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The adjustment of the Slovenian economy to new conditions proceeded very well in 1993. A number of indicators support this judgement: the reduction of inflation from 93% to 23%; positive real growth of output, modest but still nevertheless 1%; a current account surplus of US$ 201 million with another US$ 492 million added to the international reserves (December 1993 over December 1992); the lowering of interest rates, especially lending rates of banks; a budget surplus; a relatively stable Tolar - that is, of course, still depreciating according to infation differentials; and a growing confidence in the financial system which has been amply demonstrated by domestic actors, as well as by our partners abroad, most of all by banks, with whom a syndicated loan was arranged. Slovenia made its first appearance on international financial markets notwithstanding the fact that these markets had until 1993 been closed to us and to our former country right up to this moment.

Despite the signs of upturn in the economy, the Bank of Slovenia's monetary policy has remained more or less unchanged, which means restrictive. Monthly targets of monetary aggregates are pursued, while other possible goals such as the exchange rate or interest rates receive attention only to the extent that they can fit into the given antiinflationary quantifications. The central bank has, of course, very carefully analyzed all the consequences of a restrictive policy. Had we not done this, inflation could very easily have been brought down even more sharply, but with perhaps adverse implications for the economy. The Bank would very likely also find it difficult to withstand pressures to change its policy orientation altogether.

There exists a persistent syndrome, sometimes already bordering on populism, with which the central bank is also well acquainted: starting from the general dissatisfaction with wage levels and pensions and with the relatively low standards of living, demands arise for faster economic recovery and with them assertions that monetary policy is too strict and that its more flexible stance would promote faster real growth and employment. Expectations such as these are derived from a belief that new central bank credits could compensate for the real scarcity of funds, bring to life unemployed plant and machinery, modernize existing capacities and help build new ones, thus opening up new jobs. The Bank of Slovenia does not accept such beliefs, well aware that cheating the market will not be productive and that stretching the money supply too far will do little more than create new inflation. Bending to these and similar critiques would be in opposition to our responsibility for a stable currency, and in the longer run a stable currency is the best means to assure growth and confidence.

The Bank of Slovenia believes that monetary policy is more than just the supply of the proper quantity of money; monetary policy is based on confidence, confidence in the whole of the financial system, in the Slovenian Tolar, and in the Bank itself.

Dr. France Arhar
President of the Governing Board
and Governor of the Bank of Slovenia

Ljubljana, April 7, 1994

I. BANK OF SLOVENIA:

LEGAL STATUS AND RESPONSIBILITIES

The Bank of Slovenia was established by law on June 25, 1991. It took effective control of the monetary system after a three-month moratorium on the implementation of independence acts of the Slovenian parliament - the Brioni declaration. On October 8, 1991, it introduced the new Slovenian currency, the tolar. Over the last three years the Bank of Slovenia has fully established its status as a central bank in international banking and financial institutions. It has become the fiscal agent of the Republic of Slovenia and a depositor at the International Monetary Fund, depositor for funds from the assets of the International Financial Corporation, the International Development Association and depositor of assets of the Republic of Slovenia in the Inter-American Development Bank.

The Bank of Slovenia has established its role of central bank and bank of issue with the rigourous implementation of its responsibilities, as described by the Law on the Bank of Slovenia, the Law on Foreign Credit Transactions, the Law on Foreign Exchange, and in particular the Law on Banks and Savings Banks. The primary responsibility of the Bank of Slovenia by law is to maintain the stability of the national currency and the general liquidity of payments within Slovenia and abroad. In order to implement this task, the Bank of Slovenia regulates the quantity of money in circulation, supervises banks and savings banks, issues banknotes and circulates coins and banknotes, regulates guarantees for personal bank deposits, and organises and coordinates the information system necessary for the performance of its functions. The Bank of Slovenia was also involved in the introduction of pre-rehabilitation measures and rehabilitation proceedings in certain banks, and actively monitored rehabilitation proceedings carried out by the Agency of the Republic of Slovenia for the Rehabilitation of Banks and Savings Banks (ASBH), and the liquidity of banks undergoing the rehabilitation process.

The managing bodies of the Bank of Slovenia are the Governing Board and the Governor. The Board is composed of eleven members: the Governor of the Bank of Slovenia, who is the Chairman of the Board, the Deputy Governor and three Vice-Governors as well as six members chosen from among independent experts. The Governor of the Bank of Slovenia and the six external members of the Board are appointed by parliament for a term of six years, at the proposal of the President of the Republic of Slovenia. The Deputy Governor and Vice-Governors are appointed by the Parliament for a term of six years, at the proposal of the Governor. The law sets forth the competences of the Governing Board of the Bank of Slovenia as the determination of monetary policy and the adoption of measures for its implementation. The Governor issues resolutions and other general acts concerning the operations of the Bank of Slovenia as well as instructions for the application of regulations, decrees and measures passed by the Governing Board.

In the implementation of the tasks defined by law, the Governor and the Governing Board are responsible to the Parliament of the Republic of Slovenia. The Bank of Slovenia must submit a report on its operations at least every six months; the Parliament endorses the financial plan and annual accounts of the Bank.

The Bank of Slovenia is independent in the implementation of monetary policy and other tasks stipulated by law.

II. THE SLOVENIAN ECONOMY IN 1993

Institutional transformation and the real restructuring of large parts of the economy, which was also strongly affected by developments abroad, have determined economic developments in Slovenia over recent years. Within a period of three years, from 1989 to 1992, gross domestic product (GDP) fell by 19% and the number of employed by around 21%. Economic policy was implemented in an environment burdened by a long record of inflation and persisting inflation expectations. (Inflation reached 56% monthly in December 1989 and 22% in October 1991, at the time when the new Slovenian currency was introduced.) Under these circumstances, the falling trend in 12-month inflation at end-year - from 247% in 1991 to 93% in 1992 and 23% in 1993 (Figure 3) - can be considered a successful development.

In 1993 the thrust of economic policies was again focused primarily on the reform programmes. Under the aegis of the Agency for Privatisation and the Development Fund of the Republic of Slovenia, controlled rehabilitation (or liquidation) of the weakest parts of the enterprise sector was underway, as well as the initial stages of privatisation, which has shown some delay and is expected to accelerate in 1994.

The banking rehabilitation programme was in its most intensive phase, showing first results by the end of the year. Apart from the main reform projects, a number of activities in the area of legislation and institutions, such as the public sector, the securities market, payments systems and various financial services, are also very important.

Table 1: Real growth rates of value added and gross domestic product
(industries Nace Rev.1; annual growth rates in percent)

		1989	1990	1991	1992	1993
A	Agriculture, forestry and mining	-3.3	1.7	-3.3	-10.0	-3.5
B	Fishing	3.5	-0.1	-16.0	-25.0	0.0
C	Mining	-0.2	-12.7	-8.8	4.0	-8.8
D	Manufacturing	-0.5	-10.8	-11.6	-14.5	-2.0
E	Electricity, gas and water supply	1.9	-1.6	2.2	-5.0	-3.2
F	Construction	1.6	-10.8	-16.6	-10.0	-4.0
G	Wholesale and retail trade, repair	-10.6	-5.8	-11.1	-11.0	4.0
H	Hotels and restaurants	-10.7	-0.5	-18.8	8.0	10.0
I	Transport and communications	-0.2	-2.0	-14.6	13.0	4.0
J	Financial intermediation	1.4	-0.3	0.0	-17.4	9.0
K	Real estate and business services	1.2	6.8	-10.9	2.8	3.0
L	Public administration and defence	-0.3	-0.4	6.5	10.0	4.5
M	Education	1.0	2.6	-0.1	-4.0	2.0
N	Health and social work	0.3	-1.2	-7.2	5.0	2.1
O	Other community and personal services	-2.6	-1.7	-8.3	-4.5	0.4
Agriculture (A+B)		-3.3	1.7	-3.4	-10.1	-3.5
Industry (C+D+E+F)		-0.1	-10.3	-11.2	-12.7	-2.6
Services (G to O)		-3.2	-0.4	-8.5	-0.4	3.8
Gross domestic product		**-1.8**	**-4.7**	**-9.3**	**-6.0**	**1.0**

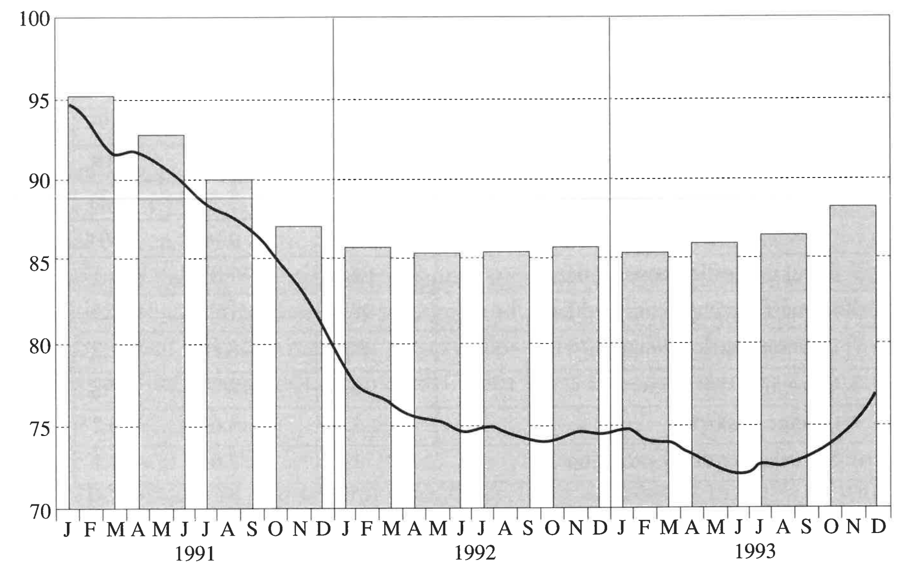
Source: Statistical Office of RS; 1993: estimates of the Institute of Macroeconomic Analysis and Development

Production continued to fall at the beginning of 1993. In the second half of the year a significant upturn was registered in a number of sectors, which contributed to an estimated increase in real GDP for the whole of 1993 to be put confidently at 1%. The turnaround to positive real growth was achieved in an environment of strict monetary policy, which reduced nominal monetary growth rates, a balanced budget and no net external resources inflow. These are strong indications that the great internal and external shocks of the earlier periods are being progressively absorbed.

No such indications have as yet shown in employment trends. Between December 1992 and December 1993 employment decreased by 3.2%, while the number of registered job-seekers increased by 16.0%. The unemployment rate, calculated on the basis of data on registered unemployed, reached 15.5% by the end of the year. (Measured according to the standard European methodology of a labour force survey in May 1993, the unemployment rate was only 9.1%).

Expectations for 1994 are based on developments in 1993. Progress into longer-lived sustained growth has yet to be secured and will depend primarily on the results of privatisation and other reforms as well as on the performance of the exporting sector. Stabilisation policies will be maintained; the budget plan envisages inflation of 13% at end 1994. A further inflow of foreign direct investment, the activation of certain domestic infrastructure projects (mostly financed from budget funds, for which a deficit not exceeding 1% of GDP is planned for 1994), as well as the already registered increase in domestic private investments, provide a basis for these relatively favourable forecasts. The latest available forecast for aggregate GDP growth in 1994 is a continuation of this year's 1% expansion.

Figure 1: Industrial production and quarterly estimates of real GDP (bars)
(indices 1990 = 100; seasonally adjusted)



Source: Industry: Statistical Office of RS; estimates of GDP: Bank of Slovenia.

1. SUPPLY AND DEMAND

Production in agriculture continued to fall in 1993, but the impact on aggregate activity was modest as this sector accounts for only 5% of aggregate output. The crisis over the past years has been most deeply felt in the various industrial activities, since their earlier growth was structurally the least balanced. Production in industry (mining, manufacturing, energy, construction) shrank in the three years from 1989 to 1992 by 30%, and in 1993 by a further 2.6%. It was in this sector, however, that the most marked increase was registered in the second half of 1993. Aggregate annual growth was determined primarily by the services sector, which contributed 58% to the total value added and grew by 3.8% in 1993 (Table 1).

For most of 1993, production - primarily industrial production - adjusted to the adverse effects of the fall in demand from the markets of former Yugoslavia. From 1990 to 1992 sales of goods and services to this area dropped from 31% to 8%, and in 1993 to just 5% of the total sales of the Slovenian economy (Table 2: shares in GDP). For the second consecutive year Slovenia only partly compensated for this drop by exporting to countries outside the former Yugoslav region; total sales to foreign markets in 1993 represented 39% of the total sales of domestic producers and this continued to be the most important component of aggregate demand, more important, for example, than purchases of households.

Table 2: Expenditure on Gross domestic product (in percent)

	1990	1991	1992	1993
1. Gross domestic product (4+5)	100.0	100.0	100.0	100.0
2. Exports of goods and services	**85.6**	**93.0**	**63.7**	**62.6**
• to states of former Yugoslavia	53.1	40.7	(12.2)	
• to rest of world	32.5	52.3	(51.5)	
3. Imports of goods and services	**69.8**	**80.8**	**54.8**	**61.5**
• from states of former Yugoslavia	38.9	32.1	(9.9)	
• from rest of world	30.9	48.7	(44.9)	
4. Balance (exports - imports)	**15.8**	**12.2**	**8.9**	**1.1**
• states of former Yugoslavia	14.2	8.6	(2.3)	
• rest of world	1.6	3.6	(6.6)	
5. Total domestic consumption	**84.2**	**87.8**	**91.1**	**98.9**
6. Domestic private consumption	48.8	51.7	51.5	56.3
7. Government consumption	17.5	18.8	21.3	22.5
8. Gross fixed investment	18.0	18.9	17.3	18.3
9. Change in stocks	-1.2	-3.6	-0.2	0.6
10. Statistical errors & omissions	1.1	2.0	1.1	1.1

Imports of services do not include consumption by Slovenian tourists abroad.
Sources: estimates of the Institute of Macroeconomic Analysis and Development.

Developments in the external sector were marked by very rapidly increasing imports. The fall in purchases from states of former Yugoslavia was more than compensated for by imports from other countries; imports of goods from these countries increased in real terms by some 25%. Total imports of goods and services reached 38% of aggregate supply and the external surplus in 1993 was only 1.1% of GDP, compared with 8.9% in 1992 and 15.8% in 1990.

In domestic consumption, expenditure of households increased by 10% in real terms. After resorting, in the first half of 1993, to legal restrictions on wage increases, the government later saw its instruments of incomes policy fail, with average wages and salaries in 1993 rising 16.4% in real terms after three years of consecutive decreases amounting to 36% between 1987-1989 and 1992. Other receipts from work and employment and transfer receipts also rose considerably. Average net (after tax) monthly wages in 1993 were SIT 46,826 or US$ 414.

The consolidated general government account registered a slight surplus, as revenues and expenditure rose in real terms. Final government consumption increased by 5% in real terms.

Stabilisation policies had an inevitable impact on the level of interest rates. These were also influenced by real factors in the banking and enterprise sectors, so that the real interest rate on the interbank money market in 1993 amounted to 13% (above domestic inflation indexation), while market yields on long-term government bonds were 12% (above the foreign currency clause); interest rates on bank loans include corresponding risk premiums. High interest rates and perhaps to a greater extent the still prevailing structural and institutional factors were responsible for poor investment performance, with gross fixed investment totalling only 18 percent of GDP (approximately the level of consumption of fixed capital). Investment did however increase in 1993, by 12% over the previous year, after six years of decline.

2. PUBLIC FINANCE

The consolidated general government accounts (central government, local governments, the Pension Fund and the Health Care Fund) ended 1993 with a surplus of 6,800 million tolars, equivalent to 0.5% of GDP, compared with an initial forecast of a deficit. The rapid growth of the prevailing tax base, i.e. wages and salaries, was a significant factor for this better than expected outcome. The tax rate for social security contributions, which are calculated on gross wages and paid by employers and employees, decreased during the year by about 9%, but receipts nevertheless grew by 9%. Income tax revenues went up by 8%. Due to expanding transactions, revenues from sales tax increased by 11% and from import duties by 20%.

Similar to the previous year, expenditures of the central budget in 1993 amounted to 45% of total public expenditure; 28% were expenditures, mostly transfers, of the pension and disability insurance fund and 16% were expenditures of the compulsory health insurance systems. Almost half of the central budget outlays was accounted for by costs of wages and payments for other goods and services of government entities, defence included; 20% were social transfers and 10% were transfers to the enterprise sector.

Table 3: General government revenues and expenditure, 1992-1993

	SIT million		Share in GDP in percent	
	1992	1993	1992	1993
Revenues	**466,777**	**675,005**	**46.5**	**49.8**
Corporate income tax	5,947	6,660	0.6	0.5
Personal income tax	68.973	97,966	6.9	7.2
Social security contributions	208,730	301,476	20.8	22.2
Sales tax	108,133	158,826	10.8	11.7
Customs and import duties	32,301	51,459	3.2	3.8
Other revenues	42,692	58,618	4.2	4.3
Expenditure	**464,158**	**668,205**	**46.2**	**49.3**
Central government	214,278	300,871	21.3	22.2
Local governments	50,207	74,092	5.0	5.5
Pension fund	127,398	186,053	12.7	13.7
Health care	72,275	107,188	7.2	7.9
Surplus	**2,619**	**6,800**	**0.3**	**0.5**

Source: Ministry of Finance.

With a more active treasury, the Ministry of Finance considerably improved the management of the central budget, while the two funds maintained a great degree of autonomy. In 1993, the consolidated government sector reduced its net debt on the domestic market (by SIT 3,107 million) and increased indebtedness abroad (by SIT 6,816 million). Taking into account the surplus in current operations and the obstacles preventing efficient central control of all segments of government finance, the residual outturn was a considerable increase in cash and deposits, in particular of the pension insurance fund (of SIT 5,317 million).

The public debt of the Republic of Slovenia at the end of 1993, including government guarantees, amounted to US$ 2,874 million, or 25.7% of GDP. Of this amount, the internal debt was US$ 2,206 million and external debt US$ 668 million. Guarantees totalled US$ 545 million. Additional potential liabilities of the Republic of Slovenia, related to the succession of former Yugoslavia, were estimated at US$ 883 million.

3. THE EXTERNAL SECTOR

The Slovenian external sector has undergone considerable change over the last three years - in terms of institutional organisation, volume, regional orientation and methods of financing. Exports and imports of goods and services totalled about 155% of GDP in 1990, but had decreased to around 124% of GDP by 1993. Trade with the states of former Yugoslavia collapsed from 92% to 14% of GDP.

Table 4: The balance of payments, 1992-1993 (in US$ million)

	1992	1993	1993			
			Q.1	Q.2	Q.3	Q.4
A. Current account	**932**	**201**	**29**	**8**	**146**	**17**
1. Trade balance (f.o.b.)	791	-137	-20	-69	61	-109
2. Services	148	294	39	76	73	106
2.1. Transport	-152	53	9	8	23	14
2.2. Travel	389	426	88	119	87	133
2.3. Other	-90	-186	-57	-51	-37	-41
3. Incomes	-92	-66	-23	-20	-12	-10
4. Unrequited transfers	85	109	32	22	25	30
B. Long-term capital	**91**	**214**	**-17**	**73**	**67**	**91**
1. Direct investments	113	110	13	62	19	16
2. Portfolio investments	-9	3	0	0	0	3
3. Other long-term capital	-14	102	-30	11	48	73
3.1. Resident official sector	-18	83	-15	8	33	56
3.2. Deposit money banks	-43	18	3	-4	12	7
3.3. Other resident sectors	47	0	-19	7	2	10
C. Short-term capital	**-116**	**-277**	**-75**	**-18**	**-153**	**-30**
1.1. Resident official sector	-	-	-	-	-	-
1.2. Deposit money banks	-115	-498	-92	-70	-192	-145
1.3. Other resident sectors	-1	221	17	52	38	114
of which: Households	9	86	-22	-35	93	49
Commercial credits	...	88	39	39	-59	70
D. Net errors and omissions	**-275**	**20**	**36**	**-3**	**-10**	**-4**
E. Counterpart items	**-30**	**-64**	**-31**	**-24**	**35**	**-44**
F. Change in external position of the Bank of Slovenia	**-602**	**-94**	**57**	**-36**	**-86**	**-30**
Foreign exchange and gold	-603	-55	59	-13	-88	-12
Net position in IMF & SDRs	-	-40	-1	-23	2	-18
Other assets	1	0	0	0	0	0

Minus sign (-) indicates imports or surplus of imports over exports in current transactions, increase in claims or decrease in liabilities in capital transactions, and growth of assets in central bank position.
Source: Bank of Slovenia, provisional data.

The gradual disintegration of the Yugoslav market in the period 1990-1991 had two long-term consequences: (1) an enormous reduction of trade with this area, which between 1990 and 1993 demanded the restructuring of around 26% of aggregate supply and around 21% of demand, and (2) the contraction of the monetary area and the foreign exchange market into a Slovenian framework. The loss of the large net demand on the former Yugoslav foreign exchange market led to essential adjustments in the exchange rate, so that in 1992 the tolar appreciated in real terms by 21% (or by 28% compared to a more representative average of the 1986-89 period), and in 1993 by a further 2% (Figure 5).

The period of adjustment has been, for the most part, completed by 1993. Trading with countries of the former Yugoslavia stabilised at a new and lower level during the year. A new balance was also reached in the foreign exchange market. In 1993, given the floating exchange rate regime and the restraints imposed upon monetary policy, the Bank of Slovenia exerted very little influence on the exchange rate; the current account produced only a small surplus (of US$ 201 million) and a trade deficit (of US$ 137 million), which was covered by surpluses in services, particularly in tourism.

Goods

In 1993 the value of goods exported from Slovenia was US$ 6,088 million, while imports were worth US$ 6,488 million. Goods trade therefore registered a deficit amounting to US$ 400 million (according to foreign trade definitions, i.e. by measuring imports c.i.f.). Measured in current US dollar values, exports decreased by 8.9% compared to the previous year, while imports increased by 5.7%. Excluding the effects of changes in currency cross-rates and lower foreign prices, exports fell by 5.1%, while imports rose by 12.4%.

Table 5: Main trading partners (in US$ million)

	Exports		Imports		Balance	
	1992	1993	1992	1993	1992	1993
European Union	**4,462**	**4,294**	**4,115**	**4,829**	**346**	**-532**
France	616	528	493	521	123	6
Italy	880	755	839	1,048	41	-294
Germany	1,805	1,798	1,394	1,625	411	173
United Kingdom	141	148	74	103	67	45
EFTA	**461**	**425**	**689**	**777**	**-228**	**-352**
Austria	341	303	500	552	-159	-249
Switzerland	50	52	100	126	-49	-74
Other OECD countries:						
USA	195	216	167	188	28	28
Japan	16	25	88	125	-72	-99
Countries of former Yugoslavia	**1,508**	**963**	**1,218**	**692**	**289**	**272**
Croatia	952	737	852	591	100	146
Countries of former Soviet Union	**226**	**296**	**251**	**217**	**-26**	**80**
Other European countries	**262**	**331**	**328**	**371**	**-66**	**-39**
TOTAL	**6,681**	**6,088**	**6,141**	**6,488**	**540**	**-400**

Source: Statistical Office of RS.

The range of exported goods in 1993 showed no important change. Processed products (ISTC 5 to 9) accounted for some 88% of exports. The composition of imports changed, reflecting shifts in domestic demand: imports of intermediate goods decreased by 3.9%, while imports of capital goods and consumer goods rose by 10.9% and 34.4% respectively.

Foreign trade was considerably affected by the further decline of trade with countries of the former Yugoslavia. International sanctions against FR Yugoslavia (Serbia and Montenegro) resulted in a fall in exports from US$ 400 million in 1992 to just US$ 8 million, while imports slid from US$ 268 million to practically nothing. Trade with Croatia also declined markedly. Trade with the entire area fell in 1993 by 36.1% for exports and by 43.2% for imports.

Considering the special factors that influenced relations with this area, trade with other countries showed much better results. Exports fell by just 0.9%, while imports rose 17.7%; in volume terms, exports were up 3.2% and imports 25.3%. The trade deficit with "the rest of the world" was US$ 671 million.

As shown in Table 5, 57% of Slovenian exports was directed to the European Union, and 7% to EFTA countries. Exports to the countries of former Yugoslavia represented 16% of total exports, exports to the Russian Federation and other countries of the former Soviet Union 5%, and exports to other European countries (mainly to the former Comecon region) 5%. On the import side, the countries of the European Union accounted for 56%, EFTA countries 12%, countries of former Yugoslavia 11%, countries of the former Soviet Union 3%, and other European countries 6%. In 1993 trade with the central and east European region was clearly on the increase; with countries of the former Soviet Union only exports rose (by 31.3%), while with non-EU and non-EFTA countries both exports and imports were growing fast, by 26.6% and 13.0% respectively.

Services

Receipts from non-goods transactions (services, income from labour and capital, transfers) in 1993 amounted to US$ 1,675 million or 22% of all current receipts. Slovenia has a surplus in many important service sectors. In 1993, the surplus on the services account amounted to US$ 294 million, sufficient to cover the trade deficit. The surplus in total current transactions was US$ 201 million, compared with US$ 932 million in 1992.

In 1993 Slovenian receipts from tourism and other travel amounted to US$ 728 million and expenditures totalled US$ 302 million, with this sector making the largest contribution to the total current account surplus. These statistics - as well as volume indicators - show a successful recovery of the sector in the changed circumstances following the 1991 crisis. Overnight stays of foreign visitors increased by 22%, but continue to lag behind figures from previous years by more than a half. Due to the expansion of services offered outside the basic hotel facilities, registered arrivals of foreign visitors in Slovenia in 1993 (up yearly by 8.7%) almost reached previous levels, despite the great reduction in the number of travellers in transit. Receipts from tourism, estimated in part on the basis of these figures, show no reduction over previous years.

Spending by Slovenian tourists abroad continued to be concentrated mainly on the Croatian coast. However, this picture is changing rapidly. Registered overnight stays by Slovenians in Croatia in 1993 were down 28% (by 590,000, while in Slovenia they rose by 288,000) or by 75% compared to records from before 1991.

The value of transport services increased substantially in 1993 compared to 1992, amounting to US$ 459 million receipts and US$ 406 million payments. These figures, however, have yet to return to the level of previous years. The sector again recorded a slight surplus. Other non-factor services (leasing, merchanting, various business services, etc) registered a deficit of US$ 186 million.

The incomes category includes mainly interest payments on foreign loans of US$ 153 million, and interest receipts of US$ 106 million which reflect the increasing foreign currency reserves. Net outflows of profits from direct investments remained at the low level of US$ 10 million. Receipts from Slovenian residents' earnings from employment abroad have either not been estimated or are indicated as unilateral transfers or as short-term capital, if they were brought into the country in currency and exchanged for tolars.

Financing

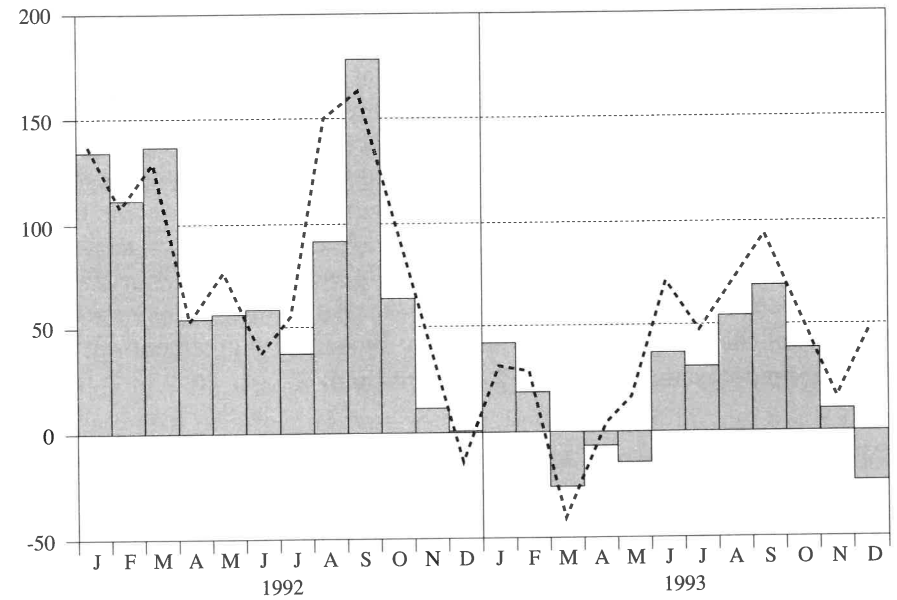
The increase in foreign direct investment in Slovenia is estimated on the basis of available data at US$ 114 million, which is roughly in line with the previous year's registered flows. The figures are incomplete as they are based mainly on the monitoring of payments data and the actual values are certainly higher.

While long-term financial borrowing and lending in 1992 had very little net effect, it amounted to a net inflow of US$ 102 million in 1993, with a slight decrease in claims and owing mainly to US$ 331 million new disbursements (government US$ 147 million, enterprises US$ 146 million) and US$ 258 million repayments (government US$ 64 million, enterprises US$ 153 million).

Over the past few years the high current account surpluses resulted in intensive outflows of short-term capital from the banking sector, from households (in 1990 and at the beginning of 1992), or through central bank policy (net sales of foreign exchange and claims on bilateral accounts to the National Bank of Yugoslavia until 1990, creation of Bank of Slovenia foreign exchange reserves in 1992). The year 1993 proved to be considerably more balanced. Households registered net sales and deposits of foreign currencies with domestic banks of US$ 86 million, and net claims from commercial credits of enterprises dropped by US$ 88 million. The Bank of Slovenia increased its foreign exchange reserves by US$ 54.5 million. The surplus in current transactions and the above mentioned capital flows were compensated for mainly by a net increase in short-term claims of commercial banks of US$ 498 million.

The build-up of banks' reserves reflects largely the policy of the Bank of Slovenia, i.e. its regulations on the maintenance of liquidity reserves against foreign currency deposits and foreign payments. Slovenia's total foreign exchange reserves in 1993 increased by US$ 403 million, reaching US$ 1,566 million, which is equivalent to 2.9 months of goods imports or 2.6 months of imports of goods and services.

Figure 2: Balance on current account (bars) and short-term financing (in US$ million monthly)



Short-term capital of all sectors including the Bank of Slovenia. For reasons of clarity, capital exports are shown as positive values.
Source: Bank of Slovenia.

4. FOREIGN DEBT

Slovenia became a member of the International Monetary Fund in January 1993, thereby assuming 16.39% of the assets and liabilities of the former Yugoslavia. In February 1993 Slovenia was admitted to the World Bank. In the division of liabilities towards this institution, the criterion of end user was applied.

Membership in the International Monetary Fund and the World Bank enabled Slovenia to accelerate its activities related to the settling of obligations from previous Yugoslav debt. In the meantime obligations due by Slovenian end users continued to be paid out regularly, with the exception of those whose legal status has remained unresolved due to unsettled relations with the former federal authorities or other entities of the former state.

Slovenia began bilateral negotiations with Paris Club members on assuming Slovenia's part of the obligations from the restructured debts and on the schedule of repayment of obligations that had fallen due during the grace period. Talks also began on the appropriate share of obligations from the Trade and Deposit Facility Agreement and the New Financing Agreement of 1988 - the last restructuring package of Yugoslavia's obligations to commercial banks. Slovenia was presented with an unacceptable proposal on the part of the creditors to take over the repayment of obligations amounting to US$ 1.2 billion of the total Yugoslav restructured debt of US$ 4.2 billion. Since the negotiating positions offered little grounds for a mutually acceptable solution being reached soon, the Slovenian Government adopted a decision in January 1994 that suspended all direct payments by Slovenian entities to their bank creditors. Repayments were transferred to a fiduciary account opened by the Bank of Slovenia at a European commercial bank. Funds will be deposited in this account until a final settlement is reached with the commercial banks regarding Slovenia's share of the total debt of the former Yugoslavia.

The total amount of Slovenian external debt on December 31, 1993 was US$ 1,873 million. This amount does not include obligations from the Trade and Deposit Facility Agreement (see above) and the part of the obligations from the New Financing Agreement not related to Slovenian end users. Long-term debt amounted to US$ 1,744 million.

Table 6: External debt and debt flows (debt at end of year, flows during year; in US$ million)

	1990	1991	1992	1993
A. Total debt stocks	**1,954**	**1,866**	**1,741**	**1,873**
Long-term debt	**1,813**	**1,765**	**1,659**	**1,744**
Public and publicly guaranteed debt	1,391	1,357	1,203	1,206
• Official creditors	909	884	807	723
• Private creditors	482	472	396	483
Private nonguaranteed debt	422	408	456	538
B. Credit flows (long-term debt):				
1. Commitments	292	118	245	644
• Official creditors	173	45	8	170
• Private creditors	119	73	237	334
2. Disbursements	314	146	271	334
3. Principal repayments	188	196	255	249
4. Net flows (2-3)	126	-50	16	85
5. Interest payments	143	148	133	125
6. Net transfers (2-3-5)	-17	-198	-117	-40
7. Total debt service (3+5)	**331**	**344**	**388**	**374**

Source: Bank of Slovenia.

III. MONETARY POLICY AND INSTRUMENTS

1. GOALS AND GUIDELINES OF MONETARY POLICY

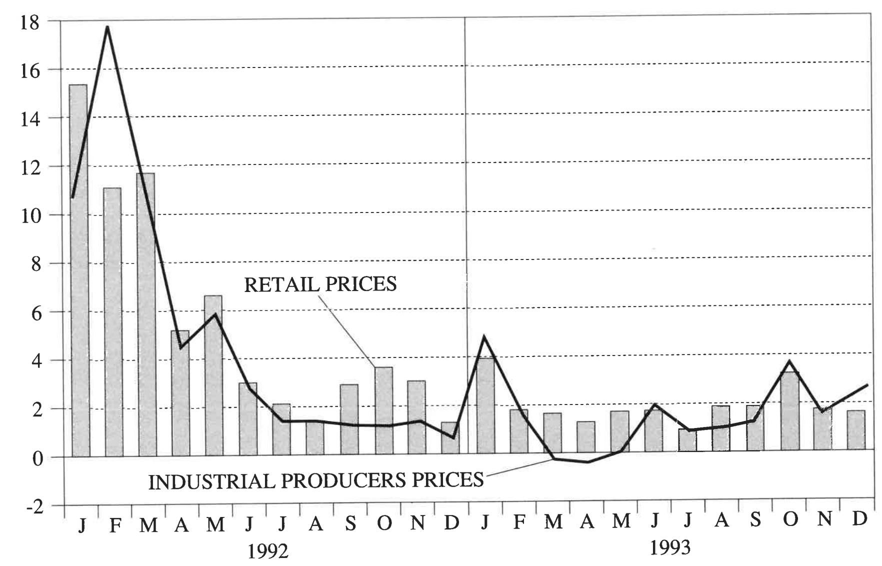
During 1992, inflation fell from an initial 15% per month to 2% per month at the beginning of the second half of 1992. This rapid slowing of inflation resulted in increased real demand for money. Given the fairly stable ratio between money in circulation and base money, this produced some room for central bank activity. At the turn of 1993, following a long period of decline, the real volume of transactions picked up, which in turn also increased real money demand.

The basic goal of monetary policy in 1993 was to further lower inflation. As in 1992, the Bank of Slovenia set itself the intermediate goal of targeting base money, with monthly targets based on a demand for money function and the money multiplier. Other posssible goals such as the exchange rate or the level of interest rates were supported with individual measures only to the extent permitted within the planned monetary framework, which was the primary goal.

Due to the degree of insecurity which continued to be a characteristic feature of the Slovenian economy, money and base money targets were only set on a monthly basis in 1993.

Interim base money targets followed by the Bank of Slovenia in its daily policy take into account monthly retail price developments for two preceeding months. The impact of real changes in the volume of transactions on the demand for money is observed with a time lag of (usually) two months. Interim estimates are later updated, when actual data on transactions become available. With this method of setting monthly targets for base money, the appropriate restrictive course of monetary policy was assured.

Figure 3: Prices (monthly growth rates in percent)

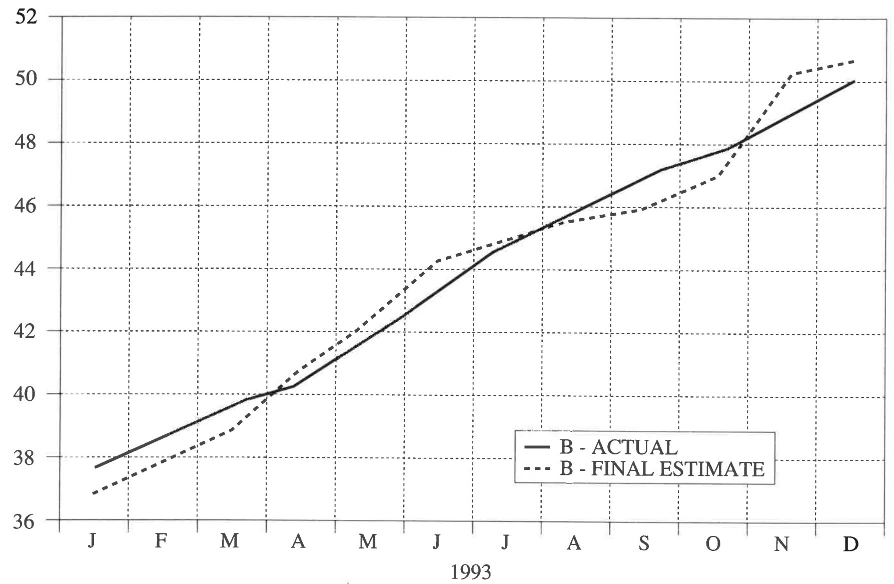


Source: Statistical Office of RS.

Retail price inflation in individual months did not vary much from the average during the year, which was 1.7%. Higher inflation was evidenced in January and October, and lower changes in April and July. Due to the evenness of monthly inflation in 1993, the velocity of money was considerably more stable than in the previous year. Increased real demand for money thus originated mainly from the increased volume of transactions.

The ratio between money and base money, expressed by the multiplier, was very stable throughout 1993, if the multiplier is calculated on the basis of money aggregates representing monthly averages of daily levels. This method provides more reliable figures than calculations based on end-of-month data, not only in view of the stable ratio between money and base money but also because the actual implementation of monetary policy is conducted on the basis of daily data on money aggregates.

Figure 4: Base money developments in 1993 (in SIT billion)



Three-month moving averages, computed from monthly averages of daily data.
Source: Bank of Slovenia.

As in 1992, the Bank of Slovenia in 1993 did not provide automatic monetisation of occasional surpluses of foreign exchange, nor did it automatically provide foreign exchange in cases of excessive demand. Nevertheless, the effects of foreign exchange transactions of the Bank of Slovenia represented the most important flow in base money creation. The 27.1 billion tolars increase in net foreign assets of the Bank of Slovenia was a result of a US$ 54.5 million increase in foreign exchange reserves, the assumption of US$ 25.3 million of liabilities to the International Monetary Fund from the former SFRY, the repayment of a part of the assumed obligations and additional payment of a reserve tranche at the International Monetary Fund totalling US$ 39.8 million, as well as of valuation changes in converting foreign exchange into tolars.

Table 7: Money in circulation, base money and the credit multiplier (in SIT million and monthly growth rates)

Month	Money in circulation		Base money		Credit multiplier	
	amount	growth	amount	growth		growth
1992/VII	53,645	7.3%	29,513	11.8%	1.819	-4.0%
VIII	61,362	14.4%	31,314	6.1%	1.964	8.0%
IX	65,723	7.1%	33,098	5.7%	1.987	1.1%
X	68,645	4.4%	32,998	-0.3%	2.083	4.8%
XI	69,858	1.8%	34,153	3.5%	2.048	-1.7%
XII	76,017	8.8%	36,532	7.0%	2.083	1.7%
1993/I	78,073	2.7%	37,861	3.6%	2.085	0.1%
II	78,526	0.6%	38,847	2.6%	2.027	-2.8%
III	81,466	3.7%	39,639	2.0%	2.064	1.8%
IV	84,485	3.7%	40,553	2.3%	2.075	0.5%
V	85,032	0.6%	41,497	2.3%	2.065	-0.5%
VI	90,037	5.9%	43,665	5.2%	2.059	-0.3%
VII	96,310	7.0%	45,487	4.2%	2.105	2.3%
VIII	97,385	1.1%	46,178	1.5%	2.106	0.0%
IX	97,057	-0.3%	47,154	2.1%	2.053	-2.5%
X	100,677	3.7%	48,684	3.2%	2.066	0.6%
XI	100,383	-0.3%	48,622	-0.1%	2.066	0.0%
XII	107,080	6.7%	51,310	5.5%	2.086	1.0%

Monthly averages, computed from daily data. The credit multiplier is computed from coefficients relating currency, bank reserves and other deposits with the Bank of Slovenia to bank deposits.
Source: Bank of Slovenia.

The increase in claims of the Bank of Slovenia against general government related to the assumption of liabilities of the Republic of Slovenia to the International Monetary Fund, which are entered in the balance sheet of the Bank of Slovenia on behalf of the government. No loans were approved for financing the budget deficit; a minor amount of foreign exchange was bought from the budget from a foreign loan.

Despite the fact that during the year numerous operations with banks, implying base money creation and withdrawal, were accomplished within the framework of monetary policy implementation, claims against banks by the end of the year were almost at the same level as at the beginning of 1993.

The withdrawal of base money as shown in Table 8, was a consequence primarily of the conversion of balance sheet items nominated in foreign currencies. Therefore, although liabilities increased in nominal terms, this did not imply enlarged room for base money creation in real terms.

Flows of money in circulation, shown in Table 9 on the basis of the consolidated balance sheet of the banking system, explain on the one hand the channels of money creation and on the other hand point out the structural changes in the balance sheets of banks, caused by the process of bank restructuring begun in 1993.

Table 8: Derivation of base money (in SIT million)

	31.12.92	Change in quarter				31.12.93
		I	II	III	IV	
Base money	**35,341**	**1,165**	**2,587**	**3,069**	**6,944**	**49,106**
Bank reserves	7,685	3,101	-1,754	1,793	1,723	12,548
Currency	24,183	-2,196	3,512	1,746	5,443	32,688
Non-banking sector deposits	3,473	260	829	-470	-222	3,870
Creation	**95,914**	**4,903**	**23,604**	**-9,335**	**17,409**	**132,495**
Net foreign assets	70,769	-5,659	13,349	4,119	15,316	97,894
Claims on government	8,850	7,659	934	-163	1,319	18,599
Claims on domestic banks	15,595	-228	9,444	-9,761	795	15,845
• lombard loans	152	868	2,388	-3,178	121	351
• liquidity and other loans	15,443	-1,096	7,056	-9,532	2,135	14,006
• repurchase agreements	0	0	0	2,949	-1,461	1,488
Other claims	700	3,131	-123	-3,530	-21	157
Withdrawal	**60,572**	**3,738**	**21,017**	**-12,404**	**10,465**	**83,389**
Foreign exchange liabilities	7,590	-4,566	7,013	-5,342	3,812	8,507
Bank of Slovenia bills	40,760	3,029	5,107	-4,863	6,352	50,385
Net other liabilities	12,222	5,275	8,897	-2,199	301	24,497

Source: Bank of Slovenia.

BANKA SLOVENIJE

Net foreign assets of the banking system fell in 1993, which was a result of two contrasting trends. External transactions both on the current and capital account increased money by 55.3 billion tolars. The remaining decrease in net foreign assets of the banking system of 64.7 billion tolars represents a reduction in claims on the former National Bank of Yugoslavia against deposited foreign currency. A part of these claims, amounting to DM 933.3 million, was taken over by the government under the Law on Settlement of Obligations From Unpaid Foreign Currency Deposits.

Claims of the banking system on general government in 1993 also increased as part of the operation in which bad claims and potential obligations of banks undergoing rehabilitation were swapped for bonds of the Agency for Rehabilitation of Banks and Savings Banks with government guarantees amounting to DM 1,390.6 million.

Claims against enterprises and households went up by 25% in real terms. The increased quantity of money on this basis was entirely compensated within the same sectors by the outflow of money to nonmonetary deposits. Significant structural shifts are also included in the "net other liabilities" item, due to numerous entries related to provisions and reserves accounts arising from bank rehabilitation measures.

Table 9: Derivation of money in circulation (in SIT million)

	31.12.92	Change in quarter				31.12.93
		I	II	III	IV	
Money (M1)	**81,487**	**1,873**	**13,394**	**6,256**	**12,962**	**115,972**
Deposits at commercial banks	53,869	4,101	8,940	4,974	7,895	79,779
Deposits at Bank of Slovenia	3,435	-32	942	-464	-376	3,505
Currency	24,183	-2,196	3,512	1,746	5,443	32,688
Increase	**398,892**	**49,086**	**55,880**	**150,564**	**53,039**	**707,461**
Net foreign assets	127,545	8,743	-10,681	-14,918	7,413	118,102
Claims on general government	23,098	12,622	33,440	121,910	16,492	207,562
Claims on households & enterprises	247,754	27,472	32,228	42,928	29,115	379,497
Claims on other financial institutions	495	249	893	644	19	2,300
Decrease	**317,405**	**47,213**	**42,486**	**144,310**	**40,073**	**591,487**
Nonmonetary deposits	219,124	31,414	33,324	37,706	53,900	375,468
• households and enterprises	191,466	25,814	34,463	27,215	48,004	326,962
• general government and OFI	27,658	5,600	-1,139	10,491	5,896	48,506
Securities	19,205	6,552	4,169	-3,821	3.219	29,324
Restricted deposits	7,021	1,244	1,703	-1,274	2,786	11,480
Net other liabilities	72,055	8,003	3,290	111,699	-19,832	175,215

Source: Bank of Slovenia.

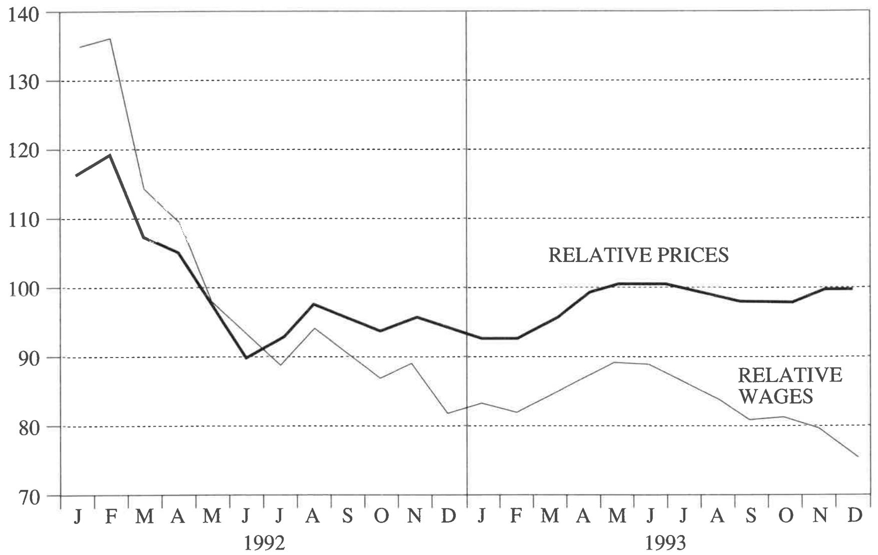
In 1993 the Bank of Slovenia managed the quantity of base money with instruments designed to regulate the quantity of money in circulation, the general liquidity of banks and savings banks, and to assure liquidity of banks in foreign payments.

The selection of instruments depended primarily on quantitative monetary targets and at certain times on other, subordinated factors, particularly the liquidity situation of banks and exchange rate trends in the foreign exchange market.

Two separate periods can be discerned in 1993, in which the selection of monetary policy instruments was somewhat differently conditioned.

In the first half year the Bank of Slovenia intervened most frequently with offers of lombard loans. These offers were conditioned in various ways - by the exchange rates at which banks using these loans had to purchase or sell foreign exchange to enterprises, or by the quantity of purchased or sold foreign exchange. The offers were determined as to amount and maturity according to the required quantities of base money and the need for compensating monetary effects at maturities of the Bank of Slovenia twin bills, as well as the effect of the transfer of central bank profits to the budget in July.

Figure 5: Real effective exchange rate (indices 1992 = 100)



Effective exchange rate, deflated with relative retail prices and with relative wages in industry.
Index growth denotes growth of value of foreign currencies, and vice versa.
Source: Bank of Slovenia.

The aim of conditioning exchange rates and quantities of purchased or sold foreign exchange was to influence the setting of exchange rates on the foreign exchange market. Figure 5, which shows the real effective exchange rate, indicates that the aggregate level of competitivness of Slovenian exporters, calculated with changes in relative retail prices, was from May onwards at the average level of the previous year. The reduced competitiveness owing to the real growth in wages in the first quarter and in the second half year could not in any way be countered with monetary policy measures.

Throughout 1993 the Bank of Slovenia also made attempts at affecting the general level of interest rates, always within limits set by the current monetary targets. The preconditions for the beginning of this process were the stabilisation of inflation at monthly rates below 1.5% and the implementation of measures for bank rehabilitation. The representative market rate, i.e. the interest rate on loans in the interbank market (the real part, that is the so-called "r"), fell from 16.4% in January 1993 to 12% in December 1993, with the trend on a further decline.

2. MONETARY POLICY INSTRUMENTS

The Bank of Slovenia implemented its monetary policy with instruments chosen with regard to monetary developments, making use of those it already had at hand from the previous year, and also introducing new instruments when a changing situation and policy targets called for them.

Figure 6: Interest rates on the money market (annual real rates over revaluation (R) in percent)

Source: Bank of Slovenia.

Required reserves

Required reserves are one of the most stable instruments of monetary policy prescribed for banks and savings banks (including savings cooperatives). Following the attainment of monetary sovereignity, the model was changed significantly in April 1992 and since then once again in April 1993 with a minor adjustment in the technical requirements.

The base for calculating required reserves are all tolar deposits, loans and liabilities from security issues, with the only exception being interbank obligations. The rates vary according to maturity: 12.5% for sight deposits and time deposits not exceeding thirty days, 3% for deposits from thirty-one days to one year, and 0.5% for deposits over one year. The reserve base increased throughout the year, by an average of 4.2% per month; in nominal terms it increased (by 57%) from 14.3 billion tolars to 21.1 billion tolars, and in real terms by 30%. The structure of deposits was also changing. The share of long-term deposits increased by almost five percentage points, as a result of the growing confidence in tolar savings. The changed structure of deposits reduced the average actual reserve requirement from 8.2% in January 1993 to 7.7% in December 1993.

The amount of reserves also increased throughout the year, but at a lower rate (3.1% monthly on average). This rate was influenced by the special position of the bank undergoing rehabilitation, which was temporarily relieved as of April from creating reserves at the level determined for other liable entities. Owing to the special position of this bank, the aggregate reserve requirement was 24% lower and reserves increased from their January level of 14.3 billion tolars (including the bank undergoing rehabilitation) to 15.7 billion tolars (without the bank undergoing rehabilitation) by the end of the year.

The total level of bank reserves (average balances on giro accounts, cash in vaults and balances on special accounts), increased from April to December at a monthly rate of 2.6%. Requirements were not met at various times in seven months of the year, with the shortfalls ranging between 3.2 billion tolars and 0.1 billion tolars. These deficiences resulted from adverse developments in banks undergoing rehabilitation and pre-rehabilitation, and in two savings banks undergoing bankruptcy procedures. The requirement was fully met only in December, allowing for the special position of the bank undergoing rehabilitation. In all other months five banks, five savings banks and twelve savings cooperatives at times fell short of required reserves.

Foreign exchange minimum

With the aim of ensuring liquidity in foreign payments and security of foreign currency deposits, banks are prescribed to hold a minimum reserve - a foreign exchange minimum in liquid foreign currency investments abroad.

The methodology of calculating the foreign exchange minimum in 1993 remained almost unchanged from the previous year. The amount is determined for each bank on a monthly basis with regard to its foreign payments operations (35% of the average monthly foreign payments over the last three months) and its liabilities from foreign currency deposits of households (sight deposits 90%, time deposits up to three months 75%, time deposits over three months and up to one year 35%, and time deposits over one year 5%). Since July, foreign currency deposits of nonresidents are also included.

In 1993 banks met the prescribed foreign exchange minimum with balances on bank accounts abroad, currency and cheques, interbank foreign exchange claims, and Bank of Slovenia foreign exchange bills. Since March, investments in safe foreign securities have also been taken into account, and since August, rights to foreign exchange repurchases from the Bank of Slovenia.

The foreign exchange minimum of all banks increased by ECU 390 million in 1993, reaching ECU 897 million by the end of the year. Banks generally held more than the foreign exchange minimum; on the last day of the year the overshooting was ECU 228 million. The two banks undergoing rehabilitation were temporarily partly relieved of the obligation observed by other banks. In addition to the foreign exchange minimum, the banks must ensure a net foreign exchange position, which is the difference between a bank's foreign exchange holdings and its short-term foreign indebtedness. As of March the net foreign exchange position may not be at more than 15% below the foreign exchange minimum.

Bank of Slovenia bills

In 1993 the Bank of Slovenia continued to issue foreign exchange bills and twin bills, which were introduced in 1992, while the offer of the tolar bill moved further in the direction of a short-term money instrument designed for banks and savings banks. Only the twin bills are actual securities rather than book entries.

Foreign exchange bills are transferable securities which can be purchased by banks and through them by all other legal entities. The purpose of these bills remained unchanged in 1993, which means intervention on the foreign exchange market, since through the sale of the bills foreign exchange is drained from the market and, in conditions of excess supply, the exchange rate can be influenced. The bills are on permanent offer, they are paid in and out in DM and, since May, also in US dollars.

Turnover depends on the interest rate, which fluctuates according to interest rate developments in foreign markets, and on foreign exchange inflows. At the end of the year, bills outstanding totalled DM 566 million and US$ 17 million, of which 85% were held by banks. Since the beginning of 1993, amounts outstanding denominated in German marks decreased by DM 37 million, while the amount of bills denominated in dollars grew by US$ 15 million. This instrument is particularly interesting for banks, since it can be used to satisfy the foreign exchange minimum, and is accepted as collateral against lombard and liquidity loans, or it can be temporarily sold to the Bank of Slovenia in its repurchase operations.

The twin bills are short-term transferable securities. With the twin bills the central bank extended its offer of safe investment opportunities to banks and through their intermediation to enterprises and households. The bill is composed of a tolar and a foreign currency part. It is purchased on the primary market and paid entirely in tolars at a discount providing for the real interest rate. On the secondary market its two parts can be traded separately. In order to maintain real value, the tolar part is indexed and is paid out at maturity in tolars, while the foreign currency part is paid out in foreign currency.

With the twin bill the central bank widened its scope for intervention on the open market. In 1993 four new series of twin bills were issued, while subscription of the series issued in 1992 continued. The total value of all sales in 1993 was 19.9 billion tolars and 7.8 billion tolars was paid out at the maturity of three series. The use of this instrument withdrew 12.1 billion tolars of base money.

Tolar bills are on permanent offer to banks and savings banks. In 1993, the only fluctuations relating to this instrument stemmed from interest rate changes.

Banks may buy two-day and twelve-day bills. Holdings of twelve-day bills make them eligible for equivalent amounts of liquidity loans for three days at the same interest rate as that of the bills. At the beginning of the year more two-day bills were sold, since banks did not wish to offer their excess liquidity to the banks undergoing rehabilitation or pre-rehabilitation. As confidence in the rehabilitation process grew, banks began increasingly to offer their surpluses on the interbank money market, which yielded higher returns. For this reason demand for central bank bills declined.

Savings banks showed a greater interest in the Bank of Slovenia bills, since they have less opportunity to invest occasional surpluses safely as they cannot participate on the evening interbank market. Savings banks may buy seven-day and fourteen-day bills. Over the year, savings banks bought 2.1 billion tolars of seven-day and 2.3 billion tolars of fourteen-day bills, most of which during the first half year and in December.

Liquidity loans

The legal obligation of ensuring the general liquidity of the banking system is performed mainly through the granting of liquidity loans to banks, against collateral of its own bills and of government bonds of the first and second issue. In 1993 liquidity loans were the most frequently applied instrument of monetary policy, and their type and method of use were extended. Total liquidity loans outstanding amounted to a daily average of 14.6 billion tolars, of which 12 billion tolars was accounted for by loans to banks undergoing rehabilitation and pre-rehabilitation, while 2.6 billion tolars was for overnight loans.

Overnight liquidity loans are available to all banks which are net debtors in interbank crediting, and may only be used by banks to fulfil their reserve requirement and may not to be lent to others. These loans are approved on the evening interbank money market, on which the Bank of Slovenia regularly participates, ensuring through its interventions that banks reach the necessary reserve requirements. Although its overnight interventions involved only limited amounts, the influence of the Bank of Slovenia nevertheless managed to bring down interest rates on the interbank money market. In May and June, the Bank of Slovenia offered additional overnight loans, which were conditioned with the sales of foreign exchange to enterprises.

Special liquidity loans intended only for banks undergoing rehabilitation or pre-rehabilitation, were granted for one day or for 14 days at an interest rate higher than for overnight loans. In accordance with the decree on rehabilitation, the two banks in the rehabilitation process also received additional short-term loans, but not for longer than one year, against paid out potential liabilities that were transferred to the rehabilitation agency. These loans lowered the indebtedness of banks in other types of liquidity loans. Another reason for this was the decision by the Ministry of Finance to deposit budget funds primarily with banks undergoing rehabilitation and pre-rehabilitation.

Lombard loans

Lombard loans were the second most frequently used instrument to regulate the amount of money in circulation in 1993. Banks acquired these loans through auction or at a permanently open lombard loan window. Bank of Slovenia foreign exchange bills and government treasury bills were taken as collateral. In 1993 lombard loans accounted for 24.8 billion tolars of base money creation, and repayments were equivalent to 24.6 billion tollars.

Lombard loan auctions included various requirements by the Bank of Slovenia, dependent on its current policy preferences. Banks would indicate the rate at which they were prepared to sell to enterprises, or purchase from them, foreign exchange during a given period and in given quantities, or the percentage of purchases of foreign exchange from enterprises or sales of foreign exchange to enterprises during a given period at a given rate, or the duration (days) of using the loan during which purchases or sales would be performed at a given exchange rate.

This instrument was used most actively in May, when more than 2.8 billion tolars was issued, and was applied more sparingly during the first two months of the year. During the first half year the central bank used this instrument for base money creation and intervention on the exchange market. During the second half of the year, particularly in July, it was used to withdraw liquidity in order to offset the monetary effects of the 3.5 billion tolars transfer of profits to the budget. The instrument was not used after August, with the exception of the end of November. In 1993 18.6 billion tolars of lombard loans was granted to banks through auctions, the majority of which were conditioned on the sale of foreign exchange to enterprises.

The intervention lombard loan is a permanent liquidity window for banks of a five-day loan, the amounts determined as a given percentage of the value of collateral, which was 2.5% until October and 1.7% after November. The loan was conditioned on the obligation of the bank to purchase foreign exchange inflows from enterprises and sell foreign exchange to enterprises at the exchange rate stipulated by the offer. The prescription of the exchange rate changed frequently and was reported to banks as and when the offer changed. These loans were also mostly used in the first half of the year and then again from September to November. In March and April base money creation from this instrument was considerable, at 1.1 billion tolars each month.

Repurchase agreements

At the end of November and throughout December, the Bank of Slovenia intervened with the temporary purchase of its foreign exchange bills against obligatory repurchase after seven or ten days. This was the main regular instrument with which the Bank of Slovenia intervened in December, and was the principal reason that banks' demand exceeded supply in every day except at the end of the month, when liquidity was favourable. In 1993, 7.0 billion tolars was created through this instrument and 5.6 billion tolars was withdrawn in repurchase.

Intervention in the foreign exchange market

An important flow of reserve money creation in 1993 resulted from foreign exchange transactions, in which new instruments were used along with the final purchase and final sale of foreign exchange transactions from 1992. These were the purchase of foreign exchange with the right to repurchase and with the obligation to repurchase. The Bank of Slovenia also bought and sold foreign exchange in the execution of foreign payments for the government; it purchased foreign exchange from a foreign loan, sold foreign exchange under a special law, and purchased foreign exchange at the repayment of a loan at maturity. Total purchases amounted to DM 869 million, equivalent to 60.1 billion tolars at current exchange rates, while sales totalled DM 534 million, equivalent to 37.8 billion tolars. Over the year as a whole the value of foreign exchange purchased exceeded the foreign exchange sold by DM 335 million, representing 22.2 billion tolars of net base money creation.

Purchases of foreign exchange represented the major part of foreign exchange intervention by the central bank in 1992, but only 3% in 1993. The Bank of Slovenia purchased foreign exchange at auctions, where banks offered exchanged rates at which they were prepared to sell foreign currencies.

Banks selected by auction had to fulfil an additional condition requiring that during a given period they buy foreign exchange from enterprises in an amount no lesser than the amount sold to the Bank of Slovenia, at the auctioned exchange rate. In January and February and once in July 1993, DM 28 million was purchased.

On the basis of an open offer for the purchase of foreign exchange, banks could at any time sell to the Bank of Slovenia unlimited quantities of foreign exchange at an exchange rate which was about 5% lower than the official rate. This offer met with no response from the banks.

Purchase of foreign exchange with the right to repurchase was introduced in July, in the period immediately preceding the transfer of profits to the budget, when the current monetary targets did not really support this instrument. The offer was only made ten times. Banks auctioned the selling exchange rate and they also had to fulfil the requirement of purchasing foreign exchange inflows from enterprises in a given period at a given percentage of the foreign exchange sold. DM 29.7 million was sold, and rights to repurchase within a period of one year were issued for the same amount. Only one bank has already exercised this right, so that potential liabilities of the central bank at the end of the year were still DM 28.2 million. A certain percentage of these repurchase agreements are taken into account in fulfilling the foreign exchange minimum.

Purchase of foreign exchange with obligatory repurchase was also a new instrument introduced in 1993 and used from July to November. Banks auctioned the amount (percentage) of foreign exchange purchases from enterprises in a given period at their own exchange rates, or the exchange rate at repurchase; repurchase was obligatory. DM 256.4 million worth of purchases and repurchases was made in 1993.

Most of the foreign exchange bought by the Bank of Slovenia in 1993 was for the repayment of liquidity loans of a bank undergoing rehabilitation and a bank in pre-rehabilitation. The foreign exchange had been deposited as collateral against these loans and the operations were in a total amount of DM 537.8 million, which settled 37 billion tolars of liquidity loans.

Sales of foreign exchange to banks were made in November and earlier in the period from March to June. The Bank of Slovenia sold foreign exchange by auctioning the exchange rate and as of May by the US method of selection. DM 76.6 million was sold and 5.4 billion tolars at current exchange rates withdrawn from circulation.

As banker for the government the Bank of Slovenia withdrew 12.7 billion tolars.

Bank of Slovenia Interest Rates

Given the gradual slowing of inflation in 1993, the Bank of Slovenia took a number of steps to influence the lowering of domestic interest rates. This activity resulted most of all in a reduction of banks' rates on the interbank money market. In May the Bank of Slovenia lowered its discount rate from 25% to 18% per annum. At the same time the lombard rate which is tied to the discount rate was lowered to 19% per annum.

Interest rates on liquidity loans were dropped considerably, particularly on overnight loans (from 11.0% in January to 6.5% in the beginning of 1994 - real rates). This rate represents a floor for banks' money market rates, to which they tend to adjust. The average real interest rate (above R) fell on the interbank money market from 15.8% in December 1992 to 11.7% in December 1993.

Interest rates on Bank of Slovenia bills were also reduced, with one of the desired effect being to influence banks' lending rates.

Control of implementation of monetary policy

The Bank of Slovenia indirectly and directly supervises the implementation of its monetary policy measures by banks and savings banks, and also compliance with the rules and conditions of its operations on the open market. Indirect control is implemented through a constant check of the reports and documentation received from banks and savings banks. Checks are also occasionally carried out on site. In the course of this activity, 48 irregularities were discovered in 1993 at seven banks, five savings banks and fifteen savings cooperatives. The largest number of irregularities (30) involved the failure to meet the reserve requirement, while other irregularities concerned incorrect calculation of the base for obligatory reserves, incorrectly compiled reports, and failure to meet requirements in direct offers by the Bank of Slovenia. Action was taken in six banks due to violations of regulations concerning the foreign exchange minimum and net foreign exchange position.

IV. REHABILITATION OF THE BANKING SYSTEM

With the attainment of sovereignity the first steps were taken to commence the rehabilitation of banks, which were then practically the only institutions of financial intermediation. The Bank of Slovenia carried out a first rough assessment of the costs of financial intermediation, which revealed large-scale inefficiency in the banking system. The inquiry produced the following basic assessment:

- bad loans from the past, the volume of which increased after October 1991, because debtors were now also located in newly foreign countries of the former Yugoslavia,
- foreign currency deposits of households deposited at the former National Bank of Yugoslavia as stipulated by the policy of that institution, so that the debtor in this case remained outside the jurisdiction of the Republic of Slovenia,
- excessive operational costs of the banks due to overstaffing and inefficiently organised networks.

Prior to rehabilitation proper, the Bank of Slovenia introduced pre-rehabilitation measures with the aim of making all the necessary preparations. Among other steps, authorised officials of the Bank were appointed to such banks to control credit policy and, primarily, the extent and type of operational costs.

The rehabilitation of banks proceeded on the basis of the Law on Rehabilitation, Pre-Rehabilitation and Liquidation of Banks, adopted on June 25, 1991, and the related non-statutory acts, such as the Government Decree on the Founding of the Agency for the Rehabilitation of Banks and Savings Banks (October 8, 1991; August 1, 1992; August 10, 1993). The framework for the rehabilitation of banks was provided by a number of laws which affect the position of banks in general, but particularly those liable for rehabilitation, including: the Law on the Republic of Slovenia Guarantee on Bonds Issued for the Rehabilitation of Banks, the Law on Replacing Bank Claims on the National Bank of Yugoslavia Deriving from Frozen Foreign Currency Deposits of Households with Republic of Slovenia Bonds, the Law on the Rehabilitation of Slovenian Steelworks and the Law on Covering the Claims of Slovenian Companies Against Iran, Cuba and Angola.

The Bank of Slovenia which, pursuant to the above legislation, initiates the rehabilitation procedures, decided together with the Agency to gradually introduce rehabilitation in individual banks to the extent and with the dynamics determined by the situation in the banks themselves, by the potential of public debt envisaged for this purpose and by central budget restraints concerning the servicing of public debt. The decree on the introduction of rehabilitation procedures in a bank is based on the evaluation of the bank's financial situation, in which all the on- and off-balance sheet items are considered, and on the procedures set by the Law on Rehabilitation, Pre-Rehabilitation and Liquidation of Banks. In the first cases in which rehabilitation was introduced, a partially adapted technique to that practiced in some other countries (e.g. Spain) was used, consisting of:

- writing off current losses against capital,
- replacing bad (on- and off-balance sheet) bank assets with Agency bonds with a government guarantee,
- transfer of these assets together with a share of the liabilities to the Agency in the form of subordinated claims of former owners,
- recapitalisation of the bank and take-over of ownership by the Agency.

The issue of the decree causes the immediate cessasion of authority of the former bank management, its administrative and supervisory bodies and all authorisations as well as the rights of former shareholders (founders) deriving from capital investments. These capital investments are partly written off against the bank's losses and partly transferred to the Agency as subordinated claims of the bank's shareholders on the Agency. Despite the fact that this type of rehabilitation process represents a practical (temporary) nationalisation of the banks, it is fully appreciated that successful rehabilitation can only be implemented and concluded by reprivatisation of the banks. In view of this, the specific reasons which led to the rehabilitation of the banks, and the smallness of Slovenia's financial and capital markets, a special instrument of subordinated claims of the former owners against the Agency was introduced upon the issuing of the decrees on the rehabilitation of Ljubljanska Banka d.d. and Kreditna Banka Maribor d.d., which will form the basis for the reintroduction of ownership rights by the former shareholders of the banks.

The process of rehabilitation proper commenced with the decrees of the Bank of Slovenia on the rehabilitation of Ljubljanska Banka d.d. of January 27, 1993, and of Kreditna Banka Maribor d.d of March 30, 1993. In accordance with these decrees, the Agency appointed the management of both banks, and deadlines were set for the compilation of inventories of claims and potential liabilities which were to be transferred to the Agency. In 1993 the Agency issued and handed over to these two banks, bonds totalling in value DM 1,390.6 million, which in 1993 brought in interest receipts of 7,128 million tolars.

In the second half of the year, the Bank of Slovenia began preliminary procedures for a third bank, the LB Komercialna Banka Nova Gorica d.d. The Bank of Slovenia intended to carry out this particular rehabilitation in a different manner, by simultaneous rehabilitation and privatisation of the bank. On July 17, 1993, a public tender was published for the take-over of the bank under which the government would assume the bank's bad claims up to a level where capital would equal zero, while potential investors would provide new additional capital. This attempt was however unsuccessful and in the end the same rehabilitation model was applied as in the earlier cases.

The replacement of the banks' bad assets with bonds issued by the Agency brought a solution to the banks' problem of insolvency, as well as a partial solution to their income position. It failed however in the short term to solve the problems associated with liquidity and structural imbalances, which are far more pronounced in the smaller banks. These structural imbalances, i.e. the high share of long-term government bonds with a foreign-currency clause in the total assets of the banks, make the banks more sensitive and exposed to currency risks and interest rate risks as a result of their "long" position.

To make the rehabilitation of banks as successful as possible, both banks and the Agency adopted certain institutional and organisational measures. In June 1993, the Expert Council of the Agency adopted a Programme for the Rehabilitation of Banks by drawing up clear guidelines for the functioning of the Agency, its organisation and objectives, for the implementation of rehabilitation and for the management of the assets taken over from the banks. On the basis of this document, the Expert Council adopted Rules and Procedures for Granting Credits by Banks Undergoing Rehabilitation, a Code of Ethics of the Agency, Instructions for the Management of Bad Assets and Criteria for the Evaluation of the Success of the Administration of a Bank Undergoing Rehabilitation, which together with the organisational measures helped to provide better supervision and control of the banks and enabled timely influence to be brought to bear on decision-making, particularly in the area of crediting, assets and liabilities management and costs reduction.

Prescribed credit procedures restrict banks' decision-making level with regard to loans relative to capital, investment risks and investment guarantees, with the aim of putting a stop to "bad credit habits". For this reason, the two banks have credit boards on several levels, and they cannot decide independently on loans in excess of 3% of capital or on any long-term investments without the consent of the Agency. Great emphasis is laid on assessing the creditworthiness of a bank client and on the bank's overall exposure to that client; the Code of Ethics prohibits any ties between the loans officer and the client. Since some bad investments have remained with the banks despite the transfers to the Agency, these are treated separately in a special organisational part and according to special procedures defined by the Agency's Instructions for the Management of Bad Assets. These apply to the banks and also to the Agency in its management of the transferred bad assets of banks. The aim is to achieve maximum proceeds by, if possible, restructuring the debtor company, which is considered to assure greater profit and greater social benefit than would its liquidation. It must be stressed that a bank may carry out such restructuring only on the basis of an appropriate analysis and measures. If companies are socially owned, restructuring must be carried out in conjunction with privatisation.

The criteria for the evaluation of the administration of a bank undergoing rehabilitation is the achievement of a positive operating cash flow within limitations such as positive profits, compliance with the monetary requirements of the Bank of Slovenia, reduction of indebtedness with the central bank and on the interbank market, keeping new acquired loans below repayments, and keeping personal incomes in proportion with the profit and loss account.

The most important part of the rehabilitation process and the part that has the greatest impact on all financial and organisational elements in the bank is the ascertaining of the extent and type of bad assets in individual banks, their exclusion from the bank's balance sheet and take-over by the Agency. In this process the Agency is gradually becoming the largest single creditor in Slovenia and one of the key pillars in the process of real sector restructuring. The management of these assets is becoming not only one of the most important activities of the Agency but also one of the key conceptual, organisational, personnel and, of course, material elements in the rehabilitation of banks. The success or lack of it in the management of assets has a combined impact on the privatisation and restructuring of the real sector, and on the reduction of public debt and thus lowering the taxpayers' direct and indirect obligations related to bank rehabilitation. Indirectly, successful solutions for the bad assets mean increased chances for rapid privatisation of the banks, which should also proceed through the subordinated claims of the former bank shareholders.

The 1993 balance sheets and profit and loss accounts of banks undergoing rehabilitation show the first positive operating results. The greatest success undoubtedly may be the balancing of cash flows and the reduction of indebtedness to the Bank of Slovenia. These banks must direct their surplus to the formation of general reserves to cover credit risks, to special reserves related to foreign currency risks, and to compensate the disproportionately "long" asset structure.

In the activities connected with the implementation of bank rehabilitation, the Bank of Slovenia and the Agency are also directing themselves to a restructuring of the entire banking system, with the prime objective of ensuring its greater efficiency and of preventing potential monopolizing tendencies. The process also includes a gradual normalisation, i.e. decomposition of the former all-encompassing Ljubljanska Banka system.

V. OTHER BANK OF SLOVENIA OPERATIONS

1. BANKER FOR THE GOVERNMENT

Payments

The Bank of Slovenia has a legal obligation to perform payments and other foreign currency transactions for the Government of the Republic of Slovenia. In 1993 both the volume as well as the variety of operations expanded. Payments were executed through twelve accounts in various currencies by money order, cheque, collection and documentary letter of credit.

In 1993, DM 193.9 million of foreign exchange was sold and DM 5.2 million was bought for payments made for the budget. Conversion into tolars is made through the prevailing official exchange rate of the Bank of Slovenia.

Vouchers and Securities

The Bank of Slovenia performs operations for the government connected with the issuing of administrative and court stamps. It also performs for the government all professional and technical tasks associated with tobacco stamps, including storage and distribution.

In 1993 the Bank of Slovenia carried out professional and technical tasks in the issue of government securities and in the processing of matured bonds and coupons.

Foreign loans

On the basis of a contract with the Government of the Republic of Slovenia, the Bank of Slovenia acts as agent for all operations connected with a US$ 100 million loan of the Republic of Slovenia from a foreign commercial bank syndicate. Disbursements in 1993 amounted to US$ 73 million (US$ 18 million in August and US$ 55 million in October). The loan was used in part to settle the government's foreign obligations, sold in part to banks undergoing rehabilitation for payment of state-guaranteed obligations, in part to banks on the foreign exchange market and in part to the Bank of Slovenia. Of the total amount disbursed, US$ 55 million was used in 1993, while US$ 18 million has been carried over to 1994. The Bank of Slovenia directly purchased US$ 7 million. The unused loan is managed by the Bank of Slovenia in accordance with the rules applying to foreign exchange reserves and according to the disbursement schedule.

2. SUPERVISION OF BANKS AND SAVINGS BANKS

The Bank of Slovenia supervises banks and savings banks in accordance with the provisions of the Law on Banks and Savings Banks, the Law on the Bank of Slovenia and in accordance with adopted resolutions and other instructions regulating this area.

The Bank of Slovenia supervises banks and savings banks by:
- inspecting reports and other documentation received from banks or savings banks as well as inspecting data and other documentation at its disposal;
- obtaining answers to written questions addressed to banks and savings banks;
- visiting for on-site examination of books and other documentation of banks and savings banks.

In 1993 the Bank of Slovenia carried out 30 external inspections, 22 in banks and 8 in savings banks. This does not include inspections connected with the rehabilitation of two banks and the bankruptcy of one savings bank. In most cases it involved a complete inspection of the institutions' operations, and in some cases also inspection of individual fields of operation.

Apart from the external inspections, the Bank of Slovenia also performed regular controls of all reports and other documents submitted by the banks and savings banks.

As a direct result of a number of irregularities and deficiencies established during the inspections, particularly in the newly established savings banks, in 1993 the Bank of Slovenia tightened supervision of the operations of banks and savings banks. In the cases involving irregularities, the Bank of Slovenia carried out all required measures.

One of the important activities of the Bank of Slovenia in the supervision of banks and savings banks was the issuing of licences and consents. In 1993, three banks were issued operating licences, seven were issued licences to expand their scope of operations, two consents were granted for the founding of representative offices of foreign banks (one application was rejected), and four consents were granted for individual shareholders to hold more than 15 percent of shares (two applications were rejected). One savings bank was issued an operating licence, two applications for licence were rejected.

The Bank of Slovenia granted 16 consents to the appointments of directors, chairmen and management, one application was rejected. In 1993 changes to the Law on Banks and Savings Banks and changes to the Law on Pre-Rehabilitation, Rehabilitation, Bankruptcy and Liquidation of Banks and Savings Banks were adopted, introducing stricter limits on the operations of banks and savings banks and harmonisation with international standards. From August 1, 1994 on, Slovenian banks will have to meet the generally accepted 5 per cent level of capital adequacy.

The Bank of Slovenia also adopted a number of new regulations concerning methods of calculation of capital adequacy, the allocation of claims and off-balance sheet items, and the formation of provisions against credit risks. Since December 31, 1993, the methodology of the Basle Committee on Banking Regulations and Supervisory Practices is applied in the calculation of the capital adequacy of banks and savings banks.

The changes in the allocation of claims and off-balance sheet items relate mainly to the reduction of the percentages used to calculate potential losses from claims allocated to the various groups, together with the tightening of criteria on allocation. Another change in this area is the obligatory use of suspension of income for bad claims.

An important new element is also the obligatory formation of provisions against potential losses. In the past, banks only calculated these provisions, which were then subtracted from capital, whereas from now on they will have to make a bookkeeping entry for them.

In 1993 the Bank of Slovenia devoted particular attention to the task of making operational the Slovenian Accounting Standards and, in connection with this, prepared a new scheme of accounts for banks and savings banks which will begin to apply from January 1, 1994.

The aim of all these activities was to harmonise regulations with international standards, which will provide the basis for a qualitative shift in the implementation of the supervision of banks and savings banks.

With the same purpose in mind, the Bank of Slovenia adopted a programme of further development of its supervision facilities. This includes a reorganisation of the Department for the supervision of banking operations, an increase in the number of supervising staff and assistance from a group of foreign consultants in the field of supervision regulations, analysis of banking operations and implementation of supervision in banks and savings banks.

3. PAYMENT SYSTEMS REFORM

In 1993 the Bank of Slovenia began work on a project of payment system reform. The reform is based on the following principles:
- the central bank, as the institution responsible for monetary policy and the stability of the financial system, must have control of the payment system,
- settlement should be provided with accounts of commercial banks at the Bank of Slovenia,
- competitiveness and low cost must be ensured in the performance of payments,
- administrative restrictions concerning means of payments, institutions performing payments and participants in the system must be removed,
- a high level of reliability and security must be ensured in the payment system;
- the current level of technical efficiency in the system must be retained.

The introduction of these principles will reform the current system, based on obligatory payments through the Social Accounting Service (SDK). Additionally, the control and tax functions will have to be separated from the function of payments through giro accounts.

The reform of the payment system is expected to result in the integration of individual segments of the system: retail payments, interbank payments, securities market transactions and foreign exchange transactions. The establishment of an Association to operate within the Slovenian Bank Association and to ensure the introduction of modern technical standards and the compatibility of the Slovenian payment system with the payment systems of the European Union, is planned.

4. ESTABLISHMENT OF EXTERNAL SECTOR STATISTICS

In 1993 the Bank of Slovenia introduced important changes to the monitoring of external transactions. The aim was to expand the system of reporting so that residents would be obliged to report on the balances of all their foreign assets and liabilities as well as all changes by type.

Apart from data on long-term loans, received and granted, and short-term loans, as of December 31, 1993, the Bank of Slovenia also collects data on direct investments in Slovenia and abroad, on short-term commercial credits and on balances on accounts abroad.

This forms a system of reporting, which enables the monitoring of all capital flows permitted by law into and out of Slovenia. Reporting to meet the requirements of balance of payments statistics was supplemented so as to enable the monitoring of payments through nonresident accounts at domestic banks and through foreign accounts of non-banking sectors.

The monitoring of merchandise imports and exports, which proceeded from the signing of a contract, through its implementation with an appropriate customs declaration, to payment, was finally dropped in 1993. It has proved to be an incomplete and complicated system which failed to deliver the required results.

On the basis of the changes introduced and expected additional improvements, the central bank wishes to create a rational system of reporting that will be able to provide early warning of the likelihood of unfavourable macroeconomic trends, giving those responsible for economic and monetary policy sufficient time to take appropriate measures.

In addition to the obligation to monitor data on the external sector, i.e. the balance of payments and the balance of foreign assets and liabilities, the Bank of Slovenia must by law also register foreign credit operations and issue licences for accounts abroad. By regulating payment operations through domestic banks into and out of Slovenia, the Bank of Slovenia restricts those foreign capital flows that are not permitted by law.

5. MANAGEMENT OF INTERNATIONAL RESERVES

The international monetary reserves of the Republic of Slovenia are the sum of the operating foreign exchange reserves of banks and the international monetary reserves of the Bank of Slovenia. Total international monetary reserves of the Republic of Slovenia, not including gold and reserve assets at the International Monetary Fund, increased from US$ 1,163 million at end 1992 to US$ 1,566 million at end 1993, or by 35 percent.

The Bank of Slovenia can influence the amounts of the banks' operating foreign exchange reserves by determining the minimum amount of liquid foreign exchange holdings which the banks are obliged to hold on their foreign accounts. The operating foreign exchange reserves of banks grew from US$ 448 million at end 1992 to US$ 796 million at end 1993, or by 78 percent.

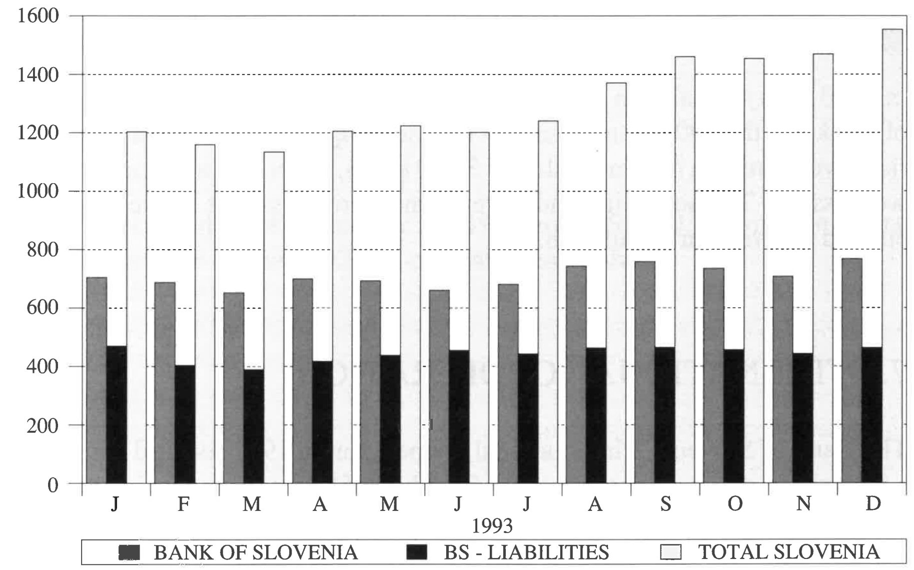
The international monetary reserves of the Bank of Slovenia are:
• deposits at foreign banks,
• monetary gold,
• reserve position at the International Monetary Fund,
• holdings of Special Drawing Rights,
• other foreign assets (securities, currency, cheques and similar) held by the Bank of Slovenia.

The international monetary reserves of the Bank of Slovenia are divided into two parts:
• net international monetary reserves for which the Bank of Slovenia has no obligations in its liabilities,
• international monetary reserves for which the Bank of Slovenia has obligations in its liabilities.

The international monetary reserves of the Bank of Slovenia at the end of 1992 totalled US$ 716 million and grew to US$ 770 million at end 1993, or by 8 percent.

Bank of Slovenia reserves are invested in government securities and Eurodeposits at commercial banks meeting the norms on creditworthiness as defined by IBCA.

Figure 7: Foreign exchange reserves: Bank of Slovenia and Total
(excluding gold and assets with IMF; in US$ million at end of month)



Source: Bank of Slovenia.

6. BANKNOTE ISSUE

The Bank of Slovenia is authorised by law to issue tolar banknotes. The Governing Board of the Bank determines their main characteristics and decides on the circulation and withdrawal of banknotes. Coins are issued and decisions on their characteristics made by the Government of the Republic of Slovenia, while the Bank of Slovenia is under contract to carry out professional and technical tasks associated with the preparation of coin issues and decides on the circulation and withdrawal of coins.

In 1993 the Bank of Slovenia concluded the Slovenian banknote project. At the beginning of the year 200 and 50 tolar banknotes were entered in circulation, followed in December by the 5,000 tolar and 1,000 tolar (with corrected print) banknotes. The banknotes were printed by the British printers Thomas De La Rue on protected paper made by Slovenian papermakers Radeče Papir. All banknotes, with the exception of the 5,000 note and the 1,000 note with corrected print, bear the date of issue January 15, 1992, and the 5,000 and 1,000 (corrected portrait) banknotes June 1, 1993, when the Governing Board adopted the resolution on their issue.

Since the introduction of the first series of Slovenian money on September 30, 1992, a total of 81.9 million notes at a value of 43.5 billion tolars has been put into circulation. With the introduction of all banknote denominations, conditions were assured for the gradual withdrawal of coupons. The 1,000 tolar coupons were withdrawn on November 6, 1992, while the 1, 2, 5, 10, 50, 100, 200 and 500 tolar coupons ceased to be legal tender on June 30, 1993. The 5,000 tolar coupons remained in circulation until the end of January 1994 as the banknote of the same denomination was not introduced until December 1993. The coupons can be exchanged within three months of the date when they cease to be legal tender at any counter of the Social Accounting Service, and thereafter at the Bank of Slovenia for an unlimited time.

On January 4, 1993, coins for 5, 2 and 1 tolars and for 50 stotin were issued. The coin series was completed in April with the issue of coins for 20 and 10 stotin. All coins were minted by Statna Mincovna of Slovakia. In 1993, 99.9 million coins at a total value of 180 million tolars was entered into circulation, mainly 5, 2 and 1 tolar coins. On average, there are around 50 coins per inhabitant currently in circulation.

In 1993, two special coin sets were issued: to mark the occasion of the 400th anniversary of the Battle of Sisak and the 300th anniversary of the founding of the Academia Operosorum Labacensium, memorial sovereigns in a nominal value of 5,000 tolars, silver 500 tolar coins and circulation coins of 5 tolars were issued. The sovereign and silver coins were on sale at above face value, while the 5 tolar coins entered into regular circulation.

7. INTERNATIONAL COOPERATION

The Bank of Slovenia's international cooperation in 1993 focused mainly on:
- integration and membership of the Republic of Slovenia and its institutions in international financial organisations,
- negotiation and regulation of obligations towards foreign creditors,
- strengthening ties with foreign central banks,
- cooperation with government bodies in negotiations on incorporation in international integrations.

Slovenia has joined most of the world's major financial organisations, including the International Monetary Fund on January 15, 1993, the European Bank for Reconstruction and Development on December 22, 1992, the World Bank on February 25, 1993, and in December 1993 the Inter-American Development Bank. In relations with the more important international institutions the only unsettled issue remains the succession of the Bank of Slovenia in the Bank for International Settlement (BIS).

Regular contact is maintained with central banks, at both management and operational levels. In 1993, the Bank of Slovenia strengthened ties with foreign commercial banks particularly in the management of its foreign exchange reserves. It played an important role in returning Slovenia to the international financial market. Acting as agent for the Government, the Bank of Slovenia signed a contract on a financial credit of US$ 100 million with a syndicate of 13 banks from seven countries. Bank of Slovenia experts actively participated in negotiations with the foreign commercial banks as well as with members of the Paris Club.

Considerable technical assistance has been received and educational facilities offered in various forms not only by central banks but also by international organisations such as the World Bank, the International Monetary Fund, the Phare Programme and other organisations. On the other hand, Bank of Slovenia experts have already participated in one foreign mission of the International Monetary Fund.

VI. THE BANK OF SLOVENIA ANNUAL FINANCIAL STATEMENT

Legal basis and accounting principles applied

The legal basis for the annual financial statement of the Bank of Slovenia is provided by the Law on the Bank of Slovenia, Chapter IV; the Law on Accounting (Official Gazette RS, No. 42/90); and the Decree on the Scheme of the Balance Sheet and Profit and Loss Account for the Bank of Slovenia Annual Financial Statement (Official Gazette RS, Nos. 12/93, 72/93 and 14/94). In the evaluation of the balance sheet items, the principles of the Law on Accounting have been applied. Claims and liabilities in foreign currencies have been calculated into tolars with the middle exchange rate of the Bank of Slovenia on December 31, 1993 (Official Gazette RS, No. 4/94). The profit and loss account includes interest receipts and payments and all other income and expenditure related to the 1993 financial year.

1. BALANCE SHEET

The Bank of Slovenia balance sheet total as of December 31, 1993 equalled 139,753 million tolars, which represents a 42.7 per cent increase on the 1992 end-of-year balance sheet.

Assets

1. Foreign assets

Foreign assets are the sum of all claims on nonresidents.

2. International monetary reserves

Gold holdings (3) amount to 10.35 kg and were evaluated at 1,663.36 tolars per gram of pure metal.

The reserve position at the International Monetary Fund (4) includes the increased quota of the Republic of Slovenia following the ninth review of quotas, part of which (25%) was paid in convertible currency. The balance on the special drawing rights account (5) reflects purchases of SDRs, the difference between interest received and paid and the effects of changes in the SDR: SIT rate.

The main item of international monetary reserves is currency and deposits (6), of which time deposits at foreign banks predominate. Securities (7) denote investments in government securities of OECD countries. Holdings of these assets increased significantly in 1993 as a result of the amended criteria on the management of international reserves.

8. Other claims abroad

Other claims abroad include balances on the account of a treaty on local border traffic with Italy, capital participations with international institutions, and letters of credit and guarantees.

9. Claims on central government

With membership in the International Monetary Fund (January 15, 1993), the Republic of Slovenia took over a part of the obligations and holdings of the former SFRY. In accordance with the Resolution on the Manner of Managing Operations and Settling Obligations Deriving from the Membership of the Republic of Slovenia in the IMF (Official Gazette RS, No. 38/93), the net debt position deriving from assumed credits (SDR 25.5 million) and net allocated special drawing rights (SDR 24.5 million) were claims on the Republic of Slovenia, which were covered from the net income of the Bank of Slovenia in the amount of repayments and expenses (interest). The composition of the claims on central government as of December 31, 1993 is as follows (in SIT million):

Relations with the IMF	• assumed credits	4,584.6
	• allocated SDRs	4,571.8
	• interest	556.8
	• IMF account No. 2	1.1
Total		**9,714.3**
Advances for coin mintage		234.6
Total		**9,948.9**

In 1993 the Bank of Slovenia repaid credits in the amount of SDR 16,983,000 and paid interest of SDR 3,094,000 which, evaluated with the SDR: SIT rate at the end of the year, amounted to 3,614 million tolars. In the years 1994 through 1997 another SDR 8,525,000 of principal of assumed credits will fall due. This liability to the IMF (Liabilities item 18) is backed by an equivalent claim of the Bank of Slovenia on the Republic of Slovenia. Converted into dollars at end-of-1993 rates, this government debt amounts to US$ 11.6 million.

10. Claim on Succession Fund of the Republic of Slovenia

A Protocol was signed with the Government of the Republic of Slovenia on May 5, 1992, with which the amount of the net claim of the Bank of Slovenia on the National Bank of Yugoslavia as at October 8, 1991 was ascertained. It was further ascertained and agreed that this claim, in the amount of 8,650 million dinars, was to be entered as a long-term tolar claim on the Republic of Slovenia until such time as the division of assets of the former SFRY becomes operational.

In February 1993, the Succession Fund of the Republic of Slovenia was established (Official Gazette RS, No. 10/93), to intermediate in the process of the division of assets and liabilities to the former SFRY. It was envisaged that the Fund should concentrate all claims and liabilities of the Government of the Republic of Slovenia and of other Slovenian natural and legal entities to the former federation, its bodies and organisations, the NBY and other legal entities. Based on Paragraph 11 of the law on the establishment of the Fund, the Bank of Slovenia, the Government of the Republic of Slovenia and the Succession Fund contracted an agreement on the transfer of the net claim of the Bank of Slovenia to the NBY to the Succession Fund. According to the same paragraph, the means of settlement of the Fund's liability will be regulated after the settlement of claims and liabilities of the Republic of Slovenia to entities of the former federation.

11. Claims on domestic banks

Total claims on domestic banks at the end of 1993 remained at approximately the same level as the year before.

12. Loans

The composition of loans was changing in line with monetary policy operations. Rediscounts (13) had already been removed in 1992. Lombard loans against securities (14) more than doubled over the previous year. The major part of the loans is represented by liquidity loans (15). The item Other loans (16) includes loans granted for the foreign exchange deposits of households and loans rescheduled in 1984, 1986 and 1990 by special laws from short-term into long-term loans.

The instrument of obligatory repurchase (17) was used in the last two years in connection with government bonds, Bank of Slovenia foreign exchange bills and the repurchase of foreign exchange. Obligatory repurchase is treated as a credit instrument and represents an obligation on the part of commercial banks to repurchase Bank of Slovenia bills.

18. Deposits at domestic banks

The main component of deposits at domestic banks are time deposits which, in terms of their content and purpose, supplement investments from the joint consumption fund. The remaining part originates from foreign currency deposits at domestic banks, which were operating until the commencement of independent execution of foreign payments.

19. Other claims on domestic banks

Other claims on domestic banks are foreign exchange and tolar advances for the repayment of Bank of Slovenia twin bills maturing on October 5, 1993. The reason for the quite significant reduction in the balance was the first issue of twin bills which matured just before the end of 1992.

20. Coins

The item Coins indicates the nominal value of the coin stock purchased from the first issue. The stock includes coins at subsidiaries of the Social Accounting Service.

21. Fixed assets

In comparison to the 1992 end-of-year balance sheet, the net book value of fixed assets increased by 7.2 per cent which, apart from adjustments and revaluation, reflects the smaller than originally envisaged acquisition of new equipment.

22. Interest and fees receivable

Claims from interest on loans to banks and fees receivable include interest accrued until December 31, 1993 falling due for payment in 1994 and included in income, and interest accrued by a special resolution of the Governing Board of the Bank of Slovenia.

23. Other short-term claims

The item includes accounts receivable, claims on the Health Insurance Fund, claims deriving from guarantees for savings deposits and advances for costs of bankruptcy proceedings of two savings banks.

24. Other assets

Other assets include the stock of sets of circulation coins, cash in vaults and deferred postage expenses.

25. Joint consumption fund

In addition to time deposits at domestic banks (item 18) and funds on deposit at the Social Accounting Service (included in Liabilities item 12), assets of the joint consumption fund include housing loans to employees, apartments, holiday homes and catering equipment. Nonfinancial assets of the joint consumption fund decreased in 1993 as a consequence of sales of apartments to tenants.

Liabilities

1. Notes issue

Notes issue includes banknotes held in the vaults of the Social Accounting Service and post offices. The increase in the amount of banknotes in circulation reflects the increase in real demand for money, as well as differing allocations of December festive days and pension pay-out days at year-end in 1992 and 1993.

2. Deposits

Deposits include balances on transferable accounts at the Social Accounting Service and foreign currency deposits at the Bank of Slovenia.

3. Deposits of banks

The deposits of commercial banks are the giro accounts and obligatory reserve accounts at the Social Accounting Service, transferred to deposits at the Bank of Slovenia (4) on a daily basis. Because of high transaction costs and low interest rates only twelve banks still held balances on the obligatory reserves accounts. Foreign exchange deposits (5) denote collateral for liquidity loans.

6. Public sector deposits

Central budget funds on account at the Social Accounting Service showed no significant increase over the previous year. Other sight deposits (8) include the accounts of other public sector bodies and institutions which do not hold a contract to deposit settlement funds with a bank.

The main part of foreign exchange deposits of the public sector (9) on December 31, 1993 were central budget funds deriving from the long-term syndicated loan. Other accounts are those of the Development Fund of the Republic of Slovenia and deposits of confiscations, etc., related to foreign exchange regulations.

10. Other domestic deposits

Deposits of business (11) are accounts of enterprises which do not hold a contract to deposit settlement funds with a bank.

Deposits by nonmonetary financial institutions (12) include, mainly, giro accounts and obligatory reserve accounts of savings banks and savings cooperatives.

13. Bank of Slovenia bills

Bank of Slovenia bills include tolar bills, bought by banks and savings banks, foreign exchange bills, and twin bills of the Bank of Slovenia.

14. Tolar bills

Liabilities deriving from tolar bills are the two, seven, twelve and fourteen day bills bought by banks and savings banks and liabilities from the tolar part of twin bills.

15. Foreign exchange bills

The main part of the item represents bills denominated in German marks and US dollars, the remainder being the foreign exchange part of the twin bills.

16. Restricted deposits

Restricted deposits are foreign exchange deposits of public sector entities and enterprises for payments abroad, other special deposits of enterprises at the Social Accounting Service and deposits of security of domestic legal entities. The large increase over December 1992 derives from growth in deposits by enterprises for foreign payments and security deposits against letters of credit and guarantees.

17. Money transfers in transit

Money transfers in transit are payments settled from the accounts of the Social Accounting Service but not yet accounted for by the receivers by closing time on December 31, 1993. The amount is reflected as a reduction of central bank money.

18. Deposits and loans of international financial organisations

Deposits and loans of international financial organisations comprise obligations towards the International Monetary Fund and, to a lesser degree, restricted deposits of nonresidents. Obligations towards the International Monetary Fund are a promissory note and account Nos. 1 and 2. According to accounting practice concerning reserve assets at the IMF, this item shows only account No. 2 and part of the promissory note corresponding to the amount of Stand-by and Enlarged Access credits outstanding.

19. Allocation of Special Drawing Rights

Special Drawing Rights indicate the share of net allocations of Special Drawing Rights of the former SFRY transferred to the Republic of Slovenia in accordance with the uniform division of assets and liabilities with the IMF.

20. Capital

Capital is represented by the so-called fixed assets fund of the Bank of Slovenia. The change over 1992 is a result of the net effects of revaluation and depreciation during 1993.

21. Reserves

The increase in reserves is due to the transfer of net valuation changes to a special reserve account, and drawing from previous year's special reserves for banknote manufacture.

22. Revaluation reserves and reservations

On the basis of a decree of the Governing Board of the Bank of Slovenia, the amount of 1,500 million tolars was deposited on a special reserve account to cover risks involved with Bank of Slovenia operations.

23. Undistributed profit from previous year

Following confirmation by Parliament of the Bank of Slovenia 1991 annual accounts in July 1993, the account of the advance of 1991 net income to the budget was closed. In July the 1992 net income payment was also made.

24. Profit

In 1993 the Bank of Slovenia showed a surplus of income over expenditure which, after allocations to the reserve funds, amounted to 4,693 million tolars.

25. Valuation changes

Due to the transfer of valuation changes to a special reserve account, this item shows a balance of zero.

26. Other short-term liabilities

Other short-term liabilities include, primarily, liabilities deriving from coin purchases and deferred interest payments.

27. Joint consumption fund

The joint consumption fund includes funds for housing and other purposes. The increase derives from income on investments and payments for the use of holiday homes.

2. PROFIT AND LOSS ACCOUNT

Income

1. Interest on foreign exchange reserves

Income from interest increased as a result of growth of reserve assets abroad, changes in the structure of investments (within the criteria of management of foreign exchange reserves), and from growth of tolar value of foreign currencies. Falling interest rates on international markets had an offsetting effect.

2. Interest on loans

Interest received on loans more than doubled as a result of high balances of loans outstanding during various months, particularly liquidity loans. The amount of penal interest in the total fell from 19.1% to 16.6%. A larger part of this is attributable to delays in repayment of overnight loans. In 1992, this part of the item consisted mainly of penalties for not meeting reserve requirements.

3. Discounts

Discounts are income accruing from foreign exchange operations, i.e. the differences between selling and buying rates, and income from trading in securities in open-market operations. The latter instrument was not used in 1993, which is reflected in the relatively low amount on this item.

4. Commission

The Bank of Slovenia charges a commission on services related to foreign payments, for the purchase of foreign exchange and distribution of vouchers.

5. Other income

Other income includes receipts of written-off claims, income from miscellaneous operations (commemorative coins, transport of foreign currency), rents for business premises, income from the issue of certificates and publications and other extraordinary income. One of the causes of the high level of extraordinary income in 1992 was a receipt related to measures against a commercial bank.

Expenditure

1. Interest

The Bank of Slovenia pays interest on tolar deposits in the obligatory reserve accounts of banks and savings banks and on transaction accounts of the central budget. Interest is also paid on foreign exchange deposits and on Bank of Slovenia bills. In the structure of interest expenditure the largest share (57.4%) was of interest on foreign exchange bills, followed by interest on twin bills (32.3%). Interest on foreign exchange deposits, tolar bills, and transaction deposits added 7.4%, 1.4% and 1%, respectively.

2. Costs of open market policy

This item includes the difference between the middle and auctioned buying rate of Bank of Slovenia purchases of foreign exchange and securities. Expenditure on this item was also lower on account of less dynamic growth of international reserves in 1993.

3. Commission

The Bank of Slovenia pays a commission to commercial banks for foreign payments and commission sale of Bank of Slovenia bills, and to the Social Accounting Service for domestic payments. The major part of the commission was charged by banks for the sale of twin bills, due to which expenditures doubled over 1992 given the expansion of the issues.

4. Banknote manufacture

In 1993, the Bank of Slovenia concluded the project of the printing of Slovenian money. All additional expenses were met from the special reserve allocations for this purpose in 1991 and 1992.

5. Premises, equipment and depreciation

The major part of the increase in this item represents the costs of services in current and investment maintenance and costs of other purchases.

6. Salaries and benefits

The salaries of Bank of Slovenia employees increased in 1993 by 33.7%. Deflated by the retail price index, the annual increase in real terms is 2.5%.

The largest part of the nominal growth (80%) was caused by changes in the qualification structure of the staff in comparison to the earlier year. The share of employees with university education grew by 17.7%.

7. Other expenditure

Other expenditure includes valuation adjustments and written-off claims, sales tax on services and extraordinary expenditure. The last category includes the sale of fixed assets and financial assistance to the Numismatic Collection at the National Museum as part of a 1987 agreement on long-term financing of the collection. Valuation adjustments refer to valuation adjustments and written-off irrecoverable debts of savings banks.

Allocation to funds

Pursuant to the Resolution on Allocation of Funds for Special Reserves, adopted by the Governing Board of the Bank of Slovenia (Article 85 of the Law on the Bank of Slovenia), funds for covering risks from operations of the Bank of Slovenia were deposited on a special reserve (provisions) account. On the basis of Article 79 of the same law, effects of valuation changes were also transferred to reserves. The funds on this special sub-account can only be used for financing valuation (exchange rate) changes.

Other allocation of net income

The remaining surplus of income over expenditure accrues to the budget of the Republic of Slovenia. In accordance with the Resolution on the Manner of Managing Operations and Settling Obligations Towards the International Monetary Fund, the surplus will be used for covering obligations, paid in 1993, deriving from taken-over credits and net allocations of SDRs. Part of the remaining surplus will go towards covering the difference between advances for coin minting and obligations for coins purchased. After the 1993 annual financial statement has been confirmed by Parliament, the remaining surplus will be transferred to the budget of the Republic of Slovenia.

The Bank of Slovenia Balance Sheet as at December 31, 1993

ASSETS	in SIT thousands	
	Dec 31, 1993	Dec 31, 1992
1. FOREIGN ASSETS (2+8)	**104,006,191**	**70,768,712**
2. International monetary reserves (3 to 7)	103,864,384	70,635,035
3. Gold	16,750	10,461
4. Reserve position with IMF	2,314,402	-
5. Special drawing rights with IMF	6,098	-
6. Foreign currencies and deposits	94,800,435	70,065,429
7. Securities	6,726,698	559,145
8. Other claims abroad	141,807	133,677
9. CLAIMS ON CENTRAL GOVERNMENT	**9,948,878**	**8,850,426**
10. CLAIM ON SUCCESSION FUND OF RS	**8,649,807**	**-**
11. CLAIMS ON DOMESTIC BANKS (12+18+19)	**16,002,280**	**16,295,966**
12. Loans (13 to 17)	15,845,021	15,594,989
13. Rediscounts	0	0
14. Lombard loans	350,776	152,095
15. Liquidity loans	13,611,431	15,000,000
16. Other loans	395,006	442,894
17. Repurchase agreements	1,487,808	0
18. Deposits at domestic banks	146,790	99,282
19. Other claims on domestic banks	10,469	601,695
20. COINS	**10,669**	**29,160**
21. FIXED ASSETS	**432,767**	**403,871**
22. INTEREST AND FEES RECEIVABLE	**530,670**	**1,301,713**
23. OTHER SHORT-TERM CLAIMS	**13,850**	**99,954**
24. OTHER ASSETS	**10,278**	**72**
25. JOINT CONSUMPTION FUND	**147,983**	**151,715**
26. TOTAL ASSETS (1+9+10+11+20+21+22+23+24+25)	**139,753,372**	**97,901,589**

Note: Item 10: The claim on the Succession Fund of the Republic of Slovenia is the claim of the Bank of Slovenia on the National Bank of Yugoslavia which was, on the basis of a Protocol between the Bank of Slovenia and the Government of the Republic of Slovenia of May 5, 1992, converted into a claim on the Republic of Slovenia. Under the Law on the Succession Fund of the Republic of Slovenia (Official Gazette RS, No. 10/93) the claim on the NBY was transferred to the Succession Fund of the Republic of Slovenia.

Balance Sheet (Continued)

LIABILITIES	in SIT thousands	
	Dec 31, 1993	Dec 31, 1992
1. NOTES ISSUE	**34,612,454**	**25,532,167**
2. DEPOSITS (3+6+10)	**22,495,852**	**17,360,545**
3. Deposits of banks (4+5)	15,595,132	10,716,009
4. Giro and reserves accounts	10,482,795	6,335,455
5. Foreign exchange deposits	5,112,337	4,380,554
6. Public sector deposits (7+8+9)	5,992,763	5,782,149
7. Central government deposits	2,538,076	2,519,762
8. Other sight deposits	59,740	53,404
9. Foreign exchange deposits	3,394,947	3,208,983
10. Other domestic deposits (11+12)	907,957	862,387
11. Deposits of business	195,994	109,394
12. Deposits of nonmonetary financial institutions	711,962	752,993
13. BANK OF SLOVENIA BILLS (14+15)	**50,385,340**	**40,760,211**
14. Tolar bills	2,826,933	2,442,748
15. Foreign exchange bills	47,558,407	38,317,463
16. RESTRICTED DEPOSITS	**365,484**	**38,371**
17. MONEY TRANSFERS IN TRANSIT	**331,725**	**521,271**
18. DEPOSITS AND LOANS OF IFOs	**1,540,997**	**-**
19. ALLOCATION OF SDRs	**4,571,811**	**-**
20. CAPITAL	**558,843**	**488,154**
21. RESERVES	**17,681,944**	**7,804,421**
22. REVALUATION RESERVES AND RESERVATIONS	**1,500,000**	**0**
23. UNDISTRIBUTED PROFIT FROM PREVIOUS YEAR	**0**	**158,286**
24. PROFIT	**4,693,118**	**3,574,857**
25. VALUATION CHANGES	**0**	**0**
26. OTHER SHORT-TERM LIABILITIES	**689,329**	**1,385,420**
27. JOINT CONSUMPTION FUND	**326,474**	**277,886**
28. TOTAL LIABILITIES (1+2+13+16+17+18+19+20+21+22+23+24+25+26+27)	**139,753,372**	**97,901,589**

The Bank of Slovenia Profit and Loss Account
January 1 to December 31, 1993

	in SIT thousands	
	Jan 1 to Dec 31 1993	**Jan 1 to Dec 31 1992**
I. INCOME		
1. Interest on foreign exchange reserves	5,043,049	3,359,714
2. Interest on loans	5,767,749	2,526,306
3. Discounts	479,761	1,452,384
4. Commission	116,611	60,671
5. Other income	107,267	414,533
6. Total income (1 to 5)	11,514,437	7,813,608
II. EXPENDITURE		
1. Interest	4,091,043	2,192,830
2. Costs of open market policy	126,908	895,352
3. Commission	81,126	38,652
4. Banknote manufacture	0	101,494
5. Premises, equipment and depreciation	315,705	236,562
6. Salaries and benefits	682,284	510,466
7. Other expenditure	24,253	137,708
8. Total expenditure (1 to 7)	**5,321,319**	**4,113,064**
III. NET INCOME	**6,193,118**	**3,700,544**
IV. ALLOCATION TO FUNDS	**1,500,000**	**125,687**
V. OTHER ALLOCATION OF NET INCOME	**4,693,118**	**3,574,857**
• payments due to IMF	3,608,832	-
• mint costs	50,431	-
• net income after allocation	1,033,855	3,574,857

Note: Data for 1992 differ partly from the profit and loss account submitted with the 1992 annual accounts due to changes in methodology.

MEMBERS OF THE GOVERNING BOARD OF THE BANK OF SLOVENIA

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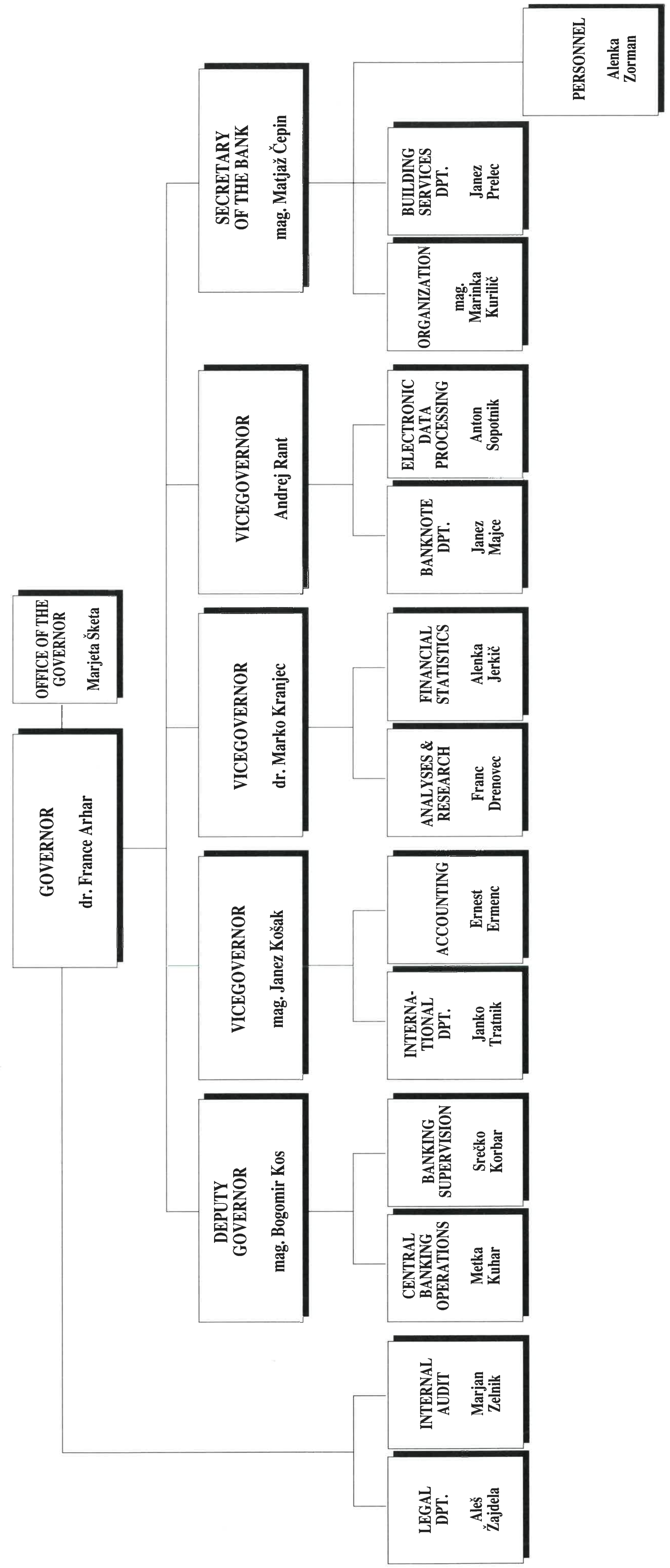
mag. Janez KOŠAK, Vice Governor
dr. Marko KRANJEC, Vice Governor
Andrej RANT, Vice Governor

mag. Velimir BOLE, Economic Institute at Faculty of Law, Ljubljana University
mag. Dušan DROFENIK, Social Accounting Service, Celje
dr. Jože MENCINGER, Economic Institute at Faculty of Law, Ljubljana University
dr. Ivan RIBNIKAR, Faculty of Economics, Ljubljana University
dr. Dušan ZBAŠNIK, School of Business and Economics, Maribor University

ORGANIZATION CHART OF THE BANK OF SLOVENIA



BANKA SLOVENIJE