NÁRODNÁ BANKA SLOVENSKA

Annual Report 2004

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Foreword

The Slovak Republic, together with nine other countries, became a member of the European Union on 1 May 2004. Within one year of our membership of this integrated community, the first positive signs are visible in the Slovak economy. One of the most significant is the growing interest in foreign direct investment. It was Slovakia's growing investment attractiveness which became a driving force behind last year's economic growth of 5.5%, which was 1 percentage point higher than in 2003. Hand in hand with the investment demand, renewed growth in final household consumption, resulting from real wage increases, better access to lending sources and partly also the tax reduction contributed to this economic recovery. Conversely, the increase in the net export deficit had a moderately dampening effect on the economy. This however was related to production technology imports connected with foreign direct investments.

In comparison with 2003, consumer prices growth slowed by 3.4 percentage points to 5.9%, while the price development in 2004 was to a significant extent determined by adjustments to regulated prices and indirect taxes. This is seen in the relatively low level of core inflation of 1.5 % (compared to 3 % in 2003). Its decreasing dynamics was to a large extent influenc ed by foodstuff prices and also by the appreciation of the exchange rate of the Slovak koruna (vis-à-vis the euro and the US dollar), which was reflected in a price reduction in the so-called tradable goods. In other words, the Slovak Republic imported deflation last year.

In monetary policy implementation, with regard to the key interest rates, room was created in the course of the year for their gradual reduction by a total of 2 percentage points. In the environment of decreasing inflation, these cuts were designed to boost domestic demand and eliminate growing speculative pressures on the unwarranted appreciation of the Slovak koruna. Through the interest rates reduction the National Bank of Slovakia mitigated the restrictive effects of the exchange rate, while the overall impact of the monetary policy was neutral.

In addition to these cuts, the National Bank of Slovakia responded to the excessive exchange rate strengthening by foreign exchange market interventions as well as by several verbal warnings of the risks associated with such developments.

In connection with the introduction of the euro in the Slovak Republic and with the central bank's role in this process, it is noteworthy that the Slovak government adopted a document "Specification of the Strategy for Adopting the Euro in the SR" in September 2004, according to which the introduction of the euro is realistic in 2009.

In its documents and public announcements, the National Bank of Slovakia has repeatedly emphasised the advantages of Slovakia's membership in the euro area. The NBS is playing an active role in preparing the country for this significant change in order to enable the smooth implementation of the single currency so that its positive effects are felt as strongly as possible in all segments of economic life, while at the same time minimizing all foreseeable costs. These specific steps will be discussed in a joint document of the Ministry of Finance of the SR and the National Bank of Slovakia called "The National Plan for Adopting the Euro in the Slovak Republic".

However, the country must meet the so-called Maastricht criteria in a sustainable manner in order to qualify for the euro area entry. The National Bank of Slovakia is aware of the formidable challenge for its monetary policy in meeting these criteria, especially those relating to price stability and exchange rate. Bearing this in mind, the NBS has modified its monetary policy strategy and, as of 2005, it defined its strategy as inflation targeting in the ERM II conditions (Monetary Programme until 2008). On one hand, it has formulated an unambiguous monetary policy orientation to price stability in compliance with meeting its inflation criteria. On the other hand, this strategy has made it possible to take into account the necessity of meeting the exchange rate criteria and complying with the ERM II conditions.

The change in the monetary policy strategy and the explicit definition of inflation targets have been possible due to a considerable reduction in administrative price adjustments this year and the years to come, thus reinforcing the credibility of the gradual disinflationary process. This commitment has also been supported by the consistent budgetary policy of the government and its commitment to gradual reduction of the public finance deficit.

As at 31 December 2004, a total of eighteen banks, three branches of foreign banks, forty eight providers of free cross-border banking services, and seven representative offices of foreign banks were operating in the Slovak banking sector. Following the Slovak Republic's accession to the European Union the provisions of the Act on Banks entered into force, on the basis of which credit institutions registered in the European Economic Area (all EU member states plus Norway, Lichtenstein and Iceland) may conduct banking activities in the Slovak Republic without a banking licence granted by the National Bank of Slovakia, provided the bank has been granted a banking licence in its home state (the principle of a single banking licence). In 2004, the already launched trend of the risk-based supervision was fully manifested. In the period under review, the Banking Supervision Division focused on the implementation of rules relating to additional supervision of financial conglomerates, as well as on the preparation of the legal framework of integrated supervision of the financial market. The positive development of the Slovak banking sector was evidenced inter alia by an SKK 177 billion year-on-year growth in total assets of the entire banking sector. As at 31 December 2004, the banks reported assets of SKK 1.16 trillion and profits of SKK 12 billion.

The year 2004 was extraordinary for the National Bank of Slovakia as to its cash circulation function. In accordance with the adopted policy to store and process money exclusively in the NBS-owned vaults and processing facilities, starting on 1 October 2004, issuing activities began in new buildings of the NBS sub-branches in Trenčín, Nové Zámky, Žilina, Lučenec, Poprad and Humenné. Last year, the National Bank of Slovakia removed the 10 and 20 halier coins from circulation and supervised their gradual liquidation.

In its capacity as operator of the SIPS interbank payment system and in an effort to enhance its smooth running, the National Bank of Slovakia introduced the provision of intraday credit on 1 January 2004. And as of 1 April 2004, it extended the functionality of the SIPS payment system to the real-time settlement of payments. In 2004, the strategy concerning the further development of the payment system in the Slovak Republic following the European Union entry was approved. This included especially the linking of the National Bank of Slovakia to the TARGET 2 payment system, inclusion of the euro in the SIPS payment system and the harmonisation of the procedures concerning the low-value cross-border payments in euros within the territory of the European Union.

June 2005

Ivan Šramko
Governor

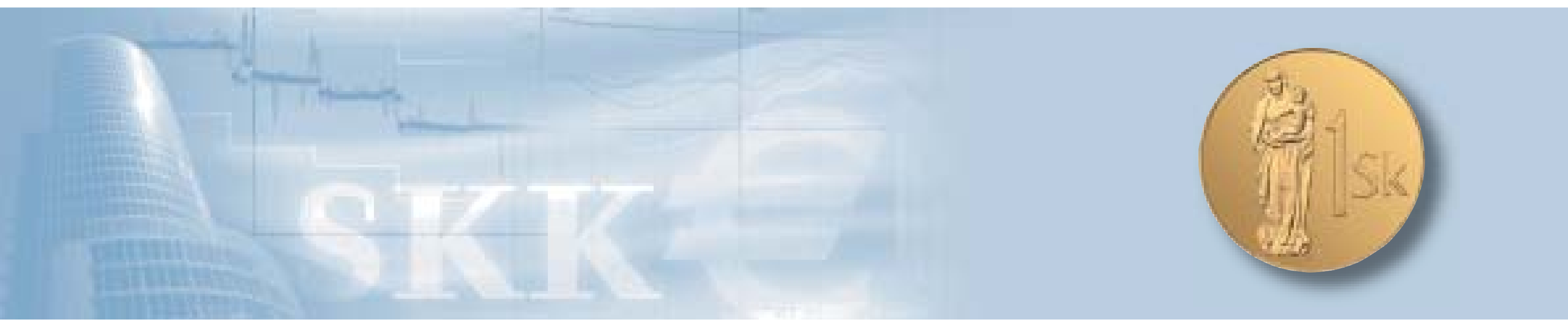
Members of the NBS Bank Board as at 31 December 2004

Front row (left to right):
Karol Mrva, Chief Executive Director, Trade and Foreign Exchange Division
Elena Kohútiková, Deputy Governor
Marián Jusko, Governor
Ivan Šramko, Deputy Governor
Martin Barto (from 1 December 2004)

Back row (left to right):
Peter Ševčovic, Chief Executive Director, Monetary Division
Ladislav Balko, Comenius University, Faculty of Law
Ján Mathes, Chief Executive Director, Currency Division

Jozef Košnár was a member of the NBS Bank Board until 30 November 2004.

External
Economic Environment



1. External Economic Environment

1.1. Global trends in the development of output and prices

The world economy in 2004 grew faster than in 2003. Global output grew by 5.1%, thanks in particular to faster growth in the United States and Asian economies, particularly the expansion of investment in China. In the euro area and throughout the European Union a general recovery in economic activity was also seen, though its level was both lower and primarily dependent on improved export opportunities, which, however, were somewhat slowed down by the appreciation of the euro. In the expanded European Union, the new Member States of Central and eastern Europe maintained above-average rates of economic growth. Fast growth continued in Russia and throughout the Commonwealth of Independent States. Japan's economy also recorded a clear upturn. The Latin American economies experienced a substantial acceleration in growth.

The fast growth in global output was accompanied by growth in international trade, with exports rising by 8.4% on a year-on-year basis. The rate of economic growth peaked in the first two quarters and slowed down in the second half of the year due to the rapid growth in oil prices. The growth in oil prices was reflected in a moderate acceleration of inflation, however, the trend of low inflation was retained, thanks to the absorption of secondary inflationary effects.

Regional differences persisted in global economic growth, maintaining the long-term state of global imbalances. The main risk factor to sustainability in 2004 continued to be that of America's high current account deficit resulting from an expansionary fiscal policy and a high level of domestic demand.

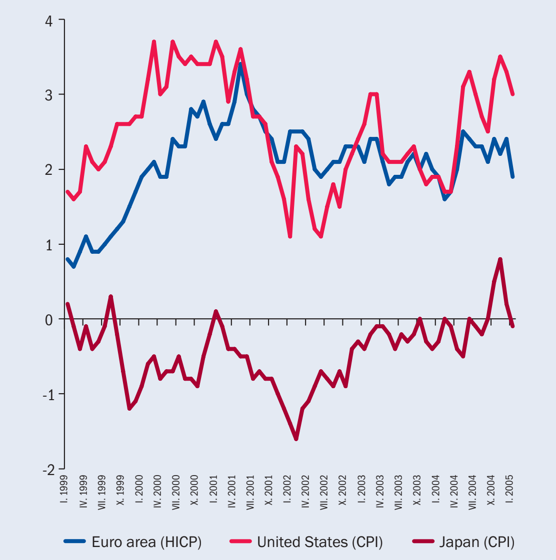
Commodity market prices under the pressure of the strong global recovery grew significantly. Oil prices grew from the beginning of the year, exhibiting marked volatility. The price of Brent crude peaked at the end of October at a historical maximum of 51 USD/barrel, and on average for the year 2004 reached 38 USD/barrel, which was 33% higher than the average for 2003. Besides high demand in the global recovery phase, the growth in oil prices was also due to uncertainties on the supply side, connected with unclear policies on the part of oil producers, where these caused oil price volatility. At the same time, while there was a substantial overall increase in oil production, emergency reserves were put on hold, which increased oil price sensitivity to the current situation in demand and supply and left very little room for solving potential unexpected problems in oil supply. Prices of non-energy raw materials grew similarly in the first half of the year, later moving on to a moderate decline, due in particular to lower prices of foodstuffs and agricultural raw materials. On the annual average, dollar prices of non-energy raw materials in 2004 were 22% higher than in 2003.

Table 1 **Global output in 2004** **(year-on-year growth in %)**

	2003	2004	2005[1)]
Global output	4.0	5.1	4.3
Developed economies	2.0	3.4	2.6
United States	3.0	4.4	3.6
Japan	1.4	2.6	0.8
Euro area	0.6	2.0	1.6
European Union (EU-25)	1.0	2.4	2.0
Newly industrialized Asian economies	3.1	5.5	4.0
China	9.3	9.5	8.5
Central and eastern Europe	4.6	6.1	4.5
Russia	7.3	7.1	6.0
Brazil	0.5	5.2	3.7

Source: World Economic Outlook, April 2005; Economic Forecasts Spring 2005, European Economy No. 2, 2005.
1) Projections.

Chart 1 **Consumer prices in euro area, United States and Japan (year-on-year change in %)**



Source: Eurostat, ECB Monthly Bulletin.

International currency markets in 2004 were dominated by the trends of the euro's strengthening and general weakening of the US dollar. Up until October the euro's strengthening remained moderate, where the markets noted in particular the lagging of economic recovery in the euro area compared to that in the United States and Japan. In mid-October, however, the euro strengthened significantly against the US dollar and also against several Asian currencies pegged formally or informally to the dollar. In the last quarter, the US dollar weakened against all major currencies. The most likely reason for these developments were the growing fears related to the deepening of external and internal imbalances in the US economy. The structure and use of financial flows into the United States changed. A typical tendency was to finance government and private consumption by increased capital inflows to government bonds at the expense of equity capital inflows for financing private investments. The whole process is above all a result of interventions by Asian central banks, tying their currencies to the dollar in this way.

By the end of the year, the nominal effective exchange rate of the euro (towards 23 euro area trading partners) was slightly higher (2.4%) than its level at the beginning of the year. The highest appreciation of the euro was against the US dollar (8.0%, where on 30 December 2004 the euro traded at USD 1.36), the Chinese renminbi and Hong Kong dollar. The euro strengthened by 4.7% against the Japanese yen, implying an appreciation of the yen to the US dollar of more than 3%. The euro maintained a relatively stable exchange rate towards the British pound (strengthening by only 0.5%). The strengthening of the euro towards these currencies was offset partially by its weakening towards the Swiss franc, Norwegian krone, Korean won and the currencies of some new EU Member States, most significantly the Polish zloty (by 13.5%), Hungarian forint (by 6.2%), the Czech koruna and (by 6.0%), and the Slovak koruna (by 5.8%).

Global bond markets in 2004 recorded historically very low yields. A characteristic feature of the yields was their low volatility over the course of the year, confirming in the real development over the past years the trend of a general decline seen in implied volatility (derived from option prices) in individual segments of the financial markets of developed economies. Yields on 10-year US federal funds and on 10-year euro area government bonds followed the same path up until October. Following a decline in the first months of the year (market uncertainty as to the sustainability of the economic upturn in the United States), yields grew until June (the potential inflationary consequences of the growth in oil prices in the context of growing market confidence in the global recovery), and then fell in the third quarter (increased fears of the impact of high oil prices on economic activity). The significant depreciation of the US dollar was the main factor in the divergence in the trends taken by yields in the last quarter. Whereas yields on euro area bonds fell until the end of the year, yields on US bonds grew. On an annual average however the main factor in the movement of yields on long-term federal funds issued by the United States and in the euro area was the growth in oil prices and its potential consequences on inflation and economic growth. Stronger effects were expected in the US economy, where the movement in US bond yields was therefore higher than that in the euro area. Taken as a whole for 2004, long-term government bond yields in the euro area fell on a year-on-year basis by 57 basic points, reaching 3.69% at the year-end. Yields on US long-term federal funds grew by 10 basic points on a year-on-year basis and at the year-end stood at 4.23%.

Stock market prices in the United States and euro area followed a relatively stable, moderately upward course. Only the US dollar's strong depreciation in the last months of the year caused significant growth in the main stock market indices. On a year-on-year basis, the broad Dow Jones EURO STOXX index grew by 10.5%, the US index Standard & Poor's 500 by 11.0%, and the Japanese Nikkei 225 by 7.5%. Growth in equity prices in the euro area was a reflection of the falling yields on long-term government bonds, but also of the strong growth in profits and paid dividends. Over the course of the year, a general factor contributing to the rise in the sock market indices was the very low volatility in equity markets. Similarly as on long-term bond markets, equity markets experienced the effect of low implied volatility in yields as well.

1.2. Developments in the main currency areas: the United States, Japan, and the euro area

Economic development

On a year-on year basis, real GDP growth in the **United States** accelerated in 2004, reaching 4.4% (in comparison to 3.1% in 2003), which was the highest level seen in the past 5 years. The growth in GDP was due in part to the high level of domestic consumer and capital investment demand, while the contribution of net exports was negative. Household consumption in this year again was supported by accommodative macroeconomic policies, continuing expansion in the housing market, as well as by a significant increase in employment. Growth in the level of employment did not bring about serious pressures for raising nominal wages, a fact which together with the growth in oil prices led to a slowdown in the growth of real disposable income, further decline in the persistently low rate of personal savings and a historically high level of household debt (exceeding 80% of GDP). Favourable external financing conditions and high demand created an advantageous environment for growth in business investment, especially driven by investment in technological equipment and software. The moderate development of labour costs enabled relatively strong productivity growth. The high profitability of the business sector was in no significant way affected by the growth in oil prices. The high level of domestic demand led to a further deepening of the US trade deficit, which in 2004 reached 5.4% of GDP (compared to 5.0% a year earlier), despite the dollar's continual depreciation. Annual inflation measured by the consumer price index in 2004 rose slightly to 2.7% (compared to 2.3% a year earlier). This growth in inflation was however caused almost wholly by the growth in oil prices. Longer-term inflationary expectations remained subdued, since the spread of inflationary pressures was opposed by the rapid growth in productivity and the only very limited effect of the dollar's depreciation on consumer prices.

Japan's economy in 2004 continued to recover, while losing momentum over the course of the year. Real GDP grew by 2.7% (compared to 1.4% in 2003), the highest level since 1996. The growth for the whole year was primarily the result of very strong growth in the first quarter, followed by a substantial slowdown in economic activity brought about by dampened exports and a sudden reduction in public investment. Consumer demand over the course of the year remained relatively strong, supported by improved labour market conditions and the income situation of households. The rate of unemployment fell slightly, to reach 4.4%. The structural features of the business sector improved: restructuring of business balance sheets and targeted efforts to reduce costs led to a

Chart 2 **GDP in euro area, United States and Japan (year-on-year change in %)**

Source: Eurostat, ECB Monthly Bulletin.

growth in corporate profits and a further reduction in bad loans in the banking sector. In the field of price development, deflationary pressures eased a little, and the annual consumer price index reached zero (the first time deflation had not been recorded since 1998), where in the last quarter signals of a growth in prices appeared in some segments of the consumer basket (fresh foodstuffs).

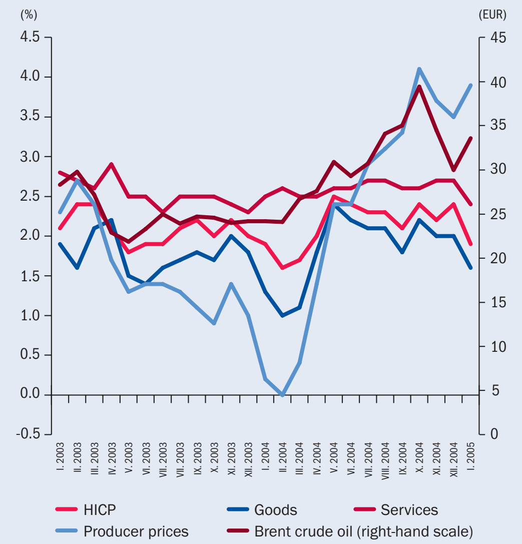
In 2004 the **euro area** saw a significant acceleration in economic activity. Annual GDP growth rose by 2.0% (compared to 0.6% in 2003), primarily due to strong growth acceleration in the first half-year. Domestic demand, especially capital investment demand, increased on a year-on-year basis, despite a significant slowdown in the growth of construction investment in Germany and a general decline in government investment. Private consumption throughout the year remained relatively low, suppressed by weak labour market activity and persistent long-term structural shortcomings in the European economy, including uncertainties regarding healthcare and social security reforms underway in several EU Member States. This contributed to stagnation in consumer confidence. The main driving force in the euro area's economic growth, especially in the first half-year, was export. The slowdown in global growth due to rising oil prices and the appreciation of the euro in the second half of the year led to a sudden weakening in the profitability of the external sector, which was manifested in a renewed weakening of economic activity in the euro area.

From the sectoral aspect no significant differences in the creation of added value in the euro area economy were seen in 2004. The growth in added value recorded in manufacturing as well as in market services essentially followed the same pattern – acceleration in the first half of the year and slowing in the second. This leads to the conclusion that the cyclical development of the euro area economy has recently been influenced by aggregate, i.e. general, and not by specific problems of individual sectors.

Germany, the largest euro area economy, showed in 2004 its extraordinary dependence on outputs of the external sector. The contribution of external demand accounted for three-quarters of the GDP growth achieved (growth of 1.7% against a decline of 0.1% in 2003). The strong growth of exports from Germany was supported by a significant decline in unit wage costs, a favourable export structure with a high share of production related to information technology, as well as having a territorial orientation on China and the United States.

GDP growth accelerated on a year-on-year basis in all euro area countries except Greece, where though it still remains high. The highest GDP growth was recorded in Ireland (5.1%), followed by Luxembourg (4.4%), Greece (4.2%), Finland (3.7%), Belgium and Spain (2.7%), France (2.3%) and Austria, where GDP growth reached the same rate as the average value for the euro area (2.0%). Lower than average GDP growth was experienced in Germany (1.7%), the Netherlands (1.3%), Italy (1.2%) and Portugal (1.0%). The rates of real GDP growth in individual economies thus reached values ranging from 5.1% to 1.0%, and in comparison with 2003, when the difference between the fastest and slowest growing economy was 6 percentage points, thus approximated.

Chart 3 **Price developments in the euro area**



Source: ECB Monthly Bulletin.

In 2004 annual inflation in the euro area (measured by the HICP) stood at 2.1%, and remained unchanged from a year earlier. The development of inflation over the course of the year was primarily influenced by specific factors. Marked rises in indirect taxes and regulated prices effected a growth in the prices of several items included in the consumer basket, especially in the group of tobacco products and healthcare. Another factor was the growth in global oil prices, which was reflected in higher prices of energy and motor fuels. The higher prices of tobacco, healthcare and energy (which represent approximately 15% of the HICP basket) contributed 1 percentage point to the annual inflation in the euro area in 2004. A factor offsetting the higher input prices particularly in manufacturing was the strong euro and the pressure of competition. Industrial producers' prices, in the conditions with only limited secondary effects of the increase in oil prices, grew by 2.3% on a year-on-year basis (compared to 1.4% a year earlier). Another stabilising factor in euro area inflation in 2004 was the moderate development of wages.

The annual growth of consumer prices (measured by HICP) in the individual countries of the euro area in 2004 ranged from 0.1% (Finland) to 3.5% (Luxembourg). Except Finland, price growth lower than the euro area average was seen also in Belgium (1.9%) and the Netherlands (1.2%). In addition to Luxembourg, inflation above 3% was experienced in Spain (3.3%) and Greece (3.1%). The remaining six countries achieved very similar levels of inflation: Germany and France 2.2%, Ireland and Italy 2.4%, Austria 2.5% and Portugal 2.6%.

The euro area labour market saw no substantial changes in 2004. Employment grew only slightly, connected with the slow reaction of the labour market to the upturn in economic activity. In the development of employment the consequences of the pronounced trend of short-term labour contracts (especially so-called mini-jobs in Germany) were however clearly reflected, which in the previous period of slow growth helped to maintain employment. This is also witnessed by the fact that employment measured by the number of hours worked in 2004 grew faster than the growth of employed persons. From the sectoral aspect a typical declining trend in industry (excluding construction) was seen, accompanied by a growing trend in the services sector. Labour productivity in industry thus increased significantly over the course of the year, helping businesses to raise profitability. Growth in labour productivity across the euro area was relatively high (1.4%), though with marked differences between individual countries (e.g. Germany achieved only 0.1%).

Wage development was moderate. Average wage growth in the euro area was 2.1%, though there were marked differences between individual countries (from 0% growth in Germany to approximately 6% in Greece and Ireland). Relatively speaking, wage growth reflected well the development of the labour market in individual countries. Faster wage growth was recorded in those countries where employment growth was faster than the euro area average, while in countries where economic activity was lower, wage growth was substantially slower as well. In 2004 the adverse consequences of fast wage growth accompanied by inadequate productivity growth began to emerge in several countries. Notably, countries where unit labour cost growth exceeded 2% (Italy, Portugal), or as much as 3% (Greece, Spain and Ireland) recorded serious losses in their export performance. Conversely for Germany and the Netherlands, moderate wage development was an important factor in their improved export performance.

The rate of unemployment in the euro area changed only marginally on a year-on-year basis, reaching 8.8%. Nevertheless, significant differences remained among individual countries. The highest rate of unemployment was again experienced in 2004 in Spain (10.8%). Double digit unemployment was registered in Greece, and unemployment rates higher than the euro area average were also seen in Germany and France (9.5%). In Portugal, Italy and Finland unemployment rates ranged between 6.7 and 8.8%. The lowest rates of unemployment, between 4.2 and 4.7%, were recorded in Austria, Ireland, Luxembourg and the Netherlands, where in the case of these last two countries significant year-on-year increases occurred (rising by 0.5 and 0.9 percentage points).

The results of the euro area's external sector for 2004 were characterised by an increase in the current account surplus to EUR 40.2 billion (i.e. approximately 0.5% of GDP), due to the reduction in the income balance deficit and current transfers deficit, and a slight increase in the surplus of services balance. The balance of trade surplus, given the parallel development of export and import values, remained at roughly the same level as in 2003. The balance of trade surplus was the result of very fast export growth in the first half of the year driven by strong growth in foreign demand, more than compensating for the effects of the appreciation of the euro. In the second half of the year, as a result of the decline in exports from the euro area, the high value of imports brought about by the rapid increase in oil prices and partially due to the recovery in domestic demand, the performance of the foreign-trade sector of the euro area weakened substantially.

In 2004 the financial account of the euro area recorded a net inflow of direct and portfolio investment of EUR 18.3 billion, which is less than the figure for 2003. The lower level of financial flows into the euro area was a consequence of a higher net outflow of direct investment. Portfolio investment recorded a net growth thanks to renewed interest among foreign investors in equity securities in the euro area. Cross-border flows in the framework of debt instruments totalled approximately EUR 200 billion in both assets and liabilities. Euro area investors put around 75% of their funds in foreign bonds and bills, with the remainder going to financial market instruments. Non-residents invested almost exclusively in euro area bonds and bills, they were not attracted to money market instruments given the low level of short-term interest rates in the euro area.

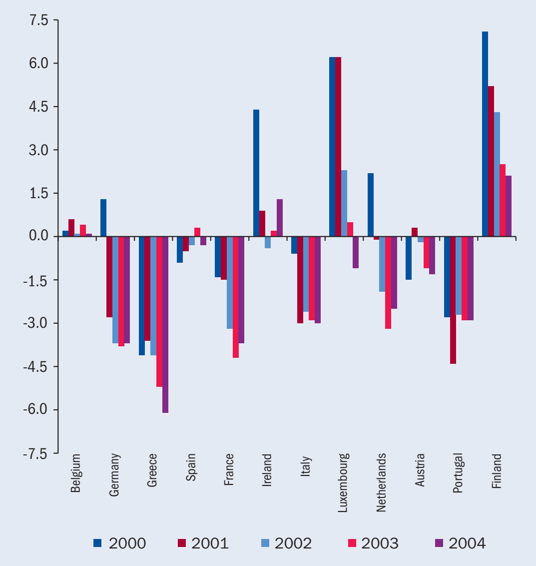
Monetary policy and public finance

In 2004, following a period of very low interest rates, **the Federal Open Market Committee** (FOMC) reversed the course of its monetary policy, raising the target rate over the course of the year by 125 basic points to 2.25% at the year end. The FOMC's strategy was a clear move away from an accommodative policy (the rate increases were made in five progressive steps of 25 basic points from June 2004), which, while reflecting changes in the US economic outlook, will be supportive in meeting the commitment to maintain price stability. In the fiscal field only a mild correction of the public finance deficit was made, where the deficit reached 4.4% of GDP (compared to 4.6% in the preceding year).

In 2004 **Japan's central bank** continued to base its monetary policy on targeting commercial banks' current account balances held at the central bank. After increasing the target at the beginning of the year, the targeted position remained unchanged over the course of the year. In the fiscal field the government followed the aim of a gradual reduction in the primary deficit by roughly 0.5% per year. The overall public finance deficit fell on a year-on-year basis to 7.0% of GDP (compared to 7.7% in the previous year).

The Governing Council of the **European Central Bank** left its key policy rates unchanged throughout the whole of 2004: the limit rate for main refinancing operations was 2%, the interest rate for deposit facility 1%, and the rate for marginal lending facility 3%. Decisions on setting the ECB monetary policy were relatively complicated, due to the fact that several contrary factors were at work affecting price stability conditions. Besides the changing dynamics of economic recovery in the euro area, which with its gradual attenuation lost the inflationary risk charge, account was taken of the moderate development of wages and the euro's appreciation. On the other hand, the upside risk for inflation stemmed from the growth in oil prices, increase in indirect taxes and regulated prices in the euro area and also from gradual upward

Chart 4 Public budget balances in the euro area countries (% of GDP)



Source: Eurostat.

pressure on the M3 monetary aggregate, fostered in an environment of low interest rates by high private sector demand for credit, as well as from rapidly growing real-estate prices in several countries.

Fiscal development in the euro area, measured by the reported fiscal balance of the euro area in 2004, recorded a deficit of 2.7% of GDP, the same as in 2003. Despite the unchanged level of the total deficit, the budgetary management of euro area countries was unsatisfactory. Most countries failed to meet the targets set in the updated stability programmes adopted at the end of 2003, or the beginning of 2004, and especially countries with the most severe imbalance were not able to implement their fiscal consolidation plans.

In five countries, the deficit ratio was close to the reference limit of 3% (Portugal, Italy), or exceeded it (Greece, France, Germany). Four countries (Greece, France, the Netherlands, Germany) were in a situation of excessive fiscal deficit. France and Germany reported excessive fiscal deficits for the third year in a row. The fundamental revision by Greece of its statistical data according to ESA 95 methodology showed that the country has been in excessive fiscal deficit since 1997, where in 2004 its deficit reached 6.1% of GDP. Budget surpluses were reported in three countries: Belgium (0.1% of GDP), Ireland (1.3% of GDP) and Finland (2.1% of GDP).

Budgetary management results in the euro area – adjusted for interest payments and cyclical effects – showed that the main factor behind the adverse fiscal position was the worsening in the primary balance. On average for the euro area this means that the measures adopted during the economic boom at the turn of the millennium for slimming down the revenue income sides of budgets (reduction in direct taxes and social security contributions) were in their scope too excessive to be compensated for by an increase in indirect taxes and consolidation on the expenditure side of budgets, particularly in the period of lower economic growth. The short-term effect of consolidation by way of one-off, or temporary, measures was overestimated. Moreover the three most indebted countries (Belgium, Greece and Italy) in the environment of the euro area's low interest rates benefited from savings in interest expenditures, which partially compensated for the worsening in their primary balance. However, Belgium was the only one of these countries to succeed in substantially reducing its level of debt, with regard to the budget surpluses now reported for a longer period of time.

The sharpened development of public finance in the euro area in 2004 led to an open discussion by the Member States and the European institutions concerning requests to re-evaluate, or loosen some of the rules of the functioning of the Growth and Stability Pact and the application of remedial measures in the case of an excessive fiscal deficit.

1.3. Development in the non-euro area Member States

EU enlargement: basic institutional contexts

On 1 May 2004 the largest-ever enlargement of the EU took place. Ten countries from Central and eastern Europe and the Mediterranean entered the EU: Cyprus, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovakia and Slovenia. The national central banks of these countries were integrated into the European System of Central Banks and their governors became full members of the Governing Council of the ECB.

With the entry of these 10 new states to the EU the number of EU countries not belonging to the euro area increased from three (Denmark, Sweden and the United Kingdom) to 13. Denmark and the United Kingdom have an opt-out statute as regards their future membership in the euro area and therefore all the implicit obligations ensuing from the Maastricht Treaty (Treaty on the European Union), the Growth and Stability Pact, and the automatic procedural obligations of European institutions do not strictly apply to them.

The EU enlargement of 2004 occurred in the third stage of its integration process, i.e. in the phase

Table 2 **Compatibility of legal regulations and fulfilment of convergence criteria**

	Legal compatibility	Price stability	Government's budgetary position	Exchange rate	Long-term interest rates
Czech Republic	no	yes	no	no	yes
Estonia	no	yes	yes	no	-
Cyprus	no	yes	no	no	yes
Latvia	no	no	yes	no	yes
Lithuania	no	yes	yes	no	yes
Hungary	no	no	no	no	no
Malta	no	no	no	no	yes
Poland	no	no	no	no	no
Slovenia	no	no	yes	no	yes
Slovakia	no	no	no	no	yes
Sweden	no	yes	yes	no	yes

Source: The European Commission: Convergence Report 2004.

of economic and monetary union. All new Member States are therefore automatically fully subject to the legislation of the Maastricht Treaty and the legal documents connected to it, which reject an opt-out statute. On the contrary, they contain an implicit obligation upon every new acceding state to adopt – following the necessary fulfilment of the nominal macroeconomic stability convergence criteria – the single currency and introduce the euro in their country. As EU Member States that have not (as yet) introduced the single currency, derogation is granted. These Member States are then subject to a regular examination procedure by the European institutions. Correspondingly, under Article 122 (2) of the Treaty, the European Commission and ECB are obliged at two-year intervals to draw up convergence reports, by means of which they inform the Council on the progress of convergence, or on whether the individual countries fulfil the conditions necessary for introducing the euro.

The second line of supervision conducted by the European institutions of the progress of the convergence process and in particular its sustainability following the introduction of the euro are the obligations automatically resulting to the new Member States from their accession to the EU based on their participation in the Growth and Stability Pact. For this purpose Member States with derogation are obliged to submit to the ECOFIN Council and to the Commission medium-term convergence programmes, examined each year and regularly updated. New EU Member States submitted their first convergence programmes in May 2004.

The year 2004 was the year in which the Commission and ECB was required to draw up their convergence reports in the framework of the ordinary prescribed two-year interval. The reports were published on 20 October 2004 and, in addition to Sweden, assessed also the 10 new Member States. The convergence reports of both mentioned institutions state that none of the countries examined fulfilled the conditions in 2004 for introducing the euro.

In 2004 four countries had the status of EU candidate country: Bulgaria, Croatia, Romania and Turkey. In December 2004 the European Council agreed that, with regard to the successful completion of accession negotiations with Bulgaria and Romania, the Treaty of Accession may be finalised with a view to its signing in April 2005. The course of accession negotiations with Croatia will depend on the country's cooperation with the International Criminal Tribunal for the former Yugoslavia. Negotiations with Turkey are continuing under the condition of the adoption of certain legislative standards in the country.

General economic and monetary development

Real GDP growth in those EU countries that are not euro area members was in general relatively strong especially in the group of the Baltic and Central European economies, substantially exceeding the average for the euro area and EU-25. The driving force behind growth was mostly domestic demand, especially for capital investment. Growing business confidence, a high degree of capacity utilisation and a favourable outlook in the field of demand, all contributed to the upturn in investment. In several countries, especially in the Baltic states, private consumption spurred by fast wage growth, improved labour market conditions and fast-growing volumes of consumer lending contributed significantly to the growth in domestic demand. In the first half of the year consumption expenditure was also stimulated especially by ex-

Table 3 **Basic macroeconomic indicators of the non-euro area Member States** (in %)

	GDP			HICP Inflation			Unemployment rate[1]			Current account (in % of GDP)[2]		
	2003	2004	2005[3]	2003	2004	2005[3]	2003	2004	2005[3]	2003	2004	2005[3]
Former group												
Denmark	0.4	2.0	2.3	2.0	0.9	1.4	5.6	5.4	4.9	3.3	2.3	2.1
Sweden	1.5	3.5	3.0	2.3	1.0	0.4	5.6	6.3	5.9	5.9	7.8	7.5
United Kingdom	2.2	3.1	2.8	1.4	1.3	1.7	4.9	4.7	4.7	-1.8	-1.9	-2.2
Baltic states												
Estonia	5.1	6.2	6.0	1.4	3.0	3.3	10.2	9.2	8.7	-13.2	-12.9	-12.1
Lithuania	9.7	6.7	6.4	-1.1	1.1	2.9	12.7	10.8	10.2	-6.9	-8.3	-8.8
Latvia	7.5	8.5	7.2	2.9	6.2	5.0	10.4	9.8	9.4	-8.2	-12.4	-10.5
Central European states												
Czech Republic	3.7	4.0	4.0	-0.1	2.6	1.9	7.8	8.3	8.3	-6.2	-5.2	-4.7
Hungary	3.0	4.0	3.9	4.7	6.8	3.8	5.8	5.9	6.3	-8.4	-8.9	-8.7
Poland	3.8	5.3	4.4	0.7	3.6	2.1	19.2	18.8	18.3	-2.2	-1.5	-2.4
Slovakia	4.5	5.5	4.9	8.5	7.4	3.7	17.5	18.0	17.6	-0.8	-3.4	-5.0
Slovenia	2.5	4.6	3.7	5.7	3.6	2.1	6.5	6.0	5.9	-0.4	-0.7	-1.0
Mediterranean states												
Cyprus	2.0	3.7	3.9	4.0	1.9	2.3	4.5	5.0	4.8	-3.0	-5.7	-4.9
Malta	-1.8	1.5	1.7	1.9	2.7	2.4	8.0	7.3	7.1	-5.8	-10.1	-9.9
For comparison												
Euro area	0.6	2.0	1.6	2.1	2.1	1.9	8.7	8.8	8.8	0.3	0.6	0.5
EU-25	1.0	2.4	2.0	1.9	2.1	1.9	8.9	9.0	9.0	0.5	0.4	0.2

Source: European Commission Economic Forecasts Spring 2005.
1) As percentage of workforce.
2) Data for the euro area and the EU-25 are adjusted.
3) Projection.

pectations of price increases due to adjustments in indirect taxes and regulated prices, relating to EU accession and, in some countries, to a continuing loose fiscal policy.

Despite the dominant role played by domestic demand in 2004 in the performance of these economies, an important stimulus for growth in several countries (the Czech Republic, Hungary, Poland as well as Sweden) remained foreign demand and foreign trade performance. In general, the dynamics of exports and imports remained relatively strong. In the new Member States, this was supported by the removal of the remaining barriers with the main foreign trading partners following accession to the EU, higher foreign demand and a favourable competitive position due to increases in productivity.

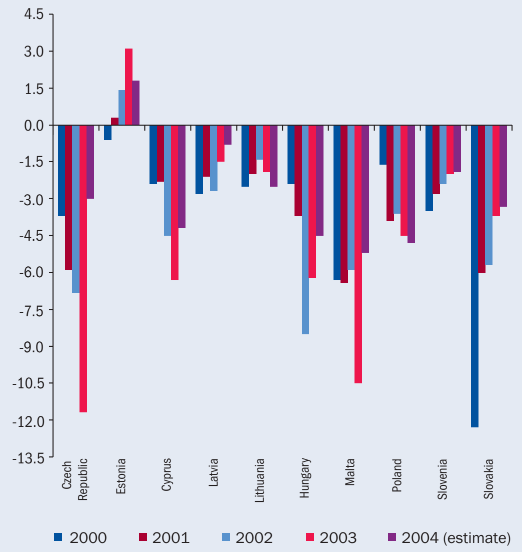
The acceleration in the rate of economic growth created a favourable environment for the expansion of job opportunities and an improvement in conditions in the labour market. Nevertheless, a significant fall in the rate of unemployment occurred only in the Baltic states, while in many other states the converse occurred, with unemployment increasing, related to ongoing structural changes in the business sector. The highest rates of unemployment remained in Poland and Slovakia.

The development of prices in the monitored countries in 2004 was markedly diverse. The lowest HICP inflation of around 1%, i.e. substantially below the euro area average, was recorded in Denmark, Sweden, the United Kingdom and Lithuania. In most of the new Member States inflation was at levels exceeding the euro area average, and was higher than in the previous year. Inflation fell only in Slovenia, Cyprus and Slovakia, where however it remained at the highest level from among these countries.

The growth in inflation was influenced by various common factors, such as oil price increases and accession to the EU. However, the influence of higher oil prices on national price indices was of various intensity, where this was conditional upon differences in the structure of consumption, market structures and the energy demand of production. The approaching entry to the EU brought about demand-side pressures in the first months of the year, caused by expected price increases following the entry itself in consequence of the harmonisation of indirect and consumption taxes. The majority of countries saw a concurrent increase in food prices due to their integration into the Common Agricultural Policy and the removal of the remaining trade barriers in this sector. In the second half of the year however the effect of EU entry on price development in the new Member States waned. Of the factors influencing inflation in individual countries in 2004 more specifically, we can identify inflation as having been driven by the rapid economic growth (characteristic for the Baltic states) and increases in regulated prices, while inflation was dampened by a strengthening nominal effective exchange rate (the Czech Republic, Hungary, Slovakia, and in the second half of the year, Poland).

The results of the fiscal sector were essentially in line with the aims of the convergence programmes of May 2004. In most countries they were even better, thanks to a more favourable than expected development of income and mostly also the maintenance of discipline in keeping expenditures at the programme value levels. Hungary's development was worse than its programme value.

Chart 5 **Public budget balances in the new EU Member States** **(% of GDP)**



Source: Eurostat.

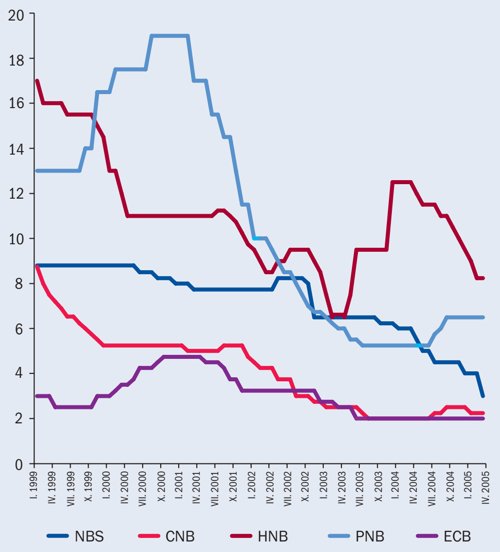
Despite the fact that the 2004 budget deficit of general government in ten of the thirteen EU countries that are not members of the euro area improved, development in the fiscal sector is still one of the weakest aspects of the economies of the new Member States. Of them only Latvia in 2004 recorded a fiscal surplus, while a surplus was recorded by Denmark and Sweden. Public finance in the other ten countries ended the year in deficit. Within the standard examination procedures, the ECOFIN Council decided on 5 July 2004 that six countries (the Czech Republic, Cyprus, Hungary, Malta, Poland, Slovakia) were in a situation of excessive deficit. In all cases except Cyprus, the Council permitted a correction of the excessive deficits to be made in the medium term, taking the stated presence of particular circumstances into account. Specifically, the deficit upon entering the EU had been significantly above the reference value, and, in the case of the V4 countries, structural changes accompanying the process of real convergence are underway.

On the external side, outputs measured by the current account deficit were various. Sweden and Denmark, as in preceding years, reported a surplus. Other countries recorded deficits. The highest current account deficits, at a level around 10% of GDP, were recorded in the Baltic states, Hungary and Malta. Relatively speaking, the best results from among the new Member States were seen in Poland, Slovenia and Slovakia. In several countries a year-on-year deepening of the current account deficit was connected with a significant growth in imports in consequence of the recovery in domestic demand and high oil prices. However, in most new Member States the current account deficit also has a significant structural component, in particular a higher demand for investment goods related to the process of real convergence. Moreover, the balance of income deficit began to deepen in several countries, reflecting income connected with the past inflow of foreign direct investment.

The main event in the field of exchange rate policy in 2004 was the joining by Estonia, Lithuania and Slovenia (28 June 2004) Denmark as participant states in the ERM II exchange rate mechanism. All three countries entered the mechanism with a standard fluctuation band of ±15% around their central parities to the euro, while Latvia and Lithuania kept their currency boards as a unilateral commitment. Participation in ERM II did not bring about any significant tensions on the foreign exchange markets of the participating countries. All four currencies were traded without interruption at the level of their central parities or close to them, while short-term interest rate differentials were also maintained at a low level.

The main monetary policy objective of all non-euro area EU Member States is price stability. The monetary policy and exchange rate regimes of individual currencies essentially remained unchanged in 2004. Six countries applied exchange rate targeting (Denmark, Estonia, Cyprus, Latvia, Lithuania and Malta), four countries inflation targeting (the Czech Republic, Poland, Sweden, the United Kingdom) and three countries combined regimes – inflation targeting taking account of the exchange rate (Hungary), inflation targeting and managed floating (Slovakia), or a two-pillar regime based on currency, real, external, and financial macroeconomic indicators (Slovenia). In various countries however several adjustments were

Chart 6 **Key central bank interest rates in V4 countries and the ECB** (%)



Source: ECB, national central banks.

made to the monetary policy frameworks, strategically targeted at a gradual preparation of monetary policy for monetary integration. This concerned the circumstances of entry to ERM II, where the Slovenian central bank ended the trend of the tolar's gradual weakening against the euro, and the Latvia's central bank announced a changeover – releasing the lat from the SDR and pegging it to the euro starting from 1 January 2005.

Development in the V4 countries

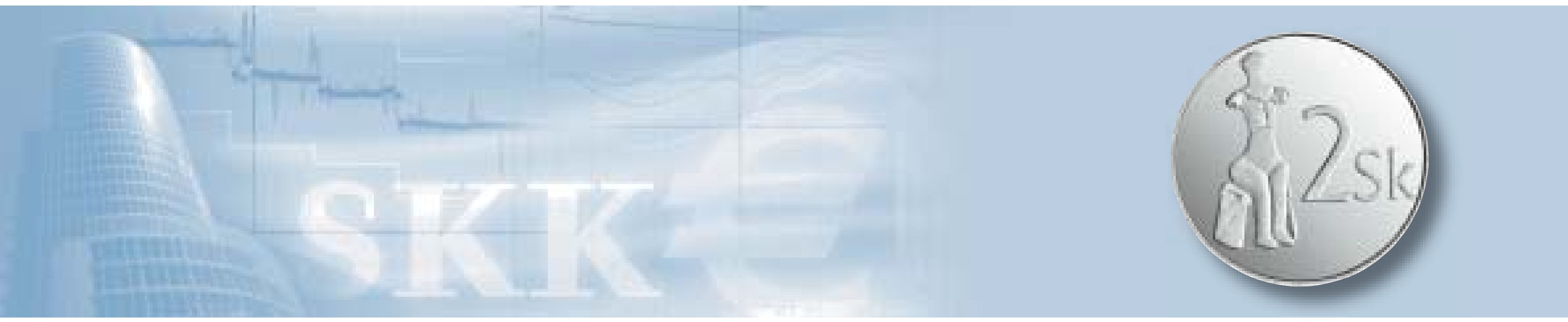
In 2004 the fast growth of the **Czech Republic's** economy benefited from the favourable results of the net exports and investment. Despite the strong appreciation of the Czech koruna, and thanks to the removal of the remaining trade barriers upon entry to the EU, the balance of trade improved substantially, where its deficit at 0.8% of GDP was the lowest since 1993. Conversely, in comparison with the preceding year, in consequence of the slower growth in real wages, the growth in private consumption slowed and government consumption on a year-on-year basis fell. Concerning price development, the deflation recorded in 2003 changed to only a moderate inflation, since the growth in prices of raw materials and oil was essentially eliminated by the strengthening of the domestic currency. Approximately half the price growth was due to administrative measures (in particular increase in indirect taxes). Development in the labour market in the conditions of the ongoing restructuring of the business sector and the fast growth in productivity lagged behind the acceleration in economic activity: employment fell and the rate of unemployment remained at approximately the same level as in the previous year. Favourable results were recorded in developments in public finance. Thanks to the growth in the economy, as well as in consequence of changes in budgetary rules adopted in mid-2004, enabling the carry-over of unused funds into the future year, the general government achieved a budget deficit of 3% of GDP, which is substantially less than the forecasted figure in the convergence programme (5.2% of GDP). After assessing the development of prices and uncertainties in the fiscal sector, the Czech central bank raised its key interest rate in June 2004 (the first time since July 2001) by 25 basic points to 2.50%.

The relatively high rate of economic growth achieved by **Hungary** in 2004 was the result of a significant acceleration of economic activity in the second half of the year. Compared to the previous year, growth took on a more balanced nature. Whereas growth in private consumption slowed by almost half, growth in investment, and especially in exports, accelerated. Hence the external sector contributed positively to GDP growth. The main factor in this shift was an attenuation of the disproportionately fast growth in real wages in the public sector (which on an annual average for the three preceding years had exceeded 10%). The development of prices in the first half of the year recorded a growing trend, caused largely by administrative adjustments to prices and taxes, and in the second half of the year, inflation declined, thanks in particular to the strong appreciation of the forint. Development in the labour market recorded a slight fall in employment. The rate of unemployment on a year-on-year basis remained essentially unchanged, at 5.9%. Public finance ended the year in a deficit of 4.5% of GDP, which is 1.7% less than in 2003. Over the course of 2004 the Hungarian central bank, taking the improving inflation outlooks into account, reduced its key interest rates in total by 300 basic points to 9.5%.

Real GDP growth in **Poland** reached 5.3% in 2004. As in the previous year, economic growth was driven by exports, whose performance was not weakened despite the significant appreciation of the Polish zloty over the course of the year. In domestic demand, after a three- year fall, a reversal in the form of a strong recovery in investment was recorded, while household consumption grew only slightly, with regard to the weak growth in real income and persistent high unemployment. However, the situation in the labour market began to improve slightly: employment stopped falling and the rate of unemployment decreased slightly. In price development, a significant acceleration in inflation was recorded, brought about in particular by growth in food and oil prices, as well as by an increase in indirect taxes, connected with commitments related to entry to the EU. In 2004, the fiscal deficit represented 4.8% of GDP, which is substantially less than the budget forecast. The improved public finance management was primarily the result of a substantially better than expected performance in the field of social security. In June, consumer price inflation exceeded the upper boundary of the central bank's target interval (2.5 ±1%), and remained above this boundary for the rest of the year. In the short period from June to August, in order to eliminate the secondary effects of the acceleration in inflation, the Polish central bank raised its key reference rate by 125 basic points to 6.5%.

Slovakia again in 2004 recorded the fastest growth rate among the V4 countries, with real GDP growing by 5.5%. Here, the driving force behind the growth changed completely, where the only source for this growth became domestic demand, while the contribution of the external sector was negative. Exports recorded double-digit growth, though imports grew faster, driven by high investment as well as private consumption demand. The fast growth in private consumption was influenced by the favourable growth in real wages and lower income taxes. The growth in consumption also benefited, in relation to the tax reform and the permitted transfer of the payment of several components of employee remuneration from 2003 into 2004. The current account deficit deepened slightly on a year-on-year basis as a result of higher imports, but also due to the substantial growth in the level of repatriated profits. The labour market was characterised by a significant slowdown in the growth of employment, which was connected with, among others, the continuation of cost-saving measures in the public sector. The rate of unemployment following a strong fall in 2003, thanks to reform measures, again grew slightly on a year-on-year basis. In price development the trend of falling inflation continued, where its persistently high rate is connected with the administrative adjustments, primarily the deregulation of prices and the increase in indirect taxes. Public finance in 2004 absorbed a large package of the government's reform agenda, which was reflected on both the side of budget income and budget expenditure. Tax reform introduced a uniform tax rate of 19% for personal and corporate income tax as well as value-added tax. At the same time several reforms in the social sphere entered into force. The recorded budget deficit of 3.3% of GDP was lower than planned, however, the result was considerably influenced by delaying expenditures linked to co-financing from EU funds. The National Bank of Slovakia, with regard to the continuing appreciation pressures on the Slovak koruna, reduced its key interest rates over the course of the year in total by 200 basic points.

Report on Monetary Developments in the Slovak Republic in 2004



2. Report on Monetary Developments in the Slovak Republic in 2004

2

2.1. Economic developments

Macroeconomic developments in Slovakia in 2004 were affected by several crucial factors, including primarily the country's entry into the European Union and the completion of its tax reform. The Slovak Republic became a member of the EU on 1 May 2004. This membership comprised the duty to participate in EMU as a member state with a derogation. This means that, by joining the EU, Slovakia undertook to become a member of the monetary union in the future. At the same time, the National Bank of Slovakia became a member of the European System of Central Banks (ESCB), with all the rights and duties arising from this membership. After meeting the criteria of convergence, a member state with a derogation will be allowed to introduce the European single currency and its central bank will become part of the Eurosystem. By joining the European Union, the Slovak Republic has also adopted the Common Agricultural Policy, which comprises a set of economic, financial, legislative, and institutional instruments designed to create a single market for agricultural products. Its primary objective is to provide a basis for effective production, stability, and financial solidarity in the agricultural sector. In 2004, a Convergence Programme for the Slovak Republic covering the period 2004 – 2010 and its update was drawn up and approved. At the same time, the Ministry of Finance and the NBS approved a common document called Specification of the Strategy for Adopting the Euro in the SR. It concluded that the introduction of the euro in 2009 is realistic and that the Maastricht criteria are expected to be met by the Slovak economy by 2007. On 1 January 2004, a complex tax reform entered into effect, introducing a flat value added tax rate (19%) and a flat rate for personal and corporate income tax (19%).

In the area of consumer prices, both overall and core inflation followed a positive trend in 2004, when the 12-month rate of overall inflation slowed by 3.4 percentage points, to 5.9%, and that of core inflation fell by 1.5 percentage points, to 1.5%. Developments in consumer prices were primarily affected by domestic cost factors, which were closely connected with administrative measures applied in the area of regulated prices and indirect taxes (excise tax and value added tax). Within the scope of indirect taxes, May saw increases in excise duties on cigarettes and wine for intermediate products. Compared with 2003, however, the impact of administrative measures on the 12-month inflation rate lessened, from 7.0 to 4.8 percentage points. These measures were reflected as secondary effects in the prices of market services. The modest acceleration in their year-on-year dynamics was also affected by one-off factors, such as a change in methodology, consisting in the transition of charges for compulsory contractual motor vehicle insurance from regulated prices to market services prices, and an amendment to the value added tax law with an impact on the price of canteen meals.

Price developments in the tradable sector were affected during the year by external factors, primarily by fuel prices, which, except for the first three months, showed a tendency to increase year-on-year throughout 2004. The rise in oil prices on the world market was, however, dampened by the strengthening of the Slovak koruna against the euro as well as the US dollar. In addition to fuel prices, the koruna exchange rate also had an impact on price levels in the form of low imported inflation, which led to a slowdown in the year-on-year growth rate or a year-on-year drop in food prices at the end of the year (by 2.1%). Food prices were affected first and foremost by external factors, such as entry into the EU, the opening of the market, growing competition, good harvest, appreciation of the koruna exchange rate, and the adoption of the Common Agricultural Policy.

The rate of economic growth accelerated in comparison with the previous year by 1 percentage point, to 5.5%, representing the fastest rate since 1997. Compared with the past year, the real economy indicators followed a different course in 2004. The structure of economic growth was more balanced, since it was based on both foreign and domestic demand. The year under review saw a gradual revival in all components of gross domestic product, while the increase in GDP in terms of use was generated by domestic demand, primarily as a result of dynamic growth in its investment and consumption components. The increase in domestic demand can be attributed to wage developments, the tax reform, and foreign direct investment. Economic growth was dampened somewhat by an increase in the negative growth of net exports as a share of GDP, which was caused by an excess of imports over exports. The dynamic growth in gross capital was stimulated by an increase in the volume of inventories, concentrated in the supplies of materials and goods connected with the growing trend in the economy. Room for a revival of growth in final household consumption was created first and foremost by an increase in real wages and a tax reduction for current household income, continuing growth of household´s propensity to consume, and the availability of commercial bank loans and new consumer and mortgage loan products. The growth in the interest of households in koruna loans led to an increase of SKK 31.6 billion (37.2%) in such loans. Wage development in 2004 was also faster than expected. Since real labour productivity still exceeded the rate of real wage growth in 2004, wages were not a source of demand-based inflationary pressures in the economy.

In comparison with the previous year, the deficit in the balance of payments on current account as a share of GDP increased in 2004 by 1.5 percentage points to 3.5%. The deterioration took place in the trade and income balances as a result of an increase in yields paid to direct investors. The negative balance of trade was caused by a stronger growth in imports than in exports. Within the structure of exports by commodity, the share of machinery and transport equipment decreased in 2004, primarily as a result of a decline in the exports of automobiles and motor vehicle accessories. The structure of imports changed: the imports of machinery and equipment, which may be classified as imports of technological equipment for the national economy, increased in connection with the growth in investment demand, which may have a direct impact on the restructuring of the economy with a future effect on export growth. The deficit in the balance of payments on current account was covered by a surplus on the capital and financial account. This surplus was partially created by an inflow of foreign capital into the commercial sector in the form of direct investments and partly by portfolio investments, which was affected in 2004 by the interest rate differential and the expectation of an appreciation in the exchange rate of the Slovak koruna among investors.

The economic situation in Slovakia in 2004 was also affected by positive developments in public finances. Budgetary performance in the general government according to the ESA 95 methodology improved year-on-year by 0.4 percentage point, and resulted in a deficit of 3.3% of GDP. The improvement in comparison with the projected deficit (4%) was connected with the implementation of the tax reform, social reforms, and reforms in the financing of regional self-governments, and is in line with the medium-term objective of consolidation in public finances. With effect from 1 January 2004, a new system of debt and liquidity management was introduced via the Agency for Debt and Liquidity Management (ARDAL). With the establishment of ARDAL, the tasks and responsibilities were redistributed among the National Bank of Slovakia, the Ministry of Finance, the Treasury and ARDAL.

The implementation of monetary policy in the area of key interest rates during 2004 was characterised by gradual reductions in March, April, July, and November, by a total of 2 percentage points. Decisions concerning the key rates, which are the main monetary-policy instruments of the NBS, were made with respect to developments in the main macroeconomic indicators, particularly the factors affecting the course of inflation. Thus, the falling inflation rate created room for the lowering of interest rates. The NBS changed its rates in support of a revival in domestic demand and in order to stop speculation on the foreign exchange market. The inflow of short-term capital with a consequent appreciating effect on the exchange rate resulted from the attempt of foreign investors to make use of the positive interest rate differential and the expectation of a further appreciation in the Slovak koruna. In reaction to the excessive strengthening of the exchange rate, causing deflation in certain consumer basket components, the NBS also conducted foreign exchange interventions during the year. The impact of monetary policy in 2004 may be assessed as neutral, despite the cuts in key interest rates necessitated by the restrictive effect of the exchange rate.

The cuts in the official rates of the NBS were accompanied by reductions in interest rates for primary commercial bank clients, particularly in lending rates for enterprises and deposit rates. The lowering of deposit rates led to continued transfers of funds in the household sector to alternative forms of investment, especially mutual funds, despite the fact that such funds are not covered by the Act on Protection of Bank Deposits . As a result of interest rate developments and changes in household tendencies, the dynamics of demand deposits increased in 2004 to the detriment of time deposits, while the growth rate of the M2 money supply slowed in comparison with the figure for 2003.

In line with harmonization of the monetary-policy instruments of the NBS with those of the European Central Bank, the National Bank of Slovakia reduced the required-reserve ratio for the banking sector by 1 percentage point, from 3% to 2% with effect from the beginning of the year, thus harmonising the reserve requirements with the minimum reserve system in the euro area.

In December 2004, the Bank Board of the NBS discussed and approved the Monetary Programme of the

NBS for the period until 2008, which sets the goals and priorities of monetary policy until the adoption of the euro. In connection with the expected entry of Slovakia into the euro area and the requirement to meet the Maastricht criteria by the date of entry, the NBS started setting a framework for monetary policy in the medium-term horizon, in the form of a binding objective (with effect from January 2005). The NBS defines its monetary policy strategy as inflation targeting in the conditions of ERM II. In the Monetary Programme of the NBS for the period until 2008, the 12-month HICP inflation target for December 2006 was set at 2.5% and for December 2007 and 2008 below 2%.

2.1.1. Price developments

Inflation

Inflation in terms of the Consumer Price Index

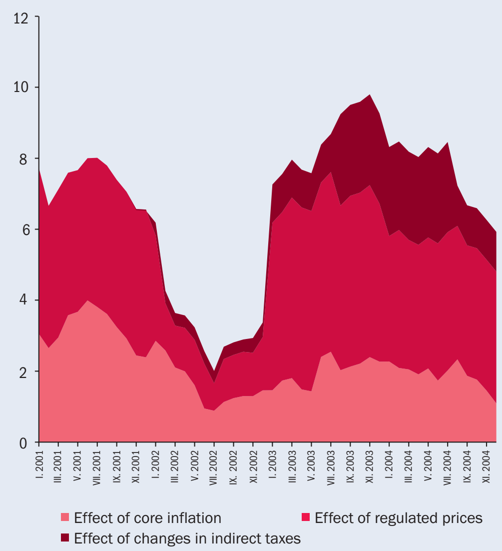
In 2004, consumer prices increased less dynamically than in 2003, with the 12-month inflation rate, expressed in terms of the Consumer Price Index, reaching 5.9% in December (compared with 9.3% in the same period a year earlier). The average rate of consumer-price inflation in 2004 stood at 7.5% (compared with 8.5% in 2003).

The fall in the year-on-year dynamics of consumer prices in 2004[1] (compared with the previous year) was due to a slowdown in the rate of price increases in most basic categories of the consumer basket. Core inflation accounted for 1.09 percentage points of the total increase in consumer prices (5.9%). Administrative adjustments to regulated prices contributed 3.71 percentage points to the overall consumer price increase. Changes in indirect taxes were responsible for 1.12 percentage points of the overall inflation rate.

During the first half of 2004, the 12-month inflation rate hovered around the level of 8.0%, then recorded a marked slowdown over the second half of the year.

Price levels in 2004 were primarily determined by domestic factors (as in previous years), with price developments being affected mostly by administrative measures. January saw an increase in regulated prices and a change in VAT rates (the introduction of a 19% flat VAT rate), followed in May by an increase in excise duties on cigarettes and a moderate increase in excise tax on wine for intermediate products. Administrative measures (changes in regulated prices and indirect taxes) accounted for approximately 82% of the overall price increase in 2004. These measures (the increased energy prices and the change in VAT rates) had a secondary effect on prices for market services, whose year-on-year dynamics increased slightly in comparison with the previous year. Consumer prices were also affected by developments in food prices, which recorded a slowdown in year-on-year dynamics during the year and a year-on-year drop at the end of the year. Food prices were mainly affected by external factors (EU entry, adoption of the Common Agricultural Policy, opening of the market, growing competition, good harvests, and the strengthening of the exchange rate). The appreciation of the Slovak koruna against the euro and the US dollar was also reflected in fuel prices, where the exchange rate development offset the rise in oil prices on the world market. The exchange rate of the koruna also had an impact on price levels in the form of low imported inflation, which led to a slowdown in the dynamics of tradable goods prices and/or a year-on-year fall in price levels.

Chart 7 **Structure of the 12-month inflation rate (percentage points)**



Source: Statistical Office of the SR.

Regulated prices

Consumer price developments were, as in previous years, determined by the application of administrative measures in the area of regulated prices. At the end of the year, the year-on-year dynamics of regulated prices reach ed 15.1%. January saw increases in regulated prices for electricity, gas, heating, bus and railway fares, water supply and sewage disposal.

[1] *Inflation expressed in terms of the Consumer Price Index is, unlike other price indicators, given for December 2004, with regard to the need to calculate the contributions of individual consumer-basket components to overall inflation. For this reason, the table of consumer price developments contains data from the last months of the individual quarters of 2004.*

Table 4 **Consumer price developments**

	Dec. 2002	Dec. 2003	2004 Mar.	2004 June	2004 Sep.	2004 Dec.
Total in %	3.4	9.3	8.2	8.1	6.7	5.9
Regulated prices in %	6.5	18.7	14.7	15.7	15.0	15.1
Share of total, in percentage points	*1.50*	*4.45*	*3.65*	*3.86*	*3.68*	*3.71*
Impact of changes in indirect taxes on non-regulated prices – share of total, in percentage points	*0.41*	*2.54*	*2.48*	*2.54*	*1.13*	*1.12*
Core inflation in %	1.9	3.0	2.8	2.3	2.6	1.5
Share of total, in percentage points	*1.46*	*2.27*	*2.05*	*1.73*	*1.87*	*1.09*
of which:						
Food prices in %	-0.2	2.7	1.6	0.5	1.1	-2.1
Share of total, in percentage points	*-0.04*	*0.54*	*0.31*	*0.10*	*0.20*	*-0.41*
Tradable goods in %[1)]	2.8	1.2	0.7	0.7	0.5	-0.2
Share of total, in percentage points[1)]	*1.05*	*0.44*	*0.25*	*0.23*	*0.18*	*-0.07*
Market services in %[1)]	2.5	7.0	7.8	7.3	7.7	8.2
Share of total, in percentage points[1)]	*0.45*	*1.30*	*1.49*	*1.40*	*1.48*	*1.57*
Net inflation (excluding the impact of changes in indirect taxes) in %	2.7	3.1	3.2	3.0	3.1	2.8
Share of total, in percentage points	*1.50*	*1.73*	*1.74*	*1.63*	*1.67*	*1.50*

Source: Statistical Office of the SR.
1) NBS calculations, based on data from the Statistical Office of the SR.

Price levels also increased during the year for meals at school canteens and accommodation at university dormitories. The following months saw rent increases for state-owned and municipal flats, municipal public transport fares, and prices for health services.

Changes in indirect taxes

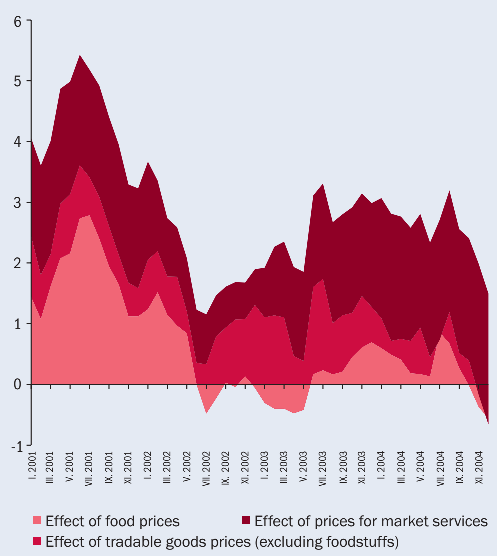
In January, value added tax rates were unified, at the level of 19% (the basic rate was lowered from 20% to 19% and the reduced rate was raised from 14% to 19%); this was followed in May by an increase in the excise duty on cigarettes and, to a lesser extent, in the excise duty on wine for intermediate products. These changes contributed a total of 1.12 percentage points to the overall consumer price increase in 2004.

Core inflation

In December 2004, core inflation reached 1.5%, representing a fall of 1.5 percentage points in comparison with the same period in 2003. Its course during the year was characterised on the one hand by a slowdown in year-on-year dynamics and/or a fall in food and tradable goods prices (excluding fuel prices) and, on the other hand, by an accelerated increase in prices for market services and a rise in fuel prices.

Within the basic structure of core inflation, prices for market services were the determining factor in the price increase (making the most significant contribution to core inflation), for they reflected the secondary effects of the increase in regulated prices (energy prices in particular). The year-on-year increase in market services prices was not only affected by the secondary effects of changes in regulated prices, but also by the transfer of compulsory contractual motor vehicle insurance from regulated prices to market

Chart 8 **Structure of the 12-month core inflation rate (percentage points)**



Source: Statistical Office of the SR.

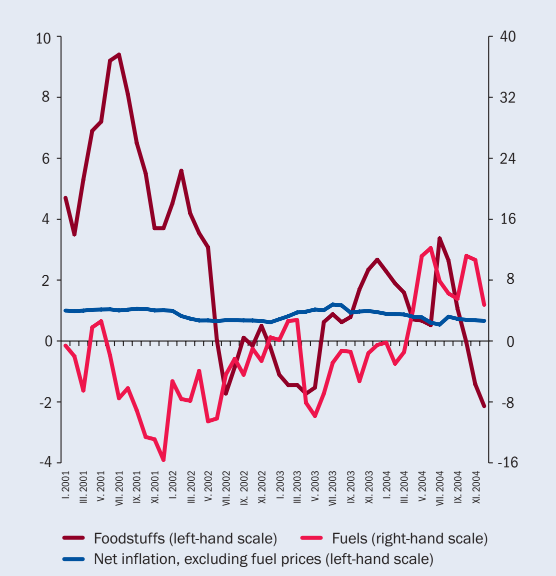
services prices and by the impact of the amendment to the VAT law on prices for canteen meals.

Food prices (excluding non-alcoholic beverages), as a component of core inflation, recorded a year-on-year fall of 2.1% at the end of the year. This development was caused by several factors. The entry of Slovakia into the EU and the opening of the market for new suppliers, increased competition on the market owing to the entry of new retail chains, appreciation in the koruna exchange rate, and the good harvest in both Slovakia and the rest of Europe, had a damping effect on food prices. EU membership was connected with the adoption of the Common Agricultural Policy, which caused increases in the prices of certain foodstuffs (rice, sugar, some tropical fruit, beef). These increases were, however, eliminated by the aforementioned damping factors. Sharper month-on-month drops in food prices were recorded in the second half of the year.

The course of net inflation was characterised by a slowdown in year-on-year dynamics, especially at the end of the year. This was mainly caused by developments in tradable goods prices (excluding fuel prices), which were affected by the appreciation of the Slovak koruna. On a year-on-year basis, net inflation reached 2.8% in December.

Net inflation was dampened by the prices of tradable goods, which fell year-on-year by 0.2% in December. The moderate fall was a result of several factors. In the environment of strong competition in retail trade, the prices of tradable goods were also affected by developments in the koruna exchange rate, when its

Chart 9 **Developments in the prices of core inflation components (year-on-year increase in %)**



Source: Statistical Office of the SR.

marked appreciation at the end of the year exerted pressure on consumer prices, in the form of imported deflation.

In the tradable goods sector, a certain volatility was recorded in fuel prices, which reacted to the changes in oil prices, the exchange rate of the koruna against the dollar, and developments in fuel prices on the commodity markets. In the first few months of the year, the price of oil hovered around the level of USD 30/barrel. The growing demand on the world market, particularly in fast-growing economies (China, India), economic and political problems in certain producer countries (Venezuela, Nigeria, Russia, Iraq), and the unwillingness of OPEC countries to flexibly adjust oil production to the growing demand, caused oil prices to rise in October, to USD 50/barrel. Consequently, oil prices decreased and they reached the level of USD 40/barrel in December. The exchange rate of the koruna against the US dollar appreciated throughout the year and partly offset the increase in oil prices. During 2004, except for the first three months, fuel prices increased on a year-on-year basis.

The prices of market services, which were mostly determined by domestic cost factors in the form of higher regulated prices, increased at a rate of over 7.0% throughout the year, and showed a tendency to accelerate. At the end of the year, the year-on-year rate of price increase in market services reached 8.2%, which was 1.2 percentage points more than in the same period a year earlier. The steepest increases were recorded in prices for housing-related services, education, and insurance (compulsory contractual motor vehicle insurance).

The year-on-year increase in market services prices was not only affected by the secondary effects of changes in regulated prices, but also by the transfer of compulsory contractual motor vehicle insurance from regulated prices to market services prices and by the impact of the amendment to the VAT law on prices for canteen meals.

Inflation in terms of the Harmonised Index of Consumer Prices

Consumer prices, expressed in terms of the Harmonised Index of Consumer Prices (HICP)[2], had increased by 5.8% by end December 2004, representing

[2] *Part of the Treaty on the European Union is Protocol 6 on the criteria of convergence (Article 1), which stipulates that 'inflation is to be measured in terms of a consumer price index on a comparable basis, with respect to the differences between the national definitions'. For that reason, a legal basis started to be created in 1995 for a harmonised methodology for the compilation of consumer price indices in EU member states, since the national price indices failed to meet the above*

Table 5 **Consumer price developments in terms of the HICP** (year-on-year change in %)

	2002	2003	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2004 Year
Total	3.5	8.5	8.2	8.0	7.2	6.1	7.4
Goods	2.3	7.6	7.1	7.2	6.0	5.8	6.2
Services	6.7	10.5	10.9	10.0	9.9	9.7	10.1

Source: Statistical Office of the SR.

a slowdown of 3.5 percentage points in dynamics when compared with the end of 2003. The average inflation in 2004 reached 7.4% (compared with 8.5% in the previous year). Prices of goods increased at a slower rate than the average price level (by 6.2%), while prices of services rose by 10.1%.

A factor increasing the dynamics of prices of goods in 2004 were energy prices, especially the prices of regulated components (electricity, gas, and other energy), which rose by an average of 15.3%. Fuel prices were 11.3% higher than in the previous year. The rate of increase in the prices of industrial goods (excluding energy) slowed gradually during the year, hence the price level rose over the course of 2004 by only 1.0%. Within the structure of industrial goods, the steepest increases took place in the prices of short-term consumer goods (3.2%), while the prices of durables dropped by 1.7%. Food prices rose by 5.8%, due to increases in both processed and non-processed food prices (7.5% and 1.4% respectively).[3]

In services, the most rapid increases were recorded in prices for regulated services (in services related to housing: 19.9%, transport: 13.6%) and prices for other recreation and personal services (11.0%). On the other hand, the slowest price increase took place in postal and telecommunications services (1.0%).

Producer prices

Producer price developments in 2004 were affected by numerous factors, such as the completion of regulated price adjustments for domestic energy producers, the prices of imported energy-producing and other industrial raw materials, the exchange rate of the Slovak koruna, and the situation in primary agricultural production. The above factors resulted in a slowdown in the rate of increase in industrial producer prices, an increase in the dynamics of construction and building materials prices, and a rise in the prices of agricultural products as opposed to a fall in the previous year.

Industrial producer prices

The slower year-on-year rate of increase in industrial producer prices in 2004 was mainly a result of do-

Table 6 **Producer price developments (index, same period a year earlier = 100, average for the period)**

	2002	2003	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2004 Year
Industrial producer prices	2.1	8.3	3.0	2.8	3.6	4.5	3.4
Prices of raw materials	7.4	3.9	7.0	8.7	5.4	2.6	5.9
Industrial manufact. product prices	0.7	2.6	1.2	2.6	4.4	5.5	3.4
Prices of electricity, gas, steam and hot water	6.7	17.9	5.0	2.6	2.3	3.2	3.2
Construction prices	5.1	5.2	5.4	6.0	6.4	6.3	6.0
Building materials prices	3.2	3.6	3.5	3.9	7.2	8.0	5.6
Agricultural products prices	-0.7	-4.8	1.0	2.9	1.4	3.1	2.1
Prices of plant products	-1.2	-0.3	13.3	18.1	1.0	9.7	6.8
Prices of animal products	-0.6	-6.5	-1.5	1.1	1.5	-1.1	0.1

Source: Statistical Office of the SR.

criterion. The aim was to create a common and unified system, based on the same principles and respecting the differences in national consumer preferences, rather than a common consumer basket. The guarantor of this methodology was Eurostat. The new methodology provided a basis for the introduction of the Harmonised Index of Consumer Prices (HICP).

[3] *Food prices according to the HICP methodology also include the prices of alcoholic beverages, tobacco and tobacco products (as opposed to food prices according to the CPI methodology, where these items are included in the 'tradable goods' category) and are not adjusted for the effect of changes in indirect tax rates.*

Table 7 Developments in the GDP deflator (year-on-year change in %, average for the period)

	2002	2003	2004				
			Q1	Q2	Q3	Q4	Year
Consumer prices	3.3	8.5	8.3	8.2	7.4	6.3	7.5
Industrial producer prices	2.1	8.3	3.0	2.8	3.6	4.5	3.4
GDP deflator	4.0	4.7	7.3	4.1	3.3	4.0	4.6
Export deflator	0.8	-3.4	-2.9	-1.0	-2.9	-1.7	-2.1
Import deflator	-0.2	-3.3	-3.8	0.0	-1.3	-1.9	-1.7

Source: Statistical Office of the SR.

mestic cost factors. These factors caused a marked slowdown in the dynamics of electricity, gas, steam, and hot water prices (to an average of 3.2% in 2004, from 17.9% in the previous year). Owing to external factors, the industrial manufacturing product prices and prices of raw materials increased year-on-year more significantly than a year earlier.

The increase in industrial manufacturing products prices was generated by a modest rise in domestic energy prices and, in particular, by oil price developments on the world market. Starting from May 2004, price levels rose year-on-year mainly in sectors specialising in the processing of energy-producing raw materials, with the steepest increases being recorded in the price of refinery oil products (an average of 14%). The prices of basic metals and finished metal products increased year-on-year by 7.4%.

Price levels in the ‘foodstuffs, beverages, and tobacco’ category rose by an average of 2.9%, mainly as a result of increases in the prices of flour products, starch and starch products, dairy products, industrially prepared animal fodder, and beverages. On the other hand, the prices of meat, meat products, and tobacco dropped.

Construction prices

Construction prices rose year-on-year by an average of 6% in 2004, due to increases in the prices of construction repair and maintenance work (5.6%) and work on new construction, modernisation, and reconstruction projects in residential and civil engineering construction (6.1% equally).

The cost prices of materials and products used in construction (materials and products from domestic industrial producers) increased in comparison with the previous year by 5.6%, while the price of materials used in construction repair and maintenance work rose year-on-year by 5.3% and that of materials used in new construction, modernisation, and reconstruction projects increased by 5.6%.

Agricultural products prices

Agricultural products prices increased in 2004 by an average of 2.1% year-on-year, mainly as a result of a rise in the price of plant products (6.8%), accompanied by a modest increase in the price of animal products (0.1%).

The price increase in plant production was mainly connected with increases in sugar beet, legume, potato, and cereal prices.

Developments in animal products prices were affected by increases in the prices of eggs and fresh cow milk on the one hand, and by drops in the prices of pork, beef including veal, and poultry (live animals) on the other.

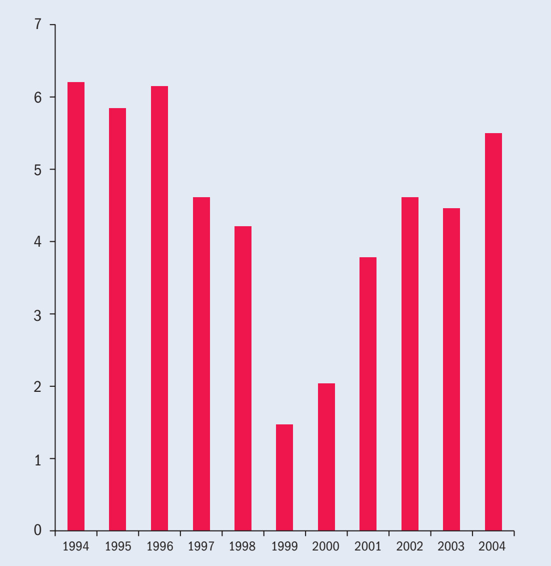
GDP deflator

The general price increase, expressed in terms of an increase in the GDP deflator, reached 4.6% in 2004, which was 0.1 of a percentage point less than in 2003. The development of the implicit GDP deflator was connected with the slower increase in consumer and industrial producer prices, and the appreciating trend in the exchange rate of the Slovak koruna.

The GDP deflator was affected by the domestic demand deflator and the relationship between the export and import deflators. The increase in the domestic demand deflator (5.2%) was primarily due to a rise in price levels for the consumption components of demand (6.8%), especially final household consumption. The price-related change in final household consumption (an increase of 7.0%) resulted mainly from adjustments to regulated prices. The slower increase in the price level of gross investments (1.0%) somewhat dampened the final increase in the domestic demand deflator.

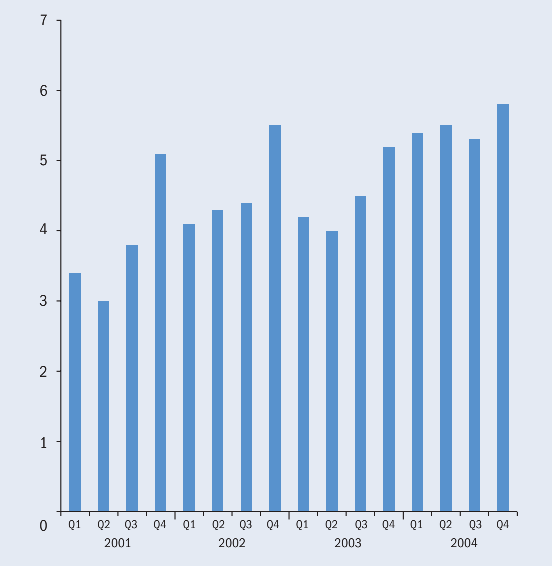
A downward effect on the GDP deflator was exerted by price developments in foreign trade. Developments in the koruna exchange rate and other price factors on foreign markets led to a year-on-year decrease in export as well as import deflators. The prices of

Chart 10 **Growth in gross domestic product (year-on-year growth in %)**



Source: Statistical Office of the SR.

Chart 11 **Real GDP growth by quarter (year-on-year growth in %)**



Source: Statistical Office of the SR.

exported goods and services fell more significantly than the prices of goods and services imported from abroad. The imported foreign supply deflator had a favourable effect on price levels on the domestic consumer market.

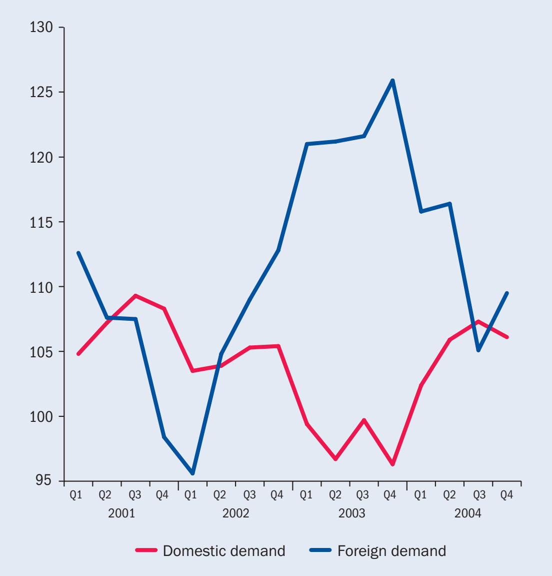
2.1.2. Gross domestic product

In 2004, gross domestic product increased year-on-year by 5.5% in real terms (according to preliminary data from the Statistical Office of the SR), representing the fastest rate of growth in the past eight years. Compared with 2003, the rate of economic growth accelerated by 1 percentage point. In terms of use, GDP growth was connected with an increase in domestic and foreign demand, and was generated mostly in financial intermediation, construction, industry, and trade. The nominal volume of GDP created over the period under review amounted to SKK 1,325.5 billion, which was 10.3% more than a year earlier.

In a breakdown by quarter, the rate of economic growth accelerated significantly in the fourth quarter of 2004, to 5.8% (the fastest growth since the second quarter of 1998). The strengthening of the position of the last quarter within the current year is a long-term trend. This is a result of restructuring and privatisation, including the effect of foreign direct investments in certain industrial sectors (especially in the production of machines, electrical equipment, and transport vehicles) and in certain services (mainly in trade, transport, and telecommunications). In these sectors, the rate of growth in added value accelerated mostly in the last quarter.

In terms of demand, the structure of GDP growth underwent a gradual change. In 2004, the Slovak economy maintained its growing tendency owing to a revival in domestic demand, which increased (after its drop-out for a year) by 5.5%. Although foreign demand grew by as much as 11.4%, its growth slowed in comparison with 2003 by almost 50%. The influence of domestic demand on GDP increased, from the first quarter of 2004, in parallel with the weakening growth in the exports of goods and services, which led to growth in domestic and

Chart 12 **Development of domestic and foreign demand (real year-on-year change in %)**



Source: Statistical Office of the SR.

Table 8 **Aggregate demand and its coverage** **(constant 1995 prices)**

	Volume in billions of SKK			Structure in %		
	2002	2003	2004	2002	2003	2004
Aggregate demand	1,368.8	1,486.1	1,618.5	100.0	100.0	100.0
Domestic demand[1)]	778.3	762.7	812.2	56.9	51.3	50.2
Foreign demand	590.5	723.4	806.3	43.1	48.7	49.8
Coverage of aggregate demand						
Domestic supply	749.9	783.4	826.5	54.8	52.7	51.1
Foreign supply	618.8	702.7	792.0	45.2	47.3	48.9

Source: Statistical Office of the SR.
1) Including statistical discrepancy.

Table 9 **Breakdown of GDP creation by component** **(SKK billions, constant 1995 prices)**

	2002	2003	2004	Growth index[1)]		
				2002/01	2003/02	2004/03
Output	1,778.7	1,870.3	1,928.2	104.4	105.1	103.1
Intermediate consumption	1,106.8	1,164.2	1,181.1	104.7	105.2	101.5
Value added	671.9	706.1	747.1	104.0	105.1	105.8
Net taxes on products[2)]	78.0	77.3	79.4	110.5	99.1	102.7
Gross domestic product	749.9	783.4	826.5	104.6	104.5	105.5

Source: Statistical Office of the SR.
1) Indices based on figures expressed in millions of SKK.
2) Value added tax, excise duties, import taxes, subsidies.

foreign demand at virtually balanced rates at the end of the year.

The development of domestic and foreign demand led to growth in aggregate demand (8.9% at constant prices, compared with 8.6% in the previous year). Within the structure of aggregate demand, the share of foreign demand increased year-on-year by 1.1 percentage points (to 49.8%), to the detriment of domestic demand.

Supply side of GDP

The creation of added value was affected by a marked growth in output and a relatively slow growth in intermediate consumption. Owing to the excess of growth in output over growth in intermediate consumption, the share of added value in the Slovak economy increased to 38.7% (from 37.8% in the previous year).

The real GDP growth was connected with the increased creation of added value in financial intermediation (by 30.1%), construction (by 11.8%), industry (by 11.5%), trade (by 11.3%), and in agriculture, including forestry and fishing, real estate, and other business activities. The creation of added value declined most significantly in non-market services, which are still in the process of restructuring (health care, public administration, education).

The growth in added value in financial intermediation was a consequence of improvement in the banking sector's effectiveness subsequent to restructuring and privatisation. Within the scope of services, added value also increased in wholesale trade, retail trade, and the repair of vehicles and consumer goods. The continuing growth in added value in this sector was a reaction to an increase in consumer demand in the household sector.

The dynamic growth in added value in industry was a result of an upturn in manufacturing production and was also supported by electricity, gas, and water supply. In manufacturing, the growth in added value accelerated in the manufacturing of chemical products, petroleum and rubber products, machines, electrical equipment, transport vehicles, metals and metal products. Developments in electricity, gas, and water supply were mainly connected with the supply of energy for accelerating growth in production, including export-oriented production, and with the extended offer of services by economic entities in the post-privatisation period.

Agriculture

In 2004, as opposed to the previous years (except 2001 and 2002), agriculture achieved a positive economic result. This fact was connected with numerous factors. On the one hand, the output of the agricultural

Table 10 **Gross domestic product by sector** **(year-on-year index, constant 1995 prices)**

	2002 / 2001	2003 / 2002	Q1 04 / Q1 03	Q2 04 / Q2 03	Q3 04 / Q3 03	Q4 04 / Q4 03	2004 / 2003
Gross domestic product	104.6	104.5	105.4	105.5	105.3	105.8	105.5
of which:							
Agriculture, forestry, and fishing	98.0	104.7	100.3	112.5	113.6	110.1	109.6
Industry in total	98.7	109.1	107.3	109.1	117.0	112.7	111.5
of which:							
Manufacturing	98.0	106.1	103.1	110.0	119.3	114.8	111.9
Electricity, gas, and water supply	114.3	150.7	135.0	102.4	101.3	95.3	111.3
Construction	108.4	106.8	109.4	104.9	122.5	110.4	111.8
Services in total	107.4	103.6	98.8	103.0	104.0	105.6	103.0
of which:							
Wholesale and retail trade, repairs	96.3	104.3	114.0	108.3	108.1	117.1	111.3
Financial mediation	128.3	112.7	138.2	133.4	163.1	95.2	130.1
Real estate, renting, and business activities	107.5	97.1	104.8	114.4	109.8	104.9	108.3
Public administration, defence, social security	110.3	104.7	94.6	93.1	84.7	102.4	93.8
Other[1)]	107.5	95.9	156.5	107.5	66.6	81.9	98.5

Source: Statistical Office of the SR.
1) Value added tax, excise duty, import tax, minus subsidies and imputed production of banking services.

sector was affected by favourable climatic conditions, which positively influenced the harvest and sales of plant products. On the other hand, the sector was affected by economical measures of agricultural farms, leading to a year-on-year reduction in their costs. The overall economic result was also positively affected by the availability of financial resources from the new system of agricultural support.

Improved business conditions led to an increase in the year-on-year dynamics of GDP creation in agriculture (by 3.9 percentage points compared with the previous year, to 9.7%). The share of agriculture in overall GDP creation also increased slightly (by 0.2 of a percentage point), to 4.7% in 2004.

In 2004, the total receipts of agricultural entities at constant prices were 1% lower than in 2003, due to a fall in revenue from the sale of animal products (by 3.7%), within the scope of which all types of products recorded a decline in sales (except for beef and poultry). Receipts from the sale of plant products increased by a total of 1.5%, with all types of plant products recording a year-on-year increase in sales (except for potatoes). The relatively slow growth in receipts from plant products was due to problems with the realisation of the excessive harvest sale.

The continuing restructuring in agriculture led to a fall in employment in this sector (by 9% year-on-year), which exceeded the figure for the previous year by 5.2 percentage points. The fall in employment and improved economic results probably stimulated dynamic growth in the average nominal wage, which increased year-on-year by 11.6% (in the previous year by 5.1%).

Industry

The dynamic GDP growth in industry accelerated in 2004 compared with the previous year, by 2.4 percentage points at constant prices, to 11.5%. The accelerated growth led to an increase in industry's share in the overall creation of real GDP, by 1.5 percentage points year-on-year, to 27.9%.

In 2004, the 12-month rate of growth in industrial production continued to slow slightly, to 4.0% (from 5.1% in 2003), owing to a decrease in the growth dynamics of manufacturing production and a further decline in mining and quarrying. On the other hand, the level of overall production reflected the pro-growth effect of production in electricity, gas, and water supply.

The manufacturing production output was affected by developments in the individual sectors. As a result of a drop in sales, the production of foodstuffs, beverages, and tobacco products declined on a year-on-year basis. The persistent recession, increased competition from abroad, and probably the insufficient volume of new investments, caused a downturn in production for the second consecutive year in the manufacture of textiles and clothes, chemical products and man-made fibres. As a result of a change in the structure of production and most probably the ongoing recession in the sale of motor vehicles on the world markets, production in the manufacture of transport vehicles declined by 2.4% (after markedly growing in 2003), mainly due to a drop in the second half of the year.

The improved sale conditions, restructuring, and investment in the development of production had a positive effect on the revival of growth in the manufacture of pulp, paper, and paper products, and in the production of coke, refinery oil products, and nuclear fuel. An acceleration in year-on-year dynamics was recorded in the manufacture of machinery and equipment and the manufacture of electrical and optical equipment. A growing tendency, though weaker than in the previous year, was maintained in the manufacture of rubber and plastic products, other non-metal and mineral products, and in the manufacture of metals and metal products.

The development of employment in industry was affected by continuing restructuring in electricity, gas, and water supply, and in mining and quarrying, which recorded a year-on-year fall in employment (by 4% and 8.8% respectively).

At the same time, employment in manufacturing increased by 1.1%, and contributed 0.4% to the growth of overall employment in industry. The average nominal wage in industry recorded a year-on-year increase of 10.2% (compared with 7.3% in the previous year), mainly as a result of wage growth in electricity, gas, and water supply.

Construction

Construction in 2004 not only maintained the growing trend in GDP creation from previous years, but also generated a marked increase in dynamics (by 11.8% at constant prices, compared with 6.8% in the previous year). Thus, the share of construction in overall real GDP creation increased year-on-year by 0.2 of a percentage point, to 3.7%.

The output of the construction sector maintained a relatively fast rate of growth, and increased year-on-year by 5.7% at constant prices (in the previous year by 6%). Its development was affected by a dynamic growth in domestic production in new construction, reconstruction, and modernisation projects, while production in repair and maintenance work abroad suffered a decline.

The attempt of construction firms to keep labour productivity growing was reflected in the development of employment, whose year-on-year growth rate slowed from 4% in 2003 to 2.7% in 2004. This was probably also affected by developments in average monthly nominal wages, which grew year-on-year by an average of 9%, compared with 3.9% a year earlier.

Services

Developments in the services sector were affected by numerous conflicting trends in 2004. The total volume of GDP created in services grew at a relatively slow rate (3% at constant prices, compared with 3.6% in the previous year). Consequently, the share of services in total real GDP creation decreased year-on-year by 1.3 percentage points, to 55.7%.

This decrease was a consequence of restructuring in the public sector (public administration, education, health care, other community and social services), which led to a marked year-on-year fall in added value in public services (by 11.8% at constant prices). On the other hand, in connection with the revival of private consumption and demand for investments, added value in business and financial services (increasing by 7% and 15% respectively) had a pro-growth effect on GDP creation in the services sector.

Thus, the revival in domestic demand led to growth in receipts from own-output and goods in retail trade (after a decline in the previous year) and growth in receipts from the sale and maintenance of motor vehicles, retail trade of fuels, and from postal and telecommunications services (faster than in 2003). After falling in 2003, the receipts of entities involved in wholesale trade, transport services, and other activities in transport, also increased. On the other hand, receipts from hotel and restaurant services, real estate, renting, and other business activities, continued to decline in 2004.

Employment in services followed a relatively favourable course of development, when the number of new jobs increased year-on-year in all branches of services, except for transport, post and telecommunications, health services and education. The growth in employment in individual services ranged from 1% to 2%, with the steepest increase taking place in employment in real estate, renting, and other business services (3.4%).

In 2004, average nominal wages increased in all branches of services, while developments in the individual branches differed considerably. The most rapid growth occurred in the average nominal wage in financial intermediation. Wage growth exceeded the average figure for the SR in wholesale and retail trade, transport and telecommunications, and in other community, social, and public services. On the other hand, wage growth lagged behind the Slovak average in hotel and restaurant services; real estate, renting, and other business services; public administration and defence; education; and in social care and health services.

Table 11 **Absolute year-on-year increases in GDP with contributions** **(constant 1995 prices)**

	2002		2003		2004	
	Growth in SKK billions	Contribution in % points	Growth in SKK billions	Contribution in % points	Growth in SKK billions	Contribution in % points
GDP	33.1	4.6	33.5	4.5	43.1	5.5
Domestic demand	33.9	4.7	-15.9	-2.1	41.9	5.4
Net exports	-0.8	-0.1	49.1	6.5	-6.4	-0.8

Source: Statistical Office of the SR.

Demand side of GDP

In terms of use, the 2004 increase in GDP (5.5%) was generated by domestic demand, while the main stimulus to economic growth in 2003 was foreign demand. This change resulted mainly from a dynamic growth in the investment component and a renewed growth in the consumption component of domestic demand. Domestic demand contributed 5.4 percentage points to the rate of GDP growth. Trading with abroad resulted in a negative contribution of 0.8 of a percentage point, by net exports to GDP. The difference between this figure and the final rate of GDP growth represented a statistical discrepancy.

Domestic demand

Domestic demand grew year-on-year by 5.5% at constant prices. Its growth was mainly caused by increased gross capital formation, which grew by 13.1% at constant prices (after weakening during the previous two years). Gross investment showed a tendency to grow during the year, from 4.4% in the first quarter to 18.4% in the fourth quarter. After a period of stagnation in the previous year, the consumption component of domestic demand recorded a modest increase in dynamics. The renewed growth in consumer demand (1.7% in the first quarter) accelerated over the next two quarters to 3.4%. In the final quarter, the rate of growth slowed to 3.0%, in line with the usual trend of development in previous years. The growth in final consumption during the year (2.9% at constant prices) remained below the rate of overall GDP growth.

Domestic investment demand

The dynamic growth in gross capital was primarily due to a record increase in the volume of inventories (SKK 18.6 billion at constant prices) and a gently accelerating growth in fixed investments. In terms of volume, the positive increase in inventories was only comparable with the figure for 1996 (SKK 15.2 billion), when fast economic growth was connected with macroeconomic imbalances. The growth in inventories in 2004 was concentrated mostly in materials and goods inventories, which was connected with the growing trend in the economy and the consequent upturn in investment in machinery and construction. The volume of non-finished production inventories was stagnant, which indicates that domestic production was satisfac-

Table 12 **Gross domestic product by use** **(year-on-year index, constant 1995 prices)**

	2002 / 2001	2003 / 2002	Q1 04 / Q1 03	Q2 04 / Q2 03	Q3 04 / Q3 03	Q4 04 / Q4 03	2004 / 2003
Gross domestic product	104.6	104.5	105.4	105.5	105.3	105.8	105.5
Domestic demand	104.6	98.0	102.4	105.9	107.3	106.1	105.5
Final consumption	105.3	100.3	101.7	103.4	103.4	103.0	102.9
Households	105.5	99.2	103.0	102.8	103.7	104.3	103.5
General government[1)]	104.9	102.7	97.4	104.7	102.6	100.2	101.2
Non-profit institutions serving households	104.4	110.9	104.2	105.8	105.9	107.2	105.8
Gross capital formation	102.6	91.8	104.4	112.5	116.9	118.4	113.1
Gross fixed capital formation	99.4	98.5	100.9	103.5	105.5	100.1	102.5
Exports of goods and services	105.6	122.5	115.8	116.4	105.1	109.5	111.4
Imports of goods and services	105.5	113.6	112.0	117.0	109.6	112.3	112.7

Source: Statistical Office of the SR.
1) Preliminary data.

torily realised on both domestic and foreign markets. Inventories were also affected by the volume of imports for investment, which were in large part registered as goods; they will be transformed into fixed capital only after the investment process is completed.

Fixed investments increased by 2.5% at constant prices, mainly due to the investment activity of non-financial corporations. For the acquisition of fixed investments (gross fixed capital), the non-financial corporations sector spent 5.5% more than a year earlier, also owing to their positive financial results. The investment activity of financial corporations was at a standstill. Investment in the general government remained below the level of the previous year, even though developments in the first half of the year indicated an upturn in investment activity in the public sector. At constant prices, fewer fixed investments (including residential buildings) were also recorded in the household sector, in an environment of increased bank lending for housing purposes. The investment activities of non-profit organisations increased substantially, but the creation of fixed investments remained virtually unaffected as a whole (due to the small share of such investments).

Gross fixed capital formation was mainly affected by an increase in the creation of new fixed assets (0.8%). At the same time, the acquisition of used long-term property showed a substantial increase in year-on-year dynamics (by 53.5%). The contribution of acquired used long-term property to the growth in assets increased, from approximately 7% in 2003 to 10% in 2004. Such a change in preferences was recorded in all sectors of the domestic economy. Part of the increase in used long-term assets was probably generated by imports.

Investment in machinery, especially in metal products and machines, contributed to the total increase in

Table 13 **Structure of gross fixed capital formation in 2004**

	Gross fixed capital formation (SKK millions)[1]	Share (%)[1]	Index[2] 2004/2003
Economy of the SR in total	327,226	100.0	102.5
of which (by production):			
Buildings	105,643	32.3	90.9
of which: residential buildings	20,123	6.1	93.4
other structures	85,520	26.1	90.3
Machinery	200,119	61.2	109.7
of which: metal products and machines	148,728	45.5	110.6
transport equipment	51,391	15.7	107.2
of which (by sector):			
Non-financial corporations	198,944	60.8	105.5
Financial corporations	44,888	13.7	100.6
General government	30,572	9.3	96.5
Households	52,011	15.9	96.9
Non-profit institutions	811	0.2	128.9

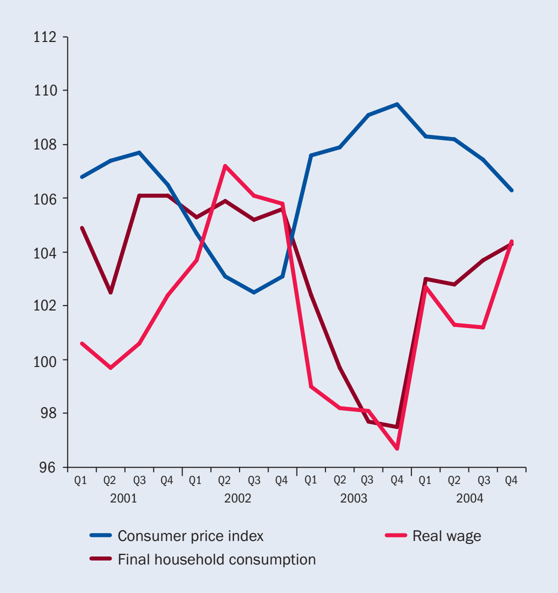
Source: Statistical Office of the SR.
1) At current prices.
2) At constant prices.

Table 14 **Investments and savings** **(%, current prices)**

	2002	2003	2004
Savings ratio[1]	22.2	23.6	24.0
Gross investment ratio[2]	29.3	25.4	26.3
Fixed investment ratio[3]	27.6	25.7	24.7
Coverage of investments by savings[4]	75.8	92.8	90.9

Source: Statistical Office of the SR.
1) Share of gross domestic savings (GDP less final consumption in total) in GDP.
2) Share of gross capital formation in GDP.
3) Share of gross fixed capital formation in GDP.
4) Share of gross domestic savings in gross investment.

Chart 13 **Final household consumption, inflation, and real wages (year-on-year development in %)**



Source: Statistical Office of the SR.

gross fixed capital formation. Investment in buildings declined, mainly as a result of reduced investment allocation for the construction of other structures, including public utilities.

The share of domestic savings in the financing of investment demand decreased slightly in 2004. In 2003, there were almost 93 hellers worth of gross savings in the national economy for 1 koruna worth of gross investments. In 2004, this ratio decreased slightly (to 91 hellers), but in the last two years it has been at the highest level since 1996.

Domestic consumer demand

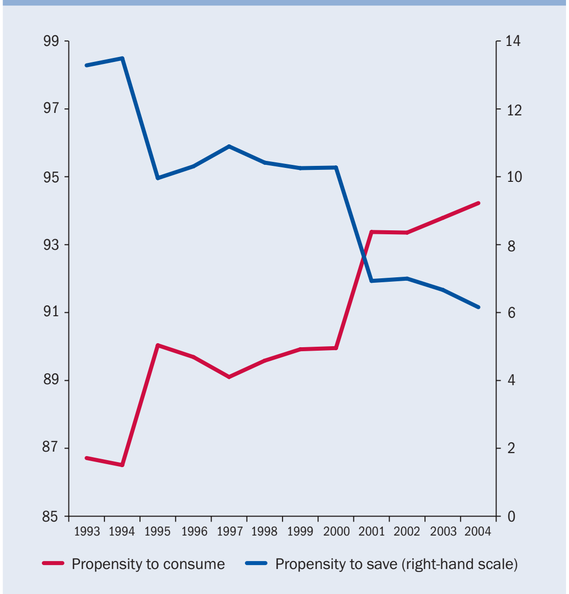
Final consumption increased at constant prices by 2.9% (in the previous year by 0.3%). Growth in final consumption was mainly stimulated by consumption in the household sector, but a significant increase was also generated by non-profit institutions serving households. The final consumption growth in the general government only slightly exceeded the level of the previous year. This was connected with fiscal discipline in institutions financed through the State Budget and the weaker growth in average wages in the public sector. The increase in consumption in non-profit institutions and the slower rate of growth in public consumption were partly connected with the transformation of selected public sector entities into non-profit organisations, which render services for households.

After falling in 2003 (by 0.8%), final consumption in the household sector grew by 3.5% at constant prices. The renewed and relatively balanced growth in private consumption in the first two quarters (up to 3%) accelerated to 4% in the second half of the year. The growth in private consumption, however, still lagged behind the rate of growth achieved before the imposition of administrative restrictions on demand in 2003.

Room for a revival of growth in private consumption was primarily created by the growth in real wages, stimulated by an increase in nominal wages and a fall in inflation. Further factors in the growth of private consumption were a reduction in the tax burden on current household income and the continuing growth in the propensity of households to consume. As a result of reduced tax rates for income from work, small business activity, and property, disposable income achieved the fastest rate of growth in the last five years. The dynamic growth of disposable income in the household sector created adequate conditions for a revival of growth in both consumption and savings.

However, the division of disposable income into consumption and gross savings indicates that the propensity of households to consume increased. The increase in the propensity to consume in 2004 was no longer forced by a shortage of disposable income in the sector as in the previous year, but by certain inert factors. These factors included an upturn in consumption after a forced restriction in 2003, the restitution of property from other sectors to the household sector, and/or the sale of property to other sectors (the sale of land to the non-financial corporations sector or the general government for capital construction). Within the structure of private consumption, the most rapid increases were recorded in expenditure on health serv-

Chart 14 **Propensity to consume and propensity to save** **(%)**



Source: Statistical Office of the SR.

Table 15 **Generation and use of income in the household sector** **(current prices)**

	Volume in billions of SKK		Index[1)]		Share in %	
	2003	2004	2003/2002	2004/2003	2003	2004
Compensation of employees (all sectors)	494.0	532.1	105.8	107.7	51.3	51.2
of which: Gross wages and salaries	368.3	399.4	105.4	108.4	38.3	38.4
Gross mixed income	264.9	289.0	107.6	109.1	27.5	27.8
Income from property – received	28.1	36.8	93.7	130.9	2.9	3.5
Social security benefits	143.9	148.9	108.8	103.5	14.9	14.3
Other current transfers – received	32.0	32.6	101.0	102.0	3.3	3.1
Current income in total	962.9	1 039.5	106.1	108.0	100.0	100.0
Income from property – paid	6.5	9.3	116.2	142.2	2.6	3.6
Current tax on income, property, etc.	50.3	45.6	105.2	90.7	20.0	17.8
Social security contributions	170.3	176.0	105.6	103.3	67.8	68.9
Other current transfers – paid	24.1	24.6	102.8	102.2	9.6	9.6
Current expenditure in total	251.3	255.5	105.5	101.7	100.0	100.0
Gross disposable income	711.6	783.9	106.4	110.2	100.0	100.0
Adjustment for changes in the net equity of households in the reserves of pension funds	3.3	3.0	136.3	91.4	–	–
Final household consumption	667.5	738.7	106.9	110.7	93.8	94.2
Gross savings of households	47.4	48.3	101.3	101.7	6.7	6.2

Source: Statistical Office of the SR.
1) Based on figures expressed in SKK millions.

ices (29.1%) and furnishings, household equipment, and the routine maintenance of dwellings (19.5%).

Income and expenditure of households

According to preliminary data from the Statistical Office of the SR, the current income of households in 2004 reached SKK 1,039.5 billion, representing a year-on-year increase of 8% in nominal terms (a year-on-year increase in dynamics of 1.9 percentage points). In real terms, current income grew by 0.5%, after falling in 2003 by 2.3%. Current household expenditure (paid to other sectors and not used for direct consumption) totalled SKK 255.5 billion, representing an increase of 1.7%. Thus, the year-on-year growth rate slowed in contrast to last year by 3.8 percentage points. In real terms, current expenditure decreased by 5.4%, compared with 2.8% in 2003.

The growth in current income was mainly affected by increases in gross mixed income (9.1%, compared with 7.6% in the previous year), employee compensation (7.7%, compared with 5.8% in the previous year), and income from property, while the growth in social income slowed and that in current income transfers remained, as in 2003, at a low level.

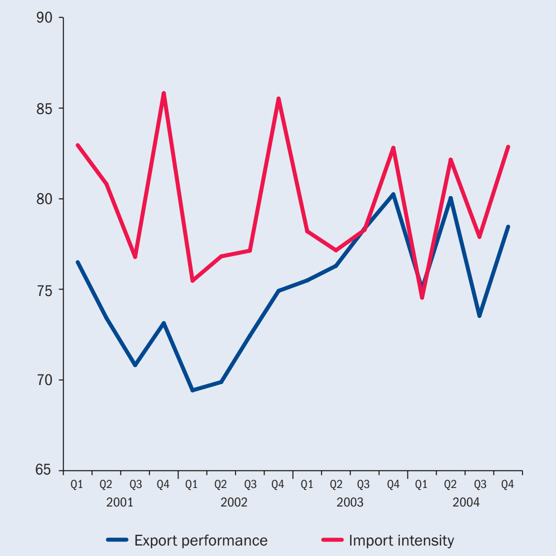
The year-on-year slowdown in the growth of current expenditure mainly resulted from a drop in current taxes on income and property (9.3% at current prices, compared with an increase of 5.2% a year earlier) and a slowdown in the growth of social contributions (3.3%, compared with 5.6% a year earlier). The development of these items was probably affected by the new tax and social security laws. They were not affected markedly by the continuing dynamic growth in expenditure related to income from property (as of the middle of 2001), due to its low weight in total current expenditure.

With current expenditure being deducted from current income, the gross disposable income of households amounted to SKK 783.9 billion, representing a year-on-year increase of 10.2% (compared with 6.4% in the previous year). Its dynamic growth was due in part to accelerated growth in current income, but in particular to a relatively marked slowdown in the growth of current household expenditure. Of the disposable income, more than 94% was used for final consumption, the remainder went to gross savings. The rate of growth in gross household savings accelerated slightly in comparison with 2003 (by 0.4 of a percentage point), but as a result of rapid growth in final household consumption in 2004, the gross saving ratio again decreased (from 6.7% in 2003 to 6.2% in 2004).

Net exports

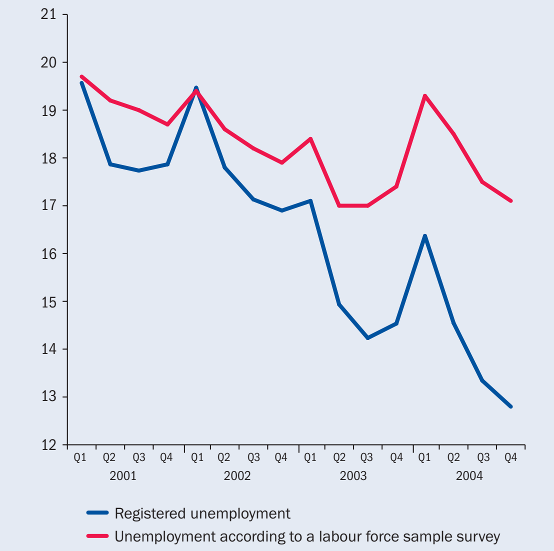
The exports and imports of goods and services reached double-digit growth rates. The faster growth

Chart 15 **Export performance and import intensity** **(%)**



Source: Statistical Office of the SR.

Chart 16 **Unemployment rate** **(%)**



Source: Statistical Office of the SR.

in imports over exports led to a year-on-year deterioration in the balance of foreign trade. In nominal terms, net exports resulted in a deficit of SKK 35.6 billion (compared with SKK 17.9 billion in 2003). The increase in the deficit in nominal terms was accompanied by a decrease in the surplus in real terms. With price developments on foreign markets being taken into account, net exports at constant prices generated a surplus of SKK 14.3 billion (compared with SKK 20.7 billion in the previous year).

This development resulted from a marked slowdown in export dynamics (from 22.5% in 2003 to 11.4% in 2004), accompanied by a slight fall in import dynamics (from 13.6% to 12.7%). The decrease in export dynamics was accompanied by a slowdown in the growth rate of imports intended for export-oriented production. However, the dynamics of imports of goods and services intended for the coverage of domestic consumer and investment demand did not decrease and led, inter alia, to a marked increase in inventories in the economy. In the period under review, there was an identifiable relationship between the imports of transport vehicles and machines for the metallurgical, engineering, chemical, glass, and building materials industries on the one hand and increased investment in machines in the Slovak economy on the other. Hence, the maintenance of a relatively high rate of growth in imports was closely connected with the increased domestic demand.

The Slovak economy maintained a relatively strong export performance (76.8% at current prices), though it was 0.9 of a percentage point weaker than in 2003. Import intensity reached 79.5% and was 0.3 of a percentage point higher than a year earlier. The openness of the Slovak economy, expressed in terms of the ratio of exports and imports of goods and services to nominal GDP, stood at 156.9% in 2004.

2.1.3. Labour market developments

Employment and unemployment

Labour market developments in 2004 were characterised by increased labour supply, i.e. an increase in the number of economically active persons on the labour market (by almost 25,000 compared with the previous year). The year-on-year increase took place in the following age categories: 25 – 34 years, 50 – 54 years, and persons older than 55 years. These age categories accounted for 45.8% of the total number of the country's economically active population (compared with 42.6% a year earlier).

In 2004, employment grew at a slower rate than in 2003, when the number of persons employed in the Slovak economy determined on the basis of a labour force sample survey (including employees, entrepreneurs and the contributing family workers) increased year-on-year by 0.3% (in the previous year by 1.8%). The most significant contribution to growth in employment was made by entrepreneurs, both with and without employees, whose number increased by 23.5% (in the previous year by 14.8%). On the other hand, job opportunities for employees diminished and thus the number of employees dropped year-on-year by 2.2% (after growing by 0.3% a year earlier).

Employment followed a positive trend during the year, with a decline (stagnation) in the first two quarters changing into gradual growth in the second half of the year.

In a breakdown by sector, the most dynamic growth in employment in 2004 (according to statistical reports) was recorded in other community, social, and personal services; real estate, renting, and business activities; construction; hotels and restaurants; and in financial intermediation. The level of employment continued to fall in agriculture, transport, education, post and telecommunications, and, in contrast with 2003, in health services.

The number of unemployed determined on the basis of a labour force sample survey increased year-on-year by 4.7% in 2004, in contrast to 2003, when it dropped by 5.7%. The rate of unemployment rose in comparison with the same period a year earlier by 0.7 of a percentage point, to 18.1%.

According to the Central Office of Labour, Social Affairs and Family, the average unemployment rate in 2004 was 14.3% (compared with 15.2% in the previous year). This figure was below the level determined by a sample survey, which can be explained by methodological differences and by differing definitions of unemployment. The trends of development in unemployment according to the two sources of data were, however, practically identical over the course of the year.

Wages and labour productivity

In 2004, the average monthly nominal wage in the Slovak economy increased year-on-year by 10.2%, to SKK 15,825, and its growth was 3.9 percentage points faster than in 2003. The dynamics of wage growth in the individual quarters differed. After accelerating significantly in the first quarter (to 11.2%), wage growth slowed in the second and third quarters, before accelerating again in the fourth quarter (to 11.0%). In the non-financial sector, nominal wage growth culminated in the fourth quarter in electricity, gas, and water supply, trade, and construction, which was connected with the low basis of comparison in the same period a year earlier and with the favourable financial situation of entrepreneurial entities doing business in these areas. In the public sector, nominal wage growth accelerated towards the end of the year in education and health care, which was probably connected with a further decrease in the number of employees.

Average monthly nominal wages increased on a year-on-year basis in all sectors of the national economy in 2004 and their year-on-year dynamics accelerated in most sectors. Compared with 2003, the most dynamic wage growth was recorded in financial intermediation (13.7%); electricity, gas, and water supply (13.5%); trade and repairs (11.9%), and in agriculture, hunting, and forestry (11.6%), which still recorded the lowest average nominal wage among the sectors. The slowest wage growth was reported from health and social services (3.5%), hotels and restaurants (4.5%), and education (7.6%). In other sectors, wages grew at a rate of approximately 9% to 10%.

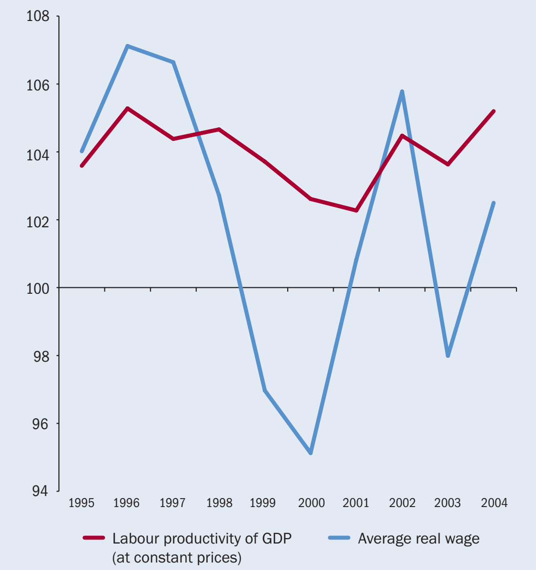
In a breakdown by sector, the strongest growth in average nominal wages was recorded in the corporate sector, in companies with 20 and more employees (by 12.5%, to SKK 18,296), budgetary organisations (by 9.2%, to SKK 14,271), and in subsidised organisations (by 5.4%, to SKK 13,743).

Table 16 **Labour market indicators**

	Year 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Year 2004
Nominal wage (SKK)	14,365	14,541	15,472	15,299	17,955	15,825
Nominal wage (index)	106.3	111.2	109.6	108.8	111.0	110.2
Labour productivity of GDP (index, current prices)	108.5	113.1	110.6	108.2	108.7	110.1
Nominal wage (index)	98.0	102.7	101.3	101.2	104.4	102.5
Labour productivity of GDP (index, const. prices)	103.6	105.4	106.2	104.7	104.5	105.2
Wage minus productivity (percent. points)	-5.6	-2.7	-4.9	-3.5	-0.1	-2.7
Employment according to statistical records (index)	100.8	100.0	99.3	100.6	101.2	100.3
Employment according to a LFSS[2] (index)	101.8	99.9	99.2	100.6	101.3	100.3
Registered unemployment rate[1] (%)	15.2	16.4	14.5	13.3	12.8	14.3
Unemployment rate according to a LFSS[2] (%)	17.4	19.3	18.5	17.5	17.1	18.1
Consumer prices (average index)	108.5	108.3	108.2	107.5	106.4	107.5

Source: Statistical Office of the SR.
1) Of the disposable number of unemployed, average for the period (NBS estimate).
2) Labour force sample survey (LFSS).

Chart 17 **Developments in real wages and real labour productivity (index, same period a year earlier = 100)**



Source: Statistical Office of the SR.

Real wages increased on a year-on-year basis by 2.5%, after falling over the same period a year earlier by 2%. Apart from the dynamic nominal wage growth, real wages were also affected by the course of inflation, whose average level in 2004 (7.5%) was one percentage point lower than in 2003.

Real growth in average wages was achieved in the vast majority of sectors, with declines being recorded only in health and social services (3.7%) and in hotels and restaurants (2.8%). Wages in education remained virtually at the level of last year (an increase of 0.1%).

Labour productivity (GDP per employee) showed dynamic growth in 2004: it increased in nominal terms by 10.1% and in real terms by 5.2%. Its development was mainly supported by the rapid GDP growth. The average annual rate of growth in nominal labour productivity remained somewhat behind the dynamics of nominal wages (by 0.1 of a percentage point), while the growth in productivity at constant prices exceeded the growth in real wages by 2.7 percentage points. The dynamic growth in nominal wages was also reflected in unit labour costs according to the methodology of the NBS (ratio of nominal wage growth to growth in real labour productivity), which increased by 4.8%, compared with 2.5% in 2003. This means that the growth in nominal costs per employee per real output unit accelerated, but, owing to the high level of inflation, the declining trend in real unit labour costs (a fall of 2.5%, compared with 5.5% in 2003) persisted in 2004. This indicates that, in the Slovak economy, wages were not a source of demand-based inflationary pressure in the past year, but affected the costs of companies.

2.1.4. Financial results of corporations

According to preliminary data from the Statistical Office of the SR, similar to last year, financial and non-financial corporations achieved different financial results in 2004. Financial corporations (banks, including the NBS, insurance companies, and other financial intermediaries) recorded, as in the previous two years, a negative financial result. Their total loss amounting to SKK 12.3 billion was connected with the results of financial institutions (a loss of SKK 22.2 billion), which was mainly affected by the financial result of the NBS (a loss of SKK 36.3 billion). The negative results of financial institutions were partly offset by the profits of other financial intermediaries, insurance corporations, and pension funds.

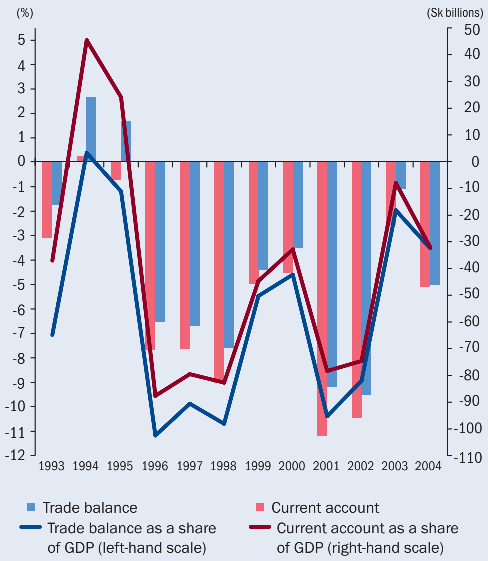
In 2004, according to preliminary data, non-financial corporations generated a total profit of SKK 192.3 billion, which was more than 24% larger than a year earlier. A positive development was the fact that all sectors under review, including agriculture, ended the year with a positive financial result. As in the previous year, the largest profits were generated in manufactu-

Table 17 **Financial results of corporations in 2004**

	2004 SKK millions	**2004/2003 index**
Financial results (before taxation)		
Non-financial and financial corporations in total	180,003	129.2
Non-financial corporations	192,344	124.3
Financial corporations	-12,341	79.7
Number of non-financial corporations (with 20 and more employees)	**2004 Number**	**2004/2003 Change**
Total	5,916	67
Non-loss-making corporations	4,157	238
Loss-making corporations	1,759	-171

Source: Statistical Office of the SR, Statistical report on the basic trends of development in the economy of the SR in 2004.

Chart 18 **Balance of trade and current account developments**



Source: Statistical Office of the SR.

Table 18 **Balance of payments on current account (SKK billions)**

	2004	**2003**
Balance of trade	-47.0	-24.4
Services balance	8.6	8.7
Income balance	-13.1	-4.4
Current transfers	5.5	9.0
Current account in total	-46.0	-11.1
Current account as a share of GDP in %	-3.5	-0.8

Source: NBS and Statistical Office of the SR.

ring; electricity, gas, and water supply; and trade. The most rapid year-on-year growth in profits was achieved in manufacturing; real estate, renting, and business activities; trade; and construction.

The improved financial results (in companies with 20 and more employees) created conditions for growth in the value of long-term tangible and intangible property, which increased from the beginning of 2004 to the end of the year by 4.5%. The favourable financial results led to an increase in the equity of companies (by 9%).

The financial results caused the number of profitable companies to increase and that of loss-making firms to decrease in 2004. Of the total number of non-financial corporations with 20 and more employees (5,916), profitable companies accounted for more than 70% (compared with 67% a year earlier).

2.2. Balance of payments

2.2.1. Current account

In 2004, the balance of payments on current account resulted in a deficit of SKK 46.0 billion, which was SKK 34.9 billion more than in the previous year. This increase was largely due to a year-on-year deterioration in trade and income balances. The current account deficit reached 3.5% of GDP at current prices. The trade deficit as a share of GDP also increased, from 2.0% to 3.5%.

The trade balance resulted in a deficit of SKK 47.0 billion, representing a year-on-year increase of SKK 22.6 billion. The increase in the trade deficit was caused first and foremost by an excess of growth in imports over growth in exports.

According to preliminary data from the Statistical Office of the SR, goods were exported in 2004 in the

Table 19 **Year-on-year changes in Slovak exports by segments and the contributions of individual segments**

	Year-on-year change in SKK billions		**Contribution to the year-on-year changein percentage points**	
	2004	**2003**	**2004**	**2003**
Raw materials	18.9	2.5	2.4	0.4
Chemicals and semi-finished goods	39.8	14.8	5.0	2.3
of which: chemical products	9.3	0.5	1.2	0.1
semi-finished goods	30.5	14.3	3.8	2.2
Machines and transport equipment	30.7	124.1	3.8	19.0
of which: machines	42.7	28.8	5.3	4.4
transport equipment	-12.0	95.3	-1.5	14.6
Finished products	1.9	9.8	0.2	1.5
Exports in total	91.3	151.2	11.4	23.2

Source: NBS calculations based on Statistical Office of the SR data.

Table 20 **Year-on-year changes in Slovak imports by segments and the contributions of individual segments**

	Year-on-year change in SKK billions		Contribution to the year-on-year change in percentage points	
	2004	2003	2004	2003
Raw materials	23.4	-0.5	2.8	-0.1
Chemicals and semi-finished goods	29.2	20.2	3.5	2.7
of which: chemical products	8.6	10.3	1.0	1.4
semi-finished goods	20.6	9.9	2.5	1.3
Machinery and transport equipment	33.2	49.1	4.0	6.6
of which: machines	27.0	22.2	3.3	3.0
transport equipment	6.2	26.9	0.7	3.6
Finished products	27.8	10.9	3.4	1.4
of which: Agricultural and industrial products	17.8	2.4	2.2	0.3
Automobiles	5.0	1.4	0.6	0.2
Machines and electrical consumer goods	5.0	7.1	0.6	0.9
Imports in total	113.6	79.7	13.7	10.6

Source: NBS calculations based on Statistical Office of the SR data.

total amount of SKK 895.2 billion, which was 11.4% more than in the same period a year earlier (27.1% in USD and 15.5% in EUR).

In the structure of exports by commodity, the share of 'machinery and transport equipment' and 'finished products' decreased in 2004. In the 'machinery and transport equipment' category, a marked decline was recorded in the exports of automobiles and motor vehicle accessories. The automobile industry, which was the driving force behind the growth in exports in 2003, recorded a decline in 2004, mainly as a result of an extended shutdown in the production of automobiles and automobile accessories.

Foreign direct investment still acted as a stimulus to growth in the exports of machines and electrical devices. The year-on-year growth in exports in this category took place in automatic data processing machines, large household appliances, television sets, videophones, illuminating and signalling instruments, bearings, electrical transformers, integrated circuits, neon tubes, cables, etc.

Automobile components include automobile seats, whose exports in 2003 and 2004 followed the trend in the exports of automobiles and automobile accessories. Automobile seats were the main source of decline in furniture exports, which are included in the 'finished products' category. Subdued export activity was also recorded in 'other industrial products', especially in the export of footwear and clothes. In contrast with industrial products, the export of agricultural products increased by almost a third. This increase took place mostly in meat, milk, cocoa, sweets, medicinal herbs, etc.

The volume of goods imported in 2004 totalled SKK 942.2 billion, representing a year-on-year increase of 13.7% (corresponding to 29.8% in USD and 17.9% in EUR).

The dynamics of imports exceeded the dynamics of exports in 2004. Imports recorded a year-on-year increase, which took place in all four basic categories.

Among raw materials, marked increases were recorded in crude oil, black coal, and iron ore imports.

The year-on-year growth in the import of chemical products and semi-finished goods was stimulated by economic growth and developments in oil prices. The year-on-year increase in the import of chemical products was concentrated mainly in inorganic and organic chemicals, plastics in primary form, and rubber compounds. Dynamic growth was also recorded in the import of semi-finished goods. Increased imports in comparison with 2003 in nearly all categories of semi-finished goods (iron and steel, iron and steel products, copper, aluminium, zinc, timber, and paper) indicate that economic growth in 2004 was achieved in an environment of increased demand for material inputs.

In imports, as in exports, the share of machinery and transport equipment decreased slightly in 2004. The slower year-on-year growth in this category in comparison with the overall year-on-year growth in imports, was a result of a modest increase in imports in the automobile industry. On the other hand, above-average year-on-year growth was recorded in the import of machinery and equipment for industry, mainly the metallurgical, printing, chemical, and building materials industries, and in the imports of office machines, machines used in construction, transport, etc. The growth in the imports of machinery and equipment, which may be classified as imports of technological equipment for the individual sectors of the national economy, was connected with the growth in investment demand.

The imports of finished products, which grew at a faster rate than in 2003, was driven by growth in imports in both agricultural (meat, milk, vegetables, fruit, cooking oil, beverages) and industrial products (pharmaceuticals, clothes, footwear, furniture, toys, and sporting goods). In addition to these products, a modest increase in imports was also recorded in automobiles and consumer electronics.

Trade in services during 2004 resulted in a surplus of SKK 8.6 billion. Receipts from the exports of services dropped year-on-year by 0.6% and payments for imported services decreased by 6%.

Receipts from the international transport of goods and persons amounted to SKK 48.1 billion (a year-on-year fall of SKK 3.6 billion) and expenses totalled SKK 32.1 billion (a fall of SKK 0.8 billion). In terms of volume, the largest item in transport services was still income from the transport of natural gas and petroleum, which reached SKK 26.6 billion (55% of the total income from transport). The fall in received transit charges in koruna terms (4.3%) was connected with the appreciation of the Slovak koruna against the US dollar (in dollar terms, transit charges increased by 9.1%).

In international road, railway, and water-borne transport services, as well as in other services directly related to transport, the deficit increased by almost SKK 1.6 billion. The increase in the deficit was mostly generated by increased payments in air passenger services.

The positive balance of foreign tourism diminished year-on-year by SKK 5.7 billion. Foreign exchange receipts from foreign tourism reached SKK 29.1 billion (91.6% of the figure for 2003). The main reason behind the lower receipts from active tourism was a decrease in the average number of nights spent in Slovakia by visitors from abroad, which dropped from 3.6 in 2003 to 3.3 in 2004. Another major factor was the appreciation of the Slovak koruna against the three basic currencies (the Czech koruna, the euro, and the US dollar). With developments in the koruna exchange rate taken into account, the total income increased year-on-year by almost 2%.

Table 21 **Balance of services** **(SKK billions)**

	2004	2003
Balance of services	8.6	8.7
Transport	16.0	18.8
Tourism	5.0	10.7
Other services in total	-12.4	-20.8

Source: NBS.

The expenses of Slovak citizens on travel abroad reached SKK 24.0 billion, which was SKK 3.0 billion more than in 2003. The number of Slovak citizens who travelled abroad increased year-on-year by 11.4%. Foreign tourism among Slovak citizens was stimulated by offers of low-priced trips, the development of cross-border tourism in connection with the appreciation of the koruna against the euro as well as other currencies, and by an increase in the disposable income of households.

Although the balance of ‘other services in total’ (telecommunications, construction, insurance, financial, renting, computer engineering, advertising, business, and technical services, etc.) remained in deficit, the size of the deficit decreased significantly in 2004 (to SKK 12.4 billion, from SKK 20.8 billion in 2003).

Compared with 2003, the exports of these services grew by 14.9%, while imports declined by 4.7%. The growth in exports and decline in imports took place in financial, mediating, and technical services, and in the subsidiaries of foreign companies in the SR. Imports declined to a greater extent than exports in legal, accounting, consulting, and education services, and in royalties and licences. The final balance was negatively affected by developments in insurance, computer engineering, renting, and other business services.

A positive balance, resulting from an excess of receipts from exports over payments for imports, was only recorded in telecommunications services, while construction services, which had been in surplus in previous years, recorded a deficit of SKK 1.1 billion as a result of faster growth in imports than in exports.

In 2004, the income balance resulted in a shortfall of SKK 13.1 billion, representing a deterioration of SKK 8.7 billion in comparison with the previous year. The deterioration was caused by the payment of dividends to foreign investors.

Investment in Slovak equity securities paid foreign direct investors dividends in the amount of SKK 21.1 billion, representing a year-on-year increase of almost SKK 15 billion. The yields of foreign investors from capital invested in the territory of Slovakia (yield from foreign direct investment is calculated as yield on property including interest as a share of the volume of foreign direct investment) reached approximately 3.7%, which represented a marked increase in com-

Table 22 **Capital and financial account of the balance of payments** (SKK billions)

	2004	2003
Capital account	4.5	3.7
Direct investment	41.2	21.3
SR abroad	5.0	-0.5
In the SR	36.2	21.8
Portfolio investment and financial derivatives	29.4	-22.2
SR abroad	-30.7	-30.5
In the SR	60.1	8.3
Other long-term investment	-10.1	-13.0
Assets	-2.5	7.0
Liabilities	-7.6	-20.0
Short-term investment	37.1	74.8
Assets	-1.9	-11.2
Liabilities	39.0	86.0
Capital and financial account in total	102.1	64.6

Source: NBS.

parison with 2003, when the same ratio reached 0.5%. Investment in foreign equity securities paid Slovak investors SKK 0.2 billion in dividends (the same amount as a year earlier).

The balance of income from portfolio investment resulted in a deficit of SKK 1.0 billion, representing an improvement of SKK 3.8 billion in comparison with the figure for 2003. In 2004, the steepest increase took place in income from the reserve assets of the NBS and commercial banks.

The deficit in the balance of other investments improved year-on-year by SKK 1.4 billion. On the income side, which was dominated by interest on short-term loans provided to non-residents by Slovak banks, there were no substantial changes, while on the expenditure side, interest levels on long-term loans in the corporate sector fell as a result of an excess of loans repayment over borrowing.

In 2004, the balance of current transfers resulted in a surplus of SKK 5.5 billion, representing a year-on-year decrease of SKK 3.5 billion. The deterioration in the balance of current transfers was caused by a decline in payments from abroad and an increase in payments abroad, in the form of gifts and transfers, by legal entities.

According to data from the Commission of the European Communities, Slovakia received almost SKK 15 billion from the EU budget in 2004. Of this amount, SKK 11.2 billion belonged to current government transfers. On the other hand, the transfers of own funds to the general budget of the EU amounted to SKK 8.8 billion.

2.2.2. Capital and financial account

The capital and financial account resulted in a surplus of SKK 102.1 billion, which was SKK 37.5 billion more than in the same period a year earlier. The surplus in the capital and financial account as a share of GDP increased, from 5.4% to 7.7%. The structure of financial inflows also changed during the year: the share of short-term capital decreased and that of portfolio investments increased.

The capital account, which comprises foreign assistance of investment nature granted by foreign governments or non-governmental entities and the purchase / sale of patents, licences, and copyrights, resulted in a surplus of SKK 4.5 billion, representing a modest increase in comparison with 2003. A substantial part of this amount was made up of funds that came to Slovakia from the EU budget in the form of grants and were classified as 'investment assistance'.

The upturn in foreign direct investment in comparison with 2003 was mainly connected with the development of other capital. Other capital, which expresses the financial and business relations between foreign investors and domestic companies, recorded an inflow of SKK 15.2 billion in 2004, in contrast to 2003, when an outflow of SKK 11.2 billion was reported.

The inflow of foreign capital into the SR (in net terms) totalled SKK 27.1 billion, which was 24.3% less than the figure for the same period a year earlier. Apart from lower income from privatisation, the decline can be attributed to the purchase of shares issued by domestic entities from foreign investors.

In 2004, however, more funds were invested in industrial production than in 2003. Nearly 80% of the funds was invested in industry, mostly in the manufacture of coke, refined petroleum products, and nuclear fuel; chemicals and chemical products; motor vehicles; and machines and equipment.

In the area of portfolio investment, there was increased demand among domestic portfolio investors for foreign securities throughout the year. The major investors in 2004 comprised domestic banks, which invested mostly in long-term bonds. Non-bank entities also took an active part in trading in foreign securities. Apart from investing in bonds, the corporate sector also made use of the possibility of purchasing equity shares in foreign companies, up to 10%. The outflow of funds for the purchase of foreign investments totalled SKK 30.7 billion.

Foreign investors increased their holdings of domestic debt securities by SKK 60.1 billion. Their structure was dominated by government bonds. Koruna-denominated government securities, which were purchased by foreign investors via brokers in Slovakia, showed considerable volatility over the course of the year. Trading in SKK-denominated government securities ended with an excess of purchases over sales on the part of non-residents, in the amount of SKK 32.5 billion For the portfolios of non-residents, SR Treasury bills were sold in the amount of SKK 6.0 billion.

In 2004, the Government issued eurobonds on foreign markets in the amount of SKK 40.1 billion, while government liabilities arising from the maturity of eurobonds issued in previous years were settled in the amount of SKK 20.0 billion.

Other investments resulted in an inflow of funds from abroad in the amount of SKK 27.0 billion. The reduced inflow in comparison with 2003 took place in the official sector (NBS) and the corporate sector, while the banking sector recorded a much larger capital inflow than a year earlier.

Other long-term investments recorded an outflow of funds in the amount of SKK 10.1 billion. The outflow of long-term capital was mainly caused by an excess of repayments over drawings of financial credits in the corporate sector.

Corporate loans were drawn in the amount of SKK 33.8 billion, which was 40% more than in 2003. The upturn in borrowing in 2004 was mainly connected with the growing interest in employing foreign funds in electricity, gas, and water supply; metal production; trade and business services; financial mediation; and real estate activities. The repayment of financial credits in the corporate sector increased by 26%, to SKK 44.2 billion.

Short-term capital, which showed increased volatility during the year (on both sides of the balance sheet), recorded an inflow of SKK 37.1 billion.

The level of short-term liabilities was affected substantially (an increase of SKK 39.0 billion) by commercial banks (an increase of SKK 66.8 billion), which recorded increased capital inflows, mainly in the form of increases in the deposits of non-residents with commercial banks (58% of the increase in short-term capital in commercial banks took place in foreign currency and 42% in domestic currency).

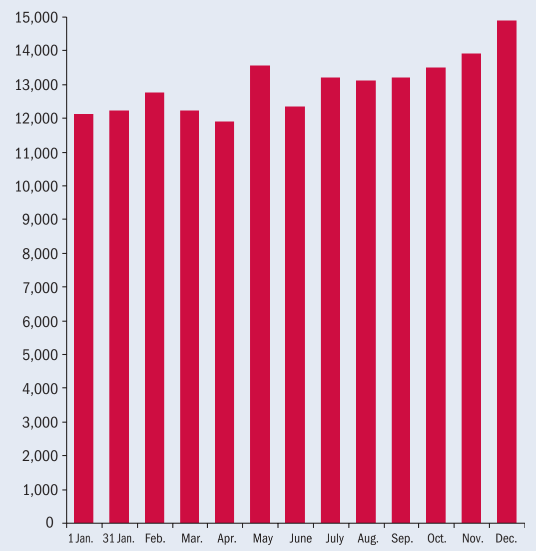
The increase in non-resident deposits at commercial banks operating in Slovakia was, as the increased holdings of Slovak government securities, caused by expectations relating to the appreciation of the Slovak koruna. The increased inflow of such capital caused the Slovak koruna to appreciate by almost 8% during 2004. The marked outflow of short-term capital from the government sector, including the NBS (SKK 28.9 billion), was affected by repo operations conducted within the scope of foreign exchange reserve management by the NBS.

2.2.3. Foreign exchange reserves

At the end of 2004, the foreign exchange reserves of the NBS reached USD 14,913.1 million, representing an increase of USD 2,764.1 million (EUR 2,226.4 million) since the beginning of the year. The total foreign exchange reserves of the NBS were affected by numerous factors during the year. The key factors positively affecting revenues were the borrowing activities of the Government and proceeds from central bank interventions in the market. Expenditures were mainly determined by debt service payments effected on behalf of the Government. The National Bank's foreign exchange reserves were also affected during the year by the exchange rates of fully convertible currencies on international financial markets. The surplus in the balance of revenues and expenditures in 2004 (USD 1,677.1 million) was accompanied by positive exchange rate differentials (USD 1,087.0 million), which resulted from the strengthening of fully convertible currencies (especially the euro) in relation to the US dollar on international financial markets.

The revenue side of foreign exchange reserves was determined in 2004 by the following factors:
– yields from deposits and securities held in the portfolio of the NBS, amounting to USD 282.8 million;
– the drawing of government loans from foreign financial institutions in the amount of USD 1,439.8 million (of which the May issue of eurobonds accounted for USD 1,199.8 million);

Chart 19 **Developments in NBS foreign exchange reserves in 2004 (USD millions)**



Source: NBS.

- revenues from the interventions and direct transactions of the NBS on the interbank foreign exchange market, amounting to USD 2,208.7 million;
- other revenues of the NBS in the amount of USD 601.7 million.

The expenditure side of foreign exchange reserves in 2004 was affected by:
- debt service payments by the Government in the amount of USD 998.1 million, of which the payment of principal and interest on government eurobonds issued in previous years accounted for USD 715.6 million;
- debt service payments by the NBS in the amount of USD 55.9 million;
- other expenditures of the NBS in the amount of USD 856.4 million, incurred mostly in connection with cross-border payments made for NBS clients (USD 834.4 million);
- central bank expenditures, incurred in connection with repo operations (resulting in a negative balance of USD 869.4 million)[4];

At the end of 2004, the foreign exchange reserves of the NBS were 5.5 times greater than the volume of average monthly imports of goods and services to Slovakia in 2004.

The foreign exchange reserves of commercial banks reached USD 1,865.6 million at the end of 2004. The total volume of foreign exchange reserves in the banking sector, including the NBS, stood at USD 16,778.7 million.

2.2.4. External debt of the SR

On 31 December 2004, the total gross external debt of the SR stood at USD 23.718 billion (EUR 17.421 billion), representing an increase of USD 5,627.9 million (EUR 2,952.8 million) compared with the beginning of the year.

Total long-term foreign debt increased by USD 2,962.1 million, while the level of short-term debt also rose during the year. The year-on-year increase in Slovakia's foreign indebtedness (by USD 5,627.9 million) was substantially affected by the EUR/USD cross-rate, which appreciated from 1.250 (1 January 2004) to 1.361 (31 December 2004), i.e. by 8.9%.

Within the scope of long-term liabilities, the year under review saw an increase in the long-term liabilities of the SR Government and the NBS (by USD 2,298.2 million), primarily caused by a bond issue abroad by the SR Ministry of Finance in the amount of EUR 1 billion (USD 1,361.0 million) in May 2004 and a year-on-year increase in the volume of SKK-denominated government bonds held by non-residents (by USD 1,108.3 million). An increase in long-term foreign liabilities (by USD 490.7 million) was also recorded by entrepreneurial entities, as a result of borrowing. In the same period, the long-term foreign liabilities of commercial banks recorded only a modest increase.

Short-term foreign liabilities recorded the steepest year-on-year increase within the commercial sector in commercial banks (USD 2,641.6 million). A substantial part of the increase took place in the 'cash and deposits' item, which was connected with an inflow of short-term capital and led to increases in both foreign exchange and koruna deposits in commercial banks. The other short-term liabilities of commercial banks decreased by USD 433.3 million. The short-term liabilities of entrepreneurial entities increased year-on-year by USD 730.4 million, mainly as a result of trade credits and loans received.

At the end of 2004, Slovakia's per-capita gross foreign debt stood at USD 4,409, compared with USD 3,363 on 1 January 2004. The share of short-term debt in the country's total gross external debt increased slightly over the past twelve months, to 44.05%, from 43.02% on 1 January 2004.

[4] *The fall in foreign exchange reserves caused by repo operations led to a fall in the external debt of the SR. (Repo operations were included in foreign exchange reserves at the request of the ECB). The counterpart for this operation is a change in central bank liabilities.*

Table 23 **External debt**

	In USD millions		In EUR millions	
	31 Dec. 2003	31 Dec. 2004	31 Dec. 2003	31 Dec. 2004
Total external debt of the SR	18,090.2	23,718.0	14,468.3	17,421.1
Long-term external debt	10,308.2	13,270.3	8,244.4	9,747.1
Government and the NBS[1)]	4,347.7	6,645.9	3,477.2	4,881.5
Commercial banks	323.1	496.3	258.4	364.5
Entrepreneurial entities	5,637.4	6,128.1	4,508.7	4,501.1
Short-term external debt	7,782.0	10,447.8	6,223.9	7,674.0
Government and the NBS	915.5	209.3	732.2	153.8
Commercial banks	2,738.6	5,380.2	2,190.3	3,951.8
Entrepreneurial entities	4,127.9	4,858.3	3,301.4	3,568.4
Foreign assets	18,907.5	23,367.5	15,122.0	17,163.3
Net external debt	-817.3	351.1	-653.7	257.9
SKK/USD and SKK/EUR rates	*32.920*	*28.496*	*41.161*	*38.796*
EUR/USD cross exchange rate	–	–	*1.250*	*1.361*

Source: NBS.
1) Including government agencies and municipalities.

2

The net external debt of Slovakia – expressed as the difference between gross foreign debt, i.e. USD 23.718 billion (liabilities of the Government and the NBS, liabilities of commercial banks, and those of the corporate sector – except for capital participation), and foreign assets, i.e. USD 23.368 billion (foreign exchange reserves of the NBS, foreign assets of commercial banks, and those of the corporate sector – except for capital participation), reached USD 351.1 million (debtor position) at the end of December 2004. On 31 December 2003 (and/or 1 January 2004), the Slovak Republic was in creditor position, with net foreign debt amounting to USD 817.3 million.

2.2.5. Licensing activity of the NBS and foreign exchange supervision

The National Bank of Slovakia performs the tasks of a foreign exchange authority arising from Act No. 202/1995 Coll., Foreign Exchange Act, and the tasks arising from Act No. 566/1992 Coll. on the National Bank of Slovakia.

In connection with the liberalisation of the country's foreign exchange regime, the regulation of individual operations on the balance of payments in current and capital accounts through foreign exchange permits (e.g. investment abroad, opening of foreign-currency accounts with foreign banks) has been cancelled with effect from 1 January 2004.

However, foreign exchange regulations still apply to entrepreneurial activities (trade in foreign exchange assets and foreign exchange services), which are connected with operations in Slovak and foreign currency in cash or non-cash form, and with the transaction of foreign exchange operations on the financial market (which are rather risky and are not covered by the law on securities, i.e. financial derivatives). These activities are subject to a foreign exchange licence issued by the National Bank of Slovakia.

Licensing activity

In 2004, the National Bank of Slovakia issued foreign exchange licences as follows:

- 63 licences for the purchase of funds in foreign currency for Slovak currency in cash (to 36 legal entities and 27 natural persons);
- 16 licences for the sale of funds in foreign currency for Slovak currency (to 7 legal entities and 9 natural persons);
- 2 licences for foreign exchange services, consisting in the transfer of funds in cash to and from abroad via a foreign-based supra-national company;
- 3 licences for non-cash transactions in funds.

Foreign exchange supervision

In line with its approved strategy, the National Bank of Slovakia focussed its supervising activity on monitoring compliance with the reporting requirement by all entrepreneurial entities and fulfilment of the conditions and tasks stipulated by foreign exchange regulations and those laid down in foreign exchange licences.

In total, 63 inspections were carried out within the scope of foreign exchange supervision.

2.3. Public sector

State budget

Budgetary performance in 2004 was governed by the State Budget Act (No. 598 of 12 December 2003), in which total revenue for 2004 was budgeted at SKK 232.0 billion and total expenditure at SKK 310.5 billion. The budget deficit was set at SKK 78.5 billion.

Apart from the fundamental reforms (tax reform, reform of regional self-government financing, social reform), which considerably affected the State budget for 2004, the entry of Slovakia into the European Union was also taken into account in the budget design. Transfers to the EU budget were incorporated in the budget expenditure, while a substantial part of the money expected from EU funds was included in both the revenue and expenditure sides of the budget. Of the total budget revenue, budgetary resources from EU funds accounted for SKK 14.2 billion.

Budgetary performance in 2004 resulted in a deficit of SKK 70.3 billion. The deficit remained below the budgeted figure by more than SKK 8 billion, primarily as a result of increased revenues (by SKK 10.5 billion). Budget revenues reached SKK 242.4 billion, fulfilling the budget to 104.5%. On a year-on-year basis, budget revenues increased by SKK 9.3 billion.

The planned level of budget revenue was set with respect to the introduction of a flat tax rate and other changes (a new item deductible from the tax base, modified tax rates, changes in the basis of assessment and the monthly tax bonus for children). Within the structure of revenues, tax revenue exceeded the budgeted level by SKK 14.2 billion. In the year of the tax reform, tax revenue reached SKK 209.5 billion (a year-on-year increase of SKK 9.3 billion) and fulfilled the budget to 107.3%. A significant contribution to the favourable trend in tax collection came from personal and corporate income tax receipts (fulfilling the budget to 135.2%). On a year-on-year basis, tax revenue remained virtually unchanged (an increase of SKK 0.6 billion). Natural persons paid approximately SKK 7 billion more in income tax and thus fulfilled the budget to 135.6%. On a year-on-year basis, tax revenue in 2004 was SKK 6.6 billion lower. A positive impact on income tax receipts was made by the tax reform, which entered into effect on 1 January 2004.

Value added tax revenues in 2004 were affected by numerous legislative changes, which had a one-off impact on the budget (changes in the VAT rates, reduction in the limit for registration, from SKK 3 million to SKK 1.5 million).

During the year, there was some uncertainty in connection with the change in value added tax, since the system of VAT collection was substantially changed after the entry of Slovakia into the Union. The amount of VAT collected exceeded the projected figure by nearly SKK 2 billion (budget fulfilment to 101.9%). One of the reasons behind this positive result was that the predicted one-off shortfall in tax collection as a result of entry into the EU was smaller than expected. On a year-on-year basis, VAT revenue increased by SKK 15.8 billion.

The annual budget was also surpassed by excise duties, which were collected in the amount of SKK 43.4 billion and exceeded the 2003 figure by SKK 5.4 billion.

Non-tax revenues reached SKK 21.1 billion, which was SKK 8 billion more than the figure budgeted for the whole year.

A different situation was recorded in ‘grants and transfers', where the funds received from the European Union's general budget are concentrated. At the end of the year, the volume of these funds was very low, since only SKK 4.5 billion came into the state budget

Table 24 **Planned and actual budgetary performance** **(SKK billions)**

State Budget	2003	2004	Fulfilment in %	Difference
Revenue				
Budgeted	235.4	232.0	98.6	–3.4
Actual	233.1	242.4	104.0	9.3
Fulfilment in %	99.0	104.5	–	–
Expenditure				
Budgeted	291.4	310.5	106.6	19.1
Actual	289.0	312.7	108.2	23.7
Fulfilment in %	99.2	100.7	–	–

Source: Ministry of Finance of the SR.

instead of SKK 14.2 billion, owing to a time delay in transfers from the structural funds. These transfers were so-called ‘special compensation payments’, serving for the elimination of budgetary imbalances after the entry of new countries into the EU. They are not earmarked and thus may be used for the coverage of any expenditure from the State budget.

This fact was also reflected in the expenditure side of the budget, where the funds for the co-financing of EU projects were not withdrawn. Expenditures only slightly exceeded the budgeted level (100.7%).

It may be stated that, in 2004, the budget deficit was kept at the budgeted level, and ended the year at SKK 70.3 billion (SKK 43.9 billion according to the ESA 95 methodology). This represented 89.5% of the projected volume of the annual budget (SKK 78.5 billion). In comparison with the budget, expenditures grew at a slower rate than revenues. The slower growth was partly due to the fact that Slovakia received less funding from the EU budget, as a result of which less money was spent on the co-financing of EU projects. The country’s positive economic results were also supported by the fact that the one-off shortfall in revenues, connected with the entry of Slovakia into the EU, was smaller than expected.

State financial assets and liabilities in 2004

State financial assets underwent numerous changes over the course of 2004, in volume and in particular changes arising from the reform of public finances.

Within the scope of this reform, the powers relating to the management of state financial accounts passed from the NBS to the SR Treasury. The transfer of accounts to the Treasury took place in July 2004.

Compared with the initial level, state financial assets increased at the beginning of 2004 by SKK 8.6 billion (by the end of the year by SKK 16 billion). The increase in the total volume was generated by an increase in state financial assets from the special-purpose funds of the National Property Fund, earmarked for government debt servicing in accordance with Decision No. 974 of the SR Government of 14 October 2003, concerning the State budget for 2004, in which the Government gave permission for the use of National Property Fund assets in the amount of SKK 13.8 billion for the strengthening of state financial assets. This increas e was, however, eliminated by a decrease in the balance on the account of state financial assets obtained from the sale of ČSOB shares (SKK 2.6 billion). During 2004, the other state financial asset accounts recorded only minor changes, which left their overall balance virtually unaffected.

State financial liabilities (liabilities of the State vis-à-vis the NBS) recorded a zero value at the end of 2004.

State funds in 2004

Special tasks, financed in part from the State budget, were performed by two State funds in 2004. In developing and improving the housing fund, the State rendered assistance via the State Housing Development Fund . The State Fund for the Liquidation of Nuclear Power Engineering Facilities and Handling of Spent Fuels and Radioactive Waste accumulated funds for closing down nuclear engineering facilities.

At the end of 2004, the balance of funds in bank accounts, including funds from the previous year, stood at SKK 13.4 billion.

Current budgetary performance resulted in a surplus of SKK 2.5 billion (SKK 5.2 billion according to ESA 95 methodology).

National Property Fund of the SR

In 2004, the budgetary performance of the National Property Fund of the SR NPF resulted in a deficit of SKK 5.1 billion (according to the ESA 95 methodology), representing a slight improvement in comparison with the 2003 budget (by SKK 0.9 billion). On a cash basis, the NPF SR achieved a total surplus of SKK 3.2 billion, of which funds from the previous year accounted for SKK 3.1 billion and income from the sale of shares within the scope of privatisation amounted to SKK 5.4 billion. The latter took place mostly in proceeds from the sale of Paroplynový cyklus, a.s. shares (SKK 2.0 billion) and from the privatisation of the remainder of Slovenská sporiteľňa, a.s. (SKK 2.9 billion). If we exclude these items from the receipts according to ESA 95 methodology, the income of the NPF SR amounted to SKK 11.9 billion, of which SKK 11.5 billion came from dividends (mostly from SPP, a.s. [Slovak Gas Industry]). Expenditures amounted to SKK 17.0 billion, a substantial part of which (SKK 16.3 billion) was incurred in connection with the use of the NPF SR funds in line with the decisions of the SR Government pursuant to Article 28 paragraph 3 letter b/ of Act No. 92/1991 Coll. on the conveyance of state property to other persons, as amended by subsequent regulations. In connection with such use of funds, SKK 13.8 billion was transferred to state financial asset accounts (of which SKK 2.8 billion was earmarked for the realisation of a government guarantee provided for a redistribution loan which was the source of the revolved current assets banking loans)) and SKK 1.8 billion for the repayment of realised government guarantees for bank loans.

Table 25 **Planned and actual budgetary performance in the general government in 2004 (according to the ESA 95 methodology)** **(SKK millions)**

	Budgeted figure	Actual figure	Difference
State budget	-54,370	-56,713	2,343
Veriteľ, a. s.[1]	–	-4,561	4,561
State funds	4,994	5,188	-194
NPF SR	-5,952	-5,078	-874
Slovak Land Fund	-16	159	-175
Slovak Consolidation Agency	-81	7,521	-7,602
Public universities	0	198	-198
Subsidised organisations[1]	–	6,668	-6,668
Municipalities	100	-787	887
Higher territorial units	0	126	-126
Social insurance corporation	3,119	835	2,284
Health insurance corporations	224	2,576	-2,352
General government in total	-51,982	-43,868	-8,114
As a share of GDP (%)	-4.0	-3.3	–

Source: Ministry of Finance of the SR.
1) No entities were included in the general government budget for 2004.

Government guarantees

The provision of government guarantees in 2004 was governed by Act No. 386/2002 Coll. on government debts and government guarantees, according to which government guarantees in a given year may be granted up to the limit of SKK 4.6 billion. This limit was not exceeded in the course of 2004.

Of the NPF SR resources, one government guarantee was realised on behalf of Železnice SR [Slovak Railways] in the amount of SKK 1.8 billion and, within the meaning of government decision No. 139/2004, SKK 2.8 billion was transferred to state financial asset accounts for the realisation of a government guarantee provided for a redistribution loan which was the source of the revolved current assets banking loans.

Relationship between the NBS and the State Budget of the SR

During 2004, interest on funds held on the summary memorandum account of the Slovak Republic maintained by the NBS was paid on a quarterly basis, in accordance with the agreement signed between the Ministry of Finance and the NBS. The interest was credited to the account at a rate corresponding to the sterilisation rate of the NBS, which was modified four times during the year.

Interest accrued on the balance of the summary memorandum account of the Slovak Republic kept with the NBS reached SKK 295.6 million during the year, and interest paid on time deposits totalled SKK 3,509 million, of which SKK 3,165 million was in interest on a special account, in which funds obtained from the privatisation of SPP (earmarked for the pension reform) were held. The interest accrued on this account was capitalised, i.e. credited to the principal.

The amount of interest paid to the Ministry of Finance SR by the NBS was almost 25% smaller than a year earlier, due to the gradual shift of clients from the NBS to the SR Treasury and accompanied by a fall in interest rates.

In the State budget for 2004, income from the transfer of the remaining profit of the NBS was not budgeted, and since the NBS ended the previous year with a loss, no transfer was made to the State budget (the last profit transfer from the NBS took place in 2001).

Budgetary performance in public finances according to the ESA 95 methodology

In 2004, budgetary performance in the general government (according to the ESA 95 methodology) resulted in a deficit of SKK 43.9 billion, which represented 3.3% of the GDP (according to the March EDP notification on the deficit and debt in 2004). The achievemen t of more favourable results than was projected in the public budget for 2004 (4.0% of the GDP) is in line with the medium-term goal of consolidation in public finances, which is aimed at meeting the 3% criterion for the public sector deficit by 2007 (taking into account the costs of the second pillar of the new pension system). The deficit was mainly a result of the budgetary performance of the central government (a deficit of SKK 50.9 billion), where the State budget resulted in a shortfall of SKK 56.7 billion. A deficit in budgetary performance was also produced by Veriteľ, a.s. (SKK 4.6 billion) and the National Property Fund (SKK 5.1 billion). Within the central government, positive results were achieved by State funds, i.e. the State Housing Development Fund and the State Fund for the Liquidation of Nuclear Power Engineering Facilities and Handling of Spent Fuels and Radioactive Waste (SKK 3.1 billion and SKK 2.1 billion respectively); Slovak Consolidation Agency, j.s.c. (SKK 7.5 billion); subsidised state organisations (SKK 2.4 billion); the Slovak Land Fund (SKK 0.2 billion); and public universities (SKK 0.2 billion).

Social security funds closed the year with surplus totalling SKK 3.4 billion. The budgetary performance of local governments resulted in surplus amounting to SKK 3.6 billion (this was positively affected by a capital transfer from Veriteľ, a.s. in the amount of SKK 6.1 billion, resulting from the remission of receivables).

At the end of 2004, gross public debt stood at SKK 578.1 billion (43.6% of GDP), representing an increase of SKK 66.3 billion. The increase was attributable to the general government deficit (SKK 43.9 billion) and the ruling of the court in the case of a dispute with ČSOB, as a result of which the debt increased by SKK 25.2 billion. A substantial part of the public debt was formed by state debt amounting to SKK 563.4 billion.

2.4. Monetary policy and monetary developments

In 2004, the NBS implemented its monetary policy in an environment characterised by continuing economic growth, falling inflation and unemployment rates, appreciation in the exchange rate of the Slovak koruna against the reference currency (euro), and by favourable balance of trade developments in comparison with 2003.

2.4.1. Monetary aggregates

At the end of 2004, the M2 money supply (at fixed 1993 exchange rates) increased in comparison with the beginning of the year by SKK 54.4 billion, to SKK 779.9 billion. The year-end dynamics of M2 growth accelerated in comparison with the previous years to 7.5% (from 6.4% in 2003 and 4.7% in 2002), whereas its annual average (5.2%) was 2.1 percentage points lower than in 2003 (7.3%). At current exchange rates, the M2 money supply increased by SKK 46.8 billion, to SKK 785.4 billion, representing a year-end growth rate of 6.3% (compared with 4.8% a year earlier).

The money supply was rather volatile, especially in the first half of 2004, before returning to its standard seasonal course during the next months. The main factors that affected the volatility of the money supply in the first six months were the March deadline for the payment of personal and corporate income tax for the fiscal year 2003, with the effect of income tax payment being concentrated in a single period (owing to the cancellation of the possibility of postponing the deadline for tax payment for tax payers whose tax returns are prepared by tax advisors), as well as the payment of dividends of the corporate sector, the volume of which reached a higher level than in 2003. In December, the M2 money supply recorded a steeper increase than in the previous two years, which was probably connected with an increase in spending in the public sector.

With net foreign assets being relatively stable, the growth in the money supply in 2004 was predominantly affected by domestic factors, first and foremost by the continued interest among companies and households in loans and by the release of funds from the public sector towards the end of the year.

The volume of loans to enterprises and households (at fixed 1993 exchange rates) grew in comparison with the beginning of the year by SKK 28.1 billion, i.e. 7.7% (compared with 14.1% a year earlier), to SKK 394.9 billion at the end of 2004. The growth took place mostly in foreign-currency loans, which increased by

Table 26 **Developments in the M2 money supply**

	Volume at 31 December	Change since the beginning of the year	
	SKK billions	SKK billions	%
Year 2004			
– at current exchange rates	785.4	46.8	6.3
– at fixed 1993 exchange rates	779.9	54.4	7.5
Year 2003			
– at current exchange rates	742.6	34.1	4.8
– at fixed 1993 exchange rates	730.0	43.6	6.4

Source: NBS.

a total of SKK 18.1 billion (in contrast to 2003, when the increase took place predominantly in koruna loans). Koruna loans grew by a total of SKK 10.0 billion, when the increase in loans to households (SKK 31.6 billion) exceeded the decline in loans to enterprises (SKK 21.6 billion).

The volume of koruna loans to enterprises decreased in 2004, mainly due to the realisation of a government guarantee for a loan provided to a state company in January (as a result of which the loan was reclassified as a government sector liability) and the repayment of loans from funds obtained from bond issues.[5] The decrease in the volume of koruna loans to enterprises was also connected with the increased drawing of loans in foreign currency, mainly by companies. Demand for foreign-currency loans in 2004 was stimulated by the appreciating trend in the exchange rate of the Slovak koruna against the euro. Koruna loans to households showed a growing tendency throughout 2004 and the total increase in their volume exceeded the 2003 increase by SKK 8.0 billion.

Net credit to the general government (including the FNM, at fixed 1993 exchange rates) reached SKK 342.2 billion at the end of 2004, representing an increase of SKK 45.1 billion in comparison with the beginning of the year. This development was not affected by the change in the creditor position of the FNM vis-à-vis the banking sector. At the end of 2004, the level of net credit to the general government (excluding the effect of the FNM) stood at SKK 345.4 billion.

Within the structure of net credit to the general government, the share of foreign debt increased, as a result of improved conditions for the acquisition of funds for the coverage of government debt on foreign markets. The increase in foreign debt was affected mainly by issue of eurobonds in May 2004 in the amount of EUR 1 billion with a maturity of 10 years, of which EUR 500 million was used in June 2004 for the repayment of a eurobond issue from 1999. The second part of the eurobond issue was used for the needs of domestic debt service.

The increase in the internal debt position of the general government was largely connected with the deficit in the current budgetary performance of the central government (the central government deficit reached SKK 70.3 billion at the end of December 2004) and partly with an increase in the credit commitment of public sector entities to commercial banks. The pro-growth effect of these factors on the internal debt was partly offset by an increase in state financial assets and the deposits of non-budgetary funds of public sector entities at commercial banks. Pressure for a reduction in the internal debt position was also exerted by an improvement in the budgetary performance of social security funds and the net position of local self-governments.

Another factor that lessened the pro-growth effect of the deficit on the level of net credit to the general government was the incurrence of expenses in December within the current budgetary performance of the central government, while current expenses were in part cleared in 2004, but funds for their actual realisation in 2005 remained deposited in the accounts of the State Treasury.

2.4.2. Structure of the money supply

In 2004, the M2 money supply (at fixed 1993 exchange rates) increased by SKK 54.4 billion, to SKK 779.9 billion at the end of December. The rate of money supply growth showed a decreasing tendency until May 2004 and then accelerated in the next months. The year-on-year dynamics of M2 increased from 6.4% in December 2003 to 7.5% in December 2004. The average annual rate of growth slowed to 5.2% in 2004, from 8.4% in 2002 and 7.3% in 2003.

The volume of currency in circulation outside banks grew by SKK 8.7 billion in 2004, while the year-on-year rate of growth accelerated, from 9.0% in December 2003 to 9.5% in December 2004. The year-on-year dynamics of currency in circulation decelerated in February, but then followed an increasing trend during the year. The average annual growth rate slowed to 6.8%, from 9.7% in 2003 and 14.5% in 2002.

Slovak-koruna deposits (demand and time deposits in total) grew by SKK 42 billion from the beginning of the year, and their year-on-year growth dynamics weakened from 8.0% in December 2003 to 7.6% in December 2004. The year-on-year rate of growth in demand deposits accelerated during the year by 1.4 percentage points (to 14.8% in December 2004), while the dynamics of time deposits diminished by 1.4 percentage points (to 4%). The increase in koruna deposits took place in corporate deposits, which was connected with the accelerated economic growth, accompanied by a year-on-year increase in the profits of non-financial corporations (SKK 37.6 billion). Household deposits in SKK recorded an average year-on-year decrease of 2.4% during the year, but, owing to a modest increase in dynamics in December, ended the year above the level recorded at the beginning of the year.

Development in koruna deposits in 2004 continued to be affected by a preference for short-term and

[5] *If we exclude the stated methodological and non-transaction effects, the year-on-year rate of growth in loans to enterprises and households (at fixed 1993 exchange rates) will reach 10.5% at the end of 2004.*

Table 27 **Developments in deposits**

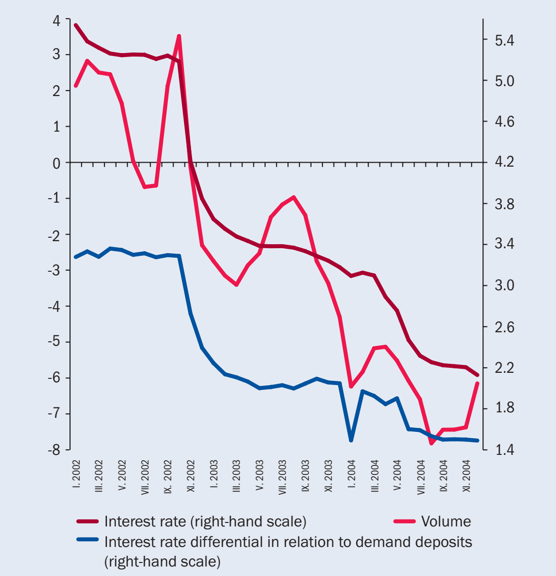
	Year-on-year change in %				Year-on-year change in SKK billions			
	2001	**2002**	**2003**	**2004**	**2001**	**2002**	**2003**	**2004**
At fixed 1993 exchange rates								
Household deposits	7.8	1.4	-2.8	-1.2	26.7	5.1	-10.7	-4.3
Koruna deposits in total	6.3	0.0	-0.6	0.1	19.1	0.1	-1.9	0.3
demand deposits	24.3	8.9	12.0	18.3	13.1	6.0	8.9	14.9
time deposits	2.4	-2.3	-4.3	-6.1	6.0	-5.9	-10.8	-14.6
Foreign-currency deposits	19.0	10.2	-15.8	-10.0	7.6	5.0	-8.8	-4.6
Corporate deposits	16.8	11.1	21.1	18.6	28.4	22.0	46.7	50.0
Koruna deposits in total	19.7	10.6	22.4	17.6	28.1	18.1	43.1	41.7
demand deposits	21.5	10.4	14.6	12.0	14.2	8.4	13.0	12.3
time deposits	18.3	10.8	29.2	21.9	13.9	9.7	30.1	29.4
of which: insurance cos.	9.1	-22.4	-3.0	65.0	1.9	-5.1	-0.5	10.6
Foreign-currency deposits	1.1	14.2	12.4	25.5	0.3	3.9	3.6	8.3
At current exchange rates								
Household deposits	8.2	0.1	-4.5	-2.5	29.6	0.2	-17.8	-9.2
of which: in foreign currency	18.5	0.1	-22.7	-17.6	10.5	0.1	-15.9	-9.5
Corporate deposits	15.8	9.5	19.3	17.3	28.4	19.7	44.3	47.3
of which: in foreign currency	0.8	4.0	3.3	14.8	0.3	1.5	1.2	5.6

Source: NBS.

demand deposits in the individual sectors of the economy. This trend was primarily apparent in corporate deposits, where demand and short-term deposits with a maturity of up to one month accounted for approximately 93%. Demand deposits increased by SKK 12.3 billion (in the previous year by SKK 13.0 billion), time deposits with a maturity of up to one month grew by SKK 31.8 billion (in the previous year by SKK 38.6 billion), while other time deposits fell in volume by SKK 2.4 billion (in the previous year by SKK 8.5 billion). The second half of 2004 saw a marked increase in the deposits of insurance companies, which had previously been relatively stable in terms of volume. The interest rate differential between demand and time deposits in the corporate sector diminished by 1.1 percentage points (to 2.6 points), as a result of a steeper fall in the average rate for time deposits (by 1.8 percentage points) than in the rate for demand deposits (falling by 0.7 percentage point).

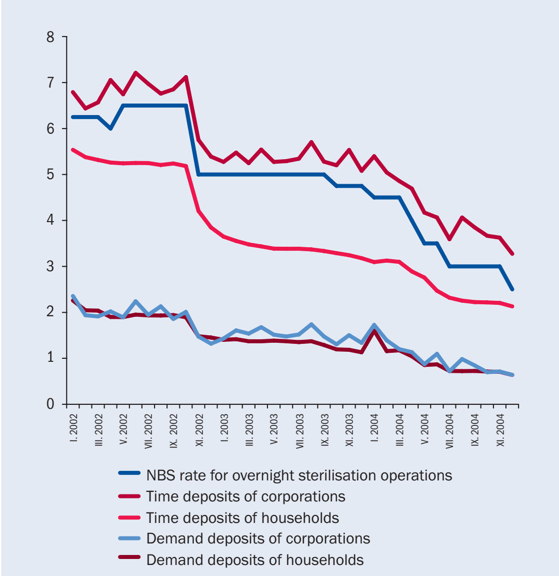
Household deposits were also characterised by a persistent preference for highly liquid resources. The share of demand deposits in total household deposits in SKK increased year-on-year by 4.6 percentage points (to 30.2%), when demand deposits grew in volume by SKK 14.9 billion (in the previous year by SKK 8.9 billion). The rapid increase in demand deposits was probably connected with the growth in the disposable income of households. Time deposits declined in 2004 by SKK 4.3 billion (in the previous year by SKK 2.6 billion) and savings deposits by SKK 10.3 billion (in the previous year by SKK 8.2 billion). Time deposits with a maturity of up to one month decreased by SKK 7 billion, while other time deposits increased slightly. Within the structure of savings deposits, short-term deposits fell in volume by SKK 8.6 billion and long-term deposits with a maturity of 1 to 5 years fell by SKK 4.2 billion. Long-term savings deposits with a maturity of over 5 years recorded an increase of SKK 2.6 billion, due to an increase in deposits at home savings banks. Interest in time deposits as a form of savings is influenced primarily by the rate of interest offered, which, together with the diminishing interest rate differential between time and demand deposits, tended to reduce the relative yield on holdings of less liquid assets. Developments in time deposits in the household sector were also connected with the fall in the savings ratio of households, their growing propensity to consumption, and the transfer of long-term financial assets. This is also documented by the growing popularity of mutual funds: the net sales of open-end mutual funds operating on the Slovak financial market reached SKK 27.5 billion in 2004, of which SKK 26.7 billion was invested in koruna-denominated funds. The interest rate differential between demand and time deposit rates for

Chart 20 **Year-on-year developments in fixed-term household deposits** (%)



Source: NBS.

Chart 21 **Comparison of interest rates on household and corporate deposits** (%)



Source: NBS.

households diminished by 0.6 percentage point (to 1.5 percentage points) as a result of a greater fall in interest rates on time deposits (by 1.1 percentage points) than in demand deposit rates (by 0.5 percentage point).

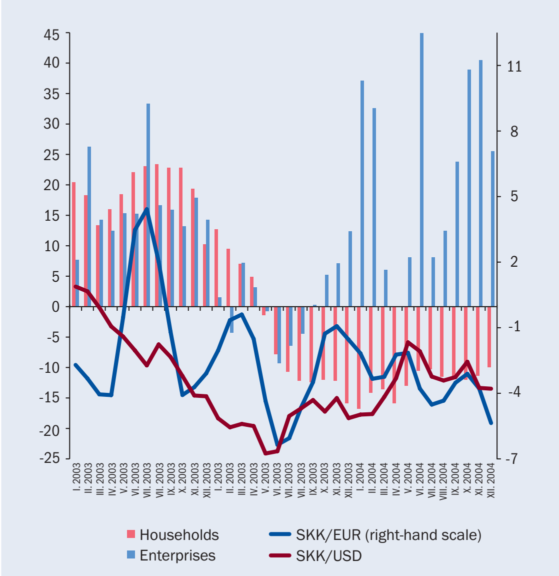
If we compare the rates of interest on household and corporate deposits in SKK, both demand and time deposits showed smaller differences in interest levels in 2004, as a result of a greater fall in interest rates on corporate deposits than on household deposits. In the case of time deposits, the difference between corporate and household deposit rates diminished by 0.8 percentage point, to 1.1 percentage points (the previous year saw a difference of 1.9 percentage points). The difference between interest rates on corporate and household demand deposits diminished to a minimum during the year, while the more volatile corporate deposit rates were somewhat higher in the second and third quarters.

Deposits in foreign currency (at fixed 1993 exchange rates) grew in volume by SKK 3.7 billion in 2004, after declining in 2003 by SKK 5.2 billion. The growth took place in corporate deposits (SKK 8.3 billion), while household deposits fell by SKK 4.6 billion. The year-on-year rate of decline in household deposits in foreign currency slowed in 2004, while the growth dynamics of corporate deposits increased.

With the changes in exchange rates in 2004 (an appreciation of 5.75% against the euro and 13.44% against the US dollar) taken into account, deposits in foreign currency fell in volume by SKK 3.9 billion (at current exchange rates), when household deposits declined by SKK 9.5 billion. At the same time, corporate deposits increased by SKK 5.6 billion.

If we compare the trends in foreign-currency deposits, it is apparent that the strongest reaction to the appreciation of the Slovak koruna (in the form of a reduction in the holdings of deposits in foreign currency) was produced in the household sector. This was connected with the fact that enterprises maintain foreign-cur-

Chart 22 **Year-on-year developments in household and corporate deposits, SKK/EUR and SKK/USD exchange rates** (%)



Source: NBS.
(+) depreciation (-) appreciation

rency deposits primarily for financing their trading activities. This factor became even more pronounced in 2004, after the entry of Slovakia into the EU. In the household sector, foreign-currency deposits were used as savings. The koruna value of assets denominated in foreign currency was reduced by the appreciation of the Slovak koruna. This was eliminated in the household sector through the conversion of such assets into domestic assets.

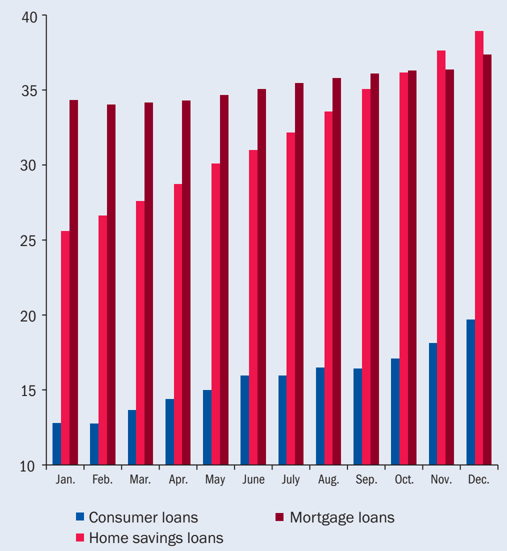
2.4.3. Lending activities

Loans in total (in Slovak koruna and foreign currency, at current exchange rates), provided to enterprises, households, and public sector, are loans reported by the banking sector according to the rules of statistical reporting. From a procedural point of view, they are not to be confused with loans to enterprises and households according to the methodology of the monetary survey, which does not include the government sector.

The volume of loans increased over the course of 2004 by SKK 36.9 billion (8.9%), with koruna loans growing by SKK 17.9 billion (5.4%) and loans in foreign currency by SKK 19.0 billion (23.2%). At the end of the year, the total volume of loans reached SKK 449.3 billion, of which koruna loans accounted for SKK 348.6 billion and loans in foreign currency SKK 100.7 billion. In 2003, total loans increased by SKK 49.7 billion (14.1%), of which koruna loans grew by SKK 27.5 billion (9.4%) and foreign-currency loans by SKK 22.2 billion (37.2%).

Bank lending to enterprises in 2004 was characterised by a continuing dynamic growth in foreign-currency loans and a decline in koruna loans. Despite the diminishing interest rate differential, loans in foreign currency represented a attractive form of financing for entrepreneurs, partly due to the appreciating tendency of the Slovak koruna and the expectation that this appreciation will continue. The marked decline in koruna loans to enterprises in comparison with the beginning of the year (by SKK 21.1 billion, i.e. 9.6%) was connected with a decrease in classified loans (by SKK 24.6 billion, i.e. 37.5% year-on-year), especially in long-term standard special-mention loans (by SKK 15.7 billion). This development was connected with the sale of classified loans outside the banking sector and probably the improving ability of banks to recover non-performing loans, and with the restructuring of debts in certain companies and their financing through the capital market. Loans for current assets also recorded a marked fall (SKK 9.0 billion). A positive development was the relatively steep increase in investment loans (by SKK 12.3

Chart 23 **Developments in selected types of loans to households in 2004 (SKK billions)**



Source: NBS.

billion), which contributed to the financing of the growing investment demand. Growth in koruna loans to enterprises was also stimulated by current account overdrafts, which increased in comparison with the beginning of the year by SKK 7.5 billion.

Developments in koruna loans were most significantly influenced by the household sector, where loans increased by SKK 31.6 billion (a year-on-year increase of 37.2%). The most dynamic growth was recorded in consumer loans and housing loans (a year-on-year increase of 31.1%, i.e. SKK 24.2 billion), of which SKK 14.3 billion took place in mortgage loans (a year-on-year increase of 57.6%). Increased demand for such loans was mainly recorded in the second half of the year (the average monthly growth in mortgage loans increased, from approximately SKK 1 billion in the 1st half of 2004 to SKK 1.3 billion in the 2nd half of 2004). The orientation of banks to the household sector was also reflected in consumer loans, which grew in volume by roughly SKK 7 billion in 2004.[6]

In a breakdown by sector, developments in koruna loans in 2004 were mainly affected by an increase in other sectors, including the household sector (SKK 37.5 billion, i.e. 49.8% of the total volume of loans) and a marked decrease in loans in electricity, gas, and water supply (SKK 13.8 billion, i.e. 5.8% of the total). A marked decline in loans was reported from manufacturing (SKK 8.7 billion, i.e. a share of 11.6%), mainly as a result of a decrease in the volume of loans in metallurgy and machine engineering (SKK 6.2 billion). A slight fall in koruna loans was

[6] *The 'consumer loans' category started to be monitored in January 2004.*

Table 28 **Structure of loans in SKK and foreign currency by term (December 2004)**

	Loans in Slovak koruna		Loans in foreign currency		Loans in total	
	Change against 1 Jan. 2004 (SKK billion)	Share (%)	Change against 1 Jan. 2004 (SKK billion)	Share (%)	Change against 1 Jan. 2004 (SKK billion)	Share (%)
Short-term loans	11.1	31.9	4.0	34.2	15.1	32.4
Medium-term loans	-3.8	27.5	2.5	28.1	-1.3	27.6
Long-term loans	10.6	40.6	12.5	37.7	23.0	40.0
Loans in total	17.9	100.0	19.0	100.0	36.8	100.0

Source: NBS.

also recorded in the 'transport, storage, post and telecommunications' sector (SKK 5.5 billion, i.e. a share of 5.2%). A modest pro-growth effect was exerted by loans to the trade, repair of consumer goods and motor vehicles, and hotels and restaurants segments (an increase of SKK 4.1 billion, i.e. a share of 12.8%).

Within the time structure of koruna loan, short-term loans increased in comparison with the beginning of the year by SKK 11.1 billion and long-term loans by SKK 10.6 billion. Of the total volume of koruna loans at the end of the year, loans to the entrepreneurial sector accounted for 57%, loans to households 33%, loans to the general government 9%, and the remaining 1% being 'other loans' and 'loans to non-profit institutions serving households'.

Loans in foreign currency increased for all maturities, with the steepest increase being recorded in long-term loans (SKK 12.5 billion). Of the total volume of foreign-currency loans, loans to the entrepreneurial sector accounted for 82%, loans to non-residents 11%, and loans to the public sector 6%. The share of foreign-currency loans to households and non-profit institutions serving households was negligible.

2.4.4. Interest rate developments

The level of customer interest rates in 2004 was affected by the decisions of the Bank Board to lower the key interest rates of the NBS (in December 2003, March 2004, April 2004, and July 2004), by 1.75 percentage points in cumulative terms. The impact of another key interest rate cut from the end of November 2004 (by 0.50 point) is expected to be reflected in customer interest rates with a certain delay, in the first months of 2005. However, the reductions in the key NBS rates affected the course of customer interest rates differently. Interest rates on loans to enterprises dropped, while lending rates for households mostly increased. Interest rates on corporate deposits fell to a greater extent than the rates for household deposits.

The methodology applied for calculating the rate of interest for current account overdrafts was changed, with effect from the beginning of 2004. The change consisted in the introduction of the method of cumulative debit turnovers, which caused an increase in the volume of current account overdrafts. Thus, the share of current account overdrafts in loans increased and affected the average level of interest rates. At the same time, the applied method increases the volatility of interest rates in the individual months, mainly as a result of fluctuation in the volume of unauthorised debit balance overdrafts on current accounts.

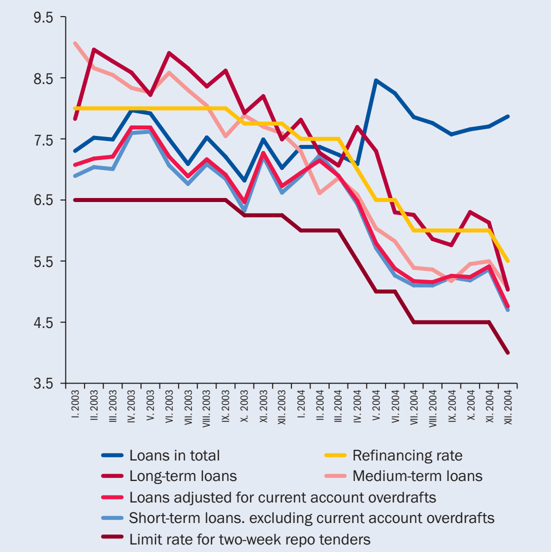
Average interest rates on new loans

The average interest rate in new loans to enterprises (excluding loans at zero interest rate) increased year-on-year by 0.84 percentage point in 2004. If we exclude the impact of current account overdrafts, interest rates on new loans to enterprises recorded a marked fall (1.97 percentage points) and followed the course of the key NBS rates. The marked drop occurred in the price of short-term loans, which have a large share in the total volume of new loans (approximately 91%). Interest rates on long-term loans also fell to a significant extent, but had no marked effect on the overall interest level (owing to the small proportion of long-term loans).

In a breakdown by purpose, interest rates fell most significantly for other loans (by 2.19 percentage points) and investment loans (by 2.79 percentage points). On the other hand, the rates for current account overdrafts rose by 2.84 percentage points (mainly as a result of a change in methodology).

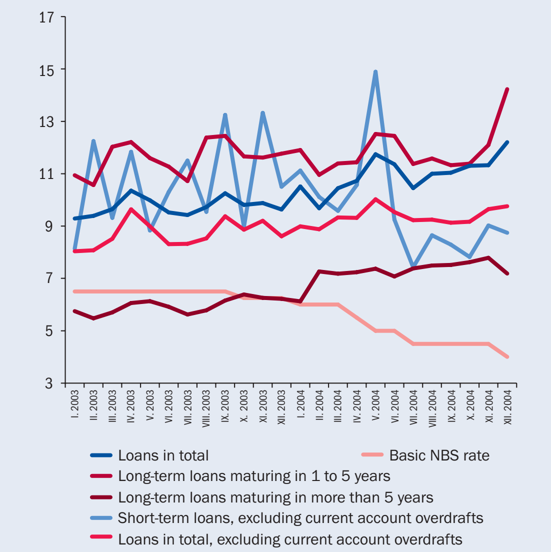
The average interest rate on new loans to households (excluding loans at zero interest rate) showed a slightly increasing tendency in 2004. This development was characterised by a rise in interest rates on short-term loans (affected markedly by a change in the methodology of reporting the rates of interest on current account overdrafts) and long-term loans with

Chart 24 **Developments in interest rates on new loans to enterprises** (%)



Source: NBS.

Chart 25 **Interest rates on new loans to households, excluding zero-rate loans** (%)



Source: NBS.

a maturity of over 5 years. The level of interest rates on long-term loans with a maturity of 1 to 5 years remained virtually unchanged. The average interest rate on the total volume of new loans to households (excluding current account overdrafts) rose by 1.14 percentage points.

New loans to households in total were dominated by long-term loans with a maturity of over 5 years (36%) and short-term loans (35%), with long-term loans with a maturity of 1 to 5 years accounting for 29%. During the year, however, the share of loans with longer maturities increased significantly, which was caused by an upward trend in housing loans.

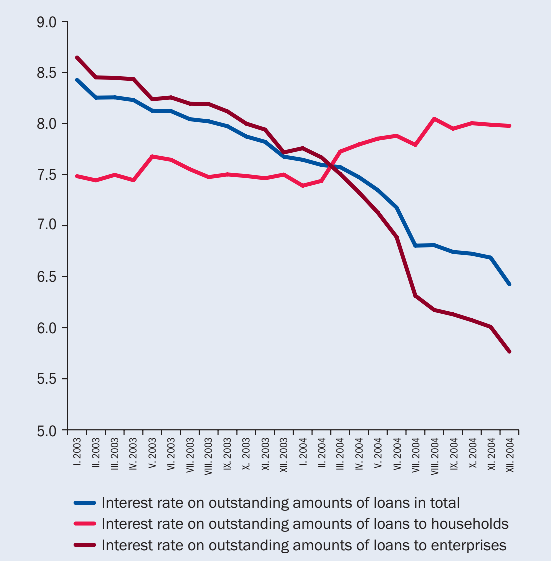
In a breakdown by purpose (with a major impact on interest levels), interest rates on housing loans rose in 2004 by 0.54 percentage point and the interest rate for current account overdrafts increased by 4.78 points (mainly as a result of a change in methodology). Within the scope of housing loans, the steepest increase occurred in interest rates on mortgage loans with a state premium and a moderate rise was recorded in the price of building loans and intermediate loans. The increase in interest rates on mortgage loans was probably affected by the reduction in the level of government support, since interest rates on mortgage loans without a state premium were on the decline during the year.

On the other hand, interest rate on consumer loans fell somewhat during the year (from 14.32% in January to 14.02% in December). Interest rates on consumer loans showed different tendencies, depending on the maturity of the loan. While interest rates on short-term loans and long-term loans with a maturity of 1 to 5 years rose during the year, the price of long-term loans with a maturity of over 5 years dropped.

Average interest rates on outstanding amounts of loans

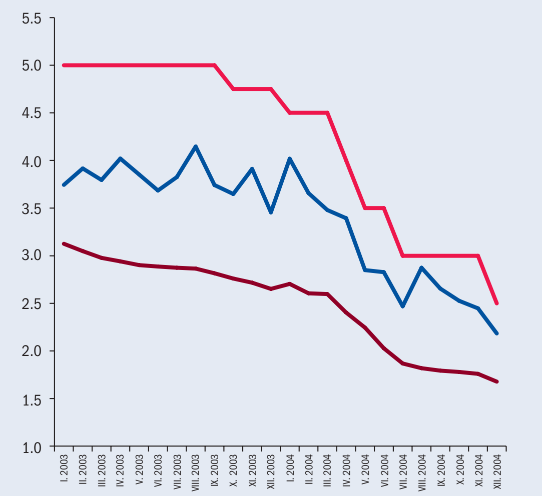
Developments in average interest rates on outstanding amounts of loans in 2004 were characterised by a fall throughout the year, in line with the trend

Chart 26 **Interest rates on outstanding amounts of loans to enterprises and households** (%)



Source: NBS.

Chart 27 **Developments in interest rates on household and corporate deposits** (%)



Source: NBS.

Chart 28 **Developments in real interest rates** (%)

Source: NBS.

from the previous year. Interest levels dropped by 1.08 percentage points, primarily as a result of a fall in interest rates on loans to enterprises. The opposite trend was recorded in interest rates on outstanding amounts of loans to households (a rise of 0.47 point).

The average interest rate on outstanding amounts of loans to enterprises fell year-on-year by 1.95 percentage points in December 2004, with drops being recorded in the prices of all maturities. The sharpest fall was recorded in the rate of interest on outstanding amounts of long-term loans to enterprises (2.13 percentage points). Since loans to enterprises were dominated by short-term loans, the overall interest rate on outstanding amounts of loans to enterprises was mainly determined by the rate for short-term loans (falling by 1.82 percentage points).

In a breakdown by purpose, the sharpest drops were recorded in interest rates on other loans (2.11 points), current account overdrafts (2.04 points) and investment loans (1.71 points).

The interest rate on outstanding amounts of loans to households continued to show a slightly increasing tendency in 2004, owing to a rise in the price of loans with all maturities, with the steepest increase occurring in rates for long-term loans with a maturity of 1 to 5 years.

Interest rates on long-term loans to household were also affected by the reduction in the state premium (by drawing mortgage loans), which was followed by a rise in interestrates.

Average interest rates on deposits

Average interest rates on deposits showed a tendency to fall over the course of 2004, as a result of the cuts in key NBS rates. The decisions of the NBS to change its key interest rates were immediately transferred by the banking sector into customer deposits rates. Interest rates on corporate deposits remained higher than the rates on household deposits, though this difference diminished during the year as a result of a steeper fall in corporate deposit rates than in rates on household deposits.

On a year-on-year basis, interest rates on corporate deposits dropped by 1.27 percentage points in December, to 2.18%. Interest rates fell for demand deposits (by 0.70 of a percentage point, to 0.64%), time deposits (by 1.81 points, to 3.28%), and for savings deposits (by 1.13 points, to 2.06%).

Within the structure of deposits by term, the sharpest drops occurred in interest rates on short- term corporate deposits and long-term corporate deposits (from 1 to 5 years), while the rate for long-term deposits (over 5 years) fell only slightly.

The average interest rate on household deposits dropped year-on-year by 0.97 of a percentage point, to 1.68% in December 2004, with the rate for demand deposits falling by 0.49 of a point (to 0.64%), that for time deposits by 1.33 points (to 2.18%), and the rate for savings deposits by 0.69 of a point (to 2.05%).

Within the structure of deposits by term, interest rates were most significantly reduced for short-term time deposits and long-term (1 to 5 years) savings deposits for households.

Real interest rates

If the rate of interest on the volume of outstanding one-year deposits is deflated by core and/or net inflation, the value of the real interest rate for December 2004 becomes positive (1.19%) and/or negative (0.09%) respectively. On a year-on-year basis, the real interest rates rose by 0.45 of a percentage point and/or fell by 0.73 of a point. This development was affected by a sharper fall in core inflation than in one-year deposit rates and, on the other hand, by a smaller drop in net inflation than in one-year deposit rates.

2.4.5. Monetary policy instruments

Interest rate policy

Basic interest rate of the NBS [7](the rate for two-week repo tenders):

from	22 December 2003	6.00%
from	29 March 2004	5.50%
from	29 April 2004	5.00%
from	1 July 2004	4.50%
from	29 November 2004	4.00%

Interest rate for overnight refinancing operations:

from	22 December 2003	7.50%
from	29 March 2004	7.00%
from	29 April 2004	6.50%
from	1 July 2004	6.00%
from	29 November 2004	5.50%

Interest rate for overnight sterilisation operations:

from	22 December 2003	4.50%
from	29 March 2004	4.00%
from	29 April 2004	3.50%
from	1 July 2004	3.00%
from	29 November 2004	2.50%

Monetary policy instruments of the NBS

Open market operations

a) *Main instrument – standard repo tender with a maturity of two weeks*
The NBS conducts standard repo tenders with commercial banks regularly on a weekly basis, usually on Tuesdays. The NBS also sets an interest rate for such operations (basic interest rate).
b) *Instrument for longer-term liquidity control – issue of 84-day NBS bills for the portfolios of commercial banks*
The NBS conducts auctions in NBS treasury bills generally once a month, by using the American auction technique.
c) *Fine–tuning instrument – quick tender*
An instrument of the NBS for fine-tuning the liquidity of commercial banks on an ad hoc basis. This instrument was not used in 2004.
d) *Structural operations – individual transactions*
An instrument of the NBS enabling a direct purchase or sale of government securities and NBS bills for and from the NBS portfolio. This instrument was not used in 2004.
e) *Foreign exchange swaps*
An instrument for fine-tuning of the liquidity in the koruna area on a temporary basis, through forward exchange transactions. This instrument was not used in 2004.

Automatic operations (standing facilities)

a) *Overnight refinancing operations*
Commercial banks have automatic access to sources of finance (provided they have sufficient amount of acceptable securities), at the rate of interest announced.
b) *Overnight sterilisation operations*
Commercial banks are allowed to deposit excess funds in the form of non-collateralised deposits, at the rate of interest announced.

Other instruments

a) *Redistribution loans*
– Traditional: interest rate = NBS basic interest rate + 0.5% (applied only till December 2004);
– Advantaget loan: interest rate = NBS basic interest rate – 2% + 0.5%.
b) *Short-term loans*
To maintain a bank's liquidity, the NBS may, in exceptional cases, provide a short-term loan to the bank concerned. Such a loan was not provided in 2004.

Minimum reserve requirements

With effect from 1 January 2004, commercial banks, branches of foreign banks, building societies, and

[7] On 12 December 2002, the Bank Board of the NBS decided to set a basic NBS interest rate with effect from 1 January 2003. The basic interest rate of the NBS is identical with the limit rate for standard two-week NBS repo tenders. The term 'discount rate of the National Bank of Slovakia', or 'discount rate of the State Bank of Czecho-Slovakia', used in generally binding legal regulations, corresponds to the basic interest rate of the National Bank of Slovakia.

Table 29 **Currency structure of receipts and payments in foreign currency**

	2001	2002	2003	2004
Total turnover (in billions of SKK)	1,277.9	1,385.6	1,536.8	1,657.5
of which: Euro (including former EMU currencies)	61.3%	63.7%	69.8%	70.2%
Czech koruna	8.7%	9.3%	7.8%	7.5%
American dollar	26.4%	23.2%	19.0%	18.8%
Other currencies[1)]	3.6%	3.8%	3.3%	3.6%
Turnover as a share of GDP (at current prices)	126.5%	126.1%	127.9%	125.1%

Source: NBS.
1) Hungarian forint, Danish crown, Norwegian crown, Swedish crown, Swiss franc, British pound, Australian dollar, Japanese yen, Canadian dollar, and other currencies.

electronic money institutions were required to maintain minimum reserves in the amount of 2%:
- of demand deposits, time deposits, and loans received in Slovak koruna or foreign currency;
- of deposits and loans redeemable at notice received in Slovak koruna or foreign currency;
- of debt securities issued in Slovak koruna or foreign currency, except for mortgage bonds.

Maintained minimum reserves were evaluated in 2004 on a monthly basis. Required minimum reserves held at the NBS on money reserve accounts gain interest at a rate of 1.5%, up to the amount appointed for the given month.

Exchange-rate and foreign-exchange policies

a) Exchange rate system
The National Bank of Slovakia applied a floating exchange rate regime in 2004. The exchange rate of the Slovak koruna was determined in relation to the euro, being the reference currency. The National Bank of Slovakia intervened in the foreign exchange market in the event of excessive volatility in the exchange rate of the Slovak koruna, and/or if the exchange rate did not correspond to the fundamentals of macro-economic development.

b) Nominal exchange rate of the SKK
In relation to the euro, the nominal exchange rate of the Slovak koruna appreciated during the year by 5.8%, to SKK 38.796/EUR on 31 December 2004. As a result of developments in the USD/EUR cross rate on the world markets, the exchange rate of the koruna appreciated against the US dollar by 13.4%, to SKK 28.496/USD at the end of the year.

c) Nominal and real effective exchange rates of the SKK[8]
The nominal effective exchange rate of the Slovak koruna (NEER) was affected in 2004 by the lower rate of appreciation in the average exchange rate of the koruna vis-à-vis the US dollar (12.3%), compared with the year-on-year dynamics of growth in 2003 (18.9%), and by the accelerating rate of appreciation in the koruna against the euro (3.5%, compared with 2.8% in 2003). The average year-on-year rate of growth in the NEER index slowed to 4.9%, from 7.0% in 2003.

The real effective exchange rate of the koruna (REER), calculated on the basis of the producer price index, appreciated year-on-year by an average of 2.2%, compared with 13.2% in 2003. On the basis of manufacturing products prices (excluding energy and mineral raw materials prices) the rate of appreciation in the REER index slowed to 2.2%, after increasing by 7.2% in the previous year.

d) Evaluation of the currency structure of foreign exchange receipts and payments in the Slovak Republic
The total turnover of receipts and payments in convertible currencies in payment categories 1 to 6 reached SKK 1,657.5 billion in 2004. The average monthly turnover stood at SKK 138.1 billion, which was 7.9% more than in 2003. Foreign exchange receipts and payments resulted in a positive balance of SKK 17.2 billion (compared with SKK 13.2 billion in the previous year).

In the long term, the currency structure of the overall turnover is dominated by EUR and USD, with a share of approximately 88 to 90% (since 1999). Since the introduction of the single currency, the share of the

8 The methodology applied for calculating the nominal and real effective exchange rates of the Slovak koruna (NEER and REER) is the same one used by the IMF. It uses the average exchange rates of the Slovak koruna and the currencies of Slovakia's trading partners against the dollar. The methodology is based on the producer price index – PPI (manufacturing products price index - PPI manufacturing). The initial year for the calculation is 1999, and the weights selected correspond to the structure of foreign trade in 1999, for the sixteen most important trading partners of Slovakia, representing roughly 83% to 89% of the total turnover of foreign trade in 1993–2004. These countries are Germany, the Czech Republic, Italy, Austria, France, the Netherlands, the USA, Great Britain, Switzerland, Poland, Hungary, the Ukraine, Russia, Japan, China, and Turkey.

euro has been increasing, as opposed to the diminishing share of the US dollar and the Czech koruna. In 2004, however, the rate of increase in the share of the euro slowed, to the lowest level since 2000. This was mainly due to developments in the cross rate and the renewed increase in the US dollar's share in foreign-currency payments in connection with the rise in oil prices. After stagnating in the previous years, the share of other currencies increased slightly in 2004.

2.4.6. Chronology of monetary developments

January

• At the beginning of the year, a new income tax law came into effect, introducing a flat tax rate of 19% for all income groups of natural and juristic persons. The value added tax law was also amended with effect from January. The amendment replaced the reduced and basic VAT rates (14% and 20% respectively) with a uniform rate of 19%.
• Fitch Ratings, the international rating agency, increased the long-term foreign exchange liability rating of the Slovak Republic from BBB to BBB+ and the rating for long-term liabilities in domestic currency to A, and confirmed the positive rating outlook for long-term liabilities in foreign currency.

March

• Standard & Poor's (S&P) agency increased the credit rating of Slovakia in foreign currency from BBB/A-3 to BBB+/A-2. The rating outlook remained positive.
• Kia Motors, South Korea's automobile works, officially announced its decision to set up a plant in Slovakia, the first in Europe.

April

• The Government of the SR discussed and approved the Convergence Programme for 2004, together with the budget design for the year.
• The World Bank released the third (final) tranche of the EFSAL loan granted for Slovakia (EUR 70 million) for the restructuring of the domestic corporate and financial sectors, in acknowledgement of the fact that the Slovak Government is successfully implementing the reform of the national economy. Funds were released in the total amount of EUR 200 million, as the prescribed conditions were gradually fulfilled.

May

• On 1 May 2004, the Slovak Republic became a member of the European Union. By signing the Treaty of Accession, Slovakia agreed on entry into the EU, to become a party to the Treaties on which the Union is based. Thus, Slovakia became a participant in EMU as a member state with a derogation, which means that the country is supposed to join the monetary union in the future. At the same time, the National Bank of Slovakia became a member of the European System of Central Banks (ESCB), with all the rights and duties arising from this membership. After meeting the criteria of convergence, a member state with a derogation will be allowed to introduce the European single currency and its central bank will become part of the Eurosystem.
• The Bank Board of the NBS approved the Updated Monetary Programme for 2004, in which the NBS modified its expectations in respect of the future trend in the economy.

June

• Moody's Investors Service changed the rating outlook of Slovakia, from stable to positive. The Slovak Republic was assigned an A3 credit rating. The change in the rating outlook was motivated by the results of structural reforms, price liberalisation, privatisation in the banking sector, pension reform, and reform in education and health services. With this step, Moody's reacted to the introduction of a flat income tax rate for natural and juristic persons, which made Slovakia one of the most liberal economies in Central and Eastern Europe.
• Estonia, Lithuania, and Slovenia became the first countries among the new EU member states, whose national currencies were included in the exchange rate mechanism (ERM II).

September

• The Government of the SR approved Specification of the Strategy for Adopting the Euro in the SR, according to which the country is supposed to join the euro area on 1 January 2009.
• Fitch Ratings increased the long-term foreign exchange liability rating of Slovakia from BBB+ to A- and the rating for long-term liabilities in domestic currency from A to A+. At the same time, the rating for short-term liabilities was confirmed.

December

• Standard & Poor´s agency increased the long-term liability rating of Slovakia from BBB+ to A-, and changed the rating outlook from stable to positive.
• The Bank Board approved the Monetary Programme of the NBS for the Period until 2008, which defines the Bank's monetary policy strategy as inflation targeting in the conditions of ERM II. In the Programme, the NBS, for the first time, set a well-defined framework for monetary policy in the medium term, in the form of a binding target, rather than an outlook. In the medium term, the HICP inflation target was set below 2.5% for end-2006 and below 2% for end-2007 and 2008. This inflation target is in line with the membership of Slovakia in the European Union, as well as the strategy for adopting the euro and reducing the fiscal deficit. Until the date of entry into ERM II, the NBS will continue using the system of managed

floating, which is in line with the Bank's inflation target. The Monetary Programme for the Period until 2008 was the last monetary programme specifying the goals of monetary policy until the adoption of the euro in the SR. In the following years, only notes will be presented to the decisions of the National Bank of Slovakia concerning the level of NBS interest rates. The Monetary Programme will be replaced by medium-term forecasts, which will be published on a regular basis.

2.5. Financial markets

2.5.1. Money market

Developments in money market rates

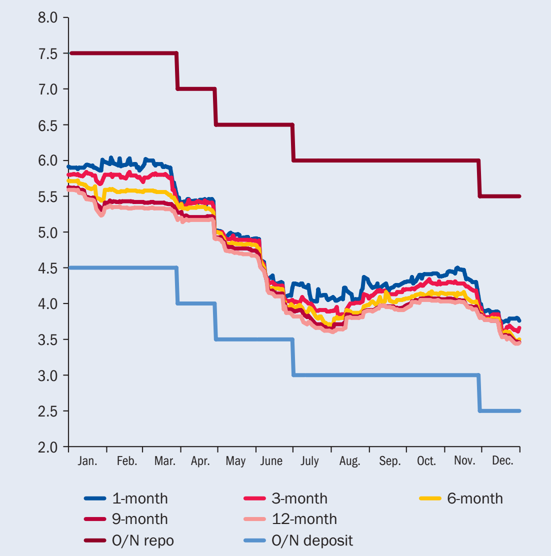
After being stable at the beginning of 2004, money market rates recorded a fall at the end of January, due to the correlation between the money and foreign exchange markets and increased expectations of a reduction in NBS interest rates. The unchanged level of NBS rates and the subsequent release of revised data on foreign trade by the Statistical Office of the SR reversed the falling trend in money market rates.

After verbal interventions from the side of the NBS against the excessive strengthening of the Slovak koruna, the NBS lowered its key interest rates by 50 basis points in March. The NBS took this step in an effort to stimulate a revival in domestic demand and to eliminate the pressure for a further appreciation in the exchange rate. The step was expected by banks, hence the interest rate cut had already been incorporated in their prices. Thus, money market rates fell to a lesser extent after the relevant decision of the Bank Board was announced.

The second interest rate cut, which took place at the end of April, was not expected by banks. Before the decision taken at the Bank Board's meeting was announced, the implied expectations of a 50 basis point cut in NBS rates were reflected in the money market yield curve in the range of six to seven months. As a result of a short-term capital inflow stimulated by the attractive interest rates differential (causing an excessive appreciation in the Slovak koruna), the Bank Board of the NBS decided to lower its key interest rates by another 50 basis points. After the interest rate cut was announced, adequate drops were recorded in money market rates for one-week to two-month maturities, and to a lesser extent, in rates for maturities longer than three months. The consequent change in the shape of the yield curve represented a fall in the implied expectations of a further cut in NBS rates, by no more than 10 basis points in the period of the next four months and by less than 50 basis points in the next nine months.

Chart 29 **BRIBOR in 2004**

(%, p.a.)



Source: NBS.

In April, subsequent to the placement of tax offices under the competence of the SR Treasury, the money market experienced an increase in the influence of the Agency for Debt and Liquidity Management (ARDAL), which manages the resources of the SR Treasury. The increase in the volume of disposable funds on the Treasury account, which markedly exceeded the amount of required minimum reserves in certain periods, continuously strengthened the influence of ARDAL on the money market, which led to an increase in the dependence of banks on Treasury resources and in higher prices of overnight deposits as well in periods of daily liquidity surpluses.

In reaction to the continuing excessive appreciation of the koruna in June, the NBS suspended sterilisations by reducing the amount to be accepted at four repo tenders and rejecting in full the bids at auctions in NBS treasury bills (NBS bills). As a result of a marked liquidity surplus in the banking sector, money market rates dropped and the interest rate spread decreased in comparison with the prices of deposits abroad.

Panel banks reacted to the changed situation by increasing the spread between the purchasing and selling prices of deposits, from 30 to 50 basis points, and by temporarily suspending the quotation of BRIBID/BRIBOR rates. Despite repeated drops in the yield curve, its shape remained unchanged, as well as the implied expectations concerning the future course of interest rates.

At the end of June (with effect from 1 July 2004), the NBS reduced its key rates for the third time (by 50 basis points), in reaction to the renewed pressure for unreasonably fast appreciation in the koruna exchange rate. The money market, where price levels had been low before the announcement of the change in key NBS rates, failed to react to the change in interest rates. After the acceptance in full of bank bids at repo tenders was renewed at the end of July, the situation on the money market stabilised and banks modified the quotation of deposits to a standard spread of 30 basis points.

The closing of koruna positions from the side of foreign investors in August, which was accompanied by a rise in deposit prices, took place at the time when the latest results of Slovak foreign trade and news about an increase in key interest rates in Poland and the Czech Republic were published. The rise in the long end of the yield curve reduced the implied expectations of a further cut in NBS rates, while the expected length of time until a more than 75 basis point reduction increased, from five months in August to seven to eight months in November.

The rise in money market rates was stopped in November and the purchase of Slovak koruna on the foreign exchange market, connected with the placement of deposits on the interbank market, markedly reduced the price of interbank deposits. For this reason, money market rates reacted to the announcement of the fourth cut in key NBS rates (by 50 basis points) very cautiously. The NBS moved to lower its key rates at the end of November (for the last time in 2004) as a result of a favourable trend in inflation, expectations of a marked fall in inflation in 2005, and actual inappropriate appreciation of the Slovak koruna. The change in the shape of the yield curve (a more gentle slope) prolonged the expected length of time until the next reduction in NBS rates (not exceeding 50 basis points) to nine months.

Interbank transactions on the money market

On the interbank market, the turnover of repo operations, deposit and swap transactions, recorded only a modest year-on-year increase in 2004. Domestic banks accounted for 38.9% of the total turnover, the rest was produced by foreign banks (61.1%). The largest share in the turnover (excluding repo operations, which resulted in a minimum turnover) was achieved by domestic banks in deposit transactions (49.6%) and foreign banks in swap transactions (71.8%).

With effect from January 2004, the NBS included two derivatives deduced from money market rates in the statistical reporting of interbank transactions. These derivatives are the Forward Rate Agreement (FRA) and the Interest Rate Swap (IRS). The inclusion of derivatives in the range of statistically reported transactions left the share of domestic and foreign banks in the turnover virtually unaffected. Domestic banks achieved a share of 39.0% and foreign banks 61.0%. The highest turnover was produced by domestic banks in deposit transactions (49.6%) and foreign banks in IRSs (75.7%).

The share of reference banks in the total volume traded among banks (purchases and sales) stood at 85.4%.

In 2004, the most trading took place in deposits with the shortest maturities; transactions with a maturity of up to one week accounted for 89% of the total trading volume and transactions with a maturity of up to two weeks exceeded 95% of the total volume traded in deposits.

Operations of the NBS on the money market

Activities on the money market were indirectly influenced by the NBS in two areas. The first was the provision of opportunities for banks to use intra-day credit from the NBS, secured by securities, with a limit for the amount drawn set at weekly intervals. Thus, banks may draw interest-free funds from the NBS for ensuring the smooth course of payment operations within a day, even in a situation when the level of minimum reserve holdings is low. During the year, intra-day credit were first drawn by two banks, then the number of borrowers increased to eight, with the

Table 30 **Monthly volumes of purchases and sales on the interbank market** **(SKK millions)**

	2004											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Deposits	748	603	687	559	735	570	643	650	561	564	557	727
Repos	2	0	0	8	0	0	0	0	0	0	0	0
Swaps	789	642	748	613	627	658	633	572	511	626	564	706
FRAs	38	25	24	29	26	46	2	11	7	10	22	18
IRSs	28	9	7	7	9	10	5	3	4	4	7	9
Total	1,605	1,279	1,466	1,216	1,397	1,284	1,283	1,236	1,083	1,204	1,150	1,460

Source: NBS.

2

value of securities used as collateral amounting to SKK 43.3 billion at the end of the year. The introduction of the possibility of drawing interest-free intra-day credit led to a fall in pressure for the shortest-term deposits in periods of lower daily liquidity, which reduced the volatility in short-term money market rates. The second area was a change in the form of interest payment on funds held by banks on clearing accounts for the needs of required minimum reserves. Originally, these funds attracted interest according to the amounts of daily balances. The introduction of interest payment according to the average amount of balances in the period under review had a stabilising effect on the money market.

In 2004, the implementation of monetary policy through open market operations underwent no systemic changes and remained based on standard instruments. Changes were, however, recorded in the individual instruments, i.e. open market operations and the method for the valuation of securities, which are used in transactions as security.

The most important instrument were two-week repo tenders, which were held by the NBS on a weekly basis. At the beginning of the year, the share of tenders in the total volume of sterilised funds (56.2% in February) was affected by increased interest in NBS bills. Another increase in the share of tenders was generated by the February 2004 decision of the Bank Board to reduce the share of NBS bills (25% of the total volume). Demand at the tenders increased significantly (with a maximum share of 82.8% recorded in August), and never fell below 75% during the year.

The NBS accepted in full the bids of banks at most repo tenders. Some of the bids were rejected in March, owing to the technical elimination of differences in volume between the active tenders, while demand at curtailed tenders was twofold higher than the volume of due repo tenders. In June, the NBS again refused to accept the bids of banks in full, with the intention of maintaining a surplus of interbank liquidity for the purpose of influencing developments on the foreign exchange market. The reduction in demand led to a fall in the average accepted yield in comparison with the limit rate for repo tenders (by 59 basis points).

As for NBS treasury bills, 2004 saw few changes in the issuing conditions. The first change occurred after the coming into effect of the new income tax law in January, which provided the legal framework for a change in the form of primary sale of NBS bills, from the Dutch auction technique to the American auction. The second change resulted from the February decision of the Bank Board to fix the share of NBS bills in the total volume of liquidity sterilisation, at around 25%. This measure was taken as a result of an increase in interest in NBS bills, which are not regarded by the NBS as a key monetary instrument. The third change was the extension of the range of participants in primary NBS-bill auctions to include the Ministry of Finance, represented by the ARDAL agency. During 2004, the NBS conducted 13 auctions in NBS bills, and accepted none of the bids in one case only. The initial difference between the minimum and maximum accepted yields ranged from 10 to 16 basis points. The NBS accepted no bids in June, which, together with the curtailment of tenders, was an indication of an attempt to prevent the Slovak koruna from a further excessive appreciation. As a result of a renewed issue of NBS bills in July and the determination of banks to succeed at auctions, the spread between the minimum and maximum yields increased from 31 to 48 basis points. Despite this, the average accepted yield was above the level of the three-month money market rate fixed on auction day. At the end of the year, the spread between the accepted yields was reduced further, to 6–20 basis points, while the average yield dropped below the three-month BRIBOR rate fixed on auction day.

The most frequent overnight transactions took place in deposits. Banks tried to maintain a surplus of liquidity (except in periods of liquidity shortage, resulting from an increase in the amounts accepted at tenders in comparison with the due amount), which they subsequently deposited with the NBS. The maximum

Table 31 **Average monthly effects of NBS transactions on the level of banking sector liquidity (SKK millions)**

	2004											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
O/N repos	1,371	1,090	236	8	0	439	50	888	737	73	525	0
O/N dep.	-2,779	-3,546	-3,645	-656	-1,471	-8,992	-2,916	-1,546	-415	-838	-508	-2,331
NBS bills	-66,837	-81,164	-77,160	-70,047	-70,000	-43,000	-40,000	-43,226	-60,000	-60,000	-60,000	-60,000
SRT	-113,061	-107,185	-115,526	-125,040	-131,546	-149,067	-189,555	-211,815	-211,577	-202,905	-204,449	-195,815
Total	-181,306	-190,805	-196,095	-195,735	-203,017	-200,620	-232,421	-255,699	-271,255	-263,670	-264,432	-258,146

Source: NBS.

volume of overnight deposits was recorded in June, when the NBS substantially reduced the amount of bids at tenders and thus banks deposited as much as SKK 23.2 billion. Most requests for refinancing were also recorded in June, when the NBS accepted a larger amount at a repo tender, causing a marked shortage of liquidity in the banking sector. On the last trading day in June, banks borrowed SKK 11.2 billion from the NBS (for the purpose of fulfilling the minimum reserve requirements).

Banking sector liquidity

In 2004, the implementation of monetary policy maintained its sterilisation nature, while the sterilisation position of the NBS vis-à-vis the banking sector increased during the year. An exception was the last quarter of 2004, when the level of sterilisation stabilised somewhat, before increasing again towards the end of the year. The sterilisation position of the NBS vis-à-vis the banking sector increased year-on-year by SKK 113.4 billion, to SKK 289.4 billion at the end of the year.

Among the main sources of liquidity inflow were the operations of the NBS on the foreign exchange market against the excessive appreciation of the Slovak koruna. The reserves of commercial banks were most significantly affected by such foreign exchange interventions in July (an increase in liquidity by SKK 30.6 billion) and December (an increase in liquidity by SKK 23.3 billion), and their volume in cumulative terms reached SKK 68.6 billion in 2004.

Another liquidity-providing factor was the gradual release of funds held on a time deposit account of the Ministry of Finance at the NBS and their transfer to the SR Treasury (part of the funds came from an issue of eurobonds made in May 2004, in the koruna equivalent of approximately SKK 18 billion).

Pressure for an increase in the liquidity of commercial banks was also exerted by the gradual transfer of funds from general government accounts, held at the NBS, to the SR Treasury in connection with the commencement of operations on 1 January 2004 and the release of funds from the remaining general government accounts at the NBS into the banking sector.

The liquid resources of the banking sector were also increased in 2004 by certain one-off effects. Among them was the impact of a 1 percentage-point reduction in the required reserve ratio with effect from 1 January 2004 (causing an increase of SKK 6.3 billion in the need for sterilisation in comparison with December 2003) and that of the January transfer of funds from the accounts of State funds at the NBS to the banking sector (a liquidity inflow of SKK 10.8 billion).

The liquidity increase resulting from the above factors was partly offset by a liquidity outflow through an excess of the volume of government securities issued on the domestic money market over the volume of redeemed securities (including government bond yields paid in the amount of SKK 15.7 billion), which reduced the level of liquidity by SKK 6.9 billion.

The volume of currency in circulation, which had a neutral effect in the first half of the year, increased in the second half of the year and thus contributed to the reduction in banking sector liquidity (by approximately SKK 7 billion).

During the implementation of monetary policy, characterised by the dominance of liquidity-providing factors, the volume of sterilised resources ranged from SKK 170 billion to SKK 290 billion during the year and the average annual volume of sterilisation reached SKK 226.2 billion, compared with SKK 162.7 billion in 2003.

Fulfilment of reserve requirements

To complete the process of harmonisation of its monetary-policy instruments with those of the European Central Bank, the NBS reduced the required-reserve ratio for the banking sector by 1 percentage point (from 3% to 2%) in January 2004. With this step, the reserve ratio was brought into harmony with the Eurosystem's minimum reserve system.

As a result of the cut in the reserve ratio, the average level of minimum reserves fell by approximately SKK 6.3 billion. During 2004, the actual reserve-requirement fulfilment was balanced throughout the banking sector, with a marked surplus in April. In the conditions of a marked excess of liquidity and continued sterilisation operations on the part of the NBS, the determined level of minimum reserves was maintained every month and was not exceeded to a significant extent. Average monthly excess reserves ranged from SKK 0.02 billion to SKK 0.32 billion.

The volume of daily reserve holdings ranged from SKK 4.08 billion to SKK 36.31 billion. In the individual reserve-maintenance periods, deviations from the determined amount of daily reserves ranged from a reserve surplus of SKK 20.7 billion to a reserve shortage of SKK 12.03 billion. The largest deviations from the reserve requirements in 2004 were recorded in June and December.

In 2004, no case of failure in reserve-requirement fulfilment was reported from the banking sector.

Table 32 **Reserve requirement fulfilment in 2004** (SKK billions, %)

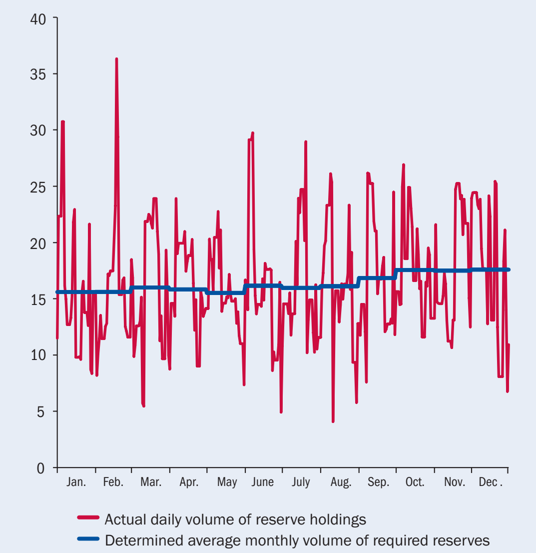
	Required reserves	Actual reserve holdings		
		Average	Fulfilment in %	Standard deviation
January	15.59	15.70	100.70	5.85
February	15.61	15.63	100.13	5.76
March	16.01	16.03	100.14	5.67
April	15.84	16.15	101.99	3.95
May	15.53	15.57	100.27	3.45
June	16.16	16.23	100.45	6.10
July	15.97	16.04	100.40	5.00
August	16.11	16.13	100.13	5.32
September	16.84	16.89	100.30	5.25
October	17.55	17.60	100.27	4.10
November	17.50	17.53	100.18	5.03
December	17.58	17.64	100.32	6.16

Source: NBS.

SR Treasury bills

The Agency for Debt and Liquidity Management (ARDAL), which stipulates the issuing conditions for government securities and decides in auctions on behalf of the Ministry of Finance as of 2004, began to issue SR Treasury bills in February. In the issuing schedule for 2004, ARDAL planned only 1-year issues of Treasury bills, but in October decided to reduce the maturity of all remaining issues to 3 months in view of the rescheduling of government debt repayments. Primary sales have taken place via American-style auction for the past several years, but the tax reform required a change in the auction technique. The new Tax Act sets out the exceptions for when yields on securities are not included in the tax base but are subject to withholding tax. Since the subjects of these exceptions have access to the Treasury-bill market, an American auction would not make it possible to quantify their yields and ensure tax payment by deduction. Hence, the Dutch auction currently represents an indispensable technique for the primary sale of Treasury bills by auction.

Chart 30 **Reserve requirement fulfilment in the banking sector in 2004** (SKK billions)



Source: NBS.

Total sales of SR Treasury bills in 2004 reached SKK 38.8 billion (20% of the total demand at the auctions). The average amount per issue was SKK 1.8 billion, and average demand per auction amounted to SKK 8.7 billion. The small percentage of bids accepted at auctions can be explained by an increase in the proportion of deficit refinancing through credits or short-term loans from the SR Treasury, which reduced the need for deficit financing via the market.

Foreign investors accounted for 15% of the primary purchase. Purchases by domestic commercial banks represented 66% and other domestic investors 19%.

The average interest yield on the primary market for Treasury bills reached 4.28% in 2004. The yields were below the level of domestic money market rates for comparable maturities throughout the year. On average, Treasury bills were placed on the market in 2004 at a rate of 16 basis points below the level of the BRIBOR rate (in the conditions of a comparable tax burden).

2.5.2. Capital market

Primary market

Government bonds

With the establishment of the Agency for Debt and Liquidity Management (ARDAL) on 1 January 2004, a new debt and liquidity management system began to be applied in the Slovak Republic. The tasks and responsibilities among the Ministry of Finance, ARDAL, SR Treasury, and the National Bank of Slovakia were redistributed during the year. Within the meaning of Act No. 386/2002 Coll. on the government debt and government guarantees, which amended Act No. 291/2002 Coll. on the SR Treasury, ARDAL is charged with the task of issuing and repaying government securities, including government bond yields.

In total, 26 government-bond issues were floated during the year in the total amount of SKK 101.0 billion, representing an increase of SKK 2.5 billion in the total amount of issued government bonds (compared with SKK 98.5 billion in the previous year). Total demand amounted to SKK 220.7 billion, which was 18.5% more than a year earlier (SKK 186.2 billion). The average issue-amount was SKK 3.9 billion (a year-on-year decrease of SKK 0.8 billion). The decrease in the issue-amount in comparison with 2003 was a consequence of Treasury-bill issuance throughout the year.

In drawing up the issuing schedule for 2004, ARDAL followed the principle that the best way of making the market for government bonds more attractive is to extend the range of issues, introduce new products, and to prolong the yield curve to 15 years. This was confirmed by the fact that exclusively tap issues were placed on the market (re-openings), with the total issue-amount set at SKK 40.0 billion for each of the five issues. For the first time in history, government bonds were also put on the market with a maturity of 15 years. All issues were placed on the primary market in the traditional form, via American-style auction. Another innovation was the issue of 5-year government bonds with a floating yield (12M BRIBOR), which was set at 5.45% in 2004, and a 3-year issue with a zero-coupon, which was the only issue to be floated in the planned issue-amount (SKK 40.0 billion). In May 2004, a euro-denominated 10-year government bond issue was floated on the international financial market, in the amount of EUR 1 billion.

On 31 December 2004, there were 27 foreign investors (representing 19.1% of the total number of investors) registered on the primary market for government bonds.

Benchmark yield curve for government bonds

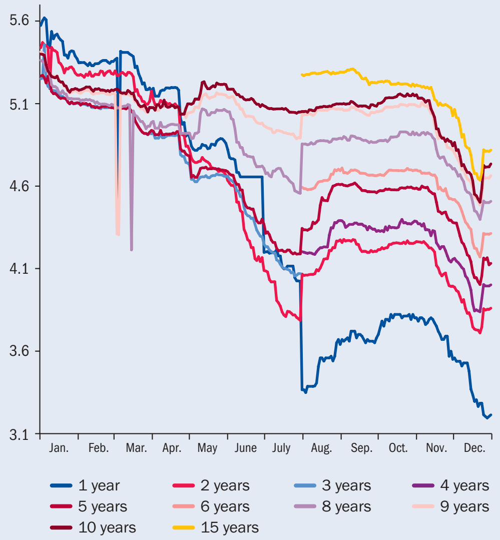
At the beginning of 2004, the NBS started quoting benchmark government bonds. Banks were allowed to quote, on a daily basis, selected government bonds with a maturity of 1 to 15 years. The rationale behind the introduction of a benchmark curve is to provide a basis for the formation of prices for individual securities, from the average value of quotations. Banks use these prices for the valuation of their government bond portfolios for the purpose of measuring the adequacy of its own resources. The benchmark curve is formed by eight entities, which are governed by the Rules for Creation the Benchmark Yield Curve.

Table 33 **Structure of government bond issues by the satisfaction of demand**

	2003			2004		
	Volume in billions of SKK	**Number of issues**	**Percentage of accepted bids in %**	**Volume in billions of SKK**	**Number of issues**	**Percentage of accepted bids in %**
1-year	15.0	3	34.2	–	–	–
1.5-year	16.6	3	42.7	–	–	–
2-year	15.1	2	81.2	–	–	–
3-year	–	–	–	40.0	7	54.4
5-year, floating coupon (12M BRIBOR)	–	–	–	11.3	5	26.2
5-year, fixed coupon	15.0	1	71.2	18.2	5	33.8
7-year	15.0	1	57.7	–	–	–
10-year	22.8	3	60.2	15.5	5	60.5
15-year	–	–	–	15.9	4	64.6

Source: NBS.

Chart 31 **Developments in the benchmark yield curve in 2004**



Source: NBS.

In the first half of 2004, benchmark yields showed a falling tendency, which was affected by the appreciation of the Slovak koruna, the improvement in credit rating, and the reduction in the basic interest rate. On the other hand, these prices were significantly affected by the rates of interest achieved at primary auctions. The August increase in yields was caused by changes in the benchmark portfolio and a slowdown in the appreciation of the koruna. The marked fall in November was a continuation of the trend from the first half of the year. The price increase in December was artificially generated by commercial banks, which use the year-end prices of benchmark issues for the official revaluation and comparison of profits from transactions in 2005.

Yield payment and bond repayment

In 2004, government bond yields were paid in the total amount of SKK 15.6 billion. Foreign investors received SKK 2.2 billion (14.1% of the total amount) and domestic investors SKK 13.4 billion (85.9%), of which bond creditors accounted for SKK 0.1 billion (0.75%).

Government bond yields paid in 2004 fell by 19.0% (compared with SKK 19.2 billion in the previous year). Domestic investors received 85.9% of the total yields paid in 2004, compared with 33% in 2003. The share of foreign investors decreased, from 67% in 2003 to 14.1% in 2004. Yields paid to bond creditors also recorded a year-on-year decline (by 67.0%, from SKK 0.3 billion paid in the previous year).

In 2004, the nominal values of 13 government-bond issues were repaid in the amount of SKK 62.6 billion. Foreign investors received 29.71% and domestic investors 70.29% (of which SKK 0.1 billion went to bond creditors). In 2004, yields and nominal values were repaid in the total amount of SKK 78.2 billion (compared with SKK 79.7 billion in the previous year).

Yield payments and nominal value repayments in 2004 compared with 2003 indicate that the amounts paid to domestic investors changed considerably, which can be explained by a change in the taxation of yields introduced by the amendment to the income tax law, with effect from 1 January 2004. Owing to this amendment, there was no ‘coupon washing’ in 2004.

Non-government bonds

In total, 21 mortgage-bond issues were floated in 2004 (compared with 14 in the previous year). The total volume of issued mortgage bonds reached SKK 16.1

Table 34 **Government bond yields paid** **(SKK billions)**

	Yields in total	Foreign investors	Domestic investors	of which: bond creditors
2003	19.2	12.8	6.4	0.3
2004	15.6	2.2	13.4	0.1

Source: NBS.

Table 35 **Nominal value of government bonds yields** **(SKK billions)**

	Number of issues (pcs)	Repaid nominal value in total	Foreign investors	Domestic investors	of which: bond creditors
2003	24	60.5	50.6	9.9	2.3
2004	13	62.6	18.6	44.0	0.1

Source: NBS.

billion, representing a year-on-year decline of SKK 3.4 billion). The issuers were: Tatra banka, Slovenská sporiteľňa, OTP Banka, VÚB, Unibanka, Istrobanka, HVB, ČSOB, and Ľudová banka.

Secondary market

The secondary market was affected by numerous factors, the most significant being the transformation of the Securities Centre of the SR , a.s. (SCP) into the Central Securities Depository of the SR, a.s. (CDCP). Apart from the introduction of a two-level registration of securities owners and the opening of an over-the-counter market, the most important innovation on the market was the transfer of powers in the area of accounting and settlement, from the Bratislava Stock Exchange (BCPB) to the Central Securities Depository (CDCP). Although the CDCP announced these changes in the system on 20 March 2004, there were no adequate conditions for the provision of services as stipulated by law. Hence, the CDCP, BCPB, and the members of the CDCP agreed on the steps to be taken in the so-called transition period, during which a slightly modified version of the original system of accounting and settlement was used, together with a new registration system. The transition period ended on 30 September and the CDCP commenced operations on 1 October 2004.

On 1 January 2004, numerous legislative changes came into effect in respect of the capital market. One of them was an amendment to the Stock Exchange Act (No. 429/2002 Coll.), pertaining to the approval of a quoting prospectus. Another legislative change was introduced by the new law on collective investment (No. 594/2003 Coll.), which was drawn up with regard to the relevant EU regulations and the new income tax law, introducing a flat 19% rate for both natural and juristic persons.

The changes in the Stock Exchange Rules approved by the Financial Market Authority entered into effect on 1 October 2004.

General overview of stock exchange dealings

In 2004, the Bratislava Stock Exchange (BCPB) made its electronic trading system (EBOS) available for trading purposes. During 245 trading days, 22.38 million securities (shares or bonds) were traded, in the total amount of SKK 432.3 billion (a year-on-year decrease of 60.6%). After 2002 and 2003, 2004 was the third most successful year in the history of the BCPB, in terms of the volume of transactions. This figure was achieved in 17,644 transactions (a year-on-year decrease of 71.9%), which was due to a change in the income tax law (prohibition, with effect from January 2004, of the transfer of securities to foreign entities with the aim of gaining a tax allowance, which had previously caused an artificial increase in the number and amount of transactions).

In 2004, direct transactions continued to surpass price-setting transactions, in the same way as trading in shares was surpassed by bond transactions. The marked decline in trading was in part caused by a reduction in takeover bids (a year-on-year decrease of 92.7%, i.e. SKK 8.3 billion).

Trading in bonds

The volume of bond transactions reached SKK 410.9 billion (2.3 million bonds in 2,636 transactions) in 2004. This represented a sharp decline (i.e. 61.7%) in comparison with 2003 (owing to the amendment to the income tax law). Most investments were again made in risk-free government bonds. Their volume totalled SKK 407.5 billion (in 2,073 transactions), representing 99.2% of the total volume of transactions. Debt securities were again dominated by quoted issues (SKK 410.1 billion, in 2,590 contracts), which accounted for 99.8% of the total volume of bond transactions. In 2004, the volume of electronic order book transactions in bonds reached SKK 14.0 billion (a year-on-year drop of 88.2%).

Trading in government bonds accounted for 98.6% of the total volume of bond transactions (in 933 contracts). The best performers were government bonds – Issue No. 142 (SKK 50.6 billion, 45 transactions), Issue No. 200 (SKK 34.1 billion, 170 transactions), and Issue No. 191 (SKK 9.0 billion, 79 transactions). Among non-government bonds, most trading took place in quoted Istrobanka II bonds (SKK 416.5 million, 5 transactions) and Železiarne Podbrezová bonds (SKK 327.5 million, 3 transactions). In terms of the number of transactions, the best performers were government bonds of Issue No. 191 (170 transactions).

Non-resident investors accounted for 48.7% (SKK 200.0 billion) of the total volume traded in 2004, of which 52.4% were composed of purchases and 44.9% of sales.

In the market-maker module, the following issues were traded over the course of the year: 19 government-bond issues (No's. 166, 174, 187, 188, 189, 191, 199, 200, 202, 203, and 204); 3 corporate-bond issues (B.O.F. 04, B.O.F. 05, and Železiarne Podbrezová II); and 5 issues of mortgage bonds (VÚB VI, VÚB VII, Tatrabanka 01, Istrobanka I, and Istrobanka II). The volume of transactions in the market-maker module amounted to SKK 1.04 billion (in 69 contracts), representing 7.4% of the total volume of electronic order book bond transactions.

On the last trading day of the year, the market capitalisation of debt securities amounted to SKK 362.3 billion (a year-on-year increase of 9.2%), of which SKK 340.1 billion was in quoted issues (a year-on-year increase of 18.9%).

Indices

SDX index

The SDX (Slovak Bond Index) component for corporate and bank bonds closed the year at 259.54% of the nominal value (an annual increase of 8.6%), with an average yield of 4.54% to maturity and a duration of 1.77 years. The index reached a minimum on January 7 (239.08%) and a maximum on December 23 (259.54%).

At the end of the year, the average price of the government-bond portfolio in the SDX base stood at 238.40% (a year-on-year increase of 9.7%), while the average yield was 4.32% and the average duration 3.87 years. The average price recorded a minimum on January 7 (217.41%) and a maximum on December 22 (238.40%).

SDXGroup index

On 2 September 2004, the BCPB started publishing a new group index for bonds, referred to as 'SDXGroup index', which has become the main indicator of the Slovak capital market for debt securities. In the future, the original SDX index will be fully replaced by the SDXGroup index. The SDXGroup index is based on the ratio between the present capitalisation of a bond and its initial value. The initial value of the index (100 points) is tied to 7 January 2004. The index has two components: price and performance. The price component compares the market prices of selected debt securities (basic titles) with the market prices of the same securities at the beginning of the period. Apart from changes in market prices, the performance index monitors the capital yields of the basic components of the index and compares them with the initial values (from the day on which the index was introduced).

The SDXG index for the public sector, represented by government bonds, closed the year at the level of 105.303 (price) and 110.159 (performance), with a yield of 4.20% to maturity and a duration of 4.73 years. The value of the short-term SDXG(<=5) sub-index reached 104.27 (price) and 108.33 (performance), with a yield of 3.743% to maturity and a duration of 2.55 years. The long-term SDXG(>5) sub-index closed the month at 106.225 (price) and 111.832 (performance), with a yield of 4.36% to maturity and a duration of 6.72 years.

The SDXG for the private sector, represented by corporate and mortgage bonds, closed the year at 102.78 (price) and 109.48 (performance), with a yield of 4.02% to maturity and a duration of 3.32 years. The value of the short-term SDXG(<=5) sub-index reached 101.54 (price) and 108.46 (performance) at the end of the year, with a yield of 3.99% to maturity and a duration of 2.31 years. The long-term SDXG(>5) sub-index closed the year at 107.78 (price) and 111.94 (performance), with a yield of 4.04% to maturity and a duration of 6.75 years.

Trading in shares

During the year, 13 new issues of shares and participation certificates were accepted for trading (from 5 issuers), in the nominal value of SKK 2.2 billion. The issues were registered on the open market; none of them was placed on the market for quoted shares. Of six share issues registered on the regulated open market, the shares of Termstav and Rufin were again accepted for the needs of compulsory takeover bids. After the bids, they were withdrawn from the market. The remaining seven issues were participation certificates floated by the PRVÁ PENZIJNÁ management company, in the amount of SKK 16.0 million.

In terms of trading volume, the best performers in addition to compulsory takeover bids were the shares of Nafta (SKK 2.51 billion, 264 transactions), Slovnaft (SKK 1.73 billion, 662 transactions), and Zentiva (SKK 356.5 billion, 67 transactions). The regulated open market was dominated by an issue of Inžinierske stavby Košice (SKK 2.66 billion, 98 transactions), which was at the same time the most successful issue of all registered share issues on the BCPB floor in 2004. The largest number of transactions (2,986) was recorded in the shares of OTP Banka Slovakia. In electronic order book transactions, the best performers in terms of volume were the shares of Všeobecná úverová banka (VÚB).

In the market-maker module, no shares were available for trading at the end of the year. Although trading in the recently withdrawn Slovnaft and Zentiva shares was allowed within the market-maker module until the end of the first quarter of 2004, the market-maker module ended the year without a single transaction.

SAX index

The Slovak Share Index (SAX) appreciated year-on-year by 83.9% (i.e. 149.01 points). The figure recorded

Table 36 **Changes in the SKK/EUR and SKK/USD exchange rates** (%)

	Year-on-year change	Average Dec. 2004 / Average Dec. 2003	Average (Jan.– Dec.) 2004 / Average (Jan.– Dec.) 2003
SKK/EUR	-5.75	-5.4	-3.5
SKK/USD	-13.44	-13.5	-12.3

Source: NBS.
Note: - appreciation of the SKK, + depreciation of the SKK.

on the last trading day (December 23) represented an annual and more than 10.5-yearly maximum. SAX index closed the year at 326.63 points, with an increase of 83,9%.

2.5.3. Foreign exchange market

Operations on the foreign exchange market

During the year, the exchange rate of the Slovak koruna against the euro appreciated by 5.75% (from SKK 41.161/EUR to SKK 38.796/EUR). The average exchange rate was SKK 40.045/EUR, representing a year-on-year appreciation of 3.5%. The exchange rate of the koruna against the US dollar appreciated during the year by 13.44%, from SKK 32.920/USD to SKK 28.496/USD. The average exchange rate reached SKK 32.255/USD (an appreciation of 12.3% in comparison with 2003).

During 2004, the NBS intervened in the foreign exchange market on two occasions against the excessive strengthening of the Slovak koruna (on July 8–13 and December 22–23) and purchased during these interventions a total of EUR 1,166 million. The Bank also accepted the offers of commercial banks and purchased EUR 564 million in direct transactions.

Interbank foreign exchange market

The total volume traded on the interbank exchange market (in foreign currency conversion, currency swaps, and forward transactions, excluding foreign exchange interventions by the NBS) reached USD 441,297.8 billion, representing an increase of 10.3% in comparison with the 2003 figure (of which transactions in USD accounted for 83.3%, in EUR 13.1%, and in other currencies 3.6%). Within the structure of transactions, currency swaps accounted for 91.2% (compared with 91.0% in 2003), spot exchange transactions 8.7% (8.9% in 2003), and forward dealings 0.1% (the same figure as in 2003).

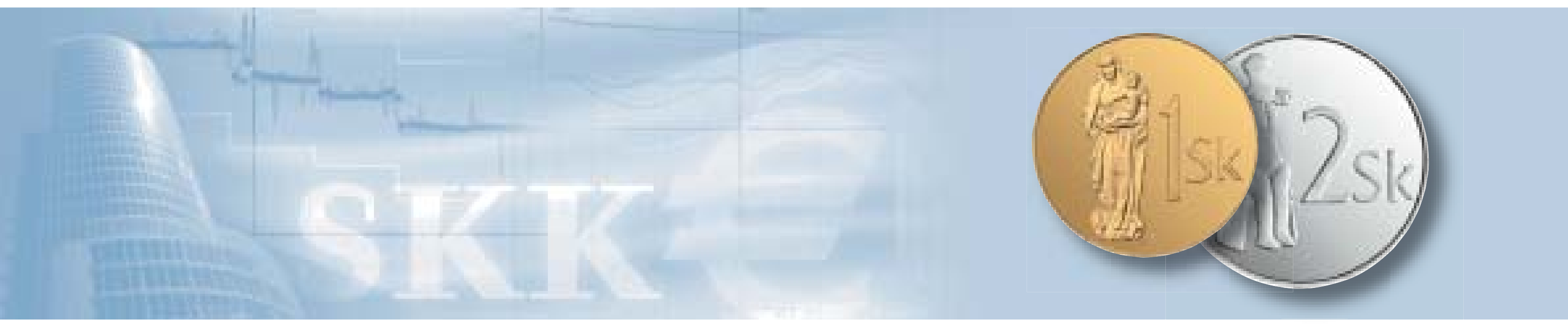
The average daily turnover on the spot market amounted to USD 150.95 million. The market was dominated by trading in EUR, which accounted for 96.8% of the total volume, due to the euro being the reference currency. Trading between domestic banks and between domestic and foreign banks on the spot market confirmed the trend of increased activity on the part of foreign banks on the Slovak foreign exchange market (17.4% of the total turnover was in favour of domestic banks and 82.6% in favour of foreign banks). In 2004, the overall balance of transactions between foreign and domestic banks was positive (USD 243.9 million), i.e. foreign banks purchased mostly foreign currency and sold Slovak koruna. Of this figure, however, it is difficult to draw unambiguous conclusions about the interest of foreign banks in the purchase or sale of Slovak koruna. The customers of foreign banks are not only foreign entities, but domestic banks and companies as well. The market for trade in Slovak koruna is a global one, hence numerous domestic entities use the services of foreign banks, mainly in cases, when they need larger amounts to be converted. Therefore, the final balance of transactions between foreign and domestic banks does not reflect the actual inflow or outflow of foreign currency in/from the domestic exchange market.

The volume of transactions between domestic commercial banks increased by 2.2%, to USD 76,841.2 million. Trading took place mostly in US dollars (78.8%; compared with 79.4% in 2003), followed by the euro with a share of 20.4% (20.0% in 2003), and other currencies accounting for 0.8%.

In the structure of transactions by type, 88.4% of the total volume traded between domestic banks took place in the form of swap contracts (85.9% in 2003) and spot exchange transactions accounted for 8.0% (14.1% in 2003).

Trading with foreign banks also recorded a year-on-year increase (12.3%), to USD 364,706.6. The largest volume was traded in US dollars (84.3%; compared with 78.8% in 2003), followed by the euro with a share of 11.6% (12.1% in 2003), and other currencies accounting for 4.1%.

Banking Supervision



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3. Banking Supervision

3.1. Development of the banking sector

The positive trend of the banking sector's development continued in 2004. In the year under review, in particular in its last quarter, the already launched trend of the risk-based supervision was fully manifested. The Banking Supervision Division, besides issuing methodological instructions, focused on the implementation of rules relating to additional supervision of financial conglomerates, as well as on the legal framework of integrated supervision of the financial market.

In connection with the performance of on-site inspections it may generally be said that compared to past years there has been a reduction in the number and severity of findings resulting from inspections at banks. This fact results from the new strategy of the Banking Supervision Division, which undertakes on-site inspections with greater intensity and frequency and which, in turn, has a positive impact on the banks' efforts towards improvement and qualitative growth.

As at 31 December 2004, there were eighteen banks, three branches of foreign banks, forty-eight providers of free cross-border banking services, and seven representative offices of foreign banks, operating in the Slovak banking sector. Of the eighteen banks, there are three building societies: ČSOB stavebná sporiteľňa, a.s., Prvá stavebná sporiteľňa, a.s., and Wüstenrot stavebná sporiteľňa, a.s. As at 31 December 2004 the licence to provide mortgage services was held by nine banks and one branch of a foreign bank (HVB Bank Slovakia, a.s., Dexia banka Slovensko, a.s., ISTROBANKA, a.s., ĽUDOVÁ BANKA, a.s., OTP Banka Slovensko, a.s., Slovenská sporiteľňa, a.s., Tatra banka, a.s., UniBanka, a.s., Všeobecná úverová banka, a.s. and Československá obchodní banka, a.s., branch of foreign bank in the SR).

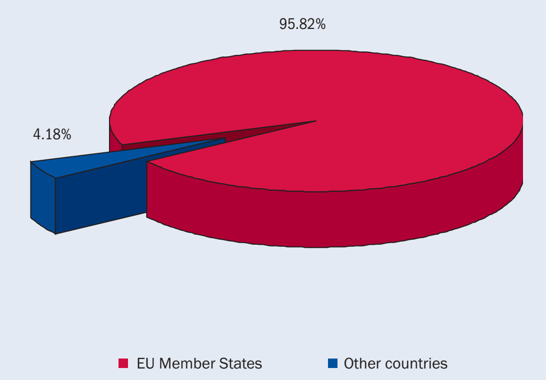
The volume of subscribed share capital of banks (excluding the NBS) increased by SKK 1.0 billion compared with the figure for 31 December 2003, i.e. from SKK 40.4 billion to SKK 41.4 billion. The development of share capital was affected by the subscription of new shares in Poštová banka, a.s. and in ISTROBANKA, a.s.

The amount of funds provided by foreign banks to their branches remained unchanged, and as at 31 December 2004 equalled SKK 2.8 billion.

The share of foreign investors in the total subscribed share capital of banks and the funds provided by foreign banks to their branches increased on the previous year from 88.9% (as at 31 December 2003) to 89.6% (as at 31 December 2004). The increase was affected by the entry of a foreign investor into Banka Slovakia, a. s., accompanied by a rise of the share of foreign investors in the share capital of: ISTROBANKA, a.s.; ĽUDOVÁ BANKA, a.s.; Slovenská sporiteľňa, a.s.; Tatra banka, a.s.; Wüstenrot stavebná sporiteľňa, a.s.; and UniBanka, a.s. In addition, the above share was influenced by a reduction in the share capital of Tatra banka, a.s., as well as by raising the share capital of Poštová banka, a.s. by a local investor.

On 13 February 2004, the National Bank of Slovakia granted prior approval to Istrokapitál, a.s. to exceed its interest in share capital and voting rights of Poštová

Chart 32 **Share of foreign investors by country of origin**



Source: NBS.
Other states: the United States, Switzerland and Canada. The share of EU member states in 2004 increased on the year earlier by 14.43%. This increase was due in particular to the re-ordering of two states, the Czech Republic and Hungary into this group following their accession to the European Union. At present the EU member states are ranked as follows: Austria (36.07%), the United Kingdom (4.40%), the Czech Republic (8.79%), France (1.39%), Germany (2.17%), the Netherlands (1.55%), Hungary (5.05%), Italy (4.82%), and Luxembourg (31.58%).

banka, a.s. by 50% in relation to the raising of share capital of the bank by the mentioned company.

On 15 March 2004 the National Bank of Slovakia granted prior approval to the NPF of the SR to acquire the share in the share capital and voting rights of Slovenská sporiteľňa, a.s. owned by the Ministry of Finance of the SR, which represented a share of 10%. This share was (according to the record from the Central Depository of Securities as at 30 April 2004) transferred to ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG, Vienna, a total share of which in the share capital of Slovenská sporiteľňa, a.s. was 80.01%.

On 23 April 2004 the decision of the National Bank of Slovakia to withdraw the banking licence from DEVÍN BANKA, a. s. entered into force.

In 2004 the trade name of Stavebná sporiteľňa VÚB-Wüstenrot, a. s. was changed to Wüstenrot stavebná sporiteľňa, a. s. and CREDIT LYONNAIS BANK SLOVAKIA, a. s. was changed to CALYON BANK SLOVAKIA a. s.

The National Bank of Slovakia in its decision of 3 December 2004 gave prior approval to Poštová banka, a. s. to change its registered office from Gorkého ulica to Prievozská ulica in Bratislava. As at 31 January 2005 the bank sent an excerpt from the Commercial Register documenting the entry of this change.

On 5 February 2004 the National Bank of Slovakia registered the representative office of ABN AMRO Bank N. V., Amsterdam, AG in Bratislava. Based on the application submitted by COMMERZBANK Aktiengesellschaft, Frankfurt am Main on 27 February 2004, the National Bank of Slovakia cancelled the registration of the representative office of the mentioned bank. Based on the application submitted by Dresdner Bank AG, Frankfurt am Main on 14 May 2004, the National Bank of Slovakia cancelled the registration of the representative office of the mentioned bank. Total number of representative offices of foreign banks was seven as at 31 December 2004.

Following the Slovak Republic's accession to the European Union the provisions of Articles 11 to 20 of the Act on Banks entered into force, on the basis of which credit institutions registered in the European Economic Area (all EU member states plus Norway, Lichtenstein and Iceland) may conduct banking activities in the Slovak Republic without a banking licence granted by the National Bank of Slovakia, provided the bank has been granted a banking licence in its home state (the principle of a single banking licence). The principle of a single banking licence applies to all banking activities listed in the Act on Banks, except:

- the provision of mortgage loans pursuant to Article 67 paragraph 1 of the Act on Banks, and
- acting as depository pursuant to the Act on collective investment.

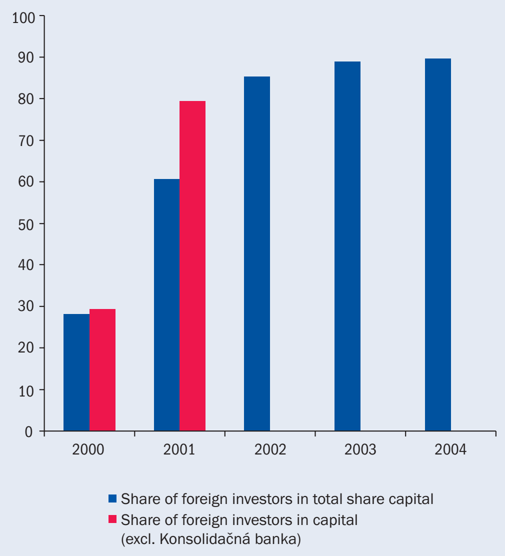
For these activities a licence must still be obtained from the National Bank of Slovakia.

ING Bank N. V. Amsterdam decided that following 1 May 2004 it would conduct banking activities in the SR on the basis of a banking licence granted to it in the Kingdom of the Netherlands. In this regard, on 9 August 2004 it returned the banking licence issued by the National Bank of Slovakia and on the same day the National Bank of Slovakia's decision granting a banking licence to the Bank for performing the function of a depositary by means of its organisational unit – a branch of foreign bank – entered into force. As of 9 August 2004 ING Bank, a. s., Bratislava, has operated on the basis of a single banking licence, i.e. it is supervised and regulated by the home state supervisory authority, in this case De Nederlandsche Bank.

Likewise, COMMERZBANK Aktiengesellschaft, Frankfurt am Main returned its banking licence on 23 August 2004 and on this day the branch of this foreign bank also began to operate on the basis of the single banking licence, i.e. being supervised and regulated by the home state supervisory authority, in this case Bundesanstalt für Finanzdienstleistungsaufsicht.

Both branches remain obliged to provide regular information about their activities to the National Bank of

Chart 33 **Share of foreign investors in the share capital and funds provided by foreign banks to their branches** **(%)**



Source: NBS.

Table 37 **Foreign banks in the SR**

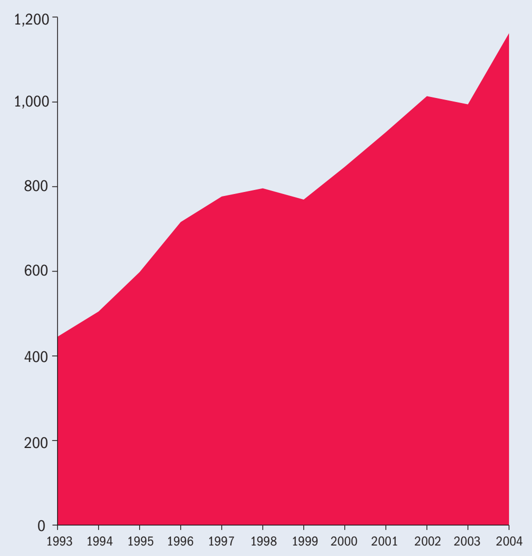
EU Member State	No. of foreign banks
Denmark	1
France	2
the Netherlands	2
Ireland	3
Luxembourg	1
Hungary	2
Germany	9
Austria	9
United Kingdom	18
Italy	1

Source: NBS.

Slovakia; at the same time the National Bank of Slovakia performs supervision of the branches' liquidity, though the mentioned foreign supervisory authorities are authorised to impose fines and perform corrective measures and perform on-site inspections associated with prudential banking activities of the respective branch, in some instances also in cooperation and coordination with the NBS.

On the basis of notifications sent by foreign supervisory authorities pursuant to Article 11(2) of the Act on Banks and Article 21 (2) of Directive 2000/12/EC relating to the taking up and pursuit of the business of credit institutions on the intention of a foreign bank to perform, or provide, banking activities stated in Annex 1 to the Directive, the Banking Supervision Division as

Chart 34 **Development of the Slovak banking sector's total assets (as at 31 December)** **(SKK billions)**



Source: NBS.

at 31 December 2004 registered forty-eight entities, or foreign banks freely providing cross border banking services (Table 37 shows the breakdown of foreign banks by country).

3.2. Economic results of the banking sector

The total assets (total net assets) for the twenty-one banks of the SR banking sector had grown as at the end of 2004 in comparison with the end of 2003 by SKK 177.5 billion (by 18.0%) to SKK 1,162.9 billion.

The development of the banking sector's total assets was influenced both by the growth of secondary funds (SKK 86.8 billion), as well as primary funds (SKK 83.1 billion). The volume of non-anonymous deposits grew by SKK 17.5 billion (by 4.3%) to SKK 423.3 billion.

The volume of earning assets reported by the banking sector grew in comparison with the end of 2003 by SKK 182.4 billion to SKK 1,091.0 billion. The share of earning assets in total assets had over the course of 2004 a similarly growing trend and as at 31 December 2004 reached 93.8%, representing a growth of 1.6% compared to the end of 2003.

Total claims from loans reported by banks as at the end of 2004 were SKK 442.4 billion. Classified loans fell by SKK 4.2 billion to SKK 31.7 billion, i.e. by 11.6%. Banks created SKK 25.5 billion in provisions. Coverage of classified loans by created provisions as at the end of 2004 stood at 80.4%. The share of classified loans in total loans fell to 7.2%.

Banks reported a net profit as at 31 December 2004 of SKK 12.3 billion. In a year-on-year comparison this represents a growth of SKK 1.0 billion (8.5%). One bank reported a loss for the current period as at 31 December 2004 (at 31 December 2003 two banks reported a loss).

3.3. Evaluation of the banking sector's risks

Banking entities take on a number of risks related to the conditions under which they conduct business. Specific risks arise in direct connection to banking activities and result from the internal conditions of the given sector, types of business, clientele, types of technology, etc. The main risks of banking business include credit risk, market risks (exchange rate/currency risk, interest rate risk, equity risk, commodity risk) liquidity risk and country risk.

Banking operations are also exposed to other risks which, however, are difficult to quantify and regulate,

Table 38 **Banking sector of the SR**

	31 Dec. 2003	31 Dec. 2004	Difference Dec. 04/Dec. 03	Change Dec. 04/Dec. 03
Number of employees	19,797	19,720	-77	-0.39%
Number of banks in the SR	18	18	0	0.00%
Number of branches of foreign banks in the SR	3	3	0	0.00%
Number of representative offices of foreign banks in the SR	8	7	-1	-12.50%
Number of branches in the SR	553	587	34	6.15%
Number of lower organisational units in the SR	504	526	22	4.37%
Number of branches in other countries	1	1	0	0.00%
Number of lower organisational units in other countries	2	0	-2	-100.00%
Number of representative offices in other countries	1	1	0	0.00%
Total assets (in SKK thousand)	985,445,707	1,162,935,361	177,489,654	18.01%
Earning assets (in SKK thousand)	908,597,027	1,090,962,975	182,365,948	20.07%
Total interbank assets (in SKK thousand)	271,575,986	378,117,213	106,541,227	39.23%
Total foreign exchange assets (in SKK thousand)	146,048,650	167,212,165	21,163,515	14.49%
Securities (in SKK thousand)	358,364,029	377,791,590	19,427,561	5.42%
Total loans (in SKK thousand)	395,154,645	442,361,143	47,206,498	11.95%
of which: classified loans (in SKK thousand)	35,868,781	31,703,394	-4,165,387	-11.61%
loans to households (in SKK thousand)	85,113,661	116,806,841	31,693,180	37.24%
loans to non-financial corporations (in SKK thousand)	247,933,822	225,925,388	-22,008,434	-8.88%
Share of classified loans in total loans (%)	9.08	7.17	-1.91	–
Uncovered expected loss (in SKK thousand)	510,688	10,355	-500,333	-97.97%
Provisions for loan losses (in SKK thousand)	29,093,617	25,489,675	-3,603,942	-12.39%
Statutory reserves (in SKK thousand)	2,733,706	6,961,072	4,227,366	154.64%
Share capital (in SKK thousand)	40,442,576	41,433,475	990,899	2.45%
Own funds (in SKK thousand)	105,875,293	100,626,465	-5,248,828	-4.96%
Secondary funds (in SKK thousand)	96,466,762	183,301,896	86,835,134	90.02%
Primary funds (in SKK thousand)	708,292,274	791,384,116	83,091,842	11.73%
of which: non-anonymous deposits (in SKK thousand)	405,802,712	423,290,430	17,487,718	4.31%
Current period profit (in SKK thousand)[1)]	11,548,335	12,287,442	739,107	6.40%
Current period loss (in SKK thousand)[1)]	231,918	6,614	-225,304	-97.15%
Net profit/loss (in SKK thousand)[1)]	11,316,417	12,280,828	964,411	8.52%
Cumulative profit/loss (in SKK thousand)[1)]	34,577,036	37,722,258	3,145,222	9.10%
Capital adequacy ratio (%)	21.59	18.68	-2.91	–

Source: NBS.
1) Year-on-year data.

even if the potential risks of losses associated with them may sometimes be very high. This may mean, for example, the risk of goodwill loss, legal risks, unforeseeable circumstances risks, or operational risks, which grow with the continually new forms of alternative distribution channels. The basic rules and limits, the aim of which is to restrict the level of risks taken on and to ensure sufficient funds for covering possible losses, are codified in the respective regulations issued by NBS banking supervision. Internal prudential procedures for the banks overall management and for individual types of operations remain the basic prerequisite for a bank's successful operation; the way in which banks are able to identify, monitor and manage individual risks will always be of critical importance for limiting banking risks.

3.4. Banking supervision performance

Banking supervision is also performed by means of secondary legislation, licensing decrees and prudential regulations.

In 2004 the Banking Supervision Division issued fifteen decrees; decrees amending existing decrees, as well as new decrees reflecting changes resulting, in particular, from the amendment to the Act on Banks.

Also approved was the Decree of the National Bank of Slovakia and Ministry of Finance of the SR amending the Decree of the NBS and MF of the SR on the mortgage register and details on the position and their activity of the mortgage administrator and his representative.

The Banking Supervision Division published as a part of the pro-active banking supervision seven methodological instructions concerning secondary legislation, which are published on the NBS website and in the Official Journal of the NBS.

Over the course of 2004 the Banking Supervision Division performed five full-scope, seven follow-up, and seven targeted on-site inspections.

In 2004 the Banking Supervision Division of the National Bank of Slovakia issued 143 decisions in the field of licensing activity including decisions on the suspension of proceedings, proceedings for breaches of law and decisions on the withdrawal of a banking licence.

3.5. Evaluation of banks' compliance with prudential banking rules

The adequacy of own funds ratio of the Slovak banking sector as at the end of December 2004 reached 18.96%. In a year-on-year comparison with the figure for 31 December 2003 this represents a decline of 2.64%. All banks complied with the limit for own funds adequacy of 8% during the fourth quarter of 2004, since own funds adequacy values moved in the range from 11.84% through 52.79%.

All banks complied with the limit on a bank's large exposure towards a parent or subsidiary or towards a group of economically connected persons one of whose members is a bank (20% of own funds) from March 2004, (as at 31 January 2004 and at 29 February 2004, one bank did not comply with this limit).

Five banks failed to comply with the limit on a bank's large exposure towards another person, a group of economically connected persons or towards countries and central banks (25% of own funds) in the period monitored to October 2004.

All banks complied with the limit on the sum of a bank's large exposures (800% of own funds) in 2004. All banks in 2004 also complied with the ratio of large exposure towards a natural person to the bank's own funds in the amount of 2%.

All banks in 2004 complied with the ratio of large exposure towards a legal person (other than a bank headquartered in a zone A state) to the bank's own funds in the amount of at most 10%. All banks likewise complied with the ratio of large exposure to all persons with a special relation to the bank, to its own funds in the amount of at most 40%.

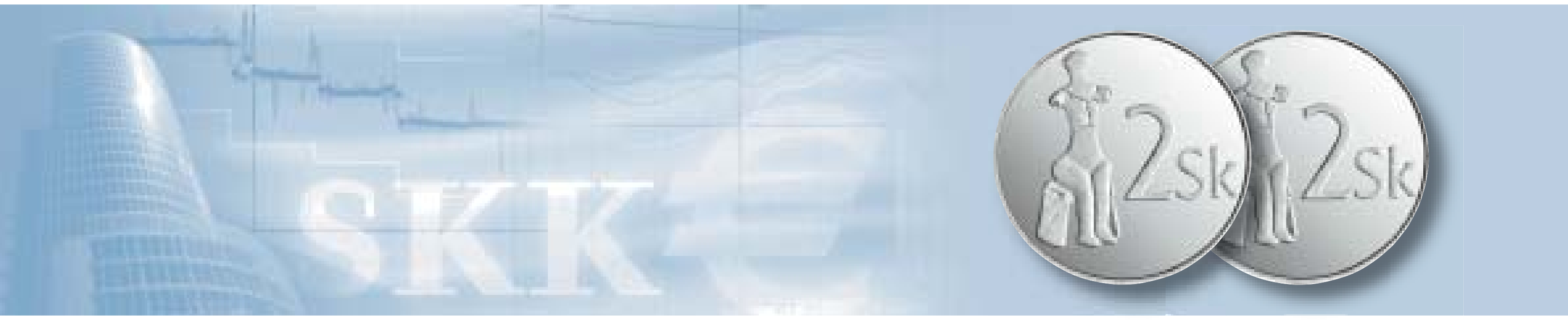
The new NBS Decree No. 3/2004 on the liquidity of banks and branches of foreign banks and on the process of liquidity risk management of banks and liquidity of branches of foreign banks with effect from 31 January 2004 sets the following limit: the limit of the ratio of a bank's fixed assets to its non-liquid assets is at maximum 1. All banks in 2004 complied with this limit.

Cooperation of the banking supervision division with domestic and international institutions

The Banking Supervision Division in the fulfilment of tasks resulting from the long-term Supervisory Development Plan for banking supervision cooperates with domestic and foreign supervisory authorities. On 12 February 2004 a Memorandum of Understanding was concluded and signed with the Malta Financial Services Authority.

In view of the organisational changes made by the Minis ry of the Interior of the SR, as well as of the increasing importance of terrorism financing detection, on 12 November 2004 an addendum to the Memorandum of Understanding with the Ministry of the Interior and the Presidium of the Police Corps was approved and signed.

Issuing Activity and Currency in Circulation



4. Issuing Activity and Currency in Circulation

4.1. The issue of Slovak currency

In 2004, the National Bank of Slovakia secured the printing of 63 million banknotes in the value of 20 Slovak koruna (Sk) and 59.606 million banknotes in the value of 100 Sk in line with the needs of currency circulation. The 20 Sk notes were printed by the company Giesecke & Devrient GmbH at the BA International Inc. works in Ottawa, while the 100 Sk notes were printed by Polska Wytwornia Papierow Wartosciowych S.A. in Warsaw.

Apart from the banknotes, the National Bank of Slovakia secured the production of 16.5 million coins in the value of 50 haliers of the 1996 type. The striking of 49 thousand coins with the values of 10 Sk, 5 Sk, 2 Sk, 1 Sk and 50 haliers was approved in the plan for 2004. They were to be included in annual collector sets, whose production and sale has been secured by the Kremnica Mint from 2004. However, only 8 thousand coins of each value were produced up to the end of the year.

The National Bank of Slovakia issued five commemorative coins for collectors during 2004. The commemorative 200 Sk silver coin for the 200th anniversary of the death of Wolfgang Kempelen, the commemorative 200 Sk silver coin with the motif of the UNESCO World Heritage – Bardejov town conservation reserve and the commemorative bi-metal 10000 Sk coin to mark the occasion of the accession of the Slovak Republic to the European Union were struck by the Kremnica Mint. The Bižuterie Česká Mincovna Jablonec nad Nisou (Czech Republic) produced the commemorative 200 Sk silver coin for the accession of the Slovak Republic to the European Union, while the Polish mint Mennica Państwowa Warszawa produced the commemorative 5000 Sk gold coin from the UNESCO World Heritage thematic circle – Bardejov town conservation reserve.

Apart from these coins, another two commemorative coins from the 2005 issuing plan were delivered to the National Bank of Slovakia by the end of the year. They are the commemorative silver 200 Sk coin for the 300th anniversary of the birth of Ján Andrej Segner, produced by the Mennica Państwowa Warszawa, and the silver 500 Sk coin with the theme Protection of nature and the landscape – Slovenský Kras National Park, produced by the Bižuterie Česká Mincovna Jablonec nad Nisou.

4.1.1. Currency in circulation and the annual issuance in the Slovak Republic

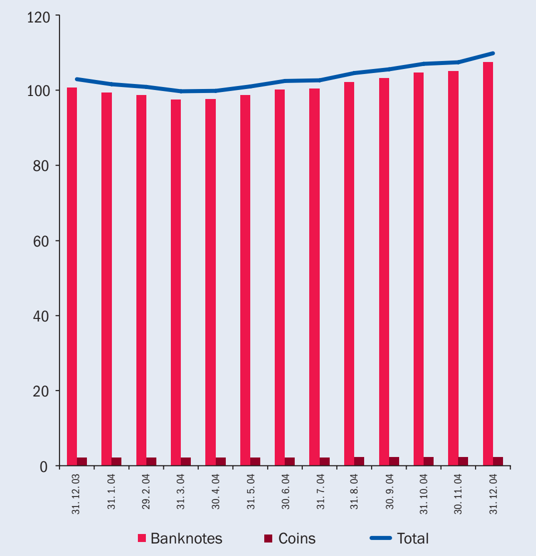
2004 was an extraordinary year for the NBS in the area of securing the need for currency in circulation. In accordance with the approved conception for storing and processing money exclusively in its own storage

Table 39 **Commemorative coins issued by the NBS in 2004**

Face value	Event commemorated by the coin	Number of coins issued Total	Number of coins issued Proof	Decree of the NBS
200 Sk[1)]	200th Anniversary of the Death of Wolfgang Kempelen	11,200	3,200	84/2004 Coll.
10000 Sk[2)]	The Entry of the Slovak Republic to the European Union	7,200	7,200	219/2004 Coll.
200 Sk[1)]	The Entry of the Slovak Republic to the European Union	15,200	4,700	228/2004 Coll.
200 Sk[1)]	UNESCO World Heritage, Bardejov – Town Conservation Reserve	12,000	3,600	400/2004 Coll.
5000 Sk[3)]	UNESCO World Heritage, Bardejov – Town Conservation Reserve	6,300	6,300	602/2004 Coll.

Source: NBS.
1) commemorative silver coin
2) commemorative bi-metal coin (gold and palladium)
3) commemorative gold coin

Chart 35 **Monthly development of currency in 2004** **(SKK billions)**



Source: NBS.

and processing capacities, the NBS issuing activity began to be performed from 1 April 2004, in the new buildings of the NBS sub-branches in Trenčín, Nové Zámky, Žilina, Lučenec, Poprad and Humenné. From 1 July 2004 to 30 September 2004, the administration of stocks of Slovak currency in selected branches of VÚB a.s. was phased out. The stocks of currency from these branches were moved to the sub-branches and other storage and processing premises of the NBS. On 1 October 2004, the administration of the stocks of Slovak currency began to be exclusively carried out by the storage and processing premises of the NBS.

On 31 December 2004, the amount of currency in circulation in the Slovak Republic, including Slovak commemorative coins and commemorative coins issued up to 1993, reached SKK 109.9 billion. Compared with 31 December 2003, the value of currency in circulation rose by SKK 7 billion. The year-on-year growth index of the value of currency in circulation was 6.8%.

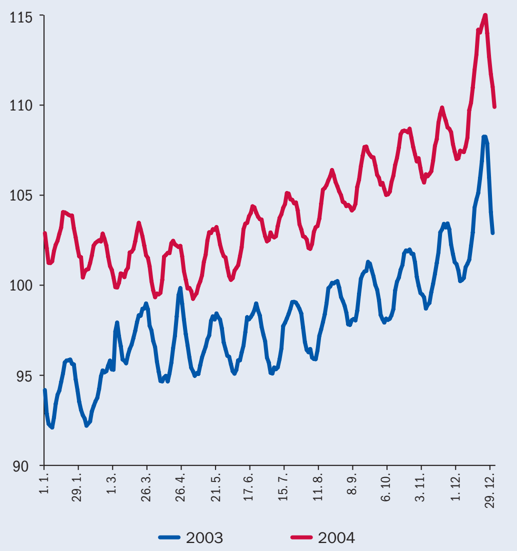
The amount of currency in circulation (as at the end of each month) did not show any remarkable fluctuations in the course of the year. The development of currency in circulation followed a typical seasonal pattern with a decline in the quantity of money in circulation in the first quarter and growth in the period before Christmas.

Table 40 **Currency in circulation** **(in SKK)**

Face value	Amount in SKK 31 Dec. 2004	Amount in SKK 31 Dec. 2003	Proportion in % 31 Dec. 2004	Proportion in % 31 Dec. 2003
Banknotes				
5000 Sk	49,702,892,500.00	46,670,537,500.00	45.23	45.36
1000 Sk	47,876,243,500.00	44,481,039,500.00	43.56	43.23
500 Sk	4,428,680,875.00	4,211,760,875.00	4.03	4.09
200 Sk	1,845,758,050.00	1,633,106,650.00	1.68	1.59
100 Sk	2,301,353,750.00	2,433,402,150.00	2.09	2.36
50 Sk	734,480,750.00	704,581,450.00	0.67	0.68
20 Sk	638,825,785.00	585,903,985.00	0.58	0.57
Total	107,528,235,210.00	100,720,332,110.00	97.84	97.88
Coins				
10 Sk	841,644,250.00	793,744,170.00	0.77	0.77
5 Sk	285,320,630.00	263,306,390.00	0.26	0.26
2 Sk	198,922,848.00	187,782,308.00	0.18	0.18
1 Sk	129,606,519.00	121,266,414.00	0.12	0.12
50 hal.	23,731,231.00	24,243,332.00	0.02	0.02
50 hal. II	53,230,098.50	41,538,519.50	0.05	0.04
20 hal.	45,006,308.60	54,910,903.60	0.04	0.05
10 hal.	27,304,295.00	31,803,762.40	0.02	0.03
Circulation coins in total	1,604,766,180.10	1,518,595,799.50	1.46	1.48
Commemorative coins	767,048,850.00	660,535,075.00	0.70	0.64
Currency in circulation in total	109,900,050,240.10	102,899,462,984.50	100.00	100.00

Source: NBS.

Chart 36 **Daily development of currency in circulation** **(SKK billions)**



Source: NBS.

The development of the daily amount of currency in circulation in the course of the year was steady and without extraordinary fluctuations. In the course of the year, the value of currency in circulation varied from SKK 99.2 billion to SKK 115.1 billion. The minimum level of currency in circulation was reached on 4 May 2004 and the maximum value was achieved in the pre-Christmas period, on 23 December 2004.

4.1.2. The structure of currency in circulation

On 31 December 2004, 145.6 million banknotes with a value of SKK 107.5 billion, 1,022.3 million circulation coins with a value of SKK 1.6 billion, and 795 thousand commemorative coins issued by the NBS with a value of SKK 577.8 million were in circulation.

In the total value of currency in circulation, banknotes accounted for 97.8%, circulation coins 1.5% and commemorative coins including those issued before 1993 0.7%. In the total number of coins and banknotes in circulation, banknotes accounted for 12.45%, circulation coins 87.48% and commemorative coins 0.07%.

Banknotes contributed SKK 6.8 billions (97.3%) to the total growth of the currency in circulation of SKK

4

Table 41 **Currency in circulation** **(in pieces)**

Face value	Amount in pieces 31 Dec. 2004	Amount in pieces 31 Dec. 2003	Proportion in % 31 Dec. 2004	Proportion in % 31 Dec. 2003
Banknotes				
5000 Sk	9,940,578.50	9,334,107.50	0.85	0.77
1000 Sk	47,876,243.50	44,481,039.50	4.10	3.68
500 Sk	8,857,361.75	8,423,521.75	0.76	0.70
200 Sk	9,228,790.25	8,165,533.25	0.79	0.67
100 Sk	23,013,537.50	24,334,021.50	1.97	2.01
50 Sk	14,689,615.00	14,091,629.00	1.26	1.16
20 Sk	31,941,289.25	29,295,199.25	2.73	2.42
Total	145,547,415.75	138,125,051.75	12.45	11.41
Coins				
10 Sk	84,164,425.00	79,374,417.00	7.20	6.56
5 Sk	57,064,126.00	52,661,278.00	4.88	4.35
2 Sk	99,461,424.00	93,891,154.00	8.51	7.76
1 Sk	129,606,519.00	121,266,414.00	11.09	10.02
50 hal.	47,462,462.00	48,486,664.00	4.06	4.01
50 hal. II	106,460,197.00	83,077,039.00	9.11	6.86
20 hal.	225,031,543.00	274,554,518.00	19.26	22.69
10 hal.	273,042,950.00	318,037,624.00	23.36	26.28
Circulation coins in total	1,022,293,646.00	1,071,349,108.00,	87.48	88.53
Commemorative coins	794,682.00	733,467.00	0.07	0.06
Currency in circulation in total	1,168,635,743.75	1,210,207,626.75	100.00	100.00

Source: NBS.

7 billion in 2004, with circulation coins contributing SKK 86.2 million (1.2%) and commemorative coins contributing SKK 106.6 millions (1.5%).

Of the value of currency in circulation, the 1000 Sk banknote showed the largest growth during 2004, with almost 3.4 million banknotes worth SKK 3.4 billion. It was followed by the 5000 Sk banknotes with 606,000 banknotes worth more than SKK 3 billion. The most numerous banknotes in circulation were the 1000 Sk with 47.9 million pieces, followed by the 20 Sk with 31.9 million banknotes and the 100 Sk with 23 million. The highest value was represented by the 5000 Sk (SKK 46.7 billion) and 1000 Sk (SKK 44.5 billion) banknotes, which formed a total of 88.8% of the value of currency in circulation.

The number of coins in circulation declined by 49.1 million during 2004. The decline was caused by the end of the validity of the 20 and 10 halier coins on 31 December 2003. 49.5 million 20 halier coins and 45 million 10 halier coins were returned from circulation during 2004.

The end of the validity of the 10 and 20 halier coins was reflected in a significant growth in the issuance of 50 halier and 1 Sk coins. In 2003, 3.8 million 50 halier coins were issued, however, in 2004, this number increased by as many as 22.4 million. The 1 Sk coin also increased in number, although not to the same extent. 4.1 million of them were issued in 2003, as opposed to 8.3 million in 2004. Issuance of the other coins (2 Sk, 5 Sk and 10 Sk) also increased in comparison with 2003, however, the number of coins of any of these values issued was not higher than 5.6 million.

The total number of commemorative coins in circulation grew during 2004 by 612,000, i.e. by SKK 106.6 million. A total of 898 federal commemorative coins with a value of SKK 107,100 were returned from circulation. Their validity ended on 30 September 2000.[9]

4.1.3. The average value of currency in circulation

The value of currency in circulation, including commemorative coins, reached SKK 20,427 per capita[10] on 31 December 2004. This consisted of SKK 19,986 in banknotes, SKK 298 in circulation coins and SKK 143 in commemorative coins. In comparison with 2003, the total value of currency in circulation per capita increased by SKK 1,299, of which banknotes accounted for SKK 1,263, circulation coins SKK 16 and commemorative coins SKK 20.

There were 27 banknotes per capita, which is one more than in 2003. The most numerous were the 1000 Sk banknotes with 9 banknotes per capita and the 20 Sk banknotes with 6 per capita. The number of circulation coins per capita in 2004 declined compared to 2003 from 199 to 190. Halier coins still have the largest share with 121 pieces per capita compared to 134 in 2003. In spite of the fact that the validity of the 10 and 20 halier coins ended on 31 December 2003, and 49.5 million 20 halier and

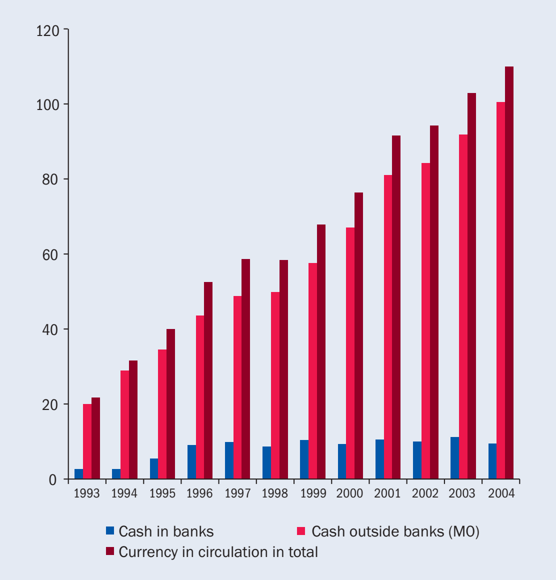
Table 42 **Development of the average value of the currency mark** **(SKK)**

Year	Banknotes	Circulation coins	Currency including commemorative coins
1993	289.3	3.2	90.2
1994	384.1	2.0	76.4
1995	455.6	1.8	76.7
1996	537.3	1.7	81.8
1997	566.3	1.6	80.5
1998	552.3	1.5	72.2
1999	594.1	1.5	76.1
2000	631.4	1.4	77.1
2001	693.6	1.4	84.4
2002	697.8	1.4	80.3
2003	729.2	1.4	85.0
2004	738.8	1.6	94.0

Source: NBS.

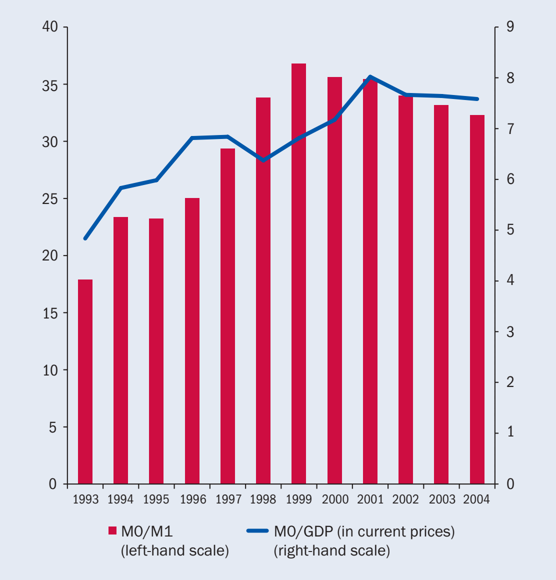
[9] *Decree of the NBS No. 278/2000 Coll. on ending the validity of the commemorative silver coins from the Czecho-Slovak currency issued from 21 August 1954 to 31 December 1992.*
[10] *Population as of 31 December 2003. Source: Statistical Office of the SR.*

Chart 37 **Currency in circulation held by credit institutions and outside credit institutions (SKK billions)**



Source: NBS.

Chart 38 **Proportion of M0 to M1 and GDP (%)**



Source: NBS.

45 million 10 halier coins returned to the stocks of the NBS, they are still the most numerous coins in circulation. On 31 December 2004, there were 51 ten halier coins per capita and 42 twenty halier coins, compared to 59 pieces of 10 halier and 51 pieces of 20 halier in 2003.

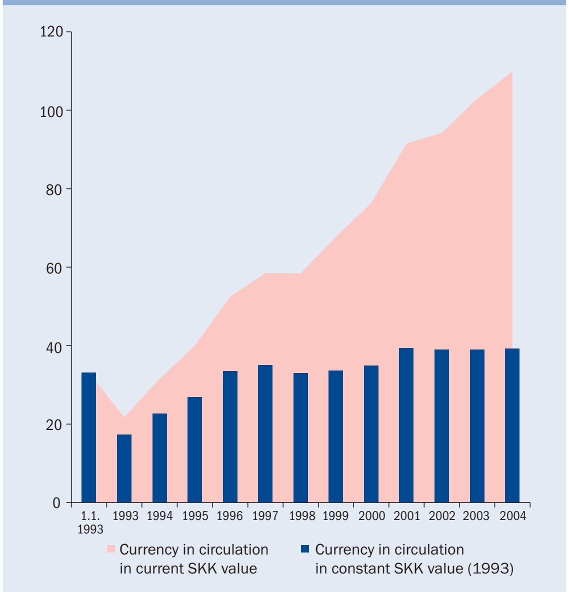
The average value of the currency mark[11] reached SKK 94 in 2004, an increase of SKK 9 during the year. Its development corresponds to the development of the quantity and value of currency in circulation. A comparison of the development of the value of the currency mark since 1993, according to individual types of currency, is given in table 42.

4.1.4. Currency in circulation and selected macroeconomic variables

The amount of currency in circulation by 31 December 2004 increased from SKK 102.9 billion to SKK 109.9 billion (6.8%). From this, the amount held by the public grew from SKK 91.8 billion to SKK 100.5 billion, i.e. by 9.5%, while currency held by the banks declined from SKK 11.1 billion to SKK 9.4 billion, i.e. by 15.3%

The proportion of M0 to the aggregate M1[12] reached a value of 32.3% in 2004. In comparison with 2003, it declined by 0.9%, which indicates that the level of cashless payments in Slovakia is gradually increasing.

Chart 39 **Effect of inflation on currency in circulation (SKK billions)**



Source: NBS.

The proportion of M0 to GDP[13] reached the same value in 2004 as in 2003, i.e. 7.6%.

[11] *Average value of the currency mark = total value in circulation / total number of coins and banknotes in circulation.*
[12] *The aggregates M0 and M1 are calculated according to the NBS methodology (Monetary Survey January 2005).*
[13] *Source: Statistical Office of the SR – revised figures for 1993 – 1999.*

The value of currency in circulation in constant Sk (adjusted for inflation) has hardly changed since 2001. On 31 December 2004, it reached a value of SKK 39.26 billion[14]. The reason for the stagnation of currency in circulation in constant SKK is the fact that the annual rate of inflation was almost the same as the annual growth in the amount of currency in circulation.

4.2. Counterfeit money seized in the territory of the Slovak Republic

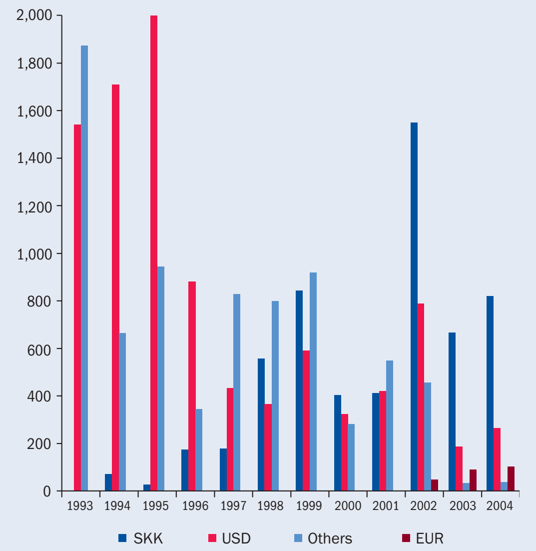
In 2004, a total of 1,223 items of counterfeit Slovak or foreign currency was seized in the territory of the Slovak Republic. Although, in comparison with 2003, the number of counterfeits seized grew by more than a quarter, it is the third lowest number seized in one year since the establishment of the National Bank of Slovakia. Almost two-thirds of the counterfeits were seized directly from circulation by the financial institutions and security services, which process money for the large retail chains.

In the structure of the counterfeit banknotes, Slovak koruna currency made up the largest proportion with 67%, followed by American dollars with 21.5%. The proportion of the euro reached 8.4% and the other foreign currencies only 3%.

4.2.1. Counterfeits of Slovak koruna

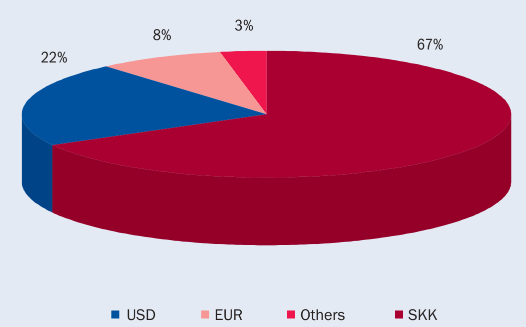
In 2004, 819 counterfeit Slovak koruna banknotes and one altered banknote were seized. Two-thirds of them were seized in four regions: Bratislava (140 items), Košice (131 items), Trenčín (151 items) and

Chart 40 **Number of counterfeits seized**



Source: NBS.

Chart 41 **Structure of counterfeits in 2004**



Source: NBS.

Table 43 **Number of Slovak koruna counterfeits seized**

Year	Face value										Total
	5000	1000	500	200	100	50	20	10	5	P1)	
2000	12	246	84	5	43	9	3	0	0	0	402
2001	2	278	55	15	54	4	3	0	0	0	411
2002	14	1,307	105	17	49	38	17	2	0	0	1,549
2003	14	396	131	58	31	27	8	0	0	1	666
2004	45	419	203	36	68	36	11	1	0	1	820

Source: NBS.
1) Altered banknotes.

[14] *With a growth of the price level since 1993 by 179.9%.*

Table 44 **Number of US dollar counterfeits seized**

Year	Face value							Total
	1	5	10	20	50	100	P1)	
2000	2	0	0	5	11	292	13	323
2001	1	0	3	9	7	398	2	420
2002	4	1	1	1	11	768	4	790
2003	0	0	0	3	3	176	5	187
2004	3	0	1	1	5	252	2	264

Source: NBS.
1) Altered banknotes, forgeries, manipulated banknotes, and others.

Table 45 **Number of euro counterfeits seized**

Year	Face value									Total
	2	5	10	20	50	100	200	500	P1)	
2002	0	0	0	2	31	14	0	1	0	48
2003	0	0	2	18	41	9	13	4	1	88
2004	3	1	0	1	48	26	17	2	5	103

Source: NBS.
1) Altered banknotes, forgeries, manipulated banknotes, and others.

4

Prešov (122 items). Banknotes with the values of 1000 Sk and 500 Sk were the most frequently counterfeited. They made up more than 75% of all the counterfeited Slovak koruna banknotes.

4.2.2. Counterfeit banknotes of foreign currencies

In 2004, 264 counterfeit American dollars, 103 counterfeit euros and 36 counterfeit banknotes of other foreign currencies were seized in the territory of the Slovak Republic. The largest number of seizures were recorded in the Bratislava region.

Counterfeit US dollars
In comparison with 2003 the number of counterfeit US dollars seized increased by 41%. The largest number of seizures was recorded in the Bratislava region, where 148 items were seized in 56 cases. The most frequently counterfeited value was the 100 USD banknote, which formed as much as 95% of the total number of USD counterfeits.

Counterfeit euros
The number of counterfeit euros has had a rising trend in the territory of the Slovak Republic since 2002. In 2004, they formed 8.4% of the total, with 103 items. In 2004, as in the previous period, the most frequently seized counterfeits were 50 EUR banknotes, which made up 46.6% of the total number of counterfeited euros.

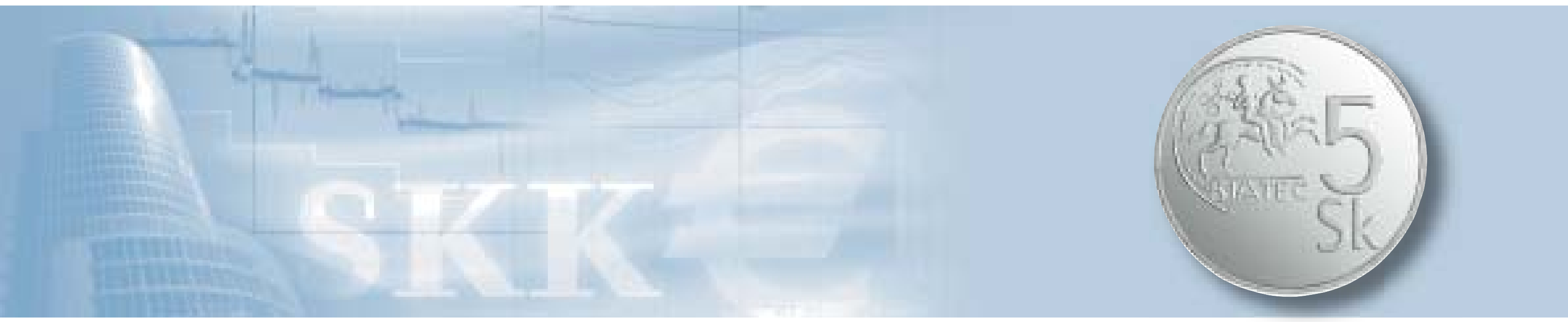
Counterfeits of other foreign currencies
The occurrence of counterfeits of other foreign currencies represented only 3% of the total number of counterfeits seized in 2004. Counterfeits of British pounds and Czech korunas formed the majority.

Table 46 **Number of counterfeits of other foreign currencies**

Year	Face value							Total
	GBP	CZK	CAD	PLN	CHF	HUF	Others1)	
2000	8	21	0	5	2	1	244	281
2001	1	243	6	9	1	1	288	549
2002	9	369	1	6	1	0	69	455
2003	20	3	6	2	1	0	0	32
2004	14	12	4	2	1	3	0	36

Source: NBS.
1) The currencies replaced by the euro, and the Norwegian krone.

Payments System



5. Payments System

5.1. Payments system in the Slovak Republic

5.1.1. Legal aspects

Act No. 510/2002 Coll. on the payment system

On 1 January 2004 Act No. 604/2003 Coll. amending Act No. 510/2002 Coll. on the payment system and on the amendment of certain other laws (the Act on the Payment System) entered into effect.

The aim of this amendment to the Act on the Payment System is primarily to ensure approximation to Directive No. 2000/46/EC of the European Parliament and of the Council on the taking up, pursuit of and prudential supervision of electronic money institutions. To this end the amendment to the Act on the Payment System governs the requirements and conditions for the authorising, taking up, organisation, management and pursuit of business and business documentation, as well as the basic obligations of electronic money institutions.

Electronic money institutions represent a specific category of non-banking legal persons licensed by the National Bank of Slovakia for electronic money activity, i.e. a licence exclusively for the issuance and administration of electronic money and electronic money payment instruments must be granted. The issuance of electronic money does indeed contain several risks (e.g. that of creating electronic cash without the corresponding counter value and the risk of alteration to the payment values in the electronic money payment instrument). With regard to these risks it is necessary that the activity and pursuit of the business of electronic money institutions are supervised and regulated by the NBS in a corresponding and adequate manner.

On the basis of Directive 2000/46/EC, the amendment to the Act on the Payment System lays down that one of the basic requirements prescribed by the act for granting an authorisation for electronic money activity for electronic money institutions is the requirement of a minimum financial deposit into the registered capital of the electronic money institution of at least EUR 1,000,000.

Related provisions were also amended, concerning the definition of a client, the basic conditions for performing payment orders, correction settlement, complaints, and the arbitration court.

Provisions concerning the technical structure of the particulars of bank account and account number creation and the issuance and registration of the list of identification codes in the form of a conversion table were deleted and replaced by more suitable implementing regulations, issued on the basis of the empowering provision added to Article 75(2)(c) and (d) of the Act on the Payment System.

This amendment adds a new provision concerning personal data as a response to the Personal Data Protection Act and a provision on the transposition of legal acts of the European Union into the legal code of the Slovak Republic.

On 1 May 2004 certain provisions of the Act on the Payment System, bound to the effect of the Treaty of Accession of the Slovak Republic to the European Union, also took effect. These are provisions concerning cross-border transfers, the right of the authorised holder of a bank payment card to request from the issuer the return of funds drawn in the case of its abuse by a person other than the authorised holder, the notification obligation of parties to payment systems and also of the National Bank of Slovakia.

IBAN format

On 1 January 2004 provisions of Articles 1 and 2 of Decree No. 7/2003 of 12 December 2003 (“Decree No. 7/2003”) laying down the structure of the particulars of an bank account for the purpose of domestic transfers, the structure of the international bank account number for the purpose of cross-border transfers and details on issuing the identification codes conversion table took effect.

The National Bank of Slovakia drew up Decree No. 7/2003 in connection to Regulation (EC) No. 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro, which became a part of the Slovak legal code on the date of the Slovak Republic's accession to the European Union (1 May 2004). In this Decree the National Bank of Slovakia laid down the format of the domestic account number and the account number in the IBAN format. The account number in the IBAN format is based on the European banking standard IBAN, issued by the European Committee for Banking Standards (ECBS).[15] The part concerning the IBAN format (provisions of Article 3 of Decree No. 7/2003) took effect only on the date of Slovakia's accession to the European Union. The National Bank of Slovakia had this account number format registered at the ECBS.

The obligation to state the account number in IBAN format is given by the rule of law, i.e. by regulation, only in the case of payments in euro. The use of the IBAN-format account number in other currencies is appropriate for automating cross-border payment systems; nevertheless, such use is not obligatory and depends on the technical capabilities of individual banks.

The National Bank of Slovakia published on its website www.nbs.sk (in the "Payment systems" section, IBAN) information on the use of the IBAN-format account number and the calculation and control of the IBAN account number. This calculation is only of an informative nature, since the bank, administering the particular account, is obliged to notify its client of the IBAN account number and the manner of its use in the payments system.

At the same time the National Bank of Slovakia has provided cooperation to companies dealing with the creation of an algorithm for the recalculation of the account number into the IBAN format. This cooperation is comprised of recommendations relating to the manner of use of the algorithm (MOD 97-10), as well as the provision of the respective standards according to which the account number recalculation algorithm can be set and incorporated into the company's software.

5.1.2. Institutional aspects

The amendment to the Act on the Payment System also specified the provisions on the Arbitration Court of the Association of Banks, which was constituted on 1 July 2003, and this with regard to the provisions of the applicable Act No. 244/2002 Coll. on arbitration proceedings so that it is unequivocally clear that the standing arbitration court, compulsorily established pursuant to the Act on the Payment System, can in an arbitration proceeding (along with ruling on disputes from the payments system) also rule on other disputes. The compulsory contributions paid by executive institutions and issuers of electronic means of payment for the activity of the permanent arbitration court serve only for the activity of the arbitration court in ruling on disputes ensuing from the payments system (i.e. not for the activity of the arbitration court in ruling on other disputes).

5.1.3. Internal market of the European Union

In 2002 the European Payments Council supported by the European banking community declared its vision of creating a Single Euro Payments Area (SEPA) by 2010, in which payments from one Member State to another will be as fast, efficient and cheap as payments within one country. Fulfilling this vision places considerable demands on the payment systems sector, which is currently undergoing deep-rooted legislative and technical changes.

Regulation (EC) No. 2560/2001 of the European Parliament and of the Council on cross-border payments in euro provides new legal regulation of cross-border payments in euro in the framework of the European Community. Its aim is to introduce the principle of equal charges for cross-border payments up to the amount of EUR 12,500 as for corresponding payments in euro made within a Member State. With effect as of 1 January 2006 the amount of EUR 12,500 shall be increased to EUR 50,000.

Regulation (EC) No. 2560/2001 on cross-border payments in euro lays down an obligation for institutions to inform the client of the amount of the charge for cross-border payments and for the payments made within the Member State. The purpose of the new legal regulation is also to facilitate the performance of cross-border payments by means of international standards, in particular account numbers in the IBAN format and the Bank Identifier Code (BIC). This Regulation lays down an obligation for institutions to state the account number in the international format IBAN and BIC on clients' account statements and cancels the obligation of regular national notifications of cross-border payments up to the amount of EUR 12,500 for the purpose of balance-of-payment statistics.

The realisation of Regulation (EC) No. 2560/2001 is enabled by the STEP2 system, operated by the Euro Banking Association Clearing house. This is the first pan-European automated clearing house. The requirement of the European Central Bank was to fulfil the resolutions of the European Payments Council by the financial institutions of the new EU Member States, by the end of 2004. This resolution lays down an obliga-

[15] *ECBS publication "Register of European account number" is available on the ECBS website and from 12 January 2005 onwards it also contains the IBAN format of the account number applicable in the Slovak Republic.*

tion for financial institutions to receive payments sent via the STEP2 system. Likewise, banks and branches of foreign banks in the Slovak Republic were to declare this capability not later than by the end of 2004. The banking sector of the Slovak Republic decided to accede to the STEP2 indirectly, by means of direct participants to the system.

The European Commission is preparing a new legal framework for payments, which will also significantly influence the future form of the Slovak legislation. The National Bank of Slovakia participated in this field in 2004 as a member of the working group of the European Commission. The draft future European legislation has the form of a European Commission Directive on payment services in the Internal Market and of a Regulation of the European Parliament and of the Council on payer's information accompanying credit transfers and transfers sent by money remitters.

The aim of the draft Commission Directive is to harmonise the legal codes of Member States in the field of the provision of payment services in the internal European Union market. Another aim is to improve client protection and increase the efficiency and safety of payments by removing any technical and legal barriers. The draft regulates the rights and obligations of providers and users of payment services. The proposed legal regulation does not cover cash payment services and cheques, which are excluded from this draft. Through adopting the new Commission Directive on payment services in the Internal Market, certain European Communities legal regulations, implemented in the Act on the Payment System, is repealed. Adopting the draft Directive shall require an amendment to the current legal regulation of the payments in the Slovak Republic, i.e. amendment to the Act on the Payment System.

The main purpose of the Regulation of the European Parliament and of the Council on payer's information, accompanying credit transfers and transfers sent by money remitters, is to implement the special recommendation of the FATF (Financial Action Task Force on Money Laundering and Terrorist Financing, Recommendation No. VII) and to ensure the availability of information on the payer to the respective institutions in the fight against the terrorist financing. This Regulation shall become a part of the Slovak legal code without the need for its transposition.

5.2. The Interbank Payment System SIPS

In 2004 the National Bank of Slovakia continued to operate the SIPS payment system. The rules of this system are laid down in Act on the Payment System and by a contract on the SIPS payment system, concluded between the NBS and each participant in the payment system.

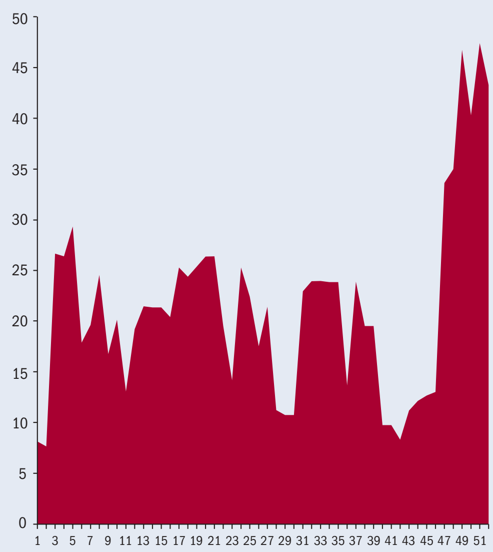
A condition for entering and participation in SIPS is the concluding of a contract on the SIPS payment system according to Article 48 (2) and according to related provisions of the Act on the Payment System, between the NBS and the applicant. The NBS concludes the same contract on the payment system with each applicant. The contract is concluded in the Slovak language. The text of this contract is published on the NBS website. The contract contains, among others, a specification of the structure and formats of payment orders, the time schedule of the SIPS operation and the table of fees.

All changes concerning participants (incorporation of a new participant, changes in participation, exclusion of a participant, etc.) are reflected in the conversion table containing the identification codes for domestic payments. The number of active participants of the SIPS interbank payment system rose by three, to a total of 28.

The NBS expanded the functionality of the SIPS by real time gross settlement. Following their settlement in the SIPS, these payments are final and irrevocable. After the payment settlement, the SIPS sends to the relevant participant a notification on the realisation of the payment and an output clearing file intended for settlement of the payment in the accounting system of the SIPS's participant.

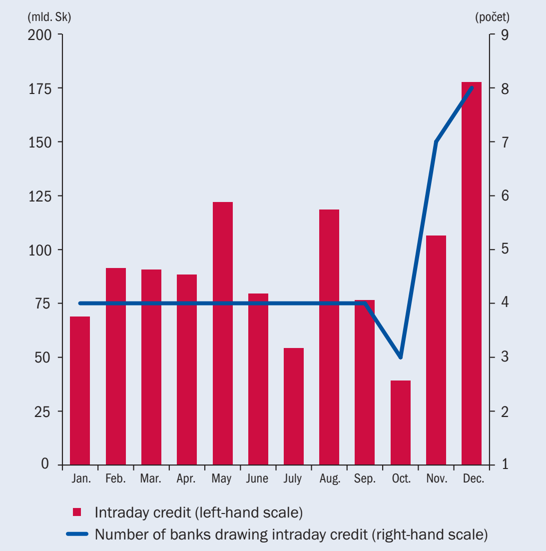
The provision of intraday credit contributed to the smoothness of the interbank payment system for

Chart 42 **Volume of intraday credit provided in 2004 (weekly values) (SKK billions)**



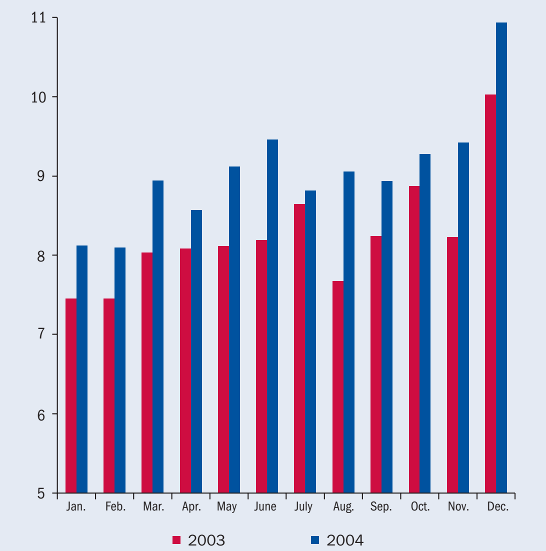
Source: NBS.

Chart 43 **Volume of intraday credit provided in 2004**



Source: NBS.

Chart 44 **Number of transactions processed in the SIPS system (millions)**



Source: NBS.

those participants who are obliged to create the mandatory minimum reserves. The intraday credit is provided in the form of the option of overdrawing funds in the clearing account, by setting a maximum debit balance. The intraday credit is payable only in the framework of one operating day and must be fully secured by a collateral, i.e. by a sufficient number of securities in the relevant value which are registered in the central short-term securities register administered by the NBS. At present the maximum overdraft position of a participant, on the basis of its request, is set manually by the NBS operator.

The participants who applied for intraday credit were provided such credit in the total amount of almost SKK 1,113 billion. The volume of intraday credit provided to participants is monitored on a weekly basis. The National Bank of Slovakia weekly provided intraday credit at an average volume of SKK 21,397 million. Chart 42 shows the weekly development of the volume of intraday credit provided in 2004.

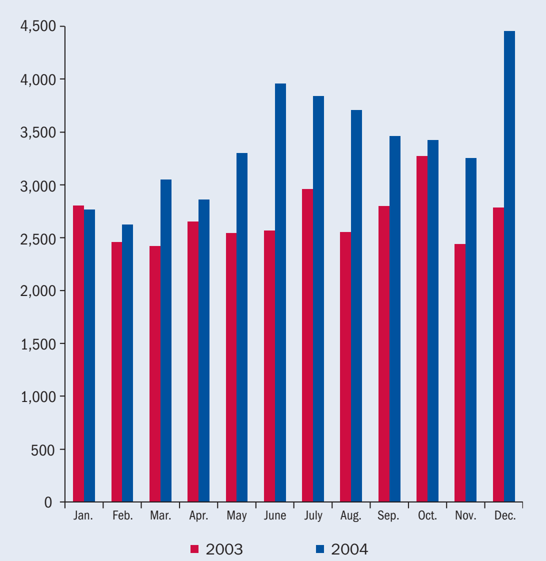
Chart 43 shows the volume of intraday credit provided on a monthly basis in 2004 and the number of participants to the SIPS who drew this credit.

In order to increase the security of data transfer in the interbank payment system in the case of a non-standard situation, the possibility of emergency data transfer of the payment system has been introduced. This solution ensures the full integrity and protection of emergency data transfers. Emergency data transfer was successfully tested in December 2004 in cooperation with SIPS participants.

Over the course of 2004 almost 109 million transactions were processed in SIPS, representing an increase on 2003 of 9.83%. Chart 44 provides a comparison of the number of transactions processed in SIPS on a monthly basis in 2003 and 2004.

The total value of transactions processed in 2004 represents more than SKK 40,692 billion. The year-on-year trend of growth is also confirmed by the value of processed transactions. Compared to 2003 their

Chart 45 **Volume of transactions processed in the SIPS system (SKK billions)**



Source: NBS.

value grew by 26.18%. Chart 45 compares the volume of transactions processed in SIPS on a monthly basis in 2003 and 2004.

Of the total number of processed transactions, priority payments formed 0.065%, where however the value cleared by them represented about SKK 18,000 billion, which is more than 44% of the volume of all payments processed. The average value of one priority payment was SKK 254 million. Normal payments represented more than 99% of the number and approximately 55% of the value of transactions processed. The average value of one normal payment was SKK 209,000.

Information on the number and volume of transactions processed in SIPS is published on the website of the National Bank of Slovakia, with a daily update at 3:50 P.M.

At bank holidays and weekends the payment system is closed and its maintenance takes place. In 2004 there were 252 working days. SIPS processed and cleared an average 431,000 payments in a total volume of more than SKK 161 billion daily. To better understand this data, we can say that over the space of approximately 8 working days SIPS processes and clears payments totalling the accumulated value of the Slovak Republic's gross domestic product in 2004.

5.3. Payment instruments

Some of the most used instruments of the non-cash payments are credit transfers and electronic payment instruments. Of the electronic payment instruments the most used are remote access payment instruments, meaning in particular bank payment cards and last but not least the payment applications of electronic banking, which enable a bank's clients to draw funds from their bank account by means of electronic communication media (e.g. internet banking, home banking or telephone applications).

At 31 December 2004 a total of 3,630,309 bank payment cards were in circulation, where most of them were debit bank payment cards – 80.3% (2.91 million), credit bank payment cards formed 19.5% (707,000) and charge cards 0.2% (fewer than 9,000). Compared to the previous year, 2004 saw a 51% growth in credit bank payment cards and an 20% increase in the issuance of bank payment cards.

Almost 80% of the total number of bank payment cards in circulation are international bank payment cards, 20% are domestic bank payment cards. Banks are issuers of the following bank payments cards: VISA (VISA and VISA Electron) and MasterCard Europe (MasterCard and Maestro), American Express, Diners Club and ZBK, the domestic bank payment card.

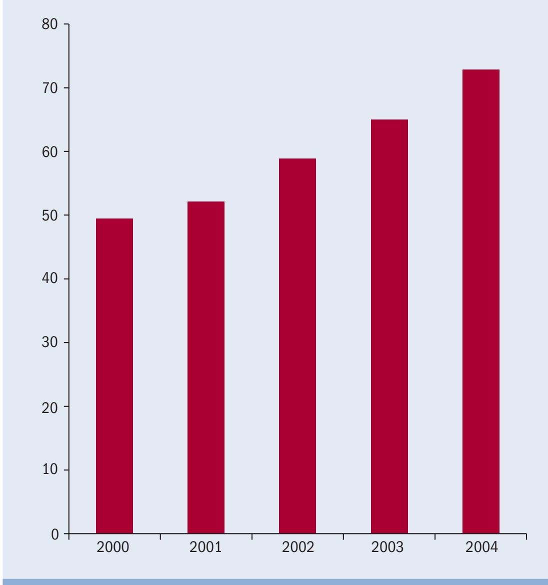
Within the Slovak Republic bank clients can use a network of 1,700 ATMs and 19,644 payment terminals, of which 16,272 are electronic payment terminals ("EFT POS", Electronic Fund Transfer Point Of Sale) and 3,372 payment terminals for mechanical data reading.

Bank payment card holders in 2004 made more than 98 million transactions in a total value of SKK 210 million. Besides traditional transactions, such as cash withdrawals and card payments, holders can also use their payment cards for making other payment operations (e.g. inputting a payment order).

Bank payment card holders can use all the 1,700 ATMs for cash withdrawal, 1,698 ATMs for checking their account balance, 37 ATMs for cash deposit, 941 ATMs for inputting a domestic transfer, and 1,491 ATMs for recharging prepaid programmes provided by mobile telephone operators.

In 2004, a total of 72,853 000 cash withdrawals were made in a total value of SKK 188,322 million. Using ATMs enabling cash deposit, a total of 4,267 deposits were made, in a total value of SKK 34 million. A total of 276,000 payment orders were made by means of ATMs enabling the input of domestic payment orders, where these transactions totalled SKK 1.1 billion. At ATMs enabling the recharging of mobile telephone prepaid programmes a total of 6.9 million recharges totalling SKK 1.8 billion were made.

Chart 46 **Number of ATM cash withdrawals (millions)**



Source: ZBK SR.

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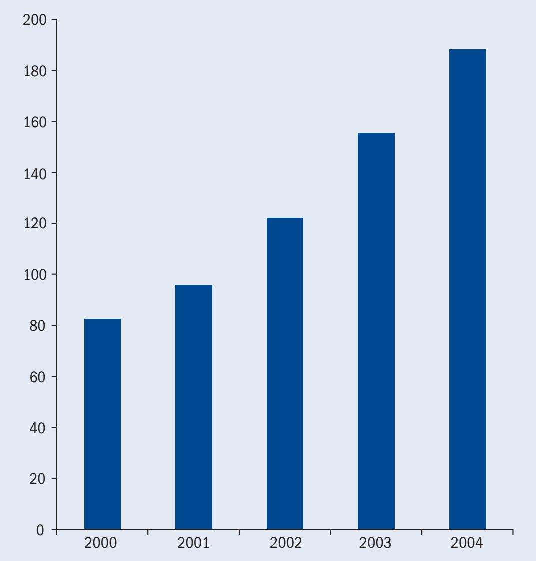
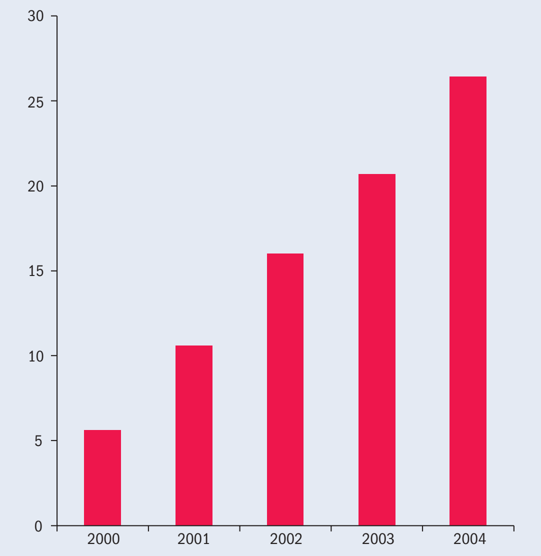
Chart 47 **Volume of ATM cash withdrawals (SKK billions)**



Source: ZBK SR.

Chart 48 **Number of EFT POS payments (millions)**



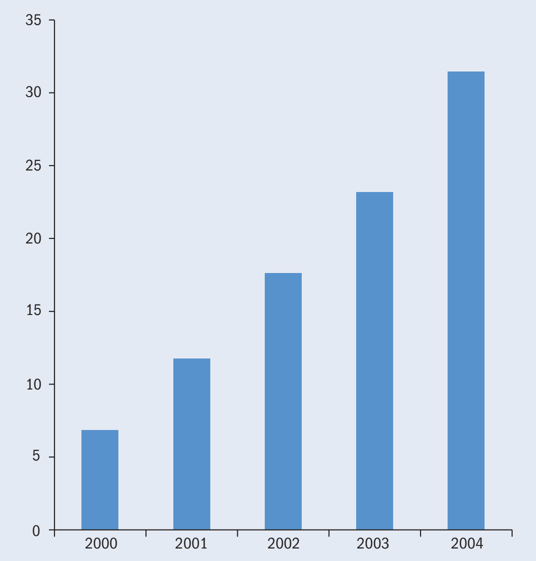
Source: ZBK SR.

Charts 46 and 47 compare the development of the number and volume of cash withdrawals via ATMs over the period 2000 – 2004.

In 2004, EFT POS payments numbered 26,437,000; the total value was SKK 31,448 million.

Charts 48 and 49 compare the development of the number and volume of EFT POS payments in the period of 2000 – 2004.

Chart 49 **Value of EFT POS payments (SKK billions)**



Source: ZBK SR.

The trend in the development of bank payment card acceptance is the gradual growth in the number of EFT POS terminals, compared to the growth of ATMs, which in a year-on-year comparison means an 18% increase in the number of EFT POS terminals and a 13% increase in the number of ATMs.

Out of the total number of withdrawals and payments, cash withdrawals from ATMs continue to prevail (73% in 2004 compared to 76% in 2003) over payments (27% in 2004 compared to 24% in 2003). In 2004 the value of cash withdrawals from ATMs represented 86% of the total value of withdrawals and payments, against 87% in 2003, and the value of payments in 2004 was 14% against 13% in 2003.

5.4. Cooperation with international institutions

In 2004 the National Bank of Slovakia continued to develop its cooperation with international institutions, in particular with the European Central Bank and the European Commission, in the field of the payments system. This cooperation took the form of the participation of NBS's delegates – experts in the field of the payments system – in working groups established at these institutions.

In 2004, the activity of working groups established at the European Central Bank for the field of payment systems and securities settlement systems was focused primarily on the following activities:

- the project of building up a new generation of the TARGET system – TARGET2 – preparatory works for the future connection to TARGET 2,
- the project (termed the Data Project) for statistical data collection from the Member States' payments systems in a new manner from the methodological and technical aspects,
- the preparation of a new set of user standards for the securities settlement systems, which shall replace the currently valid standards issued by the European Monetary Institute in January 1998; these shall also cover certain recommendations for the securities settlement systems issued by the Bank for International Settlements (CPSS-IOSCO recommendations),
- ensuring the fulfilment of the ECB's requirement on the fulfilment of the Resolution of the European Payments Council by financial institutions, i.e. the ability of the new EU Member States to receive payments sent via the STEP2 system – guidance of central banks in the matter of ensuring input places for the banking sector,
- oversight of the payment systems and securities settlement systems,
- assessing working versions of new legal standards in the field of the payments system – unification of the Member States' approaches to certain disputed fields.

Development of the new generation of the TARGET system – TARGET2

The project of building up a new generation of the TARGET system – TARGET2 has become one of the main projects solved in the European Central Bank. Over the course of 2004 new functionalities of the system and proposals of the 3CB (a group of three central banks - Banca d'Italia, Deutsche Bundesbank and Banque de France) were drawn up, which develops the technical platform, the Single Shared Platform – (SSP), on which the new system is to be based.

In the first half of 2004 work on the General Functional Specifications got underway, and was completed by approval of the "Single Shared Platform-General Functional Specifications" document by the Governing Council of the ECB.

In the second half of 2004 work on the TARGET2 projects reached the project stage, in which the future system's functionalities are dealt with in further detail. At the close of the year the "Third Progress Report on TARGET2" document, concerning the substantial questions for the decision of the ESCB central banks in the matter of connection to the SSP following its completion was passed. In connection to the approval of this document, the Governing Council of the ECB challenged the ESCB governors to bindingly confirm in writing by 14 January 2005 the decision on the connection or non-connection to this platform.

At the end of 2004 there was a realistic presumption that all ESCB governors would express their commitment to connect to the SSP and the TARGET2 would become a single-platform system.

Statistical data collection of the payments system

Since its establishment, the European Central Bank has collected statistical data on the payments system, which it publishes in the Blue Book. This publication is published both for the EU countries as well as for the accession countries.

In 2003 the European Central Bank decided to improve data collection in this field and began work on the Data Project, which deals with the creation of a statistical database for the payments system, located at the European Central Bank. Central banks will be able to directly enter this database according to given access rights, which can be later delegated to other data providers.

Work on the mentioned project also began during 2004. Data entry will begin in 2005; at the same time, it will represent the testing of the new method of statistical data transfer on the payments system to the ECB (technical method set by the ECB – GESMES/TS).

Securities settlement systems

The currently valid user standards of the European Monetary Institute of 1998 are to be changed by a new set of user standards, which on the one hand will be based on the applicable standards for the securities settlement systems, and on the other hand will adapt the globally valid recommendations of the Bank for International Settlements CPSS-IOSCO to the conditions of the European environment.

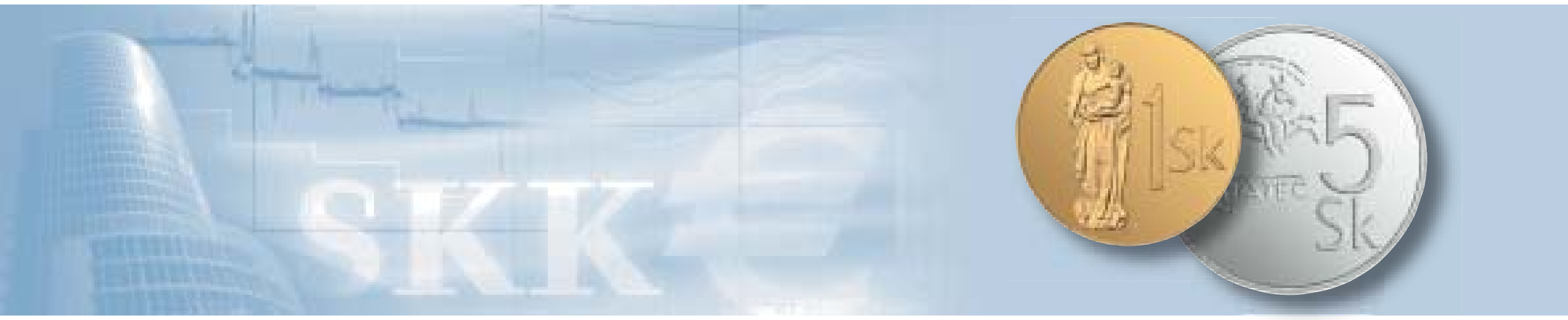
Work in defining individual standards was completed in September 2004, when the Governing Council of the European Central Bank and the Committee of European Securities Regulators (CESR) approved the "Standards for Clearing and Settlement Systems in the European Union" document (known as ESCB-CESR User Standards). These standards will become binding only following preparation and approval of the methodology for evaluating securities settlement systems, which will be based on the mentioned standards. The

National Bank of Slovakia already participates, via its delegate in the working group, in the preparation of the above methodology. The date for completing work on this methodology is October 2005.

Relation to the European Commission

The last but not the least important area of co-operation of the National Bank of Slovakia with international institutions was the possibility to actively participate in discussions of the working group preparing the draft new legal standard for the EU countries - Commission Directive on payment services in the framework of the internal market (Part 1.3). In this way, the National Bank of Slovakia for the first time had the opportunity, through its delegates in the working group established at the European Commission, to offer its comments and proposals in respect of the prepared draft Directive.

Foreign Activities



6. Foreign Activities

6.1. The NBS and the integration process

Slovakia formally applied for membership in the European Union in June 1995 at the European Council in Cannes. In December 1999, the Council of the European Union decided at its summit meeting in Helsinki to commence negotiations on the Slovak Republic's membership in the EU.

Accession negotiations with Slovakia were successfully completed on 13 December 2002, and the Treaty of Accession to the EU was signed on 16 April 2003. In a referendum held on 16 – 17 May 2003 a majority of citizens of the Slovak Republic expressed their support for membership in the EU.

After signing the Accession Treaty, the Slovak Republic together with the other acceding countries actively participated in meetings of the European institutions (until 1 May 2004 as an observer). Following the successful ratification of the Accession Treaty, the Slovak Republic became a member of the European Union on 1 May 2004.

In connection with the SR's membership in the EU, the participation of its delegates continued from the lowest expert level in working groups of the European Commission and the Council of the European Union through to the participation of ministers at meetings of the Councils of Ministers and the Prime Minister's participation at meetings of the Council (with voting rights). The NBS was regularly represented by the Governor, Vice-Governor and experts from individual divisions of the NBS at meetings in committees and working groups of the Council of the EU and of the Commission.

The Slovak Republic's accession process into the European Union was one of the NBS's priorities. Following EU accession the NBS has paid attention to the tasks ensuing from membership.

The basis for the EU's decision-making process is the creation of Community legislation, which has three stages – initiative, negotiation and decision. The European Commission is the initiative body of the EU and has the exclusive right to propose EU legislation and to submit it to the Council of the EU and the European Parliament for approval. Drafts are prepared in specialised committees and working groups of the European Commission (there are 700 to 1000 of these). Upon completion of discussions, the European Commission officially submits the draft to the Council of the EU. The draft is discussed again in committees and working groups within the framework of the Council. Following the conclusion of discussions in working groups and committees of the Council of the EU, the draft is further submitted for discussion to COREPER 1 and COREPER 2. Subsequently the draft is submitted to the Council of Ministers for final approval (besides those cases, where pursuant to co-decision procedures it must also be passed by the European Parliament).

The active involvement of the NBS experts in this process in the framework of the Slovak Republic is co-ordinated by the departmental coordination group for EU affairs established by the Governor of the NBS in June 2003. The basic role of this group is to ensure the form of permanent communication with the Commission for Affairs of EU1 and EU2, established at the Ministry of Foreign Affairs of the SR, the smooth transfer of relevant information to the NBS with the aim of its being used or secured by the respective organisational units at the bank, as well as co-ordinating the participation of NBS delegates at negotiations abroad.

Treaty establishing a Constitution for Europe

On 29 October 2004 the text of the first European Constitution was signed in Rome by the highest representatives of the EU's 25 Member States.

After long negotiations, representatives of the EU 25 agreed on the text of the European Constitution on 18 June 2004 in Brussels, during the Irish presidency of the EU. The European Constitution shall enter into force on 1 November 2006 if all Member States have ratified it by then.

During 2004 the NBS submitted its proposals in the process of making comments on the draft constitution, as well as in processing a comparison of the state which the constitution implements and the current status quo of primary law according to the Nice Treaty.

Liberalisation of the foreign exchange regime in the SR

A significant field in the adaptation of Slovakia's legislation to that of the EU was the liberalisation of the foreign exchange regime. This had two stages. In the first stage all current payments and long and medium-term capital movements (with a maturity longer than one year) were liberalised. The second stage concerned movements of short-term capital and was realised only in the last phase of the transformation. The Slovak Republic fulfilled Article VIII of the IMF Articles of Agreement on 1 October 1995, whereby the Slovak koruna became convertible within the current account of the balance of payments.

The course of the foreign exchange regime liberalisation process

1 February 1995
- Direct investments in European Union member countries

1 December 1996
- Direct investments in OECD countries
- Acquisition of real estate in OECD Member States by Slovak residents
- Export and import of bank notes and coins denominated in Slovak or a foreign currency – reporting obligation: over Sk 150,000 (tourism) or Sk 20,000 (postal money orders, mail deliveries)
- Financing loans provided by residents to non-residents based in an OECD Member State repayable over 5 years
- Financing loans received by residents from non-residents repayable over 3 years.

1 April 1998
- Issues of foreign securities for domestic trading or for placement on the domestic market when issued by entities based in an OECD Member State whose securities are already traded on the main market of a foreign stock exchange, or when government bonds issued by OECD Member States are involved
- Residents permitted to trade in the above securities
- Mandatory conversion of foreign exchange abolished
- Branches of foreign banks – acquisition of titles to domestic real estate required as business premises for their operation under a contract for work (subject to a 10-year transfer ban running from the date of acquisition).

1 January 2000
- Extension of operations involving foreign securities specified in the liberalisation step of 1 April 1998 to include non-OECD countries
- Foreign issues of domestic bonds maturing in 1 year or more
- Financing loans provided by residents to non-residents based in an OECD Member State repayable over 1 year
- Financing loans received by residents from non-residents repayable over 1 year
- Sureties, guarantees and financial support instruments maturing over 1 year
- Financial institutions (branches of foreign banks, foreign insurance companies, foreign securities brokers and foreign asset management companies) – acquisition of titles to domestic real estate required as business premises for their operation

1 January 2001
- Receiving and providing financing loans repayable within 1 year
- Sureties, guarantees and financial support instruments maturing within 1 year
- Non-residents based in an EU or OECD Member State operating a domestic organisation unit for business – acquisition of titles to domestic real estate required as business premises for the organisation unit
- Extension of operations in foreign securities to include those that are not traded on the main market of a foreign stock exchange

1 January 2002
- Liberalisation of domestic transactions in foreign securities

1 January 2003
- Liberalisation of financial derivatives and remaining restrictions on securities

1 January 2004
- Abolition of the repatriation obligation, liberalisation of foreign operations in residents' deposit accounts and liberalisation of foreign currency operations performed both domestically and internationally
- Liberalisation of direct investments outside OECD and European Economic Area countries, and of portfolio investments
- Acquisition of titles to real estate outside OECD and EEA countries.

1 May 2004
- Non-residents: the acquisition of ownership rights to real estate, except for real estate acquisition, which is restricted by special regulations and the acquisition of farming land by persons other than

Slovak citizens and EU Member State citizens who have farmed the land for at least 3 years following the Treaty of Accession of the SR to the EU coming into force.

The European System of Central Banks (ESCB) and the European Central Bank (ECB)

The European System of Central Banks is composed of the European Central Bank and the national central banks of 25 Member States of the European Union, where the ECB and national central banks of the Member States that have introduced the euro jointly form the Eurosystem. The Eurosystem and the ESCB are managed by the ECB decision-making bodies, i.e. the Governing Council of the ECB and the Executive Board of the ECB. The third, transitional body with decision-making power is the General Council of the ECB. Its establishment is connected with the existence of the EU Member States that have not yet introduced the euro (Denmark, Sweden, the United Kingdom, and, as of 1 May 2004, the 10 new EU Member States). All three bodies are headed by the ECB president, Jean-Claude Trichet.

The National Bank of Slovakia's co-operation with the European Central Bank changed substantially upon the Slovak Republic's entry to the European Union. Until 30 April 2004 the delegates of the NBS had an observer status at the meetings of the respective bodies of the ECB (General Council of the ECB, committees of the ESCB), where following the Slovak Republic's accession to the EU, the Governor of the NBS became a member of the General Council of the ECB and the NBS delegates were nominated as members to all 12 committees of the ESCB. The work of the committees is aimed at ensuring the fulfilment of specific tasks of the ESCB, including the preparation of documents for discussion by the General Council and the Governing Council of the ECB. Other NBS experts have participated in the work of the internal structures of individual committees.

Consultation of draft legislative measures of the NBS that fall within the ECB's field of competence have become a significant and completely new component of the NBS's work since the country's accession to the EU. In the interest of transparency in the legislative process in the framework of the EU, government bodies of the EU Member States are obliged to submit the drafts of their legal provisions in the field of the ECB's competence for comment by the ECB and other Member States. The National Bank of Slovakia submitted the respective drafts for comment and at the same time gave opinions to the ECB regarding draft legal provisions of other Member States of the European Union.

EU Structural Funds

In 2004, until the end of the accession process, the NBS had representation on the Preparatory Committee for Structural Funds (PCSF). In this way it was involved in creating the conditions and integral system of procedures fulfilling the requirements of the European Commission for drawing funds for economic and social development in Slovakia by means of the Union's Structural Funds.

In 2004 the NBS also participated in the launch of the activities of the Monitoring Committee for the Sectoral Operational Programme Industry and Services of the SR, where attention was focused on the process of setting criteria for the selection of activities and assessing the results and aims achieved in the programme.

The European Commission makes sure that structural fund expenditures are used for ensuring compatibility with European Union policy. Coordinating the activity of the Funds in the framework of individual countries is ensured by the respective managing and paying authorities, whose institutionalisation was completed at the respective ministries. For the purpose of monitoring aid, setting the criteria for selecting activities, assessing results and goals achieved, competences and cooperation were also extended to other bodies and institutions, including the NBS, which in the end leads to a more effective and comprehensive application of the Regional and Sectoral Operational Programmes' aims.

The Phare Programme

Following the successful completion of the projects supporting the privatisation of the largest commercial banks and the assistance to the Slovak Consolidation Bank in settling the portfolio of classified loans transferred to it in the framework of the pre-privatisation rehabilitation of banks, Phare in 2004 concentrated on the projects that met the NBS needs.

At the end of 2003 a twinning-light project begun in the framework of the Financial Memorandum 2001 (FM 2001), whose objective was to increase expertise of NBS banking supervision staff in techniques used in and types of money laundering. The project's main aim was the implementation of the internationally accepted FATF measures (Financial Action Task Force on money laundering) for detecting suspicious transactions related to money-laundering in the banking system. The Guidebook prepared includes draft procedures for NBS audit to be used in reviews of preventive measures adopted by commercial banks against money laundering.

In the framework of the FM 2002 and following the approval of the Government concept of the Integrated Supervision of the Financial market, and with regard to the coming into effect of Act No 96/2002 Coll. on supervision of the financial market, the Government of the SR approved the joint project of the NBS and Financial Market Authority (FMA) "Strengthening the Financial Sector Supervision", and the European Commission agreed a grant of EUR 2 million for the implementation of this project.

The overall aim of the project is to contribute to the coordination of the banking supervision exercised by the NBS and the supervision of the capital market and insurance industry exercised by the FMA.

Given its complexity, the project was divided into two thematic blocks forming stand-alone sub-projects: "Technical and Legal Assistance" (EUR 1.4 million) and "Software Development and Expert Advice on Early-Warning System for the FMA and NBS" (EUR 0.6 million).

Project contracts were signed in June 2004. The first project "Technical and Legal Assistance" is implemented by the experts from the consortium led by Wiener Börse AG, Austria. The aim of this sub-project is to support the technical integration of both systems of supervision and to improve the quality of monitoring and control mechanisms used in financial market supervision in the SR. The project begun in June 2004 and should be completed by the end of October 2005.

The objective of the second sub-project, "Software Development and Expert Advice on Early-Warning System for the FMA and NBS", is that the FMA achieves at the date of integration an equal technical level as NBS banking supervision. At the same time an early-warning system shall be implemented in the FMA information system. In the field of banking supervision, the sub-projects aims at improving the risk assessment of information system. The project is implemented by the Greek company ASYK, SA in cooperation with local experts. The project begun in July 2004 and should be finished in August 2005.

In 2004 the last pre-accession financial memorandum allocated EUR 1.25 million for another Phare project "Support to the Implementation of Risk-based Supervision". During this year the terms of references for the project were completed and a public tender was prepared so that the project could start in the first half of 2005. With regard to the consolidated supervision of credit institutions, the project should assist in the implementation of Capital Accord – Basle II.

6.2. NBS cooperation with international institutions

International Monetary Fund (IMF)

The National Bank of Slovakia's cooperation with the International Monetary Fund has changed substantially over the past years. With regard to the stable macroeconomic environment and its good budgetary and monetary policy, the Slovak Republic ranked among those countries having all financial liabilities towards the IMF settled and not drawing any loans. Therefore mutual cooperation in 2004 developed mainly by means of missions.

The IMF mission which visited Slovakia in May 2004 stated in its concluding report that Slovakia's economic growth in comparison with the other V4 countries is more favourable also owing to the stable macroeconomic environment, which is the result of a sound budgetary and monetary policy in recent years.

Regular consultations with the Slovak Republic pursuant to Article 4, held once per year with each Member State, took place during the mission's visit in October/November 2004. The IMF mission positively assessed the increase in economic growth and decrease in the balance of payments deficit. This development was supported by foreign direct investment, a healthier business environment and structural reforms. The mission appreciated the adoption of the Monetary Policy Framework by the National Bank of Slovakia, but noted that the high risks connected with inflation and record low interest rates leave little room for any further interest rate reduction. It emphasised that if the significant inflow of capital is to continue, the basic instrument for reducing inflation must be a stronger fiscal policy. The mission welcomed the planned inclusion of the Financial Market Authority into the National Bank of Slovakia.

The spring and annual meetings of the committees of the International Monetary Fund and World Bank in Washington focused on the topics concerning the outlook for the world economy and financial markets, strengthening the function of the IMF supervision in preventing crises and the progress achieved in solving them. Other matters discussed included the fight against money laundering and financing terrorism, the IMF's role in low-income countries, as well as member states' quotas and other current issues.

Following the spring meeting of the IMF and the World Bank in June 2004 in Kazakhstan, a meeting of the representatives of the IMF Belgian constituency and the World Bank was held at the level of central bank governor representatives and finance minister representatives. Participants at the meeting discussed the development in world energy markets with particular emphasis on oil production, its distribution and demand, as well as the structure of financial supervision and the role of the central bank in monitoring and maintaining financial stability.

The World Bank

In January 2004 the second instalment of the Slovak Republic's contribution was paid in the framework of the 13th replenishment of the International Development Aid's (IDA) funds in the amount of SKK 32,006,700 (SDR 660,000). The instalment was made in accordance with Government Resolution No. 791 of 10 July 2002, approving the proposal for the Slovak Republic's accession to the 13th replenishment of IDA funds for aid to the world's poorest countries. Upon paying the first contribution, which was settled in 2003, the SR became an IDA donor state.

In April 2004 the World Bank released the third and now last tranche of the government loan, the Enterprise and Financial Sector Adjustment Loan (EFSAL), thus completing its assistance in the banking sector reform in the Slovak Republic.

In June 2004 the new Country Partnership Strategy for the Slovak Republic, which creates the framework for further cooperation for the years 2005 – 2007 was approved. This strategy reckons on a relatively low credit framework of USD 17 million with the reasoning that the SR has increasingly better access to sources of credit. It focuses on the field of fiscal consolidation, the implementation of structural reforms with the aim of increasing the economy's competitiveness and mitigating poverty and promoting social inclusion.

Over the course of 2004 the regional office of the World Bank began to issue a quarterly report on economic development in eight of the EU new Member States (the so-called EU-8). The reports monitor the countries' economic development and continuing reform processes. Its other activities in 2004 included the provision of a grant in the amount of USD 350,000, to the SR Government for the effective notification of the public on the significance and content of government reforms, as well as for the organisation of various conferences, workshops and discussion forums. Overall the Bank's activities have been gradually focusing more on non-credit aid provided in the form of analytical and advisory activities in implementing further reforms. In this way the Slovak Republic has been gradually moving into a new phase of partner cooperation, which will be completed through its graduation, or final transition into the position of donor.

The Bank for International Settlements (BIS)

The National Bank of Slovakia in 2004 again fulfilled its obligation as a shareholder in the Bank for International Settlements. On the basis of Decision 74 of the BIS General Meeting, held on 28 June 2004, it received dividends in the amount of SDR 225 per share for the financial year 2003/2004, which ended on 31 March 2004. The total dividend received represented SDR 600,750 (EUR 724,666.70).

The regular meetings of the BIS, at which the Governor of the National Bank of Slovakia also participated in 2004, focused on the main issues of central banking such as Basle II (the New Basle Capital Accord), the ERM II, the role and the activities of the Committee on Payment and Settlement Systems. The governors also discussed the development of financial markets and institutions, fiscal rules, the problem of global liquidity, the relationship of central banks to the insurance industry and rating agencies.

The Bank for International Settlements also contributed to the banks' professional cooperation by way of regular overviews of the development of the foreign exchange market and analyses of the financial markets, as well as by means of the activity of the Basle Committee for Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System, the Markets Committee and other expert groups.

Japan Bank for International cooperation (JBIC)

As a result of the changes in the conditions on the credit and financial markets, commercial banks' interest in the further use of the Two Step Loan credit lines, provided by the JBIC to the National Bank of Slovakia over the course of 1994 to 1997, has fallen significantly. On the basis of a decision by the Bank Board of the NBS, the National Bank of Slovakia made an early repayment in favour of JBIC in September 2004 in the amount of the outstanding balance of funds from the Two Step Loan.

European Investment Bank (EIB)

Upon its accession to the EU, the Slovak Republic became a member of the EIB and thus took on the obligation of realising the conditions for a repayment calendar for capital subscribed in the amount of EUR 408,489,500. According to the SR's Treaty of Accession to the EU an eight-year repayment term is set for the total amount of the subscribed capital and its first payment of EUR 9,446,046 was made in 2004.

In accordance with the policy of EU bodies, the EIB is assigned a key position in ensuring the development programmes of member states and has recently been at the centre of attention related to the specific demand of the Council to support the European Action for Growth programme, linking to the process of creating the technical, legal, administrative and accounting conditions for realising infrastructural and innovation projects. The credit financing mechanism of these projects uses a special instrument, known as a framework loan, provided to commercial banks. In addition, broader use has begun to be made of the system of state guarantees, where a contractual party in the given cases is the Ministry of Finance of the SR, fulfilling the function of the paying authority involved in realising the structural operations.

The EIB Board approved a framework loan of EUR 400 million for railway transport projects and a further framework loan of EUR 350 million for projects relating to motorway construction. In relation to the co-financing of structural funds, a government loan of EUR 95 million, whose repayment can begin after 2010, was contractually agreed for a period of 25 years. The credit sources of the EIB are gradually becoming a significant support instrument for the National Development Plan of the SR.

European Bank for Reconstruction and Development (EBRD)

In 2004 the European Bank for Reconstruction and Development was involved in financing activities in the Slovak Republic totalling EUR 83 million, in accordance with its strategy. Its priority activities during 2004 were centred on the joint credit programme of the EBRD and the EU aimed at financing small and medium-sized enterprises.

At the 13th Annual Meeting of the Board of Governors of the EBRD Member States, held in London on 18 – 19 April 2004, the EBRD confirmed its position regarding the new Member States of the EU. The EBRD is willing to continue in investment activities and in support for the new EU Member States; however the focus of its activities will shift to poor countries of Central Asia, the Balkans, and in particular Russia.

In July 2004, the EBRD's new strategy for the Slovak Republic setting out the short-term key operational priorities for the following two years, was approved. Its support will be focused on the business, financial and energy sector and on infrastructure. Upon the Slovak Republic's accession to the EU, the joint loan facility of the EBRD and the EU, which was aimed at the development and growth of small and medium-sized enterprises, ended. The EBRD, in cooperation with the EU, have prepared new loan facilities, which will focus on the financial supporting for the building up and development of communal infrastructure as well as for small and medium-sized enterprises in the rural environment. Within the framework of the facility for supporting small and medium-sized enterprises in the rural environment, the EBRD will provide loans for banks and leasing companies in the amount of EUR 50 million. In November the first contract within the framework of the new Municipal Finance Facility was signed with Dexia banka Slovensko in the amount of EUR 32 million.

International Investment Bank (IIB) and International Bank for Economic Cooperation (IBEC)

The International Investment Bank (IIB) and the International Bank for Economic Cooperation (IBEC) headquartered in Moscow are banks founded by member countries of the former Council for Mutual Economic Co-operation. Following the division of the Czech and Slovak Federal Republic in 1993, Slovakia, as an independent republic, became a member of the IIB and IBEC. The Slovak Republic's share in the paid-up capital in the IIB is 4.85%, representing EUR 10.4 million, and 6% in the IBEC, representing EUR 8.6 million.

The supreme governing body of both banks are the Bank Boards, which meet twice a year. The spring meeting was held in St. Petersburg, Russian Federation; the autumn meeting was held in the Czech Republic.

The spring meetings of the IIB and IBEC bank boards discussed and approved the reports on the activities of both banks for 2003, the reports on the settlement of the receivables and liabilities of the IIB and IBEC, the budgets of general operating costs for 2004, and took note of the report on the activities of the IIB revision commission for 2003. The IBEC Bank Board approved the plan of work for the IBEC revision commission for the period from May 2004 to May 2006 and appointed new review commission members from the Slovak Republic and Czech Republic.

At their meetings the IIB and IBEC bank boards approved a proposal to create a working group of authorised representatives of the leading delegations of the member states whose function shall be to draw up and negotiate the aims, roles, strategy and basic principles for the further functioning of both banks.

At its autumn meeting, the IBEC Bank Board discussed and approved a report on the bank's activities for the first half of 2004, information on the settlement of the bank's receivables and liabilities, a report on the course of the settlement of issues connected with the bank's headquarters in the territory of the Russian Federation and the draft budget of general operating costs for 2005.

At the autumn meeting of the IIB Bank Board a document on the development of the IIB's activity was discussed and approved, including the optimisation of general operating costs by means of an organisation focused on providing technical services, a report on the course of the settlement of the IIB's receivables and liabilities with former member states and a report on the course of the settlement of issues connected with the bank's headquarters in the Russian Federation. The Bank Board also approved the fulfilment of the budget's general operating costs for 2004, the draft budget for 2005 and the working plan of the review commission for 2005.

The autumn meetings included the joint negotiation of the bank boards of the IIB and IBEC focusing on the results of the activity of the working group of authorised representatives of leading delegations of the member states.

World Trade Organisation (WTO)

Since the entry of the Slovak Republic into the European Union, the remit and tasks of the Slovak Republic in the WTO has changed. The SR participates in common action of the EU towards this institution, whereby negotiations of the Member States are conducted under the umbrella of the 133 Committee, which is a consultative body of the EU Commission for multilateral trade affairs, application of WTO rules, and preparation of negotiation positions. The responsible body for the representation of the interests of the SR is the Ministry of Economy of the SR.

The NBS expresses its views on the part of obligations in the field of financial services, especially those related to banking. In 2004 the presented obligations of the Russian Federation and Ukraine were evaluated, as these countries expressed interest in ordinary membership in the WTO. Accession negotiations have as yet not been concluded.

Organisation for Economic Cooperation and Development (OECD)

In 2004, the Slovak Republic continued its active cooperation in realising the planned agenda in the relevant committees of the OECD. The SR participates in and is represented on 140 committees and working groups of the OECD. The work of NBS representatives is shown primarily in the Committee on Financial Markets (CFM), the Economic Policy Committee (EPC), the Committee on Capital Movements and Invisible Transactions (CMIT) and the Economic and Development Review Committee (EDRC). Similarly as in previous years, the presentations by the NBS representatives were strengthened by their expertise, involvement and presentation of the Government's programme of economic reforms in the SR.

In March 2004, under the auspices of the SR Government, the international Economic Reforms for Europe conference was held in Bratislava, at which NBS representatives also participated.

In July 2004, an evaluation and examination of Portugal was made by the Committee for Economic Reviews; representatives of the Ministry of Finance of the SR, the Ministry of Foreign Affairs of the SR and the NBS also participated.

Within the framework of the OECD's regular activities in 2004, the NBS participated in filling out and completing the OECD Questionnaire.

In December 2004, the NBS received a visit of representatives of the OECD mission within the framework of preparatory work for updating the Economic Survey for the SR, where representatives of the NBS presented the current situation in monetary development, as well as the state and level of stability in banking supervision and capital activities in the SR. Based on the presented preliminary economic indicators, OECD representatives positively evaluated the development of the economy and NBS policy.

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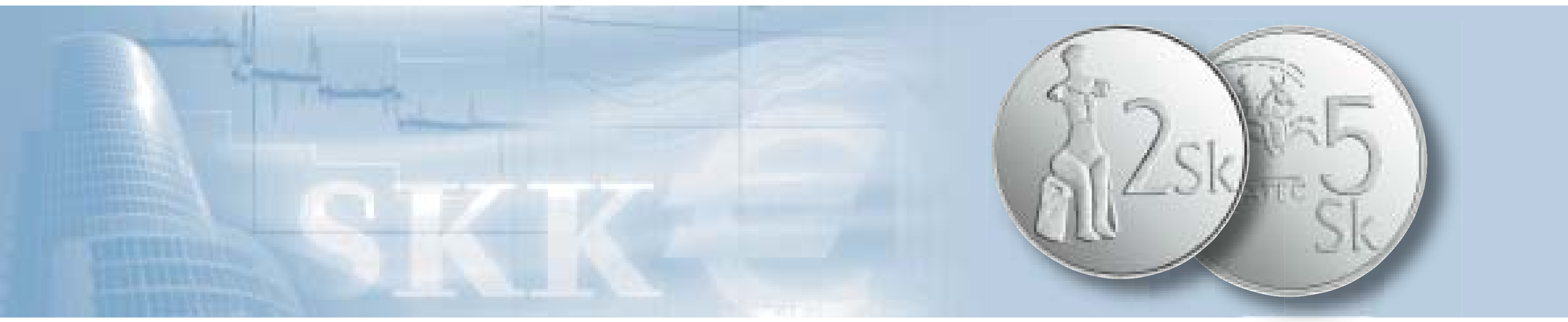
Report
of Independent Auditors



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REPORT OF INDEPENDENT AUDITORS

To the Bank Board of the Národná banka Slovenska:

1 We have audited the accompanying financial statements of Národná banka Slovenska („the NBS") for the year 2004, that comprises the balance sheet as of 31 December 2004, the related statement of income for the year then ended and the notes thereto. These financial statements are the responsibility of the Bank Board of Národná banka Slovenska. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by NBS management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the financial statements present fairly, in all material respects, the financial position of Národná banka Slovenska as of 31 December 2004 and the results of its operations for the year then ended in accordance with the Accounting Act of the Slovak Republic and related accounting regulation.

PricewaterhouseCoopers

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161

SKAU
Č.licencie 161

Bubeník

Ing. Ján Bubeník
SKAU licence No.: 544

Bratislava, 24 March 2005

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

7

The Ministry of Finance of the Slovak Republic
no. 21 832/2002-92

Balance Sheet Úč B 1-01

BALANCE SHEET

of Národná banka Slovenska at 31 December 2004
in thousands of SKK

ASSETS

Line		Notes	Gross Value 1	Current year Adjustments 2	Net value 3	Previous year 31.12.2003 4
I	**Cash and deposits in foreign banks of issue**		**23 318**		**23 318**	**28 462**
	of which: Cash		23 318		23 318	28 462
II	**Government bonds without coupons and other securities accepted by the NBS for refinancing**		**0**		**0**	**0**
	a) state bonds		0		0	0
	b) other securities		0		0	0
III	**Receivables from clients**	10.2	**206 084**	**37**	**206 047**	**8 037 925**
	a) current accounts		6 861		6 861	8 772
	b) standard loans		199 178		199 178	184 549
	c) standard loans with qualification and classified loans		45	37	8	15 094
	d) accounts of government bodies, local government bodies, and funds				0	7 829 510
IV	**Debt securities**	7.1	**352 075 221**		**352 075 221**	**336 661 173**
	a) of government bodies	7.1	229 676 373		229 676 373	236 732 600
	b) of other entities	7.1	122 398 848		122 398 848	99 928 573
V	**Shares and other investments**	7.3	**255 267**		**255 267**	**162 677**
VI	**Shares and ownership interest in companies with significant influence**	7.2	**108 000**		**108 000**	**108 000**
	a) banks					
	b) other entities		108 000		108 000	108 000
VII	**Shares and ownership interest in companies with controlling influence**		**0**		**0**	**0**
	a) banks					
	b) other entities					
VIII	**Intangible fixed assets**		**198 211**	**150 793**	**47 418**	**25 449**
	a) software		195 278	149 189	46 089	23 612
	b) other intangible fixed assets		2 933	1 604	1 329	1 837
IX	**Tangible fixed assets**		**8 976 612**	**2 448 591**	**6 528 021**	**6 790 667**
	a) land and buildings for operating activities		6 031 712	588 282	5 443 430	5 222 037
	b) other tangible fixed assets		2 944 900	1 860 309	1 084 591	1 568 630
X	**Other assets**		**14 217 258**	**48 351**	**14 168 907**	**15 906 181**
	of which: Gold	6	14 066 926		14 066 926	15 482 480
XI	**Accruals and prepayments**		**8 865**		**8 865**	**15 255**
XII	**Receivables from the International Monetary Fund**	9	**3 800 426**		**3 800 426**	**4 197 381**
XIII	**Receivables from banks of the ESCB**		**45 333**		**45 333**	**112 387**
XIV	**Receivables from other foreign entities**		**146 487 555**		**146 487 555**	**82 706 093**
	of which: Repurchase transactions	10.1	134 380 115		134 380 115	73 496 560
XV	**Loans to domestic banks**	10.1	**4 727 527**	**10 848**	**4 716 679**	**7 998 617**
	of which: Repurchase transactions		0		0	0
XVI	**Other receivables from domestic entities**		**7 490 850**		**7 490 850**	**10 399 710**
	ASSETS TOTAL		**538 620 527**	**2 658 620**	**535 961 907**	**473 149 977**
	of which: special agenda of NBS		**10 929 669**		**10 929 669**	**11 468 152**
	receivables of State from foreign institutions		**5 202 681**		**5 202 681**	**6 500 423**

LIABILITIES

Line		Notes	Current year	Previous year 31.12.2003
			5	6
I	**Liabilities to clients**		4 602 771	19 413 166
	a) current accounts		177 584	159 654
	b) term deposits		1 001 092	1 197 812
	c) special - purpose deposits			
	d) accounts of government bodies, local government bodies, and funds		3 424 095	18 055 700
II	**Liabilities from debt securities**		0	0
	a) issued debt securities			
	b) other liabilities from debt securities			
III	**Other liabilities**		367 032	3 890 547
IV	**Accruals and deferred income**		8 682	2 698
V	**Provisions**	17	151 015	111 640
VI	**Subordinate financial liabilities**			
VII	**Liabilities to the International Monetary Fund**	9	3 761 749	4 155 546
VIII	**Liabilities to banks of the ESCB**		5 153	0
IX	**Liabilities to other foreign entities**		88 391 631	69 157 005
	of which: Repurchase transactions	13	87 398 068	66 301 525
X	**Monetary reserve accounts of banks with the NBS**		10 948 646	11 504 998
XI	**Securities issued by the NBS**	15	59 724 590	55 759 761
XII	**Other liabilities to domestic entities**		230 939 969	123 497 930
	of which: Repurchase transactions	13	219 041 370	105 753 442
XIII	**Banknotes and coins in issue**	16	109 900 050	102 546 365
XIV	**Account of the government**	14	10 432 988	17 075 247
XV	**Government fund and other offsets against the national budget**		0	11 026 001
XVI	**Offsetting special transactions with funds of the Slovak Republic**		70 803 442	71 380 880
XVII	**Capital (Statutory fund)**		466 667	466 667
XVIII	**Reserve funds and other profit reserves**		10 164 859	10 164 859
	a) Legal reserve fund			
	b) Reserve fund		10 164 859	10 164 859
	c) Other profit reserves			
XIX	**Other capital funds**		76 784	76 670
XX	**Valuation variances**		11 874 441	13 289 763
	a) fund for the revaluation of gold	6	11 874 441	13 289 763
	b) from revaluation of hedging derivatives			
	c) from revaluation of shares and ownership interests			

XXI	**Gain/losses from revaluation of assets and liabilities from previous years**		**0**	**15 900 550**
XXII	**Loss carried forward**		**-40 369 766**	**-24 836 019**
XXIII	**Profit (loss) for the period**	18	**-36 288 796**	**-31 434 297**
	LIABILITIES TOTAL		**535 961 907**	**473 149 977**
	of which: special agenda of NBS		11 857 662	18 555 046
	State liabilities to foreign institutions		5 202 681	6 500 423

Date: 24 March 2005

Prepared by: Marta Drescherová

Signature of a member (members) of the legal entity's statutory body:

Ing. Ivan Šramko

Imprint of the stamp:

Národná banka Slovenska
Bratislava
–194–

Person responsible for bookkeeping (name, surname, signature):

Ing. Milena Koreňová

Person responsible for the statements (name, surname, signature):

Ing. Katarína Taragelová

Phone No.: 5787 2310

Off-balance sheet

OFF-BALANCE SHEET ASSETS

Line		Notes	Current year 1	Previous year 31.12.2003 2
I	**Commitments to grant loans, commitments from guarantees**		**0**	**0**
	a) commitments to grant loans		0	0
	b) provided guarantees		0	0
II	**Provided guarantees**		**0**	**0**
	a) assets pledged		0	0
	b) currency		0	0
	c) securities		0	0
	d) others		0	0
III	**Receivables from spot operations with:**		**0**	**0**
	a) interest-rate instruments		0	0
	b) FX instruments		0	0
	c) share instruments		0	0
	d) commodity instruments		0	0
	e) loan instruments		0	0
IV	**Receivables from fixed-term operations with:**	8	**1 615 161**	**3 051 015**
	a) interest-rate instruments		1 615 161	1 777 518
	b) FX instruments		0	1 273 497
	c) share instruments		0	0
	d) commodity instruments		0	0
	e) loan instruments		0	0
V	**Receivables from options with:**	8	**3 263 798**	**3 770 502**
	a) interest-rate instruments		0	0
	b) FX instruments		3 263 798	3 770 502
	c) share instruments		0	0
	d) commodity instruments		0	0
	e) loan instruments		0	0
VI	**Receivables written-off**		**6 137**	**6 128**
VII	**Values given to custody, management, deposit**		**11 433**	**11 433**
VIII	**Own values of NBS for depositing**		**270 113 836**	**274 706 238**
IX	**Balancing and suspense accounts**		**295 798 477**	**195 647 765**
	TOTAL OFF-BALANCE SHEET ASSETS		**570 808 842**	**477 193 081**

OFF-BALANCE SHEET LIABILITIES

Line		Notes	Current year 1	Previous year 31.12.2003 2
I	**Commitments for acceptance of loans, commitments from guarantees**		**0**	**0**
	a) commitments for acceptance of loans		0	0
	b) received guarantees		0	0
II	**Received guarantees**		**184 343 736**	**91 323 753**
	a) assets pledged		0	0
	b) loans	24	4 989 196	17 732 008
	c) securities		512 062	591 560
	d) others		0	242 197
	e) collaterals - securities	23	178 842 478	72 757 988
III	**Liabilities from spot operations with:**		**0**	**0**
	a) interest-rate instruments		0	0
	b) FX instruments		0	0
	c) share instruments		0	0
	d) commodity instruments		0	0
	e) loan instruments		0	0

IV	**Liabilities from fixed-term operations with:**	8	**1 615 161**	**2 908 346**
	a) interest-rate instruments		1 615 161	1 777 518
	b) FX instruments			1 130 828
	c) share instruments			
	d) commodity instruments			
	e) loan instruments			
V	**Liabilities from options with:**	8	**4 994 682**	**5 496 751**
	a) interest-rate instruments			
	b) FX instruments		4 994 682	5 496 751
	c) share instruments			
	d) commodity instruments			
	e) loan instruments			
VI	**Values taken for custody, management, deposit**		**30 959**	**48 227**
VII	**Own values of NBS to depositing**		**379 824 304**	**377 416 004**
VIII	**Balancing and suspense accounts**			
	TOTAL OFF-BALANCE SHEET LIABILITIES		**570 808 842**	**477 193 081**

Date: 24 March 2005

Prepared by: Marta Drescherová

Signature of a member (members) of the legal entity's statutory body:

Ing. Ivan Šramko

Imprint of the stamp:

Národná banka Slovensko
Bratislava
-194-

Person responsible for bookkeeping (name, surname, signature):

Ing. Milena Koreňová

Person responsible for the statements (name, surname, signature):

Ing. Katarína Tarageľová

Phone No.: 5787 2310

The Ministry of Finance of the Slovak Republic
no. 21 832/2002-92

INCOME STATEMENT Úč B 2-01

INCOME STATEMENT
of Národná banka Slovenska as at 31 December 2004
in thousands of SKK

Line		Notes	Current year	Previous year 31.12.2003
			1	2
I	**Interest income and similar revenues**	19	**10 183 005**	**10 648 376**
	of which a) interest on debt securities		8 067 174	8 255 530
	b) interest on repurchase transactions		1 257 047	908 858
II	**Interest expense and similar costs**	19	**-16 034 870**	**-18 061 342**
	of which a) interest on debt securities		-3 122 220	-3 094 223
	b) interest on repurchase transactions		-8 186 973	-7 451 002
III	**Revenues from shares and ownership interests in companies:**		**39 682**	**28 639**
	of which: a) revenues from shares and ownership interests in companies with significant influence			
	b) revenues from shares and ownership interests in companies with controlling influence			
	c) revenues from shares and other ownership interests in companies		39 682	28 639
IV	**Revenues from fees and commissions**	20	**155 237**	**144 466**
V	**Fees and commissions expenses**	20	**-27 921**	**-61 391**
VI	**Net profit / loss from financial operations**	21	**-28 731 716**	**-22 201 876**
VII	**Other financial revenues**		**48 661**	**17 068**
VIII	**Other financial expenses**		**-217 826**	**-151 723**
IX	**General operational expenses**	22	**-1 235 232**	**-1 155 523**
	of which: a) staff costs		-785 037	-662 912
	aa) salaries		-575 578	-495 524
	ab) social costs		-209 459	-167 388
	b) other general operational expenses		-450 195	-492 611
X	**Other operational revenues**		**78 791**	**46 434**
XI	**Other operational expenses**		**-83 045**	**-133 720**
XII	**Use of provisions and valuation allowances for tangible and intangible assets**	12	**52 412**	**5 987**
	a) use of provisions for tangible assets			
	b) use of valuation allowances for tangible assets		52 412	5 987
	c) use of valuation allowances for intangible assets			
XIII	**Depreciation, set up of provisions and valuation allowances for tangible and intangible assets**	11	**-482 657**	**-522 079**
	a) depreciation of tangible assets		-470 248	-451 959
	b) set up of provisions for tangible assets			
	c) set up of valuation allowances for tangible assets			-52 412
	d) amortisation of intangible assets		-12 409	-17 708
	e) set up of valuation allowances for intangible assets			
XIV	**Use of provisions and valuation allowances for receivables and guarantees, revenues from assigned receivables and receivables written off**	12	**15 102**	**127 903**
	a) use of provisions for receivables and guarantees			
	b) use of valuation allowances for receivables and receivables from guarantees		15 102	127 903
	c) revenues from assigned receivables and receivables written off			

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XV	**Depreciation, set up of provisions and valuation allowances for receivables and receivables from guarantees**		**-7 370**	**-53 206**
	a) set up of valuation allowances for receivables and receivables from guarantees	12	-7 361	-47 102
	b) set up of provisions for receivables and receivables from guarantees			
	c) set up of provisions for guarantees			
	d) receivables written off, loss from assigned receivables		-9	-6 104
XVI	**Use of valuation allowances to investments with significant and controlling influence**		**0**	**0**
XVII	**Set up of valuation allowances to investments with significant influence and to investments with controlling influence**		**0**	**0**
XVIII	**Use of other provisions**	17	**111 640**	**0**
XIX	**Set up of other provisions**	17	**-151 015**	**-111 640**
XX	**Use of other valuation allowances**		**0**	**0**
XXI	**Set up of other valuation allowances**	12	**-1 492**	**0**
XXII	**Profit/(loss) for the period from ordinary activities before the transfer from profit**		**-36 288 614**	**-31 433 627**
XXIII	**Extraordinary revenues**		**0**	**0**
XXIV	**Extraordinary expenses**		**0**	**0**
XXV	**Profit/loss from extraordinary activities before transfer from profit**		**0**	**0**
XXVI	**Income tax - witholding tax**		**-182**	**-670**
XXVII	**Transfer from profit**		**0**	**0**
XXVIII	**Profit / loss for the accounting period after transfer from profit**	18	**-36 288 796**	**-31 434 297**
A	**Total expenses**		**-68 101 281**	**-65 665 740**
B	**Total revenues**		**31 812 485**	**34 231 443**

Date: 24 March 2005

Prepared by: Marta Drescherová

Signature of a member (members) of the legal entity's statutory body:

Ing. Ivan Šramko

Imprint of the stamp:

Národná banka Slovenska
Bratislava
–194–

Person responsible for bookkeeping (name, surname, signature):

Ing. Milena Koreňová

Person responsible for the statements (name, surname, signature):

Ing. Katarína Taragelová

Phone No.: 5787 2310

NOTES
to the financial statements as at 31 December 2004

Bratislava, 24 March 2005

NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2004
(in thousands of SKK)

1. General information

Národná banka Slovenska (The National Bank of Slovakia - "the NBS" or "the Bank") is the central bank of the Slovak Republic. The NBS was established in accordance with Act No. 566/1992 Coll. on the National Bank of Slovakia as amended ("the NBS Act"). It commenced its activities on 1 January 1993 as the bank of issue of the Slovak Republic. The NBS is a legal entity (Corporate ID: 30 844 789) seated at Imricha Karvaša 1, Bratislava. With regard to its own assets, the NBS acts as a business entity. The NBS has its head office in Bratislava, three branches in the Slovak Republic (in Bratislava, Banská Bystrica, and Košice), as well as special-purpose organisational units.

The Bank's key objective is to maintain price stability, therefore the NBS:

- determines the national monetary policy,
- issues banknotes and coins,
- manages, co-ordinates, and ensures money circulation, payment transactions, and the clearing of payment transaction data,
- supervises the safe functioning of the banking system and bank activities,
- represents Slovakia in international financial institutions and ensures fulfilment of tasks resulting from such representations, and
- represents Slovakia in international financial market operations related to the implementation of the monetary policy.

The NBS's supreme managing body is the NBS Bank Board ("the Bank Board"). According to the NBS Act, the Bank Board has eight members: the Governor, vice-governors, NBS Executive directors, and other members. The Governor and vice-governors are appointed and dismissed by the president of the Slovak Republic. Executive directors and other members of the Bank Board are appointed and dismissed by the government of the Slovak Republic. According to Act No. 149/2001 Coll. of 6 April 2001 amending the NBS Act as of 1 May 2001, the term of the office of Bank Board members is five years. Until 30 April 2001, the term of office of the Governor, vice-governors, and the executive directors was six years. The term of office of other Bank Board members was four years. Membership in the Bank Board is limited to a maximum of two consecutive terms of office. The NBS is represented by the Governor.

In 2004, the Bank Board members were:

Name	Position	Term of office	
Ing. Marián Jusko, CSc.	Governor	from 30 July 1999	to 31 December 2004
Ing. Elena Kohútiková, CSc.	Vice-governor	from 28 March 2000	to 27 March 2006
Ing. Ivan Šramko	Vice-governor	from 11 January 2002	to 10 January 2007
Ing. Ján Mathes	Executive Director	from 1 January 1999	to 31 December 2004
RNDr. Karol Mrva	Executive Director	from 1 December 2000	to 30 November 2006
Ing. Peter Ševčovic	Executive Director	from 1 October 2004	to 30 September 2009
Prof. Ing. Jozef Košnár, DrSc.	Member	from 1 December 2000	to 30 November 2004
Doc. JUDr. Ladislav Balko, PhD.	Member	from 1 October 2004	to 30 September 2009
Ing. Martin Barto, CSc.	Member	from 1 December 2004	to 30 November 2009

For their activities performed in the Bank's managing body, the Bank Board members received remuneration totalling SKK 6,240 thousand paid from the remuneration fund in 2004 (at 31 December 2003: SKK 5,760 thousand).

The president of the Slovak Republic appointed Ing. Ivan Šramko to the position of the NBS Governor as of 1 January 2005 and Ing. Martin Barto, CSc. to the position of the NBS Vice-Governor as of 31 January 2005.

Ing. Milena Koreňová, the Executive Director, became a new Bank Board Member as of 1 January 2005.

All the costs necessary for the Bank's activities are covered from its revenues. According to § 38 of the NBS Act during the accounting period, the Bank generates either a profit or a loss. Profit generated is allocated to the statutory reserve fund and to other profit reserves, or for settling losses carried forward. The remaining profit is transferred to the state budget or, based on the Slovak Government's resolution, to state financial assets under a special regulation. The NBS may settle the loss for the current period from the statutory reserve fund or from other reserves, or the Bank Board may decide to transfer the unsettled loss to the next accounting period (see Note 18).

In the reporting year, the average number of staff was 1,299 (at 31 December 2003: 1,319), 140 of which were managers (at 31 December 2003: 152).

2. Method for preparing the financial statements

The NBS financial statements at 31 December 2004 have been prepared in accordance with generally binding legal regulations, in particular with:

- Act No. 431/2002 Coll. on Accounting, as amended by Act No. 562/2003 ("Accounting Act"),
- Directive No. 20 359/2002-92 of the Slovak Ministry of Finance from 13 November 2002, as amended by its Directives No. 13 593/2003-92 from 17 June 2003 and No. 11 938/2004-74 from 16 December 2004, that sets out details on accounting procedures and the general chart of accounts for banks, branches of foreign banks, the NBS, the Deposit Protection Fund, dealers with securities, branches of foreign dealers with securities, the Guarantee Fund for Investments, asset management companies, branches of foreign asset management companies, and unit trusts ("the Directive"),
- Directive No. 21 832/2002-92 of the Slovak Ministry of Finance from 10 December 2002 that sets out details on the arrangement, the description of items in individual financial statements, the contents of these items, and the extent of data from the financial statements designated for publishing for banks, branches of foreign banks, the NBS, the Deposit Protection Fund, dealers with securities, branches of foreign dealers with securities, the Guarantee Fund for Investments, asset management companies, branches of foreign asset management companies, and unit trusts.

The financial statements have been prepared as ordinary financial statements at 31 December 2004.

On the balance sheet at 31 December 2004, the NBS showed receivables and liabilities from transactions with securities held by the Bank, performed upon contracts on providing services, known as "Securities Lending". Due to the change in accounting for these receivables and liabilities in 2004, and considering the change in presenting interest revenue in the income statement at 31 December 2004, the data for the previous accounting period has been adjusted accordingly in both the balance sheet and the income statement, so that they can be compared to the year 2004. This had no impact to the profit/(loss) or equity.

The total amount of assets and liabilities presented in the financial statements at 31 December 2003 (SKK 440,315,146 thousand) differs from those disclosed in these financial statements in the column "Previous year" (SKK 473,149,977 thousand), as a result of ensuring compliance with the comparability principle for receivable and liability items resulting from Securities Lending transactions on the asset side (Line XIV) and the liability side (Line IX). There is a receivable and a liability from the Securities Lending transactions totalling SKK 32,834,831 thousand.

To ensure compliance with the comparability principle, the amount of SKK 60,632 thousand, shown in the income statement at 31 December 2004 in the column "Previous year", was transferred from line VI "Net profit or net loss from financial operations" to line I "Interest income and similar revenues".

To comply with the principle of fair presentation set out in the Accounting Act, interest from swap transactions at 31 December 2003 (costs of SKK 69,929 thousand – line IIc in the income statement, and revenues of SKK 91,355 thousand – line Ic in the income statement) are disclosed in these financial statements in column "Previous year" in line VI "Net profit or net loss from financial operations".

The 2003 annual financial statements were approved at the fifth meeting of the NBS Bank Board on 12 March 2004.

3. Accounting principles and accounting methods applied

3.1. Accounting event

In accordance with the Directive, the Bank posts an accounting entry on the day the accounting event has occurred, i.e. on the day when cash was paid or received; in the case of a direct debit, on the payment day (when withdrawing money from a third party account); in the case of securities, derivative financial instruments, and gold, on the transaction day; in the case of guarantees, on the day the guarantee was issued or received; in the case of cash in foreign currency, on the day it was credited according to the deal message received; in the case of property relations, on the day the property title was acquired or terminated; and in the case of a shortage, deficit, or surplus, on the day the difference was identified.

Interest income and interest expense, fees and commissions are recognised when incurred. All costs and expenses are accounted for and disclosed in the financial statements in accordance with the accrual principle.

3.2. Principles for classifying receivables

In accordance with the Accounting Act and the Bank's internal legal regulations, the Bank assesses the level of risk related to receivables. These receivables are classified and provisions are set up to comply with the principle of fair presentation in accounting. Based on the risk assessment, the Bank classifies receivables into the following categories: standard, standard with qualification, non-standard, doubtful, and loss-making.

Bad debts are written off based on a court decision and upon the Bank Board's resolution and the related provisions are released into revenues.

3.3. Conversion of foreign currencies

Assets and liabilities in foreign currencies are converted to Slovak crowns applying the NBS rate on the day of the accounting event and the exchange rate at 31 December 2004 for the financial statements. All exchange gains and losses are shown in the income statement.

NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2004
(in thousands of SKK)

Exchange rates of main foreign currencies applied for the valuation of assets and liabilities at 31 December 2004 were:

Currency	Amount	2004	2003
EUR	1	38.796	41.161
USD	1	28.496	32.920
JPY	100	27.455	30.779
XDR	1	44.123	48.742

3.4. Repurchase and reverse repurchase transactions

Transactions in which the Bank accepted securities in exchange for cash, along with the commitment to return these securities at a certain date in exchange for the transferred cash amount plus interest (reverse repurchase transaction), are disclosed as loans provided. The collateral accepted in the reverse repurchase transaction is recorded at fair value on the off-balance sheet and is re-valued at the balance sheet date. The revaluation of the collateral does not have any impact on either the balance sheet or the income statement.

Transactions in which the Bank provided securities or gold in exchange for cash, along with the commitment to accept back these securities or gold at a certain future date in exchange for the original cash amount plus interest (a repurchase transaction), are shown as received loans with a transfer of collateral. The collateral provided in a repurchase transaction remains on the balance sheet and is fair valued at the balance sheet date.

Except for repurchase and reverse repurchase transactions performed by the Bank directly, the Bank has authorised, based on the Securities Lending Agreements, certain banks to trade in securities held by the Bank. Based on these agreements, the selected banks provide securities held by the NBS in the name of the Bank in exchange for cash, along with the commitment to accept these securities back (a repurchase transaction), and subsequently accept securities on the NBS's account in exchange for cash from the previous repurchase transaction, along with the commitment to return these securities (reverse repurchase transactions), or invest the cash received into term deposits under agreed limits. In these transactions, the Bank receives part of the revenue (which is the difference between the cost of the repurchase transactions and revenues from reverse repurchase transactions or term deposits) that is disclosed in the income statement. Transactions the selected banks perform with the NBS securities under the Securities Lending Agreements are shown on the Bank's balance sheet (see Notes 2, 10.1, 13, 20, 23).

The Bank's market and credit risks in these transactions are minimised by specifying products in which the cash received can be invested, as well as counterparties with whom deals are allowed to be performed.

3.5. Provisions

Provisions are liabilities of uncertain timing or amount that have arisen from past events and the settlement of which is expected to result in an outflow of resources embodying economic benefits that can be measured under the Accounting Act, and are disclosed in the financial statements.

These Notes are an integral part of the NBS's financial statements. 5

NÁRODNÁ BANKA SLOVENSKA
Notes to the financial statements as at 31 December 2004
(in thousands of SKK)

3.6. Currency in circulation

The NBS administers the issue of banknotes and coins and their withdrawal from circulation. The respective liability from the issue of currency in circulation is stated on the balance sheet at its nominal value.

3.7. Cost of employee benefits

The social fund, the remuneration fund, and the retirement fund that the NBS set up in the past to cover employee benefits are recognised on the respective liability accounts.

The NBS makes regular contributions on behalf of its employees to health insurance agencies for health insurance and to the Social Insurance Agency for sickness, retirement, accident, guarantee, and unemployment insurance, and a contribution to the Guarantee Fund. Contributions are paid in the amounts required by law in the respective year. The Bank also pays a contribution for not employing the obligatory percentage of persons with a disability, as set out in the Employment Act.

In co-operation with agencies offering additional retirement insurance, the NBS has created an additional pension scheme for its employees.

3.8. Taxation

The NBS in accordance with § 12 of Act No. 595/2003 Coll. on Income Taxes as amended ("Income Taxes Act") is only liable to corporate income tax arising from the application of withholding tax.

Since 1 July 2004, the Bank is registered as a VAT payer.

4. Valuation methods

In the valuation of assets and liabilities, the NBS follows §§ 24 to 28 of the Accounting Act. At the day of the accounting event, assets and liabilities are stated either at acquisition cost, at their nominal value, production costs, or their replacement costs. At the balance sheet date, selected items of assets and liabilities are re-valued as follows:

- Securities at their market value, except for shares in the registered capital of commercial companies and securities issued by the Bank; and
- Derivatives at their market value, or at the value set by an expert valuation.

If it was not possible to determine an objective fair value at the valuation date, the Bank used the valuation in accordance with § 25 of the Accounting Act.

4.1. Gold

Gold is stated at its fair value based on the market price of London's commodity market morning fix of gold in USD/oz. Changes in the fair value of gold affect the Bank's equity. The sale of gold is reflected in the income statement.

As a result of gold revaluation to its fair value in 2003, a reserve for a new valuation of gold was created, the balance of which represented the difference between the market price of gold at 31 December 2002 of 342.75 USD/oz. and its historical acquisition cost of 62.54451 SKK/g (see Note 6). When selling gold, the revaluation related to the respective amount of gold sold is transferred from this reserve to the profit/(loss).

Swap transactions with gold are recorded in accordance with the effective regulations as repurchase transactions with gold. This means that gold used in these transactions as collateral is part of the balance sheet amount under the item "Gold".

4.2. Securities in the portfolio

According to the Accounting Act and the Directive, based on purpose of acquisition, the Bank is obliged to classify securities into the following categories:

- Securities held for trading,
- Securities available for sale,
- Shares and ownership interests in commercial companies with significant influence.

Valuation of securities was done in line with § 24 and § 27 of the Accounting Act.

4.2.1. Securities held for trading

When initially recognised, bonds without coupons are stated at their acquisition cost, which is gradually increased by the accrued difference between the acquisition cost and the nominal value – the discount. This accrued discount is part of interest income.

Bonds with coupons, when initially recognised, are stated at their net acquisition cost (without the purchased coupon), which is gradually amortised for the accrued difference between the net acquisition cost and the nominal value (discount or premium) that is part of interest income. The coupon is an interest income that is accrued on a monthly basis.

At the balance sheet date, securities classified as held for trading are fair valued, fair values being the market price announced on public markets. If the market price is not available, valuation based on an appropriate estimate is used.

Change in fair values affects the Bank's profit/(loss).

Upon disposal, securities are eliminated at the weighted average cost. This valuation method is used for the same type of securities only if they are from the same issuer and in the same currency.

4.2.2. Shares and ownership interests in commercial companies with significant influence

The Bank has a stake and ownership interest with significant influence in the company RVS, a.s. Bratislava (see Note 7.2). Shares of RVS, a.s. Bratislava are stated at acquisition cost.

4.2.3. Other investments

The Bank has a stake in the Bank for International Settlement, Basel, Switzerland ("BIS"). Shares in the BIS are stated at acquisition cost. The equity interest in the BIS is disclosed in the amount of the paid-up share (25%). The unpaid part (75%) is due upon request.

Dividends are paid out from the total of the NBS's share in the BIS in Swiss francs (see Note 7.3).

At 1 May 2004, the NBS became a member of the European System of Central Banks. In accordance with the statutes of the European Central Bank ("ECB"), the NBS has paid the initial minimum contribution to the ECB's capital. The amount of the total capital share of individual national central banks depends on the capital key determined on the basis of the following statistical categories – GDP and population. In accordance with the Protocol on the Statute of the European System of Central Banks and the ECB, the capital key is adjusted every five years or when new joiners enter the European System of Central Banks. The Bank has paid the initial contribution to the ECB's capital in the amount of 7% of the NBS's total contribution to the ECB. The remaining share of 93% is due when the Slovak Republic joins the European Monetary Union (see Note 7.3).

4.3. Derivative financial instruments

Derivative financial instruments are shown on the balance sheet at their fair value. As the conditions for assessing fixed term and option contracts that the Bank concluded in the past do not meet all the criteria for hedge accounting, the Bank has classified these derivative financial instruments as held for trading.

Derivative financial instruments are recorded at fair value, based on market prices, discounted cash flows, or (in the case of options) the Black-Scholes model. Changes in fair values are recorded in the income statement.

4.4. Loans and provisions

Loans are shown on the balance sheet at the accumulated amount, i.e. at the principal amount increased by the accrued but as yet unpaid interest. Loans granted are recorded after any provisions for potential losses. The set-up, use, and release of provisions (when the respective risk ceased to exist) are recorded to the income statement.

4.5. Securities issued

The Bank issues short-term securities falling due within one year (NBS bills). In 2004, they were issued for creating a sufficient stock of securities to perform sterilising repurchase transactions. Sterilising repurchase transactions were connected with the implementation of the monetary policy in transactions on the open market.

From the settlement date of the issue to the due date, the valuation of issued and sold NBS bills is gradually increased by the accrued interest (the so-called accumulated value). On the balance sheet, issued NBS bills are shown set off by any bills repurchased to the NBS portfolio, including the accrued interest.

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4.6. Non-current assets

Non-current assets include tangible and intangible assets, the acquisition cost of which is higher than the limit set out in the Income Taxes Act and the economic useful life is longer than one year. On the balance sheet, they are stated at cost, including the related acquisition costs. The carrying value of depreciated non-current assets is shown net of accumulated depreciation. The respective valuation allowance reflects the difference between the lower realisable value of the asset and its carrying value after deducting the accumulated depreciation. Land, art collections, and tangible fixed assets under construction are not subject to depreciation.

The NBS's non-current assets were classified into individual depreciation groups and depreciated on a straight-line basis in accordance with the depreciation plan.

		2004	
Depreciation group		**Depreciation period in years**	**Annual depreciation rate in %**
1.	Office equipment, data processing machines, passenger cars and vans	4	25.0
2.	Devices and personal technical equipment	6	16,7
3.	Security equipment	12	8,4
4.	Energy equipment	20	5
5.	Buildings and structures	30	3,4
6.	Objects and subjects depreciated under a special rate	separately specified	separately specified

4.7 Inventories

Inventories are stated at cost, i.e. including the costs related to their acquisition. A valuation allowance is set up if the holding period exceeds one year.

5. The use of financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

The NBS's balance sheet contains, to a large extent, financial instruments. These instruments expose the Bank to several financial risks. The main objective is to ensure the minimum level of risks related to the administration of financial instruments, including the derivatives. This means that the most important task is the safe administration of financial instruments. All other criteria are subordinated to this goal.

To ensure these goals, the Bank sets principles for administering financial instruments. These principles set out the types and limits of acceptable risk relating to the operation of the NBS as a conservative investor on financial and capital markets.

The Bank uses and recognises gold as a financial instrument (see Notes 4.1 and 6).

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5.1. Credit risk

Credit risk management is a priority for the Bank, as the entire investment may be lost if a contractual partner defaults.

To reduce credit risk, limits are set for investments that should prevent the concentration of risk from a single issuer. Limits for individual issuers or counterparties, as well as for individual types of transactions, are continuously adjusted according to rating changes or to market conditions. The NBS uses the regularly updated data of the Fitch rating agency as the main source of information for assessing the quality of its transaction partners. For assessing the quality of securities the Bank is trading in, the assessments of the Standard & Poor's and Moody's rating agencies are used. At the end of 2004, about 70% of investments were allocated to debt instruments with the highest AAA rating – issued by governments of the G7 countries, the BIS, agencies sponsored by the US Administration, or into mortgage bonds of the public sector in Germany. Up to 30% of investments were deposit and repurchase transactions with selected financial institutions and transactions with gold.

The credit risk from repurchase transactions is minimised, as all loans are secured by high-liquidity securities collateral with the highest investment rating.

Loans that the NBS has granted to domestic financial and other institutions are secured by state guarantees (see Note 24), and monitoring the indebtedness of these institutions significantly reduces the credit risk.

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The analysis of loans granted by the remaining time to maturity at 31 December 2004:

	due within 1 month	due within 1 – 3 months	3 months - 1 year	due within 1 – 5 years	due after more than 5 years	Not defined	Total
Foreign banks	**134 380 115**						**134 380 115**
Securities Lending	82 997 838						82 997 838
Loans granted in repurchase transactions in foreign currency	51 382 277						51 382 277
Domestic banks	**154 073**	**114 640**	**295 052**	**1 393 104**	**2 759 810**		**4 716 679**
Redistribution loans	154 073		203 727	804 240	2 750 649		3 912 689
Loans granted to domestic banks for supporting business activities from JBIC and EIB funds in SKK		86 377	76 214	526 509	9 161		698 261
Loans granted to domestic banks for supporting business activities from EIB funds in foreign currency		28 263	15 111	62 355			105 729
Other financial institutions	**773 855**		**2 795 575**	**3 808 960**			**7 378 390**
Total loans to banks	**135 308 043**	**114 640**	**3 090 627**	**5 202 064**	**2 759 810**		**146 475 184**
Standard loans	**6 888**	**112**	**1 612**	**43 004**	**154 423**		**206 039**
Employees	6 888	112	1 612	43 004	154 423		206 039
General Government							
Classified loans						8	8
Non-financial organisations						8	8
Total loans to clients	**6 888**	**112**	**1 612**	**43 004**	**154 423**	8	**206 047**
Total	135 314 931	114 752	3 092 239	5 245 068	2 914 233	8	146 681 231

The analysis of loans granted by the remaining time to maturity at 31 December 2003:

	due within 1 month	due within 1 – 3 months	due within 1 year	due within 1 – 5 years	due after more than 5 years	Not defined	Total
Foreign banks	**68 553 053**	**4 943 507**					**73 496 560**
Securities Lending	32 834 831						32 834 831
Loans granted in repurchase transactions in foreign currency	35 718 222	4 943 507					40 661 729
Domestic banks	**234 564**	**172 461**	**1 198 441**	**2 770 338**	**3 622 813**		**7 998 617**
Redistribution loans	234 564		1 052 701	1 876 416	3 428 295		6 591 976
Loans granted to domestic banks for supporting business activities from JBIC and EIB funds in SKK		124 320	99 586	783 338	193 955		1 201 199
Loans granted to domestic banks for supporting business activities from EIB funds in foreign currency		48 141	46 154	110 584	563		205 442
Other financial institutions	**751 572**		**2 335 776**	**7 224 787**			**10 312 135**
Total loans to banks	**69 539 189**	**5 115 968**	**3 534 217**	**9 995 125**	**3 622 813**		**91 807 312**
Standard loans	**138 289**	**1 150 106**	**1 152 120**	**5 443 069**	**139 247**		**8 022 831**
Employees	8 779	106	2 120	43 069	139 247		193 321
General Government	129 510	1 150 000	1 150 000	5 400 000			7 829 510
Classified loans	**15 094**	**0**					**15 094**
Non-financial organisations	15 094	0					15 094
Total loans to clients	**153 383**	**1 150 106**	**1 152 120**	**5 443 069**	**139 247**		**8 037 925**
Total	**69 692 572**	**6 266 074**	**4 686 337**	**15 438 194**	**3 762 060**		**99 845 237**

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5.2. Market risk

The market risk that the Bank is exposed to arises from the open foreign exchange position and from the open position in interest rates.

The analysis of the Bank's assets and liabilities by the remaining time to maturity at 31 December 2004:

	due within 1 month	due within 1 – 3 months	due within 1 year	due within 1 – 5 years	due after more than 5 years	Not defined	Total
Cash and deposits with foreign banks of issue	23 318						23 318
Receivables from clients	6 888	112	1 612	43 004	154 423	8	206 047
Debt securities	53 955 698	52 276 070	60 619 897	169 921 661	15 301 895		352 075 221
Shares and other investments						255 267	255 267
Shares and ownership interests in commercial companies with significant influence						108 000	108 000
Non-current assets						6 575 439	6 575 439
Other assets	2 389 466	2 136 900	3 590 149	5 023 245		1 029 147	14 168 907
Accruals and prepayments	1 859	39	6 567	400			8 865
Receivables from the IMF						3 800 426	3 800 426
Receivables from banks of the ESCB	45 333						45 333
Receivables from other foreign entities	146 487 090	256	209				146 487 555
Loans to domestic banks	154 073	114 640	295 052	1 393 104	2 759 810		4 716 679
Other receivables from domestic entities	886 315		2 795 575	3 808 960			7 490 850
Assets	**203 950 040**	**54 528 017**	**67 309 061**	**180 190 374**	**18 216 128**	**11 768 287**	**535 961 907**
Liabilities to clients	4 292 666	47 999	168 789	93 317			4 602 771
Other liabilities	245 281	2 776	43			118 932	367 032
Accruals and deferred income	2 208		6 474				8 682
Provisions	36 590	68 246	21 000	8 119		17 060	151 015
Liabilities to the IMF						3 761 749	3 761 749
Liabilities to banks of the ESCB	5 153						5 153
Liabilities to other foreign entities	84 243 209	46 765	25 673	3 393 221		682 763	88 391 631
Monetary reserve accounts of banks with the NBS	10 948 646						10 948 646
Securities issued by the NBS	19 952 479	39 772 111					59 724 590
Other liabilities to domestic entities	230 931 052	8 917					230 939 969
Banknotes and coins in issue						109 900 050	109 900 050
Account of government	10 432 988						10 432 988
Government funds and other offsets against the state budget							
Offsetting special transactions with funds of the Slovak Republic	694 207		70 109 235				70 803 442
Liabilities	**361 784 479**	**39 946 814**	**70 331 214**	**3 494 657**		**114 480 554**	**590 037 718**

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The analysis of the Bank's assets and liabilities by the remaining time to maturity at 31 December 2003:

	due within 1 month	due within 1 – 3 months	due within 1 year	due within 1 – 5 years	due after more than 5 years	Not defined	Total
Cash and deposits with foreign banks of issue	28 462						28 462
Receivables from clients	153 383	1 150 106	1 152 120	5 443 069	139 247		8 037 925
Debt securities	43 975 144	24 576 757	91 255 437	170 486 664	6 367 171		336 661 173
Shares and other investments						162 677	162 677
Shares and ownership interests in commercial companies with significant influence						108 000	108 000
Non-current assets						6 816 116	6 816 116
Other assets	1 263 340	2 484 966	3 433 509	5 780 063		2 944 303	15 906 181
Accruals and prepayments	1 469	1 657	12 129				15 255
Receivables from the IMF						4 197 381	4 197 381
Receivables from banks in the ESCB	112 387						112 387
Receivables from other foreign entities	77 761 466	4 943 678	195			754	82 706 093
Loans to domestic banks	234 564	172 461	1 198 441	2 770 338	3 622 813		7 998 617
Other receivables from domestic entities	839 147		2 335 776	7 224 787	0		10 399 710
Assets	**124 369 362**	**33 329 625**	**99 387 607**	**191 704 921**	**10 129 231**	**14 229 231**	**473 149 977**
Liabilities to clients	19 102 064	42 225	153 892	114 985			19 413 166
Other liabilities	3 672 696	2 587	34 045	14 857	3 000	163 362	3 890 547
Accruals and deferred income	990	1 708					2 698
Provisions	28 215	67 202	16 223				111 640
Liabilities to the IMF	4 155 546						4 155 546
Liabilities to other foreign entities	58 374 390	5 553 073	592 547	4 566 891	70 104		69 157 005
Monetary reserve accounts of banks with the NBS	11 504 998						11 504 998
Securities issued by the NBS		55 759 761					55 759 761
Other liabilities to domestic entities	123 417 122	10 468				70 340	123 497 930
Banknotes and coins in issue						102 546 365	102 546 365
Account of government	17 075 247						17 075 247
Government funds and other offsets against the state budget	11 026 001						11 026 001
Offsetting special transactions with funds of the Slovak Republic	3 835 240		67 545 640				71 380 880
Liabilities	**252 192 509**	**61 437 024**	**68 342 347**	**4 696 733**	**73 104**	**102 780 067**	**489 521 784**

These Notes are an integral part of the NBS's financial statements. 13

5.2.1. Currency risk

The impact of exchange rate changes on the NBS's performance is dominant, as the currency risk is closely related not only to the volatility of the SKK/EUR exchange rate, but also to changes in the EUR/USD exchange rate. The currency risk results from the NBS's open foreign exchange position.

The Bank Board has set the currency composition of the open foreign exchange position. The USD percentage in the open foreign exchange position is maintained at 30%, +/- 2%, while its absolute amount must not exceed USD 3.1 billion. If these limits are mutually exclusive, the rule of the maximum absolute value of the open foreign exchange position in USD has priority. The open foreign exchange position is adjusted if the difference between the value of the USD share in the open foreign exchange position and the set limit exceeds +/- USD 10 million. The remaining part of foreign exchange reserves is denominated in euros.

Considering the foreign exchange structure of assets and liabilities on the Bank's balance sheet that results from the NBS's specific position and its priority task of maintaining price stability, the Bank cannot effectively hedge against the currency risk.

Day-to-day currency risk management means preserving the respective part of foreign currency assets in accordance with the currency composition of foreign exchange liabilities and the structure of the open foreign exchange position, in compliance with the Bank Board's resolution. Monitoring and measuring sensitivity are focused on measuring current exchange rate differences and on estimating future impacts of the adverse development in exchange rates (from the profit/(loss) point of view) through the calculation of sensitivity indicators.

During 2004, the exchange rate of the Slovak crown to EUR strengthened by 5.75% (from EUR 1 = SKK 41.161 to EUR 1 = SKK 38.796) and that of the Slovak crown to USD by 13.44% (from USD 1 = SKK 32.920 to USD 1 = SKK 28.496). This strengthening of the Slovak currency significantly contributed to the NBS's loss for the year (see Notes 18 and 21).

In 2004, the net open foreign exchange position increased by 14.41% from SKK 364,377,251 thousand to SKK 416,890,133 thousand compared to the previous year.

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The structure of the open foreign exchange position:

	Line No.	Slovak crowns	Foreign currencies converted to SKK - total	of which: USD	EUR	Other
2004						
Assets	**1**	**19 076 278**	**516 885 629**	**133 960 589**	**378 934 268**	**3 990 772**
Cash and deposits with foreign banks of issue			23 318	7 437	11 109	4 772
Receivables from clients		206 047				
Debt securities			352 075 221	80 546 576	271 528 645	
Shares and other investments			255 267		108 006	147 261
Shares and ownership interests in commercial companies with significant influence		108 000				
Non-current assets		6 575 356	83	83		
Other assets		77 661	14 091 246	14 091 139	107	
Accruals and prepayments		7 414	1 451		1 451	
Receivables from the IMF			3 800 426			3 800 426
Receivables from banks of the ESCB			45 333		31 973	13 360
Receivables from other foreign entities			146 487 555	39 315 354	107 147 248	24 953
Loans to domestic banks		4 610 950	105 729		105 729	
Other receivables from domestic entities		7 490 850				
Liabilities	**2**	**435 966 411**	**99 995 496**	**31 796 442**	**64 431 257**	**3 767 797**
Liabilities to clients		4 602 771				
Other liabilities		322 528	44 504	34 968	8 167	1 369
Accruals and deferred income		6 474	2 208		2 208	
Provisions		150 749	266	28	38	200
Liabilities to the IMF			3 761 749			3 761 749
Liabilities to banks of the ESCB		5 153				
Liabilities to other foreign entities		686 426	87 705 205	31 727 140	55 978 065	
Monetary reserve accounts of banks with the NBS		10 948 646				
Securities issued by the NBS		59 724 590				
Other liabilities to domestic entities		230 939 969				
Banknotes and coins in issue		109 900 050				
Account of government		2 645 631	7 787 357	32 168	7 750 710	4 479
Government funds and other offsets against the state budget						
Offsetting special transactions with funds of the Slovak Republic		70 109 235	694 207	2 138	692 069	
Share capital		466 667				
Reserve funds and other profit reserves		10 164 859				
Other capital funds		76 784				
Valuation variances		11 874 441				
Gains/(losses) from the revaluation of assets and liabilities from previous years						
Loss carried forward		-40 369 766				
Profit/(loss) for the current period		-36 288 796				
Open foreign exchange position	**3=1-2**	**-416 890 133**	**416 890 133**	**102 164 147**	**314 503 011**	**222 975**
2003						
Assets	4	33 523 936	439 626 041	134 535 093	300 508 273	4 582 675
Liabilities	5	397 901 187	75 248 790	15 310 525	54 497 803	5 440 462
Open foreign exchange position	**6=4-5**	**-364 377 251**	**364 377 251**	**119 224 568**	**246 010 470**	**-857 787**
Total y/y difference	**7=3-6**	**-52 512 882**	**52 512 882**	**-17 060 421**	**68 492 541**	**1 080 762**

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5.2.2. Interest rate risk

Interest rate risk arises from the fluctuation of the financial instruments value as a result of market interest rate changes, and affects the Bank's financial position and its cash flow.

Most of the Bank's financial assets and liabilities bear a fixed interest rate. A floating interest rate was used on swaps, repurchase transactions in Slovak crowns, redistribution loans, as well as Two-Step Loans (TSL) and Apex Global Loans (AGL) provided to domestic banks (see Note 10). A contractually agreed floating rate is calculated from the NBS base rate, which is the NBS maximum interest rate on two-week repurchase tenders. Compared to the end of 2003, the base rate dropped by 2 percentage points, from 6% to 4% at 31 December 2004.

In the case of securities, interest rate risk management is reflected in the structure of benchmarks (a benchmark is a risk-neutral portfolio against which an actual portfolio is measured), as well as in the structure of the intervention portfolio. Trading securities comprise more than two-thirds of the fixed interest rate financial assets. The average maturity of a benchmark (duration) has been approved by the Bank Board within the overall foreign exchange reserves management policy, at 1.5 years, with a maximum deviation of ± 6 months from the determined neutral value.

In order to minimise the adverse effects of market price fluctuations on the Bank's operations, a regular analysis is performed simulating the statistically greatest changes in interest rates expected in the following period. The results of this analysis are then taken into account for determining the benchmark's duration of each investment portfolio.

As a supplementary method for the necessity of global and comparable measurement of risk, the Value at Risk (VaR) method is used. This method is based on analysing the probability of various changes in market conditions. The NBS calculates the value of each portfolio, as well as the benchmarks, on a monthly basis to visualize the absolute and relative (compared to the benchmark) risk exposure of portfolios with a longer average maturity period.

Interest on the Bank's assets and liabilities are based on the rates that are close or equal to the market value, except for the interest rate on a loan provided to the Deposit Protection Fund (see Note 10) and the interest rate on monetary reserves of banks which the Bank Board approved at 1.5%.

The majority of interest-free financial liabilities relate to liabilities from the issue of currency in circulation.

In order to meet monetary policy objectives, the NBS performed sterilisation repurchase transactions in 2004, predominantly using the main instrument – two-week sterilisation repurchase tenders. The objective of these sterilisation transactions is to reduce the existing structural surplus of liquidity on the inter-bank market to a level that will not represent a risk of failure to comply with the monetary policy objectives. Sterilised cash cannot be reinvested, because the effectiveness of the monetary policy tool would be eliminated as a result. Therefore, the sterilisation transactions only resulted in an interest expense for the NBS. The maximum interest rate for two-week repurchase tenders was 4% at 31 December 2004.

Since the majority of the Bank's balance sheet assets and liabilities have a fixed interest rate, the level of interest rate risk can be assessed based on tables analysing the assets and liabilities of the Bank according to their remaining time to maturity (see Notes 5.1 and 5.2).

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The following table gives a summary (in percentage) of the average interest rate on financial assets and liabilities for 2004 and 2003 by main currencies:

in %

2004	EUR	USD	XDR	JPY	SKK
Assets					
Current accounts and deposits in banks	1,51	1,58	1,91	0,00	1,84
Gold		0,03			
Securities held for trading	3,78	1,01			
Loans to banks and other financial institutions	2,93	1,21			4,98
Derivative financial instruments		2,05		2,88	
Membership quota in the IMF			0,00		0,00
Loans to clients					1,00
Liabilities					
Liabilities to banks and other financial institutions	2,23	0,78		2,89	3,32
Derivative financial instruments		1,24			
Liabilities to government					4,00
Securities issued by the NBS					4,76
Liabilities to the IMF			0,00		0,00
Liabilities to other clients	0,92	0,63			2,99

in %

2003	EUR	USD	XDR	JPY	SKK
Assets					
Current accounts and deposits in banks	1,25	0,85	1,70	0,00	3,42
Gold		0,43			
Securities held for trading	3,28	1,98			
Loans to banks and other financial institutions	3,10	1,10			6,34
Derivative financial instruments		2,05		2,93	
Membership quota in the IMF			0,00		0,00
Loans to clients					7,23
Liabilities					
Liabilities to banks and other financial institutions	2,45	0,73		3,15	4,28
Derivative financial instruments		2,73			
Liabilities to government					5,14
Securities issued by NBS					6,41
Liabilities to the IMF			0,00		0,00
Liabilities to other clients	0,92	0,63			3,96

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5.2.3. Liquidity risk

Liquidity risk results from the need of liquidity for interventions on inter-bank foreign exchange market and for settling the Bank and the government's liabilities. The amount of the intervention portfolio is based on the expected volume of interventions, as well as on the time schedule for NBS payments and the debt service of the state. In determining the size of this portfolio, it is necessary to make an optimum assessment of future liquidity needs to avoid possible insufficiency or relative excess. The structure, manner, and criteria for its management are based on the requirement of ensuring the NBS's satisfactory ability to effectively intervene and meet its liabilities.

The bank has set up a liquid portfolio with a benchmark duration of five months, while more than 90% of the Bank's total foreign exchange reserves can be realised within two to three working days.

5.2.4 Operational risk

Operational risk is the risk of direct or indirect loss, resulting from inadequate or incorrect internal processes and working procedures, human or system failure, including risk related to the usage of information systems.

In the NBS, this risk is limited by a clear definition of responsibilities and working procedures to eliminate possible errors, losses, and incorrect processing. Compliance with the regulations is checked on a regular basis.

6. Gold

Gold comprises the following:

	2004	2003
Bullion in standard form	13 932 096	15 332 558
Gold in other form	134 830	149 922
Total	**14 066 926**	**15 482 480**

At 31 December 2004, the item "Gold" comprised 1,127 thousand ounces, of which 716 thousand ounces were deposited in correspondent banks, 400 thousand ounces were used in repurchase transactions, and 11 thousand ounces in another form.

The value of gold provided as collateral in repurchase transactions amounted to SKK 4,994,682 thousand at 31 December 2004 (see Note 13) (SKK 5,496,751 thousand at 31 December 2003).

The market value of gold was 438 USD/oz. at 31 December 2004 (417.25 USD/oz. at 31 December 2003). The drop of the SKK/USD exchange rate (see Note 5.2.1.) adversely affected the amount reported in the item "Gold" (Balance sheet – Assets, line X) and in the item "Reserve for new valuation of gold" (Balance sheet – Liabilities, line XX). At 31 December 2004, the reserve balance was SKK 11,874,441 thousand (SKK 13,289,763 thousand at 31 December 2003).

At 31 December 2004, 12% of trades with gold were performed with European countries inside the Euro zone, 62% with European countries outside the Euro zone (81% at 31 December 2003), and 26% of trades were performed with counterparties from the United States (19% at 31 December 2003).

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(in thousands of SKK)

7. Securities

7.1. Securities held for trading

At 31 December 2004, the Bank's portfolio of securities held for trading comprised the following:

	2004	2003
State bodies' securities -Total	**229 676 373**	**236 732 600**
State coupon bonds	132 177 076	158 634 604
State zero-coupon bonds	95 533 365	76 179 900
Coupons	1 965 932	1 918 096
Securities of other entities - Total	**122 398 848**	**99 928 573**
Zero-coupon bonds of foreign Central Banks	5 799 439	2 056 881
Other coupon bonds	83 058 256	71 450 656
Other zero-coupon bonds	31 916 326	25 388 906
Coupons	1 624 827	1 032 130
Total securities	**352 075 221**	**336 661 173**

The Bank trades in securities on foreign financial markets, particularly in New York, London, Basel, and the Euro zone countries. These mostly involve transactions outside the stock exchanges.

Variances from the revaluation of securities held for trading positively affected the Bank's profit/(loss) (see Note 21).

At 31 December 2004, as far as geographical segmentation is concerned, 77% of securities held for trading were concentrated in Euro zone countries (64% at 31 December 2003), 3% in other European countries (12% at 31 December 2003), and 20% in the United States (24% at 31 December 2003).

7.2. Shares and ownership interest in commercial companies with significant influence

At 31 December 2004, the Bank held 1,080 certificated shares of RVS, a.s. Bratislava in the amount of SKK 108,000 thousand, which is a 40.51% share in the share capital (Balance sheet – Assets, line VI). At 31 December 2004, the Bank received dividends of SKK 10,800 thousand.

Even though the Bank's share in RVS, a.s. Bratislava is significant, in accordance with § 22 of the Accounting Act, the Bank does not prepare consolidated financial statements.

7.3. Other investments

At 31 December 2004, the Bank held 2,670 shares in the BIS valued at SKK 589,042 thousand (SKK 650,706 thousand at 31 December 2003), which is a 0.45% share in the BIS's share capital. Each share has been paid up to 25% of its nominal value. The liability from unpaid share at 75% of the nominal value of each share amounts to SKK 441,781 thousand (488,029 thousand at 31 December 2003). The share in the BIS is disclosed on the balance sheet at SKK 147,261 thousand, which represents 25% of the paid share (SKK 162,677 thousand at 31 December 2003 in a clearing unit – XDR).

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In 2004, the BIS paid dividends to the NBS of SKK 28,882 thousand (SKK 28,639 thousand at 31 December 2003 – Income statement, line-III c).

At 31 December 2004, the NBS shows the initial paid-up contribution to the ECB's share capital at SKK 108,006 thousand (EUR 2,784 thousand), which is 7% of the Bank's total capital share. The NBS's total share in the ECB's subscribed capital is 0.7147%. The remaining share is due when Slovak Republic joins the European Monetary Union.

8. Derivative financial instruments

The fair value of derivative financial instruments is given in the table below:

	2004 Balance sheet		2004 Off balance sheet		2003 Balance sheet		2003 Off balance sheet	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swap P04					141 076		1 273 497	1 130 828
Interest rate swap	24 213		1 615 161	1 615 161	46 355		1 777 518	1 777 518
Purchased put options	374		3 263 798	4 994 682	40 681		3 770 502	5 496 751
Total	**24 587**		**4 878 959**	**6 609 843**	**228 112**		**6 821 517**	**8 405 097**

The Bank entered into a cross-currency interest rate swap P04 of JPY 5.7 billion, with the aim of hedging the remaining part of TSL II and TSL III loans from the Japan Bank for International Cooperation with maturity on 10 March 2005, under which the payment in JPY is converted to USD. According to the Bank Board's resolution, balances of TSL II and TSL III loans were paid up at September 2004. At the same time, the cross-currency interest rate swap P04 was terminated with a loss of SKK 30,720 thousand.

The Bank entered into a long-term gold interest rate swap with maturity in 2005. The NBS pays the counterparty a floating interest rate at 3 months LIBOR-GOFO in USD on a quarterly basis, and the counterparty pays quarterly a fixed interest rate of 2.05% in USD on the notional value of 129,407 ounces of gold.

To eliminate the risk of reducing the market value of gold, the NBS purchased European put options for gold. Currently, the Bank records two European put options for 400 thousand ounces of gold with realizable values of 259.00 USD/oz. and 295.30 USD/oz. due on 16 January and 26 March 2007, respectively (see Note 6).

At 31 December 2004, derivative financial instruments were traded with counterparties in European countries outside the Euro zone (at 31 December 2003, 80% with counterparties outside the Euro zone and 20% with counterparties in the United States).

9. Receivables from and liabilities to the International Monetary Fund

At 31 December 2004, the Bank recorded a receivable from the International Monetary Fund ("IMF") of XDR 357,505 thousand, which is SKK 17,712,640 thousand (SKK 18,462,821 thousand at 31 December 2003), from the Slovak Republic membership quota, converted to Slovak crowns using a representative XDR exchange rate determined by the IMF. In accordance with the IMF statutes, 25% of the membership quota is due in XDR and 75% in Slovak crowns.

The Bank also records a liability to the IMF in the amount of the paid-up XDR part of the membership quota, converted to Slovak crowns by the representative XDR exchange rate. The Bank records a liability of the Slovak government to the IMF of SKK 17,712,640 thousand (SKK

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18,462,821 thousand at 31 December 2003), representing mainly a non-transferable, non-interest bearing promissory note of SKK 17,044,269 thousand issued by the NBS and payable on demand.

The membership quota in SKK and the related liability are netted off on the balance sheet. The receivable from and the payable to the IMF shown on the balance sheet represent 25% of the membership quota paid up in XDR and converted to Slovak crowns using the NBS exchange rate.

10. Loans provided

10.1. Loans provided to banks and other financial institutions

At 31 December 2004, the NBS provided the following loans to banks and other financial institutions:

	2004	2003
Foreign banks	**134 380 115**	**73 496 560**
Securities Lending	82 997 838	32 834 831
Loans provided within repurchase transactions in foreign currency	51 382 277	40 661 729
Domestic banks	**4 716 679**	**7 998 617**
Redistribution loans	3 912 689	6 591 976
Loans provided to domestic banks for the support of activities from the JBIC and EIB sources in SKK	698 261	1 201 199
Loans provided to domestic banks for the support of activities from EIB sources in foreign currency	105 729	205 442
Other financial institutions	**7 378 390**	**10 312 135**
Total	**146 475 184**	**91 807 312**

At 31 December 2004, the Bank recorded, based on Securities Lending Agreements, receivables from repurchase transactions of SKK 82,997,838 thousand, of which SKK 28,459,689 thousand was in USD and SKK 54,538,149 thousand in EUR. Loans provided in repurchase transactions with foreign entities total SKK 51,382,277 thousand, which were all granted in EUR.

Collaterals for the repurchase transactions with securities are recorded off the balance sheet (see Note 23).

In 2004, a redistribution loan was prematurely terminated by an extraordinary payment of SKK 1,277,686 thousand. The credit risk arising from redistribution loans provided by the Bank is eliminated by state guarantees for the total outstanding principal amount, including interest and charges. If a debtor fails to settle its obligation at the due date, the respective obligation will be transferred to the Slovak Ministry of Finance (see Note 24).

In 2001, the Bank provided a loan to the Deposit Protection Fund ("DPF") due at 30 December 2005. The loan balance, including interest, was SKK 7,378,390 thousand at 31 December 2004 (SKK 10,312,135 thousand at 31 December 2003). Payments are tied to the obligatory contributions of commercial banks to the DPF and to the calculated income from bankruptcy proceedings. However, the expected development of the DPF's funds will probably not allow repaying the loan in full by the agreed deadline. As a result, the DPF asked for a prolongation of the loan until 31 January 2007, which the Bank Board approved at its meeting in February 2005.

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Notes to the financial statements as at 31 December 2004
(in thousands of SKK)

10.2. Loans provided to clients

At 31 December 2004, the Bank provided the following loans to clients:

	2004	2003
Standard loans	**206 039**	**8 022 831**
Employees	206 039	193 321
Public administration (redistribution loan)		7 829 510
Classified loans	**8**	**15 094**
Non-financial organisations	8	15 094
Total	**206 047**	**8 037 925**

Redistribution loan was repaid in December 2004 through realisation of state guarantee provided by Ministry of Finance of Slovak Republic.

11. Non-current tangible and intangible fixed assets

Non-current tangible and intangible assets in 2004:

	Land	Other non-depreciable tangible assets	Buildings and constructions	Machines and equipment	Other depreciated tangible assets	Software and other intangible assets	Tangible and intangible assets under construction	Total
Acquisition cost at 1 January 2004	**283 948**	**41 580**	**5 530 580**	**2 034 955**	**562 265**	**164 458**	**474 841**	**9 092 627**
Additions	568	52	374 300	170 797	4 669	34 602	213 696	798 684
Disposals	15	0	6 608	87 065	18 556	1 616	602 628	716 488
Acquisition cost at 31 December 2004	**284 501**	**41 632**	**5 898 272**	**2 118 687**	**548 378**	**197 444**	**85 909**	**9 174 823**
Acc. depreciation at 1 January 2004			**477 675**	**1 271 798**	**349 271**	**140 000**	**37 767**	**2 276 511**
Additions			190 167	230 973	49 108	12 409	0	482 657
Disposals			53 020	85 278	19 870	1 616	0	159 784
Acc. depreciation at 31 December 2004			**614 822**	**1 417 493**	**378 509**	**150 793**	**37 767**	**2 599 384**
Carrying value of tangible and intangible assets at 1 January 2004	**283 948**	**41 580**	**5 052 905**	**763 157**	**212 994**	**24 458**	**437 074**	**6 816 116**
Carrying value of tangible and intangible assets at 31 December 2004	**284 501**	**41 632**	**5 283 450**	**701 194**	**169 869**	**46 651**	**48 142**	**6 575 439**

The Bank has long-term contracts for renting two administrative buildings in Bratislava that the Bank does not use.

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Notes to the financial statements as at 31 December 2004
(in thousands of SKK)

12. Provisions against assets

In 2004, the Bank set up, used, or released the following provisions:

	2003	Set-up	Use/ Release	2004
Provisions for classified receivables from banks	10 848	0	0	10 848
Provisions for classified receivables from clients	15 111	20	15 094	37
Provisions for various receivables	39 526	7 341	8	46 859
Provisions for advances provided	37 767	0	0	37 767
Provisions for inventories	0	1 492	0	1 492
Provisions for temporary diminution in the value of assets	52 412	0	52 412	0
Total	**155 664**	**8 853**	**67 514**	**97 003**

13. Loans received

At 31 December 2004, the structure of loans received was as follows:

Loan source	Type of loan received	Due in year	FC code	2004 Foreign currency	2004 SKK	2003 Foreign currency	2003 SKK
Domestic banks	Repo transactions	2004			219 041 370		105 753 442
JBIC	TSL II	2005	JPY			1 196 103	368 149
	TSL III	2005	JPY			2 978 427	916 729
EIB	AGL II	2010	EUR	5 009	194 322	19 033	783 410
Foreign banks	Repo transactions	2004	USD			150 134	4 942 395
Foreign banks	Repo transactions	2004	EUR			601 355	24 752 368
JP Morgan	Gold repo	2007	USD	88 855	2 532 000	88 633	2 917 812
UBS Warburg	Gold repo	2007	USD	25 964	739 861	25 945	854 119
CITI Bank, New York	Securities Lending		USD	299 301	8 528 892	198 669	6 540 175
HSBC, New York	Securities Lending		USD	647 516	18 451 605		
State Street, London	Securities Lending		USD	51 754	1 474 782		
State Street, London	Securities Lending		EUR	1 434 966	55 670 928	638 824	26 294 656
Total		x	x	x	**306 633 760**	x	**174 123 255**

Within the sterilised repurchase transactions in the Slovak inter-bank market, the Bank recorded liabilities from repurchase transactions totalling SKK 219,041,370 thousand at 31 December 2004 (SKK 105,753,442 thousand at 31 December 2003) (Balance sheet – Liabilities, line XII). For sterilised activities, the NBS treasury bills of SKK 220,658,000 thousand (SKK 106,389,000 thousand at 31 December 2003 - see Note 15) were used.

At 31 December 2004, the Bank recorded liabilities of SKK 84,126,207 thousand from Securities Lending Agreements, of which those in USD totalled SKK 28,455,279 thousand and those in EUR totalled SKK 55,670,928 thousand, and liabilities of SKK 3,271,861 thousand from gold repurchase transactions (SKK 3,771,931 thousand at 31 December 2003 – Balance sheet, Liabilities, line IX).

At 31 December 2004, the structure of loans received by geographical segmentation was as follows: 72% of loans were taken from counterparties in Slovakia, 19% from counterparties in other EU countries, and 9% from counterparties in the United States.

These Notes are an integral part of the NBS's financial statements. 23

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(in thousands of SKK)

14. Liabilities to government

At 31 December 2004, the Bank's liabilities arising from the State's ordinary operations and from financing the debt service amounted to SKK 10,432,988 thousand (SKK 17,075,247 thousand at 31 December 2003, Balance sheet – Liabilities, line XIV), of which SKK 7,918,912 thousand represents State Treasury funds deposited on accounts in the NBS.

By the end of 2004, government funds were transferred to the State Treasury and were not an NBS client at 31 December 2004.

The settlement of special operations with the funds of the Slovak Republic of SKK 70,803,442 thousand (SKK 71,380,880 thousand at 31 December 2003 – Balance sheet, Liabilities, line XVI) represented, particularly, the special-purpose term deposit of the Slovak Ministry of Finance for the pension reform of SKK 70,109,235 thousand, including interest (SKK 67,545,640 thousand at 31 December 2003).

15. Issued securities

At 31 December 2004, the NBS issued bills of SKK 659,724,590 thousand (SKK 205,759,761 thousand at 31 December 2003) (see Note 4.5).

At 31 December 2004, NBS bills of SKK 280,382,590 thousand were used for sterilisation activities (SKK 162,148,761 thousand at 31 December 2003), of which SKK 220,658,000 thousand (SKK 106,389,000 thousand at 31 December 2003) were in the form of sterilised repurchase transactions, and SKK 59,724,590 thousand (SKK 55,759,761 thousand at 31 December 2003) were in the form of direct issues in the portfolios of domestic banks (Balance sheet, Liabilities, line XI).

16. Currency in circulation

The issue of banknotes and coins (Balance sheet – Liabilities, line XIII) represents the valid national banknotes and coins in circulation:

	2004	2003
Issued coins	2 371 815	2 177 660
Issued banknotes	107 528 235	100 368 705
Total	**109 900 050**	**102 546 365**

The NBS will continue to exchange the 10 and 20 haler coins for free, the validity of which was terminated in 2003, until 31 December 2008.

17. Provisions

In 2004, the Bank set up and released the following provisions:

	2003	Set-up	Release	2004
Provision for liabilities to employees	111 640	138 102	111 640	138 102
Provision for outstanding lawsuits	0	8 119	0	8 119
Provision for unbilled supplies	0	4 794	0	4 794
Total	**111 640**	**151 015**	**111 640**	**151 015**

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In accordance with the Bank's internal legal regulations, the provision of SKK 111,640 thousand for unpaid bonuses, salary compensation, and related payments to insurance funds was released in 2004. At the end of the accounting period, a provision of SKK 138,102 thousand (Income statement, line XVIII) was set up, relating to liabilities at 31 December 2004.

In 2004, a provision of SKK 8,119 thousand for the Bank's outstanding lawsuits was set up.

18. Use of the profit/(loss)

The Bank's 2004 loss amounted to SKK 36,288,796 thousand (loss of SKK 31,434,297 thousand at 31 December 2003 - Balance sheet, Liabilities, line XXIII). In accordance with § 38 of the NBS Act, the Bank Board decided, in March 2005, that the 2004 loss should remain unsettled. The loss carried forward will be offset against future periods' profit, as well as against other NBS sources.

19. Net interest expense

Net interest expense comprises the following items:

	2004	2003
Total interest received (Income statement - line I)	**10 183 005**	**10 648 376**
Interest received on securities	8 067 174	8 255 530
Interest received on loans relating to repurchase transactions	1 257 047	908 858
Other interest received	858 784	1 483 988
Total interest paid (Income statement - line II)	**-16 034 870**	**-18 061 342**
Interest paid on securities	-3 122 220	-3 094 223
Interest paid on loans relating to repurchase transactions	-8 186 973	-7 451 002
Other interest paid	-4 725 677	-7 516 117
Net interest expense	**-5 851 865**	**-7 412 966**

20. Fees and commissions

Income from fees and commission consists of:

	2004	2003
Income from fees and commissions (Income statement - line IV)	155 237	144 466
Expenses from fees and commissions (Income statement - line V)	-27 921	-61 391
Net income from the fees and commissions	**127 316**	**83 075**

The result of Securities Lending transactions for 2004 was fee income of SKK 78,669 thousand (SKK 63,546 thousand for 2003).

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Notes to the financial statements as at 31 December 2004
(in thousands of SKK)

21. Net loss on financial operations

Net loss on financial operations comprises the following items:

	2004	2003
Loss(-)/profit from marketable securities	**1 165 684**	**705 521**
Revenues from marketable securities	4 593 768	3 345 240
Costs of marketable securities	-3 428 084	-2 639 719
Loss from FX operations	**-29 799 974**	**-22 780 380**
Revenues from FX operations	16 469 738	19 574 189
Costs of FX operations	-46 269 712	-42 354 569
Net loss from term operations	**-97 426**	**-127 017**
Profits from the valuation of term operations	64 449	293 141
Losses from the valuation of term operations	-161 875	-420 158
Net loss from financial operations (Income statement - line VI)	**-28 731 716**	**-22 201 876**

The 2004 net loss on financial operations included mainly a loss on foreign exchange operations of SKK 29,799,974 thousand (SKK 22,780,380 thousand at 31 December 2003).

At 31 December 2004, the NBS suffered a net FX loss from FX operations of SKK 29,802,389 thousand (loss of SKK 22,786,634 thousand at 31 December 2003), related to the strengthening position of the SKK exchange rate.

22. General operating costs

The structure of NBS's general operating costs is as follows:

	2004	2003
Salaries and bonuses	-575 578	-495 524
Social costs	-209 459	-167 388
Total personnel costs (Income statement - line IX a)	**-785 037**	**-662 912**
Other general operating costs	-450 195	-492 611
Total general operating costs (Income statement - line IX)	**-1 235 232**	**-1 155 523**

The most significant share of general operating costs consisted of fees for using telecommunication systems for data and information transfer, costs for updating the application software systems, and security expenses.

Audit expenses in 2004 were stated at SKK 3,500 thousand.

23. Collaterals received

The value of securities received as collateral in repurchase transactions at 31 December 2004 was SKK 178,842,478 thousand (SKK 72,757,988 thousand at 31 December 2002) (Off balance sheet, Liabilities, line II e), of which those in SKK equalled SKK 43,257,599 thousand, those in EUR equalled SKK 106,587,314 thousand (SKK 61,286 177 thousand at 31 December 2003), and those in USD equalled SKK 28,997,565 thousand (SKK 11,471,811 thousand at 31 December 2003 – see Note 10.1).

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The value of securities received as collateral in Tripartite Reverse repurchase transactions at 31 December 2004 was SKK 51,373,663 thousand (SKK 34,991,521 thousand at 31 December 2003), whilst the total value of collaterals received consisted of long-term securities in EUR.

The value of securities received as collateral in transactions under the Securities Lending Agreements at 31 December 2004 was SKK 84,211,216 thousand, of which those in EUR equalled SKK 55,213,651 thousand and those in USD equalled SKK 28,997,565 thousand, whilst the total value of collaterals received consisted of long-term collaterals received in Securities Lending.

In connection with providing intra-day loans to banks on the Slovak inter-bank market, the NBS reported both NBS bills of SKK 42,780,396 thousand and short-term, zero-coupon state bonds of SKK 477,203 thousand as collateral.

24. State guarantees

At 31 December 2004, the NBS showed an assumed state guarantee of SKK 4,989,196 thousand for a redistribution loan in its off-balance-sheet records (SKK 17,732,008 thousand at 31 December 2003). The state guarantee is provided for the amount of principal, plus interest to maturity. The decrease in the volume of state guarantees is compared to the previous year results from repaying a redistribution loan in 2004 (see Note 10.1).

25. Post balance-sheet events

After 31 December 2004, there were no significant events, apart from changes in the Bank Board (see Note 1) that would require adjustments or disclosure in the 2004 financial statements.

Bratislava, 24 March 2005

Ing. Ivan Šramko	Ing. Milena Koreňová Bank Board member	Ing. Katarína Tarageľová
Governor	Executive Director of the Financial Management and Payment Transactions Division	Director of the Budget and Accounting Department

These Notes are an integral part of the NBS's financial statements. 27

STATEMENT OF CHANGES IN EQUITY

of Národná banka Slovenska as at 31 December 2004
in thousands of SKK

	Notes	Current accounting period 31.12.2004	Previous accounting period 31.12.2003
		1	2
1.Capital (Statutory fund)			
opening balance		466 667	466 667
increase			
decrease			
closing balance		**466 667**	**466 667**
2. Statutory reserve fund			
opening balance		10 164 859	10 164 859
increase			
decrease			
closing balance		**10 164 859**	**10 164 859**
3. Other capital funds			
opening balance		76 670	82 435
increase		114	
decrease			-5765
closing balance		**76 784**	**76 670**
4. Fund for gold revaluation			
opening balance		13 289 763	
increase			14 700 320
decrease		-1 415 322	-1 410 557
closing balance	6	**11 874 441**	**13 289 763**
5. Retained earnings - change in accounting methods			
opening balance		**15 900 550**	
increase			15 925 567
decrease		-15 900 550	-25 017
closing balance			**15 900 550**
6. Retained earnings			
opening balance		-24 836 019	-24 836 019
increase		-31 434 297	
decrease		15 900 550	
closing balance	**18**	**-40 369 766**	**-24 836 019**
7. Profit or loss for the period	**18**	**-36 288 796**	**-31 434 297**
8. Equity total		**-54 075 811**	**-16 371 807**

Date:
04.03.2004

Signature of statutory representatives:
Ing. Ivan Šramko

Employee responsible for accounting
(Name and Surname, Signature):
Ing. Milena Koreňová

Employee responsible for financial statements
(Name and Surname, Signature):
Ing. Katarína Taragelová

Prepared by:
Ing. Juraj Šarkan

Národná banka Slovenska
Bratislava
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Appendices

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Selected Indicators of Economic and Monetary Development in the SR

	Unit	Note	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2004 Q1	Q2	Q3	Q4
GDP at current prices	SKK billions	1)	495.6	576.5	638.4	712.7	781.4	844.1	934.1	1,009.8	1,098.7	1,201.2	1,325.5	308.7	330.4	336.8	349.6
Same period a year earlier = 100	index		120.5	116.3	110.7	111.6	109.6	108.0	110.7	108.1	108.8	109.3	110.3	113.1	109.8	108.8	110.0
GDP at constant 1995 prices	SKK billions	1)	544.7	576.5	611.9	640.2	667.1	676.9	690.7	716.8	749.9	783.4	826.5	190.9	210.0	214.2	211.3
Same period a year earlier = 100	index		106.2	105.8	106.1	104.6	104.2	101.5	102.0	103.8	104.6	104.5	105.5	105.4	105.5	105.3	105.8
Consumer prices, average for the period																	
Same period a year earlier = 100	index		113.4	109.9	105.8	106.1	106.7	110.6	112.0	107.1	103.3	108.5	107.5	108.3	108.2	107.4	106.3
Consumer prices, end of the period																	
Same period a year earlier = 100	index		111.7	107.2	105.4	106.4	105.6	114.2	108.4	106.5	103.4	109.3	105.9	108.2	108.1	106.7	105.9
Industrial producer prices, average for the period																	
Same period a year earlier = 100	index		108.6	111.2	104.4	105.0	102.7	104.2	110.8	106.5	102.1	108.3	103.4	103.0	102.8	103.6	104.5
Industrial production		2)															
Same period a year earlier = 100	index		–	–	–	–	–	98.0	108.5	107.4	106.7	105.2	104.0	106.2	105.2	103.9	101.2
Retail sales receipts, constant prices		12)															
Same period a year earlier = 100	index		–	–	–	–	–	–	–	104.5	105.8	94.8	106.2	103.8	108.5	109.7	103.6
Average monthly nominal wage	SKK		6,294	7,195	8,154	9,226	10,003	10,728	11,430	12,365	13,511	14,365	15,825	14,541	15,472	15,299	17,955
Same period a year earlier = 100	index		117.0	114.3	113.3	113.1	109.6	107.2	106.5	108.2	109.3	106.3	110.2	111.2	109.6	108.8	111.0
Real wage																	
Same period a year earlier = 100	index		103.2	104.0	107.1	106.6	102.7	96.9	95.1	100.8	105.8	98.0	102.5	102.7	101.3	101.2	104.4
Unemployment rate		3)															
End of the period	%		14.6	13.1	12.8	12.5	15.6	19.2	17.9	18.6	17.5	15.6	13.1	16.0	13.9	13.1	13.1
Exchange rate (midpoint)	SKK/USD	4)	31.277	29.569	31.895	34.782	36.913	42.266	47.389	48.467	40.036	32.920	28.496	32.982	32.844	32.492	28.496
	SKK/DEM	4)	20.060	20.646	20.514	19.398	22.081	21.708	22.495	21.863	–	–	–	–	–	–	–
	SKK/EUR	4)	–	–	–	–	–	42.458	43.996	42.760	41.722	41.161	38.796	40.207	39.946	40.048	38.796
Real effective exchange rate		8)															
– based on CPI 8 trading partners		9)	105.8	110.7	115.1	123.8	126.1	122.5	137.4	141.0	145.7	162.4	178.4	177.0	179.0	178.3	183.4
9 trading partners		10)	95.5	99.4	99.9	105.3	102.3	100.1	109.8	108.7	105.7	120.1	131.0	132.9	131.4	130.3	131.2
– based on PPI 8 trading partners		9) 13)	106.6	111.9	116.8	124.9	125.5	116.1	124.1	127.5	132.4	147.7	154.0	154.0	154.3	153.6	157.7
9 trading partners		10) 13)	89.4	94.4	96.2	102.3	99.9	93.1	98.3	97.8	95.9	109.2	112.2	115.3	112.1	111.0	111.1
Foreign exchange reserves																	
Total	US$ millions	11)	3,656.8	5,601.1	6,276.0	7,111.0	6,727.5	5,271.4	6,205.1	6,568.1	10,311.9	13,406.1	16,776.0	13,275.2	13,750.6	14,410.9	16,776.0
– of which: NBS reserves	US$ millions	11)	2,306.3	3,982.8	3,940.9	3,766.1	3,407.7	4,168.1	4,547.6	4,791.1	9,195.5	12,149.0	14,913.1	12,214.1	12,362.4	13,218.7	14,913.1
State budget																	
Revenues	SKK billions	5)	139.1	163.1	166.3	180.8	177.8	216.7	213.4	205.3	220.4	233.1	242.4	66.9	120.7	172.8	242.4
– Fulfilment of the annual budget	%		103.3	111.4	100.5	105.7	105.5	120.5	116.1	113.7	10.2	99.0	104.5	28.9	52.0	74.5	104.5
Expenditures	SKK billions	5)	162.0	171.4	191.9	217.8	197.0	231.5	241.1	249.7	272.0	289.1	312.7	65.8	133.2	202.2	312.7
– Fulfilment of the annual budget	%		108.5	102.4	99.7	104.7	106.6	118.8	119.5	114.7	105.5	99.2	100.7	21.2	42.9	65.2	100.7
Balance	SKK billions		-22.9	-8.3	-25.6	-37.0	-19.2	-14.8	-27.7	-44.4	-51.6	-56.0	-70.3	1.2	-12.5	-29.4	-70.3
MONETARY AGGREGATES																	
Net domestic assets	%	6)	-1.1	5.0	19.8	8.9	11.9	11.2	7.2	14.2	-17.8	14.9	13.1	9.2	11.9	8.1	11.4
Money supply (M2)	%	6)	19.1	21.2	16.6	8.8	4.2	11.4	15.4	11.8	3.4	4.8	6.3	2.0	6.3	5.4	5.8
Loans to enterprises and households	%	6)	1.9	14.7	18.2	2.2	6.7	4.5	0.3	-18.2	1.5	13.3	6.5	8.6	10.1	8.0	3.6
– of which: in foreign currency	%	6)	77.8	57.6	35.7	14.9	25.4	17.6	-3.3	5.9	1.5	27.3	21.1	27.1	45.9	33.0	21.1
Total deposits	%	6) 7)	16.7	21.0	15.6	8.4	4.5	10.9	15.3	10.7	3.3	4.2	5.9	1.6	6.1	5.0	5.2
– in Slovak koruna	%		14.1	24.0	17.2	7.9	-1.0	10.9	13.6	10.6	3.7	8.0	7.6	4.5	6.7	6.4	6.9
– in foreign currency	%		34.7	3.4	4.5	12.4	45.7	11.1	23.9	11.5	1.5	-13.8	-4.2	-13.4	2.7	-2.8	-4.6
Average interest rates																	
– on loans	%		14.51	13.34	11.89	12.53	13.48	11.07	9.79	8.36	8.70	7.61	6.83	7.31	7.06	6.54	6.40
– on deposits	%		9.29	8.29	6.70	8.00	10.16	10.45	7.23	5.15	4.60	4.12	2.61	3.19	2.69	2.38	2.20
– margin	%		5.22	5.05	5.19	4.53	3.32	0.62	2.56	3.21	4.10	3.49	4.22	4.12	4.37	4.16	4.20

1) Data revised in July 2002.
2) Revised data.
3) Since December 1997 the rate of disposable unemployment.
4) On the last day of the period under review.
5) Cumulative figure since the beginning of the year.
6) Compared with the same period of last year; end of year compared with 1 January – cumulative figures (at current exchange rates).
7) Deposits of enterprises and households, which are part of the M2 aggregate.
8) Compared with the weighted average for the first nine months of 1990.
9) USA, Great Britain, Austria, France, Germany, Italy, the Netherlands, Switzerland (1990 = 100, weights of 1993).
10) USA, Great Britain, Austria, France, Germany, Italy, the Netherlands, Switzerland, Czech Republic (1990 = 100, weights of 1993).
11) Change in methodology with effect from 1 January 2002.
12) Retail sector: receipts from sale and maintenance of cars, sale of fuels and from hotel and restaurant services are not included.
13) Revised industrial producer prices.

Shortened Balance Sheet of Commercial Banks as at 1 January 2004 (SKK thousands) (Banks and branches of foreign banks operating in the SR in total)

ASSETS	Accumulated depreciation and provisions	Slovak koruna		Foreign currency		Total
		Residents	Non-residents	Residents	Non-residents	
T o t a l a s s e t s	66,018,305	876,298,157	28,890,372	100,516,064	45,532,324	985,218,612
Cash items	0	10,873,224	39	252	4,343,539	15,217,054
Cash	0	10,720,242	0	0	4,338,813	15,059,055
Gold	0	0	0	0	0	0
Other cash items	0	152,982	39	252	4,726	157,999
Deposits with and credits to NBS, foreign issuing banks and post office banks	0	120,883,281	0	0	211	120,883,492
Money reserve accounts with the NBS	0	11,551,317	0	0	0	11,551,317
Deposits, credits, and other receivables	351,394	32,439,725	4,117,505	7,582,575	16,568,890	60,357,301
Current accounts with banks	0	427,630	99	91,841	2,787,547	3,307,117
Credits provided	0	735,265	0	0	825,462	1,560,727
Time deposits with banks	0	30,731,540	3,864,461	7,483,255	12,614,922	54,694,178
Current accounts of other banks	0	0	240,239	3	6	240,248
Other receivables	0	493,698	50	7,476	40,950	542,174
Standard credits, qualified deposits, classified credits, deposits, and other receivables	351,394	51,592	12,656	0	300,003	12,857
of which: Short-term receivables	239,805	0	12,656	0	233,176	6,027
Interest on non-performing credits	477	477	0	0	390	390
Standard credits to customers	948,751	203,394,425	1,209,605	46,949,124	8,918,164	259,522,567
Short-term credits	0	53,992,358	1,095,131	13,177,423	4,964,262	73,229,174
Long-term credits	948,751	149,402,067	114,474	33,771,701	3,953,902	186,293,393
of which: Credits repayable in 1 to and including 5 years	0	69,057,411	91,383	16,411,172	2,129,327	87,689,293
Other receivables from customers	1,130	2,489,606	95,998	1,840,845	415,675	4,840,994
of which: Credits for commercial claims	0	1,902,824	5,857	1,596,908	360,922	3,866,511
Current accounts of customers – debit balances, overdrafts	29,612	20,634,888	19,867	5,540,797	84,423	26,250,363
Standard receivables with conditions, classified credits, and other receivables from customers	28,315,516	69,295,219	1,240,777	14,549,919	737,002	57,507,401
of which: Interest due, but unpaid	4,656,540	4,623,854	32,719	48,818	20,123	68,974
Standard credits with conditions	1,211,546	39,780,731	792,774	9,575,229	330,998	49,268,186
Sub-standard receivables	1,837,308	3,769,049	430,654	2,228,145	277,839	4,868,379
Doubtful and controversial claims	1,981,966	3,342,874	235	973,153	38	2,334,334
Loss-making receivables	23,284,696	22,402,565	17,114	1,773,392	128,127	1,036,502
Other specific receivables	0	0	0	0	0	0
Accounts of state authorities, local governments, and funds	19,765	14,755,841	0	2,982,502	0	17,718,578
Standard credits with conditions, classified loans, and other receivables	19,765	525,596	0	0	0	505,831
Credits to state authorities	0	8,505,092	0	1,362,011	0	9,867,103
Credits to social security funds	0	1	0	0	0	1
Credits to local governments	0	5,154,315	0	1,620,491	0	6,774,806
Credits to funds	0	570,837	0	0	0	570,837
Fixed forward transactions	0	3,935,655	1,822,240	847,946	74,551	6,680,392
Claims in respect of money collection	0	426,776	134	811,192	146,225	1,384,327
Branches and representative offices	0	0	6,968,766	0	3,644,722	10,613,488
Receivables and other suspense accounts	1,084,372	4,580,194	37,011	192,868	135,068	3,860,769
Securities for sale and other shareholdings	202,206	31,548,833	2,776,139	3,050,734	2,256,405	39,429,905
Receivables from trade in securities and from securities issued by the accounting unit	0	1,590,053	143	41,308	14,377	1,645,881
Securities intended for trading	0	86,426,505	1,199,115	6,876,449	2,747,893	97,249,962
Options – purchase	0	72,589	27,830	23,148	7,998	131,565
Financial investment	1,815,974	199,787,541	9,374,455	9,209,005	3,477,315	220,032,342
Long-term funds provided to branches abroad	0	0	0	0	513,627	513,627
Tangible assets	25,397,149	49,195,502	0	0	0	23,798,353
Acquisition of tangible and intangible assets	20,677	2,568,215	748	17,400	0	2,565,686
Subordinated financial assets	0	60,349	0	0	1,446,239	1,506,588
Intangible assets	7,824,759	9,606,333	0	0	0	1,781,574
Inventories	7,000	182,086	0	0	0	175,086
Adjustments and accumulated depreciation	66,018,305	62,469,435	73,400	2,933,967	541,503	0

Table SHORTENED BALANCE SHEET OF COMMERCIAL BANKS continued on next page.

Shortened Balance Sheet of Commercial Banks as at 1 January 2004 (SKK thousands) (Banks and branches of foreign banks operating in the SR in total) – *continued*

LIABILITIES	Slovak koruna		Foreign currency		Total
	Residents	Non-residents	Residents	Non-residents	
Total liabilities	736,400,997	61,226,401	106,299,520	81,291,694	985,218,612
Deposits with and credits to NBS and foreign issuing banks, and postal checking accounts	8,892,626	0	205,625	0	9,098,251
Current accounts with NBS and foreign issuing banks	1,096,968	0	0	0	1,096,968
Time deposits of NBS and foreign issuing banks	0	0	0	0	0
Credits received from NBS and foreign issuing banks	7,795,658	0	205,625	0	8,001,283
of which: Redistribution credit	6,591,977	0	0	0	6,591,977
Refinancing repo credit	0	0	0	0	0
Deposits, credits, and other liabilities	32,209,137	13,996,825	7,668,015	33,457,325	87,331,302
Current accounts with banks	0	4	0	552,144	552,148
Current accounts of other banks	435,072	1,577,902	95,312	517,630	2,625,916
Other payables	287,228	3,096	89,452	410,925	790,701
Credits received	650,984	14	0	6,569,230	7,220,228
Time deposits of other banks	30,835,853	12,415,809	7,483,251	25,407,396	76,142,309
Payables in respect of other items	37,209	0	0	0	37,209
Payables in respect of securities	0	0	0	0	0
Deposits of customers	545,300,997	4,175,338	91,773,337	4,349,094	645,598,766
Current accounts of customers	181,487,020	1,836,731	45,379,336	2,915,999	231,619,086
Time deposits of customers	261,231,076	2,223,495	43,847,553	1,416,369	308,718,493
Savings deposits of customers	101,367,577	111,738	2,539,905	16,726	104,035,946
Certificates of deposit	1,215,324	3,374	6,543	0	1,225,241
Other liabilities to customers	9,503,179	7,537	2,563,720	1,221,677	13,296,113
Credits received from customers	4,022,908	0	0	0	4,022,908
Short-term securities issued by the accounting unit	2,083,913	7,040	1,109,934	0	3,200,887
Earmarked deposits	500	0	0	0	500
Other specific payables	67,736	0	0	0	67,736
Accounts of state authorities, local governments, and funds	41,339,417	0	765,947	0	42,105,364
Non-budgetary money deposits of state authorities	8,150,121	0	65,6,621	0	8,806,742
Deposits of social security funds	20,830,001	0	18,049	0	20,848,050
Deposits of local governments	8,279,404	0	58,773	0	8,338,177
Deposits of funds	4,079,891	0	32,504	0	4,112,395
Fixed forward transactions	4,560,433	2,901,234	957,990	212,416	8,632,073
Payables in respect of money collection	47,990	540	790,970	132,887	972,387
Branches and representative offices	216,567	2,295,886	0	39,936,903	42,449,356
Various payables, adjustment and other suspense accounts	6,477,326	29,837	303,952	133,091	6,944,206
Liabilities from trading in securities and securities issued by the accounting unit	2,720,910	802,457	23,357	21	3,546,745
Options – sale	54,375	53,485	24,181	26,132	158,173
Subsidies and similar funds	3,288,819	0	0	0	3,288,819
Long-term securities issued by the accounting unit	15,527,096	0	134	0	15,527,230
Subordinated financial liabilities	0	60,349	0	0	60,349
Reserves	7,882,217	0	112,358	139,349	8,133,924
Reserve funds and other funds allocated from profits	9,686,681	46,500	0	0	9,733,181
Registered capital	4,793,272	33,999,304	0	1,650,000	40,442,576
Long-term funds provided to branches of foreign banks	0	2,844,579	0	0	2,844,579
Share premium	1,789,817	0	0	0	1,789,817
Own shares	-246,450	0	0	0	-246,450
Capital of mutual funds (unit trusts)	0	0	0	0	0
Other capital funds	205,086	5,490	0	0	210,576
Gains or losses from revaluation of net investments connected with shares and deposits	-296	0	0	32,799	32,503
Gains or losses from revaluation of security derivatives	0	0	0	0	0
Gains or losses from revaluation of assets and liabilities	0	0	0	0	0
Retained earnings from previous years /+/	27,962,119	0	0	0	27,962,119
Accumulated losses from previous years /-/	-3,347,394	0	0	0	-3,347,394
Profit and loss account /+ -/	912,303	0	0	0	912,303
Profit or loss in process of approval /+, -/	10,412,504	0	0	0	10,412,504

Shortened Balance Sheet of Commercial Banks as at 31 December 2003 (SKK thousands)
(Banks and branches of foreign banks operating in the SR in total)

ASSETS	Accumulated depreciation and provisions	Slovak koruna		Foreign currency		Total
		Residents	Non-residents	Residents	Non-residents	
Total assets	62,965,332	1,032,838,722	25,647,440	108,114,397	59,026,751	1,162,661,978
Cash items	0	9,801,855	0	1,145	4,266,542	14,069,542
Cash	0	9,442,612	0	0	4,262,079	13,704,691
Gold	0	0	0	0	0	0
Other cash items	0	359,243	0	1,145	4,463	364,851
Deposits with and credits to NBS, foreign issuing banks and post office banks	0	228,961,905	0	0	2,407	228,964,312
Money reserve accounts with the NBS	0	10,926,934	0	0	0	10,926,934
Deposits, credits, and other receivables	104,929	39,779,642	8,743,529	5,509,870	13,355,948	67,284,060
Current accounts with banks	0	595,081	1,345	83,717	4,412,087	5,092,230
Credits provided	0	1,540,445	377,319	0	1,876,610	3,794,374
Time deposits with banks	0	37,160,830	3,969,469	5,421,852	6,814,902	53,367,053
Current accounts of other banks	0	0	2,775,360	96	177,239	2,952,695
Other receivables	0	352,851	1,620,036	4,205	75,070	2,052,162
Standard credits, qualified deposits, classified credits, deposits, and other receivables	104,929	130,435	0	0	40	25,546
of which: Short-term receivables	40	0	0	0	40	0
Interest on non-performing credits	1,537	1,948	0	0	0	411
Standard credits to customers	0	229,133,109	405,228	56,181,375	9,975,563	295,695,275
Short-term credits	0	44,890,655	72,903	14,192,399	4,783,694	63,939,651
Long-term credits	0	184,242,454	332,325	41,988,976	5,191,869	231,755,624
of which: Credits repayable in 1 to and including 5 years	0	71,550,780	133,680	18,246,990	2,074,971	92,006,421
Other receivables from customers	1,227	1,791,492	4,913	1,179,952	261,484	3,236,614
of which: Credits for commercial claims	0	1,223,611	2,874	1,098,362	223,633	2,548,480
Current accounts of customers – debit balances, overdrafts	0	31,310,756	18,216	8,161,147	373,320	39,863,439
Standard receivables with conditions, classified credits, and other receivables from customers	24,850,406	47,812,851	794,609	16,877,440	1,424,758	42,059,252
of which: Interest due, but unpaid	2,740,717	2,725,289	29,082	36,913	1,264	51,831
Standard credits with conditions	2,969,785	22,926,192	167,339	12,208,406	1,050,443	33,382,595
Sub-standard receivables	1,837,151	5,179,708	609,152	1,893,119	352,858	6,197,686
Doubtful and controversial claims	2,153,979	3,270,453	140	788,413	18,817	1,923,844
Loss-making receivables	17,889,491	16,436,498	17,978	1,987,502	2,640	555,127
Other specific receivables	0	0	0	0	0	0
Accounts of state authorities, local governments, and funds	84,988	30,332,590	0	6,197,325	0	36,444,927
Standard credits with conditions, classified loans, and other receivables	84,988	158,668	0	289,932	0	363,612
Credits to state authorities	0	23,557,817	0	678,997	0	24,236,814
Credits to social security funds	0	195,122	0	0	0	195,122
Credits to local governments	0	6,138,381	0	5,228,396	0	11,366,777
Credits to funds	0	282,602	0	0	0	282,602
Fixed forward transactions	0	4,514,469	3,994,713	433,558	1,996,620	10,939,360
Claims in respect of money collection	0	201,094	2,958	821,096	69,636	1,094,784
Branches and representative offices	0	0	254,389	0	368,751	623,140
Receivables and other suspense accounts	766,914	3,798,682	19,545	166,592	13,081	3,230,986
Securities for sale and other shareholdings	204,389	28,634,698	3,574,378	1,603,046	6,175,060	39,782,793
Receivables from trade in securities and from securities issued by the accounting unit	0	9,273	55	5,663	9	15,000
Securities intended for trading	0	77,612,883	458,930	3,396,046	14,659,052	96,126,911
Options – purchase	0	414,692	756,183	85,363	24,632	1,280,870
Financial investment	2,063,255	224,387,090	6,619,794	7,494,491	5,543,825	241,981,945
Long-term funds provided to branches abroad	0	0	0	0	516,063	516,063
Tangible assets	26,333,802	50,002,292	0	0	0	23,668,490
Acquisition of tangible and intangible assets	47,454	2,034,807	0	288	0	1,987,641
Subordinated financial assets	0	60,338	0	0	0	60,338
Intangible assets	8,507,968	11,196,577	0	0	0	2,688,609
Inventories	0	120,693	0	0	0	120,693
Adjustments and accumulated depreciation	62,965,332	58,301,100	93,674	4,024,201	546,357	0

Table SHORTENED BALANCE SHEET OF COMMERCIAL BANKS continued on next page.

Shortened Balance Sheet of Commercial Banks as at 1 January 2004 (SKK thousands)
(Banks and branches of foreign banks operating in the SR in total) – *continued*

LIABILITIES	Slovak koruna		Foreign currency		Total
	Residents	Non-residents	Residents	Non-residents	
Total liabilities	843,485,379	94,148,977	104,510,907	120,516,715	1,162,661,978
Deposits with and credits to NBS and foreign issuing banks, and postal checking accounts	5,079,856	0	105,732	0	5,185,588
Current accounts with NBS and foreign issuing banks	466,598	0	0	0	466,598
Time deposits of NBS and and foreign issuing banks	0	0	0	0	0
Credits received from NBS and foreign issuing banks	4,613,258	0	105,732	0	4,718,990
of which: Redistribution credit	3,912,689	0	0	0	3,912,689
Refinancing repo credit	0	0	0	0	0
Deposits, credits, and other liabilities	39,681,880	42,092,011	5,542,750	90,518,041	177,834,682
Current accounts with banks	0	0	1,178	1,125,526	1,126,704
Current accounts of other banks	596,587	5,468,453	86,646	282,460	6,434,146
Other payables	50,913	25	33,076	178,451	262,465
Credits received	1,619,268	6,509,356	0	17,686,634	25,815,258
Time deposits of other banks	37,415,112	30,114,177	5,421,850	71,244,970	144,196,109
Payables in respect of other items	0	0	0	0	0
Payables in respect of securities	291,932	0	0	0	291,932
Deposits of customers	586,730,844	4,278,425	87,899,527	3,811,307	682,720,103
Current accounts of customers	208,071,548	2,364,159	46,644,724	2,840,660	259,921,091
Time deposits of customers	286,349,164	1,813,816	39,164,726	944,879	328,272,585
Savings deposits of customers	91,192,104	99,740	2,090,077	25,768	93,407,689
Certificates of deposit	1,118,028	710	0	0	1,118,738
Other liabilities to customers	8,862,606	9,449	2,821,512	772,093	12,465,660
Credits received from customers	7,241,610	0	0	0	7,241,610
Short-term securities issued by the accounting unit	8,434,505	28,068	1,456,352	2,789	9,921,714
Earmarked deposits	21,402	0	299	0	21,701
Other specific payables	21,190	0	391	0	21,581
Accounts of state authorities, local governments, and funds	75,012,389	0	4,045,142	0	79,057,531
Non-budgetary money deposits of state authorities	37,507,683	0	720,774	0	38,228,457
Deposits of social security funds	23,982,985	0	0	0	23,982,985
Deposits of local governments	10,184,408	0	3,264,436	0	13,448,844
Deposits of funds	3,337,313	0	59,932	0	3,397,245
Fixed forward transactions	6,434,747	4,891,883	1,328,786	2,011,785	14,667,201
Payables in respect of money collection	228,917	31	827,113	38,702	1,094,763
Branches and representative offices	147,702	1,884,451	0	23,051,117	25,083,270
Various payables, adjustment and other suspense accounts	7,035,862	34,156	294,069	128,616	7,492,703
Liabilities from trading in securities and securities issued by the accounting unit	345,928	808	13,765	18	360,519
Options – sale	903,501	328,188	30,276	82,180	1,344,145
Subsidies and similar funds	3,349,197	0	0	0	3,349,197
Long-term securities issued by the accounting unit	29,946,237	0	2,221	0	29,948,458
Subordinated financial liabilities	0	515,098	0	0	515,098
Reserves	6,899,293	0	142,216	99,940	7,141,449
Reserve funds and other funds allocated from profits	11,625,501	146,500	0	0	11,772,001
Registered capital	4,605,876	36,827,599	0	0	41,433,475
Long-term funds provided to branches of foreign banks	0	2,844,579	0	0	2,844,579
Share premium	1,836,136	250,000	0	0	2,086,136
Own shares	-5,126	0	0	0	-5,126
Capital of mutual funds (unit trusts)	0	0	0	0	0
Other capital funds	205,409	5,490	0	0	210,899
Gains or losses from revaluation of net investments connected with shares and deposits	6	0	0	127	133
Gains or losses from revaluation of security derivatives	-26,216	12,241	756	0	-13,219
Gains or losses from revaluation of assets and liabilities	0	0	0	0	0
Retained earnings from previous years /+/	26,343,189	0	0	0	26,343,189
Accumulated losses from previous years /-/	-701,227	0	0	0	-701,227
Profit and loss account /+ -/	12,932,233	0	0	0	12,932,233
Profit or loss in process of approval /+, -/	0	0	0	0	0

Monthly Profit and Loss Account of Commercial Banks (SKK thousands)
(Banks and branches of foreign banks operating in the SR in total)

	2001	2002	2003	2004			
	December	December	December	March	June	September	December
EXPENSES							
Expenses on financial operations:	119,077,673	155,243,587	225,688,453	71,902,549	134,319,989	177,709,998	234,692,235
Other interest paid[1]	–	–	26,293,320	6,786,271	12,993,047	18,660,591	24,201,683
Fees and commissions paid[1]	–	–	1,664,276	340,769	732,526	1,139,049	1,591,872
Leasing expenses[1]	–	–	12	1	94	174	314
Costs of operations in securities[1]	–	–	4,976,931	726,491	1,315,351	1,873,389	2,463,603
Interest on securities paid[1]	–	–	2,655,898	499,174	1,033,315	1,687,245	2,383,271
Costs of foreign exchange operations	65,697,979	115,814,423	92,487,934	30,386,234	57,605,419	77,729,904	106,069,373
Costs of operations in derivatives[1]	–	–	96,381,424	32,918,763	60,071,080	75,822,270	96,882,471
Costs of other operations	1,387,096	2,257,987	1,228,658	244,846	569,157	797,376	1,099,648
General operating expenses	21,891,943	24,379,862	25,550,382	6,181,819	13,013,506	19,499,081	26,340,692
Additions to reserves and provisions	37,551,171	26,116,724	29,916,501	5,805,933	12,830,723	19,931,798	30,940,921
Other operating expenses	15,449,324	11,682,561	13,260,948	5,135,917	7,110,655	9,934,483	13,700,169
Extraordinary expenses	677,300	604,352	18,712	5,149	5,060	2	200,099
Income tax	237,487	349,915	36,588	368,352	611,210	857,174	1,788,010
Current period profit	10,705,605	12,539,455	11,548,335	3,014,983	6,941,933	10,166,531	12,287,442
TOTAL EXPENSES, PLUS PROFIT	205,590,503	230,916,456	306,019,919	92,414,702	174,833,076	238,099,067	319,949,568
INCOME							
Income from financial operations	152,378,867	197,325,792	265,225,638	83,138,818	157,306,840	212,238,087	281,542,380
Other interest received[1]	–	–	36,972,214	9,423,187	18,982,288	28,342,396	37,659,547
Fees and commissions received[1]	–	–	9,270,499	2,359,333	5,120,956	7,874,314	10,962,125
Income from shares and stakes[1]	–	–	799,331	24,432	89,142	248,379	280,495
Income from leasing[1]	–	–	0	0	76	299	510
Income from operations in securities[1]	–	–	4,032,805	1,444,914	2,511,703	3,275,867	5,261,040
Interest on securities received[1]	–	–	21,517,681	5,484,077	10,553,810	15,204,613	20,451,643
Income from foreign exchange operations	71,105,331	120,503,531	96,715,825	31,282,350	59,826,314	81,291,962	109,859,005
Income from operations in derivatives[1]	–	–	95,196,410	32,948,472	59,864,131	75,424,762	96,245,827
Income from other operations	968,933	1,773,624	720,873	172,053	358,420	575,495	822,188
Use of reserves and provisions	48,665,078	30,249,277	34,868,413	8,384,617	16,097,864	23,801,015	35,247,773
Other operating income	1,593,234	1,285,874	5,678,418	888,021	1,428,123	2,057,726	3,152,801
Extraordinary income	1,318,720	1,358,892	15,532	182	249	83	0
Current period loss	1,634,604	696,621	231,918	3,064	0	2,156	6,614
TOTAL INCOME, PLUS LOSS	205,590,503	230,916,456	306,019,919	92,414,702	174,833,076	238,099,067	319,949,568

1) Data not included due to the recent amendment to the Decree of the Ministry of Finance for 2003 detailing accounting procedures and a general chart of accounts for banks and branch offices of foreign banks.

Inflation (year-on-year change)

	2001											
	1	2	3	4	5	6	7	8	9	10	11	12
Total inflation in %	7.7	6.7	7.1	7.6	7.7	8.0	8.0	7.8	7.4	7.1	6.5	6.5
Regulated prices in %	20.7	16.4	17.1	16.4	16.3	16.4	17.1	17.0	17.0	17.0	17.0	17.2
Share of total, in percentage points	*4.68*	*4.01*	*4.17*	*4.02*	*4.00*	*4.01*	*4.20*	*4.18*	*4.15*	*4.14*	*4.13*	*4.17*
Effect of change in indirect taxes on non-regulated prices												
Share of total, in percentage points	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*-0.03*	*-0.03*
Core inflation in %	4.0	3.6	4.0	4.8	5.0	5.4	5.2	4.9	4.4	4.0	3.3	3.2
Share of total, in percentage points	*3.05*	*2.65*	*2.95*	*3.57*	*3.67*	*3.99*	*3.81*	*3.61*	*3.24*	*2.92*	*2.44*	*2.39*
of which: food prices in %	4.7	3.5	5.3	6.9	7.2	9.2	9.4	8.1	6.5	5.5	3.7	3.7
Share of total, in percentage points	*1.09*	*0.80*	*1.19*	*1.53*	*1.59*	*2.02*	*2.05*	*1.77*	*1.44*	*1.22*	*0.83*	*0.83*
Net inflation (adjusted for changes in indirect taxes) in %	3.7	3.6	3.4	4.0	4.0	3.8	3.4	3.6	3.5	3.3	3.1	3.0
Share of total, in percentage points	*1.97*	*1.85*	*1.75*	*2.04*	*2.08*	*1.97*	*1.75*	*1.85*	*1.81*	*1.70*	*1.61*	*1.56*

	2002											
	1	2	3	4	5	6	7	8	9	10	11	12
Total inflation in %	6.2	4.3	3.6	3.6	3.2	2.6	2.0	2.7	2.8	2.9	2.9	3.4
Regulated prices in %	13.4	5.7	5.1	5.3	5.6	5.5	3.3	5.3	5.3	5.4	5.3	6.5
Share of total, in percentage points	*2.97*	*1.33*	*1.18*	*1.22*	*1.28*	*1.27*	*0.77*	*1.21*	*1.22*	*1.25*	*1.22*	*1.50*
Effect of change in indirect taxes on non-regulated prices												
Share of total, in percentage points	*0.36*	*0.35*	*0.35*	*0.35*	*0.35*	*0.35*	*0.35*	*0.35*	*0.35*	*0.35*	*0.41*	*0.41*
Core inflation in %	3.7	3.4	2.7	2.6	2.1	1.2	1.2	1.5	1.6	1.7	1.7	1.9
Share of total, in percentage points	*2.86*	*2.58*	*2.10*	*1.99*	*1.60*	*0.95*	*0.88*	*1.13*	*1.24*	*1.30*	*1.29*	*1.46*
of which: food prices in %	4.5	5.6	4.2	3.6	3.1	0.0	-1.7	-0.9	0.1	-0.2	0.5	-0.2
Share of total, in percentage points	*0.96*	*1.16*	*0.88*	*0.75*	*0.65*	*0.00*	*-0.36*	*-0.18*	*0.02*	*-0.03*	*0.10*	*-0.04*
Net inflation (adjusted for changes in indirect taxes) in %	3.3	2.5	2.2	2.2	1.7	1.7	2.2	2.3	2.2	2.4	2.1	2.7
Share of total, in percentage points	*1.89*	*1.41*	*1.22*	*1.25*	*0.96*	*0.94*	*1.24*	*1.31*	*1.22*	*1.33*	*1.19*	*1.50*

	2003											
	1	2	3	4	5	6	7	8	9	10	11	12
Total inflation in %	7.3	7.6	8.0	7.7	7.6	8.4	8.7	9.2	9.5	9.6	9.8	9.3
Regulated prices in %	20.4	20.6	22.0	22.3	22.1	21.3	21.9	19.7	20.5	20.5	20.6	18.7
Share of total, in percentage points	*4.72*	*4.75*	*5.09*	*5.13*	*5.08*	*4.92*	*5.07*	*4.64*	*4.82*	*4.82*	*4.85*	*4.45*
Effect of change in indirect taxes on non-regulated prices												
Share of total, in percentage points	*1.08*	*1.07*	*1.07*	*1.07*	*1.06*	*1.07*	*1.07*	*2.57*	*2.56*	*2.56*	*2.56*	*2.54*
Core inflation in %	1.9	2.3	2.4	1.9	1.9	3.1	3.3	2.7	2.8	2.9	3.1	3.0
Share of total, in percentage points	*1.46*	*1.73*	*1.80*	*1.49*	*1.43*	*2.40*	*2.54*	*2.03*	*2.13*	*2.21*	*2.40*	*2.27*
of which: food prices in %	-1.0	-1.4	-1.4	-1.7	-1.5	0.7	0.9	0.6	0.8	1.7	2.3	2.7
Share of total, in percentage points	*-0.22*	*-0.29*	*-0.29*	*-0.35*	*-0.31*	*0.15*	*0.18*	*0.12*	*0.16*	*0.35*	*0.47*	*0.54*
Net inflation (adjusted for changes in indirect taxes) in %	3.0	3.6	3.8	3.3	3.1	4.0	4.2	3.4	3.5	3.3	3.4	3.1
Share of total, in percentage points	*1.68*	*2.02*	*2.09*	*1.84*	*1.74*	*2.25*	*2.37*	*1.90*	*1.97*	*1.86*	*1.92*	*1.73*

	2004											
	1	2	3	4	5	6	7	8	9	10	11	12
Total inflation in %	8.3	8.5	8.2	8.0	8.3	8.1	8.5	7.2	6.7	6.6	6.3	5.9
Regulated prices in %	14.4	15.8	14.7	14.7	14.9	15.7	15.9	15.4	15.0	15.0	15.0	15.1
Share of total, in percentage points	*3.54*	*3.89*	*3.65*	*3.65*	*3.69*	*3.86*	*3.90*	*3.76*	*3.68*	*3.70*	*3.69*	*3.71*
Effect of change in indirect taxes on non-regulated prices												
Share of total, in percentage points	*2.51*	*2.49*	*2.48*	*2.48*	*2.55*	*2.54*	*2.54*	*1.14*	*1.13*	*1.13*	*1.13*	*1.12*
Core inflation in %	3.1	2.8	2.8	2.6	2.8	2.3	2.7	3.2	2.6	2.4	2.0	1.5
Share of total, in percentage points	*2.27*	*2.09*	*2.05*	*1.91*	*2.08*	*1.73*	*2.02*	*2.33*	*1.87*	*1.76*	*1.45*	*1.09*
of which: food prices in %	2.3	1.9	1.6	0.7	0.7	0.5	3.4	2.6	1.1	0.0	-1.4	-2.1
Share of total, in percentage points	*0.44*	*0.37*	*0.31*	*0.14*	*0.13*	*0.10*	*0.64*	*0.49*	*0.20*	*-0.01*	*-0.27*	*-0.41*
Net inflation (adjusted for changes in indirect taxes) in %	3.3	3.1	3.2	3.2	3.6	3.0	2.5	3.4	3.1	3.3	3.2	2.8
Share of total, in percentage points	*1.83*	*1.72*	*1.74*	*1.77*	*1.95*	*1.63*	*1.38*	*1.84*	*1.67*	*1.77*	*1.72*	*1.50*

Source: Statistical Office of the SR.

Inflation (month-on-month change)

	2001											
	1	2	3	4	5	6	7	8	9	10	11	12
Total inflation in %	1.9	2.3	0.8	0.4	0.3	0.3	0.0	-0.1	0.2	0.1	-0.1	0.2
Regulated prices in %	6.2	7.7	1.2	-0.3	0.0	0.1	0.8	0.1	0.2	0.1	0.1	0.2
Share of total, in percentage points	*1.50*	*1.94*	*0.32*	*-0.07*	*0.01*	*0.04*	*0.21*	*0.02*	*0.04*	*0.03*	*0.02*	*0.05*
Effect of change in indirect taxes on non-regulated prices												
Share of total, in percentage points	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*-0.03*	*0.00*
Core inflation in %	0.5	0.5	0.7	0.7	0.5	0.3	-0.2	-0.2	0.3	0.1	-0.1	0.2
Share of total, in percentage points	*0.38*	*0.39*	*0.49*	*0.49*	*0.34*	*0.21*	*-0.17*	*-0.15*	*0.19*	*0.05*	*-0.06*	*0.16*
of which: food prices in %	1.5	-0.3	1.2	0.9	0.3	1.0	-0.5	-0.9	0.0	0.1	-0.7	0.9
Share of total, in percentage points	*0.35*	*-0.07*	*0.27*	*0.21*	*0.07*	*0.23*	*-0.10*	*-0.20*	*-0.01*	*0.02*	*-0.15*	*0.20*
Net inflation (adjusted for changes in indirect taxes) in %	0.1	0.9	0.4	0.6	0.5	0.0	-0.1	0.1	0.4	0.1	0.2	-0.1
Share of total, in percentage points	*0.03*	*0.46*	*0.22*	*0.29*	*0.26*	*-0.02*	*-0.07*	*0.05*	*0.19*	*0.03*	*0.09*	*-0.04*

	2002											
	1	2	3	4	5	6	7	8	9	10	11	12
Total inflation in %	1.5	0.4	0.0	0.4	0.2	-0.4	-0.3	0.5	0.3	0.0	0.0	0.7
Regulated prices in %	1.6	0.1	0.0	0.1	0.3	0.1	0.0	1.9	0.3	0.2	0.0	1.8
Share of total, in percentage points	*0.37*	*0.02*	*0.01*	*0.02*	*0.07*	*0.01*	*0.00*	*0.44*	*0.07*	*0.05*	*-0.01*	*0.42*
Effect of change in indirect taxes on non-regulated prices												
Share of total, in percentage points	*0.41*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Core inflation in %	0.9	0.4	0.0	0.5	0.2	-0.5	-0.4	0.1	0.3	0.0	0.0	0.3
Share of total, in percentage points	*0.69*	*0.34*	*0.03*	*0.40*	*0.15*	*-0.38*	*-0.30*	*0.06*	*0.23*	*0.00*	*0.00*	*0.23*
of which: food prices in %	1.8	1.0	-0.1	0.2	0.4	-1.5	-2.3	-0.1	0.7	-0.3	0.1	0.1
Share of total, in percentage points	*0.38*	*0.20*	*-0.03*	*0.04*	*0.08*	*-0.32*	*-0.48*	*-0.02*	*0.13*	*-0.07*	*0.01*	*0.02*
Net inflation (adjusted for changes in indirect taxes) in %	0.6	0.2	0.1	0.7	0.1	-0.1	0.3	0.1	0.2	0.1	0.0	0.4
Share of total, in percentage points	*0.31*	*0.14*	*0.06*	*0.36*	*0.07*	*-0.06*	*0.17*	*0.08*	*0.09*	*0.07*	*-0.02*	*0.21*

	2003											
	1	2	3	4	5	6	7	8	9	10	11	12
Total inflation in %	5.3	0.6	0.4	0.2	0.1	0.4	0.0	1.0	0.5	0.1	0.2	0.2
Regulated prices in %	14.9	0.2	1.3	0.3	0.1	-0.6	0.1	0.5	0.9	0.2	0.1	0.2
Share of total, in percentage points	*3.54*	*0.06*	*0.32*	*0.07*	*0.03*	*-0.16*	*0.03*	*0.14*	*0.24*	*0.05*	*0.02*	*0.05*
Effect of change in indirect taxes on non-regulated prices												
Share of total, in percentage points	*1.06*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*1.39*	*0.00*	*0.00*	*0.00*	*0.00*
Core inflation in %	0.9	0.8	0.1	0.1	0.1	0.7	-0.1	-0.7	0.4	0.1	0.2	0.1
Share of total, in percentage points	*0.70*	*0.57*	*0.08*	*0.08*	*0.09*	*0.54*	*-0.05*	*-0.51*	*0.30*	*0.08*	*0.17*	*0.11*
of which: food prices in %	1.0	0.6	-0.2	-0.1	0.6	0.6	-2.1	-0.3	0.8	0.6	0.7	0.4
Share of total, in percentage points	*0.20*	*0.12*	*-0.03*	*-0.02*	*0.11*	*0.13*	*-0.41*	*-0.07*	*0.16*	*0.11*	*0.13*	*0.08*
Net inflation (adjusted for changes in indirect taxes) in %	0.9	0.8	0.2	0.2	-0.1	0.8	0.7	-0.8	0.3	-0.1	0.1	0.0
Share of total, in percentage points	*0.50*	*0.45*	*0.11*	*0.10*	*-0.03*	*0.42*	*0.36*	*-0.44*	*0.15*	*-0.03*	*0.04*	*0.03*

	2004											
	1	2	3	4	5	6	7	8	9	10	11	12
Total inflation in %	4.4	0.8	0.1	0.0	0.4	0.2	0.3	-0.1	0.0	0.0	-0.1	-0.2
Regulated prices in %	10.5	1.5	0.4	0.3	0.3	0.1	0.2	0.1	0.6	0.3	0.0	0.3
Share of total, in percentage points	*2.58*	*0.40*	*0.09*	*0.07*	*0.08*	*0.02*	*0.06*	*0.03*	*0.16*	*0.07*	*0.01*	*0.07*
Effect of change in indirect taxes on non-regulated prices												
Share of total, in percentage points	*1.05*	*0.00*	*0.00*	*0.00*	*0.07*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Core inflation in %	1.0	0.5	0.1	-0.1	0.3	0.3	0.3	-0.2	-0.2	0.0	-0.2	-0.3
Share of total, in percentage points	*0.75*	*0.37*	*0.05*	*-0.05*	*0.24*	*0.19*	*0.21*	*-0.16*	*-0.14*	*-0.02*	*-0.13*	*-0.23*
of which: food prices in %	0.6	0.2	-0.4	-1.0	0.6	0.5	0.6	-1.0	-0.7	-0.5	-0.7	-0.3
Share of total, in percentage points	*0.11*	*0.05*	*-0.08*	*-0.17*	*0.10*	*0.09*	*0.12*	*-0.19*	*-0.13*	*-0.09*	*-0.12*	*-0.05*
Net inflation (adjusted for changes in indirect taxes) in %	1.2	0.6	0.3	0.2	0.3	0.2	0.2	0.1	0.0	0.1	0.0	-0.3
Share of total, in percentage points	*0.64*	*0.33*	*0.13*	*0.13*	*0.14*	*0.10*	*0.09*	*0.03*	*-0.02*	*0.07*	*-0.01*	*-0.18*

Source: Statistical Office of the SR.

Ratios of Selected Economic Indicators to GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Real GDP / capita (SKK)	107,482	113,874	118,916	123,751	125,469	127,883	132,675	139,109	145,614	153,566
Nominal GDP / capita (SKK)	107,482	118,808	132,389	144,960	156,458	172,946	186,903	203,795	223,271	246,281
Nominal GDP / capita (USD)	3,615	3,877	3,938	4,113	3,778	3,743	3,866	4,495	6,072	7,635
GDP created (%, constant prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture, forestry, fishing	5.9	6.0	5.4	5.0	5.3	5.3	5.3	5.2	5.3	5.0
Industry	28.5	29.3	30.3	30.6	27.1	26.8	27.8	26.8	26.8	25.3
Construction	5.4	5.4	4.6	6.6	6.2	5.0	3.5	3.8	3.3	3.4
Services	55.1	51.3	51.2	48.7	52.6	53.2	53.3	53.7	56.0	57.5
Other	5.1	8.0	8.4	9.1	8.8	9.6	10.2	10.4	8.6	8.8
GDP used (%, 1995 constant prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand	97.5	108.6	107.6	110.7	102.2	100.3	103.8	103.8	97.3	97.3
Final consumption	72.7	75.7	74.0	76.8	75.8	74.2	74.8	75.3	72.3	70.5
Formation of gross capital	24.8	32.9	33.6	33.9	26.4	26.1	29.0	28.4	25.0	26.8
Net exports	2.5	-8.6	-7.6	-10.7	-2.2	-0.3	-3.8	-3.8	2.6	1.7
Exports of goods and services	58.3	54.3	61.0	66.1	68.4	76.2	78.0	78.7	92.3	97.6
Imports of goods and services	55.8	62.9	68.7	76.8	70.6	76.5	81.9	82.5	89.7	95.8
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Average annual exchange rate SKK/USD	*29.735*	*30.647*	*33.616*	*35.242*	*41.417*	*46.200*	*48.347*	*45.335*	*36.773*	*32.255*

Note: Calculated on the basis of figures in SKK millions, rounding-up errors.

GDP Growth by Component (percentage points, at constant 1995 prices)

	2002	2003	2004				
			Q1	Q2	Q3	Q4	year
GDP created							
Year-on-year growth in GDP (%)	4.6	4.5	5.4	5.5	5.3	5.8	5.5
of which:							
Agriculture, forestry, fishing	-0.1	0.2	0.0	0.6	0.8	0.4	0.5
Industry	-0.3	2.3	2.1	2.4	4.2	3.3	3.0
of which: manufacturing	-0.5	1.4	0.7	2.3	4.2	3.4	2.7
Construction	0.3	0.2	0.3	0.2	0.8	0.4	0.4
Services	4.1	2.1	-0.7	1.7	2.3	3.2	1.7
of which: trade services	-1.1	0.6	1.0	1.3	1.2	2.9	1.6
financial services	1.8	0.2	2.5	2.8	3.5	0.3	2.3
public services	3.4	1.3	-4.2	-2.5	-2.4	0.0	-2.2
Other	0.6	-0.4	3.6	0.7	-2.8	-1.6	-0.1
GDP used							
Year-on-year growth in GDP (%)	4.6	4.5	5.4	5.5	5.3	5.8	5.5
of which:							
Domestic demand	4.7	-2.1	2.3	5.6	7.0	6.1	5.4
Final consumption in total	4.0	0.2	1.2	2.3	2.4	2.3	2.1
of which: household consumption	2.9	-0.4	1.6	1.4	1.8	2.2	1.8
Gross capital formation	0.8	-2.3	1.1	3.3	4.7	3.8	3.3
of which: gross fixed capital formation	-0.2	-0.4	0.2	0.9	1.3	0.0	0.6
Net exports	-0.1	6.5	3.5	0.0	-3.7	-2.6	-0.8
Exports of goods and services	4.3	17.7	13.8	14.8	4.7	9.4	10.6
Imports of goods and services	4.5	11.2	10.3	14.9	8.4	12.0	11.4
Statistical discrepancy	0.0	0.0	-0.5	-0.1	2.0	2.3	1.0

Note: Calculated on the basis of figures in SKK millions, rounding-up errors.

Development of GDP by Sector

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Indices 2002/2001	Indices 2003/2002	Indices 2004/2003
GDP (at constant 1995 prices)	a	576.5	611.9	640.2	667.1	676.9	690.7	716.8	749.9	783.4	826.5	104.6	104.5	105.5
Agriculture, forestry, fishing	a	31.3	30.6	33.7	35.5	35.6	36.3	38.0	37.3	39.0	42.8	98.0	104.7	109.6
	b	5.4	5.0	5.3	5.3	5.3	5.2	5.3	5.0	5.0	5.2	–	–	–
Industry in total	a	174.5	187.1	173.2	178.8	187.9	185.0	192.0	189.5	206.7	230.5	98.7	109.1	111.5
	b	30.3	30.6	27.1	26.8	27.8	26.8	26.8	25.3	26.4	27.9	–	–	–
Mining and quarrying	a	5.5	6.1	6.5	7.2	7.1	6.1	5.8	5.0	4.3	4.2	86.4	86.0	96.8
	b	1.0	1.0	1.0	1.1	1.1	0.9	0.8	0.7	0.6	0.5	–	–	–
Manufacturing	a	143.0	149.1	142.6	150.0	154.4	155.6	173.2	169.7	180.1	201.4	98.0	106.1	111.9
	b	24.8	24.4	22.3	22.5	22.8	22.5	24.2	22.6	23.0	24.4	–	–	–
Electricity generation and distribu-,	a	26.0	31.9	24.1	21.6	26.3	23.4	12.9	14.8	22.3	24.8	114.3	150.7	111.3
tion gas and water supply	b	4.5	5.2	3.8	3.2	3.9	3.4	1.8	2.0	2.8	3.0	–	–	–
Construction	a	26.7	40.5	39.9	33.7	23.6	26.5	23.6	25.5	27.3	30.5	108.4	106.8	111.8
	b	4.6	6.6	6.2	5.0	3.5	3.8	3.3	3.4	3.5	3.7	–	–	–
Services in total	a	295.3	298.2	336.7	354.8	360.9	371.2	401.6	431.4	446.9	460.2	107.4	103.6	103.0
of which:	b	51.2	48.7	52.6	53.2	53.3	53.7	56.0	57.5	57.0	55.7	–	–	–
Wholesale, retail trade,	a	67.1	66.5	83.0	89.8	93.9	95.9	101.8	98.0	102.1	113.7	96.3	104.3	111.3
repairs	b	11.6	10.9	13.0	13.5	13.9	13.9	14.2	13.1	13.0	13.8	–	–	–
Hotels and restaurants	a	8.3	7.1	8.3	7.6	7.0	8.7	8.1	7.7	6.1	6.0	94.8	78.9	98.3
	b	1.4	1.2	1.3	1.1	1.0	1.3	1.1	1.0	0.8	0.7	–	–	–
Transport, warehousing, post and	a	55.0	58.8	60.8	58.5	64.0	65.4	74.9	71.3	73.0	74.1	95.3	102.3	101.6
telecommunications	b	9.5	9.6	9.5	8.8	9.5	9.5	10.4	9.5	9.3	9.0	–	–	–
Financial intermediation	a	29.9	21.4	21.6	19.8	20.0	24.7	25.6	32.8	37.0	48.1	128.3	112.7	130.1
	b	5.2	3.5	3.4	3.0	3.0	3.6	3.6	4.4	4.7	5.8	–	–	–
Real estate, leasing, business	a	62.6	54.8	73.7	77.3	79.9	80.3	78.8	84.7	82.2	89.0	107.5	97.1	108.3
activities	b	10.9	9.0	11.5	11.6	11.8	11.6	11.0	11.3	10.5	10.8	–	–	–
Public administration, defence,	a	25.4	41.1	35.4	38.1	37.7	37.4	53.6	59.2	62.0	58.1	110.3	104.7	93.8
social security	b	4.4	6.7	5.5	5.7	5.6	5.4	7.5	7.9	7.9	7.0	–	–	–
Education	a	17.9	17.6	15.1	18.1	18.1	18.3	18.5	22.2	26.2	24.8	119.8	117.9	94.5
	b	3.1	2.9	2.4	2.7	2.7	2.6	2.6	3.0	3.3	3.0	–	–	–
Health and social care	a	17.8	18.0	21.9	28.8	24.5	24.5	23.7	29.5	30.1	25.2	124.4	102.1	83.8
	b	3.1	2.9	3.4	4.3	3.6	3.5	3.3	3.9	3.8	3.0	–	–	–
Other community, social and	a	11.1	13.1	16.9	16.7	15.8	16.0	16.7	26.0	28.3	21.2	156.1	108.7	74.8
personal services	b	1.9	2.1	2.6	2.5	2.3	2.3	2.3	3.5	3.6	2.6	–	–	–
Other	a	48.6	55.5	56.6	64.3	68.9	71.8	61.6	66.2	63.5	62.6	107.5	95.9	98.5
	b	8.4	9.1	8.8	9.6	10.2	10.4	8.6	8.8	8.1	7.6	–	–	–

a) Absolute figures in SKK bill.
b) Share of GDP in %.

Development of GDP by Use

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Indices 2002/2001	Indices 2003/2002	Indices 2004/2003
GDP (at constant 1995 prices)	a	576.5	611.9	640.2	667.1	676.9	690.7	716.8	749.9	783.4	826.5	104.6	104.5	105.5
Domestic demand	a	562.1	664.5	688.9	738.5	692.0	692.7	744.3	778.3	762.4	804.3	104.6	98.0	105.5
	b	97.5	108.6	107.6	110.7	102.2	100.3	103.8	103.8	97.3	97.3	–	–	–
Final consumption in total	a	418.9	463.1	473.6	512.3	513.4	512.4	536.5	565.0	566.7	583.0	105.3	100.3	102.9
	b	72.7	75.7	74.0	76.8	75.8	74.2	74.8	75.3	72.3	70.5	–	–	–
Households	a	296.7	321.0	339.5	359.9	369.7	366.5	384.4	405.6	402.4	416.4	105.5	99.2	103.5
	b	51.5	52.5	53.0	53.9	54.6	53.1	53.6	54.1	51.4	50.4	–	–	–
Non-profit institutions serving households	a	3.8	3.3	2.8	4.7	6.4	6.4	6.2	6.4	7.1	7.5	104.4	110.9	105.8
	b	0.7	0.5	0.4	0.7	0.9	0.9	0.9	0.9	0.9	0.9	–	–	–
General government	a	118.4	138.8	131.3	147.7	137.3	139.5	145.9	153.0	157.1	159.1	104.9	102.7	101.2
	b	20.5	22.7	20.5	22.1	20.3	20.2	20.4	20.4	20.1	19.2	–	–	–
Gross capital formation	a	143.2	201.3	215.3	226.2	178.6	180.4	207.8	213.3	195.7	221.3	102.6	91.8	113.1
	b	24.8	32.9	33.6	33.9	26.4	26.1	29.0	28.4	25.0	26.8	–	–	–
Gross fixed capital formation	a	144.2	186.2	214.0	237.6	191.1	177.3	201.9	200.8	197.8	202.8	99.4	98.5	102.5
	b	25.0	30.4	33.4	35.6	28.2	25.7	28.2	26.8	25.3	24.5	–	–	–
Change in inventories	a	-1.1	15.2	1.3	-11.4	-12.5	3.1	5.9	12.5	-2.1	18.6	–	–	–
	b	-0.2	2.5	0.2	-1.7	-1.8	0.4	0.8	1.7	-0.3	2.2	–	–	–
Net exports	a	14.4	-52.6	-48.8	-71.4	-15.1	-2.0	-27.5	-28.3	20.7	14.3	–	–	–
	b	2.5	-8.6	-7.6	-10.7	-2.2	-0.3	-3.8	-3.8	2.6	1.7	–	–	–
Exports of goods and services	a	336.0	332.2	390.8	440.9	463.1	526.4	559.3	590.5	723.4	806.3	105.6	122.5	111.4
	b	58.3	54.3	61.0	66.1	68.4	76.2	78.0	78.7	92.3	97.6	–	–	–
Imports of goods and services	a	321.6	384.8	439.5	512.3	478.1	528.5	586.8	618.8	702.7	792.0	105.5	113.6	112.7
	b	55.8	62.9	68.7	76.8	70.6	76.5	81.9	82.5	89.7	95.8	–	–	–
Statistical discrepancy	a	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	7.9	–	–	–
	b	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	–	–	–

a) Absolute figures in SKK bill.
b) Share of GDP in %.

Development of Wages and Employment by Sector in 2003 – 2004

	Average monthly wage						Average monthly wage			
	2003			2004			2003		2004	
	nominal		real	nominal		real	natural persons	index	natural persons	index
	SKK	index	index	SKK	index	index				
Economy as a whole	14,365	106.3	98.0	15,825	110.2	102.5	2,024,992	100.8	2,030,348	100.3
of which:										
Agriculture, forestry and fishing	10,942	105.1	96.9	12,211	111.6	103.8	135,769	96.2	123,587	91.0
Agriculture, hunting and forestry	10,940	–	–	12,210	111.6	103.8	135,712	–	123,514	91.0
Fishing	15,389	–	–	13,912	90.4	84.1	57	–	73	128.1
Industry in total	15,400	107.3	98.9	16,978	110.2	102.5	558,418	100.5	560,691	100.4
Mining and quarrying	16,251	104.2	96.0	17,700	108.9	101.3	11,060	90.8	10,084	91.2
Manufacturing	14,873	107.5	99.1	16,378	110.1	102.4	502,285	101.2	507,766	101.1
Electricity generation, and distribution, gas and water supply	21,061	107.9	99.4	23,911	113.5	105.6	45,074	96.3	42,841	95.0
Construction	12,001	103.9	95.8	13,083	109.0	101.4	129,823	104.0	133,365	102.7
Wholesale, retail trade, repairs	14,461	102.4	94.4	16,182	111.9	104.1	315,043	99.9	318,313	101.0
Hotels and restaurants	11,053	107.5	99.1	12,342	104.5	97.2	43,551	102.6	44,358	101.9
Transport, warehousing, post and telecommunications	15,300	105.1	96.9	16,900	110.5	102.8	144,970	98.6	143,185	98.8
Financial intermediation	29,088	107.4	99.0	33,064	113.7	105.8	39,123	105.5	39,736	101.6
Real estate, renting and business activities	17,940	104.9	96.7	19,698	109.8	102.1	158,095	103.2	163,451	103.4
Public administration, defence, social security[1)]	17,508	106.1	97.8	19,240	109.9	102.2	92,184	103.9	93,382	101.3
Education	11,984	109.6	101.0	12,895	107.6	100.1	177,004	99.7	173,187	97.8
Health and social care	12,430	103.4	95.3	12,865	103.5	96.3	143,734	102.7	142,075	98.8
Other community, social and personal services	11,120	108.8	100.3	12,310	110.7	103.0	91,721	99.5	95,018	103.6
Consumer prices – yearly average	–	*108.5*	–	–	*107.5*	–	–	–	–	–

Note: Index, same period a year earlier = 100.

1) Employment data for 2003 revised by Statistical Office of the SR.

Source: Statistical Office of the SR.

Balance of Payments of the SR for January to December 2004

	Receipts / Credit (+)		Payments / Debit (-)		Balance	
used exchange rate of USD = 32.255 SKK	SKK millions	USD millions	SKK millions	USD millions	SKK millions	USD millions
GOODS	895,205.0	27,754.0	942,160.0	29,209.7	-46,955.0	-1,455.7
SERVICES	120,182.2	3,726.0	110,987.7	3,440.9	9,194.5	285.1
Transportation	48,099.1	1,491.2	32,089.4	994.9	16,009.7	496.3
Travel	29,069.7	901.2	24,038.7	745.3	5,031.0	156.0
Other services	43,013.4	1,333.5	54,859.6	1,700.8	-11,846.2	-367.3
INCOME	29,903.0	927.1	43,084.7	1,335.7	-13,181.7	-408.7
Compensation of employees	16,987.4	526.7	706.0	21.9	16,281.4	504.8
Income from investment	12,915.6	400.4	42,378.7	1,313.9	-29,463.1	-913.4
CURRENT TRANSFERS	27,118.2	840.7	22,861.4	708.8	4,256.8	132.0
CURRENT ACCOUNT	1,072,408.4	33,247.8	1,119,093.8	34,695.2	-46,685.4	-1,447.4
CAPITAL ACCOUNT	5,107.9	158.4	4,552.9	141.2	555.0	17.2
FINANCIAL ACCOUNT	3,219,846.7	99,736.3	-3,124,755.3	-96,795.8	95,091.4	2,940.4
DIRECT INVESTMENT	636,299.1	19,727.1	-595,697.9	-18,468.4	40,601.2	1,258.8
Abroad (direct investor = resident)	32,490.2	1,007.3	-27,587.9	-855.3	4,902.3	152.0
Equity capital and reinvested earnings	1,368.2	42.4	-2,584.9	-80.1	-1,216.7	-37.7
Other capital	31,122.0	964.9	-25,003.0	-775.2	6,119.0	189.7
In the SR (recipient of dir. investment = resident)	603,808.9	18,719.9	-568,110.0	-17,613.1	35,698.9	1,106.8
Equity capital and reinvested earnings	39,621.9	1,228.4	-13,351.0	-413.9	26,270.9	814.5
Other capital	564,187.0	17,491.5	-554,759.0	-17,199.2	9,428.0	292.3
PORTFOLIO INVESTMENT	392,336.3	12,119.7	-363,996.3	-11,270.2	28,340.0	849.5
Assets	72,340.7	2,242.8	-98,350.2	-3,049.1	-26,009.5	-806.4
Liabilities	319,995.6	9,877.0	-265,646.1	-8,221.1	54,349.5	1,655.9
FINANCIAL DERIVATIVES	759,847.3	23,557.5	-760,429.4	-23,575.6	-582.1	-18.0
Assets	305,608.4	9,474.8	-310,412.9	-9,623.7	-4,804.5	-149.0
Liabilities	454,238.9	14,082.7	-450,016.5	-13,951.8	4,222.4	130.9
OTHER INVESTMENT	1,431,364.0	44,331.9	-1,404,631.7	-43,481.6	26,732.3	850.3
Long-term	133,123.9	4,118.8	-143,159.2	-4,435.2	-10,035.3	-316.4
Assets	27,453.8	851.1	-30,474.4	-944.8	-3,020.6	-93.6
Liabilities	105,670.1	3,267.6	-112,684.8	-3,490.4	-7,014.7	-222.8
Short-term	1,298,240.1	40,213.1	-1,261,472.5	-39,046.4	36,767.6	1,166.7
Assets	467,781.6	14,502.6	-475,858.5	-14,753.0	-8,076.9	-250.4
Liabilities	830,458.5	25,710.5	-785,614.0	-24,293.4	44,844.5	1,417.1
CAPITAL AND FINANCIAL ACCOUNT	3,224,954.6	99,894.6	-3,129,308.2	-96,937.0	95,646.4	2,957.7
ERRORS AND OMISSIONS	–	–	–	–	6,244.1	166.8
TOTAL BALANCE	0.0	0.0	55,205.1	1,677.1	55,205.1	1,677.1
MONETARY GOLD	0.0	0.0	0.0	0.0	0.0	0.0
SPECIAL DRAWING RIGHTS	0.0	0.0	-1.1	0.0	-1.1	0.0
FOREIGN EXCHANGE ASSETS	0.0	0.0	-55,204.0	-1,677.1	-55,204.0	-1,677.1
Deposits	0.0	0.0	-16,500.9	-521.0	-16,500.9	-521.0
Securities	0.0	0.0	-38,703.1	-1,156.1	-38,703.1	-1,156.1
Bonds and bills of exchange	0.0	0.0	-18,924.5	-551.7	-18,924.5	-551.7
Money market instruments and fin. derivatives	0.0	0.0	-19,778.6	-604.4	-19,778.6	-604.4
RESERVE ASSETS	0.0	0.0	-55,205.1	-1,677.1	-55,205.1	-1,677.1

Balance of Payments Current Account of the SR for January to December 2004

	Receipts / Credit (+)		Payments/ Debit (-)		Balance	
Exchange rate applied: SKK 32.255/USD	SKK millions	USD millions	SKK millions	USD millions	SKK millions	USD millions
GOODS	895,205.0	27,754.0	942,160.0	29,209.7	-46,955.0	-1,455.7
SERVICES	120,182.2	3,726.0	110,987.7	3,440.9	9,194.5	285.1
Transportation	48,099.1	1,491.2	32,089.4	994.9	16,009.7	496.3
Railway transport	8,664.4	268.6	10,123.1	313.8	-1,458.7	-45.2
passenger	10.5	0.3	29.7	0.9	-19.2	-0.6
freight	8,653.9	268.3	10,093.4	312.9	-1,439.5	-44.6
Other transport	39,434.7	1,222.6	21,966.3	681.0	17,468.4	541.6
passenger	973.2	30.2	5,064.6	157.0	-4,091.4	-126.8
freight	11,832.9	366.9	9,852.7	305.5	1,980.2	61.4
other	26,628.6	825.6	7,049.0	218.5	19,579.6	607.0
of which: transport of gass and petrol	26,556.0	823.3	0.0	0.0	26,556.0	823.3
Travel	29,069.7	901.2	24,038.7	745.3	5,031.0	156.0
Business	0.0	0.0	794.4	24.6	-794.4	-24.6
Personal	29,069.7	901.2	23,244.3	720.6	5,825.4	180.6
Other services	43,013.4	1,333.5	54,859.6	1,700.8	-11,846.2	-367.3
Communication services	2,651.8	82.2	2,318.5	71.9	333.3	10.3
Construction services	3,605.0	111.8	4,721.7	146.4	-1,116.7	-34.6
Insurance services	624.5	19.4	4,158.3	128.9	-3,533.8	-109.6
Financial services	2,800.2	86.8	4,369.9	135.5	-1,569.7	-48.7
Legal, accouting and advisory services	1,806.0	56.0	3,354.5	104.0	-1,548.5	-48.0
Computer and information services	3,627.4	112.5	5,542.5	171.8	-1,915.1	-59.4
Other business services	940.2	29.1	3,944.2	122.3	-3,004.0	-93.1
Services in other activities	26,958.3	835.8	26,450.0	820.0	508.3	15.8
INCOME	29,903.0	927.1	43,084.7	1,335.7	-13,181.6	-408.7
Compensation of employees	16,987.4	526.7	706.0	21.9	16,281.4	504.8
Investment income	12,915.6	400.4	42,378.7	1,313.9	-29,463.0	-913.4
Direct investment	556.0	17.2	21,377.4	662.8	-20,821.4	-645.5
income on equity	506.2	15.7	21,124.3	654.9	-20,618.1	-639.2
income on debt (interest)	49.8	1.5	253.1	7.8	-203.3	-6.3
Portfolio investment	10,142.9	314.5	11,159.2	346.0	-1,016.2	-31.5
income on equity	5.0	0.2	23.9	0.7	-18.9	-0.6
income on debt (interest)	10,137.9	314.3	11,135.2	345.2	-997.3	-30.9
Other investment	2,216.7	68.7	9,842.1	305.1	-7,625.4	-236.4
CURRENT TRANSFERS	27,118.2	840.7	22,861.4	708.8	4,256.8	132.0
Government	9,879.4	306.3	9,404.7	291.6	474.7	14.7
Other	17,238.8	534.5	13,456.7	417.2	3,782.1	117.3
CURRENT ACCOUNT	1,072,408.4	33,247.8	1,119,093.8	34,695.2	-46,685.4	-1,447.4

Note: Preliminary data

Balance of Payments Capital Account of the SR for January to December 2004

	Receipts / Credit (+)		Payments/ Debit (-)		Balance	
Exchange rate applied: SKK 32.255/USD	SKK millions	USD millions	SKK millions	USD millions	SKK millions	USD millions
CAPITAL ACCOUNT	5,107.9	158.4	4,552.9	141.2	555.0	17.2
Capital transfers	4,653.6	144.3	4,145.5	128.5	508.1	15.8
Purchase/Sale of non-prod. and nonfinan. assets	454.3	14.1	407.4	12.6	46.9	1.5

Note: Preliminary data.

Balance of Payments Financial Account of the SR for January to December 2004

	Receipts / Credit (+)		Payments/ Debit (-)		Balance	
Exchange rate applied: SKK 32.255/USD	SKK millions	USD millions	SKK millions	USD millions	SKK millions	USD millions
DIRECT INVESTMENT	636,299.1	19,727.1	-595,697.9	-18,468.4	40,601.2	1,258.8
ABROAD (direct investor = resident)	32,490.2	1,007.3	-27,587.9	-855.3	4,902.3	152.0
Equity capital	1,368.2	42.4	-2,584.9	-80.1	-1,216.7	-37.7
Reinvested earnings	0.0	0.0	0.0	0.0	0.0	0.0
Other capital	31,122.0	964.9	-25,003.0	-775.2	6,119.0	189.7
Claims on affiliated enterprises	22,684.0	703.3	-24,651.0	-764.3	-1,967.0	-61.0
Liabilities to affiliated enterprises	8,438.0	261.6	-352.0	-10.9	8,086.0	250.7
IN THE SR (recipient of direct investment = resident)	603,808.9	18,719.9	-568,110.0	-17,613.1	35,698.9	1,106.8
Equity capital	39,615.9	1,228.2	-13,351.0	-413.9	26,264.9	814.3
Reinvested earnings	6.0	0.2	0.0	0.0	6.0	0.2
Other capital	564,187.0	17,491.5	-554,759.0	-17,199.2	9,428.0	292.3
Claims on direct investors	321,604.0	9,970.7	-314,162.0	-9,739.9	7,442.0	230.7
Liabilities to direct investors	242,583.0	7,520.8	-240,597.0	-7,459.2	1,986.0	61.6
PORTFOLIO INVESTMENT	392,336.3	12,119.7	-363,996.3	-11,270.2	28,340.0	849.5
ASSETS	72,340.7	2,242.8	-98,350.2	-3,049.1	-26,009.5	-806.4
Equity securities	4,423.6	137.1	-5,587.8	-173.2	-1,164.2	-36.1
Debt securities	67,917.1	2,105.6	-92,762.4	-2,875.9	-24,845.3	-770.3
Bonds and bills	62,440.3	1,935.8	-91,258.4	-2,829.3	-28,818.1	-893.4
Government + NBS	0.0	0.0	0.0	0.0	0.0	0.0
Banks	56,175.3	1,741.6	-69,877.4	-2,166.4	-13,702.1	-424.8
Other sectors	6,265.0	194.2	-21,381.0	-662.9	-15,116.0	-468.6
Money market instruments	5,476.8	169.8	-1,504.0	-46.6	3,972.8	123.2
LIABILITIES	319,995.6	9,877.0	-265,646.1	-8,221.1	54,349.5	1,655.9
Equity securities	968.8	30.0	-4,086.3	-126.7	-3,117.5	-96.7
Debt securities	319,026.8	9,846.9	-261,559.8	-8,094.4	57,467.0	1,752.5
Bonds and bills	312,872.1	9,656.1	-260,973.8	-8,076.2	51,898.3	1,579.9
Government + NBS	312,567.2	9,646.7	-259,918.5	-8,043.5	52,648.7	1,603.1
Banks	295.6	9.2	-544.2	-16.9	-248.6	-7.7
Other sectors	9.3	0.3	-511.1	-15.8	-501.8	-15.6
Money market instruments	6,154.7	190.8	-586.0	-18.2	5,568.7	172.6
FINANCIAL DERIVATIVES	759,847.3	23,557.5	-760,429.4	-23,575.6	-582.1	-18.0
ASSETS	305,608.4	9,474.8	-310,412.9	-9,623.7	-4,804.5	-149.0
LIABILITIES	454,238.9	14,082.7	-450,016.5	-13,951.8	4,222.4	130.9
OTHER INVESTMENT	1,431,364.0	44,331.9	-1,404,631.7	-43,481.6	26,732.3	850.3
ASSETS	495,235.4	15,353.8	-506,332.9	-15,697.8	-11,097.5	-344.1
Trade credits	440,593.0	13,659.7	-448,833.0	-13,915.1	-8,240.0	-255.5
long-term	182.0	5.6	-162.0	-5.0	20.0	0.6
short-term	440,411.0	13,654.0	-448,671.0	-13,910.1	-8,260.0	-256.1
Loans – financial credits	15,577.6	483.0	-22,254.6	-690.0	-6,677.0	-207.0
Government + NBS	497.9	15.4	-28.7	-0.9	469.2	14.5
Banks	9,352.7	290.0	-14,846.9	-460.3	-5,494.2	-170.3
long-term	9,352.7	290.0	-12,250.4	-379.8	-2,897.7	-89.8
short-term	0.0	0.0	-2,596.5	-80.5	-2,596.5	-80.5
Other sectors	5,727.0	177.6	-7,379.0	-228.8	-1,652.0	-51.2
long-term	2,829.0	87.7	-3,163.0	-98.1	-334.0	-10.4
short-term	2,898.0	89.8	-4,216.0	-130.7	-1,318.0	-40.9
Cash and deposits	21,289.3	660.0	-26,845.1	-832.3	-5,555.8	-172.2
long-term	6,157.0	190.9	-6,470.1	-200.6	-313.1	-9.7
short-term	15,132.3	469.1	-20,375.0	-631.7	-5,242.7	-162.5
Other assets	17,775.5	551.1	-8,400.2	-260.4	9,375.3	290.7
long-term	8,435.2	261.5	-8,400.2	-260.4	35.0	1.1
short-term	9,340.3	289.6	0.0	0.0	9,340.3	289.6

Table BALANCE OF PAYMENTS FINANCIAL ACCOUNT OF THE SR FOR JANUARY TO DECEMBER 2004 continued on next page.

Balance of Payments Financial Account of the SR for January to December 2004 – *continued*

	Receipts / Credit (+)		Payments/ Debit (-)		Balance	
Exchange rate applied: SKK 32.255/USD	SKK millions	USD millions	SKK millions	USD millions	SKK millions	USD millions
LIABILITIES	936,128.6	28,978.1	-898,298.8	-27,783.8	37,829.8	1,194.3
Trade credits	575,142.0	17,831.1	-570,493.0	-17,687.0	4,649.0	144.1
long-term	566.0	17.5	-641.0	-19.9	-75.0	-2.3
short-term	574,576.0	17,813.5	-569,852.0	-17,667.1	4,724.0	146.5
Loans – financial credits	229,962.3	7,084.9	-255,323.7	-7,849.7	-25,361.4	-764.8
Government + NBS	123,895.4	3,796.5	-154,140.1	-4,712.7	-30,244.7	-916.2
long-term	8,016.9	240.1	-9,355.9	-286.9	-1,339.0	-46.8
short-term	115,878.5	3,556.4	-144,784.2	-4,425.8	-28,905.7	-869.4
Banks	20,333.9	630.4	-1,797.6	-55.7	18,536.3	574.7
long-term	4,850.1	150.4	-1,797.6	-55.7	3,052.5	94.6
short-term	15,483.8	480.0	0.0	0.0	15,483.8	480.0
Other sectors	85,733.0	2,658.0	-99,386.0	-3,081.3	-13,653.0	-423.3
long-term	36,395.0	1,128.4	-46,329.0	-1,436.3	-9,934.0	-308.0
short-term	49,338.0	1,529.6	-53,057.0	-1,644.9	-3,719.0	-115.3
Cash and deposits	118,188.8	3,664.2	-48,037.9	-1,489.3	70,150.9	2,174.9
long-term	49,006.6	1,519.3	-48,037.9	-1,489.3	968.7	30.0
short-term	69,182.2	2,144.9	0.0	0.0	69,182.2	2,144.9
Other liabilities	12,835.5	397.9	-24,444.2	-757.8	-11,608.7	-359.9
long-term	6,835.5	211.9	-6,523.4	-202.2	312.1	9.7
short-term	6,000.0	186.0	-17,920.8	-555.6	-11,920.8	-369.6
FINANCIAL ACCOUNT	3,219,846.7	99,736.3	-3,124,755.3	-96,795.8	95,091.4	2,940.4

Note: Preliminary data

REER of the Slovak koruna (calculations based on January-September 1999 average = 100)

	Calculation for 11 trading partners including Poland and Hungary REER (11)				Calculation for 15 trading partners including Ukraine, Japan, China and Turkey REER (15)				Calculation for 16 trading partners including Russia REER (16)					
	on the basis of CPI		on the basis of PPI		on the basis of CPI		on the basis of PPI		on the basis of CPI		on the basis of PPI		on the basis of PPI manuf.	
	index	Year-on-year change (%)	index	Year-on-year change (%)	index	Year-on-year change (%)	index	Year-on-year change (%)	index	Year-on-year change (%)	index	Year-on-year change (%)	index	Year-on-year change (%)
January 1999	98.3	–	100.7	–	98.4	–	100.8	–	102.8	–	105.2	–	104.7	–
December 1999	106.9	–	104.5	–	106.8	–	104.5	–	103.1	–	101.0	–	101.8	–
December 2000	107.6	0.7	104.0	-0.5	107.0	0.2	103.6	-0.9	102.1	-1.0	99.1	-1.9	100.5	-1.3
December 2001	110.5	2.7	106.0	2.0	110.2	3.0	105.9	2.2	107.6	5.4	103.4	4.4	101.6	1.1
December 2002	115.3	4.3	110.3	4.0	115.5	4.8	110.5	4.4	110.3	2.5	105.4	2.0	103.4	1.8
December 2003	129.5	12.3	123.2	11.7	130.1	12.7	123.7	12.0	125.2	13.5	118.9	12.8	110.2	6.6
January 2004	136.5	11.7	128.0	8.4	137.2	12.0	128.6	8.6	131.8	13.1	123.3	9.5	111.3	6.6
February 2004	138.4	13.0	129.9	7.4	139.2	13.2	130.4	7.5	133.9	14.9	125.3	9.0	112.8	7.8
March 2004	138.1	11.9	128.5	6.0	138.7	12.1	128.9	6.0	132.3	12.1	122.9	6.0	111.3	4.7
April 2004	138.5	10.0	127.7	3.1	139.0	10.0	127.9	2.9	132.4	8.4	121.8	1.5	110.7	0.7
May 2004	137.2	9.1	125.9	2.0	137.8	9.1	126.2	1.8	130.1	6.2	119.1	-0.8	109.3	-0.9
June 2004	138.1	9.4	127.4	2.4	138.7	9.4	127.7	2.2	131.4	7.4	121.1	0.6	111.3	1.0
July 2004	137.8	10.2	125.7	2.5	138.5	10.4	126.1	2.4	131.0	8.7	119.3	1.1	111.7	1.9
August 2004	136.3	8.1	126.9	2.2	137.0	8.3	127.3	2.2	128.3	6.2	119.3	0.4	109.4	1.4
September 2004	136.8	7.4	125.9	2.3	137.5	7.6	126.2	2.3	128.6	4.7	118.3	-0.2	110.0	0.6
October 2004	136.2	6.1	123.3	1.5	136.9	6.2	123.7	1.5	126.9	2.6	114.9	-1.8	108.7	-0.6
November 2004	137.5	6.8	125.4	2.4	138.3	7.0	125.9	2.5	129.4	4.3	118.0	0.1	110.5	1.2
December 2004	138.9	7.2	127.4	3.5	139.8	7.4	128.1	3.6	132.1	5.6	121.2	2.0	113.0	2.6

Note: - (minus) means strengthening of the SKK and appreciation of REER indices, + (plus) means weakening of the SKK and depreciation of REER.

NEER of the Slovak koruna (calculations based on January-September 1999 average = 100)

	SKK exchange rate (monthly average)				Calc. for 11 trading partners including Poland and Hungary NEER (11)		Calc. for 15 trading partners including Ukraine, Japan, China and Turkey NEER (15)		Calc. for 16 trading partners including Russia NEER (16)	
	SKK for 1 USD		SKK for 1 EUR							
	Exchange rate	Year-on-year change in %	Exchange rate	Year-on-year change in %	index	Year-on-year change in %	index	Year-on-year change in %	index	Year-on-year change in %
January 1999	36.830	4.8	42.796	11.8	102.5	–	102.5	–	103.2	–
December 1999	42.059	16.2	42.557	0.0	102.8	–	102.9	–	102.5	–
December 2000	48.639	15.6	43.501	2.2	98.7	-3.9	98.7	-4.1	97.5	-4.9
December 2001	48.233	-0.8	43.108	-0.9	97.8	-1.0	98.1	-0.6	97.0	-0.5
December 2002	41.137	-14.7	41.776	-3.1	100.2	2.5	101.1	3.0	100.9	4.0
December 2003	33.604	-18.3	41.130	-1.5	104.6	4.4	106.0	4.9	107.1	6.1
January 2004	32.292	-17.7	40.747	-2.2	106.4	5.2	107.9	5.5	109.2	6.7
February 2004	32.083	-17.6	40.577	-3.3	107.0	6.0	108.5	6.4	109.8	7.4
March 2004	32.927	-14.8	40.421	-3.2	107.3	5.4	108.6	5.6	109.7	6.5
April 2004	33.433	-11.8	40.139	-2.2	107.5	4.0	108.8	4.1	109.7	4.8
May 2004	33.498	-5.9	40.209	-2.1	106.8	3.3	108.1	3.4	109.1	3.5
June 2004	32.888	-7.3	39.931	-3.8	107.1	3.8	108.5	3.9	109.6	4.1
July 2004	32.512	-11.5	39.901	-4.5	107.0	4.3	108.4	4.5	109.6	5.1
August 2004	32.939	-12.1	40.115	-4.3	106.4	3.6	107.8	3.9	109.0	4.6
September 2004	32.825	-11.6	40.056	-3.5	106.4	3.2	107.8	3.5	109.0	4.2
October 2004	32.081	-9.0	40.004	-3.1	106.4	2.2	107.9	2.5	109.3	3.1
November 2004	30.532	-13.3	39.578	-3.8	107.3	3.0	109.0	3.4	110.7	4.2
December 2004	29.074	-13.5	38.925	-5.4	108.7	3.9	110.4	4.2	112.5	5.0

Note: - (minus) means strengthening of the SKK and appreciation of NEER indices, + (plus) means weakening of the SKK and depreciation of NEER.

Monetary Base of the NBS[1] 2004 (SKK billions)

	2004											
	31.1.	29.2.	31.3.	30.4.	31.5.	31.6.	30.7.	31.8.	30.9.	31.10.	30.11.	31.12.
SOURCES OF THE MONETARY BASE	116.96	112.42	109.67	113.98	108.33	107.35	114.24	117.37	117.39	120.30	119.89	120.83
Autonomous factors	300.72	310.86	306.01	319.71	326.03	322.96	366.30	394.36	382.36	389.62	385.91	410.26
Net foreign assets	363.35	366.69	369.65	376.68	409.86	391.73	427.58	427.88	425.32	420.18	408.25	421.49
Reserves	399.54	416.04	402.84	406.81	443.24	406.03	441.08	432.80	429.50	424.23	412.09	424.92
Foreign liabilities	36.18	49.35	33.19	30.13	33.38	14.30	13.49	4.92	4.18	4.05	3.84	3.44
Net credit to Government[2]	-27.24	-23.30	-31.59	-18.99	-23.07	-23.42	-17.85	-6.08	-2.73	-2.06	-2.17	-2.53
Other assets net	-35.39	-32.53	-32.05	-37.98	-60.76	-45.35	-43.44	-27.45	-40.22	-28.50	-20.17	-8.70
Monetary policy factors[3]	-183.76	-198.44	-196.34	-205.73	-217.70	-215.61	-252.07	-276.99	-264.97	-269.32	-266.02	-289.44
Holdings of securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Treasury bills	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other government securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NBS treasury bills	376.61	239.81	370.20	220.00	220.00	420.00	420.00	360.00	357.00	660.00	360.00	660.00
of which: in NBS portfolio	193.03	48.59	179.15	20.09	17.00	206.87	181.90	86.56	92.03	398.61	99.62	379.34
Overnight deposits with NBS[4]	0.18	7.21	5.29	5.82	14.70	2.49	13.97	3.55	0.00	7.93	5.64	8.78
USE OF MONETARY BASE[5]	116.96	112.42	109.67	113.98	108.33	107.35	114.24	117.37	117.39	120.30	119.89	120.83
Currency in circulation	101.56	100.85	99.71	99.85	100.98	102.44	102.68	104.59	105.58	107.06	107.41	109.90
Reserves of banks	15.40	11.57	9.97	14.13	7.35	4.91	11.55	12.78	11.81	13.25	12.48	10.93
Required reserves	15.59	15.61	16.01	15.84	15.53	16.16	15.97	16.11	16.84	17.55	17.50	17.59
Excess reserves	-0.19	-4.04	-6.04	-1.70	-8.18	-11.25	-4.42	-3.33	-5.04	-4.31	-5.02	-6.66

1) Since 1 January 2004, the Monetary Base of the NBS has been compiled at 10-days intervals.
2) Including the deposits of the SR Treasury at the NBS.
3) Including NBS bills in the portfolios of commercial banks and overnight deposits by banks with the NBS.
4) With effect from April 2000, overnight sterilization REPO operations were replaced by overnight deposits of commercial banks with the NBS.
5) Use of monetary base = Reserve money = Currency in circulation + Reserves of banks.

Monetary Survey (at fixed exchange rates as of 1 January 1993) (SKK billions)

	2004												
	1.1.	**31.1.**	**29.2.**	**31.3.**	**30.4.**	**31.5.**	**30.6.**	**31.7.**	**31.8.**	**30.9.**	**31.10.**	**30.11.**	**31.12.**
Fixed exchange rate SKK/USD	28.899	28.899	28.899	28.899	28.899	28.899	28.899	28.899	28.899	28.899	28.899	28.899	28.899
Fixed exchange rate SKK/EUR	34.912	34.912	34.912	34.912	34.912	34.912	34.912	34.912	34.912	34.912	34.912	34.912	34.912
ASSETS													
Net foreign assets	155.0	154.4	164.3	164.5	174.3	161.1	161.0	164.0	169.3	150.9	144.5	151.7	147.8
Foreign assets	385.8	388.2	402.1	387.1	390.9	424.8	404.2	422.1	423.1	417.4	418.9	422.9	450.1
Foreign liabilities	230.8	233.8	237.8	222.6	216.6	263.7	243.2	258.1	253.8	266.5	274.4	271.2	302.3
Net domestic assets	570.5	570.8	566.4	547.1	545.5	549.8	570.0	572.8	573.0	597.5	604.8	606.7	632.1
Domestic credits	664.0	663.7	672.0	664.5	655.7	654.7	674.5	673.6	685.7	697.6	707.6	713.5	737.1
Net credit to general government	297.2	303.7	308.1	295.2	286.7	281.4	294.9	297.3	305.2	310.4	314.2	319.1	342.2
– Net credit to general government (excluding NPF)	300.3	306.8	311.0	298.9	293.5	295.7	308.9	303.6	311.9	317.1	320.9	322.8	345.4
– Net credit to NPF	-3.1	-3.1	-2.9	-3.7	-6.8	-14.3	-14.0	-6.3	-6.7	-6.7	-6.7	-3.7	-3.2
Credit to households and enterprises	366.8	360.0	363.9	369.3	369.0	373.3	379.6	376.3	380.5	387.2	393.4	394.4	394.9
Credit in Slovak koruna	308.2	299.6	302.8	306.0	303.1	302.5	304.2	301.6	306.2	311.7	314.3	319.1	318.2
– Credit to enterprises[1)]	223.1	213.7	214.6	215.3	210.0	206.9	205.2	199.9	201.1	204.0	203.8	205.7	201.5
– Credit to households	85.1	85.9	88.2	90.7	93.1	95.6	99.0	101.7	105.1	107.7	110.5	113.4	116.7
Credit in foreign currency	58.6	60.4	61.1	63.3	65.9	70.8	75.4	74.7	74.3	75.5	79.1	75.3	76.7
LIABILITIES													
Money supply [M2]	725.5	725.2	730.7	711.6	719.8	710.9	731.0	736.8	742.3	748.4	749.3	758.4	779.9
		6.5	5.5	3.2	4.3	1.8	7.1	5.0	4.7	6.2	5.4	5.5	6.8
Money [M1]	275.4	261.2	265.5	258.9	260.8	268.0	279.2	279.7	282.8	288.7	284.8	293.4	311.3
Currency outside banks [M0]	91.8	91.7	91.7	90.8	90.9	91.9	93.2	93.8	95.4	96.3	97.6	97.8	100.5
Demand deposits	183.6	169.5	173.8	168.1	169.9	176.1	186.0	185.9	187.4	192.4	187.2	195.6	210.8
– Households	81.3	83.0	85.0	83.4	83.8	85.6	87.8	89.2	89.6	90.5	91.1	92.4	96.2
– Enterprises	98.9	82.7	85.3	81.1	84.0	89.0	96.3	94.2	95.7	99.6	94.3	100.7	113.2
– Insurance companies	3.4	3.8	3.5	3.6	2.1	1.5	1.9	2.5	2.1	2.3	1.8	2.5	1.4
Quasi-money [QM]	450.1	464.0	465.2	452.7	459.0	442.9	451.8	457.1	459.5	459.7	464.5	465.0	468.6
Time deposits	371.4	380.9	383.7	377.9	385.6	368.7	368.8	379.5	381.1	378.3	377.0	374.1	386.2
– Households	237.4	236.0	237.5	236.5	234.9	232.9	230.3	228.1	225.2	224.0	222.8	221.1	222.8
– Enterprises	117.7	127.4	128.9	125.0	134.2	119.1	122.2	129.3	133.9	131.2	133.2	131.5	136.5
– Insurance companies	16.3	17.5	17.3	16.4	16.5	16.7	16.3	22.1	22.0	23.1	21.0	21.5	26.9
Foreign-currency deposits	78.7	83.1	81.5	74.8	73.4	74.2	83.0	77.6	78.4	81.4	87.5	90.9	82.4
– Households	46.2	45.8	45.7	44.7	43.6	43.5	43.3	42.8	42.2	42.4	42.5	42.3	41.6
– Enterprises	32.5	37.3	35.8	30.1	29.8	30.7	39.7	34.8	36.2	39.0	45.0	48.6	40.8
Other items net	93.5	92.9	105.6	117.4	110.2	104.9	104.5	100.8	112.7	100.1	102.8	106.8	105.0

Memorandum Items

Net foreign assets of banking sector (excluding foreign liabilities of government)	274.3	277.2	294.5	294.2	309.7	337.0	335.2	333.0	336.7	325.7	322.4	327.4	326.1
– of which: foreign assets	385.8	388.2	402.1	387.1	390.9	424.8	404.2	422.1	423.1	417.4	418.9	422.9	450.1
foreign liabilities	111.5	111.0	107.6	92.9	81.2	87.8	69.0	89.1	86.4	91.7	96.5	95.5	124.0
Net credit to central government	390.2	395.7	398.0	392.7	389.0	393.3	411.4	409.8	415.3	422.8	424.4	426.7	434.5
Net credit to general government (excluding foreign liabilities of government)	211.3	217.7	222.6	210.7	199.0	158.9	182.4	185.2	191.7	198.4	202.4	207.2	230.6
– of which: liabilities of government and NPF	405.2	422.2	423.1	420.9	416.1	418.5	417.8	417.0	395.4	409.0	409.4	422.0	456.7
claims of government and NPF	193.9	204.5	200.5	210.2	217.1	259.6	235.4	231.8	203.7	210.6	207.0	214.8	226.1
Foreign liabilities of government	85.9	86.0	85.5	84.5	87.7	122.5	112.5	112.1	113.5	112.0	111.8	111.9	111.6
Other public sector deposits in NBS[2)]	–	16.4	15.2	11.4	14.0	13.3	9.2	11.4	13.7	13.7	17.0	15.5	10.8
Money market funds' shares/units	–	12.9	14.2	15.7	17.0	18.3	20.2	22.3	24.7	26.7	28.4	30.7	32.7

1) Revised data.
2) Deposits of higher territorial units, deposits of government in foreign currency (EU funds) and nonbudgetary deposits of government agencies in NBS.

Monetary Survey (at fixed exchange rates) (SKK billions)

	2004												
	1.1.	**31.1.**	**29.2.**	**31.3.**	**30.4.**	**31.5.**	**30.6.**	**31.7.**	**31.8.**	**30.9.**	**31.10.**	**30.11.**	**31.12.**
Fixed exchange rate SKK/USD	32.920	32.920	32.920	32.920	32.920	32.920	32.920	32.920	32.920	32.920	32.920	32.920	32.920
Fixed exchange rate SKK/EUR	41.161	41.161	41.161	41.161	41.161	41.161	41.161	41.161	41.161	41.161	41.161	41.161	41.161
ASSETS													
Net foreign assets	194.1	193.8	204.7	205.6	215.2	202.0	200.9	209.2	214.9	196.1	189.7	196.7	196.2
Foreign assets	445.5	448.4	465.3	447.6	451.5	492.5	466.1	489.1	489.8	483.3	484.7	488.5	519.1
Foreign liabilities	251.4	254.6	260.6	242.0	236.3	290.5	265.2	279.9	274.9	287.2	295.0	291.8	322.9
Net domestic assets	544.5	545.2	539.4	518.4	516.7	521.2	543.8	540.5	540.4	565.8	574.0	576.6	597.3
Domestic credits	689.4	689.4	697.7	690.4	682.6	685.3	707.5	706.4	718.8	730.6	741.2	746.5	770.3
Net credit to general government	312.6	319.1	323.4	310.3	302.4	299.9	315.1	317.4	325.6	330.5	334.3	339.2	362.3
– Net credit to general government (excluding NPF)	315.7	322.2	326.3	314.0	309.2	314.2	329.1	323.7	332.3	337.2	341.0	342.9	365.5
– Net credit to NPF	-3.1	-3.1	-2.9	-3.7	-6.8	-14.3	-14.0	-6.3	-6.7	-6.7	-6.7	-3.7	-3.2
Credit to households and enterprises	376.8	370.3	374.3	380.1	380.2	385.4	392.4	389.0	393.2	400.1	406.9	407.3	408.0
Credit in Slovak koruna	308.2	299.6	302.8	306.0	303.1	302.5	304.2	301.6	306.2	311.7	314.3	319.1	318.2
– Credit to enterprises[1)]	223.1	213.7	214.6	215.3	210.0	206.9	205.2	199.9	201.1	204.0	203.8	205.7	201.5
– Credit to households	85.1	85.9	88.2	90.7	93.1	95.6	99.0	101.7	105.1	107.7	110.5	113.4	116.7
Credit in foreign currency	68.6	70.7	71.5	74.1	77.1	82.9	88.2	87.4	87.0	88.4	92.6	88.2	89.8
LIABILITIES													
Money supply [M2]	738.6	739.0	744.1	724.0	731.9	723.2	744.7	749.7	755.3	761.9	763.7	773.3	793.5
Money [M1]	275.4	261.2	265.5	258.9	260.8	268.0	279.2	279.7	282.8	288.7	284.8	293.4	311.3
Currency outside banks [M0]	91.8	91.7	91.7	90.8	90.9	91.9	93.2	93.8	95.4	96.3	97.6	97.8	100.5
Demand deposits	183.6	169.5	173.8	168.1	169.9	176.1	186.0	185.9	187.4	192.4	187.2	195.6	210.8
– Households	81.3	83.0	85.0	83.4	83.8	85.6	87.8	89.2	89.6	90.5	91.1	92.4	96.2
– Enterprises	98.9	82.7	85.3	81.1	84.0	89.0	96.3	94.2	95.7	99.6	94.3	100.7	113.2
– Insurance companies	3.4	3.8	3.5	3.6	2.1	1.5	1.9	2.5	2.1	2.3	1.8	2.5	1.4
Quasi-money [QM]	463.2	477.8	478.6	465.1	471.1	455.2	465.5	470.0	472.5	473.2	478.9	479.9	482.2
Time deposits	371.4	380.9	383.7	377.9	385.6	368.7	368.8	379.5	381.1	378.3	377.0	374.1	386.2
– Households	237.4	236.0	237.5	236.5	234.9	232.9	230.3	228.1	225.2	224.0	222.8	221.1	222.8
– Enterprises	117.7	127.4	128.9	125.0	134.2	119.1	122.2	129.3	133.9	131.2	133.2	131.5	136.5
– Insurance companies	16.3	17.5	17.3	16.4	16.5	16.7	16.3	22.1	22.0	23.1	21.0	21.5	26.9
Foreign-currency deposits	91.8	96.9	94.9	87.2	85.5	86.5	96.7	90.5	91.4	94.9	101.9	105.8	96.0
– Households	53.9	53.4	53.2	52.1	50.8	50.7	50.4	49.9	49.2	49.4	49.5	49.2	48.5
– Enterprises	37.9	43.5	41.7	35.1	34.7	35.8	46.3	40.6	42.2	45.5	52.4	56.6	47.5
Other items net	144.9	144.2	158.3	172.0	165.9	164.1	163.7	165.9	178.4	164.8	167.2	169.9	173.0

Memorandum Items

Net foreign assets of banking sector (excluding foreign liabilities of government)	328.7	332.0	350.2	350.3	366.4	399.9	395.2	398.2	402.7	391.1	387.6	392.5	394.6
– of which: foreign assets	445.5	448.4	465.3	447.6	451.5	492.5	466.1	489.1	489.8	483.3	484.7	488.5	519.1
foreign liabilities	116.8	116.4	115.1	97.3	85.1	92.6	70.9	90.9	87.1	92.2	97.1	96.0	124.5
Net credit to central government	405.5	411.0	413.3	407.8	404.7	411.8	431.5	429.9	435.6	442.9	444.5	446.8	454.5
Net credit to general government (excluding foreign liabilities of government)	211.3	217.7	222.6	210.7	199.0	155.5	182.4	185.2	191.7	198.4	202.4	207.2	230.6
of which: liabilities of government and NPF	405.2	422.2	423.1	420.9	416.1	418.5	417.8	417.0	395.4	409.0	409.4	422.0	456.7
claims of government and NPF	193.9	204.5	200.5	210.2	217.1	263.0	235.4	231.8	203.7	210.6	207.0	214.8	226.1
Foreign liabilities of government	101.3	101.4	100.8	99.6	103.4	144.4	132.7	132.2	133.9	132.1	131.9	132.0	131.7
Other public sector deposits in NBS[2)]	–	16.8	15.6	11.7	14.5	13.7	9.6	12.1	14.8	14.8	18.6	17.0	12.1
Money market funds' shares/units	–	12.9	14.2	15.7	17.0	18.3	20.2	22.3	24.7	26.7	28.4	30.7	32.7

1) Revised data.
2) Deposits of higher territorial units, deposits of government in foreign currency (EU funds) and nonbudgetary deposits of government agencies in NBS. (Included in Net credit to general government, since 1 January 2005.)

Monetary Survey (at current exchange rates) (SKK billions)

	2004												
	1.1.	**31.1.**	**29.2.**	**31.3.**	**30.4.**	**31.5.**	**30.6.**	**31.7.**	**31.8.**	**30.9.**	**31.10.**	**30.11.**	**31.12.**
Fixed exchange rate SKK/USD	32.920	32.637	32.621	32.982	34.126	32.695	32.844	33.370	33.408	32.492	31.386	29.627	28.496
Fixed exchange rate SKK/EUR	41.161	40.822	40.528	40.207	40.359	40.069	39.946	40.138	40.218	40.048	39.940	39.288	38.796
ASSETS													
Net foreign assets	194.1	190.9	200.2	202.1	215.1	196.1	195.2	205.0	211.8	189.4	179.2	177.9	169.5
Foreign assets	445.5	444.4	458.6	441.9	450.2	482.2	456.6	481.9	483.8	473.0	470.0	463.1	484.0
Foreign liabilities	251.4	253.5	258.4	239.8	235.1	286.1	261.4	276.9	272.0	283.6	290.8	285.2	314.5
Net domestic assets	544.5	547.2	542.6	520.6	516.6	525.4	547.5	543.6	542.6	570.4	581.0	588.6	615.9
Domestic credits	689.4	688.0	695.1	686.9	680.2	680.2	701.6	701.8	714.4	724.8	734.1	735.2	755.7
Net credit to general government	312.6	318.3	321.8	308.2	300.7	296.7	311.3	314.2	322.6	326.9	330.3	333.0	354.4
– Net credit to general government (excluding NPF)	315.7	321.4	324.7	311.9	307.5	311.0	325.3	320.5	329.3	333.6	337.0	336.7	357.6
– Net credit to NPF	-3.1	-3.1	-2.9	-3.7	-6.8	-14.3	-14.0	-6.3	-6.7	-6.7	-6.7	-3.7	-3.2
Credit to households and enterprises	376.8	369.7	373.3	378.7	379.5	383.5	390.3	387.6	391.8	397.9	403.8	402.2	401.3
Credit in Slovak koruna	308.2	299.6	302.8	306.0	303.1	302.5	304.2	301.6	306.2	311.7	314.3	319.1	318.2
– Credit to enterprises[1]	223.1	213.7	214.6	215.3	210.0	206.9	205.2	199.9	201.1	204.0	203.8	205.7	201.5
– Credit to households	85.1	85.9	88.2	90.7	93.1	95.6	99.0	101.7	105.1	107.7	110.5	113.4	116.7
Credit in foreign currency	68.6	70.1	70.5	72.7	76.4	81.0	86.1	86.0	85.6	86.2	89.5	83.1	83.1
LIABILITIES													
Money supply [M2]	738.6	738.1	742.8	722.7	731.7	721.5	742.7	748.6	754.4	759.8	760.2	766.5	785.4
Money [M1]	275.4	261.2	265.5	258.9	260.8	268.0	279.2	279.7	282.8	288.7	284.8	293.4	311.3
Currency outside banks [M0]	91.8	91.7	91.7	90.8	90.9	91.9	93.2	93.8	95.4	96.3	97.6	97.8	100.5
Demand deposits	183.6	169.5	173.8	168.1	169.9	176.1	186.0	185.9	187.4	192.4	187.2	195.6	210.8
– Households	81.3	83.0	85.0	83.4	83.8	85.6	87.8	89.2	89.6	90.5	91.1	92.4	96.2
– Enterprises	98.9	82.7	85.3	81.1	84.0	89.0	96.3	94.2	95.7	99.6	94.3	100.7	113.2
– Insurance companies	3.4	3.8	3.5	3.6	2.1	1.5	1.9	2.5	2.1	2.3	1.8	2.5	1.4
Quasi-money [QM]	463.2	476.9	477.3	463.8	470.9	453.5	463.5	468.9	471.6	471.1	475.4	473.1	474.1
Time deposits	371.4	380.9	383.7	377.9	385.6	368.7	368.8	379.5	381.1	378.3	377.0	374.1	386.2
– Households	237.4	236.0	237.5	236.5	234.9	232.9	230.3	228.1	225.2	224.0	222.8	221.1	222.8
– Enterprises	117.7	127.4	128.9	125.0	134.2	119.1	122.2	129.3	133.9	131.2	133.2	131.5	136.5
– Insurance companies	16.3	17.5	17.3	16.4	16.5	16.7	16.3	22.1	22.0	23.1	21.0	21.5	26.9
Foreign-currency deposits	91.8	96.0	93.6	85.9	85.3	84.8	94.7	89.4	90.5	92.8	98.4	99.0	87.9
– Households	53.9	52.9	52.5	51.3	50.7	49.7	49.4	49.3	48.7	48.3	47.8	46.1	44.4
– Enterprises	37.9	43.1	41.1	34.6	34.6	35.1	45.3	40.1	41.8	44.5	50.6	52.9	43.5
Other items net	144.9	140.8	152.5	166.3	163.6	154.8	154.1	158.2	171.8	154.4	153.1	146.6	139.8

Memorandum Items

Net foreign assets of banking sector (excluding foreign liabilities of government)	328.7	328.3	344.3	344.7	364.5	390.2	385.8	390.9	396.6	380.8	373.1	367.5	360.0
– of which: foreign assets	445.5	444.4	458.6	441.9	450.2	482.2	456.6	481.9	483.8	473.0	470.0	463.1	484.0
foreign liabilities	116.8	116.1	114.3	97.2	85.7	92.0	70.8	91.0	87.2	92.2	96.9	95.6	124.0
Net credit to central government	405.5	410.2	411.7	405.7	403.0	408.7	427.8	426.8	432.7	439.3	440.5	440.6	446.7
Net credit to general government (excluding foreign liabilities of government)	211.3	217.7	222.6	210.7	199.0	156.1	182.4	185.2	191.7	198.4	202.4	207.2	230.6
of which: liabilities of government and NPF	405.2	422.2	423.1	420.9	416.1	418.5	417.8	417.0	395.4	409.0	409.4	422.0	456.7
claims of government and NPF	193.9	204.5	200.5	210.2	217.1	262.4	235.4	231.8	203.7	210.6	207.0	214.8	226.1
Foreign liabilities of government	101.3	100.6	99.2	97.5	101.7	140.6	128.9	129.0	130.9	128.5	127.9	125.8	123.8
Other public sector deposits in NBS[2]	–	16.8	15.5	11.7	14.4	13.6	9.5	12.0	14.6	14.6	18.3	16.6	11.6
Money market funds' shares/units	–	12.9	14.2	15.7	17.0	18.3	20.2	22.3	24.7	26.7	28.4	30.7	32.7

1) Revised data.
2) Deposits of higher territorial units, deposits of government in foreign currency (EU funds) and nonbudgetary deposits of government agencies in NBS.

Money Supply M2 (at fixed exchange rates as of 1 January 1993) (SKK billions)

	2004					Change since beginning of year		Change during the 1st quarter		Change during the 2nd quarter		Change during the 3rd quarter		Change during the 4th quarter	
	1.1.	**31.3.**	**30.6.**	**30.9.**	**31.12.**	SKK billions	%	SKK billions	%	SKK billions	%	SKK billions	%	SKK billions	%
Money Supply [M2]	725.5	711.6	731.0	748.4	779.9	54.4	7.5	-13.9	-1.9	19.4	2.7	17.4	2.4	31.5	4.2
Money [M1]	275.4	258.9	279.2	288.7	311.3	35.9	13.0	-16.5	-6.0	20.3	7.8	9.5	3.4	22.6	7.8
Currency outside banks [M0]	91.8	90.8	93.2	96.3	100.5	8.7	9.5	-1.0	-1.1	2.4	2.6	3.1	3.3	4.2	4.4
Demand deposits	183.6	168.1	186.0	192.4	210.8	27.2	14.8	-15.5	-8.4	17.9	10.6	6.4	3.4	18.4	9.6
– Households	81.3	83.4	87.8	90.5	96.2	14.9	18.3	2.1	2.6	4.4	5.3	2.7	3.1	5.7	6.3
– Enterprises	98.9	81.1	96.3	99.6	113.2	14.3	14.5	-17.8	-18.0	15.2	18.7	3.3	3.4	13.6	13.7
– Insurance companies	3.4	3.6	1.9	2.3	1.4	-2.0	-58.8	0.2	5.9	-1.7	-47.2	0.4	21.1	-0.9	-39.1
Quasi-money [QM]	450.1	452.7	451.8	459.7	468.6	18.5	4.1	2.6	0.6	-0.9	-0.2	7.9	1.7	8.9	1.9
Time deposits	371.4	377.9	368.8	378.3	386.2	14.8	4.0	6.5	1.8	-9.1	-2.4	9.5	2.6	7.9	2.1
– Households	237.4	236.5	230.3	224.0	222.8	-14.6	-6.1	-0.9	-0.4	-6.2	-2.6	-6.3	-2.7	-1.2	-0.5
– Enterprises	117.7	125.0	122.2	131.2	136.5	18.8	16.0	7.3	6.2	-2.8	-2.2	9.0	7.4	5.3	4.0
– Insurance companies	16.3	16.4	16.3	23.1	26.9	10.6	65.0	0.1	0.6	-0.1	-0.6	6.8	41.7	3.8	16.5
Foreign-currency deposits	78.7	74.8	83.0	81.4	82.4	3.7	4.7	-3.9	-5.0	8.2	11.0	-1.6	-1.9	1.0	1.2
– Households	46.2	44.7	43.3	42.4	41.6	-4.6	-10.0	-1.5	-3.2	-1.4	-3.1	-0.9	-2.1	-0.8	-1.9
– Enterprises	32.5	30.1	39.7	39.0	40.8	8.3	25.5	-2.4	-7.4	9.6	31.9	-0.7	-1.8	1.8	4.6
Slovak-koruna deposits	555.0	546.0	554.8	570.7	597.0	42.0	7.6	-9.0	-1.6	8.8	1.6	15.9	2.9	26.3	4.6
– Households	318.7	319.9	318.1	314.5	319.0	0.3	0.1	1.2	0.4	-1.8	-0.6	-3.6	-1.1	4.5	1.4
– Enterprises	216.6	206.1	218.5	230.8	249.7	33.1	15.3	-10.5	-4.8	12.4	6.0	12.3	5.6	18.9	8.2
– Insurance companies	19.7	20	18.2	25.4	28.3	8.6	43.7	0.3	1.5	-1.8	-9.0	7.2	39.6	2.9	11.4

Total Volume of Loans (SKK billions)

	2004												
	1.1.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1. TOTAL VOLUME OF LOANS (SKK + foreign currency)	412.4	409.4	413.2	416.5	419.5	422.3	427.8	425.0	429.7	435.6	442.1	440.4	449.3
A. Slovak-koruna loans	330.7	326.6	330.2	331.7	328.6	327.8	328.8	326.5	331.7	336.3	339.3	344.1	348.6
– Non-financial corporations	178.8	172.4	173.9	173.5	167.5	164.3	161.5	156.3	157.4	158.5	158.3	160.5	151.3
– Financial corporations	33.6	30.9	31.1	31.2	31.5	31.5	32.6	32.6	32.5	34.0	33.5	32.8	36.8
– Insurance companies and pension funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
– General government	22.5	27.0	27.3	25.7	25.5	25.2	24.6	25.0	25.5	24.6	25.0	25.0	30.3
– Non-profit organisations serving households	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.6	0.7
– Small businesses	8.0	7.3	7.4	8.0	8.7	8.6	8.9	9.0	9.0	9.2	9.6	9.9	11.1
– Households	85.1	85.9	88.2	90.7	93.1	95.6	99.0	101.7	105.1	107.7	110.5	113.4	116.7
– Foreigners (non-residents)	2.5	2.9	1.9	2.3	2.1	2.2	1.9	1.7	1.9	1.8	2.0	1.8	1.5
– Other	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
B. Loans in foreign currency[1)]	81.7	82.8	83.0	84.8	90.9	94.6	99.1	98.5	98.0	99.3	102.8	96.3	100.7
2. SLOVAK-KORUNA LOANS BY SECTOR	330.7	326.6	330.2	331.7	328.6	327.8	328.8	326.5	331.7	336.3	339.3	344.1	348.6
a) Entrepreneurial sector	220.4	210.6	212.5	212.8	207.7	204.4	203.0	197.8	198.8	201.7	201.3	203.3	199.3
– Public sector	60.5	56.3	55.5	54.2	48.0	46.6	45.7	39.8	40.0	40.1	38.8	39.8	37.6
– Private sector (incl. cooperatives and households)	125.0	119.8	122.6	123.1	126.1	123.5	121.3	121.2	122.5	124.6	126.1	128.6	128.1
– Under foreign control	34.9	34.5	34.4	35.4	33.5	34.3	35.9	36.8	36.3	37.1	36.4	34.9	33.6
b) General government	22.5	27.0	27.3	25.7	25.5	25.2	24.6	25.0	25.5	24.6	25.0	25.0	30.3
c) Households	85.1	85.9	88.2	90.7	93.1	95.6	99.0	101.7	105.1	107.7	110.5	113.4	116.7
d) Non-profit organisations serving households	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.6	0.7
e) Other	2.5	2.9	1.9	2.3	2.1	2.2	1.9	1.8	1.9	1.8	2.0	1.8	1.5
3. SLOVAK-KORUNA LOANS BY INDUSTRY	330.7	326.6	330.2	331.7	328.6	327.8	328.8	326.5	331.7	336.3	339.3	344.1	348.6
a) Agriculture, hunting, and fishing	6.0	5.4	5.5	5.6	5.7	6.0	6.2	6.5	6.6	6.7	7.0	7.1	6.5
b) Forestry and timber industry	0.2	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
c) Raw materials extraction	1.7	1.6	1.5	1.6	1.6	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.4
d) Industrial production – total	49.1	51.2	47.0	46.4	44.2	41.5	41.5	40.9	42.5	43.3	43.4	43.3	40.4
– Foods, bewerages, and tobacco	15.0	14.5	13.9	14.5	14.4	13.4	13.2	13.2	13.0	13.3	13.6	13.7	13.7
– Chemical industry	7.3	10.0	8.7	7.8	7.2	6.6	6.7	6.5	7.0	6.6	6.5	6.1	4.1
– Metallurgy and machine engineering	12.2	12.1	9.7	9.3	7.8	7.0	6.9	6.7	6.7	6.9	6.8	6.8	6.1
– Electrical and electronic industry	2.8	2.7	2.8	2.6	2.6	2.7	2.7	2.7	2.5	3.3	3.5	3.2	3.0
– Textile, clothing, and leather	2.2	2.1	2.1	1.9	1.9	1.7	1.8	1.9	1.9	1.8	1.8	2.5	2.3
– Other industries	9.5	9.8	9.9	10.3	10.3	10.1	10.1	9.9	11.4	11.2	11.2	11.0	11.3
e) Power industry, gas and water supply	33.8	35.1	34.9	34.1	30.0	29.0	28.3	22.2	22.2	21.9	22.2	22.2	20.0
f) Building and construction	5.5	4.5	4.7	5.2	5.3	5.6	5.8	5.7	6.2	6.4	6.8	7.2	6.6
g) Trade, repair of cons. goods and motor vehicles, hotels and restaurants	40.6	39.5	40.2	42.4	44.4	43.7	43.5	44.6	45.7	46.5	46.2	46.8	44.7
h) Tourism	0.4	0.3	0.3	0.2	0.3	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.5
i) Transport, warehousing, postal and telecom. services	23.7	17.9	21.5	21.9	20.2	19.4	18.3	17.9	17.4	17.5	17.2	18.0	18.1
j) Banking industry	33.5	30.3	30.5	30.6	30.8	31.1	32.2	32.2	32.1	32.8	32.0	31.2	36.4
k) Insurance sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
l) Other	136.3	140.6	143.8	143.5	145.9	149.7	151.2	154.7	157.0	159.4	162.7	166.5	173.7
4. TOTAL VOLUME OF LOANS (SKK + foreign currency)	412.4	409.4	413.2	416.5	419.5	422.3	427.8	425.0	429.7	435.6	442.1	440.4	449.3
a) Short-term loans	130.6	131.2	131.0	134.3	134.3	132.9	135.2	134.9	136.6	138.2	140.8	137.8	145.7
b) Medium-term loans	125.4	125.4	124.1	123.6	124.1	124.2	125.6	121.8	122.4	123.2	121.9	123.1	124.0
c) Long-term loans	156.4	152.9	158.1	158.6	161.1	165.2	167.1	168.3	170.7	174.2	179.5	179.6	179.5
4.1. SLOVAK-KORUNA LOANS	330.7	326.6	330.2	331.7	328.6	327.8	328.8	326.5	331.7	336.3	339.3	344.1	348.6
a) Short-term loans	100.2	100.1	100.2	101.7	98.7	96.0	96.6	97.4	99.2	101.0	102.3	101.9	111.3
b) Medium-term loans	99.5	98.4	98.2	97.8	97.6	97.5	97.1	94.3	95.8	95.8	94.3	95.6	95.7
c) Long-term loans	131.0	128.1	131.8	132.2	132.3	134.3	135.1	134.8	136.7	139.5	142.7	146.6	141.6
4.2. LOANS IN FOREIGN CURRENCY[1)]	81.7	82.8	83.0	84.8	90.9	94.6	99.1	98.5	98.0	99.3	102.8	96.3	100.7
a) Short-term loans	30.4	31.1	30.8	32.5	35.6	36.9	38.6	37.5	37.4	37.2	38.6	35.8	34.4
b) Medium-term loans	25.8	26.9	25.9	25.8	26.6	26.7	28.4	27.5	26.6	27.4	27.5	27.5	28.3
c) Long-term loans	25.5	24.8	26.3	26.5	28.8	30.9	32.0	33.5	34.0	34.7	36.7	33.0	37.9

Table TOTAL VOLUME OF LOANS continued on next page.

Total Volume of Loans (SKK billions) – *continued*

	2004												
	1.1.	1	2	3	4	5	6	7	8	9	10	11	12
5. SLOVAK-KORUNA LOANS BY PURPOSE	330.7	326.6	330.2	331.7	328.6	327.8	328.8	326.5	331.7	336.3	339.3	344.1	348.6
a) Current account overdrafts	20.7	24.6	23.7	26.2	27.0	27.2	27.0	27.1	28.8	31.0	31.2	31.9	31.3
b) Current assets	69.4	66.7	67.0	64.0	60.4	59.2	62.1	63.4	62.6	62.8	63.6	62.9	71.8
c) Investment loans	52.6	54.3	56.7	56.9	59.0	59.1	63.6	65.2	66.4	66.1	66.8	71.0	70.6
d) Consumer and housing loans	77.7	78.2	80.1	81.8	83.8	86.5	89.0	90.9	93.6	93.8	96.1	99.0	102.0
of c) and d) Mortgage	25.1	26.0	27.1	28.2	29.3	30.8	31.6	32.8	34.3	35.8	36.9	38.4	39.7
f) Other	39.2	36.0	36.7	34.7	33.5	32.5	31.4	31.8	32.2	31.4	31.2	28.1	23.6
g) Classified receivables	71.1	66.8	66.0	68.1	64.9	63.3	55.7	48.1	48.1	51.2	50.3	51.3	49.3
– Standard claims with reservation	41.1	40.4	39.9	42.4	39.3	37.9	29.5	22.6	22.6	23.9	23.5	24.6	23.5
– sub-standard	4.2	3.9	2.9	3.1	3.3	2.9	4.0	3.8	3.6	5.8	5.8	5.6	5.7
– doubtful and disputable	3.4	3.2	3.3	3.2	3.0	3.1	3.3	3.3	3.5	3.7	3.4	3.4	3.4
– loss-making	22.4	19.3	19.8	19.4	19.2	19.4	18.9	18.5	18.5	17.8	17.7	17.7	16.6
6. INFORMATIVE													
A. Total increase in loans (since beginning of year)													
– in SKK billions	-	-3.0	0.8	4.1	7.1	9.9	15.4	12.6	17.3	23.2	29.7	28.0	36.8
– in %	-	-0.7	0.2	1.0	1.7	2.4	3.7	3.1	4.2	5.6	7.2	6.8	8.9
of which													
a) Slovak-koruna loans													
– in SKK billions	-	-4.1	-0.5	1.0	-2.1	-2.9	-1.9	-4.2	1.0	5.6	8.6	13.5	17.9
– in %	-	-1.2	-0.2	0.3	-0.6	-0.9	-0.6	-1.3	0.3	1.7	2.6	4.1	5.4
b) Foreign-currency loans[1)]													
– in SKK billions	-	1.1	1.3	3.1	9.2	12.8	17.3	16.8	16.2	17.6	21.1	14.6	19.0
– in %	-	1.3	1.6	3.8	11.2	15.7	21.2	20.5	19.9	21.6	25.8	17.8	23.2
B. Structure of Slovak-koruna loans by sector													
Slovak-koruna loans in total (share of the total in %)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Entrepreneurial sector	66.7	64.5	64.3	64.1	63.2	62.4	61.7	60.6	59.9	60.0	59.3	59.1	57.2
– Public sector	18.3	17.2	16.8	16.3	14.6	14.2	13.9	12.2	12.1	11.9	11.4	11.6	10.8
– Private sector (incl. cooperatives and households)	37.8	36.7	37.1	37.1	38.4	37.7	36.9	37.1	36.9	37.1	37.2	37.4	36.8
– Under foreign control	10.5	10.6	10.4	10.7	10.2	10.5	10.9	11.3	10.9	11.0	10.7	10.1	9.6
b) General government	6.8	8.3	8.3	7.8	7.8	7.7	7.5	7.6	7.7	7.3	7.4	7.3	8.7
c) Households	25.7	26.3	26.7	27.3	28.3	29.2	30.1	31.1	31.7	32.0	32.6	33.0	33.5
d) Non-profit organisations serving households	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
e) Other	0.8	0.9	0.6	0.7	0.6	0.7	0.6	0.5	0.6	0.5	0.6	0.5	0.4
C. Structure of Slovak-crown loans by industry													
Slovak-koruna loans in total (share of the total in %)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Agriculture, hunting and fishing	1.8	1.7	1.7	1.7	1.7	1.8	1.9	2.0	2.0	2.0	2.1	2.1	1.9
b) Forestry and timber industry	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
c) Raw materials extraction	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
d) Industrial production – total	14.8	15.7	14.2	14.0	13.4	12.7	12.6	12.5	12.8	12.9	12.8	12.6	11.6
– Foods, bewerages, and tobacco	4.5	4.4	4.2	4.4	4.4	4.1	4.0	4.0	3.9	4.0	4.0	4.0	3.9
– Chemical industry	2.2	3.1	2.6	2.4	2.2	2.0	2.0	2.0	2.1	2.0	1.9	1.8	1.2
– Metallurgy and machine engineering	3.7	3.7	2.9	2.8	2.4	2.1	2.1	2.0	2.0	2.1	2.0	2.0	1.7
– Electrical and electronic industry	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	1.0	1.0	0.9	0.9
– Textile, clothing, and leather	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.5	0.7	0.7
– Other industries	2.9	3.0	3.0	3.1	3.1	3.1	3.1	3.0	3.4	3.3	3.3	3.2	3.2
e) Power industry, gas and water supply	10.2	10.7	10.6	10.3	9.1	8.8	8.6	6.8	6.7	6.5	6.6	6.4	5.7
f) Building and construction	1.7	1.4	1.4	1.6	1.6	1.7	1.8	1.7	1.9	1.9	2.0	2.1	1.9
g) Trade, repair of cons. goods and vehicles, hotel and restaurants	12.3	12.1	12.2	12.8	13.5	13.3	13.2	13.6	13.8	13.8	13.6	13.6	12.8
h) Tourism	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Table TOTAL VOLUME OF LOANS continued on next page.

Total Volume of Loans (SKK billions) – *continued*

	2004												
	1.1.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
i) Transport, warehousing, postal and telecom. services	7.2	5.5	6.5	6.6	6.1	5.9	5.6	5.5	5.3	5.2	5.1	5.2	5.2
j) Banking industry	10.1	9.3	9.2	9.2	9.4	9.5	9.8	9.9	9.7	9.7	9.4	9.1	10.4
k) Insurance sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
l) Other	41.2	43.0	43.6	43.3	44.4	45.7	46.0	47.4	47.3	47.4	48.0	48.4	49.8
D. Structure of loans by term (share of the total in %)													
Loans in SKK and foreign curr.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Short-term loans	31.7	32.0	31.7	32.2	32.0	31.5	31.6	31.7	31.8	31.7	31.8	31.3	32.4
b) Medium-term loans	30.4	30.6	30.0	29.7	29.6	29.4	29.4	28.7	28.5	28.3	27.6	28.0	27.6
c) Long-term loans	37.9	37.3	38.3	38.1	38.4	39.1	39.0	39.6	39.7	40.0	40.6	40.8	40.0
Slovak-koruna loans in total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Short-term loans	30.3	30.6	30.3	30.7	30.0	29.3	29.4	29.8	29.9	30.0	30.1	29.6	31.9
b) Medium-term loans	30.1	30.1	29.7	29.5	29.7	29.7	29.5	28.9	28.9	28.5	27.8	27.8	27.5
c) Long-term loans	39.6	39.2	39.9	39.8	40.3	41.0	41.1	41.3	41.2	41.5	42.1	42.6	40.6
Foreign-currency loans[1)]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Short-term loans	37.3	37.6	37.1	38.3	39.1	39.0	39.0	38.1	38.1	37.5	37.5	37.2	34.2
b) Medium-term loans	31.6	32.5	31.2	30.5	29.2	28.3	28.7	27.9	27.2	27.6	26.8	28.5	28.1
c) Long-term loans	31.2	29.9	31.7	31.2	31.6	32.7	32.3	34.0	34.7	34.9	35.7	34.3	37.7
E. Structure of Slovak-koruna loans by purpose (share of the total in %)													
Slovak-koruna loans in total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Current account overdrafts	6.3	7.5	7.2	7.9	8.2	8.3	8.2	8.3	8.7	9.2	9.2	9.3	9.0
b) Current assets	21.0	20.4	20.3	19.3	18.4	18.1	18.9	19.4	18.9	18.7	18.8	18.3	20.6
c) Investment loans	15.9	16.6	17.2	17.1	18.0	18.0	19.3	20.0	20.0	19.7	19.7	20.6	20.3
d) Consumer and housing loans	23.5	23.9	24.3	24.7	25.5	26.4	27.1	27.8	28.2	27.9	28.3	28.8	29.2
of c) and d) Mortgage	7.6	8.0	8.2	8.5	8.9	9.4	9.6	10.1	10.3	10.6	10.9	11.2	11.4
f) Other	11.8	11.0	11.1	10.5	10.2	9.9	9.6	9.7	9.7	9.3	9.2	8.2	6.8
g) Classified receivables	21.5	20.4	20.0	20.5	19.7	19.3	16.9	14.7	14.5	15.2	14.8	14.9	14.1
– standard claims with reservation	12.4	12.4	12.1	12.8	12.0	11.6	9.0	6.9	6.8	7.1	6.9	7.2	6.8
– sub-standard	1.3	1.2	0.9	0.9	1.0	0.9	1.2	1.2	1.1	1.7	1.7	1.6	1.6
– doubtful and disputable	1.0	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.0
– loss-making	6.8	5.9	6.0	5.8	5.8	5.9	5.7	5.7	5.6	5.3	5.2	5.1	4.8

1) Loans to residents and non-residents in convertible currencies.

Loans to Clients – New Loans (SKK billions)

	2004											
	1	2	3	4	5	6	7	8	9	10	11	12
1. NEW LOANS IN SLOVAK KORUNA	91.4	92.2	101.8	94.7	93.5	103.1	91.1	98.2	99.6	100.5	105.8	134.3
a) Entrepreneurial sector	81.9	81.9	90.6	82.2	79.3	89.8	78.5	85.4	86.7	85.5	91.4	97.4
– Public sector	4.5	2.7	2.9	2.4	3.7	3.7	2.1	2.9	3.0	2.2	3.2	4.5
– Private sector	34.2	33.9	36.8	40.8	40.7	43.4	42.9	44.1	44.8	45.5	46.9	51.1
– Under foreign control	43.3	45.3	50.9	39.0	35.0	42.7	33.4	38.3	38.8	37.8	41.3	41.8
b) Households	6.3	9.3	10.2	11.0	9.3	9.6	10.3	10.2	10.5	11.6	12.2	9.5
c) Non-profit organisations serving households	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
d) General government	1.5	0.3	0.8	0.5	0.7	1.3	0.3	0.7	1.1	1.0	1.1	23.1
e) Other	1.6	0.7	0.2	0.9	4.2	2.4	1.9	1.9	1.1	2.3	1.0	4.1
2. NEW LOANS BY TERM	91.4	92.2	101.8	94.7	93.5	103.1	91.1	98.2	99.6	100.5	105.8	134.3
a) Short-term loans	80.4	75.9	86.4	82.0	79.5	86.6	77.6	83.8	82.2	86.9	88.5	118.6
b) Medium-term loans	7.9	11.2	10.4	7.9	9.1	8.7	8.1	8.6	9.7	7.4	9.9	8.3
c) Long-term loans	3.1	5.1	5.0	4.7	4.9	7.8	5.4	5.8	7.7	6.2	7.4	7.5
3. NEW LOANS BY TERM (share of the total in %)												
New loans in total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Short-term loans	88.0	82.4	84.8	86.6	85.0	84.0	85.2	85.3	82.5	86.4	83.7	88.3
b) Medium-term loans	8.6	12.1	10.2	8.4	9.7	8.4	8.9	8.7	9.7	7.4	9.4	6.1
c) Long-term loans	3.4	5.5	4.9	5.0	5.3	7.5	5.9	5.9	7.8	6.2	7.0	5.6

Deposits of Clients (SKK billions)

	2004												
	1. 1.	1	2	3	4	5	6	7	8	9	10	11	12
1. TOTAL DEPOSITS (SKK + foreign currency)	793.6	801.6	799.5	787.9	825.3	835.1	836.5	830.8	852.4	846.1	846.5	850.8	844.6
A. Slovak-koruna deposits	696.7	700.9	700.8	697.3	733.5	745.6	736.8	735.7	755.3	747.7	742.1	746.8	748.9
– Non-financial corporations	171.5	161.1	168.7	158.0	165.9	155.7	162.8	166.5	172.3	170.8	162.1	165.1	184.8
– Financial corporations	14.2	16.5	13.2	15.1	18.4	17.0	19.2	20.0	20.1	22.1	27.5	28.2	29.5
– Insurance companies and pension funds	19.7	21.3	20.8	20.0	18.6	18.2	18.2	25.1	25.5	27.5	25.7	25.9	30.7
– General government	141.7	150.6	143.3	151.2	177.9	200.8	182.0	169.8	185.5	174.9	175.0	175.2	149.2
– Non-profit organisations serving households	10.8	11.0	11.2	11.3	11.5	11.9	12.5	13.0	13.0	13.2	13.4	13.6	12.9
– Small businesses	15.4	16.7	17.0	17.0	17.1	18.1	18.7	19.2	19.8	20.0	19.6	20.0	18.2
– Households	318.6	319.0	322.4	319.9	318.7	318.5	318.1	317.2	314.8	314.6	314.0	313.5	318.9
– Foreigners (non-residents)	4.2	4.2	3.6	4.1	4.5	4.3	4.4	4.2	3.9	4.2	4.4	4.8	4.3
– Other	0.5	0.6	0.6	0.6	0.7	1.1	1.0	0.6	0.5	0.5	0.5	0.6	0.2
B. Foreign-currency deposits[1)]	96.9	100.7	98.7	90.6	91.8	89.5	99.7	95.1	97.1	98.4	104.5	103.9	95.8
– Natural persons	55.4	54.5	54.1	52.9	52.4	51.3	51.0	51.0	50.4	49.9	49.4	47.7	46.0
– Legal entities	41.5	46.2	44.6	37.7	39.4	38.2	48.6	44.1	46.7	48.4	55.1	56.2	49.7
2. SLOVAK-KORUNA DEPOSITS BY SECTOR	696.7	700.9	700.8	697.3	733.5	745.6	736.8	735.7	755.3	747.7	742.1	746.8	748.9
a) Entrepreneurial sector	220.8	215.6	219.6	210.1	220.1	209.0	218.9	230.8	237.7	240.3	234.8	239.2	263.2
– Public sector	44.5	45.0	51.5	49.5	51.3	43.0	47.7	45.7	47.1	46.6	42.5	45.5	46.5
– Private sector (incl. cooperatives and households)	143.1	136.8	135.1	129.5	134.9	131.9	136.4	146.4	150.8	154.3	155.0	155.5	171.7
– Under foreign control	33.3	33.7	33.1	31.2	33.9	34.1	34.8	38.7	39.8	39.5	37.3	38.1	45.1
b) General government	141.7	150.6	143.3	151.2	177.9	200.8	182.0	169.8	185.5	174.9	175.0	175.2	149.2
c) Households	318.6	319.0	322.4	319.9	318.7	318.5	318.1	317.2	314.8	314.6	314.0	313.5	318.9
d) Non-profit organisations serving households	10.8	11.0	11.2	11.3	11.5	11.9	12.5	13.0	13.0	13.2	13.4	13.6	12.9
e) Other	4.7	4.7	4.2	4.7	5.2	5.3	5.4	4.8	4.4	4.7	4.9	5.4	4.5
3. SLOVAK-KORUNA DEPOSITS BY TERM	696.7	700.9	700.8	697.3	733.5	745.6	736.8	735.7	755.3	747.7	742.1	746.8	748.9
a) Short-term deposits	627.6	621.8	621.1	618.6	656.6	668.4	659.9	658.8	679.1	671.8	666.7	671.2	671.4
b) Medium-term deposits	26.5	36.5	36.2	35.7	34.6	34.7	34.4	34.1	33.8	33.9	33.5	33.6	32.7
c) Long-term deposits	42.5	42.5	43.5	43.0	42.3	42.4	42.5	42.8	42.4	42.0	41.9	42.1	44.8
4. FOREIGN-CURRENCY DEPOSITS BY TERM[1)]	96.9	–	–	90.6	–	–	99.7	–	–	98.4	–	–	95.8
a) Short-term deposits	96.3	–	–	89.7	–	–	99.0	–	–	97.7	–	–	95.2
b) Medium-term deposits	0.6	–	–	1.0	–	–	0.6	–	–	0.7	–	–	0.6
c) Long-term deposits	0.0	–	–	0.0	–	–	0.0	–	–	0.0	–	–	0.0
5. TOTAL DEPOSITS BY TERM	793.6	–	–	787.9	–	–	836.5	–	–	846.1	–	–	844.6
a) Short-term deposits	723.9	–	–	708.2	–	–	758.9	–	–	769.5	–	–	766.5
b) Medium-term deposits	27.1	–	–	36.7	–	–	35.0	–	–	34.6	–	–	33.3
c) Long-term deposits	42.5	–	–	43.0	–	–	42.5	–	–	42.0	–	–	44.8
6. INFORMATIVE													
A. Increase in deposits (since beginning of year)													
– SKK billions	–	8.1	5.9	-5.6	31.7	41.5	42.9	37.2	58.9	52.5	53.0	57.2	51.1
– in %	–	1.0	0.7	-0.7	4.0	5.2	5.4	4.7	7.4	6.6	6.7	7.2	6.4
of which:													
a) Slovak-crown deposits													
– SKK billions	–	4.2	4.1	0.6	36.8	48.9	40.1	39.0	58.7	51.0	45.4	50.2	52.2
– in %	–	0.6	0.6	0.1	5.3	7.0	5.8	5.6	8.4	7.3	6.5	7.2	7.5
b) Foreign-currency deposits[1)]													
– SKK billions	–	3.8	1.8	-6.3	-5.1	-7.4	2.8	-1.8	0.2	1.5	7.6	7.0	-1.1
– in %	–	3.9	–16.8	-23.5	-22.6	-24.5	–15.9	–19.7	–18.1	–17.0	–11.9	–12.3	–19.2

Table DEPOSITS OF CLIENTS continued on next page.

Deposits of Clients (SKK billions) – *continued*

	2004												
	1. 1.	1	2	3	4	5	6	7	8	9	10	11	12
B. Structure of Slovak-koruna deposits by sector (share of the total in %)													
Total Slovak-koruna deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Entrepreneurial sector	31.7	30.8	31.3	30.1	30.0	28.0	29.7	31.4	31.5	32.1	31.6	32.0	35.1
– Public sector	6.4	6.4	7.3	7.1	7.0	5.8	6.5	6.2	6.2	6.2	5.7	6.1	6.2
– Private sector (incl. cooperatives and households)	20.5	19.5	19.3	18.6	18.4	17.7	18.5	19.9	20.0	20.6	20.9	20.8	22.9
– Under foreign control	4.8	4.8	4.7	4.5	4.6	4.6	4.7	5.3	5.3	5.3	5.0	5.1	6.0
b) General government	20.3	21.5	20.4	21.7	24.3	26.9	24.7	23.1	24.6	23.4	23.6	23.5	19.9
c) Households	45.7	45.5	46.0	45.9	43.5	42.7	43.2	43.1	41.7	42.1	42.3	42.0	42.6
e) Non-profit organisations serving households	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.8	1.7	1.8	1.8	1.8	1.7
f) Other	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.7	0.6
C. Structure of Slovak-koruna deposits by term (share of the total in %)													
Total Slovak-koruna deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a) Short-term deposits	90.1	88.7	88.6	88.7	89.5	89.7	89.6	89.5	89.9	89.8	89.8	89.9	89.7
b) Medium-term deposits	3.8	5.2	5.2	5.1	4.7	4.7	4.7	4.6	4.5	4.5	4.5	4.5	4.4
c) Long-term deposits	6.1	6.1	6.2	6.2	5.8	5.7	5.8	5.8	5.6	5.6	5.6	5.6	6.0
D. Structure of deposits by term in foreign currency[1] (share of the total in %)													
Foreign-currency deposits	100.0	–	–	100.0	–	–	100.0	–	–	100.0	–	–	100.0
a) Short-term deposits	99.4	–	–	98.9	–	–	99.3	–	–	99.3	–	–	99.4
b) Medium-term deposits	0.6	–	–	1.1	–	–	0.6	–	–	0.7	–	–	0.6
c) Long-term deposits	0.0	–	–	0.0	–	–	0.0	–	–	0.0	–	–	0.0
E. Structure of deposits by term in total (share of the total in %)													
Slovak-koruna and foreign currency deposits in total	100.0	–	–	100.0	–	–	100.0	–	–	100.0	–	–	100.0
a) Short-term deposits	91.2	–	–	89.9	–	–	90.7	–	–	90.9	–	–	90.8
b) Medium-term deposits	3.4	–	–	4.7	–	–	4.2	–	–	4.1	–	–	3.9
c) Long-term deposits	5.4	–	–	5.5	–	–	5.1	–	–	5.0	–	–	5.3

1) Deposits from residents and non-residents in convertible currencies.

Average Lending Rates of Commercial Banks (%)

	2003	2004											
	12	1	2	3	4	5	6	7	8	9	10	11	12
1. TOTAL VOLUME OF LOANS[1)]	7.68	7.65	7.60	7.57	7.48	7.35	7.18	6.81	6.81	6.74	6.73	6.69	6.43
A. Loans by sector													
a) Entrepreneurial sector	7.69	7.75	7.65	7.49	7.31	7.10	6.87	6.30	6.16	6.12	6.06	5.99	5.76
– Public sector	7.68	7.91	7.92	7.90	7.53	7.23	7.04	5.96	5.69	5.66	5.73	5.67	5.26
– Private sector (incl. cooperatives)	7.92	7.89	7.83	7.64	7.49	7.34	7.08	6.66	6.47	6.43	6.36	6.31	6.11
– Under foreign control	6.95	7.10	6.69	6.48	6.41	6.13	6.05	5.51	5.60	5.60	5.60	5.60	5.60
b) Households	7.50	7.39	7.44	7.73	7.80	7.85	7.88	7.79	8.05	7.95	8.00	7.99	7.98
B. Loans by term													
– Short-term loans	7.76	7.82	7.72	7.57	7.49	7.31	7.08	6.51	6.49	6.47	6.57	6.46	5.85
– Medium-term loans	8.78	8.74	8.68	8.63	8.54	8.41	8.33	8.10	8.02	7.94	7.91	7.94	7.91
– Long-term loans	6.84	6.72	6.75	6.85	6.74	6.66	6.47	6.17	6.25	6.18	6.10	6.06	5.95
2. NEW LOANS IN TOTAL[1)]	7.25	7.58	7.61	7.55	7.51	8.77	8.54	8.15	8.08	7.92	8.05	8.10	7.35
A. Loans by sector													
a) Entrepreneurial sector	7.02	7.38	7.37	7.24	7.07	8.51	8.21	7.81	7.66	7.59	7.59	7.72	7.59
– Public sector	7.68	7.25	7.50	7.47	7.21	8.44	10.24	7.89	7.47	8.36	8.71	8.36	7.74
– Private sector (incl. cooperatives)	7.87	7.87	7.46	7.81	7.78	10.12	9.80	8.91	8.99	8.73	8.72	8.94	9.14
– Under foreign control	6.41	7.02	7.30	6.81	6.31	6.64	6.42	6.39	6.15	6.15	6.15	6.15	6.15
b) Households	9.63	10.52	9.68	10.45	10.73	11.75	11.36	10.45	11.00	11.04	11.30	11.33	12.20
B. Loans by term													
– Short-term loans	7.15	7.56	7.62	7.52	7.45	8.93	8.72	8.26	8.21	8.12	8.10	8.18	7.44
– Medium-term loans	8.58	8.08	7.65	8.06	8.25	8.17	8.18	7.86	7.58	7.18	8.11	7.98	7.24
– Long-term loans	6.96	6.78	7.30	7.14	7.34	7.28	6.89	7.07	7.01	6.73	7.27	7.21	6.01

1) Excluding loans at zero interest rate.

Volume of New Loans and Average Lending Rates of Commercial Banks

		2003	2004											
		12	1	2	3	4	5	6	7	8	9	10	11	12
Loans in total[1)]	a	100.68	91.40	92.17	101.80	94.69	93.50	103.07	91.11	98.22	99.55	100.50	105.84	134.33
	b	7.24	7.55	7.60	7.55	7.51	8.77	8.53	8.15	8.08	7.91	8.05	8.08	7.34
Current account overdrafts	a	17.83	26.99	20.44	33.44	39.18	40.51	40.13	38.38	39.29	40.66	43.67	42.95	51.03
	b	9.10	8.83	8.66	8.48	8.52	11.96	12.68	11.47	11.70	11.05	10.99	11.14	11.78
Investment loans	a	4.18	5.15	4.48	5.19	4.02	3.93	5.97	4.42	5.21	6.44	4.10	4.78	6.76
	b	7.70	7.25	6.71	6.82	6.91	6.52	6.07	5.85	5.56	5.46	5.73	5.65	4.94
Operation loans	a													
	b													
Consumer loans	a	–	0.85	0.77	1.06	1.35	2.36	2.30	2.20	2.14	2.16	2.69	3.44	2.25
	b	–	14.32	14.44	14.71	13.27	13.88	13.97	13.39	12.90	12.52	12.24	12.71	14.02
Housing loans	a	–	2.07	4.08	3.39	3.39	4.09	4.37	4.65	4.69	4.89	5.05	4.88	3.15
	b	–	6.24	7.25	7.17	7.17	7.37	7.16	7.30	7.54	7.59	7.52	7.46	6.77
of which: Mortgage loans without	a	0.57	0.21	0.12	0.11	0.13	0.18	0.18	0.36	0.53	0.56	0.70	0.76	0.79
state bonus	b	7.68	8.03	8.38	8.13	7.86	7.96	7.54	7.82	7.63	7.52	6.95	6.85	6.90
Mortgage loans with state	a	1.49	1.01	1.46	1.60	1.58	1.64	1.77	1.82	1.54	1.46	1.45	1.41	1.05
bonus – client	b	5.23	5.28	5.31	5.84	5.70	5.80	6.03	5.98	6.22	6.27	6.21	6.15	5.79
Mortgage loans with state	a	–	1.01	1.46	1.60	1.58	1.64	1.77	1.82	1.54	1.46	1.45	1.41	1.05
bonus – bank	b	–	7.29	7.24	7.33	7.24	7.25	7.06	6.93	6.99	6.93	6.90	6.79	6.78
Home savings bank loans	a	0.14	0.12	0.11	0.21	0.12	0.14	0.14	0.15	0.11	0.10	0.12	0.09	0.10
	b	5.10	5.10	5.15	6.61	4.94	5.17	5.06	5.25	5.33	5.31	5.39	5.32	5.24
Intermediary loans	a	1.07	0.75	0.71	0.69	0.81	1.00	1.14	1.03	1.03	1.04	1.03	0.96	0.99
	b	7.25	7.27	7.46	7.13	7.39	7.44	7.41	7.41	7.48	7.35	7.39	7.32	7.33
Other	a	–	53.65	60.22	54.03	38.30	37.37	45.50	35.92	41.88	39.23	39.98	44.13	64.53
	b	–	6.88	7.21	6.81	6.03	5.67	5.25	4.91	4.99	5.06	4.94	5.17	3.88
Short-term loans	a	86.78	80.39	75.91	86.37	81.99	79.48	86.62	77.63	83.82	82.16	86.86	88.54	118.61
	b	7.15	7.52	7.62	7.52	7.45	8.93	8.71	8.26	8.21	8.11	8.10	8.16	7.43
– up to 7 days	a	52.23	48.82	45.87	50.06	47.17	50.68	56.54	30.29	38.68	33.85	36.71	40.16	52.36
	b	6.70	7.49	7.70	7.52	7.32	9.32	9.21	6.58	6.87	6.16	6.04	5.84	5.69
– up to 1 month	a	8.13	9.71	7.91	7.18	6.21	5.05	7.34	6.19	6.19	8.27	5.09	6.52	17.97
	b	7.12	6.73	6.84	6.74	6.51	7.07	5.57	5.37	5.31	5.86	5.52	5.69	3.77
– up to 3 months	a	6.57	3.29	4.22	5.13	2.63	3.54	2.85	5.93	4.19	3.05	5.90	3.14	5.24
	b	7.26	7.46	6.89	6.69	6.36	6.30	6.09	5.37	5.41	6.26	5.49	5.53	5.36
– up to 6 months	a	1.15	1.33	1.99	1.16	1.10	0.53	0.96	0.61	1.54	0.82	0.99	0.66	1.38
	b	7.73	6.78	6.53	7.00	6.61	6.67	6.45	5.27	4.54	5.30	5.32	5.70	5.04
– up to 12 months	a	18.70	17.24	15.92	22.84	24.87	19.67	18.93	34.60	33.22	36.17	38.17	38.05	41.67
	b	8.33	8.14	8.11	7.94	8.07	8.92	8.96	10.79	10.83	10.67	10.90	11.30	11.52
Long-term loans over 1 and	a	7.49	7.90	11.15	10.39	7.95	9.09	8.69	8.12	8.56	9.67	7.40	9.92	8.25
up to 5 years	b	8.58	8.07	7.65	8.06	8.25	8.17	8.18	7.86	7.58	7.17	8.11	7.98	7.24
Long-term loans over 5 years	a	6.41	3.12	5.10	5.04	4.75	4.93	7.77	5.36	5.84	7.72	6.23	7.38	7.46
	b	6.96	6.78	7.30	7.13	7.34	7.28	6.89	7.07	7.01	6.73	7.27	7.21	6.01

1) Including loans at zero interest rate.
a) Volume (SKK billions)
b) Average interest rate (%)

Developments in Koruna Deposits and Average Deposit Rates

		2003	2004											
		12	1	2	3	4	5	6	7	8	9	10	11	12
Deposits in total	a	599.38	601.61	606.77	601.39	632.70	625.53	625.03	637.29	666.03	663.68	656.28	662.96	669.70
	b	3.01	3.36	3.15	3.06	2.98	2.60	2.49	2.24	2.51	2.37	2.30	2.28	2.01
of which:														
Demand deposits	a	219.24	189.82	191.73	190.49	193.26	199.02	213.25	206.66	209.81	214.26	207.98	216.82	247.20
	b	1.49	1.74	1.34	1.28	1.19	0.95	1.10	0.78	0.96	0.86	0.76	0.76	0.83
Time deposits	a	275.46	311.30	315.08	312.85	343.00	331.33	317.69	337.71	364.97	359.66	359.65	358.21	331.22
	b	4.31	4.53	4.37	4.22	4.11	3.62	3.55	3.21	3.53	3.37	3.27	3.27	2.88
– short-term	a	264.93	290.39	294.06	291.85	323.17	310.95	296.96	316.90	344.44	338.94	339.18	337.59	311.01
	b	4.27	4.43	4.26	4.11	4.00	3.48	3.46	3.10	3.47	3.29	3.18	3.19	2.78
– one-day	a	4.52	8.52	13.15	17.23	20.89	35.06	30.83	17.59	19.24	21.78	20.77	27.20	12.09
	b	4.08	6.32	4.20	3.40	4.09	2.42	4.92	2.56	4.90	3.62	2.76	2.54	2.44
– up to 7 days	a	27.16	36.02	31.62	19.96	43.88	28.17	20.96	37.91	35.36	32.98	33.68	27.47	53.16
	b	4.22	5.61	4.24	3.83	4.19	3.51	3.27	2.75	4.24	3.55	3.00	3.24	2.79
– up to 1 month	a	143.75	153.58	159.76	151.13	163.93	146.79	143.92	159.15	180.56	186.29	186.73	193.42	156.29
	b	4.61	4.50	4.63	4.46	4.24	3.78	3.37	3.33	3.50	3.53	3.54	3.57	3.01
– up to 3 months	a	55.12	56.94	53.95	63.65	55.65	62.52	60.91	62.39	70.76	63.25	63.48	55.24	55.33
	b	3.75	3.69	3.57	3.70	3.28	3.27	2.99	2.80	2.83	2.67	2.66	2.51	2.37
– up to 6 months	a	18.77	20.01	20.61	21.45	20.03	18.99	20.01	20.30	19.59	18.77	18.52	18.41	18.29
	b	3.76	3.69	3.77	3.85	3.67	3.40	3.26	3.06	2.75	2.42	2.40	2.33	2.34
– up to 1 year	a	15.60	15.32	14.97	18.42	18.78	19.41	20.33	19.55	18.94	15.86	15.99	15.86	15.85
	b	3.76	3.56	3.66	3.88	3.81	3.81	3.62	3.46	3.38	2.95	2.91	2.83	2.71
– medium-term	a	9.40	19.74	19.82	19.81	18.99	19.24	19.45	19.57	19.70	19.98	19.73	19.87	19.46
	b	4.97	5.74	5.69	5.67	5.89	5.72	4.72	4.67	4.65	4.64	4.65	4.58	4.33
– up to 2 years	a	2.48	13.15	13.30	13.15	12.78	13.41	13.58	13.66	13.52	13.65	13.29	13.38	12.99
	b	4.15	6.09	6.03	6.03	6.12	5.98	4.64	4.60	4.56	4.51	4.54	4.50	4.15
– up to 5 years	a	6.92	6.58	6.53	6.66	6.20	5.83	5.87	5.91	6.18	6.33	6.43	6.48	6.47
	b	5.26	5.05	5.01	4.96	5.42	5.14	4.91	4.83	4.85	4.93	4.88	4.75	4.70
– long-term over 5 years	a	1.14	1.17	1.19	1.20	0.84	1.14	1.27	1.24	0.82	0.75	0.75	0.76	0.76
	b	8.81	8.61	8.32	8.16	8.95	7.29	7.99	8.11	5.06	5.03	5.06	5.10	5.11
Savings deposits	a	104.68	100.50	99.97	98.05	96.44	95.18	94.09	92.92	91.25	89.76	88.64	87.93	91.27
	b	2.75	2.81	2.78	2.79	2.57	2.50	2.04	1.95	1.98	2.00	2.01	2.03	2.06
– short-term	a	45.15	42.85	42.18	41.41	40.61	39.90	39.21	38.23	37.03	36.16	35.44	34.79	34.59
	b	2.88	2.99	2.96	2.95	2.59	2.42	1.72	1.46	1.48	1.50	1.52	1.54	1.46
– medium-term	a	18.13	16.30	15.68	15.10	14.72	14.45	14.18	13.76	13.40	13.14	12.95	12.77	12.64
	b	2.13	2.29	2.30	2.31	1.85	1.83	0.79	0.78	0.89	0.89	1.01	1.01	0.69
– long-term	a	41.40	41.34	42.10	41.54	41.11	40.83	40.69	40.93	40.82	40.46	40.25	40.37	44.04
	b	2.90	2.84	2.79	2.80	2.80	2.80	2.80	2.80	2.81	2.81	2.82	2.82	2.83
Time and savings deposits	a	380.14	411.79	415.05	410.90	439.44	426.51	411.78	430.63	456.22	449.42	448.30	446.14	422.50
	b	3.88	4.11	3.99	3.88	3.77	3.37	3.21	2.94	3.22	3.09	3.01	3.02	2.70
– short-term	a	310.08	333.24	336.25	333.26	363.78	350.85	336.18	355.13	381.47	375.09	374.62	372.38	345.60
	b	4.06	4.24	4.10	3.96	3.84	3.36	3.25	2.93	3.27	3.11	3.02	3.03	2.65
– medium-term	a	27.53	36.03	35.50	34.91	33.70	33.69	33.63	33.33	33.10	33.12	32.68	32.64	32.10
	b	3.10	4.19	4.20	4.21	4.12	4.05	3.06	3.06	3.13	3.15	3.20	3.18	2.90
– long-term	a	42.53	42.52	43.30	42.73	41.95	41.97	41.97	42.17	41.65	41.21	41.00	41.13	44.79
	b	3.06	3.00	2.94	2.95	2.92	2.92	2.96	2.96	2.85	2.85	2.86	2.86	2.87

a) Volume (SKK millions)
b) Average interest rate (%)

Basic Characteristics of Interest Rates on Loans and Deposits
(%, percentage points)

		2003	2004											
	r	12	1	2	3	4	5	6	7	8	9	10	11	12
Average interest rate on total credit[1)]	1	7.68	7.65	7.60	7.57	7.48	7.35	7.18	6.81	6.81	6.74	6.73	6.69	6.43
Average interest rate on deposits	2	3.01	3.36	3.15	3.06	2.98	2.60	2.49	2.24	2.51	2.37	2.30	2.28	2.01
Average interest rate on new loans[1)]	3	7.25	7.58	7.61	7.55	7.51	8.77	8.53	8.15	8.08	7.92	8.05	8.10	7.35
Average interbank money market rate (1D to 12M – mid rates)	4	5.70	5.60	5.62	5.51	5.11	4.64	4.10	3.80	3.86	3.98	4.06	4.10	3.54
Average interest rate on new short-term loans[1)]	5	7.15	7.56	7.62	7.52	7.45	8.93	8.72	8.26	8.21	8.12	8.10	8.18	7.44
Average interest rate on short-term deposits	6	4.06	4.24	4.10	3.96	3.84	3.36	3.25	2.93	3.27	3.11	3.02	3.03	2.65
Difference between average interest rates on new short-term loans and short-term deposits (line 5 – line 6)	7	3.09	3.32	3.52	3.55	3.61	5.57	5.46	5.33	4.94	5.01	5.08	5.15	4.79
Basic interest rate of the NBS (until 31 Dec. 2002: discount rate)	8	6.00	6.00	6.00	6.00	5.50	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.00
12-month inflation rate	9	9.30	8.30	8.50	8.20	8.00	8.30	8.10	8.50	7.20	6.70	6.60	6.30	5.90
Year-on-year increase in industrial producer prices	10	8.70	4.40	2.30	2.10	2.20	3.00	3.10	3.00	3.70	4.00	4.70	4.50	4.30
Real interest rate on new short-term loans (line 5 – line 10)	11	-1.55	3.16	5.32	5.42	5.25	5.93	5.62	5.26	4.51	4.12	3.40	3.68	3.14
Difference between average interest rate on new short-term loans and the rate of inflation (line 5 – line 9)	12	-2.15	-0.74	-0.88	-0.68	-0.55	0.63	0.62	-0.24	1.01	1.42	1.50	1.88	1.54
Average interest rate on one-year deposits	13	3.76	3.56	3.66	3.88	3.81	3.81	3.62	3.46	3.38	2.95	2.91	2.83	2.71
Real interest rate on one-year deposits (line 13 – line 9)	14	-5.54	-4.74	-4.84	-4.32	-4.19	-4.49	-4.48	-5.04	-3.82	-3.75	-3.69	-3.47	-3.19
Nominal interest margin (line 1 – line 2)	15	4.67	4.28	4.44	4.52	4.49	4.75	4.69	4.57	4.30	4.37	4.43	4.41	4.42
Difference between average interest rates on new loans and total deposits (line 3 – line 2)	16	4.24	4.22	4.45	4.50	4.53	6.17	6.05	5.91	5.57	5.55	5.75	5.82	5.34
Difference between average interest rate on new short-term loans and the average interbank money market rate (line 5 – line 4)	17	1.45	1.96	2.00	2.01	2.34	4.29	4.62	4.46	4.35	4.14	4.04	4.08	3.90
Difference between average interest rate on new loans and the average interbank money market rate (line 3 – line 4)	18	1.55	1.98	1.99	2.04	2.40	4.13	4.44	4.35	4.22	3.94	3.99	4.00	3.81
Average interest rate on loans[2)]	19	7.30	7.33	7.31	7.30	7.20	7.07	6.91	6.55	6.56	6.51	6.51	6.47	6.23
Nominal interest margin (line 19 – line 2)	20	4.29	3.97	4.16	4.24	4.22	4.47	4.43	4.31	4.05	4.14	4.21	4.19	4.22

1) Excluding zero interest rate.
2) Including zero interest rate.

Overview of NBS Bill Issues

Issue number	Auction date	Issue date	Maturity date	DTM	Volume in SKK millions Demand	Demand	Interest rate min.	average	max.
940804001	15.1.2004	16.1.2004	8.4.2004	83	35,502	20,202	5.79	5.91	5.95
941405003	19.2.2004	20.2.2004	14.5.2004	84	37,360	20,000	5.80	5.88	5.90
940406004	11.3.2004	12.3.2004	4.6.2004	84	46,245	30,000	5.69	5.80	5.85
940207006	7.4.2004	8.4.2004	2.7.2004	85	31,698	20,000	5.29	5.34	5.42
940608007	13.5.2004	14.5.2004	6.8.2004	84	37,762	20,000	4.74	4.84	4.88
942708008	3.6.2004	4.6.2004	27.8.2004	84	49,193	0	–	–	–
942409011	1.7.2004	2.7.2004	24.9.2004	84	43,410	20,000	3.79	4.13	4.27
942910012	5.8.2004	6.8.2004	29.10.2004	84	50,529	20,000	3.74	4.07	4.10
941911014	26.8.2004	27.8.2004	19.11.2004	84	26,011	20,000	4.16	4.30	4.47
941712015	23.9.2004	24.9.2004	17.12.2004	84	31,115	20,000	3.97	4.31	4.39
942101017	28.10.2004	29.10.2004	21.1.2005	84	37,730	20,000	4.28	4.32	4.34
942101018	18.11.2004	19.11.2004	11.2.2005	84	41,001	20,000	4.05	4.14	4.18
941103019	16.12.2004	17.12.2004	11.3.2005	84	46,747	20,000	3.40	3.54	3.60

Overview of Treasury-Bill Issues

Registration number	Nominal value (1 T-bill in SKK)	Issue date	Maturity date	DTM	T-bills in SKK billion Demand	Accepted	Accepted in % p. a.
1416021201	1,000,000	18.2.2004	16.2.2005	364	9.807	3.282	5.200
1402031202	1,000,000	3.3.2004	2.3.2005	364	6.500	1.505	5.150
1416031203	1,000,000	17.3.2004	16.3.2005	364	6.140	2.240	5.150
1406041204	1,000,000	7.4.2004	6.4.2005	364	9.260	1.580	4.950
1420041205	1,000,000	21.4.2004	20.4.2005	364	7.990	1.600	4.950
1404051206	1,000,000	5.5.2004	4.5.2005	364	14.080	1.225	4.691
1418051207	1,000,000	19.5.2004	18.5.2005	364	8.993	3.016	4.599
1401061208	1,000,000	2.6.2004	1.6.2005	364	10.068	1.078	4.492
1415061209	1,000,000	16.6.2004	15.6.2005	364	12.979	2.929	3.900
1429061210	1,000,000	30.6.2004	29.6.2005	364	10.185	1.285	3.639
1413071211	1,000,000	14.7.2004	13.7.2005	364	6.380	0.840	3.590
1427071212	1,000,000	28.7.2004	27.7.2005	364	5.875	1.675	3.490
1410081213	1,000,000	11.8.2004	10.8.2005	364	4.060	1.310	3.490
1424081214	1,000,000	25.8.2004	24.8.2005	364	3.065	0.819	3.680
1407091215	1,000,000	8.9.2004	7.9.2005	364	5.409	0.641	3.680
1421091216	1,000,000	22.9.2004	21.9.2005	364	8.473	1.822	3.680
1405101217	1,000,000	6.10.2004	5.10.2005	364	5.762	2.462	3.900
1419010318	1,000,000	20.10.2004	19.1.2005	91	14.921	2.469	4.289
1402020319	1,000,000	3.11.2004	2.2.2005	91	12.764	2.882	4.250
1417020320	1,000,000	18.11.2004	17.2.2005	91	8.330	1.130	4.200
1402030321	1,000,000	1.12.2004	2.3.2005	91	6.777	0.591	3.798
1416030322	1,000,000	15.12.2004	16.3.2005	91	14.005	2.500	3.590

Issues of Government Bonds

Issue Number	Issue Number	Maturity date	Nominal value	Yield in % p.a.	Total demand	Accepted volume	Yield to maturity in % p.a. min.	average	max.
200/A	14.01.2004	14.01.2007	100,000,	0,00	6,313,000,000	7,193,000,000	5.05	5.14	5.20
201/A	21.01.2004	21.01.2009	100,000,	12M Bribor[1)]	1,220,000,000	3,240,000,000	–	–	–
200/B	28.01.2004	14.01.2007	100,000,	0,00	10,723,000,000	19,799,000,000	5.05	5.09	5.10
201/B	04.02.2004	21.01.2009	100,000,	12M Bribor[1)]	1,050,000,000	2,840,000,000	–	–	–
202/A	11.02.2004	11.02.2014	100,000,	4,90	1,050,000,000	3,184,000,000	5.10	5.15	5.18
200/C	25.02.2004	14.01.2007	100,000,	0,00	3,895,000,000	7,843,000,000	5.00	5.05	5.08
202/B	10.03.2004	11.02.2014	100,000,	4,90	1,259,000,000	2,019,000,000	5.10	5.18	5.20
203/A	14.04.2004	14.04.2009	100,000,	4,80	1,515,000,000	10,147,000,000	4.89	4.90	4.90
200/D	26.04.2004	14.01.2007	100,000,	0,00	4,964,000,000	6,614,000,000	4.83	4.89	4.95
204/A	12.05.2004	12.05.2019	100,000,	5,30	2,115,000,000	6,381,000,000	5.16	5.27	5.30
202/C	26.05.2004	11.02.2014	100,000,	4,90	2,530,000,000	4,135,000,000	5.10	5.17	5.20
203/B	09.06.2004	14.04.2009	100,000,	4,80	6,137,000,000	13,597,000,000	4.66	4.76	4.80
204/B	23.06.2004	12.05.2019	100,000,	5,30	5,232,000,000	8,192,000,000	5.10	5.28	5.30
200/E	07.07.2004	14.01.2007	100,000,	0,00	5,295,000,001	13,911,000,000	3.999	4.058	4.110
201/C	21.07.2004	21.01.2009	100,000,	12M Bribor[1)]	–	10,665,000,000		cancelled	
204/C	04.08.2004	12.05.2019	100,000,	5,30	6,650,000,000	6,800,000,000	5.110	5.282	5.298
203/C	18.08.2004	14.04.2009	100,000,	4,80	4,657,000,000	4,657,000,000	4.347	4.530	4.680
201/D	25.08.2004	21.01.2009	100,000,	12M Bribor[1)]	3,880,000,000	4,920,000,000	–	–	–
200/F	02.09.2004	14.01.2007	100,000,	0,00	4,520,000,000	8,467,000,000	4.190	4.223	4.280
204/D	16.09.2004	12.05.2019	100,000,	5,30	1,935,000,000	3,185,000,000	5.272	5.295	5.297
202/D	29.09.2004	11.02.2014	100,000,	4,90	8,000,000,000	10,000,000,000	4.998	5.125	5.145
201/E	13.10.2004	21.01.2009	100,000,	12M Bribor[1)]	4,120,000,000	11,970,000,000	–	–	–
202/E	20.10.2004	11.02.2014	100,000,	4,90	2,677,000,000	6,279,000,000	5.122	5.146	5.150
203/D	27.10.2004	14.04.2009	100,000,	4,80	3,912,000,000	8,167,000,000	4.070	4.573	4.600
200/G	10.11.2004	14.01.2007	100,000,	0,00	4,290,000,000	9,729,000,000	4.157	4.236	4.260
201/F	24.11.2004	21.01.2009	100,000,	12M Bribor[1)]	1,050,000,000	9,497,000,000	–	–	–
203/E	08.12.2004	14.04.2009	100,000,	4,80	2,000,000,000	17,252,000,000	4.190	4.190	4.190
Total	–	–	–	–	100,989,000,001	220,683,000,000	–	–	–

1) 12-month BRIBOR fixed 2 working days prior to the start of the interest period.

Basic Characteristics of the Foreign Exchange Market in the SR in 2004

	USD			EUR			Other currencies			Total	
	Volume		Number of	Volume		Number of	Volume		Number of	Volume	Number of
	USD million	(%)	transact.	USD million	(%)	transact.	USD million	(%)	transact.	USD million	transact.
NBS	–	–	–	2,146.4	–	375	–	–	–	2,146.4	375
Trading by Slovak banks not involving foreign banks	60,505.1	78.7	3,743	15,696.0	20.4	5,765	640.1	0.8	423	76,841.2	9,931
Interbank foreign exchange market: NBS + Slovak commercial banks	60,505.1	76.6	3,743	17,842.3	22.6	6,140	640.1	0.8	423	78,987.5	10,306
Trading between Slovak and foreign banks	307,286.6	84.3	20,074	42,326.7	11.6	14,523	15,093.4	4.1	603	364,706.6	35,200
Foreign exchange market in the SR in total	367,791.7	82.9	23,817	60,169.0	13.6	20,663	15,733.5	3.5	1,026	443,694.2	45,506

	SPOT			FORWARD			SWAP			Total	
	Volume		Number of	Volume		Number of	Volume		Number of	Volume	Number of
	USD million	(%)	transact.	USD million	(%)	transact.	USD million	(%)	transact.	USD million	transact.
Trading by Slovak banks not involving foreign banks	8,936.9	11.6	5,913	1.7	0.0	4	67,845.5	88.4	4,014	76,784.1	9,931
Trading between Slovak and foreign banks	29,254.1	8.0	14,160	547.4	0.2	167	334,712.2	91.8	20,873	364,513.7	35,200
Foreign exchange market in the SR (excluding NBS)	38,191.0	8.7	20,073	549.1	0.1	171	402,557.7	91.2	24,887	441,297.8	45,131

NÁRODNÁ BANKA SLOVENSKA

Organisation of NBS as at 31 December 2004