



NATIONAL BANK OF SLOVAKIA

MONETARY SURVEY

DECEMBER 1995

I. THE REAL ECONOMY



NATIONAL BANK OF SLOVAKIA

Indicators		1993	1994	1995				
				H1	Q3	Oct.	Nov.	Dec.
GDP	Value (Sk ^{1/} billions, c.p. ^{6/})	173.8	182.2	95.4	107.4			
	Growth rate ^{2/} (%)	-4.1	4.8	6.1	7.4			
Output ^{2/3/}	Industrial production (%)	-13.5	6.4	7.7	9.6	13.2	10.1	2.5
	Construction (%)	-23.8	5.3	4.0	3.8	6.5	1.6	-1.8
Unemployment	Number (thous.of persons)	368.1	371.5	339.0	336.0	325.5	326.3	333.3
	Unemployment rate (%)	14.4	14.8	13.3	13.2	12.8	12.8	13.1
Foreign Trade ^{4/5/} (f.o.b.)	Exports (Sk billions)	95.7	135.3	124.6	187.4	210.7		
	Imports (Sk billions)	125.9	149.4	125.7	185.4	208.0		
	Balance (Sk billions)	-30.2	-14.1	-1.1	2.0	2.7		

1/ Sk - abbreviation of the Slovak crown

2/ Change compared with the corresponding period of last year

3/ Data in current prices

4/ Cumulative values

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

6/ Till H1 1995 figures based on constant prices for 1984, from Q3 1995 figures based on constant prices for 1993

In December, the level of **consumer prices** rose by 0.3% compared with the previous month's figure. This development was due to the slow rate of increase in food prices (0.1%) in comparison with the previous months. The rates of increase in the prices of industrial goods and services also slowed. Compared with the same period of last year, the level of consumer prices increased by 7.2%.

In the category of foodstuffs, decreases were recorded in the prices of meat and meat products (0.6%), sugar and sugar products (0.5%). The increases recorded in the prices of eggs (6.6%), bakery and pastry products (0.7%) were due to the continuing increase in the price of rise (16%), dairy products (0.6%), fats and beverages. In industrial goods, the most significant increases were recorded in the prices of shoes (0.6%), cultural needs (0.6%), cultural facilities (0.5%), and textile goods (0.4%). In public catering, considerable increases were recorded in the price of meals and beverages. In services, increases were recorded mainly in the cost of education, culture, entertainment (1.1%) and other services (0.6%).

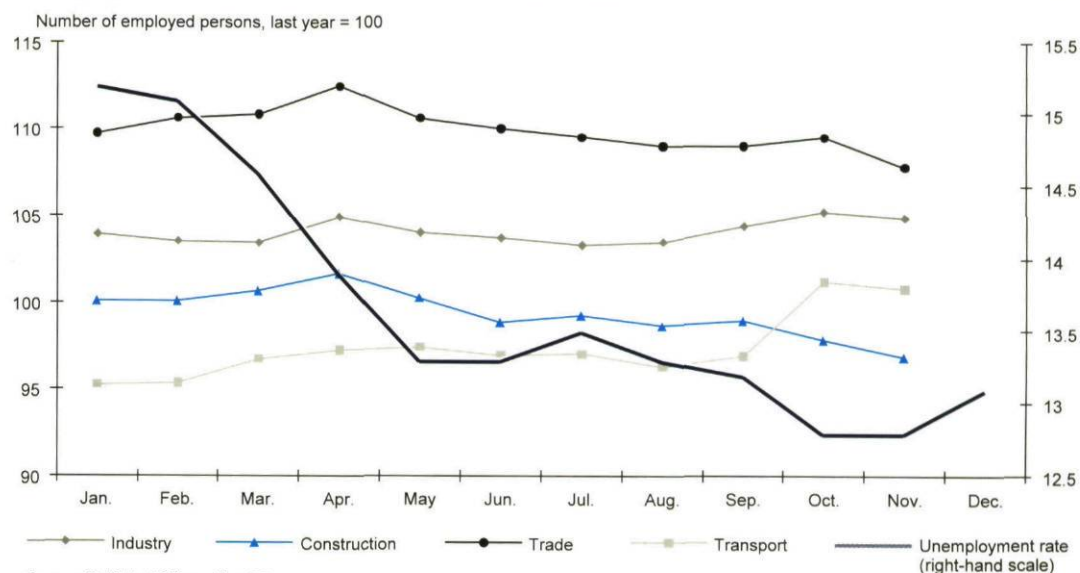
In December, the volume of **industrial production** (Sk 41.9 billion) reached only 89.2% of the previous month's figure. However, the output of the sector exceeded the figure for the same period of 1994 by 2.5%. Parallel with the month-on-month decline in production, the value of average daily output (Sk 2.2 billion) fell to 98.6% of the level of November, but exceeded that of December 1994 by 13.3%. Labour productivity per employee (Sk 67,166) fell below the November level by 10.1% and that of December 1994 by 1.8%. Exports in December (Sk 18.2 billion) accounted for 41.4% of the volume of sales, falling behind the previous month's figure by 0.7%.

In December, total **construction industry output** fell by 1.8% to Sk 4.4 billion, making December the less productive month of the past year. Labour productivity per employee (Sk 29,013) recorded a month-on-month decrease of 6.1%; but compared with the figure for December 1994, increased slightly by 1.7%. The volume of domestic construction activity (Sk 3.8 billion) fell by 8.6% compared with the November figure. Construction activity abroad (Sk 0.6 billion) experienced a less serious decline (1.5%) in December. Compared with the corresponding period of last year, the volume of construction activity abroad increased by 8.5%, while that of domestic construction activity decreased by 3.2%.

At the end of December, the **rate of unemployment** reached 13.1%. The number of registered unemployed recorded a month-on-month increase of 7 thousand. The number of those recently removed from the register remained behind the figure for November, the number of vacancies fell to 15.5 thousand, and the number of job applicants per vacancy increased to 21.5.

Unemployment Rate and Number of Employed Persons

(in %)



II. THE EXTERNAL ECONOMY

Indicators	1993	1994	1995				
			H1	Q3	Oct.	Nov.	Dec.
Current Account ^{1/} Balance (Sk billions)	-21.1 ^{5/}	-3.1 ^{5/}	-6.2 ^{5/}	-6.6 ^{5/}	18.7		
Foreign Exchange Reserves ^{2/} (USD millions)	1,402.2	3,095.5	4,202.7	4,406.6	4,429.4	4,636.2	5,034.4 ^{7/}
Banking system	952.7	1,350.5	1,580.9	1,581.2	1,556.3	1,590.2	1,616.0 ^{7/}
Commercial banks NBS ^{3/}	449.5	1,745.0	2,621.8	2,825.4	2,873.1	3,046.0	3,418.4
Gross Foreign Debt ^{2/} (USD billions)	3.6	4.3	5.0	4.8	5.2 ^{**/}		
Average Exchange Rates ^{4/}							
USD/SKK	32.968	32.039	29.338	29.744	29.490	29.447	29.705
DEM/SKK	19.283	19.759	20.999	20.802	20.844	20.803	20.615

1/ Cumulative values
2/ End-of-period figures
3/ Including gold at a book value of 42 22 USD/oz

4/ Exchange rate midpoint
5/ Balance in convertible currencies, Sk billions

7/ Preliminary data
**/ Change of methodology



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During the first ten months of 1995, the **current account of Slovakia's balance of payments** (Sk 18.7 billion) was positively influenced by the development of the balance of goods and services. The capital and financial account produced a surplus of Sk 4.9 billion as a result of the net inflow of investment capital into the corporate sector.

During the ten months under consideration, Slovakia's foreign trade activity yielded a surplus of Sk 2.7 billion, with a 21.7% increase in exports and 20.9% in imports compared with the figures for the same period of last year. Slovakia reached a favourable balance of trade with the Czech Republic (Sk 16.4 billion), Germany (Sk 10.1 billion), Hungary (Sk 5.1 billion), and Poland (Sk 3.3 billion). On the other hand, the balance surplus was reduced by the deficit in trade with the Russian Federation (Sk -27.1 billion). The commodity structure of exports was dominated by consumer goods (41%), machines and equipment (18.3%), and chemicals (13%). In the structure of imports, the most significant components were machines and equipment (28%), mineral fuels (18%), and consumer goods (18%).

A significant source of surplus in the services balance (Sk 15.6 billion) was the country's net revenue from tourism (Sk 7.4 billion) and transportation (Sk 6.9 billion). Within this sector, the Slovak economy obtained funds mainly from gas transport (use of gas pipeline).

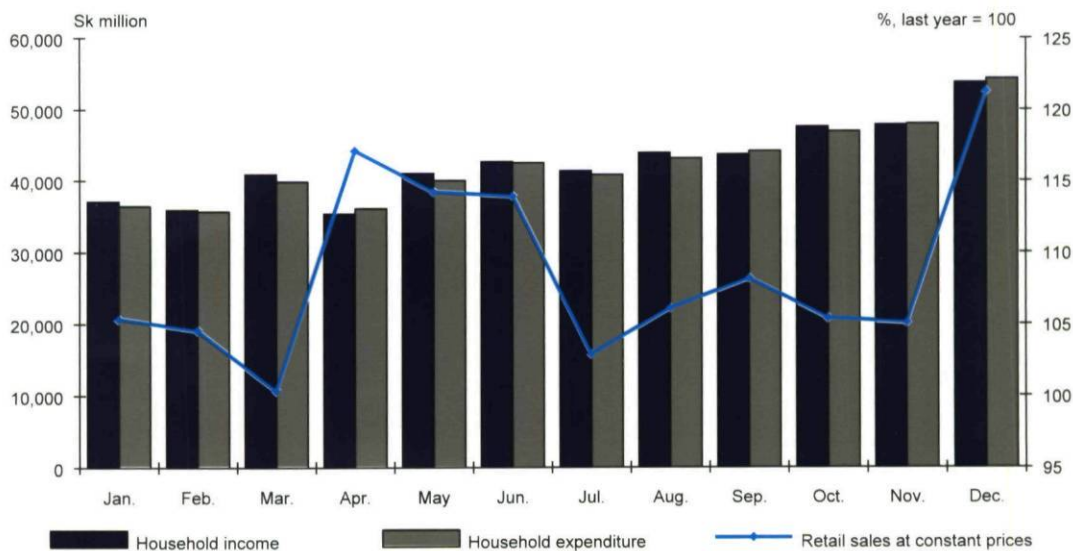
The balance of current transfers (Sk 2.1 billion) was significantly influenced by private transfers (pensions, alimony, legacies, allowances, and gifts to private individuals), which accounted for 76% of the total net receipts.

The favourable balance on the capital account (Sk 4.9 billion) was due primarily to factors that influenced the inflow of capital into the economy. These factors were: net investment in the corporate sector (Sk 9.7 billion), long-term financial credit for the support of economic activities within the corporate sector (Sk 3.9 billion), and government revenues in the form of payments from Russia (Sk 1.4 billion).

The structure of net investment was dominated by portfolio investment (Sk 7.1 billion) accounting for 73% of the total figure, compared with 27% represented by direct investment. Long-term financial credit in the corporate sector exceeded government loans drawn in the amount of Sk 2.9 billion.

Compared with the previous month's level, the **total foreign exchange reserves of the NBS** increased by US\$ 372.4 million, reaching US\$ 3,418.4 million at the end of December 1995. The total amount of foreign exchange reserves at the end of November was 3.8 times greater than the expected volume of average monthly import of goods and services to Slovakia in 1995 (expected volume of imports = US\$ 899.4 million).

Household Income and Expenditure and Retail Sales in 1995



Source: Statistical Office of SR

At the end of October, the **total gross foreign debt of the SR** stood at US\$ 5.2 billion, while the official debt of the Slovak Government and the NBS stood at US\$ 2.0 billion. The debt owed by commercial banks and entrepreneurs was at the level of US\$ 3.1 billion, the difference being accounted for by Slovakia's estimated debt to the former German Democratic Republic.

III. MONETARY DEVELOPMENTS

Indicators		1993	1994	1995				
				H1	Q3	Oct.	Nov.	Dec.
Inflation Rate	Monthly ^{1/} (%)			3.1	2.9	0.5	0.4	0.3
	Yearly (%)	25.1	11.7			7.9	7.6	7.2
Money Supply M2 ^{2/4/} (%)		18.5 ^{3/}	18.8 ^{3/}	3.1	7.9	8.5	10.7	20.7
Credits from Commercial Banks ^{4/} (%)		13.0 ^{3/}	1.5	5.6	9.0	10.6	10.8	13.8
Deposits with Commercial Banks ^{4/} (%)		18.3 ^{3/}	17.9	3.7	10.2	11.7	13.5	24.0
Discount Rate (%)		12.0 ^{5/}	12.0		11.0	9.75	9.75	9.75
Lombard Rate ^{6/} (%)		14.0			13.1	13.1	13.1	13.1
Average Interbank Deposit Interest Rates BRIBOR (%)	1-day deposits	16.73 ^{7/}	13.18	4.28	6.68	4.96	8.21	9.29
	7-day deposits	17.20 ^{7/}	13.89	4.91	7.17	5.30	8.22	9.31
	14-day deposits	17.50 ^{7/}	14.63	4.74	7.39	5.46	8.29	9.40
	1-month deposits	17.86 ^{7/}	15.62	5.29	7.69	5.94	8.37	9.48

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 December, Slovakia's **money supply** in terms of the M2 aggregate increased by Sk 29.8 billion (9.1%), reaching Sk 355.8 billion at the end of the year. The growth in the money supply was due to increases in both components: the **M1 aggregate** increased by Sk 14.2 billion, **quasi-money** by Sk 15.5 billion. In comparison with the figure for the beginning of the year, the supply of money in the economy increased by Sk 61.1 billion (20.7%).

During December, the volume of currency in circulation outside the banking sector grew by Sk 1.8 billion as a result of a seasonal increase caused by Christmas shopping. The volume of currency in circulation ranged between a minimum of Sk 36.5 billion (at 5 December) and a maximum of Sk 42.4 billion (at 18 December 1995). Demand deposits increased by Sk 12.4 billion; this growth was partly due to interest accrued and credited to the accounts.

Time deposits increased by Sk 15.4 billion owing to the interest accrued in the household sector in particular, which has the largest share in the structure of time deposits. Foreign currency deposits experienced only a slight increase (Sk 0.1 billion) in the month of December.

Crown deposits, as part of M2, increased by Sk 27.8 billion in December. In the sectoral breakdown of crown deposits, the most significant increases were recorded in household deposits (Sk 14.2 billion) and corporate and insurance sector deposits (Sk 13.6 billion). Within the M2 monetary aggregate, the volume of M1 recorded a moderate increase in December, while that of quasi-money fell slightly in comparison with the figures for the end of November.

In comparison with November, **bank lending in Slovak crowns and foreign currency** increased in December by Sk 7.3 billion, representing the second greatest increase in 1995. At the end of December, the volume of bank credit totalled Sk 310.3 billion, representing an increase of Sk 36.8 billion since the beginning of 1995, i.e. Sk 32.8 billion more than in the previous year.

The growth in crown loans was due to increases in both public and private sector loans (Sk 5.6 billion in each). For the first time in 1995, the volume of crown loans to households increased by Sk 0.6 billion in the course of December.

The volume of **bank credit** drawn in November increased by Sk 2.4 billion, compared with the previous month's figure. Of the total volume of credit (Sk 14.7 billion), short-term loans accounted for 75.5% and medium-term loans for 15%. The largest part of this amount was drawn by the private sector (Sk 8.2 billion).

In December, **loans in foreign currency** accounted for 9.6% (Sk 0.7 billion) of the total month-on-month increase in bank credit. This growth corresponded to the average monthly increase in foreign currency loans in 1995. The total increase since the beginning of the year (Sk 6.8 billion) was Sk 0.4 billion less than in 1994.

Continuing the downward trend recorded in the 4th quarter of 1995, the **average rate of interest on the total volume of loans** had fallen to 14.9% by the end of November, representing a month-on-month decrease of 0.25 percentage points. Average interest rates were cut on all types of loans: lending rates for short-term loans fell by 0.29 points (to 16.43%), medium-term loans by 0.21 points (to 17.77%), and long-term loans by 0.24 points (to 12.20%).

The average rate of interest on the total volume of bank lending was mainly influenced by the November cut in lending rates for medium and long-term loans (1.5 to 2 points) in commercial banks, and the structure of loans by term, in which long-term loans accounted for 41.8%, short-term loans for 40.0%, and medium-term loans for 18.2%. The average lending rate for long-term loans was most influenced by the so-called loans of a social nature and credits granted for housing projects in the past at interest rates below 3% (in the total amount of Sk 21.6 billion, which accounted for 18.4% of the total volume of long-term credit).



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After a certain fall in September and October, the level of actual **interest rates on new loans** increased again in November. The average rate of interest reached 14.91%, representing an increase of 0.24 points in comparison with the figure for October. In the structure of loans by term, the average rate of interest on long-term loans increased by 0.83 points (to 16.19%), that on medium-term loans by 0.68 points (to 16.83%), and that on short-term loans by 0.15 points (to 14.35%).

In November, **interest rates on crown deposits** fell by an average of 0.60 points as a result of a cut in nominal interest rates on some time deposits (1 to 2 points) at most commercial banks in October and November. The average rate of interest on the total volume of deposits was 8.20% in November, while the sharpest decreases were recorded in interest rates on time deposits (1.4 points on average), especially in the 12-month deposit rate (1.77 points, to 11.54%).

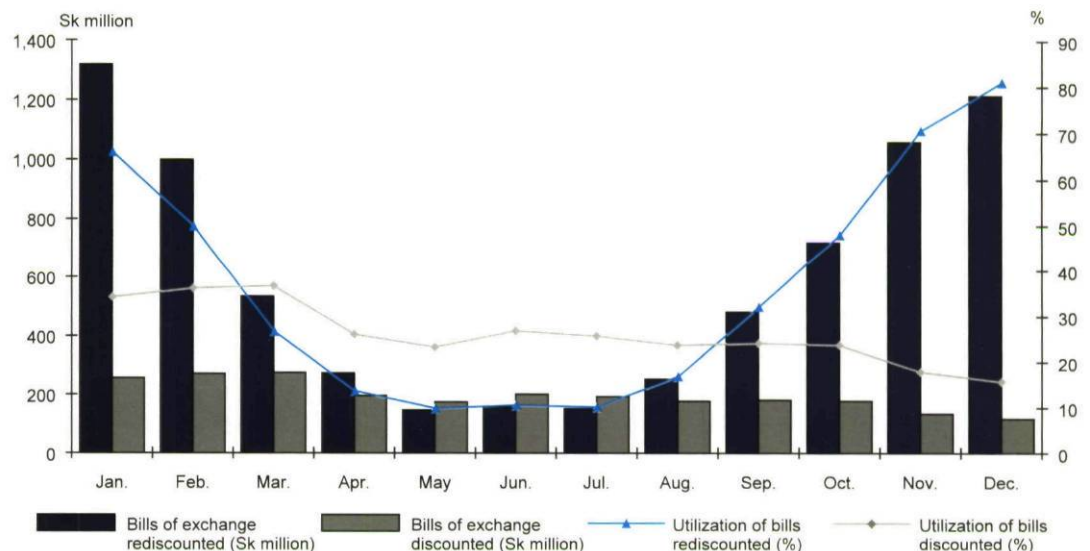
In November, the actual rate of interest on 12-month deposits fell to 1.34%, i.e. by 1.57 points compared with October, as a result of the cut in basic deposit rates at commercial banks.

In contrast to primary resources, the price of which fell considerably (especially that of short-term interbank deposits) by 0.86 points, the average rate of interest on secondary resources increased by 0.47 points, to 12.54%.

By 31 December 1995, the credit limit on **bank lending to households and enterprises** set for the 4th quarter (Sk 285.9 billion) had been exceeded by Sk 16.9 billion (fulfilment to 105.9%), owing to a month-on-month increase of Sk 4.3 billion. By the end of December, the volume of crown loans had increased by Sk 27.9 billion and that of loans in fully convertible currencies by Sk 7.7 billion compared with the initial figures at 1 January 1995.

Since November, **bills of exchange transactions** have been conducted in accordance with the new 'Conditions of NBS for the Purchase of Bills of Exchange and their Specification', which created more room for the utilization of this method of refinancing. At the same time, the interest rate on three-month deposits on the interbank market increased in December to the level of the effective discount rate (9.5 to 9.8%). As a result, the total volume of bills of exchange transactions increased in December by Sk 139.6 million compared with the previous month's figure (rediscounted bills increased by Sk 156.1 million, while those discounted fell by Sk 16.5 million). Bills exchanged for the support of agriculture represented 81.1% of the limit (Sk 1,500 million), and those for export promotion accounted for 15.7% of the total (Sk 750 million).

NBS Bills of Exchange Transactions in 1995



Source: National Bank of Slovakia

The average level of **required minimum reserves** set for the month of December in the amount of Sk 17.3 billion was fulfilled to 102.9% (the actual average monthly volume reached Sk 17.8 billion).

In the course of December, the Ministry of Finance of the SR launched, through the National Bank of Slovakia, four issues of **State Treasury bills**: one with a 14-day maturity and three maturing in 9.5 months. The short-term issue worth Sk 5 billion (nominal value) was auctioned at an average interest rate of 6.85% p.a. The issues with a 9.5 month maturity (due in September and October 1996) were designed to cover the 1995 State budget deficit until the closing balance account is approved. The book value of these securities totalled Sk 14 billion. The average rate of interest on the primary market ranged from 7.35% p.a. to 7.58% p.a. In the period under consideration, four issues of State Treasury bills became due in the amount of Sk 12.35 billion. The volume of short-term securities totalled 14,830 pce at the end of the year.

In December, the National Bank of Slovakia launched three issues of **NBS Treasury bills**. One of these issues, in the amount of Sk 10 billion, was sold to the central bank in the form of direct sale (through a selected commercial bank). The remaining two issues were sold by Dutch auction at an interest rate of 7.4% and 7.2% p.a. respectively. Trading on the secondary market was conducted primarily in the form of reversed REPO operations.

On the interbank money market, interest rates on short-term and long-term deposits were almost equal in December. Interest rates on one-month and three-month deposits remained above 9%; their values reached a maximum of 9.76% pa. (on 1-month deposits) and 9.87% p.a. (on 3-month deposits).

With regard to the fact that the sale of **government bonds** for the purpose of covering the 1994 State budget deficit ended on 23 October 1995, no government bonds were traded on the primary market in the course of December.

In December, the volume of transactions in **NBS foreign exchange fixing** increased to 122% of the previous month's figure, and continued to be the most significant component of the interbank foreign exchange market in the SR. The volume of such transactions in December (US\$ 572.1 million) accounted for 54% of the total volume traded on the interbank foreign exchange market (US\$ 1,067.5 million). The number of transactions concluded in foreign exchange fixing reached 198, representing an daily average of 10 transactions. The monthly balance of the NBS in foreign exchange fixing amounted to US\$ 261.7 million. In comparison with the previous month, the balance figure increased by 21% (US\$ 216.6 million in November). The currency structure of transactions based on fixing rates was: 40% US\$ and 60% DEM of the total volume. The balance of foreign exchange fixing in DEM was 66% and in US\$ 34%.

Compared with the previous month's figure, the volume of interbank foreign exchange transactions between Slovak banks increased by 35%, to US\$ 495.2 million. Most interbank trading was concluded in DEM (42%), followed by US\$ (40%), and other European currencies (18%). The volume of transactions concluded with foreign banks in December amounted to US\$ 18.8 million. This figure is negligible in comparison with the volume traded on the interbank foreign exchange market. In these transactions, Slovak banks reached an unfavourable balance (US\$ 14.3 million), which means that they had sold foreign exchange to foreign banks.

IV. THE GOVERNMENT SECTOR

Indicators		1993	1994	1995				
				H1	Q3	Oct.	Nov.	Dec.
Budget Revenues ^{1/}	(Sk billions)	144.5	139.1	75.4	114.3	130.9	142.6	163.1
Budget Expenditures ^{1/}	(Sk billions)	167.5	162.0	75.3	117.2	133.1	150.4	171.4
State Budget Balance	(Sk billions)	-23.0	-22.9	0.1	-2.9	-2.2	-7.8	-8.3

^{1/} Cumulative values

At the end of December, the **state budget** of the Slovak Republic recorded a deficit of Sk 8.3 billion, representing an increase of Sk 0.5 billion compared with the level of the previous month. The budget deficit was fully covered by the issue and sale of Treasury bills.

The **budget revenue** (Sk 163.1 billion) exceeded the budgeted figure by Sk 16.7 billion. This development was due mainly to an increase in tax revenue. However, the unfavourable development in excise tax revenue (a shortfall of Sk 5.4 billion compared with the annual budget) continued in December. A favourable development was recorded in non-tax revenue.

Budget expenditure (Sk 171.4 billion) exceeded the budgeted figure by Sk 4 billion during the twelve month of 1995. This amount was covered by revenue earned from transfers made by the Czech Republic for having exceeded the credit limit on the clearing account, and from the so-called supplementary resources of the State budget.

In December, the internal debt of the Slovak Government vis-a-vis the banking sector remained at the previous month's level (Sk 64.1 billion). Of this amount, the NBS accounted for Sk 13.5 billion and commercial banks Sk 50.6 billion. In the structure of domestic debt, considerable decreases were recorded in the volumes of insurance funds. State deposits, together with the volume of funds held by local governments increased as a result of an issue of municipal bonds by the Capital City of Bratislava. The volume of State Treasury bills increased by Sk 1.2 billion.

V. INFORMATION

- On 9 February 1996, the Bank Board of the NBS withdrew the banking licence from the Košice branch of Banka Bohemia, a.s. Praha, and the Bratislava branch of Interbanka, a.s. Praha. In connection with the Piešťany branch of Ekoagrobanka, a.s. Ústí nad Labem, the conservatorship imposed by the Czech National Bank continues, and the Banking Supervision Division of the NBS is continuing to monitor the situation.
- On 21 February 1996, the NBS Board of Directors held its regular quarterly meeting with representatives of Slovak commercial banks in Bratislava. During the meeting, representatives of the banking sector were informed on the monetary programme of the NBS for 1996. Participants at the meeting discussed questions concerning the interest rate policies of commercial banks, the bill pertaining to deposit insurance, and the situation in some branches of foreign banks.

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