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Economic Development of Slovakia in 1996¹

(Study elaborated on behalf of the United Nations Economic)

Ivan OKÁLI - Herta GABRIELOVÁ - Egon HLAVATÝ - Richard OUSRATA*

1. General view of the economy

In 1996, Slovakia's economic growth continued, overcoming the transformation recessionary period of 1994. Thus, after the preparatory period in 1990, the Slovak economy passed through its first six years of transformation (for four of those years as part of the independent Slovak Republic (SR)). The economic results of those six years are shown in Table 1.

Table 1

Changes in performance of the Slovak economy over the transformation period

	1989	1993	1995	1996	1996
	1989 = 100				1995 = 100
Gross domestic product (GDP) ¹	100,0	75,0	84,5	90,3	106,9
Industrial output ¹	100,0	67,6	76,8	78,8	102,5
Construction production ¹	100,0	47,8	45,7	48,0	104,4
Agricultural production ¹	100,0	63,6	74,7	76,6 ³	101,9 ³
GDP produced in services ²	100,0	95,7	109,7	120,8	110,1
Retail sales ¹	100,0	77,5	80,2	85,7	106,9
Real wages in the national economy	100,0	72,4	78,3	83,1	106,2
Investments ¹	100,0	102,3	111,7	155,15	138,9

¹ In constant prices.

² Estimate in comparable prices.

³ Estimate based on agricultural product sales results and prices in 1996.

Although Slovakia's economic performance in 1996 was an improvement over the results during the transformation recession, a return to the pre-reform level of 1989 is not expected before 1998. The development of production in individual industrial branches shown in Table 1 implies that during the process of

¹ The analysis is based on data from the Statistical Office of the SR, National Bank of Slovakia, Ministry of Finance of SR and Law Code of the SR.

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recovery of economic performance, the structure of the economy is altered. During the years of transformation recession and economic recovery, a substantial structural adaptation of the economy took place, namely a shift of the centre of economic development towards service sector industries. In 1996, this development trend continued, evidenced by the increase in services as a part of total GDP increase from 41 % in 1994–1995 to 67 % in 1996.

During this time of change, a considerable acceleration in real wage growth was obviously the main factor in maintaining the social peace. At the same time, the relationship between the rate of real wage growth and the rate of investment growth suggests that wage growth in 1996 does not jeopardise future economic growth.

Apart from the Slovak economy's growth tendencies, its global nature in 1996 in terms of its current condition and changes related to its internal and external balances must be considered. The development of selected issues is presented in Table 2.

Table 2

Development of selected characteristics of internal and external balances

	1993	1994	1995	1996
Foreign trade balance as % of GDP	-9,1	0,1	-1,9	-11,1
Balance of payments' current account as % of GDP	-4,6	4,8	3,8	-10,2
Foreign exchange reserves ¹ as ratio of average monthly imports in the respective year	0,7	3,3	4,9	3,7
State budget balance as % of GDP	-6,2	-5,2	-1,6	-4,4
Difference between the consumer prices index and the nominal wages index in points	4,8	-3,6	-4,4	-7,5
Inflation rate measured by the consumer prices index	123,2	113,4	109,9	105,8

¹ National Bank of Slovakia foreign exchange reserves at the end of the given period. USD to SKK equivalent as of the end of the given period.

When evaluating the state and trends of the national economy of SR, the interpretation of data contained in Table 2 involves certain issues that seem to contradict the statements made regarding the evaluation of its growth tendency. Particularly, the information pertaining to external balance confirms that SR's economic development in 1996 was affected by the unfavourable situation in that part of the world economy relevant for Slovakia.

In addition, and what seems even more significant, Table 2 confirms that behind the high rates of economic development in SR we can see a number of factors that have a negative impact on Slovak Republic's total economic balance. Nonetheless, the inflation rate, a typical tool for measuring the health of the economy, still recorded more positive results in 1996 than in the preceding periods.

A conclusion may be drawn from the above that in 1996 the Slovak economy underwent significant change and grew in complexity. The objective of this study is to analyse these changes and to estimate the potential consequences that may arise during the future development of the economy.

2. Output and demand development

2.1 Demand development

In 1996, the pace-setting features of the Slovak economy's development - the trends of economic growth and internal and external balance - were determined primarily by the development of demand. A picture of total demand development, its individual components, and the impact of these components on the performance of the Slovak economy is given in Table 3 and in Charts 1 and 2.

In addition to illustrating the impact of individual demand components on economic growth, Table 3 and Charts 1 and 2 indicate the great changeability of economic development during transformation, as well as that each year the main features and conditions of the economy are different. As early as 1993, the transformation recession ended. In 1994, with the start of economic recovery and a significant increase in exports, the decline in domestic demand was hardly noticed or considered to be significant. In 1995, despite a more moderate increase in exports, economic growth continued, fuelled mainly by an upsurge in domestic demand (notably investment demand).

Table 3

Development of used GDP, total demand and its component indices¹

	1993	1994	1995	1996
Household consumption	98,4	100,0	103,4	107,2
Government consumption	97,8	89,5	101,6	124,2
Gross capital formation	92,7	87,6	133,0	142,8
Domestic demand	96,7	94,3	110,1	121,1
Goods and services export (external demand)	99,8	114,1	103,2	98,4
Goods and services import	99,2	96,5	106,7	118,5
GDP used	96,3	105,1	107,6	106,9
Total demand	97,8	101,6	107,3	112,0

¹ Previous year = 100; in 1993 comparable prices.

Even in 1996, the economic situation changed completely. For the first time during the transformation process, a pronounced decline in export of goods and services occurred (in 1993, this decline was insignificant). In spite of this, the annual rate of total demand for in 1996 reached a record 12,0 %, thanks to a greater increase in domestic demand. The rate of growth in used GDP has remained at a high level close to that reached in 1995.

Chart 1

Final demand components impact on the change of used GDP over previous year (in points of per cent changes of used GDP; based on 1993 prices)

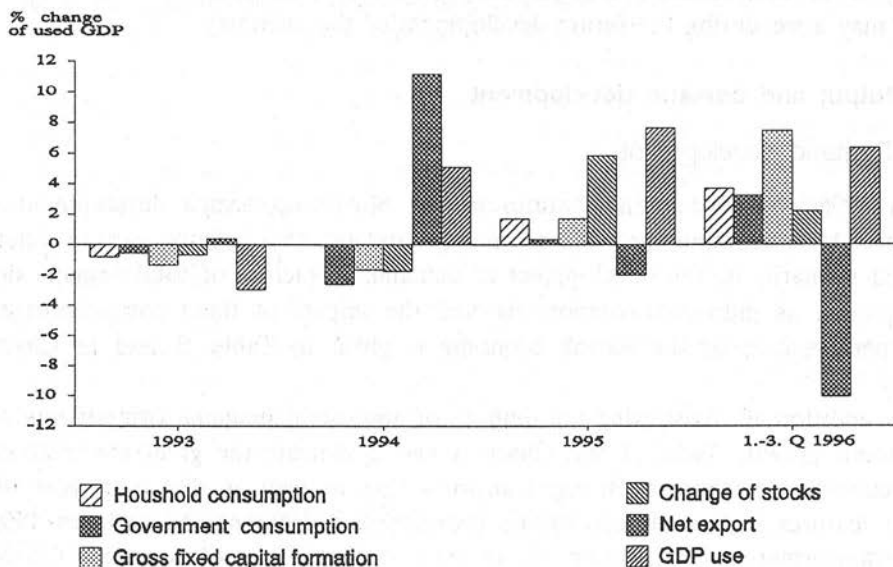
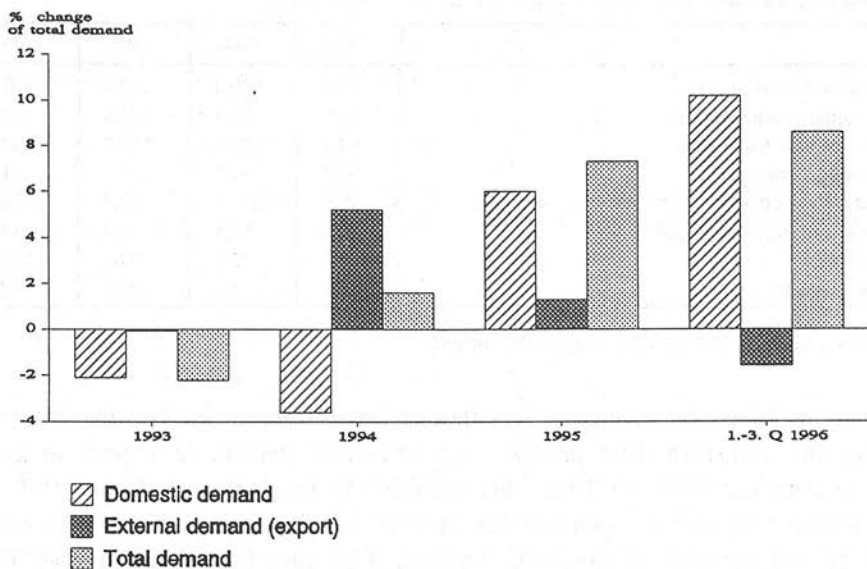


Chart 2

Domestic and external demands impact on the total demand changes over previous year (in points of total demand per cent changes; based on 1993 prices)



In 1996, the growth in individual domestic demand components was unequal. The growth rate of government demand (expenditures) tripled compared to the growth rate of household demand. This is mainly due to the expansion of government investments in infrastructure, without which the government demand would practically remain at the previous year's level. The rate of gross capital formation is six times that of the GDP growth rate, which is also due to the unusual increase in stocks. Shifts which materialised in 1996 due to the unequal development of individual demand components are shown in Table 4.

Table 4

Share of consumption, gross savings and their components in GDP use (in %)¹

	1990	1991	1992	1993	1994	1995	1996
Gross domestic product	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:							
Consumption	75,6	69,1	75,7	78,1	71,5	68,5	72,9
Household consumption	53,8	49,3	49,9	53,1	49,9	48,5	49,1
Government consumption	21,8	19,8	25,8	25,0	21,6	20,0	23,8
Gross savings	24,4	30,9	24,3	21,9	28,5	31,5	27,1
Gross fixed capital formation	31,2	27,2	33,1	32,7	29,2	28,9	36,5
Change in stocks	2,2	6,6	-4,8	-5,3	-6,1	-0,7	1,6
Net export	-9,0	-2,9	-4,0	-5,5	5,4	3,3	-11,0

¹ GDP less statistical difference, based on data in current prices.

Since the demand impact on the transforming economy should gradually approach the situation found in standard functioning market economies, to evaluate its structure in SR we will use the international comparison as shown in Table 5.

Although in 1996 the growth of individual total demand components in the Slovak economy was different, their basic proportions in the GDP use did not change substantially. By this we mean the constantly high share of gross savings and also the share of gross fixed capital in GDP. In SR, both of these shares still are by far higher than levels found in other CEFTA countries (excluding the Czech Republic which has almost the same rates of savings and investments as was reached in SR), as well as in OECD and EU 15 countries. The high rate of gross savings may be seen as a special comparative advantage of the Slovak economy. Although the rate was slightly lower in 1996 compared to 1995, in general it remained strong.

A whole range of questions are raised when the development of the demand side of the Slovak economy in 1996 is reviewed, especially considering the rapidly worsening use of external demand and the quick rise of household consumption, stocks, imports, and total demand. A proper understanding of these issues is possible only by viewing the production structure of the economy, the competitiveness of its output, and the development of its internal and external balance.

Table 5

Share of demand components in GDP use (in %) in the mid 1990's¹

	OECD ² countries 1994	EU 15 ² 1994	Hungary ⁴ 1995	Poland ⁴ 1995	Slove- nia ⁴ 1994	Slovak Republic ⁴ 1996	Czech Republic ³ 1.-3. Q 1996
Gross domestic product	100,0	100,0	100,0	100,0	100,0	100,0	100,0
of which:							
Consumption	79,1	79,5	79,4	81,6	77,3	72,9	73,6
Household consum.	62,9	60,4	53,0	63,7	57,0	49,1	55,6
Government consum.	16,2	19,1	26,4	17,9	20,3	23,8	18,1
Gross saving	20,9	20,5	20,6	18,4	22,7	27,1	26,4
Gross fixed capital formation	20,2	18,5	19,3	17,1	19,8	36,5	29,1
Change in stocks	0,2	0,4	3,5	1,1	0,7	1,6	8,4
Net export	0,5	1,6	-2,2	0,2	2,2	-11,0	-11,1

¹ Calculation based on data in current prices.² According to: National Accounts, Main Aggregates Vol.1, OECD Paris, 1996, pp. 17, 21.³ Estimate based on Statistical Yearbook CR 1996, Prague, Scientia, 1996, p. 34, Bulletin CSO 3, 1996, p. A12.⁴ According to CESTAT, Statistical Bulletin, 1996, 2, SO SR, Bratislava, pp. 22-23.

2.2 Development in total and branch output

In 1996, the continuing rapid growth in gross domestic product (GDP) was based primarily on a profound growth in the service sector, and only partly on the output growth in the production of goods (see Table 6).

Table 6

Selected indicators of production and services developments¹

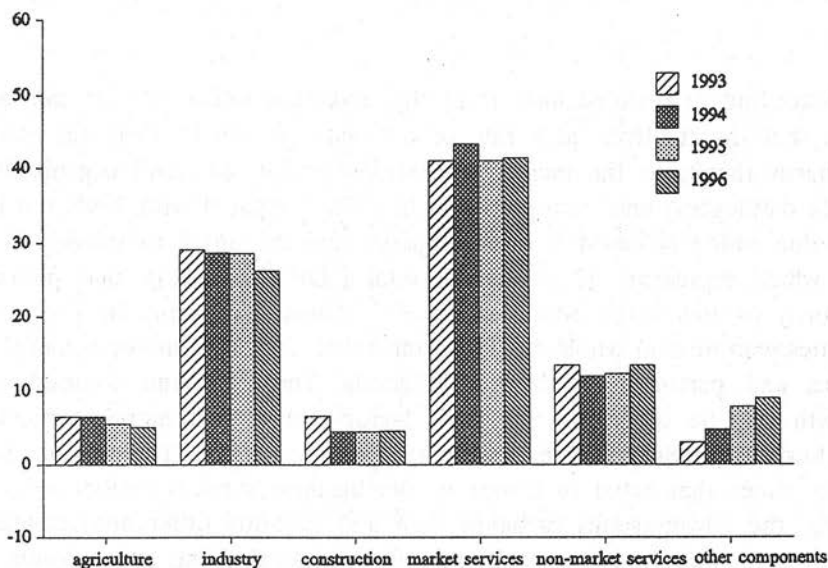
	1993	1994	1995	1996
Production of goods in industry ²	-3,8	4,8	8,3	2,5
Volume of construction production ²	-32,3	-6,8	2,7	4,4
Sale of slaughtered animals ³	-4,1	-14,8	-5,7	3,3
Volume of transported goods ³	-31,4	-14,4	6,4	-0,3
Retail sale ²	9,8	1,7	2,0	7,0
Revenues from selected market services ²	1,8	31,4	4,9	5,2

¹ Percentage changes against the same period in the previous year.² Based on constant prices.³ Based on material volumes in tons.

Certainly, the output development can serve only as an intermediate source of GDP growth. More important is the value added development in individual branches of the economy. In 1996, individual branches developed differently and not in the same manner as in 1995. In 1995, the value added grew in all branches (with the exception of agriculture), with the largest growth shown in industry (8,0 %), construction (5,9 %) and non-market services (10,9 %). In 1996, the source of GDP growth was mainly the rapid value added real growth in both market services (8,1 %) and non-market services (16 %). The real value added stagnated in industry and construction, a moderate growth in agriculture (3,2 %) was recorded. In total, in 1996 compared with 1995, the GDP increase (based on current prices) was shared by value added growth in services by 66,9 %, in all production branches by 15,8 %, and in other GDP components by 17,3 %.² A more detailed look at the different value added developments in particular branches of the economy in 1995 and 1996 is given in Table 7. The GDP structure and share of individual branches in GDP increase in 1993-1996 (in current prices) are shown in Charts 3 and 4.

Chart 3

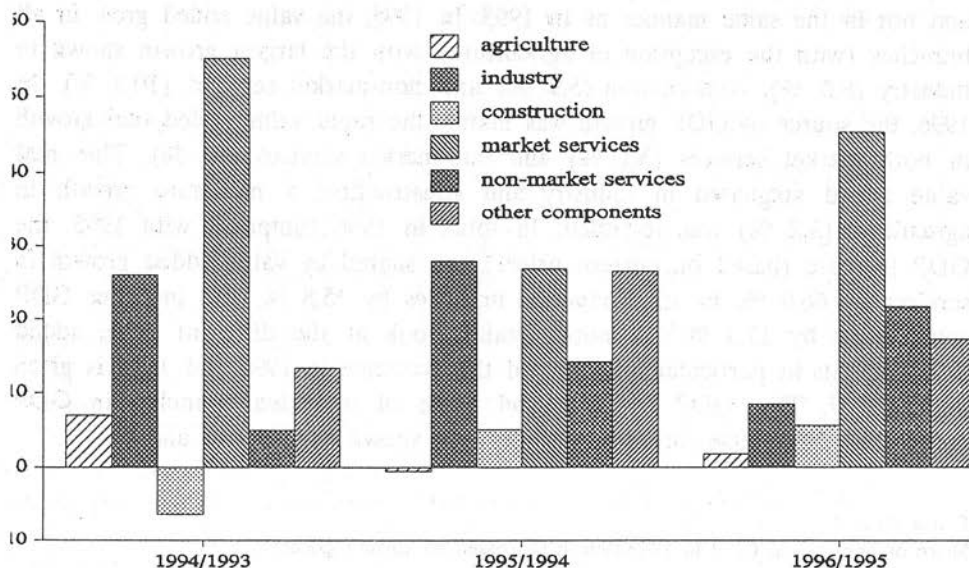
Share of branches in GDP in 1993-1996 in % (based on current prices)



² Indirect taxes, profits from stock ownership, imputed production of banking services, changes in indirect taxes disconnected with the year's output.

Chart 4

Share of branches in GDP increase in 1993-1996 in % (based on current prices)



According to detailed data from the Statistical Office SR,³ it can be assumed that the relatively high rate of economic growth in 1996 was maintained primarily thanks to the increased economic activity of small organisations (up to 24 employees) and entrepreneurs. In 1996 compared with 1995, the increase in value added achieved in these organisations amounted to roughly 35 billion Sk, which represents 52 % of the total GDP increase in that period. The majority of this value added increase - almost 21 billion Sk - comes from entities who deal in wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods. The profound domestic demand growth may be considered the basic factor that created more economic room for business services than existed in the previous period. There were, however, other issues that acted in favour of the business services sector. Most importantly, the advantageous exchange rate and inflation differential condition for imports, as well as government measures concerning the advantageous import of personal cars in the given period.⁴

³ Value added by establishment method for the 1st-3rd quarters 1996, Bratislava SO SR 1996.

⁴ This event was obviously very lucrative not only for personal car importers but also for the whole complex of motor cars services.

Table 7

Value added development by branch in 1995 and 1996 in % (in 1993 prices, the same period of the previous year = 100)

	Year	Quarter				
		1.	2.	3.	4.	1.-4.
Agriculture, hunting, forestry, fishing	1995	103,4	92,0	90,2	82,7	91,3
	1996	102,7	93,3	95,8	130,3	103,2
of which: agriculture	1996	94,5	94,3	99,5	127,9	103,2
Industry	1995	105,6	110,3	114,8	105,1	108,0
	1996	102,6	91,7	100,0	106,8	100,2
of which: manufacturing	1995	103,5	110,7	111,2	103,7	104,0
	1996	102,6	91,4	100,2	98,7	98,1
of which: manufacture of foods	1996	136,3	105,5	121,1	76,2	105,6
manufacture of chemicals, petroleum and rubber products ¹	1996	85,3	86,0	90,9	100,9	90,1
manufacture of metals and fabricated metal products	1996	108,2	91,5	80,1	122,1	97,9
mechanical and electrical engineering ²	1996	125,4	107,0	107,2	98,1	107,9
Construction	1995	116,1	100,5	103,2	106,6	105,9
	1996	95,9	101,0	106,6	97,2	100,4
Market services	1995	96,0	94,4	100,7	111,2	100,1
	1996	114,8	102,7	110,7	105,2	108,1
of which: business and services ³	1996	117,7	117,6	107,1	101,0	110,2
Non-market services	1995	108,5	114,9	99,0	120,2	110,9
	1996	115,4	109,5	135,6	108,0	116,0

¹ Manufacture of coke, refined petroleum products and nuclear fuels, manufacture of chemicals, chemical products, and man-made fibres; manufacture of rubber and plastic products.

² Manufacture of machinery and equipment n.e.c., manufacture of electrical and optical equipment and manufacture of transport equipment.

³ Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, real estate, renting and business services, research and development.

Along with the significant slow down in industrial output, the continuing stagnation in agriculture, and the moderate growth in construction, GDP growth and its branch structure in 1996 were also markedly affected by the rapid growth in intermediate consumption in all branches of the national economy. The proportions between the value added growth and intermediate consumption growth have substantially worsened over the last three years.

In 1994, a rapid value added growth was characteristic of all branches of the national economy (except construction) and accompanied by the stagnating or moderately decreasing intermediate consumption. In 1995, some branches started to show signs of more rapid intermediate consumption growth, especially in market services and agriculture, and to a lesser extent in industry. However, the nominal rate of intermediate consumption growth (12,2 %) was more sluggish in 1995 than the nominal GDP growth rate (17,4 %). In 1996 the more rapid nominal growth rate of intermediate consumption (21,9 %) than GDP growth rate (12,8 %) became characteristic for all branches of the national economy. Over the reviewed period, the rate of intermediate consumption growth exceeded the rate of value added growth in individual branches by 13 to 28 percentage points.⁵

The indicated development trend documents unequivocally show that the GDP increase over the recent period was achieved due to increased material inputs and their continuing low evaluation.⁶ One of the factors that obviously substantially impacts the rise in value of the intermediate consumption is the rise in prices of some imported raw materials, as well as the general increase in use of imported raw materials and intermediate products. If at the same time the prices of exported products do not increase – as a result of higher quality levels and better processing – the relationship between intermediate consumption and value added would develop inevitably on account of the value added.

In 1996 compared with the previous year, the *industrial output* growth slowed down markedly, i.e. from 8,3 % of the growth value achieved in 1995 to 2,5 % in 1994. The full industrial output growth was achieved because of an increase in labour productivity; in 1996 employment in industry stagnated. The slow down in growth in individual industrial segments occurred with different inten-

⁵ In 1996 in comparison with previous year, the value added growth and intermediate consumption growth (in current prices) reached the following values in selected branches: 5,0 % and 21,1 % in agriculture; 3,8 % and 20,2 % in industry; 15,5 % and 32,1 % in construction; 14,2 % and 26,9 % in market services; 22,6 % and 50,7 % in non-market services. Lesser discrepancy (9 percentage points) for the national economy in total was impacted by favourable relations in other components of GDP and intermediate consumption.

⁶ In 1995, for every GDP unit 1,51 units of intermediate consumption was exerted. In 1996 the figure was 1,64 units of intermediate consumption. In order to reach the GDP unit increase between the mentioned periods, 2,58 units of intermediate consumption were needed.

sity, and also led to several distinct changes in global development tendencies that were characteristic of the industrial development in the preceding two years.

Table 8
Development by industries in 1995 and 1996¹

Branches	Production of goods		Sale for export		Sale for domestic market	
	1995	1996	1995	1996	1995	1996
Industry in total	7,5	3,2	11,0	-8,5	1,1	12,0
Mining and quarrying	-0,2	6,4	-0,1	4,0	2,1	5,3
Manufacturing	9,1	2,9	11,8	-10,6	2,7	12,2
of which:						
food products, beverages, tobacco	-2,0	5,7	6,0	-12,9	-4,4	5,2
textiles and textile products	-11,1	-3,1	-8,4	-2,6	-16,8	-0,8
leather and leather products	14,8	0,8	3,9	-6,7	24,8	4,0
wood and wood products	13,8	-2,7	8,7	-8,9	10,9	-1,2
pulp, paper, printing and publishing	5,3	4,9	13,4	8,5	-0,9	1,1
coke, refined petroleum products and nuclear fuels	6,1	-3,9	12,7	-6,1	-2,9	-15,8
chemicals, chemical products and fibres	10,8	2,7	9,7	-0,6	1,7	0,5
rubber and plastic products	17,2	3,4	16,2	-1,8	4,1	7,6
other non-metallic mineral products	-1,2	-0,2	-2,5	-27,4	-3,7	27,5
basic metals and fabricated metal products	9,3	-8,4	4,8	-44,4	17,2	50,1
machinery and equipment n.e.c.	15,0	7,2	9,4	2,9	12,9	9,6
electrical and optical equipment	9,2	14,4	12,2	9,0	9,7	17,7
transport equipment	63,0	22,1	63,6	17,0	43,9	62,3
non-classified production	9,7	11,0	17,6	12,4	-5,2	8,0
Electricity, gas, and water supply	-2,8	5,1	1,4	16,8	-3,2	12,4

¹ Percentage change over previous year, in comparable prices, enterprises with 25 and more employees.

Over the last few years, industrial development was characterised by more rapid output growth in small industrial organisations (enterprises with up to 24 employees and entrepreneurs) than in enterprises with 25 or more employees. Consequently, the total industry growth rate was higher by 1,8 percentage points in 1994 and by 0,8 percentage points in 1995 as in firms with 25 or more employees. In 1996, the situation changed: a higher growth rate (3,2 %) was achieved in firms with 25 or more employees, while the total industry recorded a lower growth rate (2,5 %).⁷ According to the published statistical data, this

⁷ According to preliminary data. Statistical data concerning small organisations will still be accurate for the 4th Q 1996. The overall tendency, however, is obviously not expected to change substantially.

change in output development in small industrial organisations can be attributed to the stagnation in output of entrepreneurs. Higher activity in medium-size and large enterprises on the domestic market, as will be discussed later, is obviously the reason for the lower output growth rate of small producers.

The data in Table 8 shows the changes that occurred in the development of individual branches of industry in 1996. The development of goods production in 1995 and 1996 is illustrated in Chart No. 5.

In 1996, development in industry, particularly in its export branches (contrary to the previous two years) was strongly influenced by a decline in the sale for export. Most hard hit by this decline were those industries that manufactured less processed products, and whose strong performance in the previous period was based primarily on price competition in external markets. This applied mainly to manufacturers of metals and fabricated metal products, manufacturers of other non-metallic mineral products, manufacturers of coke, refined petroleum products and nuclear fuels.

Relatively good footing on foreign markets henceforward was gained by industries such as manufacture of pulp, paper, printing and publishing; manufacture of machinery, electrical and transport equipment, non-classified production (particularly manufacture of furniture and different consumer goods) and electricity, gas and water supply.

In 1996, industrial development affected domestic demand more strongly than in previous years. Due to its rapid growth, the sale of industrial output significantly increased on the domestic market for the first time in many years, while the share of exports in purchased industrial output declined (in 1995, 43,2 % of purchased output was export-led, while in 1996 it was merely 38,3 %).⁸

Manufacturers of foods, beverages and tobacco processors profited from the domestic demand growth and because of strong domestic sales succeeded in overcoming the constant decline in production over the previous years. Sales on the domestic market strengthened the output growth in practically all industries, industries which were also successful in exporting in 1996. Slowing down the decline in external demand by increasing supplies on the domestic market succeeded especially well for manufacturers of metals and fabricated metal products (losses in sales for export were overcome by increasing supplies for the domestic market by 60 %) and for manufacturers of other non-metallic mineral products (losses in sales for export decreased by 90 %). In contrast, a decline in sales for export accompanied by a decline in sales on the domestic market was experienced by manufacturers of coke, refined petroleum products and nuclear fuels.

⁸ The most significant change occurred in the manufacture of metals and fabricated metal products, where the share of export-led output declined from 64,6 % to 40,3 %, and in the manufacture of other non-metal mineral products (decline in analogous share from 52,7 % to 38,9 %).

Chart 5

Development of goods production in industry (percentage change over same period of previous year, the first part of the Chart for all industrial organizations, the other parts for enterprises with 25 and more employees)

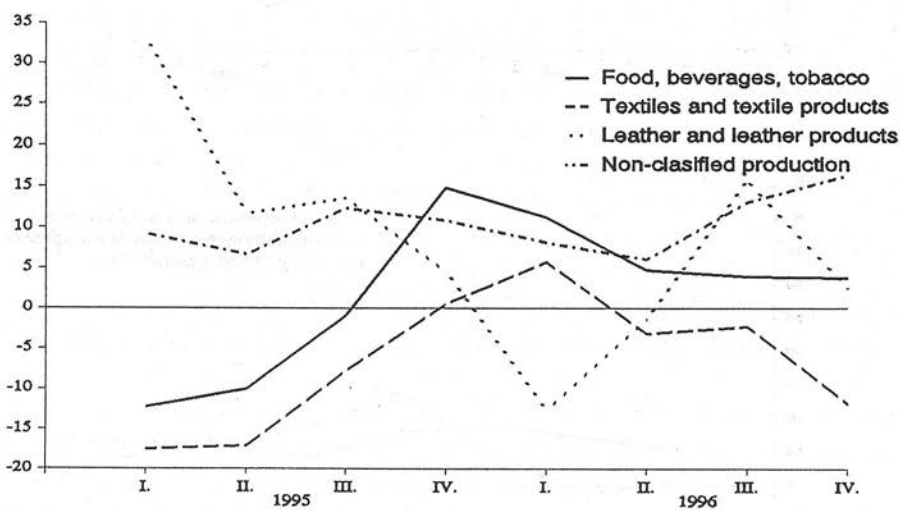
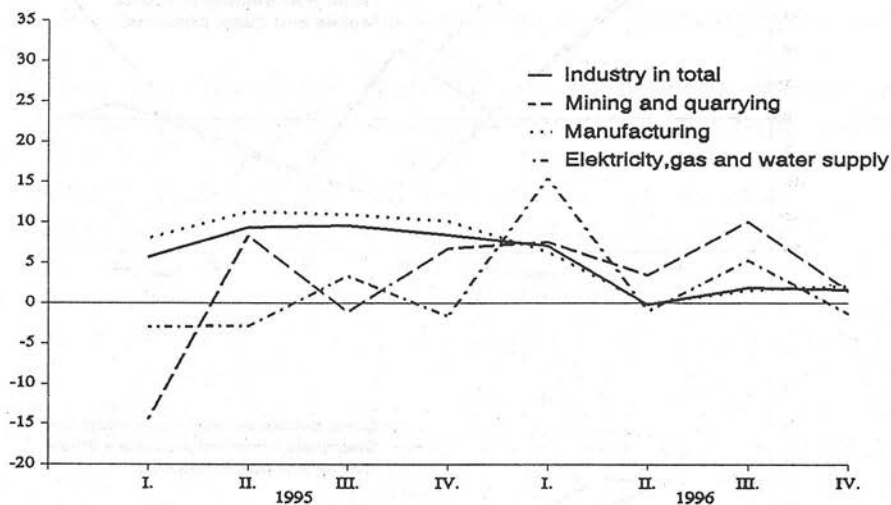
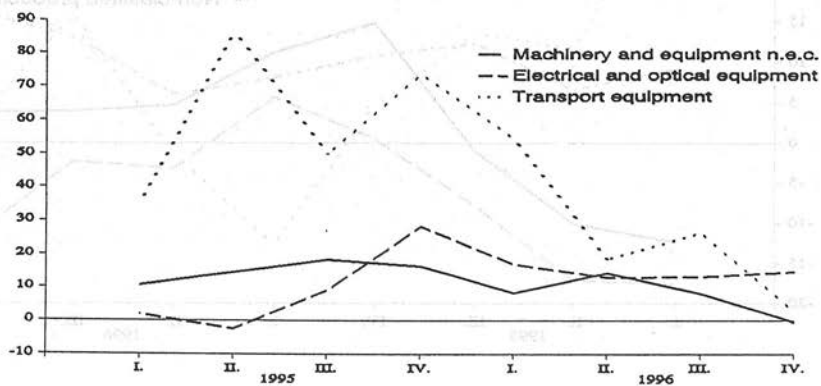
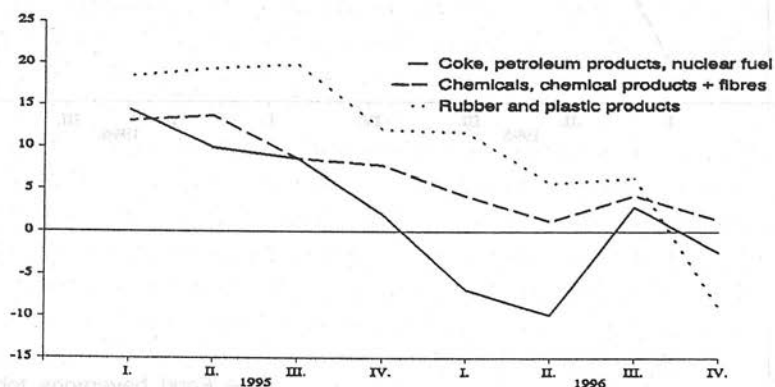
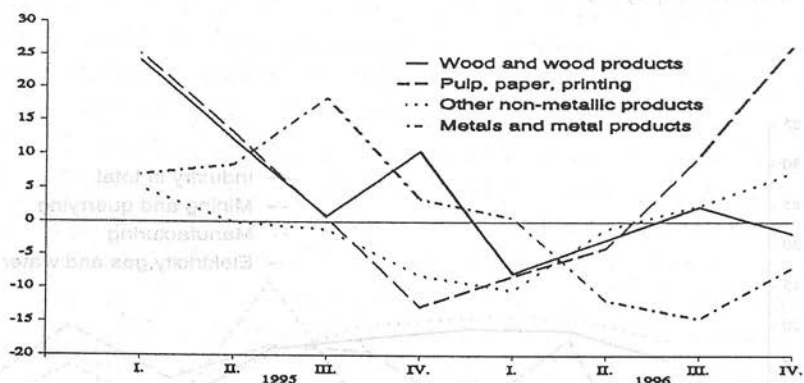


Chart 5 cont.



All in all, we can state that the impact of the decline in export sales played a decisive role in the development of industry in 1996. Domestic demand growth spurred sales of industrial product on the domestic market, but not enough satisfy the growth in domestic demand and at the same time allow for the continued rapid growth in industrial output. The strengthening of the competitiveness of industrial producers on the domestic market should, therefore, be regarded as having the same significance as increasing international competitiveness.

In any case, a positive force in the development of industry in 1996 was the gradual, though forced, movement of the branch structure of industry towards more sophisticated products which, in the complicated conditions of 1996, turned out to be more immune to short-term business cycle deviations.

The slower rate of industrial output growth led to many unfavourable tendencies in the economic results of industrial enterprises. We identified earlier in this analysis the explicit worsening of the relationship between the development of value added and intermediate consumption in selected industrial branches. In 1996, the relationship between the development of labour productivity and wage growth also developed unsatisfactorily. Together with the increase of labour productivity growth in industry by 4,1 %, ⁹ real wages¹⁰ went up by 10,1 %, representing a growth in unit wage costs by 5.8 %. From this point of view, the situation in particular branches was quite differentiated. The highest increase in unit wage costs was recorded in the manufacture of metals and fabricated metal products (by almost 22 %), the manufacture of pulp, paper, printing and publishing (13 %); and in other branches (except for the three branches of mechanical and electrical engineering, non-classified production, and manufacture of coke, petroleum products and nuclear fuels, where the unit wage costs decreased), the growth was in the range of 4-10 %. However, a substantially higher unit wage cost growth appears more clearly if labour productivity is calculated based on value added. In 1996, it increased roughly by 11 % in industrial enterprises with 25 or more employees, and by substantially more in the following branches: the manufacture of coke, petroleum products and nuclear fuels (46 %), the manufacture of pulp, paper, publishing and printing (40 %), and in six other branches by 15-26 %.

In 1996, a more rapid growth in wages than labour productivity was, however, considerably influenced by the change in the industrial situation. If, however, this development continued in 1997, this might cause a considerable weakening of the existing comparative advantages in industry, namely in more labour-intensive industries where the share of wages, including premiums to

⁹ On the basis of goods production in constant prices in enterprises with 25 or more employees.

¹⁰ Nominal monthly wage growth deflated by the industrial producers price index.

insurance funds, in value added is extremely high even now. That would primarily threaten the development and chances for restructuring in a majority of industrial enterprises.

A growth in wages and intermediate consumption, and stagnation in value added in industry was clearly seen in the economic results of medium-size and large industrial enterprises. Although in the 1st-3rd Q. 1995 such enterprises achieved 31 billion Sk of profit (in manufacturing output 12 billion Sk profit), in the same period of 1996 profit amounted to only 22 billion Sk (in manufacturing 5,5 billion Sk). Thus, the total profit development had a negative impact on both profitable (they reached smaller profits) and loss-generating (their losses increased) enterprises. The profit rate in the compared period decreased in mining and quarrying from 12,6 % to 5,9 %, in manufacturing from 3,7 % to 1,6 % and in electricity, gas, and water supply from 29,5 % to 21,4 %.

In 1996, *construction* achieved a higher growth (4,4 %) than in 1995 (2,7 %). However, the structure of construction output changed. In 1995, domestic construction output stagnated and its total volume growth was achieved because of a 16,9 % output growth in foreign countries. Contrary to 1996, domestic construction output profoundly increased (by 10,3 %), while the foreign output decreased by 31 %. The recovery in domestic construction which started in 2nd Q. 1996, allows us to assume that in 1996 construction is recovering from a stagnation that has lasted several years. The positive changes in construction development were also reflected in real value added growth as well as in improved economic results for medium-size and large construction enterprises.

Economic development in *agriculture* continues to be problematic. In contrast to 1995, when total agricultural product sales declined by 1 %, in 1996 this figure grew moderately by 1,9 %, mainly because of the increase in sales of slaughtering animals. However, another figures indicate a continuing stagnation in this branch.

In 1996, the private sector's share of GDP increased to 76,8 %. In industry, the private sector's share of business is 68,2 %, and in construction the figure is 83,2 %. Private organisations accounted for 94,6 % of total retail sales and 86,5 % of sales for other services.

3. Internal balance

3.1 Development in prices

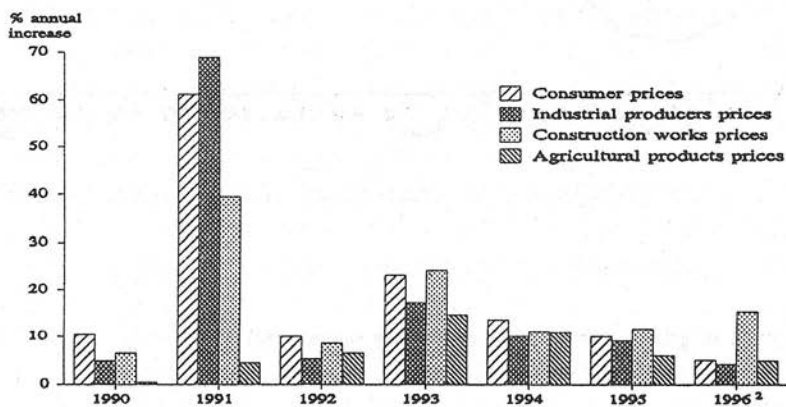
The price development trends during the transformation period are illustrated in Chart 6.

The declining trend that started in 1994 - i.e. jointly with the recovery of economic growth - continued in 1996 as well. Recently, however, the fluctuation in prices has become differentiated. As early as in 1995, construction work

prices started to moderately increase when the total inflation rate was decreasing. In 1996, the difference became more obvious. The faster growth in construction works prices is an obvious reaction to the increased demand for construction investments. The volume of construction investments increased in 1995 (in comparable prices) by 10 % and by 24 % over the first three quarters 1996. In 1996, the growth rate of agricultural products prices was for the first time slightly higher than the growth rate of industrial producers' prices. Over the entire transformation period, the value of indices (average for 1996 against the level early in 1989) for consumer prices equalled 318, for industrial producers prices 273, for construction works 285, and for agricultural products prices 153.

Chart 6

Annual growth rates of prices in %¹



¹ Calculated by average prices indices in the respective period.

² 1-11 months.

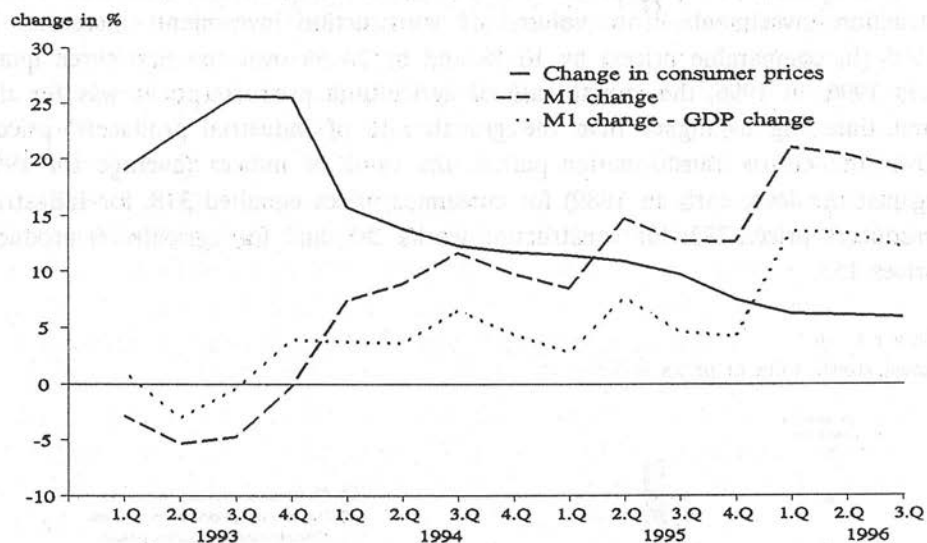
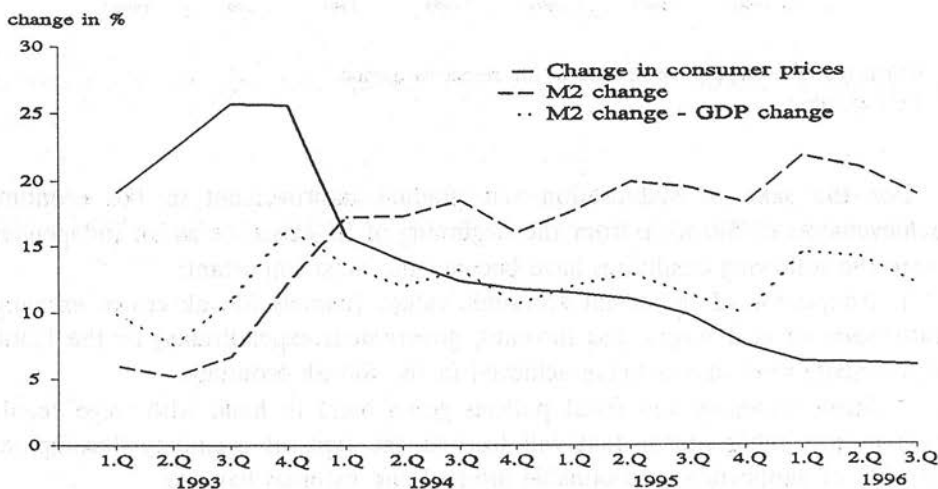
For the sake of stabilisation and gradual improvement in the economic achievements of Slovakia, from the beginning of its existence as an independent state the following conditions have become the most important:

1. Adaptation of important economic values (namely Slovak crown exchange rate, level of real wages and incomes, government expenditures) to the labour productivity level that is being achieved in the Slovak economy.

2. Strict monetary and fiscal policies going hand in hand with wage regulation in the public sector that will lead to the type of monetary development capable of supporting a sustainable internal and external balance.

The first condition was essentially achieved as early as 1993. Chart 7 shows the partial results achieved through monetary policy.

Chart 7

a) Development of growth rate in prices and money supply (M1)¹b) Development of growth rate in prices and money supply (M2)¹¹ Calculations based on indices in which the same period of previous year = 100

By accepting a certain degree of simplification¹¹ the flow of processes shown in Chart 7 can be interpreted as follows: in the period when the value of money supply changes reduced by GDP changes are lower than the value of changes in consumer prices, the monetary policy is restrictive and, as such, brings about a decline in prices. However, if the value of money supply changes adjusted to GDP change is higher than the value of consumer price changes, then the monetary policy is expansive and impacts the inflation rate growth. From this point of view, there appear certain discrepancies in evaluating the monetary policy depending on whether you focus on M1 or M2 development. The description of monetary policy in 1994 and 1995 according to the first part of the Chart 7 (targeting the M1 development) appears restrictive, and according to the second part of the chart (reflecting M2 development) seems neutral. The sudden break in the nature of monetary policy that happened in 1996 when the shift to an expansive policy occurred brought about a result which was not a result of the monetary policy goals but was due to a lack of experience in implementing the monetary policy. This is demonstrated by measures adopted by the National Bank of Slovakia (NBS) which has aimed since July 1996 to correct the monetary situation (see 5.2). In any case, the ratio between the money supply and price development that is illustrated in both parts of Chart 7 would support the rate of inflation in 1997. The continuing fall in the inflation rate in 1996 is also rooted in the fact that changes in the money supply development influence the fluctuation of prices with a certain delay.

In 1996, the growth of the money supply was caused namely by growth in the volume of domestic credits. Over the first three quarters of 1996 (against the same period of the previous year) 92 % of the credit growth consisted of credits granted to enterprises. The majority of credits directed to enterprises in 1996 consisted of short-term credits used for financing current operating needs of enterprises.¹² A significant part of these operating needs financed out of credits include the growing personnel costs in loss-generating enterprises.

In transition economies, wage growth is one of the main indicators that intermediates the relation between money supply growth and price growth. However, the relationship between wage and price developments is part of

¹¹ The assumptions are the following: 1. The speed of money circulation does not change. 2. Monetary policy is neutral if the money supply change corresponds to the change in size of the surveyed GDP. To demonstrate that these assumptions were simplified we can say, for example, that the speed of money circulation is influenced by changes in production and consumer structures, as well as by changes in expectations that the money supply is not determined only by the size of the surveyed GDP, but also by the scope of the so-called grey economy.

¹² Extensive use of credits for operating needs of enterprises is mainly due to the existing sector of loss-generating enterprises (those are the non-financial enterprises with 25 or more employees) which produced 19 % of total value added over the first half of 1996.

a wider network that link the wage development with labour productivity development, with competitiveness changes in the economy, and with employment or unemployment.

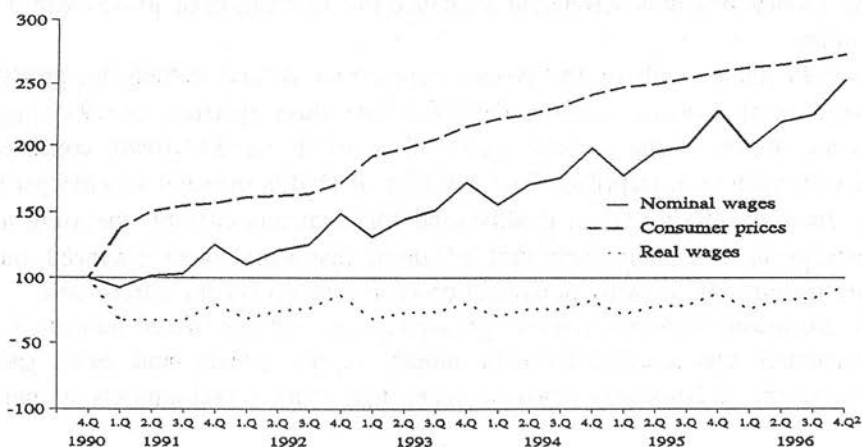
3.2 Labour market

We start our look at the labour market development during the transformation period with the characteristics of wage and price developments in Charts 8 and 9. The price development serves here as a process that explains how nominal wages are modified to real wages.

Chart 8 confirms that during the transformation shock period (1991) the values of cumulative indices of nominal wages and consumer prices deviated from each other to the disadvantage of wage development. The more obvious diminishing of this gap started not earlier than in 1995 and 1996.

Chart 8 emphasises the hitherto lagging (or only partial overcoming) of nominal wage growth behind price growth which has occurred since the beginning of the transformation. On this basis, it is necessary to remove the existing discrepancy between price and wage development.

Chart 8
Cumulative indices of wages and prices development in the national economy ¹



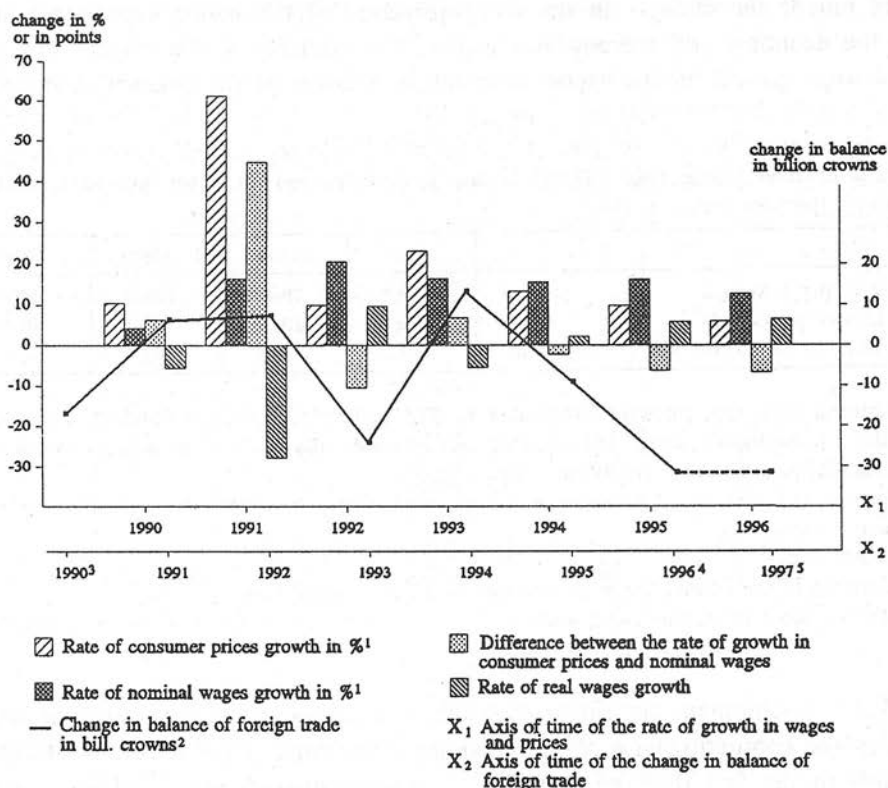
¹ 4th Q 1990 = 100.

² Estimate.

Unlike Chart 8, Chart 9 can be interpreted as indicating that the wage development in 1995 and 1996 causes increasingly unfavourable consequences in the overall development of the economy.

Chart 9

Annual changes in consumer prices level in average wages in the national economy and in the balance of foreign trade balance



¹ Against the previous year level.

² Less trade with the Czech Republic. Due to this, the surveyed period extended without substantial changes in results.

³ After adjusting import and export to the CSK exchange rate of 1991.

⁴ Estimate.

⁵ Prognosis based only on real wages development in 1996.

In comparing the wage development with changes in the foreign trade balance, we can see in Chart 9 that every decrease in real wages manifested itself in the following year as a positive change (in the improved balance) in the balance of trade. On the contrary, every increase in real wages is combined with a worsening balance of trade with an annual delay. Therefore, we can state that real wage development (or to put it another way, the relationship between nominal wage development and price development) significantly impacts the balance of trade results.

To interpret the previous finding, we first notice (in Table 9) the relationship between the real labour cost development, which also reflects real wage development, and productivity development. Changes in the mentioned relationship mirror the changes in the competitiveness of the major exporting branch of the economy and thereby also explain the intensity of the direct impact of real wage growth on the export outcome as a factor of the balance of trade.

Table 9

Indices of total labour costs (TLC),¹ labour productivity, and TLC per production unit in industry² (previous period = 100)

	1993	1994	1995	1996 ³
1. TLC per 1 worker ⁴	103,7	106,6	106,0	110,0
2. Labour productivity ⁵	92,4	108,7	103,2	96,7
3. TLC per production unit (1 : 2 x 100)	108,2	98,1	102,7	113,8

¹ Statistical Office SR publishes information on TLC collected according a standard methodology with a considerable delay. Due to this, we estimated the TLC as a sum of wages and premiums paid by employers to the insurance funds.

² Nominal TLC and GDP produced in industry was deflated by appropriate industrial producers price indices.

³ 1st-3rd Q.

⁴ According to the average wages in enterprises with 25 or more employees.

⁵ GDP produced in industry per 1 worker.

TLC development per production unit is regarded as an expression of changes in the competitiveness of the economy. Therefore, Table 9 draws attention mainly to the fact that the real TLC development (indicating real wage development) influences the competitiveness of the economy together with labour productivity. This means that changes in labour productivity may correct differently the effects of real wage development, or even fully overlap them. While in 1993 productivity played a negative role in this respect, in the following years thanks to an increase in productivity growth the competitiveness of industry either increased (in 1994) or decreased (in 1995) less than the TLC growth required. In 1996, the impact of a rise in TLC on the decline of competitiveness was increased by a decrease in labour productivity.

The considerable dependence of competitiveness on labour productivity and a comparison of data contained in Table 9 and Chart 9 reveal that over the reviewed period the real wages caused changes in the balance of trade not only by restricting export due to worsening TLC values per production unit.¹³ In this respect, we can assume that increasing nominal wages may impact price

¹³ For example, in 1994 real wages grew and in 1995 the balance of trade balance worsened, despite a significant drop in TLC per production unit in 1994.

growth and maintenance of the inflation differential that diminishes export advantages and stimulates imports. However, considering that from 1993-1996 the inflation differential values were constantly decreasing, the relationship between real wage growth and an unfavourable balance of trade (seen in Chart 9 in 1995 and 1996) can be explained as a consequence of the direct impact of real wage growth on the increasing domestic demand for imports.

Over the first three quarters of 1996 (against the same period of previous year) *employment* in the national economy increased by 0,7 %. In enterprises with 25 or more employees, their employment level dropped by 0,7 %. In enterprises with up to 24 employees and entrepreneurs with their staff, the total number of employees grew by 4,8 %. Changes in the distribution of employees by ownership forms are characterised in Table 10.

T a b l e 10

Share of ownership sectors related to the total employment (in %)¹

Sector	1989	1990	1991	1992	1993	1994	1995	1996 ²
Private	1,0	5,0	12,8	18,5	22,9	32,0	48,9	52,2
Co-operative	16,5	15,0	13,0	12,0	9,3	8,5	7,6	7,3
Public	83,5	80,0	74,2	69,5	67,8	59,5	43,5	40,5
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

¹ By average number of persons.² 1st-3rd Q.

By the end of 1996, the percentage of employees working in the private sector in industry (including mining and quarrying) was 74,2 %, construction 86,2 %, trade 95,9 %, and transport 21,3 %.

Even in 1996, structural changes continued to affect the development of the branch structure of employment. These changes are reflected in Table 11 in aggregate form.

T a b l e 11

Share of sectors in total number of employees (in %)¹

Sector	1991	1992	1993	1994	1995	1995 ²	1996 ²
Primary ³	14,3	13,3	10,6	11,4	10,9	10,0	10,6
Secondary ⁴	42,3	37,9	36,6	35,7	35,8	37,6	38,3
Tertiary	43,4	48,8	52,8	52,9	53,3	52,4	51,1
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0

¹ As of December 31.² 4th Q; by selected surveys of labour force.³ Agriculture, hunting, forestry and fishing; mining and quarrying.⁴ Manufacturing, electricity, gas and water, supply, construction.

Data in the last two columns of Table 11 indicate that changes in the sectoral employment structure caused by transformation in 1996 no longer continued. From 1995-1996, the share of the primary and secondary sectors taken together increased by 1,3 percentage points, and the tertiary sector dropped by the same amount. Data on the distribution of this increase¹⁴ are joined with the data on industrial development and import development that characterise the year 1996 as a period of higher material and energy inputs into the economy as a whole. A drop in the share of services in total employment seen in the last two columns of Table 11 resulted entirely from the drop in the employment share in the branch of commercial services from 27,0 % in the 4th Q 1995 to 25,6 % in the 4th Q 1996. The employment share in public services increased by 0,1 % over the surveyed period.

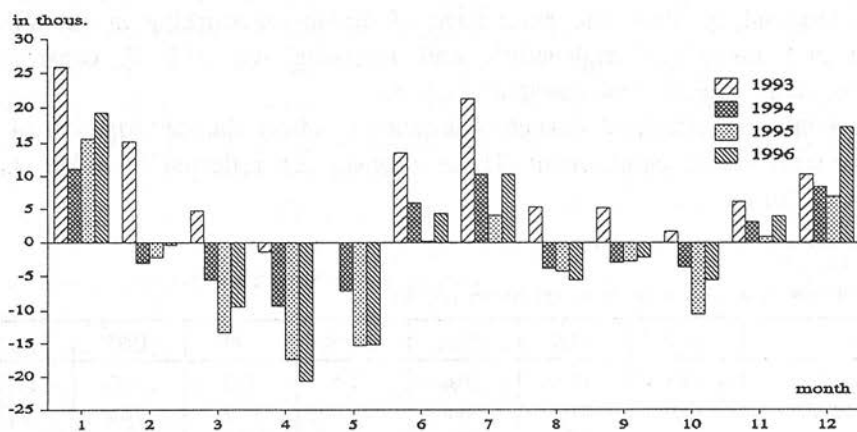
The characterisation of the labour market situation is illustrated with basic information on the unemployment development in Table 12 and Chart 10.

Table 12

	1991	1992	1993	1994	1995	1996
Average rate of unemployment (in %)	7,0	11,4	12,7	14,6	13,8	12,6
Number of unemployed per 1 vacancy	45	16	35	32	23	19

Chart 10

Change in number of unemployed by individual months



¹⁴ The increase in the share of total employment in the 4th Q 1996 compared with the 4th Q 1995 breaks down as follow: 0,2 % in mining and quarrying; 0,5 % in electricity, gas and water supply; 0,2 % in construction; 0,4 % in agriculture, hunting, forestry and gishing; and 0 % in the manufacturing).

Table 12 and Chart 10 indicate that the positive tendencies in unemployment evolution recorded in 1995 continued into 1996. The monthly changes in the number of unemployed illustrated in Chart 10, however, indicate that the positive tendency in unemployment development slowed down over 1996.

In 1996, a moderate improvement occurred in the unemployment structure. The share of unemployed in the age group 15-24 in the total number of unemployed fell from 31,6 % in the 1st-3rd Q 1995 to 30,8 % in the 1st-3rd Q 1996. Over the same period, the share of unemployed remaining unemployed longer than one year declined from 53,1 % to 52 %. By the end of 1995, out of a total of 38 regions, the unemployment rate was higher than 15 % in 18 regions and lower than 10 % in 7 regions. Towards the end of the 3rd Q 1996 the unemployment rate exceeded 15 % in 11 regions, and was below 10 % in 11 regions.

4. External balance

4.1 Foreign trade

In the development of foreign trade in 1996, tendencies that disturbed the external balance continued and gradually deepened. Notably, the real dynamics of export decreased from 15,3 % in 1995 to 2,5 % in 1996. On the other hand, the import acceleration from 15,4 % in 1995 to 20,8 % in 1996 was faster than in the previous year. At the same time, the total export performance in industry, which is the main factor in foreign trade relations, declined in 1996 compared to 1995. The contradictory dynamics in export and import resulted from the balance of trade changing from a modest deficit in 1995 to a relatively high deficit of 64,5 billion Sk in 1996.

The mentioned trends can be seen in Table 13, which provides a survey of foreign trade development since 1993.

Table 13
Foreign trade of SR in 1993-1996

	1993	1994	1995	1996	Real growth index		
					1994/1993	1995/1994	1996/1995
Export (FCO) billion Sk	167,2	214,4	255,1	270,6	114,2	115,3	102,5
billion USD ¹	5,4	6,7	8,7	8,9	110,5	125,8	99,6
Import (OP) billion Sk	193,9	211,8	260,8	335,1	94,1	115,4	120,8
billion USD ¹	6,3	6,6	8,6	10,9	90,3	122,1	117,4
Balance billion Sk	-26,7	+2,6	-5,7	-64,5	.	.	.
billion USD ¹	-0,9	+0,1	-0,1	-2,0	.	.	.

¹ Calculated on the basis of an average exchange rate of 30,639 Sk/USD.

The reasons for the deterioration of the foreign trade results in 1996 are both external and internal. Among the external factors, most important is the decline in real demand in the markets of Slovakia's main trade partners due to recessions in those economies. These are namely the EU countries (where the expected growth of about 2,5 % was actually around 1 %), and the Czech Republic (where real growth was about 4 % instead of the expected 5 %). The effect of economic fluctuations usually hits hardest the export of less processed products, products that constitute a major share of Slovakia's exports to these mentioned markets.

Several internal factors have an impact on the foreign trade development in SR. First, the real appreciation of the exchange rate of the Slovak koruna (due to inflation differential and stabilised exchange rate hampers exports by increasing import prices in partner countries, namely in the EU, and conversely, by making imports to the SR less expensive.

Another important factor that has worsened SR's foreign trade results in 1996 is a profound increase of domestic final demand (by 17 %). On one hand, this growth (at almost full production capacity) absorbed a certain part of domestic output to the detriment of exports. On the other hand, because domestic products were less competitive, they were increasingly replaced by imports. This is evidenced by the share of industrial product imports in the volume of domestic use of output (import quota) increasing from 68 % in 1995 to about 85 % in 1996, and the real growth in imports of products (20,8 %) exceeding GDP growth (7 %). The increased meeting of domestic demand with imports manifested itself not only in investment demand (the real growth of which is estimated to be more than 35 %), but also in households' and the state's demand, showing growth of about 8 % and 16 %, respectively.

The trade deficit influenced markedly the imports within deblocation of receivables with Russia. Their volume amounts to about 9,1 billion Sk.

A temporary suspension of customs on automobiles with an engine size of less than 1 500 cubic centimetres contributed to the trade deficit. The increase in the deficit in 1996 compared to 1995 was the highest - 11 billion Sk - in trade related to automobiles. However, this increase was caused not only by purchases of automobiles for personal use, but also by purchases of vehicles used by small businesses, including utility modifications and trucks, the production of which is undergoing a transformation recession in SR. But in general, it appears that in 1996 the structure of mechanical and electrical engineering imports was not directed towards the desired modernisation of production technologies.

The worsening trade balance in SR was also impacted by the upsurge in the price of Russian petroleum caused by the gradual transfer of management of the sale of petroleum and gas by the so-called Surgut Agreement which

liberalised trade in these commodities in Russia. Thus, the 1996 trade deficit in SR in this group of fuels increased by 9,2 billion Sk compared to 1995.

Changes were also recorded in the *territorial* structure of the SR's foreign trade in 1996 (see Table 14). First of all, the weight of trade with EU countries strengthened further; the EU's share in exports of SR in 1996 is estimated at 40 % and its share of imports is 36 %. However, since import growth outstripped export growth, the trade balance with this territory changed from a surplus to a deficit.

Table 14

Development of territorial structure of Slovak foreign trade (in %)

Territory	Exports			Imports		
	1994	1995	1996	1994	1995	1996
World total	100,0	100,0	100,0	100,0	100,0	100,0
CEFTA	46,4	45,5	41,4	34,5	34,4	29,8
CR	37,4	35,5	31,0	29,6	28,4	24,5
other CEFTA	9,0	10,0	10,4	4,5	5,6	5,3
EU	35,0	37,7	41,3	33,4	34,5	36,8
USA	1,6	1,4	1,3	2,8	2,3	2,7
Japan	0,9	0,2	0,2	1,2	1,5	1,7
Russia	4,1	3,5	3,5	18,0	16,4	17,6
Other transition countries ¹	5,1	4,5	5,4	4,1	2,6	2,5
China	0,3	0,2	0,5	0,6	0,5	0,7
Developing countries	5,1	4,3	3,5	3,3	3,3	4,2

¹ Estonia, Lithuania, Latvia, Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Yugoslavia, Macedonia, Moldova, Rumania, Ukraine.

The SR's export situation was further strengthened by trade with the Baltic and Balkan states and China. Altogether, however, these countries account for only a modest 6,4 % share of the SR's exports. On the other hand, the share of trade with the USA, developing countries, and, above all, the Czech Republic declined from 41 % to 36 %. Imports from the Czech Republic also decreased, considerably lowering the trade balance surplus from 13,4 billion Sk to 2,1 billion Sk.

However, imports accelerated not only from the EU countries, but also from developing countries, notably from Russia. The enormous deficit with Russia (35 billion Sk) is a problem that must be resolved.

In the *commodity* structure, the hitherto trend of an increase in trade of low processed products ceased. The share of machines and transport equipment (group 7 SITC) in total exports increased from 18,8 % in 1995 to 23,2 % in 1996. On the other hand, the share of low processed products (commodity groups 5 and 6 SITC) in total exports declined (see Table 15).

Table 15

Commodity structure of Slovak foreign trade in 1996 (in %)

SITC	Exports			Imports		
	1994	1995	1996	1994	1995	1996
0+1 foodstuffs	5,5	5,9	4,5	8,2	6,8	7,1
3 fuels	4,6	4,2	4,9	19,3	17,9	16,9
2+4 raw materials	5,2	5,1	4,6	5,6	6,0	5,1
5 chemicals	12,9	13,2	12,4	13,2	13,5	11,5
6 intermediate goods and simple final products	39,4	40,5	38,3	16,8	17,6	15,3
7 machines and transport equipment	19,0	18,8	23,2	27,6	29,0	35,1
8 other industrial products	13,4	12,2	12,1	9,1	8,0	8,9

However, the improved export structure can only partly be attributed to a real process of restructuring industrial production and capacities towards more sophisticated output. It is obvious that this development was influenced largely by a forced decline in exports of lower processed goods (due to decline in external demand) which are highly sensitive to economic fluctuation.

Despite the mentioned positive shift in the export structure, the trade balance deficit is composed primarily of SITC commodity group 7, which includes motor vehicles, nuclear reactors, machines and tools, aircraft, and video recorders.

The second largest item in the trade balance deficit is from the commodity group that includes mineral fuels, though their share of imports has declined.

4.2 Balance of payments

In 1996, the unequal development of internal and external economic relations in SR manifested itself most significantly in the development of the balance of payments. The increase in the trade balance deficit mirrors growth in imports and the slow down in GDP growth dynamics (see Table 16).

Table 16

Development of balance of payments in 1993-1996 (USD million)

	1993	1994	1995	1996
Balance of trade	-932	59	24	-2 106
Export	5 447	6 691	8 546	8 830
Import	6 379	6 633	8 521	10 936
Balance of services	269	657	546	7
Revenues balance	-38	-119	-14	-45
Balance of payments current account	-601	665	649	-1 941
Capital and financial account	548	129	994	2 144
Errors and omissions	108	495	-64	34
Total balance	55	1 290	1 579	237

In comparison with the surplus of the balance of payments amounting to 46,9 billion Sk (1 579 million USD) in 1995, a surplus balance amounting to merely 7,4 billion Sk (237 million USD) was achieved in 1996. The current account of balance of payments that ended up in 1995 with a total surplus of 19,3 billion Sk (649 million USD), in 1996 ended up with a deficit of 59,5 billion Sk (1 941 million USD). The dramatic decline was caused mainly by the sharp deterioration of the trade balance. Therefore, there were insufficient funds created by exports to cover increased domestic demand. Simultaneously with faster growth in expenditures for services, the surplus in the balance of services declined substantially as well. In previous years, this surplus compensated for the development of the current account of balance of payments. The total surplus in balance of services dropped from 16,2 billion Sk in 1995 to 0,2 billion Sk in 1996. The balance of tourism retained its surplus balance over the year, when revenues from tourism in 1996 reached 20,6 billion Sk (673 million USD) against expenditures 14,8 billion Sk (483 million USD). However, from a long-term perspective, the effectiveness of this branch remains unsatisfactory since the average length of visits oscillated around 3 days, and 50 % of visits did not exceed one day.

Development of the balance of payments in 1996 indicates that the dynamics of internal resources of the economy do not currently create sufficient growth in resources for the inevitable restructuring, and that the emerging imbalance may unfavourably affect the long-term stabilisation of the currency. Even though a surplus balance was achieved for the financial and capital account in the amount of 65,6 billion Sk (2,1 billion USD), in the development of this account we can see a dramatic decrease in the growth rate of foreign direct investments and an increase in loans, mainly to enterprises.

4.3 Foreign capital

According to data from the Statistical Office SR, basic foreign capital invested in enterprises on the territory of Slovakia reached the value of 25,3 billion Sk (845 million USD). Its inflow in 1996 did not exceed the dynamics of the previous year. The increase in medium- and long-term capital in the form of direct and portfolio foreign investments was lower.

However, within the total structure of medium- and long-term capital, the share of medium- and long-term credits granted to the government, commercial banks, and enterprises is still the most significant, as seen in Table 17.

In 1996, as seen in Table 17, Slovakia for the first time recorded capital outflow to abroad, i.e. FDI in amount of 1,5 billions Sk and portfolio investment 2,0 billions Sk.

Total increase of net capital inflow from 25,7 billions Sk in 1995 up to 63,2 billions Sk in 1996 was increasingly influenced by net short-term capital inflow. It was first of all due to the growth of short-term liabilities in banking sector.

This capital, which includes some elements of a speculative nature, had increased by 22,6 billions Sk and its share in total volume of net capital inflow accounted to 40 %.

The largest shares of foreign capital inflow are from Austria (21 %), Germany (19,8 %), Czech Republic (16,4 %), and USA (10,5 %).

Table 17
Structure of foreign capital in the SR

Item of the payments balance capital account	1994		1995		1996	
	bil. Sk	%	bil. Sk	%	bil. Sk	%
Net FDI	5,4	39,1	4,0	15,6	3,0	4,7
inflow	5,4	39,1	4,0	15,6	4,5	7,1
outflow	-	-	-	-	-1,5	-2,4
Net portfolio investment	8,7	63,0	7,3	28,4	3,1	4,9
inflow	8,7	63,0	7,3	28,4	1,1	1,7
outflow	-	-	-	-	2,0	3,2
Net other investment (credits)	16,1	116,7	11,7	45,5	31,8	50,3
Net medium and long-term capital	30,2	218,8	23,0	89,5	37,9	60,0
Net short-term capital	-16,4	-118,8	2,7	10,5	25,3	40,0
Total net capital inflow	13,8	100	25,7	100	63,2	100

The regional distribution of foreign investments showed no substantial change. Investments are concentrated mainly in Bratislava (63,7 %), Žiar n. Hronom (3,8 %), Prievidza (3,6 %), Poprad (3,6 %), Nitra (3,3 %), and Humenné (3,2 %). The most important factor determining the location of foreign investments was the existence of companies that were already established and considered to be attractive investments for foreign investors. Greenfield investments in Slovakia are less common. This is the reason why the flow of foreign investments into Slovakia so far have not significantly contributed to the revitalisation of less developed regions in SR.

4.4 Foreign indebtedness

The total foreign indebtedness of SR in convertible and non-convertible currencies at end December 1996 reached the volume of 7,8 billion USD. The indebtedness was shared by the government of SR and by the National Bank of Slovakia in the amount of 1,7 billion USD, enterprises with 3,8 billion USD and commercial banks with 2,2 billion USD.

During 1996, in the structure of total indebtedness there occurred a decline in government and National Bank of Slovakia indebtedness due to the states' repayment of debt service and a pronounced growth in enterprise and bank indebtedness.

Table 18

Gross and net debt of SR (in million USD)¹

	1992	1993	1994	1995	1996
Gross foreign debt	1 625	1 982	2 275	2 200	1 724
Reserves in NBS	343	408	1 745	3 418	3 473
Net debt (gross debt-reserves)	1 282	1 574	530	.	.

¹ Indebtedness of government of SR and NBS (Less commercial banks and enterprises) as of December 31.

The increase in the inflow of foreign capital was a reaction of commercial banks to the measures adopted by the National Bank of Slovakia which stipulated the mandatory value of their foreign currency position coefficient (i.e. the ratio of their foreign exchange assets and liabilities). In the end, this resulted in an increase in SR's total foreign indebtedness. However, the total level of this indebtedness is low when compared to other CEFTA countries and other transforming countries, thus preserving a favourable basis for investments in SR. The total indebtedness of the government and NBS was more than twice covered with reserves of foreign exchange, gold, and SDRs in the National Bank of Slovakia.

5. Direction of the financial and monetary policy

5.1 Financial and budgetary policy

The approved state budget of SR for 1996 was based on the favourable economic transformation achieved in 1995, namely the anticipated GDP growth, the decline of the inflation rate, and the gradual growth of employment. The key objective of the financial and budgetary strategy was to continue the stabilisation of the state budget, even by cutting the fiscal deficit. The positive results achieved in 1995 were intended to be seen in the growth of state budget revenues by 2,4 billion Sk (i.e. by 1,5 %), primarily by an increase in planned tax revenues by 8,5 billion Sk (6,2 %). From this point of view, the budgetary plan appeared highly demanding. Achieving these figures required a substantial improvement in financial and budgetary discipline. A survey of the development of revenues and expenditures of the state budget in 1993-1996 is presented in Table 19.

The real figures achieved during 1996 lagged behind budgetary expectations, mainly because tax revenues achieved only 96,6 % of the estimated amount. The shortfall in tax revenues amounted to nearly 5,0 billion Sk. Other major factors that contributed to the shortfall were indirect taxes which reached only 90,2 % of the estimated amount, and a total deficit of 7,7 billion Sk which

was caused mainly by a shortfall of the value added tax (-6,0 billion Sk) and consumption tax (-1,7 billion Sk). Considering that the total deficit in tax revenues amounted to about 5,0 billion Sk, up to the end of September 1996 the unpaid taxes and customs duties exceeded 21,0 billion Sk. The shortfall of indirect taxes in 1996 and their dropping below the 1995 level created an unfavourable starting point for pursuing the budgetary goals in 1997, when a 6.6 % surge in these taxes is estimated.

Table 19

Development of state budget revenues and expenditures in 1993-1996

	1993	1994	1995	Budget 1996	Reality 1996	Fulfilment of budget in %
	bil. Sk	bil. Sk	bil. Sk	bil. Sk	bil. Sk	%
Revenues in total	150,3	139,1	163,1	165,5	166,3	100,0
Tax revenues	82,2	105,6	131,1	145,0	140,1	96,6
of which: income taxes	25,1	42,6	53,4	59,7	59,0	98,9
indirect taxes	44,5	60,1	75,6	78,0	70,3	90,2
Non-tax revenues	23,0	24,5	26,6	11,1	20,2	182,1
Insurance premiums	40,6	4,0	-	-	-	-
Customs	4,5	4,9	5,4	6,6	9,9	149,7
Expenditures in total	173,4	162,0	171,4	192,4	191,9	99,7
Current expenditures	148,4	111,9	131,8	151,2	148,4	98,2
Capital expenditures	12,9	12,2	15,4	21,9	25,5	116,7
Credits, loans and repayment of principal	12,0	37,9	24,1	19,3	18,0	92,8
Deficit (-), surplus (+)	-23,1	-22,9	-8,3	-26,9	-25,6	.

Given the current condition of budgetary revenues, a decision was made to impose restrictions primarily on current state budget expenditures which amounted to 98,2 % of the expected level (2,9 billion Sk saved). The government of SR also implemented measures to cut public consumption expenditures which should have ensured that the budgetary deficit would not exceed its planned level of 26,9 billion Sk. In this way, the solution of pressing problems in health and education is apparently postponed, which may further strengthen the internal tension in some branches of public consumption. Capital and investment expenditures exceeded the estimated amount.

The results achieved in 1996 correspond to the planned state budget deficit which, according to preliminary data, amounted to 25,6 billion Sk (i. e. 4,6 % of GDP). The deficit was covered by the issues and subsequent sales of Treasury bills.

Table 20

State debt development in 1993-1996 (in billion Sk)

	As of Dec. 31, 1993	As of Dec. 31, 1994	As of Dec. 31, 1995	As of Dec. 31, 1996 ¹	Change in 1996
Total medium- and long-term state debt in total	115,3	107,5	120,0	118,0	-2,0
incl.: internal debt	63,7	64,2	85,8	86,0	+0,2
foreign debt	51,6	43,4	34,2	32,0	-2,2
Temporary national debt (State treasury bills)	7,8	22,9	14,8	25,0	+10,2
Total national debt SR	123,1	130,4	134,9	143,0	+8,1
National debt as % of the GDP	33,3	27,0	26,0	25,8	.

¹ Preliminary estimate by status at the close of 1996.

The total state debt, despite its increase in 1996, does not reach the EU criterial level (see Table 20). In its structure, the state foreign debt decreased due to payments made in 1996, and the internal debt covered by treasury bill increased.

5.2 Monetary policy

The programme of monetary policy of the NBS for 1996 focused on the goal of further strengthening the internal and external stability of monetary development by maintaining the dynamics of SR's economic development. This anti-inflation monetary programme was rather demanding since the planned inflation rate decrease was coupled with promoting real GDP growth.

The basic goals of the monetary programme were: an estimated annual inflation rate of 6,0-7,5 %, a stable exchange rate of the Slovak crown within extended the fluctuation band (± 3 % as of 1 January 1996, and ± 5 % as of 17 July 1996), an increase of GDP growth by 5,8 %, and net foreign assets of 91,6 billion Sk, assuming that M2 growth will reach 13,2 %, and loans to enterprises and inhabitants will increase by 6,6 %. Since the beginning of the year, the rapid increase in imports, which are not covered by export growth or by any higher foreign capital inflow, has brought about the danger of an overheated economy. As early as May 1996, the situation called for a partial correction of the monetary programme and a decrease in programmed M2 growth to 11,6 %.

According to the development of the main monetary aggregates, the objectives of the monetary programme were met. The annual rate of inflation dropped to 5,4 % below the expected level when the year's GDP growth was

7,0 % (based on preliminary data). Total foreign exchange reserves of NBS amounted to 3 473,3 million USD at the close of the year (Table 21), which compared to the situation at the beginning of the year represents growth by 55,0 million USD (1,6 %). This amount was 3,4 time the average monthly value of imports of goods and services in SR, in spite of the fact that in 1996 the imports increased considerably. Simultaneously, foreign exchange reserves in commercial banks grew as well, so that the total reserves in the banking sector surpassed the sum of 5,0 billion USD (preliminary data by the end of the year). This was due to favourable interest rates and an increase in foreign debts of Slovak companies. Since the fixed exchange rate was kept within the set fluctuation band, the stability of the Slovak currency was maintained.

Table 21

NBS foreign exchange reserves in million USD

1. 1. 1993	31. 12. 1993	31. 12. 1994	31. 12. 1995	31. 12. 1996	Change in reserves in 1996
343	408	1 745	3 418	3 473	+55

The problem encountered in fulfilling the monetary programme was that imports exceeded exports, which was typical in 1996. During that year, the loan expansion of commercial banks continued and M2 increased by 15.7 %, exceeding the money supply figures in the monetary program. The planned increase in loans granted to enterprises and to inhabitants which was expected to be 6,6 % reached 20,5 % and represented in total 63,7 billion Sk. Because it was necessary to solve the problems of the asymmetrical monetary development within the economy (GDP growth and inflation decline) while the trade balance deficit was still growing and foreign exchange reserves were declining, the NBS adopted stricter measures to control the regulation of domestic and foreign activities of banks that were aimed at lowering banks' liquidity (i.e. by increasing the obligatory minimum reserves up to 9 %, and reserves from time deposits, and by stipulating a minimum ratio of foreign exchange assets and liabilities). As of the end of December, the obligatory minimum reserves of banks totalled 104,5 % of the planned level. The foreign exchange position coefficient of the banks (0,65 %) was met mainly from the increased flow of capital from abroad. This had a stabilising influence on the NBS foreign exchange reserves, while on the other hand it caused an increase of foreign indebtedness of the commercial banks. The measures taken brought partial positive results, manifested in a slow down of the yearly rate of M2 growth. These results, however, also negatively impacted the price of money which increased due to the increased commercial bank interest rate. If the current

account of balance of payments deficit continues, leading to a more considerable decline in foreign exchange reserves, it may be necessary to adopt more strict monetary measures to solve these problems.

A survey of the credits and deposits development in 1993–1996 is presented in Table 22.

Table 22
Credits and deposits development (billion Sk)

	As of Dec. 31, 1993	As of Dec. 31, 1994	As of Dec. 31, 1995	As of Dec. 31, 1996	Change in % in 1996 Dec. 31, 1995 = 100
Credits in Sk	260,8	257,6	288,2	339,2	117,7
Credits in foreign currency (calculated in Sk)	8,1	15,3	22,8	35,6	156,1
Credits in total	268,9	272,9	311,1	374,8	120,5
Deposits in Sk	208,9	243,5	314,9	370,7	117,7
Deposits of population	113,4	129,5	163,0	191,6	117,5
Deposits in foreign currency (calculated in Sk)	29,8	40,0	42,1	44,0	104,5
Deposits in total	238,7	283,5	357,0	414,7	116,2

The highest increase in loans growth in 1996, amounting to 73,7 %, went to the business sector. Loans to individuals reached 12,6 %, and other loans (13,7 %) were granted to central and local authorities to cover their out of budget activities. The share of short-term credits increased, the share of medium-term credits was stable, and the share of long-term credits decreased.

The overall situation of the banking sector is characterised by the unequal development of the structure of the credit portfolio of commercial banks. However, within the year, the loan portfolio structure improved. Between Nov. 30, 1996 and Nov. 30, 1995, the amount of standard (non-risk) loans increased from 46,8 % to 56,8 %, and the amount of risk loans decreased from 53,19 % to 43,2 %. Over the period of Nov. 30, 1996 to Jan. 1, 1997, the development was more sluggish and the decline in risk loans (about 44 %) ceased over the last months of the year.

6. Conclusions and short-term outlook

The annual changes in prosperity that occur in the economy of SR during the transformation period make it difficult to forecast future developments. The considerable amount of non-standard situations and problems encountered during the transformation process of the economy are coupled with a lack of

experience setting economic policies, which results in delays in adopting common solutions. Therefore, forecasts about possible results and impacts of policy measures taken are rather uncertain. On the other hand, analysts are not fully aware of the fact that economic solutions are subordinated to political intentions.

The key question of all forecasts regarding economic development is the estimation of the economic growth rate. Although instability of development trends is typical in transition economies, the outlook for 1997 cannot overlook economic growth results recorded in 1996.

A question should be raised as to whether the high growth rate of 1995 that continued through 1996 can also be repeated in 1997. And in reference to this a question should also be raised about whether the conditions of economic growth in 1996 will also determine the shape of Slovak economic development in 1997.

At the very beginning of this report (see Table 3 and Chart 1) we saw that the economic growth in 1996 was achieved mainly on the basis of an expansion of internal demand and at the same time a decline in the volume of exports of good and services and an even greater decline in their net export. When analysing the demand side of the economy (see chapter 2.2), we can see that the strong expansion of domestic demand was mainly due to increased output in the market and non-market service branches. In addition to these two observations about the economic growth structure (the GDP growth structure), we can add an observation regarding the organisational structure of the whole economy. We can state here that in the sector comprising branches producing goods and market services, the increase in their added value (in 1st-3rd Q 1996 against the 1st-3rd Q 1995) was shared by enterprises with 25 or more employees (15 %) and enterprises with up to 24 employees, including entrepreneurs (85 %).¹⁵

The forecast for economic performance development for 1997 focuses on the possibilities that current trends in internal and external demand will continue and tries to estimate the effectiveness of possible factors which could be employed here. Considerable attention is also paid to searching for correlation's and ways of influencing economic growth and balance.

¹⁵ The mentioned 85 % share of small enterprises in the respective value added increase consists of 3 % growth in the number of their employees and labour productivity growth of 82 %. In the sector of small enterprises, the value added per 1 worker (in current prices) grew over the respective period by 27,9 %, while in the sector of enterprises with 25 or more employees growth achieved was only 4,5 %. In the 1st-3rd Q 1995 and in the 1st-3rd Q 1996, the value added per 1 worker in the small enterprises and entrepreneur sector was as much as 20 % higher than in the sector of enterprises with 25 or more employees.

The mentioned data are based on estimates of the performance of the small enterprises sector prepared by the Statistical Office of SR. The outcome of these estimates had a considerable impact on the statistical GDP growth rate in 1997, as well.

The development of external demand within the structure of total foreign trade in 1997 will be influenced by three groups of factors, namely:

1. The impacts of the external economic environment. The most important factor here will be the improvement in the prosperity of countries which are SR's most significant trade partners. The expected acceleration of the economic growth rate in Germany from 1,3 % in 1996 to 2,5 % in 1997, or (over the same period) in Austria from 1 % to 2,5 %, or in the whole European Union from 1,7 % to 2,6 %, together with the impact of the growth recovery on CEFTA countries, will certainly have a positive impact on SR's exports and balance of trade.

2. Changes in the narrower systemic framework of foreign trade created by the economic/political measures that directly influence the outcome of foreign trade. Exports can be supported by some governmental measures. In 1997, the goal of governmental procedures focused on promoting export and alleviating the trade deficit with Russia will be achieved only to a limited extent. On the other hand, the effects of measures focused on import activity should not be overestimated. Abolition of the import surcharge since Jan. 1, 1997 cannot be expected to substantially increase the import dynamics since the surcharge concerned many products that were either not produced in Slovakia or products that, even when the surcharge was in force, were imported, for example, because of their higher quality.

3. Changes in wider national economic conditions that impact foreign trade development. Here, we should mainly focus on the development of certain factors characteristic of economic balance and also focus on other processes typical in the development of competitiveness. From the above-described development correlation's, we should notice the impact of the inflation rate, the influence of domestic demand (mainly regarding expenditures of households and the government), and the impact of changes in labour productivity.

Assuming that the expected inflation rate in the EU countries stays at the 1996 level (2,3 % growth of consumer prices), that favourable price development occurs in OECD countries and in a majority of CEFTA member countries (except in CR, where a moderate inflation rate increase is expected), and that a mild increase in the domestic inflation rate occurs, the inflation differential will increase after a long period of decline (from 1994-1996). Stimulation to enlarging the imports and contracting the exports will thus be slightly strengthened.

A positive link is evident between extending households and government demand and import growth. In the chapter 3.2 it was shown that the real wage growth, as the main factor of households demand development, has a substantial impact on changes in the foreign trade balance. The real wage growth in 1996 and its probable continuation in 1997, as well as increased state budget expenditures which were planned to reach 9.8 % in 1997, and the intention to

extend public investment funded from loan sources, all of this will strongly support an increase in import growth and would bring about a trade balance deficit.

However, one cannot ignore the impact of real wage growth on the growth of costs and the lowering competitiveness of exported product. Especially since neither in 1996 nor in 1997 has this relation been overcome by labour productivity growth. This can be seen as a result of the correlation between the export structure (where the processing industry represents more than 90 % of the total volume of exports) and the branch structure of investments (out of which only about 20 % goes to the processing industry). In 1997, the stabilisation measures which NBS adopted in July 1996 and probably will have to adopt in 1997, will undoubtedly have a limited impact on investments in the exporting branches, and thereby, on their productivity and competitiveness, as well.

The factors being considered here will influence foreign trade results not only in different ways but also with different intensity. Generally, it is expected that in 1997 those new elements of the smaller system scope of foreign trade activities that have pro-export orientation will hardly be effective. During this period, development of the trade balance or (viewing the GDP formation) development of the net export of goods and services will be determined primarily by the total economic conditions. As mentioned earlier, these are factors influencing the range of internal demand and the changes in labour productivity which are responsible for the changes in the supply of the economy as a whole. The analysis of these aspects of internal balance (see 3.1), as well as the objectives of the government's financial policy, shows that the factors in question will deteriorate the development of the external balance in 1997 the same as it was in 1996. However, there exists a third group of factors: impacts of external economic development. The most important among them – economic recovery in those EU countries which are the main trade partners of SR – will favourably impact the external balance in 1997. Positive impulses coming from the economic environment (out of which we can see the close co-operation amongst CEFTA countries) will only soften the impact of those factors that are deteriorating the foreign trade results.

Therefore, it is expected that in 1997 the trade balance deficit will grow by another 25–30 billion Sk to 90–95 billion Sk (in 1996 the trade balance deficit grew from –6 billion Sk to –65 billion Sk). Considering the trends in the development of balance of services, in 1997 the estimated development of the trade balance might lead to a further decline in the net export of goods and services by about 20–25 billion Sk, to the level of about –70 to –75 billion Sk (according to preliminary estimates, the results of the net export of goods and services worsened in 1996 against 1995 by approximately 75 billion Sk).

The increased deficit of the net export of goods and services is not only one of the features characterising the external balance development, but is also a significant indicator of economic growth. It is a feature that co-determines the size of used (and also produced) GDP. To sustain the given growth rate, the declining volume of net export must be compensated for by a proportionate increase in the size of other components of GDP use (or the final demand).

This problem can be resolved only by assuming that an additional increase of domestic GDP use will increase labour productivity and simultaneously in a relatively short time also bring about the potential product which will balance supply with the increasing demand. If the increase in domestic demand (affecting the compensation of the decline in net export) is allocated to households' and the state's consumption, the above stated prerequisites cannot be met. Realising this, we should be aware of the peril of introducing more inflation money into the economy. Thus, we should either lower the GDP growth rate or limit factors which try to maintain the growth rate even if it will cause a worsening deterioration of the internal and, subsequently, the external balance. With respect to the mentioned circumstances it seems justified to expect a lower GDP growth rate in 1997 than that reached in 1996.

When pointing to the growth rate determined by the balance of the economy and the factors relating to this balance, when forecasting economic developments for 1997 the interrelationship between the economic balance and growth should not be neglected. Economic growth connected with labour productivity growth and with structural changes may be linked with wage growth and import growth without negatively influencing the balance. On this basis, when forecasting the decline in the growth rate in 1997, we want to stress that a lower GDP growth may be (particularly, if it is reached under positive structural changes and upgraded economic competitiveness) more beneficial for economic development much more than formally higher growth rates that have less effective content. From this point of view, the quality of the growth rate is important and can be explained as a type of balance inside the economic growth; a balance between growth results expressed by relative GDP increases and the assumption of future growth that exist also only in its results. We wish to say herewith that evaluation of GDP growth and the evaluation of its sluggish increase in 1997 as well, should consider the possibilities of a sustainable, more or less smooth and balanced rate of growth.

Considering the relationship between the growth and overall economic balance (i.e. understanding the function of growth in balance and that of balance in growth), one should also understand the problems facing our economic policy makers which appear as a dilemma between the choice of supporting economic growth or supporting economic balance. Sometimes, this problem is explained as if the result of economic development of Slovakia depends on the inter-

related forces of a monetary policy that strives to maintain the balance, and a financial policy focused on primary growth goals. Naturally, both policies occupy a special position in the economy and each pursues relatively independent goals with their own specific tools. Currently, during the transformation period which is complicated and full of risks the future successful development of the Slovak economy depends not on the discrepancy between the impacts of financial and monetary policies, but in contrast, on their ability to co-operate hand in hand following objective situations and links between growth and balance factors of development. If our financial and monetary policies are not capable of this and if they pursue disharmonious expansive and restrictive policies, then this would possibly lead to a considerable drop in the quality of the economic growth and balance. After the year 1997, the total, or better the aggregate of the impact of the economical-political discord could result in a very unfavourable economic situation.

Problems and pressures that had to be faced by financial and budgetary policies in 1996 (see 4.1), will pass over into 1997 as well. In 1997, achievement of the stabilisation goals of the monetary policy will be no simple task. Given the demand and branch structure of GDP increase that was recorded in the Slovak economy in 1996, and we cannot exclude the possibility of this repeating in 1997 either, the GDP growth rate ceases to be a reliable orientation point for monetary policy. The funds used for financing the increase of stocks, for public investments and for covering the growing expenditures in public services enter the economy without a corresponding increase in the supply of goods and services. Thus, they strengthen domestic demand and mainly the demand for imports. In this way, the unusual structure of GDP growth (which is accepted by the monetary policy) upsets the internal balance and increases the inflation rate.

When evaluating the economic results achieved in 1994, the economic recovery that began at that time was described as a fragile process. Development of the Slovak economy in 1996 confirmed that the fragility of the achieved economic growth was rooted mainly in the absence of conditions providing a long-term internal and external balance. The solution for sustaining the desired growth rate can, therefore, be found in a radical procedure focused on the elements and conditions of imbalance. It is necessary to do away with its activating features (for example, in the deficit of the balance of payments current account), but also it is necessary to resolve its causes and as well as future possible returns to imbalance, which are included in the unconsolidated situation which is typical for a large number of enterprises and several important financial institutions. Structural weaknesses and obsolescence of the economy as a whole should also be taken into consideration.

The estimate of the effectiveness of economical-political measures taken to support economic balance for 1997, however, must be sober and realistic. The

economic policy will obviously be influenced by the upcoming elections. Therefore, it is expected that after 1997 the economic policy will have to face the back log of tasks needed to encourage stabilised development of the economy.

Based on the above, the basic features of the economic development of SR in 1997 are characterised below in Table 23.

Table 23

Prediction of selected macroeconomics figures

	1996	1997 Prediction
Net export of goods and services, billion Sk	-45,9	-75
Balance of payments current account as % of GDP	-10,2	-11,5
Balance of payment State budget balance as % of GDP	-4,4	-6,3
Index of average real wages (previous year = 100)	107,2	105
Index of consumer prices (previous year = 100)	105,8	106-107
GDP growth rate ¹	6,9	5,0-6,0
Average unemployment rate	12,6	12

¹ Based on data in comparable prices.

One of the main conclusions of the analysis of the supply side of the economy (see 2.2) is a recognition that as early as in mid of the mineties the sector of market services has taken over the task of providing economic performance growth. The chance of further development in this sector remains promising even for 1997. This is a sector in which some segments are less exposed to international competition and which can more quickly absorb domestic demand. Over the last years, this sector has concentrated considerable resources that make further development possible. With regard to the chances of its dynamic development, as well as to its high share in GDP formation, the sector of market and non-market services will, even in 1997, contribute to sustaining a relatively high GDP growth rate.

Out of the branches producing material goods, economic development will be favourably impacted by an acceleration of performance in the construction sector. We assume that the industrial situation will partly be influenced by the economic recovery in Western Europe. The dynamic industrial production in 1997 will be negatively impacted by a decrease in competitiveness caused by an unfavourable relationship between labour productivity development and wages, the existence of a huge sector of unconsolidated enterprises, and a considerably limited inflow of foreign investments. Agricultural development is not expected to contribute substantially to GDP growth.

In the market economy, the main factor determining changes in the economic performance is not the production ability of the economy (capacities of branches producing goods and services) but the demand or its modified ability

to absorb offered production. The extension of demand (i.e. its absorption capacity) is, in essence, limited by labour productivity growth. In the current situation of the Slovak economy in 1997, labour productivity growth will depend on decisions taken by foreign investors (e.g. by the insufficient inflow of long-term foreign capital) but even more by the structure of use of the development resources accumulated inside the economy. The comparative advantage of the current Slovak economy that is in the relatively high rate of gross savings (see Table 5) will in 1997 be eliminated by the strengthening of the expansion of public investments. In 1997 and after, the subsequent drop in investments promoting productivity will not only decrease export growth and domestic demand, but will also result in a considerable decline and delay in use of those funds that are invested in transport infrastructure. That is also the reason why our prediction for 1997 includes a certain slow down in the GDP growth rate.

The absolute as well as the relative size of unemployment which is expected for 1997, will be only slightly lower than in 1996. Here, an important role will be played especially by the expected relationship between wage and productivity growth. The extrapolation of changes in the number of unemployed shown in Chart 10 gives a small hope that the drop in the unemployment rate achieved in 1996 will be repeated in 1997.

The estimate of a 6-7 % consumer price growth rate for 1997 is based on considerations of positive conditions and restraints found in balanced development as we mentioned earlier in this forecast analysis. A certain break in price development which is outlined in our forecast is indicated by the values of the consumer price index results in the last months of 1996.¹⁶ The forecast of the price development does not include any exchange rate and monetary measures and also remains within the range of the very low and manageable inflation spread.

7. An overview of the most significant legislative and economic-political measures adopted in 1996

In 1996, the sphere of *privatisation* proceeded according to the legislative framework created by the end of 1994 and during 1995. In 1996, rules for handling National Property Fund of Slovakia (FNM) bonds had to be adjusted in more detail. As of Jan. 1, 1996, these bonds were credited to the accounts of citizens registered for the second wave of coupon privatisation.

In 1996, in connection with the approved privatisation scheme some changes were also made that give advantages to the buyers of privatised property by

¹⁶ If the level of consumer prices in Dec. 1995 equals 100; in Oct. 1996 = 104,7; in Nov. 1996 = 105,1; in Dec. 1996 = 105,4.

direct sale,¹⁷ as well as to some state and public bodies¹⁸ over other business entities.

Significant corrections to the privatisation process were the two findings of the Constitutional Court of the Slovak Republic. According to those findings, following the constitution of the Slovak Republic, discrepancies were found in the legal regulations concerning the special rights of the FNM and of the state in executing voting rights (institution of the golden share) in selected strategically important state-owned enterprises and joint-stock companies (finding dated April 3, 1996) and in the legal regulations concerning the transfer of decision-making power regarding direct sales from the Government of SR to the FNM (finding dated November 11, 1996). The mentioned regulations cease to be in force 6 months after the findings of the Constitutional Court of SR were declared.

The quick completion of privatisation assumed by the government was corrected by the amendment of law that was initiated by the opposition and passed by parliament regarding the state's interest in the privatisation of strategically important state-owned enterprises and joint-stock companies. Accordingly, privatisation of the state's stake in four of the largest Slovak financial houses will not take place until March 31, 1997.

Significant legislative changes in the *banking* sector were approved. The amendment to the Banking Act (effective since March 1, 1996) was passed that strengthens the banking supervision by establishing a central credit register and by enacting legislation for the hypothecary banking system. Also, the Act on Deposit Insurance (effective as of July 1, 1996) was passed that creates conditions for satisfying the claims of savers limited by law in case of the insolvency of some banks operating in Slovakia.

In December 1996, the amendment of the *Securities Act* was passed that changes the conditions of trading on capital markets. According to this amendment the issuer is no longer obligated to issue shares and other securities listed by law in dematerialised form.¹⁹ According to the amendment, bonds, participation certificates, closed participation funds, treasury bills, and other instruments that are declared securities by a special law are to be issued in dematerialised form.

¹⁷ Abolition of binding the new owner to enable participation in privatisation to employees; exemption of income taxes in case of incomes as shares in profit gained due to decreasing the FNM debt when the purchase price was partly lowered.

¹⁸ The passed amendment of law on liquidation and settlement does not concern a debtor if it is a state budgetary or subsidised organisation, municipality, legal entity established by law, state-owned enterprise or joint-stock company listed in the law on provision of the state's interests in privatisation of strategically important state-owned firms.

¹⁹ On the contrary, the amendment of Securities act dated August 1995 was based on the principle of obligatory dematerialisation of public trading securities, including shares.

In the labour market, amendments to the Labour Code and new Employment Act were passed (both effective since Jan. 1, 1997). Both amendments stipulate in complete form the legal relations of participants in the labour market (in contrast to the previous legislation which was split into many acts and decrees), the performance, rights and duties of bodies responsible for labour market policy, goals and tools of employment policy, etc.

In connection with the growth of the cost of living standards and average wages, in 1996 valorisation of old-age pensions and social benefits took place. Since April 1, 1996, the minimum wage was increased by 10 % (to 2 700 Sk for a monthly wage) and since October 10, 1996, the parental allowance was increased for families with a child aged up to 3 years by 1 000 Sk (from 1 470 Sk to 2 470 Sk).

Since July 1, 1996, the Act on complementary employees income insurance has been in effect. Establishment of the first complementary income insurance companies will, however, be realised as late as in 1997. For the time being, this type of insurance does not provide coverage for employees of budgetary and subsidised organisations, as well as self-employed persons.

Among the most important changes in financial and economic tools approved in 1996 are:

- decrease of the basic tariff of the value added tax from 25 % to 23 % since Jan. 1, 1996, as well as some changes in sorting goods and services subject to the lower 6 % tariff (its level remained unchanged);
- increase of electric energy prices for wholesale customers by 5 % and for retail customers by 10 % since Aug. 1, 1996;
- decrease of the import surcharge from 10 % to 7,5 % since July 1, 1996 and to 0 % since Jan. 1, 1997.

The legislative framework of economic regulation was extended over the year by:

- act on prices, in effect since April 1, 1996;
- new Customs act, in effect since April 1, 1996;
- resolution of the government of SR on state guarantees dated February 27, 1996 and its amendment dated June 11, 1996;
- act on licensed provision of general welfare public works dated March 21, 1996.

In 1996, the government of SR made a big step in preparing schemes focused on the gradual approximation of the legislative system in SR with international systems, particularly with EU legislation. Among these, an important role is played by the approved social sphere transformation scheme and the programme of legislative approximation of internal markets to EU standards. Substantially more intense than in the previous period were prepared and approved programmes aimed at solving some long ignored and pressing prob-

lems of the Slovak economy. Among them we can mention approval of the long-term programme of railroad network development in Slovakia that, along with the highways construction project and the telecommunication development project, accomplishes an overall scheme of infrastructure development in Slovakia; and also a solution to the housing construction problem, and some problems in the field of foreign trade. Some of the mentioned programmes took on the form of legal regulations (Act on the state fund of housing development effective since May 1, 1996; the resolution of the government of SR on programmes of housing development effect since July 1, 1996; and Act on the fund for foreign trade support effective since Jan. 1, 1997). Other programmes have been prepared for approval in 1997.

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HOSPODÁRSKY VÝVOJ SLOVENSKA V ROKU 1996

Ivan OKÁLI - Herta GABRIELOVÁ - Egon HLA VATÝ - Richard O UTRATA

V roku 1996 pokračoval v Slovenskej republike hospodársky rast výlučne na báze rozširovania vnútorného dopytu pri súbežnom reálnom poklese vývozu. Rast jednotlivých súčastí dopytu bol nerovnomerný. Dopyt (výdavky) štátu sa zväčšil asi dvojnásobným tempom v porovnaní s dopytom obyvateľstva. Tempo rastu tvorby hrubého kapitálu bolo 5-násobkom tempa rastu HDP aj v dôsledku neobyčajného zvyšovania zásob.

Prírastok HDP sa dosiahol pri zvýšených nárokoch na materiálové vstupy a pri ich zhoršujúcom sa zhodnotení vo všetkých odvetviach. Na celkovom prírastku HDP sa podieľal rast pridanej hodnoty v službách 66,9 %, vo výrobných odvetviach 15,8 % a rast ostatných zložiek HDP 17,3 %. Vysoké tempo hospodárskeho rastu sa dosiahol hlavne zvýšenou ekonomickou aktivitou malých organizácií (do 24 pracovníkov) a živnostníkov.

Tempo rastu priemyselnej produkcie kleslo z 8,3 % v roku 1995 na 2,5 % v roku 1996. Rast priemyselnej produkcie sa v plnom rozsahu dosiahol na základe zvýšenia produktivity práce. V dôsledku rýchleho rastu domáceho dopytu sa prvýkrát po viacerých rokoch výraznejšie zvýšil predaj priemyselnej produkcie na domácom trhu pri znížení podielu vývozu na jej predaji. Na základe značného rozšírenia domáceho investičného dopytu sa dosiahol aj mierne zvýšenie tempa rastu produkcie stavebníctva.

Udržiavanie vysokého tempa rastu na báze posilňovania vnútorného dopytu pri oslabení dynamiky exportu bolo spojené so vznikom a s rýchlym prehĺbovaním vonkajšej nerovnováhy. Deficit obchodnej bilancie vzrástol zo 6 mld Sk v roku 1995 na 65 mld Sk. V teritoriálnej štruktúre zahraničného obchodu vzrástol podiel krajín EÚ a klesol podiel Českej republiky. V komoditnej štruktúre sa zastavila doterajšia tendencia zvyšovania podielu obchodu s menej spracovanými výrobkami. Zhoršovanie platobnej bilancie spôsobilo nepriaznivý vývoj bežného účtu platobnej bilancie aj značné zhoršenie výsledkov celkovej platobnej bilancie.

Vývoj vnútornej rovnováhy bol charakterizovaný ďalším znižovaním miery inflácie najmä vďaka priaznivému pôsobeniu finančnej a menovej politiky v predchádzajúcich obdobiach. V priebehu roka 1996 reagovala menová politika na zvyšovanie peňažnej zásoby. Pomer deficitu štátneho rozpočtu k HDP vzrástol z 1,6 % v roku 1995 na 4,4 % v roku 1996. Pokračovanie tohto trendu sa spolu s nepriaznivým vývojom úplných nákladov práce na jednotku produkcie môže stať v roku 1997 východiskom aj pre zhoršovanie vnútornej rovnováhy.

V krátkodobom výhľade na rok 1997 sa očakáva, že na celkovú (vnútornú i vonkajšiu) nerovnováhu bude ekonomika pri adekvátnej menovej a finančnej politike reagovať istým spomalením hospodárskeho rastu. Rast produktivity práce, ktorý by mohol čeliť tomuto trendu, bude oslabovaný nedostatočným prívodom zahraničného kapitálu, ale pravdepodobne aj štruktúrou použitia rozvojových zdrojov preferujúcou investície do štátnych projektov. Účinky prípadných hospodárskopolitických aktivít zameraných na zlepšenie rovnováhy a podporu rastu produktivity práce sa zrejme prejaví až v ďalších obdobiach.

Factors Affecting the Balance of Payments of Sub-Saharan Africa

*Menbere WORKIE TIRUNEH**

Introduction

The objective of this paper is to analyse main factors that affect the external balance of Sub-Saharan Africa (SSA) and to suggest possible solutions to the region's acute problem.

Sub-Saharan Africa (SSA) comprises all countries in the African continent except North Africa and South Africa. The position of SSA in the world has been controversial:

On the one hand, a sizeable number of countries in the region are endowed with natural resources. On average SSA countries have more than twice as much land per person as comparable developing countries in other parts of the world. Beyond that a significant proportion of known world reserves including copper, diamonds, gold, iron ore, petroleum, phosphate rock, and uranium is located in SSA.

On the other hand, poverty remains a major problem in the region, with a large proportion (close to one half, on average) of the people living below what the World Bank has defined as the poverty line- that is, having average income per person of less than USD 370 (in 1985 dollars).

By international classification, at least seven out of ten SSA countries are considered as low - income, that is those having per capita incomes in 1989 dollars not exceeding USD 580 annually or, in other words, amounting to less than USD 1.60 per day. Twenty - eight (67 %) of the 42 countries categorised by the United nations on the world least developed countries are in Sub-Saharan Africa [9] (see Tables 1a, 1b, 1c).

1. The Analysis Part

The principle of balance of payments, double entry accounting insures that current (income) and capital accounts equal zero in the balance of payments statement, an annual summary of a nations' international economic and finan-

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cial transactions. This indicator, however shows unfavourable development for SSA, in my opinion, due to reasons mentioned throughout this paper.

- Poor Trade Performance
- Debt Overhang
- Declining Net Capital Inflows
- Dependency on Few Primary Commodities
- Undiversified Commodity Structure
- Weak Regional Dynamics
- Developed Countries (DC's) Trade Barrier
- Political and Demographic Situations.

Table 1a
Sub-Saharan Africa - Comparative Data on Resource Base

Selected Indicators	Level of Indicator (developing countries in parenthesis)
Population: ¹	
(A) Per Sq. KM. (mid 1989)	21.0 (53)
(B) Average Annual Growth Rate (1980-1989, in %)	3.2 (2.1)
(C) Percentage Below Poverty Line	47.0 (33.0)

¹ Excluding South Africa.

Source: IMF Assistance to Sub-Saharan Africa, 1992.

Table 1b
Sub-Saharan Africa - Percentage Share in Specified World Resource¹

Selected Indicators	Level of Indicator
(A) Land ² (mid 1989)	16.8
(B) Population (mid 1989)	9.2
(C) Copper	10.8
(D) Diamonds	41.1
(E) Gold	2.2
(F) Iron Ore	3.0
(G) Petroleum	5.5
(H) Phosphate Rock	7.7
(I) Uranium	20.5

¹ Items (C) through (I) are Based on Global Data (1989).

² Defined in Areas Readily Usable for Economic Activity - that is, Arable Land, Permanent Crop Land, Permanent Pastures, Forests and Wood Land.

Source: IMF Assistance to Sub-Saharan Africa, 1992.

Table 1c
Sub-Saharan Africa - Population and GNP per capita

Country	Population (million)	GNP per capita (USD)
Angola	9.7	na
Benin	5	410
Burkina-Faso	9.5	300
Burundi	5.8	210
Cameroon	12.2	820
Cape Verde	0.4	850
Central African Republic	3.2	410
Chad	6	220
Comoros	0.5	510
Congo	2.4	1 030
Côte d'Ivoire	12.9	670
Equatorial Guinea	0.4	330
Ethiopia	54.8	110
Gabon	1.2	4 450
Gambia	1	370
Ghana	15.8	450
Guinea	6.1	510
Guinea-Bissau	1	220
Kenya	25.7	310
Lesotho	1.9	590
Madagascar	12.4	230
Malawi	9.1	210
Mali	9	310
Mauritania	2.1	530
Mauritius	1.1	2 700
Mozambique	16.5	60
Niger	8.2	280
Nigeria	101.9	320
Rwanda	7.3	250
Sao Tome & Principe	0.1	360
Senegal	7.8	780
Seychelles	0.1	5 460
Sierra Leone	4.4	170
Sudan	26.5	na
Tanzania	25.9	110
Togo	3.9	390
Uganda	17.5	170
Zaire	39.8	na
Zambia	8.3	na
Zimbabwe	10.4	570

1.1 Poor Trade Performance

The economic performance of SSA over the past two decades has been very poor compared to that of other regions. While many developing countries in other regions have managed to restore growth of per capita income after a sharp decline in the 1980s, most SSA countries have been unable even to halt the decline, notwithstanding the intense policy efforts of market-oriented reforms which many of them have undertaken in the past years.

Table 2

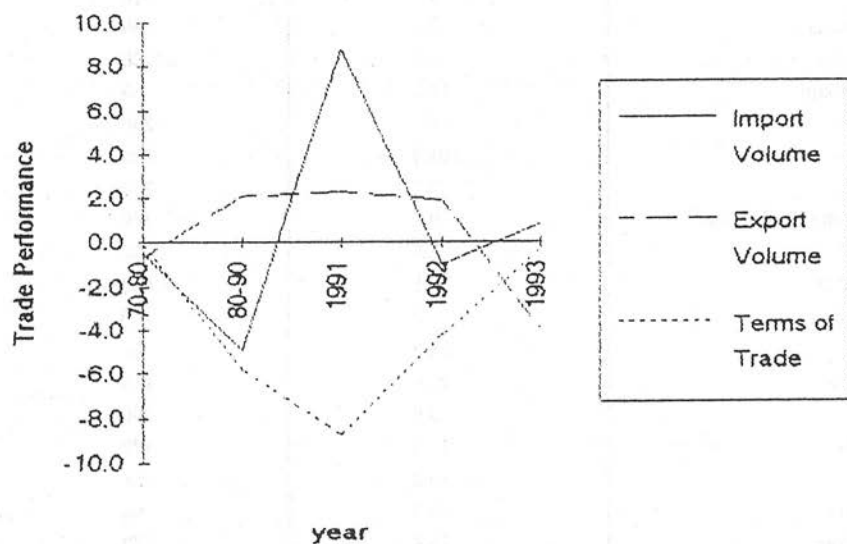
Selected Trade-Performance Indicators, 1970-1993 (average annual percentage change)

Country Group and Indicator	1970-1980	1980-1990	1991	1992	1993
Low & Middle Income Countries					
Import Volume	3.5	0.8	11.3	8.6	6.5
Export Volume	2.7	3.6	11.1	5.6	3.8
Terms of Trade	0.7	-3.3	-5.5	-0.8	-1.7
Sub-Saharan Africa					
Import Volume	-0.5	-4.9	8.8	-1	4
Export Volume	-0.7	2.1	2.3	1.9	2.4
Terms of Trade	-0.1	-5.8	-8.7	-4.2	-9

Sub-Saharan Africa Excludes South Africa.

Low and Middle Income Countries Include the FSU 1993 Estimated.

Source: World Bank Annual Report, 1994.



Graph 1. Sub-Saharan Africa Trade Performance

As shown in Table 2, the average annual change of import volume of SSA has declined from -0.5 in 1970-1980, to -4.9 in 1980-1990, then increased to 8.8 in 1991, declined again to -1.0 in 1992, and increased to 0.8 in 1993. Whereas, the annual percentage average change of the volume of export has increased from -0.7 in 1970-1980 to 2.1 in 1980-1990, to 2.3 in 1991, then has declined to 1.9 in 1992, and -4 in 1993. On the other hand, SSA terms of trade which is the most important indicator of trade performance has been negative for more than twenty years.

Sub-Saharan vulnerability has worsened because of high export commodity concentration, which is associated with volatile export prices and earnings. The summation of all SSA countries three principal exports as a share of total exports earnings was 79.1 % in 1976-1978, an increase from 60.6 % in 1961. In eight SSA countries, the 1976-1978 share was more than 90 %. In 1985, tropical beverages (coffee, cocoa, and tea) accounted for more than 70 % of Sub-Saharan Africa's export earnings [13].

There is also a significant difference in setting prices between the non-oil primary products that SSA exports and the manufactured products exported by developed and a few newly industrialising countries. Although global marketing for most primary products is oligopolistic, the SSA farmers are price takers (and not price makers), having no influence on market price, however, as was shown in Table 1, widespread commodity productivity gains can result in lower prices. On the other hand, most industrial production and marketing are monopolistic, with productivity gains leading to higher prices. SSA disproportionately producing and exporting primary products, suffered both from fluctuating and declining prices of exports relative to imports, which were predominantly industrial products.

According to IMF Trade and development Report, Sub-Saharan Africa terms of trade (the price index of exports divided by the price index of imports) declined from 100 in 1970 to 77 in 1980, to 53 in 1990, a 47 percent reduction in 20 years. Indeed, from 1985 through 1991, the Sub-Saharan terms of trade declined every year, falling 34 %. On the other hand, export volume fell from 100 in 1970 to 86 in 1980, only recovering to 100 for the first time in 1990 and declining again since then. More over, there was a drop in the export purchasing power (or income terms of trade, i. e., the commodity terms of trade times export volume from 100 in 1970 to 66 in 1980 and to 53 in 1990, indicating a reduction of 47 % in 20 years.

Table 3 shows that SSA countries have undergone current account deficits from 1980 until 1991, and the meanses how these deficits were financed. The deficit of SSA grew from USD 6.2 billion in 1980 to USD 18.6 billion in 1991. At the some time, as the Table shows, the majority of the deficit was financed through borrowing and transfers.

Table 3

Sub-Saharan Africa's International Balance of Goods and Services Deficit and Finance Sources, 1980-1991 (USD billion)

Item	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Balance on Goods & Services	6.2	27.2	26.2	17.3	12.8	7.4	17.9	13.4	19.6	18.2	17.6	18.6
Financed by:												
Official Dev. Ass.	3.1	2.8	4.4	4.0	5.3	6.4	6.9	6.5	6.9	7.3	7.4	7.7
Private Transfers	0.4	1.1	1.3	1.3	1.5	1.9	2.5	3.2	3.1	3.1	3.5	3.6
PDI	0.4	0.5	1.0	0.1	-0.1	-0.1	0.2	0.3	0.3	0.3	0.4	0.5
Loans	10.8	14.4	15.9	11.0	7.1	2.2	9.7	7.0	7.9	9.4	8.7	7.0
Short-Term Borrowing	-2.3	-1.5	-1.6	-2.3	-1.4	-1.5	-0.8	-0.8	-0.1	-0.2	-0.3	-0.2
Changes in Reserves	-6.2	-9.9	5.2	3.2	0.4	-1.5	-0.6	-2.8	1.5	-1.7	-2.1	0.0

Source: International Monetary Fund, 1992.

While foreign loans enable a country to import in excess of its export, eventually the borrowing country must service (with interest plus repayment of principal) the foreign debt. Paying back the loan requires a country to produce more than it spends, save more than it invests, and export more than it imports.

The balances-of-payments deficits in 1974-1979, with a series of price shocks, including a quadrupling of oil prices over four months in 1973-1974 was one of the reasons that reduced terms of trade of LDC's (Least Developing Countries) including SSA. Sub-Saharan Africa, large importer oil, and other developing countries had faced the same difficulties in their external balance, for the second time in 1979-1980 during the second oil-shock. Sub-Saharan Africa had a deficit every year in the 1980s because of recession in developed countries (with sharply falling commodity prices, slowed export expansion, and greater DC's protectionism).

1.2 Debt Overhang

If a country that experiences a chronic deficit in its balance of payments is not in a position to finance the deficit through foreign direct investments and/or portfolio investments, that are considered as the cheapest ways of financing a deficit, then it should either finance through grants or through borrowing from governments and International Institutes.

Sub-Saharan Africa debt rose from USD 5 billion in 1970, to USD 14 billion in 1976, to USD 84 billion in 1980, to USD 166 billion in 1988, to USD 174 in 1990, to USD 196 billion in 1991, to USD 194 in 1992, to an estimated of USD 199 in 1993. On the other hand, the debt-service paid was approximately USD 9 billion in 1980, USD 14 billion in 1988, USD 13 billion in 1989, USD 15 billion in 1990, USD 14 billion in 1991, USD 14 billion in 1992, and USD 11 billion in 1993. The most important indicator of trade performance, the debt to export ratio, was 91 % in 1980, 244 % in 1988, 241 % in 1989, 227 % in 1990, 237 % in 1991, and an estimated of 237 % in 1993 (see Table 4).

1.3 Declining Net Capital Inflows

Although capital inflow through foreign investment is one of the mechanisms to finance external disequilibrium, it has been volatile in Sub-Saharan Africa mainly because of:

- local restrictions on capital flows,
- uncertainty about governments commitment to adjustment programmes,
- poor commodity prices,
- high debt burdens,
- political uncertainty and other conditions which limit growth prospects.

Table 4
Sub-Saharan Africa's Debt (in million USD)

	1980	1988	1989	1990	1991	1992	1993
Debt Stock							
Total debt	84.000	166.310	173.844	191.127	195.533	194.264	199.046
of which: Long-term debt	58.424	135.022	142.980	155.967	159.879	155.477	156.436
Debt to IMF	3.033	7.000	6.380	6.612	6.603	6.345	6.391
Short-term debt	22.319	17.896	16.698	18.525	17.348	18.339	19.829
Interest arrears	0.224	6.392	7.786	10.023	11.702	14.103	16.390
(Principal arrears)	1.121	13.681	13.831	17.114	20.856	25.522	29.380
Debt Service							
Total debt service	8.975	14.296	13.024	15.155	14.106	19.922	11.351
of which: Long-term debt	6.349	11.178	9.904	12.420	11.906	12.004	9.798
IMF payment/charges	0.580	1.495	1.596	1.190	0.841	0.716	0.358
Short-term debt (interest)	2.046	1.623	1.523	1.544	1.359	1.272	1.195
Debt Ratios							
Debt/exports (%)	91.000	244.500	240.800	227.000	237.400	235.300	237.100
Debt/GNP (%)	30.100	70.300	72.600	72.200	72.300	69.700	68.300
Debt service/exports (%)	9.700	21.000	18.000	18.000	17.100	16.100	13.500
Resource Flows							
Net resource flows	15.139	14.399	18.181	16.503	17.249	17.260	18.676
Net transfers	7.646	7.072	9.101	6.355	7.449	7.079	9.022
Net transfers (IMF)	0.637	-0.462	-0.734	-0.455	-0.262	-0.189	-0.189
Net transfers (World Bank)	0.475	0.839	1.177	1.329	0.583	0.877	n.a.
Net FDI	-0.100	1.134	2.608	0.856	1.774	1.613	1.765

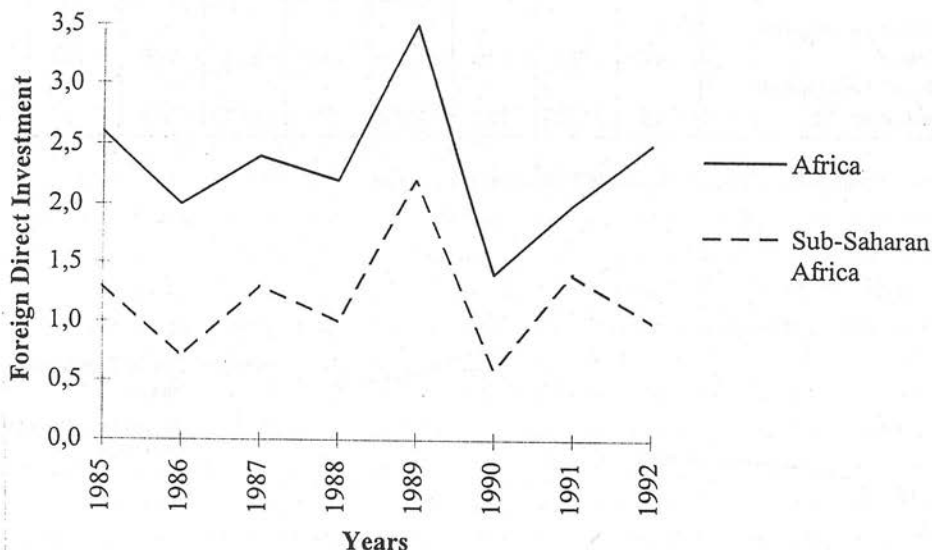
Source: World Bank.

Despite the fact that some countries in the region have been generous enough in offering high interest rates in order to attract foreign investment, with the exception of a few mineral-rich countries, foreign direct investment in most of SSA have been relatively insignificant source of external financing to reduce external disequilibrium. The average annual capital inflow into Africa, as was shown in Table 5, was around USD 2.5 billion annually, a level that declined to USD 2 billion annually in the early 1990s. The situation was even worst for SSA where the levels were USD 1.3 billion and USD 1 billion, respectively.

Table 5
Volatile Foreign Direct Investment (1985 constant dollars)

	1985	1986	1987	1988	1989	1990	1991	1992
Africa	2.6	2.0	2.4	2.2	3.5	1.4	2.0	2.5
Sub-Saharan Africa	1.3	0.7	1.3	1.0	2.2	0.6	1.4	1.0

Source: World Bank, ECA (Economic Commission for Africa).



Graph 2. Foreign Direct Investment

Beyond foreign direct investment, there is generally a tremendous decline in the flow of capital to SSA that aggravate the already ridiculous situation in the region. Net transfers from IMF, the last resort to borrow from, have been rapidly declining. The net IMF transfers to SSA have been USD 637 million

in 1980, USD -462 in 1988, USD -734 in 1989, USD -455 in 1990, USD -262 in 1991, USD -189 in 1992, and USD -189 in 1993. Moreover, net transfers from the World Bank have declined from USD 1.329 billion in 1990 to USD 877 million in 1992. On the contrary, capital flight has increased from Sub-Saharan Africa. High debt structure of the region is one of the reasons that provoke capital flight as debt should be paid with interest, hence seriously limiting the amount of foreign exchange available for economic activities.

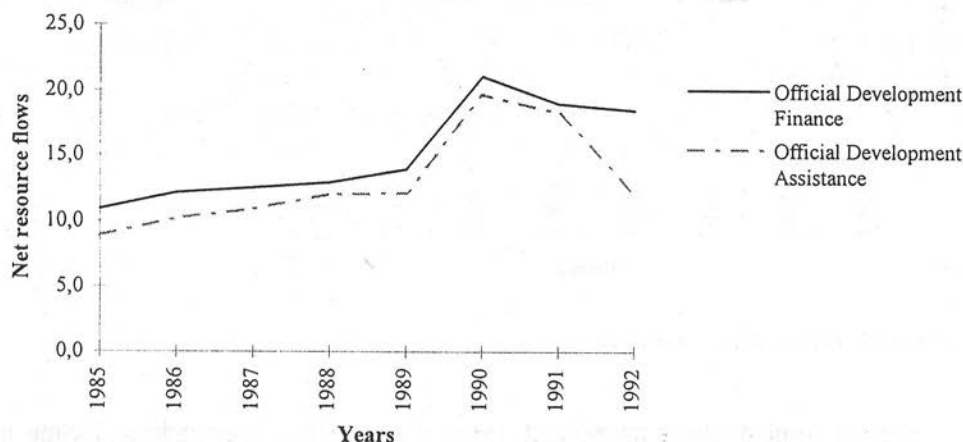
While still higher than in the mid-1980's, overall aid flows to Africa fell sharply in 1992. Measured in current dollars, Official Development Assistance (ODA) to Africa declined from a peak of USD 19.7 billion in 1990, as shown in Table 6, to USD 18.3 billion in 1991 and USD 12.1 billion in 1992, a fell by 33 % in the latter year. For SSA specifically, ODA in 1992 fell by 22 % from 1991.

Table 6

Aid Flows to Africa (USD billion)

	1985	1986	1987	1988	1989	1990	1991	1992
Official Development Finance	10.9	12.1	12.5	12.9	13.9	21.1	19.0	18.5
Official Development Assistance	8.9	10.2	10.9	12.0	12.1	19.7	18.3	12.1

Source: World Bank, ECA (Economic Commission for Africa).



These declines reflect a fall-off in bilateral aid from the largest donor countries, especially the member-states of the Development Assistance Committee (DAC) of Organisation for Economic Co-operation and Development. Further more, multilateral aid from institutions such as the World Bank, European Union and other international organisations, which increased during the late 1980s, declined during early 1990s. Continued reductions in aid will be devastating for Sub-Saharan Africa in particular, since ODA now accounts for more than 80 % of financial flows to the region.

The break-up of the former USSR and the similarity profound changes underway in Eastern Europe are reverberating in SSA. The impact seems to be radical not only on African politics, but also on the continents economies. To the direct loss of aid from the FSU (Former Soviet Union) bloc is now added the threat of scarce capital being diverted away from Africa.

Until the 1980s, the Western and Soviet Blocs were often in intense competition for African's allegiance-especially in strategic regions such as South Africa and the Horn of Africa. Now the shift in the global strategic balance and the West growing preoccupation with the economic restructuring of Central and Eastern Europe and the former Soviet Union is leading to a growing sense of marginalization in Africa.

The Organization for Economic Co-operation and Development, in November 1992 estimated pledges from its 24 members to Eastern Europe at USD 45 billion. This compares with annual official commitments to Africa the end of 1980s, of some USD 34 billion [7].

Another major obstacle that increases financial outflow from Africa is the change in interest rates in the developed world. For each 1 % increase in interest rates, highly indebted SSA countries lose USD 360 million a year, a recent study of the Institute for International Economies estimates. The most likely outcome, according to this study, will combine interest rate increase a diversion of capital from developing countries like SSA.

On the contrary, the LDC's financing needs are expected to rise considerably during the current decade, especially if the world economic growth and thus the LDC's earnings-remain sluggish. The United Nations Conference on Trade and Development (UNCTAD) in its least developed countries 1991 report, estimates the LDC's annual requirements will rise as much as USD 43.8 billion by 2000-or more than three times the level of net resource flows to those countries in 1990.

1.4 Dependency on Few Primary Commodities

As was mentioned earlier, SSA countries depend on one or two primary commodities for their export, which means that SSA's balance of payments is vulnerable to prices fluctuations of these commodities, and demand change on the part of the developed world.

Table 7

Debt and Commodity Dependency of Selected SSA Countries (in million USD)

	Country External Debt	Debt as % Exports	Trade Balance	Raw material as % of exports
	1992	1992	1989-1991	
Benin	1.367	232.2	-308	70
Burkina Faso	1.055	191.2	-292	88
Cameroon	6.554	303.8	-16	92
Centr. African Rep.	901	523.3	-58	86
Chad	729	318.3	-283	96
Congo	4.751	349.1	305	97
Côte d'Ivoire	17.997	506.9	859	90
Comoros	173	328.7	-42	95
Equatorial Guinea	246	391.1	-18	52
Gabon	3.799	149.8	1.09	96
Mali	2.795	452.4	-253	93
Niger	1.711	491.3	-111	98
Senegal	6.607	226.1	-525	78
Togo	1.356	247.2	-263	91

Source: World Bank, UNICAD, 1993.

Table 7 clearly shows the commodity dependency of selected SSA countries.

In 1990, five commodities—tobacco, tea, sugar, cotton and coffee—comprised more than 70 % of agricultural export in Malawi, Tanzania, Zambia, and Zimbabwe. Additionally, the fall in the prices of copper in the 1970s hurt Zambia and Zaire, and in the 1980s, draught reduced the volume of some of SSA major exports. Principal export product revenues as a percentage of overall export earnings, 1980-1982, were: Nigeria 97 (crude petroleum), Uganda 96 (coffee), Somalia 94 (livestock), Ghana 59 (cocoa), Ethiopia 65 (coffee), Madagascar 47 (coffee), Zaire 47 (copper), Burkina 40 (cotton), and Sudan 39 (cotton). Many SSA countries have export commodity concentration ratios (that is, the value of the four leading export commodities as a percentage of total merchandise exports) of more than 90 %, including Liberia, Malawi, Côte d'Ivoire, and Kenya [13].

In the 1980s, 25 out of 38 countries for which data are available, increased their dependence on commodities. On the other hand, others (including, Mozambique, Sudan, Togo, and Zaire), lost their earlier gains in reducing commodity dependence. As indicated in Table 7, the dependency of 14 CFA countries on raw material as a percentage of exports from 1988-1991 was 70 to Benin, 88 to Burkina Faso, 92 to Cameroon, 86 to Central African Republic, 96 to Chad, 97 to Congo, 97 to Côte d'Ivoire, 95 to Comoros, 52 to Equatorial Guinea, 96 to Gabon, 93 to Mali, 98 to Niger, 78 to Senegal and 91 to Togo.

As for their trade balance, as indicated in Table 2, 11 out of the 14 CFA (Francophone Countries) had a deficit in their trade balance, and only Congo, Côte d'Ivoire, and Gabon had a trade surplus.

Table 7 also shows, debt as a percentage of exports in 1992 was 232 for Benin, 191 for Burkina Faso, 304 for Cameroon, 323 for Central African Republic, 318 for Chad, 349 for Congo, 507 for Côte d'Ivoire, 329 for Comoros, 391 for Equatorial Guinea, 150 for Gabon, 452 for Mali, 491 for Niger, 226 for Senegal, and 247 for Togo.

This clearly shows that the fate of the balance of payments of SSA is determined by the success or failure of only few primary products on the world market, hence leaving no room for production substitution when the pattern of international trade changes.

1.5 Lack of Commodity Diversification

Another major problem that contribute much to the external deficit of SSA is lack of diversification. Many evidences, suggest that there is very little "vertical" diversification in SSA (that is, a shift towards processed commodities and manufactures), while "horizontal" diversification (that is, diversification within the primary commodity sector) has not generally been sufficient to reduce importantly dependence on a few commodities. The only significant export diversification which occurred has been in oil. Otherwise, the structure has been remarkably stable.

The share of primary commodities (including oil) in total SSA exports decreased only by 3 % from 1965 to 1960 (from 92 % to 89 %) and the share of manufactured goods increased from 7 % to 11 %, during the same period, the share of manufactured goods in total exports of all developing countries doubled, from 33 % to 66 %. Similarly, 30 out of 42 countries in SSA are still dependent on exports of unprocessed commodities, and only a small number of countries have managed to increase the share of semi-processed or processed commodities in total exports.

The recent increase in exports from SSA has primarily been in traditional crops rather than new products. Consequently, four out of five SSA countries still depend on only two commodities for over half of their earnings. As it was mentioned above, the existing production capacity can generate little diversification and export growth in the absence of new investment which requires substantial amounts of imports and foreign exchange.

Export growth is thus constrained by the availability of imports, which can not be increased because of inadequate export earnings and external resource flows. Studies show that success in raising the volume of traditional exports has been self-defeating in so far as it serves to depress prices because of low price elasticities of demand. Therefore, there is inverse relationship between the volume of export and the terms of trade in SSA.

Many specialists in finance, while not supporting deteriorating long-run terms of trade for primary product exporters, observed that SSA is especially vulnerable to declining terms of trade because its incapability to easily shifting resources as pattern of comparative advantage change. The primary-product export concentration, that was mentioned earlier, the dependence of SSA primary exports on foreign multinational corporations (MNC's) for processing, marketing, and financing, and the limitations on the expansion processing, indicate SSA inability to shift resources with changing demand and technologies.

Primary commodities exported by Sub-Saharan Africa are demand inelastic (very low for few countries in the region).

The elasticity problem takes two forms:

1. For some commodities when aggregate supply volume increases, the total revenue falls. Inelastic demand can be illustrated by the doubling of cocoa exports (in tons), thereby reducing their prices per ton 75 % so that the total export receipts fall by 50 %. Most African policy makers perceive the World Bank's strategy (1981) as focusing on a narrow range of agricultural exports. African countries adopting Bank/Fund structural adjustments, including agricultural export expansion through currency devaluation and price decontrol, face severe competition from other LDC's whose adjustment programs require similar policies.

2. For most commodities, however, export revenues rise proportionately less than export volumes, in which case it may not be possible to cover the cost of additional output.

The percentage share of manufacturing as total of export in SSA is bound to be the lowest in the world. In other words, manufacturing comprises a small share of SSA's exports. Industrial exports as a percentage of total exports were, for example, 44 % in Zimbabwe and 7 % in Côte d'Ivoire in 1989, compared to 69 % in Asian LDC's. Also in 1989, only 11 % of SSA merchandise exports were manufactures compared to 53 % for LDC's generally. Between 1967 and 1978, however, Côte d'Ivoire and Zimbabwe were the most diversified manufacturing exporters in SSA. Côte d'Ivoire was among the top three SSA exporters of equipment, textiles, chemicals, and vehicles.

1.6 Weak Regional Dynamics

African countries do not serve as outlets for each others manufactured goods in general and intermediate goods in particular. Regional trade arrangements represent a small part of total external trade. The intra-trade of UDEAC (the Customs and Economic Union of Central Africa) or ECOWAS (the Economic Community of West African States) represented respectively 4.3 % and 6.1 % of total trade of member countries in 1989, as opposed to 18.5 % for ASEAN (Association of South-East Asian Nations) or 10.4 % for ALADI (Latin American Integration Association).

1.7 Developed Countries Trade Barriers

The unfair commercial policies of DC's have tremendously influenced SSA to remain exporters of raw materials at the expense of manufactured goods.

While DC's nominal tariff rates on raw materials appear low (5-6) per cent of the value after GATT's 1974-1979 Tokyo Round trade negotiations, on processing and manufacturing, DC's effective rates of protection, which are a measure of protection as a percentage of value added in production factors at each processing stage, have been high.

Tokyo Round effective protection on LDC's commodities according to processing stage were not lowered even during GATT's Uruguay Round (1986-1992) which were:

- 3 % on stage 1 (i. e., the raw material, for example, raw cotton),
- 23 % on stage 2 (i. e., low-level processing, for example, cotton yarn),
- 20 % on stage 3 (i. e., high-level processing, for example, cotton fabrics),
- 15 % on stage 4 (i. e., the finished product, for example, clothing).

Developed Countries effective rates of protection, which are highest at low levels of processing where poor countries like those in SSA, concentrate their industrial activities, have encouraged exporting raw materials detrimental to processing, especially at lower-levels. On the contrary, the import structure of DC's with respect to LDC's were higher for raw material and lower for processed and manufactured goods. For illustration, 54 % DC's imports from LDC's are at stage 1; 29 % at stage 2; 9 % at stage 3; and 8 % at stage 4 [13].

Zambia which had the largest non agriculture share of GDP (Gross Domestic Product) in SSA and high elasticity of employment growth with respect to consumer goods to intermediate and capital goods. But high non-agricultural output growth has expanded from effective protection rates on processing have diverted Zambia's industrial growth from exports to imports substitution. Until the late 1980s, multinational corporations with subsidiaries in Zambia, Zaire, Botswana, and Namibia built most of the fabricating and processing plants in South Africa and in the west.

1.8 Political and Demographic Situations

The political and demographic situation of post colonial Africa is unstable. We currently witness many ethnic conflicts in many countries in the region. The longest civil war in Africa and draught in 1985 had destroyed the Ethiopian economy. The recent tribal violence in Somalia, Liberia, Angola, Rwanda, Burundi, Mozambique, Sudan, Sierra Leone and other SSA countries have spent millions of lives. Zaire that had two prime ministers and two currencies at one time indicates how sporadic and wild African politics is. Here, the contribution of some developed countries in sponsoring civil wars in Africa shouldn't be neglected.

Besides that, political and social unrest provoked by some dictators in SSA have damaged the reputation of SSA's security situation and hence created a discouraging environment for investment and other economic activities. Tourism which has been the major source of foreign currency for a significant number of countries in the region have also been hindered due to lack of safety.

Population explosion, i.e., the geometric growth of the population and the arithmetic growth of the economy has brought about a big discrepancy not only in the region's external balance position but also in internal stability and economic development. Though some countries in the region have managed to achieve annual GDP growth of about 2.5 %, because of 3 % annual rate of population growth, it has become absolutely insignificant when converted into per capita income.

2. The prognosis of Sub-Saharan Africa economies

Different international institutions have conducted analyses to forecast the development of the region's economy and have come up with results showing the worsening future of the region's external balance situation.

Table 8
Africa's Export Prospects (%)

Commodities	1987-1988	1988-2000
Cereals	4.4	3.2
Sugar	1.6	0.5
Oil and Meals	-2.8	-0.1
Meat	-3.9	4.9
Coffee	0.3	0.4
Cocoa	4.1	3.7
Tea	4.4	0.4
Bananas	-4.4	3.5
Cotton	4.3	0.6

Source: FAO, 1994.

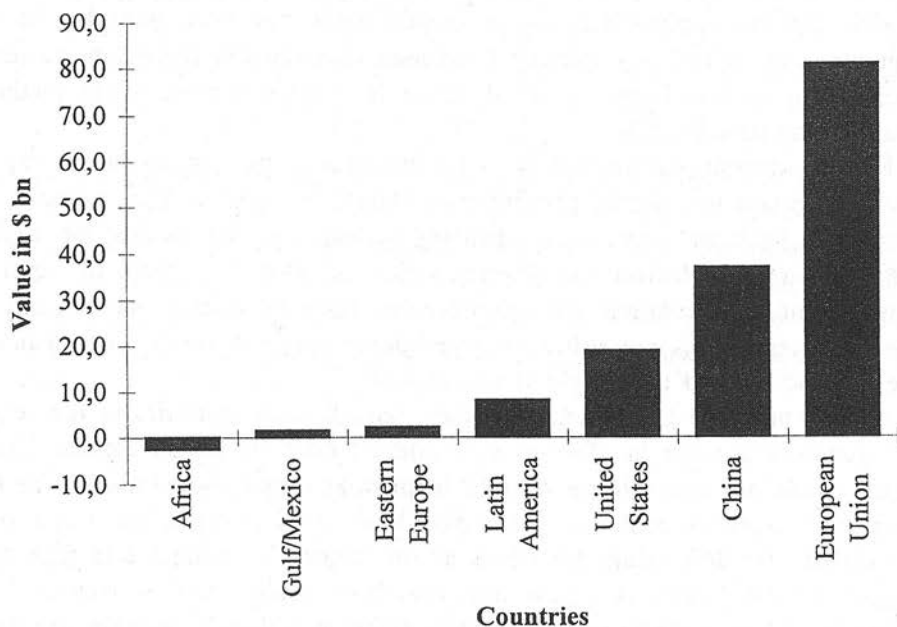
The export prospects of Africa, as shown in Table 8, is not encouraging. Bearing in mind that the majority of SSA countries earnings depend on the commodities mentioned in Table 8, it is apparent that the external balance of the region wouldn't be improved. Until year 2000, major export commodities like cereals are expected to decline from 4.4 % to 3.2 %; sugar, from 1.6 % to 0.5 %; cocoa, from 4.1 % to 3.7 %; tea, from 4.4 % to 0.4 %; and cotton, from 4.3 % to 0.6 %.

The decline in the percentage of export is directly proportional to the increase in financial crisis that trouble the region for decades. The more the revenues from commodity exports decline, the wider will be the gap of the balance-of-payments deficit and the more external financing will be needed to finance the deficit.

Table 9
GATT Winners and Losers (projection to year 2002)

Countries Involved	Value Gains or Loses (USD billion)
Africa	-2.6
Gulf/Mexico	1.5
Eastern Europe	2.2
Latin America	8.1
United States	18.8
China	37.0
European Union	80.7

Source: African Recovery based on Data from World Bank and OECD.



Grahp 4. GATT Winners and Losers (projection to year 2002)

Moreover, as the region has been notorious of loosing any international competition, it seems that the pattern wouldn't change for a better. The GATT or WTO (World Trade Organization) since 1995, was signed in Mo-

rocco in April 1994. Though this international agreement is supposed to reduce the barriers of international trade in an effort to increase the significance of world trade, unfortunately, the expected benefit for SSA would be unfavourable.

The Study commissioned by OECD and World Bank in September 1993, showed that net annual loss for Africa could reach USD 2.6 billion in the period to 2002 (see Table 9). In contrast, the leading industrialized countries stand to reap USD 135 billion or 64 % of the total annual gains from the agreement. As the result this, SSA will face further deterioration of its external balance and debt servicing problems.

Conclusion

Not only modern economic theory but also the practices of the developed world show that the deficit in the current account of the balance of payments are usually financed by the surplus in the capital account or viceversa, nevertheless, if the general settlement balance is in deficit, countries should either borrow or manipulate with exchange rate of their currency to get their economies back to equilibrium.

The situation in SSA is clearly specific and there are many evidences where models that are applicable in the developed world have been powerless in the region's rigid and slowly walking economies. Eventhough there are universal mechanisms used to finance external deficit, it seems that most of the methods are inappropriate in SSA.

For the current account deficit to be financed by the surplus in the capital account, certain criterias or preconditions should be fulfilled. The existence of developed financial markets and banking system are key factors for capital inflow not only to finance the external deficit but also to increase the level of employment and economic growth. However, financial markets in majority of the countries in SSA are still weak to render proper services of intermediating the demand for and the supply of idle capital.

As was mentioned in the analysis part, though some countries in the region are generous enough in offering high interest rates to attract foreign investment, it was not adequate on its own to provoke capital inflow due to the low degree of capital mobility to the region because of political and other risks associated with uncertainty. Moreover, as the majority of countries in SSA have pegged exchange rates, they have little chance of conducting their own monetary policy. Without developed financial markets, it is hardly possible to implement the instruments of both monetary and fiscal policies.

The problem of the region is not only the declining tendency of capital inflow but also the rise of capital flight making the already ridiculous foreign exchange reserves in the region worse. This is particularly crucial if SSA was to import technologies in order diversify its export products so that it could shift production as the pattern of international trade changes.

Although large number of countries in SSA has accepted the IMF sponsored adjustment programme, the results, on average, are not very encouraging. The major problem, I think, is that countries should fulfill certain preconditions before receiving any sort of borrowing or transfers from IMF. The reduction of government budget deficit and devaluation of national currencies are to mention few.

Following that, many countries in the region have devalued their currencies especially to reduce their external balance. However, devaluation is believed to improve trade balance deficit, if the "Marshall-Lerner criteria is fulfilled, i.e., if the elasticity of demand is positive, otherwise, it would provoke the price level to rise or simply inflation. Many studies show that the elasticity of demand for raw material that SSA exports is very low, hence the devaluation of national currencies, on average, have increased the price levels as the price of inputs rise which should finally be indexed in wages and so on.

The solution to the region's problem, in my opinion, should come both from the region and the outside world. The region should prepare the appropriate conditions to create favourable environment for investment and on the other hand, the outside world should help the region through debt relief and technology transfer through investment.

The proverb "do not give fish to the hungry, rather teach him how to fish" should be applicable to come up with real solution. *Investment for the region, I believe, is as essential as fuel to a car is.* The developed world should open its markets for SSA's exports and there should also be compensation for SSA with respect to the loss it will face following the GATT's agreement.

As regional cooperation is currently intense, therefore SSA should lag to benefit from the advantages that regional cooperation could generates.

Finally, the developed world shouldn't forget that as the market among themselves will soon get saturated, SSA (with its natural resource endowment and large number of population), could be a reliable business partner in the century ahead.

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FAKTORY OVPLYVŇUJÚCE PLATOBNÚ BILANCIU KRAJÍN SUBSAHARSKEJ AFRIKY

Menbere WORKIE TIRUNEH

Úvod

Subsaharská Afrika (SSA) zahŕňa všetky krajiny afrického kontinentu okrem severnej a južnej Afriky.

Postavenie SSA vo svete je veľmi kontroverzné. Na jednej strane mnohé krajiny regiónu disponujú vzácnymi prírodnými zdrojmi vrátane medi, diamantov, zlata, železnej rudy, ropy, fosfátov a uránu. Na druhej strane je tento región symbolom biedy a chudoby, kde podľa kritérií Svetovej banky v priemere jedna polovica obyvateľstva žije pod oficiálnou hranicou chudoby, t. j. priemerný ročný príjem na jedného obyvateľa je nižší ako 370 USD (1985). Podľa medzinárodnej klasifikácie sedem z desiatich krajín SSA patrí medzi krajiny s nižšími príjmami, t. j. ročný príjem na jedného obyvateľa nie je vyšší ako 580 USD (1989) alebo 1,60 USD za deň.

Zámerom tejto práce je analýza tejto rozporupnosti, a najmä príčin, ktoré ovplyvňujú ekonomický vývoj krajín SSA, hlavne v oblasti vonkajších ekonomických vzťahov, čiže platobnej bilancie.

1. Analýza ekonomického vývoja krajín subsaharskej Afriky

Hlavné faktory, ktoré ovplyvňujú platobnú bilanciu krajín subsaharskej Afriky, sú podľa môjho názoru nasledujúce:

1.1 Slabá výkonnosť obchodu

Výkonnosť obchodu SSA v predchádzajúcich dvoch dekádach bola v porovnaní s inými regiónmi slabšia. Vývoj výkonnosti obchodu vo vybraných regiónoch ukazujeme v tabuľke 2. Z tabuľky vyplýva, že zmena priemerného ročného objemu importu v porovnateľných krajinách vzrástla z 3,5 v rokoch 1970–1980 na 6,5 v roku 1993. Zmena priemerného ročného objemu exportu v týchto regiónoch vzrástla z 2,7 v rokoch 1970–1980 na 3,8 v roku 1993.

Na druhej strane mal vývoj týchto ukazovateľov v krajinách SSA inú tendenciu, keď import vzrástol z $-0,5$ v rokoch 1970–1980 na $0,8$ v roku 1993. Vývoj exportu zaznamenal pokles z $-0,7$ v rokoch 1970–1980 na $-4,0$ v roku 1993.

Najdôležitejším ukazovateľom je pomer jednotkového cenového indexu exportu k jednotkovému cenovému indexu importu (terms of trade), ktorý bol v SSA záporný. Z tabuľky vyplýva, že vzťah medzi exportom a terms of trade je nepriamo úmerný.

Vývoj bežného účtu platobnej bilancie dokumentujeme v tabuľke 3. Deficit bežného účtu platobnej bilancie krajín SSA vzrástol zo $6,2$ mld USD v roku 1980 na $18,6$ mld USD v roku 1991. Spôsob financovania deficitu neprichádzal z prebytku kapitálového účtu platobnej bilancie, ako je známe z teórie aj z praktického použitia v rozvinutých krajinách, ale z pomoci, pôžičiek a čerpania úverov od medzinárodných inštitúcií.

1.2 Vysoká zadlženost

Vývoj zadlženosti v SSA predkladáme v tabuľke 4. Rast zadlženosti z 5 mld USD v roku 1970 na 199 mld USD v roku 1993 vyjadruje nepriaznivý ekonomický vývoj regiónu. Len zapltená dlhová služba, ktorá v roku 1980 predstavovala 9 mld USD, vzrástla na 11 mld USD v roku 1993.

Pomer dlhu k exportu vzrástol z 91% v roku 1980 na 237% v roku 1993. Z toho vyplýva, že krajiny SSA sú zafatené nedostatkom kapitálu na investície a rozvoj ekonomiky, pretože značná časť príjmov z exportu sa musí použiť na splácanie dlhov.

1.3 Pokles prílevu zahraničného kapitálu

Pokles čistého prílevu zahraničného kapitálu je uvedený v tabuľkách 5 a 6. Je možné poukázať aspoň na dva príklady zdrojov prílevu zahraničného kapitálu. Prvým je prílev zahraničného kapitálu vo forme priamych investícií, ktorý zaznamenal pokles z $1,3$ mld USD v roku 1985 na $1,0$ mld USD v roku 1992, čo bolo pravdepodobne spôsobené nasledujúcimi príčinami:

- lokálne reštrikcie toku kapitálu,
- neistota v dodržiavaní záväzkov vládami krajín SSA v procese transformácie,
- nízke ceny komodít,
- vysoká dlhová služba a politická neistota.

Na druhej strane sa tu prejavuje značný pokles prílevu kapitálu vo forme pôžičiek a grantov zo strany medzinárodných inštitúcií. Čistý prílev kapitálu z Medzinárodného menového fondu (MMF) do krajín SSA poklesol zo 637 mld USD v roku 1980 na -462 mld USD v roku 1988 a v roku 1993 predstavoval -189 mld USD.

Čisté transfery zo Svetovej banky do SSA poklesli z $1\,329$ mld USD v roku 1990 na 877 mld USD v roku 1992. Okrem toho pomoc poskytovaná organizáciou *Official Development Assistance* (ODA), podieľajúcej sa na celkovej pomoci 80% , poklesla z $18,3$ mld USD v roku 1992 na $12,1$ mld USD v roku 1993.

Ďalším z dôvodov poklesu zahraničnej pomoci pre tento región bol rozpad socializmu a vznik nových štátov v strednej a vo východnej Európe, ktoré začali transformovať svoje ekonomiky aj za pomoci zahraničného kapitálu a pôžičiek, čím sa zmenila geopolitická situácia vo svete.

Naopak, odlev kapitálu zo SSA sa zvýšil splácaním dlhov a zvýšením úrokovej miery zo strany rozvinutých krajín. Podľa štúdie Inštitútu medzinárodnej ekonomiky zvýšenie

úrokovej miery o 1 % zo strany veriteľských krajín spôsobí zvýšenie odlevu kapitálu z regiónu o 360 mld USD. Ďalej štúdia UNICTA z roku 1994 ukazuje, že do roku 2000 sa potreba kapitálu v rozvojových krajinách zvýši o 43 mld USD.

1.4 Závislosť od surovín

Krajiny SSA sú závislé od jedného druhu alebo dvoch druhov surovín. Tabuľka 7 zobrazuje závislosť vybraných krajín SSA od určitých surovín. V roku 1990 päť komodít – tabak, čaj, cukor, bavlna a káva – predstavovalo viac ako 70 % poľnohospodárskeho exportu v Malawi, Tanzánii, Zambii a Zimbabwe.

Podľa štúdie *The Debt Crisis in Africa* v rokoch 1980–1990 podiel z príjmov určitej komodity na celkových príjmoch z exportu vo vybraných krajinách SSA predstavoval:

- Nigéria – 97 % nespracovaná ropa,
- Ghana – 59 % kakao,
- Etiópia – 65 % káva,
- Uganda – 97 % káva,
- Somálsko – 94 % dobytok,
- Madagaskar – 47 % meď,
- Burkina-Faso – 40 % bavlna,
- Sudán – 39 % bavlna.

Všeobecne sa podiel surovín na celkovom exporte v 14 vybraných krajinách SSA pohybuje v rozmedzí 52–98 %.

Z tabuľky 7 je zrejmé, že okrem dvoch krajín má ostatných dvanásť vysoký deficit v bežnom účte platobnej bilancie, najmä v dôsledku fluktuácie cien surovín vo svetovom obchode.

1.5 Nízka diverzifikácia komodít

Jedným z dôvodov, ktorý úzko súvisí so závislosťou od určitej komodity, je nízka úroveň diverzifikácie komodít, čo ovplyvňuje vývoj platobnej bilancie regiónu SSA. Podľa správy MMF o obchode a rozvoji z roku 1993 je tu veľmi nízka vertikálna diverzifikácia, t. j. posun od ťažby surovín k ich spracovaniu a ďalšej výrobe, ako aj horizontálna diverzifikácia, t. j. diverzifikácia v rámci surovín. Táto správa tiež ukazuje, že podiel surovín na celkovom exporte sa znížil od roku 1965 do roku 1990 iba o 3 % (z 92 % na 89 %). Podiel vyrábaného tovaru na celkovom exporte sa v rovnakom období zvýšil zo 7 % na 11 %. Naproti tomu sa podiel vyrábaného tovaru na celkovom exporte vo všetkých rozvojových krajinách zvýšil z 33 % na 65 %.

Štúdie ukazujú, že v súčasnosti je 30 zo 42 krajín SSA stále závislých od exportu surovín. V roku 1989 predstavoval podiel priemyselných výrobkov na celkovom exporte napríklad v Zimbabwe 44 % a na Pobreží Slonoviny 7 % oproti 69 % v ázijských rozvojových krajinách. V tom istom roku predstavoval vyrábaný tovar len 11 % z celkového exportu krajín SSA oproti 53 % v ostatných rozvojových krajinách (pozri [13]).

1.6 Slabá regionálna spolupráca

Napriek tomu, že v súčasnosti stúpa intenzita regionálnej spolupráce vo svete, krajiny SSA sú charakteristické slabou regionálnou spoluprácou. Colná a ekonomická únia štátov centrálnej Afriky (UDEAC) a Hospodárske spoločenstvo západnej Afriky

(ECOWAS) reprezentujú 4,3 %, resp. 6,1 % z celkového obchodu členských štátov v roku 1989. Naproti tomu regionálna spolupráca v ASEAN (Asociácia juhoázijských národov) alebo v ALADI (Integračná asociácia Latinskej Ameriky) predstavuje 18,5 %, resp. 10, 4 %.

1.7 Obchodné bariéry zo strany rozvinutých krajín

Veľmi nepriaznivý vplyv na krajiny SSA mala nespravodlivá obchodná politika najmä v oblasti cla.

Colné tarify podľa fázy produkcie vyplývajúce z GATT v rokoch 1986–1992 boli nasledujúce:

- 3 % – stupeň 1 (export surovín)
- 23 % – stupeň 2 (nízka úroveň spracovania surovín)
- 20 % – stupeň 3 (vysoká úroveň spracovania surovín)
- 15 % – stupeň 4 (dokončené výrobky).

Colné tarify, ktoré sú vyššie pri vyššom stupni úrovne spracovania, motivovali rozvojové krajiny, aby sústredili svoj vývoz na suroviny na úkor dokončených výrobkov.

Na druhej strane štruktúra dovozu rozvinutých krajín z rozvojových krajín predstavuje 54 % surovín (stupeň 1), 29 % surovín s nízkou úrovňou spracovania (stupeň 2), 9 % surovín s vysokou úrovňou spracovania (stupeň 3) a 8 % dokončených výrobkov (stupeň 4).

Z toho vyplýva, že egoistický prístup bohatých krajín má tiež svoj podiel na nepriaznivom vývoji vonkajších ekonomických vzťahov krajín SSA.

1.8 Politická a demografická situácia

Demografický vývoj v krajinách SSA je veľmi nepriaznivý. V dôsledku geometrického rastu obyvateľstva a aritmetického rastu ekonomiky dochádzalo k diskrepancii vo vývoji spoločnosti. Napriek tomu, že niektoré krajiny SSA zaznamenali ročný ekonomický rast HDP až o 2,5 %, z dôvodu ročného priemerného rastu obyvateľstva o 3 % dochádza k poklesu rastu HDP na jedného obyvateľa o 0,5 % ročne.

2. Prognóza ekonomiky krajín subsaharskej Afriky

Rôzne medzinárodné inštitúcie uskutočnili prognostické štúdie o vývoji ekonomiky krajín subsaharskej Afriky. V tabuľke 8 je uvedená štúdia FAO z roku 1994, z ktorej vyplýva, že je možné predpokladať pokles exportu najvýznamnejších komodít regiónu, čo sa jednoznačne odrazí aj na vonkajších ekonomických vzťahoch, čiže na platobnej bilancii. Navyše, napriek tomu, že cieľom GATT (alebo od roku 1995 WTO) je odstrániť bariéry v medzinárodnom pohybe tovarov a tým prispieť k zvýšeniu významu medzinárodného obchodu, opäť sa predpokladá jej nepriaznivý prínos pre krajiny subsaharskej Afriky.

Štúdie OECD a Svetovej banky z roku 1993 ukazujú, že predpokladaná čistá strata vyplývajúca z WTO predstavuje pre krajiny SSA 2,6 mld USD ročne do roku 2002. Naproti tomu vyspelé krajiny získavajú z dohody 135 mld USD ročne, t. j. 64 % z celkových príjmov WTO (pozri tab. 9).

Záver

Teória i prax vo vyspelých krajinách ukazujú, že deficit v bežnom účte platobnej bilancie môže byť financovaný prebytkom kapitálového účtu platobnej bilancie.

Realita v krajinách SSA predstavuje výnimku. Predpokladom prilevu zahraničného kapitálu je vybudovanie bankového sektora a finančných trhov, ktoré tu však nie sú dostatočne rozvinuté. Aj keď sme svedkami významu devalvácie národných mien pre zlepšenie stavu platobnej bilancie, pokiaľ nie je splnené Marshallovo-Lernerovo kritérium (existencia elasticity dopytu), devalvácia vyvolá infláciu, čo je typické pre väčšinu krajín tohto regiónu. Zvyšovanie úrokovej miery, cieľom ktorého je vyvolať prílev zahraničného kapitálu, je reálne vtedy, ak stupeň mobility kapitálu je vysoký a je aj dôvera investorov v ekonomickú a politickú stabilitu krajín regiónu.

Riešenie nepriaznivého stavu platobnej bilancie regiónu vidím vo vytvorení stabilných investičných podmienok, pomocou ktorých by dochádzalo nielen k prílevu zahraničného kapitálu, ale aj know-how, ktorý by napomáhal vybudovanie infraštruktúry a následne diverzifikáciu výroby, čo by viedlo k rozšíreniu štruktúry a zlepšeniu kvality exportu a v konečnom dôsledku k zlepšeniu vonkajších ekonomických vzťahov.

Preto je potrebné, aby africké štáty pokračovali v ekonomických reformách a aby rozvinuté krajiny podporovali tento proces rôznymi formami vrátane odpustenia dlhov, ktorými je región SSA veľmi zaťažený.

Rozvinuté štáty by nemali zabudnúť, že pri dnešných vlastných nasýtených trhoch má väčšina krajín SSA veľký predpoklad stať sa ich budúcimi adekvátnymi obchodnými partnermi.

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