FOR AGENDA

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CONFIDENTIAL

July 15, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Slovak Republic - Staff Report for the 1993 Article IV Consultation and Use of Fund Resources - Request for Purchase Under the Systemic Transformation Facility (STF)

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with the Slovak Republic and a request expected to be received from the Slovak authorities for a first purchase under the systemic transformation facility in an amount equivalent to SDR 64.35 million. Draft decisions appear on page 18.

It is understood that the Executive Director for the Slovak Republic will be requesting the Board for a waiver of the circulation period to enable this subject to be brought to the agenda for discussion on Monday, July 26, 1993.

Mr. Zervoudakis (ext. 38814), Mr. Sukselainen (ext. 38847), or Ms. Mrakovcic (ext. 35331) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

SLOVAK REPUBLIC

Staff Report for the 1993 Article IV Consultation and Use of Fund Resources--Request for a Purchase under the Systemic Transformation Facility

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

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

Approved by Desmond Lachman and Anoop Singh

July 14, 1993

I. Introduction

In a letter dated June 30, 1993 and the accompanying Policy Statement (Appendix I), the Slovak authorities have indicated their intention to request a purchase under the Systemic Transformation Facility (STF) for an amount equivalent to SDR 64.35 million (25 percent of quota). The authorities also intend to reach understandings with the Fund on a program that could be supported by a stand-by arrangement in the upper tranches by end-1993; such a program could be also supported by a second purchase under the STF. Discussions on an economic program that could be supported by Fund resources as well as for the Article IV consultation were held in Bratislava during May 27-June 15, 1993. The Slovak representatives included the President, Mr. Kováč; the Ministers of Finance and Economy, Messrs. Tóth and Kubečka; the Acting Governor of the National Bank of Slovakia (NBS), Mr. Tkáč; and other senior officials of the Slovak Government. 1/

The Slovak Republic became a member of the Fund on January 1, 1993 through succession to the membership of the Czech and Slovak Federal Republic (CSFR). Its share in outstanding use of Fund resources was SDR 340.8 million (132.4 percent of quota) on June 30, 1993. A stand-by arrangement with Czechoslovakia, which had been scheduled to run through April 2, 1993, lapsed with the dissolution of the federation. The eligibility of Slovakia to use the STF is discussed in Appendix II.

1/ The staff team included Mr. Zervoudakis (Head), Ms. Mrakovcic, Mr. Sukselainen, Ms. Papi (all EUR I), Mr. Georgiou, Mr. Anayiotos (both PDR), and Mr. Vargas (EUR I) as assistant.

Relations with the Fund and the World Bank are summarized in Appendices III and IV, respectively.

II. Background

After 1948, Slovakia was subjected to a policy of rapid industrialization--with emphasis on semi-finished goods, engineering products and arms--and became highly dependent on trade with the CMEA. Thus, the dissolution of the CMEA and the collapse of its export markets in Eastern Europe and the former Soviet Union (FSU) had a severe impact on the Slovak economy. During 1991-92, Slovakia shared in the Czechoslovak federation's success at controlling inflation (10 percent during 1992), reorienting its exports to the West, and implementing an ambitious privatization program. However, GDP is estimated to have fallen by 20 percent between 1990 and 1992, and unemployment reached 11 percent in 1992 (Table 1 and Chart 1).

Following general elections in June 1992, the republican governments agreed to dissolve the federation by year-end. They then proceeded to reach agreements on the division of federal assets and liabilities, and the establishment of customs and monetary unions as of January 1, 1993. Federal assets and liabilities were to be divided on the basis of the territorial principle where applicable, or a 2:1 (Czech/Slovak) ratio reflecting the relative population size. 1/ The customs union provided for free movement of goods and services, prohibited the use of tariff and nontariff barriers within the territory of the former Czechoslovakia, and stipulated identical customs policies with respect to third countries. The monetary union was envisaged to last at least six months but could be dissolved earlier on certain conditions. 2/

Though remarkably orderly, the process of separation considerably complicated Slovakia's economic difficulties. In particular, the termination of fiscal transfers from the Czech lands (tentatively estimated at 7 percent of Slovak GDP in 1992) was expected to unmask a large underlying fiscal and external imbalance. Already from late 1992, expectations that the soon-to-be-introduced Slovak currency would be devalued had led to a segmentation of the financial markets in Czechoslovakia and to inter-regional, as well as international, capital flight. The resulting liquidity squeeze in Slovakia, as well as

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1/ While the process of division has been generally smooth, the equivalent of some US$0.9 billion of Czech claims on Slovakia in the form of interbank liabilities--as well as some Slovak claims--remains in dispute. However, even this problem may be resolved in the context of a possible agreement between the two countries to cancel all mutual claims.

2/ Either party could withdraw from the arrangement if specified limits on international reserves, fiscal deficits, or the flight of bank deposits were breached, or if there was deadlock in the six-member Joint Monetary Committee directing the operations of the two central banks.

uncertainties associated with the separation, contributed to a sharp decline in economic activity in the last quarter of 1992.

Slovakia's external debt at end-1992 (excluding any liabilities to the Czech Republic), is tentatively estimated at US$2.3 billion (less than 25 percent of annual GDP). Debt service payments amounted to some US$240 million in 1992 (3 percent of exports of goods and services).

III. Developments in Early 1993

Heavy pressure on both Slovak and Czech official foreign reserves led, on February 8, 1993 to the early termination of the monetary union between the two countries. Since then, Slovakia's external position has improved somewhat--as evidenced by a strengthened reserve position--but has remained vulnerable. After falling by US$250 million in January, the gross foreign exchange reserves of the banking system edged back steadily to well over their end-1992 level (about US$800 million) by end-June; however, official reserves (excluding gold) remained relatively low at about US$200 million or three weeks of convertible currency imports. Contrary to original expectations, Slovakia's clearing account with the Czech Republic turned into a surplus. 1/ Meanwhile, all foreign payments have been made promptly, and the exchange rate for the Slovak koruna in the black market did not deviate significantly from the official one.

Preliminary balance of payments data for the first quarter of 1993 provide some insight into these developments. While there was little net medium- and long-term foreign borrowing in the first quarter, foreign investment inflows amounted to about US$87 million, primarily reflecting privatization sales. 2/ Sizable short-term capital outflows in January moderated thereafter. Meanwhile there were unexpectedly favorable developments in the trade balance, both with third countries and with the Czech Republic. Trade turnover, however, appears to be much reduced--by about 30 percent and 15 percent vis-à-vis the Czech Republic and third countries, respectively. 3/

1/ Under two clearing agreements established for inter-republican trade after the dissolution of the monetary union (respectively for transactions before and after dissolution), Slovakia's combined surplus reached about ECU 30 million by end-May but moved back to near balance by end-June.

2/ The statistical base has improved recently, certainly in terms of currentness, but remains beset with methodological and other problems.

3/ Customs data on trade are affected by severe reporting and processing problems, reflecting in part the absence of customs offices at the Czech borders in early January, their subsequent poor functioning and a backlog in the processing of customs declarations. Thus, while customs data indicate a 50-60 percent decline in the turnover of trade with the Czech Republic in the first quarter of this year, data based on enterprise reports point to a much smaller decline. It is also difficult to evaluate performance of trade with third countries, reflecting apparent data inconsistencies.

Consistent with the decline in imports, economic activity in the first quarter of 1993 was very weak. Following an 8 1/2 percent drop in the last quarter of 1992, real GDP (seasonally adjusted) is estimated to have declined by another 2 percent in the first quarter. An even larger decline is reported for (gross) industrial output, which was 10 percent down (seasonally adjusted) from the last quarter of 1992 and 16 percent lower than a year earlier. 1/ Unemployment reached 12 1/2 percent of the labor force at end-June, up from 10.4 percent at end-1992. At the same time, consumer prices jumped by almost 9 percent in January, upon introduction of the VAT, but monthly inflation fell back to just over one percent during February-May, notwithstanding several administrative price adjustments; on a 12-month basis, inflation was 22 percent in May. Apparently reflecting enterprises' weak financial position, average wages in industry (seasonally adjusted) declined very slightly in the first quarter of 1993 in nominal terms--over 10 percent in real terms--from the last quarter of 1992.

Initially, the authorities sought to gear financial policies to addressing the fiscal and external imbalances. In December 1992, an officially balanced State Budget for 1993--encompassing bold expenditure cuts as well as a sweeping tax reform--was approved by Parliament, and a restrictive monetary program was adopted in the framework of the monetary union. However, as the external position came under intense speculative pressure, some ad hoc controls were also adopted. In early February 1993, credit requirements for the financing of convertible currency imports were introduced 2/ and banks' access to NBS foreign exchange was made more difficult. 3/ With a rising deficit under the clearing arrangement, the Slovak koruna was devalued by 5 percent (and the Czech koruna revalued by 2 percent) against the clearing ECU in early March; as the clearing account swung into a surplus, this devaluation was fully reversed in early May. Similarly, with an improving reserve situation, banks' access to official reserves was eased somewhat.

1/ It is difficult to reconcile the figures on GDP and industrial output as they imply an implausibly strong growth in non-industrial output; industry still accounts for around 60 percent of GDP.

2/ Down-payments on imports are limited to 15 percent. Further restrictions are applied to imports in excess of US$35,000: for consumer and intermediate goods, a three-month credit is required as well as a 14-day advance deposit of the local currency equivalent; and for capital goods, suppliers' credits (of one to five year maturity depending on import value) are required. The 14-day advance deposit requirement gives rise to an exchange restriction subject to approval under Article VIII, section 2(a). These restrictions are similar to those introduced by Czechoslovakia in 1990 and gradually removed under the Fund-supported program of 1991.

3/ Since January, the NBS has conditioned access to its foreign exchange on banks reaching a certain minimum foreign currency exposure in percent of their capital: the limit was raised from 15 percent to 35 percent in early February and lowered to 30 percent in early May.

The fiscal outturn in the first half of the year was not in line with the authorities' expectations. Between January and May, the fiscal deficit reached the equivalent of 4 percent of annual GDP, entirely reflecting large revenue shortfalls. The weak revenue performance was due in part to weaker than expected economic activity and to liquidity problems faced by enterprises. However, it also reflected administrative problems with a revamped tax system.

Indications are that a very restrictive monetary policy largely accounted for the improvement in the external position--but also contributed to the decline in activity. With very little refinancing from the NBS, banks' liquidity has remained very tight, and their credit to the nongovernment sector stagnated during the first four months of the year. By end-May, broad money had risen only slightly above its end-1992 level, even as prices rose by almost 14 percent.

IV. Policy Discussions and Description of the Economic Program

The policy discussions focussed on current policies and available policy options with a view to facilitating external adjustment while setting the economy on a path of non-inflationary growth. The attached "Policy Statement" includes a description of the authorities' objectives and policies for 1993 and 1994, within a tentative medium-term framework. With the State Budget for 1994 still in the initial stages of preparation, and an especially uncertain short-term macroeconomic outlook (related in part to severe data limitations and prospective policy measures on which the projected fiscal target would be dependent), a quantified quarterly financial program was elaborated only for the remainder of 1993. 1/ However, the authorities committed themselves to policies for 1994 that would be consistent with fiscal consolidation, a reduction in inflation, and continued progress with structural reforms.

1. Objectives and design of the program

The central aim of the program is to facilitate the Slovak economy's adjustment to the fiscal and external imbalance that stemmed in large part from the termination of fiscal transfers from the Czech lands; and to accelerate the process of structural reforms.

A fundamental objective of the program is to contain inflation. Accordingly, the program targets an inflation rate (consumer prices) of about 30 percent during 1993 (26 percent on an annual average basis), consistent with an underlying rate of inflation of about 1 percent per month

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1/ The authorities intend to rely on further technical assistance from the Fund and other institutions in the areas of monetary statistics, balance of payments and national accounts as well as in the area of monetary and fiscal policy implementation.

for the remainder of the year. 1/ The devaluation (see below) should have a positive effect on output in late 1993 by obviating overly restrictive policies as well as raising net exports. However, real GDP is expected to decline by 9 percent in 1993 in light of a carry-over effect from last year, the inevitable (following the cessation of transfers) curtailment of domestic demand, supply disruptions from the dissolution of the federation, and the continued restructuring of the industrial sector.

The program aims at containing the current account deficit to 2 1/2 percent of GDP in 1993, compared with an underlying deficit (before transfers) of 7 1/2 percent of GDP in the previous year (Table 2). An overall balance of payments deficit of about US$50 million is targeted for the whole year, implying a small surplus for the latter part of the year (June-December). The gross reserves of the NBS are targeted to recover from current levels to US$300 million by year-end, equivalent to one month's convertible currency imports.

With the termination of the fiscal transfers being the major cause of the macroeconomic imbalance, the cornerstone of the program is strong fiscal adjustment. The fiscal deficit target (7 percent of GDP) in 1993 compares with an underlying fiscal deficit (before transfers) of 14 percent of GDP in 1992. New fiscal measures--expected to yield the equivalent of 2 1/2 percent of annual GDP in the remainder of 1993--should allow achievement of this target. A 10 percent devaluation of the Slovak koruna, supported by continued wage restraint, should facilitate external adjustment. Monetary policy, which had borne much of the burden of protecting the external position in the first half of this year, will be reoriented toward supporting a modest recovery in output by year-end.

2. External policies

The discussions emphasized that a restrictive monetary policy had succeeded in defending the external position in the first half-year, but had also contributed to a sluggish economic activity and investment and a sharply reduced volume of trade. The authorities recognized that this policy course was unsustainable, and that balance of payments viability went beyond balancing the external accounts in the short term. Rather, it also required a capacity to service debt and to attract spontaneous external financing--i.e. growing output and exports. In this context, the exchange rate was the most efficient means of generating the necessary shift in resources and in the composition of demand. On this basis, the Government decided to devalue the Slovak koruna by 10 percent (in foreign currency terms) on July 9, 1993 and to implement thereafter a flexible policy guided by relevant market indicators. In particular, while the Slovak koruna would remain pegged to a currency basket, the authorities undertook to review

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1/ The implied target for the underlying inflation rate during 1993 (i.e., excluding the effects of the VAT introduction, the indirect tax increases, and the devaluation) is about 13 percent.

periodically the appropriateness of the exchange rate (as well as the institutional mechanism for its determination), against overall balance of payments developments, the need to avoid reliance on external controls, and progress toward achieving a viable external position. The devaluation--in conjunction with the recent decline in real wages and the lowering of employer taxes on wages at the beginning of 1993--largely corrects for a steep increase in relative unit labor costs in industry in 1992. 1/

Notwithstanding a recovery from the depressed first quarter levels, exports and imports in US dollar terms are expected to decline by about 12 and 17 percent, respectively, for the year as a whole; within that total, trade with the Czech Republic is expected to decline by at least 20 percent. Import projections reflect the expected decline in economic activity and the relative price effects of the devaluation, but also the inevitable effects of the dissolution of the federation on trade with the Czech Republic, as new production and price relationships have emerged. The projected decline in exports largely reflects developments in trade with the Czech Republic; exports to the rest of the world are expected to remain broadly unchanged from last year as the beneficial effects of improved competitiveness (for the latter half-year) would be offset by weak demand conditions abroad and restrictions on Slovak exports. The projected sharp turnaround in the capital account in 1993 reflects mainly the moderation, since February, of short-term capital outflows reflecting tight monetary conditions as well as gradually weakening expectations of a devaluation; such outflows, mainly to the Czech lands, had amounted to about US$0.5 billion in 1992.

The authorities expected that the new exchange rate policy, in conjunction with the financial and wage policies envisaged under the program, would permit the early relaxation of the external controls introduced earlier this year and their complete elimination by end-1993. In this regard, they noted that the import financing restrictions were relatively mild and easy to evade, while the limit on banks' access to the foreign exchange reserves of the NBS had not prevented the banks' reserves from rising above their end-1992 level (thereby reducing their foreign currency exposure).

As the external position was expected to remain vulnerable until the announced measures took hold, the authorities have decided to introduce a temporary 20 percent surcharge on consumer good imports in the coming

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1/ According to tentative staff estimates, relative unit labor costs for Slovak industry rose by 11 percent in 1992, but by almost 20 percent vis-à-vis third countries (i.e., excluding the Czech Republic). The CPI- and PPI-based REERs showed roughly no change in 1992, but indicated a 5-6 percent real appreciation vis-à-vis third countries. In combination, the two sets of indicators point to a squeezing of profit margins.

weeks. 1/ In line with the expected strengthening of the external position, they intended to halve the surcharge by end-1993, and to eliminate it by mid-1994. The proceeds (officially estimated at about 0.2 percent of GDP in 1993) would be used to capitalize an export credit agency serving small and medium-sized entrepreneurs. The authorities noted that their import system had been substantially liberalized in 1991 and that the effective import duty amounted to only 6 percent. They believed that the temporary character of the measure would limit any adverse effects on resource allocation.

The authorities noted with deep concern the restrictive practices of their major trading partners, including the European Community (EC), which would tend to constrain any increase in exports in response to the policy measures aimed at improving competitiveness. They referred in particular to the EC restrictions on farm products, steel and textiles. In May 1993, foreign ministers of the EC backed a proposal to improve market access for Eastern and Central European countries. While Slovakia's industry would benefit from this, sectors such as agriculture, textiles, and clothing would remain restricted by binding quotas and the threat of safeguard and antidumping measures.

3. Fiscal policy

The authorities stressed that the officially balanced State Budget for 1993, approved by Parliament last December, represented a significant adjustment effort as it incorporated bold cuts in almost all categories of expenditures equivalent to about 10 percent of GDP. 2/ 3/ These measures were intended to more than compensate for expected revenue losses from a radical tax reform, including the introduction of the VAT and the revamping of personal income and profit taxation. The authorities were thus alarmed by the emergence of a fiscal deficit in January-May 1993 equivalent to 4 percent of annual GDP. This was entirely due to a revenue shortfall affecting virtually all tax categories with the exception of income taxes on wages. Optimistic macroeconomic assumptions behind the budget estimates were a major factor behind the tax revenue shortfall. 4/ The tight monetary policy also contributed to the shortfall through arrears to the Government by illiquid enterprises, as did administrative problems with the

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1/ The surcharge would also apply to imports from the Czech Republic. In addition to trade restrictions for safeguard purposes, the agreement on the customs union permits a member to adopt "necessary measures" in case of pressures on the balance of payments from increased imports.

2/ Including cuts in transfers to households (almost 3 points of GDP), other current expenditures (5 points of GDP), and investment (2 1/2 points of GDP).

3/ Including extrabudgetary operations, the official budget implied a fiscal deficit of about 1 percent of GDP.

4/ Budget estimates had been based on a 2 percent decline in real GDP in 1993, against a revised projection of about 9 percent.

new taxes. On the other hand, total expenditures were well within budget estimates, while nontax revenue in the form of charges and fees for services showed a rapid increase.

For purposes of the financial program, taking into account the unusually uncertain outlook for revenues, the authorities and the staff have agreed on projections involving a deficit of Sk 23 billion or 7 percent of GDP in 1993; this compares with an underlying fiscal deficit (before transfers) of 14 percent of GDP in 1992 (Table 3). Were the risks on the revenue side not to materialize, the authorities intended to achieve a somewhat lower deficit consistent with the target of 5 percent of GDP officially announced. In light of the January-May outturn, the annual target implies a sizable (3 1/2 percentage points of GDP) reduction in the fiscal deficit in June-December from the preceding five months. 1/ Under the program, government recourse to domestic bank financing is to be limited to Sk 22 billion; adjusted for some Sk 2 billion of G-24/World Bank financing this is equivalent to 6 percent of GDP in 1993.

To achieve the fiscal objective--and taking into account the expenditure cuts already implemented as well as the erosion of the tax base --the authorities have decided to adopt a further policy package equivalent to 2 1/2 percent of GDP in the remainder of 1993 (i.e., with a full-year effect of about 5 percent of GDP). In particular, an adjustment of the VAT rates (from 5 and 23 percent to 6 and 25 percent, respectively), a 6 percent increase in excises, a 25 percent increase in property taxes, and social security legislation are expected to yield revenues equivalent to 1 percent of annual GDP in the remainder of 1993. 2/ 3/ Further expenditure cuts, involving mainly better targeting of social expenditures, and a scaling down of investment and subsidy outlays are expected to generate savings equivalent to another 1 1/2 percent of GDP. Some of these measures have been designated as prior actions, namely the increases in the VAT rates and the excises, the scaling down of subsidies and investment outlays, and the tightening of eligibility criteria for unemployment benefits. With the exception of the last measure--which is officially expected to be approved

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1/ The fiscal deficit in January-May was equivalent to 4 percent of annual GDP or an annualized 9 1/2 percent of GDP. In light of the annual target (7 percent of GDP in 1993), the fiscal deficit in June-December needs to be contained to the equivalent of 3 percent of annual GDP or an annualized 5 1/2 percent of GDP.

2/ Table 4 describes the fiscal measures under the program, their status of implementation, and specifies the date of effectiveness.

3/ It should be noted that (a) the increase in VAT rates and excises will become effective on August 1 (rather than July 1 as envisaged in the authorities' Policy Statement) and (b) the excises were raised by 6 (rather than 10) percent, implying in total forgone tax revenues of Sk 0.7 billion. However, these were more than offset by an amendment to social security legislation to allow collection of social security contributions on the basis of wages paid during regular leave.

by Parliament by July 23--all prior actions have been implemented as indicated above. In addition, the Government has adopted, or is in the process of implementing, a series of measures to improve efficiency of tax collections (presented in Table 4). With the fiscal outlook highly uncertain and sensitive to adverse macroeconomic developments, the authorities undertook to adopt additional measures as needed to contain the deficit within the target.

4. Monetary policy

The authorities noted that monetary policy had been guided, thus far, by the dual objective of defending the country's foreign reserve position and containing the inflation rate; in the circumstances, this implied a very tight monetary policy stance. They believed that the NBS had been successful with regard to both objectives as evidenced by the recovery of the gross foreign reserves of the banking system, and the continued relatively low inflation rate; and stressed that this occurred in spite of an especially adverse economic environment, including widely held expectations of a currency devaluation and limited access to foreign capital markets. However, they were concerned that the restrictive monetary policy had also contributed to a sharp decline in economic activity and the volume of trade, and--through its effect on tax revenues--to an exacerbation of the fiscal imbalance.

Policy implementation had been complicated by the behavior of the major components of reserve money. Currency in circulation declined by one half in the weeks prior to the monetary separation because of ceilings on the amounts of cash that residents could exchange for new Slovak currency. The NBS cautiously sought to prevent the banks' excess reserves from rising by maintaining a tight refinancing policy. A continued capital outflow also reduced bank liquidity and prevented the public's deposits with banks from increasing in January. Hence, the subsequent gradual recovery of currency in circulation (by 30 percent as of end-April) squeezed banks' liquidity. Since March 1993, encouraged by the price and external performance--and increasingly concerned over weak economic activity--the NBS has gradually eased its refinancing policy. However, banks have largely used their improving liquidity position to purchase treasury bills that the NBS had been previously unable to sell on behalf of the government. With the money multiplier rather difficult to predict in these circumstances, the authorities recognized the need continually to review their refinancing and reserve money management policies taking into account changes in the behavior of banks and the public.

The monetary program for 1993 is consistent with a 19 percent increase in broad money during the year (Table 5). 1/ With net foreign assets of the banking system expected to decline somewhat, this implies a 20 percent

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1/ The income velocity of broad money is assumed to rise by 4 percent during 1993.

rise in the net domestic assets during the year. After allowing for bank credit to Government as specified above, credit to enterprises and households is expected to rise by 13 1/2 percent during 1993. Given that such credit has stagnated since end-1992, virtually all of the envisioned increase will take place in the second half of 1993. The NBS would primarily rely on its refinancing policy to adhere to the targets but also on credit ceilings as needed. In light of the uncertainties involved, the authorities indicated that they would continually monitor external reserve and price developments.

5. Wage policy

Wage controls in the state enterprise sector (in the form of taxation-enforced ceilings on average wages) were effectively abolished in the last quarter of 1992. The authorities noted that they would contemplate reintroduction of wage controls in some form only if large wage increases were seen to contribute to inflation pressures. So far, there was little evidence that the removal of the controls has led to wage increases; in fact, as noted above, average wages declined in nominal as well as real terms in early 1993. Although trade unions have been remarkably cooperative so far--cognizant of the real possibilities of the economy and the effect of wage increases on unemployment--significant risks remained: they may still try to recoup the real wage loss in the first quarter, and may not acquiesce to a further loss following the devaluation.

The program is consistent with a decline in real average wages in the state enterprise sector by about 10 percent in 1993--some of which has already occurred. The authorities intend to monitor wage developments against quarterly targets for nominal average wages--derived on the basis of the projected inflation and real wage decline--and promptly to apply corrective measures as necessary. Average wages in the general government (including budgetary and subsidized organizations) will not be adjusted during 1993, reflecting the tight fiscal situation as well as the need to avoid encouraging wage demands in the state enterprise sector.

6. Structural reforms

The first wave of large-scale privatization--which was initiated by the federation in 1991 and involved some 900 units with a book value of about Sk 150 billion in Slovakia--has been nearly completed. The voucher scheme was applied to almost 60 percent of the enterprises and a similar percentage of the book value. The remainder was sold directly (less than 10 percent of book value), transferred to the National Property Fund (NPF) or, to a small extent, reserved to help pay off outstanding claims or to be sold. 1/ With the auctions for vouchers having been completed, share certificates are being distributed to successful bidders, and the first general meetings of shareholders are already taking place.

The privatization of small shops and service establishments has been virtually completed in Slovakia, and has provided an evident boost to the growth of the private sector. About 9,300 such units were privatized through auction sales or restitution to original owners or their descendants. Proceeds from small privatization have amounted to Sk 14 billion, with many of the purchases financed by the Savings Bank with personal property typically used as collateral.

The second wave of large privatization--involving some 650 enterprises with a book value of Sk 210 billion--has been initiated; with its completion, some 80 percent of state enterprises (by book value) will have been privatized. In contrast to the first wave, greater emphasis will be placed on conventional methods, such as public tenders, auctions and direct sales, and on attracting foreign investors. Coupon privatization would still be used, but it is not envisioned that the majority of shares of an enterprise would be offered under such a method. The authorities explained that conventional methods, besides adding to state revenues, were more likely to transfer enterprises to capable owners. They were concerned, in particular, that coupon privatization had resulted in a relatively diffuse ownership structure that could interfere with effective governance. To attract potential investors, capital thresholds would be lowered and the installment schedule for payments adjusted; moreover, the NBS might fully refinance bank lending to potential investors provided that the sales receipts of the NPF remained on deposit with the NBS.

Amendments to the privatization law, expected to be passed by September 1993, would enhance the role of the Ministry of Privatization and limit that of privatization plans prepared by enterprises. The Ministry of Privatization would have the right, with the supervising Ministry's and the Government's consent, to modify the privatization plans so as to enhance transparency and competition in the privatization process. The changes are intended to reduce the incidence of direct sales to existing managements of enterprises and to assist in the selection of owners who could make commitments on employment, modernization, and environmental issues.

1/ Each citizen, eighteen years or older, was eligible to purchase coupons worth 1000 "points". About 71 percent of the distributed points were handed over by voucher-holders to independently established "Investment Privatization Funds" for management. The auction of enterprise shares proceeded in several rounds. In terms of book value, the banking, metallurgy, chemical, and gas sectors accounted for most of voucher privatization; in terms of numbers, it was enterprises in construction, engineering, and the food industry.

While acknowledging the merits of the new privatization strategy, the staff noted that it also entailed significant risks. The privatization process could be slowed down as the authorities might be tempted to influence enterprise restructuring through either direct action or commitments sought from prospective buyers. Any benefits--in the form of preserving employment and certain types of activities--might be temporary and come at a significant cost to the budget and to allocative efficiency.

The authorities postponed implementation of federal bankruptcy legislation, originally intended to come into effect in October 1992, out of concern that it would result in an excessive number of bankruptcies and clog up the court system. The law came into effect on June 1, 1993 following adoption of an amendment under which a board of creditors, formed by a court decision, will be in control of the enterprise on which bankruptcy proceedings have been initiated, and will have three months to work out a rehabilitation plan. Creditors will not be obliged to exhaust the three-month period before proceeding with liquidation; an extension of the three-month period, however, will have to be approved by the courts. It is envisaged, that in the cases of enterprises where a rehabilitation plan can be worked out, the cost of the bad debt will be covered by the creditors themselves, and by the Government through the issuance of bonds by the Ministry of Finance and the NPF. The authorities also intend to seek foreign financial assistance in support of this operation.

The application of the new bankruptcy law is expected to take place after a netting-out of inter-enterprise arrears, which has been recently initiated. The authorities are keen to identify enterprises with primary insolvency so as to avoid bankruptcy and liquidation proceedings against viable, net creditor enterprises. 1/ In the first round of this operation, based on a voluntary registration of inter-enterprise claims, the Government expected that gross inter-enterprise claims--officially estimated at up to Sk 80 billion--would decrease by 50 percent. To achieve a further reduction--as net interenterprise arrears are estimated at Sk 11-15 billion --the Government has decided to make the registration of claims obligatory through adoption of appropriate legislation.

The important role that the financial sector is called to play in enterprise reform, makes it critical that financial institutions, and specifically banks, do not finance nonviable enterprises. Reforms in the financial sector will, therefore, focus on upgrading the supervisory capacity of the NBS, creating a financial information system, and privatizing remaining state-owned banks. These reforms would effectively complement the freely set interest rates and the liberal licensing policies, which make the Slovak financial system relatively free of distortions. To further improve the allocative efficiency of the financial system, the NBS

1/ "Primary insolvency" is characterized by an excess of payables in arrears over receivables in arrears, i.e. when an enterprise has run up net arrears on other enterprises.

intends to adjust the discount rate in line with developments in the refinance auction rate, so as to ensure that all NBS credit is provided on comparable market terms.

With a view to improving efficiency and averting monopolistic price increases, the law on competition will be amended, a law on the regulation of natural monopolies will be adopted, and a law abolishing the state monopoly on tobacco, salt and spirits will be introduced by end-1993. The Government has also expressed its intention to encourage private sector development through the adoption of a simpler and clearer legal and regulatory framework, specifically for registration procedures for new companies, as well as for licensing and transfer, and accompanying fees. Progress is also envisioned in the area of land/real estate property rights, which are currently unclear owing in part to incomplete resolution of restitution claims.

7. External outlook and capacity to repay the Fund

Medium-term projections prepared by the staff and discussed with authorities are consistent with the elimination of the external financing gaps over the medium term (Table 6); in light of data limitations, especially severe in the case of the balance of payments, these projections are highly tentative. The external current account deficit is projected to decline from 2 1/2 percent of GDP in 1993-94 to under 2 percent of GDP in the latter part of the projection period (1996-98). With foreign investment inflows expected to rise gradually from 2 percent of GDP in 1993 to over 3 percent in 1998, the "basic" balance 1/ would move into a growing surplus over the same period. The external/debt GDP ratio declines from 24 percent in 1993 to 21 1/2 percent in 1998, and the debt service ratio (in percent of exports of goods and services), after reaching a peak of 9 percent in 1995--associated with a bunching of repurchases from the Fund--declines to 7 percent by 1998. The Fund accounts for a relatively large proportion (20 percent at end-1992) of Slovakia's external indebtedness and, hence, of its total debt service payments (the Fund's share in the latter reaches a peak of about 30 percent in 1995).

Gross financing requirements in 1994 and subsequent years are expected to be relatively high reflecting the need to build up official reserves and higher amortization payments both to official and private creditors. In 1994, Slovakia's gross borrowing requirements in the form of financial credits are tentatively estimated at about US$0.3 billion, and could be covered from international financial institutions (World Bank and EBRD), the EC/G-24, and private sources (in relatively limited amounts).

1/ Basic balance is defined as current account balance plus net investment inflows.

The authorities recognized that realization of these projections critically depended on the firm implementation of the adjustment program in 1993 and on the sustained pursuit of tight financial policies--including further fiscal adjustment--over the medium term. A sustained record of good economic performance, in conjunction with a relatively low external indebtedness and good debt servicing record, should gradually enhance Slovakia's access to foreign capital markets. With the level of reserves projected to increase, Slovakia's capacity to repay the Fund should remain strong. However, notwithstanding the authorities' commitment to prudent policies, there are inevitable uncertainties and risks attached to economies undergoing the early stages of economic transformation.

V. Staff Appraisal

The newly independent Slovak Republic faced enormous challenges at the beginning of this year. The termination of fiscal transfers from the Czech lands, equivalent to some 7 percent of Slovak GDP in 1992, revealed large underlying fiscal and external imbalances; the lack of a developed institutional framework significantly complicated the task of economic management; and, though a participant in the federation's prudent and effective policies over the preceding two years, Slovakia started without a policy track record of its own.

In the event, the authorities demonstrated their commitment to prudent financial policies under difficult conditions in the critical first half-year since Slovak independence. The budget approved by Parliament last December encompassed deep expenditure cuts as well as a wide-ranging tax reform. Moreover, prompt fiscal correction was adopted in response to the disappointing fiscal outturn in the early part of the year. At the same time, a tight monetary policy was maintained to safeguard the external position and to improve price performance. Wage restraint in the state enterprise sector, notably in the absence of direct wage controls, has also played an important role.

The main objectives of the authorities' program for 1993 are to contain consumer price inflation to 30 percent during the year, consistent with an underlying rate of 1 percent for the remainder of the year; achieve a sizable external adjustment--a reduction in the underlying current account deficit equivalent to 5 percentage points of GDP--through policies conducive to the achievement of higher growth and external viability; and to accelerate the pace of structural reforms. The staff considers this program to be appropriately ambitious. The authorities' broad objectives for 1994--continued progress toward reducing inflation, fiscal consolidation and structural reforms--constitute an appropriate basis for a comprehensive economic program.

The staff welcomes the authorities' decision to devalue the Slovak koruna on July 9 and, thereafter, to follow a flexible exchange rate policy based on relevant market indicators. This decision should contribute to the attainment of external balance, while allowing a recovery in economic activity, investment, and foreign trade. It should also allow the early relaxation and elimination, by end-1993, of external controls introduced in February 1993. Flexibility in light of external developments will be important for the achievement of a viable external position and a growing economy. The staff notes the authorities' intention to halve the import surcharge at end-1993 and to eliminate it by mid-1994 in line with an expected improvement in the external position, and encourages them to remove it at an earlier stage if conditions permit.

Strong fiscal adjustment is the cornerstone of the authorities' program for 1993. The authorities have announced additional fiscal measures, estimated to yield 2 1/2 percent of annual GDP in the remainder of 1993. These should limit the fiscal deficit to the equivalent of 7 percent of GDP in 1993, representing an improvement in the underlying fiscal position by about 7 percentage points from last year. With the emphasis of fiscal adjustment on expenditure cuts, budgetary expenditure controls are clearly a priority area. In addition, improvements in tax administration are crucial to the achievement of the fiscal objective. The staff encourages the authorities to implement firmly the budget and, if needed, to adopt additional measures, especially on the expenditure side, to ensure achievement of the fiscal objective.

Monetary policy, which until recently had to bear much of the burden of defending the external position, will be reoriented toward addressing the legitimate credit needs of the nongovernment sector and setting the basis for noninflationary growth. In light of an exceptionally uncertain environment, the staff supports the authorities' intention to monitor external and price developments closely with a view to tightening, if needed, their monetary and credit targets.

The observed wage restraint so far this year, which has resulted in a sizable decline in real average wages, is encouraging. It is important that this be maintained so as to avoid a wage-price spiral and a need for repeated devaluations to protect competitiveness. For this reason, should it appear that financial discipline at the enterprise level is threatened by excessive wage demands, the Government should not hesitate to take direct action to bring wage developments back into line.

Much has been already achieved in the area of economic transformation. Small privatization has been virtually completed and its results are already evident in a growing private sector. The first wave of large-scale privatization has reached the final stage involving the transfer of ownership to the successful bidders under the voucher scheme. Legitimate concerns--over fiscal revenue and corporate governance--have led the authorities to give preference to standard methods under the second wave. The staff would recommend that the authorities refrain from interfering unduly in the privatization process--except in making the process more competitive and transparent--and that they consider increasing their reliance on voucher privatization should it become clear that standard methods unduly delay the privatization process.

The restructuring of the enterprise sector and the bad debt in banks' portfolio is a critical challenge facing the Slovak authorities. Implementation of the plan to offset gross interenterprise liabilities and identify firms with primary insolvency should facilitate the application of the recently amended bankruptcy law. The authorities should resist pressures to delay the inevitable—enterprise restructuring or to interfere through other means in support of nonviable enterprises.

The program described in the authorities' Policy Statement represents a major effort toward addressing the imbalances of the Slovak economy and deserves the support of the Fund through a purchase under the STF. Its full implementation would confirm the authorities' commitment to prudent financial policies and economic reform, and would pave the way for the provision of Fund support under an upper credit tranche arrangement. The staff is encouraged by the authorities' intention to reach understandings with the Fund on such an arrangement as soon as possible and not later than end-1993.

Slovakia maintains a number of exchange restrictions under the transitional arrangements of Article XIV, as described in the report on Recent Economic Developments. The staff welcomes the termination of most bilateral agreements in 1992. The restrictions arising from the payments agreement with the Czech Republic and the advance import deposit requirement are subject to approval under Article VIII. The staff proposes approval of the latter measure until end-1993 in light of the authorities commitment to eliminate it by that date. Because of the discriminatory nature of the bilateral payments arrangement, however, Fund approval of that restriction is not proposed. The staff encourages the authorities to review remaining restrictions with a view to achieving full current account convertibility.

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

VI. Proposed Decisions

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

A. 1993 Consultation

1. The Fund takes this decision, relating to the Slovak Republic's measures subject to Article VIII, section 2(a), and in concluding the 1993 Article XIV consultation with the Slovak Republic, in light of the 1993 Article IV consultation with the Slovak Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

B. Purchase Under the Systemic Transformation Facility

1. The Fund has received a request by the Government of the Slovak Republic for a purchase equivalent to SDR 64.35 million under the Decision on the Systemic Transformation Facility (Decision No. 10348-(93/61) STF, adopted April 23, 1993).

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

Table 1. Slovak Republic: Selected Economic and Financial Indicators, 1991-93

	1991	1992 Preliminary	1993 Latest month est.	1993 Program
		(Percent change)		
Real sector				
GDP volume	-15.8	-6.0	-6.4 1/	-9
Consumer prices				
Period average	61.2	10.1	...	26
12 months to end of period	58.3	9.1	22.0 2/	30
Real wages, period average	-29.8	8.9	-4.4 1/	-10
Unemployment				
(percent of labor force)	7.9	11.0	12.0 3/	...
		(Percent of GDP)		
Government finances				
Revenue	...	54.4	39.9 4/	47.1
Expenditure	...	68.4	49.2 4/	54.1
Deficit	...	14.0	9.3 4/	7.0
Domestic bank financing	...	...	8.3 4/	6.0
		(Percent change, end-period)		
Money and credit				
Net domestic assets	...	7.2	2.4 5/	20.1
Credit to enterprises and households	...	14.9	4.3 5/	13.7
Broad money	...	4.7	1.0 5/	19.0
		(In billions of U.S. dollars)		
Balance of payments				
Merchandise exports	...	6.5	...	5.7
Merchandise imports	...	7.2	...	6.2
Trade balance	...	-0.7	...	-0.4
Current account	...	-- 6/	...	-0.3
(percent of GDP)	...	0.2 6/	...	-2.4
Official reserves, end-period,				
(in millions of U.S. dollars) 7/	...	356	198 3/	308
(in months of imports in convertible currency)	...	1.3	...	1.4
Gross reserves of the banking system				
excluding gold (in millions of U.S. dollars)	...	726	793 3/	838
External debt, end-period 8/	...	2.3	...	2.5
Debt service (percent of total exports	...	3.1	...	3.8
Memorandum items:				
GDP, current prices (in billions of Sk)	291.2	281.5	...	321.7
Exchange rate, Sk(Kcs) per U.S. dollar	29.5 9/	28.3 9/	28.8 2/	...

1/ First quarter 1993 compared to first quarter 1992.
2/ May 1993.
3/ June 1993.
4/ Estimates for January-May 1993 at an annual rate.
5/ Change from January 1, 1993 to end-May 1993, at program exchange rate of US$1 = Sk 29.
6/ After fiscal transfers from the Czech lands, estimated at about 7 percent of GDP.
7/ Excluding US$400 million in gold valued at market prices.
8/ Excluding disputed interbank liabilities to the Czech Republic.
9/ Annual average.

Table 2. Slovak Republic: Balance of Payments, 1992-93 1/

(In millions of U.S. dollars)

	1992 Preliminary	1993 Program
Current account	18	-252
Trade balance	-715	-417
Exports, f.o.b.	6,515	5,733
Imports, f.o.b.	7,229	6,150
Services balance	-81	120
Receipts	1,102	950
Transportation	275	...
Travel	200	...
Income	160	...
Other	467	...
Expenditures	1,183	830
Transportation	200	...
Travel	165	...
Income	130	...
Other	668	...
Unrequited transfers	814	45
Private (net)	70	...
Official (net)	744	...
Capital account	-101	368
Direct investment (net)	100	200
Other long-term capital (net)	235	248
Credits received, net	180	105
Credits extended, net	55	143
Short-term capital (net)	-436	-96
Errors and omissions	-456	-170
Overall balance	-539	-54
Gross reserves (increase -)	-95	-114
State Bank	5	46
Commercial banks	-100	-160
Fund credit, net	94	88
Short-term liabilities (increase -)	540	80

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

1/ Including transactions with the Czech Republic.

Table 3. Slovak Republic: Summary of Fiscal Operations, 1992-93

	In billions of Slovak koruny			In percent of GDP 2/		
	1992 1/ Underlying	1993 Budget 3/	Program	1992 1/ Underlying	1993 Budget 3/	Program
TOTAL BUDGETARY REVENUE	153.1	167.8	151.5	54.4	52.1	47.1
Indirect taxes	40.3	50.6	45.2	14.3	15.7	14.1
VAT (in 1992, turnover tax)	...	30.5	27.2	--	9.5	8.5
Excises (in 1992, turnover tax)	...	20.1	18.0	--	6.2	5.6
Direct taxes	54.4	42.5	35.2	19.3	13.2	10.9
Profits tax	31.2	32.4	26.4	11.1	10.1	8.2
Personal income tax	23.2	10.1	8.8	8.2	3.1	2.7
Customs duties	5.3	4.5	5.0	1.9	1.3	1.6
Property tax	0.8	2.7	3.0	0.3	0.8	0.9
Road tax	--	2.2	2.2	--	0.7	0.7
Social security contributions	30.1	51.0	39.0	10.7	15.9	12.1
From employers (in 1992, payroll tax)	27.9	32.4	25.0	9.9	10.1	7.8
From employees	--	13.2	10.0	--	4.1	3.1
From self-employed	2.2	5.5	4.0	0.8	1.7	1.2
Nontax revenue (including loan repayments)	22.3	14.3	21.9	7.9	4.6	6.8
TOTAL BUDGETARY EXPENDITURES	183.6	167.8	170.9	65.2	52.2	53.1
Current	164.4	153.5	157.4	58.4	47.7	48.9
Consumption 4/	95.0	75.6	73.1	33.8	23.5	22.7
Transfers	69.4	70.1	71.5	24.7	21.8	22.2
Households	53.2	52.0	54.5	18.9	16.2	16.9
Enterprises	16.2	18.1	17.0	5.8	5.6	5.3
Debt service	...	7.8	12.8	...	2.4	4.0
Capital and lending	19.2	14.3	13.5	6.8	4.5	4.2
BALANCE OF BUDGET	-30.4	--	-19.4	-10.8	--	-6.0
Balance of extrabudgetary operations	-9.1	-3.0	-3.0	-3.2	-0.9	-0.9
Contingency reserve	--	--	-0.6	--	--	-0.2
OVERALL BALANCE	-39.5	-3.0	-23.0	-14.0	-0.9	-7.2

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

1/ Estimated by the staff.
2/ Most recent staff estimates of both 1992 and 1993 nominal GDP used.
3/ Local authorities may incur expenditure above the budget to the extent that they raise their own revenues (mainly in the format fees and charges).
4/ Includes transfers to subsidized organizations.

Table 4. Slovak Republic: Fiscal Measures in 1993
(with estimated budgetary effect in 1993)

Description of the measures	Status of implementation	Effectivity
Investment: investment expenditures and transfers scaled down by Sk 0.85 billion	Approved by the Cabinet on July 9, 1993 (Prior action)	Immediately
VAT: increase of 23 percent and 5 percent rates up to 25 and 6 percent, respectively (Sk 1 billion)	Approved by the Parliament on July 9, 1993 (Prior action)	August 1, 1993
Excise taxes: increase on average by an equivalent of 6 percent (Sk 0.5 billion)	Approved by the Parliament on July 9, 1993 (Prior action)	August 1, 1993
Subsidies: further reduction by Sk 1.1 billion (agriculture, coal and aluminum, heating, housing)	Approved by the Cabinet on July 9, 1993 (Prior action)	Immediately
Property tax: increased by 25 percent (Sk 0.25 billion)	Approved by the Cabinet on July 9, 1993	January 1, 1993 (retroactively)
Social security legislation: amended to allow collection of social security contributions on the basis of wages paid during annual leave (Sk 1 billion)	Approved by the Parliament on July 9, 1993	August 1, 1993
Unemployment benefits: further tightening of eligibility requirements (Sk 0.9 billion)	Expected to be approved by the Parliament by July 23, 1993 (Prior action)	Immediately
Pension benefits: introduction of a requirement that wage-earning pensioners forgo their retirement benefits (Sk 0.7-0.9 billion)	Expected to be approved by the Parliament in late July	July 31, 1993

Table 4 (concluded). Slovak Republic: Fiscal Measures in 1993 (with estimated budgetary effect in 1993)

Description of the measures	Status of implementation	Effectivity
Sick leave costs: some of the costs transferred to enterprises (Sk 0.4 billion),	Expected to be approved by the Parliament in late July	July 31, 1993
Child allowances: more accurate targeting (Sk 0.8 billion)	Expected to be approved by the Parliament in late July	July 31, 1993
Tax administration: VAT law amended to permit refunds only if other taxes have been paid, and to require all firms' all sales to be reflected in their cash registers, and to increase fines for non-payment;	Expected to be approved by the Parliament in late July	August 1, 1993
Tax administration: a government decree permitting confiscation of immovable as well as movable property for non-payment of taxes	Expected to be approved by the Ministries of Finance and Justice in late July	August 1, 1993
Tax administration: limitation of daily payments in cash to Sk 10,000 for individuals and legal persons; tax authorities' access to information on bank accounts made easier; new law on tax administration to the Parliament	Expected to be approved by the Parliament in September	October 30, 1993

Sources: Slovak Ministry of Finance; and staff estimates.

Table 5. Slovak Republic: Monetary Survey, 1991-93 1/

	1991	1992	1993 Q1 Actual	1993 Q2 Proj.	1993 Q3 Proj.	1993 Q4 Proj.	1993 Year Proj.
			(In billions of Slovak koruny)				
Net foreign assets	-0.1	-5.4 2/	-10.7	-9.8	-9.1	-8.8	-8.8
Foreign assets	20.7	22.6 2/	20.5	22.3	24.9	25.5	25.5
Foreign liabilities	20.8	28.0	31.1	32.0	34.0	34.4	34.4
Net domestic assets	205.1	219.8	218.1	233.0	245.0	264.0	264.0
Domestic credit	233.1	280.4	292.7	309.4	322.4	335.4	335.4
Net credit to Government	20.1	42.9 3/ 4/	51.0	58.4	60.8	64.9	64.9
Net credit to Property Fund	6.6	0.4	1.0	1.0	1.0	1.0	1.0
Credit to enterprises and households	206.4	237.2	240.7	250.0	260.6	269.5	269.5
Credit to enterprises	187.2 5/	217.4 4/	221.4	...	...	...	...
Credit to households	19.2	19.8	19.3	...	...	...	...
Broad money	205.0	214.4	207.4	223.2	235.9	255.2	255.2
Money	111.6	108.1	92.3	...	...	...	...
Currency outside banks	28.8	30.9	20.3	...	...	...	...
Demand deposits	82.8	77.2	72.0	...	...	...	...
Households	28.5	26.5	32.4	...	...	...	...
Enterprises 6/	54.3	50.8	39.6	...	...	...	...
Quasi money	93.4	106.3	115.1	...	...	...	...
Time and savings deposits	86.9	92.8	98.0	...	...	...	...
Households	65.7	72.9	74.7	...	...	...	...
Enterprises 6/	21.2	19.9	23.4	...	...	...	...
Foreign currency deposits	6.5	13.4	17.2	...	...	...	...
Other items, net 7/	-27.9	-60.6	-74.6	-76.4	-77.4	-71.4	-71.4
		(Change in percent of broad money at beginning of period)					
Memorandum items:							
Broad money	...	4.6	-3.3	7.6	5.7	8.2	19.0
Net foreign assets	...	-2.6	-2.5	0.4	0.3	0.1	-1.6
Net domestic assets	...	7.2	-0.8	7.2	5.4	8.1	20.6
Domestic credit		23.1	5.7	8.1	5.8	5.5	25.7
Credit to enterprises and households		15.0	1.6	4.5	4.7	3.8	15.1
Other items, net	...	-16.0	-6.5	-0.9	--	2.5	-5.0
			(Percent changes on previous period)				
Net domestic assets		7.2	-0.8	6.8	5.1	7.8	20.1
Domestic credit		20.3	4.4	5.7	4.2	4.1	19.6
Credit to enterprises and households		14.9	1.5	3.9	4.2	3.4	13.7

Sources: Based on data provided by the National Bank of Slovakia; and staff estimates and program projections.

1/ End of period. Foreign currency items are valued at program rate of US$1=Sk 29.

2/ Includes impact of gold swaps. Data for 1993 abstract for the impact of gold swaps relative to end-December 1992 position.

3/ Net credit to Government was raised by the Slovak share (Sk 4 billion) of a Kcs 12 billion transfer to Obchodni Bank to resolve problems with debt of foreign trade organizations.

4/ Excludes various stock adjustments in position of Government vis-à-vis the banking system at end-1992.

5/ Includes the debt write-down operation through the bond issue from the National Property Fund.

6/ Includes insurance companies.

7/ Includes nonconvertible foreign assets and liabilities. Also includes net claims on the Slovak banking system by the Czech Republic including those arising from the split of the former State Bank.

Table 6. Slovak Republic: Medium-Term Projections of the Balance of Payments, 1992-98

(In millions of U.S. dollars)

		Projections					
	1992	1993	1994	1995	1996	1997	1998
Trade balance	-715	-417	-461	-425	-432	-454	-477
Exports, f.o.b.	6,515	5,733	6,058	6,420	6,824	7,273	7,752
Imports, f.o.b.	7,229	6,150	6,519	6,845	7,255	7,727	8,229
Services balance	-81	120	124	140	152	162	174
Receipts	1,102	950	1,004	1,064	1,131	1,205	1,285
Payments	1,183	830	880	924	979	1,043	1,111
Interest	153	153	166	175	176	178	178
Unrequited transfers	814	45	45	45	45	45	45
Private	70	45	45	45	45	45	45
Official	744	--	--	--	--	--	--
Current account	18	-252	-292	-240	-235	-246	-258
Current account (excl. official transfers)	-726	-252	-292	-240	-235	-246	-258
Foreign investment	100	216	232	267	309	361	420
Other medium and long-term capital	235	248	320	223	242	97	131
Credits extended, net	55	105	100	100	100	100	100
Credits received, net	180	143	220	123	142	-3	31
Disbursements	250	245	425	450	450	450	450
Repayments	70	102	205	327	308	453	419
Net short-term capital	-436	-96	20	20	20	20	20
Capital account	-101	368	572	509	571	478	571
Errors and omissions	-456	-170	--	--	--	--	--
Overall balance	-539	-54	280	270	336	231	314
Financing	539	54	-281	-270	-336	-232	-314
Gross reserves (increase -)	-95	-114	-334	-145	-273	-234	-312
State Bank	5	46	-284	-95	-223	-184	-262
Commercial banks	-100	-160	-50	-50	-50	-50	-50
Use of Fund credit, net	94	88	3	-175	-113	-47	-52
Purchases	111	88	87	--	--	--	--
Repurchases	16	--	84	175	113	47	52
Short-term bank liabilities (reduction -)	540	80	50	50	50	50	50
State Bank	540	--	--	--	--	--	--
Commercial banks	--	80	50	50	50	50	50
Stock of official reserves 1/	410	364	648	743	966	1,150	1,412
In months of current imports	0.7	0.7	1.2	1.3	1.6	1.8	2.1
In months of convertible currency imports	1.4	1.4	...	...	...	...	...
Memorandum items:							
Current account (In percent of GDP)	0.2	-2.4	-2.6	-2.1	-1.9	-1.9	-1.9
Current account (excl. official transfers, in percent of GDP)	-7.3	-2.4	-2.6	-2.1	-1.9	-1.9	-1.9
Convertible debt (In millions of U.S. dollars)	2,322	2,537	2,692	2,710	2,808	2,828	2,878
In percent of GDP	23.3	23.9	24.4	23.5	23.2	22.2	21.4
Of which: IMF	4.8	5.4	5.2	3.4	2.3	1.8	1.4
Convertible debt service (In millions of U.S. dollars)	238	255	455	677	598	678	648
Amortization	85	102	289	502	422	500	470
Interest	153	153	166	175	176	178	178
Convertible debt service (In percent of exports of goods and services)	3.1	3.8	6.4	9.0	7.5	8.0	7.2
Of which: IMF	0.6	0.3	1.7	2.7	1.6	0.7	0.7
MLT disbursements, total	250	245	425	450	450	450	450
Official	180	164	275	...	...	...	...
World Bank	38.2	117	...	...	...	...	...
Japan Eximbank	50.3	33	...	...	...	...	...
EC	77.3	--	...	...	...	...	...
Other G-24	14.2	--	...	...	...	...	...
EIB	--	14	...	...	...	...	...
EBRD	--	--	...	...	...	...	...
Other	--	--	...	...	...	...	...
Project financing	20	41	100 2/	...	...	...	...
Suppliers' credits	50	40	50	...	...	...	...

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

1/ Including gold (national valuation).

2/ Including project financing by international organizations.

June 30, 1993

Dear Mr. Camdessus,

The Slovak Government intends to request shortly a first purchase under the Systemic Transformation Facility (STF) in an amount equivalent to SDR 64.35 million (25 percent of quota), in support of the program described in the annexed Policy Statement. It is intended that the second purchase, in the same amount, under the STF will be made as soon as the conditions for this purchase are met.

Yours sincerely,

Július Tóth
Minister of Finance

Marián Tkác
Acting Governor
National Bank of Slovakia

Bratislava, June 10, 1993

Policy Statement of the Government of the Slovak Republic

Objectives

1. Our policies for the remainder of 1993 will aim at containing the fiscal and external imbalances, while setting the economy on a path of non-inflationary growth. Achieving a fiscal deficit for 1993 that avoids excessive crowding out of nongovernment activities will be an important component of our program. This will in turn enable monetary policy to start addressing the legitimate credit needs of the nongovernment, especially private, sector. Continued wage restraint should safeguard competitiveness and help prevent a further rise in unemployment. Policies for 1994 will aim at a further reduction of inflationary pressures, strengthening of our external position, and continued progress with structural measures. Key to the achievement of these objectives will be a consolidation of the fiscal adjustment initiated in 1993. This will be based on the full-year effect of measures to be introduced in the latter half of this year--and described in paragraph 6 of this Statement--and on additional measures to be adopted as needed with the 1994 state budget.

2. To set a firm basis for sustainable growth, stabilization measures will be accompanied by an accelerated pace of structural reforms, especially in the areas of the state enterprise restructuring and privatization, the incentive and regulatory framework for private activity, and the banking system. The Government intends to forge ahead with its privatization program and the necessary adjustments to the legal framework so as to facilitate growth and strengthen financial discipline.

3. The program will target an underlying inflation rate of about 1 percent per month for the remainder of the year. Real GDP (seasonally adjusted) is projected to decline by 6-7 percent during the first three quarters of 1993, in response to the inevitable (following the cessation of fiscal transfers) curtailment of domestic demand, supply disruptions from the dissolution of the federation and the continued restructuring of the industrial sector. Although we expect a reversal of this trend in the last quarter, in response to the policy measures to be implemented and external support, real GDP is still likely to decline by 8-9 percent in 1993 on an annual average basis.

Fiscal policy

4. The approved state budget for 1993--aiming at a very small fiscal deficit--incorporated a sweeping tax reform as well as bold measures on the expenditure side. On January 1, the VAT was introduced and the direct tax system (including personal and corporate taxes and social security contributions) was totally revamped. The budget also included virtually across-the-board measures to contain expenditures, including better targeting of social benefits. Nevertheless, a fiscal deficit equivalent to

4 percent of annual GDP emerged in January-May--a source of major concern. This was entirely due to a large revenue shortfall (especially on account of indirect taxes, profit taxes, and social security contributions), reflecting administrative difficulties with new taxes, weaker-than-expected economic activity, and insolvency/illiquidity problems faced by enterprises. By contrast, total expenditures have been contained within the strict budget limits, and nontax revenue in the form of charges and fees for services has risen rapidly.

5. We intend to limit the fiscal deficit in 1993 to Sk 16 billion (5 percent of GDP), consistent with our objective to subdue inflationary pressures and release resources to the rest of the economy. We will also aim at containing bank financing of the deficit to Sk 15 billion from the banking system during 1993; adjusted for some Sk 2 billion of projected World Bank/G24 financing to the Government, this is equivalent to 4 percent of GDP in 1993. However, in light of uncertainties regarding the fiscal outcome, the monetary program for 1993 will cautiously assume a somewhat higher government recourse to bank financing, i.e., Sk 22 billion (Sk 20 billion after adjusting for above-mentioned foreign financing). In particular, we intend to limit government borrowing from the banking system to Sk 15.5 billion during January-June, Sk 18 billion during January-September and Sk 22 billion during 1993. Achievement of our fiscal objectives will require strong revenue and expenditure measures beyond those incorporated in the approved budget; these are described in the following paragraph. In light of the uncertainties surrounding the fiscal outlook, we have also identified an additional set of contingency measures to be implemented as needed to ensure adherence to the targets on the fiscal deficit and the limit on bank borrowing.

6. Our experience so far this year points to the urgent need to improve revenue collections by strengthening tax administration through improvements in the legal framework, as well as a more rigorous application of existing regulations. Accordingly, an amendment to the VAT law--envisioned to be in effect on August 1, 1993--will permit refunds only if other taxes have been paid, substantially raise fines for non-payment, and require all firms to reflect all sales in their cash registers, while a government decree will permit confiscation of immovable, as well as movable property, for non-payment of taxes. Furthermore, we expect that amendments will be adopted, by end-October, to various laws so as to enable tax offices to obtain information on taxpayers' bank accounts and introduce a ceiling of Sk 10,000 on daily cash transactions. The efficiency of tax administration will be further enhanced through a new tax administration law that will be submitted for discussion in Parliament by end-September and is intended to come into effect on January 1, 1994. In addition to the measures aimed at improving collection efficiency, we will raise the VAT rates from 5 and 23 percent to 6 and 25 percent respectively and the excises by 10 percent on average; these measures, to be implemented on July 1 as prior actions, are estimated to yield Sk 2.2 billion in the latter half of 1993. Furthermore, we will raise the current property taxes by 25 percent on average effective July 1, yielding some Sk 0.25 billion. In the area of expenditures, measures will include: (a) further reductions in subsidies (agriculture, coal, and aluminum, heating, housing), expected to yield expenditure savings of Sk 1.1 billion; (b) a scaling down of investment expenditures and transfers

based on a careful review (Sk 0.85 billion; (c) further tightening of eligibility requirements for unemployment benefits (Sk 0.9 billion); (d) the introduction of a requirement that wage-earning pensioners forgo their retirement benefits (Sk 0.7-0.9 billion); (e) more accurate targeting of child benefits (Sk 0.8 billion); and (f) the transfer of some of the costs of early retirement and sick leave to enterprises (Sk 0.4 billion). Of the aforementioned measures, (a) and (b) will be implemented as of July 1; a draft law amendment for (c) has been already approved by the Government and will be shortly submitted to the National Council for approval before July 1; and draft law amendments for (d)-(f), following speedy approval by the Government, will be submitted to Parliament for approval before end-July. Measures (a)-(c) above will be implemented before Board's consideration of the STF program.

External policies

7. On February 8--when the monetary union with the Czech Republic was dissolved and our own currency introduced--Slovakia's external position had been under great pressure reflecting in part speculation against the new currency. Since then, a prudent monetary policy and temporary restrictions on import payments have jointly led to a modest recovery of the net foreign reserves of the banking and a stabilization of the foreign exchange market. With the external position expected to remain vulnerable until the policy measures take hold and following consultations with the GATT, we have decided to introduce a temporary 20 percent surcharge on consumer good imports later this month. In line with an expected strengthening of our external position, we intend to halve the surcharge by end-1993 and to eliminate it by mid-1994. The proceeds will be used to capitalize an export credit agency serving small- and medium-size entrepreneurs.

8. In the area of the exchange rate for the Slovak koruna, the Government will follow a flexible policy guided by relevant market indicators. Moreover, during the program period, the Government does not intend to introduce or intensify any exchange restrictions, intensify or modify any multiple currency practices, incur any external payments arrears, conclude any bilateral payments agreements that are inconsistent with Article VIII of the IMF's Article of Agreement or impose any new import restrictions for balance of payments reasons with the exception of the aforementioned import surcharge.

9. The program aims at limiting the reduction in the net foreign asset position of the banking system to about US$50 million during 1993. Consistent with this target is a recovery of the gross reserves of the National Bank of Slovakia (NBS) to over US$300 million, almost double their end-May level (excluding US$400 million of gold valued at market prices). Accordingly, net international reserves of the banking system will be targeted to reach a level of at least US$157 million by end-June, US$183 million by end-September, and US$216 million by end-December 1993. With a view to implementing a prudent debt management, we also intend to limit disbursements of non-concessional medium- and long-term external debt contracted or guaranteed by the Government to US$300 million during 1993. In addition, short-term debt contracted or guaranteed by the Government will not be allowed to rise by more than US$100 million during 1993.

Monetary Policy

10. The Government's monetary program is consistent with a 19 percent increase in broad money during 1993. With net foreign assets of the banking system expected to decline somewhat, this implies a 20 percent rise in the net domestic assets during the year. After allowing for bank credit to Government as specified above, credit to enterprises and household is expected to rise by 13 1/2 percent during 1993; the increase could be higher to the extent that government borrowing from the banking system is lower than allowed for in the monetary program. Given that such credit has stagnated since end-1992, virtually all of the envisioned increase will take place in the second half of 1993. Accordingly, we intend to limit the NDA of the banking system to Sk 233 billion at end-June, Sk 245 billion at end-September, and Sk 264 billion at end-December 1993. These targets will be adhered to by following an appropriate refinancing policy on the part of the NBS and, if the need arises, by credit ceilings.

11. With a view to rationalizing the conduct of monetary policy and the allocation of loanable funds, the NBS will adjust the discount rate in line with developments in the refinance auction rate, so as to ensure that all NBS credit is provided on comparable market terms.

Incomes policy

12. The program of the Government will specify quarterly targets for nominal average wages in the state enterprise sector against which wage developments will be assessed. We intend to apply corrective measures as necessary so that wage developments will not undermine external competitiveness or the achievement of the inflation objective. Average wages in the general government (including budgetary and subsidized organizations) will not be adjusted during 1993 in light of the tight budget situation so as to maintain the wage bill in the budget broadly unchanged.

Structural reforms

13. Small-scale privatization has been virtually completed, and the results--in the form of a flourishing service and trade sector--are already evident. The first wave of the medium- and large-scale privatization, involving some 900 units with a book value of Sk 150 billion has been nearly completed, with the distribution of the shares to the new owners in process and the first general meetings of shareholders already held. The second wave of privatization, involving some 650 medium- and large-scale enterprises, with a total book value of Sk 210 billion, has been initiated. In contrast with the first wave, greater emphasis will be placed on conventional methods, such as public tenders and auctions and direct sales, and on attracting foreign investors. Amendments to the privatization law, to be passed by September 1993, will enhance the role of the Ministry of Privatization and limit that of privatization plans prepared by enterprises and approved by supervising ministries. This is expected to enhance transparency and competition in the privatization process and, thereby, reduce the incidence of direct sales to existing managements of enterprises that may undermine public confidence.

14. The Slovak government will initiate a scheme of netting out inter-enterprise liabilities by July 1. In addition to improving the payments mechanism, this will help identify enterprises with primary insolvency and thus facilitate the application of the amended bankruptcy law, which came into effect on June 1, 1993. Under that law, a board of creditors, formed by a court decision, will be in control of the firm and will have three months to work out a rehabilitation plan; only if the board decides that progress is not made will the case be returned to court for resolution through liquidation. We envisage that the cost of bad debt will be covered by the creditors themselves (i.e., banks), and by the Government through the issuance of bonds by the state budget and the National Property Fund; allowance for this will be made in the state budget for next year. We also intend to seek foreign financial assistance in support of this operation.

15. With a view to improving the market framework, the law on competition will be amended; a law on the regulation of natural monopolies will be adopted; and a law abolishing the state monopoly of tobacco, salt and spirits and regulating these products will be introduced by end-1993. The Government will also encourage private sector development through the adoption of a simpler and clearer legal and regulatory framework, specifically for registration procedures for new companies, licensing and accompanying fees, land/real-estate property rights, registration and transfer procedures.

Policy implementation and monitoring

16. The Slovak authorities will closely monitor compliance with the economic program with a view to taking early corrective action should slippages emerge. In this connection, the Government will further improve the statistical base and develop a reliable and timely system of macroeconomic indicators, including the ones mentioned in this document. To this end, we intend to rely on further technical assistance from the IMF and other institutions in the area of the monetary statistics, balance of payments and national accounts. In addition, we expect to further improve our capacity to implement fiscal and monetary policies by relying on the recommendations of recent and prospective technical assistance from the IMF and other institutions.

Stand-by arrangement

17. It is the authorities' intention to reach understandings with the Fund as soon as possible, and not later than end-1993, on an economic program that could be supported by a stand-by arrangement in the upper credit tranches.

Július Tóth
Minister of Finance

Marián Tkác
Acting Governor
National Bank of Slovakia

Eligibility for Use of STF

Although Slovakia's exports have been adversely affected as a result of the dismantling of the CMEA, its eligibility for financing under the Systemic Transformation Facility (STF) is based on an increase in net energy import costs beginning in 1991-92. Net energy import payments in 1991 and 1992 are estimated at SDR 657 million and SDR 564 million (US$899 million and US$794 million), respectively, an increase of SDR 429 million and SDR 335 million, respectively, over net energy import payments in 1989.

Through 1989, Slovakia benefitted from low prices of oil and gas imports under the CMEA, virtually its only source for these imports. In 1990, as oil deliveries from the Soviet Union fell short of agreed amounts, some oil was purchased on the world market; and in 1991, the CMEA system was dismantled and trading with former CMEA members moved to world prices. Not all the data required for a precise quantification of the ensuing increase in energy import costs are available; in some cases data for Czechoslovakia as a whole have been divided between the Czech and Slovak Republics using best estimates of the relevant shares, and estimates for 1989-90 have been extrapolated based on data for 1991-92.

As shown in Table 1, the average price of Slovak oil imports in 1989, calculated from the value and volume of Czechoslovak oil imports in that year, was US$11.1 per barrel, and the average price of Slovak gas imports, calculated in similar fashion, was US$3.5 per thousand cubic meters. 1/ With the breakdown of the CMEA, these prices rose to world levels, of about US$18 per barrel of oil and US$85-110 per thousand cubic meters of gas. At these prices, Slovakia's oil and gas import costs in 1991 and 1992 were about US$699 million and US$478 million higher, respectively, than in 1989.

However, some of the oil imported into Slovakia was later exported (either to the Czech Republic or to the rest of the world) in the form of petroleum products, and any increased export receipts from price increases on petroleum products have to be offset against the increased cost of imports. As shown in Table 1, the price of petroleum product exports is estimated to have risen from US$12.8 per barrel in 1989 to world prices of about US$21 per barrel in 1991-92. At these prices, Slovakia's export receipts associated with petroleum products in 1991 and 1992 are estimated to have been US$93 million lower and US$23 million higher, respectively, than in 1989.

1/ Throughout this appendix transferable rubles are converted into U.S. dollars at the cross-rate (TR 1 = US$0.66 in 1989, compared with an official exchange rate of TR 1 = US$1.60). At this rate, dollar unit values are calculated to be very low under the CMEA. Large increases in dollar unit values are one factor in the calculated increase in energy import costs calculated. Using a different exchange rate would reduce this increase, but would generate an even larger fall in export values, on which basis Slovakia would still qualify for the STF.

Overall, Slovakia's net energy import costs increased by an estimated US$606 million and US$501 million (SDR 429 million and SDR 355 million), respectively, in 1991 and 1992, compared with levels in 1989. These additional costs far exceed the threshold required for Slovakia to be eligible for the use of the STF (50 percent of quota, equivalent to SDR 129 million). In the judgment of the staff, the effects of these price rises continue to give rise to balance of payments difficulties in an amount equivalent to at least 50 percent of quota.

Table 1. Slovak Republic: Energy Imports, 1989-92

(In millions of U.S. dollars, unless otherwise indicated)

	1989	1990	1991	1992
Oil imports				
Volume (millions of barrels)	52.7	41.2	37.2	33.2
Price (US$ per barrel)	11.1	...	18.4	18.3
Value	586		684	608
Gas imports				
Volume (millions cu.m.)	5,135.4	5,513.7	5,709.8	5,565.1
Price (US$ per '000 cu.m.)	3.5	...	108.3	85.1
Value	18	...	618	474
Total imports	604	...	1,303	1,082
Petroleum product exports				
Volume (millions of barrels)	24.2	20.2	19.2	13.8
Price (US$ per barrel)	12.8	...	21.0	21.0
Value	311	...	404	288
Net energy imports	293	...	899	794
(SDR million)	228	...	657	564
Increase in net energy imports			606	501
(SDR million)			429	335
(percent of quota)			167	130

Sources: Data provided by the former Czechoslovak authorities; data provided by the Slovak authorities; World Economic Outlook; and Fund staff estimates.

Slovakia: Fund Relations
(As of June 30, 1993)

I. Membership Status: Joined January 1, 1993, by succession to the membership of the Czech and Slovak Federal Republic; Article XIV.

II. General Resources Account:	SDR Million	% Quota
Quota	257.40	100.0
Fund holdings of currency	598.23	232.4

III. SDR Department:	SDR Million	% Allocation
Holdings	.42	N/A

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-by arrangements	199.21	77.4
CCFF	141.62	55.0

V. Financial Arrangements: None

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

	Overdue	Forthcoming				
	6/30/93	1993	1994	1995	1996	1997
Principal			61.9	132.3	85.6	35.6
Charges/interest		9.9	18.5	12.9	5.7	2.4
Total		9.9	80.4	145.2	91.3	38.0

VII. Projected Obligations: See the attached Table 1.

VIII. Exchange Rate Arrangement:

The currency of the Slovak Republic is the Slovak koruna, created on February 8, 1993 upon the dissolution of the currency union with the Czech Republic, which had used the Czechoslovak koruna as its currency. A single exchange rate applies to all transactions with the convertible currency area except the Czech Republic. The exchange rate is pegged to a basket of five currencies. Following a 10 percent devaluation, the exchange rate stood at Sk 33.062 per U.S. dollar on July 12, 1993. Commercial transactions with the Czech Republic go through a clearing account with the two central banks; transactions are converted from the currency of the contract into "clearing ECUs" at a rate set by the respective central banks, which can differ by up to 5 percent. There is a mutual credit line up to ECU 130 million. Balances above this credit limit are settled in hard currency 15 days after the end of the month. Special exchange arrangements apply to settlements with some socialist countries outside the former CMEA.

IX. Article IV Consultation:

(a) Last consultation with the Czech and Slovak Federal Republic concluded on April 3, 1992 (EBS/92/42, March 9, 1992; and EBM/92/44).

Jurisdictional decision:

The Czech and Slovak Federal Republic's restrictions on payments and transfers for current international transactions, as described in SM/92/65, are maintained under Article XIV, Section 2. The Fund encourages the Czech and Slovak Federal Republic to remove these restrictions, including the restrictive features of remaining bilateral payments agreements with Fund members, as soon as circumstances permit.

(b) No Article IV consultation has yet been held with Slovakia.

X. Technical Assistance: See the attached Table 2.

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

Table 1. Slovak Republic: Projected Payments to the Fund as at June 30, 1993

(In millions of SDRs)

	Overdue	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Beyond	Total
Obligations from existing drawings													
1. Principal													
a. Repurchase	--	--	61.9	132.3	85.6	35.6	23.0	2.5	--	--	--	--	340.8
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	9.9	18.5	13.0	5.7	2.4	.8	.1	--	--	--	--	50.4
Total obligations 2/	--	9.9	80.4	145.2	91.3	38.0	23.8	2.6	--	--	--	--	391.3
(Percent of quota)	--	3.8	31.2	56.4	35.4	14.7	9.2	1.0	--	--	--	--	152.0
Obligations from prospective drawings													
1. Principal													
a. Repurchases	--	--	--	--	--	--	16.1	21.5	21.5	21.5	21.5	26.8	128.7
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	.9	6.4	7.2	7.0	7.0	6.7	5.6	4.4	3.2	2.0	.9	51.5
Total obligations	-	.9	6.4	7.2	7.0	7.0	22.7	27.0	25.8	24.7	23.5	27.8	180.2
(Percent of quota)	--	.3	2.5	2.8	2.7	2.7	8.8	10.4	10.0	9.5	9.1	10.7	70.0
Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	--	--	61.9	132.3	85.6	35.6	39.1	24.0	21.5	21.5	21.5	26.8	469.5
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	10.8	25.0	20.2	12.8	9.4	7.5	5.6	4.4	3.2	2.0	.9	101.9
Total obligations 2/	--	10.8	86.9	152.5	98.3	45.0	46.6	29.6	25.8	24.7	23.5	27.8	571.5
(Percent of quota)	--	4.2	33.7	59.2	38.2	17.5	18.0	11.4	10.0	9.5	9.1	10.7	222.0

1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for SAF, ESAF, and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

2/ Overdue obligations (if applicable) will be settled in full at close of business July 1, 1993.

Table 2. Slovakia: Technical Assistance, 1991-93 1/

Department	Timing	Purpose
MAE	April 1991 Sept./Oct. 1991 Feb./March 1992	Full-scale missions to the State Bank of Czechoslovakia; design of monetary policy instruments and operating procedures; development of foreign exchange operations and the legal framework for central and commercial banking and the reorganization of the State Bank
	May 1991 and December 1992	Staff visits on monetary instruments
	Through September 1991	Regular visits by experienced central banker
	December 1992	Full-scale mission to the newly-established Slovak Central Bank: monetary instruments, operations and analysis, foreign exchange operations, and banking supervision
	January 1993	Expert visit on banking supervision and foreign exchange operations
	February 1993	Staff visit on monetary operations and analysis
	March 1993	Full-scale mission on payments and clearing systems, central bank accounting and central bank organization
	April 1993	Expert visit on banking supervision
	June 1993	Expert visit on monetary projections and analysis
	October 1993	Full-scale mission on monetary operations and analysis
FAD	February and July 1991	Advice on the design of new corporate and personal income taxes
	May and September 1991	Advice on policy and administrative aspects of the introduction of VAT
	Since December 1991	Regular visits by FAD consultant on VAT administration
	March 1992	Advice on administration (particularly VAT)
	April 1992	Examination of public financial management
	April 1993	Follow-up mission on public financial management
	May 1993	Mission on tax policy and administration
LEG	April and July 1991	Assistance with the drafting of new corporate and personal income tax laws
	October 1991	Assistance with the drafting of income tax and VAT laws
	January 1992	Assistance with the drafting of income tax laws
	February 1992	Assistance with the drafting of the tax administration law

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

Department	Timing	Purpose
	March 1992	Follow-up visit by consultant focusing on the income tax and tax administration laws
	May 1993	Assistance with revision of tax reform legislation
STA	June 1991	Mission on government finance statistics
	September 1991	Mission on balance of payments statistics
	May 1993	Mission on monetary statistics
	To be scheduled	Assistance in balance of payments statistics and government finance statistics

Slovakia: Relations with the World Bank

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

A Structural Adjustment Loan (SAL), concluded in June 1991 with Czechoslovakia, is still in place in the Czech and Slovak Republics. Its total amount was US$450 million; it was cofinanced by the Japanese Export-Import Bank in the amount of US$200 million. The first two tranches of the SAL (US$325 million) and all three tranches of the ExIm Bank loan had been fully disbursed by end-1992. The Slovak share of the third tranche of the SAL has been fully disbursed. (Also, as of end-June 1993, about US$158,000 of the Czech share of the SAL remained undisbursed.) The debt has been assumed by the Czech and Slovak Republics in a ratio of 2:1.

A country economic mission visited Bratislava in April to begin preparation of a Country Economic Memorandum (CEM), which will be completed in July. This report will provide the basis for the Bank's future lending program.

Depending on the outcome of discussions with the Slovak authorities, the Bank may begin work on a Structural Adjustment Loan and a financial sector and industrial restructuring loan. A loan in support of strengthening the country's social safety net is also being contemplated. The first investment operation in Slovakia is expected to be a telecommunications loan (jointly financed with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB)), which is scheduled to go to the World Bank Board on July 15. Other lending operations may include energy, forestry, and health financing. Grant funds under the Global Environment Facility are being used for reducing emissions of ozone depleting substances and biodiversity protection.

International Finance Corporation (IFC) staff have had regular contacts with the private sector in Slovakia, but so far only a regional gas distribution project (bottles) has materialized, with Czechoslovak, Hungarian, and Polish participation; the project is located in Slovakia. IFC is considering various other projects. The Foreign Investment Advisory Services (FIAS) has completed a diagnostic study of the foreign investment climate in Slovakia in 1993 and the report will be completed in September 1993.

Slovak Republic: Selected Social Economic Indicators, 1992

Population and vital statistics	
Total population (in thousands)	5,300.0
Total population growth (in percent)	0.43
Life expectancy at birth (in years)	
Male	66.5 1/
Female	75.3 1/
Population age structure (in percent)	
0-14	24.5
15-64	64.9
65 and above	10.6
Crude birth rate (per thousand)	14.1
Crude death rate (per thousand)	10.1
Infant Mortality rate (per thousand)	1.0
Food, health, and nutrition	
Per capita supply of:	
Calories (per day)	3,333.0 2/
Protein (grams per day)	105.0 2/
Population per physician	286.0
Population per hospital bed	7.6
Labor force 3/	
Total labor force (in thousands)	2,504.0
Female (in percent)	47.0
Agriculture (in percent)	9.5
Industry (in percent)	33.0
Education	
Enrollment rates (percent of school-age children)	
Primary (total)	98.1 2/
Secondary (total)	96.3 2/
Colleges, specialized schools, and universities	26.1 2/
Pupil-teacher ratio	
Primary	22.1
Secondary	14.7
Other	
Telephones (per thousand)	247.0 1/
Private cars (per thousand)	173.0 1/

Source: Slovak Statistical Office.

1/ 1991.
2/ 1990.
3/ Excluding the armed forces.