DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

0451

EBS/94/138

CONFIDENTIAL

July 1, 1994

To: Members of the Executive Board

From: The Acting Secretary

Subject: Slovak Republic - Staff Report for the 1994 Article IV Consultation, and Use of Fund Resources - Requests for Stand-By Arrangement and for a Purchase Under the Systemic Transformation Facility

Attached for consideration by the Executive Directors is the staff report for the 1994 Article IV consultation with the Slovak Republic, its request for a stand-by arrangement in an amount equivalent to SDR 115.8 million, and a request expected to be received for a second purchase under the systemic transformation facility in an amount equivalent to SDR 64.35 million. Draft decisions appear on pages 21 and 22.

This subject, together with the letter of intent (EBS/94/124, 6/14/94) is tentatively scheduled for discussion on Friday, July 22, 1994 once adequate financing assurances have been obtained.

Mr. Zervoudakis (ext. 38814) or Mr. Sukselainen (ext. 38847) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Commission of the European Communities (CEC), the European Investment Bank (EIB), and the Organisation for Economic Cooperation and Development (OECD), following its consideration by the Executive Board.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SLOVAK REPUBLIC

Staff Report for the 1994 Article IV Consultation and Use of Fund Resources-Request for a Stand-By Arrangement and a Purchase Under the Systemic Transformation Facility

Prepared by the European I Department and the Policy Development and Review Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, and Treasurer's Departments)

Approved by Michael Deppler and Anoop Singh

July 1, 1994

I. Introduction

In their letter of June 13, 1994 (EBS/94/124, 6/14/94), the Slovak authorities requested a 20-month stand-by arrangement from the Fund with access of SDR 115.8 million (45 percent of quota) and indicated their intention to request a second purchase under the Systemic Transformation Facility (STF) for an amount equivalent to SDR 64.35 million (25 percent of quota).

Policy discussions on a program for 1994 that could be supported by Fund resources--initiated last November--led to understandings with the authorities on most issues last February, but a potential agreement foundered with the fall of Mr. Mečiar's Government. A new government was formed in late March--led by Mr. Moravčík and based on a broad coalition of Christian Democrats, centrists, and the Democratic Left--and Mr. Mečiar's Movement for a Democratic Slovakia became the main opposition party. At the same time, parliamentary elections were set for end-September 1994. Discussions on an economic program for 1994-95 were resumed in Bratislava during April 5-12 and concluded during May 18-31, 1994; Article IV consultation discussions were also held during the May visit. 1/

1/ In the April-May 1994 discussions, the Slovak representatives included Premier Moravčík, Vice Premiers Schmögnerova and Kováč, Finance Minister Filkus, Labor and Social Affairs Minister Brocka, National Bank of Slovakia (NBS) Governor Masár and Vice-Governor Jusko, and other officials. The mission also met with trade union representatives. In the visits last November (9-24) and February (3-10), the mission had also met with then Vice (continued...)

The Slovak Republic became a member of the Fund on January 1, 1993 through succession to the membership of the Czech and Slovak Federal Republic (CSFR). On July 26, 1993 (EBM/93/104), the Board concluded the first Article IV consultation with Slovakia and approved a purchase under the STF in an amount equivalent to SDR 64.35 million (25 percent of quota). Slovakia's outstanding use of Fund resources was SDR 388.7 million (151.0 percent of quota) on May 31, 1994. Relations with the Fund and the World Bank are summarized in Appendices I and II, respectively.

II. Background

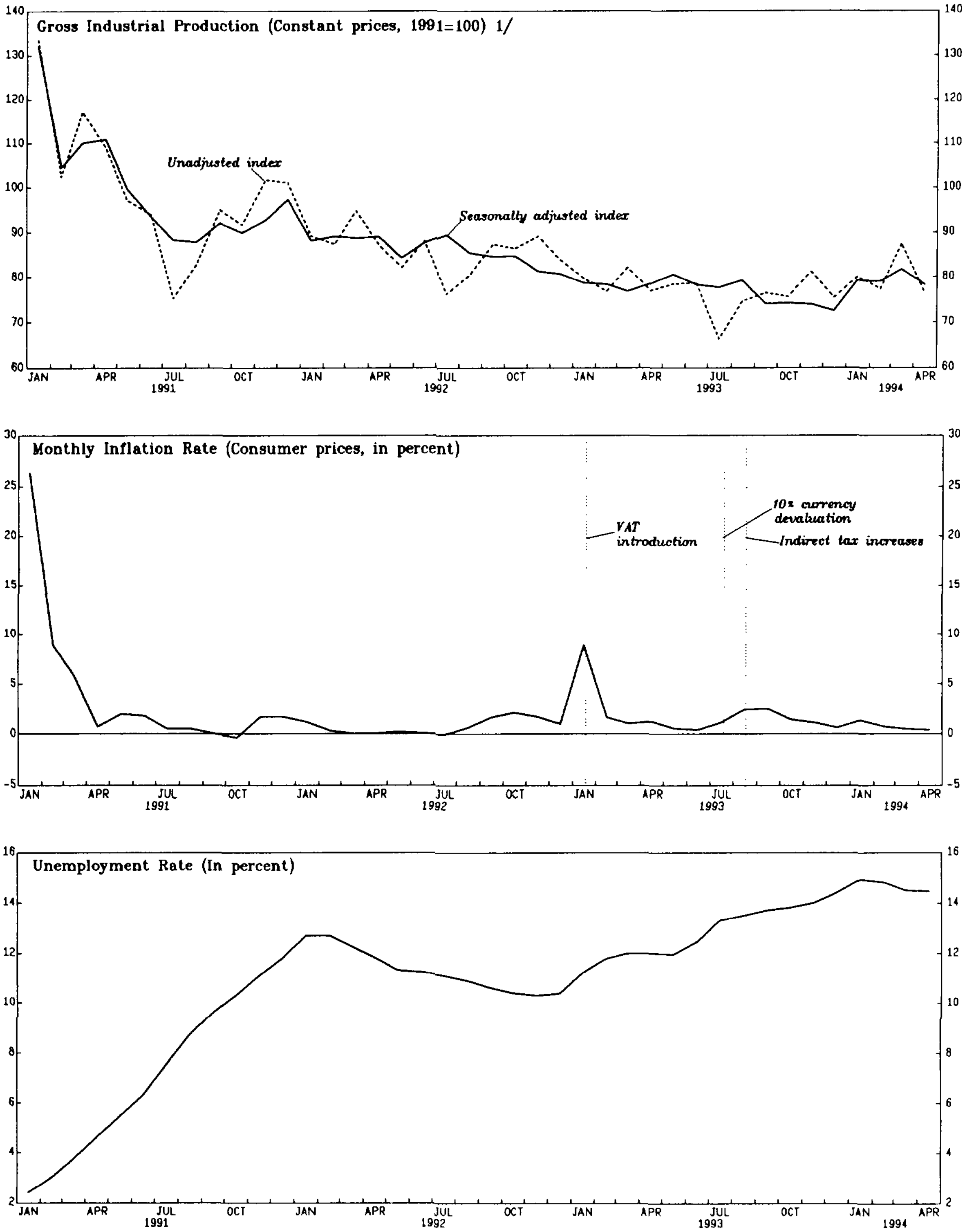
In 1991-92, Slovakia shared in the Czechoslovak federation's success at controlling inflation, reorienting exports to the West, and implementing an ambitious structural reform program; nevertheless, real GDP dropped by about 20 percent during that period, and the unemployment rate rose to 10 percent by end-1992 (Chart 1). The dissolution of the federation on January 1, 1993, exacerbated Slovakia's economic difficulties by terminating fiscal transfers from the Czech lands (about 7 percent of Slovak GDP in 1992) and fostering uncertainty. A monetary union with the Czech Republic--originally envisaged to last at least six months--was terminated in early February 1993, and a large state budget deficit (of 4 percent of annual GDP) emerged in the first quarter of 1993. Nevertheless, a restrictive credit policy contained the external balance in the first half of 1993, notwithstanding pressures on the foreign reserves fueled by speculation on an expected devaluation of the Slovak koruna.

1. Economic performance under the 1993 program

The key objective of the Fund-supported program for 1993--adopted in mid-year--was to facilitate the Slovak economy's adjustment to the loss of fiscal transfers from the Czech lands and restore confidence in the economy. The program featured large fiscal adjustment and monetary restraint so as to constrain domestic demand and keep inflation under control, and a 10 percent currency devaluation to facilitate the required external adjustment and limit output losses (Table 1). In the event, performance under the program was broadly satisfactory notwithstanding fiscal slippage in the last quarter.

1/ (...continued)
Premier and Finance Minister Tóth, Vice Premier Kozlik, and other officials. Mr. Kiekens, Executive Director for Slovakia, and Mr. Rigasz, his Assistant, attended some of the policy discussions last May. Mr. de Groote, then Executive Director for Slovakia, accompanied by Mr. Kiekens, attended some of the policy discussions last February. The staff team included Mr. Zervoudakis (Head), Mr. Sukselainen, Ms. Papi (all EU1), Mr. Anayiotos (PDR), Mr. Monroe (EU1, in May visit), Mrs. Sekera (PDR, in November) and Mrs. Ricasa (EU1, in May). Mr. Georgiou, the Fund's Resident Representative in Bratislava, worked closely with the missions.

CHART 1
SLOVAK REPUBLIC
REAL SECTOR DEVELOPMENTS



Sources: Data provided by the Slovak authorities; and staff estimates.

1/ In all industrial enterprises.

Inflation (consumer prices) was contained to 25 percent during 1993, against a program target of 30 percent. Economic activity was better sustained than anticipated, with the decline in output limited to 4 percent against 9 percent expected under the program. Nevertheless, the unemployment rate reached 14.4 percent at end-1993, up from 10.4 percent a year earlier. Average wages for the whole economy declined by 4 percent in real terms. For the enterprise sector, profitability registered a substantial improvement; the financial performance of the manufacturing sector, however, continued to deteriorate.

External developments were broadly in line with program projections, notwithstanding a deterioration in the last quarter of the year. The (convertible) net international reserves of the banking system rose by US$360 million during 1993 (against a decline of US$50 million envisaged under the program) while a deficit of US$190 million was registered in the clearing agreement with the Czech Republic. 1/ The current account deficit amounted to US$436 million (4 percent of GDP) in 1993 compared with US$250 million targeted under the program. 2/ Assessment of trade performance is complicated by the low quality of data, especially for 1992. Both exports and imports are reported to have declined significantly in 1993 (by 17 and 12 percent in U.S. dollar terms, respectively). Trade with the Czech Republic contracted by one third, apparently reflecting the dissolution of the federation and the emergence of new production and price relationships. Exports to the rest of the world declined by about 10 percent but rose steadily during the year from the depressed--and probably understated--first quarter levels. With market confidence strengthened by rising foreign reserves, the National Bank of Slovakia (NBS) was able to place a US$240 million bond issue in early September, used to bolster its reserves. Slovakia's external debt reached US$3.4 billion (30 percent of GDP) at end-1993. Debt service payments amounted to 9 percent of exports of goods and services. 3/

The fiscal deficit declined by over 5 percentage points to 7 1/2 percent of GDP in 1993, but was 1 percentage point higher than targeted under the program. A government expenditure overrun--reflecting the Parliament's failure to approve savings in the social area as envisaged

---

1/ In response to the emergence of a large deficit in the clearing account with the Czech Republic, the NBS devalued the Slovak koruna (for transactions under the clearing agreement) by 5 percent in December 1993, while the Czech National Bank (CNB) revalued its currency by 3 percent (the latter was reversed in March 1994).

2/ The current account deficit reflected in part imports of fighter planes (equivalent to about 1.6 percent of GDP) in 1993 in exchange for a write-down of claims on Russia.

3/ Disbursements of medium- and long-term loans of up to 12 years contracted or guaranteed by the Government amounted to US$0.3 billion during 1993 in line with the program limit; total disbursements of medium- and long-term loans reached US$0.8 billion.

under the program and a relaxation of expenditure controls late in the year--was partly offset by a strong revenue performance in the second half-year partly due to improved tax administration, and by a smaller-than-expected deficit in extrabudgetary accounts. 1/

Monetary and credit developments have been well within program targets. Broad money grew 16 percent during 1993 against a program target of 19 percent. Associated with this development was a much lower than programmed increase in the net domestic assets (NDA) of the banking system reflecting in part a contractionary movement in the other items (net). Credit to enterprises and households rose by 11 percent during the year, against a program target of 13 1/2 percent. The average interest rate on term-deposits rose by over 2 percentage points to 14 1/2 percent by end-1993, while short-term lending rates fluctuated around 17 percent.

2. Economic performance in early 1994

Economic performance has been generally favorable so far this year. The 12-month inflation rate fell to 13.9 percent in May, 2/ while unemployment and output data are consistent with a modest economic upturn. Furthermore, the external position turned around after deteriorating in late 1993 and in January 1994. The net international reserves of the banking system rose by US$164 million during the first four months and the clearing account with the Czech Republic swung from a deficit of almost US$200 million at end-1993 to a small surplus by end-May. The gross foreign exchange reserves of the banking system reached US$1.6 billion at end-May, their highest level since independence; nevertheless, those of the NBS remained relatively low (around US$0.5 billion or a month's merchandise imports). Preliminary data point to an improved trade account in the first quarter (a deficit of US$0.1 billion compared with one of US$0.9 billion in the whole of 1993) mainly reflecting lower imports from the Czech Republic and rising exports to the convertible currency area. 3/

This favorable price and external performance was associated with financial restraint. The general government registered a surplus of about 1 percent of annual GDP during January-May, reflecting in part seasonally high revenues and expenditures kept below budgeted levels through

---

1/ Legislation to tighten eligibility criteria for unemployment benefits--the only designated prior action that was not implemented on time--was finally adopted in September. However, proposed legislation to cut other social expenditure was not approved by Parliament.

2/ This implies an 11-percentage point decline from the figure for last December, which reflected the effects of the VAT introduction in January 1993. During January-May 1994, the annualized rate of inflation was 8.9 percent.

3/ Exports to the convertible currency area in the first quarter of 1994 were 7 percent above their average quarterly level in 1993 in US dollar terms (23 percent above their depressed level a year earlier).

expenditure controls. NBS measures to curtail credit to the nongovernment sector--to deal with an excessive rise in liquidity caused by the fiscal slippage in late 1993--contributed to a tightening of monetary conditions.

3. Progress with economic transformation

Under the federation, substantial progress had been made toward the structural reform of the economy, notably through liberalization of the price, exchange and trade systems, privatization (small establishments and "first wave" of large units), and initial steps toward financial reform. The pace of structural reform slowed somewhat following independence. In the area of privatization, a shift in emphasis to standard methods did not yield favorable results despite the adoption of streamlined sales procedures (mainly through legislation to strengthen the Privatization Ministry's role in privatization plans). A revised bankruptcy law--adopted in June 1993--was applied only to 129 firms in its first year, apparently reflecting banks' reluctance to proceed with bankruptcy procedures in light of their weak financial position as well as technical defects in the law. Nevertheless, with essential market mechanisms already in place, economic transformation continued. The private sector's contribution to Slovak GDP reached almost 40 percent in 1993 (up from 32 percent a year earlier), and ranged from an estimated 20 percent in industry to over 80 percent in trade. Downsizing of enterprises in declining sectors also continued, with employment in manufacturing dropping by 6 percent in 1993 (by one third since 1990).

III. Policy Discussions and Description of Proposed Program

On the occasion of the 1993 Article IV Consultation, Executive Directors had commended the Slovak authorities on the adoption of the program supported by a purchase under the STF, and welcomed a 10 percent devaluation of the Slovak koruna envisaged to reduce reliance on external controls. While recognizing that great progress had been made in economic transformation, Directors were also concerned about the slow progress of enterprise restructuring and about the ability of the financial system to meet the needs of the transition process.

The policy discussions between the Slovak authorities and the staff focussed on an assessment of economic performance and policies over the past year, and on a program for 1994-95 that could be supported by Fund resources. There was agreement that, in a difficult environment, considerable progress had been made toward reducing fiscal and external imbalances and containing inflation. However, economic activity continued to be weak. Besides tight demand conditions, this was attributed to delays in the structural reform process (especially privatization) and limited inflows of foreign capital. Further progress in stabilizing the economy thus needed to be accompanied by renewed emphasis on restructuring the economy and improving efficiency.

The authorities' fundamental objectives for 1994-95 are to strengthen confidence in the economy--domestically and abroad--and to set the basis for a viable balance of payments and sustainable growth. To this end, the proposed program aims to lower significantly the rate of inflation, strengthen further the external position, and accelerate the restructuring of the economy. The authorities noted that a broad political consensus in support of the program's economic objectives and policy targets--which had been initially endorsed by the previous government--should ensure continuity in policies after the September elections.

1. Objectives and design of the program

The proposed program targets a significant deceleration of the inflation rate (consumer prices) to 12 percent during 1994 and 8 percent during 1995. Real GDP is expected to stop declining in 1994 and to rise by 2 percent in 1995, as the buoyancy of trade and services should gradually offset the effects of tight demand conditions and the continued restructuring of the industrial sector. The external current account deficit is projected at US$0.3 million (2 1/2 percent of GDP) in 1994 and 1995. Overall balance of payments surpluses in both years would be consistent with a rise in the foreign reserves of the NBS to US$1.3 billion (2 1/2 months of projected merchandise imports) by end-1995. 1/

The program will rely on continued fiscal consolidation, prudent monetary policy and wage restraint, with the exchange rate of the Slovak koruna continuing to serve as a nominal anchor. 2/ The authorities believed that the exchange rate should serve such a role in light of a favorable overall external performance--reflecting in part a 10 percent devaluation effected in July 1993--declining inflation, and their determination to pursue supportive financial policies. 3/ They felt that a strategy aimed at a more rapid recovery of output through a further devaluation entailed unacceptable risks for price performance and social peace; however, this would not preclude use of exchange rate policy in case of an unexpected and severe external disequilibrium. Exchange rate policy will be evaluated in program reviews taking into account, inter alia, developments in exports and external competitiveness.

Economic stabilization will be supported by structural reforms including an ambitious privatization program, financial sector reform, restructuring of enterprises still remaining in the state sector, and

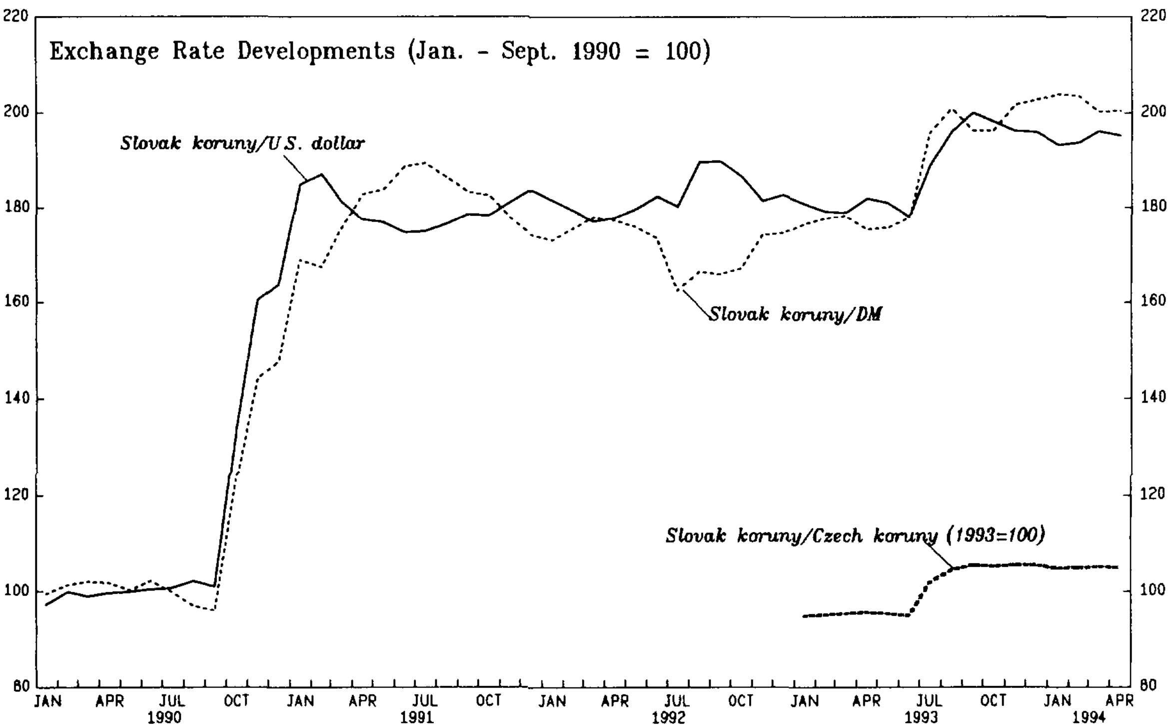
---

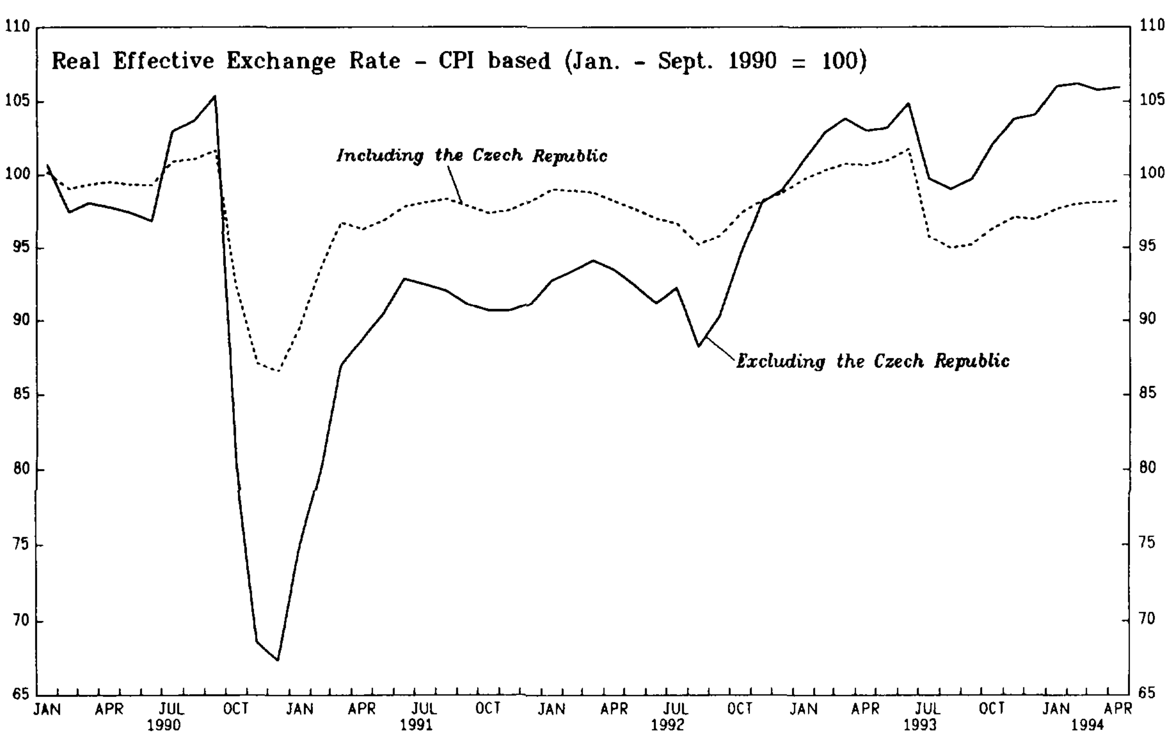
1/ Excluding US$400 million in gold valued at market prices.

2/ In light of Slovakia's current exchange arrangement, this means a fixed parity of the Slovak koruna against a basket of five major currencies.

3/ The Slovak koruna depreciated in real terms by 0.6 percent between end-1992 and April 1994 on the basis of a CPI-based index but appreciated by 7.1 percent if the Czech Republic is excluded (Chart 2). A tentatively estimated ULC-based index (excluding the Czech Republic) also shows a 5 percent real appreciation of the koruna during 1993.

CHART 2
SLOVAK REPUBLIC
EXCHANGE RATE INDICATORS





Sources: Slovak authorities; International Financial Statistics; and Competitiveness Indicators System.

private sector development. The authorities' reform program is being formulated and implemented with the assistance of the World Bank in the context of an Economic Recovery Loan (ERL, approved last November) and ongoing discussions on an Enterprise and Financial Sector Adjustment Loan (EFSAL).

The staff noted that, even on current projections of prices and costs in Slovakia and its main trading partners, price competitiveness would deteriorate somewhat during the program period. Given the authorities' commitment to support the exchange rate anchor through tight financial policies, it was therefore important to ensure wage restraint so as to avoid jeopardizing export and output performance. Furthermore, higher investment and foreign capital inflows critically depended on an acceleration of structural reform.

2. Fiscal policy

As regards developments during 1993, the authorities emphasized that the underlying fiscal deficit was reduced by 5 1/2 percentage points of GDP --thus largely adjusting to the loss of fiscal transfers from the Czech lands. Furthermore, fiscal developments were consistent with a further reduction in the role of the Government, as evidenced by declines in the ratios of government revenues and expenditures to GDP by 2 1/2 and 8 percentage points, respectively. They explained that the fiscal deficit would have been significantly lower--and the target of 6 1/2 percent of GDP would thus have been achieved--had the Parliament adopted all legislation as envisaged in the STF program. In the event, the authorities had to rely on controls of discretionary expenditures to compensate for these slippages; these, however, became eventually unsustainable as pressures built up toward the end of the year in connection with the Parliament's consideration of the State Budget for 1994. As a result, government expenditures and the fiscal deficit turned out to be higher than had been officially estimated, as late as November 1993, by the equivalent of 2 percent of GDP in 1993.

The proposed program emphasizes sustained fiscal consolidation consistent with achieving single-digit inflation and external viability over the medium term, while nevertheless leaving room for structural reform costs and infrastructure investment. The targets for the general government deficit (4 percent of GDP in 1994 and 3 percent of GDP next year) imply a cumulative improvement, over 1993-95, in the underlying fiscal position of 10 percentage points of GDP. 1/ A state budget deficit (program definition) equivalent to 3.5 percent of GDP in 1994 is envisaged, together with a balanced position for the social insurance funds and the local authorities, and the extrabudgetary funds, and a deficit of 0.5 percent of GDP on account of extrabudgetary projects. Taking into account net foreign

---

1/ The general government is defined to include the state and municipal budgets, the social insurance funds and extrabudgetary projects, and funds other than the National Property Fund.

financing and envisaged sales of government securities to the nonbank public (each equivalent to 0.4 percent of GDP), government recourse to the banking system would be limited to 3.2 percent of GDP in 1994 (Table 2). 1/

The authorities noted that the State Budget for 1994 passed last December needed to be modified: expenditures had been underestimated because Parliament did not pass legislation to reform the child allowance system as envisaged; allocations to health, education and social assistance had been set at unrealistically low levels in light of expenditure commitments; and interest payments needed to be adjusted to reflect recent increases in NBS interest rates on outstanding credit to Government. 2/ Accordingly, the Government decided to implement a supplementary fiscal package of 1 1/2 percent of GDP (3 percent of GDP on an annual basis), consistent with the achievement of a fiscal deficit of 4 percent of GDP in 1994. 3/ In addition, a 10 percent import surcharge on consumer goods (introduced in March 1994) is estimated to yield revenue equivalent to 0.5 percent of GDP in 1994. With the outlook still subject to considerable uncertainty, the fiscal program incorporates a contingency reserve of 0.8 percent of GDP. The authorities have also undertaken to implement additional contingency measures as needed to ensure adherence to the program targets.

The staff felt that the supplementary fiscal package, though necessary to contain the deficit, relied disproportionally on tax increases rather than expenditure savings notwithstanding an already high revenue/GDP ratio. Additional savings would have been feasible in the areas of transfers to enterprises and state benefits. The staff noted, in particular, child allowances which, after being reformed, would still be available to almost 90 percent of Slovak families with children at a fiscal cost equivalent to 2.4 percent of GDP in 1994. In the authorities' view, however, savings had been already generated in the area of state benefits in 1994 and earlier years, and further cuts should be linked to a comprehensive reform of the

---

1/ Net foreign financing of the Government is defined for program purposes as project loan disbursements minus repayments; financial credits (i.e., balance of payments support loans) are treated as foreign liabilities of the banking system.

2/ The average interest rate was raised from 14 to 18 percent, implying a Sk 3 billion rise in interest payments. Because of newly instituted loan loss provisioning by the NBS, the higher interest payments are not expected to be matched by correspondingly higher profit transfers to the Government.

3/ The revenue measures, equivalent to 1 percent of GDP, would shift a substantial number of goods and services from the low (6 percent) to the high (25 percent) VAT rate, and raise excises on alcohol, beer, cigarettes, and fuels by 5-20 percent (implying a 5 percent rise in the yield from all excises). In addition, current expenditures (mainly subsidies and defense spending) would be cut by about 1/2 percent of GDP in 1994 from budgeted levels. The measures are described in greater detail in the Slovak authorities' Memorandum of Economic Policies (paragraphs 11 and 12).

social safety net (scheduled for early next year) so as to avoid inflicting hardship on affected families. The authorities also stressed that the degree of expenditure restraint under the program for 1994 should not be underestimated. In the area of social transfers, child allowances--though remaining generous--would decline by more than 10 percent in real terms through tighter eligibility criteria. Operating subsidies to enterprises would decline by almost 1 percent of GDP from 5 percent in 1993. The wage bill of budgetary organizations would be kept unchanged in nominal terms, thus conditioning increases in average wages on a reduction in employment. Outlays on pensions would be allowed to rise by about 13 percent in nominal terms. Furthermore, the rise in health expenditures will be contained to 10 percent, representing major savings (of at least 2 percent of GDP) from initial plans. The current expenditure/GDP ratio (excluding debt service) is thus targeted to decline by 2 1/2 percentage points of GDP in 1994 notwithstanding increased allocations to the core social safety net (unemployment benefits and social assistance). Capital expenditures--targeted to infrastructure in the areas of transportation and communications, water supply, and health--would also decline slightly in relation to GDP.

The government revenue/GDP ratio is expected to rise by about 2 1/2 percentage points to 50 1/2 percent of GDP in 1994 thus reversing the decline of last year. This would reflect the full-year effect of tax measures adopted in July 1993, indirect tax increases envisaged under the supplementary fiscal package as well as improved tax collection efficiency. 1/ In line with a gradual shift to indirect taxation, so as to improve economic incentives and resource allocation, the corporate profit tax rate, as well as the top marginal rate for the personal income tax, were reduced by 5 percentage points to 40 percent and 42 percent, respectively. (The adverse revenue effect of these measures will be contained by limiting the rise in the standard deduction in the personal income tax to 3 percent in 1994 and by the discontinuation of a three-year tax holiday for new joint ventures as of January 1, 1995.)

The authorities are committed to reducing the fiscal deficit to 3 percent of GDP in 1995 notwithstanding an expected large increase in structural reform costs. Tentative fiscal projections for 1995 are based on the working assumption that such costs will rise by the equivalent of 2 percent of GDP, though a precise estimate awaits more detailed information on the quality of the banks' loan portfolio and specification of the strategy to address the problem later this year. Achievement of the fiscal deficit target would, therefore, rely on the full-year effect of the supplementary fiscal package, further sizable cuts in transfers and subsidies to enterprises, and savings in the area of social transfers through improved targeting.

1/ Recent measures in the area of tax administration are described in paragraph 10 of the authorities' Memorandum of Economic Policies.

Draft legislation for the comprehensive reform of the social safety net--that has been under preparation for some time--will be submitted to Parliament in late 1994. The authorities believe that it is feasible to reduce outlays on state benefits by 1 percentage point to 2 percent of GDP in 1995 through stricter means-testing (say, limiting eligibility to child benefits to about one half of families with children). However, with the number of long-term unemployed expected to rise further, they expected such savings to be partly used to strengthen the social assistance system intended to ensure a minimum subsistence level for every citizen.

The authorities recognized the need for a reform of the old-age pension system. Despite rather low average pensions, outlays on pensions amount to the equivalent of about 10 percent of GDP and are projected to rise further, reflecting generous eligibility requirements. 1/ The authorities believed that a decision on this politically sensitive issue needed to reflect special demographic characteristics: Slovak men's life expectancy was relatively low (67 years) precluding a sizable rise in the eligibility age, say to 65 years. However, the authorities agreed to raise the eligibility age for full pensions for both men and women on the basis of a study of the factors affecting the financial position of the pension system. The Government has committed itself to a decision by mid-1995 but implementation would be phased over several years.

The authorities shared the staff's concern about the lack of transparency in the financial position of the National Property Fund (NPF), which is the recipient of privatization proceeds and owns shares in a large number of enterprises. In light of inadequate accounting practices, there existed a risk that the NPF could assume spending commitments well in excess of expected privatization revenue and incur quasi-fiscal deficits over the medium term. The Government decided therefore that, pending clarification of the NPF's financial position on the basis of an independent audit commissioned with the assistance of the World Bank, its revenues will be used only to cover the direct costs of the privatization process, the initial costs of financial restructuring of viable enterprises, and the liquidation costs of nonviable enterprises; in particular, the NPF will abstain from extending loan guarantees to enterprises and will not assume any obligations normally reserved for the State Budget (e.g., servicing of government debt). The operations of the NPF will be monitored under the program, with a view to ascertaining their fiscal implications, and would be analyzed in the context of the first program review. 2/

1/ The eligibility age for full pensions is now 53-57 years for women (depending on the number of children) and 60 years for men.

2/ According to tentative estimates, the NPF registered a sizable operational surplus in 1992, when receipts from privatization were concentrated, but moved into a deficit of Sk 3 billion (0.8 percent of GDP) in 1993, drawing down on its accumulated surplus, and is tentatively projected to register a small operational surplus in 1994.

3. Monetary policy

The monetary authorities noted that, from the inception of the NBS, their task had been complicated by the large financing needs of the Government in 1993 and periodic--but diminishing--rumors of a pending devaluation. They were pleased with the improved price and external performance but concerned about the restrictive effects of their policy on economic activity. They thus hoped that fiscal consolidation and restoration of confidence in the currency (that would tend to reverse a large rise in the velocity of broad money over the last two years) would allow a resumption of credit growth in support of economic recovery. However, with the economic outlook for 1994 still subject to considerable uncertainty, they perceived the need for continued caution in formulating and implementing monetary policy.

Monetary policy during the program period will be geared to achieving the inflation objective and to supporting the exchange rate. The NDA targets will be consistent with a 10 1/2 percent rise in broad money during 1994, implying a slight increase in velocity intended to compensate for excess liquidity at end-1993 (Table 3). The monetary program for 1995 tentatively envisages a further deceleration in broad money growth. However, the monetary targets for 1995 would be reconsidered at the time of the first review to take into account experience with the evolution of factors affecting demand for money.

With the net foreign assets of the banking system targeted to rise by the equivalent of 5 percent of beginning-of-period broad money during 1994, the monetary program implies a 5 percent rise in the net domestic assets during the year. After allowing for bank credit to Government as specified above, credit to enterprises and households would be allowed to rise by 5 1/2 percent. To the extent that privatization proceeds lead to an improvement in the NPF's position vis-à-vis the banking system, credit to enterprises and households could be correspondingly higher under the monetary program. In light of uncertainties regarding demand for money, the NBS will monitor price and external developments closely with a view to tightening, as needed, its policy stance. The possibility of a stronger than expected demand for money also existed, and the authorities agreed that it should be reflected in a stronger than targeted external performance rather than a relaxation of credit targets.

The authorities noted, with concern, that the share of foreign currency deposits in broad money reached 13 percent at end-March 1994, more than twice its level at end-1992. However, they viewed this change as a portfolio shift reflecting the initially very low level of foreign currency deposits and the granting of tax-exempt status to such deposits in March 1993, and believed that a further rise in interest rates was not warranted. They noted that interest rates on term deposits in local currency had turned positive in real terms on the basis of the 12-month rate of inflation, and that the relative attractiveness of foreign currency deposits was bound to decline as inflation declined further and confidence in the currency strengthened. The staff advised the authorities to consider discontinuing the special tax status of foreign currency deposits but only after the risks to the external position have been reduced.

In October 1993, the NBS virtually halted its rediscount operations--which had expanded rapidly in the preceding several months with a view to providing subsidized credit to exports and agriculture--and resumed its reliance on auctions of refinancing credits in its lending operations so as to ensure that interest rates reflect market conditions. Last December, the NBS started setting the Lombard rate in line with the latest refinance auction rate (1 percentage point above the latter) and raised the discount rate by 2.5 percentage points to 12 percent. Also, the Ministry of Finance removed the ceiling on treasury bill (TB) rates last November. Higher TB and NBS lending rates--in conjunction with an opening up of TB sales to the nonbank public--have exerted some upward pressure on interest rates across the board. For the time being, the monetary authorities would monitor developments in the NDA of the NBS, and indirect monetary instruments would complement credit ceilings on individual commercial banks. In line with the expected improvement in the efficacy of indirect policy instruments during the program period, reliance on such ceilings would be progressively reduced by limiting the number of banks subject to them (already, the NBS makes an effort to tailor individual ceilings to the circumstances of banks). 1/

4. Wage policy

The authorities questioned the need for "global" wage controls, noting that real wages for the whole economy had declined by 4 percent in 1993 and that there was no evidence of across-the-board excessive wage increases in recent months. They also noted that wage controls unduly interfered with enterprise management decisions and, moreover, were strongly opposed by trade unions. However, the authorities shared the staff's concern about excessive wage increases in enterprises with weak financial position; these included loss-making enterprises, as well as enterprises in the energy and financial sectors. Wage increases in these two sectors had been among the highest in the economy--notwithstanding their weak underlying financial position--and were contributing to increased wage demands across the economy. The Government therefore decided to introduce selective tax-based controls aimed at enhancing financial discipline in loss-making enterprises, as well as enterprises in the energy and financial sectors, that are state-owned or have been privatized via the voucher scheme. The wage regulations

1/ Lending operations of the State Savings Bank (SSB)--which had expanded very rapidly since 1990, thus raising concerns about the quality of its asset portfolio--have been severely restricted until its privatization becomes feasible. In particular, the outstanding loans of the SSB are not to exceed the amount outstanding at end-1993, and its assets in excess of outstanding loans are deposited in the interbank market, held as treasury bills or deposited with the NBS.

--to be adopted via a decree as a prior action--would limit the rise in the second half of 1994 in average wages to 10 percent from a year ago, i.e., to less than the targeted rate of inflation. In addition, the authorities undertook to implement additional corrective measures, including global wage controls, should it emerge that wage developments jeopardize price performance and weaken enterprise profitability. Average wages for the economy as a whole are expected to remain broadly unchanged in real terms in 1994.

5. External policies and medium-term prospects

In line with undertakings under the 1993 program, the NBS eliminated, as of mid-December, external controls introduced in February 1993; in addition, the foreign exchange allowance for tourist travel was raised. 1/ The authorities intend to abolish a 10 percent import surcharge on consumer goods (introduced on March 1, 1994) by end-1994; they were concerned that its immediate removal could put pressure on the foreign reserves of the NBS. 2/ They also envisaged progress toward achieving full current account convertibility during 1994-95 and aimed to accept obligations under Article VIII of the IMF Articles of Agreement by January 1, 1996. In this connection, they have undertaken to establish, by end-1995, a clearly defined timetable for the early termination of the bilateral payments agreement with the Czech Republic. In their view, this agreement had helped prevent a major disruption of commercial and financial relations between the two countries, and its termination in the near future would not be feasible.

Exports are expected to rise by about 4 percent a year in volume terms in 1994-95, broadly in line with growth in export markets. Import volumes would rise by about 2 percent in 1994 reflecting entirely foreign-financed investment projects, and by 3 percent in 1995 as output is expected to recover somewhat. 3/ Consequently, the current account deficit is projected to decline from US$436 million (4 percent of GDP) in 1993 to about US$300 million (2 1/2 percent of GDP) in 1994 and 1995 (Table 4). The banking system's net international reserves are targeted to rise by about US$1.4 billion during the two-year period. Consistent with this, the authorities aim to raise gross official reserves by almost US$1 billion

---

1/ The abolished controls comprised minimum credit financing requirements for imports (including a 14-day advance deposit of the local currency equivalent of the import value that had been approved by the Fund until end-1993) and restrictions on the commercial banks' access to the foreign exchange of the NBS. Effective January 1, 1994, the foreign exchange allowance was raised by 20 percent to Sk 9,000 (about US$280) per year.

2/ The Fund-supported program for 1993 had envisaged the introduction of a 20 percent import surcharge on consumer goods in July 1993, its halving on January 1, 1994, and elimination by mid-1994. In the event, the import surcharge was not adopted as planned.

3/ The underlying increase in import volume in 1994 (i.e., adjusting for exceptional military imports in 1993) would be 4 1/2 percent.

during 1994-95 to US$1.3 billion (equivalent to 2 1/2 months of merchandise imports) at end-1995.

Medium-term projections within a macroeconomic framework have been discussed with the authorities (Table 5). The staff stressed the importance of achieving higher national savings through sustained fiscal consolidation and of pursuing financial and structural reform policies conducive to investment. Following a steep decline over 1991-93, the domestic investment/GDP ratio is expected to recover over the medium term as increased project financing from abroad becomes available, the privatization process advances, and confidence in the economy is gradually restored. This is expected to be matched by higher national savings, reflecting a steady rise in government savings. 1/ Real GDP growth would rise to 3 1/2 percent over the medium term.

Balance of payments projections are consistent with the elimination of financing gaps over the medium term, and relatively low external debt/GDP and debt service ratios (Table 6). The external current account deficit is projected to decline from 2 1/2 percent of GDP in 1994 to 1 1/2 percent of GDP by 1999. With foreign investment inflows expected to rise from 1 percent of GDP in 1994 to 2 percent of GDP in 1999, the basic balance 2/ is projected to move into a surplus over this period.

Slovakia's gross financing requirements will be relatively high over the medium term, reflecting the need to build up reserves and meet higher amortization payments. Borrowing requirements in the form of financial credits are tentatively estimated at about US$1.2 billion in 1994-95 (Table 7). Of this, some US$0.4 billion could be covered by the Fund, the World Bank, and Japan's Eximbank; 3/ US$0.5 billion through NBS recourse to private capital markets; 4/ and the remainder--US$300 million evenly divided between the two years--is likely to be covered by financial assistance requested by the Slovak authorities from the EU/G-24. The

---

1/ Sizable increases in the government savings/GDP ratio in 1994-95 would be partly offset by a decline in the nongovernment savings ratio. The latter would reflect a rise in "net taxes" (on account of lower transfers/subsidies as well as higher taxes) and a roughly unchanged nongovernment consumption/GDP ratio.

2/ Defined as the current account balance plus net inflows of foreign investment.

3/ In particular, an already approved US$80 million World Bank ERL will be disbursed in 1994 and a US$41 million "two-step" Eximbank loan (signed in February 1994) is expected to be disbursed over a two-year period. A World Bank EFSAL, currently under negotiation, is likely to be disbursed in early 1995.

4/ After placing a US$240 million bond issue last September, the NBS intends to place another US$250 million bond issue in the Samurai market in the coming months. The balance of payments projections for 1995 assume NBS recourse to private capital markets for a similar amount.

European Commission organized a G-24 meeting in Brussels on June 20, 1994 on Slovakia's request for such assistance. The meeting was also attended by a Fund staff representative who stated that EU/G-24 financial assistance, besides directly contributing to reserve-building, would catalyze private capital flows; it would thus help reduce the risks to the program. A pledging session has been scheduled for July 15, 1994. Sufficient commitments will be essential for the success of the program.

Debt service to the Fund (in percent of exports of goods and services) will reach a peak of 2.5 percent in 1995 and decline steadily to 1.1 percent by 1999 (Table 10). In light of Slovakia's relatively low initial indebtedness and prompt debt servicing record, good economic performance should ensure its access to private capital markets (as evidenced by the placement of a bond issue by the NBS in September 1993 and preparations for a new placement in the coming months reportedly on improved terms), thereby also facilitating the servicing of obligations to the Fund.

6. Structural reforms

The structural reform program--to be implemented with the assistance of the World Bank--aims to accelerate the privatization effort (initially via standard methods but with recourse to the voucher scheme by early 1995), financial sector reform, restructuring of enterprises still in the state sector, and private sector development.

The second wave of large-scale privatization, already under way, involves over 500 state enterprises with an equity book value of about Sk 220 billion; sales of 74 enterprises valued at Sk 22 billion have been approved thus far. Preparatory work for the second wave of voucher privatization (distribution of coupons to citizens and announcement of the list of enterprises to be included) will be completed by end-September 1994, and the voucher auctions will be initiated by January 1995. It is envisaged that about 40 percent of the shares of these enterprises, in terms of book value, would be transferred to the private sector via the voucher method. In addition, the NPF will sell shares in its portfolio with a book value of about Sk 35 billion relating to enterprises included in the first wave of large-scale privatization; a portion of these shares will be channeled through the voucher scheme and the remainder will be sold via standard methods. Over one third of all enterprises (measured by the book value of their assets) still in state majority-ownership would be privatized by mid-1995.

In the area of financial sector reform, the program would aim to strengthen the financial position of banks burdened with bad debt, put in place incentives for sound banking decisions, and develop restructuring and privatization plans for the three major commercial banks. The NBS will introduce loan classification criteria and compulsory provisioning rules based on international norms in the coming months. The degree of tax-deductibility of loan provisions, and the period over which banks would be expected to comply with the provisioning rules, will be decided on the basis of detailed portfolio reviews expected by end-September. 1/ The authorities agreed with the staff that, especially in the case of some major banks, provisioning alone will not be sufficient to deal with the bad debt problem within a reasonable period. They were, therefore, prepared to consider more radical solutions to the problem, including recapitalization of banks through issuance of bonds by the Government or the NPF. The authorities stressed that, were such an approach to be followed, it was important to establish adequate safeguards to limit fiscal costs and the possibility of moral hazard. They expected that these complex issues would be addressed in the context of a financial reform strategy to be developed, with the assistance of the World Bank as well as the Fund, on the basis of more detailed information on the banks' portfolio. The restructuring plans for the three major commercial banks, to be prepared by end-October 1994, will focus on rebuilding the capital base to prudential levels, creating a proper incentive framework for bank managers, and exploring the possibility of involving private investors. Banking supervision and regulation will be improved, on the basis of a two-year plan adopted by the NBS in February 1994, so as to enhance incentives for prudent banking activities. To this end, the NBS' Banking Supervision Department will be strengthened through additional staff and training.

Commercial banks, with a strengthened financial position, are envisaged to play an instrumental role in fostering enterprise restructuring; to assist them in that role, the program envisages hard budget constraints on important problem enterprises and reform of the bankruptcy framework. In this context, the authorities have commissioned detailed diagnostic studies of 20 enterprises with the largest amount of non-performing loans from the banking system. The studies will provide recommendations on the financial restructuring or liquidation of these enterprises. Reforms to strengthen the bankruptcy and conciliation procedures will be developed in conjunction with the World Bank's EFSAL. Application of the bankruptcy law will be facilitated by progress under a scheme to "net out" inter-enterprise arrears. 2/ The authorities stressed that the aforementioned scheme would involve little, if any, fiscal costs. In mid-1993, Sk 1 billion was made available by the NPF for onlending to creditworthy enterprises so as to facilitate the netting out of gross arrears but this amount has been only partly used. With regard to energy-producing enterprises, the Government has undertaken to prepare, by end-October 1994, a phased plan to adjust prices of natural gas, heat, and electricity so as to reach appropriate economic cost recovery by early 1996. Finally, the Government intends to

---

1/ Audit reports for 1993--by recognized foreign firms and in accordance with international standards--have been prepared for all commercial banks.

2/ A scheme to "net out" inter-enterprise arrears has been moderately successful; with two "rounds" already completed, arrears have been reduced by about Sk 10 billion to a tentatively estimated Sk 50 billion. To enhance the effectiveness of this scheme, a law approved in January 1994 strengthened the provisions for compulsory registration of outstanding payables and receivables in arrears.

commercialize (i.e., convert into joint stock or limited liability companies) virtually all remaining viable, or potentially viable, enterprises by end-1994.

IV. Features of the Proposed Stand-By Arrangement

The program will have the following quantitative performance criteria: (i) limits on the net domestic assets of the banking system, (ii) limits on net bank credit to the Government (adjustable for nonbank domestic financing), 1/ (iii) limits on the convertible net foreign liabilities of the banking system and targets for the minimum levels of gross reserves of the NBS, 2/ and (iv) limits on contracting or guaranteeing of new con-concessional external debt (Table 8). These performance criteria have been set for end-September and end-December 1994; indicative targets have been set for end-1995. The criteria are spelled out in detail in annexes to the Memorandum of Economic Policies of the Slovak Government. The customary clauses on overdue obligations to the Fund, no accumulation of external payments arrears, exchange restrictions, multiple currency practices, bilateral payments agreements inconsistent with Article VIII, and import restrictions for balance of payments purposes, are also applicable as performance criteria during the period of the arrangement. 3/ Adoption by Parliament of the supplementary fiscal package and introduction of selective wage regulations have been designated as prior actions.

The proposed total access to Fund resources by Slovakia consists of SDR 64.3 million (25 percent of quota) for the second STF purchase and SDR 115.8 million (45 percent of quota, 27 percent on an annual basis) under the stand-by arrangement. The eligibility and access under the STF is justified by the continued balance of payments need arising from net import costs as defined in paragraph 1 of the STF decision of April 23, 1993. Three reviews with the Fund to assess implementation of the program are envisaged. The timetable of these reviews and the phasing of purchases are set out in Table 9. The first review--to be completed by February 15, 1995 --will focus in particular on fiscal policy (the budget for 1995, the financial position of the National Property Fund, and social security reform legislation), progress with structural reforms (including the initiation of the second wave of voucher privatization), and an evaluation of the external performance. Performance tests for 1995 will also be set on the occasion of

---

1/ In effect, these constitute limits on total domestic financing of the fiscal deficit.

2/ The performance criterion on official gross reserves is intended to ensure a minimum level of gross official reserves in the event of a shortfall in foreign financing and a redistribution of reserves from the NBS to commercial banks.

3/ In this regard, an exception is made for actions in accordance with the bilateral payments agreement with the Czech Republic or any modification of this agreement.

the first review. The last review--to be completed before February 15, 1996--will cover, in particular, the fiscal plans for 1996 and the agenda for further structural reforms.

V. Staff Appraisal

The authorities of the newly independent Slovak Republic are meeting with success in their efforts to cope with the formidable challenges posed by the conjuncture of the "velvet" divorce and the turmoils of a transition characterized by an unusually marked collapse of the traditional export markets. Important progress has already been made toward restoring confidence through solid progress in fiscal consolidation, reducing inflation, and strengthening the external position. Looking forward, the authorities aim to consolidate these achievements through a sharp deceleration of inflation and a further strengthening of the foreign reserve position, and to re-invigorate the process of economic transformation. To achieve these objectives, the authorities intend to pursue tight financial policies supported by market-related interest rates and selective wage controls within a fixed exchange rate framework, and to accelerate structural reform, notably privatization, financial reform and enterprise restructuring.

The sustainability of the adjustment effort hinges on continued fiscal consolidation, which is key both to lowering inflation and to releasing savings for productive investment. In this regard, the proposed program is appropriately ambitious as it envisages a 3 1/2 percentage point reduction in the fiscal deficit to 4 percent of GDP in 1994, and an additional 1 percentage point improvement next year. This implies a cumulative improvement in the underlying fiscal position, over 1993-95, of 10 percentage points of GDP, which would be indeed an impressive accomplishment. Fiscal adjustment in 1994 would rely importantly on expenditure cuts that are expected to reduce the current expenditure/GDP ratio (excluding debt service) by about 2 1/2 percentage points notwithstanding increased outlays on the core social safety net. Nevertheless, a significant rise in the revenue/GDP ratio in 1994 will be also necessary for achieving the deficit target; this would reflect in large part the full-year effect of indirect tax increases implemented in August 1993 and an improvement in tax collection efficiency as well as measures under the supplementary fiscal package to be adopted shortly. Performance so far in 1994 is consistent with achieving the fiscal deficit target. However, there remain risks to the fiscal program related to inherent uncertainties on the revenue side as well as to the effectiveness of expenditure controls as the experience of late 1993 has shown.

Turning to 1995, an uncertainty attaching to the proposed arrangement is the elections set for end-September 1994. It will be important for the success of the reform effort that the new Government signals quite clearly--notably in the budget for 1995--its intention both to continue to adhere to financial prudence and to address decisively long-overdue structural problems of the economy, especially in the enterprise and financial sectors. The costs of structural reform are expected to rise significantly in 1995--perhaps by about 2 percent of GDP according to tentative staff estimates. With the government revenue/GDP ratio already relatively high, it would be important to make room for these essential outlays--as well as for a further decline in the deficit--through expenditure cuts. The authorities have appropriately identified savings in outlays on state benefits through better targeting--an area where the Parliament has moved slowly so far--and further sizable cuts in transfers to enterprises. With a view to ensuring the long-term viability of the social insurance system and increasing national savings, it would be also important to take the difficult step of raising substantially the retirement age for men and women.

Monetary policy has been the key to the favorable price and external performance thus far. The NBS has demonstrated a commendable single-mindedness in its conduct of monetary policy; this needs to be continued to ensure benefits over time from improved policy credibility. Under the proposed program, the NBS has been assigned the challenging task of achieving an ambitious inflation objective and supporting the exchange rate in the context of still large government borrowing needs and continuing uncertainty. In light of possible shifts in the demand for money, the staff endorses the monetary authorities' intention to monitor external and price developments closely with a view to tightening, if needed, the credit targets to support the exchange rate anchor. With the central bank envisaged to rely mainly on refinance auctions in its lending operations, interest rates would continue to reflect market conditions thereby strengthening the efficacy of monetary policy and improving resource allocation. Wage restraint should complement monetary policy, and the program incorporates selective wage controls aimed at enhancing financial discipline. Should it emerge that across-the-board wage increases are contributing to inflationary pressures and undermining external competitiveness, the staff would support the authorities' intention to adopt prompt corrective measures so as to safeguard progress toward a viable external position and avoid compromising the growth objective.

The continuing weakness of investment activity and private capital inflows points to the need for renewed emphasis on structural reform. The authorities' plans in the area of privatization are ambitious, but feasible--provided that preparations for the second wave of voucher privatization proceed promptly and that conditions for privatization via standard methods are pragmatically set. Specification of a strategy for financial reform and enterprise restructuring--to be developed with the assistance of the World Bank as well as the Fund--must await detailed information on the quality of the banks' portfolio. In the meantime, the authorities should proceed with important preparatory steps, including establishment of loan classification criteria and compulsory provisioning rules based on international norms, and measures to strengthen the supervisory capabilities of the NBS. Given a suitable framework, including one that dealt effectively with moral hazard risks, recapitalized banks could be expected to play a constructive role in enterprise restructuring.

The authorities also have a supportive role to play, especially by resisting pressures to support nonviable enterprises, by implementing the recommendations of diagnostic studies of selected over-indebted enterprises currently underway, and by reforming bankruptcy procedures.

The staff believes that the authorities' program for 1994-95 would--if firmly implemented--foster stabilization and restructuring, and thereby set the basis for sustainable growth and a viable external position. It thus deserves the support of the Fund through a stand-by arrangement in the upper tranches and a second purchase under the STF. Envisaged access under the proposed stand-by arrangement appears appropriate, taking into consideration Slovakia's outstanding indebtedness to the Fund and the prospective second purchase under the STF. The staff also supports the Slovak authorities' request for financial assistance from the EU/G-24. Such assistance is important for the success of the program as it would contribute to a strengthening of the official foreign reserves from their present relatively low level and would help catalyze private capital inflows.

Slovakia maintains a number of exchange restrictions under the transitional arrangements of Article XIV, as described in the report on Recent Economic Developments. The exchange restriction and multiple currency practice arising from the payments agreement with the Czech Republic is subject to approval under Article VIII. Because of the discriminatory nature of this agreement, the staff does not recommend approval of these measures. The staff welcomes the authorities' decision to abolish the external controls introduced in February 1993 and raise the foreign exchange allowance for tourist travel abroad as well as their intention to eliminate the import surcharge at end-1994. The staff strongly supports the authorities' intention to liberalize the exchange system further with a view to achieving full current account convertibility and Article VIII status by January 1, 1996.

It is proposed that the next Article IV consultation with the Slovak Republic be held on the standard 12-month cycle.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board.

A. 1994 Consultation

1. The Fund takes this decision, relating to the Slovak Republic's exchange measures subject to Article VIII, sections 2 and 3, and in concluding the 1994 Article XIV consultation with the Slovak Republic, in light of the 1994 Article IV consultation with the Slovak Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 as amended (Surveillance over Exchange rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions maintained by the Slovak Republic under Article XIV are described in SM/94/---. The exchange restriction and multiple currency practice arising from the bilateral payments arrangement with the Czech Republic are subject to approval under Article VIII, Sections 2 and 3. The Fund welcomes the removal of the advance import deposit requirement and encourages the authorities to apply the measures maintained under Article XIV in a liberal fashion.

B. Stand-By Arrangement

1. The Slovak Republic has requested a 20-month stand-by arrangement in an amount equivalent to SDR 115.8 million.

2. The Fund approves the stand-by arrangement set forth in EBS/94/__.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

C. Purchase under the Systemic Transformation Facility

1. The Fund has received a request from the Slovak Republic for a purchase equivalent to SDR 64.35 million under the Decision on the Systemic

Transformation Facility (Decision No. 10348-(93/61) STF, adopted April 23, 1993).

2. The Fund approves the purchase in accordance with request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Table 1. Slovak Republic: Selected Economic and Financial Indicators, 1991-1995

	1991	1992 Prelim.	1993 Program	1993 Preliminary	1994 Proposed Program	1994 Latest Month Estimate	1995 Program Projections
				(Percent change)			
Real sector							
GDP volume	-14.5	-7.0	-9	-4.1	--	...	2
Consumer prices							
Period average	61.2	10.1	26	23.1	14		10
12 months to end of period	58.3	9.1	30	25.0	12	13.9 1/	8
Real wages (industry), period average	-29.8	8.9	-10	--	--	2.6 2/	--
Unemployment, period average (percent of labor force)	7.9	11.0	...	12.8	15	13.9 1/	...
				(Percent of GDP)			
Government finances							
Revenue	...	50.7	44.5	48.0 3/	50.7 3/	...	50.8
Expenditure	...	63.8	51.2	55.5 3/	54.7 3/	...	53.8
Balance	...	-13.1	-6.7	-7.5 4/	-4.0	1.3 5/	-3.0
				(Percent change, end-period)			
Money and credit							
Net domestic assets	...	7.2	20.4	14.8	4.9	-5.3 6/	4.3
Credit to enterprises and households	...	14.9	13.7	11.1	5.5	-0.8 6/	5.0
Broad money	...	4.7	19.0	16.2	10.5	-4.3 6/	10.0
				(In billions of U.S. dollars)			
Balance of payments							
Merchandise exports	...	6.5	5.7	5.4	5.8	...	6.2
Merchandise imports	...	7.2	6.2	6.3 7/	6.7	...	7.0
Trade balance	...	-0.7	-0.4	-0.9	-0.8	...	-0.9
Current account	...	0.2 8/	-0.3	-0.4	-0.3	...	-0.3
(percent of GDP)	...	1.7 8/	-2.4	-3.9	-2.6	...	-2.4
Official reserves, end-period,							
(in millions of U.S. dollars) 9/	...	356	308	395	864	506 10/	1,315
(in months of imports)	...	0.7	0.7	0.9	1.7	0.9	2.4
Gross reserves of the banking system excluding gold (in millions of U.S. dollars) 9/	...	883	990	1,348	2,118	1,603 10/	2,818
External debt, end-period 11/	...	2.8	2.5	3.4	4.2	...	4.8
Debt service (percent of total exports)	...	3.3	3.8	8.9	7.9	...	11.0
Overall balance (in millions of U.S. dollars)	...	-539	-54	356	500	...	589
Financing gap (in millions of U.S. dollars)	--	--	--	--	150	...	150
Memorandum items:							
GDP, current prices (in billions of Sk)	280.1	301.8	335.0 12/	340.8	381.7	...	...
Exchange rate, Sk per U.S. dollar	29.5 13/	28.3 13/	...	33.2 14/	...	32.6 9/	

1/ May 1994.
2/ First quarter 1994 compared to first quarter 1993.
3/ Local authorities' revenues and expenditures in 1993 were higher than programmed (and budgeted) by the equivalent of 2.7 percent and 2.4 percent of GDP, respectively, owing to non-budgeted new revenues (mainly in the form of property sales charges and fees); the 1994 and 1995 projections incorporate an adjustment to the authorities' original estimates to allow for this factor.
4/ Excluding military imports of US$170 million (1.6 percent of GDP in 1993) in exchange for a write-down of Slovak claims on Russia.
5/ At the end of May, general government finances are tentatively estimated to have shown a surplus of Sk 5.0 billion largely due to seasonality in revenue collections and tight expenditure controls.
6/ March 31, 1994 compared to December 1993 (1.6 percent of GDP in 1993).
7/ Including military imports of US$170 million in exchange for a write-down of Slovak claims on Russia.
8/ After fiscal transfers from the Czech lands, estimated at about 7 percent of GDP; revised.
9/ Excluding US$400 million in gold valued at market prices as well as foreign exchange obtained through gold swaps (US$70 million as of end-April).
10/ End-May 1994.
11/ Excluding disputed interbank liabilities to the Czech Republic.
12 Adjusted to reflect revisions in the national accounts. The program targets have been modified accordingly.
13 Annual average.
14/ End-1993.

Table 2. Slovak Republic: Fiscal Developments in 1992-1995 1/

(In percent of GDP) 2/

	1992 Estimated Underlying 3/	1993 Program	1993 Outcome	1994 Program	1995 4/ Program
Total Revenue	50.7	44.5	48.0	50.7	50.8
Indirect taxes	13.4	13.3	13.8	16.1	17.2
Direct taxes	18.0	10.3	10.7	11.0	10.2
Social security contributions	10.0	11.4	12.6	12.4	12.4
Other taxes	2.0	3.0	2.4	2.9	2.5
Nontax revenue	7.4	6.4	8.5	8.2	8.5
Total Expenditure	63.8	51.2	55.5 5/	54.7	53.8
Current expenditures	55.6	46.2	49.4	48.1	48.0
Wages	5.1	4.6	4.7	4.2	4.2
Social expenditures	18.8	16.3	17.2	16.7	16.2
Health care	5.1	4.2	4.6	4.6	4.6
Subsidies	5.4	4.4	5.0	4.2	3.3
Debt service 6/	...	3.8	3.9	5.1	6.3
Other	...	12.9	14.0	13.4	13.4
Capital expenditures	8.2	4.8	6.1	5.7	5.0
Contingency reserve	...	0.2	...	0.8	0.8
Fiscal Balance	-13.1	-6.7	-7.5 5/	-4.0	-3.0

1/ Consolidated general government. Local authorities' revenues and expenditures in 1993 were higher than programmed (and budgeted) by the equivalent of 2.7 and 2.5 percent of GDP, respectively, owing to non-budgeted new revenues (mainly in the form of property sales, charges and fees); projections for 1994-95 incorporate an adjustment to the authorities' original estimates to allow for this factor.

2/ Most recent estimate of GDP.

3/ Based on an estimate of general government revenue and expenditure in the territory of the Slovak Republic (i.e., including portions of federal revenues and expenditures).

4/ Projections incorporate increased structural reform costs in the form of lower direct taxes on account of loan loss provisioning by commercial banks (1 percent of GDP) and higher interest payments on bonds issued by the Government to write down bad debt in banks' portfolio (1 percent of GDP).

5/ Excluding military imports, equivalent to 1.6 percent of GDP, in exchange for a write-down of claims on Russia.

6/ Interest, lending, and guarantees, excluding all amortization.

Table 3. Slovak Republic: Monetary Survey, 1992-1994 1/

	1992	1993								1993 2/	1994				
		Q1 Est.	Q2 Est.	Q3 Prog.	Q3 Est.	Q4 Prog.	Q4 Est.	Year Prog.	Year Est.		Q1 Est.	Q2 Prog.	Q3 Prog.	Q4 Prog.	Year Prog.
Net foreign assets	-2.5	-4.9	-4.5	-6.3	-0.6	-5.9	0.2	-5.9	0.2	-35.3	-31.0	-27.2	-24.4	-22.6	-22.8
Foreign assets	26.1	24.7	25.2	...	38.4	...	41.2	...	41.2	46.6	49.5	...	...	...	...
Foreign liabilities	28.6	29.6	29.7	...	39.0	...	41.0	...	41.0	81.9	80.4	...	...	...	...
Net domestic assets	217.0	212.6	219.8	242.2	222.3	261.2	249.2	261.2	249.2	288.2	272.9	278.1	285.2	302.3	302.3
Domestic credit	304.4	317.7	332.6	345.7	338.0	359.3	363.3	359.3	363.3	360.7	357.7	365.8	375.9	388.0	388.0
Net credit to Government	66.8	76.0	79.7	84.7	81.0	88.8	92.8	88.8	92.8	92.0	90.6	94.2	99.2	104.3	104.3
Net credit to Property Fund	0.4	1.0	1.2	1.0	1.3	1.0	6.9	1.0	6.9	6.9	7.3	7.4	7.5	7.5	7.5
Credit to enterprises and households	237.2	240.7	251.7	260.6	255.7	269.5	263.6	269.5	263.6	261.8	259.8	264.2	269.2	276.2	276.2
In domestic currency	235.1	235.1	245.5	...	249.1	...	256.2	...	256.2	253.3	249.3	...	...	...	...
In foreign currency	2.1	5.6	6.2	...	6.6	...	7.4	...	7.4	8.6	10.5	...	...	...	...
Other items, net	-87.4	-105.0	-112.8	-103.5	-115.4	-98.1	-114.2	-98.1	-114.2	-72.5	-84.8	-87.7	-90.7	-85.7	-85.7
Broad money	214.5	207.7	215.3	235.9	221.7	255.3	249.3	255.3	249.3	252.9	241.9	250.9	260.8	279.5	279.5
Currency outside banks	30.9	20.3	24.7	...	25.7	...	25.1	...	25.1	25.1	27.6	29.4	30.5	30.9	30.9
Deposits	183.6	187.4	190.6	...	196.0	...	224.2	...	224.2	227.8	214.3	221.5	230.3	248.5	248.5
In domestic currency	170.1	170.1	172.0	...	173.6	...	199.4	...	199.4	199.4	182.4	186.5	192.8	209.5	209.5
In foreign currency	13.5	17.3	18.6	...	22.4	...	24.8	...	24.8	28.4	31.9	35.0	37.4	39.0	39.0
(Change with respect to broad money at beginning of period; in percent)															
Broad money	...	-3.2	3.7	5.7	3.0	8.2	12.5	19.0	16.2	...	-4.3	3.7	3.9	7.2	10.5
Net foreign assets	...	-1.1	0.2	0.3	1.8	0.1	0.3	-1.6	1.2	...	1.7	1.5	1.1	0.6	4.9
Net domestic assets	...	-2.0	3.4	5.4	1.2	8.1	12.1	20.6	15.0	...	-6.1	2.2	2.8	6.6	5.6
Domestic credit	...	6.2	7.2	5.8	2.5	5.5	11.4	25.7	27.5	...	-1.2	3.3	4.0	4.6	10.8
Credit to enterprises and households	...	1.6	5.3	4.7	1.9	3.8	3.6	15.1	12.3	...	-0.8	1.8	2.0	2.7	5.7
Other items, net	...	-8.2	-3.7	--	-1.4	2.5	0.7	-5.0	-12.5	...	-4.9	-1.2	-1.2	1.9	-5.2
(Percent changes on previous period)															
Net domestic assets	...	-2.0	3.4	5.1	1.1	7.8	12.1	20.4	14.8	...	-5.3	1.9	2.5	6.0	4.9
Domestic credit	...	4.4	4.7	4.2	1.6	4.1	7.5	19.6	19.4	...	-0.8	2.3	2.8	3.2	7.6
Credit to enterprises and household	...	1.5	4.6	4.2	1.6	3.4	3.1	13.7	11.1	...	-0.8	1.7	1.9	2.6	5.5

Sources: Data provided by the National Bank of Slovakia; and staff estimates.

1/ For 1992-93 data (and 1993 program) an accounting exchange rate of Sk 29.0 per U.S. dollar was used; and net foreign assets were defined as the convertible net international reserves of the banking system minus long-term liabilities of the National Bank of Slovakia. For 1994 data, an accounting exchange rate of Sk 32.202 per U.S. dollar (prevailing at end-1993) was used; and net foreign assets were defined as net total convertible assets and liabilities of the banking system plus the balance under the claims account with the Czech Republic.

2/ Comparable to data for 1994 (in terms of accounting exchange rate and definition of net foreign assets).

Table 4. Slovak Republic: Balance of Payments, 1992-1995 1/

(In millions of U.S. dollars)

	1992 Preliminary	1993 Preliminary	1994 Program	1995 Program
Current account	179	-436	-300	-283
Trade balance	-715	-915	-845	-862
Exports, f.o.b.	6,515	5,429	5,833	6,158
Imports, f.o.b.	7,229	6,344	6,679	7,019
Services balance	80	379	445	479
Receipts	1,704	2,139	2,298	2,426
Transportation	412	458	...	...
Travel	200	390	...	...
Income	170	189	...	...
Other	921	1,101	...	...
Expenditures	1,624	1,760	1,852	1,947
Transportation	128	143	...	...
Travel	165	216	...	...
Income	205	228	...	...
Other	1,126	1,173	...	...
Current transfers	814	100	100	100
Private (net)	70	96	...	...
Official (net)	744	4	...	...
Capital account	-85	973	800	872
Capital transfers (net)	--	529	84	--
Foreign investment (net)	100	-373 2/	120	153
Other long-term capital (net)	251	555	649	720
Credits received, net	196	306	449	520
Credits extended, net	55	249	200	200
Short-term capital (net)	-436	73	77	--
Clearing account balance (surplus, -)	--	189	-130	--
Errors and omissions	-633	-182	--	--
Overall balance	-539	356	500	589
Gross reserves (increase,-)	-95	-521	-770	-700
State Bank	5	-59	-470	-450
Commercial banks	-100	-462	-300	-250
Fund credit, net	94	90	48	-89
Short-term liabilities (decrease, -)	540	75	72	50
Financing gap	--	--	150	150

Sources: Data provided by the Slovak authorities; and staff estimates.

1/ Including transactions with the Czech Republic.
2/ Including US$529 million of Slovak shares in Czech companies acquired through the "first wave" of voucher privatization in the former CSFR. The counterpart is presented as a capital transfer.

Table 5. Slovak Republic: Macroeconomic Framework, 1992-1999

(In percent of nominal GDP)

	1992	1993	1994	1995	1996	1997	1998	1999
Foreign savings 1/	-1.8	2.4 2/	2.6	2.4	1.9	1.6	1.4	1.4
Gross national savings	26.5	22.4	24.0	25.4	26.4	27.0	27.6	28.0
Government 3/	0.1	-3.3 2/	0.3	1.5	2.0	2.1	2.5	2.7
Non-government	26.4	25.7	23.6	23.9	24.4	24.9	25.0	25.3
Gross domestic savings	19.8	22.4	23.9	25.7	26.9	27.6	28.2	28.7
Gross domestic investment	24.7	24.8	26.5	27.8	28.3	28.5	29.0	29.4
Government	6.2	4.1	4.4	4.4	4.6	4.5	4.5	4.5
Non-government	18.5	20.7	22.2	23.3	23.7	24.0	24.5	24.8
Fixed investment	28.5	28.0	28.4	28.4	28.2	28.4	28.9	29.3
Change in stocks	-3.8	-3.3	-1.9	-0.7	--	0.1	0.1	0.1
General government deficit 3/	-6.1	-7.5 2/	-4.0	-3.0	-2.6	-2.5	-2.0	-1.8
Memorandum item:								
Gross domestic product (percent change in real terms)	-7.0	-4.1	--	2.0	2.5	2.8	3.0	3.5

1/ External current account deficit (+).
2/ In 1993, the government and external accounts exclude military imports in exchange for a write-down of claims on Russia, equivalent to 1.6 percent of GDP.
3/ In 1992, including transfers from the Czech Republic, equivalent to 7 percent of GDP.

Table 6. Slovak Republic: Medium-Term Projections of the Balance of Payments, 1992-1999

(In millions of U.S. dollars)

	Prelim. 1992	Prelim. 1993	Tent.Proj. 1994	Proj. 1995	Proj. 1996	Proj. 1997	Proj. 1998	Proj. 1999
Trade balance	-715	-915	-845	-862	-858	-869	-902	-943
Exports, f.o.b.	6,515	5,429	5,833	6,158	6,519	6,921	7,348	7,802
Imports, f.o.b.	7,229	6,344	6,679	7,019	7,377	7,790	8,250	8,745
Services balance	80	379	445	479	522	566	607	648
Receipts	1,704	2,139	2,298	2,426	2,568	2,726	2,895	3,073
Payments	1,624	1,760	1,852	1,947	2,046	2,161	2,288	2,425
Interest	188	184	247	291	330	358	376	389
Current transfers	814	100	100	100	100	100	100	100
Private	70	96	...	...	...	...	...	...
Official	744	4	...	...	...	...	...	...
Current account	179	-436	-300	-283	-236	-203	-195	-195
Current account (excluding official transfers)	-565	-440	-300	-283	-236	-203	-195	-195
Capital transfers	--	529	84	--	--	--	--	--
Foreign investment, net	100	-373 1/	120	153	176	203	235	273
Foreign direct investment inflows	...	134	...	...	...	...	...	...
Other medium and long-term capital	251	555	649	720	729	552	436	440
Credits extended, net	55	249	200	200	200	200	200	200
Credits received, net	196	306	449	520	529	352	236	240
Disbursements	266	795	930	990	1,000	1,000	1,000	1,000
Repayments	70	490	480	470	471	648	764	760
Net short-term capital	-436	73	77	--	20	20	20	20
Clearing account balance (-, surplus)	...	189	-130	--	...	...	...	...
Capital account	-85	973	800	872	925	775	692	733
Errors and omissions	-633	-182	--	--	--	--	--	--
Overall balance	-539	356	500	589	688	572	497	538
Financing	539	-356	-650	-740	-689	-572	-497	-539
Gross reserves (-, inc)	-95	-521	-770	-700	-644	-571	-462	-493
State Bank	5	-59	-470	-450	-594	-521	-412	-443
Commercial banks	-100	-462	-300	-250	-50	-50	-50	-50
Use of Fund credit net	94	90	48	-89	-94	-51	-85	-95
Purchases	111	90	134	92	23	--	--	--
Repurchases	16	--	86	181	117	51	85	95
Short-term bank liabilities (-, red)	540	75	72	50	50	50	50	50
State Bank	540	--	22	--	--	--	--	--
Commercial banks	--	75	50	50	50	50	50	50
Financing gap	--	--	150	150	--	--	--	--
Memorandum items:								
Current account (percent of GDP)	1.7	-3.9	-2.6	-2.4	-1.9	-1.6	-1.4	-1.4
Current account (excluding official transfers, in percent of GDP)	-5.3	-4.0	-2.6	-2.4	-1.9	-1.6	-1.4	-1.4
Convertible currency debt								
In millions of U.S. dollars	2,829	3,372	4,252	4,883	5,387	5,758	5,979	6,195
In percent of GDP	26.5	30.5	36.4	40.7	43.3	44.4	44.1	43.4
of which: IMF	4.5	5.1	5.3	4.4	3.5	2.9	2.2	1.4
Convertible currency debt service								
In millions of U.S. dollars	273	673	643	943	918	1,057	1,225	1,244
Amortization	85	490	396	652	588	699	849	855
Interest	188	184	247	291	330	358	376	389
Convertible debt service								
In percent of exports of goods and services	3.3	8.9	7.9	11.0	10.1	11.0	12.0	11.4
of which: IMF	0.5	0.4	1.3	2.5	1.6	0.7	1.0	1.1
Official reserves, 2/ end of period	410	468	938	1,388	1,982	2,503	2,915	3,358
In months of current imports	0.7	0.9	1.7	2.4	3.2	3.9	4.2	4.6
Banking system reserves, end of period	937	1,458	2,228	2,928	3,572	4,143	4,605	5,098

Sources: Data provided by the Slovak authorities; and staff estimates and projections.

1/ Including US$529 million of Slovak shares in Czech companies acquired through the "first wave" of voucher privatization in the former CSFR. The counterpart is presented as a capital transfer.

2/ Including gold (national valuation).

Table 7. Slovak Republic: Balance of Payments Financing, 1992-1995

(In millions of U.S. dollars)

	1992 Estimate	1993 Estimate	1994 Program	1995 Program
1. Medium- and long-term loan disbursements	266	795	930	990
a. Credit lines/suppliers' credits	70	507	360	400
b. Project financing	...	8	220	230
c. Financial credits	196	280	350	360
World Bank	38	40	80	90
Japan's Eximbank	67	--	20 1/	20 1/
EU	77	--	-- 1/	-- 1/
Other G-24	14	--	-- 1/	-- 1/
NBS bonds	...	240	250	250
2. Fund purchases	111	90	134	92
3. Residual financing need	--	--	150	150
4. Total gross borrowing requirement (1+2+3)	377	885	1,214	1,232
of which:				
5. Total financial credits (1c+2+3)	307	330	634	602

Sources: Data provided by the Slovak authorities; and staff estimates.

1/ On the basis of existing commitments.

Table 8. Slovak Republic: Proposed Stand-By Arrangement--
Quantitative Performance Criteria

	Actual	Projected	Program		
	Mar.31 1994	April-June 1994	July-Sept. 1994	Oct.-Dec. 1994	Jan.-Dec. 1995 1/
			(In billions of koruny)		
Net credit from the banking system to the Government 2/	-0.6	2.2	7.2	12.3	9.0
Net domestic assets of the banking system 3/	272.9	278.5	286.0	303.0	316.0
			(In millions of U.S. dollars)		
Net foreign liabilities of the banking system in convertible currencies 4/	860.4	763.2	682.3	627.8	227.8
Contracting or guaranteeing by the Government and the National Bank of Slovakia of external debt in convertible currencies, 1-12 year maturity 5/	37	...	600	1,000	2,000
Contracting or guaranteeing by the Government of short-term debt in convertible currencies (less than 1 year maturity, excluding normal import credits)	--	--	--	--	--
Gross reserves of the National Bank of Slovakia 6/					
Minimum limit	...	...	450	500	900
Target	474.5	510	845	920	1,380

Source: Letter of Intent, Annexes A-D.

1/ Indicative targets.
2/ Cumulative change from end of previous year to end of period; maximum increase.
3/ Outstanding stock at end of period; foreign currency component valued at an exchange rate of Sk 33.202 = US$1; maximum limit.
4/ Outstanding stock at end of period.
5/ Cumulative from January 1, 1994 to end of period.
6/ Stock of end of period, including all monetary gold valued at US$42.22 per ounce (i.e., excluding foreign exchange obtained through swaps).

Table 9. Slovak Republic: Schedule of Purchases
Under the Proposed Stand-By Arrangement

	Amount of purchase	Available on or after	Contingent on 1/
1.	SDR 15.42 million (6.0 percent of quota)	Board approval of arrangement 2/	
2.	SDR 16.73 million (6.5 percent of quota)	November 15, 1994	Observance of end-September 1994 performance criteria
3.	SDR 16.73 million (6.5 percent of quota)	February 15, 1995	Observance of end-December 1994 performance criteria and completion of first review
4.	SDR 16.73 million (6.5 percent of quota)	May 15, 1995	Observance of end-March 1995 performance criteria
5.	SDR 16.73 million (6.5 percent of quota)	August 15, 1995	Observance of end-June 1995 performance criteria and completion of second review
6.	SDR 16.73 million (6.5 percent of quota)	November 15, 1995	Observance of end-September 1995 performance criteria
7.	SDR 16.73 million (6.5 percent of quota)	February 15, 1996	Observance of end-December 1995 performance criteria and completion of third review

1/ Apart from standard performance criteria and other conditions specified in the stand-by arrangement, including performance criteria on the exchange and trade system and the clause on arrears to the Fund.
2/ At the same time, a second STF purchase of SDR 64.35 million (25 percent of quota) is expected to become available.

Table 10. Slovak Republic: Indicators of Financial Obligations to the Fund, 1994-1999

	1994	1995	1996	1997	1998	1999
Debt service to the Fund (in millions of SDRs) 1/	77.6	153.8	103.5	52.6	74.9	86.9
Repurchases (in millions of SDRs)	61.9	132.3	85.6	37.6	62.3	77.9
Charges (in millions of SDRs)	15.7	21.5	17.9	15.0	12.6	9.0
In percent of exports of goods and services	1.3	2.5	1.6	0.7	1.0	1.1
In percent of convertible currency debt service	16.8	22.3	15.4	6.8	8.4	9.6
In percent of gross official reserves	11.5	15.2	7.1	2.9	3.5	3.5
Memorandum items:						
Fund credit outstanding 1/						
In millions of U.S. dollars	616.0	526.5	432.2	380.8	295.5	188.8
In percent of quota	172.2	149.4	122.7	108.1	83.9	53.6
In percent of convertible currency debt	14.5	10.8	8.0	6.6	4.9	3.0
In percent of GDP	5.3	4.4	3.5	2.9	2.2	1.3

Sources: National Bank of Slovakia; and staff estimates.

1/ Assuming all drawings under the proposed program are made as set out in Table 9.

Slovak Republic: Fund Relations
(As of May 31, 1994)

I. Membership Status: Joined January 1, 1993.

II. General Resources Account:	SDR Million	% Quota
Quota	257.40	100.0
Fund holdings of currency	646.08	251.0

III. SDR Department:	SDR Million	% Allocation
Holdings	0.42	N/A

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-by arrangements	193.60	75.2
CCFF	130.72	50.8
Systemic Transformation Facility	64.35	25.0

V. Financial Arrangements: None

VI. Projected Obligations to Fund (millions of SDR's; based on existing use of resources only):

	Overdue	Forthcoming				
	5/31/94	1994	1995	1996	1997	1998
Principal		45.4	132.3	85.6	35.6	33.7
Charges/interest		9.8	15.2	8.8	5.6	3.8
Total		55.2	147.5	94.4	41.2	37.5

VII. Projected Obligations: See the attached Table 1.

VIII. Exchange Rate Arrangement:

The currency of the Slovak Republic is the Slovak koruna, created on February 8, 1993 upon the dissolution of the currency union with the Czech Republic, which had used the Czechoslovak koruna as its currency. A single exchange rate applies to all transactions with the convertible currency area except the Czech Republic. The exchange rate is pegged to a basket of five currencies. Following a 10 percent devaluation on July 9, 1993, the exchange rate stood at Sk 32.28 per U.S. dollar on May 31, 1994. Commercial transactions with the Czech Republic go through a clearing account with the two central banks; transactions are converted from the currency of the contract into "clearing ECUs" at a rate set by the respective central banks, which can differ by up to 5 percent. There is a mutual credit line up to ECU 130 million. Balances above this credit limit are settled in hard currency 15 days after the end of the month. Special exchange arrangements apply to settlements with some socialist countries outside the former CMEA.

IX. Article IV Consultation:

(a) Last consultation with the Slovak Republic concluded on July 26, 1993 (EBS/93/117, July 15, 1993).

Jurisdictional decision:

The restrictions on the making of payments and transfers for current international transactions maintained by the Slovak Republic under Article XIV are described in SM/93/157 (July 19, 1993). The exchange restrictions arising from the bilateral payments arrangement with the Czech Republic an the advance import deposit requirement are subject to approval under Article VIII, Section 2(a). The Fund approves the latter restriction until end-1993 and encourages the authorities to apply the measures maintained under Article XIV in a liberal fashion.

X. Technical Assistance: See the attached Table 2.

XI. Resident Representative Post: Mr. Andreas Georgiou took up post on July 12, 1993.

Table 1. Slovak Republic: Projected Payments to the Fund as at May 31, 1994

(In millions of SDRs)

	Overdue	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Beyond	Total
Obligations from existing drawings													
1. Principal													
a. Repurchase	--	45.4	132.3	85.6	35.6	33.7	13.2	10.7	10.7	10.7	10.7	--	388.7
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	9.8	15.3	8.8	5.6	3.8	2.5	1.9	1.4	.8	.3	--	50.3
Total obligations 2/	--	55.2	147.5	94.4	41.2	37.5	15.8	12.7	12.1	11.5	11.0	--	438.9
(Percent of quota)	--	21.4	57.3	36.7	16.0	14.6	6.1	4.9	4.7	4.5	4.3	--	170.5
Obligations from prospective drawings													
1. Principal													
a. Repurchases	--	--	--	--	2.0	28.6	64.7	40.0	12.8	10.7	10.7	10.7	180.1
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	1.0	6.2	9.1	9.4	8.8	6.5	3.5	1.9	1.4	.8	.2	48.8
Total obligations 2/	-	1.0	6.2	9.1	11.3	37.5	71.1	43.4	14.8	12.2	11.5	11.0	229.1
(Percent of quota)	--	.4	2.4	3.5	4.4	14.5	27.6	16.9	5.8	4.7	4.5	4.3	89.0
Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	--	45.4	132.3	85.6	37.6	62.3	77.9	50.7	23.5	21.4	21.4	10.7	568.8
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	10.8	21.5	17.9	15.0	12.6	9.0	5.4	3.3	2.2	1.1	.2	99.1
Total obligations 2/	--	56.2	153.7	103.5	52.5	75.0	86.9	56.1	26.9	23.7	22.5	11.0	668.0
(Percent of quota)	--	21.8	59.7	40.2	20.4	29.1	33.8	21.8	10.5	9.2	8.8	4.3	259.5

1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for SAF, ESAF, and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.
2/ Overdue obligations (if applicable) will be settled in full at close of business June 1, 1994.

Table 2. Slovak Republic: Technical Assistance, 1991-94 1/

Department	Timing	Purpose
MAE	April 1991 Sept./Oct. 1991 Feb./March 1992	Missions to the State Bank of Czechoslovakia; design of monetary policy instruments and operating procedures; development of foreign exchange operations and the legal framework for central and commercial banking and the reorganization of the State Bank
	May 1991 and December 1992	Staff visits on monetary instruments
	Through September 1991	Regular visits by experienced central banker
	December 1992	Mission to the newly-established Slovak Central Bank: monetary instruments, operations and analysis, foreign exchange operations, and banking supervision
	Since January 1993	Several expert visits on banking supervision
	January 1993	Expert visit on foreign exchange operations
	February 1993	Staff visit on monetary operations and analysis
	March 1993	Mission on payments and clearing systems, central bank accounting and central bank organization
	June 1993	Expert visit on monetary projections and analysis
	November 1993	Expert visit on monetary operations and analysis
	Since November 1993	Resident advisor on banking supervision, co-sponsored by the EC-PHARE
	February/March 1994	Mission on monetary analysis and operations, foreign exchange operations, banking supervision and regulation, central bank accounting, clearing and payment system, central bank organization
	May 1994	Advice to the NBS Governor, visit by senior advisor
	July 1994	Expert visit on monetary analysis and operations
	November 1994	Mission on central banking operations
FAD	February and July 1991	Advice on the design of new corporate and personal income taxes
	May and September 1991	Advice on policy and administrative aspects of the introduction of VAT
	Since December 1991	Regular visits by FAD consultant on VAT administration
	March 1992	Advice on administration (particularly VAT)

1/ With the exception of the MAE mission in December 1992, technical assistance in 1991-92 was delivered to the Czech and Slovak Federal Republic.

Table 2 (cont.). Slovak Republic: Technical Assistance

Department	Timing	Purpose
	April 1992	Examination of public financial management
	April 1993	Follow-up mission on public financial management
	May 1993	Mission on tax policy and administration
	June 1994	VAT administration, visit by expert
LEG	April and July 1991	Assistance with the drafting of new corporate and personal income tax laws
	October 1991	Assistance with the drafting of income tax and VAT laws
	January 1992	Assistance with the drafting of income tax laws
	February 1992	Assistance with the drafting of the tax administration law
	March 1992	Follow-up visit by consultant focusing on the income tax and tax administration laws
	May 1993	Assistance with revision of tax reform legislation
	September 1993	Assistance with income tax legislation
STA	June 1991	Mission on government finance statistics
	September 1991	Mission on balance of payments statistics
	May 1993	Mission on monetary statistics
	October 1993	Mission on balance of payments statistics
	November 1993	Follow-up visit on monetary statistics
	January 1994	Mission on government finance statistics

Slovak Republic: Relations with the World Bank

Slovakia became a member of the World Bank on January 1, 1993, by joint succession with the Czech Republic to the membership of the Czech and Slovak Federal Republic.

A Structural Adjustment Loan (SAL) (US$450 million), approved in June 1991 with Czechoslovakia has been fully disbursed. The Czech and Slovak Republics have assumed repayment obligations in the ratio of 2:1. It was cofinanced by the Japanese Export-Import Bank in the amount of US$200 million.

A Country Economic Memorandum (CEM), which provides the basis for the Bank's future lending program, has been prepared and discussed with the Government.

An Economic Recovery Loan (ERL) was approved by the World Bank Board in November 1993. The ERL supports Slovakia's ongoing transformation by financing many of the one-off costs associated with restructuring and the break up of the Federation. The supported reforms focus on four areas: (a) fiscal retrenchment; (b) strengthening and diversifying the financial sector; (c) continued privatization, private sector development and enterprise restructuring; and (d) a more efficient social safety net. As of May 31, 1994, disbursements amount to US$16 million, out of a total loan of US$80 million.

An Enterprise and Financial Sector Adjustment Loan (EFSAL) under preparation builds on the ERL and will deepen and broaden the reforms in both the enterprises and the financial sector. The EFSAL will approach the restructuring with an integral view that recognizes the link between enterprise performance and the financial position of the banks.

The Board approved the first telecommunication loan in May 1993 that will strengthen the international and domestic long-distance networks. The loan, with World Bank participation of US$55 million, was cofinanced with the European Bank for Reconstruction and Development and the European Investment Bank.

Projects in preparation are aimed at removing bottlenecks for developing the private sector. They include a forestry sector project that will help Slovakia to better manage its natural resources for both environmental and commercial benefits, with a greater participation of the private sector; a power transmission project, which will support a reliable power transmission to connect Slovakia with the European Union grid, and improve the regulatory and pricing framework for the sector; a gas project that will help the rehabilitation and modernization of the gas delivery system and restructuring of the gas company; and a housing project that will support the development of market-oriented housing finance schemes and assist the local authorities in managing the privatization of the communal housing stock. Two further projects are under preparation to improve state functions: a labor adjustment project that will be linked to the EFSAL and a health sector project that will help raise the efficiency of health services and other financing.

The International Finance Corporation (IFC) staff has held investment seminars for several enterprises and has been in touch with large joint ventures and companies. The Foreign Investment Advisory Services (FIAS) has completed a diagnostic study of the foreign investment climate in Slovakia and the report will be discussed with the authorities in December 1994.

Slovak Republic: Selected Social and Economic Indicators, 1993

Population and vital statistics	
Total population (in thousands)	5,330.0
Total population growth (in percent)	0.42
Life expectancy at birth (in years)	
Male	66.6
Female	75.4
Population age structure (in percent)	
0-14	23.6
15-64	65.8
65 and above	10.6
Crude birth rate (per thousand)	13.8
Crude death rate (per thousand)	9.9
Infant mortality rate (per thousand)	10.6
Food, health, and nutrition	
Per capita supply of:	
Calories (per day)	3,333.0 1/
Protein (grams per day)	105.0 1/
Population per physician	282.0
Population per hospital bed 3/	81.6
Labor force 4/	
Total labor force (in thousands)	2,350.0
Female (in percent)	46.1
Agriculture (in percent)	9.2
Industry (in percent)	35.1
Education	
Enrollment rates (percent of school-age children)	
Primary (total)	99.5
Secondary (total)	95.9
Colleges, specialized schools, and universities	29.1
Pupil-teacher ratio	
Primary	22.4
Secondary	14.7
Other	
Telephones (per hundred)	25.7 2/
Private cars (per hundred)	18.0 2/

Sources: Slovak Statistical Office and the World Bank.

1/ 1990.
2/ 1992.
3/ Including hospitals, special health institutions, and health resort establishments.
4/ Excluding the armed forces.

The Slovak Republic: Stand-By Arrangement

Attached hereto is a letter, with attached memorandum, dated June 13, 1994 from the Vice Premier and Minister of Finance of the Slovak Republic and the Governor of the National Bank of Slovakia, requesting a stand-by arrangement and setting forth:

(a) the objectives, policies and measures that the authorities of the Slovak Republic intend to pursue for the period of this stand-by arrangement; and

(b) understandings of the Slovak Republic with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of the Slovak Republic will pursue for the period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from July --, 1994 to March --, 1996, the Slovak Republic will have the right to make purchases from the Fund in an amount equivalent to SDR 115.8 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 15.42 million until November 15, 1994, the equivalent of SDR 32.15 million until February 15, 1995, the equivalent of SDR 48.88 million until May 15, 1995, the equivalent of SDR 65.61 million until August 15, 1995, the equivalent of SDR 82.34 million until November 15, 1995, and the equivalent of SDR 99.07 million until February 15, 1996.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of the Slovak Republic's currency subject to repurchase beyond 25 percent of quota.

3. The Slovak Republic will not make purchases under this stand-by arrangement that would increase the Fund's holdings of the Slovak Republic's currency subject to repurchase beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that

(i) the limit on the net domestic assets of the banking system described in paragraph 19 and Annex D of the attached memorandum, or

(ii) the limit on net bank credit to the Government described in paragraph 13 and Annex C of the attached memorandum, or

(iii) the limit on the convertible net foreign liabilities of the banking system described in paragraph 7 and Annex A of the attached memorandum, or

(iv) the floor on the gross reserves of the National Bank of Slovakia described in paragraph 7 and Annex A of the attached memorandum, or

(v) the limit on the contracting and guaranteeing of new external debt with maturity of more than one year and up to and including 12 years described in paragraph 7 and Annex B of the attached memorandum, or

(vi) the limit on the contracting and guaranteeing of new external debt with maturity of up to and including one year described in paragraph 7 and Annex B of the attached memorandum

is not observed; or

(b) if, at any time during the period of the arrangement, the Slovak Republic fails to fulfill its intentions regarding the non-accumulation of external payments arrears as described in paragraph 6 of attached memorandum; or

(c) after February 14, 1995, August 14, 1995 and February 14, 1996, until the respective reviews contemplated in the third paragraph of the June 13, 1994 letter; or

(d) during the entire period of this stand-by arrangement, with the exception of actions taken in accordance with the February 8, 1993 bilateral payments arrangement with the Czech Republic, or any modification of such agreement, if the Slovak Republic

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions; or

(ii) introduces or modifies multiple currency practices; or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When the Slovak Republic is prevented from purchasing under this stand-by arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and the Slovak Republic and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. The Slovak Republic will not make purchases under this stand-by arrangement during any period in which the Slovak Republic has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation (a) in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or (b) in respect of a purchase in support of debt and debt service reduction operations pursuant to Decision No. 9331-(89/167), as amended, or (c) pursuant to subparagraph 16(a) or 33(a) of Decision No. 8955-(88/126), as amended, on the Compensatory and Contingency Financing Facility.

5. The Slovak Republic's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of the Slovak Republic. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and the Slovak Republic and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of the Slovak Republic the Fund agrees to provide SDRs at the time of the purchase.

7. The Slovak Republic shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

8. (a) The Slovak Republic shall repurchase the amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as the Slovak Republic's balance of payments and reserve position improves.

(b) Any reductions in the Slovak Republic's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the stand-by arrangement the Slovak Republic shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to the Slovak Republic or of representatives of the Slovak Republic to the Fund. The

Slovak Republic shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of the Slovak Republic in achieving the objectives and policies set forth in the attached letters and annexed memorandum.

10. In accordance with the third paragraph of the June 13, 1994 letter, the Slovak Republic will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while the Slovak Republic has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning the Slovak Republic's balance of payments policies.