©1999 International Monetary Fund

September 1999

IMF Staff Country Report No. 99/112

Slovak Republic: Selected Issues and Statistical Appendix

This Selected Issues and Statistical Appendix report on the Slovak Republic was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of the Slovak Republic or the Executive Board of the IMF.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431

Telephone: (202) 623-7430 • Telefax: (202) 623-7201
Telex (RCA): 248331 IMF UR
E-mail: publications@imf.org
Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SLOVAK REPUBLIC

Selected Issues and Statistical Appendix

Prepared by a staff team consisting of Robert A. Feldman, Neven Mates, Costas Christou,
Uma Ramakrishnan (all EU1), Bradley McDonald (PDR),
May Khamis, and Inwon Song (both MAE)

Approved by the European I Department

July 6, 1999

Contents | Page

I. A Note on External Competitiveness and the Exchange Rate 4

II. Assessment of Banking Conditions and the Supervision System in the Slovak Republic 14

III. Medium-Term Fiscal Issues 47

IV. External Current Account Performance in the Slovak Republic: A Brief Retrospective 82

Figures

I-1. Exchange Rate Indicators 6
I-2. Selected Central European Countries: Share of EU Imports, 1993-98 9
II-1. International Comparison of Deposits/GDP Ratio, end-1997 17
II-2. Interest Rate and Lending-Deposit Spread 18
II-3. Banking Sector Profitability: International Comparison 22
III-1. General Government Budget Balance, 1993-98 48
III-2. Structure of General Government Revenue and Expenditure, 1993 and 1998 50
III-3. Population Structure, 1990-2030 58
III-4. Share of Population Over Age 65 in Selected Countries, 1990-2030 59
III-5. Dependency Ratios in Selected Countries, 1990-2030 61

Tables

I-1. Indicators of Competitiveness ... 11
I-2. Share of EU Imports, 1993-98 ... 12
I-3. Share of EU Imports in Selected Product Categories, 1993-98 ... 13
II-1. Banking Sector Indicators ... 41
II-2. Capital Adequacy Ratio by Banking Groups, end-1998 ... 42
II-3. Capital Adequacy Sensitivity Analysis ... 43
II-4. Maturity Mismatches, end-1998 ... 44
II-5. Banking Sector Securities Holdings, end-1998 ... 45
II-6. Compliance with Credit Exposure Prudential Regulations, end-1998 ... 46
III-1. Fiscal Operations of the Consolidated General Government, 1993-98 ... 73
III-2. General Government Revenue in Selected Transition Countries ... 74
III-3. Value-added and Corporate Income Tax Rates in Selected Countries ... 75
III-4. Social Contribution Rates in Selected Countries ... 76
III-5. General Government Expenditure in Selected Transition Countries ... 77
III-6. Social Security System Expenditure, 1995-98 ... 78
III-7. Characteristics of the Pension System, 1993-98 ... 79
III-8. Medium-Term Adjustment Scenario—Government Budgetary Operations, 1998-2003 ... 80
III-9. Medium-Term Adjustment Scenario—Operations of the General Government, 1998-2003 ... 81
IV-1. Gross Domestic Product Composition and Growth ... 89
IV-2. Saving-Investment Balance, 1995-98 ... 90
IV-3. Regional Comparison of Selected Economic Indicators ... 91
IV-4. Central and Eastern Europe Exports of Goods ... 92
IV-5. Investment by Sector ... 93
IV-6. Capital Flows and Debt Indicators ... 94
IV-7. Different Scenarios on Debt Sustainability ... 95

Appendix Tables

A1. Gross Domestic Product–Current Prices ... 96
A2. Gross Domestic Product–Constant Prices ... 97
A3. Gross Domestic Product by Sectors, Constant Prices ... 98
A4. Gross Domestic Product by Sectors, Current Prices ... 99
A5. Investment by Sector ... 100
A6. Employment by Sector ... 101
A7. Average Monthly Wages ... 102
A8. Unemployment and Vacancies ... 103
A9. Profits and Losses of Firms ... 104
A10. Number of Firms ... 105
A11. Electricity Production and Consumption ... 106

A12. Agricultural Production 107
A13. GDP Deflator 108
A14. Consumer Price Index 109
A15. Producer Prices and Energy Prices 110
A16. General Government Revenue, 1995-98 111
A17. General Government Expenditure, 1995-98 112
A18. Government Financial Assets in 1994-98 113
A19. Government Financial Liabilities in 1994-98 114
A20. Fiscal Operations of the Central Government, 1994-98 115
A21. Fiscal Operations of the Social Security Funds, 1995-98 116
A22. Fiscal Operations of the State Funds in 1995-98 117
A23. Monetary Survey, 1993-99 118
A24. Monetary Base, 1996-98 119
A25. Selected Interest Rates, 1996-98 120
A26. Balance of Payments, 1995-98 121
A27. Foreign Trade, 1993-98 122
A28. Shares of Partners in Foreign Trade, 1993-98 124
A29. Merchandise Trade, 1995-98 126
A30. Commodity Composition of Trade, S.I.T.C. Classification, 1993-98 128
A31. External Debt in Convertible Currencies, 1992-98 129

I. A NOTE ON EXTERNAL COMPETITIVENESS AND THE EXCHANGE RATE[1]

A. Introduction

1. The persistence of Slovakia's large current account deficits combined with recent volatility in the koruna exchange rate has focused attention on the external value of the koruna and the external competitiveness of Slovak enterprises. Concern over this issue arose with the rapid deterioration of the Slovak trade balance in 1996 to 12 percent of GDP, from 1 percent in 1995. The trade deficit continued at some 11–12 percent of GDP through 1998.

2. This chapter presents and discusses two simple types of competitiveness indicators: (i) real effective exchange rate measures, which examine underlying fundamentals thought to influence external performance; and (ii) indicators of actual export performance. None of the individual indicators presented is comprehensive or completely reliable on its own, particularly in the context of a transition economy, where rapid structural change and the reorientation of trade complicate the analysis. However, taken together the indicators often can provide useful guidance.

3. The results, while somewhat mixed, suggest that the unfavorable outcomes in the merchandise trade balance and the current account from 1996–98 reflected, at least in part, competitiveness problems. These problems stemmed from the rapid appreciation of the real effective exchange rate of the koruna on a unit labor cost basis. The reversal of this appreciation through a depreciation of the nominal exchange rate, particularly since September 1998, appears sufficient to offset this loss of competitiveness.[2] Indeed, Slovak exporters have again begun to increase market shares in their most important market, the European Union (EU) countries. At this stage it seems that no further depreciation is needed on competitiveness grounds.

4. While the focus of this section is external competitiveness and the exchange rate, other considerations also help determine the appropriate level of the exchange rate. Adjustment to unbalanced domestic policies, cyclical factors, response to external shocks, and the need for eventual surpluses to offset persistent trade deficits are examples of factors that may require exchange rates to deviate from their long-term equilibrium. If such factors were to cause downward pressures to develop on the exchange rate, and unless these pressures were clearly ephemeral, a continued policy of non-intervention would be appropriate in order to avoid a

[1] Prepared by Brad McDonald.

[2] As of mid-June 1999, the koruna had depreciated some 20 percent against the U.S. dollar and 12 percent against the Deutsche mark/Euro since end-September 1998.

decline in the international reserves of the National Bank of Slovakia (NBS) from existing uncomfortably low levels.[3]

B. Real Effective Exchange Rates

5. Measures of the real effective exchange rate (REER) include those based on consumer prices (CPI), producer prices (PPI), and unit labor costs (ULC). The CPI-based measure is widely available, allowing comparisons to other countries; however, it has the disadvantages of including non-traded goods, and the representative basket used will vary across countries (although CPI-based series can, under certain assumptions, be taken as a measure of the relative price of tradables to non-tradables at home and abroad). The PPI-based measure retains the disadvantage that the basket varies across countries; however, the items in each country's basket are slanted more toward traded goods. The ULC-based measure may be the most appropriate for use as a competitiveness measure;[4] however, this nevertheless misses important components of actual costs, such as capital, and the measurement of productivity, which underlies the ULC-based measure, is difficult in practice.

6. The CPI, PPI and ULC-based real effective exchange rate measures are shown for Slovakia in Figure I-1 (the nominal effective exchange rate, NEER, is also shown for comparison purposes). The CPI- and PPI- based measures indicate that the real value of the koruna did not deviate from its January 1993 level by more than 10 percent until May 1997, well after the deterioration in Slovakia's external trade balance had begun. The real appreciation, according to these measures,[5] peaked in January 1998 with the koruna some 15 percent above its level of January 1993 (when the Slovak Republic became independent). The koruna, according to these measures, fell by some 5 percent over the next eight months, then dropped 10 percent further in September and October 1998, to levels 1 to 2 percent above January 1993. From October through January 1999, the CPI- and PPI- based measures indicate a real appreciation of some 4 percent, although the nominal rate has since depreciated some 15 percent further.

7. The unit labor cost-based real effective exchange rate measure provides a different view; it indicates a steady appreciation beginning in early 1995. The period average ULC-based REER (not shown in the chart) appreciated 6 percent in 1995, 9 percent in 1996 and

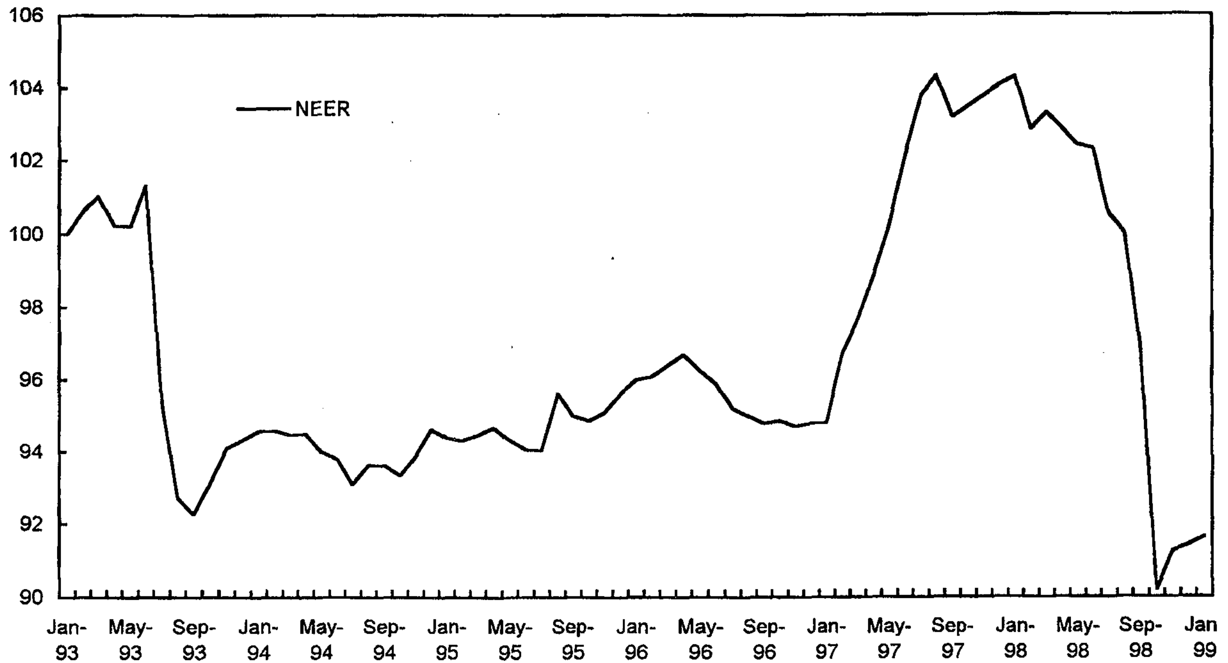
[3]At end-1998, NBS gross official reserves were equivalent to 2.3 months of imports of goods and non-factor services, or 49 percent of short-term external debt.

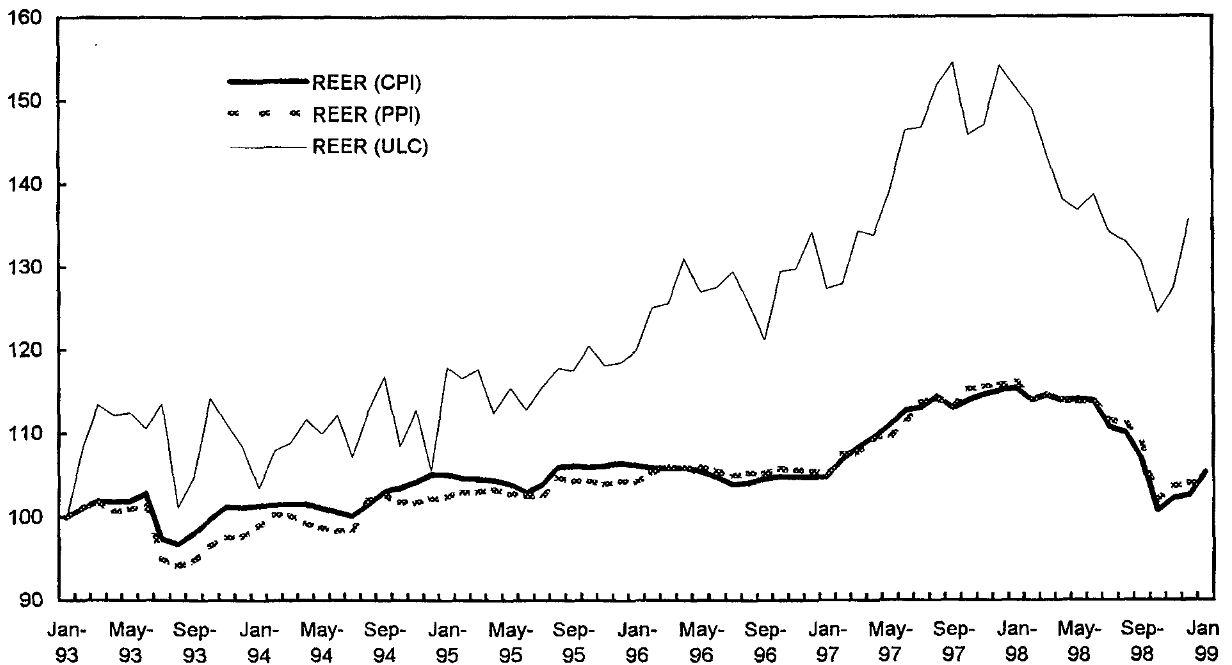
[4]Marsh and Tokarick (1994) suggest that export volume equations using competitiveness indicators based on ULC can explain trade flows for exports of goods overall, and for many goods alone, somewhat better than indicators based on consumer price indices.

[5]As seen in the graph, the CPI- and PPI- based measures track very closely in the case of Slovakia.

Figure I-1. SLOVAK REPUBLIC: EXCHANGE RATE INDICATORS [1/]

(Jan. 1993=100)





Sources: Slovak authorities.

1/ An increase denotes appreciation. The ULC measure is based on gross output in the industrial sector. Using value added in Slovak manufacturing, the ULC measure would show stronger external competitiveness in 1999.

12 percent in 1997. On a ULC basis, the koruna appreciated 54 percent from its inception in January 1993 to January 1998.

8. The considerable gap between the ULC-based measure of the REER and the CPI- and PPI-based measures reflects the extent to which wage growth has out paced measured productivity increases. It suggests that to the extent a competitiveness problem existed before September 1998 it may have stemmed from either slow productivity growth (perhaps related to unambitious structural reform) or from fast wage growth (perhaps related to loose incomes policies).[6]

9. Table I-1 provides some related indicators of competitiveness and a comparison to other European transition economies for the period 1994–98. With respect to unit labor costs (shown here converted to a DM basis), this shows a wide range of developments across countries. The Baltic countries (which have also had sizeable trade deficits) and Russia experienced unit labor cost increases through 1996 (in Lithuania, through 1997) much larger than those of Slovakia, as did Russia. Focusing on Slovakia's closest comparators and on the period beginning 1995, just preceding the deterioration of Slovakia's external balances, suggests a relatively rapid increase in Slovak unit labor costs. From 1995–97, Slovak unit labor costs rose some 35 percent, compared to some 15 percent for the Czech Republic and Poland, and a decline of 20 percent for Hungary. The divergence with respect to the Czech Republic and Poland was largely reversed in 1998.

C. Performance-based indicators of Slovak competitiveness

10. To examine the performance of Slovak exports, this section focuses on merchandise trade with the EU, which now accounts for some 55 percent of Slovak exports. This assessment is complicated, however, because the rapid increase of Slovakia's trade with the EU in the early 1990s (like that of other European transition economies) largely reflected the ending of managed trade and a burst of economic relations with western Europe. It is difficult to disentangle such effects from those related to competitiveness. Nevertheless, the data can provide some guidance.

---

[6] An earlier study based on data through 1997 concluded that no loss of competitiveness was yet evident in the deterioration of the trade balance (see "Competitiveness and the Trade Deficit in Slovakia," SM/98/33, Revision 1, June 2, 1998). This study estimated equilibrium exchange rates for Slovakia using a vector of fundamental variables (share of investment in GDP, share of public consumption in GDP, the ratio of exports and imports to GDP, and real wages as a proxy for productivity increases), a measure of excess money growth, and a dummy variable for episodes of major nominal devaluations. Regression results were, however, handicapped by the relatively brief time series available.

11. Table I-2 shows EU total imports, imports from Slovakia, and Slovakia's share of EU imports (including intra-EU trade).[7] This share grew from 0.11 percent of EU imports in 1993 to 0.21 percent in 1995, but this growth virtually halted in 1996 and 1997, perhaps reflecting the increased unit labor costs noted above. The stagnation in EU import share is consistent with the rapid increase in the ULC-based real effective exchange rate of the koruna during that period, but would also be consistent with a "catch-up" story, according to which Slovakia's share of EU imports was repressed during the socialist period but by 1995 reached its natural level. Slovakia's import share rose to 0.29 percent in 1998, providing support for the former explanation, and exceeded 0.3 percent in the second half of 1998.

12. Figure I-2 presents the EU's imports from Slovakia as a share of EU imports from five central European countries (including Slovakia). While exports from each of these countries to the EU have risen markedly since 1993, Slovakia's share of this group's exports has risen from under 5 percent in early 1993 to nearly 10 percent in 1998. Still, this share was stagnant from late 1994 until early 1998, during the period in which Slovakia's ULC-based REER was rising.

13. Measures of aggregate bilateral trade can be influenced by several factors that are not related to competitiveness. Changes in prices or import demand of those particular products exported by Slovakia could, for example, account for changes in the Slovak share of EU imports.[8] Table I-3 provides information about the export performance of detailed Slovak products in the EU market. The product groupings were selected based on their overall share of total Slovak exports to the EU.[9] The selected products accounted for 60 percent of Slovak exports to the EU in 1997. Shares are reported relative to extra-EU imports.

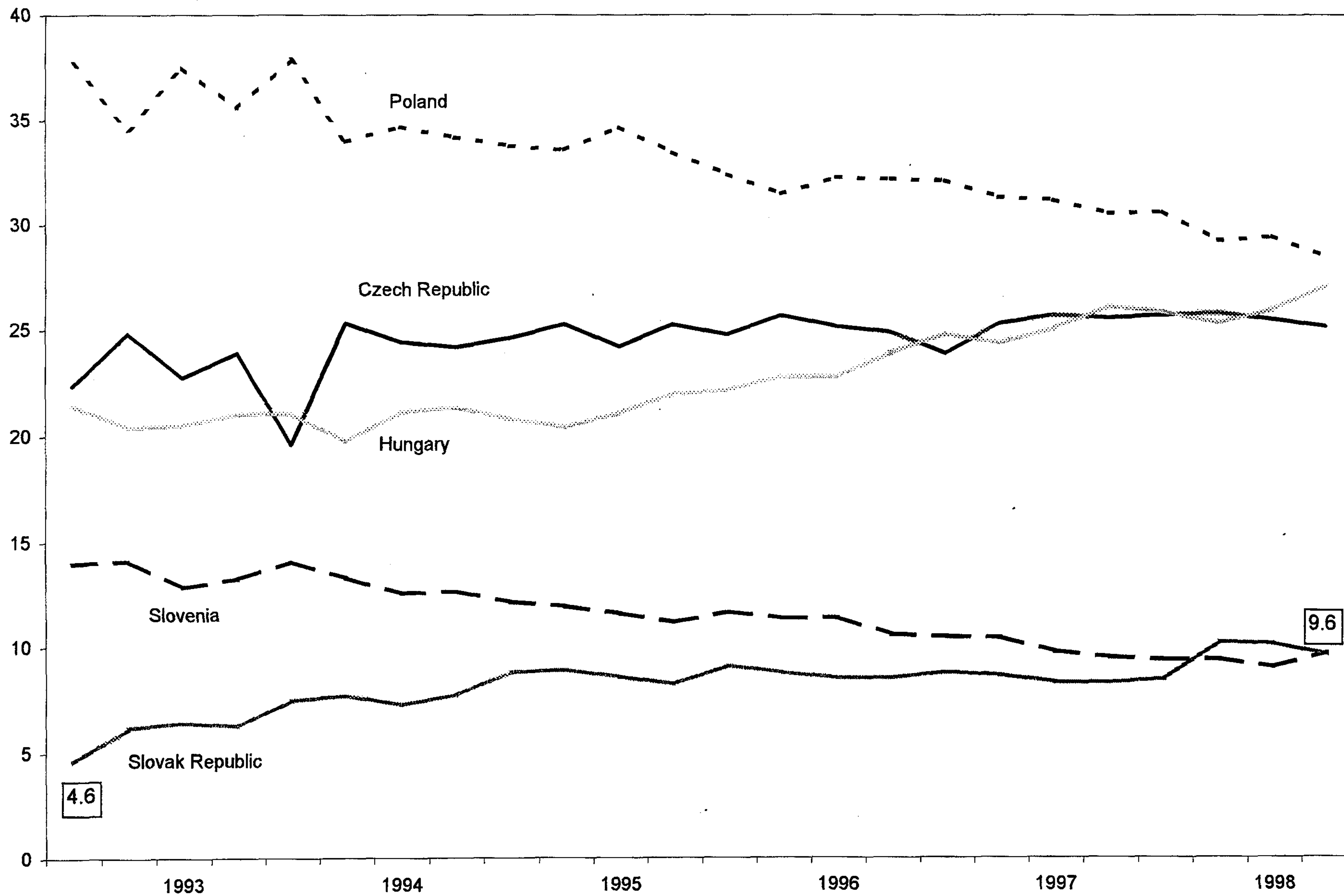
---

[7]The EU accounted for 56 percent of Slovak merchandise exports in 1998. The Czech Republic is the only non-EU country accounting for more than 5 percent of Slovak exports. However, extending the analysis to trade with the Czech Republic did not seem fruitful given that the decline of the Slovak share of Czech imports from 17 percent in 1993 to 9 percent in 1998 largely reflects factors unrelated to Slovak competitiveness, such as the dissolution of the Czech and Slovak Federal Republic.

[8]In these circumstances, a constant market share analysis would normally be preferred (see, for example, Feldman, 1995). However, in this case the brief duration of the available time series and other data limitations are not amenable to more detailed statistical analysis.

[9]The homogeneity of products within a grouping was also considered. This led, for example, to the decomposition of HS Chapter 85 ("electrical machinery and equipment, and parts thereof") and the use instead of certain four-digit components of the chapter, such as HS 8501 ("electric motors and generators").

Figure I-2. Selected Central European Countries: Share of EU Imports, 1993-98
(Percent of five-country total)



Source: IMF, Direction of Trade Statistics.

14. The performance of Slovak exports in particular industries remains consistent with the pattern described above for the overall market share of Slovak exports. In most product categories, Slovakia's share of EU imports rose sharply from 1993 until 1995, then stagnated in 1996 and 1997 (exceptions are insulated wire and cables; and vehicles). The more detailed analysis does, however, provide some insight into the renewed growth in the market share in 1998. In particular, much of this growth stems from exports of vehicles, the market share of which rose from 2.1 percent in 1997 to 3.1 percent in the first half of 1998 and over 4.3 percent for all of 1998. Other than for vehicles, which accounted for 16 percent of Slovak exports to the EU in 1997, the market share of the selected products rose only modestly.[10] The increase in vehicle exports is associated with a large-scale foreign direct investment project.

D. Concluding Remarks

15. Slovakia's share of EU imports rose to some 0.83 percent in the second half of 1998, after stagnating at 0.59 percent in 1996 and 1997. Moreover, the lagged effects of the depreciation in late 1998, combined with the further substantial depreciation witnessed in early 1999, are likely to support further increases in competitiveness. While the recent depreciation has been helpful in restoring competitiveness, it thus appears that at this stage no further depreciation is warranted on competitiveness grounds.

[10]Vehicles accounted for 0.35 points of the total 0.38 point increase from 1997 to 1998. Exported vehicles have a large component of imported parts, estimated at around 40 percent of the export price.

Table I-1. Slovak Republic: Indicators of Competitiveness

(In percent change)

	1994	1995	1996	1997	1998
Bulgaria					
Industrial gross output	8.5	4.9	0.2	-7.0	-8.0
Productivity in industry	12.6	7.3	3.4	-3.8	na
Real wage in industry (PPI-based)	-12.1	3.3	-17.9	9.4	22.3
Real D-Mark exchange rate (CPI-based)	-5.2	14.2	-12.2	40.9	17.7
D-Mark unit labor costs	-32.1	5.4	-24.7	37.1	na
Croatia					
Industrial gross output	-2.7	0.3	3.1	3.9	3.2
Productivity in industry	1.6	5.8	11.4	12.0	9.2
Real wage in industry (PPI-based)	29.8	30.8	11.0	8.2	11.4
Real D-Mark exchange rate (CPI-based)	13.3	1.4	3.0	3.5	3.3
D-Mark unit labor costs	33.6	25.9	2.0	0.4	-1.2
Czech Republic					
Manufacturing gross output	0.1	8.2	5.5	6.4	2.5
Productivity in manufacturing	4.9	11.1	9.6	11.1	5.6
Real wage in manufacturing (PPI-based)	11.1	8.7	11.9	8.4	2.6
Real D-Mark exchange rate (CPI-based)	6.7	2.6	10.1	5.2	9.3
D-Mark unit labor costs	11.3	1.5	10.0	0.9	4.3
Estonia					
Manufacturing gross output	-3.2	2.9	2.2	18.7	8.9
Productivity in manufacturing	6.7	0.4	3.7	26.3	2.3
Real wage in manufacturing (PPI-based)	26.9	14.1	7.7	11.4	10.7
Real D-Mark exchange rate (CPI-based)	44.0	26.6	21.4	9.2	9.5
D-Mark unit labor costs	61.7	35.2	19.2	-5.3	13.6
Hungary					
Manufacturing gross output	9.3	5.0	3.4	14.8	16.2
Productivity in manufacturing	7.3	10.9	9.0	14.3	13.3
Real wage in manufacturing (PPI-based)	7.7	-3.8	-0.6	3.6	7.4
Real D-Mark exchange rate (CPI-based)	-1.6	-6.9	5.5	9.5	0.4
D-Mark unit labor costs	-3.6	-19.1	-3.4	0.6	-8.7
Latvia					
Manufacturing gross output	-12.0	-8.1	0.8	8.1	2.5
Productivity in manufacturing	9.5	-1.0	8.6	28.0	1.9
Real wage in manufacturing (PPI-based)	36.6	11.3	-0.1	17.3	3.3
Real D-Mark exchange rate (CPI-based)	57.3	14.8	16.3	16.4	3.7
D-Mark unit labor costs	73.0	17.9	5.2	4.2	3.3
Lithuania					
Manufacturing gross output	-29.7	0.9	3.5	5.0	7.0
Productivity in manufacturing	-12.1	12.0	8.5	7.6	11.0
Real wage in manufacturing (PPI-based)	13.8	14.0	15.0	19.1	28.4
Real D-Mark exchange rate (CPI-based)	65.7	29.5	29.0	23.2	5.6
D-Mark unit labor costs	85.1	23.3	30.5	32.9	7.5
Poland					
Manufacturing gross output	13.7	11.6	9.8	12.8	6.7
Productivity in manufacturing	14.0	7.0	10.0	12.1	6.3
Real wage in manufacturing (PPI-based)	10.1	5.4	14.5	12.1	8.4
Real D-Mark exchange rate (CPI-based)	1.4	4.4	11.6	7.1	5.4
D-Mark unit labor costs	-6.2	2.9	9.0	3.0	3.2
Romania					
Manufacturing gross output	3.8	12.1	12.5	-11.3	-18.1
Productivity in manufacturing	10.1	20.0	12.1	1.0	-15.9
Real wage in manufacturing (PPI-based)	-0.2	13.6	2.6	-16.1	18.3
Real D-Mark exchange rate (CPI-based)	43.9	-5.3	-5.1	23.2	29.7
D-Mark unit labor costs	2.2	-4.2	-3.8	-4.9	56.0
Russia					
Manufacturing gross output	-24.0	-3.9	-6.8	1.9	-5.2
Productivity in manufacturing	-17.7	4.8	0.2	3.1	na
Real wage in manufacturing (PPI-based)	-17.5	-31.3	9.6	7.6	6.4
Real D-Mark exchange rate (CPI-based)	75.4	18.2	36.5	14.9	5.7
D-Mark unit labor costs	79.8	-4.9	54.6	22.3	na
Slovak Republic					
Manufacturing gross output	4.5	10.2	2.4	1.6	6.5
Productivity in manufacturing	9.3	5.3	2.5	4.1	11.5
Real wage in manufacturing (PPI-based)	6.3	6.0	9.8	7.5	6.1
Real D-Mark exchange rate (CPI-based)	2.7	3.4	6.2	9.5	2.4
D-Mark unit labor costs	0.7	5.5	14.0	12.9	-5.0
Slovenia					
Industrial gross output	6.7	2.9	0.8	0.2	3.9
Productivity in industry	11.8	8.4	6.7	4.5	5.4
Real wage in industry (PPI-based)	9.8	4.7	7.3	6.2	5.0
Real D-Mark exchange rate (CPI-based)	1.5	7.0	-0.5	4.0	4.2
D-Mark unit labor costs	-2.1	3.7	-1.6	4.8	2.8

Source: EBRD Transition Report.

Table I-2. Slovak Republic: Share of EU Imports, 1993-98

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998	1997			1998		
							H1	Q3	Q4	H1	Q3	Q4
EU total imports	1,398	1,589	1,914	1,955	1,968	2,102	984	462	522	1,052	490	561
Imports from Slovakia	1.6	2.7	4.0	4.3	4.5	6.1	2.3	1.1	1.2	2.8	1.6	1.7
Slovak share (percent)	0.11	0.17	0.21	0.22	0.23	0.29	0.23	0.24	0.23	0.27	0.33	0.31

Source: IMF, Direction of Trade Statistics

Note: EU imports include intra-EU trade.

Table I-3. Slovak Republic: Share of EU Imports in Selected Product Categories, 1993-98

	HS Classification	Share of bilateral trade, 1997	1993	1994	1995	1996	1997	1998 Jan.-July	1998
			Share of extra-EU imports (in percent)						
Total		100.0	0.24	0.34	0.57	0.59	0.59	0.69	0.76
Plastics and plastic articles	39	3.8	0.55	0.81	1.29	1.19	1.16	1.06	1.07
Paper, paperboard and articles of paper	48	2.7	0.34	0.54	2.53	2.06	1.85	1.79	1.71
Articles of apparel; clothing accessories	61, 62	9.2	0.60	0.79	1.01	1.07	1.03	1.08	1.08
Iron and steel	72	8.3	2.23	2.73	4.01	4.11	3.73	3.48	3.12
Articles of iron and steel	73	4.1	1.30	1.46	2.40	2.40	2.16	2.19	2.18
Mach. and mech. appliances (incl. Refrigerators)	84	6.9	0.11	0.14	0.25	0.29	0.29	0.33	0.37
Refrigerators	8418	0.4	1.36	1.63	1.82	2.00	1.55	1.42	1.43
Electric motors and generators	8501	1.4	0.35	1.72	2.93	3.08	3.16	3.27	3.27
Electric transformers	8504	0.4	0.08	0.15	0.29	0.33	0.49	0.74	0.85
Radio and television parts	8529	1.1	0.02	0.20	0.47	0.82	1.62	1.66	1.68
Insulated wire and cables	8544	5.8	1.04	1.61	3.53	5.09	6.44	6.45	6.52
Vehicles	87	15.9	0.18	0.42	1.41	1.88	2.07	3.11	4.26
Selected products		60.0	0.40	0.58	1.07	1.13	1.14	1.35	1.52

Source: Eurostat COMEXT.

II. Assessment of Banking Conditions and the Supervision System in the Slovak Republic[11]

A. Introduction

16. This chapter examines the state of the Slovak Republic's banking sector, stressing the links between financial sector stability, macroeconomic developments, and sound banking supervision.[12] In doing so, the chapter analyzes indicators of the health of the banking sector and identifies prudential, regulatory, and legislative measures to support further improvements in banking sector health. It also discusses developments and recommendations in the area of bank restructuring.

B. Structure of the Banking System

Concentration and ownership

17. Since the breakup of the monobank system in 1990, the number of banks operating in the Slovak Republic increased markedly to a total of 27 at end-1998, comprising 5 majority state-owned banks, 20 privately-controlled banks, and 2 branches of foreign banks. Developments in the structure of the banking system in recent years exhibited two main trends: (i) foreign capital entry increased dramatically, particularly during 1994–1996, resulting in an increase in the foreign equity share of total banking sector equity to over 37 percent at end-1998; and (ii) competition in the banking sector subsequently increased, resulting in a decline in the share of state-controlled banks in total banking sector assets. The share of state-controlled banks decreased from about 69 percent at end-1995 to 49 percent at end-1998. However, despite the increase in the number of banks operating in the Slovak Republic, the banking sector remains highly concentrated, with about 41 percent of banking assets concentrated in the two largest state-owned banks, the Slovak Savings Bank (SLSP) and the General Credit Bank (VUB). Furthermore, over 70 percent of banking sector assets are concentrated in the eight largest banks.

18. Based on ownership and banking operations, the banking system in the Slovak Republic can be categorized into five distinct groups (Table II-1):

- Group 1: This group comprises the three major state-owned banks, SLSP, VUB, and the Investment and Development Bank (IRB). Banks in this group have a significant share of nonperforming loans in their portfolios, which amounted to more than 37 percent at end-1998. The SLSP is fully state-owned and is the largest in the banking

---

[11] Prepared by May Khamis and Inwon Song.

[12] The analysis in this paper focuses on Group 1 and Group 2 banks (defined below), which together comprise over 83 percent of total banking assets.

system, commanding over 21 percent of total banking assets. This bank has a dominant, but declining, position in the retail deposit market, deriving its deposits from its large branch network in all regions of the country. The VUB, the second largest bank, is majority state-owned (51 percent of is shares are state-owned), and has 20 percent of total banking assets. This bank has been operating under tight liquidity conditions and is highly dependent on the interbank market for liquidity. The IRB is the fifth largest bank in the banking system with about 5 percent of total banking assets. This bank was placed under the conservatorship of the National Bank of Slovakia (NBS) in December 1997 following liquidity problems and a consequent run on the bank's deposits. The Slovak Insurance Corporation (which is state-controlled) has a majority share in this bank, holding about 67 percent of the bank's equity, and the National Property Fund (NPF) has about an 11 percent share. The relative size of banks in this group declined to about 46 percent of total banking assets at end-1998, compared with 63 percent at end-1995.

- Group 2: This group comprises 18 privately-owned banks with full commercial banking licenses. Five banks in this group are fully foreign-owned, three banks are majority foreign-owned, and five banks have foreign capital participation. The share of this group of banks in total banking assets increased steadily in recent years to about 37 percent at end-1998, compared with less than 20 percent at end-1995.

- Group 3: This group includes two special savings banks. Foreign capital participation in these banks amount to 50 percent and 65 percent, respectively, at end-1998. Banks in this groups are in the early stages of their operations which are limited, on the asset side, to government securities and housing loans. The group has less than a 6 percent share of total banking assets.

- Group 4: This group includes two fully state-owned specialized banks: the Slovak Guarantee and Development Bank and the Consolidation Bank. The Slovak Guarantee and Development Bank supports private sector development, but has only about 0.6 percent of banking assets. The Consolidation Bank is an asset resolution company that does not conduct banking operations. Banks in this group have about a 3 percent share of total banking assets.

- Group 5: This group comprises two branches of foreign banks, the Československá Obchodná Banka (Czech Republic), the third largest bank in the Slovak Republic with more than 7 percent share in total banking assets, and the Internationale Nederlanden Bank (The Netherlands).[13] The two banks combined hold about 9 percent of total banking assets.

[13] The parent bank of the Československá Obchodná Banka is a state-controlled bank. It is currently being restructured and the prospects for a quick privatization of the parent bank are positive.

Main operations of the banking sector

19. The banking sector in the Slovak Republic is relatively large, as indicated by the ratio of total banking sector deposits to GDP of more than 59 percent at end-1998. This figure is relatively high when compared to other transition economies (Figure II-1).[14] The deposits-to-GDP ratio, however, fell in 1998 from its 1997 level, largely due to increased "dollarization". The increase in dollarization in 1998 was also reflected in the increased share of foreign currency deposits in total deposits: after relative stability in past years at around 11–13 percent, this share increased to more than 16 percent at end-1998.

20. The banking sector in recent years has had a large exposure to the enterprise sector, with bank credit to enterprises amounting to more than 41 percent of bank assets, and about 90 percent of net domestic credit (more than 42 percent of GDP). Credit to households, although generally increasing in relation to GDP, is less than 6 percent of banking sector assets (less than 6 percent of GDP). The share of nonperforming (classified) loans in total banking sector loans increased dramatically in 1998 to around 37 percent, compared with about 24 percent at end-1997.[15] All banking groups observed increases in classified loans, but the increases experienced by the three major state-owned banks and group 5 banks were the most significant. Banking sector securities holdings are moderate at around 18 percent of total banking assets.

21. As a result of new entry to the banking sector in recent years and the increase in competition among banks, the spread between lending and deposit interest rates steadily declined (except for only short episodes when this spread increased). For example, the short-term spread declined from an average of 6.1 percent in 1997 to an average of 2.1 percent in 1998 (Figure II-2).

C. Banking Conditions

Nonperforming assets

22. The determination of the amount of problem loans in the Slovak banking sector is difficult. Although existing rules regarding loan classification do not deviate significantly from international best practices, evasion of strict implementation of these standards is possible, particularly in view of the limited resources available to the NBS for on-site supervision. More significantly, collateral valuation seems to be unrealistic under current

---

[14] Household deposits account for more than 55 percent of total deposits. Country comparisons are based on end-1997 data.

[15] Nonperforming (classified) loans are defined as the sum of loans classified as sub-standard, doubtful, and loss.

Figure II-1. Slovak Republic: International Comparison of Deposits/GDP Ratio, end-1997

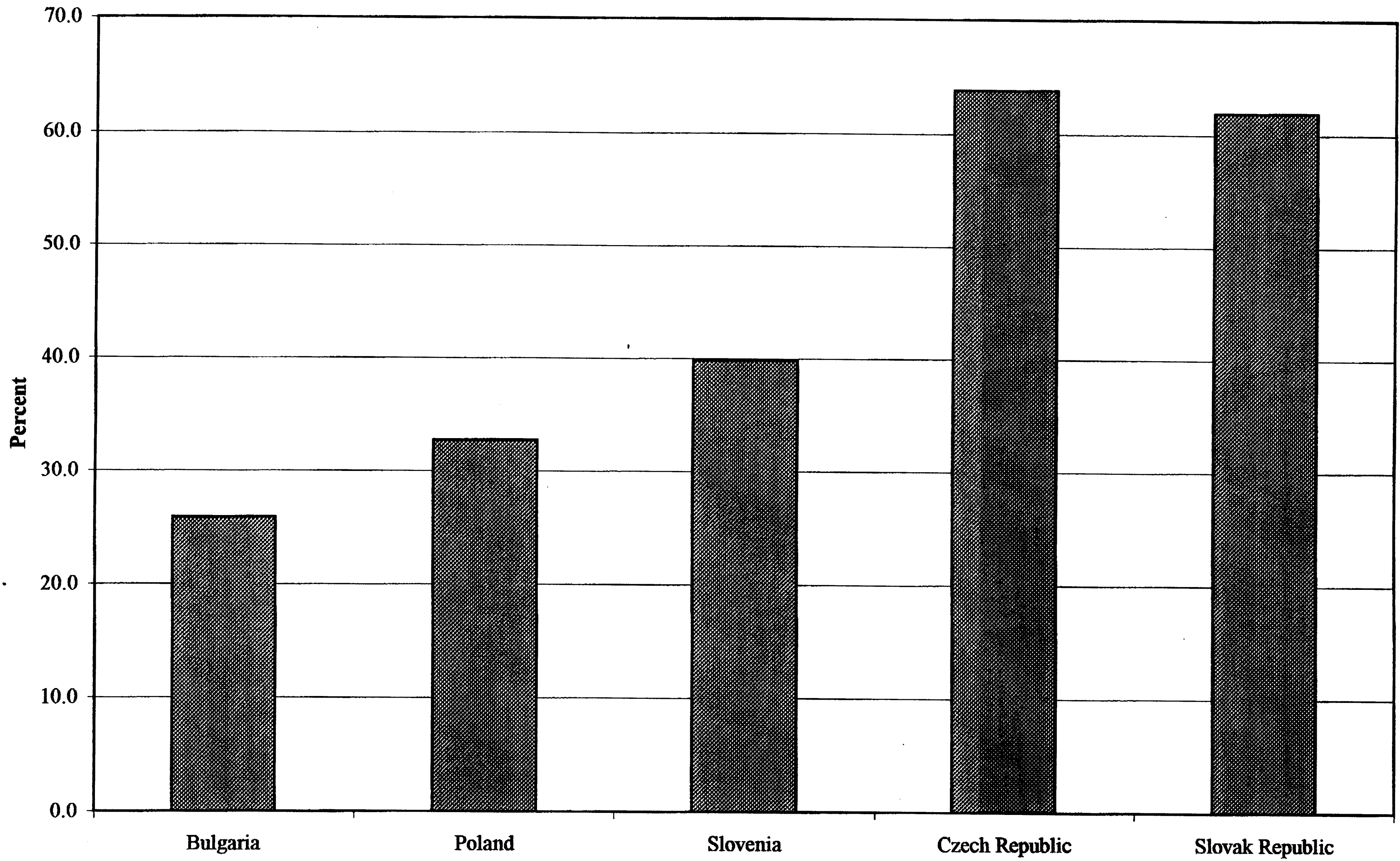
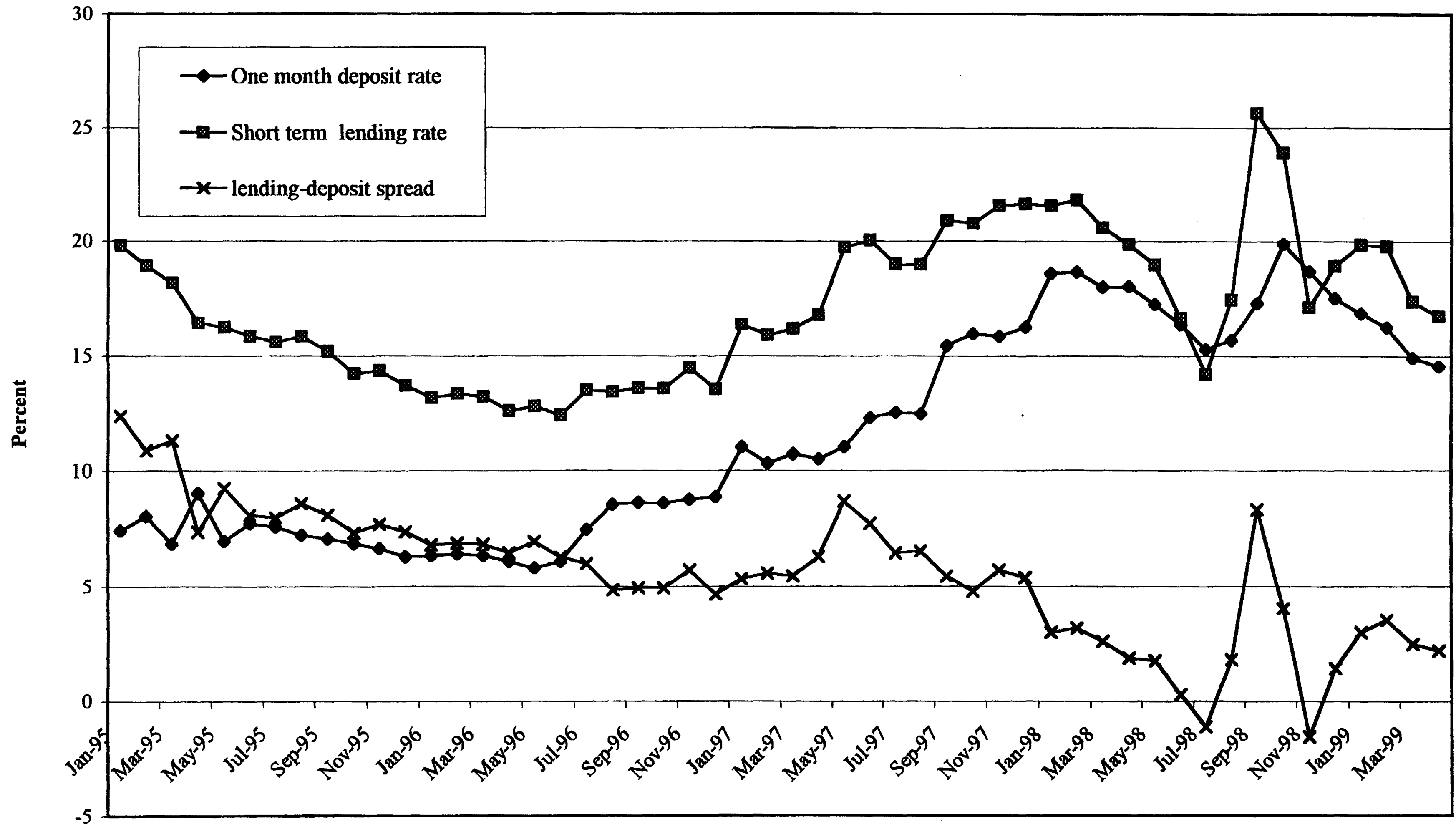


Figure II-2. Slovak Republic: Interest Rates and Lending-Deposit Spread



Source: National Bank of Slovakia

conditions of a highly illiquid market and prolonged bankruptcy procedures.[16] All this suggests that bank capital adequacy ratios may be overstated. This issue could prove to be highly problematic in the three largest state-owned banks, particularly in view of the large share of nonperforming loans in their portfolios, while the implications for the rest of the banking sector could also be significant.

23. With this caveat in mind, official data on the banking sector indicate a relatively large share of nonperforming loans and, more importantly, the preliminary data indicate a marked increase in the share of nonperforming loans in total loans in 1998: this share increased from 31.9 percent to 37.3 percent in the three state-owned banks, from 5.7 percent to 7.2 percent in the 18 privately-owned banks, and from 10.8 percent to 35.0 percent in foreign bank branches. This deterioration is attributed to the declining profitability in the enterprise sector in 1998, which was further exacerbated for some enterprises with large foreign debts by the recent depreciation of the koruna.

24. Whereas private banks (Group 2, 3, and 5) adhere to official provisioning requirements, state-owned banks (Group 1 and 4) have substantial shortfalls in loan-loss provisioning, which were intensified in 1998 as a result of the significant increase in classified loans. For the three state-owned banks, the provisioning shortfall doubled in 1998, from about Sk 10 billion at end-1997 to more than Sk 20 billion at end-1998. For Group 4 banks, this shortfall increased by about 50 percent from around Sk 2.3 billion to about Sk 3.5 billion, resulting in a total shortfall in loan-loss provisions of both categories of banks of around Sk 23.5 billion (3 percent of GDP). The actual shortfall in loan provisioning in the banking system, including in private banks, is expected to be higher when taking into account potential loan classification weaknesses and collateral overvaluation.

25. As a result of the absence of legal options for write-offs of nonperforming loans at banks' discretion, the level of nonperforming loans in the banking sector in the Slovak Republic has been persistently high. In this connection, the tax and bankruptcy laws dissuade banks from writing-off nonperforming loans. On the one hand, by allowing tax deductions only on loans determined to be categorized as "loss" by a bankruptcy court decision, the Tax Law provides disincentives for banks to write-off bad loans without the necessary court

[16] Although many banks tend to base real estate collateral valuations on at least a yearly appraisal, appraising the market value of real estate tends to be difficult, particularly in view of the low turnover of the market. Appraisers base their evaluations on the statutory prices of real estate that are used for tax purposes, which do not necessarily reflect market conditions. Furthermore, the appraisal does not reflect liquidation costs (which could be significant) as well as potential encumbrances on the collateral by state claims which are given priority status under the current Bankruptcy Law. The NBS bases its collateral evaluation on the initial collateral value—typically 70 percent—in the first year, with a slowly declining percentage thereafter. This method does not relate collateral value to market value and also does not consider the cost of foreclosure.

decision. On the other hand, the Bankruptcy Law and bankruptcy procedures are inefficient, and the number of bankruptcy cases that were actually ruled on, compared with the number of cases filed, were minimal.[17] The persistence of bad loans on banks' balance sheets decreases the transparency of their accounts, and can adversely affect the reputation of otherwise profitable banks.

Capital adequacy

26. The capital adequacy of the banking sector in the Slovak Republic declined across the board in 1998. The most dramatic decline was in the capital adequacy ratio (CAR) of the three state-owned banks, from 6.7 percent at end-1997 to 2.7 percent at end-1998, mostly on account of losses related to the substantial increase in classified loans in the portfolios of these banks (Table II-2).[18] Based on official data, Group 2 banks continue to be well-capitalized with a CAR at end-1998 of around 12.5 percent.[19] Group 3 banks are still at the early stages of their operations; the group's CAR is very high.

27. A sensitivity analysis of capital adequacy ratios for Group 1 and Group 2 banks (together comprising around 83 percent of banking sector assets), assuming strengthened loan classification and provisioning requirements and adjustments to collateral values which might reflect better market prices is presented in Table II-3. These calculations are illustrative. Three scenarios are presented. All three scenarios assume strengthened provisioning requirements (which, from a quantitative perspective, could be viewed also as strengthened loan classification). Required provisions are assumed at 2, 10, and 100 percent for standard, special-mention and classified (substandard, doubtful, and loss) loans, respectively. The first scenario presents the effects of these assumptions (without any adjustments to collateral values) on the CARs of the two banking groups. The second and

[17] The Bankruptcy Law suffers from multiple weaknesses, including an inherent bias in the law in favor of liquidation as opposed to restructuring. This limits the powers of creditors, and creates inflexibility concerning allowable actions in regard to the implementation of restructuring plans (such as options related to debt/equity swaps). The implementation of the Bankruptcy Law is also very weak, particularly in regard to the availability of qualified enterprise restructuring experts and administrators. Furthermore, the number of bankruptcy judges in the Slovak Republic—which is currently 18 judges sitting on three bankruptcy courts located in Bratislava, Banska Bystricam, and Kosice—is insufficient to resolve the increasing number of loss-making enterprises in the Slovak economy.

[18] Official CARs take into account shortfalls in loan-loss provisioning. NBS regulations require banks to deduct shortfalls in loan provisioning from the capital base.

[19] One bank in Group 2, however, did not comply with the minimum CAR of 8 percent at end-1998.

third scenarios assume, respectively, a 25 percent and a 50 percent discount on the value of collateral held by banks in the two groups.

28. The results of the analysis give rise to concern, particularly for Group 1 banks. The combined CAR for banks in this group becomes deeply negative under the first scenario and reaches up to minus 29 percent under the third scenario. As for Group 2 banks, the CAR declines substantially under the first scenario to 8.9 percent, and the CAR for the group falls below the minimum prudential ratio of 8 percent under the second and third scenarios. The results for Group 2 point to a possible undercapitalization of some banks in this group. These results are worrisome, particularly for Slovak banks, to the extent that the ability of domestic shareholders to provide capital injections would be much less than for foreigners.[20]

Profitability[21]

29. The increase in nonperforming loans resulted in a noticeable decrease in the banking sector's net interest margin (NIM), from 1.8 percent in 1997 to 1.2 percent in 1998.[22] The NIM decreased from 1.0 percent to minus 0.7 percent for Group 1 banks, and from 3.0 percent to 2.7 percent for Group 2 banks. Banks with tight liquidity conditions (particularly VUB) were also hard hit by the increase in interbank rates in the second half of 1998. On the other hand, in view of higher interest rates on short-term securities, banks, except for Group 1 and Group 4 banks, were able to offset the costs associated with decreasing net interest income largely from proceeds from securities operations.

30. Accordingly, whereas the profitability of Group 1 banks worsened in 1998, the profitability of private banks continued to be adequate by comparison with other regions and country groups (Figure II-3): the return on assets (ROA) of Group 2 banks, while lower than the average for transition economies for the period 1988–95, is slightly higher than the regional averages for Africa, Asia, Latin America, and the Middle East and North Africa, and

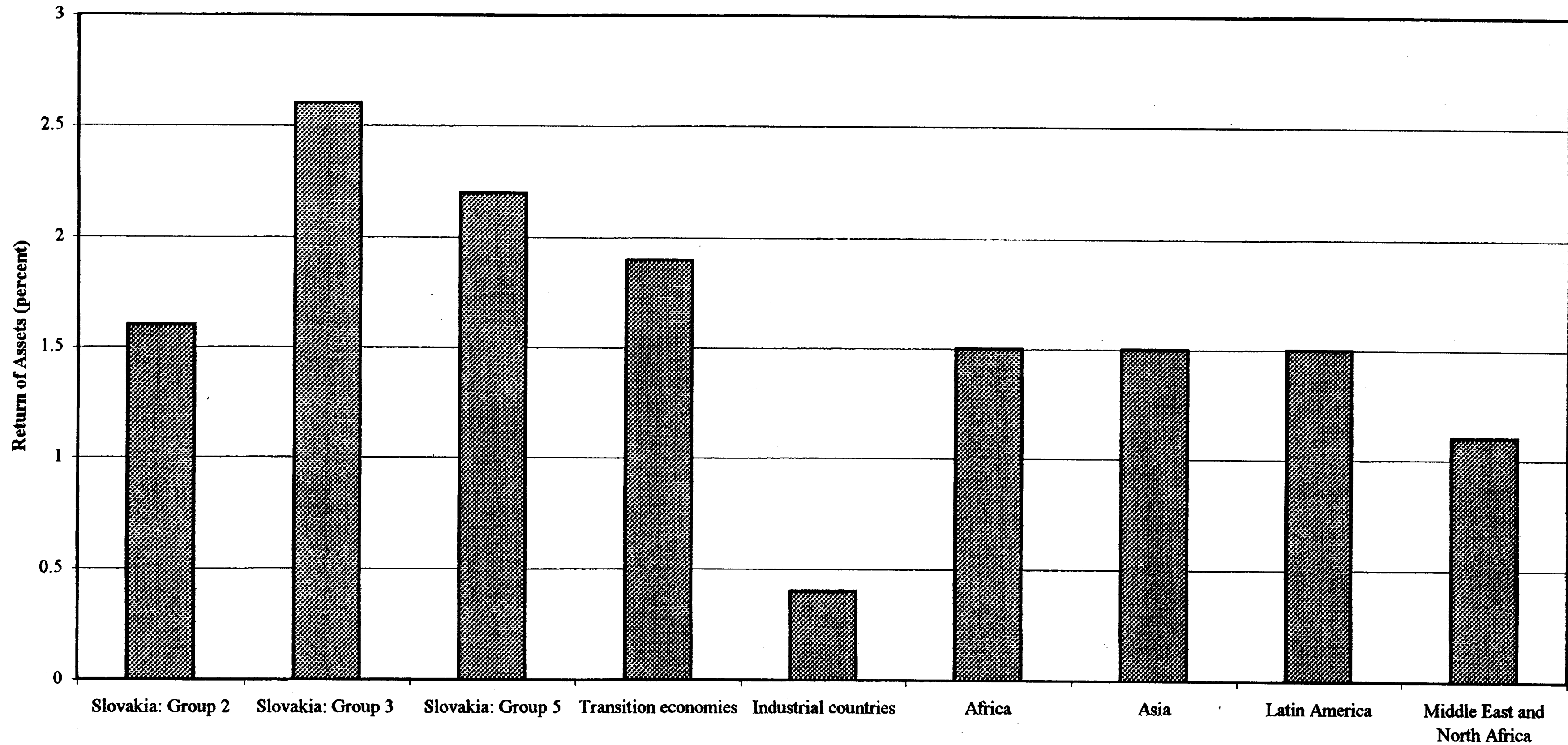
---

[20] Some smaller banks in the system are reportedly already experiencing problems and potential mergers with larger banks, or capital injections by prospective investors, have been explored.

[21] In this chapter, official data on banks' net income and profitability indicators are adjusted to reflect the shortfalls in loan loss provisioning.

[22] Net interest margin is defined as the ratio (in percent) of net interest income to average performing assets (assets excluding classified loans).

Figure II-3. Banking Sector Profitability: International Comparison



Source: Determinants of Commercial Bank Interest Margins and Profitability: Some International evidence, Asli Demirguc-Kunt and Harry Huizinga, 1998.

Note: Data for Slovakian banks (Groups 2,3 and 4) reflect 1998. Data for other regions/country groups reflect average return on assets during 1988-1995.

is substantially higher than the average for industrialized economies.[23] The ROAs for Group 3 and Group 5 banks are the highest relative to all regions and also in comparison to transition economies.

31. The return on equity (ROE) for private sector banks was strong for 1998 at around 26 percent and 97 percent for Group 2 and Group 3 banks, respectively. Profitability indicators for the three state-owned banks continued to be inadequate with substantial deterioration in 1998; the combined losses for these banks increased from around Sk 3 billion in 1997 to an estimated Sk 13.2 billion in 1998 resulting in substantial negative ROAs and ROEs.

D. Banking Sector Vulnerabilities

Macroeconomic linkages: interest rate, exchange rate, and credit risks

32. The implications for banks of unattended macroeconomic imbalances are worrisome. Liquidity problems in some banks, widespread maturity mismatches, and large exposures to the enterprise sector, which borrowed heavily in foreign exchange, render the banking sector vulnerable to further exchange rate depreciation and/or tighter monetary conditions and rising domestic interest rates. This vulnerability reflects both direct effects and indirect effects because of enterprise credit risk.

- **Interest rate risk**

33. Banks, in general, appear to have shifted some of the burden of higher interest rates on to borrowers. This was evidenced, for example, by the increase in the lending to deposit rate spreads that accompanied tighter monetary conditions in late 1998 and effectively transformed (a part of) interest rate risk into credit risk.[24] Banks dependant on interbank

---

[23] The ROA for Group 1, Group 2,and Group 3 banks in 1998 was 1.6 percent, 2.6 percent , and 2.2 percent, respectively. The regional ROA for the period 1988–95 for Africa, Asia, and Latin America was 1.5 percent for each of the three regions and 1.1 percent for the Middle East and North Africa. The ROA for the same period for industrialized economies was 0.4 percent. It should be emphasized, however, that profitability indicators for Slovak banks based on official data might be overstated in view of potential loan classification weaknesses and collateral overvaluation.

[24] An increase in the spread, as opposed to a constant spread, would be needed to offset increases in the cost of other funding sources (besides deposits), such as interbank borrowing. These other funding costs are generally more volatile and respond quicker than deposit rates to changes in securities interest rates. It is not clear, however, whether the increased spread would have been sustainable for longer periods (longer than a few months), in view of the strong competition in the banking sector.

funds for liquidity would, however, continue to be more vulnerable to higher interest rates, with VUB being the most vulnerable among the three-state-owned banks.[25] For the rest of the banking sector, data indicate that 4 of the 18 privately-owned bank could not meet prudential liquidity requirements (which require the ratio of the sum of liquid assets, cash, and assets with maturities of up to one month to the sum of liabilities with maturities of up to one month to be at least 100 percent) at end-1998. Furthermore, this group of banks had substantial funding gaps at maturities between one to three months which makes them vulnerable to a sustained increase in interbank interest rates: the ratio of assets to liabilities in this maturity range was 53 percent at end-1998 (Table II-4). In contrast, bank income from securities operations would be expected to increase with increasing interest rates: the banking sector holds about 18 percent of its total assets in securities, more than 85 percent of which are short-term with less than one month to maturity (Table II-5).

- **Exchange rate risk**

34. Among the three-state-owned banks, VUB had a short foreign currency exposure at end-1998 that has left it vulnerable to an exchange rate depreciation, particularly in view of its noncompliance with the overall foreign currency exposure prudential limit.[26] By comparison, the 18 privately-owned banks had, in aggregate, a long foreign exchange position at end-1998 of about US$23 million and, except for one bank, all banks in this group adhered to the overall foreign currency exposure prudential limit. More significantly, the increase in enterprise credit risk as a result of further exchange rate depreciation could be significant: enterprises have taken large unhedged foreign exchange loans, and it is expected that exchange rate depreciation would further erode their ability to service their debt including to the domestic banking sector. Off-balance sheet losses, occurring because of domestic bank guarantees for enterprises' foreign debt, could also rise: these claims currently amount to around Sk 57 billion (about 7 percent of total banking assets), of which, around Sk 31 billion are in foreign currency.

- **Enterprises credit risk**

35. Domestic banks are heavily exposed to the enterprise sector (recall that credit to enterprises accounts for about 90 percent of total domestic bank credit). The enterprise sector, in turn, is vulnerable to currency depreciation in view of its large (unhedged) foreign

---

[25] IRB is currently fully dependent on the NBS for liquidity, and the Slovak Savings Bank has excess liquidity.

[26] Foreign currency exposure regulations in the Slovak Republic cover the overall on- and off-balance sheet positions. At end-1998, the net foreign currency exposure of the banking sector was as follows (in millions of U.S. dollars, minus sign indicates a short foreign currency exposure): Group 1: -22.9, Group 2: 23.3, and Group 4: -28.75. Banks in Group 3 do not have a foreign exchange license and foreign branches (Group 5) are not subject to regulations on foreign currency exposure.

currency indebtedness: at end-1998, total enterprise foreign currency debt amounted to almost US$8 billion (36.8 percent of GDP), of which US$1.2 billion was owed to domestic banks and US$2.5 billion was short-term external debt. In these circumstances, a 10 percent depreciation of the koruna would increase enterprise debt by the equivalent of about Sk 28.7 billion (3.7 percent of 1998 GDP). An increase of this size would necessarily affect the ability of the enterprise sector to service all of its debts, including to domestic banks.

36. Furthermore, the substantial koruna-denominated indebtedness of the enterprise sector (36.5 percent of GDP) makes it highly sensitive to increases in domestic interest rates. Based on end-1998 data, a one percentage point increase in average lending rates, all else being equal, would reduce enterprise profits by about 0.4 percentage point of GDP.

Credit concentration and large credit exposure

37. Noncompliance with prudential regulations on large credit exposures is widespread, a factor which increases the banking sector's vulnerability because of weak diversification of banks' loan portfolios (Table II-6). At end-1998, all three state-owned banks could not comply with credit exposure regulations to nonbanking and banking clients, and two of the three banks could not comply with the aggregate net credit exposure limits. Compliance among banks in Group 2 was also weak: of the 18 banks in the group, six banks did not comply with the credit exposure limits to nonbanking clients, three banks did not comply with credit exposure limits for banking clients, and three banks did not comply with the aggregate net credit exposure limit. The performance of Group 3 and Group 5 banks was satisfactory in this respect and none of the banks in these groups failed to comply with credit concentration regulations.

Enterprise restructuring

38. The lack of progress in the area of enterprise restructuring could result in a further worsening of conditions in this sector, increased liquidity shortages, and a higher rate of loan defaults. Also, any enterprise liquidity shortages would be expected to be exacerbated if there were a continued decline in banking sector credit to this sector: as a result of increasing enterprise risk, credit to enterprises declined from around 43 percent of total banking assets in 1997 to around 41 percent in 1998. In addition to its adverse effect on overall bank income, banking sector cash flow would be restricted and liquidity problems in banks could easily occur if the share of non-earning assets in bank portfolios were to increase.

E. Bank Restructuring

39. Progress in bank restructuring has been slow and past attempts at restructuring the three largest state-owned banks were not successful. In 1991, during the Czechoslovak Federation, the Consolidation Bank (KB) was created to function as an asset resolution company for problem assets inherited from the past regime. About 25 percent of VUB's portfolio (which comprised working capital loans to socially-owned enterprises) was transferred to KB. In 1992, a program was created to prepare enterprises and banks before mass privatization.

Under this program, VUB wrote-off about 10 percent of its outstanding loans and correspondingly reduced its liabilities to enterprises. Further loan carve-outs, involving VUB and IRB, were effected in 1993 and 1994. These attempts did not involve any operational restructuring of these banks or effective work out of bad loans. Furthermore, these transfers did not effectively clean up the banks or restore their capital adequacy level to the minimum standard. More recently, in early 1996, the NBS exempted the three banks from the minimum capital adequacy standard and declared these banks to be under restructuring. However, short of this exemption, no restructuring measures were implemented and the exemption expired toward end-1997.[27]

40. The new government, which came into power at the end of 1998, indicated its intentions to implement a comprehensive program for bank and enterprise restructuring. At its request, SLSP's and VUB's new management submitted restructuring proposals for the two banks. The government has not yet confirmed specific restructuring plans.

41. In the face of slow progress in bank restructuring and the declining financial performance of the three major state-owned banks, the prompt launching of a comprehensive restructuring program, and rapid privatizing of the banks, is a matter of high priority. Such a program would have to be based on a realistic evaluation of the quality of the overall bank assets, which could only be established by undertaking extended audits of these banks.

- **VUB**

42. The most immediate concern is the rapidly deteriorating condition of VUB, which posted substantial losses in 1998, and is preserving its liquidity by offering high deposit rates.[28] New management was appointed in mid-1998 and indicated its intentions to strengthen the bank's credit activities, to effectively work out more problem loans, and to cut-down on operating costs. But despite a highly needed operational restructuring, VUB's worsening financial conditions suggest that a write-down of a substantial segment of its classified assets and a subsequent capital injection would be required to enable it to grow. In view of its systemic importance, there are advantages to pursuing a rehabilitation strategy that embraces financial and operational restructuring of VUB, and a subsequent rapid privatization.[29]

---

[27] Near the end of its term, the previous government approved the Program of Revitalizing Selected Banks. This program involved a transfer of Sk 7.6 billion from the NBS' provisions to the state budget for the purpose of restructuring SLSP, VUB, IRB, and the resolution of assets at KB. This program was called off by the new government.

[28] For example, published rates for April 1999 indicated that VUB offered the second highest rate in the banking system on 7-day deposits (the highest rate was offered by IRB).

[29] VUB is currently in the list of strategic enterprises and cannot be privatized until end-1999.

- **IRB**

43. Although IRB has been placed under NBS conservatorship since December 1999, progress in the resolution of its condition, or in the restructuring of its operations, has been insufficient.[30] In fact, during the last fifteen months, IRB lost most of its deposit base, and it is now mainly dependent on NBS funding for its operations.[31] Prompted by the maximum time period allowed for conservatorship of two years, after which the bank must be either recapitalized or liquidated, the authorities made progress recently in the preparations for IRB's privatization, as an extended audit of the bank was completed and contacts with potential strategic investors have been initiated. However, resolution strategies for IRB are constrained by the fact that this bank has limited commercially attractive loans.[32] Thus, its privatization would probably need to be accompanied by almost a full carving out of its portfolio. Accordingly, the authorities should consider a strategy of selling parts of the bank (its infrastructure, cash, securities, and the small deposit base it maintained) to a strategic investor followed by the liquidation of the remainder of the bank.

- **SLSP**

44. Despite its high liquidity deriving from its monopoly position in the retail market in many regions of the country, the Slovak Savings Bank has performed poorly. Because of its size and large branch network, and because it provides interbank liquidity (particularly to

---

[30] Initial action in 1998 to increase the bank's equity failed with only domestic participation being sought. Furthermore, the process did not include any restructuring of the bank's portfolio. Only a partial recapitalization of the bank, through a capital injection by the Slovak Insurance Company of Sk 2 billion, was effected and the bank continued to be insolvent.

[31] At end-1998, NBS funding amounted to around Sk 26.4 billion, of which Sk 12.7 billion was redistribution credit to fund IRB's social housing loans and, partially, the power plant loan. The rest comprised short-term liquidity support. The NBS has fully provisioned for the redistribution credit on account of the housing and power plant loans, but the rest of NBS liquidity support is neither provisioned nor collateralized.

[32] Of a total credit portfolio of Sk 31 billion (comprising 80 percent of its assets), Sk 13 billion is in a single exposure to the Mohovce nuclear power company, and SK 8.7 billion consists of social housing loans. Interest rates charged to these two types of loans are fixed at below-market rates of 15 percent and 1 percent, respectively. Although the government is committed, in principle, to compensate IRB for the difference between the interest rate charged on the housing loans and the discount rate which is paid to fund them, the budget allocation for this purpose was canceled in 1998. A budget allocation was reinstated in 1999, but it was insufficient to cover IRB's costs on these loans (about Sk 800 million per year in 1998 and 1999). The remainder of the portfolio (about Sk 9.3 billion) is almost entirely classified credit to the enterprise sector.

VUB, IRB, and the Consolidation Bank), the Savings Bank is seen as being of systemic importance. Thus, the authorities' resolution strategy rests first on operational and financial restructuring, then privatization. As in the case of VUB, the management of the Slovak Saving Bank is still new (appointed in mid-1998), and it must undertake significant operational restructuring. The government announced plans to partially privatize this bank (up to 49 percent) by 2000.

Measures to be considered to support bank restructuring

45. Until privatization is realized, the managements of the state-owned banks would be well advised to pursue immediate measures to avoid further deterioration of the banks' financial performance, including undertaking ambitious operational restructuring, and strengthening credit policies, collection practices, and governance more generally. A strategy to minimize fiscal costs and to facilitate the process of restructuring could be adopted to include most immediately:

- legislative amendments to the Bankruptcy Law and other related legislation to enable banks to more effectively workout their less problematic loans;

- accelerated restructuring of the enterprise sector, which would be closely associated with the resolution strategy for state-owned banks;

- a clear and comprehensive cut-off criteria, in conjunction with the enterprise restructuring program, determining loans eligible for "carving out" from the three state-owned banks' loan portfolios so as to engage the banks themselves in the workout of the remaining loans.

- legislative amendments to allow for the involuntary writing down of shareholders' capital; and

- the withdrawal of the banking license from the Consolidation Bank and the passage of independent legislation to support its asset resolution function. To ensure serious effort by its management for resolving problem loans, the life-span of KB should be limited to, at most, five years.

F. Assessment of Banking Regulations and Supervision

Issues related to loan classification and provisioning

- **Loan Classification**

46. Loan classification standards and provisioning requirements were improved significantly in 1995. Despite this improvement, loan classification guidelines for doubtful and loss loans could be strengthened further. These regulations define five categories for loan classification based on the period of arrears and also on the repayment capability of

borrowers.[33] NBS regulations specify a repayment delay period of 180–360 days for the classification of loans as doubtful and litigious, and a delay of over 360 days for the classification of loans as loss. In comparison, international best practices require that loans be classified as doubtful if payments are delayed over 90 days and if loans cannot be classified as substandard. Furthermore, if payments are delayed over 90 days and if loans cannot be classified as substandard or doubtful, such loans should be classified as loss.[34]

47. The NBS implemented strict guidelines for the classification of restructured and refinanced loans in 1995. Currently, restructured loans cannot be reclassified in categories better than substandard. If loans were restructured several times, they must be classified as doubtful, but could be reclassified as special-mention only if they meet one of the following conditions: (i) the loan was standard or special-mention before restructuring; or (ii) the loan was restructured without extending the maturity. In the case of refinanced loans, they can be classified as special-mention if they are properly paid (including interest, fees and commissions). If interest, fees and commissions were not paid, the original classification is to be continued.

48. Strict enforcement of loan classification regulations is weak. Although NBS regulations require banks to classify their loans based on cashflow and repayment capabilities of borrowers, most banks base their loan classification on mechanical rules, particularly, on delays in loan repayment.[35] Furthermore, weaknesses in NBS on-site examinations, particularly the low frequency of these examinations, gives banks leeway to avoid strict loan

---

[33] The categories are as follows: (i) Standard: the client is solvent; delays in payment do not exceed 30 days; the securitization is of high quality; (ii) Special-mention: the client is solvent but subject to slight economic or financial problems; delays of payment are between 30 and 90 days; (iii) Substandard: there is considerable risk of the claim not being paid in full; delays of payment between 90 and 180 days; (iv) Doubtful and litigious: repayment in full seems highly improbable or questionable; clients is insolvent; delays in payment between 180 days and 360 days; and (v) Loss claims: the claim is uncollectible; delays in payment in excess of 360 days; client is in bankruptcy or liquidation.

[34] For example, if a loan is overdue for more than 90 days and is backed partially by liquid collateral such as a deposit or marketable securities, this portion of the loan can be classified as substandard or above, but the remaining portion of the loan must be classified as doubtful or loss.

[35] Also, the deterioration in the solvency and liquidity of the enterprise sector affected banks' ability to produce reliable forecasts of enterprise repayment abilities.

classification.[36] The NBS, however, is considering measures to strengthen current regulations on loan classification to ensure the implementation of cashflow analysis.[37]

- **Provisioning and collateral**

49. Properly administered loan classification and provisioning for impaired loans is an essential element of prudent risk management and capital adequacy measurement. Provisioning for loan losses is a method for recognizing the reduction in the value of a bank's loan portfolio. Thus, provisioning against total or partial loan losses is crucial for determining a bank's net income and assessing the size of its capital. When these are not in place, capital adequacy figures may be severely distorted.

50. Provisioning requirements in the Slovak Republic are consistent with international best practices. Mandatory provisions for loans are as follows: provisions for special-mention loans are set at 5 percent; substandard loan provisions at 20 percent; doubtful and litigious loan provisions at 50 percent; and provisions for loss loans at 100 percent. Full provisioning is required for unpaid interest, fees, and commissions classified as substandard or less.[38]

51. The appraisal of collateral in the Slovak Republic is, however, difficult and tends to be overestimated. Current market turnover is very weak and there are essentially no markets for some types of collateral. Furthermore, bankruptcy procedures to realize collateral value are lengthy and expensive. Therefore, for collateral valuation purposes, the NBS specifies a percentage of the initial collateral value—typically 70 percent—in the first year, with a slowly declining percentage thereafter. This method does not relate collateral value to market value and also does not consider the cost of foreclosure.

52. NBS regulations allow collateral value to be deducted from the loan principal in calculating provisioning requirements. In view of difficulties in evaluating the true market value of collateral, the adequacy of bank provisions for loan losses is a great concern. In a related vein, efforts to ensure better (and perhaps more conservative) valuation of collateral value based on more realistic appraisals would be welcome, and helpful in enforcing adequate provisioning.

---

[36] On-site examinations are carried out, on average, once every three years for each bank compared to a recommended frequency of one examination per year. Accordingly, cases of problematic loan classification are not corrected on a timely basis by the banking supervisory authorities.

[37] These measures could include a detailed stipulation of the methodology for analyzing the financial conditions and cashflows of borrowers, and the expansion of bank reporting to the NBS.

[38] Fees and commissions which stay in arrears for more than 90 days are classified as substandard.

- **Non-loan valuation**

53. The NBS does not have the legal authority to regulate the classification and provisioning of non-loan assets of banks. It is strongly recommended that the NBS establish the legal basis to issue such regulations, including establishing guidelines for security classification and the establishment of appropriate valuation reserves for such securities.

- **Writing-off of bad loans**

54. Banks' ability to write-off bad loans against provisions is greatly impeded by inefficient bankruptcy and tax legislation. The total amount of bad loans which were written-off in 1998 amounted to only Sk 1.9 billion, compared to total provisions of more than Sk 36.9 billion. In addition to time-consuming bankruptcy procedures and inadequate infrastructure to support these procedures (including an inadequate number of bankruptcy judges, courts, and administrators), a number of large enterprises were granted special protection under the Revitalization Act, which was cancelled in 1998, and banks were for some time unable to pursue bankruptcy procedures against these enterprises. Since the Tax Law does not allow for tax deductibility against these loans without a court decision on bankruptcy, this Act hindered creditors from writing-off a number of large problem loans.

55. The new bankruptcy legislation, introduced in 1998, represents an improvement and could result in a more rapid writing-off of bad loans. The new legislation introduces automatic triggers for bankruptcy procedures, in which the debtor is obligated to file a bankruptcy settlement petition if the individual has been unable to repay his commitments for more than 60 days. Non-compliance with this obligation is an infraction under the Criminal Code. However, the authorities' willingness to fully implement this legislation, and the capacity of the courts to handle an increased caseload, have yet be tested. The limited powers of creditors in bankruptcy procedures continue to hinder the quick resolution of bankruptcy cases.

56. Rapid writing-off of bad loans can improve asset quality of banks considerably.[39] Banks should also be encouraged, after adequate amendments to the Tax Law, to allow tax deductibility without a legal court decision and to use out-of-court settlements, so that bad loans can be written-off without creditors having to wait for a judicial ruling on bankruptcy.

- **Income recognition: interest accrued but not earned**

57. Inappropriate income recognition policies can rapidly distort banks' financial statements, especially when nominal interest rates are high. When interest payments, fees,

[39] A bank's asset quality is usually based on its nonperforming loan ratio. If a bank writes-off its bad loans in a speedy way, it can maintain good asset quality and thus mobilize funds on favorable terms.

and other revenues accrue in a bank's account, and their future collectibility is doubtful, a bank overstates its income and thus, ultimately, its capital and revenues. Furthermore, banks might be obligated to pay taxes on income that they have not actually received.[40] To avoid such a situation, nonperforming assets should be placed on a non-accrual status so that income is recorded only when it has actually been received in cash.

58. Accounting practices in the Slovak Republic in this area deviate substantially from international best practices. Under the Slovak Accounting Act, interest is accrued on nonperforming loans and is recognized as income. Best international practices require that, when interest on an asset is due and is unpaid for 90 days, interest should cease to be accrued. Furthermore, banks are required to reverse unpaid interest out of income, and book it in the interest-in-suspense-account.

- **Tax deductibility**

59. Taxation should be based on a concept of profits that is correct and realistic. Hence, a clear definition of taxable income is critical. Tax deductibility for provisioning is very limited in the Slovak Republic. According to the Law on Provisions and Reserves, only statutory provisions, as defined in this Law, can be deducted at cost for tax purposes. The volume of statutory reserves is defined as follows: (i) 2 percent of the increase within the fiscal year of the volume of loans classified as standard or special-mention; (ii) 10 percent of the increase within the fiscal year of the volume of loans classified as substandard, doubtful, or loss; and (iii) 2 percent of the increase within the fiscal year of the volume of off-balance items. These reserves are effectively specific loan provisions but are presented in banks' books under a separate category (statutory reserves) for tax payment purposes. All additional specific loan loss provisions that are made by banks in order to fulfill NBS regulations for provisioning are then booked under the category specific provisions and are not tax exempt.

60. Such limited tax deductibility of specific loan provisions does not provide incentives for banks to acknowledge impaired credits, or to make adequate provisions for these credits. Specific loan provisions should be viewed as costs that are a part of normal banking operations, and their early acknowledgment by banks should be encouraged by all underlying legislation. Therefore, full tax deductibility of all specific provisions is advisable to encourage banks to acknowledge impaired loans, and to provision for these loans, at a faster rate.[41]

[40] This situation applies for the Slovak Republic, as the Tax Law treats accrued income on nonperforming loans as actual income.

[41] In the event that such deductions exceed net income, this loss should be carried forward in accordance with pre-arranged procedures.

61. Existing regulations require full taxation of interest accrued on nonperforming loans. Only the penalty (premium) interest on overdue interest is deducted from the tax base. Accordingly, actual income of banks as defined for tax purposes is overstated, and banks are consequently overtaxed. The authorities acknowledge this serious shortcoming and are currently in the process of revising the Law on Provisions and Reserves to allow for the deduction of accrued interest on nonperforming loans from the tax base.

Capital adequacy requirements

62. The current minimum paid-in capital requirement for a full banking license is Sk 500 million. NBS Decree No. 2/1994 introduced rules for calculating the capital adequacy ratio and set end-1996 as the deadline for all banks to meet a capital adequacy ratio of 8 percent.[42] Banks report their capital adequacy to the NBS on quarterly basis.

63. NBS regulations for the calculations of the capital adequacy ratio are generally adequate. These regulations require that capital investments in other banks or companies be deducted from the bank's core capital. In the absence of consolidated supervision, as in the case of the Slovak Republic, this practice is sound and is necessary to prevent the multiple use of capital.[43] Furthermore, uncovered losses (shortfalls in specific provisions) on nonperforming loans are deducted from capital. This deduction is also necessary for the proper calculation of the capital adequacy ratio where specific loan provisions should be treated as losses and thus be fully deducted from the capital base. Specific provisions for loan losses are not allowed as Tier II capital. Although NBS regulations used to allow the inclusion of subordinated debt as Tier II capital (up to 50 percent of Tier I capital), current regulations, which came into effect on June 30 June 1997, do not allow for the inclusion of subordinated debt as Tier II capital.[44] This modification was introduced since the legal system in the Slovak Republic did not recognize the qualification of subordinated debt.

---

[42]Capital adequacy calculation rules were later amended in Decree No. 5 of May 16, 1997 (which was effective on June 30,1997). In early 1996, the NBS Board of Directors exempted the three largest state-owned banks (VUB, SLSP, and IRB), which were characterized as undergoing restructuring, from minimum capital adequacy requirements. This exemption expired at end-1997 but none of the three banks were able to comply with the minimum standard.

[43] Basle Committee's Capital Accord and the EU Directive on capital adequacy (December 1989) require that solvency ratios be calculated on a consolidated basis when a financial institution is the parent entity of a group of undertakings.

[44] The new regulations, however, did not affect the treatment of subordinated debt that was issued prior to the date on which the new regulations came into effect. Tier I, or core capital, comprises share capital and so-called disclosed reserves. Tier II capital includes undisclosed continued...

64. Notwithstanding the above, NBS regulations of capital adequacy could be strengthened to reflect more adequately developments in international best practices in the area of market risk, including the EU Capital Adequacy Directive (March 1993) which addresses market risks, and the Basle Committee amendment to the Capital Accord which implements a capital charge related to market risk.[45] The absence of regulations on market risk in the Slovak Republic does not pose an immediate risk as bank trading activities are limited. However, if bank trading activities increase considerably, prudential regulation on market risk should be introduced.

Other prudential regulations

65. Credit exposure, connected lending, and foreign exchange limits do not deviate largely from international best practices. However, liquidity regulations should be improved substantially to provide more adequately for sound liquidity management.

66. Large exposure regulations, specified in NBS decree No.3/1994, require that the sum of individual exposures that exceed 15 percent of a bank's capital not to exceed 800 percent of its capital. These regulations are less stringent than those specified in EU Large Exposure Directive (December 1992) where a limit of 10 percent of a bank's own funds is specified to define large exposures as opposed to the Slovak Republic's limit of 15 percent.

67. Other NBS regulations on credit exposure do not deviate from international best practices. Exposure to a single borrower (nonbank client) is limited to 25 percent of a bank's capital. Furthermore, credit exposure to a single bank or banking group is limited to 80 percent; total insider lending (to shareholders or employees) to 5 percent; and connected lending limits to 25 percent of a bank's core capital. NBS regulations require the correction of any violation of these limits within six months, and banks are required to maintain an information system to monitor credit exposure.

68. Foreign exchange regulations are consistent with best international practices. Foreign exchange exposure limits are regulated by the NBS decree No. 11/1997. Total overnight foreign exchange positions in convertible currencies (which includes off-balance sheet exposure) is limited to 25 percent of a bank's capital. The decree regulates open positions in individual foreign currencies at 10 percent and non-convertible currencies at 2 percent.

69. Prudential regulations on liquidity require that the ratio of the sum of liquid assets (cash and assets with maturities of up to one month) to the sum of liabilities with maturities of up

---

reserves, asset revaluation reserves, general provisions/loan-loss reserves, hybrid (debt/equity) capital instruments, and subordinated debt.

[45] The amended Accord came into effect at end-1997.

to one month to be at least 100 percent.[46] The ratios are calculated on an end-month basis. To insure a more adequate maintenance of liquidity positions, it is desirable that liquidity positions be enforced on a monthly-average basis, rather than on an end-month basis. Other desirable improvements include the introduction of other liquidity ratios such as the ratio of fixed assets to total assets, and the specification of a maturity ladder which expands the limits of the ratio of assets to liabilities to the other maturity ranges.

Prompt corrective action

70. The persistence of a close relationship between the government, state-owned banks, and enterprises created a situation of wide-spread moral hazard in the banking sector for several years. At the same time, it has made it difficult for banking supervisors to exercise their authority appropriately when there has been a need to deal with problem banks swiftly and firmly. In the absence of a prompt corrective action system that is based on explicit quantified criteria, such as capital adequacy ratios, supervisory forbearance has often been practiced. This absence has also made it difficult for the banking supervision authorities to implement corrective measures.

71. To deal with this weakness, it would be highly desirable that a prompt corrective action system be introduced in the Banking Act to include clearer exit policies and procedures in order to ensure the rapid exit of nonviable banks and the timely remedial action of current banking problems.[47] Although the current Banking Law contains several provisions with regard to conservatorship and revocation of banking licenses, these measures are not binding and should be reinforced. Remedial measures specified in a prompt corrective action system could require certain supervisory actions based on the shortfall of a bank's capital adequacy ratio relative to the minimum required standard.

72. These measures should include the revocation of the banking licenses of insolvent banks. Prompt corrective actions would enable the bank supervision authorities to exercise necessary measures to deal with problem banks before bank problems become critical, and would not allow for political interference or regulatory forbearance. Such a system would minimize the eventual costs of restructuring problem banks. In addition to the introduction of such a system, the power of the NBS to revoke banking licenses should be strengthened: the

---

[46] The NBS raised the liquidity ratio gradually as follows: 70 percent (effective September 30, 1997); 85 percent (effective December 31, 1997); and 100 percent (effective March 31, 1998).

[47] Country experiences indicate that the lack of early intervention in problem banks are generally attributed to political pressures, undue optimism on the part of supervisors, reluctance by the supervisory authorities to undertake unpleasant actions, and reluctance to admit the failure of good supervision. To avoid such situations, several countries introduced provisions in their banking laws that require certain supervisory actions based on banks' specific conditions, including the closure of insolvent banks.

Banking Law now requires that the NBS consult with the Ministry of Finance (MOF) before the revocation of a banking license. This requirement could hinder an immediate action by the NBS against insolvent banks and should be removed.

Compliance with the Basle Core Principle for Effective Banking Supervision

73. Banking activities are changing rapidly and international best practices are rapidly evolving. It is now internationally acknowledged that the Core Principles (CPs) should be viewed as minimum standards, and that there is a constant need for the upgrading of supervisory capabilities practices to keep up with developments in banking operations and to ensure best practices in banking supervision.

74. The NBS completed a self-assessment of its compliance with the CPs and concluded that it is in compliance with 13 CPs, in partial compliance with 11 CPs, and is not compliant with one CP.[48] To achieve fully compliance, it would be highly desirable if the NBS actively seek improvements in its supervisory system to complete the implementation of all CPs. Furthermore, the NBS should continuously seek the enhancement of its supervisory capabilities even in the areas of CPs that it is in compliance with. For example, although the NBS fulfills CP22 (formal powers of supervisors) which describes supervisory corrective measures, the NBS could further enhance its supervisory system and its compliance with CP22 by introducing a prompt corrective action system.

Supervision on a consolidated basis

75. An essential element of sound banking supervision is the ability to supervise financial institutions on a consolidated basis. This includes the ability to review both banking and other financial activities conducted by a bank, either directly or indirectly, and activities conducted at both domestic or foreign offices, and to assess compliance with prudential standards on a consolidated basis. For supervision on a consolidated basis to function effectively, cooperation and exchange of information are essential between the relevant supervisory bodies. When supervision is not done on a consolidated basis, supervisors fail to obtain a global view of all the risks faced by a bank and its group, and a bank may easily escape supervision by transferring some of its activities to a nonbank financial subsidiary. Furthermore, supervisors need to take into account risks to the bank posed by non-financial

[48] CP11 "country and transfer risk" has not been implemented. Partially implemented Core Principles (CPs) are as follows: CP1 "preconditions for effective banking"; CP2 "licensing process"; CP5 "major acquisition or investment by a bank"; CP9 "concentration of risks and large exposures"; CP12 "market risk management"; CP13 "other risk management"; CP20 "consolidation supervision"; CP21 "information requirements of banking organization"; CP23 and 24 "obligation of home country supervisors"; and CP25 "obligation of host country supervisors."

activities of a bank or group. Accordingly, sound banking supervision should take into account the overall structure of the banking organization or group.

76. Supervision in the Slovak Republic is not conducted on a consolidated basis, and the legal basis for conducting consolidated supervision is lacking. In particular, the Banking Act does not define banking supervision on consolidated basis, and does not authorize the NBS to demand, review, and verify information concerning companies in financial groups.

77. However, the Slovak banking system is based on the universal banking model, where banks are allowed to directly engage in a range of financial activities, including leasing, insurance and investment in securities, and are allowed to own other nonbank financial institutions as their subsidiaries. In addition, with the prior approval of the NBS, a bank can own more than 10 percent of the equity of nonbank corporations (but may not exceed 25 percent of a bank's capital). Combining financial firms with industrial and commercial companies creates some fundamental concerns. This combination may cause considerable risks to banks, notably the risk of contagion from nonbank companies to banks. Financial subsidiaries pose additional contagion risks to parent banks.

78. In order to minimize possible contagion to parent banks, the Banking Act should be amended to provide the legal basis for consolidated supervision. Furthermore, the NBS should define and monitor relevant prudential regulations, including regulations on capital adequacy ratios, on a consolidated basis. Consolidated supervision could be facilitated through the conclusions of agreements or memoranda of understanding between the relevant overseas supervisory agencies to allow the NBS to conduct consolidated supervisions including on subsidiaries, branches, and representative offices of Slovak banks in other countries. It would also be useful to allow foreign countries' supervisors to obtain supervisory information on foreign banks operating in the Slovak Republic.[49]

Internal controls and auditing

79. The Banking Act requires every licensed bank to have a supervisory board, consisting of at least three members. The supervisory board is the organizational unit responsible for the system of internal controls, and is required to submit to the NBS an annual report on the performance of the internal control system. Consistent with Basle Committee

---

[49]The CPs specify consolidated supervision as a minimum standard for sound banking supervision. According to CPs recommendations, host supervisory authorities should refuse the establishment on their territory of a subsidiary of a financial institution which is not supervised on a consolidated basis by the supervisory authorities in its home country. In 1993, the NBS signed the Agreement on Banking Supervision with the Czech National Bank in 1993 (after the division of the Czechoslovak Federation), and a new agreement is planned to be signed in the near future. Besides a Czech bank branch, one branch of a Dutch bank is operating in the Slovak Republic. Currently, there is no agreement between the supervisory authorities of the Slovak Republic and the Netherlands.

recommendations, the Law also provides for the complete independence of the internal audit sections from bank management.

80. Notwithstanding the above, on-site examination procedures of bank internal control systems are somewhat lacking. The NBS requires bank management, typically before a bank commences its operations, to submit the bank's internal control policies and procedures designed to ward off attempts to abuse the banking system for money laundering, but does not follow up on developments in bank internal control systems during on-site examinations.

81. Regulations with regard to the appointment and operations of bank external auditors are appropriate. The Banking Act requires that banks notify the NBS of the appointment of external auditors. The NBS in turn is entitled to reject an appointed auditor within 30 days after the receipt of the bank's official notification. Furthermore, the Banking Law requires external auditors of banks to notify the NBS immediately of any eventuality that may jeopardize bank operations. Notwithstanding the above, a shortage of high quality professional training in this area tends to weaken external auditing in the Slovak Republic.

Accounting and public disclosure

82. The Slovak Republic made significant improvements in accounting standards and reporting requirements in recent years. However, weak external auditing and banking supervision continue to be problematic, and further reconciliation of Slovak accounting rules with international standards is needed, particularly in the area of consolidated financial reporting and disclosure requirements.

83. Currently, the MOF is charged with setting Slovak accounting standards including for banks. However, in view of the strong link between accounting regulations and capital standards, it is appropriate that the responsibility for issuing accounting standards for the banking sector be transferred to the NBS. This would resolve the apparent conflict in the Banking Act in this area: whereas Article 15 of the Banking Act stipulates that the definition of "capital," "reserves," "asset," and "non-secured foreign exchange positions" are subject to the rules set by the NBS, Article 21, paragraph (1) stipulates that the method of accounting and the preparation of financial statement by banks are governed by the MOF.

84. Disclosure requirements are in general appropriate. The March 1996 amendment to the Banking Act requires all banks to disclose credits larger than SK 3 million to the Central Credit Registry. The Banking Act also requires banks to publish data from their audited financial statements, in a manner set forth in a separate regulation, and to prepare annual reports for publication.

Deposit insurance scheme

85. The objective of a deposit-guarantee scheme is to reinforce the confidence of the depositors in the banking system by providing (limited) protection to depositors. The Deposit Security Fund came into effect on July 1,1996. The scheme limits the guarantee to deposits

of natural persons (with the exception of accounts established for the purpose of business) and provides a guarantee up to a limit of 30 times the average monthly salary in the Slovak Republic. This scheme is not fully consistent with the EU Directive on Deposit Guarantees (May 1994) which requires coverage of all deposits, including those of legal persons.

On-site examination

86. Although the banking supervisory process, through on-site examination and off-site monitoring, has improved in recent years, there are some persistent weaknesses in the process. On-site examinations were introduced around end-1993, permitting the NBS to better assess loan portfolio quality, bank operations, and risk management capabilities. However, intensive on-site examinations and monitoring compliance with prudential requirements continue to be limited because of the limited resources available to the Banking Supervision Department of the NBS. Particularly, the number of staff available for on-site examinations is insufficient and accordingly, the frequency of on-site examinations is inappropriate: the NBS conducts eight on-site examinations on average per year, which implies that each bank receives one on-site examination every three years.[50]

87. This issue is of substantial importance, particularly in view of the deteriorating asset quality of banks and the increasing cases of bank non-compliance with prudential regulations. On-site examination capabilities should be reinforced further through increasing qualified staff and intensifying training. Furthermore, banking supervision in the Slovak Republic could be improved through better coordination between off-site monitoring and on-site examination.

G. Legislative developments

88. The legal framework for the banking system in the Slovak Republic is established by the National Bank of the Slovak Republic Act and the Banking Act. The National Bank of the Slovak Republic Act was adopted in November 1992, and a modern Banking Law became effective in 1992.

89. The National Bank of the Slovak Republic Act defines the powers of the central bank. The responsibility of banking supervision in the Slovak Republic was transferred, based on this Act, from the MOF to the NBS (effective January 1, 1993). Accordingly, the NBS is granted the legal powers to issue binding prudential regulations and to verify that financial institutions comply with these regulations. Notwithstanding these improvements, the credibility of the NBS as a banking supervisor could be further enhanced by eliminating any risk of duplication of supervision exercised by the NBS. Specifically, Article 37 of the NBS Act specifies responsibility sharing between the MOF and the NBS with regard to on-site examinations. Such sharing of responsibility is inefficient and could undermine the

[50] Currently, 20 officers are working at the on-site supervision department.

accountability of each organization in the performance of supervision. Although in practice the NBS conducts on-site examinations independently, the responsibility-sharing provisions of the Act could be repealed.

90. Banking supervision capabilities of the NBS were enlarged and improved upon since the modern Banking Act became effective in 1992. Although the Act has been amended several times since 1992, there remain several areas which need to be improved. Specifically, the Banking Act requires that the NBS acquire MOF agreement for granting banking licenses and that it consult with the MOF in the case of a revocation of a banking license. These provisions could limit the independence of the NBS and also could result in unnecessary and inefficient use of scarce staff resources. Furthermore, the Banking Act lacks sufficient explicit authority for the NBS to issue key regulations related to provisioning and income.

Table II-1. Slovak Republic: Banking Sector Indicators

	1997						1998					
	Sector	Group 1	Group 2	Group 3	Group 4	Group 5	Sector	Group 1	Group 2	Group 3	Group 4	Group 5
Number of banks	29	3	18	2	2	4	27	3	18	2	2	2
Percent of total assets	100.00	50.69	31.38	4.50	3.06	10.37	100.00	45.94	36.57	5.41	2.99	9.09
Majority state-owned (number)	5	3	0	0	2	0	5	3	0	0	2	0
As a percent of total assets	53.75	50.69	0	0	3.06	0	48.94	45.94	0	0	2.99	0
Majority Foreign-owned (number)	13	0	8	1	0	4	11	0	8	1	0	2
As a percent of total assets	26.83	0	15.62	0.84	0	10.37	28.87	0	18.72	1.06	0	9.09
	(As percent of GDP; unless otherwise stated)											
Total assets	118.80	60.22	37.28	5.34	3.64	12.32	102.52	47.10	37.49	5.54	3.07	9.32
Total credit	54.31	31.05	15.01	0.41	2.56	5.28	47.32	27.04	14.81	1.29	2.94	2.27
Credit to enterprises	50.98	27.89	13.57	0.04	4.15	5.34	42.19	22.91	14.03	0.06	2.94	2.26
of which: in foreign currency	5.75	1.72	2.66	0.00	0.00	1.38	5.68	2.01	2.86	0.00	0.00	0.81
Credit to households	5.40	4.37	0.66	0.35	0.00	0.03	5.62	3.79	0.58	1.23	0.00	0.01
of which: in foreign currency	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.00	0.00	0.00
Total deposits (excluding interbank)	61.91	...	...	...	...	...	59.19	32.39	18.99	4.61	0.12	3.08
Foreign exchange deposits (as percent of total deposits)	13.06	...	...	...	...	...	16.28	13.42	22.39	0.00	0.00	33.67
	(As percent of total assets)											
Foreign currency denominated												
Assets	39.12	23.08	56.48	0.86	1.31	92.82	41.98	22.45	65.06	0.82	1.53	85.63
Liabilities	38.56	23.46	53.03	0.00	0.97	96.42	42.87	25.08	61.97	0.03	2.02	94.84
Deposits	52.11	...	...	...	...	...	57.73	68.76	50.66	83.15	3.92	33.05
Credit to enterprises	42.91	46.31	36.38	0.76	114.02	43.36	41.16	48.65	37.42	1.06	95.77	24.23
Credit to households	4.55	7.26	1.76	6.46	0.06	0.22	5.48	8.05	1.54	22.13	0.10	0.15
	(Percent; unless specified otherwise)											
Risk-weighted capital/asset ratio[1]	10.03	6.67	13.17	44.85	22.43	n.a.	8.61	2.71	12.51	38.05	25.42	n.a.
Central Bank credit to banks (as share of total assets)	6.64	7.68	2.15	0.00	67.27	0.18	7.61	10.16	2.80	0.00	63.89	0.14
Average (before tax) return on equity[2]	0.46	-40.19	21.27	65.93	-51.38	n.a.	-19.68	-157.34	25.73	96.51	-15.45	n.a.
Average (before tax) return on assets[2]	0.05	-0.72	1.41	2.30	-6.36	0.89	-0.90	-3.41	1.55	2.63	-1.95	1.19
Nonperforming loans, substandard or less as percentage of total loans	23.80	31.89	5.67	0.05	62.66	10.80	28.58	37.31	7.22	0.13	87.77	34.98
Provisioning shortfall (billion koruna)	12.14	9.88	0.00	0.00	2.26	0.00	23.52	20.04	0.00	0.00	3.48	0.00
Short-term lending spread (period average)[2]	6.12	...	...	...	...	...	2.11	...	...	...	...	...
Overnight interbank rate (period average)	24.54	...	...	...	...	...	15.56	...	...	...	...	...

Sources: National Bank of Slovakia, and staff estimates.

1/ Official data (presented here) on risk -weighted capital/asset ratio take into account shortfalls in loan provisioning.
2/ Data on retrun on asset and return on equity is adjusted by staff to take into account shortfalls in loan provisioning.
3/ One month lending rate minus one-month deposit rate.

Table II-2. Slovak Republic: Capital Adequacy Ratio by Banking Groups, end-1998

(Official data, billion koruna)

Bank Group	End-1997			End-1998		
	Capital	RWA	CAR	Capital	RWA	CAR
Group 1	14.3	213.6	6.7	5.2	191.4	2.7
Group 2	16.8	127.5	13.2	20.3	162.2	12.5
Group 3	3.4	7.7	44.9	5.5	14.6	38.1
Group 4	0.9	4.0	22.4	1.0	4.1	25.4
Group 5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sector	35.4	352.7	10.0	32.0	372.2	8.6

Source: National Bank of Slovakia.

Notes: RWA indicates risk-weighted assets; CAR indicates risk-weighted capital adequacy ratio. Group 5 banks are not subject to minimum capital requirements.

Table II-3. Slovak Republic: Capital Adequacy Sensitivity Analysis

(Billion koruna; unless specified otherwise)

	Group 1	**Group 2**
Official data, end-1998	5.2	20.3
Capital	191.4	162.2
RWA	2.71	12.51
CAR (percent)		
Collateral value for classified loans	40.4	7.3
Actual Provisions	40.3	7.3
Required provisions (strengthened provisioning requirements)	108.0	21.4
A. Scenario 1: zero discount of collateral value		
Capital	-21.5	13.9
RWA	164.7	155.8
CAR (percent)	-13.1	8.91
B. Scenario 2: 25 percent discount of collateral value		
Capital	-31.9	12.0
RWA	154.4	153.9
CAR (percent)	-20.6	7.78
C. Scenario 3: 50 percent discount of collateral value		
Capital	-42.2	10.1
RWA	144.0	152.0
CAR (percent)	-29.3	6.62

Sources: National Bank of Slovakia and staff calculations.

Notes: In addition to the individual assumptions related to collateral valuation, Scenarios 1 through 3 assume strengthened provisioning requirements as follows: 100 percent for all classified loans (substandard, doubtful, and loss), 10 percent for special-mention loans, and 2 percent for standard loans. Existing NBS provisioning requirements are 5, 20, 50, and 100 percent for special-mention, substandard, doubtful, and loss loans, respectively. The assumption of a 100 percent provisioning for all classified loans may be strict but is made to reflect the possibility that loans may have been misclassified to better-performing categories.

Table II-4. Slovak Republic: Maturity Mismatches, end-1998

(Billion koruna; unless otherwise specified)

	Group 1			Group 2			Group 3			Group 4			Group 5		
	Assets	Liabilities	Ratio	Assets	Liabilities	Ratio	Assets	Liabilities	Ratio	Assets	Liabilities	Ratio	Assets	Liabilities	Ratio
< 1 month	123.9	124.3	1.00	206.9	197.7	1.05	28.1	0.4	72.34	0.9	0.0	312.91	55.6	47.4	1.17
1–3 months	19.9	99.0	0.20	33.1	62.2	0.53	28.3	28.9	0.98	1.3	1.2	1.13	19.2	22.9	0.84
3–6 months	27.2	22.9	1.19	20.5	21.4	0.96	1.2	7.6	0.15	1.3	0.9	1.49	2.3	3.4	0.66
6–12 months	22.3	24.8	0.90	20.8	17.7	1.17	1.3	0.1	17.99	1.4	1.6	0.90	2.2	7.3	0.31
> 1 year	194.7	139.3	1.40	77.6	72.8	1.07	10.3	9.2	1.13	29.8	33.0	0.91	15.2	18.9	0.80
Total	388.0	410.3	0.95	358.8	371.8	0.97	43.7	46.2	0.95	34.8	36.6	0.95	94.4	99.9	0.94

Source: National Bank of Slovakia.

Note: Ratio is the ratio of assets to liabilities.

Table II-5. Slovak Republic: Banking Sector Securities Holdings, end-1998

(Billion koruna; unless otherwise specified)

	Group 1	Percent of Total	Group 2	Percent of Total	Group 3	Percent of Total	Group 4	Percent of Total	Group 5	Percent of Total	All Groups	Percent of Total
Less than 1 month	50.1	80.8	44.2	85.3	22.6	98.1	0	0.0	3.8	0.1	120.9	84.9
1–3 months	0.1	0.2	0.7	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.6
3–6 months	0.0	0.0	0.8	1.5	0.0	0.0	0.2	54.0	0.0	0.0	1.1	0.7
6–12 months	0.9	1.5	0.9	1.6	0.0	0.0	0.2	43.5	0.0	0.0	2.0	1.4
More than 12 months	10.8	17.5	5.3	10.2	0.4	1.9	0.0	2.5	1.1	0	17.7	12.4
Total	61.9	100.0	51.8	100.0	23.0	100.0	0.5	100.0	4.9	0.1	142. 5	100.0

Source: National Bank of Slovakia.

Table II-6. Slovak Republic: Compliance with Credit Exposure Prudential Regulations, end-1998

		Number of banks in non-compliance		
Bank Group	Total number of banks	Credit exposure to a single nonbanking client (Limit 25 percent of capital)	Credit exposure to a single banking client (Limit 80 percent of capital)	Aggregate large credit exposure 1/ (Limit 800 percent of capital)
1	3	3	3	2
2	18	6	3	3
3	2	0	0	0
4	2	1	1	1
5	2	0	0	0
Total	27	10	7	6

Source: National Bank of Slovakia.

1/ A large credit is defined as one in which exposure is more than 15 percent of capital.

III. MEDIUM-TERM FISCAL ISSUES[51]

A. Introduction

91. This chapter discusses some key considerations concerning fiscal performance over the medium term, with a view to identifying significant tensions that could emerge and suggesting possible policy responses. The motivation is that large fiscal imbalances have been at the heart of Slovakia's macroeconomic difficulties, and continued fiscal consolidation is expected to be a key component to achieving and maintaining a stable macroeconomic environment. In this connection, policy will need to contend with several distinctive elements that characterize the structure of both the revenue and expenditure sides. Weakness in tax revenue collection, increases in the spending of the Health funds, and large-scale public investment projects have contributed to the fiscal expansion of recent years. Other distinctive characteristics of the fiscal situation are the heavy reliance on tax revenue, the large role of the state in the economy, and the large size of social transfers.

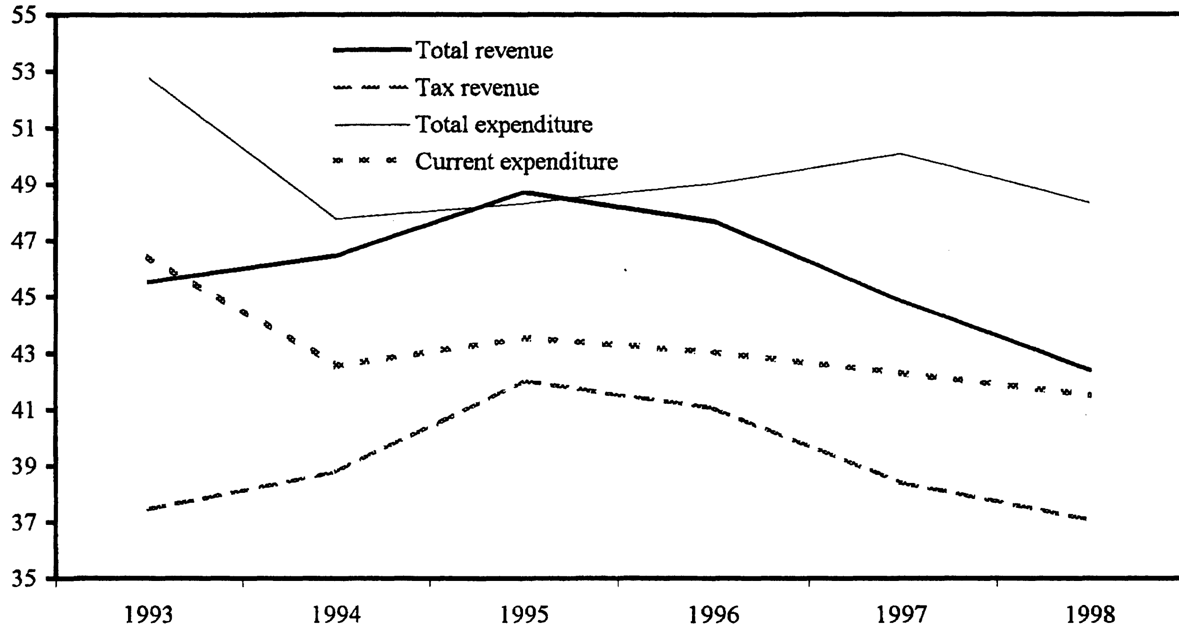
92. The chapter is organized in the following manner. Section B summarizes Slovakia's recent fiscal performance and discusses briefly the outlook for 1999. With this as background, Section C analyzes key fiscal issues, pertaining to both the revenue and expenditure sides, that the country will face in the medium term. Section D draws on the analysis of the preceding section to formulate a quantitative medium-term fiscal adjustment scenario and contrasts it with a no adjustment (passive) scenario. Section E provides concluding remarks.

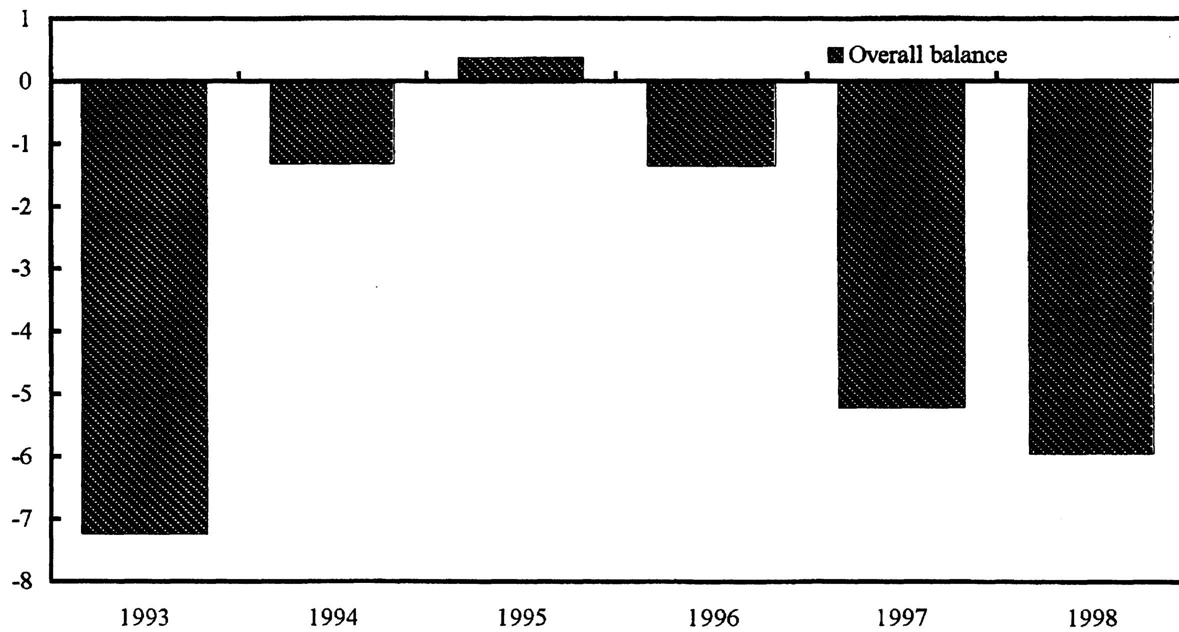
B. Recent Fiscal Performance and the Outlook for 1999

93. Since the ending of the former federation in 1992, developments in public finances witnessed two diametrically different phases. During 1993–95, there was a significant contraction in the fiscal deficit: in fact, the balance of the general government shifted from a deficit of 7.2 percent of GDP in 1993 to a surplus of 0.4 percent of GDP in 1995 (Table III-1 and Figure III-1). During 1996–98, fiscal policy was significantly loosened, with the general government deficit reaching 6 percent of GDP in 1998. The adjustment during the first period was based on measures that contributed to a marked reduction of expenditure while preserving very high tax- and revenue-to-GDP ratios. By comparison, the significant deterioration over the past three years was primarily attributed to significant weakness in tax revenue, increased spending on health, and major public investment projects. The fiscal position became untenable, creating tensions for macroeconomic management, while leaving little room for tax system reform and a lowering of the tax-to-GDP ratio. At the same time,

[51] Prepared by Costas Christou.

Figure III-1. Slovak Republic: General Government Budget Balance, 1993-98
(In percent of GDP)





Sources: Slovak authorities; and staff estimates.

the structure of revenue and expenditure experienced quite a few changes during the 1993-98 period (Figure III-2).

94. In the most recent year, fiscal policy fell short of stated objectives, namely achieving a target deficit of the general government of 2 percent of GDP in 1998.[52] Importantly, there was a significant expansion in extrabudgetary investment in the pre-election period and cost overruns in the public health sector. Tax collection—particularly of the corporate income tax, VAT, and customs duties—was weak, and weakness in non-tax revenue as well as the elimination of the import surcharge (while welcome) further depressed revenue. Finally, the cost of financing the fiscal deficit increased significantly, as interest rates on government debt increased sharply, reflecting the marked increase in financing needs and a relatively tight monetary policy stance in the face of an expansionary fiscal policy.

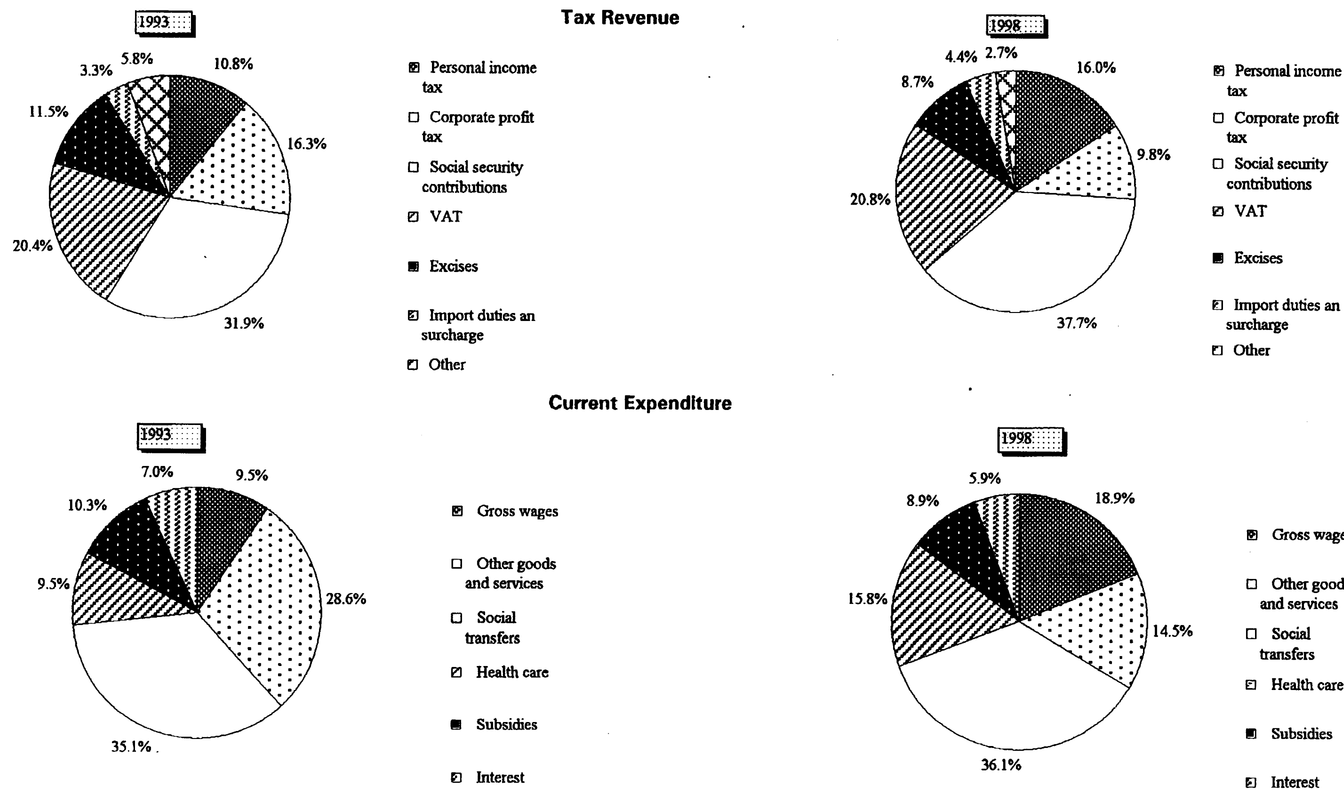
95. Recognizing the need for containing the general government deficit, the new government announced an ambitious fiscal adjustment in 1999. The overall fiscal deficit is targeted to be reduced to 3 percent of GDP or less, supported by a number of measures taken early in the year and, most importantly, by a fiscal package that was announced in late May 1999. To this end, measures taken early in the year included a wage freeze in the budgetary sector, strengthened tax collection efforts, a number of administrative price increases and related subsidy cuts (especially the heating subsidy), and a more general expenditure restraint. In late May, the government decided to strengthen its fiscal effort by announcing the following fiscal measures: an increase in the lower value-added tax (VAT) rate from 6 percent to 10 percent, a motor vehicle tax, increases in excises and administrative fees, reductions in the sickness benefit and the duration of unemployment benefits, and a strengthening in the enforcement of eligibility criteria for family benefits, while also introducing a housing allowance to compensate for substantial increases in the administrative prices of gas, electricity, telecommunications, railway, heating, and rents. With a view to containing balance-of-payments pressures, the government also introduced in its fiscal package a 7 percent import surcharge.

C. Medium-term Fiscal Issues

96. After lowering the general government deficit significantly in 1999, a central policy challenge facing Slovakia will be to maintain the momentum for fiscal consolidation in subsequent years while creating conditions for a reduction in the tax burden, which is

[52] This target was expected to be achieved through strong tax revenue growth (including through an increase in excises and in value-added tax rates on some services, bracket creep for personal income tax, and improved collection of corporate income tax) combined with significant expenditure restraint (particularly reductions in capital expenditure, subsidies, and social security spending).

Figure III-2. Slovak Republic: Structure of General Government Revenue and Expenditure, 1993 and 1998



Sources: Slovak authorities; and Fund staff estimates.

relatively high for a country of Slovakia's level of per capita income.[53] Continuing high fiscal deficits could have a number of adverse consequences, including: (i) large external imbalances, which would be unsustainable and would increase the country's vulnerability to external shocks; (ii) the task of regaining and preserving macroeconomic stability would be made more difficult, including by placing a heavy burden on monetary policy; (iii) there would be a risk of a rising public debt and a debt-service burden that could become unsustainable; (iv) national savings could be depressed, thereby limiting the scope for domestic investment without heavy reliance on foreign savings; (v) the ability to attract sustainable foreign savings in the form of foreign direct investment would be diminished by the likelihood of continued macroeconomic instability; and (vi) there would be limited capacity for absorbing the costs of banking and enterprise restructuring, and thus the pace of structural reform could be slowed. In contrast, medium-term fiscal consolidation and reform, accompanied by a lower tax burden, would help set the basis for durable economic growth.[54]

97. Such a fiscal effort would need to be cast in a way that addresses a number of structural weaknesses on both the revenue and expenditure sides.[55] In this connection, it is important to identify in advance main areas where tensions may show up and thereby facilitate appropriate and timely policy responses. Clearly, reductions in revenues would imply significant pressure on expenditure, if fiscal consolidation were to continue.

[53] Slovakia's tax-to-GDP ratio of 37 percent is among the highest among transition economies with similar per capita GDP (tax-to-GDP ratios of 27 percent for Bulgaria, 37 percent for the Czech Republic, 41 percent for Hungary, 25 percent for Lithuania, 37 percent for Poland, and 27 percent for Romania) and it is well above the ratio of other European countries with much higher per capita GDP (tax-to-GDP ratios of 32 percent for Greece, 26 percent for Malta, 34 percent for Portugal, 35 percent for Spain, and 28 percent for Turkey).

[54] See Musgrave (1959), Feldstein (1994), Fullerton, Walker, Long (1994), and Andersson (1997) for theoretical arguments and empirical evidence to suggest that lowering the tax burden can raise economic growth.

[55] The composition of fiscal adjustment has important implications for the likelihood of success (defined as a long-lasting deficit reduction), as demonstrated by Alesina and Perotti (1997), and Perotti (1996) and (1999). Their main point is that fiscal adjustments that rely primarily on spending cuts in transfers and the government wage bill have a better chance of success (and, in fact, may turn out to be expansionary over time), in contrast with fiscal adjustments that rely primarily on tax increases that tend not to last. Moreover, Mackenzie, Orsmond, and Gerson (1997) provide evidence for the importance of civil service and enterprise reforms, good public expenditure management systems, and a well-functioning tax administration for economic growth.

Revenue Considerations

98. This section assesses various individual taxes in Slovakia relative to other countries in the region, and examines issues in tax administration.

Personal income tax

99. Personal income tax (PIT) collection—at 6 percent of GDP—is comparable with that of other countries in the region (Table III-2). Notwithstanding generous personal allowances and statutory tax rates that are not especially high, tax collections have been robust. This is primarily due to the fact that personal income tax brackets have not been significantly adjusted for inflation since 1994, and to the absence of major PIT exemptions. In comparison with other countries in the region, Slovakia's marginal tax rates are lower than those in Hungary and Poland, while the highest marginal rate becomes effective at a much higher level of income than in those two countries.[56] On the other hand, Slovakia's PIT does not have exemptions or incentives associated with either housing expenditure or investments like in the other two countries. Recently introduced legislation (which included an adjustment in the lowest-income bracket, abolition of the millionaire tax and introduction of a new highest income tax bracket, and changes in a number of deductions and exemptions) addressed some weaknesses of the Slovak PIT. However, a more comprehensive reform would be a useful element of a medium-term fiscal plan. This could include adjustments in the personal income tax brackets in order to avoid taxation of incomes at middle levels by higher marginal rates, and it could be followed by a move toward a global PIT.[57]

Corporate income tax

100. Corporate income tax collections are relatively high compared with other central European countries, owing primarily to the high corporate income tax rate (40 percent). However, tax collections have recently exhibited significant weakness due to the poor

---

[56] See IMF (1998a) for a more detailed comparison of the PIT in selected central European countries.

[57] Currently, individuals are not required to file a tax return if the only sources of income are salaries and interest, as taxes on those are withheld by the employers and banks, respectively. However, individuals with rental income or capital income other than interest are required to file tax returns. The main advantage of a global PIT is that the goal of vertical equity can be achieved more easily, since the tax is based on an aggregate measure of income. A global tax may also have administrative advantages if there are many taxpayers with multiple sources of income, because only one tax return is filed for each taxpayer, but it could also generate high administrative costs if there are many taxpayers with only labor or interest income—which is now subject to tax withholding—who are not currently required to file a tax return (see Muten (1992) and International Monetary Fund (1995)).

financial performance of enterprises (as evidenced by sharp declines in their profits). Declining financial discipline and governance may also have been a factor leading to a less strict adherence to tax obligations. The high corporate income tax rate (Table III-3), in combination with the tax incentives offered by other countries in the region, is regarded as a disincentive for foreign direct investment (FDI) in Slovakia (which could also reduce the tax revenues that increased FDI could otherwise generate). A medium-term reform strategy for the corporate income tax should consider a gradual reduction in the existing high corporate tax rate. It should also ensure that there is no discrimination between foreign and domestic investment or between industries.[58]

Social security tax

101. Social security tax collections are equivalent to 14 percent of GDP and they are high compared with other countries of the region (Table III-2). This is due to the very high social contribution rates, which—at 38 percent and 12 percent of gross labor income for the employers and employees, respectively—are above those of other central European countries and much higher than OECD, European Union (EU) and western European countries (Table III-4). Slovakia's contribution rates are only comparable with rates in some (higher income) western European countries that provide some of the most generous benefits. When these contribution rates are combined with personal income taxes, the tax wedge between employers' total labor costs and employees' take home pay is close to 60 percent (OECD (1999)).[59] Adding to that the effect of VAT and excises would bring the tax wedge to even higher levels. Slovakia's tax wedge is definitely high compared with averages—including the effect of consumption taxes—of 55 percent and 56 percent for Euro-area and other EU countries, respectively (IMF (1999)).

---

[58] In an effort to attract FDI, the government approved in early-1999 a package of tax and non-tax incentives. These incentives included an improved legal and institutional framework, and public sector reforms to improve transparency. However, they also included discriminatory elements, like tax and import duty exemptions for foreign investors, contingent on firms' lines of business and export performance. See Holland and Owens (1997) for a review of investment incentives used in a number of transition countries, and for important recommendations on the use of taxation to attract FDI.

[59] The magnitude of the tax wedge has important implications for aggregate employment and output: by driving a wedge between the prices of labor as seen by the worker and the employer, taxes on labor hamper the mutually beneficial exchange of labor for income. Large tax wedges increase labor costs and thus reduce the offered wage and/or the demand for labor. When large tax wedges are a result of higher contributions by the employees, take-home pay is lower and thus workers substitute leisure or home production for labor, reducing labor supply. The overall impact on employment and output is negative, the magnitude of which depends on the wage elasticities of the wage-setting, labor supply, and labor demand schedules.

Value-added tax

102. The value-added tax has been designed to follow the EU directives and considerable efforts are being made to keep it in line with EU legislation. Revenue from VAT is a bit high relative to other countries in the region, owing primarily to the high standard rate of 23 percent (compared with EU and OECD averages of 19 percent and 17 percent, respectively) (Table III-3). In addition, the large differential between the standard and the lower rate creates an added source of distortions. Thus, a medium-term fiscal strategy would ideally include an increase in the lower rate accompanied by a gradual decline in the standard rate, while ensuring that the tax-to-GDP ratio is not increased permanently. In addition, harmonization with EU standards would entail moving to the standard rate a number of goods, services, and activities that are now taxed at the lower rate. The most important would include electricity and construction activities.[60] As taxation of the latter at the standard rate would have a significant impact on the prices of construction (including housing, highways, and medical facilities), a medium-term strategy could consider a gradual approach, perhaps by first moving commercial activities (i.e., buildings used for commercial purposes) to the standard rate.

Tax administration

103. Tax administration in Slovakia continues to face significant challenges in mobilizing revenue. This is due to the continuing transformation of the economy and the dramatic changes in the taxation systems that were adopted during the transition to a market economy. The biggest problems pertain to tax arrears, which are reportedly very high; problems in collecting VAT, reflecting large-scale evasion through claiming inappropriate credits; and significant inefficiencies in the administration of social security contributions (including the lack of power by the agencies responsible for collecting contributions to enforce collections).[61] Thus, the tax-to-GDP ratio would be even higher, if these problems in the tax administration did not exist.

---

[60] Taxation of construction at the lower rate results in extensive VAT refund claims as construction materials and equipment (taxed at the standard rate) may be purchased by contractors for use in taxable construction activities. These latter activities are taxable at the 6 percent rate, whereas they may take full credit for the 23 percent tax that has been paid on inputs.

[61] IMF (1998b) reviews problems with tax administration in Slovakia and makes detailed recommendations on improving the administration of tax, customs, and social security collections.

104. To address these administrative problems, the government has recently approved legislation to improve the collection of VAT and excises.[62] In addition, tax offices have been reorganized and work is currently under way to improve corporate tax collection. Looking into the medium-term, it is important to recognize that additional demands will be generated to modernize tax administration quickly so as to prepare and implement new legislation, systems, and procedures that must be in place to comply with the criteria necessary to join the EU. For example, accession to the EU will require fundamental changes in the way customs administration is organized and operated, and it will also imply more comprehensive administration of domestic excise taxes.

Expenditure and Net Lending Concerns

105. Two main characteristics of the expenditure side are: (i) the very high level of public expenditure, which equaled 48.3 percent of GDP in 1998, a very high level even for a transition country; and, (ii) the dominant role of social transfers and spending on health care and general government administration.[63] In this connection, important elements of a medium-term fiscal strategy would encompass reducing government expenditure, including social spending, and shrinking the government sector to a size more consistent with the country's per capita income level.[64]

General government administration[65]

106. Expenditure on general government administration is about 14 percent of GDP, which is high in comparison with other countries in the region (Table III-5). A wage freeze in the budgetary sector for 1999 will contribute to a decline in spending on this item, but expenditure on wages will still remain relatively high. Moreover, there exist some notable imbalances in the structure of government wages: the average wage in administration

---

[62] Amendments to the VAT legislation pertain to: the provisions on tax refunds and provisions on tax exemptions for export; the provisions on the application of the tax to selected financial operations; and the eligibility criteria for claiming refunds.

[63] Slovakia's expenditure-to-GDP ratio is the highest among transition economies with similar per capita GDP (corresponding ratios of 33 percent for Bulgaria, 43 percent for the Czech Republic, 47 percent for Hungary, 47 percent for Poland, and 34 percent for Romania).

[64] These objectives are consistent with empirical evidence that shows the importance of expenditure cuts (and particularly of transfers and the government wage bill) for the sustainability of fiscal adjustment and growth (see footnote 55 above).

[65] Expenditure on general government administration includes salaries, wages, and social security contributions paid for government employees, and other goods and services.

(excluding public education and health) is well above, and has been growing at a higher rate than, the economy-wide average wage; the average wage in public education and health has been below the economy-wide average wage.[66] Thus, important elements of a medium-term strategy could include implementation of a civil service reform, possibly embracing reductions in the size of the civil service; strengthening institutions that ensure control over recruitment and the civil service payroll; introducing competitive wages for highly-skilled civil servants; and providing realistic severance packages with appropriate incentives to redundant workers. Finally, expenditure on other goods and services, which declined to 6 percent of GDP in 1998, could be reduced further over the medium term, including through restraint on spending on equipment, maintenance, and other non-personnel items.

107. Interest expenditure is relatively low (2.4 percent of GDP in 1998), but it has been growing recently owing to an increase in public debt and the fact that financing must now be raised at market-determined interest rates. Following the expansion in the fiscal deficit over the past few years, the stock of public debt rose to 31 percent of GDP in 1998. Moreover, until recently, Slovakia financed its deficits to a large extent by borrowing domestically (including from the National Bank of Slovakia) at below-market interest rates. The shift to market borrowing in the context of high deficits has meant an increase in interest expenditure. Over the medium-term, bank restructuring—involving clearing up bad loans and recapitalizing problem banks—is going to have substantial fiscal implications (see below), including the interest costs on bonds that could be issued to recapitalize problem banks.

Subsidies

108. Subsidies have been recently declining as a share of GDP, but, at 3.7 percent of GDP, they are still considered relatively high in comparison with other countries in the region (Table III-5). The largest subsidies pertain to heating and transportation. Regarding the former, the government's program for 1999 includes a substantial reduction in subsidies to Sk 1.6 billion from Sk 3.4 billion in 1998, in tandem with substantial increases in gas and hot water prices. In a medium-term context, it is important to move more aggressively with adjustments in administered prices so as to achieve full-cost recovery and gradually eliminate subsidies.

Social benefits and the social safety net system

109. Slovakia has a broad system of social security programs, which are extensive in their coverage. These programs comprise the health, pension and sickness, and employment funds, as well as state and social assistance benefits, and aim at ensuring that all households are able to meet a certain minimum standard of living. Total expenditure of the social security system amounted to 21.5 percent of GDP in 1998 (Table III-6), which is above most other central European countries (Table III-5), but well below the EU average of 26.5 percent of GDP

[66] See IMF (1998a) for a comparison of wages in the budget sector during 1992–95.

(OECD (1999)). As for the composition of total expenditure, pensions and health care accounted for about 40 percent and 30 percent of total spending, respectively.

State benefits and social assistance

110. State benefits comprise 13 different programs, many of which overlap with more than 20 social assistance programs that form part of the social safety net operated by regional offices. Spending on these programs increased to 4.7 percent of GDP in 1998, comprising expenditure equivalent to 2.4 percent of GDP for state benefits and 2.3 percent of GDP for other transfers to individuals and non-profit institutions, including social assistance. This increase, combined with the recent increase in the personal exemption for those with the lowest incomes, suggests that there is room to rationalize and scale back state benefits without adversely affecting social protection for the neediest. To this end, important challenges of a medium-term strategy would include strengthening eligibility criteria and means testing for state benefits, which could generate significant savings.[67]

Pensions

111. Slovakia has a pay-as-you-go pension system, which provides employment-related pensions for old age, disability, and survivors. Pension expenditure has been declining steadily as a share of GDP since 1993 and, at about 8 percent of GDP in 1998, is relatively low compared with the shares of other central European countries (Table III-5). The low pension expenditure is primarily attributed to the low, and continuously declining, replacement rate (i.e., the ratio of average pensions to average wage) (Table III-7). This ratio—at 45 percent in 1998 for old-age pensions—is very low compared with the ratios of other central European countries.[68] The reasons for this low ratio include the non-existence of an indexation formula for pensions and the fact that pension benefits are linked to wage history, but the benefits progressively decline for higher wages. However, while most pensions are comparatively low, the number of and amount spent on disability and early retirement pensions are very high compared with OECD countries (OECD (1999)).

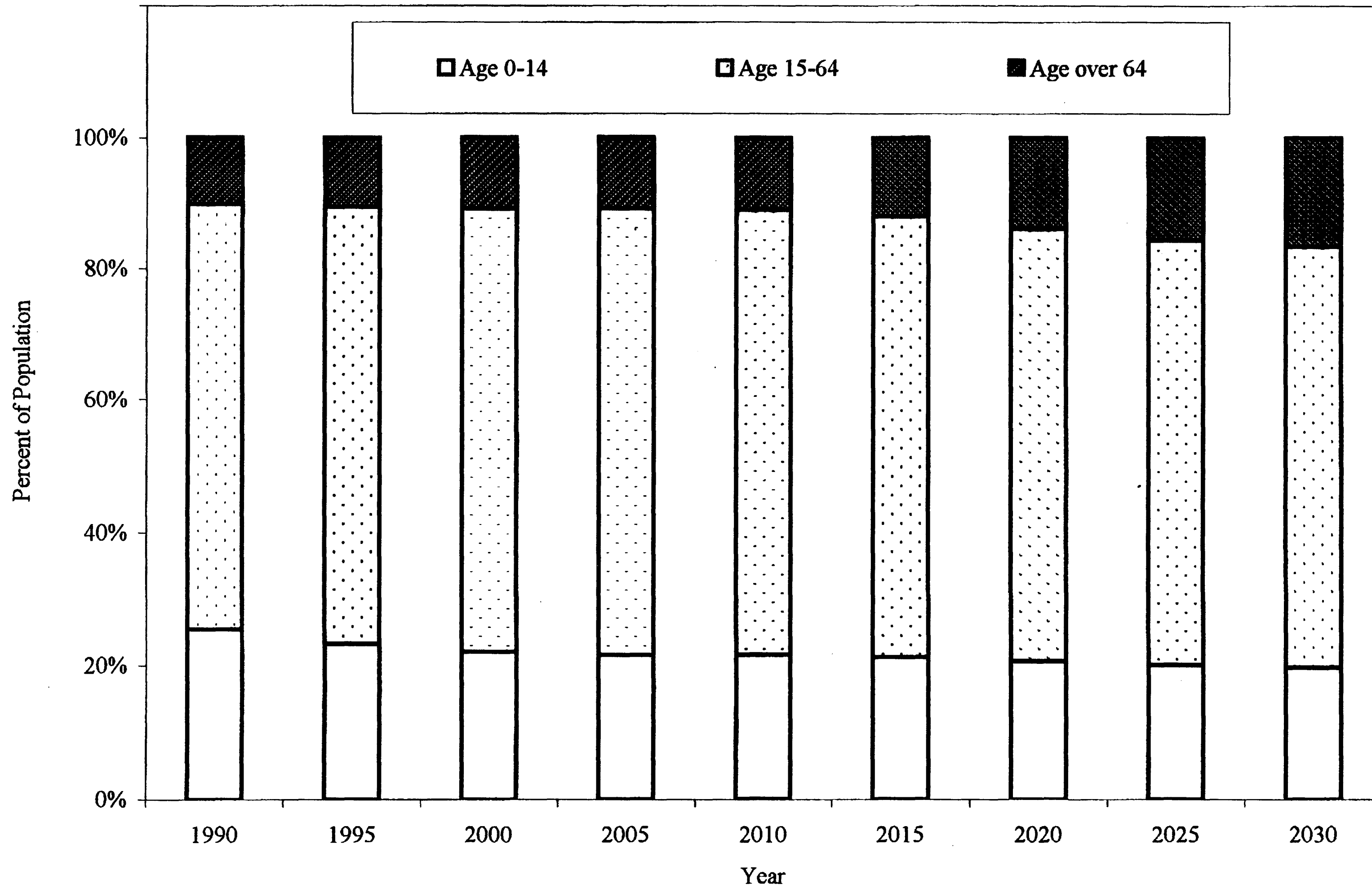
112. While the long-term sustainability of the system may be alarming, there are relatively minor concerns over the medium-term pension funding prospects. Underlying the medium-term prospects are the projected increase in the share of working population to 68 percent by 2005 combined with the relative stability of the share of population over 65 years at around 11 percent until 2010 (Figures III-3 and III-4). However, a projected increase in the share of

---

[67] The government has indicated its intention to request technical assistance from the World Bank in this area.

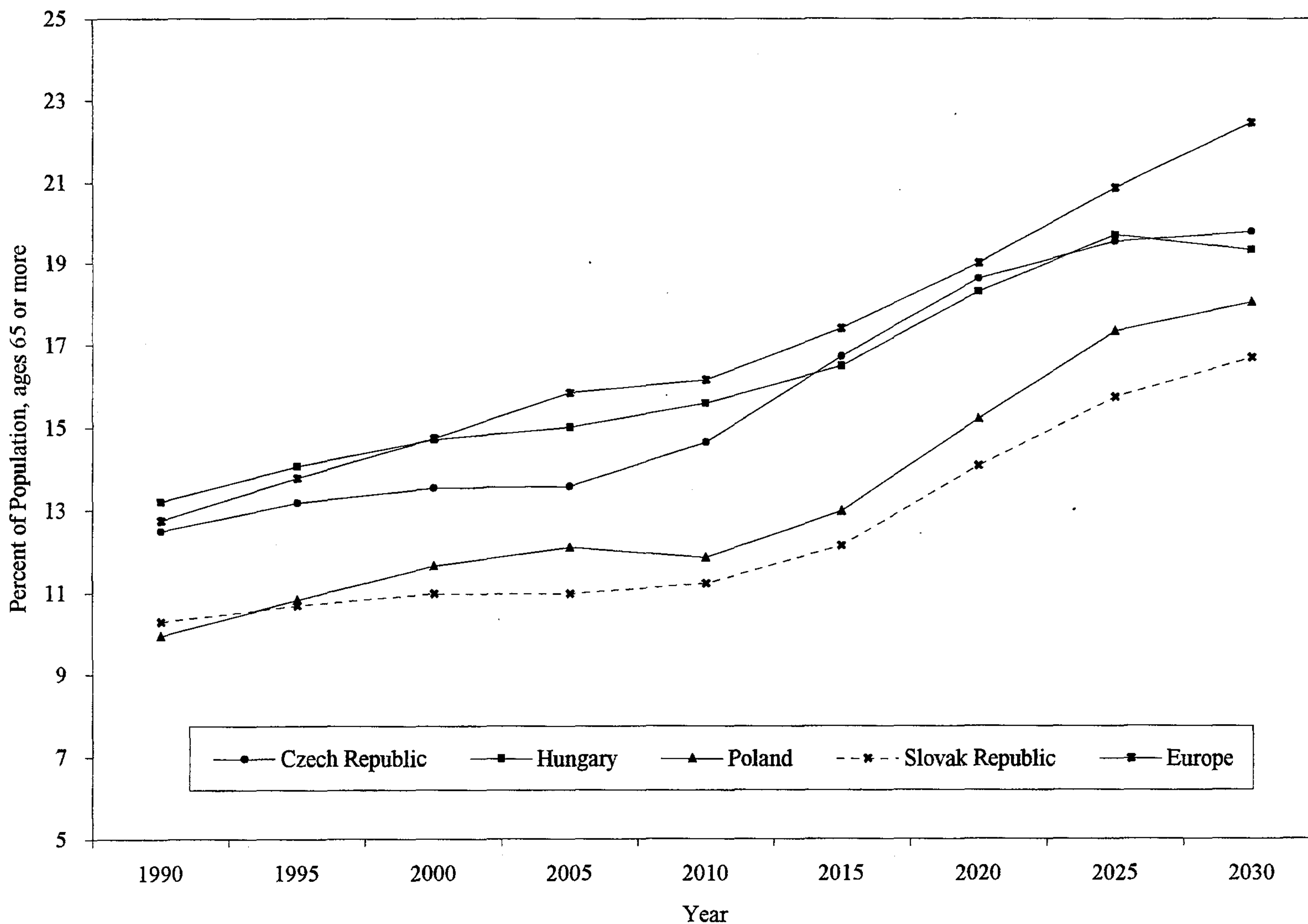
[68] In Poland, the average replacement rate for non-farmers is about 80 percent and for farmers about 40 percent. In Hungary, the same rate is about 60 percent.

Figure III-3. Slovak Republic: Population Structure, 1990-2030



Source: World Population Projections Database, World Bank.

Figure III-4. Slovak Republic: Share of Population Over Age 65 in Selected Countries, 1990-2030



Source: World Population Projections Database, World Bank.

the population over 65 years to 17 percent combined with a decline in the share of the working population to 64 percent by 2030, point to longer-term pressures on the finances of the Slovak pension system. These pressures are of a similar nature to the ones facing other central and western European countries, but appear to be weaker and more delayed than for other countries, as evidenced by more favorable projections of Slovakia's dependency ratio (Figure III-5).

113. Nevertheless, a reform of the pension system should be considered before the longer-term difficulties set in. This reform should consider replacing the pay-as-you-go system with a fully-funded system and raising the retirement age in line with projected increases in life expectancy.[69] As these reforms would entail additional fiscal costs during the transition process, it would be useful for long-term sustainability to be examined in a comprehensive framework, which would take into account all these costs.

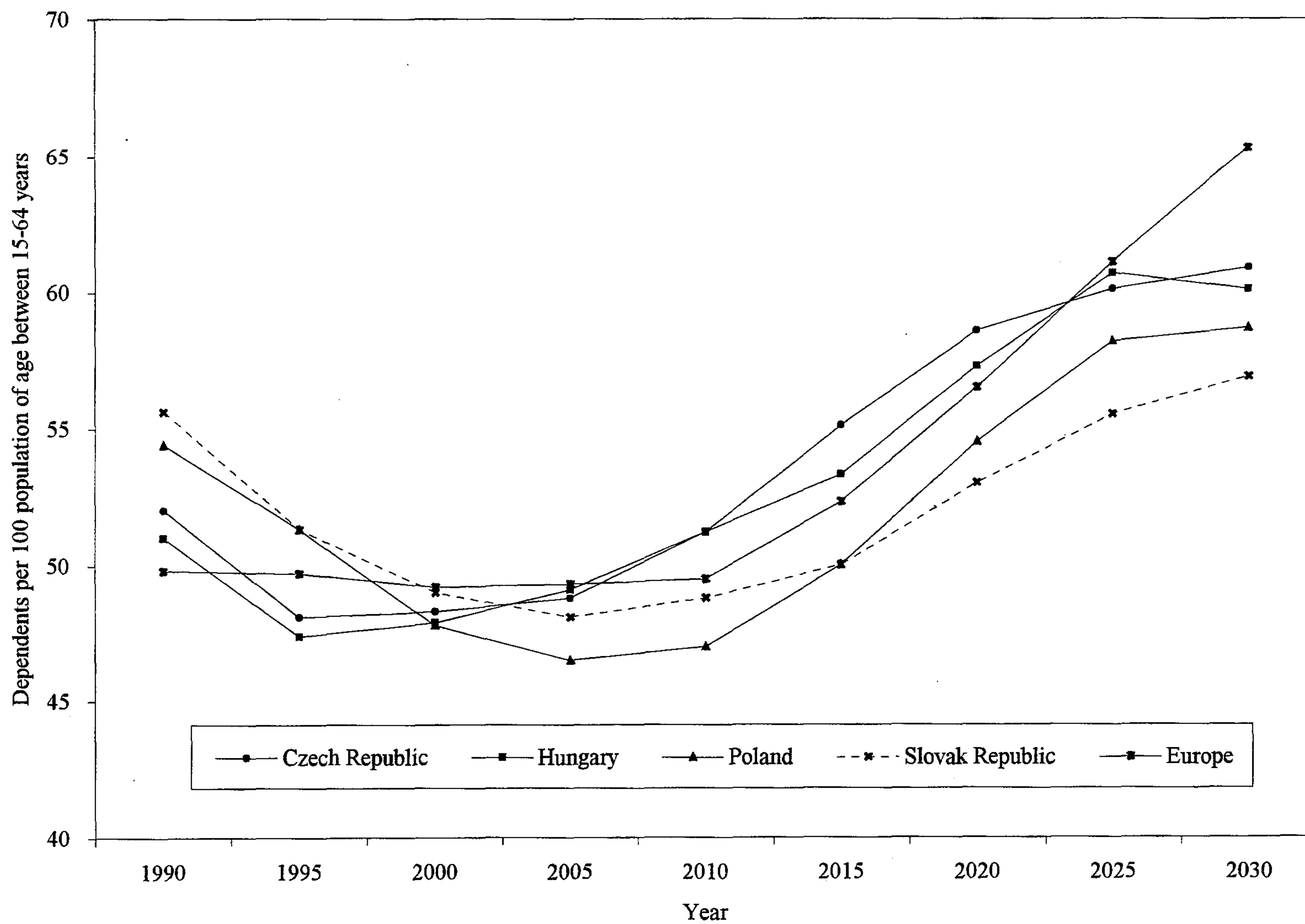
Health

114. Health spending is coordinated by four health funds and six medical insurance companies provide services. Regarding the contributions to the health care system, 96 percent comes from public sources compared with an average of 78 percent for EU countries (in the latter, 21 percent of the funding originates from private sources). Health care spending currently stands at about 6.5 percent of GDP (Table III-6), which is less than the average of 7.7 percent average in the EU and 8.2 percent in OECD countries. The main characteristic of the structure of health expenditures is the disproportionately high spending on medication (1.7 percent of GDP compared with an average of 1.2 percent for EU countries). In relation to total health spending, medication expenses account for 35 percent of spending compared with an average of about 15 percent in the EU. At the same time, spending is disproportionately low for nursing (Demes, Ginter, Kovac, and Butora (1998)).

115. The main issue regarding the finances of the Health funds pertains to the efficiency and the sustainability of the current system. High and persistent deficits (Sk 5.4 billion or 0.7 percent of GDP in 1998) are attributed primarily to the significant growth of expenditure, which is not matched by similar increases in revenues (owing to significant revenue arrears and weakness in revenue administration noted below). Expenditure had been rising at a very fast pace until 1997, because of the inability to effectively contain costs in a system with an oversupply of physicians and hospitals, increasing pharmaceutical prices, and few constraints on the utilization of services (World Bank (1999)). Despite the moderate containment of expenditure in 1998—following a number of steps taken by the Ministry of Health to establish a better control over costs—the sector is still facing serious problems. The very high level of payments arrears by the Health funds (Sk 12 billion at end-1998), combined

[69] The retirement age (55–60 for men and 53–57 for women) is low and savings through private pension funds is underdeveloped.

Figure III-5. Slovak Republic:Dependency Ratios in Selected Countries, 1990-2030



Source: World Population Projections Database, World Bank.

with large arrears on the revenue side (Sk 14 billion at end-1998)—particularly those associated with companies in bad financial position which stop making social security contributions for their employees—creates a vicious circle of indebtedness. Moreover, the projected increase in the aging population over the longer term is expected to have a significant impact on the demands on the health sector, thus raising concerns about the sustainability of the current system and making the case for the reforming of the system before the longer-term pressures materialize.

116. In this connection, a medium-term strategy would have the task of addressing these weaknesses so as to alleviate the potential risks of deterioration in the quality of the provided services and, in turn, in the health status of the population. Useful elements of that strategy could, among others, include: (i) reviewing of the collection system and increasing compliance with payments of contributions; (ii) developing a system of risk-related premiums with transparent and reasonable cross-subsidization; (iii) discouraging unwarranted patient demand, perhaps through demand-side incentives for cost control, such as deductibles and co-payments; and (iv) improving the cost structure of health facilities.[70]

Unemployment benefits

117. Unemployment benefits are administered by the Employment fund—operated under the National Labor Office—and spending on those benefits is just above one percent of GDP. This level of spending is relatively low, given the current rate of unemployment of 16.5 percent.[71] The main reasons for the low spending are: (i) the limited duration of unemployment benefits—a maximum of 6 months for those with less than 15 years of service and 12 months for the ones with longer service history; (ii) the fact that unemployment benefits are quite modest—60 percent of the previous salary for the first 3 months and 50 percent thereafter, with a maximum which is just under one half of the economy-wide average monthly earnings[72]; and (iii) the fact that that only about one-quarter of job-seekers (including those in training programs) receive unemployment benefits.

118. Although there are currently no significant concerns about the financial position of the Employment fund, a medium-term strategy could usefully address some issues. Unemployment benefits affect job search behavior and thus the length of unemployment

[70] The government has indicated its intention to request assistance from the World Bank in these areas.

[71] Spending on unemployment (as a share of GDP) is generally around three or four times as high in western European countries with comparable unemployment rates (OECD (1999)).

[72] This compares with an average initial replacement rate—i.e., initial unemployment benefit divided by the previous earned income—of 61 in the Euro area, 73 in the other EU countries, 60 in the US, and 73 in Switzerland (IMF (1999)).

spells and the average level of unemployment depends not only on their generosity, but also on the way they are administered. In this regard, there is a need for imposing strict criteria for eligibility or for availability for work. This becomes more important as over the medium-term, and despite projected declines, unemployment will remain high for some years to come.

Capital expenditure

119. Despite a decline to about 6 percent of GDP in 1998, capital expenditure remains very high compared with other transition economies (Table III-5). This is the result of a rapid expansion in public investment spending in recent years. Particular emphasis was given to the road sector—the construction of major east-west and north-south highway links—which aimed at improving transportation infrastructure but also creating employment in the construction sector. Highway construction has been financed mainly through borrowing and transfers from the state budget. As for the composition of borrowing, there has been a shift from domestic financing to foreign borrowing—under government guarantees (see below). Encouraging more participation by the private sector in the building and maintenance of roads could contribute to a medium-term strategy of reducing the share of government capital expenditure in GDP.

Net lending

120. Over the past few years, the government has been providing guarantees for a large share of the borrowing of enterprises in support of their investment activities. However, in 1998, the government incurred a cost of Sk 2.3 billion for called guarantees, and, owing to the deteriorating performance of enterprises, it may face very high potential obligations associated with debt service payments of those enterprises.[73] At the same time, additional costs are going to be imposed by the potential obligations for bonds that have been issued by the National Property Fund to compensate the holders of privatization vouchers after the mass privatization program was canceled. Those bonds—with a face value of Sk 28 billion—are going to mature at end-2000. To help deal with this very high level of liabilities on the government accounts, a medium-term strategy would benefit significantly from an accelerated program of privatization of the government's holdings in state enterprises, accompanied by timely adjustments in administrative prices and pressure from the government on enterprises to reduce operating costs and thereby meet debt service obligations on loans guaranteed by the government.

---

[73] The budget includes a provision of Sk 4.2 billion for expenditure related to guarantees that might be called in 1999.

Other Issues

121. Over the medium term, Slovakia will face a number of other changes which fiscal policy will need to take into account. These include bank and enterprise restructuring and efforts aimed at EU accession. In addition, several reforms to the medium-term fiscal process could be helpful and are under active consideration by the government.

Bank restructuring

122. Bank restructuring is going to be a prominent issue over the next few years. This process will include undertaking operations to clear up bad loans and recapitalize and privatize problem banks. The costs of these operations are expected to be significant, and they need to be recorded transparently in the fiscal accounts.[74] As noted above, the first-round effects involve the spending pertaining to the operation itself: the transfer of funds to the banks and the interest paid on bonds issued in the recapitalization operation. However, as Lane (1996) indicates, there might be important fiscal and monetary secondary effects resulting from the way the operation influences banks' behavior, and thus the flow of bad loans. The nature of these effects—which are more difficult to quantify—depends on the extent to which there are accompanying changes associated with moral hazard problems and incentives for prudent lending.[75]

Enterprise restructuring

123. Accelerated public enterprise reform is also an important element of the government's medium-term agenda. Although such reform could have some fiscal implications over the medium-term (arising from labor shedding and its effect through severance pay and lower personal and social security taxes), it would also contribute to fiscal adjustment. In this regard, improved profitability of public enterprises would boost dividend payments to the budget and reduce the need for direct budget support, including through government guarantees on enterprise borrowing. The government's medium-term strategy

---

[74] See Daniel, Davis, and Wolfe (1997) for a review of problems with current practices in accounting for these costs and a new recommended approach.

[75] In all, the extent to which the resulting increase in the fiscal deficit implies a more expansionary fiscal policy is difficult to gauge. Indeed, several authors have argued that the fiscal cost of bank recapitalization could be an illusion: Calvo and Frenkel (1991) on the basis that a government transfer to recapitalize state-owned banks involves no net transfer for the public sector; Begg and Portes (1993) in the sense that the money disappeared from the state finances when the bad debts were incurred and not when this was acknowledged; Fleming (1994) since the interest received by depositors is really being paid by the government; and Lane (1996) on the basis that fiscal costs are incurred regardless of whether or not recapitalization takes place.

includes useful elements for the rehabilitation of enterprises, and the improvement of bankruptcy procedures and corporate governance, which could have important fiscal consequences of a positive nature.

EU accession

124. Slovakia's efforts for accession to the EU have gathered momentum recently and it is important for a medium-term strategy to be cast in a way that the associated costs and benefits are taken into account. In this context, sustainable fiscal adjustment is very important as achieving and maintaining macroeconomic stability could be linked to accession. In addition, a key requirement set by the EU for accession candidates is that they have functioning market economies and demonstrate the capacity to manage economic policy consistent with the obligations of EU member-states. On the fiscal side, this means the ability to conduct fiscal policy with standard tools, standard revenue and expenditure categories, and budget accounting. It also means that countries eventually avoid any from of direct central bank financing of government deficits. Compliance with these guidelines as well as building up necessary infrastructure prior to accession would entail some costs. On the other hand, revenue is going to be favorably affected by EU transfers that could be used for agricultural support and for creating necessary infrastructure. These transfers have been a significant source of revenue for some members (Greece, Portugal, and Spain) and are expected to also be high for countries that are included in the first wave of entrants (projected at about an annual 0.5 percent of GDP for the period leading up to accession in the case of Hungary).

Medium-term budget process

125. Developing a medium-term fiscal program also requires an appropriate institutional setting. To this end, the government is in the process of developing methods to strengthen the budgeting process, including by formulating a given year's fiscal policy within a medium-term framework. In addition, it recognizes the need to improve and consolidate the accounts of extrabudgetary and social security funds, to compile fiscal information more frequently and comprehensively, and to put mechanisms in place to better control fiscal activities. Projections of tax receipts and the preparation and regular updating of medium-term fiscal projections are also essential in upgrading the capacity for budget preparation and implementation.[76]

D. Medium-term Fiscal Scenarios

126. Two alternative scenarios have been prepared (an adjustment scenario and a passive scenario), in order to provide a quantitative basis to illustrate fiscal consolidation and the

---

[76] The government has already requested technical assistance from the Fund for developing mechanisms for improving the monitoring, control, and consolidation of general government accounts, as well as for shifting to fiscal planning over a two- to three-year horizon.

means to achieve it. Building upon the results of the analysis of the previous section, which identified some detailed fiscal considerations that Slovakia should take into account in the medium-term, the two scenarios are cast in the context of an integrated macroeconomic framework which attempts to ensure consistency between projections of the real, fiscal, monetary, and balance-of-payments sectors.

127. The adjustment scenario is broadly consistent with the government's strategy for 1999 as outlined in the budget and as reinforced by the recent fiscal package. This scenario assumes, beginning in 1999, strong fiscal adjustment and a reduced role of the state in the economy, as well as the accelerated implementation of major structural reforms, including privatization. On the other hand, the passive scenario assumes much weaker fiscal adjustment and a slower pace of structural reforms.

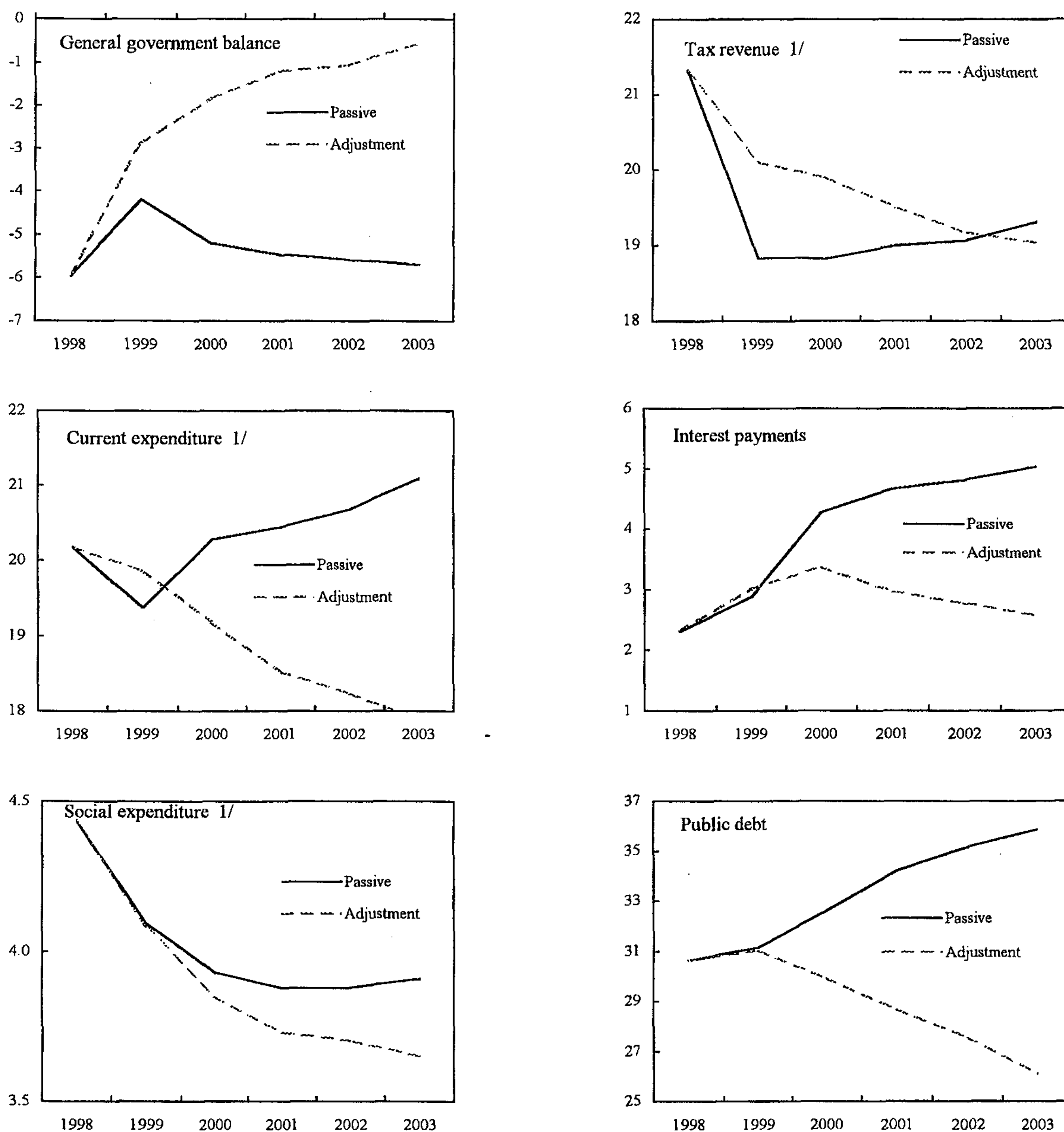
128. The adjustment scenario targets achievement of a sustainable external position and durable economic growth of 4½ to 5 percent during 2001–2003. Following a substantial fiscal adjustment in 1999—which leads to a decline in the general government deficit to under 3 percent of GDP—further adjustment takes hold in later years so that the deficit falls to 0.6 percent of GDP by the end of the period (Tables III-8 and III-9, and Figure III-6). The driving force of the fiscal adjustment is a decline in the expenditure of the general government: indeed, this scenario illustrates a bold and ambitious effort, with expenditure falling to about 39 percent of GDP by 2003 from about 48 percent of GDP in 1998.[77] This permits a decline in the tax burden to 33 percent of GDP by 2003 from 37 percent of GDP in 1998, and in the general government revenue to 38 percent of GDP by 2003 from 42 percent of GDP in 1998.[78]

129. Achieving the envisaged decline in government expenditure will clearly not be easy, confronting the authorities with difficult decisions. However, Table III-8 (which shows the operations of the state budget) and Table III-9 (which shows the operations of the general government) aim to provide some guidance. Drawing on the expenditure analysis of Section C—which pointed out the relatively high spending on general government administration and subsidies, as well as certain desirable aspects of cutting and reforming

[77] There are a number of countries with successful episodes of significant fiscal adjustment, primarily originating from dramatic expenditure cuts. For example: (i) in Ireland during 1985-91, primary expenditure was reduced to 34 percent of GDP from 41 percent of GDP, while tax revenue declined to 34 percent of GDP from 36 percent of GDP; and (ii) in Hungary during 1994-96, the primary balance improved by almost 7 percentage points, owing to a decline in primary expenditure to 38 percent of GDP from 45 percent of GDP.

[78] The declines in the expenditure-, revenue-, and tax-to-GDP ratios would bring them in line with the ones for countries of similar per capita income levels, as noted in footnotes 53 and 63 above. Of course, for a given fiscal target, there would be less room for revenue reduction were expenditure reduction to be less ambitious.

Figure III-6. Slovak Republic: Medium-term Fiscal Scenarios--Government Budgetary Operations
(In percent of GDP)



Sources: Ministry of Finance; and staff estimates and projections.

1/ State budget only.

social expenditure and scaling back capital outlays—expenditure restraint could be considered in several areas

130. In line with Tables III-8 and III-9, the authorities might consider:[79] (i) a reduction in general administration expenditure, including wage moderation and civil service reform, to 11.6 percent of GDP by 2003 from 13.9 percent of GDP in 1998; (ii) rationalization of state benefits and social assistance programs, by strengthening eligibility criteria and means testing for those benefits, accompanied by moderate pension increases for the Pension funds, so as to reduce social transfers to 13 percent of GDP by 2003 from 15 percent of GDP in 1998; (iii) rationalization of expenditure of the Health Funds—including the introduction of larger copayments for users of public health services—so as to reduce expenditure of these funds to 5.3 percent of GDP by 2003 from 6.5 percent of GDP in 1998; (iv) timely adjustments in administrative prices and pressure from the government on enterprises to reduce operating costs and thereby meet debt service obligations on loans guaranteed by the government (see paragraph 131 below); (v) lower subsidies (equivalent to 2.7 percent of GDP in 2003 compared with 3.7 percent of GDP in 1998), reflecting adjustments in administrative prices; and (vi) rationalization of capital spending in the state budget and of investment expenditure of the extra-budgetary funds (especially the Road fund), coupled with increased private sector participation in the building and operation of major infrastructure projects—these could contribute to a reduction in capital expenditure of the general government to 3.4 percent of GDP by 2003 from 6.1 percent of GDP in 1998.

131. Otherwise, on the expenditure side, the fiscal costs of bank restructuring are accounted for: these costs (equivalent to about 1 percent of GDP annually) include the interest on government bonds to bring the problem banks' net worth to zero and to recapitalize these banks bringing their capital-adequacy ratio to international standards. As an offsetting factor, net lending declines sharply to 0.1 percent of GDP by 2003 from 0.7 percent of GDP in 1998, reflecting the decline in the amount of government guarantees that are called and future privatization. Finally, it is assumed that the National Property Fund exchanges its bonds maturing at end-2000 (some Sk 28 billion) for shares in the Gas and Electricity Companies.

132. Revenues are lowered by the reform of the personal income tax and reductions in the corporate income tax, as well as lower personal and social security taxes (including because

[79] These measures are broadly in line with the objectives of the government's fiscal package that was announced in May 1999, which contained important expenditure measures that would underpin medium-term fiscal consolidation. These included continued rationalization of social benefits beyond 1999, reform in the pension system (including through an increase in the retirement age), significant reduction in the government payroll beginning in 2000, and establishing mechanisms to provide better control over the expenditures of the extrabudgetary and social security funds. At the same time, further adjustments in administrative prices were envisaged.

of labor shedding in the restructured enterprise sector). However, revenue capacity is favorably affected by growing economic activity, increases in enterprise profitability, strengthened efforts to reform the tax system, and significant improvements in tax administration. Specific revenue measures, which are broadly consistent with the main elements of the government's program for 1999 and whose impact is presented in Table III-9, include:[80] (i) an increase in the lower VAT rate and a reduction in the higher VAT rate to bring them in line with rates in EU countries; (ii) taxation of electricity at the higher VAT rate—the combined effect of these measures pertaining to the VAT would contribute to a gradual reduction in the VAT collection to 7.3 percent of GDP by 2003 from 7.7 percent of GDP in 1998; (iii) a gradual reduction in the corporate income tax rate such that tax collection would drop to 2.6 percent of GDP by 2003 from 3.6 percent of GDP in 1998; (iv) reform of the personal income tax, including an adjustment in the personal income tax brackets and a subsequent move toward a global personal income tax, leading to a decline in personal income tax collection to 5.4 percent of GDP by 2003 compared with 5.9 percent of GDP in 1998; (v) increases in excise taxes so as to bring them in line with taxes in EU and other transition countries, thus leading to an increase in excise collection to 3.8 percent of GDP by 2003 from 3.2 percent of GDP in 1998; (vi) introduction of a tax on motor vehicles; (vii) increases in administrative and other fees; and (viii) better tax administration and compliance of taxpayers, particularly regarding the personal income tax, social security contributions, VAT, and excises.

133. The fiscal adjustment effort is expected to be accompanied by several positive developments. In particular, the adjustment scenario envisages a continued narrowing of the external current account deficit throughout the period (Table III-10). Fiscal adjustment helps restrain import demand, while strong export growth also contributes to external adjustment while raising economic growth. In addition, public debt declines to 26 percent of GDP by 2003 from 31 percent of GDP in 1998, thus also facilitating the reduction of the debt service over the medium term. The reduction in the general government deficit is also reflected in the increase in government savings over the period to almost 3 percent by 2003.

134. In the passive scenario, it is assumed that the fiscal deficit remains large and following a temporary decline to 4.2 percent of GDP in 1999 it expands to close to 6 percent by 2003 (Figure III-6). The expansion of the fiscal deficit under the passive scenario reflects: (i) continued high interest costs owing to very high borrowing costs; (ii) a need for the government to make payments for enterprises whose guarantees are called; (iii) costs of bank restructuring, which are higher than in the adjustment scenario owing to higher interest rates; (iv) low revenue capacity owing to weak economic activity; (v) further declines in enterprise profitability; and (vi) a slow pace of privatization. All these factors would put significant

[80] In addition to the measures mentioned in paragraph 95, which pertain only to 1999, the government's fiscal package that was announced in May 1999 contained the following important medium-term revenue measures: a reform of the personal income tax, a reduction in the upper VAT rate, and a lowering of the corporate income tax.

strains on the budget and would thus leave hardly any room for streamlining the tax structure and lowering interest rates.

135. The absence of an adjustment effort in the passive scenario would have other negative consequences (Table III-10). With increasing inflationary pressures and high interest rates, growth would likely stagnate at significantly lower rates than in the adjustment scenario during the period 2000–03. Public debt would rise to 36 percent of GDP, and the government would continue to absorb a big part of national savings. In addition, high interest payments suggest continued vulnerability of the budget to changes in macroeconomic conditions. Associated with the deterioration in the fiscal position is a widening in the current account deficit to an unsustainable level of almost 10 percent of GDP by 2003. Of course, this scenario assumes the availability of sufficient external financing. In case of sizeable shortfalls in this financing, the country could experience some combination of a rapid depletion of the NBS' reserves, large currency depreciation, rising interest rates, and weaker economic activity.

E. Concluding Remarks

136. The preceding analysis has identified a number of important considerations that would need to be taken into account in designing a program of continued fiscal consolidation over the medium term. Reducing the tax burden is one key priority, and in line with the intentions of the Slovak authorities. But achieving a significant reduction in taxes—and revenues more broadly—will require a determined effort to reduce government expenditure and the role of the state in the economy. It will also involve difficult policy decisions. Efforts to scale back expenditure could focus on a medium-term plan for civil service reform and rationalization; increasing the efficiency and targeting of social spending; reforming budgeting and control systems, including by ensuring transparency and accountability; and reducing state involvement in the construction of large-scale infrastructure projects, while encouraging more participation by the private sector in the building and maintenance of those projects.

References

Alesina, Alberto and Roberto Perotti, 1997, "Fiscal Adjustment in OECD Countries: Composition and Macroeconomic Effects," *IMF Staff Papers,* International Monetary Fund, Vol. 44, pp. 210-248.

Andersson, Krister, 1997, "Empirical Evidence on the Impact of Recent Tax Reforms on Savings, Investment, and Growth," in Blejer and Ter-Minassian, eds. *Fiscal Policy and Economic Reform: Essays in Honour of Vito Tanzi*, London, Routledge.

Begg, David and Richard Portes, 1993, "Enterprise Debt and Economic Transformation: Financial Reconstructing in Central and Eastern Europe," in Colin Mayer and Xavier Vives, eds. *Capital Markets and Financial Intermediation,* Cambridge, Cambridge University Press.

Calvo, Guillermo and Jacob Frenkel, 1991, "From Centrally-Planned to Market Economy," *IMF Staff Papers,* International Monetary Fund, Vol. 38, pp. 268-99.

Daniel, James, Jeffrey Davis, and Andrew Wolfe, 1997, "Fiscal Accounting of Bank Restructuring," IMF Paper on Policy Analysis and Assessment PPAA/97/5 (Washington: International Monetary Fund).

Demes, Martin, Emil Ginter, Eduard Kovac, and Martin Butora, 1998, "Health Care," *mimeo.*

Feldstein, Martin, 1994, "American Economic Policy in the 1980s: a Personal View," in Martin Feldstein, ed. *American Fiscal Policy in the 1980s*, Chicago, University of Chicago Press.

Fleming, John, 1994, "Summing Up," in Stephen Fries, ed. *Transition: Private Sector Development and the Role of Financial Institutions,* Working Paper No. 13, European Bank for Reconstruction and Development.

Fullerton, Don, Charls Walker, and Russell Long, 1994, "Tax Policy," in Martin Feldstein, ed. *American Fiscal Policy in the 1980s*, Chicago, University of Chicago Press.

Holland, David and Jeffrey Owens, 1997, "Taxation and Foreign Direct Investment: The Experience of the Economies in Transition," in Blejer and Ter-Minassian, eds. *Fiscal Policy and Economic Reform: Essays in Honour of Vito Tanzi*, London, Routledge.

International Monetary Fund, 1995, *Tax Policy Handbook*, Parthasarathi Shome, ed., Fiscal Affairs Department.

International Monetary Fund, 1998a, *Slovak Republic—Recent Economic Developments*, SM/98/33.

International Monetary Fund, 1998b, *The Slovak Republic: Improving the Administration of Tax, Customs, and Social Security Collections*, Fiscal Affairs Department Technical Assistance Report.

International Monetary Fund, 1999, *World Economic Outlook, May 1999.*

Lane, Timothy, 1996, "The First-Round Monetary and Fiscal Impact of Bank Recapitalization in Transition Economies," IMF Paper on Policy Analysis and Assessment PPAA/96/8 (Washington: International Monetary Fund).

Mackenzie, G.A., David Orsmond, and Philip Gerson, 1997, "The Composition of Fiscal Adjustment and Growth: Lessons from Fiscal Reforms in Eight Economies," IMF Occasional Paper, No. 149.

Musgrave, Richard, 1959, *The Theory of Public Finance*, New York, McGraw Hill.

Muten, Leif, 1992, "Income Tax Reform," in Vito Tanzi, ed. *Fiscal Policies in Economies in Transition*, Washington, D.C., International Monetary Fund.

Organization for Economic Co-operation and Development, 1999, *OECD Economic Surveys: The Slovak Republic.*

Perotti, Roberto, 1999, "Fiscal Policy in Good Times and Bad," *mimeo,* Columbia University.

Perotti, Roberto, 1996, "Fiscal Consolidation in Europe: Composition Matters," *American Economic Review*, Vol. 86, No. 2, pp. 105-110.

World Bank, 1998, *Slovak Republic: A Strategy for Growth and European Integration,* Country Study.

World Bank, 1999, *Slovak Republic: Social Sector Strategy—Health and Education,* Draft Country Study.

Table III-1. Slovak Republic: Fiscal Operations of the Consolidated General Government, 1993-98

(In percent of GDP)

	1993	1994	1995	1996	1997	1998 Estimate
Total revenue	45.5	46.5	48.7	47.7	44.9	42.4
Tax revenue	37.5	38.8	42.0	41.1	38.4	37.1
Personal income tax	4.0	4.1	4.5	5.2	5.6	5.9
Corporate profit tax	6.1	7.2	6.8	6.0	3.7	3.6
Social security contributions	11.9	11.7	13.9	14.8	14.4	14.0
VAT	7.6	8.4	10.1	8.5	8.4	7.7
Excises	4.3	4.8	3.9	3.8	3.4	3.2
Import duties and surcharge	1.2	1.6	1.7	1.7	2.0	1.6
Other	2.2	0.9	1.1	1.1	1.0	1.0
Nontax revenue	8.1	7.6	6.7	6.6	6.4	5.3
Total expenditure	52.8	47.8	48.3	49.0	50.1	48.3
Current expenditures	46.4	42.6	43.6	43.1	42.3	41.5
Gross wages	4.4	3.8	5.5	5.8	7.7	7.9
Other goods and services	13.3	10.6	11.0	8.8	7.4	6.0
Social transfers	16.3	14.8	15.6	15.8	14.3	15.0
Health care	4.4	5.2	5.3	6.4	7.0	6.5
Subsidies	4.8	4.2	3.8	4.2	4.0	3.7
Interest	3.2	3.9	2.4	2.2	1.9	2.4
Net lending	0.4	0.7	-0.1	-0.1	0.7	0.7
Investment expenditures	5.9	4.5	4.9	6.1	7.0	6.1
Overall balance	-7.2	-1.3	0.4	-1.3	-5.2	-6.0
of which:						
State budget	-6.9	-1.1	-0.5	-1.9	-2.6	-2.6
Local authorities	0.1	-0.2	0.1	0.2	0.1	-0.2
Social security system	0.0	0.7	0.8	0.9	-0.8	-1.1
Extrabudgetary funds	0.1	-0.2	0.0	-0.6	-1.8	-1.2
Extrabudgetary projects and NPF	-0.5	-0.5	-0.1	0.2	-0.2	-0.9

Sources: Ministry of Finance; and staff estimates.

Table III-2. General Government Revenue in Selected Transition Countries 1/

(In percent of GDP)

	Slovak Republic	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovenia
Total revenue	42.4	31.0	41.5	42.9	45.0	30.7	44.6
Tax revenue	37.1	26.6	36.8	40.7	38.3	26.8	40.4
Personal income tax	5.9	4.0	5.2	6.4	9.2	5.6	6.7
Corporate profit tax	3.6	5.0	3.7	2.3	3.1	4.3	1.2
Social security tax	14.0	6.9	15.6	13.4	9.5	7.1	15.6
Value-added tax	7.7	6.1	6.6	8.2	7.8	4.7	0.0
Excise tax	3.2	2.1	3.7	4.1	4.3	1.7	13.4
Import taxes	1.6	2.1	0.7	1.3	2.6	1.3	2.0
Other taxes	1.0	0.4	1.2	5.0	1.9	2.1	1.6
Non-tax revenue 2/	5.3	4.4	4.7	2.3	6.7	3.9	4.2

Sources: Various Recent Economic Development Reports, International Monetary Fund.

1/ Data pertain to 1998 for the Slovak and Czech Republics and Hungary, to 1997 for Bulgaria, Romania, and Slovenia, and to 1996 for Poland.
2/ Includes capital revenue in the cases of Poland, Romania, and Slovenia.

Table III-3. Slovak Republic: Value-added and Corporate Income Tax Rates in Selected Countries

(In percent)

	Value-added tax		Corporate income tax
	Lower rates	Standard rate	
EU Countries			
Austria	10, 12	20	34
Belgium	1, 6, 12	21	40 1/
Denmark		25	34
Finland	6, 12, 17	22	28
France	2.1, 5.5	20.6	36.7-40 2/
Germany	7	16	30-45 3/
Greece	4, 8	18	35-40 4/
Ireland	3.6, 10, 12.5	21	32
Italy	4, 10, 16	19	37
Luxembourg	3, 6, 12	15	30
Netherlands	6	17.5	35-37
Portugal	5, 12	17	34
Spain	4, 7	16	25-35 5/
Sweden	6, 12, 21	25	28
United Kingdom		17.5	30
Central European Countries			
Czech Republic	5	22	35
Hungary	12	25	18
Poland	7, 12	22	34
Slovak Republic	6	23	40
Slovenia 6/	5	20	20

Source: International Bureau of Fiscal Documentation.

1/ Effective rate; it comprises a corporate income tax rate of 39 percent and a 3 percent austerity surcharge.
2/ Effective rate; it comprises a corporate income tax rate of 33.3 percent and a surtax of 10-20 percent.
3/ The lower rate applies to distributed profits and the higher rate to retained profits.
4/ The higher rate applies to companies in the Athens Stock Exchange and the lower rate to other companies.
5/ The lower rate applies to non-resident companies and the higher rate to resident companies.
6/ The rates in the value-added columns pertain to a general sales tax.

Table III-4. Slovak Republic: Social Contribution Rates in Selected Countries

(In percent of gross labor income)

	Employer's Contribution	Employees' Contribution	Total
Slovak Republic	38.0	12.0	50.0
Health	10.0	3.7	13.7
Sickness	3.4	1.4	4.8
Pensions	21.6	5.9	27.5
Unemployment	3.0	1.0	4.0
Czech Republic	35.0	12.5	47.5
Health	9.0	4.5	13.5
Sickness	3.3	1.1	4.4
Pensions	19.5	6.5	26.0
Unemployment	3.2	0.4	3.6
Hungary	33.0	8.0	41.0
Health	11.0	3.0	14.0
Sickness			
Pensions	22.0	5.0	27.0
Unemployment			
Poland	16.7-24.4	18.7	35.4-43.1
Health and Maternity	0.0	2.5	2.5
Disability	6.5	6.5	13.0
Pensions	9.8	9.8	19.5
Injury	0.4-8.1	0.0	0.4-8.1
Slovenia	15.5	22.1	37.6
Health	6.4	6.4	12.8
Maternity	0.1	0.1	0.2
Pensions	8.9	15.5	24.4
Unemployment	0.1	0.1	0.2
European Union 1/	23.6	12.9	36.5
Western Europe 2/	22.1	11.7	33.8
OECD 3/	16.2	8.6	24.8

Sources: International Bureau of Fiscal Documentation; and World Bank (1998).

1/ Unweighted average of the European Union countries (excluding Denmark).
2/ Unweighed average of European Union countries (excluding Denmark) and Iceland, Norway, and Switzerland.
3/ Unweighed average of Western Europe (as defined above) and Australia, Japan, Mexico, New Zealand, and the US.

Table III-5. General Government Expenditure in Selected Transition Countries 1/

(In percent of GDP)

	Slovak Republic	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovenia
Total expenditure	48.3	33.4	42.9	47.2	47.5	34.3	45.7
Current expenditure	41.5	32.4	37.7	43.3	44.3	28.8	43.4
Wages and salaries	7.9	3.7	3.5	...	8.1	4.9	7.7
Goods and services	6.0	9.9	4.8	...	...	5.8	1.7
Interest 2/	2.4	7.9	1.2	7.9	3.9	3.4	1.2
Social expenditure	21.5	8.5	19.0	9.2	21.1	11.6	28.8
of which: Pensions	7.9	6.3	9.4	...	...	...	13.3
Health	6.5	...	5.7	...	...	...	6.8
Subsidies	3.7	0.7	8.4	4.7	2.5	2.5	3.2
Other	0.0	1.7	0.8	21.4	8.7	0.6	0.8
Capital expenditure	6.1	1.0	5.1	4.0	3.4	4.8	2.3
Net lending	0.7	0.0	0.1	0.0	-0.2	0.6	0.0

Sources: Various Recent Economic Development Reports, International Monetary Fund.

1/ Data pertain to 1998 for the Slovak and Czech Republics and Hungary, to 1997 for Bulgaria, Romania, and Slovenia, and to 1996 for Poland.
2/ For Hungary, interest expenditure includes National Bank of Hungary expenditure.

Table III-6. Slovak Republic: Social Security System Expenditure, 1995-98

	1995	1996	1997	1998 Estimate
	(In millions of koruny)			
Total expenditure	108,178	127,510	139,355	154,496
Health funds	27,456	36,712	45,876	46,982
Social transfers	80,722	90,798	93,479	107,514
Pensions	43,323	46,089	51,000	56,884
Unemployment benefits	5,480	7,354	7,089	7,773
Sickness benefits	5,708	7,388	8,115	8,976
Social assistance 1/	11,328	13,659	10,951	16,370
State benefits	14,884	16,308	16,324	17,512
	(In percent of GDP)			
Total expenditure	20.9	22.1	21.3	21.5
Health funds	5.3	6.4	7.0	6.5
Social transfers	15.6	15.8	14.3	15.0
Pensions	8.4	8.0	7.8	7.9
Unemployment benefits	1.1	1.3	1.1	1.1
Sickness benefits	1.1	1.3	1.2	1.3
Social assistance 1/	2.2	2.4	1.7	2.3
State benefits	2.9	2.8	2.5	2.4

Sources: Ministry of Finance; and staff estimates.

1/ Includes transfers to individuals and non-profit insitututions.

Table III-7. Slovak Republic: Characteristics of the Pension System, 1993-98

	1993	1994	1995	1996	1997	1998
Pensioneers (in thousands)	1,368	1,381	1,382	1,387	1,398	1,410
of which: Old-age	707	716	723	732	760	772
Disability	220	223	223	225	225	225
Widows	286	288	291	293	294	296
Working persons receiving pensions (in thousands)	...	91	...	76	...	...
Pension expenditure (in Sk million)	32,737	39,326	43,323	46,089	51,000	56,884
of which: Old-age	20,178	23,051	26,930	30,034	33,485	37,554
Disability	5,739	6,739	7,832	8,656	9,588	10,592
Widows	4,040	4,699	2,424	5,984	6,471	7,150
Pension expenditure (in percent of GDP)	8.9	8.4	8.4	8.0	7.8	7.9
Average monthly pensions (in Sk)						
Old-age	2,367	2,852	3,102	3,479	3,846	4,223
Disability	2,247	2,714	2,950	3,305	3,647	4,041
Widows	1,255	1,431	1,594	1,734	1,886	2,073
Replacement rate of average old age pension and average gross wage (in percent)	47.1	48.4	46.1	45.7	44.7	45.3
Age Structure of Population (in percent of total)						
0-14 years	-23.5	22.9	22.3	21.7	21.0	...
Productive age	59.1	59.5	60.2	60.7	61.0	...
male 15-59 years	30.6	30.8	31.2	31.5	32.0	...
female 15-54 years	28.5	28.7	29.0	29.2	29.0	...
Post-productive age	17.4	17.4	17.5	17.6	18.0	...
male over 60 years	6.1	6.1	6.1	6.1	6.0	...
female over 55 years	11.3	11.3	11.4	11.5	12.0	...

Sources: Ministry of Labor, Social Affairs and Family; Ministry of Finance; and staff estimates.

Table III-8. Slovak Republic: Medium-Term Adjustment Scenario--Government Budgetary Operations, 1998-2003

(In percent of GDP)

	1998	1999	2000	2001	2002	2003
	Estimate	Staff Projections				
Revenue	23.1	22.4	22.2	21.7	21.4	21.2
Tax revenue	21.3	20.1	19.9	19.5	19.2	19.0
Income, profit and capital income taxes	8.6	8.1	7.9	7.5	7.2	7.1
Personal income tax	4.1	4.1	3.9	3.7	3.6	3.6
Corporate income tax	3.4	2.9	2.9	2.7	2.5	2.4
Withholding tax on capital income	1.1	1.1	1.1	1.1	1.1	1.1
Property taxes	0.2	0.2	0.2	0.2	0.2	0.2
Domestic taxes on goods and services	10.9	11.0	11.1	11.1	11.1	11.0
Value added tax	7.7	7.7	7.6	7.4	7.3	7.3
Excise tax	3.2	3.3	3.5	3.6	3.8	3.8
Taxes on international trade	1.6	0.8	0.7	0.7	0.7	0.7
Customs duties	0.7	0.7	0.7	0.7	0.7	0.6
Import surcharge	0.9	0.0	0.0	0.0	0.0	0.0
Nontax revenue	1.8	2.3	2.3	2.2	2.2	2.2
Expenditure and net lending	25.7	24.3	23.2	22.3	21.9	21.5
Expenditure	25.4	24.2	23.2	22.4	22.0	21.6
Current expenditure	20.2	19.9	19.2	18.5	18.2	17.9
Budget and subsidized organizations	11.4	11.0	10.3	10.2	10.2	10.2
Gross wages	7.3	6.9	6.4	6.3	6.3	6.2
Goods and services	4.1	4.1	3.9	3.9	3.9	3.9
Subsidies	2.0	1.8	1.7	1.6	1.6	1.5
Social expenditures	4.4	4.1	3.8	3.7	3.7	3.7
Transfers to individuals & non-profit institutions	2.0	1.9	1.8	1.7	1.7	1.7
State benefits	2.4	2.2	2.1	2.0	2.0	2.0
Interest	2.3	3.0	3.4	3.0	2.8	2.6
Bank restructuring	0.0	0.0	1.1	1.1	1.0	0.9
Capital expenditure	1.6	1.1	1.0	0.9	0.9	0.9
Intragovernmental transfers	3.6	3.2	3.0	3.0	2.9	2.8
To local authorities	0.3	0.2	0.2	0.2	0.2	0.2
To social security sector	1.6	1.5	1.4	1.4	1.4	1.4
To other extrabudgetary sectors	1.7	1.4	1.4	1.3	1.3	1.3
Net lending	0.3	0.1	0.0	-0.1	-0.1	-0.1
Lending and guarantees	0.3	0.8	0.6	0.6	0.5	0.5
Repayments	0.0	0.7	0.6	0.7	0.6	0.6
State budget overall balance	-2.6	-1.9	-1.0	-0.6	-0.5	-0.3
Rest of general government balance	-3.3	-1.0	-0.8	-0.6	-0.5	-0.3
Extrabudgetary funds balance	-1.2	-0.3	-0.2	-0.1	-0.1	0.0
Social security funds balance	-1.1	-0.7	-0.6	-0.5	-0.4	-0.2
Local governments balance	-0.2	0.0	0.0	0.0	0.0	0.0
Extrabudgetary projects and NPF	-0.9	0.0	0.0	0.0	0.0	0.0
Consolidated general government balance	-6.0	-2.9	-1.8	-1.2	-1.1	-0.6
Revenue	42.4	40.7	40.1	39.4	38.7	38.2
Expenditure	48.3	43.6	42.0	40.6	39.8	38.8

Sources: Ministry of Finance; and staff estimates and projections.

Table III-9. Slovak Republic: Medium-Term Adjustment Scenario--Operations of the General Government, 1998-2003

(In percent of GDP)

	1998	1999	2000	2001	2002	2003
	Estimate	Staff Projections				
Total revenue	42.4	40.7	40.1	39.4	38.7	38.2
Tax revenue	37.1	35.1	34.7	34.0	33.4	33.0
Personal income tax	5.9	5.9	5.7	5.5	5.4	5.4
Corporate profit tax	3.6	3.1	3.0	2.9	2.6	2.6
Social security contributions	14.0	13.3	13.1	13.0	12.8	12.5
VAT	7.7	7.7	7.6	7.4	7.3	7.3
Excises	3.2	3.3	3.5	3.6	3.8	3.8
Import duties and surcharge	1.6	0.8	0.7	0.7	0.7	0.7
Other	1.0	1.0	1.0	0.9	0.9	0.9
Nontax revenue	5.3	5.6	5.5	5.4	5.3	5.2
Total expenditure	48.3	43.6	42.0	40.6	39.8	38.8
Current expenditures	41.5	39.2	38.0	36.9	36.2	35.3
Gross wages	7.9	7.4	6.9	6.8	6.8	6.7
Other goods and services	6.0	5.2	5.0	5.0	4.9	4.9
Social transfers	15.0	14.3	13.9	13.5	13.3	13.0
Health care	6.5	5.9	5.7	5.6	5.4	5.3
Subsidies	3.7	3.2	3.0	2.9	2.8	2.7
Interest	2.4	3.1	3.5	3.1	2.9	2.7
Net lending	0.7	0.4	0.2	0.1	0.1	0.1
Investment expenditures	6.1	4.1	3.8	3.6	3.5	3.4
Overall balance	-6.0	-2.9	-1.8	-1.2	-1.1	-0.6
of which:						
State budget	-2.6	-1.9	-1.0	-0.6	-0.5	-0.3
Local authorities	-0.2	0.0	0.0	0.0	0.0	0.0
Social security system	-1.1	-0.7	-0.6	-0.5	-0.4	-0.2
Extrabudgetary funds	-1.2	-0.3	-0.2	-0.1	-0.1	0.0
Extrabudgetary projects and NPF	-0.9	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Finance; and staff estimates and projections.

IV. External Current Account Performance in the Slovak Republic: A Brief Retrospective[81]

A. Introduction

137. The large external current account deficit in Slovakia has been a major economic concern. The deficit exceeded 10 percent of GDP each year from 1996 to 1998, and must be reduced significantly if the risks of a balance of payments crisis are to be reduced significantly. With negligible inflows of non-debt-creating capital, the deficit has been financed primarily by large external borrowings, which has led to explosive foreign debt dynamics. Moreover, the persistently high current account deficits and fiscal deficits that have accompanied them have adversely affected the market's assessment of Slovakia's credit risk. Over the past 12 months or so, all the major credit rating agencies have downgraded Slovakia's sovereign debt to below investment grade. This has reduced Slovakia's access to international financial markets, and made borrowing more expensive. Moreover, other vulnerabilities in the economy, such as the weaknesses in the banking and enterprise sectors, have further impeded capital inflows, thereby making it all the more imperative to deal with the external current account problem.

138. Reflecting expansionary macroeconomic policies, Slovakia's output growth in the 1995–98 period was driven by domestic demand, instead of by exports as in the early phase of the transition process. This made Slovakia's economy one of the fastest growing among transition economies (GDP increased annually by more than 6½ percent in the 1995–1997 period, and by a still high 4.4 percent in 1998), but also led to high current account deficits. Strong domestic demand growth reflected lax fiscal policy, and the activities of public enterprises, as well as strong investment growth in the private sector. Although high investment rates are usually viewed as desirable, investment in Slovakia was partly driven by distortionary incentives created during the privatization process, and most investment apparently did not take place in the tradable goods sector.

139. The counterpart to the boom in domestic demand was rapid import growth, while export performance was mixed. The latter was comparatively weak during 1996–97, and accompanied by a loss of external competitiveness resulting mainly from labor market developments. In 1998, export growth recovered. Moreover, the koruna depreciated in real effective terms, reflecting productivity gains in manufacturing sector, the slowdown in wage growth, and the nominal depreciation of the currency.

140. The rest of this paper is organized as follows: Section II outlines some key aspects of external current account developments in Slovakia. Section III demonstrates the need for policy adjustments using a simulation analysis of debt dynamics. Finally, Section IV provides concluding remarks.

[81] Prepared by Uma Ramakrishnan.

B. Key Aspects of Current Account Developments

141. This section first discusses the various factors that have contributed to the current account deficits recorded in 1996–98. Booming investment was clearly one key factor. But while high investment to GDP rates usually at least lessen concerns about current account deficits, the investment record in Slovakia has not been fully reassuring in this regard. In particular, a relatively small proportion of investment was undertaken in the tradable goods sector; for various reasons discussed below, actual investment may have been smaller than what is recorded in the official statistics; and of the investment that took place, little of it benefited from foreign participation and know how.

Rapid domestic demand growth and saving-investment behavior

142. Domestic demand, which contracted in the early years after independence (1993–94), surged by 11 percent in 1995 and by 18 percent in 1996, led primarily by investment (Table IV-1). The jump in investment—from 23 percent of GDP in 1994, to 28 percent in 1995, and to an exceptionally high level of 39 percent of GDP in 1996—was reflected in the deterioration of the external current account balance from small surpluses in 1994–95 to a deficit of more than 10 percent in 1996 (Table IV-2). Investment remained near 39 percent of GDP in 1997 and 1998. Meanwhile, the ratio of economy-wide saving to GDP was little changed during 1995–98. The ratios of both investment and saving to GDP were substantially higher than in other central European economies (Table IV-3).

143. The reasons behind the investment boom are not fully understood. Some contributing factors were the following: (i) the pro-investment stance of the government, including special incentives created under the privatization process, which may have contributed (as discussed below) to some overrecording of investment; (ii) the government's initiation of huge road and power infrastructure projects; and (iii) the modernization drive in the large industrial base of the country, after the newly acquired access to western technology.

144. The absence of an effective wage policy contributed to domestic demand growth, in particular during 1996–97. In those years, real wages increased by about 7 percent each year. A wage control law, introduced in the second half of 1997 with the aim of reducing wage growth, particularly in loss-making enterprises, turned out to be ineffective, and was revoked in November 1998.

145. Monetary policy was fairly ineffective in containing domestic demand pressures because of the easy access of Slovak enterprises to foreign borrowing in the 1996–98 period. Monetary policy, which had been expansionary until mid-1996, was tightened thereafter, as evidenced by the rise in the average one-month interbank lending rate from 10 percent in the first half of 1996, to 24 percent in 1997, and 19 percent in 1998. While the ensuing high real interest rates—the inflation rate remained stable, at about 6 percent—imposed strains on domestic banks and enterprises, domestic demand pressures were not contained. For example, when domestic credit growth slowed down from 18 percent in 1996 to about 2 percent in 1997, Slovakia's enterprises took advantage of their easy access to international

capital markets, and increased their foreign borrowing, some of which was supported by a program of government guarantees.

146. From a saving-investment standpoint, the government's fiscal policy and the operations of some large public enterprises accounted for most of the large saving-investment gap of the Slovak economy. The general government deficit deteriorated dramatically in the 1996–98 period, switching from a surplus of 0.2 percent of GDP in 1995 to a deficit of 6 percent in 1998. Moreover, public enterprises substantially contributed to the shortfall of savings compared with investment. As Table IV-2 suggests, almost all of the savings-investment gap in the nongovernment sector (which includes the private sector and the state-owned enterprises) in 1997 and 1998 came from four large state enterprises, reflecting in addition to high investment, their very low or negative profitability.[82]

Merchandise trade performance

147. Against the background of rapid domestic demand, export performance weakened in 1996 and 1997. As shown in Table IV-4, Slovakia's export growth in these two years was among the lowest of the central and eastern European transition economies. Moreover, Slovakia's share in EU imports (the EU is Slovakia's most important export market) more than doubled from 0.11 percent in 1993 to 0.29 percent in 1998, but was stagnant in 1996 and 1997. In these two years, the cumulative appreciation of the real effective exchange rate, based on unit labor costs (ULCs), was 23½ percent.[83] The real appreciation largely reflected the strong nominal wage growth and a slowdown in productivity growth in those years. The ULC effects in 1997 were reinforced by nominal effective appreciation of the Slovak currency of about 6 percent.

148. Export performance improved substantially in 1998. Export volume growth was an estimated 12 percent, compared with 1½ percent in 1997 and 6 percent in 1996. As noted above, Slovakia also increased its share in the EU market. In addition, the appreciation of the ULC-based real effective exchange rate was reversed because of the slowdown in wage growth, a strong recovery in productivity growth, and nominal exchange rate depreciation.

149. Slovakia's exports have been heavily concentrated in a narrow industrial base. This makes Slovakia's exports sensitive to the performance of a few large exporters. The export base includes steel, basic chemicals, fuels, and machinery and equipment. Iron and steel, for example, constitute more than 14 percent of total exports, almost all of it produced by Slovakia's largest private company, Vychodoslovenske Zelezarnie, A.S. (VSZ). When the

---

[82] The four enterprises are the Slovakia Post Company, Slovakia Telecommunication Company, Slovakia Railways, and Slovakia's Electricity Company. Comparable data for other enterprises were unavailable.

[83] Using valued-added in Slovak manufacturing. The appreciation would have been somewhat less (22 percent) using gross industrial output.

company experienced financial difficulties in 1998, as a result not only of a glut in the global steel market, but also of internal inefficiencies and high indebtedness, this substantially affected a large share of Slovakia's exports. In a similar vein, it appears that several large exporters of chemicals and chemical products, which contributed about 10 percent to total exports in 1998, have recently been experiencing financial difficulties as a result of incomplete restructuring, which has also adversely affected their export capabilities. On the other hand, foreign greenfield investments in some large projects have increased export capacity of the Slovak economy, particularly in automobile sector, and substantially contributed to export growth in 1998.

150. In the face of strong growth in domestic demand—and investment demand in particular—import growth was very high in 1996–98. Using the WEO estimate of import deflators, import volume growth averaged about 14 percent in those three years. Moreover, such a high rate of import volume growth occurred despite the imposition of import surcharges ranging from 7 to 10 percent in 1995 and 1996, and the reintroduction of a 7 percent surcharge in July 1997 (which was fully phased out October 1998).[84] Real exchange rate appreciation in 1996 and 1997 also contributed to higher imports. High investment activity influenced the structure of imports, as evidenced by the increasing share of machinery in total imports from less than 30 percent in the 1993–95 period, to more than 35 percent in the 1996–98 period. In addition, higher imports were driven by autonomous components arising from greater consumer demand for product variety and the higher quality of foreign consumer goods, which had to be imported in the absence of production in import-competing industries.

Investment related concerns

151. The investment that took place has been inward-looking in the sense that the tradable goods sector has not been the recipient of most investment activity. The manufacturing sector received only about 20 percent of total investment in the period 1994–98 (Table IV-5). At the same time, this sector accounted for almost 90 percent of total exports, while its share in GDP was about 25 percent in the period 1994–98. By contrast, recorded investment in nonmarket services (which includes government services such as public administration and defense) grew from 13 percent in 1994 to about 18 percent of total investment in 1998, while its share in GDP was only 13 percent in 1998.

152. Slovakia's export potential has benefited only modestly from foreign direct investment (FDI) in existing enterprises. With a highly educated and skilled labor force, and relatively low wages, privatization of Slovak companies could have attracted significant amounts of FDI had the government's privatization policy not discriminated against foreign investors in favor of domestic managerial groups. As a result, FDI in Slovakia has so far been

---

[84] A 10 percent surcharge was introduced on all consumer goods in 1994; the rate was lowered to 7½ percent in July 1996 and eliminated on January 1, 1997. The 7 percent surcharge reintroduced in July 1997 was on a broader range of goods.

much lower than in other central European countries (see Table IV-3). For example, at the end of 1998, cumulative FDI on a per capita basis was only US$340, or about seven times less than in Hungary. This has prevented Slovakia from strengthening its export potential through larger capital injections from abroad, along with better management and technological know-how. Moreover, poor transparency of the privatization process, absence of legal protection for the rights of investors, weak market regulations, and reports of "cronyism" deprived Slovakia of all but a trickle of portfolio investment and deterred development of a well-functioning capital market.

153. Finally, the quality (and possibly the measurement) of investment in Slovakia was adversely affected by the peculiar incentives under the privatization program. Under the privatization scheme, investors were allowed to reduce their payments to the National Property Fund (NPF) for the acquired companies if these companies invested in fixed assets. Such incentives reduced the efficiency of investment, as the cost of investment was often effectively borne by the NPF. Moreover, since investments that could fall under this scheme were often not precisely specified, strict enforcement was made difficult. Therefore, it is possible that the total investment figures overestimate the underlying productive investment. Indeed, anecdotal evidence suggests that personal cars of company managers were claimed to be new fixed investment. Further, under pressure from the former government, the state banks often provided loans to sustain investment in inefficient enterprises; it is reported that in so doing, investments may have been diverted away from the most productive enterprises.

Implications of the large and persistent current account deficits

154. Foreign borrowing has been the main source of financing for Slovakia's current account deficit, which has resulted in a rapid debt buildup. Gross external debt rose from only 22 percent of GDP in 1995 to almost 60 percent of GDP in 1998, the highest level among the transition economies in the region (Tables IV-3 and IV-6).[85] Moreover, some 40 percent of the debt is short-term, which increases Slovakia's vulnerability to crisis. The hefty foreign borrowings have imposed pressures on the cash flows of enterprises as their debt-servicing costs more than doubled from 1994 to 1996. Further, the high level of foreign debt has also made Slovak enterprises vulnerable to the depreciation of the koruna, as evidenced, for example, by reports of large losses and cash-flow problems in the last half of 1998.

155. The persistent current account imbalances have been a factor that has gradually made foreign borrowing more expensive and difficult for Slovakia. In downgrading Slovakia's sovereign debt to below investment grade in the last 12 months or so, major credit rating agencies noted external (as well as internal) imbalances. In addition, the default on a

[85] This includes the "window-dressing" operations of commercial banks, which led them to increase both short-term external assets and liabilities by about US$2 billion. After excluding the effect of these operations, the debt stood at about 50 percent of GDP at end-1998, which is still high compared with neighboring countries.

US$35 million loan payment by VSZ in November 1998 appeared to signal problems underlying Slovakia's enterprises.[86] The Russian crisis in August 1998 also caused foreign investors to become even more cautious. With all these factors making it more difficult to attract foreign funds, large current account deficits became even more of a problem.

156. The country also exhibits additional economic vulnerabilities, which can further aggravate risks caused by the large current account deficits. The weak banking and enterprise sectors, relatively low reserves compared with other transition economies in the region, and the large stock of both short-term external debt and broad money relative to official reserves could further discourage foreign capital inflows, thereby compounding Slovakia's financing problems.[87] However, even if the country were able to borrow abroad at spreads near their levels prior to the debt downgrade, the debt dynamics would still have to be reversed in order to bring the debt ratios to sustainable and stable levels.

C. Sustainability of the External Current Account

157. This section presents results of a simulation exercise on current account and debt sustainability that was carried out to demonstrate the medium- and long-term implications of Slovakia's current account deficits continuing at their recent levels. Current account deficits in the simulation period are assumed to be almost completely financed by foreign borrowing, as nondebt-creating flows in the absence of adjustment would likely remain at low levels. The country would have to pay interest rates much above benchmark rates, because of the inherent and perceived risks by lenders. As a result, as Table IV-7 indicates, debt servicing would begin to use up about one quarter of the export earnings by 2005; and the ratio of debt to GDP would clearly reach unsustainable levels. Thus, such debt dynamics would have to be reversed, either by policy measures, or because financing would become unavailable. Indeed, if external financing under such vulnerable economic conditions were to dry up, the country would need to run a current account surplus, which would likely be accompanied by harsh economic and social consequences.

158. To reverse the debt dynamics—which would also help to attract greater non-debt-creating inflows—the external current account deficit would need to be reduced substantially from its current level. In the adjustment scenario shown in Table IV-7, net interest payments fall rapidly, the debt ratios decline, and the external current account deficit falls to about 2½ percent of GDP in the year 2000, and declines further thereafter, to a level that could easily be financed by non-debt-creating sources. As a result, the debt-to-GDP ratio would be reduced to about 38 percent of GDP by the year 2005. With declining interest costs,

---

[86] VSZ defaulted on the US$35 million syndicated loan in November 1998, when the loan was called. Subsequently, VSZ defaulted on additional loans that were called, resulting in a total default of US$210 million, the largest corporate default in central Europe.

[87] Official reserves were equivalent to only a half of the short-term foreign debt, including medium- and long-term debt falling due.

additional resources would be released for productive uses, helping to achieve faster and more sustainable economic growth. Further, structural improvements in the enterprise and banking sectors, benefiting also from higher FDI, would lead to more efficient production and higher profitability, which in turn is reflected in improved external competitiveness. The required reduction in the current account deficit would also benefit from macreoeconomic adjustment, led by continued fiscal consolidation and a restrained wage policy.

D. Concluding Remarks

159. Significant actions must be taken to reduce Slovakia's external current account deficit from its high levels of the past three years. Such an adjustment effort is all the more important in circumstances in which external financing prospects have worsened, and the past investments that helped to generate the external imbalances may not have contributed to enhancing the future performance of the tradable goods sector in a significant enough way. Without such an effort, the external current account deficit and the unfavorable debt dynamics associated with it would clearly leave Slovakia in a very vulnerable position.

160. Thankfully, concerns about this vulnerability have diminished. The recovery of exports in 1998 and the recent gains in external competitiveness are welcome. The government's intention to reduce significantly the deficit of the general government in 1999, continue with fiscal consolidation in later years, and accelerate structural reforms will, when fulfilled, be important ingredients in bringing the external current account and associated debt dynamics to sustainable levels. All this will help lay the basis for durable economic growth.

Table IV-1. Slovak Republic: Gross Domestic Product Composition and Growth

	1993	1994	1995	1996	1997	1998
			(Share of GDP)			
Domestic demand	105.5	94.8	98.2	110.5	110.3	111.2
Consumption	78.2	71.7	69.8	71.1	71.6	71.8
Private	53.2	50.4	48.9	49.7	49.3	50.2
Public	25.0	21.3	20.9	21.4	22.4	21.6
Investment	27.4	23.1	28.4	39.4	38.7	39.4
Fixed investment	32.7	29.4	27.4	36.9	38.6	40.8
Change in stocks	-5.3	-6.3	1.0	2.4	0.0	-1.4
Exports	61.7	65.1	63.0	58.0	60.7	63.7
Imports	67.2	59.9	61.2	68.5	71.0	74.8
			(Percentage change in constant prices)			
GDP at market prices	-3.7	4.9	6.9	6.6	6.5	4.4
Domestic demand	-3.4	-5.7	11.2	17.7	5.7	4.1
Consumption	-1.7	-3.6	3.3	8.4	6.7	3.5
Private	-1.5	0.0	3.4	6.9	6.3	4.9
Public	-2.2	-11.2	3.0	11.8	7.7	0.3
Investment	-8.1	-11.8	37.4	40.8	3.7	5.2
Fixed investment	-5.4	-4.6	5.3	39.8	14.5	11.0
Change in stocks	15.0	39.2	-118.4	68.6	...	...
Exports	-0.5	14.2	3.1	-0.3	... 1/	10.8
Imports	-0.8	-3.6	9.6	17.4	... 1/	9.6
Memorandum item:						
Gross national saving (in percent of GDP)	21.8	27.9	30.6	29.7	28.1	29.3

Sources: Slovak Statistical Office; and staff estimates.

1/ Comparable data are not available due to a change in methodology in the compilation of trade data.

Table IV-2. Slovak Republic: Saving-Investment Balance, 1995-98

	1995	1996	1997	1998
		(In percent of GDP)		
Gross national saving	30.6	29.7	28.1	29.3
Non-government	25.5	25.0	26.3	29.3
State enterprises 1/	(n.a.)	(2.2)	(1.5)	(0.8)
Government	5.1	4.7	1.8	-0.1
Gross capital formation	28.4	39.4	38.7	39.4
Non-government	23.5	33.3	31.7	33.4
State enterprises 1/	(n.a.)	(5.8)	(5.8)	(4.4)
Government	4.9	6.1	7.0	6.0
Saving-investment balance (=External Current account)	2.3	-9.7 2/	-10.1	-10.1
Non-government	2.1	-8.3	-4.9	-4.1
State enterprises 1/	(n.a.)	(-4.2)	(-4.3)	(-3.5)
Government	0.2	-1.3	-5.2	-6.0

Sources: Slovak authorities; and staff estimates.

1/ Includes Post, Telecommunications, Railways, and Electricity.

2/ Excluding the military equipment shipped from Russia in exchange for a reduction of Slovak claims, equivalent to 1.5 percent of GDP.

Table IV-3. Slovak Republic: Regional Comparison of Selected Economic Indicators

	Slovak Republic				Poland				Czech Republic				Hungary			
	1995	1996	1997	1998	1995	1996	1997	1998	1995	1996	1997	1998	1995	1996	1997	1998
	(In percent of GDP, unless otherwise specified)															
Gross national savings	30.6	29.7	28.1	29.3	21.3	19.5	20.8	19.9	29.6	25.3	24.1	28.4	18.3	23.1	25.9	25.8
Gross investment	28.4	39.4	38.7	39.4	18.0	20.5	24.0	24.4	32.3	32.9	30.2	30.3	23.9	26.8	28.1	30.6
Current account balance	2.3	-11.1 1/	-10.1	-10.1	3.3	-1.0	-3.2	-4.5	-2.7	-7.6	-6.1	-1.9	-5.7	-3.7	-2.2	-4.8
General government balance	0.2	-1.3	-5.2	-6.0	-3.3	-3.6	-3.3	-3.0	-1.8	-1.2	-2.1	-2.1	-6.2	-3.1	-4.8	-4.6
Net foreign direct investment	0.8	1.1	0.2	1.1	1.0	2.0	2.2	4.1	5.0	2.5	1.8	1.9	10.0	4.8	4.5	3.1
Total external debt	22.4	40.5	50.4	58.3	36.9	30.1	28.4	27.3	33.8	36.8	40.9	41.1	70.9	61.0	51.9	56.2
External debt per capita in US$	728	1,416	1,824	2,208	1,139	1,050	996	1,089	1,664	2,052	2,088	2,243	3,097	2,704	2,340	2,498
Short-term external debt	9.9	15.7	22.1	22.5	2.0	2.0	3.0	2.0	10.0	11.0	9.0	9.0	7.0	7.0	7.0	7.0
	(Percentage change)															
Real GDP	6.9	6.6	6.5	4.4	7.0	6.1	6.9	4.8	6.4	3.9	1.0	-2.8	1.5	1.3	4.6	5.1
Inflation, average CPI	10.0	5.8	6.1	6.7	27.9	19.9	15.1	11.7	9.1	8.8	8.4	10.7	28.3	23.5	18.3	14.3
Real effective exchange rate relative to deutsche mark, CPI based	3.4	6.2	9.5	5.5	4.4	11.6	7.1	6.2	2.6	10.1	5.2	7.6	-6.9	5.5	9.5	1.3
Export volume of goods	16.2	6.0	1.5	12.3	23.6	12.0	14.0	11.5	15.8	3.3	10.8	6.7	49.5	13.2	14.6	21.2
Import volume of goods	20.8	23.3	2.6	17.8	24.3	29.9	23.9	18.9	21.7	11.7	5.3	3.0	21.2	10.4	9.3	21.6
Competitiveness Indicators	(Percentage change)															
Unit labor cost growth 2/	5.5	14.0	12.9	-5.0	2.9	9.0	3.0	3.2	1.5	10.0	0.9	4.3	-19.1	-3.4	0.6	-8.7
Productivity growth 3/	5.3	2.5	4.1	11.5	7.0	10.0	12.1	6.3	11.1	9.6	11.1	5.6	10.9	9.0	14.3	13.3
Real wage growth (PPI based) 3/	6.0	9.8	7.5	6.1	5.4	14.5	12.1	8.4	8.7	11.9	8.4	2.6	-3.8	-0.6	3.6	7.4
Sovereign credit rating																
Moody's	Baa3	Baa3	Baa3	Ba1	Baa3	Baa3	Baa3	Baa3	Baa1	Baa1	Baa1	Baa1	Baa3	Baa3	Baa3	Baa2
S&P's	BB+	BBB-	BBB-	BB+	BB	BBB-	BBB-	BBB-	A	A		A-	BB+	BB+	BBB-	BBB
Fitch IBCA	n.a.	n.a.	BBB-	BB+	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	BBB+	BBB+	n.a.	n.a.	BBB	...

Sources: WEO, Slovak authorities, EBRD, and staff estimates

1/ Includes 1.5 percent of GDP of military equipment shipped from Russia in exchange for a reduction of Slovak claims, which is captured in the BOP accounts as imports but not in the national accounts.

2/ Wages, deflated by productivity index.

3/ In the manufacturing sector.

Table IV-4. Slovak Republic: Central and Eastern Europe Exports of Goods

	1993	1994	1995	1996	1997	1998
			(In billions of DM)			
Slovak Rep.	**10.5**	**12.7**	**14.4**	**15.5**	**16.7**	**18.7**
Bulgaria	6.2	6.4	7.7	7.4	8.8	9.2
Croatia	6.5	6.9	6.6	6.8	7.3	8.1
Czech Rep.	23.5	25.9	30.8	32.6	38.5	42.9
Estonia	1.3	2.2	2.7	2.7	3.6	4.2
Hungary	13.4	12.4	18.4	21.3	34.1	39.3
Latvia	1.7	1.7	2.0	2.2	3.1	3.4
Lithuania	2.9	3.2	2.9	5.1	7.3	8.4
Poland	26.1	32.7	41.8	47.5	57.4	63.4
Romania	8.1	9.8	11.3	12.2	14.1	14.9
Slovenia	10.1	11.1	12.0	12.6	14.1	15.4
			(Index 1993=100)			
Slovak Rep.	**100.0**	**120.2**	**136.4**	**147.4**	**158.8**	**177.5**
Bulgaria	100.0	103.6	124.3	119.4	142.4	149.5
Croatia	100.0	107.1	102.9	105.9	113.1	125.2
Czech Rep.	100.0	110.4	131.0	139.0	163.9	182.9
Estonia	100.0	160.3	198.9	200.5	268.7	314.9
Hungary	100.0	92.5	137.3	159.0	253.7	292.8
Latvia	100.0	95.1	112.4	128.4	177.3	195.1
Lithuania	100.0	111.3	103.3	179.9	254.6	294.7
Poland	100.0	125.3	160.0	182.0	219.9	243.0
Romania	100.0	122.0	139.9	151.7	174.6	184.4
Slovenia	100.0	110.5	119.0	125.1	140.6	152.9
			(Percentage change)			
Slovak Rep.	...	**20.2**	**13.5**	**8.1**	**7.7**	**11.8**
Bulgaria	...	3.6	20.0	-4.0	19.2	5.0
Croatia	...	7.1	-4.0	3.0	6.7	10.8
Czech	...	10.4	18.7	6.1	17.9	11.6
Estonia	...	60.3	24.1	0.8	34.0	17.2
Hungary	...	-7.5	48.5	15.8	59.5	15.4
Latvia	...	-4.9	18.2	14.2	38.1	10.0
Lithuania	...	11.3	-7.2	74.1	41.6	15.7
Poland	...	25.3	27.6	13.8	20.8	10.5
Romania	...	22.0	14.7	8.4	15.1	5.7
Slovenia	...	10.5	7.7	5.1	12.3	8.8

Sources: IMF Direction of Trade Statistics; and staff estimates.

Table IV-5. Slovak Republic: Investment by Sector

(In percent of total investment)

	1994	1995	1996	1997	1998
Agriculture	4.5	3.9	3.5	3.5	3.1
Industry	42.1	40.3	35.3	33.9	38.9
Mining and quarrying	1.8	2.6	2.8	2.4	1.1
Manufacturing	20.6	21.3	20.2	19.9	22.1
Electricity, water and gas	19.7	16.4	12.3	11.5	15.6
Construction	3.7	3.1	2.9	2.9	2.4
Services	36.7	37.4	39.3	41.1	38.0
Financial services and insurance	9.9	10.5	10.3	9.2	8.5
Real estate	10.0	8.9	8.4	9.1	8.7
Trade and repairs	4.6	4.7	6.1	8.1	8.6
Hotels and restaurants	0.7	0.9	1.2	1.1	0.8
Transport and communications	11.5	12.4	13.2	13.6	11.5
Non-Market Services	13.0	15.2	19.0	18.7	17.6
Public administration and defense	4.7	6.0	10.4	10.4	9.7
Education	1.7	2.5	2.5	2.3	2.2
Health and social work	2.6	3.1	3.1	3.0	2.7
Other social services	4.1	3.7	3.1	2.9	3.0
Memorandum items:					
Buildings	44.7	46.6	46.3	41.6	41.6
Machinery	47.1	50.0	49.9	49.5	49.5
Other	8.2	3.4	3.8	8.9	8.9
Public	51.2	49.0	49.5	45.6	41.9
Private	48.8	51.0	50.5	54.4	58.1
Public investment/GDP	16.6	15.7	18.9	17.8	16.6
Private investment/GDP	15.9	16.4	19.2	21.2	22.9

Sources: Slovak authorities; and staff estimates.

Table IV-6. Slovak Republic: Capital Flows and Debt Indicators

	1995	1996	1997	1998
	(In percent of GDP)			
A. Capital Flows				
Non-debt creating flows, net	2.2	1.6	1.2	1.2
Foreign direct investment	1.1	1.1	0.2	1.1
Portfolio investment	1.4	0.5	1.0	0.1
Debt creating flows, net	2.8	9.9	8.0	7.4
Medium and long term capital	3.4	6.2	6.5	7.9
Short term capital	0.5	4.4	1.5	-0.5
B. Debt Indicators				
Total Debt 1/	32.2	40.5	50.4	58.3
Total debt service	5.8	7.4	7.5	8.4
Debt service/Exports of gnfs	9.2	12.8	12.3	13.2
Medium and long term debt	22.4	24.8	28.4	35.8
Government+NBS 2/	11.3	8.9	8.2	12.3
Commercial banks	3.0	4.1	3.5	3.0
Enterprises	8.0	11.9	16.6	20.5
Short term debt	9.8	15.7	22.1	22.5
Government+NBS	n.a.	0.0	1.0	0.0
Commercial banks	n.a.	7.6	11.4	10.1
Enterprises	n.a.	8.1	9.7	12.4

Sources: National Bank of Slovakia; and staff estimates.

1/ Includes the effects of so-called "window dressing" operations in 1997 and 1998, to the tune of about US$2 billion, undertaken in response to the NBS' monetary regulation on banks' net foreign asset positions (now abolished), which led commercial banks to increase both short-term external assets and liabilities.
2/ Includes a small percentage of municipalities' debt, which is not itemized.

Table IV-7. Slovak Republic: Different Scenarios on Debt Sustainability

(In percent of GDP, unless otherwise specified)

	1998	1999	2000	2001	2005
No Adjustment Scenario					
Trade Balance	-11.3	-7.3	-6.8	-7.9	-6.4
Interest income, net	-0.6	-2.6	-3.5	-4.0	-6.1
Current Account	-10.1	-8.1	-8.5	-10.1	-10.7
Debt/GDP	58.3	59.2	64.2	70.4	94.2
Debt Service/GDP	8.4	12.0	11.8	12.5	16.0
Debt Service/Exports of Goods and Services	13.2	18.8	18.6	19.7	25.2
Debt/Exports of Goods and Services	91.7	93.1	100.9	110.7	148.1
Adjustment Scenario					
Trade Balance	-11.3	-5.4	-2.4	-2.0	-2.3
Interest income, net	-0.6	-1.0	-1.2	-0.7	-0.1
Current Account	-10.1	-4.9	-2.3	-1.5	-1.2
Debt/GDP	58.3	56.0	53.7	50.5	38.0
Debt Service/GDP	8.4	10.6	9.4	7.9	6.4
Debt Service/Exports of Goods and Services	13.2	14.2	12.6	10.5	8.5
Debt/Exports of Goods and Services	91.7	74.6	71.6	67.2	50.6

Source: Staff estimates.

SM/99/160
Corrected: 8/31/99

Table A1. Slovak Republic: Gross Domestic Product - Current Prices

	1993	1994	1995	1996 1/	1997	1998
			(In billions of koruny)			
Domestic demand	389.5	417.6	507.4	636.2	721.4	797.5
Consumption	288.5	315.8	360.8	409.5	468.5	514.8
Private	196.2	221.9	252.7	286.1	322.3	360.1
Public	92.3	93.9	108.1	123.4	146.2	154.7
Investment	101.0	101.8	146.6	226.7	252.9	282.7
Fixed investment	120.7	129.4	141.5	212.7	252.7	292.4
Change in stocks	-19.7	-27.6	5.1	14.0	0.2	-9.7
Private	...	81.9	121.4	191.8	207.0	239.8
Government	...	19.9	25.2	34.9	45.9	42.9
Net exports of goods and nfs	-20.4	22.9	9.4	-60.5	-67.5	-80.1
Exports of goods and nfs	227.8	286.6	325.8	334.0	396.9	456.8
Imports of goods and nfs	248.2	263.7	316.4	394.5	464.4	536.9
Gross domestic product at market prices	369.1	440.5	516.8	575.7	653.9	717.4
			(In percent of GDP)			
Domestic demand	105.5	94.8	98.2	110.5	110.3	111.2
Consumption	78.2	71.7	69.8	71.1	71.6	71.8
Private	53.2	50.4	48.9	49.7	49.3	50.2
Public	25.0	21.3	20.9	21.4	22.4	21.6
Investment	27.4	23.1	28.4	39.4	38.7	39.4
Fixed investment	32.7	29.4	27.4	36.9	38.6	40.8
Change in stocks	-5.3	-6.3	1.0	2.4	0.0	-1.4
Private	...	18.6	23.5	33.3	31.7	33.4
Government	...	4.5	4.9	6.1	7.0	6.0
Net exports of goods and nfs	-5.5	5.2	1.8	-10.5	-10.3	-11.2
Exports of goods and nfs	61.7	65.1	63.0	58.0	60.7	63.7
Imports of goods and nfs	67.2	59.9	61.2	68.5	71.0	74.8

Sources: Slovak Statistical Office; and staff estimates.

1/ Adjusted for exceptional military imports.

SM/99/160
Corrected: 8/31/99

Table A2. Slovak Republic: Gross Domestic Product - Constant Prices

	1993	1994	1995	1996 1/	1997	1998
			(In billions of koruny)			
Domestic demand	483.6	456.1	507.4	597.4	631.2	656.9
Consumption	362.6	349.4	360.8	391.0	417.2	431.8
Private	244.4	244.4	252.7	270.2	287.1	301.3
Public	118.2	105.0	108.1	120.8	130.1	130.5
Investment	121.0	106.7	146.6	206.4	214.0	225.1
Fixed investment	140.9	134.4	141.5	197.8	226.4	251.2
Change in stocks	-19.9	-27.7	5.1	8.6	-12.4	-26.1
Net exports of goods and nfs	-22.8	27.3	9.4	-46.6	-44.4	-44.2
Exports of goods and nfs	276.7	316.0	325.8	324.9	371.0	410.9
Imports of goods and nfs	299.5	288.7	316.4	371.5	415.4	455.1
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0
Gross domestic product at market prices	460.8	483.4	516.8	550.8	586.8	612.7
			(Annual percentage change)			
Domestic demand	...	-5.7	11.2	17.7	5.7	4.1
Consumption	...	-3.6	3.3	8.4	6.7	3.5
Private	...	0.0	3.4	6.9	6.3	4.9
Public	...	-11.2	3.0	11.8	7.7	0.3
Investment	...	-11.8	37.4	40.8	3.7	5.2
Fixed investment	...	-4.6	5.3	39.8	14.5	11.0
Change in stocks	...	39.2	...	68.6	...	...
	...					
Exports of goods and nfs	...	14.2	3.1	-0.3	...	10.8
Imports of goods and nfs	...	-3.6	9.6	17.4	...	9.6
GDP at market prices	...	4.9	6.9	6.6	6.5	4.4

Sources: Slovak Statistical Office; and staff estimates.

1/ Adjusted for exceptional military imports.

Table A3. Slovak Republic: Gross Domestic Product by Sectors, Constant Prices

	1995	1996	1997	1998
	(In billions of 1995 koruny)			
Gross domestic product	516.9	550.8	586.8	612.7
Agriculture	28.8	28.6	28.8	28.5
Industry	166.4	167.1	171.0	172.5
Mining and quarrying	5.1	6.1	6.1	6.4
Manufacturing	139.6	138.1	143.1	149.9
Food	23.4	24.5	23.8	25.0
Chemicals and plastics	34.1	31.4	33.0	32.6
Metal products	19.1	19.2	20.4	19.2
Machinery and vehicles	25.5	27.6	29.8	34.9
Electricity, water and gas	21.8	22.9	21.8	16.3
Construction	23.7	23.7	27.3	25.3
Services	298.0	331.5	359.6	386.4
Market services	198.6	230.6	252.4	274.7
Transportation	32.1	33.6	33.8	36.6
Communications	10.9	14.4	16.2	18.0
Wholesale and retail trade	92.9	120.9	126.7	133.0
Other market services	62.6	61.7	75.7	87.1
Non-market services	63.4	66.2	74.6	79.3
Other 1/	36.0	34.6	32.7	32.5
	(In percent of GDP)			
Agriculture	5.6	5.2	4.9	4.7
Industry	32.2	30.3	29.1	28.2
Mining and quarrying	1.0	1.1	1.0	1.0
Manufacturing	27.0	25.1	24.4	24.5
Food	4.5	4.5	4.1	4.1
Chemicals and plastics	6.6	5.7	5.6	5.3
Metal products	3.7	3.5	3.5	3.1
Machinery and vehicles	4.9	5.0	5.1	5.7
Electricity, water and gas	4.2	4.2	3.7	2.7
Construction	4.6	4.3	4.7	4.1
Services	57.7	60.2	61.3	63.1
Market services	38.4	41.9	43.0	44.8
Transportation	6.2	6.1	5.8	6.0
Communications	2.1	2.6	2.8	2.9
Wholesale and retail trade	18.0	22.0	21.6	21.7
Other market services	12.1	11.2	12.9	14.2
Non-market services	12.3	12.0	12.7	12.9
Other 1/	7.0	6.3	5.6	5.3

Sources: Slovak Statistical Office; and staff estimates.

1/ Imputed banking services charges, indirect taxes, and own supplies.

Table A4. Slovak Republic: Gross Domestic Product by Sectors, Current Prices

	1993	1994	1995	1996	1997	1998
			(In billions of koruny)			
Gross domestic product	369.9	441.3	516.8	575.7	653.9	717.4
Agriculture	17.3	29.3	28.8	29.9	31.6	31.6
Industry	113.1	125.8	166.4	172.9	184.1	191.3
Mining and quarrying	4.6	3.8	5.1	6.0	6.1	6.3
Manufacturing	72.7	106.4	139.5	144.2	154.6	166.7
Food	8.4	12.6	23.4	25.6	26.4	29.3
Chemicals and plastics	14.2	18.6	34.0	33.9	36.9	36.9
Metal products	12.4	14.7	19.0	20.8	22.0	21.5
Machinery and vehicles	15.7	19.2	25.5	28.5	31.7	38.4
Electricity, water and gas	35.8	15.6	21.8	22.7	23.5	18.3
Construction	17.5	20.1	23.7	27.3	34.5	35.5
Services	222.0	266.1	297.9	345.6	411.9	459.1
Market services	156.6	191.2	198.5	240.5	289.5	332.5
Transportation	22.5	29.9	32.1	33.6	3.5	39.4
Communications	7.2	8.3	10.9	14.4	17.2	20.5
Wholesale and retail trade	96.1	115.7	92.9	127.9	142.2	158.0
Other market services	30.8	37.3	62.6	64.6	94.2	114.6
Non-market services	49.0	53.1	63.4	69.6	90.7	90.7
Other 1/	16.4	21.8	36.0	35.5	31.7	35.9
			(In percent of GDP)			
Agriculture	4.7	6.6	5.6	5.2	4.8	4.4
Industry	30.6	28.5	32.2	30.0	28.2	26.7
Mining and quarrying	1.2	0.9	1.0	1.0	0.9	0.9
Manufacturing	19.7	24.1	27.0	25.0	23.6	23.2
Food	2.3	2.9	4.5	4.4	4.0	4.1
Chemicals and plastics	3.8	4.2	6.6	5.9	5.6	5.1
Metal products	3.4	3.3	3.7	3.6	3.4	3.0
Machinery and vehicles	4.2	4.4	4.9	5.0	4.9	5.3
Electricity, water and gas	9.7	3.5	4.2	3.9	3.6	2.5
Construction	4.7	4.6	4.6	4.7	5.3	4.9
Services	60.0	60.3	57.6	60.0	63.0	64.0
Market services	42.3	43.3	38.4	41.8	44.3	46.4
Transportation	6.1	6.8	6.2	5.8	0.5	5.5
Communications	1.9	1.9	2.1	2.5	2.6	2.9
Wholesale and retail trade	26.0	26.2	18.0	22.2	21.7	22.0
Other market services	8.3	8.5	12.1	11.2	14.4	16.0
Non-market services	13.2	12.0	12.3	12.1	13.9	12.6
Other 1/	4.4	4.9	7.0	6.2	4.9	5.0

Sources: Slovak Statistical Office; and staff estimates.

1/ Imputed banking services charges, indirect taxes, and own supplies.

Table A5. Slovak Republic: Investment by Sector

	1993	1994	1995	1996	1997	1998 1/
	(In billions of koruny, unless otherwise indicated)					
Total investment, national accounts	101.0	101.8	146.6	226.7	252.9	282.7
Total	126.1	135.7	163.0	242.3	281.3	315.2
Agriculture	4.9	6.1	6.4	8.4	9.9	9.8
Industry	57.0	57.1	65.7	85.5	95.3	122.5
Mining and quarrying	2.1	2.4	4.2	6.8	6.9	3.6
Manufacturing	37.8	28.0	34.8	48.9	56.0	69.6
Electricity, water and gas	17.1	26.7	26.7	29.8	32.4	49.3
Construction	4.1	5.0	5.1	7.1	8.0	7.6
Market Services	41.5	49.8	61.0	95.2	115.6	119.9
Financial intermediation	10.0	13.4	17.1	25.0	25.8	26.7
Real estate	14.1	13.5	14.5	20.3	25.5	27.4
Trade and repairs	4.5	6.3	7.7	14.9	22.8	27.1
Hotels and restaurants	1.1	1.0	1.5	2.9	3.2	2.6
Transport and communications	11.8	15.6	20.2	32.1	38.3	36.1
Non-Market Services	18.6	17.7	24.8	46.1	52.6	55.5
Public administration and defense	5.6	6.4	9.7	25.2	29.2	30.7
Education	2.2	2.3	4.1	6.0	6.5	6.9
Health and social work	3.4	3.5	5.0	7.5	8.6	8.6
Other social services	7.4	5.5	6.0	7.4	8.2	9.3
	(In percent of total)					
Buildings	45.9	44.7	45.5	40.6	41.6	40.5
Machinery	46.8	47.1	47.8	47.9	49.5	51.6
Other	7.3	8.2	6.7	11.5	8.9	7.9
Memo (in billion Sk):						
Public	78.4	69.5	79.9	120.0	128.3	132.2
(in percent of total investment)	62.2	51.2	49.0	49.5	45.6	41.9
Private	47.7	66.2	83.1	122.3	153.0	183.0
(in percent of total investment)	37.8	48.8	51.0	50.5	54.4	58.1

Source: Statistical Office of the Slovak Republic.

1/ Preliminary data.

Table A6. Slovak Republic: Employment by Sector

	1993	1994	1995	1996	1997	1998
			(In thousands)			
Total economy 1/	2,012	1,977	2,020	2,036	2,041	2,032
Enterprises with more than 25 employees 2/	1,606	1,515	1,503	1,488	1,448	1,436
Agriculture	209	183	171	157	140	126
Industry	547	517	522	514	497	484
Mining and quarrying	24	21	20	21	21	20
Manufacturing	478	451	458	449	431	417
Electricity, water and gas	45	45	44	44	45	47
Construction	106	93	88	86	85	83
Services	330	312	300	307	306	314
Financial services and insurance	20	25	27	31	33	34
Real estate	69	62	60	63	61	63
Trade and repairs	88	78	69	72	74	79
Hotels and restaurants	12	11	11	11	11	12
Transport and communications	141	136	133	130	127	126
State administration	414	410	422	424	420	429
Administration	77	71	78	81	84	84
Education	169	172	174	175	174	179
Health	129	127	122	114	110	114
Other social services	39	40	48	54	52	52
Enterprises with 19 employees 3/	83	107	157	167	155	154
Private enterpreneurs 4/	323	355	360	381	438	442
			(In percent of total employment)			
Total economy	100.0	100.0	100.0	100.0	100.0	100.0
Enterprises with more than 25 employees	79.8	76.6	74.4	73.1	70.9	70.7
Agriculture	10.4	9.3	8.5	7.7	6.9	6.2
Industry	27.2	26.2	25.8	25.2	24.4	23.8
Mining and quarrying	1.2	1.1	1.0	1.0	1.0	1.0
Manufacturing	23.8	22.8	22.7	22.1	21.1	20.5
Electricity, water and gas	2.2	2.3	2.2	2.2	2.2	2.3
Construction	5.3	4.7	4.4	4.2	4.2	4.1
Services	16.4	15.8	14.9	15.1	15.0	15.5
Financial services and insurance	1.0	1.3	1.3	1.5	1.6	1.7
Real estate	3.4	3.1	3.0	3.1	3.0	3.1
Trade and repairs	4.4	3.9	3.4	3.5	3.6	3.9
Hotels and restaurants	0.6	0.6	0.5	0.5	0.5	0.6
Transport and communications	7.0	6.9	6.6	6.4	6.2	6.2
State administration	20.6	20.7	20.9	20.8	20.6	21.1
Administration	3.8	3.6	3.9	4.0	4.1	4.1
Education	8.4	8.7	8.6	8.6	8.5	8.8
Health	6.4	6.4	6.0	5.6	5.4	5.6
Other social services	1.9	2.0	2.4	2.7	2.5	2.6
Enterprises with 1 to 24 employees	4.1	5.4	7.8	8.2	7.6	7.6
Private enterpreneurs	16.1	18.0	17.8	18.7	21.5	21.8

Sources: Slovak Statistical Office; and staff estimates.

1/ Average number of people, including persons employed by entrpreneurs and entrpreneurs themselves, less women on maternity leave, apprentices and armed forces.
2/ In 1997, for enterprises with 20 or more employees.
3/ Until 1996, for enterprises up to 24 employees.
4/ Estimate.

Table A7. Slovak Republic: Average Monthly Wages

	1993	1994	1995	1996	1997	1998
			(In koruny)			
Total economy 1/	5,379	6,294	7,195	8,154	9,226	10,003
Enterprises with more than 25 employees 2/	5,275	6,160	7,144	8,221	9,369	10,212
Agriculture	4,556	5,191	5,835	6,579	7,363	7,930
Industry	5,496	6,464	7,477	8,508	9,527	10,371
Mining and quarrying	6,482	7,383	8,621	9,382	10,485	11,053
Manufacturing	5,234	6,193	7,194	8,230	9,197	10,001
Electricity, water and gas	7,767	8,766	9,905	10,902	12,212	13,371
Construction	5,533	6,502	7,489	8,722	9,970	10,619
Services						
Financial services and insurance	10,386	11,770	13,529	15,328	17,886	19,487
Real estate	5,559	6,642	7,883	9,648	10,710	11,970
Trade and repairs	4,848	5,748	6,848	8,600	10,094	11,122
Hotels and restaurants	4,474	5,192	5,746	6,958	7,743	8,363
Transport and communications	5,467	6,634	7,742	8,810	10,089	11,163
State administration						
Administration	6,179	7,350	8,350	9,818	11,240	12,362
Education	4,706	5,157	6,205	7,005	7,771	8,247
Health	4,813	5,443	6,274	6,947	8,373	8,674
Other social services	4,933	5,626	5,805	6,337	7,372	8,866
Enterprises up to 19 employees 3/	6,675	9,039	9,074	9,722	11,528	11,422
Private entrepreneurs 4/	5,850	5,900	6,300	6,773	7,454	8,193
Memorandum:						
Minimum wage	2,450	2,450	2,450	2,700	2,700	3,000

Source: Statistical Office of the Slovak Republic.

1/ Since 1997, the payout from profit is not included in the average monthly wage, and as of January 1998 rewards for standby services are excluded too.
2/ In 1997, for enterprises with 20 or more employees.
3/ Until 1996, for enterprises up to 24 employees.
4/ Estimate.

Table A8. Slovak Republic: Unemployment and Vacancies

	1993	1994	1995	1996	1997	1998 1/
			(In thousands)			
Population 1/	5,336.0	5,356.0	5,375.0	5,381.0	5,388.0	5,393.0
Labor force	2,556.0	2,510.0	2,544.0	2,576.0	2,786.0	2,607.0
Employment	1,950.0	1,976.0	2,022.0	2,049.0	2,439.0	2,048.0
Unemployment	368.0	371.0	333.0	330.0	348.0	407.0
Receiving benefits	123.0	85.0	90.0	94.0	93.0	120.0
Receiving social allowances	140.0	172.0	147.0	135.0	...	...
Vacancies	8.0	13.0	15.0	14.0	19.0	11.0
			(In percent)			
Participation rate	47.9	46.9	47.3	47.9	51.7	48.3
Unemployment rate	14.4	14.8	13.1	12.8	12.5	15.6
Vacancy rate	0.3	0.5	0.6	0.5	0.7	0.4

Source: Statistical Office of the Slovak Republic; National Labour Office.

1/ Preliminary.

Table A9. Slovak Republic: Profits and Losses of Firms

	Profits					Loss					Net				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
	(in billions of koruny)														
Total economy	85.5	87.4	110.7	107.1	107.6	-38.2	-50.4	-65.2	-66.3	-92.5	47.3	37.0	45.5	40.8	15.1
Total economy, without financial services	61.8	71.9	85.2	89.3	85.5	-31.9	-29.1	-51.6	-57.0	-78.8	29.9	42.8	33.6	32.3	6.6
Agriculture	1.3	1.5	5.0	5.6	4.7	-5.5	-4.1	-7.5	-6.6	-6.3	-4.2	-2.6	-2.5	-1.0	-1.6
Industry	42.0	48.0	48.0	47.4	44.6	-16.6	-15.0	-27.9	-31.9	-40.2	25.4	33.0	20.1	15.6	4.4
Mining and quarrying	0.9	1.2	1.2	1.6	1.2	-0.1	-0.1	-0.4	-1.2	-0.5	0.8	1.1	0.8	0.4	0.6
Manufacturing	17.7	22.9	22.9	29.2	29.3	-16.4	-14.9	-26.5	-29.7	-37.8	1.3	8.0	-3.6	-0.5	-8.4
Electricity, water and gas	23.4	23.9	23.9	16.6	14.1	-0.1	0.0	-1.0	-0.9	-1.9	23.3	23.9	22.9	15.7	12.2
Construction	1.8	2.3	5.3	6.1	5.7	-1.6	-1.3	-2.9	-2.9	-4.5	0.2	1.0	2.4	3.2	1.2
Services	40.4	35.6	52.4	47.9	52.7	-14.5	-30.0	-26.9	-24.9	-41.6	25.9	5.6	25.5	23.0	11.0
Services, without financial services	16.7	20.1	26.9	30.2	30.5	-8.2	-8.7	-13.3	-15.7	-27.9	8.5	11.4	13.6	14.5	2.6
Trade and repairs	4.2	7.6	10.4	13.4	15.2	-3.2	-2.9	-4.3	-4.9	-10.5	1.0	4.7	6.1	8.5	4.7
Hotels and restaurants	0.2	0.4	0.7	0.5	0.6	-0.4	-0.4	-0.5	-0.5	-0.6	-0.2	0.0	0.2	0.0	0.0
Transport and communications	7.8	5.6	7.6	9.3	7.0	-1.1	-1.2	-3.9	-6.5	-11.0	6.7	4.4	3.7	2.9	-4.0
Financial services	23.7	15.5	25.5	17.7	22.1	-6.3	-21.3	-13.6	-9.3	-13.7	17.4	-5.8	11.9	8.5	8.4
Real estate	3.2	5.0	6.7	5.9	6.2	-0.7	-1.4	-2.7	-2.8	-5.0	2.5	3.6	4.0	3.0	1.2
Other services	1.3	1.5	1.5	1.1	1.5	-2.8	-2.8	-1.9	-1.0	-0.8	-1.5	-1.3	-0.4	0.1	0.8

Source: Statistical Office of the Slovak Republic.

Table A10. Slovak Republic: Number of Firms

	1993	1994	1995	1996	1997	1998
Total economy	35,978	36,187	43,636	47,866	53,819	60,334
Agriculture	1,540	1,694	1,931	3,603	3,682	3,642
Industry	4,941	6,314	7,476	7,718	8,463	9,196
Mining and quarrying	63	69	80	88	99	105
Manufacturing	4,795	6,183	7,318	7,541	8,264	8,948
Electricity, water and gas	83	62	78	89	100	143
Services	29,497	28,179	34,229	36,545	41,674	47,496
Financial services and insurance	325	515	674	601	563	529
Real estate	4,314	5,046	6,060	6,916	8,205	9,803
Trade and repairs	12,867	16,320	20,266	21,232	24,114	27,254
Hotels and restaurants	776	956	1,101	1,157	1,307	1,487
Transport and communications	1,305	1,414	1,613	1,437	1,679	1,926
Other	9,910	3,928	4,515	5,202	5,806	6,497
Private enterprises	25,850	34,546	42,054	46,185	52,362	58,970
Public enterprises	10,128	1,641	1,581	1,681	1,457	1,364
			(In percent of total)			
Private enterprises	71.8	95.5	96.4	96.5	97.3	97.7
Public enterprises	28.2	4.5	3.6	3.5	2.7	2.3

Source: Statistical Office of the Slovak Republic.

Table A11. Slovak Republic: Electricity Production and Consumption

	1993	1994	1995	1996	1997	1998 1/
			(In millions of kilowatt hours)			
Production	23,881	25,200	26,306	25,278	24,822	22,565
Thermal	8,879	8,369	9,561	9,396	9,537	...
Hydro	3,891	4,609	5,226	4,533	4,358	...
Nuclear	11,022	12,135	11,437	11,261	10,797	...
Other	89	87	82	88	130	...
Exports	2,880	402	2,065	698	374	2,078
Imports	4,297	830	3,448	4,220	4,429	4,255
Losses	1,486	1,611	1,715	1,627	2,082	2,038
Domestic consumption	20,221	20,324	21,730	23,774	...	...
Agriculture	1,592	957	904	853	...	...
Industry 2/	7,831	9,931	8,940	10,629	...	...
Households	4,137	4,489	4,998	5,451	...	5,616
Other	6,661	4,947	6,888	6,841	...	...
			(In percent of production)			
Production	100.0	100.0	100.0	100.0	100.0	100.0
Thermal	37.2	33.2	36.3	37.2	38.4	...
Hydro	16.3	18.3	19.9	17.9	17.6	...
Nuclear	46.2	48.2	43.5	44.5	43.5	...
Other	0.4	0.3	0.3	0.3	0.5	...
Exports	12.1	1.6	7.8	2.8	1.5	9.2
Imports	18.0	3.3	13.1	16.7	17.8	18.9
Losses	6.2	6.4	6.5	6.4	8.4	9.0
Domestic consumption	84.7	80.7	82.6	94.1	...	...
Agriculture	6.7	3.8	3.4	3.4	...	...
Industry 2/	32.8	39.4	34.0	42.0	...	...
Households	17.3	17.8	19.0	21.6	...	...
Other	27.9	19.6	26.2	27.1	...	...

Source: Statistical Office of the Slovak Republic.

1/ Preliminary data.
2/ Excluding construction.

Table A12. Slovak Republic: Agricultural Production

	1993	1994	1995	1996	1997	1998
Vegetable products (in thousands of tons)						
Grain	3,152	3,700	3,490	3,322	3,741	3,488
Wheat	1,529	2,145	1,938	1,713	1,886	1,789
Rye	69	96	89	71	84	96
Barley	823	874	794	718	687	875
Corn	674	521	597	750	819	637
Sugar beets	1,128	1,112	1,176	1,713	1,688	1,331
Potatoes	857	399	441	777	504	412
Animal production						
Meat (in thousands of tons)	470	417	398	410	412	375
Beef	170	122	108	111	116	104
Veal	6	5	3	4	5	4
Pork	294	290	287	295	291	267
Milk (in millions of liters)	1,214	1,155	1,151	1,125	1,116	1,142
Eggs (in millions)	1,527	1,606	1,608	1,618	1,579	1,544

Source: Slovak Statistical Office.

Table A13. Slovak Republic: GDP Deflator

	1993	1994	1995	1996	1997	1998
			(1995 = 100)			
Domestic demand	80.5	91.6	100.0	106.5	114.3	121.4
Consumption	79.6	90.4	100.0	104.7	112.3	119.2
Private	80.3	90.8	100.0	105.9	112.3	119.5
Public	78.1	89.4	100.0	102.1	112.4	118.5
Investment	83.5	95.4	100.0	109.8	118.2	125.6
Fixed investment	85.7	96.3	100.0	107.5	111.6	116.4
Change in stocks	99.0	99.6	100.0	162.8	...	...
Net exports of goods and nfs	89.5	83.9	100.0	129.7	152.0	181.2
Exports of goods and nfs	82.3	90.7	100.0	102.8	107.0	111.2
Imports of goods and nfs	82.9	91.3	100.0	106.2	111.8	118.0
Gross domestic product at market prices	80.1	91.1	100.0	104.5	111.4	117.1
			(Annual percentage change)			
Domestic demand	...	13.7	9.2	6.5	7.3	6.2
Consumption	...	13.6	10.6	4.7	7.2	6.2
Private	...	13.1	10.1	5.9	6.0	6.5
Public	...	14.5	11.8	2.1	10.0	5.5
Investment	...	14.3	4.8	9.8	7.6	6.3
Fixed investment	...	12.4	3.9	7.5	3.8	4.3
Change in stocks	...	0.7	0.4	62.8	...	...
Net exports of goods and nfs	...	-6.2	19.2	29.7	17.2	19.2
Exports of goods and nfs	...	10.2	10.3	2.8	4.1	3.9
Imports of goods and nfs	...	10.2	9.5	6.2	5.3	5.5
Gross domestic product at market prices	...	13.8	9.7	4.5	6.6	5.1

Source: Fund staff estimates.

SM/99/160
Corrected: 8/31/99

Table A14. Slovak Republic: Consumer Price Index

	1993	1994	1995	1996	1997	1998
	(January 1990=100)					
Total	232.0	263.1	289.1	305.9	324.5	346.3
Food	212.0	246.3	275.7	286.7	302.2	319.1
Non-food	243.8	274.8	297.8	318.1	337.2	359.4
Services	226.5	250.7	273.3	288.9	309.1	334.2
Public catering	244.8	276.9	309.0	327.2	339.0	358.3
	(Annual percentage change)					
Total	23.2	13.4	9.9	5.8	6.1	6.7
Food	21.3	16.2	11.9	4.0	5.4	5.6
Non-food	20.4	12.7	8.4	6.8	6.0	6.6
Services	28.0	10.7	9.0	5.7	7.0	8.1
Public catering	35.5	13.1	11.6	5.9	3.6	5.7

Source: Statistical Office of the Slovak Republic.

Table A15. Slovak Republic: Producer Prices and Energy Prices

	1993	1994	1995	1996	1997	1998
			(1995 = 100)			
Agriculture	87.4	96.8	100.0	105.4	111.3	111.0
Plant products	93.3	98.1	100.0	109.9	116.8	109.6
Animal products	83.1	95.9	100.0	102.1	108.1	111.7
			(December 1995 = 100)			
Industry	81.9	90.0	98.1	102.2	106.8	110.3
Mining and quarrying	91.5	96.5	106.1	103.2	105.7	106.2
Manufacturing	80.7	89.8	98.2	102.6	106.8	110.1
Electricity, gas and water	102.3	95.8	99.6	99.3	106.9	111.8
			(Average of 1995 = 100)			
Construction						
Works	77.8	86.3	96.7	111.2	122	132.7
Materials	78.7	85.9	96.4	103.5	111.4	119.4
			(Annual percentage change)			
Agriculture	14.5	10.8	3.3	5.4	5.6	-0.3
Industry	17.0	9.9	9.0	4.2	4.5	3.3
Construction works	24.1	10.9	12.1	15.0	9.7	8.8
			(In koruny per unit)			
Petroleum products						
Gasoline, 91 octane (liter)	18.68	18.68	18.35	19.76	21.27	21.22
Gasoline, 95 octane (liter)	19.55	19.50	19.45	20.86	22.33	22.05
Diesel (liter)	15.91	15.80	17.11	18.52	21.02	20.60
Electricity (MWh)						
Households	1,018.0	1,018.0	...	...	...	...
Enterprises	1,455.0	1,455.0	...	...	...	...
Natural gas (1000 m3)						
Households	2,190.0	2,190.0	...	...	...	...
Enterprises	3,550.0	3,550.0	...	...	...	...
Central Heating						
Households	120.0	140.0	140.0	140.0	140.0 1/	165.0 2/
Enterprises	200.0	200.0	...	...	...	...

Source: Statistical Office of the Slovak Republic.

1/ From August 1, 1997, price was Sk 150 per unit.
2/ From January 1, 1998.

Table A16. Slovak Republic: General Government Revenue, 1995-98

	In billions of koruny				In percent of GDP				In percent of total			
	1995	1996	1997	1998 Estimate	1995	1996	1997	1998 Estimate	1995	1996	1997	1998 Estimate
Total revenue	251.7	274.5	293.4	304.1	48.7	47.7	44.9	42.4	100.0	100.0	100.0	100.0
Tax revenue	217.1	236.4	251.3	266.1	42.0	41.1	38.4	37.1	86.3	86.1	85.7	87.5
Indirect taxes	72.3	70.3	76.8	78.3	14.0	12.2	11.7	10.9	28.7	25.6	26.2	25.8
VAT	52.3	48.7	54.9	55.3	10.1	8.5	8.4	7.7	20.8	17.7	18.7	18.2
Excise taxes	20.0	21.6	21.9	23.1	3.9	3.8	3.4	3.2	7.9	7.9	7.5	7.6
Direct taxes	58.5	64.9	61.0	68.5	11.3	11.3	9.3	9.6	23.2	23.6	20.8	22.5
Corporate income tax	35.2	34.8	24.4	26.0	6.8	6.0	3.7	3.6	14.0	12.7	8.3	8.6
Personal income tax	23.2	30.1	36.6	42.5	4.5	5.2	5.6	5.9	9.2	11.0	12.5	14.0
Wage income	15.7	20.3	25.6	29.5	3.0	3.5	3.9	4.1	6.2	7.4	8.7	9.7
Entrepreneurial income	3.6	4.7	5.3	5.4	0.7	0.8	0.8	0.7	1.4	1.7	1.8	1.8
Capital income	3.9	5.1	5.7	7.6	0.8	0.9	0.9	1.1	1.6	1.8	1.9	2.5
Import duties and surcharge	8.8	9.9	12.8	11.7	1.7	1.7	2.0	1.6	3.5	3.6	4.4	3.8
Road tax	1.5	1.5	2.5	2.6	0.3	0.3	0.4	0.4	0.6	0.6	0.9	0.9
Other taxes	4.2	4.8	4.2	4.5	0.8	0.8	0.6	0.6	1.7	1.7	1.4	1.5
Social security contributions	71.9	85.0	94.0	100.5	13.9	14.8	14.4	14.0	28.6	31.0	32.0	33.0
Nontax revenue	34.6	38.1	42.1	38.0	6.7	6.6	6.4	5.3	13.7	13.9	14.3	12.5
Budgetary and subsidized organizations	11.9	1.8	2.2	5.3	2.3	0.3	0.3	0.7	4.7	0.6	0.8	1.8
Interest	0.9	1.2	0.7	1.2	0.2	0.2	0.1	0.2	0.3	0.4	0.2	0.4
Fees and fines	3.9	7.1	5.6	5.1	0.8	1.2	0.9	0.7	1.6	2.6	1.9	1.7
NBS profits	1.4	2.4	1.1	1.0	0.3	0.4	0.2	0.1	0.6	0.9	0.4	0.3
Other	16.4	25.7	32.5	25.4	3.2	4.5	5.0	3.5	6.5	9.4	11.1	8.4

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

Table A17. Slovak Republic: General Government Expenditure, 1995-98

	In billions of koruny				In percent of GDP				In percent of total			
	1995	1996	1997	1998 Estimate	1995	1996	1997	1998 Estimate	1995	1996	1997	1998 Estimate
Total expenditure and net lending	249.7	282.2	327.4	346.8	48.3	49.0	50.1	48.3	100.0	100.0	100.0	100.0
Current expenditures	225.2	248.0	276.7	297.9	43.6	43.1	42.3	41.5	90.2	87.9	84.5	85.9
Consumption	112.8	120.5	144.8	146.5	21.8	20.9	22.2	20.4	45.2	42.7	44.2	42.2
Gross wages	28.7	33.2	50.7	56.5	5.5	5.8	7.7	7.9	11.5	11.8	15.5	16.3
Health care	27.5	36.7	45.9	47.0	5.3	6.4	7.0	6.5	11.0	13.0	14.0	13.5
Education 1/	7.7	1.9	2.2	1.5	1.5	0.3	0.3	0.2	3.1	0.7	0.7	0.4
Other	49.0	48.6	46.1	41.5	9.5	8.4	7.0	5.8	19.6	17.2	14.1	12.0
Subsidies to enterprises	19.4	24.0	26.1	26.4	3.8	4.2	4.0	3.7	7.8	8.5	8.0	7.6
Agriculture	7.4	6.0	7.0	6.8	1.4	1.0	1.1	1.0	3.0	2.1	2.1	2.0
Industry	0.4	0.3	0.3	0.3	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Transportation	3.0	2.9	2.2	2.2	0.6	0.5	0.3	0.3	1.2	1.0	0.7	0.6
Heating	3.5	4.3	4.2	3.4	0.7	0.8	0.6	0.5	1.4	1.5	1.3	1.0
Other (including state funds)	5.2	10.5	12.3	13.6	1.0	1.8	1.9	1.9	2.1	3.7	3.8	3.9
Interest	12.2	12.7	12.3	17.5	2.4	2.2	1.9	2.4	4.9	4.5	3.8	5.1
Social expenditures	80.7	90.8	93.5	107.5	15.6	15.8	14.3	15.0	32.3	32.2	28.6	31.0
Pensions	43.3	46.1	51.0	56.9	8.4	8.0	7.8	7.9	17.3	16.3	15.6	16.4
Labor policies	5.5	7.4	7.1	7.8	1.1	1.3	1.1	1.1	2.2	2.6	2.2	2.2
Unemployment benefits	5.5	7.4	4.0	5.5	1.1	1.3	0.6	0.8	2.2	2.6	1.2	1.6
Active policies	0.0	0.0	3.1	2.3	0.0	0.0	0.5	0.3	0.0	0.0	0.9	0.7
Sickness benefits	5.7	7.4	8.1	9.0	1.1	1.3	1.2	1.3	2.3	2.6	2.5	2.6
Social assistance	11.3	13.7	11.0	16.4	2.2	2.4	1.7	2.3	4.5	4.8	3.3	4.7
General income support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other state benefits	14.9	16.3	16.3	17.5	2.9	2.8	2.5	2.4	6.0	5.8	5.0	5.0
Investment expenditures	25.2	34.9	45.9	44.0	4.9	6.1	7.0	6.1	10.1	12.4	14.0	12.7
Net lending	-0.7	-0.6	4.8	4.9	-0.1	-0.1	0.7	0.7	-0.3	-0.2	1.5	1.4
Lending	3.0	2.0	6.3	5.0	0.6	0.3	1.0	0.7	1.2	0.7	1.9	1.4
Repayments	3.7	2.6	1.4	0.2	0.7	0.4	0.2	0.0	1.5	0.9	0.4	0.0

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

1/ Excludes wages.

Table A18. Slovak Republic: Government Financial Assets in 1994-98

(In millions of koruny, end of period)

	1994	1995	1996	1997	1998
Assets					
Bank accounts of reserve character	473.6	473.6	473.6	0.0	0.0
Counterpart deposits on foreign loans	6,492.9	8,341.5	8,341.5	88.8	88.8
SAL from the IBRD	793.5	793.5	739.5	0.0	0.0
Borrowing from G-24	3,262.9	3,262.9	3,262.9	88.8	88.8
SAL from the IBRD	2,436.6	2,532.0	2,532.0	0.0	0.0
Borrowing from JEXIM BANK	0.0	1,753.1	1,753.1	0.0	0.0
Other bank accounts	556.6	534.3	534.8	6,971.5	2,934.5
Claims on foreign countries; other than	59,011.9	52,254.2	49,150.4	52,682.2	52,491.8
Civil; nonconvertible	24,683.0	23,320.9	18,994.8	19,233.1	16,575.2
Civil; convertible	9,307.2	8,771.8	9,341.1	10,065.3	10,940.3
Special; nonconvertible	118.7	117.9	120.9	124.2	100.7
Special; convertible	17,654.3	18,338.9	20,325.9	22,970.9	24,748.1
Claims on FSU; VIA	1,381.4	480.0	0.0	0.0	0.0
Clearing account: Czech Republic	5,867.3	1,224.7	367.7	288.6	127.5
Claims on foreign countries; CSOB 1/	29,775.7	28,556.9	28,583.8	31,817.0	33,348.7
Nonconvertible	28,805.2	27,555.9	27,534.6	31,817.2	32,747.1
Convertible	970.5	1,001.0	1,049.2	699.8	601.5
Participations in international banks	2,892.4	2,171.7	2,308.1	2,435.6	2,720.5
IBEC	831.7	324.1	343.0	358.4	380.3
IIB	720.1	391.9	414.8	433.4	459.9
EBRD	335.2	467.8	511.0	533.8	614.9
World Bank institutions	1,005.3	987.9	1,039.4	1,110.0	1,265.4
Deposits with domestic companies	792.3	919.1	925.1	3,537.2	3,527.8
Receivables from returnable assistance	643.3	1,389.0	3,456.5	2,421.9	3,955.9
Receivables from state guarantees	1,683.5	2,742.1	3,466.6	6,550.5	9,578.6
Securities held by the state	0.1	0.1	0.1	0.0	0.0
Other receivables	240.0	240.0	240.0	263.0	11,757.5
Total assets	102,562.3	103,323.2 2/	99,705.9 3/	115,269.9 4/	129,655.9 5/
(as a percentage of GDP)	23.2	20.0	17.3	17.6	18.1

Source: Data provided by the Slovak Ministry of Finance.

1/ CSOB - Ceskoslovenska Obchodni Banka.

2/ Includes issued treasury bills of Sk 5,700.9 million.

3/ Includes issued treasury bills of Sk 1,442.3 million and accounts receivable (Mochovce) of Sk 783.1 million.

4/ Includes issued treasury bills and bonds of Sk 6,053.9 million and accounts receivable (Mochovce) of Sk 2,448.4 million.

5/ Includes issued treasury bills and bonds of Sk 6,324.9 million and accounts receivable (Mochovce) of Sk 2,926.9 million.

Table A19. Slovak Republic: Government Financial Liabilities in 1994-98

(In millions of koruny, end of period)

	1994	1995	1996	1997	1998
Liabilities					
Credit from the NBS	46,475.2	31,443.1	30,067.0	5,495.4	0.0
Due to state lending abroad	13,053.2	13,053.2	13,053.0	n.a.	n.a.
Due to exchange rate changes	8,663.3	8,663.3	8,663.0	n.a.	n.a.
Direct credit	24,758.6	9,726.5	8,351.0	5,495.4	0.0
Slovak budget deficit of 1991	7,399.7	7,393.2	n.a.	n.a.	n.a.
Federal budget deficit of 1992	2,333.3	2,333.3	n.a.	n.a.	n.a.
Slovak budget deficit of 1992	0.0	0.0	n.a.	n.a.	n.a.
T-bills issued in 1992	0.0	0.0	n.a.	n.a.	n.a.
Direct credit in 1992	0.0	0.0	n.a.	n.a.	n.a.
Budget deficit of 1993	15,025.6	0.0	n.a.	n.a.	n.a.
Treasury bills issued in 1993	0.0	0.0	n.a.	n.a.	n.a.
Direct credit in 1993	15,025.6	0.0	n.a.	n.a.	n.a.
Budget deficit of 1994	0.0	0.0	n.a.	n.a.	n.a.
Treasury bills issued in 1994	0.0	0.0	n.a.	n.a.	n.a.
Direct credit in 1994	0.0	0.0	n.a.	n.a.	n.a.
Credit from commercial banks	4,846.0	3,464.2	2,168.5	1,807.0	1,445.6
Related to CSOB	1,954.7	934.3	0.0	0.0	0.0
Investment Bank/KTUK Dolinska	2,891.3	2,529.9	2,168.5	1,807.0	1,445.6
Balance of payments support loans	15,663.6	16,485.3	17,472.6	14,962.5	11,730.7
SAL/IBRD	4,691.6	4,457.6	4,784.3	4,695.5	4,429.6
EU	4,703.6	4,757.6	4,945.7	2,366.3	0.0
G-24	3,834.3	3,423.6	3,674.5	1,572.6	522.8
ERL/IBRD	2,434.0	2,377.4	2,551.6	2,782.6	2,953.0
JEXIM BANK	0.0	1,469.2	1,516.5	3,545.4	3,825.3
Liabilities related to CSOB	22,874.1	14,339.2	11,531.6	10,206.0	7,770.1
Convertible currencies	18,387.0	9,921.3	7,113.0	4,460.3	2,112.6
Non-convertible currencies	4,487.1	4,417.9	4,418.6	5,745.7	5,657.5
Issued state bonds	17,692.2	54,325.7	53,894.9	61,683.7 1/	92,303.8 2/
KBV	5,205.6	4,200.0	4,200.0	1,500.0	1,500.0
Rehabilitation bonds	520.0	0.0	0.0	23.0	21.2
Budget deficit of 1991	600.3	600.0	0.0	0.0	0.0
Bills of exchange; IBRD participation	230.2	230.2	230.2	230.0	230.2
Gabcikovo, Turcek, Malinec	3,150.1	3,150.0	0.0	0.0	0.0
Bonds to refinance 1993 deficit	7,986.0	23,080.0	15,100.0	8,970.0	8,350.0
Bonds to refinance the 1994 deficit	0.0	23,065.5	23,065.5	23,065.5	14,205.5
Bonds to finance 1995 deficit	0.0	0.0	8,299.2	0.0	0.0
Bonds for roads	0.0	0.0	3,000.0	0.0	0.0
Treasury bills outside NBS	22,892.0	14,830.0	27,000.6	43,053.0	19,940.0
Foreign loans	...	...	801.7	2,615.5	2,926.9
Mochovce	...	...	801.7	2,615.5	2,926.9
Total liabilities	130,443.1	134,887.5	142,936.9	149,636.8 3/	177,664.9 4/
(As a percentage of GDP)	29.6	26.1	24.8	22.9	24.8
Net assets	-27,880.9	-38,489.8	n.a.	-34,366.9	-48,009.0
(As a percentage of GDP)	-6.3	-7.5	n.a.	-5.3	-6.7

Source: Data provided by the Slovak Ministry of Finance.

1/ Includes Sk 27,895 million bonds to refinance the 1996 deficit.

2/ Includes Sk 67,996.9 million bonds to refinance 1998 bonds principal payment.

3/ Includes government loan from Nomura (Sk 6,608.5 million), Matra Communication loan (Sk 2,652.7 million) and foreign loan (Sk 552.3 million).

4/ Includes foreign issued bonds (Nomura) (Sk 37,958.2 million), Matra Communication loan (Sk 2,996.8 million), and foreign loan (Sk 592.6 million).

Table A20. Slovak Republic: Fiscal Operations of the Central Government, 1994-98

(In millions of koruny, unless otherwise indicated)

	1994	1995	1996	1997	1998 Estimate
Total revenue	135,938	154,684	155,908	159,607	166,008
Tax revenue	114,587	136,499	140,129	145,528	152,978
Personal income tax	14,195	19,722	25,455	31,511	37,088
Wage tax	11,241	15,808	20,404	25,642	29,372
Withholding tax on capital income	2,954	3,914	5,051	5,651	7,627
Corporate income tax	30,282	33,667	33,560	23,372	24,612
Indirect taxes	58,263	72,266	70,320	76,811	78,323
VAT	37,138	52,300	48,679	54,877	55,264
Excise taxes	21,125	19,966	21,641	21,872	23,071
Custom duties and import surcharge	7,164	8,754	9,894	12,815	11,664
Social security contributions	4,040	0	0	0	0
Other tax revenue	643	2,090	900	1,019	1,291
Nontax revenue	21,351	18,185	15,779	14,079	13,030
Total expenditure and net lending	135,533	157,063	166,980	176,687	184,709
Current expenditures	101,561	126,911	129,657	136,568	144,732
Wages	16,697	18,805	21,320	33,877	37,929
Social security contributions	0	7,224	8,190	12,670	14,195
Health, education	8,172	8,306	2,395	2,873	2,056
Social expenditure 1/	15,269	26,373	28,523	25,390	31,810
Subsidies to enterprises	13,909	14,301	15,198	16,535	14,430
State equalization allowance	2,535	0	0	0	0
Interest	16,683	12,000	12,101	11,614	16,626
Other current expenditures	28,296	39,902	41,931	33,609	27,686
Capital expenditure	10,368	14,395	20,705	16,290	11,713
Investment projects	8,093	11,952	17,557	12,814	8,841
Transfers to enterprises	2,275	2,443	3,148	3,476	2,872
Intragovernmental transfers	26,121	16,429	19,082	18,889	26,026
To local authorities	1,080	1,190	1,266	1,443	1,801
To social security sector	22,522	11,956	13,725	11,007	11,680
To state funds	2,519	3,282	4,091	6,440	12,545
Net Lending	-2,517	-672	-2,464	4,941	2,237
State budget overall balance	405	-2,379	-11,072	-17,080	-18,701
In percent of GDP	0.1	-0.5	-1.9	-2.6	-2.6

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

1/ Includes social assistance and social benefits.

Table A21. Slovak Republic: Fiscal Operations of the Social Security Funds, 1995-98 1/

	1995	1996	1997	1998 Estimate	1995	1996	1997	1998 Estimate
	(In millions of koruny)				(In percent of GDP)			
Health Fund								
Revenue	28,011	36,201	39,507	41,106	5.4	6.3	6.0	5.7
Contributions	26,002	34,449	37,581	39,557	5.0	6.0	5.7	5.5
Other	2,008	1,752	1,925	1,549	0.4	0.3	0.3	0.2
Expenditure	26,808	36,229	45,221	48,792	5.2	6.3	6.9	6.8
Balance	1,203	-28	-5,715	-7,687	0.2	0.0	-0.9	-1.1
Sickness Fund								
Revenue	7,943	7,946	10,181	10,722	1.5	1.4	1.6	1.5
Contributions	7,693	7,310	9,578	9,817	1.5	1.3	1.5	1.4
Other	249	636	604	905	0.0	0.1	0.1	0.1
Expenditure	6,148	8,166	9,257	10,130	1.2	1.4	1.4	1.4
Balance	1,794	-220	924	592	0.3	0.0	0.1	0.1
Pension Fund								
Revenue	44,852	51,568	52,106	57,204	8.7	9.0	8.0	8.0
Contributions	44,603	50,932	51,503	56,299	8.6	8.8	7.9	7.8
Other	249	636	604	905	0.0	0.1	0.1	0.1
Expenditure	44,738	46,866	52,142	58,037	8.7	8.1	8.0	8.1
Balance	115	4,702	-36	-833	0.0	0.8	0.0	-0.1
Employment Fund								
Revenue	7,225	8,219	8,547	9,026	1.4	1.4	1.3	1.3
Contributions	6,183	7,157	7,536	8,030	1.2	1.2	1.2	1.1
Other	1,042	1,062	1,011	996	0.2	0.2	0.2	0.1
Expenditure	6,203	7,695	8,818	8,977	1.2	1.3	1.3	1.3
of which: contributions 2/	580	1,125	1,187	1,569	0.1	0.2	0.2	0.2
Balance	1,022	524	-271	49	0.2	0.1	0.0	0.0
Total								
Revenue	87,451	102,809	109,154	116,489	16.9	17.9	16.7	16.2
Contributions	83,902	98,722	105,011	112,134	16.2	17.1	16.1	15.6
Other	3,549	4,087	4,143	4,355	0.7	0.7	0.6	0.6
Expenditures	83,317	97,832	114,252	124,367	16.1	17.0	17.5	17.3
Balance	4,134	4,977	-5,098	-7,878	0.8	0.9	-0.8	-1.1

Source: Data provided by the Public Expenditure Department at the Slovak Ministry of Finance; and staff estimates and projections.

1/ Social security funds includes health insurance companies, the sickness fund, pension funds and the employment fund.

2/ Contributions made by the Employment Fund to the Health, Sickness and Pension Funds on behalf of unemployed persons.

Table A22. Slovak Republic: Fiscal Operations of the State Funds in 1995-98

(In millions of koruny)

	Own revenue	Transfers from Budget	Total Revenue	Current Expenditure	Capital Expenditure	Total Expenditure	Balance
1995							
Environment Fund	808.4	250.0	1,058.4	154.7	868.3	1,023.0	35.4
Fund for Culture "Pro Slovakia"	8.1	377.6	385.7	377.1	0.0	377.1	8.6
Fund for Physical Culture	126.1	18.0	144.1	108.6	28.8	137.4	6.7
Health Fund	114.0	0.0	114.1	14.5	18.4	32.9	81.2
Fund for Market Regulation in Agriculture	1,889.0	650.0	2,539.0	2,092.9	0.0	2,092.9	446.1
Road Fund	1,112.8	1,000.0	2,112.8	1,379.7	2,201.6	3,581.2	-1,468.5
Forestry Fund	58.6	513.2	571.8	555.9	0.0	555.9	15.8
Fund for Agricultural Land Protection	261.0	25.0	286.0	112.9	42.8	155.8	130.2
Fund for Water Management	24.4	0.0	24.4	0.0	0.0	0.0	24.4
Financial Support Fund for Agriculture	736.8	100.0	836.8	16.3	810.2	826.5	10.4
Nuclear Waste Fund	803.8	348.6	1,152.4	15.0	208.4	223.4	929.0
State funds, total	5,943.0	3,282.4	9,225.4	4,827.6	4,178.5	9,006.0	219.4
1996							
Environment Fund	934.9	297.0	1,231.9	58.8	1,194.3	1,253.1	-21.2
Fund for Culture "Pro Slovakia"	15.4	116.7	132.1	153.9	0.0	153.9	-21.8
Fund for Physical Culture	462.8	18.3	481.1	311.6	0.0	311.6	169.5
Health Fund	499.1	0.6	499.7	62.9	441.2	504.1	-4.4
Fund for Market Regulation in Agriculture	1,762.2	653.5	2,415.7	4,242.7	0.0	4,242.7	-1,827.0
Road Fund	448.5	1,174.0	1,622.5	1,628.8	2,959.4	4,588.2	-2,965.7
Forestry Fund	139.9	571.1	711.0	647.9	0.2	648.1	62.9
Fund for Agricultural Land Protection	626.2	25.2	651.4	297.5	130.1	427.6	223.8
Fund for Water Management	63.3	200.2	263.5	139.2	87.5	226.7	36.8
Financial Support Fund for Agriculture	947.6	135.3	1,082.9	74.8	1,786.5	1,861.3	-778.4
Nuclear Waste Fund	1,518.6	139.3	1,657.9	0.7	656.1	656.8	1,001.1
Housing Fund	11.7	760.0	771.7	5.5	349.0	354.5	417.2
State funds, total	7,430.2	4,091.2	11,521.4	7,624.3	7,604.3	15,228.6	-3,707.2
1997							
Environment Fund	798.5	239.5	1,038.0	55.1	944.0	999.1	38.9
Fund for Culture "Pro Slovakia"	141.9	100.0	241.9	190.3	0.0	190.3	51.6
Fund for Physical Culture	489.5	16.5	506.1	594.5	90.8	685.3	-179.2
Health Fund	89.6	0.0	89.6	8.2	166.4	174.6	-85.0
Fund for Market Regulation in Agriculture	3,198.7	1,250.0	4,448.7	4,112.7	0.0	4,112.7	336.1
Road Fund	1,664.0	2,600.0	4,264.0	2,986.4	12,135.4	15,121.8	-10,857.8
Forestry Fund	45.4	450.0	495.4	594.1	0.0	594.1	-98.7
Fund for Agricultural Land Protection	925.8	135.0	1,060.8	1,271.8	0.0	1,271.8	-211.0
Fund for Water Management	439.2	380.0	819.2	309.9	369.4	679.3	139.9
Financial Support Fund for Agriculture	910.2	20.0	930.2	749.7	396.7	1,146.4	-216.2
Nuclear Waste Fund	896.7	89.2	985.9	3.5	1,191.6	1,195.0	-209.1
Housing Fund	1,781.6	1,160.0	2,941.6	21.5	3,246.8	3,268.3	-326.7
State funds, total	11,381.2	6,440.2	17,821.4	10,897.7	18,541.0	29,438.7	-11,617.3
1998 Preliminary Estimates							
Environment Fund	985.9	150.0	1,135.9	120.3	967.2	1,087.5	48.4
Fund for Culture "Pro Slovakia"	84.4	140.1	224.5	194.3	21.6	215.9	8.6
Fund for Physical Culture	291.0	17.5	308.5	305.5	0.1	305.6	2.9
Health Fund	23.8	30.0	53.8	21.1	31.7	52.8	1.0
Fund for Market Regulation in Agriculture	1,555.5	834.0	2,389.5	2,597.7	0.2	2,597.9	-208.4
Road Fund	1,794.1	5,800.5	7,594.6	3,791.3	12,641.0	16,432.3	-8,837.7
Forestry Fund	59.0	488.9	547.9	537.9	0.2	538.0	9.9
Fund for Agricultural Land Protection	1,022.7	0.0	1,022.7	130.8	795.5	926.3	96.5
Fund for Water Management	601.6	188.2	789.8	197.7	554.7	752.4	37.4
Financial Support Fund for Agriculture	1,026.8	0.0	1,026.8	750.8	90.0	840.8	186.0
Nuclear Waste Fund	2,972.3	150.0	3,122.3	701.6	1,003.1	1,704.7	1,417.6
Housing Fund	273.0	4,746.0	5,019.0	38.1	6,038.9	6,077.0	-1,058.0
State funds, total	10,690.1	12,545.1	23,235.3	9,387.1	22,144.1	31,531.1	-8,295.9

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

Table A23. Slovak Republic: Monetary Survey, 1993-99

(In billions of koruny, end of period)

	1993	1994	1995	1996	1997				1998				1999
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 Prelim.	Q1 Prelim.
Net foreign assets	-35.0	15.5	63.9	65.0	64.6	61.5	68.4	70.5	72.2	73.1	51.5	43.4	47.2
Foreign assets	46.6	101.9	150.1	187.8	201.8	216.3	237.5	233.5	252.5	272.5	246.5	233.5	...
Foreign liabilities	81.6	86.4	86.2	122.8	137.2	154.8	169.1	163.0	180.3	199.4	195.0	190.1	...
Net domestic assets	288.2	284.8	293.3	351.9	342.2	353.4	353.7	383.0	372.0	378.3	397.5	429.3	434.3
Domestic credit	339.3	344.1	370.6	430.6	433.5	444.4	454.4	468.7	468.1	483.3	506.5	530.7	541.8
Net credit to government	69.9	76.4	66.4	71.6	73.1	81.2	89.4	101.7	95.0	103.8	119.2	139.4	142.6
Net credit to Property Fund	4.9	1.0	-2.3	-3.2	-2.1	-2.4	-2.3	-3.0	-0.2	0.5	0.4	0.2	0.7
Credit to enterprises and households	264.5	266.7	306.5	362.2	362.5	365.6	367.3	370.0	373.3	379.0	386.9	391.1	398.5
In domestic currency	256.4	252.3	283.8	331.4	331.9	333.4	333.8	334.6	338.8	342.2	346.3	346.9	347.9
In foreign currency	8.1	14.4	22.7	30.8	30.6	32.2	33.5	35.4	34.5	36.8	40.6	44.2	50.6
Other items, net	-51.1	-59.3	-77.3	-78.7	-91.3	-91.0	-100.7	-85.7	-96.1	-105.0	-109.0	-101.4	-107.4
Broad Money	253.2	300.3	357.2	416.9	406.8	414.9	422.1	453.5	444.2	451.4	449.0	472.7	481.5
Currency outside banks	25.1	34.1	34.5	43.5	44.7	45.2	46.4	48.7	49.5	51.2	52.8	49.8	49.7
Deposits	228.1	266.2	322.7	373.4	362.1	369.7	375.7	404.8	394.7	400.2	396.2	422.9	431.8
In domestic currency	199.6	227.8	283.0	331.6	321.0	325.2	330.1	357.8	345.6	346.8	334.6	354.3	359.7
Demand deposits	91.3	94.8	113.9	130.4	111.5	110.9	110.2	117.4	100.6	103.2	96.2	97.5	94.2
- households	31.3	31.5	37.4	46.2	48.6	49.6	47.9	46.2	44.0	44.6	43.5	41.7	...
- enterprises	59.0	61.7	75.0	82.5	61.3	60.2	61.3	69.6	55.6	57.7	51.9	55.1	...
- insurance company	1.0	1.6	1.5	1.7	1.6	1.1	1.0	1.6	1.0	0.9	0.8	0.7	...
Time deposits	108.3	133.0	169.1	201.2	209.5	214.3	219.9	240.4	245.0	243.6	238.4	256.8	265.6
- households	82.1	98.0	125.7	148.4	150.6	154.1	159.6	182.8	190.8	196.1	192.2	211.5	...
- enterprises	11.8	20.2	27.7	35.0	40.4	41.6	42.5	41.4	35.7	32.4	31.5	31.7	...
- insurance company	14.4	14.8	15.7	17.8	18.5	18.6	17.8	16.2	18.5	15.1	14.7	13.6	...
In foreign currency	28.5	38.4	39.7	41.8	41.1	44.5	45.6	47.0	49.1	53.4	61.6	68.6	72.1
- households	24.1	32.3	35.4	35.9	36.2	36.9	38.1	39.6	38.7	39.9	45.6	49.7	...
- enterprises	4.4	6.1	4.3	5.9	4.9	7.6	7.5	7.4	10.4	13.5	16.0	18.9	...
Memorandum items 1/ (percent change)													
Broad money	18.5	18.6	18.9	16.7	12.5	12.8	12.1	8.8	9.2	8.8	6.4	4.2	8.4
Foreign currency deposits	126.2	34.7	3.4	5.3	3.0	15.9	17.8	12.4	19.5	20.0	35.1	46.0	46.8
Net foreign assets	25.4	-144.3	312.3	1.7	0.3	6.6	14.8	8.5	12.8	20.0	-23.7	-37.8	-34.6
Net domestic assets	19.3	-1.2	3.0	20.0	15.1	13.9	11.6	8.8	8.5	6.8	12.2	11.9	16.8
Domestic credit	25.5	1.4	7.7	16.2	13.1	12.3	11.6	8.8	8.8	9.5	12.2	14.1	15.7
Credit to enterprises and households	10.8	0.8	14.9	18.2	12.1	7.9	4.7	2.2	3.9	4.5	6.2	6.6	6.7
of which in domestic currency					13.1	9.7	7.1	1.0	3.0	3.6	4.7	4.7	2.7
Contribution to money growth (since January 1)													
M2	18.5	18.6	23.9	16.6	-2.4	-0.5	1.2	8.8	-2.1	-0.5	-1.0	4.2	1.9
NFA	-3.3	19.9	15.9	0.3	-0.1	-0.8	0.8	1.3	0.5	0.7	-4.0	-5.8	0.8
NDA, of which	21.9	-1.3	8.0	16.4	-2.3	0.4	0.4	7.5	-2.6	-1.2	3.0	10.1	1.1
Net credit to gov. and NPF	20.3	1.0	-2.0	1.2	0.6	2.5	4.5	7.3	-0.8	1.3	4.7	9.1	0.9
Credit to private sector	12.0	0.9	13.9	15.6	0.1	0.8	1.2	1.9	1.4	2.7	4.4	5.4	1.6

Sources: National Bank of Slovakia.

1/ Growth rates adjusted for reclasification of various items between December 31 and January 1.

Table A24. Slovak Republic: Monetary Base, 1996-98

(In billions of koruny; average of the month)

	1996				1997				1998			
	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.
Net foreign assets	74.42	74.48	84.11	82.85	86.51	67.72	78.18	84.32	79.69	98.80	91.27	75.89
Assets	103.34	103.00	112.13	111.22	114.53	98.24	106.91	114.89	111.86	128.28	118.55	105.91
Liabilities	28.92	28.52	28.02	28.37	28.04	30.52	28.73	30.57	32.17	29.48	27.28	30.03
Net credit to government (deposits)	-9.73	-9.11	-11.86	-8.68	-10.62	-9.24	-8.61	-6.11	-5.09	-15.28	-3.16	-3.42
Credit to banks and open market operations	-17.70	-12.37	-0.93	5.81	3.33	16.14	14.87	6.36	4.34	-4.54	-2.16	14.37
of which government securities	0.00	2.58	4.86	5.68	3.87	13.41	12.95	3.40	3.86	0.00	3.07	14.02
Other items net	13.49	11.21	10.05	6.97	9.04	9.40	7.30	9.76	18.48	18.66	15.23	13.41
Reserve money	60.47	64.22	81.37	86.95	88.14	84.02	91.74	94.33	97.42	97.64	101.18	100.25
Currency in circulation	41.99	44.95	48.15	52.43	51.77	53.02	54.41	58.23	58.64	59.31	61.73	61.14
Reserves	18.48	19.27	33.22	34.52	36.37	30.99	37.33	36.10	38.78	38.33	39.45	39.11
Required	18.29	19.01	33.14	33.62	36.16	36.76	37.13	36.25	38.07	37.99	39.14	38.77
Excess	0.19	0.26	0.08	0.90	0.22	-5.76	0.21	-0.15	0.71	0.34	0.31	0.35
Memorandum item:												
Official reserves in U.S.$, EOP	3397	3376	3654	3473	3453	3018	3150	3284	3142	3789	3110	2923

Source: National Bank of Slovakia

Table A25. Slovak Rpublic: Selected Interest Rates, 1996-98

(Average in each period, in percent per annum)

	1996				1997				1998			
	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.
Deposits												
Total	6.6	6.5	6.7	6.2	7.5	7.8	8.7	8.7	10.0	9.9	10.3	10.4
Sight deposits	3.1	3.1	3.0	2.9	3.0	3.2	3.5	3.5	3.7	3.7	3.8	4.2
Term deposits	9.0	8.6	9.1	8.6	10.0	10.2	11.4	11.6	12.7	12.7	13.1	13.2
7 days	6.9	10.6	10.2	9.5	18.2	14.8	20.4	17.1	15.5	15.0	21.9	16.2
One month	6.3	6.1	8.6	8.9	10.7	12.3	15.5	16.3	18.0	16.4	17.3	17.5
One year	9.4	9.1	9.1	8.9	10.0	10.1	10.5	10.5	10.7	11.0	11.1	12.0
New credits												
Total	13.5	12.6	13.6	13.5	16.2	19.3	19.9	20.9	20.3	16.4	24.9	18.6
Short-term	13.2	12.4	13.6	13.5	16.2	20.0	20.9	21.6	20.6	16.6	25.6	18.9
Medium-term	15.5	13.3	14.3	13.1	15.4	15.6	16.8	16.3	15.3	15.2	13.6	14.2
Long-term	14.6	14.0	11.8	13.7	17.7	15.5	15.5	15.4	15.9	14.5	14.5	14.8

Source: National bank of Slovakia.

Table A26. Slovak Republic: Balance of Payments, 1995-98

(Millions of U.S. dollars)

	1995	1996	1997	1998 Prelim.
Trade Balance	-228	-2,293	-2,084	-2,290
Exports, f.o.b.	8,579	8,831	9,641	10,666
Imports, f.o.b.	-8,807	-11,124	-11,725	-12,956
Services and income balance	527	-8	-47	-137
Services balance	540	36	73	17
Receipts	2,376	2,068	2,168	2,292
Payments	-1,836	-2,032	-2,094	-2,275
Income balance	-14	-45	-120	-154
Current transfers	92	203	173	366
Current Account	391	-2,098	-1,958	-2,061
Capital transfers	46	30	0	70
Foreign investment, net	380	295	235	248
Direct investment	134	199	47	221
Portfolio investment	246	96	187	27
MLT credits	394	986	1,265	1,601
Credits extended, net	69	136	86	58
Credits received, net	325	849	1,180	1,543
Disbursements	1,052	2,033	2,265	2,716
Repayments	-726	-1,184	-1,085	-1,172
Short-term capital, net	91	882	294	-96
Capital Account	994	2,192	1,795	1,823
Errors and omissions	385	268	309	-186
Overall balance	1,771	362	146	-423
Financing	-1,771	-362	-146	423
Gross reserves (increase, -)	-1,579	-237	-94	491
Use of Fund credit net	-192	-125	-52	-67

Source: National Bank of Slovakia; and staff estimates.

Table A27. Slovak Republic: Foreign Trade, 1993-98

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998 Prelim.
Exports f.o.b	5,447	6,691	8,579	8,831	9,639	10,667
Market economies	2,071	2,970	3,881	4,312	5,150	6,538
Developed countries	1,783	2,632	3,510	3,925	4,937	6,408
Of which:						
European Union 1/	1,609	2,340	3,208	3,644	4,538	5,955
Austria	271	351	426	534	692	790
France	87	113	171	187	231	369
Germany	828	1,144	1,613	1,871	2,284	3,084
Italy	148	288	413	431	576	760
United Kingdom	55	86	112	136	160	165
EFTA	40	56	85	106	124	194
Other developed countries 2/	134	236	217	175	275	259
Of which:						
Japan	8	6	18	19	12	12
United States	60	108	107	119	156	150
Developing countries	288	338	371	387	213	130
Of which:						
China	66	23	17	39	11	4
India	15	61	67	65	43	17
Economies in Transition 3/	3,371	3,721	4,697	4,519	4,480	4,073
CEFTA countries 4/	2,716	3,059	3,799	3,658	3,582	3,416
Of which:						
Czech Republic	2,310	2,502	3,024	2,738	2,471	2,175
Hungary	247	366	391	403	433	470
Poland	159	189	378	427	507	586
BRO countries	453	467	612	641	712	496
Of which:						
Russia	256	278	331	308	333	205
Ukraine	140	117	191	236	269	198
Other transition economies	202	195	286	220	186	161
Others and nonspecified	5	0	1	0	9	56

Table A27 (Concluded). Slovak Republic: Foreign Trade, 1993-98

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998 Prelim.
Imports f.o.b.	6,334	6,611	8,771	11,123	11,622	12,892
Market economies	2,304	2,868	4,022	5,491	6,469	7,990
Developed countries	2,109	2,646	3,674	5,023	5,962	7,440
Of which:						
European Union 1/	1,769	2,210	3,049	4,147	5,109	6,501
Austria	394	382	448	538	582	604
France	96	148	215	360	419	499
Germany	723	888	1,252	1,625	2,297	3,334
Italy	190	290	406	663	681	837
United Kingdom	80	106	148	210	279	267
EFTA	96	104	166	183	181	206
Other developed countries 2/	244	332	459	693	672	733
Of which:						
Canada	18	12	20	29	41	35
Japan	73	82	131	205	192	212
United States	112	188	215	300	362	378
Developing countries	195	221	348	468	507	550
Of which:						
Brazil	9	16	16	19	21	20
China	30	38	58	82	114	150
India	9	18	31	27	20	18
Economies in Transition 3/	4,024	3,737	4,736	5,616	5,139	4,828
CEFTA countries 4/	2,489	2,249	2,903	3,233	3,183	3,222
Of which:						
Czech Republic	2,275	1,958	2,434	2,708	2,493	2,379
Hungary	85	111	193	222	242	317
Poland	123	158	243	271	298	323
BRO countries	1,438	1,378	1,672	2,207	1,910	1,550
Of which:						
Russia	1,237	1,191	1,456	1,934	1,573	1,281
Ukraine	152	119	123	173	284	239
Other transition economies	97	110	161	176	46	56
Others and nonspecified	7	6	13	16	14	74

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

1/ EU-15 for all years.
2/ OECD members as of end-1993 (i.e., excludes CEFTA members).
3/ All formerly centrally planned economies.
4/ Excluding Romania.

Table A28. Slovak Republic: Shares of Partners in Foreign Trade, 1993-98

(In percent of total)

	1993	1994	1995	1996	1997	1998 Prelim.
Market economies	38.0	44.4	45.2	48.8	53.4	61.3
Developed countries	32.7	39.3	40.9	44.4	51.2	60.1
Of which:						
European Union 1/	29.5	35.0	37.4	41.3	47.1	55.8
Austria	5.0	5.3	5.0	6.0	7.2	7.4
France	1.6	1.7	2.0	2.1	2.4	3.5
Germany	15.2	17.1	18.8	21.2	23.7	28.9
Italy	2.7	4.3	4.8	4.9	6.0	7.1
United Kingdom	1.0	1.3	1.3	1.5	1.7	1.5
EFTA	0.7	0.8	1.0	1.2	1.3	1.8
Other developed countries 2/	2.5	3.5	2.5	2.0	2.9	2.4
Of which:						
Japan	0.1	0.1	0.2	0.2	0.1	0.1
United States	1.1	1.6	1.3	1.3	1.6	1.4
Developing countries	5.3	5.1	4.3	4.4	2.2	1.2
Of which:						
China	1.2	0.3	0.2	0.4	0.1	0.0
India	0.3	0.9	0.8	0.7	0.4	0.2
Economies in Transition 3/	61.9	55.6	54.8	51.2	46.5	38.2
CEFTA countries 4/	49.9	45.7	44.3	41.4	37.2	32.0
Of which:						
Czech Republic	42.4	37.4	35.3	31.0	25.6	20.4
Hungary	4.5	5.5	4.6	4.6	4.5	4.4
Poland	2.9	2.8	4.4	4.8	5.3	5.5
BRO countries	8.3	7.0	7.1	7.3	7.4	4.6
Of which:						
Russia	4.7	4.1	3.9	3.5	3.5	1.9
Ukraine	2.6	1.7	2.2	2.7	2.8	1.9
Other transition economies	3.7	2.9	3.3	2.5	1.9	1.5
Others and nonspecified	0.1	0.0	0.0	0.0	0.1	0.5

Table A28(Concluded). Slovak Republic: Shares of Partners in Foreign Trade, 1993-98

(In percent of total)

	1993	1994	1995	1996	1997	1998
Market economies	36.4	43.4	45.9	49.4	55.7	62.0
Developed countries	33.3	40.0	41.9	45.2	51.3	57.7
Of which:						
European Union 1/	27.9	33.4	34.8	37.3	44.0	50.4
Austria	6.2	5.8	5.1	4.8	5.0	4.7
France	1.5	2.2	2.4	3.2	3.6	3.9
Germany	11.4	13.4	14.3	14.6	19.8	25.9
Italy	3.0	4.4	4.6	6.0	5.9	6.5
United Kingdom	1.3	1.6	1.7	1.9	2.4	2.1
EFTA	1.5	1.6	1.9	1.6	1.6	1.6
Other developed countries 2/	3.9	5.0	5.2	6.2	5.8	5.7
Of which:						
Canada	0.3	0.2	0.2	0.3	0.4	0.3
Japan	1.2	1.2	1.5	1.8	1.7	1.6
United States	1.8	2.8	2.5	2.7	3.1	2.9
Developing countries	3.1	3.3	4.0	4.2	4.4	4.3
Of which:						
Brazil	0.1	0.2	0.2	0.2	0.2	0.2
China	0.5	0.6	0.7	0.7	1.0	1.2
India	0.1	0.3	0.4	0.2	0.2	0.1
Economies in Transition 3/	63.5	56.5	54.0	50.5	44.2	37.4
CEFTA countries 4/	39.3	34.0	33.1	29.1	27.4	25.0
Of which:						
Czech Republic	35.9	29.6	27.8	24.3	21.5	18.5
Hungary	1.3	1.7	2.2	2.0	2.1	2.5
Poland	1.9	2.4	2.8	2.4	2.6	2.5
BRO countries	22.7	20.8	19.1	19.8	16.4	12.0
Of which:						
Russia	19.5	18.0	16.6	17.4	13.5	9.9
Ukraine	2.4	1.8	1.4	1.6	2.4	1.9
Other transition economies	1.5	1.7	1.8	1.6	0.4	0.4
Others and nonspecified	0.1	0.1	0.1	0.1	0.1	0.6

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

1/ EU-15 for all years.

2/ OECD members as of end-1993 (i.e., excludes CEFTA members).

3/ All formerly centrally planned economies.

4/ Excluding Romania.

Table A29. Slovak Republic: Merchandise Trade, 1995-98 1/

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

	1995					1996					1997					1998				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Exports, f.o.b.	1,966	2,231	2,128	2,269	8,595	2,065	2,154	2,265	2,340	8,824	2,337	2,554	2,286	2,464	9,641	2,460	2,697	2,722	2,788	10,667
(percent change)	37.8	33.6	27.3	16.5	28.0	5.0	-3.5	6.4	3.1	2.7	13.2	18.6	0.9	5.3	9.3	5.3	5.6	19.1	13.1	10.6
Imports, f.o.b.	1,967	2,257	2,086	2,475	8,786	2,612	2,568	2,675	3,254	11,109	2,879	3,127	2,740	2,931	11,677	2,959	3,283	3,209	3,505	12,956
(percent change)	29.3	46.4	26.1	29.4	32.5	32.8	13.8	28.2	31.5	26.4	10.2	21.8	2.4	-9.9	5.1	2.8	5.0	17.1	19.6	11.0

Source: Data provided by the Slovak authorities.

1/ Quarterly data may not add to annual totals due to differing exchange rate conversion factors.

Table A30. Slovak Republic: Commodity Composition of Trade,
S.I.T.C. Classification, 1993-98 1/

(In millions of U.S. dollars)

S.I.T.C. Category	Description	1993	1994	1995	1996	1997	1998
	Exports, f.o.b.	5,447.5	6,691.0	8,578.9	8,831.1	9,638.9	10,666.7
0	Food and live animals	299.3	303.3	431.3	331.3	332.1	343.4
1	Beverages and tobacco	48.1	62.8	75.0	63.6	65.7	56.9
2	Crude Materials	268.0	342.5	437.2	393.4	409.4	382.6
3	Fuels and related products	268.1	310.4	362.5	434.3	444.6	375.4
4	Animal and vegetable oils and fats	5.6	6.8	9.2	12.1	14.8	19.8
5	Chemicals and related products	654.6	862.2	1,132.1	1,096.8	1,039.5	949.7
6	Intermediate manufactured products	2,111.0	2,633.8	3,469.1	3,379.5	3,272.6	3,201.4
7	Machinery and transport equipment	1,057.5	1,271.4	1,614.7	2,047.0	2,737.3	3,982.7
8	Miscellaneous manufactured articles	730.5	893.7	1,045.5	1,065.8	1,318.2	1,350.7
9	Other	4.8	4.1	2.3	7.3	4.7	4.1
	Imports, f.o.b.	6,334.1	6,611.1	8,770.5	11,123.4	11,671.9	12,959.4
0	Food and live animals	464.2	458.7	604.7	670.9	659.2	686.3
1	Beverages and tobacco	92.2	85.3	96.1	120.3	122.4	116.3
2	Crude Materials	326.5	348.8	525.6	543.7	516.0	500.2
3	Fuels and related products	1,324.1	1,273.3	1,535.1	1,861.4	1,826.9	1,418.8
4	Animal and vegetable oils and fats	15.6	19.0	17.6	19.4	21.5	27.3
5	Chemicals and related products	720.0	871.7	1,189.2	1,282.1	1,354.0	1,382.1
6	Intermediate manufactured products	956.7	1,113.7	1,560.8	1,700.5	1,929.3	2,343.5
7	Machinery and transport equipment	1,852.8	1,829.3	2,534.9	3,917.6	4,190.6	5,184.2
8	Miscellaneous manufactured articles	571.1	599.8	698.0	995.6	1,046.5	1,294.4
9	Other	10.9	11.5	8.5	11.9	5.5	6.3

Table A30 (Concluded). Slovak Republic: Commodity Composition of Trade, S.I.T.C. Classification, 1993-98 1/

(In percent of total)

S.I.T.C. Category	Description	1993	1994	1995	1996	1997	1998
	Exports, f.o.b. (Millions of U.S. dollars)	5,448	6,691	8,579	8,831	9,639	10,667
0	Food and live animals	5.5	4.5	5.0	3.8	3.4	3.2
1	Beverages and tobacco	0.9	0.9	0.9	0.7	0.7	0.5
2	Crude Materials	4.9	5.1	5.1	4.5	4.2	3.6
3	Fuels and related products	4.9	4.6	4.2	4.9	4.6	3.5
4	Animal and vegetable oils and fats	0.1	0.1	0.1	0.1	0.2	0.2
5	Chemicals and related products	12.0	12.9	13.2	12.4	10.8	8.9
6	Intermediate manufactured products	38.8	39.4	40.4	38.3	34.0	30.0
7	Machinery and transport equipment	19.4	19.0	18.8	23.2	28.4	37.3
8	Miscellaneous manufactured articles	13.4	13.4	12.2	12.1	13.7	12.7
9	Other	0.1	0.1	0.0	0.1	0.0	0.0
	Imports, f.o.b. (Millions of U.S. dollars)	6,334	6,611	8,771	11,123	11,672	12,959
0	Food and live animals	7.3	6.9	6.9	6.0	5.6	5.3
1	Beverages and tobacco	1.5	1.3	1.1	1.1	1.0	0.9
2	Crude Materials	5.2	5.3	6.0	4.9	4.4	3.9
3	Fuels and related products	20.9	19.3	17.5	16.7	15.7	10.9
4	Animal and vegetable oils and fats	0.2	0.3	0.2	0.2	0.2	0.2
5	Chemicals and related products	11.4	13.2	13.6	11.5	11.6	10.7
6	Intermediate manufactured products	15.1	16.8	17.8	15.3	16.5	18.1
7	Machinery and transport equipment	29.3	27.7	28.9	35.2	35.9	40.0
8	Miscellaneous manufactured articles	9.0	9.1	8.0	9.0	9.0	10.0
9	Other	0.2	0.2	0.1	0.1	0.0	0.0

Source: Data provided by the Slovak authorities.

1/ Data are on customs basis and exclude 'private' imports.

Table A31. Slovak Republic: External Debt in Convertible Currencies, 1992-98

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

	1992 1/	1993 1/	1994	1995	1996	1997	1998
Debt in convertible currencies	2,829	3,380	4,660	5,678	7,661	9,768	11,902
Medium- and long-term	2,262	2,665	3,424	3,964	4,715	5,474	7,297
By debtors:							
National Bank	554	917	1,181	1,025	876	849	812
Commercial banks	199	214	275	529	764	680	602
Government	1,071	1,059	1,083	1,011	844	708	1,698
Corporations	438	475	885	1,399	2,232	3,237	4,184
Short-term	567	715	1,236	1,714	2,946	4,294	4,605
Government	0	0	0	0	0	186	0
Other	567	715	1,236	1,714	2,946	4,108	4,605
Commercial Bank	...	...	...	...	1,424	2,225	2,063
Enterprise & Other	...	...	...	...	1,522	1,883	2,541

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

1/ Excludes debt towards the Czech Republic.