



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

SEPTEMBER 1995

I. THE REAL ECONOMY

Indicators		1993	1994	1995			
				H1	July	Aug.	Sep.
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	7.7	5.6	10.6	13.2
	Construction (%)	-23.8	5.3	4.0	3.4	7.2	1.7
Unemployment	Number (thous.of persons)	368.1	371.5	339.0	343.1	338.8	336.0
	Unemployment rate (%)	14.4	14.8	13.3	13.5	13.3	13.2
Foreign Trade ^{5/ 6/} (f.o.b.)	Exports (Sk billions)	95.7	135.3	124.6	143.6		
	Imports (Sk billions)	125.9	149.4	125.7	144.7		
	Balance (Sk billions)	-30.2	-14.1	-1.1	-1.1		

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



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In September, **consumer prices** rose by 1.4% compared with the previous month's figure. Since the beginning of 1995, the price level has increased by 6.0%. In comparison with the corresponding period of last year, the price level increased by 8.8%.

The September growth in consumer prices was due primarily to the continuing increase in the price of food (3.5%) and public catering (0.7%), but was also influenced by a moderate increase in the price of industrial goods (0.5%) and services (0.3%).

The most rapid increases were recorded in the prices of meat and meat products (7.1%), eggs (5.0%), soft drinks (1.7%), fats (0.8%), and sugar and sugar products (0.7%). In industrial goods, the most significant increases were recorded in the price of fuels (1.6%), shoes, chemicals and Pharmaceuticals (0.7%), textile goods and building materials (0.6%). In public catering, the price of meals increased at a faster rate than that of beverages. In services, the most rapid increases were recorded in the price of education, culture, entertainment, sports (1.4%) and other services (1.3%).

The volume of **industrial production** reached Sk 43.8 billion, the largest monthly volume since January, exceeding the previous month's figure by 3.7% and that of September 1994 by 13.2%.

Maximum values were also recorded in the following indicators:

- Average daily production (Sk 2,303 million), exceeding last September's level by 19.2%;
- Volume of sales in companies with more than 25 employees (Sk 43.2 billion), exceeding the September 1994 figure by 10.7%.

The values of the following indicators made September, together with May and June, the most productive months of the year:

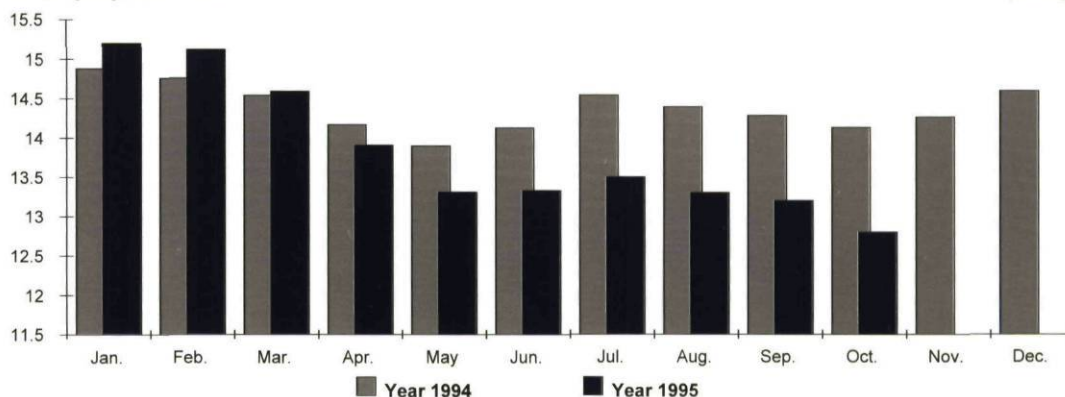
- Labour productivity per employee (Sk 69,787), exceeded the figure for the corresponding period of last year by 8.7%;
- Volume of exports (Sk 18.7 billion), exceeded the figure for September 1994 by 8.5%.

In September, **construction industry output** reached Sk 4.8 billion, exceeding the previous month's level by 1.0%, and that of September 1994 by 1.7%. Labour productivity per employee (Sk 31,156) exceeded last September's level by 3.3%. The volume of domestic construction activity (Sk 4.1 billion) increased by 2.9%, compared with the corresponding period of last year. It was, however, accompanied by a decline in construction activity abroad (Sk 0.7 billion), which reached only 94.8% of the September 1994 level.

In September, the number of registered unemployed fell by more than 2.8 thousand, to 336 thousand, bringing down the **rate of unemployment** to 13.2%. Compared with the figure for September 1994, the number of people out of work fell by 8.2%. The number of unemployed school leavers and university graduates, who represent 19.8% of the total unemployment figure, has increased. The development in unemployment was due to a significant increase in the figures for those newly registered (34.3 thousand) and recently removed from the register (37.2 thousand). The share of newly employed fell slightly, to 85.9%; whereof 30.2% found work through labour offices and 47.0% on an individual basis. The number of vacancies fell to 16.3 thousand, increasing the number of job applicants per vacancy to 21.

Unemployment Rate

(in %)



II. THE EXTERNAL ECONOMY

Indicators	1993	1994	1995			
			H1	July	Aug.	Sep.
Current Account ^{1/} Balance in convertible currencies (Sk billions)	-21.1	-3.1	-6.2	-67		
Foreign Exchange Reserves ^{2/} (USD millions)						
Banking system	1,402.2	3,095.5	4,202.7	4,224.8	4,295.9	4,406.6 ^{*/}
Commercial banks	952.7	1,350.5	1,580.9	1,594.4	1,587.8	1,581.2 ^{**}
NBS ^{3/}	449.5	1,745.0	2,621.8	2,630.4	2,708.1	2,825.4 ^{*/}
Gross Foreign Debt ^{2/} (USD billions)	3.6	4.3	5.0	4.9		
Average Exchange Rates ^{4/}						
USD/SKK	32 968	32.039	29.338	29.250	29857	30.132
DEM/SKK	19.283	19.759	20.999	21.051	20749	20.603

1/ Cumulative values

2/ End-of-period figures

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

4/ Exchange rate midpoint

Preliminary data

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The development of Slovakia's external relations during the first seven months of 1995 was characterized by a further increase in the current account surplus of the balance of payments. In July, the balance of foreign trade generated a surplus of Sk 156 million. On the capital account, the inflow of capital in the form of foreign investment, government and corporate loans exceeded the outflow of capital only by Sk 0.3 billion, owing to the accelerated repayment of foreign loans.

During the first seven months of 1995, the **current account** of Slovakia's balance of payments produced a surplus of Sk 11.3 billion, i.e. US\$ 379 million. The overall balance was influenced by the Sk 18.0 billion current account surplus of the balance of payments vis-a-vis the Czech Republic, which offset the deficit in convertible currency.

At the end of July, the trade balance resulted in a deficit of Sk 1.1 billion as a result of the faster growth in imports (22.8%) than exports (21.9%). The import figure includes goods imported by private individuals in the amount of Sk 581 million. The volume of exports in July reached Sk 19.1 billion, falling behind the average figure for the first half of the year by 8%. The volume of imports amounted to Sk 18.9 billion, representing a decrease of Sk 2 billion (9.3%).

At the end of July, the share of services in the total volume of exports increased to 23.3%, and the considerable surplus of exports over imports resulted in a favourable balance of services amounting to Sk 12.9 billion. A significant source of surplus in the services balance was the Sk 5.2 billion net income from transportation. Within this sector, the Slovak economy obtained resources mainly for gas transport (use of gas pipeline), in the form of gas supply. Net income from tourism reached Sk 5.1 billion, representing an increase of almost Sk 1 billion in July.

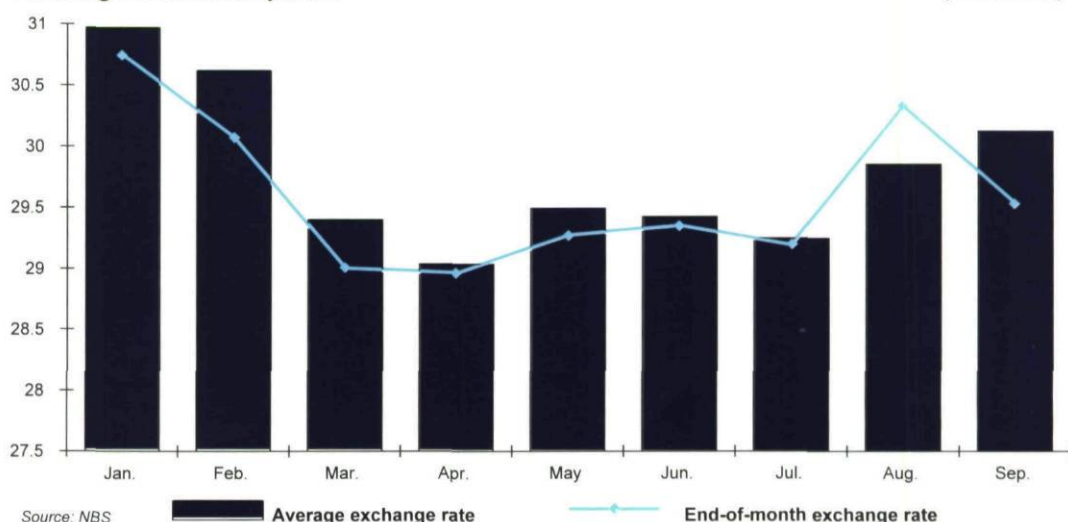
The **capital and financial account** of the balance of payments resulted in a moderate surplus of Sk 0.3 billion, while the net outflow of capital dropped by Sk 2.5 billion in July as a result of government loan repayments in the amount of Sk 4.3 billion.

Compared with the previous month's level, the **total foreign exchange reserves of the NBS** increased by US\$ 117.3 million, reaching US\$ 2,825.4 million at the end of September, i.e. an amount 3.3 times greater than the expected volume of average monthly imports of goods and services to the SR in 1995.

At the end of July, the **gross foreign debt of the SR** stood at US\$ 4.9 billion, while the gross official debt of the Slovak Government and the NBS amounted to US\$ 2.3 billion. At the end of July 1995, the indebtedness of commercial banks and enterprises was at the level of US\$ 2.4 billion. Foreign debt in convertible currency amounted to US\$ 4.7 billion. The remaining amount represented the estimated debt to the former German Democratic Republic.

Exchange Rate Development

(USD/SKK)



Source: NBS

■ Average exchange rate

— End-of-month exchange rate

III. MONETARY DEVELOPMENTS

Indicators	1993	1994	1995				
			H1	July	Aug.	Sep.	
Inflation Rate	Monthly ^{1/} (%)		3.1	1.0	0.5	1.4	
	Yearly (%)	25.1	11.7		10.8	9.8	8.8
Money Supply M2 ^{2/4/} (%)		18.5 ^{3/}	18.8 ^{3/}	3.1	4.7	7.1	7.9
Credits from Commercial Banks ^{4/} (%)		13.0 ^{3/}	1.5	5.6	5.6	8.3	9.0
Deposits with Commercial Banks ^{4/} (%)		18.3 ^{3/}	17.9	3.7	6.2	9.5	10.2
Discount Rate (%)		12.0 ^{5/}	12.0		11.0	11.0	11.0
Lombard Rate ^{6/} (%)		14.0			13.1	13.1	13.1
Average Interbank Deposit Interest Rates							
BRIBOR (%)							
	1-day deposits	16.73 ^{7/}	13.18	4.28	7.89	5.94	6.01
	7-day deposits	17.20 ^{7/}	13.89	4.91	8.17	6.77	6.34
	14-day deposits	17.50 ^{7/}	14.63	4.74	8.36	7.05	6.55
	1-month deposits	17.86 ^{7/}	15.62	5.29	8.52	7.48	6.82

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)

4/ 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 September, **money supply** in terms of the M2 aggregate increased by Sk 2.9 billion (0.9%), reaching Sk 318.1 billion at the end of the month.

The **M1 aggregate** increased by Sk 3.9 billion as a result of the Sk 3.1 billion growth in demand deposits. The volume of currency in circulation outside the banking sector increased by Sk 0.8 billion compared with the previous month's figure.

Quasi-money decreased by Sk 1 billion owing to the Sk 1.5 billion drop in demand deposits. Foreign currency deposits experienced an increase of Sk 0.5 billion in September.

Crown deposits, as part of M2, recorded an increase of Sk 1.6 billion. The most significant increases were recorded in corporate deposits (Sk 0.2 billion) and household deposits (Sk 1.4 billion).

Within the M2 monetary aggregate, the volume of M1 increased in the course of September as a result of a growth in the volume of demand deposits. The proportion of quasi-money to M2 was influenced by a fall in the volume of time deposits.

The rate of growth in **bank loans in Slovak crowns and foreign currency** slowed down somewhat in September due to the small month-on-month increase in foreign currency loans. At the end of September, the total volume of bank credit amounted to Sk 298.1 billion, representing an increase of Sk 2.2 billion compared with the previous month's figure, and Sk 24.6 billion in comparison with the beginning of the year.

Bank loans in crowns and foreign currency have followed a different course of development since the beginning of the year. After a period of continuous growth, crown loans increased by Sk 1.8 billion in September, while the irregular growth of foreign currency loans continued with a month-on-month increase of Sk 0.4 billion.

The sectoral structure of the month-on-month growth in crown loans was favourable. A significant increase (Sk 3.0 billion) was recorded in loans to the private sector, while the volume of loans in the private sector fell by Sk 1.4 billion. Crown loans accounted for 80.5% (Sk 19.8 billion) of the total increase in Slovak-crown and foreign currency loans.

In August, the volume of **crown credit drawn** increased by Sk 0.6 billion compared with the previous month's figure. The total drawings on crown loans amounted to Sk 13.5 billion. In terms of the structure of loans, short-term loans accounted for 71.1%, representing a fall of 9.5 percentage points compared with the previous month's figure. The proportion and the absolute volume of drawings on medium and long-term loans also increased.

In August, the **average rate of interest on the total amount of crown loans** remained basically unchanged, at the level of 15.75% (15.73% in July). A similar development was recorded in average lending rates for loans: interest rates on short and medium-term loans fell slightly, while the rate on long-term loans experienced an increase.

Considerable fluctuations were recorded in the **average interest rates on new (drawn) loans**, reaching 16.25%, while the average rate of interest on short-term loans increased by 0.25 percentage points to 15.83%; that on long-term loans by 0.31 points to 17.06%; that on medium-term loans, however, fell by 0.47 points to 17.44%, resulting from changes in the overall structure of loans by interest rate.

The price of primary and secondary resources developed in a completely different way to that of interest rates. The **average rate of interest on crown deposits** fell slightly from 8.99% to 8.92%. With regard to the structure of time deposits, the interest rate on demand deposits remained virtually unchanged. Compared with the previous month's figure, the average rate of interest on time deposits in crowns fell by 0.10 point to 12.73%, while decreases were recorded only in interest rates on less than 12-month contracts. The average interest rate on 12-month deposits was 13.38%, i.e. 0.17 points less than in July.

The **average rate of interest on interbank deposits and loans** fell by 0.84 points, to 12.76%. Decreases were recorded in all interbank deposit and lending rates with the exception of one-day money, where the rate of interest increased from 6.64% to 9.94%.



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The **interest margin** of commercial banks increased slightly from 6.74% in July to 6.83% in August. Compared with the previous month, the result of financial transactions in September had a significant effect on the **asset and liability account of the NBS**: the balance total increased by Sk 5.7 billion (2.9%).

By the end of September, monthly changes in the balance of NBS had influenced the **net position of Slovakia's economic sectors vis-a-vis the NBS**. The net position vis-a-vis the rest of the world increased by Sk 3.1 billion as a result of an increase in assets (Sk 4.3 billion) and liabilities (Sk 1.2 billion). The net debt of the government sector increased by Sk 4.8 billion. The net debt of commercial banks decreased by Sk 12.1 billion, to a deficit of Sk 8.0 billion, as a result of an decrease in NBS assets (Sk 1.1 billion) and consequent increase in liabilities (Sk 11 billion).

For the 3rd quarter of 1995, Sk 287.4 billion was set aside for **bank lending to households and enterprises**. By 30 September 1995, the credit limit had been exceeded by Sk 5.9 billion (fulfilment to 102.1%), while loans in Slovak crowns recorded a more significant increase (Sk 20.6 billion compared with the initial figure) than loans in fully convertible currencies (increase of Sk 5.5 billion).

On the interbank money market, the interest rates on 6-month deposits were about 2% below the discount rate in September. Even so, commercial banks showed increased interest in bills of exchange business, especially in the rediscounting of bills of exchange in the support of primary agricultural production at 180 days. The volume of bills of exchange transactions slightly exceeded the previous month's level (increase of Sk 231.5 million). Bills exchanged for the support of agriculture represented 32.1% of the limit (Sk 1.5 billion), and those for export promotion accounted for 24.2% of the total (Sk 750 million).

Due to the favourable state budget performance, the Ministry of Finance of the SR issued no **Treasury bills** in the month of September.

Treasury bills issued in 1994 became due in the amount of Sk 14.6 billion, as a result of which the number of Treasury bills issued to cover last year's budget deficit fell from 21,101 to 6,520. The number of Treasury bills issued in 1995 remained unchanged at 5,820. The total number of short-term government securities fell from 26,921 to 12,340.

Three NBS Treasury bill auctions took place; 19,810 bills were issued, and 25,804 bills matured in the month of September.

The number of securities held in the portfolio of NBS ranged between nil and 2,880. In the period under consideration, the NBS held 308 Treasury bills on average.

During the relevant period, reversed REPO transactions dominated the secondary market. The volume of transactions in the Treasury bill market fell by Sk 10.7 billion, to Sk 34.7 billion, representing a daily average of Sk 1.8 billion (a drop of Sk 0.26 billion). This development was influenced by a decrease in the number of Treasury bills on the money market.

The NBS had a 79.5% share (i.e. Sk 27.6 billion) in the turnover, compared with the previous period, when the NBS accounted for 75.3% of the total volume of transactions.

In accordance with legislation governing the issuance of **government bonds** in the Slovak Republic (Act No. 141/1995 Z.z.), the Ministry of Finance launched government bond issues No. 016 and No. 017 in September in the amount of Sk 4.26 billion and Sk 6.64 billion respectively. Thus the total volume of bonds issued to cover the 1994 budget deficit amounted to Sk 14.9 billion at the end of the month; equivalent to 68.3% of the total deficit. Bonds were put on the market via an American style auction at an unlimited issue amount. Despite the possibility for non-bank entities to enter the primary market, such institutions were not present at the auctions.

Though the volume of transactions in **NBS foreign exchange fixing** in September fell to 72.1% of the previous month's figure, foreign exchange fixing continues to be the most significant component of the interbank foreign exchange market in the SR. The volume of such transactions in September (US\$ 343.2 million) accounted for 68.0% of the total volume traded on the interbank foreign exchange market (US\$ 505 million) and more than twice exceeded the volume of transactions among Slovak commercial banks (US\$ 161.8 million). In September, 9 transactions were concluded in foreign exchange fixing on average, while the monthly balance of the NBS amounted to US\$ 91.4 million. Compared with the previous month, the balance fell by 48.7% (US\$ 178.0 million in August). The currency structure of transactions concluded in the foreign exchange fixing was: 45% US\$ and 55% DEM of the total volume. The balance of foreign exchange fixing was almost exclusively in DEM (97%).

Contrary to transactions in foreign exchange fixing, the volume of mutual foreign exchange transactions between Slovak commercial banks increased by 28.8%, to US\$ 161.8 million, compared with the previous month's figure. The number of transactions concluded in the course of September (179) was comparable with the number of transactions in the NBS foreign exchange fixing, though the volume of these transactions did not reach even a half of the volume traded in the fixing. Most interbank trading was concluded in DEM (56.4%), followed by US\$ (38.4%), and other European currencies (8.5%). Contrary to the previous month, Slovak commercial banks concluded transactions with foreign banks as well, though the volume of these transactions was negligible (US\$ 12.9 million) in comparison with that of the interbank foreign exchange market. Slovak commercial banks reported an unfavourable balance in these transactions (US\$ 12.2 million), indicating that they were limited to the sale of foreign exchange to foreign banks.

IV. THE GOVERNMENT SECTOR

Indicators	1993	1994	1995			
			H1	July	Aug.	Sep.
Budget Revenues ^{1/} (Sk billions)	144.5	139.1	75.4	90.9	102.0	114.3
Budget Expenditures ^{1/} (Sk billions)	167.5	162.0	75.3	92.3	102.9	117.2
State Budget Balance (Sk billions)	-23.0	-22.9	0.1	-1.4	-0.9	-2.9

^{1/} Cumulative values

At the end of September, the **state budget of the Slovak Republic** showed a deficit of Sk 2.9 billion, representing an increase of Sk 2.0 billion compared with the previous month's level. The budget deficit was fully covered by issues and subsequent sales of Treasury bills.

The **budget revenue** (Sk 114.3 billion) exceeded the budgeted figure by Sk 4.5 billion. This development was due mainly to an improvement in tax revenue (76.7% of the annual budget), while value-added tax revenue (Sk 38.4 billion) exceeded the budgeted level by Sk 6 billion, and income tax revenue (Sk 36.3 billion) by Sk 0.8 billion. The unfavourable development in excise tax revenue (a shortfall of Sk 5.4 billion compared with the corresponding part of the annual budget) continued in September. A favourable development was recorded in non-tax revenue (89.2% of the annual budget), exceeding the budgeted figure by Sk 2.4 billion.

Budget expenditure (Sk 117.2 billion) was fulfilled to 70%, and was considerably influenced by the clearing account with the Czech Republic (Sk 1.9 billion). Without this influence, the state budget would have had a deficit of Sk 1 billion. Budget expenditure during the first nine months of the year lagged behind the budgeted amount by Sk 8.4 billion, and its structural development may be described in general as favourable. Budget expenditure was slightly exceeded in the following areas: non-investment expenses of budgetary organizations - work, social affairs, and family (82.6%), investment costs of budgetary organizations (94%), and non-investment subsidies of local governments (77%).

The internal debt of the Slovak Government vis-a-vis the banking sector reached Sk 59.4 billion at the end of September 1995. Of this amount, the NBS accounted for Sk 17.9 billion and commercial banks Sk 41.5 billion. Since the beginning of the year, Government indebtedness has fallen by Sk 11 billion.

In comparison with the August level, the internal debt of the Government increased only slightly (by Sk 0.5 billion). However, more significant changes were recorded in the structure of individual components. In September, two government bond auctions were held (No. 016 and No. 017) to cover the 1994 budget deficit amounting to Sk 10.9 billion. With regard to the fact that four 1994 issues of Treasury bills were due in September, the volume of which exceeded the yields from government bonds, the difference was covered by a loan extended by the National Bank of Slovakia.

V. INFORMATION

- At the beginning of November, Všeobecná úverová banka, a.s. (General Credit Bank) obtained a syndicated loan in the amount of US\$ 60 million from 16 major international banks. The loan was channelled through the London branch of Fuji Bank.
- On 15 November 1995, Vladimír Masár, Governor of the National Bank of Slovakia, and members of the Bank's top management met with foreign journalists on the occasion of the formal opening of Bank Austria (SR) a.s. in Bratislava.

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