



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

JULY 1993

I. THE REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators		1993	1994	1995			
				May	June	H1	July
GDP	Value ^{1/} (Sk ^{2/} billions)	173.8	182.2			95.4	
	Growth rate ^{3/} (%)	-4.1	4.8			6.1	
Output ^{3/4/}	Industrial production (%)	-13.5	6.4	6.2	3.9	7,7	5.6
	Construction (%)	-23.8	5.3	5.0	6.6	4.0	3.4
Unemployment	Number (thous. of persons)	368.1	371.5	338.9	339.0	339.0	343.1
	Unemployment rate (%)	14.4	14.8	13.3	13.3	13.3	13.5
Foreign Trade ^{5/6/} (f.o.b.)	Exports (Sk billions)	95.7	135.3	102.4			
	Imports (Sk billions)	125.9	149.4	102.3			
	Balance (Sk billions)	-30.2	-14.1	0.1			

1/ In constant prices of 1 January 1984

2/ Sk - abbreviation of the Slovak crown

3/ Change compared with the corresponding period of last year

4/ Data in current prices

5/ Cumulative values

6/ In 1993 and 1994 convertible currencies, 1995 consolidated balance

In July, **consumer prices** rose by 1.0%, exceeding the figure recorded at the beginning of the year by 4.1%. Compared with the corresponding period of last year, the price level increased by 10.8%.

This accelerated growth in consumer prices was due primarily to the development of service prices, which rose by 2.7%, mainly as a result of the measures adopted in the field of personal road (41.5%), railway (26.3%), and city transport; telephone services (13.9%); but were also influenced by an increase in price of education, culture, entertainment, sports, recreation, healthcare, and social services.

The prices of food and public catering rose by 1.2%. The most rapid increase (5.9%) was recorded in the price of sugar and sugar products as a result of the increase in the price of sugar (22.1%) and soft drinks (1.5%). The prices of fats (1.4%), meat and meat products (0.3%) continued to fall in July.

The general price level in July was favourably influenced by the price of industrial goods (0.3%), while their development was relatively less differentiated in the individual categories (ranged from 0.0 to 0.6%). The most significant increases were recorded in the price of tobacco products (0.6%), shoes and leather goods, cosmetics, Pharmaceuticals, and other chemist's goods, home appliances, and building materials (0.5%).

After the growth recorded in previous months, **industrial production** experienced a month-on-month decline in July. In spite of this, the volume of industrial production (Sk 37.8 billion), together with the value of average daily production, exceeded the figures recorded in the corresponding period of last year by 5.6%. Labour productivity per employee (Sk 60,730) increased by 2.4% compared with the July 1994 figure. In companies with more than 25 employees, the volume of sales amounted to Sk 36.2 billion. Exports accounted for 44.5% of this figure, and 42.6% of the total output of industrial production. The volume of exports amounted to for Sk 16.1 billion (a year-on-year increase of 8.6%).

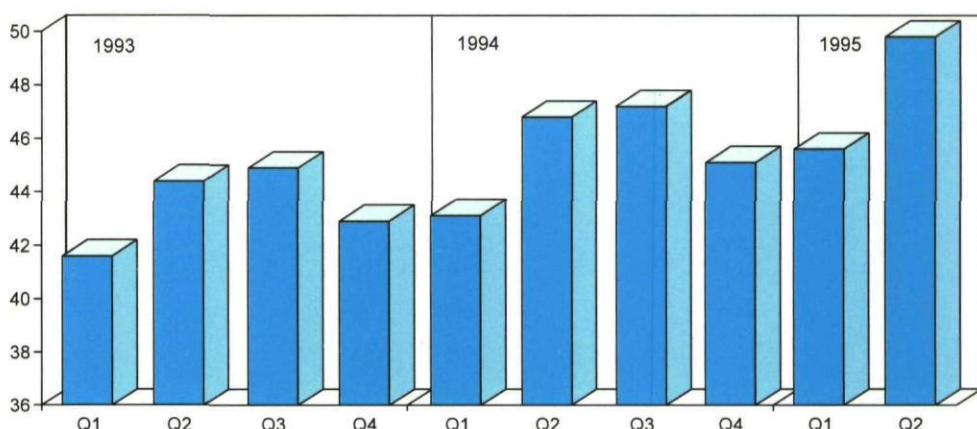
In July, **construction industry output** (Sk 4.4 billion) reached only 91.3% of the previous month's level. Compared with the July 1994 figure, the volume of construction activity increased by 3.4%. Labour productivity per employee (Sk 28,434) grew by 4.8% in comparison with the figure for July 1994.

The volume of domestic construction activity (Sk 3.7 billion) reached 95.8% of the figure for the same period of last year, while construction activity abroad (Sk 0.7 billion) exceeded the July 1994 figure by 67.2%.

In July, the number of registered unemployed increased by 4.1 thousand, to more than 343.1 thousand. The **unemployment rate** reached 13.5%. Compared with the corresponding period of last year, the number of people out of work fell by 7.4%. The July growth in the number of unemployed was due to the increase in the figures for those newly registered (39.1 thousand) and a slight increase in the number of people recently removed from the register (35.0 thousand). The number of newly employed increased to 82.4%. In July, the number of vacancies continued to increase (by 1.6 thousand), to 18.6 thousand, bringing down the number of job applicants per vacancy to 18.4. Labour offices created 12.4 thousand new vacancies in public services and public works. The number of unemployed school leavers and university graduates reached 62.1 thousand.

GDP at constant 1984 prices

(Sk billion)



Source: Statistical Office of the SR

II. THE EXTERNAL ECONOMY

Indicators	1993	1994	1995			
			May	June	H1	July
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-21.1	-3.1	-0.2			
Foreign Exchange Reserves ^{2/} (USD millions)						
Banking system	1,402.2	3,095.5	3,753.9	4,202.7	4,202.7	4,194.1 ^{*/}
Commercial banks	952.7	1,350.5	1,568.0	1,580.9	1,580.9	1,563.8 ^{*/}
NBS ^{3/}	449.5	1,745.0	2,185.9	2,621.8	2,621.8	2,630.3 ^{*/}
Gross Foreign Debt ^{2/} (USD billions)	3.6	4.3	4.8			
Average Exchange Rates ^{4/}						
USD/SKK	32.968	32.039	29.496	29.427	29.427	29.250
DEM/SKK	19.283	19.759	20.955	20.995	20.995	21.051

1/ Cumulative values

2/ End-of-period figures

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

4/ Exchange rate midpoint

^{1/} Preliminary data



NATIONAL BANK OF SLOVAKIA

The development of Slovakia's external relations during the first five months of 1995 was characterised by a gradual opening of the Slovak economy. The net exports of goods and services reached Sk 9.7 billion, making a significant contribution to the current account surplus of the balance of payments. The inflow of capital in the form of foreign investment, government and corporate loans slightly exceeded the outflow of capital owing to the repayment of foreign loans, the growth in short-term assets of commercial banks, and the extension of credit to the Czech economy.

During the first five months of 1995, the **current account** of Slovakia's balance of payments produced a surplus of Sk 8.3 billion.

The balance of services revenue amounted to Sk 30.6 billion, representing a 15% increase compared with same period a year earlier. The balance of services expenditure increased only by 5% in the 12 months to July, reaching Sk 21.0 billion.

The overall trade balance resulted in a Sk 87 million surplus in July. At the end of May, foreign demand for commodities from the SR reached Sk 102.4 billion, representing a 26% increase compared with figure for the same period of last year. The commodity structure of exports remained basically unchanged, and the chief categories of Slovak exports have strengthened their positions (raw materials and semi-finished products: 65%, machinery: 18%, and finished products: 17%). The volume of commodities imported to Slovakia in the five month period (including consumer goods imported by private individuals) amounted to Sk 102.3 billion.

The capital and financial account of the balance of payments resulted in a Sk 1.1 billion surplus in July. One of the most important items on the revenue side of the capital and financial account were foreign investments (Sk 8.7 billion). Foreign investors showed relatively little interest in entering into international co-operation with Slovak enterprises in the form of direct investment. The volume of foreign capital invested in companies operating in the SR during the first five months of 1995 reached Sk 1.1 billion, whereof 90% was realised in the form of purchasing, or increasing the equity of, enterprises directly by the foreign investor. Official loans amounted to Sk 2.8 billion.

The enterprise sector continued to show a growing demand for long-term loans from abroad, amounting to Sk 4.1 billion, representing a 46% increase compared with the July 1994 figure. Of this amount, long-term trade credit for the import of goods and services represented Sk 1.3 billion. Financial loans in the amount of Sk 2.8 billion filled the gap in the domestic capital market.

The net volume of long- and short-term funds drawn by banks from abroad increased by Sk 5.2 billion. These loans were earmarked for financing the costs of growing imports and the support of foreign currency lending to Slovak enterprises.

The balance of payments with the Czech Republic was influenced by an increase in assets earned by transactions in the current and capital account of the balance of payments. In the period under consideration, the Czech side exceeded the credit limit in the clearing account each month. The sum by which the limit was exceeded totalled US\$ 468 million (Sk 13.8 billion) in foreign currency.

An important item on the expenditure side of the capital account was the clearing balance, representing a growth in liabilities to the CR by Sk 22.6 billion. Another factor that influenced the outflow of capital was the repayment of loans in the amount of Sk 5.3 billion. The growth in Slovak bank deposits with foreign financial institutions and the extension of loans to the corporate sector in the amount of Sk 9.3 billion represented a further two factors having a significant effect on the outflow of funds from Slovakia.

Compared with the previous month's level, the **total foreign exchange reserves of the NBS** increased by US\$ 8.9 million, reaching US\$ 2,630.3 million at the end of July, i.e. an amount 3.1 times larger than the expected volume of average monthly imports of goods and services to the SR (average volume of imports = US\$ 854 million).

The development of foreign exchange reserves was positively affected by the following factors:

- the US\$ 98.6 million surplus in the foreign exchange fixing of the NBS (51 % of the total revenue),
- the US\$ 82.4 million transfer made by the Czech Republic for having exceeded the credit limit in the clearing account,
- the proceeds from the sale of state financial assets and from the deblocking of liabilities in the amount of US\$ 0.3 million,
- other revenues of the NBS in the amount of US\$ 12.5 million.

- Factors that negatively influenced the development of foreign exchange reserves in this period:
- NBS debt service payments in the amount of US\$ 130.7 million (69% of the total expenditure), whereof payments from Central Forex Resources accounted for US\$ 117.8 million,
 - payments of principal on IMF loans in the amount of US\$ 43.2 million,
 - the US\$ 13.5 million fall in customer deposits,
 - other expenditures of the NBS in the amount of US\$ 1.3 million.

According to preliminary data, the **total gross foreign debt of the SR** at 30 April 1995 amounted to US\$ 4.9 billion (whereof debt in foreign currency represented US\$ 4.7 billion). The official debt of the Slovak Government and the NBS accounted for 50% of the total external debt.



NATIONAL BANK OF SLOVAKIA

III. MONETARY DEVELOPMENTS

Indicators	1993	1994	1995				
			May	June	H1	July	
Inflation Rate	Monthly ^{1/} (%)		0.4	0.1		1.0	
	Yearly (%)	25.1	11.7	11.4	10.6		10.8
Money Supply M2 ^{2/4/} (%)	18.5 ^{3/}	18.8*	1.7	3.1	3.1	4.7	
Credits from Commercial Banks ^{3/} (%)	13.0 ^{4/}	1.5	5.0	5.6	5.6	5.6	
Deposits with Commercial Banks ^{3/} (%)	18.3 ^{4/}	17.9	3.0	3.7	3.7	6.2	
Discount Rate (%)	12.0 ^{6/}	12.0	11.0	11.0		11.0	
Lombard Rate ^{3/} (%)	14.0		13.1	13.1		13.1	
Average Interbank Deposit Interest Rates BRIBOR (%)	1-day deposits	16.73 ^{7/}	13.18	5.44	6.78	5.44	7.89
	7-day deposits	17.20 ^{7/}	13.89	5.61	6.96	5.61	8.17
	14-day deposits	17.50 ^{7/}	14.63	5.73	7.17	5.73	8.36
	1-month deposits	17.86 ^{7/}	15.62	5.89	7.38	5.89	8.52

^{1/} End of period

^{2/} M2 = Currency, demand and time deposits, savings deposits, foreign currency deposits

^{3/} 31 December of the previous year = 100 (change)

At 1 January of current year = 100 (change)

^{5/} Since 20 December 1993

^{6/} Average for period

^{7/} Average for the 2nd half of 1993

In July, **money supply** in terms of the M2 aggregate increased by Sk 4.8 billion (1.6%), to Sk 308.1 billion.

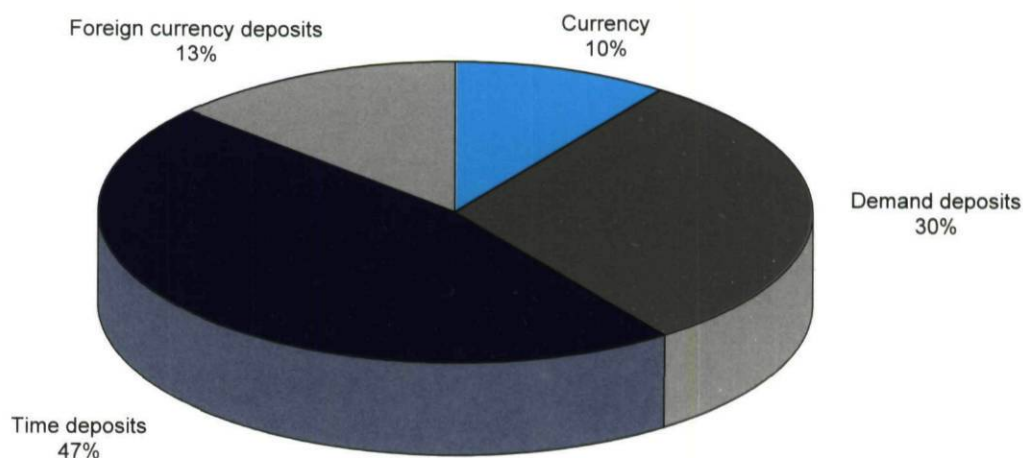
The **M1 aggregate** increased by Sk 2.7 billion as a result of the Sk 2.6 billion increase in demand deposits. On the other hand, the volume of currency in circulation outside banks declined somewhat. Demand deposits recorded positive changes over the course of July, while the most significant increase was recorded in the first ten days of the month.

Quasi-money recorded an increase of Sk 2.1 billion, mainly due to the growth in time deposits (Sk 1.9 billion) and foreign currency deposits (Sk 0.2 billion).

Crown deposits, as part of the money supply, increased in July by Sk 4.5 billion, while the most significant increases were recorded in the enterprise sector.

Within the M2 monetary aggregate, the volume of M1 recorded a slight increase, while quasi-money decreased in the course of July. Within both sub-aggregates of the money supply, the relation between the components has changed. Within the M1 aggregate, the volume of currency in circulation fell, while that of demand deposits increased. The proportion of quasi-money to M2 was influenced by a slight drop in time deposit and a growth in foreign currency deposits.

Composition of the Money Supply at the end of July 1995



Source: NBS



NATIONAL BANK OF SLOVAKIA

The dynamic growth in **bank loans in crowns**, which started in March, continued in July with a month-on-month increase of Sk 2.4 billion. At the end of July, the volume of crown loans amounted to Sk 273.4 billion, representing an increase of Sk 15.2 billion compared with the figure at the beginning of the year. A positive development in bank lending in crowns was the significant share of crown loans made to private enterprises (Sk 2.3 billion).

After a period of growth in the 1st quarter and stagnation in the 2nd quarter, **foreign currency loans** recorded an increase of Sk 0.9 billion, reaching Sk 18.5 billion at the end of July. In comparison with the corresponding period last year, the month-on-month increase was higher by Sk 1.4 billion (compared with the Sk 0.5 billion drop in 1994). At the end of July, the total volume of crown and foreign currency loans amounted to Sk 291.9 billion, representing an increase of Sk 3.3 billion.

In July, the **average rate of interest on the total amount of loans** continued to fall by 0.05 percentage points, to 15.78%. The lending rates fell according to the type of loan by term, while the sharpest decreases were recorded in the interest rates on medium-term loans (0.23 points) and short-term loans (0.15 points). The lending rate for long-term loans remained basically at the same level (12.81%).

The **average interest rate on the total amount of new (drawn) loans** (Sk 16.2 billion) fell in June by 0.47 points, to 15.97%. The considerable drop in the average lending rate for long-term loans to the level of 15.14% in June was due to the change in the composition of loans by the rate of interest and to their total volume. In June, long-term loans were made in the amount of Sk 1.6 billion, i.e. Sk 0.7 billion more than in the previous month, while the share of loans drawn at an interest rate below 15% has increased.

The **average rate of interest on primary crown deposits** increased in June by 0.29 points, to 9.15%. This development was due mainly to an increase in the rate of interest on demand deposits by 0.29 percentage points, to 3.38%. The share of demand deposits in the total volume of deposit was 40.2%. The interest rate on time deposits remained at 12.88%. Within the time structure of time deposits, however, the interest rates have changed. The rates of interest on 1-month and 3-month deposits increased by 0.74 and 0.18 points respectively, while those on 6-month and 18-month deposits decreased by 0.66 and 0.20 points respectively.

In June, the prices of secondary resources increased by 0.38 points to 13.52%. The average rates of interest on interbank time deposits and loans, accounting for 96% of the total amount of interbank deposits and loans, increased by 0.15 points, while the most significant increase was recorded in interest rates on short-term deposits (0.18 points).

Compared with May, the **interest margin** of commercial banks fell from 6.97 to 6.63 percentage points as a result of the increase in the average interest rates on crown deposits.

Compared with the previous month, the results of financial transactions in July had no significant effect on the asset and liability account of the NBS. The balance of assets and liabilities fell by Sk 2.2 billion (1.15%). By the end of July, this had brought about a change in the **net position of Slovakia's economic sectors vis-a-vis the NBS**. As a result of an increase in assets (Sk 1.2 billion) and decrease in liabilities (Sk 3.9 billion), the net position vis-a-vis the rest of the world increased by Sk 5.1 billion. The net debt of the government sector fell by Sk 1.4 billion, to a deficit of Sk 16.9 billion, while the claims of the NBS on the state budget fell by Sk 3.1 billion and its liabilities by Sk 1.7 billion. The net debt of commercial banks improved by Sk 1.7 billion, to a deficit of Sk 16.4 billion.

In order to meet the goals of monetary policy set for the third quarter of 1995, Sk 287.4 billion was set aside for granting **loans to households and enterprises**, i.e. Sk 3.3 billion more than at the end of June 1995, and Sk 20.7 billion more than at the beginning of the year (index of growth 107.8). According to preliminary data, the volume of loans granted to households and enterprises by financial institutions by the end of July reached Sk 286.8 billion, representing an increase of Sk 2.7 billion compared with the figure for 30 June 1995, and Sk 27.0 billion in comparison with the corresponding period of last year.

Despite the uneven development in bank liquidity, emergency credits were not drawn in July and there was no demand for Lombard loans. The banks had no problems in fulfilling the average monthly level of **required minimum reserves** (the average was 100.4%).

The interest rates on the interbank money market in July were permanently below the discount rate. This contributed to the low utilisation of bills of exchange transactions, which represented the only form of refinancing for commercial banks in the period under consideration. The volume of bills of exchange deals (Sk 0.3 billion) dropped slightly in comparison with the previous month's figure. Compared with the beginning of the year, the volume of bills of exchange transactions fell by Sk 1.6 billion.

In the light of the favourable state budget performance, the Ministry of Finance of the SR issued no **Treasury bills** in the month of July. Since no issues of Treasury bills were due in July, the number of short-term government securities in circulation totalled 31,341, of which Treasury bills issued to cover the budget deficit accounted for 6,700. The rest consisted of Treasury bills issued last year to cover the 1994 budget deficit up to the time of approval of the closing account of the state budget.

In the secondary market, the NBS carried out only short-term REPO transactions (7 days to maturity). The structure of REPOs by volume was dominated to some extent by refinancing-type transactions (53% refinancing REPO and 47% reversed REPO agreements). In July, the NBS traded 40,676 Treasury bills in the secondary market. The number of Treasury bills in the portfolio of the NBS ranged between 644 and 5,000 in July.

The average rate of interest on deposits in the interbank money market was higher by 1.15 points (deposits tied-up for a period of up to 1 month), and 0.66 points (3-month deposits). The average interest rate on 1-month deposits in July was 8.52% p.a. and on 3-month money 8.74% p.a.

In accordance with legislation governing the issuance of **government bonds** in the SR (Act No. 184/1994 Coll.), the Ministry of Finance launched the No. 014 issue of government bonds worth Sk 1.67 billion in July. Issue No. 014 closed the series of seven government bonds issued for covering the 1993 state budget deficit. The issue was put on the market through the American-style auction. The auction was attended by 11 investors, including 10 banks and 1 nonbank institution. The Ministry of Finance accepted the offers of 5 investors.



NATIONAL BANK OF SLOVAKIA

IV. THE GOVERNMENT SECTOR

Indicators		1993	1994	1995			
				May	June	H1	July
Budget Revenues ^{1/}	(Sk billions)	144.5	139.1	60.4	75.4	75.4	90.9
Budget Expenditures ^{1/}	(Sk billions)	167.5	162.0	66.4	75.3	75.3	92.3
State Budget Balance	(Sk billions)	-23.0	-22.9	-6.0	0.1	0.1	-1.4

^{1/} Cumulative values

At the end of July, the **state budget of the SR** showed a deficit of Sk 1.4 billion, representing a deterioration in budget performance (Sk 1.5 billion) in comparison with the previous month's surplus (Sk 0.1 billion). The budget deficit was fully covered by issues and subsequent sales of Treasury bills.

The favourable development in **budget revenue** continued in July. The revenue (Sk 90.9 billion) exceeded the budgeted figure by Sk 5.5 billion. This development was due mainly to an improvement in tax revenue (60.6% of the annual budget), while value-added tax revenue (Sk 30.4 billion) exceeded the budgeted level by Sk 5.2 billion, and income tax revenue (Sk 29.4 billion) by Sk 1.8 billion. The unfavourable development in excise tax revenue (a shortfall of Sk 5.1 billion compared with the aliquot part of the budget) continued in July.

Budget expenditure (Sk 92.3 billion) was fulfilled to 55.1%, and was considerably influenced by the clearing account with the Czech Republic (Sk 2.6 billion). Without this influence, the state budget would have had a surplus of Sk 1.2 billion. Budget expenditure during the first seven months of the year lagged behind the budgeted amount by Sk 7.9 billion.

The internal debt of the Slovak Government vis-a-vis the banking sector reached Sk 61.7 billion at the end of July. Of this amount, the NBS accounted for Sk 16.4 billion and commercial banks Sk 45.3 billion.

V. INFORMATION

- On 19 to 22 September 1995, the 3rd International Exhibition of Finance, Banking, and Insurance, FINEX '95, was held in Banska Bystrica. The fair was attended by 227 exhibitors from the SR, the CR, Austria, Switzerland, Germany, and Hungary, and was visited by a delegation from the European Union as well.
- On 20 September 1995, the National Council of the SR passed the new Foreign Exchange Bill. The law defines the rights and duties of residents and non-residents when dealing in foreign exchange assets, delimits the powers of foreign exchange and customs authorities. The most important provision of the new Foreign Exchange Act is the lifting of restrictions on operations in the current account of the balance of payments.
- At its session on 25 September 1995, the Bank Board of the NBS approved the draft of the Decree of the Ministry of Finance and the NBS, which is to enforce the new Foreign Exchange Act of 1995.

National Bank of Slovakia
Monetary Policy 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