1	5.8
Discount Rate (%) <sup>6/</sup>	12.0	12.0	12.0	12.0	12.0
Lombard Rate (%) <sup>6/</sup>	14.0				13.1
Average Interbank Deposit Interest Rates SKIBOR (%)					
1-day deposits	16.73 <sup>8/</sup>	20.00	20.82	7.28	3.82
7-day deposits	17.20 <sup>8/</sup>	20.54	21.47	8.32	4.80
14-day deposits	17.50 <sup>8/</sup>	20.73	21.89	9.47	5.92
1-month deposits	17.86 <sup>8/</sup>	20.90	22.34	11.78	7.94

<sup>1/</sup> End of period

<sup>2/</sup> December of the previous year = 100 (change)

<sup>3/</sup> M2 = Currency, demand and time deposits, savings deposits, foreign currency deposits

<sup>4/</sup> 1 January 1993 = 100 (change)

<sup>5/</sup> Since 20 December 1993

<sup>6/</sup> Monthly average

<sup>7/</sup> 31 December 1993 = 100 (change)

<sup>8/</sup> Average for the 2nd half of 1993



NATIONAL BANK OF SLOVAKIA

At the end of October, the **money supply** of the Slovak economy expressed by the **monetary aggregate M2** reached Sk 272.4 billion, representing an increase of Sk 6.3 billion (2.4%) compared with the previous month's figure.

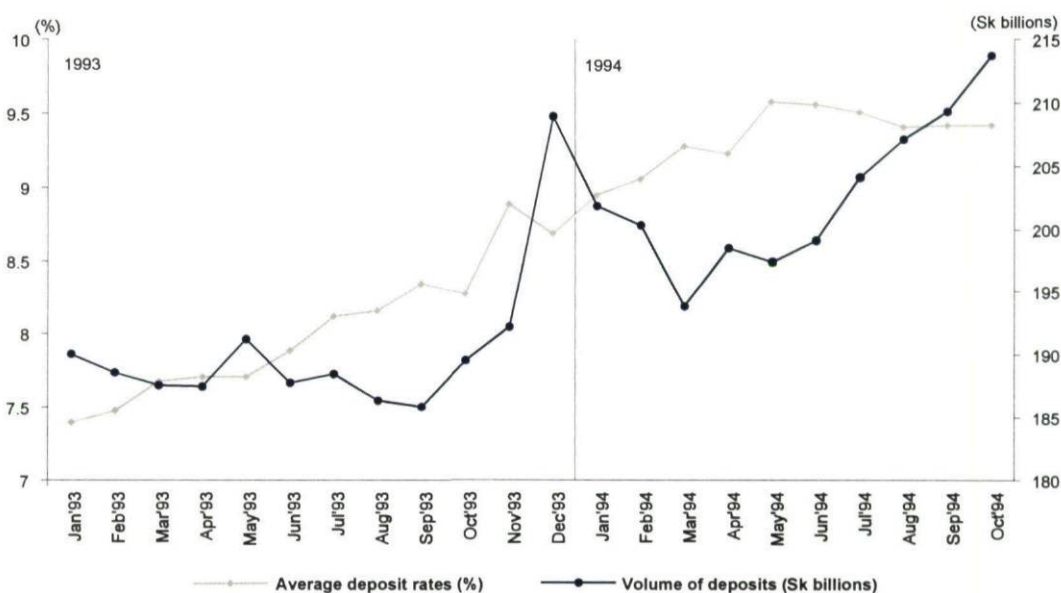
Increases were recorded in both basic components of the money supply. Compared with last month's figures, the **monetary aggregate M1** (Sk 116.5 billion) grew by Sk 1.3 billion (1.2%), while **quasi-money** (Sk 155.9 billion) recorded a Sk 5.0 billion (3.3%) increase.

A breakdown of M1 indicates that the amount of currency in circulation outside banks increased by Sk 0.4 billion (1.2%), representing a certain slow-down in the rate of growth compared with the development in the previous months of the year. The total volume of currency in circulation outside banks (held by households, enterprises, organizations, etc.) reached Sk 32.7 billion at end-October, representing a Sk 7.6 billion increase since the beginning of the year. The volume of demand deposits, the second component of M1, increased by Sk 0.9 billion to Sk 83.8 billion, representing a 30.8% share of the money supply at the end of October.

Within the framework of quasi-money, the foreign currency deposits of Slovak residents (converted at the current rate of exchange) grew by Sk 1.7 billion (4.8%), while time deposits in crowns experienced an increase of Sk 3.3 billion (2.9%).

As far as the growth of money supply is concerned, the following factors can be regarded as the main sources of money for the economy: the growth in net foreign assets (by Sk 3.8 billion compared with the previous month), the growth in domestic credit in crowns and foreign currencies, and the drop in the deficit of other net items. A factor tending to reduce the money supply is the decrease in the volume of net credit to the Government by Sk 1.1 billion. A neutral role in the development of the money supply was played by the net position of the National Property Fund vis-a-vis the banking system.

### Average Deposit Rates and the Volume of Deposits



Source: National Bank of Slovakia

The favourable development of **crown deposits** of nonbank entities in commercial banks and the NBS continued in October. At the end of October, the volume of crown deposits reached Sk 213.7 billion, representing an increase of Sk 4.4 billion compared with the previous month's figure. The volume of these deposits exceeded the level recorded at the beginning of the year by Sk 4.8 billion.

The favourable development of crown deposits is attributable to the Sk 3.6 billion growth in enterprise sector deposits. The deposits of private sector enterprises increased by Sk 1.6 billion, deposits held by public sector enterprises grew by Sk 1.5 billion, and the deposits of companies under foreign control and those not included in sectors recorded an increase of Sk 0.4 billion. Deposits held by households and individuals increased by Sk 0.8 billion. The extrabudgetary deposits of central and local authorities rose by Sk 0.1 billion.

Increases in crown deposits were reported by Slovak banks (Sk 2.8 billion), domestic banks with foreign capital participation (Sk 1.1 billion), and branches of foreign banks (Sk 0.5 billion).

The volume of **foreign currency deposits** increased by Sk 1.7 billion, reaching Sk 38.8 billion at the end of October. In comparison with the figure recorded at the beginning of 1994, the volume of these deposits increased by Sk 9.0 billion.

At the end of October, the total volume of deposits in crowns and foreign currencies reached Sk 252.5 billion, representing an increase of Sk 13.8 billion since the beginning of the year.

The lending activities of commercial banks in October can be characterized by an increase in **crown credit** (Sk 2.4 billion). The total volume of domestic credit reached Sk 254.6 billion, representing a drop of Sk 6.2 billion (2.4%) since the beginning of the year.



NATIONAL BANK OF SLOVAKIA

A sectoral breakdown of bank lending indicates that the growth in domestic credit consisted of increases in crown loans extended to the public sector (Sk 1.5 billion), loans to private sector enterprises (Sk 0.5 billion), and loans to organizations under foreign control and those not included in sectors (Sk 0.3 billion). The volume of credit extended to central and local authorities also recorded an increase (Sk 0.2 billion), while loans to households and individuals slightly decreased (Sk 0.1 billion).

In October, the volume of **bank credit in foreign currency** increased by Sk 0.4 billion, reaching Sk 13.0 billion by the end of the month. Compared with the figure recorded at the beginning of the 1994, the volume of these loans increased by Sk 4.9 billion.

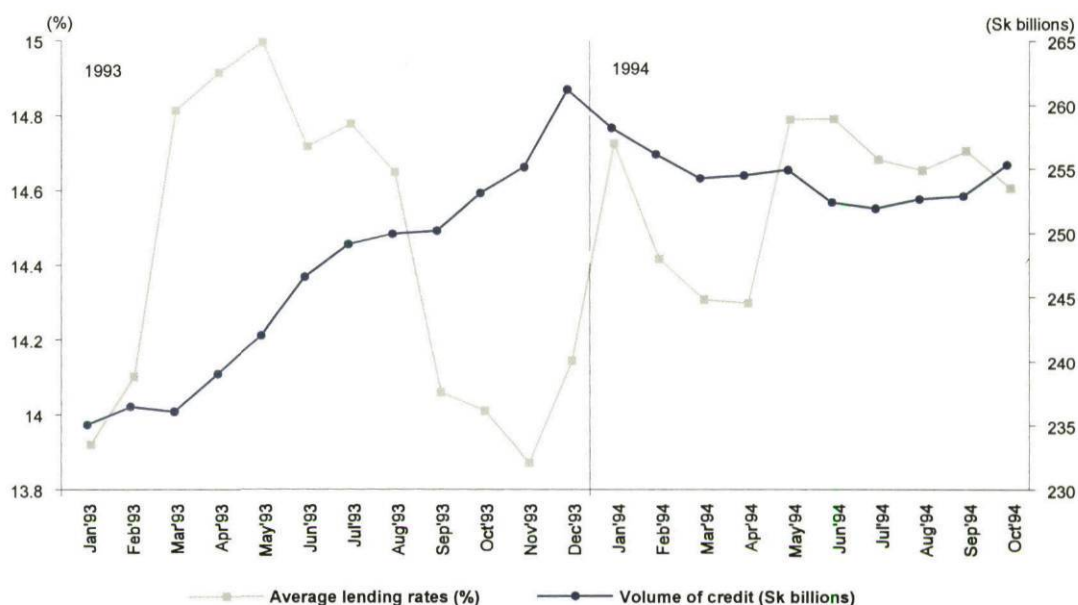
In October, the **average interest rates** on crown deposits remained at the August level (9.41%). The average interest rate on the total volume of crown deposits slightly increased from 14.63% in August to 14.68% at end-October 1994.

In comparison with the August level, the interest margin of commercial banks did not change in September and remained at the level of 5.27% (5.23% in August).

For the 4th quarter of 1994, the credit limit for bank lending to households and enterprises was set at Sk 274.6 billion, of which Sk 1.6 billion was set aside as reserves.

In October, the credit limit allowed commercial banks to make loans and advances in the total amount of Sk 269.9 billion (with regard to reserves amounting to Sk 1.6 billion). The commercial banks utilized this limit to 97.4% by extending loans to households and enterprises in the total amount of Sk 262.8 billion.

### Average Lending Rates and the Volume of Credit



Source: National Bank of Slovakia

**Bills of exchange deals** (especially for the support of agriculture and export) were the only form of refinancing applied in the course of October. Refinancing funds earmarked for bills of exchange discounted for export promotion (Sk 750.0 million) and for bills of exchange deals for the support of agriculture (Sk 2.0 billion) remained unchanged. Bills of exchange discounted for export promotion were utilized at 62.2% (Sk 0.5 billion) and those for the support of agriculture at 72.3% (Sk 1.4 billion). The total volume of refinancing funds reached Sk 1.9 billion, representing an increase of Sk 0.4 billion compared with the previous month's level. In October, redistributive resources were drawn in the total amount of Sk 33.4 billion.

For the month of October, the level of **required reserves** was set at Sk 13.5 billion for the whole banking sector. The minimum reserve requirement was fulfilled to 103.0%, i.e. the actual average volume of reserves reached Sk 13.95 billion.

In the course of October, the Ministry of Finance of the SR floated four regular issues of Treasury bills with 28 days' maturity and one issue with 12 weeks' maturity on the **money market**. The volume of securities sold in the primary market ranged from Sk 0.45 billion to Sk 5.49 billion.

The interest rates on auctioned Treasury bills with four weeks' maturity showed a decreasing tendency. The interest rate on one of the issues reached 3.96% p.a. at the auction. The average interest rate on the twelve-week issue decreased from 11.5% to 6.5% p.a. compared with the same issue of last month.

A considerable stimulus to activity in the **bond market** was the announcement of the second issue of government bonds to cover the 1993 state budget deficit (Issue No. 009). The sale of these bonds in the primary market through American auction created conditions for the further reduction of yield upon maturity.

## IV. THE GOVERNMENT SECTOR

Indicators		1993	1994			
			Q1	M1	Q3	Oct.
Budget Revenues <sup>1/</sup>	(Sk billions)	144.5	32.5	67.8	101.2	113.0
Budget Expenditures <sup>1/</sup>	(Sk billions)	167.5	38.5	78.3	118.4	128.8
State Budget Balance	(Sk billions)	-23.0	-6.0	-10.5	-17.2	-15.8

<sup>1/</sup> Cumulative values

In October, the **state budget deficit** dropped to Sk 15.8 billion as a result of an increase in monthly revenues and a cut in budget expenditures.

The total budget revenue increased by Sk 11.8 billion (exceeding the aliquot part of the annual budget by Sk 0.6 billion). The VAT revenue deficit was reduced from Sk 4.9 billion to Sk 4.0 billion, while the deficit of consumer tax revenues increased from Sk 0.7 billion to Sk 0.8 billion. The growth of income tax revenue slowed (the excess over the aliquot part of the annual budget dropped from Sk 4.3 billion to Sk 3.9 billion). The total budget revenue in ten months was fulfilled at 84%, exceeding the aliquot part of the annual budget by Sk 0.8 billion.

The development of budget expenditures was unfavourably affected by Slovakia's clearing account balance with the Czech Republic. After excluding the effect of clearing, the total budget expenditure remained below the budgeted level by Sk 10.8 billion, especially in the non-investment expenditures of budgetary organization. The net deficit of the state budget (excluding the amount that Slovakia credited to the Czech Republic) fell to Sk 5.8 billion by end-October 1994.

At the end of October, the internal debt of the Government vis-a-vis the banking sector reached a level of Sk 66.7 billion, representing a decrease of Sk 1.5 billion compared with the previous month's level. Of this amount, the National Bank of Slovakia credited Sk 40.9 billion, the remaining Sk 25.8 billion was provided by commercial banks.

## V. INFORMATION

- On 25 November 1994, Vladimír Masár, Governor of the National Bank of Slovakia, and Ľudovít Pósa, General Director of the Slovak Agricultural Bank (Poľnobanka), signed a credit agreement according to which Poľnobanka will be authorized to provide loans to small and medium-size businesses from the funds that the Export-Import Bank of Japan has credited to Slovakia through the NBS. Poľnobanka, a.s. is the third commercial bank in Slovakia (after VÚB, a.s. and the Czechoslovak Commercial Bank) to obtain this authorization. Approximately USD 6.5 million (35%) have already been drawn from the first tranche of this loan (USD 21 million).
- The Slovak Guarantee Bank (Slovenska záručná banka) has provided funds earmarked for the development of tourism to 162 out of 282 projects. Within the programme initiated by the Ministry of the Economy on 1 September 1991, the Slovak Guarantee Bank will cover 70% of the interest on the capital expenditures of small and medium-size businesses on the building or reconstruction of hotels, restaurants, and other catering facilities. In January 1994, the programme was extended to provide support for the reconstruction of cultural monuments for the purposes of tourism, the building of car-parks, access roads, and sporting facilities at holiday resorts.
- On 15 November 1994, the Board of the Clearing Banking Association held a meeting in Bratislava. At present, the Association joins 14 commercial banks of seven countries, especially in Central and Eastern Europe. The Slovak banking sector is represented in the Association by VÚB, a.s. (General Credit Bank).
- In the course of two years, the First Building Society in Bratislava (Prvá stavebná sporiteľňa, a.s.) gained more than 330 thousand clients throughout the Slovak Republic. The First Building Society has a dominant position in the Slovak savings market - 85% of the savings deposits for building purposes. The total volume of deposits reached Sk 40 billion and the average amount per credit agreement is Sk 120 thousand.
- VÚB Invest, a subsidiary company of VÚB, a.s., has announced that Nomura International bought more than 2.9 million VÚB Kupon shares at Sk 750 each. The volume of this transaction, in which Nomura has obtained 26% of the investment fund, amounts to Sk 2.18 billion.

National Bank of Slovakia  
Monetary Department  
Štúrova 2, 818 54 Bratislava  
Slovakia

Published by:  
Public Relations Department  
Tel: +42/7/ 364 349, 210 34 05, 210 34 14  
Fax: +42/7/210 34 12



NATIONAL BANK OF SLOVAKIA