



NATIONAL BANK OF SLOVAKIA

**MONETARY SURVEY**

**DECEMBER 1994**

## I. THE REAL ECONOMY

Indicators		1993	1994					
			Q1	M1	Q3	Oct.	Nov.	Dec.
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	9.3	10.7	8.3	9.7
	Construction (%)	-23.8	-11.3	-11.5	-0.6	-1.3	1.3	-1.9
Unemployment	Number (thous.of persons)	368.1	370.5	360.0	363.5	359.9	363.0	371.5
	Unemployment rate (%)	14.4	14.5	14.1	14.3	14.1	14.3	14.6
Foreign Trade <sup>3/4/</sup> (f.o.b.)	Exports (Sk billions)	95.7	26.7	60.5	95.2	107.0	121.6	
	Imports (Sk billions)	125.9	33.1	68.0	106.8	120.7	134.6	
	Balance (Sk billions)	-30.2	-6.4	-7.5	-11.6	-13.7	-13.0	

<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



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The official data of the Slovak Statistical Office show that the growth rate of **consumer prices** in December dropped to 0.6%, compared with the previous month's figure. In comparison with the beginning of 1994, the price level increased by 11.7%. The December growth of consumer prices can be attributed to increases in the prices of industrial goods (0.6%) and services (0.2%). Prices in public catering rose by 0.9% compared with last month's level. Food prices also recorded 0.9% increase in November. Throughout the course of 1994, the level of food prices rose by 18.3% and became a factor that most unfavourably influenced the development of consumer price index in 1994.

In December, the **volume of industrial production** (Sk 36.7 billion) decreased by 4.4% (Sk 1.5 billion) compared with the previous month's figure. In comparison with December 1993, the volume of industrial output increased by 9.7% (Sk 3.3 billion). The average daily production (Sk 1.7 billion) fell below November's level by 4.4% (Sk 73 million), but exceeded the December 1993 figure by 14.9% (Sk 227 million).

The average monthly wages in companies with at least 25 employees reached Sk 7,293 in December, remaining below their November level by 10.2%. The productivity of labour per employee (Sk 62,126) dropped by 5.4%. In comparison with the December 1993 figures, average monthly wages rose by 11.9%, and labour productivity increased by 6.1%.

The volume of industrial sales in December totalled Sk 40.7 billion, exceeding the previous month's figure by Sk 455 million and that of December 1993 by Sk 2.7 billion. The volume of exports amounted to Sk 16.6 billion, representing 40.8% of December's total sales. Compared with the previous month's level, the volume of exports dropped by Sk 61 million while the share of exports in total sales fell by 0.6%.

In December, the output of the **construction sector** totalled Sk 3.8 billion, falling behind the previous month's figure by Sk 253 million (6.6%) and that of December 1993 by Sk 74 million. The decline in construction was mainly a result of seasonal factors and the December increase in unemployment. The sharpest decline was recorded in the private sector. The average daily production (Sk 182 million) fell below the November level by Sk 12 million, but exceeded the December 1993 figure by Sk 5 million.

Domestic construction output in companies with at least 25 employees reached Sk 2.5 billion, remaining behind November's figure by Sk 229 million and that of December 1993 by Sk 100 million. As a result of building contractors' continued interest in export, the volume of construction activity abroad reached Sk 512 million, exceeding the previous month's level by Sk 91 million and that of December 1993 by Sk 489 million (index 223.6).

In December, the average monthly wages in construction reached Sk 8,422, exceeding the previous month's level by Sk 638 (8.2%) and that of December 1993 by Sk 793 (10.4%). In comparison with the figure for November, the productivity of labour per employee (Sk 27,587) fell by 7.5% in December; however, it grew by 1.5% compared with the December 1993 level.

In December, the number of registered unemployed increased by 8.5 thousand, to 371.5 thousand. The **rate of unemployment** reached 14.6%; the number of newly registered unemployed dropped by 0.7 thousand; the number of those recently removed from the register fell by 6.1 thousand, and the number of newly employed decreased by 0.7 thousand. The number of vacancies in the sector of public services and public works also decreased. The total number of vacancies registered at employment offices dropped slightly and remained at the level of 13 thousand. The highest rates of unemployment were reported in the districts of Rimavská Sobota (28.4%), Rožňava (23.7%), and Trebišov (23.3%).

## II. THE EXTERNAL ECONOMY

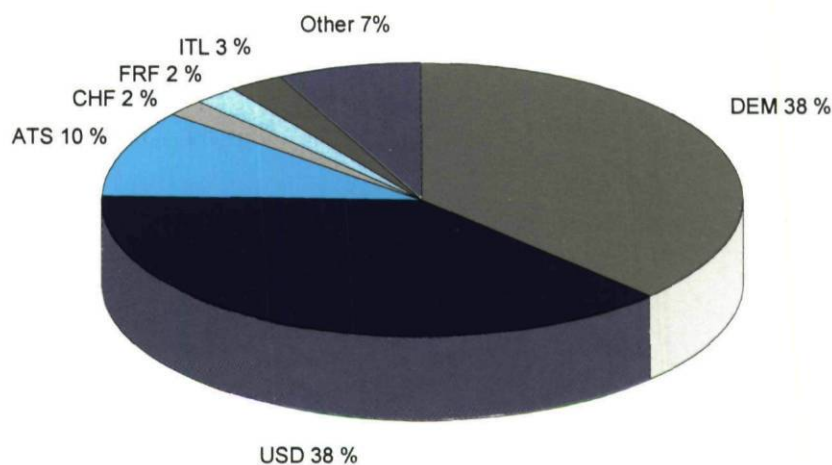
Indicators		1993	1994					
			Q1	M1	Q3	Oct.	Nov.	Dec.
Current Account <sup>1/</sup>	Balance in convertible currencies (Sk billions)	-21.1	-4.1	-2.4	-4.1	-5.5		
Foreign Exchange Reserves <sup>2/</sup> (USD millions)	Banking system	1,402.2	1,490.2	1,851.3	2,701.9	2,927.1	2,924.5*	3,065.0
	Commercial banks	952.7	1,015.7	1,162.1	1,242.4	1,368.2	1,329.9 <sup>3/</sup>	1,325.6
	NBS <sup>3/</sup>	449.5	474.5	689.2	1,459.5	1,558.9	1,594.6	1,739.4
Gross Foreign Debt <sup>2/</sup>	(USD billions)	3.6	3.6	3.6	4.1	4.2		
Average Exchange Rates <sup>4/</sup>	SKK/USD	32.968	33.160	32.806	31.395	30.885	31.061	31.465
	SKK/DEM	19.283	19.241	19.389	20.101	20.288	20.201	20.000

<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, \*\* Revised data

**Shares of Selected Currencies in the Cumulative Turnover of Foreign Exchange Collections and Payments in 1994 (For Payment Titles: Groups 1 to 6)**



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Source: National Bank of Slovakia

At the end of December, the total **foreign exchange reserves of the NBS** reached USD 1,739.4 million, representing an increase of USD 144.8 million compared with the previous month's level. The growth of forex reserves was positively affected by the favourable balance of NBS foreign exchange fixing (USD 119.4 million), the transfer made by the Czech Republic (USD 20.5 million) for exceeding the credit limit in the clearing account, the drawing of the next tranche of an Economic Recovery Loan from the World Bank (USD 31.6 million), other revenues in the amount of USD 3.7 million (including interest on deposits, interest on investments, etc.), and the drawing of a loan from the European Investment Bank (USD 2.9 million). The development of NBS reserves in this period was unfavourably influenced by the USD 14.2 million drop in the volume of accepted deposits, debt service expenditures in the amount of USD 9.1 million, and the payment of principal on an IMF loan in the amount of USD 5 million.

### III. MONETARY DEVELOPMENTS

Indicators	1993	1994						
		Q1	M1	Q3	Oct.	Nov.	Dec.	
Inflation Rate	Monthly (%) <sup>1/</sup>				1.3	0.7	0.6	
	Yearly (%) <sup>2/</sup>	25.1	2.6	4.1	4.6	10.2	10.9	11.7
Money Supply M2 <sup>3/</sup> (%) <sup>7/</sup>	18.1 <sup>4/</sup>	-2.4	-0.1	5.1	7.6	8.7	18.8	
Credits from Commercial Banks (%) <sup>7/</sup>	13.0 <sup>4/</sup>	-1.8	-2.3	-1.5	-0.5	0.7	1.5	
Deposits with Commercial Banks (%) <sup>7/</sup>	18.3 <sup>4/</sup>	-5.0	-1.8	3.1	5.8	7.8	17.9	
Discount Rate (%) <sup>5/</sup>	12.0	12.0	12.0	12.0	12.0	12.0	12.0	
Lombard Rate (%) <sup>6/</sup>	14.0				13.1	13.1	13.1	
Average Interbank Deposit Interest Rates SKIBOR(%)	1-day deposits	16.73 <sup>8/</sup>	20.00	20.82	7.28	3.82	3.75	3.95
	7-day deposits	17.20 <sup>8/</sup>	20.54	21.47	8.32	4.80	4.45	4.36
	14-day deposits	17.50 <sup>8/</sup>	20.73	21.89	9.47	5.92	5.13	4.85
	1-month deposits	17.86 <sup>8/</sup>	20.90	22.34	11.78	7.94	6.29	5.92

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

According to preliminary data, the money supply of the Slovak economy expressed by the **monetary aggregate M2** increased in December by Sk 25 billion (9.1%) compared with the previous month's level.

The **monetary aggregate M1** grew by Sk 4.2 billion (3.5%) in comparison with the figure for the previous month. The volume of currency in circulation dropped by Sk 5.0 billion (15.1%), while demand deposits increased by Sk 9.1 billion (10.7%).

**Quasi-money** recorded an increase of Sk 14.8 billion (9.5%) compared with November's level. Within the framework of quasi-money, time deposits in local currency increased by Sk 13.2 billion (11.1%) and foreign currency deposits by Sk 1.5 billion (4.1%).

The increase of **crown deposits** of non-bank entities in commercial banks and the NBS continued in December. At the end of the month, the volume of crown deposits reached Sk 243.5 billion, exceeding both the previous month's level by Sk 24.4 billion and the figure recorded at the beginning of the year by Sk 34.5 billion.

Household deposits in local currency recorded a month-to-month increase of Sk 12.8 billion, while enterprise sector deposits grew by Sk 10.3 billion (deposits held by public sector enterprises increased by Sk 3.3 billion, deposits of private sector companies by Sk 5.2 billion, and the deposits of organizations not incorporated into sectors and those under foreign control grew by Sk 1.8 billion). The extrabudgetary deposits of central and local authorities in local currency increased by Sk 1.3 billion.



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The increase in crown deposits included deposits from Slovak banks (Sk 15.8 billion), Slovak banks with foreign capital participation (Sk 5.7 billion), and branch offices of foreign banks (Sk 2.9 billion).

In comparison with the figure for November, the volume of **foreign currency deposits** increased by Sk 1.4 billion. The dominant part of this increase was formed by household deposits (Sk 1.0 billion). At the end of December, the volume of these deposits reached Sk 40 billion, representing an increase of Sk 10.2 billion compared with the figure recorded at the beginning of 1994.

At the end of December, the volume of crown and foreign currency deposits totalled Sk 283.5 billion, representing an increase of Sk 44.8 billion since the beginning of the year.

Compared with the figure for November, the total volume of **crown credit** extended by commercial banks and the NBS increased by Sk 1.0 billion, reaching Sk 257.6 billion at the end of December. Compared with the beginning of the year, the volume of bank credit dropped by Sk 3.2 billion. Loans allocated to the private enterprise sector increased by Sk 1.3 billion, while loans to households grew by Sk 0.6 billion.

In December, **foreign currency loans** increased by Sk 1.0 billion, reaching Sk 15.3 billion at the end of December. Compared with the figure recorded at the beginning of the year, the volume of foreign currency loans increased by Sk 7.2 billion.

In December, the average **interest rate** on crown deposits dropped by 0.02 percentage points (to 9.23%), and the average interest rate on bank credit in crowns dropped by 0.16 points (to 14.39%), compared with the previous month's figures.

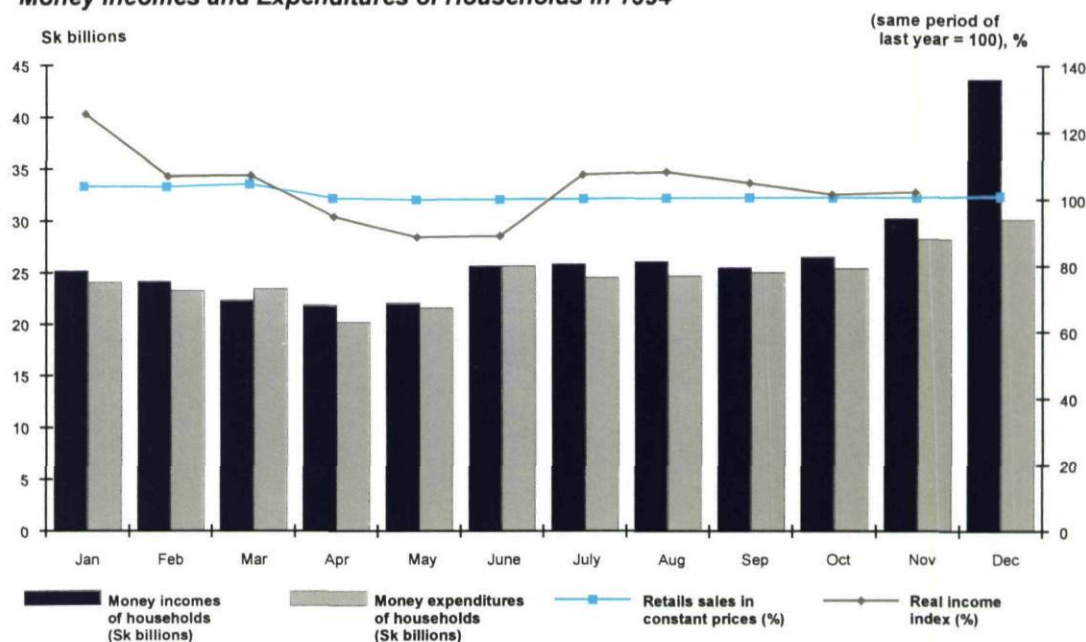
In December, decreases were reported in average lending rates for short-term and medium-term loans, which represented 91.9% of the total volume of bank credit extended (Sk 14.6 billion). The average rate of interest on long-term loans increased from 15.13% to 16.11%.

The credit margin of commercial banks reached 5.16 percentage points at the end of December.

In the course of December, direct monetary instruments (bank credit ceilings) were applied only to commercial banks with lending activities in the amount of Sk 20 billion or more. The credit ceiling for bank lending to households and enterprises, originally set at Sk 276.2 billion, was reduced to Sk 267.5 billion with the aim of eliminating the risks expected in the State budget performance. By the end of December, the commercial banks made loans to households and enterprises in the total amount of Sk 266.9 billion, utilizing the credit limit to 99.8%. Compared with the figure recorded at the beginning of 1994, the total volume of bank credit increased by Sk 5.2 billion (2.0%). Foreign currency loans increased by Sk 6.3 billion, while crown loans dropped by Sk 1.1 billion.

Since the banking sector still had a sufficient amount of liquid assets, the National Bank of Slovakia provided refinancing funds only through bills of exchange deals for the support of agriculture and export trade. The funds determined to support agriculture were utilized to 85% (Sk 1.7 billion) and those for export promotion to 40% (Sk 0.3 billion).

### Money Incomes and Expenditures of Households in 1994



Source: Slovak Bureau of Statistics

For December, the level of **required minimum reserves** was set at Sk 14.1 billion for the whole banking sector. The actual monthly average reached Sk 15.8 billion (the minimum reserve requirements were fulfilled to 112.1%).

In December, the Ministry of Finance of the SR floated six issues of **State Treasury bills** on the money market. One of the Treasury bill issues had a maturity of 21 days. The others were floated with a 9.5-month maturity with the aim of covering the 1994 budget deficit until the approval of the closing account of the State budget.

The amount of securities sold on the primary market ranged from 1,235 to 7,676 shares per issue

in the nominal value of Sk 1 million. The number of Treasury bills in circulation increased to 26,126, representing the greatest amount of short-term securities on the market in **1994**.

In december, Issue No.008 became the best-selling government bond in the bond market with a total volume of Sk 7.9 million sold at a price of 106%, representing a 10.99% yield until maturity. The second bond in demand was Issue No. 006 with a total volume of Sk 4.4 million sold at a price of 103%, representing a 15.5% yield until maturity.

#### IV. THE GOVERNMENT SECTOR



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Indicators		1993	1994					
			Q1	M1	Q3	Oct.	Nov.	Dec.
Budget Revenues <sup>1/</sup>	(Sk billions)	144.5	32.5	67.8	101.2	113.0	124.0	139.1
Budget Expenditures <sup>1/</sup>	(Sk billions)	167.5	38.5	78.3	118.4	128.8	140.7	167.0
State Budget Balance	(Sk billions)	-23.0	-6.0	-10.5	-17.2	-15.8	-16.7	-22.9

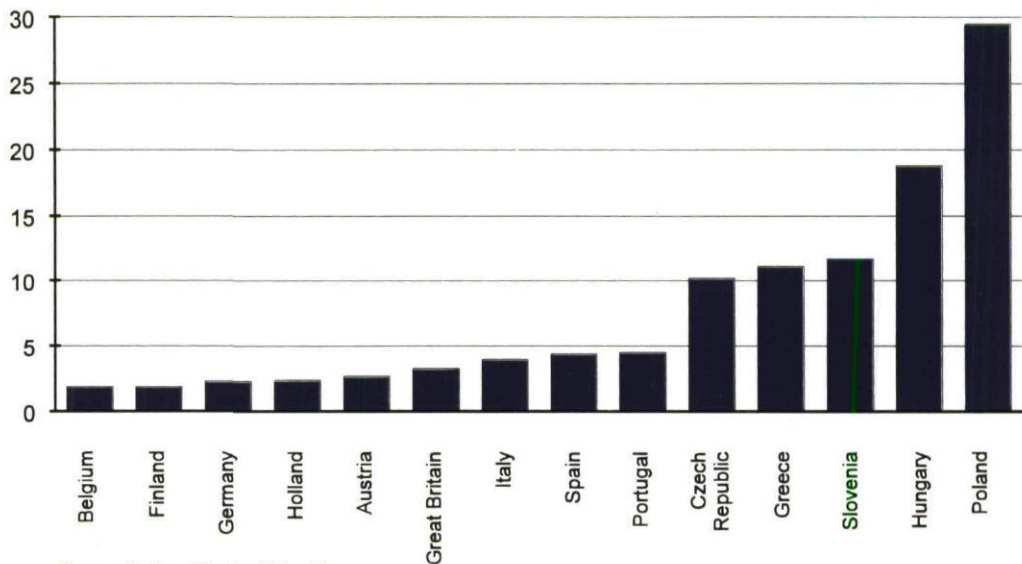
In December, the **state budget deficit** reached Sk 22.9 billion, representing an increase of Sk 6.2 billion compared with the figure recorded at the end of November.

The revenue side of the state budget was fulfilled at 103.3%, exceeding the budgeted level of annual revenues by Sk 4.5 billion. A dominant part of this amount was made up by income tax revenues (Sk 3.9 billion). Value added tax revenues showed a deficit of Sk 3.6 billion, while excise tax revenues were fulfilled to 100%.

The budgeted level of annual expenditures was exceeded by Sk 12.7 billion (108.5%); moreover the clearing with the Czech Republic, which reached Sk 14.0 billion (including the amount by which the credit limit had been exceeded), contributed to total expenditures. After including the favourable clearing account balance, the State budget deficit of the Slovak Republic reached Sk 14.6 billion (exactly the budgeted amount) at the end of December.

At the end of December, the internal indebtedness of the Slovak Government vis-a-vis the banking sector reached a level of Sk 72.3 billion. Of this amount, the National Bank of Slovakia credited Sk 37.9 billion; the remaining Sk 34.4 billion was financed by credit from commercial banks.

#### Annual Rates of Inflation in 1994 by Country (in %)



Source: National Bank of Slovakia

#### V. INFORMATION

The basic principle of the monetary policy for 1995 is to support the economic growth of Slovakia. Furthermore, the 1995 monetary policy represents a bold step forward in stabilizing the national currency - a process which involves lowering the rate of inflation and maintaining the stability of the crown's exchange rate.

The goals of the monetary policy for 1995 are:

- to keep the annual rate of inflation at 8 per cent,
- to keep the Slovak crown's exchange rate constant.

The assumptions of the monetary policy are:

- annual growth of GDP: 3 per cent,
- volume of net foreign assets at the end of the year: Sk 34.8 billion,
- net position of the Government: Sk 116.5 billion,
- net position of the National Property Fund: Sk 7.1 billion,
- volume of other net items: Sk 112.0 billion.

The projected development of monetary variables based on the goals and assumptions of the monetary programme are:

- growth of M2: 12.3 per cent,
- increase in lending to households and enterprises: 5.1 per cent.

According to preliminary data from the Slovak Bureau of Statistics, more than half of Slovakia's Gross Domestic Product in 1994 was generated in the private sector. The share of the private sector in the total volume of industrial production reached 53.7%, in construction sector output 73.6%, in retail sales 88.5%, and in road freight service 56.3%.

The association agreement between the European Union and the Slovak Republic enables Slovak investors to establish and operate businesses in EU member countries as of 1 February 1995. The specific conditions governing business activity depend on the legislation of the country concerned. The association agreement also guarantees free trade in industrial commodities, favoured trade in agricultural produce, and the liberalization of services that exceed the confines of member states.

On 2 March 1995, the members of the Bank Board of the National Bank of Slovakia met with the representatives of commercial banks operating in the Slovak Republic. At the meeting, NBS Governor Vladimír Masár talked about the consistency between the monetary policy of the NBS and the State budget design for 1995. Apart from this, Mr. Masár informed commercial bank representatives about the aims of the NBS in providing support for public investments.

By approving a decree concerning the creation of reserves and provisions for general banking risks, the National Bank of Slovakia started the restructuring of commercial banks. The objective of this restructuring process is to improve the credit portfolios of commercial banks and to strengthen their capital adequacy with the aim of reaching a level of quality comparable with that of commercial banks operating in EU countries. The implementation of these measures is a prerequisite for starting the process of financial restructuring in the corporate sector as well.

After three years of existence, Ľudová banka may boast of the highest returns per employee recorded in the Slovak financial sector, a consolidated position, and a high level of liquidity (three-quarters of the total loans extended are of a long-term nature).

- A group of experts from the Organization for Economic Cooperation and Development (OECD) started its mission in Slovakia on 4 March 1995. The experts have verified the readiness of the Slovak Republic to enter the OECD. The negotiations started when the Memorandum of the Slovak Government was handed over to the OECD in December 1994. The experts examined the liberalization codes of OECD used in the field of capital transactions and invisible operations, the Foreign Exchange Act, and the monetary policy of the Slovak Republic.



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