FOR AGENDA

SM/95/206

CONTAINS CONFIDENTIAL INFORMATION

August 18, 1995

To: Members of the Executive Board

From: The Secretary

Subject: Slovak Republic - Selected Background Issues

This paper provides background information to the staff report on the 1995 Article IV consultation discussions with the Slovak Republic, which was circulated as SM/95/189 on August 8, 1995.

Mr. Marrese (ext. 35633) 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 European Bank for Reconstruction and Development (EBRD), the European Commission (EC), the European Investment Bank (EIB), the Food and Agriculture Organization (FAO), the Organisation for Economic Cooperation and Development (OECD), and the United Nations Development Programme (UNDP), following its consideration by the Executive Board.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

SLOVAK REPUBLIC

Selected Background Issues

Prepared by a staff team consisting of
Messrs. E. Zervoudakis, M. Marrese, T. Sukselainen, A. Georgiou
J. Odenius, H. Monroe (all EU1) and G. Anayiotos (PDR)

Approved by the European I Department

August 15, 1995

Contents | Page

Text Tables

Statistical Appendix Tables

<u>Charts</u>

I. Explaining the Gap Between Slovak and Czech Unemployment Rates 1/

The Slovak Republic has had an unemployment rate of 10-15 percent since 1991, like most other European transition economies, while the Czech Republic's unemployment rate has never exceeded 3-4 percent. This chapter investigates the reasons why the Slovak unemployment rate has been considerably higher than the Czech unemployment rate. The predominant cause is that employment in Slovakia declined more sharply than in the Czech Republic, particularly in 1991 (Chart I.1). Three explanations for this sharper decline stand out: the Slovak economy suffered more severe production shocks than the Czech economy; Slovak firms were less profitable than Czech firms; and the Slovak private sector absorbed less labor than the Czech private sector. An additional explanation is that proportionately more Czechs than Slovaks left their jobs through retirement rather than unemployment, because the Czech Republic had an older population which participated more actively in the labor force before the transition (Chart I.1).

The two republics' common institutional and regulatory heritage, a result of their federation until the end of 1992, makes it possible to rule out a number of potential explanations for the gap in unemployment rates. For instance, much of the unemployment gap that exists today had emerged by end-1991, well before the Czech and Slovak Federal Republic (CSFR) dissolved, and during a period in which the two republics experienced very similar structural reforms and macroeconomic environments. Moreover the republics have experienced similar declines in real wages, pursued comparable policies to create jobs and retrain workers, and provided roughly the same levels of unemployment benefits.

Below, section 1 assesses the relative roles of employment and labor force developments in creating the gap between the unemployment rates in the two republics, and so prepares for a separate analysis of developments in employment in section 2 and the labor force in section 3.

1. Emergence of the unemployment gap

Significant unemployment emerged in the Slovak and Czech Republics primarily during 1991, as employment began to fall faster than workers left the labor force. Chart I.1 suggests that the Slovak Republic has higher unemployment than the Czech Republic primarily because Slovak employment declined more quickly than Czech employment, but also because the Slovak labor force contracted less quickly than the Czech labor force. Using the

---

1/ Prepared by H. Monroe.

identity that unemployment is the labor force minus employment, Table I.1 decomposes the role of each. 1/

Table I.1. Change in Unemployment, 1989-93

(Percent of 1989 labor force)

	Slovak Republic	Czech Republic	Gap
Change in unemployment $\Delta U/L$	13.5	3.0	10.5
Decline in employment $\Delta E/L$	17.8	10.2	7.6
Decline in labor force $-\Delta L/L$	-4.3	-7.2	2.9

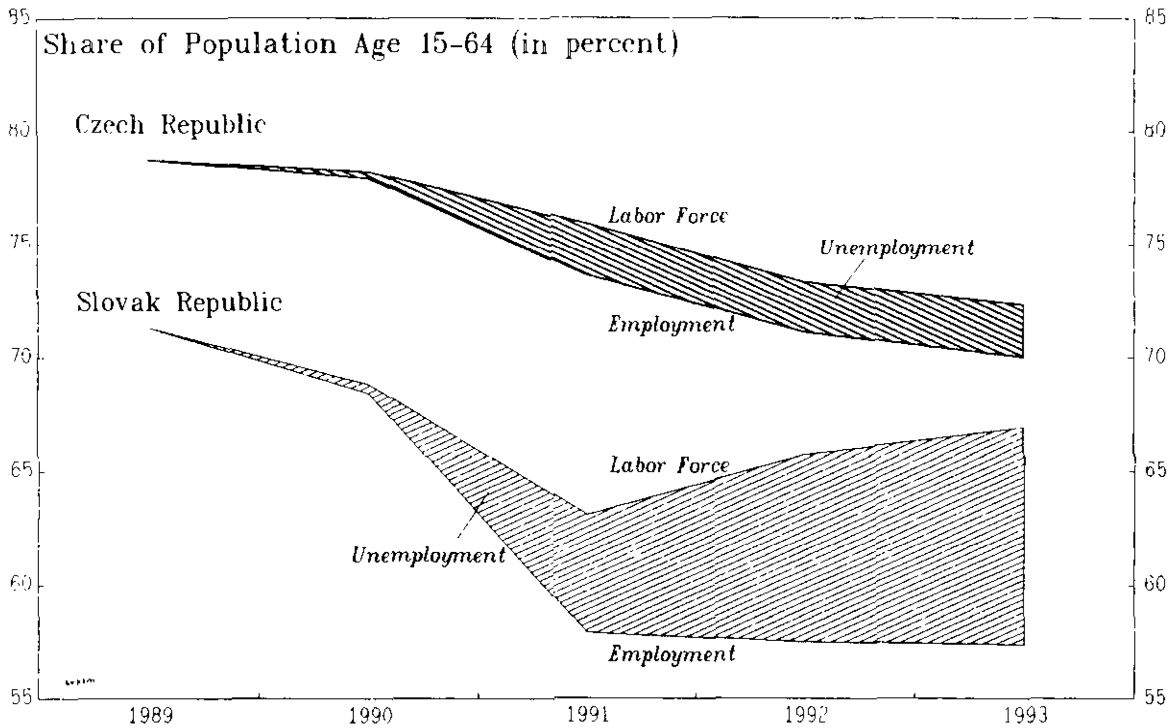
Source: Staff estimates (see Table I.9).

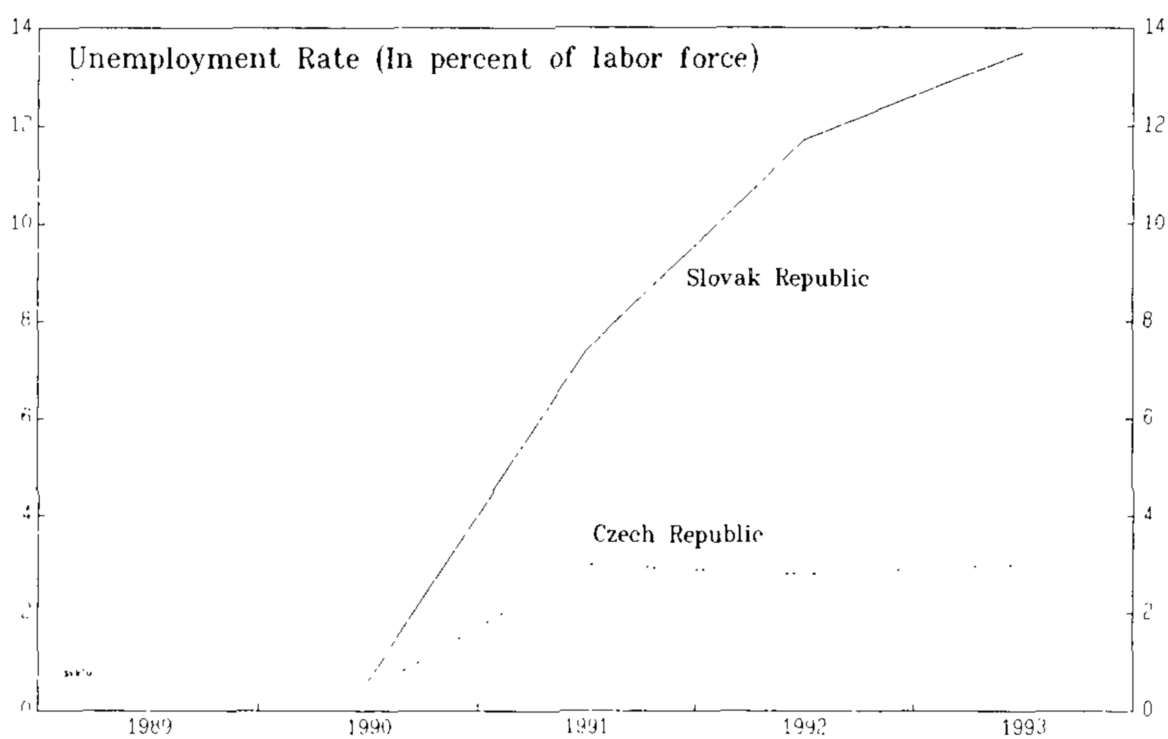
The Slovak Republic has a higher unemployment rate than the Czech Republic because Slovak employment declined by 7.6 percentage points more than Czech employment during 1989-93, and because the Slovak labor force declined by 2.9 percentage points less than the Czech labor force (measured as a percent of each republic's 1989 labor force). Thus, changes in employment explain much more of the gap in unemployment rates than do changes in the labor force.

With this motivation, the next sections discuss first why Slovak employment declined by more than Czech employment, and then why the Slovak labor force contracted less than the Czech labor force.

1/ The contributions of employment and labor force developments to unemployment are computed as follows. For each republic, the labor force is defined as the sum of employment and unemployment. Then, the number of unemployed, U, is equal to the difference between the size of the labor force, L, and the number of employed, E, so that $U=L-E$. Therefore, the change in unemployment from 1989 to 1993, ΔU is equal to the difference between the change in the labor force, ΔL, and in employment from 1989 to 1993, ΔE, so that $\Delta U=\Delta L-\Delta E$. The unemployment rate in 1989 was zero, so the unemployment rate in 1993 as a share of the 1993 labor force, U/L, can be decomposed into the change in the employment from 1989 to 1993 as a share of the 1993 labor force, $\Delta E/L$, minus the change in the labor force from 1989 to 1993 as a share of the 1993 labor force, $\Delta L/L$. For the underlying data, see Table I.1.

CHART I.1
SLOVAK AND CZECH REPUBLICS
UNEMPLOYMENT





1/ The unemployment rate is greater than the official unemployment rate because a more restrictive definition of the labor force has been used.

2. The 1991 employment shock

Not only did Slovak employment decline by more than Czech employment during 1989-93, but the Slovak decline occurred almost entirely between 1990 and 1991. Employment fell faster and farther in the Slovak Republic due to greater production shocks, overstaffing and financial shocks, and weaker private sector employment growth.

a. Production shocks

The Slovak economy confronted more difficult challenges than the Czech economy as it approached the transition, because of its greater dependence on trade with the CMEA, and a less favorable industrial structure. In particular, the Slovak economy had to adjust to the winding down of the armaments industry, which was located predominantly in Slovakia; increased Soviet purchases of western capital goods in the late 1980s instead of Slovak capital goods; and greater trade barriers in the European Union to Slovak exports, such as steel. 1/ As a result, Slovak production fell by several percentage points more than Czech production during 1987-91 (Table I.2).

Table I.2. GDP and Production, 1988-94

(Percent change in real terms)

	1988	1989	1990	1991	1987-91	1992	1993	1994
Gross domestic product								
Slovak Republic	1.9	1.0	-2.5	-14.5	-14.1	-7.0	-4.1	4.7
Czech Republic	2.1	4.5	-1.2	-14.2	-9.7	-6.4	-0.5	2.7
Net material product								
Slovak Republic	3.4	1.1	-3.3	-19.4	-18.5	...	...	...
Czech Republic	2.2	2.4	-0.4	-19.0	-15.6	...	...	...
Gross industrial production								
Slovak Republic 1/	2.3	-1.3	-5.3	-17.6	-21.2	-14.0	-10.6	7.0
Czech Republic	1.9	1.7	-3.3	-13.6	-13.4	-12.8	-7.1	5.0

Sources: Data provided by the Slovak Statistical Office and the Czech Statistical Office.

1/ percentage changes until 1990 are for firms of all sizes. percent changes after 1991 are for firms with 25 or more workers, in constant organizational structure of 1993.

The winding down of the Czechoslovak arms industry starting in 1987 imposed a greater burden on the Slovak Republic than the Czech Republic. The Slovak Republic accounted for 60 percent of CSFR arms production in

1/ OECD (1994b), pp. 79, 81.

1987, and 30 percent of total industrial production. The arms industry declined as it lost export markets, which accounted for 80 percent of its sales, and later as a matter of policy. Approximately 38,000 Slovaks lost their jobs in the armaments industry between 1987 and 1992, compared to 20,000 Czechs (in Bohemia and Moravia). 1/

The Slovak Republic also conducted more of its trade with the CMEA than did the Czech Republic, and was therefore harder hit by its decline in the late 1980s. Separate trade data are available since 1991, and these indicate that the Slovak Republic was more dependent on the CMEA and less successful in redirecting its trade to industrial countries (Table I.3).

Table I.3. Direction of Trade, 1991-93

(Percent of total trade) 1/

	1991	1992	1993
Slovak trade with:			
Czech Republic	51.6	48.7	38.8
Other CMEA	22.6	18.5	21.9
Industrial countries	19.6	26.9	32.5
Czech trade with:			
Slovak Republic	32.5	23.9	18.9
Other CMEA	20.5	15.8	13.8
Industrial countries	38.0	52.3	58.0

Source: Data provided by national authorities.

1/ Exports plus imports with partner area divided by total exports plus imports.

The decline in Slovak production was not limited to industry. The Slovak construction sector declined by more than half during 1990-93, as measured by production or employment. By contrast, cooperative employment, which is predominantly agricultural, declined by 41 percent in the Slovak Republic compared to 49 percent in the Czech Republic during 1989-92. The areas in Slovakia with the highest regional unemployment rates are those which were focused on textiles and shoes, mining, and agriculture.

b. Financial shocks and overstaffing

Full employment policies prevented the weaker performance of the Slovak economy compared with the Czech economy from being reflected in employment

1/ OECD (1994b), p. 79.

until 1991. As a result, Slovak firms began the transition with greater overstaffing and a weaker financial position. When hard budget constraints were imposed on firms, and open unemployment became a possibility in 1990-91, the result was a sharper decline in Slovak employment than Czech employment.

Slovak firms entered the transition with a weaker financial position than Czech firms for several reasons (Table I.4). First, Slovak firms had faced a larger decline in demand for their products than Czech firms, for reasons described above. Second, Slovak firms had more unpaid bills for deliveries to the CMEA. Third, energy-intensive Slovak industries, such as chemicals and steel, suffered more from increased prices for energy imports.

Table I.4. Profitability, 1990-92

(Percent of costs)

	1990	1991	1992
Profit for distribution			
Slovak Republic	3.7	2.5	--
Czech Republic	5.4	5.5	3.8

Source: Data provided by national authorities.

It is also apparent that Slovak firms were more overstaffed in 1990 than Czech firms. Slovak firms shed more labor in 1991 than Czech firms without a significantly greater reduction in output in that year (Table I.2). Weaker growth in Slovak production during 1987-90 suggests that Slovak firms hoarded more labor during 1987-90 than Czech firms.

c. Private employment

Another explanation for the smaller decline in Czech employment is that the Slovak private sector failed to absorb labor to the same extent as the Czech private sector (Table I.5). Private Czech employment has grown steadily while private Slovak employment has not. 1/

1/ See Blanchard et al. (1994). The large growth in private Czech employment in 1993 may reflect privatization which had occurred in earlier years.

Table I.5. Private Employment, 1989-93
(Thousands of persons, period average)

	1989	1990	1991	1992	1993
Total employment					
Slovak Republic	2,423	2,345	2,008	1,995	1,991
Czech Republic	5,402	5,351	5,059	4,927	4,853
Public employment 1/					
Slovak Republic	2,399	2,230	1,751	1,628	1,547
Czech Republic	5,251	4,918	4,052	3,335	2,228
Private employment 2/					
Slovak Republic	24	115	257	367	444
Czech Republic 3/	151	433	1,007	1,592	2,625

Sources: Data provided by the Slovak Statistical Office and the Czech Statistical Office.

1/ Includes the employment of the state, state-owned enterprises, and cooperatives.
2/ Includes the employment of private firms, mixed-ownership firms, and non-profit organizations.
3/ The large increase in 1993 is largely the result of reclassification.

Of course, some of the growth in private sector employment was not the result of job creation, but of public jobs being relabeled as private jobs as firms were privatized. However, the ratio of Czech to Slovak private employment in 1991-92 contrasts with a comparable pace of privatization in the two republics during that period. Further evidence for private job creation comes from greater growth of the Czech service sector than can be explained by reclassification. 1/ Thus, the Czech private sector appears to have created more jobs than the Slovak private sector, and to have absorbed more labor shed by state-owned firms.

d. Other explanations

The literature has offered other explanations for the moderate decline in Czech employment which cannot also explain the sharp decline in Slovak employment rate, including wage moderation, the pace of restructuring, unemployment benefits, and government job creation and retraining programs.

1/ As large industrial firms were broken up by privatization, their service sector activities were reclassified from industry to services.

(1) Wage moderation

The two republics experienced very similar movements in real wages, so greater wage moderation in the Czech Republic cannot explain the unemployment gap. Slovak real wages fell by slightly more than Czech real wages in 1991 and improved by less in 1992 (Table I.6). Of course, the unemployment gap could have been prevented had real wages fallen faster in the Slovak Republic.

Table I.6. Wage Developments, 1991-94

(Percent change in real terms)

	1991	1992	1993	1994
Wages in industry 1/ 2/				
Slovak Republic	-29.8	8.9	-0.5	3.8
Czech Republic	-26.6	10.4	3.4	3.0

Sources: Data provided by the Slovak Statistical Office and the Czech Statistical Office.

1/ Firms with 25 or more workers.
2/ Deflated by the CPI.

(2) Pace of restructuring

Another explanation suggested for low Czech unemployment is that a slow pace of restructuring has avoided significant labor-shedding. However, the pace of restructuring in the Czech Republic has not been markedly slow, as measured by the structure of employment by ownership, by sector, and by size of firms. 1/ Furthermore, the Slovak Republic has restructured at a similar or slower pace.

(3) Unemployment benefits and employment programs

The Czech and Slovak Republics responded to the emergence of unemployment in 1990-91 by developing nearly identical systems of unemployment benefits and employment promotion. Furthermore, the Government promoted employment by creating "socially purposeful jobs" and "publicly useful jobs." At end-1991, the Czech Republic had created 69,000 of these, and the Slovak Republic 43,000. Thus, the Slovak Republic had created more jobs relative to the size of its labor force, but a smaller number relative to the size of unemployment. Also, a similar share of the Czech and Slovak

1/ See OECD (1994c), p. 13.

labor forces received requalification training in 1991, but the Czech effort was again much larger relative to the number of unemployed. However, a small percentage of the unemployed received training in either case.

The Slovak Republic distributed benefits slightly more generously than the Czech Republic, by allowing workers to receive severance pay and unemployment benefits simultaneously during February-December 1991. Thus, Czech workers receiving severance pay, which lasts on average three months, had less of an incentive to register as unemployed immediately. On the other hand, Czech workers still had an incentive to register to receive other benefits distributed through employment exchanges, and there was no real cost to doing so. These differences seem small in relation to the gap in unemployment rates. Furthermore, a federal law harmonized benefits in January 1992. Thus, it appears that differences in unemployment benefits and employment policies can explain little of the unemployment gap. 1/

3. Labor force contraction

During 1989-93, the Czech economy accommodated more of its employment decline than the Slovak economy through significant reductions in its labor force (Chart I.1). 2/ The Slovak and Czech unemployment rates in 1993 would have been 17.8 percent and 10.2 percent, respectively, if the workers who left the labor force during 1989-93 had become unemployed instead (Table I.1). The Czech labor force declined by more than the Slovak labor force primarily because proportionately more Czechs retired.

a. Retirement

To encourage working pensioners to retire, the Czechoslovak Government doubled the payroll tax on them at the start of 1991. Although the courts overturned the tax in 1992, many pensioners had already retired by then (Table I.7). 3/ Because persons with pensions are ineligible to register for unemployment benefits, most pensioners left their jobs without becoming unemployed. Between 1987 and 1992, 132,000 working Slovak old-age pensioners and 354,000 working Czech old-age pensioners left their jobs. Thus, a larger share of the Czech labor force retired.

1/ See OECD (1994c), p. 17.

2/ See Blanchard et al. (1994), Ham et al. (1994a), IMF (1994), and OECD (1994c). In Chart I.1, the decline in the Slovak participation rate in 1991 appears to be overstated by a lag in registration for unemployment; period-average and end-period unemployment rates for 1991 differ by almost 4 percent points.

3/ See IMF (1994).

Table I.7. Working Old-Age Pensioners

(Number of persons as of May)

	1987	1990	1992
Slovak Republic	188,276	171,923	55,745
Czech Republic	516,121	466,194	161,732

Sources: Slovak Statistical Yearbook, 1993; and Czech Statistical Yearbook, 1994.

There were more Czech than Slovak old-age pensioners working in 1987 because the Czech Republic has an older population, and because its pension-age population participated more actively in the labor force. In 1991, 20 percent of the Czech population was older than the legal retirement age in 1991, compared to 17 percent of the Slovak population. Furthermore, the labor force participation rate in 1987 of pension-age Czechs was higher than the participation rate of pension-age Slovaks (Table I.8).

Table I.8. Participation Rates, 1989 and 1993

	1989	1993	Change
	(Percent of population age 15-64)		
Total			
Slovak Republic	71.3	66.5	-4.8
Czech Republic	79.5	72.1	-7.4
Men			
Slovak Republic	74.0	71.2	-2.8
Czech Republic	86.3	80.1	-6.2
Women			
Slovak Republic	68.6	61.9	-6.5
Czech Republic	72.6	64.6	-8.0
	(Percent of pension-age population)		
Working old-age pensioners 1/			
Slovak Republic	20.7	6.0	-14.7
Czech Republic	24.5	7.7	-16.8

Sources: Statistical yearbooks; and staff estimates.

1/ In 1987 and 1992. The legal retirement age which determines eligibility for pensions is 59 for men, and 55 for women with two children.

b. Other factors

Several other factors which have been proposed to explain the contraction of the Czech labor force are the departure of women from the work force, net exports of labor and unrecorded private sector employment. However, these seem less important than retirement in explaining why the Slovak labor force contracted by less than the Czech labor force. These factors are discussed briefly below.

(1) Departure of women

In both republics, the participation of women in the work force fell by more than the participation of men (Table I.8). The OECD (1994c) cites as explanations a decline in female-dominated industries, such as textiles and clothing, the limited availability of part-time jobs and nurseries, and the increasing cost of day care facilities. However, changes in male participation rates are more important than changes in female participation rates in explaining why the Czech labor force contracted by more than the Slovak labor force, as can be seen in Table I.8.

(2) Net exports of labor

The Czech Republic may have had greater net exports of labor than the Slovak Republic, because more Czechs than Slovaks have found jobs abroad (about 50,000 Czechs), more foreign workers resident in the Czech Republic before the transition returned home (about 34,000), and Slovaks resident in the Czech Republic returned to Slovakia upon dissolution of Czechoslovakia. 1/ However, the size of Czech labor exports must be offset by its imports of labor from weaker transition economies, and from western countries as well (about 104,000). 2/

(3) Unrecorded private sector employment

While some workers left the measured Czech labor force by entering unrecorded private sector employment, many of these jobs are secondary jobs that do not affect labor force participation, or are held by workers from weaker transition economies, not by Czechs who have left the recorded labor force. 3/ In addition, the Czech household labor force survey does not detect more unemployment than is recorded at employment exchanges. 4/

1/ See IMF (1994).
2/ See for instance, OECD (1994c).
3/ See OECD (1994c).
4/ Note that substantial unrecorded private employment would imply that the actual Czech unemployment rate is lower than the measured unemployment rate.

4. Conclusions

It appears that a small number of factors explain why the Slovak unemployment rate exceeds the Czech unemployment rate. In 1991, the Slovak Republic experienced a sharper decline in employment, due to greater production shocks, a weaker financial position for firms, overstaffing, and weaker private employment growth. Over a longer period, the Czech Republic was able to reduce its labor force through retirement, whereas the Slovak Republic began the transition with a lower labor force participation rate, and younger demographics. Because of the many similarities between the Slovak and Czech Republics, other explanations which may help explain Czech unemployment performance relative to other economies are not found to be useful in explaining the gap between Czech and Slovak unemployment.

Table I.9. Czech and Slovak Republics: Labor Market, 1989-93

	1989	1990	1991	1992	1993
	(Thousands of persons, period average)				
Population age 15-64 (at mid-year)					
Slovak Republic	3,399	3,429	3,443	3,468	3,492
Czech Republic	6,793	6,842	6,851	6,903	6,952
Labor force 1/					
Slovak Republic	2,423	2,360	2,188	2,279	2,319
Czech Republic	5,402	5,370	5,222	5,079	5,014
Unemployment					
Slovak Republic	--	15	180	284	328
Czech Republic	--	19	163	152	161
Total employment					
Slovak Republic	2,423	2,345	2,008	1,995	1,991
Czech Republic	5,402	5,351	5,059	4,927	4,853
	(Percent of 1989 labor force)				
Unemployment rate					
Slovak Republic	--	0.6	7.4	11.7	13.5
Czech Republic	--	0.4	3.0	2.8	3.0

Sources: Data provided by the Slovak Statistical Office and the Czech Statistical Office; and staff estimates.

1/ The labor force is computed as the sum of employment and unemployment. The definition is more restrictive than the official definition, excluding women on maternity leave and military employment, implying that the unemployment rate is greater than the official rate.

References

Blanchard, Olivier, Simon Commander, and Fabrizio Coricelli, "Unemployment and Restructuring in Eastern Europe," in Simon Commander and Fabrizio Coricelli (eds.), *Unemployment, Restructuring, and the Labor Markets in East Europe and Russia*, (Washington: World Bank, 1994).

Ham, John, Jan Svejnar, and Katherine Terrell, "Unemployment Duration in Transitional Economies: Evidence from Micro Data on Czech and Slovak Men," September 1994a.

_____, "The Czech and Slovak Labor Markets During the Transition," in Simon Commander and Fabrizio Coricelli (eds.), *Unemployment, Restructuring, and the Labor Markets in East Europe and Russia*, (Washington: World Bank, 1994b).

International Monetary Fund, *Czech Republic - Recent Economic Developments*, (Washington: International Monetary Fund, July 20, 1994, SM/94/194, Annex I).

Organization for Economic Cooperation and Development, *Economic Survey: Czechoslovak Republic* (Paris: OECD, 1994a).

____, *Industry in the Czech and Slovak Republics* (Paris: OECD, 1994b).

____, "Review of the Labor Market in the Czech Republic," Employment, Labor and Social Affairs Committee, Prague, December 1994c.

II. Fiscal Outlook in 1995 and in the Medium-Term 1/

Fiscal policy in 1995 aims to consolidate Slovakia's gains in fiscal adjustment since independence--a reduction in the underlying fiscal deficit from almost 13 percent of GDP in 1992 to 1 1/2 percent of GDP in 1994. Notwithstanding higher investment expenditures and increased social spending, the deficit is to be contained to 3 percent of GDP in 1995. This will be made possible by savings in interest expenditures and increased tax yields through improved collection efficiency, bracket creep for personal income taxes, and the full-year effect of indirect tax increases implemented in August 1994. The targeted deficit is consistent with a small primary surplus and, hence, with a reduction in the government/GDP ratio over the medium term. However, the revenue/GDP and expenditure/GDP ratios will remain high in 1995 (over 50 percent) and represent a weak aspect of the fiscal situation. In this regard and in the context of a growing economy, substantial progress could be made by containing real increases in government spending as shown in an illustrative medium-term fiscal scenario.

The institutional structure of the government sector has undergone considerable changes in recent years (Table 28). The most important change has been the transfer of all social insurance operations from the State Budget. Three institutions now form the core of the social security system: the Social Insurance Company (SIC), which is in charge of the Pension and Sickness Funds, the General Health Insurance Company (GHIC), and the Employment Fund (EF). 2/ The creation of a separate social insurance system aims at strengthening its financial independence and viability but also at improving the quality of its services. A negative consequence of these changes has been reduced transparency of the general government's financial position until the newly established institutions improve their monitoring and reporting practices. 3/ This is important since the State Budget now undertakes only 53 percent of total general government expenditures (excluding intragovernmental transfers), the remainder being accounted for by social security funds (34 percent), local authorities (7 percent), and other extrabudgetary operations (6 percent).

1/ Prepared by T. Sukselainen.

2/ Social insurance operations were first separated from the State Budget in 1994 through the establishment of the National Insurance Company (NIC) and the EF. The NIC--responsible for the administration of the Pension Fund, the Sickness Fund, and the Health Fund--was split into the SIC and the GHIC in 1995. The EF was given the responsibility for both unemployment benefits and active employment policies.

3/ Banking data permit the monitoring of the financial position of the social insurance funds and other extrabudgetary operations with a relatively short lag (10 days to a month). However, detailed expenditure and revenue data become available with a considerable lag (several months), thus preventing a timely analysis of fiscal trends.

1. Fiscal outcome during the first half of 1995

Temporary factors favorably affected fiscal performance in the first half of 1995. Specifically, the general government operations showed a surplus equivalent to 2 percent of annual GDP as budgetary spending was held below budgeted amounts through control of discretionary expenditures. 1/ Revenue developments on the whole were in line with expectations. 2/ The State Budget recorded a surplus equivalent to about 1 1/2 percent of GDP. All extrabudgetary operations showed at the same time a net surplus of another 1/2 percent of GDP.

2. Fiscal outlook for 1995 3/

The deficit of the general government is projected at Sk 13.6 billion, equivalent to 3 percent of GDP in 1995 (Table II.1). 4/ This corresponds to a State Budget deficit of Sk 9 1/2 billion; a surplus of Sk 1 1/2 billion in the social insurance funds; a balanced position for the local authorities; a small deficit of the extrabudgetary funds; and Sk 5 billion of spending on extrabudgetary projects.

1/ Only 45 percent of annual discretionary expenditures (Sk 95 billion in 1995 budget) were paid out during the first half of the year. The authorities plan to increase spending gradually during the latter half of the year and use all budgetary allocations unless the official deficit target is jeopardized by unfavorable revenue developments.

2/ Yields of VAT and excise taxes moved erratically recently. After a rather weak performance in the first quarter of 1995, VAT collections doubled to Sk 16 billion in the second quarter of the year. It is likely that a substantial part of the additional yield during the second quarter was caused by tightened refund and deduction regulations, but it is not yet clear whether this represents a one-off or a permanent improvement. On the contrary, excise tax collections, in particular those related to fuels, have been well below their budgeted levels so far in 1995, possibly because of increased tax evasion. It is foreseen that a more normal level of collections can be fully restored only in 1996, when tighter legislation is expected to be in force.

3/ The fiscal projection assumes that: real GDP will rise by 5 percent and domestic demand will replace exports as the main source of output growth; the GDP deflator will rise by 9 percent; and the unemployment rate will remain at 14-15 percent while the share of long-term (over a year) unemployed will rise further.

4/ Fiscal performance was better than expected in 1994. The general government deficit is estimated to have been about Sk 5.8 billion--the equivalent of 1 1/2 percent of GDP and well below the target of 4 percent of GDP. The State Budget deficit (1.2 percent of GDP) was only one third of that expected in the 1994 fiscal program. The combined deficit of all extrabudgetary operations (0.2 percent of GDP) was less than half of the expected deficit.

The revenue/GDP ratio (general government) is forecast to decline by 0.3 percentage points in 1995 (Table 20). Tax revenue in relation to GDP would increase slightly due to higher effective yields from indirect taxes, personal income taxes, customs duties, and the import surcharge. Nontax revenues will decline in relative terms because of diminished profit transfers from the National Bank of Slovakia (NBS).

The expenditure/GDP ratio (general government) is projected to rise by about 1 percent of GDP in 1995 (Table 21). 1/ Current expenditures are foreseen to remain virtually unchanged, while overall investment would increase by 1/2 percent of GDP. Social expenditures are to increase by 1/2 percent of GDP due to higher spending on pensions, employment programs and family allowances. Interest expenditures on state debt are to decline even in nominal terms because the NBS halved (to 9 percent) the interest rate on credit to Government (relating to deficits of past years). 2/

As unforeseen factors could endanger achievement of budgetary targets, contingency reserves amounting to about 0.7 percent of GDP have been included in the projection. On the expenditure side, the finances of the health sector remain subject to substantial uncertainty. On the revenue side, the collection performance of indirect taxes and social security contributions is difficult to forecast accurately owing to macroeconomic uncertainties as well as frequent institutional changes that complicate the statistical base.

The domestic banking sector will once again be the most important source for government financing (Table II.2). 3/ Net borrowing of the general government from the banking system is expected to reach Sk 11.3 billion in 1995. Net foreign financing of the Government (in the form of suppliers' credits) would be Sk 0.3 billion and net sales of government securities to the nonbank public Sk 2.0 billion. At current exchange rates, the expected borrowing implies that the gross debt of the state will be Sk 145 billion (about 32 percent of GDP) at the end of 1995. Net indebtedness would be Sk 41 billion (9 percent of GDP). 4/

1/ This increase is partly due to the inclusion of contingency reserves equivalent to 0.7 percent of GDP in the program. Without these reserves, expenditures would increase by 0.6 percentage points in relation to GDP.

2/ The effective interest rate on state debt is expected to decline by 4 percentage points to 10 percent in 1995.

3/ All financial credits from abroad, including those to the Government, are treated as liabilities of the Slovak banking system. Such credits (from the G-24 in relation to commitments made in July 1994) are expected to amount to about Sk 2.6 billion in 1995.

4/ The share of commercial banks in financing increased through 1994 in connection with the sterilization operations of the NBS and the refinancing of direct central bank credit by medium-term bonds (Tables 22 and 23). This tendency will continue in 1995. It is estimated that the NBS, commercial banks, and the foreign sector each will hold about one third of outstanding

(continued...)

a. State Budget 1/

The 1995 State Budget was approved with considerable delay--in mid-March 1995--since a new Government was formed only in mid-December, 2 1/2 months after the general elections of September 1994. 2/ Fiscal operations in the first quarter of 1995 were based on a Provisional State Budget that was passed by Parliament in late December. 3/

Total budget revenue is expected to increase by 11 percent as the 12 percent decline in nontax revenue dampens the expected 15 percent growth of tax revenue. 4/ With tax rates and most deductions unchanged, bracket creep--together with lower tax transfers to local authorities--is expected to raise revenue from personal income taxes by 0.9 percentage points of GDP. The expected boost in indirect taxation, 0.6 percentage points of GDP reflects the carry-over effect from the higher rates implemented in August 1994 5/ and further measures to improve collection

---

4/ (...continued)
state debt in 1995. The commercial banks held only about one fifth of all outstanding government debt in 1994.

1/ Tables 24 and 25.

2/ The State Budget envisaged revenues of Sk 146.4 billion, expenditures of Sk 167.4 billion, and a deficit of Sk 21 billion (4.6 percent of GDP) according to official definitions. Excluding amortization of state debt, the budgeted deficit would be only about Sk 9 billion (2 percent of GDP).

3/ The provisional budget focused on expenditures, allocating Sk 37.9 billion for the first quarter of the year. This was 11 percent more than had been actually used in the first quarter of 1994 and 23 percent of the total expenditures of the final budget for 1995. Actual expenditures during the first quarter of 1995 were only Sk 34 billion, or 10 percent less than authorized by the provisional budget.

4/ The projection for total state budget revenues is about Sk 3.7 billion lower than the official budget projection.

5/ Regarding the VAT, some goods and services were shifted from the low (6 percent) rate to the standard (25 percent) rate; and the tax base for goods imported under preferential trade arrangements was redefined to include imputed customs duties. Also implemented in August 1994 were increases in excise taxes (on beer, spirits, cigarettes, and fuels). These measures were estimated to raise annual collections of indirect taxes by the equivalent of about 1 percent of GDP.

efficiency. 1/ The 10 percent import surcharge on consumer goods, which is expected to remain in force and unchanged in 1995, is expected to yield revenue equivalent to 0.7 percent of GDP. Nontax revenue will decline because of lower profit transfers from the NBS (balancing lower interest payments on state borrowing from the NBS).

Budget expenditures (excluding amortization but including the allocations for contingencies) are envisioned to be about 14 percent higher than actual budget expenditures in 1994. 2/ Subsidies to agriculture as well as investment spending (within the framework of the State Budget) are forecast to decline. Interest expenditures would decline substantially, due to lower interest rates charged on central bank credit. Social expenditures (state benefits and social assistance) paid from the State Budget are budgeted to increase by 23 percent. 3/ Consumption expenditures would increase by 21 percent and transfers to extrabudgetary agencies (within the general government) by 17 percent. Defense expenditures are projected to rise by 20 percent, to 2.5 percent of GDP in 1995. Defense expenditures have risen faster than other categories of spending since 1993, when Slovakia became responsible for its own defense.

b. Social Security System 4/

The social security system as a whole is expected to register a surplus of Sk 1.4 billion (0.3 percent of GDP) in 1995. Total revenue of the system would be Sk 88 billion (21 percent more than in 1994) and expenditure Sk 87 billion (24 percent more than in 1994). Institutional changes and higher intragovernmental transfers are mainly responsible for the strong growth of revenue and expenditure. 5/ The only new tax measure is the

---

1/ In retail establishments collecting VAT and excise taxes, the use of electronic cash registers became obligatory as of January 1, 1995 (with sanctions against violators to be enforced from mid-1995). Furthermore, duty stamps on distilled alcohol products were mandated as of April 1, 1995 (in addition to duty stamps on tobacco products in effect from last year), and retail trade outside licensed enterprises and regulated marketplaces will be restricted as in 1995. Measures to restrict possibilities for fraud when claiming deductions and refunds became effective on April 1, 1995.

2/ In the projection, total budget expenditures are Sk 4.7 billion higher than in the State Budget (using same definition of expenditures).

3/ Including general income support until August 1994. A new system of family allowances (introduced in September 1994) differentiated benefits by family income, and raised the average level of benefits--which had remained unchanged since 1985.

4/ Tables 28 and 29.

5/ The social security funds only received 11 months' contributions from employees and employers in 1994 as the January collections (based on December 1993 payment obligations) were still received by the State Budget. The splitting of the National Insurance Company as well as the new responsibilities of the Employment Fund will also increase transfers within

(continued...)

replacement of minimum wage by actual earnings as the base for self-employed persons' contributions. 1/

Transfers from the State Budget to the social security system are projected at Sk 26.3 billion in 1995 (5.7 percent of GDP), up from Sk 22.5 billion (5.6 percent of GDP) in 1994. Transfers are in the form of social insurance contributions for (a) state employees (at the employers' rate of 38 percent, equivalent to Sk 12 billion) and (b) financially dependent persons (pensioners, children, disabled and sick, students, unemployed), or (c) as temporary, repayable financial help. 2/ The size of the second type of contribution is subject to some discretion. 3/

The Social Insurance Company (SIC), succeeding the National Insurance Company as the administrator of Pension and Sickness Funds, is expected to have a small surplus of Sk 0.2 billion. Pensions were adjusted for inflation from July 1. This adds Sk 1.7 billion to pension expenditures, which would increase by 14 percent in 1995. Sickness benefits are expected to increase by only 6 percent.

The General Health Insurance Company (GHIC) took over the health insurance operations of the former National Insurance Company at the beginning of 1995. Expenditures on health services are expected to increase by about 23 percent, i.e., less than in 1994 when they expanded by over

---

5/ (...continued)
the system. The overall surplus of the social security system was Sk 2.9 billion (0.7 percent of GDP) in 1994 instead of the balanced position assumed in the program.

1/ This measure had been postponed several times since 1993. Its impact could be 0.1-0.5 percent of GDP but is difficult to estimate in the absence of data. Early collection data for 1995 indicate that the impact has been rather small.

2/ Contributions in category b are mainly paid to the Pension Fund (Sk 4.9 billion in 1995) and the Health Fund (Sk 7.1 billion); the Sickness Fund also receives a small amount (Sk 0.1 billion).

3/ The legislation stipulates that, in principle, the contributions for each dependent person should be based on the minimum wage, and calculated from this base by using the combined contribution rate determined for employees and employers. However, the budget laws of 1994 and 1995 have reduced the income base to a fraction of the minimum wage. In the 1994 budget, the percentages were 90 percent for Pension Fund contributions, 10 percent for Health Fund contributions, and 10 percent for Sickness Fund contributions. In 1995, the corresponding percentages are 80 percent, 54 percent, and 10 percent, respectively.

40 percent. 1/ Other health insurance companies are assumed to gain about 10 percent of the market from the GHIC.

The Employment Fund (EF) is responsible for both unemployment benefits and active employment policies. The EF's operations will be expanded for several reasons. The duration of employment benefits has been lengthened at the beginning of 1995 from 6 months to 8 months (for those 30-44 years old), to 9 months (for those 45 years and older) and will remain unchanged at 6 months for younger individuals. Average benefits are expected to increase by about 15 percent. The EF has also inherited from the State Budget the responsibility of making social security contributions to all social security funds on behalf of the unemployed persons. Finally, expenditures on active employment policies are budgeted to increase by 40 percent, mainly due to expanded retraining and public employment programs. As the actual expenditures on unemployment benefits are likely to remain somewhat below budget, even more funds would be available for active employment policies.

c. Local governments

The State Budget assumes balanced accounts for the 2,860 local governments with both revenues and expenditures at Sk 14.3 billion in 1995; this compares with a small deficit (0.2 percent of GDP) in 1994. 2/ These estimates do not take into account the municipalities' own efforts to raise revenue through entrepreneurial activity or property sales. In the absence of aggregated data from actual local government budgets, the fiscal projection assumes that both revenue and expenditure would amount to Sk 18.7 billion (Table 28). Local authorities are the only sub-sector of general government with a declining amount of direct transfers; state transfers are expected to amount to only Sk 1.2 billion or about 6 percent of overall local government revenue in 1995. However, the local governments receive parts of the yield of the wage tax (23 percent), the corporate income tax (5 percent) and the road tax (30 percent).

1/ Health expenditures were kept virtually unchanged in nominal terms in 1993 when all health operations were financed directly from the budget. Under the tight control of budget expenditures, health institutions accumulated substantial payments arrears to their suppliers. About Sk 1 billion of these arrears were settled in late 1993 and about Sk 2 billion remained to be settled in 1994 by budget transfers to the Health Fund. If the arrears settled in 1994 had been recorded as expenditures when the arrears were incurred (as was done with the new arrears accumulated during 1994), the projected increase in health expenditures in 1995 would be comparable to the actual increase in 1994.

2/ Official data (Table 26) show a small surplus because revenue is defined to include use of credits and reserves accumulated in earlier years.

d. Other extrabudgetary operations 1/ 2/

Expenditures of state funds (including so-called state accounts) are budgeted to increase by 40 percent and revenues by 60 percent leading to a reduced deficit equal to 0.1 percent of GDP (Table 27). State budget transfers to the state funds doubled between 1993 and 1995, reaching Sk 3 billion this year. The funds' own revenues have increased roughly at the same pace and still make up about two thirds of their total revenues in 1995. Also expected to rise substantially in 1995 are outlays on extrabudgetary projects, primarily for road building, to be financed by bond emissions of Sk 3-4 billion. Together with ongoing health sector projects--financed by foreign supplier's credits--expenditures on all extra-budgetary investment projects would reach about Sk 5 billion (1.1 percent of GDP) in 1995. Extrabudgetary projects are financed by debt serviced by the State Budget (Sk 0.7 billion in 1995).

3. Medium-term fiscal outlook--an illustrative scenario

Attached Table II.3 presents an illustrative fiscal scenario for 1995-2000. The exercise is based on a medium-term macroeconomic scenario that envisages continued high (4-5 percent) growth after 1995 and further progress toward price stability, on the assumption that the structural reform effort is reinvigorated and that investment strengthens. General government revenue and noninterest expenditure have been projected within this framework assuming fiscal policies consistent with gradually declining revenue to GDP and expenditure to GDP ratios. Debt dynamics are incorporated by linking current interest expenditures to the accumulated stock of debt with an assumed effective interest rate. 3/ Asset developments are projected independently, as determined by expected new lending and repayment of government credits. 4/

1/ Extrabudgetary funds and accounts of the central government showed a deficit (0.3 percent of GDP) in 1994 as the previous year's accumulated reserves were run down. Extrabudgetary projects, mainly in the health sector, caused a net deficit of 0.5 percent of GDP in 1994.

2/ The National Property Fund is not treated as part of the general government.

3/ Interest expenditures for 1995 in percent of the end-1994 debt stock provide the starting point. Assumptions on domestic and foreign interest rate developments during the projection period serve as references for the adjustment of the expected effective interest rate in the later years.

4/ In the fiscal scenario, net lending is included as an expenditure item. By contrast, other fiscal tables in this report show gross lending (including guarantees called) as an expenditure item and corresponding repayments as a revenue item (among nontax revenues). Both revenue/GDP and expenditure/GDP ratios are, therefore, lower in the fiscal scenario (by 0.5-1.0 percentage points).

Revenue projections start from the assumption that the peak of revenue/GDP ratio would be reached in 1994-95, at slightly above 50 percent of GDP. This ratio would then decline to the level of 45 percent of GDP by the year 2000, mainly through the lowering of the effective tax burden and to a smaller extent because of continued decline in nontax revenue as a percentage of GDP. Personal income tax scales would be adjusted to maintain the current effective tax burden unchanged. The existing wide difference between VAT rates (6 and 25 percent) would be diminished and the effective VAT burden lowered to correspond better to average VAT taxation in the EU. The introduction of full tax deductibility of loan-loss provisions (expected to be introduced in 1996) would keep the effective yield of corporate income tax during the whole period lower than the current tax legislation would imply by up to 1 percent of GDP. The abolition of the import surcharge in mid-1996 will also reduce the revenue/GDP ratio by close to 1 percentage point. Social security contributions (now amounting to 50 percent of gross wages) would be gradually lowered. Lower nontax revenue reflects among other things institutional changes and lower property income of local governments.

Primary (non-interest) expenditures would peak at about 50 percent of GDP in 1995, declining thereafter to 43 percent of GDP by the year 2000. Cuts in (current and capital) transfers to enterprises would be continued, leading to a decline by about one quarter in real terms between 1995 and 2000. Public consumption would increase annually by less than 2 percent in response to further rationalization of public administration. Transfers to households (pensions, unemployment benefits and employment programs, sickness, and other social benefits) would increase moderately (by about 2 1/2 percent per year in real terms) reflecting improving unemployment situation and savings made through the reform of social programs. Public investment, boosted by substantial increase in extrabudgetary projects in infrastructure, would increase to a new high level by 1996 declining thereafter gradually up to the beginning of the new millennium. Net lending would again turn positive but remain low.

These revenue and expenditure developments would imply a gradually increasing surplus in the primary balance, from about 0.1 percent of GDP in 1995 to 1 1/2 percent of GDP in 2000. With current interest rate assumptions, the ratio of interest expenditures to GDP would continue to decline through the period ahead, from 3 percent of GDP in 1995 to 2 percent in 2000. The overall fiscal deficit would correspondingly diminish from 3 percent of GDP in 1995 to less than 1 percent of GDP by the end of the period.

Gross debt/GDP ratio would continue to decline from a peak of 33 percent of GDP in 1994 to 28 percent of GDP in 2000. The stock of the state's largely nonperforming financial assets would increase slightly in nominal terms during the period because of new lending, but would decline in percent of GDP from 26 percent in 1994 to about 16 percent by 2000. Net indebtedness of the state would thus continue to increase moderately from 7 percent of GDP reached at the end of 1994, to about 12 percent around 1998, but start declining thereafter.

As the real interest rate on government debt (about 3 1/4 percent on average during the period) is clearly below GDP growth (4 1/2 percent on average), the first condition for the stability of the debt path is guaranteed. In addition, as the primary balance is in surplus and strengthening over the medium term, the risk of falling into a debt trap is reduced further. The reassuring outcome is, of course, fully dependent on the realism of the macroeconomic scenario and assumptions made on continued fiscal consolidation.

Table II.1. Slovak Republic: Summary of Fiscal Developments, 1992-95 1/

	(In billions of koruny)					(In percent of GDP)				
	1992 2/ Estimated underlying	1993 Outcome	1994 Program	1994 Outcome	1995 Projection	1992 2/ Estimated underlying	1993 Outcome	1994 Program	1994 Outcome	1995 Projection
Revenue	153.1	163.5	195.0	204.6	232.2	49.7	48.1	51.1	51.4	51.1
Indirect taxes	40.3	47.0	60.7	58.3	69.0	13.1	13.8	15.9	14.6	15.2
Direct taxes	54.4	36.5	42.0	50.1	57.1	17.7	10.7	11.0	12.6	12.6
Social security contributions	30.1	42.9	47.5	51.4	58.5	9.8	12.6	12.4	12.9	12.9
Other taxes	6.1	8.2	12.3	11.2	13.8	2.0	2.4	3.2	2.8	3.0
Nontax revenue	22.2	29.0	32.5	33.7	33.8	7.2	8.5	8.5	8.5	7.4
Total Expenditure	192.6	189.5 3/	210.4	210.4	245.9	62.6	55.7 3/	55.1	52.8	54.1
Current expenditures	167.8	168.3	187.3	190.5	218.0	54.5	49.5	49.1	47.8	47.9
Wages	15.4	15.9	16.5	16.7	18.6	5.0	4.7	4.3	4.2	4.1
Social expenditures	56.7	58.6	65.7	65.3	77.0	18.4	17.2	17.2	16.4	16.9
Health care	15.3	15.8	17.5	22.9	28.1	5.0	4.6	4.6	5.8	6.2
Subsidies	16.2	17.2	16.0	18.5	20.1	5.3	5.1	4.2	4.6	4.4
Debt service 4/	4.7	13.2	19.7	20.2	17.3	1.5	3.9	5.2	5.1	3.8
Other	59.5	47.6	51.9	46.9	56.9	19.3	14.0	13.6	11.8	12.5
Capital expenditures	24.8	21.2	21.0	19.9	24.8	8.1	6.2	5.5	5.0	5.5
Contingency reserve	--	--	2.0	--	3.1	--	--	0.5	--	0.7
Fiscal Balance	-39.5	-26.0 3/	-15.4	-5.8	-13.6	-12.8	-7.6 3/	-4.0	-1.4	-3.0
Sectoral balances										
Budget	-30.9	-24.8	-13.4	-4.6	-9.6	-10.0	-7.3	-3.5	-1.2	-2.1
Local authorities	0.5	0.3	--	-1.0	--	0.2	0.1	--	-0.2	--
Social security system 5/	...	...	--	-2.9	1.4	...	...	--	0.7	0.3
Extrabudgetary funds	0.5	0.3	--	-1.0	-0.4	0.2	0.1	--	-0.3	-0.1
Extrabudgetary projects	-9.6	-1.7	-2.0	-2.0	-5.1	-3.1	-0.5	-0.5	-0.5	-1.1

Sources: Data provided by the Slovak Ministry of Finance; and staff estimates.

1/ Consolidated general government. Includes central and local governments, social security funds, state extrabudgetary funds and accounts, and extrabudgetary projects.
2/ Estimated by the staff.
3/ Excluding military imports of US$170 million (equivalent to 1.6 percent of GDP) in 1993 in exchange for a write-down of claims on Russia.
4/ Interest, lending, and guarantees called, excluding amortization.
5/ Social security funds have been managed by independent social insurance institutions since 1994.

Table II.2. Slovak Republic: Financing of the Fiscal Deficit, 1993-95

(In billions of koruny)

	1993	1994				1994	1995	
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2
General government	26.2	-1.2	0.9	1.0	5.0	5.8	-2.9	-6.1
Domestic	26.6	-1.7	0.7	0.6	4.8	4.4	-3.3	-6.5
Bank 1/	26.2	-0.6	-1.7	-0.5	5.2	2.4	-4.1	-6.1
Nonbank 2/	0.4	-1.1	2.4	1.1	-0.4	2.0	0.8	-0.4
Foreign 3/	-0.4	0.5	0.2	0.4	0.2	1.3	0.4	0.4
Of which:								
Central government	26.2	1.0	-3.0	0.3	6.3	4.6	-1.0	-6.1
Domestic	26.6	1.0	-2.7	0.4	6.6	5.3	-0.9	-6.0
Bank	26.6	2.1	-4.8	-0.2	7.5	4.6	-0.9	-4.8
Nonbank 2/	--	-1.1	2.1	0.6	-0.9	0.7	--	-1.2
Foreign 3/	-0.4	--	-0.3	-0.1	-0.3	-0.7	-0.1	-0.1
Social security system	...	-3.8	2.6	-0.4	-1.3	-2.9	-1.4	1.8
Domestic	...	-3.8	2.6	-0.4	-1.3	-2.9	-1.4	1.8
Bank	...	-3.8	2.4	-0.7	-1.6	-3.7	-2.2	1.0
Nonbank	...	--	0.2	0.3	0.3	0.8	0.8	0.8
Foreign	...	--	--	--	--	--	--	--
Extrabudgetary funds 4/	-0.2	0.8	1.0	0.5	-1.3	1.0	-0.6	-2.6
Domestic	-0.2	0.8	1.0	0.5	-1.3	1.0	-0.6	-2.6
Bank	-0.6	0.8	0.9	0.3	-1.5	0.5	-0.6	-2.6
Nonbank	0.4	--	0.1	0.2	0.2	0.5	--	--
Foreign	--	--	--	--	--	--	--	--
Extrabudgetary projects	--	0.5	0.5	0.5	0.5	2.0	0.5	0.5
Domestic	--	--	--	--	--	--	--	--
Bank	--	--	--	--	--	...	--	--
Nonbank	--	--	--	--	...	...	--	--
Foreign 5/	--	0.5	0.5	0.5	0.5	2.0	0.5	0.5
Local authorities	0.2	0.3	-0.2	0.1	0.8	1.0	-0.4	0.3
Domestic	0.2	0.3	-0.2	0.1	0.8	1.0	-0.4	0.3
Bank	0.2	0.3	-0.2	0.1	0.8	1.0	-0.4	0.3
Nonbank	--	--	--	--	--	0.1	--	--
Foreign	--	--	--	--	--	--	--	--

Source: National Bank of Slovakia.

1/ Change in net bank credit to the Government at constant exchange rates.
2/ Includes in 1994 about Sk 0.8 billion of revenue from voucher privatization.
3/ Other than balance of payments support loans.
4/ The 1993 data exclude "other state accounts."
5/ Suppliers' credits.

Table II.3. Slovak Republic: General Government Operations, 1992-2000

(In percent of GDP)

	1992 1/	1993	1994	1995	1996	1997	1998	1999	2000
REVENUE 2/	49.7	46.8	50.4	50.5	49.3	48.2	47.0	45.9	44.8
Indirect taxes	13.1	13.8	14.6	15.2	15.3	15.0	14.8	14.5	14.3
VAT	...	9.3	9.3	10.8	9.8	9.5	9.3	9.0	8.8
Excises	...	4.5	5.3	4.4	5.5	5.5	5.5	5.5	5.5
Direct taxes	17.7	10.7	12.6	12.6	12.3	12.0	11.8	11.5	11.3
Corporate income tax	10.1	6.5	8.0	7.4	7.3	7.0	6.8	6.5	6.3
Personal income tax	7.5	4.3	4.6	5.2	5.0	5.0	5.0	5.0	5.0
Customs duties and import surcharges	1.7	1.3	1.8	2.0	1.3	1.2	1.0	0.9	0.8
Other taxes	0.3	1.1	1.0	1.1	1.2	1.2	1.2	1.2	1.2
Social security contributions	9.6	12.6	12.9	12.9	13.0	12.8	12.5	12.3	12.0
Nontax revenues	7.2	7.3	7.5	6.8	6.3	6.0	5.8	5.5	5.3
PRIMARY EXPENDITURE 3/	61.4	51.1	47.5	50.4	48.8	47.3	45.9	44.6	43.3
Current expenditure	53.3	44.8	42.6	44.3	42.1	40.9	40.0	38.9	38.0
Consumption	29.2	23.3	21.7	22.8	22.2	21.6	21.0	20.4	19.8
Transfers	23.7	22.3	21.0	21.3	19.8	19.2	18.7	18.1	17.7
Households	18.4	17.2	16.4	16.9	15.8	15.5	15.3	14.9	14.7
Enterprises	5.3	5.1	4.6	4.4	4.0	3.7	3.4	3.2	3.0
Net lending	0.4	-0.8	-0.2	0.1	0.1	0.2	0.3	0.5	0.6
Capital expenditure	8.1	6.2	5.0	5.5	6.1	5.8	5.3	5.0	4.7
Gross investment	7.1	4.2	4.0	4.2	4.9	4.7	4.6	4.4	4.2
Transfers to enterprises	1.0	2.0	1.0	1.3	1.2	1.1	0.7	0.6	0.5
Contingency reserves	--	--	--	0.7	0.7	0.6	0.6	0.6	0.6
PRIMARY BALANCE	-11.7	-4.2	2.9	0.1	0.5	0.9	1.0	1.3	1.5
Interest expenditure	-1.2	-3.4	-4.3	-3.1	-2.9	-2.6	-2.2	-2.2	-2.1
OVERALL BALANCE	-12.8	-7.6	-1.4	-3.0	-2.4	-1.7	-1.2	-0.9	-0.6
GROSS DEBT	29.6	33.9	32.7	31.8	31.0	30.2	29.7	28.7	27.6
GROSS ASSET	30.5	30.4	25.8	22.7	20.5	18.9	17.9	16.9	16.2
NET DEBT 4/	-0.9	3.5	7.0	9.1	10.5	11.3	11.8	11.7	11.5
Memorandum items:									
Effective interest rate 5/	...	11.3	14.0	10.1	9.6	8.7	7.8	7.8	7.8
Real effective interest rate	...	-3.5	2.5	1.3	2.2	3.4	4.2	4.1	4.3
Interest rate indicator 6/	...	12.8	14.9	10.7	10.0	9.0	8.0	8.0	8.0
ECU 6-month LIBOR	10.2	7.6	5.9	6.3	6.6	6.3	6.3	6.3	6.3
NBS discount rate	9.5	9.7	12.0	10.0	7.0	6.0	6.0	6.0	6.0
GDP in current prices, (in billions of koruny)	307.8	340.2	398.4	454.8	507.0	554.2	596.0	647.7	702.5
Volume change	-7.0	-4.1	5.3	5.0	4.0	4.0	4.0	5.0	5.0
Deflator change	9.7	15.3	11.2	8.7	7.2	5.1	3.4	3.5	3.3

1/ Estimated underlying, fiscal position.
2/ Excluding repayment of government lending, which in fiscal program presentation for Slovakia is included in nontax revenue.
3/ Repayments of government lending subtracted from new lending and shown as net lending.
4/ Due to valuation effects on financial assets and liabilities, change in net differs somewhat from overall balance.
5/ Interest expenditure in percent of the average debt stock during the year.
6/ Interest expenditure in percent of the debt stock at the end of the previous year.

III. Monetary Policy Issues in 1994-95 1/

1. Overview

Over the past 18 months, monetary policy in Slovakia has been a key to sharply lower inflation--down from 25 percent at end-1993 to 10 1/2 percent in mid-1995--and an improved external position. At the same time, it has supported an export-led recovery of economic activity. The National Bank of Slovakia (NBS) has responded effectively to challenging--and shifting--circumstances. Faced with excess liquidity and a worsening external position in early 1994, the NBS--aided by prudent fiscal policy--engineered a successful turnaround by firmly tightening credit conditions. Then, when foreign exchange inflows began to flow into Slovakia during the second quarter of 1994, the NBS decided on their precautionary sterilization. Once the monetary authorities became convinced that the foreign exchange inflows were associated with growth in exports and output, they strove in late 1994 and in early 1995 to strike a balance between sterilization and normalized credit conditions for enterprises. For 1994 as a whole, broad money thus grew by 18 1/2 percent--relative to 10 1/2 percent targeted by the monetary authorities--entirely reflecting a large rise in net foreign assets (NFA) of the banking system; net domestic assets (NDA) of the banking system declined by 1 percent, against a targeted increase of about 5 percent. Meanwhile, the NBS has gradually reduced its reliance on bank-specific credit ceilings and improved its indirect monetary policy instruments and monitoring framework. Nevertheless, there remain constraints on the conduct of monetary policy through open market operations, which stem from interest rate rigidities, noncompetitive conditions in the interbank market, and insufficient coordination with fiscal policy.

2. Responding to fiscal slippage and devaluation expectations

Four months of monetary looseness, from October 1993 to January 1994, were followed by three months of monetary correction, from February to April 1994 (Table III.1 below). The first phase was characterized by apparently excessive growth in liquidity--especially taking into account the modest growth in real incomes and the then low confidence in the currency--and by a worsening external position: the level of official foreign exchange reserves declined by US$0.2 billion to US$0.4 billion at end-January 1994, barely half a month's imports of goods and services. The relatively loose monetary conditions were also reflected in somewhat lower average short-term lending rates to enterprises, while sensitive interbank lending rates declined more strongly. 2/ The main factor behind these developments was a rapid rise in the NDA of the banking system by the equivalent of

---

1/ Prepared by A. Georgiou.

2/ Average short-term lending rates to enterprises declined by about 1 percentage point between September and December 1993, while average bid rates for one-month interbank deposits fell by about 3 percentage points during the same period.

10 percent of initial broad money, reflecting fiscal slippage--which was largely accommodated by the NBS--and robust growth of credit to enterprises.

At the beginning of the second phase (February to April 1994), the NBS took strong corrective action by contracting credit to commercial banks and tightening bank-specific ceilings on credit to enterprises and households. A 70 percent decline in credit to banks (equivalent to 13 percent of the end-January monetary base) was effected by discontinuing refinance credit auctions at the central bank and by greatly reducing amounts outstanding under the rediscount facility. Fiscal policy was also very contractionary during this period reflecting in part seasonal factors. Thus, the NDA of the banking system contracted by the equivalent of 4.9 percent of initial broad money during February-April 1994.

Table III.1. Monetary Developments, October 1993-April 1994

(Percent changes unless otherwise noted)

	Oct. 1993-Jan. 1994	Feb.-April 1994
Monetary survey level 1/		
Broad money	11.0 2/	-0.2
Net foreign assets	-3.2	4.7
Net domestic assets	14.2 2/	-4.9
Credit to enterprises and households	2.9	0.3
Net credit to Government	5.0	-2.5
Central bank level 3/		
Monetary Base	32.4	-11.2
Net foreign assets of NBS	-19.4	8.3
Net domestic assets of NBS	51.8	-19.5
NBS credit to commercial banks	-10.4	-13.2
(Sk billions, end of period)	7.3	2.1

1/ Changes in percent of initial broad money.
2/ The practice of commercial banks to credit interest on deposits at year-end accounts for 4.2 percentage points of the increase.
3/ Changes in percent of initial monetary base.

As a result of the monetary tightening, one-month interbank interest rates quoted by banks rose sharply, from about 12 percent at end-December to 29 percent at end-April. Nevertheless, the banks raised only marginally the rates offered to primary depositors and charged to enterprises (see Table 32). This can be explained by the fact that the bulk of interbank deposits bears negotiated fixed interest rates 1/ and by the banks' practice of basing their lending and deposit rates on the NBS discount rate

1/ Thus, average interbank interest rates rose from 15.9 percent in December 1993 to 18.2 percent in May 1994; those on short-term deposits rose more sharply, from 16.4 percent to 19.9 percent during the same period.

which remained unchanged from late 1993 to March 1995. 1/ This stickiness limits the usefulness of quoted interbank interest rates as an operational policy target or as an indicator of monetary conditions.

The credit measures adopted by the NBS, in conjunction with the improved fiscal position, curtailed liquidity and contributed to a strong turnaround in the external performance. Broad money declined slightly during February-April 1994 reflecting in part seasonal factors, while the NFA of the banking system rose by the equivalent of 4.7 percent of broad money. The official foreign reserves recovered to US$0.5 billion by end-April 1994, above their earlier peak at end-September 1993. The speed with which the turnaround in external performance was effected can be partly attributed to a weakening of devaluation expectations, which were influenced by the NBS' announced decision to defend the exchange rate parity and to adopt restrictive measures as needed in support of this objective. Several ad hoc measures also appear to have contributed. 2/ In addition, the need to settle tax obligations in March and April may have forced enterprises to bring in delayed export payments.

3. Dealing with foreign exchange inflows

In the period from May 1994 until recently, the NBS has had to deal with large foreign exchange inflows whose source was initially uncertain. The following table summarizes developments of the main credit and monetary aggregates during this period, which is again broken into two phases. The first phase--extending through September 1994--was characterized by substantial sterilization of the foreign exchange inflows and a very strong increase in the NFA of the banking system. The second phase--that started in October 1994--involved lower rates of sterilization and growth of banking system NFA (on an average monthly basis). This was based on an assessment by the NBS that faster than targeted growth in broad money could be tolerated as it was probably consistent with stronger demand for financial assets in line with higher economic activity; some increase in the NDA of the banking system was thus allowed but by less than envisaged under the authorities' monetary program.

1/ The NBS raised the discount rate from 9.5 percent to 12 percent in December 1993.

2/ In December 1993, the Slovak koruna was devalued by 5 percent against the Czech koruna under the bilateral payments agreement with the Czech Republic; and in early March 1994, a 10 percent import surcharge on consumer goods was introduced.

Table III.2 Monetary Developments, May 1994-March 1995

(Percent changes unless otherwise noted)

	May 1994-Mar. 1995	May 1994-Sept.1994	Oct. 1994-Mar. 1995
Monetary survey level 1/			
Broad money	20.9	7.7	12.3 2/
Net foreign assets	19.9	12.4	7.0
Net domestic assets	1.0	-4.7	5.3 2/
Credit to enterprises and households	5.2	-0.2	5.4
Net credit to Government	1.4	1.1	0.3
Central bank level 3/			
Monetary Base	32.1	16.8	13.1
Net foreign assets of NBS	89.8	51.7	32.7
Net domestic assets of NBS	-57.7	-35.0	-19.5
NBS credit to commercial banks	-3.7	-1.7	-1.7
(Sk billions, end of period)	0.8	1.5	0.8

1/ Changes in percent of initial broad money.
2/ The practice of commercial banks of crediting interest on deposits at year-end accounts for 3.5 percentage points of this increase.
3/ Changes in percent of initial monetary base.

The large increase in the NFA of the banking system in the second quarter of 1994 was first welcomed by the NBS, but its sheer magnitude soon gave rise to concern. The NBS could not be certain whether the resulting increases in broad money corresponded to increased economic activity and strengthened confidence in the currency, or to excess liquidity fed by capital inflows. Adding to the impression of excess liquidity was a decline in the one-month interbank rate from 29 percent at end-April to 12 percent at end-June; over the same period, the average short-term interbank rate declined by 3 percentage points to 17 percent. Information on real economic developments would come with a lag and would be subject to significant revisions. These phenomena persuaded the NBS to embark on a precautionary sterilization of foreign exchange inflows by discontinuing--once more--the auctions of NBS credit and by letting outstanding credits be repaid. At that point, the NBS realized that it lacked the instruments to lower further its own NDA and the NDA of the banking system. The solution was found in the shift of government debt to the NBS (accumulated from financing deficits in earlier years) to commercial banks. The Ministry of Finance issued bonds which were bought by banks, and with the proceeds it decreased its liabilities to the NBS. This operation, which required the consent of the Ministry of Finance, highlighted the central bank's lack of control over the timing, magnitude and duration of liquidity absorption, as these were decided by the Ministry of Finance. Nevertheless, the NBS can issue its own bonds to absorb liquidity as needed from banks. In any event, the contractionary efforts of the NBS were responsible for a reduction of its NDA by almost Sk 7 billion (21 percent of the initial monetary base) between end-April and end-September 1994. With banks short of liquidity, credits to enterprises and households stagnated at below end-1993 levels throughout the third quarter of 1994, growing by a mere 0.7 percent during the quarter. Meanwhile, fiscal operations remained broadly balanced from end-April to end-September. The NDA of the banking system was thus kept well below targeted levels, indeed falling by over 3 percent during the five-month period to end-September 1994.

The assessment that foreign exchange inflows were not endangering monetary stability led the NBS, after September 1994, to attempt a more appropriate balance between prudence and normalization of credit conditions for enterprises. To this end, the NBS paid closer attention to developments in the broad credit aggregates rather than to interest rate signals from the interbank market. The result was that credit to enterprises grew by about 5.4 percent of initial broad money in the six months to March 1995. This was consistent with continuing sterilization, albeit at a more moderate pace; the NDA of the NBS contracted by 19.5 percent of initial monetary base in these six months, compared with a 35 percent decrease in the five months to September 1994. The NBS probably would have opted for more rigorous sterilization in the first quarter of 1995, but for its lack of control over the timing of government debt sales to commercial banks; the NDA of the NBS thus declined by only 6.3 percent of initial monetary base during this period. At the same time, credit to enterprises rose faster than targeted. Under these circumstances, the NBS explored alternative ways of absorbing liquidity and issued its own paper for the first time. In the second quarter of 1995, the Ministry of Finance agreed again to issue bonds in replacement of government liabilities to the NBS, and the rate of sterilization increased strongly. This proved useful also in dealing with significant temporary inflows prompted by expectations of revaluation of the Slovak koruna in the context of the clearing agreement with the Czech Republic.

In summary, the decision to sterilize vigorously in the third quarter of 1994 was a prudent one, given the uncertainties of that time. It produced a massive improvement in the external position which set to rest devaluation expectations and strengthened the reputation of the central bank. On the other hand, it could be seen--ex post--as somewhat excessive, with its cost being the prolongation of very tight credit conditions for enterprises. Moreover, the NBS became fully aware during this period of the possible constraints on monetary policy imposed by its lack of control over the government debt on its balance sheet.

4. Evolution of instruments of monetary policy

Regarding changes in the conduct of monetary policy in 1994 and 1995, one could point to: (a) the elimination of bank-specific credit ceilings for all but five banks in October 1994; (b) the abandoning of foreign exchange swaps as a means of influencing domestic liquidity of commercial banks in May 1994; (c) the coordination with the Ministry of Finance--both in 1994 and 1995--to absorb liquidity by effective securitization of some government debt to the central bank and its sale to banks; (d) the withering away of the central bank rediscount facility for bills of exchange; and (e) the conduct of open market operations (OMOs)--in March and April 1995--via the sale of very short-term bills issued by the central bank.

The gradual elimination of credit ceilings has taken place as part of the move towards indirect monetary policy instruments. The NBS feels that macroeconomic stabilization and improvement in banking sector conditions have permitted this move. Further reductions in the number of banks subject to credit ceilings will come about if these conditions persist and as the NBS improves its capacity to conduct policy with indirect instruments. The abandoning of foreign exchange swaps was justified by the need to support instead the development of a money market in domestic currency assets. The coordination with the Ministry of Finance to replace NBS-held government debt (Sk 8 billion in the latter half of 1994 and Sk 15 billion in the first seven months of 1995) with bonds sold to banks was the first step towards conducting large scale OMOs to absorb liquidity from the banking system. The next step will be the explicit securitization of the government debt on the NBS balance sheet, which will permit the NBS to decide--independently from the Ministry of Finance--the time, scale, and duration of liquidity injections or withdrawals. The NBS rediscount facility has been brought to below Sk 1 billion in March 1995--it averaged about Sk 4 billion in 1993--partly because the NBS considers that its appropriate role is not to direct credits to specific sectors or to provide subsidized credits to the economy. Finally, the NBS issued on three occasions in 1995 its own very short-term bills to absorb excess liquidity from the banks when the Ministry of Finance was not ready to sell bonds to replace its debt with the NBS, and when there were no more outstanding amounts from credit auctions to banks that could be useful in absorbing liquidity by not being replenished. The NBS has also used these operations to familiarize itself and commercial banks with OMOs, as it intends to permanently replace credit auctions with OMOs. 1/

The monitoring framework for monetary policy has not changed in significant ways in 1994 and up to now in 1995. The most important monitoring tool of the authorities continues to be the monetary survey and, given the fixed exchange rate regime, the fundamental aim of the NBS has been to control the NDA of the banking system so as to ensure the banking system NFA objectives of the monetary program. However, concern over inflation has meant that the NBS has been paying close attention to developments in broad money (M2), and has been continuously trying to assess whether increases in it represent increases in money demand or accumulation of excess liquidity. Caution in this area has meant that the NBS has sterilized foreign exchange inflows in 1994 by keeping the NDA well below its targeted path.

1/ Credit auctions (also called by the NBS refinance auctions) were a relatively efficient instrument of monetary policy when the NBS needed to inject liquidity, but no auctions have been held since July 1994 in light of the NBS drive to absorb liquidity in this period.

To supplement its monitoring, the NBS continues to follow developments in the liquidity of commercial banks and in interbank interest rates. The NBS is supposed to respond to changes in commercial bank liquidity, only if actual and potential developments in the NDA of the banking system and its components warrant it. Although the NBS has recently contemplated using interbank interest rates as operating targets, it also has recognized that the imperfect and segmented interbank market cannot provide adequate signals to policy makers in the form of interest rate movements. In this context, the NBS has for the most part continued to rely on an assessment and manipulation of quantities to achieve its objectives. Finally, an effort will be made to gradually introduce the NDA of the NBS as the operating target of monetary policy, consistent with broader targets at the level of the monetary survey. Regarding policy horizons, annual and quarterly horizons continue to be used by the NBS, but there has been more emphasis on monthly horizons which are consistent with the quarterly ones. This has been made possible by the faster availability--starting in 1994--of monetary survey data on the basis of ten-day reports by commercial banks.

5. Constraints on the conduct of monetary policy

The main constraint on the conduct of monetary policy has been the small stock of government securities in the balance sheet of the NBS, which has meant that the central bank has depended on the Ministry of Finance to determine the time, scale, and duration of withdrawal of liquidity from the commercial banks. This has become more of a problem after the NBS extinguished most of the credit it had provided to commercial banks--mainly through credit auctions--in its effort to drain their excess liquidity. This constraint on the conduct of monetary policy can be alleviated by the NBS issuing its own bills, but this has its drawbacks, in the form of segmenting the emerging market for government paper, and by increasing the possibility of quasi-fiscal deficits. Another constraint on the conduct of monetary policy is the structure of the interbank market, whereby there is one major bank heavily dependent on interbank deposits and there is only one significant supplier of such deposits. In this context, a contraction by the NBS can result in large reserve shortfalls and excessively high interbank interest rates. A final constraint is the excessive seasonality of the fiscal deficit, with virtually most of it occurring at the very end of the year. The result is that within a few weeks there are very large--and not always predictable--increases in liquidity, which may endanger inflation objectives and may require abrupt changes in monetary policy.

IV. Addressing the Bad-Debt Problem in the Slovak Economy 1/

1. Overview

The authorities of the Slovak Republic and earlier of the former Czech and Slovak Federal Republic (CSFR) have redesigned institutions, incentives and regulations, and have channeled substantial resources to create a market-based financial system in Slovakia. This study describes and assesses one aspect of that process, namely earlier and ongoing efforts to strengthen the financial position of banks.

The origin and structure of the Slovak banking system are discussed in section 2. Measures adopted by the authorities since 1991 to address solvency problems in banks--including debt write-offs in exchange for bonds, recapitalization of banks, and removal or subsidization of low-yielding loans--are described in section 3, as are policies put in place mainly in 1991-92 to ensure prudential banking behavior. Section 4, in light of the preceding section, evaluates the financial soundness of the banking system using "payment arrears data" and annual reports of several major banks. Section 5 utilizes a recent study prepared by the National Bank of Slovakia (NBS) and a worldwide consulting firm to provide a preliminary assessment--based on international accounting standards--of the financial position of major banks. Related to the recommendations of this study is the authorities' bank restructuring program, part of which has been introduced: namely, new regulations on loan classification and provisioning together with more extensive audits of all banks. Another element of that program, if adopted, would allow qualifying banks to provision from before-tax income.

2. Origins and structure of the Slovak banking system

Prior to 1990, the State Bank of Czechoslovakia (SBCS) not only served as the country's central bank, but also acted as the country's largest commercial bank by making loans directly to firms according to priorities embodied in the plan. The Slovak State Savings Bank (SLSP) and its Czech counterpart placed a majority of their deposits in SBCS, which in turn on-lent those resources to firms.

January 1, 1990 marked the beginning of the two-tier banking system as the SBCS allocated its commercial loans to two newly established state-owned banks--General Credit Bank (VUB) and Commercial Bank of Prague (KBP)--and to the Investment Bank, Prague (IB). At end-1992, IB was divided into the Investment and Development Bank (IRB), based in Bratislava, and its Czech counterpart. In 1991, the CSFR authorities established the Consolidation Bank (KON), initially to relieve VUB and KBP of inherited low-yielding loans. KON was split at end-1992 into the Consolidation Bank of Bratislava (KBB) and its Czech counterpart. KBB has been restricted from accepting deposits and extending new loans, and the authorities intend to convert it

1/ Prepared by M. Marrese.

into a work-out agency for bad loans. Another bank from the pre-transition era is the Czechoslovak Trade Bank (CSOB), which before 1990 handled operations and transactions in foreign currencies between domestic trading companies and foreign subjects and represented the state in international financial markets. Currently CSOB--based in Prague with a branch in Bratislava--extends short-term export and import credit, and in 1994 financed half of Slovakia's foreign trade.

Three priorities characterized the early days of the two-tier system: deregulating specialized banks, hence SLSP and CSOB were given universal banking licenses; encouraging new entrants--the number of banks grew from a handful in 1990 to 29 banks in 1994; and meeting the financing needs of agriculture--which previously received either budgetary subsidies or directed credit from the SBCS. With regard to the third priority, the Slovak Agricultural Bank (SPB)--owned by the Ministry of Agriculture, the Slovak Insurance Company, and the food industry--was created in June 1990, and has become the second largest lender to the agro-industrial sector (after VUB). In addition, Agrobank (AB), a subsidiary of the Czech Agro Bank of Prague, has been active in lending to agro-industry.

As of late 1994, Slovakia's 29 banks consisted of: the NBS; two wholly state-owned financial institutions (KBB and the Slovak Guarantee Bank (SZB), which guarantees loans to small- and medium-size businesses); the wholly state-owned SLSP; the majority state-owned VUB; seven banks capitalized 100 percent by domestic capital; four banks with majority domestic ownership; three banks with majority foreign ownership; and ten branches of foreign banks.

On the credit side, the five largest banks, as of mid-1995, controlled over 80 percent of all lending to enterprises and households: VUB with 35 percent (Sk 99 billion), SLSP with 17 percent (Sk 47 billion), IRB with 13 percent (Sk 38 billion), KBB with 10 percent (Sk 28 billion), and CSOB with 8 percent (Sk 22 billion). However, over time, IRB, SLSP, KBB and especially VUB have seen their shares of lending decline (Chart IV.1). Beyond these five large banks, Slovakia has two medium-size banks: AB with Sk 10 billion of loans and Tatrabank with Sk 4 billion of loans. All other banks had loans totaling under Sk 2 billion.

On the deposit side, SLSP's share has declined steadily, but still constituted 45 percent of all deposits at end-1994 (Chart IV.1). VUB's share has dropped slightly, while banks other than the largest four (VUB, SLSP, IRB and KBB) have been successful in attracting new deposits, from Sk 9 billion at end-1991 to over Sk 67 billion at end-1994.

3. Efforts to improve the financial position of the banking system

In the early 1990s, several factors underpinned the widespread perception that the Slovak banking system was facing solvency difficulties. The demise of the CMEA, the collapse of Slovakia's traditional export markets, the dismantling of the closed, planned economy and the onset of radically different relative prices initially contributed to a severe decline in output and enterprise profitability. In addition, the inherited loan portfolios were heavily tilted, on the domestic side to loans which were either low-yielding or soon-to-be nonperforming, while on the foreign front the State had accumulated substantial convertible-currency liabilities which needed to be serviced, yet the bulk of its assets, mostly denominated in non-convertible currencies, were nonperforming. Moreover, some major banks had weak capital positions--for example, VUB reported a capital/asset ratio of less than 2 percent at end-1990.

In general, failure to address the stock and flow aspects of the intertwined insolvency of banks and enterprises involves substantial costs. 1/ The stock problem--how to pay for the replacement of inherited bad debt--needs to be solved otherwise: banks may become locked-in to lending to non-viable firms rather than restructuring them; firms which could survive may fail because they are burdened with unrepayable debt; a wide spread between deposit and lending rates may develop as banks endeavor to recapitalize themselves with retained earnings; the emergence of a wide spread between deposit and lending rates could weaken the resolve of policy makers to maintain macroeconomic stability; and the introduction of prudential regulation may be delayed in order to hide overall weaknesses in the banking system. In addition, the flow problem--how to ensure that the appropriate bank management, incentives and conditions are in place to promote prudential decision making--should be addressed, otherwise the stock problem would simply re-emerge.

a. Direct actions to improve banks' loan portfolios

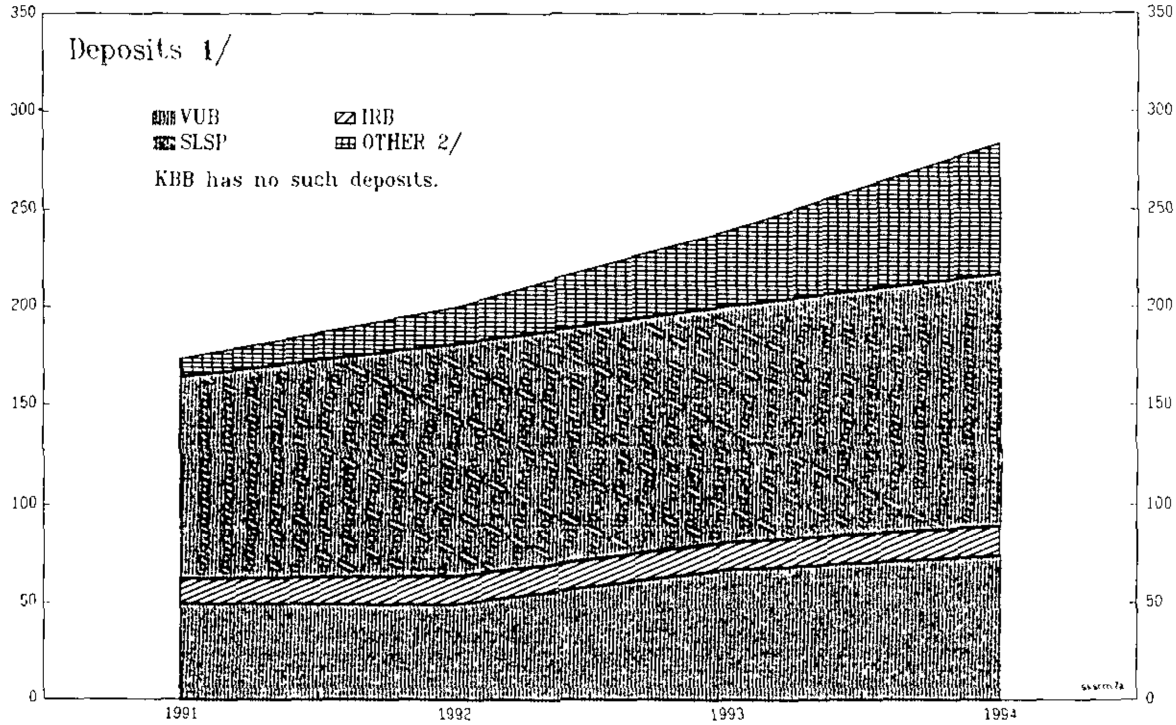
Since 1991, the authorities have taken a number of measures to directly improve the quality of the banks' loan portfolios. 2/

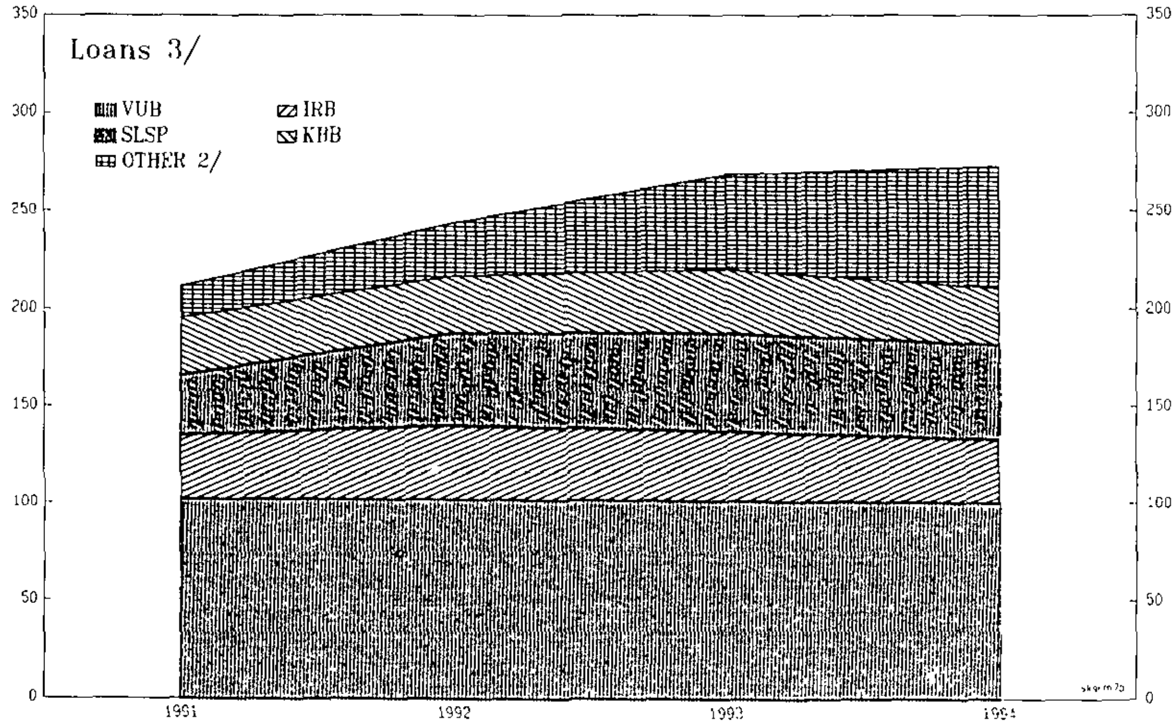
(1) In June 1991, the CSFR Ministry of Finance shifted Sk 110 billion of "revolving credits" from VUB and KBP to the newly established KON; VUB's share, transferred to KBB (the Slovak successor of

1/ See Brainard (1991), and Begg and Portes (1992).

2/ Table IV.5 provides a detailed description of measures to address solvency problems in the Slovak banking system; Table IV.6 provides estimates of the fiscal cost and amortization, if any, of the measures.

CHART IV.1
SLOVAKIA
DISTRIBUTION OF DEPOSITS AND LOANS AMONG BANKS
(End of period)





Sources: Annual Reports of Commercial Banks, reports of the NBS.

1/ Households and enterprise deposits of Slovak koruna and foreign currencies, including certificates of deposit.
2/ Calculated as a residual.
3/ Including foreign currency loans and without subtracting provisions for bad and doubtful loans

KON), was about Kcs 30 billion. 1/ This allowed VUB and KBP to reduce the book value of their assets, thus improving their capital to asset ratios.

(2) The Slovak authorities wrote off Sk 15 billion of loans to the armaments industry and other troubled sectors from the balance sheet of VUB and other banks in 1992-93. 2/ In return, the banks received bonds issued by the National Property Fund (NPF)--repayable over a 5-year period at an interest rate of 2.5 percent above the discount rate.

(3) Selected banks were recapitalized in 1992 through issuance of NPF bonds valued at Sk 5 billion (1 1/2 percent of GDP) repayable within two years with no interest receivable. 3/

(4) The Slovak Ministry of Finance has compensated SLSP and IRB through tax deductions or subsidies at an annual cost of about 0.5 percent of GDP for pre-1990 long-term loans to households (housing loans and loans to newlyweds) at below-market interest rates.

(5) NPF resources have been used to assist enterprises service loan obligations to banks (for example, the EBRD/VUB loan to the aluminum company ZSNK with the NPF responsible for some of the servicing costs).

(6) On January 1, 1993, the Czech and Slovak Ministries of Finance took over the respective Czech (two thirds) and Slovak (one third) shares of the CSFR's foreign assets and liabilities from CSOB's portfolio. CSOB's balance sheet showed accumulated assets of Kcs 95.5 billion (Kcs 91.5 billion in non-convertible currencies, Kcs 4.0 billion (US$0.138 billion) in convertible currencies) and liabilities of Kcs 74.4 billion (Kcs 14.0 in non-convertible currencies, Kcs 60.4 billion (US$2.090 billion) in convertible currencies). For the most part, the

---

1/ Among the loans VUB inherited were Kcs 50 billion (over 40 percent of its portfolio) of revolving inventory credits to enterprises at negative real interest rates. After a year of debate with the CSFR Ministry of Finance, KBP and VUB were allowed to "improve" their balance sheets by transforming the fixed 6 percent interest rate on revolving inventory credits into short- and medium-term credits at 20-24 percent. Following protests by the affected enterprises, the CSFR authorities created the Consolidation Bank (KON), which in June 1991 took over about two thirds (Kcs 110 billion) of the KBP's and VUB's revolving inventory credits. Simultaneously, KON granted enterprises more favorable terms on their existing loans, namely an eight-year maturity at 4 percent over the bank discount rate (equal to 13 percent in June 1991), compared to the earlier short and medium terms at 20-24 percent, Vojtisek (1993, pp. 69-71).

2/ Benefiting from this scheme were VUB (Sk 10.9 billion in 1992 and Sk 2 billion in 1993), IRB (Sk 1.2 billion in 1993), AB (Sk 0.15 billion in 1992), and KBB (Sk 0.733 billion in 1993).

3/ VUB (Sk 2.1 billion), CSOB (Sk 0.4 billion), SLSP (Sk 1.2 billion), KBB (Sk 1.0 billion), CSOB (Sk 0.4 billion), IRB (Sk 0.35 billion), and SZB (Sk 0.21 billion).

assets were nonperforming, and the liabilities needed to be serviced. As one measure, the Ministries of Finance agreed to fund CSOB's uncovered exchange rate losses from engaging in state-related activities, at a ratio of 2 to 1. These uncovered losses equaled Kcs 21 billion, the difference between the net value of CSOB's assets and liabilities in non-convertible currencies and the net value of CSOB's assets and liabilities in convertible currencies. 1/ Earlier the Czech and Slovak NPFs donated bonds to CSOB. 2/

(7) At end-1992, Kcs 13.3 billion bonds were issued to IB by the Czech (two thirds) and Slovak (one third) Ministries of Finance. In return, the ministries received an equivalent amount of loans, which previously had been guaranteed by the CSFR Ministry of Finance and mostly represented receivables connected with a government-sponsored construction project in a former CMEA country. 3/

(8) In May 1993, the Government directed KBB to purchase from exporters Sk 3.14 billion of "uncollectible export receivables" associated with trade disruptions/embargoes with Iraq, parts of the former Yugoslavia, and the former Soviet Union for Sk 2.2 billion. Later, the Ministry of Finance agreed to begin, in 1994, to make payments on these export receivables directly to KBB.

The above measures, though implemented on an ad hoc basis, were effective in improving the financial standing of banks. However, the authorities, after several years of providing federal assistance to banks, now intend, for reasons of both moral hazard and social equity, to limit government intervention and to encourage banks to use primarily their own resources to deal with their problems. This being said, several weaknesses in the banking system suggest that some outside assistance may become necessary. For instance, the transfer of revolving inventory credit to KON (and then to KBB) improved the portfolio and capital adequacy of VUB, but KBB was not given sufficient resources with which to cover losses. Instead, it received long-term redistribution credits of Sk 16.7 billion from the NBS and deposits of Sk 11 billion from SLSP and the Slovak State Insurance Company. KBB's solvency has become a concern because over time a large

---

1/ The Slovak contributions to interest payments and amortization respectively were: Kcs 0.80 billion and Kcs 1.80 billion in 1992; Sk 1.39 billion and Sk 2.03 billion in 1993; and Sk 1.51 billion and Sk 2.84 billion in 1994 (see CSOB 1992 Annual Report, 1993, pp. 7, 28). Kcs/US$ exchange rate of 28.899.

2/ In 1992, the Czech NPF donated Kcs 2.2 billion of 5-year bonds at 2 percent over the discount rate to allow CSOB to write off nonperforming loans. In addition, the Czech and Slovak NPFs donated Kcs 1.1 billion and Kcs 0.4 billion, respectively, of multi-year zero-interest bonds to recapitalize CSOB.

3/ An additional Kc 20 billion of foreign-trade related nonperforming loans held by CSOB were taken over by a special facility at the Czech Ministry of Finance at end-1993.

proportion of its inherited debt has become problematic--reflecting the manner in which the loans were initially granted and the incentive-numbing effect of restricting KBB from offering new credit. 1/ In response, the NBS has recently started creating loan-loss provisions for its redistribution credits--Sk 2.6 billion of such provisions were made in 1994, and a similar amount is envisaged for 1995.

In addition, the authorities have not, for the most part, helped banks write off loans to the agro-industrial sector, mainly extended by VUB, SPB, AB and SLSP. Given the heavy losses agriculture suffered during 1991-94 and the Ministry of Agriculture's estimate that in 1993 about 45 percent of all farms were unprofitable and not creditworthy, these loans may be problematic.

The explicit fiscal cost of these measures (borne by both the State Budget and the NPF, excluding amortization) in percent of GDP, was 1.3 percent, 1.3 percent, and 1.6 percent in 1992, 1993, and 1994, respectively (Table IV.1). 2/ These figures include neither implicit tax deductions related to reserve-building from before-tax profits nor the lower NBS profit transfer to the State Budget due to NBS provisioning of its redistribution credits to KBB. Taking into account these less direct costs, the fiscal cost is estimated to have risen from 1 1/2 percent of GDP in 1992 to 3 percent of GDP in 1994.

Table IV.1. Interest Cost, Amortization, and Debt Service Related to the Authorities' Bank Restructuring Policies

(As a percent of GDP)

	Interest Cost	Amortization	Debt Service
1992	1.3	2.2	3.5
1993	1.3	2.2	3.6
1994	1.6	1.9	3.5

Source: Table IV.6.

1/ At end-1994, revolving inventory credit represented about 60 percent of KBB's outstanding loans, with the share of doubtful and unclassified loans among such inventory credit rising from 6.5 percent at end-1993 to 13.6 percent at end-1994 (KBB 1994 Annual Report, 1995, p. 11).

2/ Total cost (including amortization but excluding the less direct transfers mentioned below) as a share of GDP, equaled 3.5 percent in 1992, 3.6 percent in 1993, and 3.5 percent in 1994

b. Policies to ensure prudential bank behavior

In order to promote prudential management, the SBCS in 1990 established guidelines for capital/asset ratios, credit/deposit ratios, foreign exchange positions, concentration of assets, and obligatory minimum reserves (9 percent on short-term deposits and 3 percent on longer-term deposits introduced on a phased basis). The Central Banking and Commercial Banking Acts of December 1991 established a risk-weighted formula for measuring capital adequacy which meets international standards, and required existing banks to meet a minimum capital adequacy ratio rising from 6.25 percent at end-1993 to 8 percent at end-1996. Moreover, banks were required to report quarterly on their capital adequacy. In 1992, new regulations on liquidity management, foreign exchange positions and credit risk exposure were issued. These rules were updated once again in early 1994. 1/

In mid-1992, the SBCS directed banks to compile and report monthly data on loans in arrears on the basis of a five-category classification. 2/ In addition, the SBCS recommended that banks set aside provisions according to specific guidelines. 3/ The SBCS also allowed banks to upgrade collateralized loans on the basis of their judgements about the quality of the collateral. In late 1992, the CSFR Parliament passed Act 610, allowing banks to use before-tax income to increase General Reserves up to 2 percent of all medium-and long-term loans plus 10 percent of all doubtful loans, plus 2 percent of all guaranteed loans. 4/ Banks could also deduct as a cost, the total amount of a loan that has been declared as a loss by a court decision. However, banks could create loan-loss provisions from before-tax profits only with the permission of the Ministry of Finance. Such permission has been granted only on rare occasions.

1/ For example, credit exposure to a single borrower cannot exceed 25 percent of a bank's adjusted capital, and credit exposure to a bank's ten largest borrowers cannot exceed 230 percent of adjusted capital.

2/ Five categories were put forward: standard--assets being repaid on time and a satisfactory financial situation for the debtor; special mention--overdue by 90 days or less and not endangered; substandard--payments overdue for more than 90 days but not considered doubtful or uncollectible; doubtful--payments overdue for more than 90 days but less than 360 days; and loss--payments overdue for at least 360 days.

3/ The SBCS recommended: 5 percent provisioning for special mention loans, 20 percent for substandard loans, 50 percent for doubtful loans, and 100 percent for loss loans.

4/ General Reserves may be used when a debtor is being liquidated and the bank's share of liquidation proceeds will not cover the amount owed or when a judge gives a bank permission to recoup collectable receivables which are several years overdue. Note that any buildup in General Reserves counts as an increase in a bank's liabilities.

The NBS reintroduced, in February 1993, bank-specific credit ceilings on most banks so as to enhance its control over credit aggregates--in light of heightened pressures on prices and foreign reserves in the aftermath of independence and the dissolution of the monetary union with the Czech Republic--but also for prudential reasons and as a means of promoting competition within the financial sector. 1/ These restrictions were inspired partly by a spurt of business lending by SLSP (below). The NBS also informed commercial banks that each bank must undergo an annual audit by external auditors whose selection and terms of reference must be cleared by the NBS. In addition, on-site bank inspections began to take place in late 1993.

4. Developments in the financial position of commercial banks

To ascertain the size of bad debt in the banking system, one may rely on information on "loans in arrears" based on data which are submitted monthly to the NBS and published in an aggregated form. By comparison, a classification according to international accounting standards (IAS) would take into account financial indicators of the debtor to forecast the future debt service capacity of companies and would apply stricter criteria in evaluating the collateral of loans than was permitted under the accounting rules Slovakia inherited from the SBCS.

a. Payment arrears data

At end-1992, 3 percent of all loans were reported as overdue by at least three months (labeled as substandard, doubtful, and loss in Table IV.2). The proportion of such loans rose to 12 percent at end-1993, 30 percent at end-1994 and 32 percent at end-May 1995. Given that this reported sharp deterioration in the servicing of loans has occurred during a period in which the economy has experienced an economic turnaround and enterprise profitability has improved, 2/ it likely reflects an increased willingness of banks to acknowledge problems in their loan portfolios now that they have built up their general reserves and loan-loss provisions.

b. Performance of major banks: annual reports based on IAS

Slovakia's largest commercial banks faced fundamentally different challenges in the early years of their independent existence. VUB needed to focus on improving its loan portfolio by actively pursuing repayments, provisioning, channeling after-tax profit to reserves, and collateralizing

---

1/ The SBCS had bank-specific ceilings in place since 1990, but in 1991-92 progress was made toward reliance on indirect instruments of monetary policy. In October 1992, the SBCS removed the remaining ceilings on major banks.

2/ Profit for nonfinancial organizations for the first three quarters of 1994 relative to the first three quarters of 1993 has risen substantially in constant 1994 prices--7.4 percent for firms with 25 or more employees and 42.8 percent for firms with fewer than 25 employees.

its ongoing stock of loans. SLSP needed to gain experience in credit and risk analysis, and expand its business services. IRB engaged in little new lending, and was primarily responsible for managing its existing portfolio of loans, the majority of which was guaranteed by either the Ministry of Finance or NPF. KBB's sole responsibility was to manage the problematic loans which it had received from other banks. CSOB required recapitalization after the CSFR's foreign trade obligations were lifted from its balance sheet.

Table IV.2. Koruna-Denominated Loans: Standard and Overdue, According to Maturity, 1992-95

(In millions of koruny; end-period)

	1992	1993		1994		1995
	Dec.	June	Dec.	June	Dec.	May
Short-term credits 1/	82.9	92.8	90.7	87.5	95.9	106.1
Standard 2/	64.4	72.8	66.8	57.3	63.4	68.6
Special mention 3/	12.2	11.9	6.5	6.1	5.3	7.3
Substandard 4/	--	0.4	5.8	2.6	2.8	3.6
Doubtful and litigious 5/	5.3	4.8	7.3	9.6	7.8	6.2
Loss 6/	1.0	3.0	4.3	11.9	16.6	20.4
Medium-term loans 7/	50.6	48.9	53.5	50.0	46.9	47.9
Standard 2/	44.5	41.3	41.4	29.7	24.8	23.6
Special mention 3/	5.5	6.0	5.0	6.7	3.3	3.1
Substandard 4/	--	0.1	1.1	1.9	2.9	4.0
Doubtful and litigious 5/	0.6	0.9	4.7	5.8	7.3	6.9
Loss 6/	--	0.5	1.4	5.9	8.8	10.3
Long-term credits 8/	102.5	104.8	116.7	114.4	114.8	115.8
Standard 2/	92.7	93.2	95.8	80.9	76.1	71.1
Special mention 3/	9.0	8.8	14.5	18.8	7.9	8.5
Substandard 4/	--	--	1.5	3.1	11.3	13.1
Doubtful and litigious 5/	0.7	2.6	3.1	5.4	8.5	7.9
Loss 6/	0.1	0.1	1.7	6.2	11.0	15.2
Total koruna-denominated credits	236.0	246.4	260.8	251.8	257.6	269.9
Standard 2/	201.7	207.3	204.0	167.9	164.3	163.2
Special mention 3/	26.7	26.7	26.0	31.6	16.5	19.0
Substandard 4/	--	0.5	8.4	7.6	16.9	20.7
Doubtful and litigious 5/	6.6	8.3	15.1	20.8	23.6	20.9
Loss 6/	1.1	3.7	7.3	24.0	36.3	46.0

Sources: NBS Annual Reports and NBS Banking Statistics Department.

1/ Maturity of up to one year.
2/ Payment have been made on time.
3/ Payments are overdue by 90 days or less, but are not endangered.
4/ Payments are overdue by at least 90 days, but not classified as doubtful or loss.
5/ Payments are overdue by more than 90 days, but less than 360 days.
6/ Payments are overdue by at least 360 days.
7/ Maturity of one to four years.
8/ Maturity of over four years.

Table IV.3. VUB's Profit and Loss Statement, Provisioning, Reserves, 1990-94 1/

	1990	1991	1992	1993	1994
A. Profit and Loss Statement					
1. Interest income	9.329	19.597	18.036	18.980	19.665
2. Interest expense	-5.784	-13.490	-11.167	-10.871	-11.914
3. Net interest income (1+2)	3.545	6.107	6.869	8.109	7.751
4. Fees and commissions, net	0.172	0.254	1.259	1.243	1.220
5. Foreign exchange profit, net	0.215	0.498	0.692	0.230	0.750
6. Other operating income, net	0.019	0.046	0.176	0.242	1.178
7. Total income (3+4+5+6)	3.951	6.905	8.996	9.824	10.899
8. Provisions for bad loans	...	-2.040	-3.350	-3.944	-5.305
9. Operating expenses	-0.397	-0.664	-1.538	-2.631	-3.274
10. Profit before taxation (7+8+9)	3.554	4.201	4.10	3.249	2.320
11. Taxes	-2.311	-2.672	-1.874	-2.117	-1.719
12 Profit after taxation (10+11)	0.882	1.890	2.234	1.132	0.601
13. Dividends	...	...	...	-0.204	-0.408
14. Appropriations from profit	-0.084	-0.162	-0.098	...	...
15. Retained profit (12+13+14)	0.848	1.727	2.136	0.928	0.193
B. Movements in provisions for bad and doubtful loans					
16. Balance January 1	...	...	2.040	5.292	8.640
17. Provisions made that year	...	2.040	3.350	3.944	5.449
18. Amounts written off	...	...	-0.098	-0.596	-0.142
19. Balance December 31 (16+17+18)	...	2.040	5.292	8.640	13.942
C. Movements in reserves					
20. Balance January 1	...	1.450	5.277	6.746	7.778
21. Retained profit	...	1.727	2.136	0.928	0.193
22. Additional capital	...	2.100	...	...	0.408
23. Capitalized into share capital	...	...	-0.667	...	...
24. Revaluation of fixed assets	...	...	...	0.104	...
25. Balance December 31 (20+21+22+23+24)	...	5.277	6.746	7.778	8.379
Memorandum items:					
PPI growth, in percent, within year	...	50.9	6.0	18.8	9.4
CPI growth, in percent, within year	...	58.3	9.1	25.0	11.7
Outstanding loans 2/	...	117.3	102.0	102.0	100.1
Capital adequacy ratio, in percent 3/	...	6.40	7.23	7.33	8.60

Source: Annual reports of the VUB.

1/ End-year figures, in Kcs billion for 1990-92, in Sk billions, thereafter.
2/ Includes loans denominated in foreign currencies. Provisions for bad and doubtful loans have not been deducted.
3/ Reported by the VUB in its annual reports. 1994 figure is preliminary.

As seen below in reviewing the activities of each of the major banks, most challenges have become less worrisome over time. For instance, consider how VUB, Slovakia's largest bank, has repositioned itself. VUB's loan portfolio has shrunk in nominal (15 percent) as well as real terms (59 percent) between end-1990 and end-1994 (Table IV.3). The nominal decline is explained by the removal of revolving credits from VUB's portfolio in 1991 (described earlier) and, in subsequent years, its decreasing access to interbank deposits as SLSP, the major source of these deposits, expanded its own lending to enterprises and the Government. VUB's share in total bank credit to enterprises and households thus declined from

48 percent at end-1991 to 38 percent at end-1993, 37 percent at end-1994 and 35 percent at end-June 1995. Notwithstanding this retrenchment--which implies that good loans have been removed from its portfolio upon repayment--VUB has moved steadily to increase its provisions for bad and doubtful loans and its reserves (lines 19 and 25, Table IV.3).

Despite VUB's sharp real decline in outstanding loans, VUB's total income (line 7, Table IV.3) rose in real terms from 1990 to 1992, then dipped slightly during 1993-94. Early income growth was fueled by the 1991 increase in net interest income and the 1992 increase in non-interest income. VUB's net interest income fell in 1994 in line with the overall steep jump in loans overdue by at least three months (Table IV.2). VUB's dividends have been modest relative to its provisioning, and retained profit, used to build up reserves, was substantial up to 1994 (lines 13 and 20-25, Table IV.3). Collateralization and diversification of lending activities have been two other ways VUB has improved its loan portfolio. For instance, secured loans equaled 69 percent of all loans at end-1993, up sharply from 52 percent at end-1992 and negligible amounts at the beginning of the reform. 1/ In addition, the composition of VUB's lending has shifted from state enterprises to private ones, with lending to cooperative farms largely unchanged. 2/ Since many of VUB's pre-1991 clients were larger firms which have yet to be privatized, the shift in the composition of clients represents substantial diversification. As a result of all of the above, VUB reported improving capital adequacy ratios, from 6.4 percent at end-1991 to 7.3 percent at end-1993 and 8.6 percent at end-1994.

At end-1994, VUB's provisions totaled Sk 13.9 billion, and guarantees plus collateral totaled Sk 17.1 billion. Based on IAS, VUB's international auditors determined that not less than Sk 6.0 billion additional provisioning was needed to cover the end-1994 level of nonstandard loans. 3/

Next, note that SLSP has become less dependent on households. For example, SLSP, which held all household deposits before 1990, controlled 85 percent of those deposits (and 45 percent of total deposits) as of end-1994. In the pre-1990 period, SLSP lent only 20 percent of its deposits to households, and placed the rest with the central bank. Notwithstanding lack of experience in evaluating credit risk of enterprises, SLSP's loan portfolio grew rapidly in 1991-92, through lending to small- and medium-size enterprises. Since then it has stabilized in light of a tight ceiling

---

1/ VUB 1993 Annual Report (1994, p. 7).

2/ From end-1990 to end-1994, the share of VUB's loans going to state enterprises fell from 88 percent to 57 percent; to private enterprises from zero percent to 31 percent; and for cooperatives (mostly cooperative farms) from 11 percent to 10 percent (VUB 1991 Annual Report (1992, p. 26); VUB 1992 Annual Report (1993, p. 21); VUB 1993 Annual Report (1994, p. 11); and VUB 1994 Annual Report (1995, p. 10)).

3/ VUB 1995 Annual Report (1995, p. 1).

on its outstanding loans. 1/ In 1993, a department of bad debt was established at SLSP's head office in order to curtail what were perceived to be unwise lending decisions in branches throughout the country. 2/

While consolidating its lending, SLSP's total income was roughly unchanged in real terms (up 31 percent in nominal terms) from 1992 to 1994, with substantial growth in non-interest income in 1993 and in interest income in 1994 (lines 3-10, Table IV.4). During this period, SLSP almost tripled its loan-loss provisions and increased its reserves 60 percent (lines 21 and 24, Table IV.4). In its annual reports based on IAS, SLSP reported capital adequacy of 6.3 percent at end-1992 and end-1993, then 6.9 percent at end-1994.

Third, IRB 3/ has made steady progress through 1994, yet recent problems with guaranteed energy loans have caused some concerns. IRB has had two main functions: managing its portfolio of inherited loans and developing into an investment bank. Any new lending has been almost exclusively short term, and such lending has fallen to a minuscule level (only 1/2 percent of outstanding loans were short term at end-1994). IRB reduced its loan portfolio, with NPF help and by avoiding new lending, from Sk 38 billion at end-1992 to Sk 33 billion two years later. 4/ At end-1994, one third of IRB's loan portfolio consisted of housing loans subsidized and guaranteed by the state and another third of loans to the energy sector (most to the Mochovce nuclear power plant, guaranteed by the Ministry of Finance and the NPF). 5/ Preliminary data indicate that at

---

1/ SLSP's lending growth was directly related to the privatization process, in which SLSP took the lead--partly as the bank responsible for granting PHARE-sponsored loans at advantageous interest rates--in lending to small- and medium-size enterprises. Indeed, lending to the enterprise sector went from Sk 3 billion end-1990 to over Sk 26 billion by end-1992 (Table IV.4), at which time more than half of all private sector loans were being held by SLSP.

2/ This department's primary responsibilities have included: debt recovery from SLSP's biggest, financially troubled borrowers; and the establishment of more rigorous guidelines for evaluating collateral, especially real estate, and for determining the appropriate instances when bankruptcy procedures should be initiated. Loan recovery from SLSP's other clients have continued to take place at branch offices.

3/ IRB has been operating since March 1, 1992, but inherited the Slovak share of IB's portfolio only at the end of that year.

4/ At end-June 1995, IRB's outstanding loans totaled Sk 37.5 billion. Most of the increase (Sk 3.9 billion) since end-1994 was due to an accounting change in March 1995, which categorized the overdue interest payments on IRB's Mochovce (nuclear energy) loans as new lending.

5/ There is no explicit guarantee on the remaining 80 percent of the Mochovce loans, though it is generally believed that either the NPF or the Government will fully back these loans.

end-1994 IRB had provisions of Sk 3.7 billion equivalent to about 11 percent of its outstanding loans, and reserves of Sk 1.7 billion. According to its annual reports based on IAS, IRB's capital adequacy ratio rose from 5.5 percent at end-1992, to 6.5 percent at end-1993, and to 7.8 percent at end-1994.

Table IV.4. SLSP's Profit and Loss Statement, Provisioning, Reserves, 1992-94 1/

	1992	1993	1994
A. Profit and Loss Statement			
1. Interest income	13,432	15,665	18,351
2. Interest expense	-8,543	-10,776	-12,283
3. Net interest income (1+2)	4,889	4,889	6,068
4. Fees and commissions, net	336	443	380
5. Foreign exchange profit, net	132	205	251
6. Gains from investment activities, net	223	477	517
7. Share of profits of associates	--	19	93
8. Losses on disposal of fixed assets	-14	-10	-8
9. Other income	51	33	55
10. Total income (3+4+5+6+7+8+9)	5,617	6,058	7,363
11. Operating expenses	-1,468	-1,705	-2,454
12 Provisions for loan losses from before take income	-2,382	-2,410	-3,268
13. Profits before taxation (10+11+12)	1,767	1,943	1,641
14. Taxes paid	-1,201	-112	-1,298
15. Other adjustments to before-tax profit	158	-477	87
16. Profit after taxation (13+14+15)	718	1,354	430
B. Movements in Loan-Loss Provisions			
17. Balance January 1	213	2,595	4,263
18. Provisions made that year: General	2,382	1,894	1,230
19. Specific	--	516	2,038
20. Amounts written off	--	-742	-19
21. Balance December 31 (17+18+19+20)	2,595	4,263	7,512
C. Movements in Total Reserves 2/			
22. Balance January 1		1,763	2,299
23. Allocations of profit		536	510
24. Balance December 31 (22+23)	1,763	2,299	2,809
Memorandum items:			
PPI growth, in percent, within year	6.0	18.8	9.4
CPI growth, in percent, within year	9.1	25.0	11.7
Outstanding loans to enterprises and households 3/	47.4	50.5	48.9
Capital adequacy ratio, in percent 4/	6.32	6.33	6.94

Source: Annual reports of the SLSP.

1/ End-year figures, in Sk billions.
2/ Total reserves consist of the legal reserve fund and the risk reserve.
3/ Includes loans denominated in foreign currencies. Provisions for bad and doubtful loans have not been deducted.
4/ Reported by the SLSP in its annual reports.

Fourth, KBB has been making every effort, amid restrictive circumstances, to encourage servicing of its loans. KBB has no deposit network, has a loan portfolio burdened with items such as uncollectible export receivables, continues to receive the bad loans of other Slovak banks, may not make new loans, and is not subject to normal banking regulations. 1/ Although the initial portfolio of KBB was similar in quality to that of other major banks, its loans have tended to be more frequently in arrears: debtors apparently prefer to service debt to other banks, which--unlike KBB--can block their current accounts for late payments or promise new loans. For the same reason, KBB has been unable to collateralize its loans in contrast to other major banks. KBB is thus perceived to be seriously insolvent. As noted above, the NBS has been provisioning for its redistribution credits.

Fifth, CSOB has turned into a sound universal bank. Earlier, CSOB had the foreign-trade assets and liabilities of the CSFR lifted from its balance sheet. In 1992, it received Kcs 2.2 billion of bonds from the Czech NPF to write off nonperforming loans, and Kcs 0.4 billion from the Slovak NPF and another Kcs 1.1 billion from the Czech NPF for recapitalization. 2/ A new stock offering at end-1993 added Kcs 5.055 billion to CSOB's base capital. More recently, as a result of the reduction in its nonperforming assets facilitated through an agreement between the Ministries of Finance of the Slovak Republic and the Czech Republic, CSOB was able to return to profitability--net profit in 1994 of Kc 2.0 billion compared to the net loss of Kc 10.8 billion in 1993. 3/

For all banks, corporatization and privatization (partial though it may be) has positively affected the quality of management. 4/ Banks now compete with one another for the best personnel, and compensation among financial organizations is generally higher than in most other areas of the economy. These factors have produced a broad strata of young bank employees who have been anxious and able to absorb technical assistance from abroad to improve the professionalism of banking in Slovakia.

5. Strategy for bank restructuring

The NBS and an international consulting firm completed, in the second half of 1994, a study based on an outside audit of the four major banks--where most of the bad debt is concentrated--in accordance with IAS. The study emphasized that each of the large banks had different weaknesses, yet all except KBB could, under appropriate conditions, internally generate sufficient resources to cover shortcomings in the levels of

---

1/ Therefore, it does not have to meet the minimum capital adequacy ratios required by the NBS.

2/ CSOB 1992 Annual Report (1993, p. 13).

3/ CSOB 1994 Brief Report (1995, p. 4).

4/ SLSP is a state-owned joint stock company, VUB has been partially privatized (less than 50 percent), and IRB has been privatized (yet the NPF and the Restitution Funds still own 37 percent of IRB's shares).

provisions and general reserves. In particular, if these three banks were allowed to provision for bad loans with before-tax profit, they should be able to recapitalize themselves without outside resources. The study called for: adoption of regulations on loan classification (Table IV.7) and loan-loss provisioning in line with international norms--which were introduced in March 1995; 1/ and for tax-deductibility of loan-loss provisioning by banks. The Ministry of Finance has delayed introducing the latter measure because of concern over the associated loss in profit-tax revenue and of the possibility that tax-deductible provisioning would encourage banks to be insufficiently prudent in their lending. 2/

With the above concerns in mind, the NBS has created and partially implemented a Program on Bank Restructuring. Effective July 1, 1995, banks were given three months to prepare internal rules and procedures which will enable them to organize their accounts in accord with the new classification and provisioning system. However, banks may petition for three additional years to comply with the new provisioning regulations. 3/ Another element of the Program on Bank Restructuring is the possibility of some form of assistance from the Ministry of Finance. Most likely this will involve allowing qualifying banks to provision tax-free during 1996-98 as long as they adopt business plans approved by the NBS--in consultation with the Ministry of Finance--and forego

---

1/ Mandatory provisioning has replaced the non-mandatory guidelines inherited from the SBCS. Moreover, the new provisioning regulations leave less room for subjective evaluation, and in that sense are stricter than the previous recommended guidelines. Also the new regulations attempt to discourage refinancing of arrears through fresh, unwarranted loans and introduce basic principles related to restructured claims. Loans are now classified in accordance not only with the lateness of debt service (the previous emphasis was on length of arrears), but also on conditions related to the financial situation and reliability of borrowers (Table IV.7). The amount of required provisioning is as follows: zero percent for standard loans; 5 percent for special mention loans; 20 percent for substandard claims; 50 percent for doubtful and litigious claims; 100 percent for loss claims; and 100 percent for unpaid interest, fees and commissions which are classified as substandard.

2/ Such an argument pays little attention to the general notion that provisioning allows banks to spread the lumpy costs of bad loans over time, and thus to paint a more stable picture of their financial well-being. Therefore, tax-free provisioning on a permanent basis--though not necessarily 100 percent tax-free--makes good economic sense.

3/ Unless exempted, banks will prepare their accounts for the third quarter of 1995 in accordance with the new system. A bank may seek a three-year exemption from having to create provisions by end-September by preparing a bank restructuring plan, which then must be submitted to and approved by the Bank Board of the NBS.

distribution of dividends. 1/ 2/ The underlying belief is that, once currently immobilized banks improve their financial base, they will be more willing to take prudent risks on longer-term lending opportunities. In this light, it is natural that KBB--not engaged in new lending--will waive participation in the program. Any of its financial difficulties will be addressed through financial transfers from the authorities, including the NBS. Privatization of the major state-controlled banks (SLSP and VUB) will be considered only after progress has been made with the restructuring and recapitalization of the banks.

While many of the above changes in the regulatory/supervisory framework represent substantial improvements in the banking environment, little progress has been made with regard to the implementation of an effective bankruptcy law. A bankruptcy law--a revised version to the 1991 CSFR law--took effect fully in June 1993, yet included conciliation procedures which were flawed in several respects. 3/ Implementation of the bankruptcy law has been further hampered by an overburdened and inexperienced judicial system.

1/ The Government is expected to submit to Parliament, in September 1995, a draft amendment to the Income Tax Law permitting participating banks to claim full tax deductibility for loan-loss provisioning over the period 1996-98. The amendment is expected to become effective on January 1, 1996.

2/ The business plan is expected to be a tool through which banks will focus on improving management practices and containing administrative costs, including salaries.

3/ The bankruptcy law is technically flawed in the following ways: (1) initiation of bankruptcy triggers a mandatory conciliation process during which time debt-service is automatically suspended for three months; (2) each creditor, regardless of the size of the claim or its seniority, has one vote in the conciliation process; (3) foreign creditors may not initiate conciliation procedures; (4) any creditor may challenge in court a work-out that has been accepted by the majority of creditors during the conciliation procedure; and enterprises considered important to be strategic are exempted from the bankruptcy law. (Certain firms in agriculture, forestry, communications, and transportation, plus all state-owned enterprises are exempted.)

Table IV.5. Slovak Republic: Description of Assistance by Type of Bad Debt Inherited by Slovak Banks

I. Assistance Related to Loans to Domestic Firms and Households

A. Recognized as low-yielding

1. More than 40 percent of the outstanding credits VUB inherited were revolving inventory credits issued at an annual interest rate of 6 percent, with an indefinite maturity. 1/ Given inflation in 1990 of over 30 percent and expectations of continued high inflation, VUB would not have been able to compete for deposits with other banks and still remain solvent unless the low yields on these loans were somehow improved,

2. Thirty percent of the assets of Investicná a Rozvojová Banka (IRB, Investment and Development Bank, which at end-1992 took over the Slovak portion of IB's loans) and half SLSP's portfolio were long-term loans for housing and to newlyweds at interest rates much below market levels. 2/ 3/ Therefore, these banks, like VUB, simply would not be able to compete for deposits with banks unburdened with such low-yielding long-term loans unless these low-yielding loans were somehow improved.

B. Recognized as nonperforming and written off with assistance

Loans, mostly in heavy industry (including armaments), were explicitly recognized as nonperforming and written off with assistance. On November 30, 1992, the NPF announced it would pay VUB: Sk 10.9 billion plus interest (at 2.5 percent above the discount rate) over a five-year period to help VUB write off the loans of heavily indebted companies. In December 1993, armament loans of Sk 2.0 billion from VUB and Sk 0.15 billion from Agrobank (AG) were sold to KBB at face value. At the same time, NPF issued to KBB Sk 2.883 billion of bonds, to be repaid over 1994-99 at 14 percent annual interest. In return, KBB wrote off Sk 2.883 of armament loans (the just purchased ones plus Sk 0.733 of the revolving inventory loans it inherited from VUB in July 1991). On April 13, 1993, the NPF contributed bonds valued at Sk 1.55 billion (US$48 million) to IRB, thus allowing IRB to write off Sk 1.2 billion of loans and increase its capital by Sk 0.35 billion.

C. Recognized as especially risky loans partly because they are being serviced by the authorities

Two loans were recognized not only as especially risky, but have been serviced by the authorities. In 1991, the Ministry of Finance guaranteed Sk 8.9 billion of loans for the Mochovce nuclear power plant. Later, the NPF took over this guarantee and since 1994, has begun servicing the loan. Beginning in 1993, the NPF has paid interest on a Sk 4.236 billion VUB/European Bank for Reconstruction and Development (EBRD) loan to the Slovak aluminum company ZSNK. The interest payments are expected to total to Sk 4.236 billion. When that ceiling is reached, ZSNK is liable to repay VUB/EBRD Sk 4.236 billion (the original principal) before it begins to repay NPF Sk 4.236 billion (the accumulated interest payments).

D. Recapitalization financed by the authorities

Rather than provide assistance for specific bad debt, the authorities have contributed to the recapitalization of banks, which strengthens banks' ability to write off loans. NPF was responsible for most such transfers: Sk 2.1 billion to VUB, Sk 0.4 billion to CSOB, Sk 1.2 billion to SLSP, Sk 0.35 billion to IRB, and Sk 1.0 billion to KBB (Table IV.6, section I.D). The Ministry of Finance, however, has helped to recapitalize the SZB, Sk 0.21 billion.

1/ Vojtisek (1993, p. 70).

2/ For IRB, measured at end-1992 when the bank was established, IRB 1993 Annual Report (1994, p. 6). For SLSP, measured at end-1991, SLSP 1991 Annual Report (1992, p. 21) and Sporitel'níctvo na Slovensku (1992, p. 96).

3/ Ten-year housing loans for the construction of family homes or for the repair and modernization of family homes and apartments were granted to members of building cooperatives at 2.7 percent annual interest, while 15-year loans for newly married couples (for purchase of an apartment) were issued, with a state contribution, at 1 percent annual interest, Sporitel'níctvo na Slovensku (1992, p. 96).

Table IV.5 (cont.). Slovak Republic: Description of Assistance by Type of Bad Debt Inherited by Slovak Banks

E. Loans to the agro-industrial sector

Twenty-three percent of VUB's assets--which did not overlap with the above-mentioned revolving inventory credits--were loans to the agro-industrial sector. 1/ These loans were likely to become problematic since agriculture had been heavily subsidized in the pre-1990 period 2/ and consumer food subsidies were being phased out. 3/ The authorities have done little to provide assistance specifically for loans that were made to the agro-industrial sector (Table IV.6, section I.E).

II. Assistance Related to Foreign Liabilities and Export Receivables

A. Foreign liabilities

Ceskoslovenská Obchodní Banka (CSOB, Czechoslovak Trade Bank), as the State's monopoly bank for financing foreign trade operations and for acquiring foreign trade resources, accepted loans in convertible currencies to cover balance of payments deficits; lent money in non-convertible currencies to CSFR's trading partners within the Council for Mutual Economic Assistance (CMEA); and extended credit to CSFR foreign trade organizations to cover their export claims to countries perceived to be risky. 4/ Overall, CSOB accumulated substantial convertible-currency liabilities which needed to be serviced, yet the bulk of its assets, most of which were denominated in non-convertible currencies, were nonperforming. The Ministry of Finance took over the Slovak share (one third) of CSOB's foreign liabilities (see Table IV.6, section II.A).

B. Export receivables

1. At end-1992, Kcs 13.3 billion bonds were issued to IB by the Czech (two thirds) and Slovak (one third) Ministries of Finance. In return, the ministries received an equivalent amount of loans, which previously had been guaranteed by the CSFR Ministry of Finance and mostly represented receivables connected with a government-sponsored construction project in a former CMEA country.

2. In May 1993, the Government directed KBB to purchase from exporters Sk 3.14 billion of "uncollectible export receivables" associated with trade disruptions/embargoes with Iraq, parts of the former Yugoslavia, and the former Soviet Union for Sk 2.2 billion. Later, the Ministry of Finance agreed to pay KBB for these export receivables. 5/

1/ At end-1991, with 16 percent (Kcs 16.6 billion) lent to agriculture and 7 percent (Kcs 6.6 billion) to the food processing industry, VUB 1991 Annual Report (1992, p. 28).

2/ Subsidies to the Czechoslovak agro-industrial sector were 6.3 percent of GDP in 1988, higher than in Hungary (4.0 percent) and Poland (5.8 percent), Marrese (1993, p. 147).

3/ Losses in agriculture in the early 1990s support this presumption. For instance, in the CSFR in 1991, losses of agricultural enterprises which faced much higher relative prices for its material inputs and declining domestic demand totaled Kcs 11.7 billion relative to profit for industry of Kcs 31.6 billion (Statistical Yearbook of the Slovak Republic 1992 (1993, p. 429)). Droughts in 1992 and 1993 and the further decline in domestic demand for food led to losses of Sk 8.1 billion in 1992, Sk 6.6 billion in 1993, and Sk 4.2 billion in 1994 (Slovak Republic: Recent Economic Developments (1994, p. 66; Statistical Review of the Slovak Republic, 1994:4 (1995, p. 32)).

4/ This last activity produced even more uncollectibles than would have occurred normally because of CSFR participation in the embargoes of Iraq and portions of the former Yugoslavia.

5/ For the amounts, see Table IV.6, section II.B. Note that KBB's assets rose by Sk 2.2 billion, and the offsetting liabilities were additional deposits by the NPF and SLSP along with an increase in KBB's equity capital of Sk 1.0 billion.

Table IV.6. Slovak Republic: Policies Undertaken by the Authorities, 1992-94

Description	Amount 1/	Method	Interest Cost 2/ 1992	1993	1994	Amortization 2/ 1992	1993	1994
I. Assistance related to loans to domestic firms and households								
A. Recognized as low-yielding loans								
VUB, revolving credit not yet written off 3/	29.67	Transfer to KBB	...	...	...	...	...	...
IRB, housing loans 4/	11.25	Ministry of Finance subsidy	0.99	0.90	0.79	...	...	...
SLSP, housing loans 4/	7.31	Ministry of Finance subsidy	0.66	0.60	0.52	...	...	...
SLSP, loans to newlyweds 4/	8.18	Ministry of Finance subsidy	0.14	0.16	0.08	...	...	...
Sub-total	56.41		1.79	1.66	1.39	...	...	...
B. Recognized as nonperforming loans and written off with assistance								
VUB 5/	10.90	NPF bond	1.16	1.01	1.07	2.80	2.80	3.20
VUB, AB, KBB 5/	2.88	NPF bond	...	...	0.47	...	...	0.48
IRB 5/	1.20	NPF bond	...	...	0.22	...	...	...
Sub-total	14.98		1.16	1.01	1.76	2.80	2.80	3.68
C. Recognized as especially risky loans partly because they are being serviced by the authorities								
IRB, nuclear power plant 6/	8.90	NPF guarantee	...	...	0.57	...	...	...
VUB, EBRD, aluminum company 6/	4.24	NPF guarantee	0.20	0.20	0.61	...	...	...
Sub-total	13.14		0.20	0.20	1.18	...	...	...
D. Recapitalization financed by the authorities								
VUB 7/	2.10	NPF	...	...	...	2.10	...	...
CSOB 7/	0.40	NPF	...	...	...	...	0.15	0.25
SLSP 7/	1.20	NPF	...	...	...	...	1.20	...
IRB 5/ 7/	0.35	NPF	...	...	...	...	...	0.35
KBB 7/ 9/	1.00	NPF	...	...	...	...	1.00	...
SZB 7/	0.21	Ministry of Finance	...	...	...	...	0.07	0.14
Sub-total	5.26		...	...	...	2.10	2.42	0.74
E. Loans to the agro-industrial sector								
No assistance specifically for loans to agro-industrial sector from authorities other than Sk 2.9 billion transferred from VUB to KBB in 1991 as part of the revolving credit transfer (section I.A)								
Total for category I	89.79		3.15	2.87	4.33	4.90	5.22	4.42
II. Assistance related to foreign liabilities and export receivables								
A. Foreign liabilities								
CSOB 8/	24.79		0.80	1.39	1.51	1.80	2.03	2.84
B. Export receivables								
IB 9/	4.43		...	0.27	0.28	...	0.35	0.36
KBB 9/	2.20		...	...	0.30	...	--	--
Sub-total	6.63		...	0.27	0.58	...	0.35	0.36
Total for category II	31.42		0.80	1.66	2.09	1.80	2.38	3.20
Overall total	121.21		3.95	4.53	6.40	6.70	7.60	7.62
Memorandum item:								
GDP 2/			301.7	340.8	398.4			

1/ In Sk billions. Whenever loans are under consideration, only the principal appears in this column.
2/ In Kcs billions for 1992, then in Sk billions.
3/ In July 1991, Kcs 30.4 billion of the revolving inventory credits held by VUB were transferred to KON, and later to KBB. Subsequently, Sk 0.73 billion were written off. See Table IV.5, section I.A.1.
4/ See Table IV.5, section I.A.2. For IRB, includes the subsidy equivalent of 1993 tax exemptions.
5/ See Table IV.5, section I.B.
6/ See Table IV.5, section I.C.
7/ See Table IV.5, section I.D.
8/ See Table IV.5, section II.A.
9/ See Table IV.5, section II.B.

Table IV.7. Slovak Republic: Loan Classification System
Redefined in 1995

I. Standard Claims

1. Standard claims are those claims where the debtor is fulfilling all conditions of the contract, faces a favorable financial and economic situation, and is expected to settle the claim on time.

2. Standard claims have all of these characteristics:

   a. The client is solvent, his economic situation and his ability to repay principal, interest, and fees is not likely to deteriorate in the future;

   b. Delays in payments (principal, interest, and fees) do not exceed 30 days;

   c. Securitization of claims, if any, is of a good quality, meaning that: the enforcement is not legally questionable, the guarantor is solvent, the value of collateral is not doubtful (not subject to price volatility).

   d. The bank granted the appropriate kind of credit to the client;

   e. The client has used the credit for the purposes that were agreed in the credit contract.

II. Special Mention Claims

1. Special mention claims are those for which the quality has worsened or include other risk than credit risk, but on the basis of available information, will be paid in full.

2. Special mention claims have <u>at least one</u> of the following characteristics:

   a. The financial situation of the borrower is sound; the borrower is solvent but slight economic and financial problems have appeared in the sector or region of his business activity, though the borrower's track record does not justify any expectation of deterioration of his final repayment;

   b. Delays in payments are not less than 30 days but do not exceed 90 days;

   c. The borrower has not disclosed the required financial records and data to the bank for 30-90 days from the day when they should have been delivered;

   d. Banks granted inappropriate credit to the client;

   e. The client has used the credit for a purpose other than was agreed in the credit contract.

III. Substandard Claims

1. Substandard claims are claims with considerable risk of not being repaid in full.

2. Substandard claims have at least one of these characteristics:

   a. An adverse trend in the borrower's financial and economic situation has been detected and there is a justified expectation that during the contractual period this will impair his repayment capacity;

   b. Delays in payment exceed 90 days but not more than 180 days;

   c. The borrower has not disclosed the required financial records and other data to the bank for 90-180 days from the day they should have been delivered.

IV. Doubtful and Litigious Claims

1. Doubtful and litigious claims are those for which repayment by the debtor in full seems to be highly improbable or questionable on the basis of available information. Partial repayment is highly probable.

2. Doubtful and litigious claims have at least one of these characteristics:

   a. The borrower is insolvent;

   b. Delays in payment exceed 180 days but not more than 360 days;

   c. The borrower has failed to disclose the required financial records and other data to the bank for more than 180 days, but not more than 360 days.

3. Litigious claims of banks are subject to legal action to reach their recognition or repayment by the counterpart.

Table IV.7 (cont.). Slovak Republic: Loan Classification System Redefined in 1995

V. Loss Claims

1. Loss claims, based on available information, seem to be uncollectible or partially collectible in a very small amount, or after fulfillment of numerous conditions.

2. Loss claims include at least one of the following characteristics:

   a. Delays in payment exceed 360 days;

   b. The borrower has failed to disclose the required financial statements and other data to the bank for more than 360 days;

   c. The client is in bankruptcy or liquidation (regardless of the amount of the estimated loss).

VI. Claims from Off-Balance Sheet Commitments or Due to Default on Lending Contracts

Any claim originated from an off-balance sheet commitment or due to the recall or cancellation of a loan contract by a bank is, as a rule, considered doubtful or loss. If at the time of origination of such a claim the bank has other claims against the client, then these other claims must be reclassified into a category no higher than substandard.

VII. Restructured Claims

1. A restructured claim is created anytime the bank agrees to a change in credit terms due to financial and economic problems of the debtor. The changes include:

   a. Prolonging the dates of repayment of principal or interest (prolongation);

   b. Lowering the interest rate of credit;

   c. Lowering the debt (principal or interest);

   d. Exchange of monetary claim for another asset;

2. The restructured claim is classified no higher than substandard; the frequently restructured claim is classified as doubtful. Such a claim can be reclassified as special mention, if at a minimum during the first quarter of contractual term the collection of principal and interests is proceeding in a timely manner, and there is no evidence that contractual term structure will not be kept.

3. If the restructured claim was standard or special mention before restructuring, it is assessed as special mention.

4. Any restructured claim with an altered payment schedule but without maturity prolongation and without changes is classified as special mention.

VIII. Refinanced Claims

1. Refinanced claims arise whenever the debtor is granted one or several credits or off-balance sheet commitments in order to satisfy other previously originated claims of the bank or their parts against him.

2. If the interest, fees, and commissions of a refinanced claim have been properly repaid, the claim originated by its refinancing is considered to be special mention.

3. If the interest, fees, and commissions of refinanced claim have not been repaid, the claim originated by its refinancing is to be considered as if no refinancing occurred, i.e., as if the original claim continues.

4. If a refinanced claim included also unpaid interest, fees, and commissions, a provision in the amount of these unpaid interest, fees, and commissions is to be created as of the day when the refinanced claim was established.

IX. Fees and Commissions

Fees and commissions resulting from the bank's activities for bank's services are divided into two categories, as standard and substandard. The claim becomes substandard if it was not repaid more than 90 days from maturity or after term of credit. Other fees and commissions for provided services are categorized the same way.

References

Begg, D. and R. Portes, "Enterprise Debt and Economic Transformation: Financial Restructuring of the State Sector in Central and Eastern Europe," Discussion Paper No. 695, Centre for Economic Policy Research (London: June, 1992).

Brainard, L. J., "Strategies for Economic Transformation in Central and Eastern Europe: Role of Financial Market Reform," in H. J. Blommestein and M. Marrese (eds.), *Transformation of Planned Economies: Property Rights Reform and Macroeconomic Stability* (Paris: OECD, 1991) pp. 95-108.

Czechoslovakian Trade Bank (CSOB), *Annual Report* (Bratislava: various years).

Investment and Development Bank (IRB) (various years), *Annual Report* (Bratislava: various years).

Marrese, M., "Agricultural Price Reform: Effect on Real Incomes and the Inflationary Process," in A. Braverman, K. M. Brooks, and Cs. Csaki (eds.), *The Agricultural Transition in Central and Eastern Europe and the Former U.S.S.R.* (Washington, D.C.: World Bank, 1993) pp. 137-156.

National Bank of Slovakia (NBS), *Annual Report* (Bratislava: various years).

Slovak State Savings Bank (SLSP), *Annual Report* (Bratislava: various years).

_____, *Sporitel'nictvo na Slovensku (Savings Activities in Slovakia)*, (Bratislava: 1992).

Slovak Republic, Statistical Office of the Slovak Republic, *Statistical Review of the Slovak Republic*, (Bratislava: quarterly).

_____, Statistical Office of the Slovak Republic, *Statistical Yearbook of the Slovak Republic* (Bratislava: various years).

Vojtisek, P., "Restructuring of the Banks in the Former Czech and Slovak Federal Republic," in H. J. Blommestein and J. R. Lange (eds.) *Transformation of the Banking System: Portfolio Restructuring, Privatization and the Payment System* (Paris: OECD, 1993) pp. 69-75.

VUB, *Annual Report* (Bratislava: various years).

V. The Privatization Process in the Slovak Republic 1/

1. Introduction

Following a brief review of progress with privatization since 1991, this chapter describes recent changes in privatization policy (incorporated in legislation passed in July 1995) and deals briefly with their likely implications for the pace of privatization, corporate governance and the development of capital markets.

2. Progress to date with privatization

Small-scale privatization has been virtually completed, with cumulative proceeds amounting to over Sk 14 billion. Most of the small shops and service establishments were privatized during 1991-93 through auction sales or restitution to original owners or their descendants; service outlets located on the ground floor of apartment buildings were leased (by the local authorities) pending privatization of the apartment blocks themselves. Apartment buildings were transferred to municipalities in 1991, which started selling them--typically to their current occupants--on the basis of legislation passed in July 1993.

The first wave of large-scale privatization, involving enterprises with a book value of Sk 172 billion (Table V.1, position as of end-1993), began under the federation in 1991, and was nearly complete by the time of independence. 2/ With direct sales of state property and free-of-charge transfers to municipalities accounting for only about a tenth of total sales, the transfer of shares of newly formed joint-stock companies (JSCs), with a total book value of Sk 157 billion, was the primary mechanism of large-scale privatization during the first wave. The voucher scheme was applied to over 50 percent of the JSCs and a similar percentage of their book value. The remaining shares were either sold by standard methods or continue to be held by the National Property Fund (NPF). Enterprises were typically divested with their liabilities, which was not the usual case for small privatization.

1/ Prepared by J. Odenius.

2/ Shafik (1993), and Svejnar and Singer (1993) provide valuable background information on the first wave of privatization.

Table V.1. Large-Scale Privatization of State-Owned Enterprises, 1993-95

	1993		1994		January-June 1995	
	No. of firms	Book value (In Sk billions)	No. of firms	Book value (In Sk billions)	No. of firms	Book value (In Sk billions)
Enterprises entering privatization ("Input") 1/	722	181.1	927	301.8	985	309.3
Enterprises exiting privatization ("Output") 1/	1,084	172.0	1,306	250.0	1,378	264.2
Sale of state property	262	13.3	327	25.2	343	27.7
Transfer to municipalities	187	2.1	235	2.3	282	2.8
Restitution of claims	16	--	16	--	16	--
Joint-stock company	619	156.6	728	222.5	737	233.7
Reserves, other funds		19.9		21.0		23.8
Subscribed capital		136.7		201.6		209.9
Standard methods 2/		3.2		12.9		23.6
Voucher privatization		81.7		81.7		81.7
Held for restitution of claims 3/		3.7		6.0		6.0
National Property Fund		48.1		98.4		96.0
Temporary		33.8		...		66.6
Long-term		14.3		...		29.4
Other		--		2.6		2.6
Projects awaiting completion of preparation for privatization ("Nonrealized output") 1/ 4/		9.1		51.8		45.1
Memorandum items: 5/						
Privatized property		3.5		11.9		2.5
Privatized joint-stock companies 6/		6.1		11.8		3.0
Privatized enterprises (total)		9.6		23.7		5.5

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

1/ End of period unless noted otherwise.
2/ Including capital market sales.
3/ Including transfers to National Insurance.
4/ Including valuation changes.
5/ Book value of privatized property during the indicated period.
6/ Private shareholding exceeding 51 percent.

The second wave of large-scale privatization was initiated in 1993 and, as initially envisaged, involved over 1,000 enterprises with a book value of about Sk 260 billion. 1/ Included among these were to be public utilities and some conglomerates, for which privatization projects were too complicated to be completed within the tight deadlines of the first wave. The total book value of enterprises included in the two waves of large-scale privatization (Sk 430 billion) corresponded to about 80-90 percent of the book value of all state enterprises; post and telecommunications and railway lines were the main sectors to be excluded from the privatization process. In late 1993, the Government committed itself to selling off, by mid-1995, one third of the enterprises that were under majority state ownership as of early 1993, i.e., to privatize enterprises with a book value of about Sk 95 billion. As it turned out, enterprises with a book value of Sk 39 billion were privatized (i.e., became at least 51 percent privately

1/ Based on the most recent valuation of equity.

owned) during that period, of which Sk 18 billion by direct property sales and Sk 21 billion by equity sales. 1/ An important reason for the slower than targeted pace of privatization is that the Government postponed, downsized and eventually canceled the second-wave voucher scheme (see below). In addition, frequent political changes and administrative constraints prevented privatization by standard methods from proceeding at a faster pace.

3. Shift in privatization policy

In June 1995, the Government announced a shift in privatization policy (incorporated in legislation passed in the following month) that entails: (a) cancellation of the second-wave of voucher privatization; (b) distribution in January 1996 of "privatization bonds" (valued at the equivalent of 8 percent of GDP) in exchange for voucher books bought by citizens at a nominal price; (c) permanent state ownership in "important" enterprises (mainly big utilities); and (d) permanent state control in "strategic" enterprises (including the largest industrial enterprises) through exercise of veto power on "major" decisions in stockholders' meetings. Additional legislation passed in July 1995 aims to enhance transparency in the capital markets, strengthen the regulatory framework for Investment Privatization Funds (IPFs) and limit their role in enterprise governance.

In the authorities' view, voucher privatization had dispersed ownership too widely and had resulted in weak corporate governance. The policy shift towards standard methods thus was designed to enhance corporate governance through transfer of property to clearly defined owners.

a. Bonds-for-vouchers scheme

An amendment to the law on large-scale privatization (Law No. 92/1991) canceled the second-wave voucher privatization, for which enterprise shares valued at Sk 40 billion had been tentatively allocated two months earlier. In exchange for the voucher books which had been distributed in September 1994 (at a nominal fee of Sk 1,000) to 3.5 million Slovaks, the NPF will distribute 5-year Sk 10,000 "privatization" bonds bearing a market-related interest rate. 2/ The bonds, to be issued from January 1, 1996, will be

---

1/ As shown in Table V.1, enterprises with a book value of Sk 264.2 billion had been offered for privatization as of mid-1995, i.e., Sk 92.2 billion more than at end-1993. This compares with projects of a book value of Sk 309.3 billion submitted to the NPF, which is Sk 128.2 billion more than at end-1993. In mid-1995, projects with a book value of Sk 45.1 billion were still under evaluation awaiting completion of preparation for privatization.

2/ Bondholders will be paid the nominal value of the bond of Sk 10,000 on or after December 31, 2000 but no later than December 31, 2001. Interest payments will have to be made no later than December 2001, and will be based on the central bank's discount rate prevailing at the end of each year.

serviced by the NPF and guaranteed by the NPF's property. In an effort to limit the liquidity of the bonds, the law provides that they cannot be used as collateral and that their tradability is subject to restrictions. They may be used, inter alia, for settlement of liabilities to the NPF arising from past or future privatization sales (including by secondary market purchasers, physical or legal persons), for down-payments on apartment purchases, and for supplementary health and pension insurance. 1/

The issuance of the privatization bonds, of course, will affect the financial position of the NPF. 2/ NPF revenues are mainly used to cover costs related to the privatization process and financial restructuring of viable enterprises. Prior to the Government's decision to issue privatization bonds, the NPF was expected to remain in broad financial balance in the coming years based on recent revenue performance and existing expenditure commitments.

b. Policy on "important" and "strategic" enterprises

Law No. 175/1995 specifies 29 important enterprises, with an estimated total book value of over Sk 100 billion, in which the state will maintain permanent ownership. 3/ The list includes utility companies in the energy and water sectors, armaments and machinery firms, post and telecommunications, pharmaceutical firms, agricultural enterprises, and railway lines (Table V.2). As the bulk of these enterprises (with a book value of about Sk 90 billion) had been initially included in the second wave of large-scale privatization, this measure effectively reduced the book value of enterprises to be privatized under the second wave from Sk 260 billion to Sk 170 billion, i.e., the same amount as under the first wave.

1/ In addition, bonds can be sold to banks undergoing restructuring or can be used to purchase enterprise shares that the NPF may make available to the public (procedures are still to be determined). Finally, employees of a joint-stock company with employee-ownership can use the bonds for purchasing shares in that company.

2/ The NPF--recipient of privatization proceeds and owner of shares in a large number of enterprises--is not included in the definition of the general government.

3/ Parliament passed Law No. 175 defining important and strategic enterprises in July 1995. In late July, President Kováč declined to sign into law Law No. 175, as well as an amendment to the privatization law (Law No. 92/1991) and Law No. 173, reportedly questioning their constitutionality.

Table V.2. Slovak Republic: Book Value of Important Enterprises

(In millions of koruny)

Important Enterprises	Book Value
Gas and energy	40,298
SPP, s.p.	27,191
ZEZ, s.p.	5,961
SEZ, s.p.	5,074
VEZ, s.p.	2,072
Post and telecommunications	...
SP, s.p.	...
ST, s.p.	...
Armaments and general machinery	8,957
ZTS DV, s.p.	3,424
ZTS TEES, s.p.	3,455
ZVS, s.p.	1,307
Konštrukta Defence, s.p.	206
Konštrukta Industry, s.p.	565
SM Kremnica, s.p.	...
Pharmaceutical	664
Medika, s.p.	431
Imuna, s.p.	233
Agriculture, forest, and water	...
12 enterprises	...
Railway transport routes	...
Other	42,726
Transpetrolu, a.s.	2,437
Slovenských elektrární, a.p.	40,289
Total 1/	92,645

Sources: Law 175/1995, paragraph 2; and data provided by the National Property Fund.

1/ Published book value. The book value of post and telecommunications enterprises, agricultural enterprises, SM Kremnica, and railway transport routes is not readily available. It is estimated to be over Sk 10,000 million.

Table V.3. Slovak Republic: Book Value of Strategic Enterprises
(In millions of koruny)

Strategic Enterprises	Book Value
Crude oil processing, mining and metallurgy	26,979
Nafta Gbely, a.s.	3,231
Hormon. bane, s.p.	3,338
Baňa Dolina, a.s.	536
VSZ, a.s.	16,448
ZSNP, a.s.	3,426
Processing of other raw materials	
Solivary, a.s.	93
Machinery	6,942
Považske strojárne, a.s.	3,994
Calex Zlaté, a.s.	1,169
Podpolianske strojárne Delva, s.p.	1,368
ZTS Hriňovské, s.p.	411
Chemical and consumer industries	37,069
Slovnaft, a.s.	13,169
Benzinol, a.s.	2,547
Duslo, a.s.	4,307
Chemlon, a.s.	1,975
Istrochem, s.p.	6,043
NCHZ, a.s.	1,595
Izomat, a.s.	561
Severoslov. celulózky a papierne, s.p.	5,424
Juhoslov. celulózky a papierne, a.s.	1,448
Transport	
Slov. plavba dunajská, s.p.	2,713
Agriculture and water industry	36,948
Žrebčín Motešice, s.p.	63
Žrebčinec Veľký Šariš, s.p.	7
Slacht. stanica Horná Streda, s.p.	43
Istropol, s.p.	27
Slacht. stanica Levočské Lúky, s.p.	7
V.u.o.o.d., Bojnice, s.p.	35
V.a.s.u., Veľká Lomnica, s.p.	73
Polnonákup Agropros, s.p.	508
Polnonákup Navys, s.p.	344
Polnonákup Tekov, s.p.	377
Polnonákup Tatry, s.p.	182
Polnonákup Trnavan, s.p.	...
Tokaj, s.p.	...
Vodárne a kanalizácie, s.p.	6,374
Západoslov. vodárne a kanalizácie, s.p.	9,507
Stredoslov. vodárne a kanalizácie, s.p.	4,482
Severoslov. vodárne a kanalizácie, s.p.	5,356
Východoslov. vodárne a kanalizácie, s.p.	9,563
Pharmaceutical industry	
MEVAK, a.s.	191
Construction industry	1,140
Považská cementáreň, a.s.	314
Cementáreň Turňa, a.s.	331
Kameňolomy a štrkopieskovne, a.s.	132
Paneláren Žilina,s.p.	98
Paneláren Košice, s.p.	147
NIBACO, s.p.	118
Property administered by the Slovak Railways 1/	...
Total	112,075

Sources: Law 175/1995, paragraph 3; and data provided by the National Property Fund.

1/ As specified in Law 258/1993.

The same law identifies 45 "strategic" enterprises, with a total book value of about Sk 110 billion, in which the state will retain (or regain) veto power over "key" decisions (Table V.3). The state veto power is to apply, in principle, to decisions for which normally a general shareholder meeting is necessary and a 2/3 majority of those present is required. Special rights can be exercised in line with the Articles of Association (AOA) of any given JSC. This provision appears to give--whenever the AOA are worded appropriately--the state veto power over decisions for which normally a simple majority is required, including decisions pertaining to the distribution of dividends and representation on management and supervisory boards.

Law 175/1995 also shifted the exercise of ownership rights over strategic enterprises from the NPF to the founding ministries. 1/ The Ministry of Privatization remains in charge of corporatization of enterprises and approval of privatization projects, and the NPF continues to be solely responsible for decisions on privatization concerning enterprises with completed projects. Nevertheless, the role that the law envisages for founding ministries in the governance of strategic enterprises is indicative of their increased influence that could be used to slow privatization of these enterprises.

The new policy affecting "important" and "strategic" enterprises--which have been defined more broadly than expected until recently--may prevent an acceleration of the privatization process (in line with the Government's objective to privatize enterprises valued at Sk 80 billion during the second half of 1995). If strategic enterprises are not offered for sale, privatization sales during the second half of 1995 are unlikely to exceed Sk 25 billion. The authorities anticipated that decisions regarding the privatization of strategic enterprises could be made in the coming months.

4. IPFs and capital markets

a. Experience with IPFs

IPFs emerged as key players during the first wave of large scale privatization. As voucher holders typically lacked prior investment experience, 72 percent of them decided to exchange their voucher books for shares of IPFs, especially with those IPFs enjoying name recognition (e.g., ones sponsored by banks). 2/ Voucher holders were also attracted by

---

1/ The NPF had the authority to approve all projects, except for direct sales which were subject to approval by the Government.

2/ Kotrba and Svejnar (1994) reported that, among the nine largest IPFs of the first privatization wave, only Harvard Capital & Consulting was not associated with a major financial institution, and Credit was the only fund sponsored by a foreign financial institution.

promises of guaranteed high returns--often ten times the value of the vouchers. 1/

The dispersed ownership of the IPFs early on gave rise to concerns that the IPF managers--appointed by the institution that sponsored the IPF--would not represent their shareholders' interests effectively. 2/ The potential influence of shareholders is rendered even smaller by the closed-ended character of most IPFs, which prevents shareholders from exerting pressure on fund managers by cashing in against the net asset value of the funds. Using the size of dividends as a criterion, the performance of the IPFs has been relatively unsatisfactory: their dividends in 1994 were about four times lower than those paid out by (open-ended) unit trust funds. Large discounts--typically not less than 40-50 percent--of IPF share prices relative to the net asset value of their underlying portfolio could reflect investor concerns about IPF performance and regulatory responses as well as lack of familiarity of the general public with these financial instruments. Recent government decisions affecting IPFs--motivated by a perceived need to protect shareholders--may have inadvertently further undermined confidence in the financial position of the IPFs. 3/

Upon completion of the first wave of privatization, 165 funds held close to 40 percent of all privatized shares, with the portfolio of a large IPF typically comprising some 100 enterprises. 4/ Because IPFs have been hampered by the lack of experienced staff and their wide portfolio diversification, they have often behaved as passive investors or have focused their corporate governance activities on important companies in which they have a significant stake, i.e., up to the present maximum of 20 percent. 5/ In the latter case, several IPFs typically join forces to govern an enterprise.

1/ VUB, Slovakia's major commercial bank and sponsor of VUB Kupon, offered a twelve-fold return to voucher holders.

2/ The number of shareholders of a typical fund ranges from 1,000 to 100,000. VUB Kupon, Slovakia's largest IPF, has 1/2 million owners.

3/ These decisions include the suspension of trading of shares of VUB Kupon (largest IPF) on the Bratislava Stock Exchange in response to a decision taken in January 1995 by the general assembly to allow its dominant shareholder (Nomura International, with about 30 percent of the shares, purchased from VUB in 1994) to swap its stake against shares in the fund's portfolio, thereby de facto reducing the fund's capital. In early 1995, the Government also withdrew the license of PSIPS, Slovakia's third largest fund, which was unable to meet its commitment to pay a 2,000 percent return to 70,000 individuals who placed their vouchers with the fund. In addition, the trading of shares of Slovakia Invest, the fifth largest fund, was suspended in March 1995. See Cook (1995).

4/ VUB Kupon's portfolio currently comprises about 200 enterprises.

5/ VUB Kupon reportedly engages in corporate governance activities in about 20 (or 10 percent) of the enterprises in its portfolio.

The evidence on the role of IPFs in corporate governance is sketchy and inconclusive. While data suggest that enterprises privatized through standard methods have experienced better financial results than enterprises privatized by the voucher method, this could be a result of differences in initial conditions. It is also unclear whether the IPFs contributed to enterprise restructuring, given that labor shedding by industrial enterprises was well advanced prior to IPF involvement (which began in April 1993 with the issuance of JSC shares to successful bidders under the first-wave voucher scheme). 1/

b. Impact of policy changes on IPFs and capital markets

The new legislation on the IPFs--in conjunction with the cancellation of the second-wave voucher scheme and the emphasis on standard methods of privatization--will reduce the role of IPFs and limit the expansion of equity markets. 2/ Specifically, the reduction in the maximum equity stake of IPFs in any JSC from 20 percent to 10 percent as of end-1996 would curtail the potential role of IPFs in corporate governance. 3/ The emphasis on standard methods of privatization is also expected to adversely affect the development of a market for equities, since investors are likely to have limited interest in shares that correspond to (powerless) minority stakes in JSCs.

1/ Employment in large industrial enterprises fell by about 30 percent during 1991-93. Though labor shedding has continued in 1994-95, this cannot be attributed to IPFs.

2/ Furthermore, as the measure had not been expected, some IPFs will suffer losses for marketing expenses incurred in order to attract voucher books. The approved legislation (Law No. 173) provides for limited compensation of IPFs (up to Sk 500,000, equivalent to US$16,000).

3/ The 10 percent limit is in line with practice in other countries, including France, Germany, and Russia (Anderson 1994). Until end-1996, the voting rights of IPFs with equity stakes larger than 10 percent will be limited to 10 percent.

References

Anderson, R., "Voucher Funds in the Transition Economies: The Czech and Slovak Examples" (Washington, D.C.: World Bank, 1994).

Cook, J., "First Steps to Recovery," Central European (May 1995), pp. 16-19.

Kotrba, J. and J. Svejnar, "Rapid and Multifaceted Privatization: Experience of the Czech and Slovak Republics," CERGE (Prague: 1994).

Shafik, N., "Making a Market: Mass Privatization in the Czech and Slovak Republics," WPS1231, World Bank (Washington D.C.: December 1993).

Svejnar, J. and M. Singer, "Using Vouchers to Privatize an Economy: The Czech and Slovak Case," in M. Szanyi (ed.) *Privatization in Visegrád Countries: Old Principles and New Methods, Proceedings of the International Conference* (Budapest: 1993), pp. 23-45.

World Bank, *Slovakia Restructuring for Recovery* (Washington, D.C.: 1994).

Table 1. Slovak Republic: Selected Indicators of Real Sector Developments, 1991-94

	1991	1992	1993	1994
	(Annual percentage change)			
Real GDP	-14.5	-7.0	-4.1	4.8
Industrial production 1/	-24.1	-14.2	-10.3	6.4
Consumption 2/	-25.1	6.5	2.4	-3.8
Gross fixed capital investment 2/	-25.2	-3.6	-16.0	-4.0
Consumer price index, period average	61.2	10.0	23.2	13.4
Real wages 3/	-28.5	9.2	-3.9	3.2
Gross turnover, in constant prices				
Retail sales	...	15.0	10.0	1.6
Selected market services	...	...	1.8	31.4
	(End of period, in percent)			
Share of private sector in GDP 4/	...	32.4	39.0	58.2
Unemployment rate 5/	11.8	10.4	14.4	14.8

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

1/ At constant 1989 prices in methodology and organizational structure of 1994.
2/ At constant 1984 prices, including government.
3/ Wages in the national economy deflated by the CPI.
4/ Including cooperatives, accounting for 10.5 percent, 14.4 percent, and 14.4 percent of nominal GDP in 1992, 1993, and 1994, respectively.
5/ End of period.

Table 2. Slovak Republic: Gross Domestic Product--Current Prices, 1989-94 1/

	1989	1990	1991	1992 2/	1993 2/	1994 2/
			(In billions of koruny)			
GDP	234.2	243.6	280.1	307.8	340.2	398.4
			(In percent of GDP)			
By origin						
Agriculture	9.4	7.4	5.7	6.2	6.6	7.4
Industry	49.3	49.9	52.7	37.9	36.8	30.7
Construction	9.1	9.2	7.4	6.8	6.7	5.0
Services	32.2	33.5	34.2	49.1	49.9	56.9
			(In billions of koruny)			
By expenditure						
Domestic demand	236.9	266.2	299.3	317.7	359.0	389.3
Total consumption	167.3	184.7	200.9	236.1	284.5	321.0
Personal consumption	116.7	131.3	143.3	162.5	199.0	225.6
Government consumption	50.6	53.4	57.6	73.6	85.5	95.4
Gross investment	69.6	81.5	98.4	81.6	74.5	68.2
Fixed investment	64.5	76.2	79.2	97.6	93.5	101.8
Change in stocks	5.1	5.3	19.2	-16.0	-19.0	-33.6
Foreign balance 3/	-6.2	-26.3	-26.2	-13.8	-20.4	24.4
Exports of goods and nonfactor services	69.1	60.3	111.5	233.7	227.8	287.8
Imports of goods and nonfactor services	75.3	86.6	138.1	247.5	248.2	263.4
Statistical discrepancy	3.5	3.7	7.4	3.9	1.6	-15.3

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

1/ Data for 1989, 1990 and 1991 were obtained using the transformation method, while 1992-94 data were obtained using the ESA method.
2/ Preliminary official data.
3/ 1989-92 foreign balance data are preliminary estimates.

Table 3. Slovak Republic: Gross Domestic Product--Constant Prices, 1989-94 1/ 2/

(In billions of koruny)

	1989	1990	1991	1992 3/	1993 3/	1994 3/
GDP	227.5	222.0	193.9	181.2	173.8	182.2
By expenditure						
Domestic demand	234.7	248.1	193.4	180.0	174.2	161.9
Total consumption	164.0	169.4	126.9	135.1	138.3	133.1
Personal Consumption	113.4	118.3	84.9	89.5	90.6	87.5
Government Consumption	50.6	51.1	42.0	45.6	47.7	45.6
Gross investment	70.7	78.7	66.5	44.9	35.9	28.8
Fixed investment	65.8	73.5	55.0	53.0	44.5	42.7
Changes in stocks	4.9	5.2	11.5	-8.1	-8.6	-13.9
Foreign balance 4/	-10.5	-29.4	-4.4	-1.3	-0.3	26.7
Exports of goods and nonfactor services	72.7	58.3	85.6	124.7	124.5	139.3
Imports of goods and nonfactor services	83.2	87.7	90.0	126.0	124.8	112.6
Statistical discrepancy	3.3	3.3	4.9	2.5	-0.1	-6.4

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

1/ 1984 prices.
2/ Data for 1989, 1990 and 1991 were obtained using the transformation method, while 1992-94 data were obtained using the ESA method.
3/ Preliminary official data.
4/ 1989-92 foreign balance data are preliminary estimates.

Table 4. Slovak Republic: Industrial Production--Constant Prices, 1989-94 1/

	1989	1990	1991	1992	1993	1994
			(Annual percentage change)			
Fuel (coal and gas)	-2.5	-2.0	-39.5	-10.3	0.7	9.6
Power	3.7	0.4	-20.0	-4.9	-0.9	17.4
Iron metallurgy	1.4	2.6	-11.3	-4.0	1.8	7.7
Nonferrous metals	1.4	-4.8	-32.8	-4.0	1.8	7.7
Chemicals and rubber	-0.1	-10.7	-20.3	-6.7	-19.4	15.1
Machinery	-9.7	-5.5	-33.0	-31.4	-15.7	-1.1
Electrotechnical	2.9	-5.3	-37.5	-21.4	-4.0	5.6
Construction parts	--	-7.9	-35.1	-8.0	-5.7	-1.5
Wood processing	0.8	-2.4	-24.7	-10.2	-10.2	2.7
Metal processing	-0.7	-2.0	-31.7	-16.1	4.8	10.9
Paper and cellulose	3.5	0.2	-13.9	2.1	-11.8	21.6
Glass ceramics, and porcelain	11.1	5.2	-16.5	0.4	2.3	6.2
Textiles	1.4	0.7	-34.0	-14.3	-11.8	4.8
Clothing	5.5	-2.2	-37.1	2.7	-10.8	-2.1
Leather processing	1.6	-2.1	-38.9	-17.5	-21.1	-2.1
Print	3.0	8.5	1.1	-23.1	11.1	7.8
Food and beverages	1.5	-1.1	-13.7	-18.5	-15.9	-2.8
Frozen foods, spring water, and tobacco products	7.0	0.6	-29.1	-18.5	-48.2	-0.4
Other	9.8	-7.8	-34.0	-16.7	-6.6	6.5
Total gross output	-0.8	-3.6	-24.1	-14.2	-10.3	6.4
			(In billions of koruny)			
Memorandum items:						
Industrial gross output 2/	...	...	403	348	356	409
Produced by:						
Private sector 3/	...	...	35	38	69	234
State sector 3/	...	...	354	293	265	175
Other	...	...	14	17	22	--

Source: Statistical Office of the Slovak Republic.

1/ Production in 1989 prices and methodology and organization of 1994.
2/ In prices, methodology and organization of the current year.
3/ 1994 estimates.

Table 5. Slovak Republic: Electricity Production and Consumption, 1989-94

(In millions of kilowatt hours)

	1989	1990	1991	1992 1/	1993 1/	1994 1/
Production	24,069	24,067	22,746	22,255	24,429	24,740
Of which:						
Thermal	9,230	9,468	9,111	8,815	8,562	7,987
Hydro	2,631	2,515	1,894	2,360	3,891	4,601
Nuclear	12,156	12,036	11,690	11,058	11,937	12,139
Imports	2,370	3,446	2,888	2,404	4,297	...
Exports	1,354	2,059	1,723	1,710	2,880	...
Losses	1,871	1,827	1,823	1,807	1,486	...
Domestic consumption	24,195	23,414	22,527	22,300	20,763	...
Of which:						
Industry	15,190	14,412	11,040	10,105	12,908	...
Agriculture	1,130	1,152	973	902	1,591	...
Households	3,593	3,678	3,936	4,021	4,137	...

Source: Data provided by the Slovak authorities.

1/ Preliminary data.

Table 6. Slovak Republic: Energy Balance Sheet, 1989-93

(In terajoules)

	1989	1990	1991	1992 1/	1993 1/
Primary domestic sources	248,262	234,358	216,254	198,598	245,727
Coal	59,792	54,046	47,000	39,834	40,552
Other solid fuels	17,606	16,806	13,782	...	...
Liquid fuel	4,049	3,042	2,978	3,061	2,770
Other (excluding hydro- and nuclear-generated electricity)	52,990	48,688	...	...	...
Imports	531,119	521,283	484,631	436,201	587,900
Change in stocks	-7,179	-15,091	15,127	-21,659	10,604
Domestic use of primary energy	986,251	945,279	848,624	820,816	786,953
Final consumption of energy	668,668	654,483	578,758	...	...
By industry	370,027	367,042	317,597	308,700	287,767
By agriculture	36,256	32,683	23,954	20,751	26,344
By households	151,171	127,405	115,611	111,426	104,645
For other purposes	111,214	127,353	121,596	...	...

Source: Data provided by the Slovak authorities.

1/ Preliminary data.

Table 7. Slovak Republic: Construction and Housing--Constant Prices, 1989-94 1/

	1989	1990	1991	1992	1993	1994 2/
Construction production carried out by delivery contracts						
In billions of koruny	90.8	83.7	53.6	70.8	53.0	50.8
Annual percentage changes	0.6	-7.8	-36.0	32.2	-25.1	-4.2
	(In percent of total construction output)					
New construction (including modernization and reconstruction)	71.1	69.6	68.3	63.8	64.1	60.5
Repairs	23.9	24.8	21.8	22.2	25.7	27.5
Other works	5.0	5.6	3.8	2.9	2.0	2.0
Abroad	--	--	6.1	11.1	8.2	10.0
	(In percent of new construction output)					
Dwellings	38.4	39.2	37.9	33.0	37.0	39.6
Industrial	25.5	26.4	30.1	28.0	33.0	28.3
Engineering	28.7	28.4	28.2	21.6	22.2	22.6
Water supply	7.4	6.0	3.8	17.4	7.8	9.5

Source: Statistical Office of the Slovak Republic.

1/ 1994 prices.
2/ Estimates.

Table 8. Slovak Republic: Agricultural Production--Constant Prices, 1989-94 1/

(Annual percentage changes)

	1989	1990	1991	1992	1993	1994 2/
Total gross agricultural production	0.6	-7.2	-7.4	-13.9	-8.0	0.6
Crop production	-1.9	-11.6	5.8	-14.6	-5.9	2.6
Of which:						
Cereals	-2.7	-16.5	12.3	-11.0	-10.8	17.4
Fodder and root crops	-0.7	-13.4	0.3	-23.3	-9.3	0.9
Potatoes	-19.7	4.5	-14.1	-1.7	30.2	-53.4
Vegetables	1.8	-13.0	11.2	-16.8	16.6	-9.7
Animal production	2.7	-3.8	-17.0	-13.2	-9.8	-1.3
Of which:						
Livestock for slaughter 3/	3.2	-1.1	-8.0	-10.5	-2.7	-13.2
Of which:						
Cattle	2.4	1.0	-1.6	-17.0	-0.9	-27.3
Pigs	3.9	-1.7	-12.6	-4.6	-6.1	-1.3
Milk	0.2	-3.8	-20.5	-12.8	-8.7	-4.9
Eggs	1.5	-0.3	-8.0	-5.7	-11.3	5.2

Source: Data provided by the Slovak authorities.

1/ Gross agricultural production in 1989 prices.
2/ Estimates.
3/ Excluding poultry.

Table 9. Slovak Republic: Production and Yields of Selected Agricultural Crops, 1989-94

	1989	1990	1991	1992	1993	1994 1/
			(In thousands of tons)			
Grain overall	4,249	3,617	4,004	3,710	3,152	3,701
Wheat	2,266	2,083	2,124	1,697	1,529	2,145
Rye	151	178	131	76	69	96
Barley	936	914	960	1,038	823	874
Corn (kernels)	825	370	711	676	674	521
Sugar beets	1,876	1,581	1,501	1,326	1,128	1,112
Potatoes	745	779	669	658	857	399
			(In tons per hectare)			
Grain overall	5.2	4.9	5.0	4.4	3.8	4.3
Wheat	5.5	5.0	5.2	4.8	3.9	4.8
Rye	3.8	3.9	3.4	3.2	3.0	3.1
Barley	4.7	4.8	4.6	4.1	3.3	3.7
Corn (kernels)	5.6	3.6	5.4	4.5	4.6	4.1
Sugar beets	34.3	30.8	31.1	29.4	34.3	34.5
Potatoes	13.6	14.1	12.3	12.9	18.2	9.7

Source: Data provided by the Slovak authorities.

1/ Estimates.

Table 10. Slovak Republic: Production and Yields of Selected Livestock Products, 1989-94

	1989	1990	1991	1992	1993	1994 1/
Production						
Meat (In thousands of tons, live yield)						
Beef	209	211	207	172	170	122
Veal	3	2	1	1	6	5
Pork	382	376	328	313	294	290
Milk (millions of liters)	1,995	1,920	1,526	1,331	1,214	1,155
Eggs (millions)	1,985	1,983	1,824	1,721	1,527	1,606
Yields						
Average live weight (kg.)						
Slaughtered cattle	475	483	479	472	426	425
Slaughtered pigs	125	129	133	136	119	113
Average annual milk yield/cow (liters)	3,654	3,573	2,887	2,888	2,953	3,175
Average annual egg production/chicken	249	249	241	240	227	228
Number of calves born per 100 cows	104	102	92	91	94	96
Number of piglets born per sow	18	18	17	16	15	16

Source: Data provided by the Slovak authorities.

1/ Estimates.

Table 11. Slovak Republic: Profits and Losses of Enterprises, 1992-94 1/

(In billions of koruny)

	1992				1993			1994		
	Profits	Losses	Net	Net 2/	Profits	Losses	Net	Profits	Losses	Net
Total	31.6	21.6	10.1	12.6	82.2	46.3	35.9	85.5	38.1	47.4
Agriculture	0.3	3.7	-3.4	-8.1 3/	4.5	11.2	-6.7	1.3	5.5	-4.2
Industry	24.0	11.7	12.3	22.0	45.0	18.6	26.4	42.0	16.5	25.5
Mining	2.6	0.8	1.8	0.7	1.2	0.4	0.8	0.9	0.1	0.8
Manufacturing	11.0	10.7	0.3	5.6	16.8	17.4	-0.6	17.7	16.4	1.3
Electricity	10.4	0.2	10.2	15.7	27.0	0.8	26.2	23.4	0.1	23.4
Construction	1.3	0.7	0.6	1.2 3/	2.4	2.2	0.2	1.8	1.6	0.2
Services	6.0	4.9	1.0	...	30.3	14.3	16.0	39.1	11.7	27.4
Trade and repairs	2.3	2.2	0.1	0.2 3/	3.3	5.4	-2.1	4.2	3.2	1.0
Hotels and restaurants	0.2	0.2	--	0.1 3/	0.2	0.6	-0.4	0.2	0.4	-0.2
Transport and communications	1.9	1.8	0.1	2.8	8.4	2.1	6.3	7.8	1.1	6.7
Financial services 4/	...	...	...	9.0	13.9	3.8	10.1	23.7	6.3	17.4
Real estate	1.6	0.7	0.8	1.3	3.3	1.9	1.4	3.2	0.7	2.5
Other	...	...	...	...	1.2	0.5	0.7	--	--	--

Source: Statistical Office of the Slovak Republic.

1/ Enterprises with 25 or more employees including subsidized public organizations.

2/ There are two types of data on profitability in 1992. One concerns net profits and the other gross profits and losses. Due to unresolved data problems, the two types of data do not agree, as can be seen from the third and fourth columns.

3/ For these sectors, data on net profits are available only for the last three quarters of 1992.

4/ Data for financial intermediaries refer to all enterprises, rather than only to enterprises with 25 or more employees.

Table 12. Slovak Republic: Gross Fixed Investment--Current Prices, 1992-94

(In billions of koruny)

Branch	1992	1993	1994 1/
Agriculture, hunting, and forestry	5.1	4.6	5.4
Mining and quarrying	2.5	1.9	1.4
Manufacturing	29.4	31.0	20.4
Electricity, gas, and water supply	15.2	15.3	16.3
Construction	3.1	3.4	2.1
Wholesale and retail trade; repair of motor vehicles, motorcycles, and personal household goods	3.2	4.1	4.6
Hotels and restaurants	1.9	1.0	1.0
Transport, storage, and communication	8.3	9.7	13.8
Financial intermediation	4.8	8.1	12.4
Real estate, renting, and business activities	8.0	10.8	15.0
Public administration, defense	2.2	4.5	10.3
Education	2.5	1.8	1.3
Health	2.3	2.8	2.5
Other	4.0	6.0	1.5
Total	92.5	105.0	108.0
Memorandum items:			
Tangible investment	90.6	103.4	105.7
Of which: Construction works	41.9	47.4	47.3
Machines and equipment	44.2	50.0	49.8
Other	4.6	6.0	8.6
Non-tangible investment	2.0	1.7	2.3
Public investment	...	72.2	65.3
Private investment	...	32.8	42.8
Index of gross fixed investment (1989 = 100; in constant prices)	93.0	89.8	83.2

Source: Statistical Office of the Slovak Republic.

1/ Preliminary.

Table 13. Slovak Republic: Money Incomes and Expenditures of the Population--Current Prices, 1989-94

	1989	1990	1991	1992	1993	1994
			(In billions of koruny)			
Total money incomes	151.0	161.5	186.1	214.2	269.3	319.9
Wages	86.9	89.7	93.0	102.8	119.7	139.8
Social money benefits 1/	29.8	31.4	40.3	45.2	50.9	60.9
Nonwage incomes from economic activity 2/	13.2	13.1	9.5	8.0	7.6	8.3
Interest income	2.7	2.9	7.5	7.3	7.8	12.9
Other 3/	18.4	24.4	35.8	50.9	83.3	98.0
Total money expenditures	144.5	163.1	174.1	207.2	260.4	297.0
Retail purchases	97.7	109.5	109.7	131.9	172.6	196.9
Services	18.5	21.2	23.8	25.8	31.5	36.0
Taxes and levies to Government	16.9	17.1	19.2	24.6	25.9	27.3
Interest payments	0.6	0.6	0.8	1.0	1.4	1.4
Other	10.8	14.7	20.6	23.9	29.0	35.4
Financial savings	6.5	-1.6	12.0	7.0	8.9	22.9
Cash	1.6	1.9	3.7	1.7	-4.3	6.8
Savings 4/	4.9	-3.5	8.3	5.3	13.2	16.1
Savings ratio (in percent)	4.3	-1.0	6.4	3.3	3.3	7.2
			(Index at constant prices, 1980 = 100) 5/			
Real money incomes	142.2	139.5	110.1	115.1	117.5	128.5
Real money expenditures	140.7	146.0	106.6	115.2	111.5	114.1

Sources: Economic Monitor; and staff estimates.

1/ Social benefits comprise mainly pensions, sickness benefits, and benefits for families with children, and social assistance.
2/ Includes incomes of cooperative farms.
3/ Includes interest payments on savings accounts, payments from insurance claims, income from gambling, business travel allowances, subsidies paid by enterprises in connection with labor mobility, and borrowing by the household sector from the banking system.
4/ Based on money incomes including loans.
5/ Based on retail price index until 1991, thereafter CPI.

Table 14. Slovak Republic: Unemployment, 1990-94

(In thousands; end of period)

	1990	1991	1992	1993	1994
Registered unemployment	40	302	260	368	371
Of which:					
Workers drawing unemployment benefits	36	248	87	123	85
Part-time workers 1/	...	...	78	72	74
Participants in training programs		...	7	24	23..
Vacancies	15	8	16	8	13

Source: Data provided by the Slovak authorities.

1/ Estimate; involuntary and voluntary part-time workers.

Table 15. Slovak Republic: Employment by Sector, 1989-94 1/

	1989	1990	1991	1992	1993	1994
			(In thousands; yearly average)			
Total employment	2,423	2,345	2,008	1,995	1,991	1,955
Enterprises with 25 or more employees	...	...	1,818	1,647	1,606	1,515
Agriculture, forestry, and fishing	304	301	297	245	209	183
Industry	836	819	656	576	547	517
Mining and quarrying	...	...	34	30	24	21
Manufacturing	...	...	583	508	478	451
Electricity	...	...	39	38	45	45
Construction	259	251	150	128	106	93
Services	...	...	328	292	330	310
Financial services and insurance	...	...	12	15	20	24
Real estate	...	...	84	77	69	62
Trade and repairs	...	...	131	101	88	77
Hotels and restaurants	...	...	15	14	12	11
Transport and communications	...	...	86	85	141	136
State administration	...	...	386	405	414	410
Administration	...	...	47	59	77	71
Education	172	173	184	184	169	172
Health	116	118	117	126	129	127
Other social services	...	...	38	36	39	40
Enterprises with 1 to 24 employees	...	...	6	28	62	85
Employees of private entrepreneurs	...	...	184	320	323	355
			(In percent of total)			
Memorandum items:						
Workers in the private sector 3/	...	...	...	18.3	22.8	31.9
Workers in the public and cooperative sector 2/	99.0	95.1	87.2	81.6	77.2	68.1
Of which:						
Workers in the public sector	...	...	...	69.5	67.8	59.5
Workers in the cooperative sector	...	...	...	12.1	9.4	8.6
Women in work force (in percent) 4/	48.6	49.1	47.6	45.7	45.8	46.0

Source: Statistical Office of the Slovak Republic.

1/ 1989-90 data are based on classification into material and non-material spheres; 1991-94 data are classified according to the NACE classification; 1991 data are in organization of 1992; and 1992-94 are in current organization.

2/ End of period until 1990, yearly average thereafter.

3/ Excluding cooperatives, and including state enterprises and state administration.

4/ End of period, excluding women on maternity leave; and 1993-94 estimates.

Table 16. Slovak Republic: Employment by Sector, 1990-94

(Yearly percentage changes)

	1990	1991	1992	1993	1994
Total employment	-3.2	-14.4	-0.6	-0.2	-1.9
Enterprises with 25 or more employees	...	...	-9.4	-2.4	-5.8
Agriculture	-1.0	-1.3	-17.5	-14.7	-12.4
Industry	-2.0	-19.9	-12.2	-5.0	-5.5
Mining	...	...	-11.8	-20.0	-12.5
Manufacturing	...	...	-12.9	-5.9	-5.6
Electricity	...	...	-2.6	18.4	--
Construction	-2.7	-40.5	-14.7	-17.2	-12.3
Services	...	...	-11.0	13.0	-6.1
Financial services	...	...	25.0	33.3	20.0
Real estate	...	...	-8.3	-10.4	-10.1
Trade	...	...	-22.9	-12.9	-12.5
Hotels	...	...	-6.7	-14.3	-8.3
Transport	...	...	-1.2	65.9	-3.5
State administration	...	...	4.9	2.2	-1.0
Administration	...	...	25.5	30.5	-7.8
Education	0.6	6.4	--	-8.2	1.8
Health	1.7	-0.8	7.7	2.4	-1.6
Other social services	...	...	-5.3	8.3	2.6
Enterprises with 1 to 24 employees	...	...	366.7	121.4	37.1
Employees of private entrepreneurs	...	...	73.9	0.9	9.9

Source: Statistical Office of the Slovak Republic.

Table 17. Slovak Republic: Developments in Consumer and Producer Prices, 1990-94

(Period average, percentage changes)

	Weights 1/	1990	1991	1992	1993	1994
Consumer prices						
Goods and services	100.00	10.4	61.2	10.0	23.2	13.4
Food	29.97	11.0	47.3	7.0	21.3	16.2
Nonfood	44.58	11.4	78.0	9.8	20.4	12.7
Of which: Fuels		4.7	149.0	24.1	34.4	18.3
Catering	11.45	8.1	55.0	6.7	35.5	13.1
Services	14.00	8.5	41.4	20.5	28.0	10.7
Of which:						
Rents and communal services 2/	5.30	0.1	45.8	35.8	25.6	6.8
Transport and communication	2.63	7.6	33.6	9.9	47.3	9.2
Producer prices						
Agriculture		0.4	4.4	6.5	14.6	10.8
Construction works					24.1	11.0
Construction materials					13.6	9.2
Industry		4.8	68.9	5.3	17.2	10.0
Of which:						
Mining and quarrying		...	...	...	18.3	9.6
Manufacturing		...	...	...	17.8	11.2
Electricity, gas, and water		...	...	...	9.4	-6.4

Source: Data provided by the Slovak authorities.

1/ Year 1989.
2/ Including electricity and gas.

Table 18. Slovak Republic: Energy Prices, 1989-94 1/

(In koruny per unit)

	1989	1990	1991	1992	1993	1994
Petroleum products						
Average domestic retail price of refined oil products for all final users						
Gasoline (90) (Sk/liter)	8.00	10.47	16.00	16.22	18.68	18.77
Gasoline (96) (Sk/liter)	9.00	11.78	18.00	18.22	19.55	19.69
Diesel fuel (Sk/liter)	6.50	9.49	15.00	14.68	15.91	16.25
Electricity (Sk per MWh)						
Households	497	497	845	845	1,018	1,018
Enterprises	664	840	1,433	1,433	1,455	1,455
Natural gas (Sk per 1000 m^3)						
Households	900	900	2,075	2,075	2,190	2,190
Enterprises	1,530	2,530	3,350	3,350	3,550	3,550
Central heating (Sk per GJ)						
Households	21	21	89	89	120	140
Enterprises	120	140	180	197	200	200

Source: Data provided by the Slovak authorities.

1/ All prices are annual averages.

Table 19. Slovak Republic: Average Monthly Earnings by Sector, 1989-94 1/

(In koruny)

	1989	1990	1991	1992	1993	1994
Total economy 2/	3,141	3,278	3,777	4,538	5,372	6,285
Enterprises with 25 or more employees 3/	...	...	3,776	4,483	5,275	6,160
Agriculture	3,425	3,647	3,771	4,149	4,556	5,191
Industry	3,199	3,299	3,836	4,353	5,496	6,464
Mining and quarrying	...	...	4,445	5,458	6,482	7,383
Manufacturing	...	...	3,757	4,370	5,234	6,193
Electricity	...	...	4,480	6,006	7,767	8,766
Construction	3,431	3,530	3,845	4,617	5,533	6,502
Services						
Financial services and insurance	...	...	5,260	7,667	10,386	11,770
Real estate	...	...	3,733	4,516	5,559	6,642
Trade and repairs	...	...	3,386	4,049	4,848	5,748
Hotels and restaurants	...	...	3,169	3,843	4,474	5,192
Transport and communication	...	...	3,840	4,427	5,467	6,634
State administration						
Administration	...	...	4,189	5,110	6,179	7,350
Education	2,941	3,075	3,547	4,448	4,706	5,157
Health	2,851	3,087	3,942	4,605	4,813	5,443
Other social services	...	...	3,683	4,342	4,933	5,626
Enterprises with 1 to 24 employees	...	...	4,000	5,118	6,675	9,558
Employees of private entrepreneurs	...	...	2,844	4,950	5,850	5,900
Memorandum items:						
Minimum wage	...	...	2,000	2,200	2,450	2,450

Source: Statistical Office of the Slovak Republic.

1/ Includes wages, bonuses, and other payments. For 1989-90 data based on classification of economic activities according to material and non-material spheres; 1991-94 based on NACE branch classification of economic activity; 1991 data are reported in 1992 organizational form; and 1992-94 data in current organizational form.
2/ 1992-94 data including estimates for earnings in small scale private sector firms.
3/ Includes budgetary organizations and subsidized organizations.

Table 20. Slovak Republic: General Government Revenue, 1992-95

	In billions of koruny					In percent of GDP					In percent of total			
	1992 1/	1993	1994		1995	1992 1/	1993	1994		1995	1992 1/	1993	1994	1995
	Underlying	Outcome	Program	Outcome	Proj.	Underlying	Outcome	Program	Outcome	Proj.	Underlying	Outcome	Outcome	Proj.
TOTAL REVENUE	153.1	163.5	195.0	204.6	232.2	49.7	48.1	51.1	51.4	51.1	100.0	100.0	100.0	100.0
Indirect taxes	40.3	47.0	60.7	58.3	69.0	13.1	13.8	15.9	14.6	15.2	26.3	28.8	28.5	29.7
VAT	...	27.5	40.6	37.1	49.0	...	8.1	10.6	9.3	10.8	...	16.8	18.1	21.1
Excises	...	15.4	20.1	21.1	20.0	...	4.5	5.3	5.3	4.4	...	9.4	10.3	8.6
Turnover tax	40.3	4.1	--	--	--	...	1.2	--	--	--	26.3	2.5	--	--
Direct taxes	54.4	36.5	42.0	50.1	57.1	17.7	10.7	11.0	12.6	12.6	35.5	22.3	24.5	24.6
Corporate income tax	31.2	22.0	28.3	31.9	33.6	10.1	6.5	7.4	8.0	7.4	20.4	13.4	15.6	14.5
Personal income tax	23.2	14.5	13.7	18.1	23.5	7.5	4.3	3.6	4.6	5.2	15.2	8.9	8.9	10.1
On: Wage income	21.3	10.7	7.4	11.7	15.8	6.9	3.2	1.9	2.9	3.5	13.9	6.6	5.7	6.8
Entrepreneurial income	1.9	3.2	3.8	3.5	3.7	0.6	0.9	1.0	0.9	0.8	1.2	1.9	1.7	1.6
Capital income	--	0.6	2.5	3.0	4.0	--	0.2	0.7	0.7	0.9	--	0.4	1.4	1.7
Import duties and surcharges	5.3	4.5	6.4	7.2	9.0	1.7	1.3	1.7	1.8	2.0	3.5	2.7	3.5	3.9
Road tax	--	1.6	1.7	1.4	1.7	--	0.5	0.4	0.4	0.4	--	1.0	0.7	0.7
Other taxes	0.8	2.1	4.3	2.6	3.1	0.3	0.6	1.1	0.7	0.7	0.5	1.3	1.3	1.3
Social security contributions	30.1	42.9	47.5	51.4	58.5	9.8	12.6	12.4	12.9	12.9	19.7	26.2	25.1	25.2
Nontax revenue	22.2	29.0	32.5	33.7	33.8	7.2	8.5	8.5	8.5	7.4	14.5	17.7	16.5	14.6
Budgetary and subsidized organizations	5.6	6.3	6.3	6.5	11.0	1.8	1.9	1.7	1.6	2.4	3.7	3.9	3.2	4.7
Interest	...	0.6	0.7	0.8	0.7	...	0.2	0.2	0.2	0.2	...	0.3	0.4	0.3
Fees and fines	6.5	3.8	4.1	2.2	3.6	2.1	1.1	1.1	0.6	0.8	4.3	2.3	1.1	1.5
Repayment of loans	3.8	4.2	6.0	3.8	2.8	1.2	1.2	1.6	1.0	0.6	2.5	2.6	1.9	1.2
NBS profits	--	4.0	7.0	6.7	1.4	--	1.2	1.8	1.7	0.3	--	2.4	3.3	0.6
Other	6.3	10.1	8.4	13.7	14.4	2.1	3.0	2.2	3.4	3.2	4.1	6.1	6.7	6.2

Sources: Data provided by the Slovak Ministry of Finance; and staff estimates.

1/ Estimated by the staff.

Table 21. Slovak Republic: General Government Expenditure, 1992-95

	In billions of koruny					In percent of GDP					In percent of total			
	1992 1/ Underlying	1993 2/ Outcome	1994 Program	1994 Outcome	1995 Proj.	1992 1/ Underlying	1993 2/ Outcome	1994 Program	1994 Outcome	1995 Proj.	1992 1/ Underlying	1993 2/ Outcome	1994 Outcome	1995 Proj.
TOTAL EXPENDITURE	192.6	189.5	210.4	210.4	245.9	62.6	55.7	55.1	52.8	54.1	100.0	100.0	100.0	100.0
Current expenditures	167.8	168.3	187.3	190.5	218.0	54.5	49.5	49.1	47.8	47.9	87.1	88.8	90.6	88.7
Consumption	90.2	79.4	85.9	86.5	103.6	29.3	23.3	22.5	21.7	22.8	46.8	41.9	41.1	42.1
Wages	15.4	15.9	16.5	16.7	18.6	5.0	4.7	4.3	4.2	4.1	8.0	8.4	7.9	7.6
Health care	15.3	15.8	17.5	22.9	28.1	5.0	4.6	4.6	5.8	6.2	7.9	8.3	10.9	11.4
Education	8.0	8.0	6.0	7.6	7.7	2.6	2.3	1.6	1.9	1.7	4.2	4.2	3.6	3.1
Other	51.5	39.7	45.8	39.3	49.2	16.7	11.7	12.0	9.9	10.8	26.7	20.9	18.7	20.0
Subsidies to enterprises	16.2	17.2	16.0	18.5	20.1	5.3	5.1	4.2	4.6	4.4	8.4	9.1	8.8	8.2
Agriculture	8.2	8.7	7.0	7.6	7.5	2.7	2.5	1.8	1.9	1.6	4.3	4.6	3.6	3.0
Industry	1.1	0.6	0.3	0.3	0.4	0.4	0.2	0.1	0.1	0.1	0.6	0.3	0.1	0.1
Transportation	1.7	2.6	2.9	2.8	3.0	0.6	0.8	0.8	0.7	0.7	0.9	1.4	1.4	1.2
Heating	2.0	2.5	2.1	3.0	3.0	0.7	0.7	0.6	0.8	0.7	1.0	1.3	1.4	1.2
Other (including state funds)	3.2	2.9	3.8	4.8	6.3	1.0	0.8	1.0	1.2	1.4	1.7	1.5	2.3	2.6
Social expenditures	56.7	58.6	65.7	65.3	77.0	18.4	17.2	17.2	16.4	16.9	29.4	30.9	31.1	31.3
Pensions	28.0	32.7	38.5	39.3	44.9	9.1	9.6	10.1	9.9	9.9	14.5	17.3	18.7	18.3
Labor policies	5.8	3.0	3.8	3.6	5.8	1.9	0.9	1.0	0.9	1.3	3.0	1.6	1.7	2.4
Unemployment benefits	2.0	1.9	2.9	1.7	2.4	0.7	0.5	0.8	0.4	0.5	1.0	1.0	0.8	1.0
Active policies	3.8	1.1	0.9	1.9	3.4	1.2	0.3	0.2	0.5	0.7	2.0	0.6	0.9	1.4
Sickness benefits	5.9	5.2	5.4	5.2	5.5	1.9	1.5	1.4	1.3	1.2	3.1	2.7	2.5	2.2
Social assistance	2.4	3.1	5.0	5.2	6.0	0.8	0.9	1.3	1.3	1.3	1.3	1.6	2.5	2.4
General income support	7.2	4.3	1.9	2.5	--	2.3	1.3	0.5	0.6	--	3.7	2.3	1.2	--
Other state benefits 3/	7.4	10.3	11.2	9.5	14.7	2.4	3.0	2.9	2.4	3.2	3.8	5.4	4.5	6.0
Financial expenditures	4.7	13.2	19.7	20.2	17.3	1.5	3.9	5.2	5.1	3.8	2.4	6.9	9.6	7.0
Interest	3.6	11.6	17.9	17.2	13.9	1.2	3.4	4.7	4.3	3.1	1.9	6.1	8.2	5.7
Lending and guarantees called	1.1	1.5	1.8	3.0	3.4	0.4	0.5	0.5	0.8	0.7	0.6	0.8	1.4	1.4
Investment expenditures	24.8	21.2	21.0	19.9	24.8	8.1	6.2	5.5	5.0	5.5	12.9	11.2	9.4	10.1
Budgetary and subsidized organizations	12.2	12.5	14.5	14.0	13.8	4.0	3.7	3.8	3.5	3.0	6.3	6.6	6.6	5.6
Transfers to enterprises	3.0	6.9	4.5	3.9	5.9	1.0	2.0	1.2	1.0	1.3	1.6	3.6	1.9	2.4
Extrabudgetary projects	9.6	1.7	2.0	2.0	5.1	3.1	0.5	0.5	0.5	1.1	5.0	0.9	1.0	2.1
Contingency reserve	--	--	2.0	--	3.1	--	--	0.5	--	0.7	--	--	--	1.3

Sources: Data provided by the Slovak Ministry of Finance; and staff estimates.

1/ Estimated by the staff.
2/ Excluding military imports of US$170 million (equivalent to 1.6 percent of GDP) in 1993 in exchange for a write-down of claims on Russia.
3/ Mainly family and maternity allowances.

Table 22. Slovak Republic: State Financial Assets, 1992-94

(In millions of koruny)

	1992 End-Dec. 1/	1993 End-Dec.	1994 End-Dec.	1993 Change	1994 Change
Assets					
1. Bank accounts of reserve character	474	474	474	--	--
2. Counterpart deposits on foreign loans	10,830	4,056	6,493	-6,774	2,437
2.1 SAL from IBRD	3,107	793	793	-2,314	--
2.2 Borrowing from the EU	4,460	--	--	-4,460	--
2.3 Borrowing from G-24	3,263	3,263	3,263	--	--
2.4 ERL from IBRD	...	...	2,437	...	2,437
3. Other bank accounts	633	644	557	11	-88
4. Claims on foreign countries; other than CSOB 2/	52,096	58,982	53,145	6,886	-5,837
4.1 Civil; nonconvertible	23,882	28,393	24,683	4,511	-3,710
4.2 Civil; convertible	8,603	10,134	9,307	1,531	-826
4.3 Special; nonconvertible	108	112	119	4	7
4.4 Special; convertible	15,975	18,508	17,654	2,533	-854
4.5 Claims on FSU; VIA	3,529	1,835	1,381	-1,694	-454
4.6 Clearing account: Czech Republic	--	--	5,867	--	5,867
5. Claims on foreign countries; CSOB 2/	31,813	34,135	29,776	2,322	-4,359
5.1 Nonconvertible	30,517	32,601	28,805	2,084	-3,796
5.2 Convertible	1,296	1,533	970	237	-563
6. Participation in international banks	1,646	2,803	2,892	1,157	90
6.1 IBEC	300	883	832	583	-51
6.2 IIB	363	765	720	402	-44
6.3 EBRD	173	290	335	117	45
6.4 World Bank institutions	810	865	1,005	55	140
7. Deposits with domestic companies	163	221	792	58	571
8. Receivables from returnable assets	523	1,029	643	506	-386
9. Receivables from state guarantees	1,094	1,584	1,683	490	99
10. Securities held by the state	--	--	--	--	--
11. Other receivables	60	240	240	180	--
Total assets	99,331	104,168	102,562	4,837	-1,606
Percent of GDP	32.3	30.6	25.7	1.4	-0.4

Source: Data provided by the Slovak Ministry of Finance.

1/ Including assets taken over from the federation.
2/ CSOB - Československa Obchodni Banka.

Table 23. Slovak Republic: State Financial Liabilities, 1992-94

(In millions of koruny)

	1992 End-Dec. 1/	1993 End-Dec.	1994 End-Dec.	1993 Change	1994 Change
Liabilities					
1. Credit from the NBS	39,383	54,461	46,475	15,078	-7,986
1.1 Due from state lending abroad	13,053	13,053	13,053	--	--
1.2 Due to exchange rate changes	8,663	8,663	8,663	--	--
1.3 Direct credit and treasury bills	17,666	32,745	46,898	15,078	-7,986
1.3.1 Slovak deficit of 1991	7,400	7,400	7,400	--	--
1.3.2 Federal budget deficit of 1992	2,333	2,333	2,333	--	--
1.3.3 Slovak budget deficit of 1992	7,933	--	--	-7,933	--
1.3.3.1 T-bills issued in 1992	4,920	--	--	-4,920	--
1.3.3.2 Direct credit in 1992	3,013	--	--	-3,013	--
1.3.4 Budget deficit of 1993	--	23,011	15,026	23,011	-7,986
1.3.4.1 Treasury bills issued in 1993	--	7,891	--	7,891	-7,891
1.3.4.2 Direct credit in 1993	--	15,120	15,026	15,120	-94
2. Credit from commercial banks	8,833	6,451	4,846	-2,382	-1,605
2.1 Related to CSOB	5,219	3,198	1,955	-2,021	-1,243
2.2 Investment Bank/KTUK Dolinska	3,614	3,253	2,891	-361	-362
3. Balance of payments support loans	10,845	13,601	15,664	2,755	2,063
3.1 SAL/IBRD	3,138	4,877	4,692	1,739	-185
3.2 EU	4,364	4,652	4,704	288	52
3.3 G-24	3,343	4,071	3,834	728	-238
3.4 ERL/IBRD	--	--	2,434	...	2,434
4. Clearing account debt: Czech Republic	--	5,801	--	5,801	-5,801
5. Liabilities related to CSOB	24,794	25,742	22,874	948	-2,868
5.1 Convertible currencies	20,122	21,259	18,387	1,137	-2,872
5.2 Nonconvertible currencies	4,672	4,483	4,487	-189	4
6. Issued state bonds	7,278	9,231	17,692	1,953	8,461
6.1 KBV	4,200	4,852	5,206	652	354
6.2 Rehabilitation bonds	298	431	520	133	89
6.3 Budget deficit of 1991	600	600	600	--	--
6.4 Bills of exchange; IBRD participation	230	230	230	--	--
6.5 Gabcikovo, Turcek, Malinec	1,950	3,118	3,150	1,168	32
6.6 Budget deficit of 1993	--	--	7,986	--	7,986
7. Treasury bills outside NBS	--	--	22,892	--	22,892
Total liabilities 2/	91,134	115,287	130,443	24,152	15,156
Percent of GDP	30.2	33.9	32.5	7.1	3.8
Net assets 3/	8,197	-11,119	-27,881	-19,628	-16,762
Percent of GDP	2.7	-3.3	-7.0	-5.8	-4.2

Source: Data provided by the Slovak Ministry of Finance.

1/ Including liabilities taken over from the federation.
2/ Excluding Sk 4,920 million of treasury bills at the end of 1992, Sk 7,891 million of treasury bills at the end of 1993, which had been included twice in the original source.
3/ Change in net assets includes valuation changes, e.g., due to the exchange rate devaluation in July 1993 and differs from the flow deficit referred to in the text in other tables.

Table 24. Slovak Republic: Central Government Budget--Official Data, 1992-95

(In millions of koruny)

	1992 1/		1993		1994		1995
	Budget 2/	Outcome	Budget 2/	Outcome	Budget 2/	Outcome	Budget 2/
Revenue							
Total revenue	117,500	115,900	158,150	150,342	124,453	139,148	146,400
Total tax revenue	113,300	105,200	145,686	127,328	106,380	114,587	130,546
Income taxes	44,400	44,800	37,768	30,846	38,730	42,653	51,246
Personal income tax	14,500	18,000	5,368	4,591	11,992	14,195	18,270
Wage tax	14,500	18,000	2,030	3,679	5,184	7,753	10,688
Tax on entrepreneurial and capital income	--	--	3,338	912	6,808	6,442	7,582
Corporate income tax	29,900	26,800	32,400	20,542	26,738	28,458	32,976
Other income taxes	--	--	--	5,713	--	--	--
Indirect taxes	34,100	29,500	50,600	47,032	57,900	57,943	68,600
VAT	--	--	30,500	27,467	38,060	36,916	43,200
Excise taxes	--	--	20,100	15,442	19,840	21,027	25,400
Turnover tax	34,100	29,500	--	4,123	--	--	--
Customs duties	--	--	4,100	4,453	4,400	4,926	4,800
Social security contributions	33,800	30,100	51,018	42,867	4,700	4,040	700
Current contributions	--	--	51,018	40,662	4,700	4,040	700
Payroll tax	33,800	30,100	--	2,205	--	--	--
Other tax revenue	1,000	800	2,200	2,130	650	5,025	5,200
Road tax	--	--	2,200	1,626	--	--	--
Other current taxes	1,000	800	--	349	650	2,885	5,200
Other taxes	--	--	--	155	--	2,140	--
Nontax revenue	4,300	10,700	12,464	23,014	18,073	24,561	15,854
Revenue from budgetary and subsidized organizations	2,500	5,200	3,500	5,928	3,123	8,868	3,010
Interest	--	100	200	572	650	754	376
Fees and fines	500	2,000	830	1,675	1,900	2,198	2,400
Repayments of government loans	--	--	...	4,226	6,400	3,787	4,750
NBS profits	--	--	...	4,000	6,000	6,746	1,418
Other current revenue	1,300	3,400	7,934	602	--	2,178	3,900
Other revenue	--	--	--	210	--	30	--
Clearing account transactions 3/	--	--	--	5,801	--	--	--
Expenditure							
Total expenditures	117,500	123,800	158,150	173,353	138,453	162,002	167,400
Current expenditures	108,900	110,500	146,300	161,148	128,277	135,759	156,043
Budgetary and subsidized organizations	52,600	35,200	56,300	71,289	67,889	70,622	76,621
Transfers	56,300	74,200	90,000	72,220	36,985	41,206	49,770
Transfers to enterprises	11,700	8,000	15,800	14,325	13,319	13,909	13,312
Transfers to households 4/	40,500	43,900	67,100	56,804	22,871	26,502	35,573
State equalization allowance	...	...	--	4,312	--	2,535	--
Transfers to local authorities	1,600	1,500	1,100	1,091	795	795	885
Debt service, etc. 5/	100	1,100	7,819	17,639	23,403	23,891	29,652
Interest	100	1,100	--	5,609	15,556	16,704	16,468
Other	...	...	--	12,030	7,847	7,187	13,184
Capital expenditures	10,300	13,300	11,800	12,205	10,176	11,972	11,357
Budgetary and subsidized organizations	7,100	8,300	8,700	8,847	6,868	9,697	10,327
Enterprises	1,600	4,100	2,700	2,928	3,068	2,275	2,464
Local authorities	900	900	400	430	240	240	307
Clearing account transactions 3/	--	--	--	--	--	14,031	--
Budget Balance	--	-7,900	--	-23,011 6/	-14,000	-22,854	-21,000
Memorandum items:							
Budget data according to program definition							
Revenue 7/	117,500	115,900	158,150	142,733	124,453	135,938	146,400
Expenditure 8/	117,500	123,800	158,150	167,548	133,828	140,567	155,690
Budget balance	--	-7,900	--	-24,815	-9,375	-4,629	-9,290

Source: Data provided by the Slovak Ministry of Finance.

1/ Excluding federal government.
2/ According to the original budget law for the year.
3/ Inflow (outflow) of domestic currency due to purchase (sale) of clearing currency.
4/ Including non-systemic state benefits, social assistance, and non-employee transfers to the social security funds.
5/ Includes amortization. Breakdown using official classification.
6/ Excluding military imports of US$170 million (equivalent to 1.6 percent of GDP) in 1993 in exchange for a write-down of claims on Russia.
7/ Excluding financing items and clearing account transactions.
8/ Excluding amortization and clearing account transactions.

Table 25. Slovak Republic: Central Government Budget Outcome--Official Quarterly Data, 1994-95

(In millions of koruny)

	1994				1995 1/	
	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June
Revenue						
Total revenue 2/	32,527	35,244	33,400	37,977	33,222	42,191
Total tax revenue	29,095	28,794	26,438	30,260	30,048	36,448
Income taxes	9,616	14,007	9,749	9,281	15,739	12,709
Personal income tax	3,517	3,747	3,120	3,811	5,995	4,253
Wage tax	1,144	1,748	2,228	2,633	2,397	2,638
Tax on entrepreneurial income	861	1,626	517	484	1,398	1,260
Tax on capital income	1,512	373	375	694	2,200	355
Corporate income tax	6,099	10,260	6,629	5,470	9,744	8,456
Indirect taxes	14,185	11,874	14,458	17,426	11,651	20,802
VAT	9,321	7,359	8,860	11,376	8,510	16,601
Excise taxes	4,864	4,515	5,598	6,050	3,141	4,741
Customs duties	1,057	1,003	1,368	1,498	1,146	1,380
Social security contributions 3/	3,296	237	63	444	227	173
Current contributions	--	--	--	--	--	--
Contributions from previous years	3,296	237	63	444	227	173
Other tax revenue	941	1,673	800	1,611	1,285	1,383
Other current taxes	368	1,080	378	1,059	938	1,730
Other taxes from previous years	573	593	422	552	347	-347
Nontax revenue	3,432	6,450	6,962	7,717	3,174	5,743
Revenue from budgetary and subsidized organizations	1,939	1,823	3,063	2,043	1,766	2,937
Interest	130	138	211	275	97	105
Fees and fines	477	449	631	641	633	656
Repayments of government loans	877	1,233	931	746	644	681
NBS profits transferred	--	2,800	2,000	1,946	--	500
Other current revenue	--	--	120	2,058	26	858
Other revenue from previous years	9	7	6	8	8	8
Clearing account transactions	--	--	--	--	--	--
Expenditure						
Total expenditures 4/	38,482	39,801	40,080	43,639	37,275	38,041
Current expenditures	32,701	29,829	32,226	41,003	31,234	35,526
Budgetary organizations	14,268	15,743	16,847	22,522	17,427	21,433
Ministry of Education	3,260	4,140	3,814	5,596	3,931	4,829
Ministry of Labor and Social Affairs	3,454	3,545	3,409	2,768	4,673	3,948
Ministry of Health	157	192	195	343	214	265
Ministry of Culture	24	26	25	41	26	336
Ministry of Defense	1,866	2,049	1,884	2,882	2,223	2,706
Ministry of Interior	3,100	3,237	3,323	4,136	3,743	4,085
GTM, excluding social security	495	128	1,348	2,273	123	1,808
Other, excluding state debt	1,912	2,426	2,849	4,383	2,494	3,457
Transfers	13,174	8,046	8,748	12,520	9,008	9,142
To subsidized organizations	1,446	1,644	1,326	1,915	5,579	5,755
To enterprises	2,595	3,901	3,244	4,168	3,205	3,426
To local authorities	146	383	146	165	224	-39
To social insurance funds	8,987	2,118	4,032	6,272	...	...
State debt	5,259	6,040	6,631	5,961	4,800	4,951
Interest	2,536	2,504	7,262	4,402	1,983	2,996
Other 5/	2,723	3,536	-631	1,559	2,817	1,955
Investment expenditures	1,507	3,666	2,909	4,130	1,863	3,567
Budgetary organizations	832	1,432	1,823	2,737	801	1,818
Transfers	675	2,234	1,086	1,393	1,062	1,751
To subsidized organizations	446	810	875	742	789	649
To enterprises	172	1,338	174	591	220	631
Local authorities	57	86	37	60	53	472
Clearing account transactions	4,274	6,306	4,945	-1,494	4,178	1,052
Budget Balance 6/	-5,955	-4,557	-6,680	-5,662	-4,053	4,150
Program definition 7/	-906	3,124	-204	-6,426	1,020	6,094

Source: Data provided by the Slovak Ministry of Finance, with some reclassification by the staff.

1/ Transfers to the social security funds included in 1995 in current expenditures of budgetary and subsidized organizations.

2/ Includes about Sk 2 billion of extrabudgetary (Road Fund) revenue.

3/ Includes only arrears from 1993. Extrabudgetary revenue in 1994 and 1995.

4/ Includes about Sk 2 billion of extrabudgetary (Road Fund) expenditure.

5/ Includes amortization.

6/ Includes clearing account transactions.

7/ Excluding amortization and current account transactions.

Table 26. Slovak Republic: Local Authorities' Revenue and Expenditure--Official Data, 1992-95

(In millions of koruny)

	1992	1993			1994		1995
	Outcome	Budget 1/ (MoF)	Budget 2/ (Municipal)	Outcome	Budget 1/ (MoF)	Outcome	Budget 1/ (MoF)
Revenue							
Total revenue	20,627	11,135	18,765	20,966	12,760	20,073	14,318
Total tax revenue	5,905	7,436	6,038	7,862	6,525	8,760	7,013
Income taxes	2,745	4,736	4,251	5,647	3,725	5,583	4,273
Wage tax	...	4,736	4,251	5,647	2,213	3,946	2,716
Corporate income tax	...	...	...	--	1,512	1,637	1,557
Other tax revenue	2,421	2,700	1,787	2,215	2,800	3,177	2,740
Road tax	...	...	--	--	500	389	540
Real estate tax	...	2,700	1,787	1,611	2,300	2,032	2,200
Other	...	...	...	604	...	756	
Nontax revenue 3/	8,140	2,176	10,204	10,877	5,200	9,697	6,113
Revenue from budgetary and subsidized organizations	1,254	...	...	231	500	1,638	1,510
Interest	--	...	...	--	--	...	--
Fees and fines	1,795	700	1,544	2,076	1,550	1,119	950
Other 3/	5,091	1,476	8,660	8,570	3,150	6,940	3,653
Transfers from budget and state funds	6,582	1,523	2,523 4/	2,227 5/	1,035	1,616	1,192
Budget funds	...	...	...	...	...	1,080	...
State funds	...	...	...	...	...	536	...
Expenditure							
Total expenditure	19,670	11,135	19,477	19,299	17,760	19,098	14,318
Current expenditure	10,319	7,316	11,016	11,059	9,345	12,861	11,811
Budgetary and subsidized organizations	10,739	7,401	...	11,723	9,710	11,201	10,350
Transfers, other	1,384	880	...	993	575	1,660	1,461
Investment expenditure	7,547	854	6,682	6,583	2,475	6,237	2,507
Budgetary and subsidized organizations	6,997	2,424	4,706	4,595	2,335	4,729	2,200
Subsidies to enterprises	850	430	430	430	240	294	307
Other	...	...	1,546	...	...	1,214	--
Budget Balance	957	--	-712	1,667 6/	--	975 7/	--

Source: Data provided by the Slovak authorities.

1/ As presented in the annual central government budget document, and excluding any new sources of income (fees, charges, sale of property, entrepreneurial income) the municipalities are able to make use of during the fiscal year.
2/ Based on the municipalities' announcements on their own budgets. Not available for 1994 and 1995.
3/ Including income from the sale of property, borrowing.
4/ Includes Sk 1,000 million of bond financing for KBV housing project.
5/ Includes Sk 705 million of KBV bond financing.
6/ According to banking data, the surplus of the local government sector was only about Sk 0.1 billion. The difference is partly explained by the bond financing included in revenue. The remaining difference is mainly caused by the inclusion of transfers from reserves (accumulated during previous years) in current year revenue.
7/ According to banking data, the local government sector had a deficit of Sk 995 million. The official revenue data include borrowing and use of accumulated reserves and are, therefore, exaggerated by about Sk 2 billion.

Table 27. Slovak Republic: Extrabudgetary Funds and Accounts, 1993-95

(In millions of koruny)

	Own revenue	Transfers from budget	Total revenue	Current expenditure	Capital expenditure	Total expenditure	Balance
			1993 Outcome				
1. State funds 1/	2,066.3	1,581.6	3,647.9	2,176.6	1,208.1	3,384.7	263.1
Environment Fund	618.1	360.0	978.1	269.4	811.6	1,081.0	102.9
Fund for Culture "Pro Slovakia"	8.0	210.0	218.0	95.7	95.7	191.4	27.1
Fund for Market Regulation in Agriculture	1,263.5	884.9	2,148.4	1,806.2	--	1,806.2	342.2
Road Fund	...	...	...	...	...	...	...
Forestry Fund	7.7	53.4	61.0	5.4	57.5	62.8	-1.8
Fund for Agriculture Land Protection and Development	168.9	53.4	222.3	--	243.3	243.3	-21.0
Fund for Water Management	0.1	20.0	20.1	--	--	--	20.1
2. State accounts, net change in deposits 2/	3,500 3/	...	3,500	...	...	...	3,500
			1994 Outcome				
1. State funds 1/	3,048.4	2,519.4	5,567.8	3,767.5	2,161.9	5,929.4	-361.6
Environment Fund	707.7	270.0	977.7	110.4	896.4	1,006.9	-29.1
Fund for Culture "Pro Slovakia"	4.7	80.0	84.7	130.4	--	130.4	-45.7
Fund for Physical Culture	111.0	17.0	128.0	122.4	--	122.4	5.6
Health Fund	47.0	--	47.0	31.6	--	31.6	15.5
Fund for Market Regulation in Agriculture	535.5	650.0	1,185.5	1,933.0	--	1,933.0	-747.5
Road Fund	935.8	1,000.0	1,935.8	1,069.8	996.6	2,066.4	-112.6
Forestry Fund	31.8	177.4	209.2	196.0	187.2	383.2	-174.0
Fund for Agriculture Land Protection and Development	147.8	25.0	172.8	127.2	55.6	182.8	-10.0
Fund for Water Management	2.3	--	2.3	--	26.1	26.1	-23.8
Financial Support Fund for Agriculture and Food Industry	506.7	300.0	806.7	46.7	--	46.7	760.0
2. State accounts, net change in deposits 2/	...	...	...	864.0	...	864.0	-864.0
			1995 Budget				
1. State funds 1/	6,064.6	3,010.1	9,074.7	5,034.3	4,451.9	9,486.2	-411.5
Environment Fund	854.0	250.0	1,104.0	--	1,145.8	1,145.8	-41.8
Fund for Culture "Pro Slovakia"	1.0	100.0	101.0	139.8	--	139.8	-38.8
Fund for Physical Culture	244.2	18.0	262.2	227.2	40.6	267.8	-5.6
Health Fund	357.0	--	357.0	167.5	205.0	372.5	-15.5
Fund for Market Regulation in Agriculture	1,800.0	650.0	2,450.0	2,856.2	--	2,856.2	-406.2
Road Fund	1,188.0	1,000.0	2,188.02	1,000.0	1,275.0	2,275.4	-87.4
Forestry Fund	43.7	575.0	558.7	443.0	139.8	582.8	-24.1
Fund for Agriculture Land Protection and Development	200.0	25.0	225.0	198.7	100.0	298.7	-73.7
Fund for Water Management	26.7	--	26.7	2.0	26.7	28.7	-2.0
Financial Support Fund for Agriculture and Food Industry	350.0	100.0	450.0	--	1,166.5	1,166.5	-716.5
Nuclear Waste Fund	1,000.0	352.1	1,352.1	--	352.1	352.1	1,000.0
2. State accounts 2/	--	--	--	--	--	--	--

Sources: Data provided by the Slovak Ministry of Finance and the National Bank of Slovakia.

1/ State funds are defined in budget legislation.
2/ Include deposits of several government institutions such as the customs office. Net increase in deposits recorded as revenue, net decline as expenditure.

Table 28. Slovak Republic: Structure of General Government, 1993-95

	State Budget	Local Governments	Social Security	EB Funds + Accounts	EB Projects	Total General Government
			(In billions of korunv and as percent of total)			
A. Revenue						
1993						
Own revenue	142.7	18.7	...	2.1	...	163.5
Received transfers	...	1.5	...	1.6	...	3.1
Total revenue	142.7	20.2	...	3.7	...	166.6
1994						
Own revenue	135.9	15.4	50.2	3.0	...	204.6
Received transfers	...	1.1	22.5	2.5	...	26.1
Total revenue	135.9	16.5	72.7	5.6	...	230.8
1995						
Own Revenue	150.8	17.6	57.8	6.1	...	232.2
Received transfers	...	1.2	30.5	3.0	...	34.7
Total revenue	150.8	18.7	88.3	9.1	...	266.9
B. Expenditure						
1993						
Own final expenditure	164.4	20.0	...	3.4	1.7	189.5
Transfer expenditures	3.1	...	...	...	...	3.1
Total expenditure	167.5	20.0	...	3.4	1.7	192.6
1994						
Own final expenditure	114.4	17.5	69.9	6.6	2.0	210.4
Transfer expenditures	26.1	...	...	...	...	26.1
Total expenditure	140.6	17.5	69.9	6.6	2.0	236.6
1995						
Own final expenditure	129.9	18.7	82.6	9.5	5.1	245.9
Transfer expenditure	30.5	...	4.2 1/	...	...	34.7
Total expenditure	160.4	18.7	86.9	9.5	5.1	280.6
			(As percent of total)			
A. Revenue						
1993						
Own revenue	87.3	11.4	...	1.3	...	100.0
Received transfers	...	48.4	...	51.6	...	100.0
Total revenue	85.7	12.1	...	2.2	...	100.0
1994						
Own revenue	66.4	7.5	24.5	1.5	...	100.0
Received transfers	...	4.2	86.5	9.6	...	100.0
Total revenue	58.9	7.2	31.5	2.4	...	100.0
1995						
Own Revenue	64.9	7.6	24.9	2.6	...	100.0
Received transfers	...	3.5	87.9	8.7	...	100.0
Total revenue	56.5	7.0	33.1	3.4	...	100.0
B. Expenditure						
1993						
Own final expenditure	86.8	10.6	...	1.8	0.9	100.0
Transfer expenditures	100.0	...	...	...	...	100.0
Total expenditure	87.0	10.4	...	1.8	0.9	100.0
1994						
Own final expenditure	54.4	8.3	33.2	3.1	1.0	100.0
Transfer expenditures	100.0	...	...	...	...	100.0
Total expenditure	59.4	7.4	29.5	2.8	0.9	100.0
1995						
Own final expenditure	52.8	7.5	33.6	3.9	2.1	100.0
Transfer expenditure	87.9	...	12.1 1/	...	...	100.0
Total expenditure	57.2	6.7	31.0	3.4	1.8	100.0

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

1/ Transfers between social insurance funds.

Table 29. Slovak Republic: Intragovernmental Transfers, 1993-95

(In billions of koruny)

	1993	1994	1995
From state budget to:			
Local governments	1.5	1.1	1.2
Social security system	...	22.5	26.3
Extrabudgetary funds	1.6	2.5	3.0
Total	3.1	26.1	30.5
(Percent of GDP)	0.9	6.6	6.7
Memorandum item:			
Debt service for extrabudgetary projects	...	0.6	0.8

Source: Data provided by the Slovak Ministry of Finance.

Table 30. Slovak Republic: Monetary Survey, 1992–95 1/

	1992	1993					1994					1995 Preliminary			
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Jan.	Feb.	Mar.	Apr.
	(In billions of koruny, end of period)														
Net foreign assets 2/	-28.4	-30.9	-30.8	-30.3	-35.1	-35.1	-31.8	-13.4	3.9	15.6	15.6	18.0	18.2	22.0	23.5
Foreign assets	26.0	24.9	25.8	42.4	46.6	46.6	48.6	62.2	89.6	101.8	101.8	103.8	106.6	112.6	116.1
Foreign liabilities	54.4	55.8	56.6	72.7	81.6	81.6	80.5	75.6	85.7	86.2	86.2	85.8	88.4	90.6	92.6
Net domestic assets	236.0	231.9	240.5	248.3	282.3	282.3	267.1	260.4	256.2	279.1	279.1	270.3	273.9	269.9	273.2
Domestic credit	305.5	317.3	332.7	340.3	364.3	364.3	362.5	358.7	360.1	366.8	366.8	360.7	366.2	374.9	369.6
Net credit to government 3/	68.9	78.2	82.3	85.2	95.7	95.7	95.6	93.8	93.2	96.6	96.6	91.3	94.1	93.9	87.3
Net credit to Property Fund	0.4	1.0	1.2	1.3	6.9	6.9	7.3	6.6	6.8	3.0	3.0	2.9	2.9	2.8	1.4
Credit to enterprises and households	236.2	238.1	249.2	253.8	261.7	261.7	259.6	258.3	260.2	267.2	267.2	266.5	269.2	278.2	280.9
In domestic currency 4/	232.5	232.5	242.9	246.5	253.6	253.6	249.3	247.6	247.7	252.8	252.8	252.6	253.2	260.9	264.2
In foreign currency	3.7	5.6	6.3	7.3	8.1	8.1	10.3	10.7	12.5	14.4	14.4	13.9	16.0	17.3	16.7
Other items, net	-69.5	-85.4	-92.2	-92.0	-82.0	-82.0	-95.4	-98.3	-103.9	-87.7	-87.7	-90.4	-92.3	-105.0	-96.4
Broad Money	207.6	201.0	209.7	218.0	247.2	247.2	235.3	247.0	260.1	294.7	294.7	288.3	292.1	292.0	296.7
Currency outside banks 5/	24.9	14.3	18.7	19.7	19.1	19.1	21.6	23.8	26.3	28.1	28.1	28.2	28.6	28.2	29.5
Deposits	182.7	186.7	191.0	198.3	228.1	228.1	213.7	223.2	233.8	266.6	266.6	260.1	263.5	263.8	267.2
In domestic currency	170.1	170.1	172.0	173.6	199.6	199.6	182.3	189.1	198.2	228.2	228.2	221.7	225.4	224.7	228.1
In foreign currency	12.6	16.6	19.0	24.7	28.5	28.5	31.4	34.1	35.6	38.4	38.4	38.4	38.1	39.1	39.1
	(Change as a percentage of broad money at beginning of period)														
Memorandum items:															
Broad money	...	-3.2	4.3	4.0	13.4	19.1	-4.8	5.0	5.3	13.3	19.2	-2.2	1.3	-0.0	1.6
Net foreign assets	...	-1.2	--	0.2	-2.2	-3.2	1.3	7.8	7.0	4.5	20.5	0.8	0.1	1.3	0.5
Net domestic assets	...	-2.0	4.3	3.7	15.6	22.3	-6.1	-2.9	-1.7	8.8	-1.3	-3.0	1.2	-1.4	1.1
Domestic credit	...	5.7	7.7	3.6	11.0	28.3	-0.7	-1.6	0.6	2.6	1.0	-2.1	1.9	3.0	-1.8
Credit to enterprises and households	...	0.9	5.5	2.2	3.6	12.3	-0.8	-0.6	0.8	2.7	2.2	-0.2	0.9	3.1	0.9
Other items, net	...	-7.6	-3.4	0.1	4.6	-6.0	-5.4	-1.3	-2.3	6.2	-2.3	-0.9	-0.7	-4.3	2.9
	(Percent changes on previous period)														
Net domestic assets	...	-1.7	3.7	3.2	13.7	19.6	-5.4	-2.5	-1.6	8.9	-1.1	-3.1	1.3	-1.5	1.2
Domestic credit	...	3.9	4.9	2.3	7.1	19.2	-0.5	-1.0	0.4	1.9	0.7	-1.7	1.5	2.4	-1.4
Credit to enterprises and households	...	0.8	4.7	1.8	3.1	10.8	-0.8	-0.5	0.7	2.7	2.1	-0.3	1.0	3.3	1.0
Velocity of broad money 6/	1.53	1.58	1.59	1.56	1.49	1.42	1.56	1.58	1.55	1.47	1.40	...	...	1.42	...

Sources: National Bank of Slovakia; and staff estimates.

1/ At current exchange rates.
2/ NFA includes short- and long-term convertible currency assets and liabilities of the banking system, as well as the balance in the clearing account with the Czech Republic.
3/ The definition of credit to government changed starting December 1993; Sk 2.2 billion was added to earlier observations to adjust for this change.
4/ The definition of credit to enterprises in domestic currency changed starting December 1993; Sk 2.6 billion was subtracted from earlier observations to adjust for this change.
5/ Revised downwards by Sk 6.018 billion; this was offset by a decline in other items net.
6/ Quarterly observations are calculated as annualized seasonally adjusted nominal GDP divided by seasonally adjusted end-of-period broad money. Annual observations are calculated as annual nominal GDP divided by end-of-year stock of broad money.

Table 31. Slovak Republic: Monetary Base, 1992–95 1/

(In billions of koruny; end of period)

	1992	1993				1994				1995 Preliminary					
	Q4 2/	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan.	Feb.	March	Apr.	May	Jun.
Monetary base	35.76	25.57	31.82	29.92	32.25	30.91	38.39	40.99	47.59	46.85	47.60	46.40	47.78	41.37	48.98
Currency 3/	27.95	15.88	21.00	21.63	21.69	24.22	26.49	29.04	31.38	31.55	31.94	31.54	33.05	32.99	34.21
Reserves and other deposits of banks	7.81	9.69	10.82	8.29	10.56	6.69	11.90	11.95	16.21	15.30	15.66	14.86	14.73	8.38	14.77
Excess reserves 4/	−2.15	−1.17	−1.65	−3.97	−1.93	−7.30	−1.17	−1.47	2.13	0.77	0.31	−0.21	−0.55	−7.00	−0.88
Required reserves	9.96	10.86	12.47	12.26	12.49	13.99	13.07	13.42	14.08	14.53	15.35	15.07	15.28	15.38	15.65
Net foreign assets	−5.90	−12.21	−10.86	−12.78	−15.02	−16.01	−8.81	4.42	15.99	16.15	16.15	17.81	19.91	22.78	35.97
Foreign assets	20.32	14.01	15.36	26.87	26.12	26.03	32.36	56.33	65.19	64.09	64.22	67.53	71.05	74.64	87.66
Reserves	9.23	2.92	4.27	14.55	13.80	13.71	20.04	44.01	52.87	51.77	51.90	55.21	58.73	62.32	75.34
Gold	0.38	0.38	0.38	0.42	0.42	0.42	0.42	0.42	0.42	0.42	0.42	0.42	0.42	0.42	0.42
IMF	10.71	10.71	10.71	11.90	11.90	11.90	11.90	11.90	11.90	11.90	11.90	11.90	11.90	11.90	11.90
Foreign liabilities	26.22	26.22	26.22	39.65	41.14	42.04	41.17	51.91	49.20	47.94	48.07	49.72	51.14	51.85	51.69
IMF	24.08	24.08	24.08	29.73	30.83	30.58	29.65	32.28	31.83	30.82	30.43	30.34	29.62	29.59	29.33
Bonds	2.14	2.14	2.14	9.92	10.31	11.46	11.51	19.63	17.38	17.12	17.64	19.38	21.52	22.26	22.36
Net domestic assets	41.66	37.78	42.68	42.70	47.27	46.92	47.20	36.57	31.60	30.70	31.45	28.60	27.87	18.58	13.01
Net credit to Government	31.81	36.66	35.31	34.41	40.82	52.04	51.09	42.85	35.16	34.58	34.60	32.24	34.41	22.90	18.27
Liabilities from past year	27.49	27.48	25.90	25.71	26.28	49.27	48.77	44.38	38.95	38.82	36.53	36.57	36.57	28.79	23.73
Direct credit for current budget	−0.30	2.14	5.76	7.29	14.54	2.57	1.96	−1.65	−3.80	−7.24	−1.93	−4.33	−2.16	−6.19	−7.52
T-bills, current year	4.62	7.04	3.65	1.41	--	0.20	0.36	0.12	0.01	3.00	0.00	0.00	0.00	0.30	2.06
Credit to nonbank sectors	1.69	0.31	0.34	0.36	0.36	0.39	0.41	0.32	0.31	0.23	0.23	0.21	0.22	0.20	0.18
Credit to banks	11.83	6.72	9.59	10.42	6.36	0.96	4.26	1.49	1.96	1.58	1.27	0.81	0.47	0.30	0.36
Refinancing credit	7.00	1.60	1.90	1.00	3.00	--	2.50	--	--	--	--	--	--	--	--
Lombard credit	2.70	2.32	3.80	3.41	--	0.31	1.42	--	--	--	--	--	--	--	--
Emergency credit	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Rediscount credit	2.13	2.80	3.89	6.01	3.36	0.65	0.34	1.49	1.96	1.58	1.27	0.81	0.47	0.30	0.36
Foreign exchange swaps	...	0.73	1.03	1.08	0.34	--	--	--	--	--	--	--	--	--	--
Other items net	−3.67	−6.64	−3.59	−3.57	−0.61	−6.47	−8.56	−8.09	−5.83	−5.69	−4.65	−4.67	−7.23	−4.81	−5.80
Memorandum items:															
Actual average reserves		8.64	12.92	12.38	13.67	10.78	11.77	14.92	15.86	14.77	16.66	16.52	15.10	15.32	15.72
Actual average reserves/average required reserves 5/		0.80	1.04	1.01	1.09	0.77	0.90	1.11	1.13	1.02	1.09	1.10	0.99	1.00	1.00
Actual average reserves/total deposits		0.05	0.07	0.06	0.06	0.05	0.05	0.06	0.06	0.06	0.06	0.06	...	...	...
Average required reserves/total deposits		0.06	0.07	0.06	0.05	0.07	0.06	0.06	0.05	0.06	0.06	0.06	...	...	...
Average excess reserves		−2.22	0.45	0.12	1.18	−3.22	−1.30	1.50	1.78	0.24	1.31	1.55	−0.18	−0.06	0.07
Money multiplier 6/	5.81	7.86	6.59	7.29	7.67	7.61	6.43	6.35	6.19	6.15	6.14	6.29	6.21	...	...

Sources: National Bank of Slovakia; and staff estimates.

1/ At current end-month exchange rates. The NFA of the NBS do not include credits on behalf of the Government.
2/ Balance sheet as of January 4, 1993.
3/ Revised downwards by Sk 6.018 billion; this was offset by a decline in other items net.
4/ This measure may be misleading since it reflects the situation on the last day of the month. At that time, banks often use their liquidity to buy T-bills for a few days. The number, therefore, tends to understate the volume of reserves held on average by banks.
5/ Average required reserves are calculated on the basis of averages for term and non-term deposits, respectively. The average deposit volume relevant for the calculation for month t is calculated from averaging the deposit stocks on the 20th day of month t-2, the last day of month t-2, and the 10th day of t-1. Thus, the ratio of average required reserves for month t to actual deposits for the same month should not be expected to be stable.
6/ End-period broad money over end-period monetary base.

Table 32. Slovak Republic: Selected Interest Rates, 1993–95

(Average in each period; in percent per annum)

	1993				1994				1995				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan.	Feb.	Mar.	Apr.	May
Total deposits	7.51	7.76	8.20	8.61	9.09	9.45	9.44	9.30	9.40	9.45	9.52	8.49	8.37
Term deposits	12.06	4.06	4.39	13.89	14.33	14.35	14.22	14.00	13.80	13.64	13.67	12.45	12.22
Non–term deposits	2.89	2.98	2.88	2.33	2.33	2.51	2.80	2.80	2.90	3.19	3.22	2.79	2.65
Deposits by maturity 1/													
Short–term	10.35	10.61	11.39	13.21	13.69	13.81	13.62	13.43	13.27	13.10	13.20	11.45	11.10
Medium–term	12.83	12.92	13.17	14.28	14.72	14.76	14.75	14.59	14.39	15.44	15.39	14.61	14.55
Long–term	18.50	18.43	18.13	16.62	16.55	16.18	15.74	15.06	14.62	10.03	9.92	9.75	9.50
Deposits by sector													
Deposits by state enterprises	5.85	6.61	7.94	7.23	7.81	8.49	8.96	8.65	7.74	7.65	7.91	6.57	6.51
Deposits by private sector	4.55	5.07	4.86	4.57	5.04	5.50	5.54	5.99	6.14	6.21	6.02	5.26	4.85
Deposits of households	8.96	9.07	9.49	10.73	11.24	11.24	11.22	11.21	11.25	11.42	11.42	10.45	10.39
Total credits	14.28	14.87	14.49	13.96	14.47	14.61	14.66	14.51	14.14	14.09	13.93	13.76	13.70
Credits by maturity													
Short–term	17.53	18.28	17.86	16.17	16.59	17.05	16.85	16.51	15.56	15.66	15.03	14.83	14.66
Medium–term	15.46	15.95	16.01	16.56	17.04	17.62	17.82	17.70	17.40	17.24	17.09	17.06	17.02
Long–term	9.95	10.19	10.07	10.45	11.34	11.43	11.56	11.55	11.62	11.50	11.67	11.45	11.48
Credits by sector													
Credits to state enterprises	16.49	17.06	16.24	14.88	15.43	15.44	15.51	15.31	14.58	14.77	14.48	14.33	14.31
Credits to private sector	13.56	14.30	14.28	14.26	14.70	14.93	14.98	14.86	14.64	14.41	14.81	14.63	14.55
Credits to households	5.01	4.95	4.97	5.37	5.29	5.17	4.92	4.74	5.48	5.12	5.38	5.17	5.21
Discount rate 2/	9.50	9.50	9.50	9.50	12.00	12.00	12.00	12.00	12.00	12.00	11.00	11.00	11.00
Lombard rate 2/	14.00	14.00	14.00	19.00	19.10	...	...	...	...	...	...	...	...
Refinancing credit rate													
30–day 3/	18.00	16.50	17.90	18.00	...	...	...	...	...	...	...	...	...
T–bill yield, 30–day 3/ 4/	16.50	16.90	11.90	15.20	15.50	11.20	7.00	...	4.93	2.69	1.95	3.17	4.08
Memorandum items:													
12–month CPI inflation rate	20.25	22.40	27.02	25.00	14.72	13.95	12.25	11.66	11.66	11.47	11.25	11.21	11.00
12–month PPI inflation rate	16.77	15.13	19.45	18.83	8.06	9.29	17.94	9.39	12.02	11.20	11.11	12.50	12.67
5–month centered average of year–on–year inflation rate													
for CPI	20.08	23.18	25.69	21.65	14.82	13.51	12.40	11.72	11.54	11.45	11.32	11.10	...
for PPI	16.23	16.25	18.24	14.66	7.90	10.25	12.40	10.02	10.52	11.24	11.90	...	...

Sources: National Bank of Slovakia; and staff estimates.

1/ Short–term, up to one year; medium term, up to four years; long–term, over four years.
2/ As of the last day of the month.
3/ The rate in the last auction held during the month.
4/ The return on treasury bills became tax exempt in June 1993.

Table 33. Slovak Republic: Structure of Koruna–Denominated Bank Deposits, 1992–1995

(In billions of koruny; end of period)

		1993				1994				1995		
	1992	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan.	Feb.	Mar.
State enterprises 1/	44.1	40.8	48.8	46.7	50.9	44.0	41.3	44.9	51.9	48.5	50.0	48.8
Demand deposits	27.1	21.4	28.5	25.5	31.7	24.3	21.1	23.9	29.1	26.0	27.6	25.4
Time deposits 2/	17.0	19.5	20.3	21.2	19.2	19.7	20.2	21.0	22.8	22.5	22.4	23.4
Short–term	2.2	6.5	7.3	10.6	8.5	8.9	10.3	11.1	13.9	14.2	13.9	14.8
Medium–term	14.8	13.0	12.7	10.6	10.5	10.6	9.7	9.7	8.7	8.1	8.3	8.4
Long–term	--	--	0.3	--	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Private enterprises 3/	26.5	22.1	26.0	28.0	35.4	30.3	34.7	38.6	46.4	41.9	42.3	42.0
Demand deposits	23.7	18.2	20.5	22.5	28.3	22.3	25.0	29.0	34.2	28.6	28.3	28.8
Time deposits 2/	2.8	3.9	5.5	5.5	7.1	8.0	9.7	9.6	12.2	13.3	14.0	13.2
Short–term	1.3	2.0	3.5	3.8	5.2	6.1	7.8	7.7	10.4	11.6	12.2	11.4
Medium–term	1.5	1.9	2.0	1.7	1.9	1.9	1.9	1.8	1.7	1.6	1.7	1.7
Long–term	--	--	--	--	--	--	--	0.1	0.1	0.1	0.1	0.1
Households	99.4	107.0	104.5	101.1	113.4	112.1	113.2	114.6	129.5	131.4	133.0	133.9
Demand deposits	26.5	32.4	30.3	28.4	31.3	30.1	30.0	29.9	31.5	32.0	32.3	32.1
Time deposits 2/	72.9	74.7	74.2	72.7	82.1	82.0	83.2	84.7	98.0	99.4	100.7	101.8
Short–term	36.7	37.3	36.9	35.7	40.1	39.5	39.9	40.4	46.4	46.1	46.7	47.1
Medium–term	29.7	30.9	31.1	30.7	35.4	35.8	36.7	37.7	44.3	40.7	41.2	41.6
Long–term	6.5	6.5	6.2	6.3	6.6	6.7	6.6	6.6	7.3	12.6	12.8	13.1
Total	170.0	169.9	179.3	175.8	199.7	186.4	189.2	198.1	227.8	221.8	225.3	224.7

Source: National Bank of Slovakia

1/ Enterprises which have less than fifty percent private ownership.
2/ Short–term, up to one year; medium–term, up to four years; long–term, over four years.
3/ Cooperatives included in the private sector starting in 1993.

Table 34. Slovak Republic: Koruna–Denominated Credits from Banks to Enterprises, 1992–95

(In billions of koruny; end of period)

	1992	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Jan.	1995 Feb.	1995 Mar.
Total koruna–denominated credits	236.0	236.0	246.4	249.9	260.8	253.6	251.8	252.2	257.6	257.3	257.8	265.2
Operating credits	82.9	86.2	92.8	97.1	90.7	85.8	87.5	90.2	95.9	96.3	96.6	104.1
Of which:												
Industry	33.1	34.4	36.2	29.5	29.4	27.5	27.4	29.0	31.7	39.6	40.7	41.2
Of which:												
Mining	3.9	3.4	4.3	3.7	3.6	3.3	3.2	3.3	3.4	0.7	0.7	0.5
Engineering	12.7	13.6	13.7	10.0	8.6	8.0	7.8	7.9	9.4	13.3	14.0	14.6
Light industry	6.5	6.9	7.2	5.6	5.1	5.1	4.7	4.4	5.3	6.1	6.7	6.8
Chemicals	3.9	4.3	4.7	4.5	5.1	4.5	4.6	5.6	5.6	6.2	5.8	6.1
Food processing	3.3	3.4	3.5	3.2	4.0	3.5	3.6	4.0	4.3	7.0	7.0	6.7
Other	2.7	2.8	2.8	2.5	3.2	3.0	3.6	3.9	3.7	6.3	6.6	6.6
Nonindustrial activities	49.9	51.8	56.6	67.6	61.3	58.3	60.1	61.2	64.2	56.7	55.9	62.9
Of which: Agriculture 1/	11.9	11.4	11.7	10.0	9.0	9.5	10.7	9.9	9.0	7.4	8.1	8.6
Investment credits	153.1	149.7	153.6	152.8	170.1	167.9	164.3	162.0	161.7	161.1	161.2	161.1
Of which:												
Industry	43.2	43.1	46.4	42.4	49.0	45.0	44.3	43.6	44.4	50.1	50.2	49.5
Of which:												
Mining	6.6	6.2	6.2	3.5	5.9	5.9	5.8	5.6	5.5	1.7	1.6	1.6
Engineering	15.9	15.6	17.0	18.0	21.8	18.3	18.2	17.8	18.2	22.7	22.8	21.8
Light industry	4.9	5.1	5.7	5.3	4.8	5.0	4.8	4.7	4.6	5.1	5.1	5.1
Chemicals	4.6	4.0	4.2	4.0	3.6	3.1	3.0	2.9	2.8	3.3	3.2	3.3
Food processing	5.3	5.9	5.8	5.4	5.7	5.7	5.6	5.8	6.2	7.4	7.4	7.3
Other	5.9	6.2	7.5	6.2	7.1	6.9	7.0	6.9	7.1	9.9	10.1	10.3
Nonindustrial activities	109.9	106.7	107.2	110.4	121.1	123.0	120.0	118.5	117.3	111.0	110.9	111.7
Of which: Agriculture 1/	8.4	9.0	10.5	9.1	8.7	9.2	9.2	8.7	10.0	9.1	9.1	9.1

Source: National Bank of Slovakia

1/ Refers to credits for both agricultural and nonagricultural activities of enterprises which at a point in time were producers primarily of agricultural goods.

Table 35. Slovak Republic: Balance of Payments, 1992-94 1/

(In millions of U.S. dollars)

	1992 Preliminary	1993 Preliminary	1994 Preliminary
Current account	46	-601	712
Trade balance	-715	-932	105
Exports, f.o.b.	6,515	5,447	6,727
Imports, f.o.b.	7,229	6,379 2/	6,622 2/
Services balance	-54	231	537
Receipts	1,705	2,140	2,411
Transportation	414	460	538
Transit of gas	343	381	396
Travel	200	390	568
Income	170	189	155
Other	921	1,101	1,150
Expenditures	1,759	1,909	1,874
Transportation	263	292	161
Travel	165	216	283
Income	205	228	275
Other	1,126	1,173	1,155
Current transfers	814	100	69
Private, net	70	96	63
Official, net	744	4	6
Capital account	-85	980	446
Capital transfers, net	--	529	87
Foreign investment, net	100	-373 3/	250
Foreign direct investment inflows	...	134	184
Other long-term capital, net	251	562	659
Credits received, net	196	313	477
Disbursements	266	802	950
Repayments	70	490	473
Credits extended, net	55	249	182
Short-term capital, net	-436	73	-195
Clearing account balance (surplus, -)	--	189	-609
Settlement under clearing account (payment, -)	--	--	255
Errors and omissions	-500	-23	268
Overall balance	-539	356	1,426
Gross reserves (increase, -)	-95	-521	-1,492
State Bank	5	-59	-1,173
Commercial banks	-100	-462	-319
Fund credit, net	94	90	48
Short-term liabilities (increase, -)	540	75	18

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

1/ Including transactions with the Czech Republic.
2/ Including private imports of about US$45 million in 1993 and about US$22 million in 1994, not included in total imports in Tables 37, 39, and 40.
3/ 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 36. Slovak Republic: Balance of Payments with the Czech Republic, 1993-94

(In millions of U.S. dollars)

	1993 Preliminary	1994 Preliminary
Current account	65	806
Trade balance	35	542
Exports, f.o.b.	2,310	2,497
Imports, f.o.b.	2,275	1,955
Services balance	3	262
Receipts	755	805
Expenditures	751	543
Current transfers	26	2
Capital account	149	-384
Capital transfers, net	529	87
Foreign investment, net	-521 1/	-1
Direct investment, net	-10	-9
Portfolio investment, net	-511	8
Other long-term capital, net	-75	-8
Credits received, net	-65	-9
Disbursements	7	10
Repayments	-72	-20
Credits extended, net	-10	1
Short-term capital, net	26	-109
Clearing account balance (surplus, -)	189	-609
Settlement under clearing accout (payment, -)	--	255
Errors and omissions	-214	-166
Overall balance	--	255
Gross reserves (increase, -)	--	-255
State Bank	--	-255
Commercial banks	--	--

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

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.

Table 37. Slovak Republic: Foreign Trade, 1993-94

(In millions of U.S. dollars)

	1993	1994
Exports f.o.b.	5,447	6,727
Market economies	2,071	3,010
Developed countries	1,783	2,669
Of which:		
European Union	1,308	1,963
Of which:		
France	87	113
Germany	828	1,159
Italy	148	308
United Kingdom	55	88
EFTA	341	471
Of which: Austria	271	353
Other OECD countries	122	214
Of which:		
Canada	9	37
Japan	8	6
United States	60	108
Other developed countries	12	22
Developing countries	288	340
Of which:		
Brazil	2	3
China	65	23
India	15	61
Syria	47	25
Economies in transition	3,371	3,717
CEFTA countries	2,716	3,056
Of which:		
Czech Republic	2,310	2,497
Hungary	247	366
Poland	159	189
FSU countries	453	467
Of which:		
Russia	256	278
Ukraine	140	116
Former Yugoslavia	90	128
Other European economies in transition	42	39
Countries with state trading systems	69	28
Non-specified	5	--
Imports f.o.b.	6,334	6,600
Market economies	2,304	2,870
Developed countries	2,109	2,649
Of which:		
European Union	1,304	1,732
Of which:		
France	95	148
Germany	723	888
Italy	190	290
United Kingdom	80	106
EFTA	561	585
Of which: Austria	394	382
Other OECD countries	229	307
Of which:		
Canada	18	12
Japan	73	81
United States	112	189
Other developed countries	15	25
Developing countries	195	221
Of which:		
Brazil	9	16
China	30	38
India	9	18
Syria	3	1
Economies in transition	4,024	3,724
CEFTA countries	2,489	2,251
Of which:		
Czech Republic	2,275	1,955
Hungary	85	115
Poland	123	157
FSU countries	1,438	1,363
Of which:		
Russia	1,237	1,176
Ukraine	152	119
Former Yugoslavia	43	50
Other European economies in transition	18	19
Countries with state trading systems	36	41
Non-specified	7	7
Memorandum item:		
Exchange rate (Sk per U.S. dollar)	30.79	32.04

Source: Data provided by the Slovak authorities.

Table 38. Slovak Republic: Shares of Partners in Foreign Trade, 1993-94

(In percent of total)

	1993	1994
Exports f.o.b.		
Market economies	38.0	44.7
Developed countries	32.7	39.7
Of which:		
European Union	24.0	29.2
EFTA	6.3	7.0
Other OECD countries	2.2	3.2
Other developed countries	0.2	0.3
Developing countries	5.3	5.1
Economies in transition	61.9	55.3
CEFTA countries	49.9	45.4
Of which: Czech Republic	42.4	37.1
FSU countries	8.3	6.9
Of which: Russia	4.7	4.1
Former Yugoslavia	1.7	1.9
Other European economies in transition	0.8	0.6
Countries with state trading systems	1.3	0.4
Non-specified	0.1	--
Imports f.o.b.		
Market economies	36.4	43.5
Developed countries	33.3	40.1
Of which:		
European Union	20.6	26.2
EFTA	8.9	8.9
Other OECD countries	3.6	4.7
Other developed countries	0.2	0.4
Developing countries	3.1	3.3
Economies in transition	63.5	56.4
CEFTA countries	39.3	34.1
Of which: Czech Republic	35.9	29.6
FSU countries	22.7	20.6
Of which: Russia	19.5	17.8
Former Yugoslavia	0.7	0.8
Other European economies in transition	0.3	0.3
Countries with state trading systems	0.6	0.6
Non-specified	0.1	0.1

Source: Data provided by the Slovak authorities.

Table 39. Slovak Republic: Merchandise Trade, 1992-95 Q1

(In millions of U.S. dollars, and changes in percent from a year earlier)

	1992					1993					1994					1995
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1 Prelim.	Q2 Prelim.	Q3 Prelim.	Q4 Prelim.	Total Prelim.	Q1 Prelim.
Exports f.o.b.	1,625	1,678	1,487	1,725	6,515	1,300.4	1,437.6	1,316.6	1,392.8	5,447.4	1,426.4	1,666.3	1,681.0	1,953.1	6,726.8	1,974.6
(percent change)						-20.0	-14.3	-11.5	-19.3	-16.4	9.7	15.9	27.7	40.2	23.5	38.4
Czech Republic	803	764	573	885	3,026	612.4	624.1	519.6	553.9	2,310.0	542.7	619.5	637.9	697.2	2,497.3	683.8
(percent change)						-23.7	-18.3	-9.3	-37.4	-23.7	-11.4	-0.7	22.8	25.9	8.1	26.0
Rest of the world	822	914	914	840	3,489	688	813.5	797	838.9	3,137.4	883.7	1,046.8	1,043.1	1,255.9	4,229.5	1,290.7
(percent change)						-16.3	-11.0	-12.8	-0.1	-10.1	28.4	28.7	30.9	49.7	34.8	46.1
Imports f.o.b.	1,602	1,759	1,817	2,050	7,229	1,264.9	1,753.1	1,490.4	1,870.9	6,379.3	1,524.8	1,535.2	1,652.3	1,909.4	6,621.7	1,947.2
(percent change)						-21.1	-0.3	-18.0	-8.7	-11.8	20.5	-12.4	10.9	2.1	3.8	27.7
Czech Republic	841	900	859	1,065	3,666	517.5	659.7	535.1	562.3	2,274.6	471.6	478.1	462.1	543.4	1,955.2	569.5
(percent change)						-38.5	-26.7	-37.7	-47.2	-38.0	-8.9	-27.5	-13.6	-3.4	-14.0	20.8
Rest of the world	761	859	958	985	3,563	747.4	1,093.4	955.3	1,308.6	4,104.7	1,053.2	1,057.1	1,190.2	1,366.0	4,666.5	1,377.8
(percent change)						-1.8	27.3	-0.3	32.9	15.2	40.9	-3.3	24.6	4.4	13.7	30.8

Source: Data provided by the Slovak authorities.

Table 40. Slovak Republic: Commodity Composition of Trade, S.I.T.C. Classification, 1991-94 1/

(In millions of U.S. dollars)

S.I.T.C. Category	Description	1991 2/ Preliminary	1992 2/ Preliminary	1993 2/ Preliminary	1994 2/ Preliminary	1993 3/ Preliminary	1994 3/ Preliminary
	Exports f.o.b.	3,284	3,489	2,310	2,497	5,447	6,727
0	Food and live animals	226	255	129	158	299	303
1	Beverages and tobacco	24	18	30	43	48	63
2	Crude materials	148	193	100	116	268	342
3	Fuels and related products	38	28	162	134	268	312
4	Animal and vegetable oils and fats	3	4	3	4	6	7
5	Chemicals and related products	400	399	325	387	655	862
6	Intermediate manufactured products	1,189	1,487	791	901	2,111	2,638
7	Machinery and transport equipment	739	605	532	519	1,057	1,303
8	Miscellaneous manufactured articles	515	501	236	233	731	894
9	Other	1	--	1	2	5	4
	Imports f.o.b.	3,608	3,563	2,275	1,955	6,334	6,600
0	Food and live animals	154	163	195	133	464	459
1	Beverages and tobacco	29	28	65	58	92	85
2	Crude materials	426	240	60	57	327	349
3	Fuels and related products	1,302	1,051	282	193	1,324	1,273
4	Animal and vegetable oils and fats	3	2	11	10	16	19
5	Chemicals and related products	316	348	283	285	720	877
6	Intermediate manufactured products	293	309	596	586	957	1,113
7	Machinery and transport equipment	876	1,136	545	456	1,853	1,830
8	Miscellaneous manufactured articles	208	285	231	173	571	584
9	Other	--	--	6	5	11	11
Memorandum item:							
	Exchange rate (Kcs per U.S. dollar for 1991-92 and Sk per U.S. dollar for 1993)	29.48	28.26	30.79	32.04	30.79	32.04

Source: Data provided by the Slovak authorities.

1/ Data are on customs basis, and converted from Kcs in 1991 and 1992, and from Sk in 1993 and 1994 at average commercial exchange rate for each period.
2/ Excluding trade with the Czech Republic, and private imports.
3/ Including trade with the Czech Republic, but excluding private imports.

Table 41. Slovak Republic: Commodity Composition of Trade, 1991-94

(In percent of total)

S.I.T.C. Category	Description	1991 1/	1992 1/	1993 1/	1994 1/	1993 2/	1994 2/
	Exports f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0
0	Food and live animals	6.9	7.3	5.6	6.3	5.5	4.5
1	Beverages and tobacco	0.7	0.5	1.3	1.7	0.9	0.9
2	Crude materials	4.5	5.5	4.4	4.6	4.9	5.1
3	Fuels and related products	1.2	0.8	7.0	5.4	4.9	4.6
4	Animal and vegetable oils and fats	0.1	0.1	0.1	0.2	0.1	0.1
5	Chemicals and related products	12.2	11.4	14.1	15.5	12.0	12.8
6	Intermediate manufactured products	36.2	42.6	34.2	36.1	38.8	39.2
7	Machinery and transport equipment	22.5	17.3	23.0	20.8	19.4	19.4
8	Miscellaneous manufactured articles	15.7	14.4	10.2	9.3	13.4	13.3
9	Other	--	--	0.1	0.1	0.1	0.1
	Imports f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0
0	Food and live animals	4.3	4.6	8.6	6.8	7.3	7.0
1	Beverages and tobacco	0.8	0.8	2.8	2.9	1.5	1.3
2	Crude materials	11.8	6.7	2.6	2.9	5.2	5.3
3	Fuels and related products	36.1	29.5	12.4	9.9	20.9	19.3
4	Animal and vegetable oils and fats	0.1	--	0.5	0.5	0.2	0.3
5	Chemicals and related products	8.8	9.8	12.5	14.6	11.4	13.3
6	Intermediate manufactured products	8.1	8.7	26.2	30.0	15.1	16.9
7	Machinery and transport equipment	24.3	31.9	24.0	23.3	29.3	27.7
8	Miscellaneous manufactured articles	5.8	8.0	10.2	8.8	9.0	8.9
9	Other	--	--	0.3	0.3	0.2	0.2

Source: Data provided by the Slovak authorities.

1/ Excluding trade with the Czech Republic, and private imports.
2/ Including trade with the Czech Republic, but excluding private imports.

Table 42. Slovak Republic: External Debt in Convertible Currencies, 1992-94

(In millions of U.S. dollars; end of period)

	1992 Preliminary	1993 Preliminary	1994 Preliminary
Debt in convertible currencies	2,829	3,379	3,946
Medium- and long-term	2,262	2,665	3,193
By debtors:			
National Bank	554	917	1,088
Commercial banks	199	214	318
Government	1,071	1,059	1,194
Corporations	438	475	593
Short-term	567	715	753

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

Table 43. Slovak Republic: Servicing of External Debt in Convertible Currencies, 1995-98

		Projections		
	1995	1996	1997	1998
	(In millions of U.S. dollars)			
Medium- and long-term debt service	927	820	898	1,170
Principal	683	527	584	846
Interest	244	293	314	323
Short-term interest	37	...	...	...
Total debt service	964	...	...	...
Principal	681	527	584	846
Interest	281	...	...	...
	(In percent of exports of goods and services)			
Debt service ratio	8.7	...	...	...
Of which: Interest	2.5	...	...	...

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

Table 44. Slovak Republic: Assets and Liabilities of the Banking System in Convertible Currencies, 1992-95 Q1

(In millions of U.S. dollars; end of period)

	1992	1993	1994	1995 Q1 Prelim.
Total assets	900.0	1,402.3	3,077.8	3,565.7
Official reserves held by the National Bank 1/	409.3	449.5	1,725.0	1,968.9
Of which: Gold 2/	53.1	52.2	41.7	41.9
Gold in swaps	--	2.3	12.6	12.6
Holding of SDRs	12.8	0.3	85.3	64.4
Foreign exchange	343.4	415.3	1,707.4	1,966.0
Of which: Foreign currency from gold swaps	--	20.6	122.2	116.0
Short-term assets held by commercial banks	490.7	952.7	1,350.5	1,594.0
Long-term assets held by commercial banks	--	0.1	2.6	2.8
Total liabilities	1,881.8	2,271.6	2,761.6	3,069.4
State Bank	935.3	1,288.9	1,705.6	1,857.0
Short-term	--	--	3.4	29.4
Long-term	935.3	1,288.9	1,702.2	1,827.6
Of which:				
Use of Fund credit	479.9	570.0	637.3	635.0
Financial credits	455.4	718.9	1,064.9	1,192.6
Of which: Financial credits on behalf of the Government	381.1	408.4	534.6	590.0
Commercial banks	946.5	982.7	1,056.0	1,212.4
Short-term	51.4	126.0	149.4	253.9
Long-term	895.1	856.7	906.6	958.5
Of which: Financial credits on behalf of the Government	695.8	642.6	587.9	632.8
Memorandum items:				
Official reserves in months of imports of goods and services	0.5	0.6	2.4	...
Gross reserves 3/	900.0	1,402.2	3,075.5	3,562.9
Reserve liabilities 4/	531.3	696.0	790.1	918.3
Net international reserves 5/	368.7	706.2	2,285.4	2,644.6
Government liabilities related to BOP support				
Of which: World Bank	109.6	145.7	227.5	242.5
European Union	154.8	140.1	152.2	165.3
G-24	116.7	122.6	133.3	145.7

Source: Data provided by the Slovak authorities.

1/ Including gold and gold in swaps (national valuation); excluding currency from gold swaps.
2/ Gold is valued at US$42 per ounce.
3/ Gross reserves are defined to include short-term assets of the banking system.
4/ Reserve liabilities are defined to include short-term liabilities of the State Bank and commercial banks and use of Fund credit.
5/ Net international reserves are defined to be gross reserves less reserve liabilities.

Table 45. Slovak Republic: Exchange Rates, 1992-95 Q2

	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1992	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1993	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1994	1995 Q1	1995 Q2
	(In korumy per U.S. dollar)									(In Slovak korumy per U.S. dollar)							
Average during period	28.77	28.77	27.35	28.17	28.26	29.10	28.90	32.40	32.70	30.80	33.18	32.47	31.39	31.14	32.00	30.33	29.32
End of period	29.03	27.89	27.01	28.90	28.90	29.03	29.59	32.01	33.20	33.20	32.60	31.60	31.20	31.28	31.30	29.32	29.35

Source: Data provided by the Slovak authorities.