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The positive trends in the economic growth of Slovenia continued throughout 1994. Gross domestic product increased by 5% and so did the government expenditure. These results were achieved despite a still high rate of inflation, although the annual rate of 18.3% was 4.6 percentage points lower than the previous year, whereby the budget was balanced. Despite the deficit in the trade balance, a US\$ 478 million surplus was registered on the current account, representing 3.4% of the gross domestic product. Moreover, the foreign exchange reserves of the Bank of Slovenia and commercial banks increased by about US\$ 1.3 billion due to inflow of foreign exchange. The domestic currency, the tolar, appreciated due to these developments by about 11.2%, measured in terms of relative retail prices.

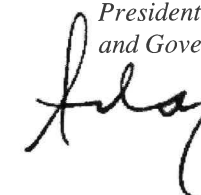
Despite the significantly changed circumstances, the Bank of Slovenia did not set out any new goals for its monetary policy, meaning that also in 1994 it focused on continued gradual reduction of inflation and on securing the stability of domestic currency. Already at the beginning of the year, in adopting the basic concepts of the monetary policy under the changed circumstances, the Governing Board of the Bank emphasized that the Bank had to reduce financial repression and deepen the structure of the financial system, and at the same time reduce the credit multiplier and use the Bank's financial results to reach these goals. It is a well-known fact that anti-inflationary policy becomes ever more demanding and costly as the inflation rate gets closer to a one-digit figure. If under such circumstances the economy is indexed, it is even more prone to inflation than an economy with balanced inflation. On the other hand, the real effects of inflation in such an economy are limited, meaning that they mainly derive from the inflation tax (unpaid interest) on cash money, respectively on base money as a whole, and from the effects of more frequent operational changes in prices and wages. At the same time, foreign experience in reducing moderate inflation urges us to reduce current expenditures (especially fiscal expenditures and wages) and increase savings. It needs to be mentioned that there are some who consider the process of interest rate reduction on the domestic money market as too slow; but then, the experience of numerous countries shows that, in circumstances of curtailing moderate inflation, the reduction of interest rates is the last consequence of stabilization.

As already mentioned, 1994 was marked by a significant increase in foreign exchange reserves, that is, by a large inflow of foreign exchange. It should, however, not be forgotten that interest rates as well as the exchange rate are determined, to a big extent, by the fundamental factors, such as taxes, government expenditures, wages, the propensity to save, to import, to export, to invest... No country under circumstances such as those in Slovenia in 1994 has yet been able to avoid a larger or smaller appreciation of domestic currency. Despite the efforts the Bank of Slovenia has put into the sterilization of foreign exchange inflows and despite its interventions on the money market with the intention to neutralize the enormous supply of foreign exchange and maintain an appropriate exchange rate of the tolar, the results achieved were only conditionally optimal. For a larger intervention on the foreign exchange market the central bank must, unless wanting to finance it with inflation, engage real available savings, i.e. tolar financial surpluses in Slovenia, and bid for them at a suitable price. The effects of these activities of the Bank of Slovenia were visible in both, the level of the exchange rate of the tolar, and in the financial results of the Bank's operations.

If the inflation in Slovenia can be categorized as the so-called moderate inflation, which is considered to be too high and too low at the same time, then the future policy orientation of the Bank of Slovenia is quite clear: to strive for an even greater financial stability: the present level of inflation does, indeed, cause a number of problems to the economy, but by far not such as to justify social, political and economic disturbances which would be the consequence of drastic anti-inflationary measures.

The Bank of Slovenia has for the first time had its annual financial statements audited. The audit was performed by KPMG, London, Chartered Accountants and Authorized Auditors. The 1994 Bank of Slovenia financial statements and the auditor's report make an integral part of this annual report.

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



Ljubljana, May 1995

I. BANK OF SLOVENIA:

LEGAL STATUS AND RESPONSIBILITIES

The establishment of the Bank of Slovenia falls within the framework of legislation adopted and issued on June 25, 1991. The Law on the Bank of Slovenia was established as one of the most important systemic laws of the new state, on the adoption of the Basic Constitutional Chart on the Autonomy and Sovereignty of the Republic of Slovenia, the Declaration of Independence and the Constitutional Law on the Implementation of the Basic Constitutional Chart.

The Bank of Slovenia was immediately reorganized in accordance to the law and took effective control in the implementation of full monetary authority after the Brioni moratorium on the independence acts of the Slovenian Parliament expired on October 8, 1991. This day also marked the introduction of the new Slovenian currency, the tolar. The status of the Bank of Slovenia as the central bank was ratified by Article 152 of the Constitution of the Republic of Slovenia, according to which the central bank is an autonomous institution, responsible directly to the Parliament.

The Constitution determines that the Governor of the Bank of Slovenia be appointed by the Parliament, which gives a certain weight to the independent management of the Bank of Slovenia. According to the law the management bodies of the Bank of Slovenia are the Governing Board and the Governor. The Governing Board is composed of eleven members, including six members chosen from among independent experts, the Governor, the Deputy Governor, and three Vice-Governors. The members of the Governing Board made up of independent experts are proposed by the the President of the Republic and confirmed by the Parliament. The President also proposes the Governor of the Bank of Slovenia. The Deputy Governor and the Vice-Governors are proposed by the Governor. These appointments are six-year terms.

The central responsibility of the Bank of Slovenia by law is to maintain national currency stability and liquidity of payments within Slovenia and abroad. In order to implement this task, the Bank of Slovenia regulates the quantity of money in circulation, ensures the general liquidity of banks and savings banks, ensures the general liquidity of payments abroad, monitors banks and savings banks, issues banknotes and circulates coins and banknotes, regulates guarantees for personal bank deposits and performs certain operations for the Republic of Slovenia. The Bank of Slovenia also carries responsibilities and competences set forth by the Law on Banks and Savings Banks, the Law on Foreign Exchange, the Law on Foreign Credit Transactions and the Law on Pre-rehabilitation, Rehabilitation, Bankruptcy and Liquidation of Banks and Savings Banks.

In the implementation of tasks, the Governing Board and the Governor of the Bank of Slovenia are responsible to the Parliament of the Republic of Slovenia. The Bank of Slovenia must submit a report on its operations to the Parliament at least semi-annually. The Bank also submits an annual financial plan and audit to be endorsed by Parliament, at the same time as it releases the Bank of Slovenia Annual Report.

The Bank of Slovenia is independent in its decision-making and implementation of monetary policy.

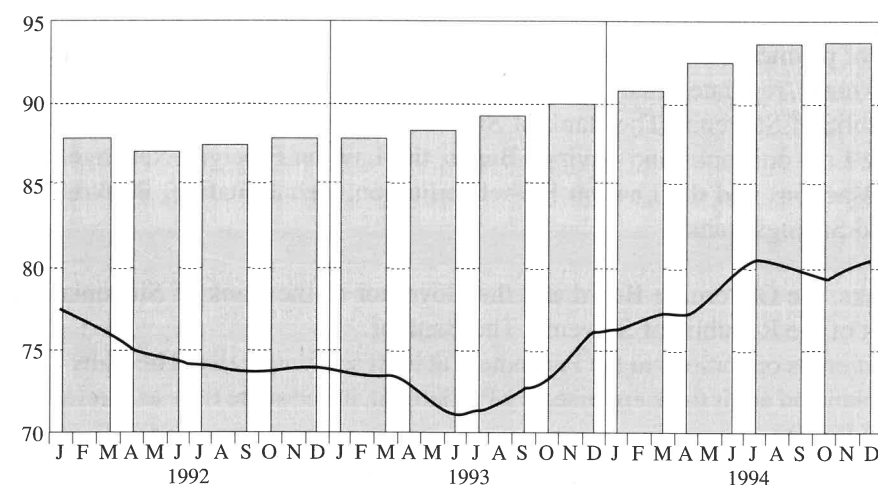
The law also specifically stipulates that the Bank of Slovenia may not approve loans to the Republic of Slovenia which are higher than 5% of the annual budget or one-fifth of the anticipated budgetary deficit; loans must be repaid by the end of the fiscal year, which means that they can not be used as a source for financing the deficit.

II. THE SLOVENIAN ECONOMY IN 1994

After the Slovenian economy reached its lowest point of activity at the beginning of 1993 (at a level of about 17% lower than in 1989), the aggregate production turned upwards in the second six months of 1993 and continued to increase relatively fast throughout 1994. The real gross domestic product (GDP) increased by 1.3% in 1993 and by 5% in 1994; industrial production increased by 6.4%. Economic activity was fueled especially by export demand, and also by the increase in investments, which made a smaller contribution. In 1994 the fall in national employment figures ended and turned upward due to new employment in the small private sector and in the public sector, while the employment in the group of large and medium-sized enterprises decreased by a further 5.1%. The number of registered unemployed decreased by 1.6%; the unemployment rate, measured in May 1994 via questionnaires according to the ILO methodology, was 9%. The productivity in industry increased by 13.7%.

Economic growth was achieved in an environment of a balanced budget and a restrictive monetary policy. In accordance to the general orientation promoted by the Bank of Slovenia since it took effective authority over the monetary system, the current rate of inflation fell gradually but constantly during 1994 and at the end of the year (December/December) reached 18.3%, compared to 22.9% at the end of 1993. Price growth differed widely in the tradeables and the non-tradeables sector, which is composed mainly of public sector and controlled price producers (industrial alimentary products prices grew by 25.7%, electricity by 25.2%, housing services by 24.1%, postal services by 54.1% etc.; by comparison, nonalimentary industrial products prices grew by 12.4%). In the new environment of modest inflation, antiinflationary policies will concentrate much more on the Government and the most important contributions will have to be borne by an effective incomes policy.

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



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

1. SUPPLY AND DEMAND

The economic crisis over the past years has been most deeply felt in various industrial activities, since their earlier growth was structurally the least balanced. Production in industry (mining, manufacturing, energy, construction) shrank by 32% in the four years from 1989 to 1993; in 1994, it increased by 6.6%. Agricultural production increased by 1.6%, and services by 4.2%, specifically, market services grew by 4.9% and government services by 2.1%. In 1994, the services sector contributed 57% of the total value added, the industrial sector, 38% and the agricultural sector, 5%.

The most important component of the aggregate demand in 1994 was represented by the sale of goods and services to foreign markets, reaching 38% of the total sales of the Slovenian economy, which was greater, for example, than sales to domestic households. According to a preliminary estimate of the consumption side of GDP (Table 1), which was probably somewhat underestimated by the volume of the external balance, in 1994 the surplus in exports of goods and services was 3.9% of GDP, compared with 3.0% in the previous year.

Domestic consumption continued to increase in 1994 at a much steadier pace than in the previous year. Household consumption increased by 2.7% in real terms, which roughly reflects the changes in personal incomes of the population: payments of net wages and salaries in enterprises and organizations by 3.4%, other receipts from work and employment by -8.5% and transfer receipts by 7.7% (the transfer receipts of the population represented a whole 64% compared to the net salary flows in 1994). Average net monthly wages in 1994 were SIT 60,089 or US\$ 466.

Table 1: Expenditure on Gross Domestic Product (in percent)

	1992	1993	1994
1. GROSS DOMESTIC PRODUCT (4+5)	100.0	100.0	100.0
2. Exports of goods and services	63.7	58.7	57.7
3. Imports of goods and services	54.5	55.7	53.9
4. Balance (exports-imports)	9.2	3.0	3.9
5. Total domestic consumption	90.8	97.0	96.1
6. Domestic private consumption	52.9	55.2	54.0
7. Government consumption	20.5	20.7	20.7
8. Gross fixed investment	17.6	18.1	19.8
9. Change in stocks	-0.3	1.0	1.0
10. Statistical errors and omissions	0.0	1.9	0.7
- Real GDP growth in percent	-5.4	1.3	5.0
- GDP in US\$	12,365	12,672	14,037
- GDP per capita in US\$	6,195	6,366	6,957
- GDP per capita by purchasing power in US\$	8,109	8,579	9,465

Sources: estimates of the Institute of Macroeconomic Analysis and Development; Real GDP growth rates and GDP in US\$ for 1992 and 1993: Statistical Office of RS.

Public consumption increased in real terms by 5%, and gross fixed investment rose by 15%, the same as in the previous year. The enterprise sector, especially private companies, and economic infrastructure investments generated the major part of investment growth. Gross fixed investment thus reached somewhat less than a 20% share of GDP and about 2% more than the estimated consumption of fixed capital, which clearly can not, as yet, ensure stable future growth and the necessary restructuring of production. Unfinished privatization and high interest rates continue to be the two major obstacles. The average interest rate for short-term bank loans was about 17% over indexation, in which average a high risk premium is included. Interest rates on financial markets visibly fell in 1994: the real interest rates on the interbank money market fell from 13.0% in 1993 to 8.4% in 1994 and 5% by the end of 1994, while market yields on the highest quality government bonds ("in real terms" above the foreign currency clause) fell from 11.5% to 8.5% in 1994 and 8% at the end of 1994.

2. PUBLIC FINANCE

The consolidated general government accounts (of the central government, local governments, and the compulsory retirement and health insurance funds) ended 1994 with a deficit of 4.3 billion tolar, equivalent to 0.2% of GDP. The deficit in the health insurance and pension funds in the amount of 0.7% of GDP was mainly covered by their reserve provisions (deposits and government securities), while the central budget and the local budgets operated at a surplus.

Due to reductions in employment tax and compulsory health insurance contributions, the tax rate for social security contributions, calculated on wages, fell from 48% to 45.2%, while the rates for the pension and disability insurance increased. Especially in the case of the latter system the outlays were much greater than the receipts (at an annual growth of 33%), due to the rapidly increasing number of retirees in the last few years and the indexing of pensions with the average wage growth.

The central budget operated at a surplus throughout the year. Until the adoption of the budget in May the outlays were reduced by temporary financing based on the nominal value level of the preceding year. Planned revenues were surpassed in sales taxes (a total growth of 45% as a result of the higher tax rates of the newly introduced excise tax on alcohol and cigarettes and increased domestic demand), and in new taxes on personal incomes and inordinate salary payments. Compared to the preceding years the share of tax on profits in GDP also increased, specifically, by 0.8%.

The policies of the Treasury also included contributions to the reduction of interest rates; liquidity surpluses, significantly surpassing 20 billion tolar in the course of the year, were deposited at banks which were not creditors on the interbank market and paid no better interest on deposits than the average effective deposit rate. Borrowing was restricted, in the beginning of the year mainly to drawing on a part of the approved loans for repayment of foreign loans, and later with the intention of increasing the use of new financial instruments (Treasury bills). The largest public institutions, funds and insurance companies were obligated to invest a part (from 10% to 80%) of their reserves or investments in government securities.

3. THE EXTERNAL SECTOR

Considering the small size of the Slovenian economy and the many years that it has been open to the surrounding European area, the external sector represents a crucial factor of the economy. Exports and imports of goods and services in 1994 amounted to about 117% compared with GDP. In 1994 the receipts and expenditures for current transactions increased by 13.9% and 9.9% respectively, measured in US dollar values. An increase to US\$ 478 million (3.4% of GDP) was registered in the current account surplus.

Table 2: The balance of payments, 1992-1994 (in US\$ million)

	1992	1993	1994
A. CURRENT ACCOUNT	926	150	478
1. Trade balance (f.o.b.)	791	-154	-146
2. Services	180	310	610
2.1. Transport	-164	57	68
2.2. Travel	389	430	617
2.3. Other	-45	-177	-75
3.1. Labour income	-2	-8	-7
3.2. Investment income	-90	-39	-30
4. Current transfers	46	41	51
B. CAPITAL ACCOUNT	...	4	-1
C. FINANCIAL ACCOUNT	-645	-151	-545
1. Direct investment	113	112	88
2. Portfolio investment	-9	3	-33
3. Other investment	-117	-155	42
3.1. CLAIMS	-158	-259	-237
a) Commercial credits	7	114	-159
b) Loans (banks)	-31	12	-20
c) Currency and deposits: banks	-149	-451	-326
households	9	85	366
other sectors	...	-19	0
d) Other claims	6	0	-99
3.2. LIABILITIES	41	104	279
a) Commercial credits	-13	-13	-15
b) Loans: banks	-9	-22	-27
official sector	-17	88	65
other sectors	59	95	226
c) Deposits and other liabilities	21	-44	30
4. Foreign exchange reserves (BS)	-633	-111	-642
Statistical error	-281	-3	68

Exports and imports of goods f.o.b.

A minus sign (-) indicates imports or surplus of imports over exports in the current account, increase in claims or decrease in liabilities in the capital and financial accounts, and increase in foreign exchange reserves of the Bank of Slovenia.

Source: Bank of Slovenia, provisional data.

Higher merchandise exports to the European countries, receipts from services, especially in tourism, and a calmer approach to importing consumer goods were the main factors contributing to the current account surplus. The competitiveness of the Slovenian producers in 1994 was maintained in great part due to the increased productivity in industry, while shifts in the foreign exchange rates produced the opposite effect. Measured by relative retail prices the tolar appreciated by 2.6% in real terms (and by 11.2% in the period between December 1993 and December 1994). On the other hand, measured by unit labour costs, the tolar depreciated by 0.7% (and appreciated by 7.4% in the period between December 1993 and December 1994). Besides the current transactions, pressure was exerted on the exchange rate in particular by large net inflows in financial transactions. The total surplus of foreign currency inflows directed by the Bank of Slovenia into its foreign exchange reserves, including the fiduciary accounts, or to the reserves of commercial banks was about US\$ 1.3 billion.

Goods

Measured according to foreign trade definitions (i.e., by measuring exports f.o.b and imports c.i.f.), the value of exported goods in 1994 was US\$ 6,806 million, while imports were worth US\$ 7,247 million. Goods trade therefore registered a deficit amounting to US\$ 440 million. Measured in current US dollar values, exports increased by 11.9% and imports by 11.5%. Excluding the effects of changes in cross-currency rates, exports rose by 10.4% and imports by 10.0%. While the deficit was similar to the one registered in the previous year (US\$ 418 million), the general bias was significantly improved; in 1993, exports, measured in constant cross-currency rates, fell by 2.6%, while imports rose by 14.0%.

The composition of imported goods reflects the developments in the domestic economy in 1994: imports of consumer goods increased (at current rates) by 1.5%, imports of intermediate goods by 13.0% and imports of capital goods by 22.0%. Processed products (ISTC 5 to 9) accounted for 92% of the exports, representing the major share in the range of exported goods.

Regional restructuring related to the decrease in trade, especially in imports, with the countries of the former Yugoslavia continued in 1994. Imports from these countries represented only 8.0% of the total imports of goods in Slovenia. Trade with the 12 countries of the European Union represented 57% in imports and 59% in exports, and trade with the OECD countries 77% in imports and 72% in exports.

Table 3: Main trading partners (in US\$ million)

	Exports			Imports			Balance		
	1992	1993	1994	1992	1993	1994	1992	1993	1994
European Union (12)	3,669	3,489	4,039	3,078	3,622	4,137	591	-133	-98
France	616	528	586	492	522	599	124	6	-13
Italy	880	756	922	839	1,051	1,252	41	-295	-330
Germany	1,805	1,798	2,065	1,394	1,626	1,727	411	172	338
United Kingdom	141	148	208	74	103	129	67	45	79
EFTA	461	423	511	689	779	1,069	-228	-356	-558
Austria	341	303	374	500	553	753	-159	-250	-379
Switzerland	50	52	58	100	127	153	-50	-75	-95
Total OECD	4,418	4,235	4,885	4,070	4,769	5,596	348	-534	-711
USA	195	216	248	167	188	196	28	28	52
Japan	16	25	18	88	125	125	-72	-100	-107
Countries of f. Yugoslavia	1,508	964	1,026	1,218	696	577	290	268	449
Croatia	952	739	725	852	595	492	100	144	233
Countries f. Soviet Union	226	298	316	251	217	164	-25	81	152
Other European countries	262	331	342	328	371	510	-66	-40	-168
Other countries	267	255	237	274	448	400	-7	-193	-163
TOTAL	6,681	6,083	6,806	6,141	6,501	7,247	540	-418	-440

Exports f.o.b., imports c.i.f.

Source: Statistical Office of RS; preliminary data.

Other Current Transactions

Receipts from non-goods transactions (services, income from labour and capital, current transfers) in 1994 amounted to US\$ 1,991 million or 23% of all current receipts. The surplus in total non-goods transactions amounted to US\$ 624 million, of which US\$ 610 million were made in services. The surplus on the services account was even more sufficient than the year before to cover the trade deficit (which was US\$ 146 million according to the balance of payments methodology, which measures both exports and imports f.o.b.).

In 1994 Slovenian receipts from tourism and other travel amounted to US\$ 932 million and expenditures totalled US\$ 315 million; the positive balance in tourism reached US\$ 617 million. The value of transport services was US\$ 488 million in exports and US\$ 420 million in imports; the surplus recorded in this category of services approximately equals the deficit in the other categories.

Income from labour and capital consists mainly of interest payments on foreign loans of US\$ 143 million, and interest receipts from deposits at foreign banks of US\$ 110 million. Outflow of profits from foreign investments is still negligible so far. Receipts from Slovenian residents' earnings from employment abroad are indicated in current transfers or as short-term capital if they were brought into the country in currency and exchanged for tolar; hidden flows as well as private purchases of Slovenian residents abroad have not been estimated.

Financial Account

The increase in foreign direct investment in Slovenia, estimated according to balance of payment sources, which register only financial flows, was US\$ 72 million. For the first time in the last several years, in 1994 a more visible increase was recorded in the financial borrowing of enterprises, of a net amount of US\$ 231 million, mainly in the second half of the year, while net government borrowing was US\$ 65 million, reflecting in a large part the financing of development projects mainly in roads and railways.

Besides the previously described foreign currency inflows to the Slovenian market (from the surplus of current transactions, minus US\$ 144 million on account of net commercial credits, and from direct investments and net receipts from long-term loans), the supply in 1994 was increased by net sales to exchange offices and deposits at domestic banks by households in the total amount of US\$ 366 million. Demand was maintained especially within the framework of central bank interventions, which in 1994 increased the official foreign exchange reserves by US\$ 710 million (not including about US\$ 100 million transferred to both fiduciary accounts) while the commercial banks increased their foreign deposits and securities by US\$ 487 million.

At the end of 1994, the total foreign exchange reserves of the Republic of Slovenia amounted to US\$ 2,764 million, of which US\$ 1,284 million with the Bank of Slovenia.

4. FOREIGN DEBT

In 1994 the volume of new foreign loan agreements continued to increase, in a large part because of the reduced country risk of Slovenia.

In total US\$ 950 million new loans were contracted, representing 43% more than the year before. This increase stems mainly from debt incurred by the private sector (US\$ 657 million), which is 86% higher than the amount in 1993, while new loans contracted or guaranteed by the Government amounted to US\$ 293 million, which is 6% less than the year before. One-fourth of all new loans in 1994 were approved by the European Investment Bank, Luxembourg, and the EBRD, London. The term structure of new commitments is changing in favor of longer-term sources.

The total foreign debt outstanding at the end of 1994 was US\$ 2,236 million and surmounted the amount from the year before, when the foreign debt was US\$ 1,873 million. At the end of 1994 short-term debt amounted to US\$ 79 million, representing only 4% of the total debt. This means an absolute and relative decrease in the short-term debt, compared to the previous year, when it amounted to US\$ 117 million and represented 6% of the overall foreign debt. The international monetary reserves of Slovenia at the end of 1994 surpassed total foreign debt by 22%, while for the year before they still represented 84% of the foreign debt.

Negotiations with foreign creditors

The settlement of the issue of inherited debts, deriving from several cases of restructuring obligations between 1983 and 1988, is important in order to clearly determine the overall foreign obligations of the Republic of Slovenia.

In cooperation with the Ministry of Finance, the Bank of Slovenia carried out a number of activities for the allocation of obligations stemming from the New Financing Agreement and from the Trade and Deposit Facility Agreement, both dating from 1988. Together with representatives of the Government of the Republic of Slovenia, the Bank has also negotiated on the determination of obligations of commercial banks and the Republic of Slovenia to the Paris Club member countries.

Since the negotiations with the commercial banks in the second half of 1993 were not successful, on January 13, 1994, the Government adopted a resolution according to which the payments of obligations were to be directed to a fiduciary account of the Bank of Slovenia at the Dresdner Bank Luxembourg SA, Luxembourg, until a final agreement with foreign creditors was reached. The Slovenian bank debtors and the Republic of Slovenia made payments of interest and principal on loans of Slovenian end users, and of 16.39% of matured interest on the still open obligations of the National Bank of Yugoslavia (NBJ) from the 1988 New Financing Agreement. Funds from the deposit received by the former Ljubljanska banka d.d., Ljubljana from the 1988 Trade and Deposit Facility Agreement were also paid to this account. By the end of 1994, US\$ 88 million had been deposited on this account.

In July 1993, the Republic of Slovenia began negotiations for a formal settlement of relations with the Paris Club member countries. The Slovenian side took the negotiating position by which it was willing to take over debt according to the same principles as had already been agreed upon with international financial institutions, i.e., the total debt of Slovenian end users and the debt of the NBJ at the level of Slovenia's participation in the former quota of NBJ at the International Monetary Fund.

In 1994 it became clear that there were no prospects for the conclusion of an agreement on the legal succession, i.e., on taking over a part of the claims and liabilities of the former state, in the near future. Since the balance sheets of two banks (Ljubljanska banka d.d. and Kreditna banka Maribor d.d.) did not reflect their actual assets due to the inclusion of claims as well as obligations to former federal institutions, the Parliament of the Republic of Slovenia on July 27, 1994 adopted the Constitutional Law on Amendments to the Constitutional Law on the Implementation of the Basic Chart on the Sovereignty and Independence of the Republic of Slovenia. By this law Nova Ljubljanska banka d.d. and Nova Kreditna banka Maribor d.d. were established, taking over the operations and part of the assets of LB d.d. and KBM d.d. All claims and liabilities to former federal institutions, and obligations of end users of loans from other republics of former Yugoslavia, if they were guaranteed by the Government, remained on the balance sheets of these two banks.

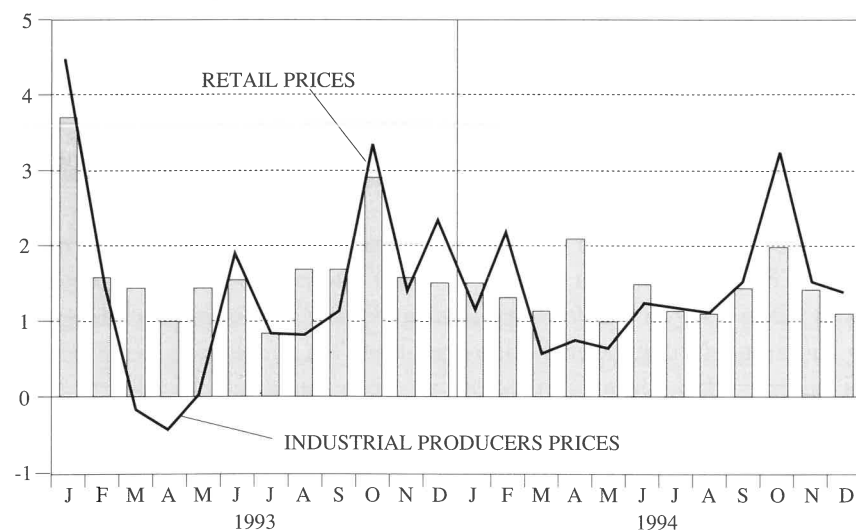
III. MONETARY POLICY AND INSTRUMENTS

1. GOALS AND GUIDELINES OF MONETARY POLICY

Annual inflation in 1993 was 22.9%, representing an average monthly increase in retail prices of 1.7%. While the actual monthly retail-price inflation figures were close to the average, the span between the highest and the lowest monthly rate was nevertheless considerable; the lowest reached 0.8% and the highest 3.7%. After the economy reached the lowest level of activity in the middle of the year, it began to increase in the second half of the year. Real GDP increased by 1.3% for the whole year. In the government sector a minimal surplus was achieved, amounting to 0.5% in proportion to GDP. The financial surplus in external transactions was by one half lower than the year before; the increase in foreign exchange holdings of commercial banks and the central bank represented 3.2% of GDP.

The basic goal of monetary policy in 1994 was to further reduce inflation and ensure the stability of domestic currency. As in the preceding years, the intermediate objective of the monetary policy was targeting base money, with monthly targets based on a demand for money function and the money multiplier. Within this basic framework the Bank of Slovenia adapted its supply of instruments to the current conditions of the foreign exchange market with the intention of preventing unforeseen changes in the level of the real effective tolar exchange rate, and thus maintaining the competitiveness of Slovenian exporters.

Figure 2: Retail prices (monthly growth rates in %)



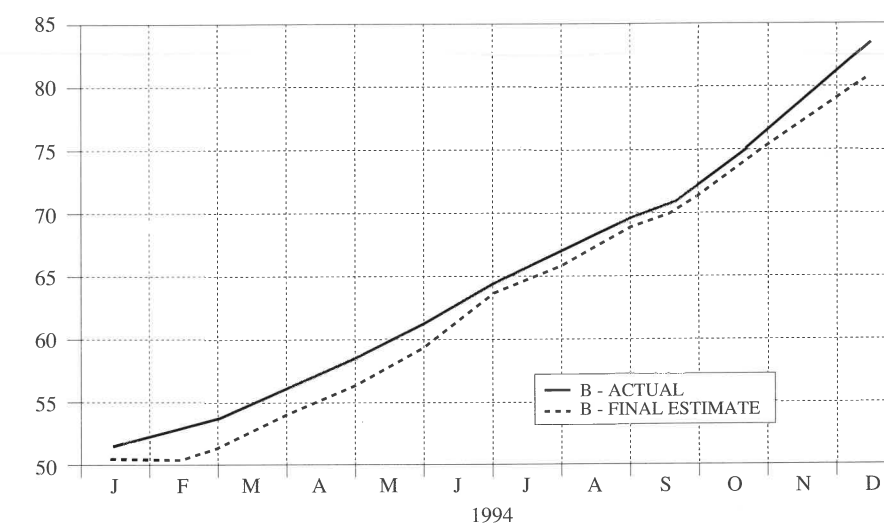
Source: Statistical Office of RS.

At the beginning of 1994 the Bank of Slovenia already estimated a large surplus in foreign exchange flows for that year, which would require monetary policy measures to prevent an excessive increase in the purchasing power of the tolar. This orientation was based on the awareness, that an increased appreciation of the domestic currency in real terms due to an excessive supply of foreign exchange would eventually lead the economy into a recession. Taking into account this projection of developments, the Governing Board set itself the following main policy objectives for 1994: to reduce financial repression and to deepen the structure of the financial system, i.e., to reduce the credit multiplier. Guidelines were also adopted in the sense that the financial results of the Bank should not restrain the Bank in following its monetary policy objectives. This orientation was important from the point of view of the need for the implementation of new instruments of money withdrawal.

The economic trends in 1994 show that the imbalances in supply and demand on the foreign exchange market are not just a short-term, seasonal issue, but represent at least, a medium-term issue of oversupply in foreign exchange. Under circumstances like these, monetary policy measures to prevent a too large increase in the purchasing power of the tolar are limited and might produce undesired effects in realizing the main goal of the monetary policy, which is to ensure a gradual reduction in inflation. This makes policies to influence the exchange rate in circumstances of large and lasting surpluses on the foreign exchange market, practically ineffective.

Annual inflation in 1994 was 18.3%, which represents a monthly inflation of 1.4%. The span between the lowest and the highest monthly rates decreased compared to the preceding year; the lowest rate of retail price growth was in May at 1.0%, and the highest in April at 2.1%. The increase in real demand for money in 1994 is in part the result of a gradual fall in inflationary expectations, but more so the result of the increase in the real volume of money transactions. Total money transactions, i.e., the transactions of households, enterprises and the government sector increased by 30.5% in nominal terms and 8.9% in real terms. Their growth rate exceeded the estimated real growth of GDP in 1994 by about four percentage points.

Figure 3: Base money developments in 1994 (in SIT billion)



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

The supply of money defined in narrow terms, in 1994, was on average 41% higher than in the preceding year in nominal terms, and 17.5% higher in real terms, deflated by the retail price index, or 7.8% higher, in relation to the growth of money transactions. Base money supply increased more than narrow money, i.e., by 52% in nominal terms, and by 27% and 16% respectively in real terms. Measured in three-month moving averages, the supply of base money in 1994 exceeded the estimated demand for base money by 2.5% on average, which reflects monthly the monetary effects of foreign exchange inflows from the balance of payments. In spite of this the overall assessment of monetary policy implementation is satisfactory, as is evidenced by the decrease in inflation rates in 1994.

The credit multiplier, representing the ratio between money and base money, continued to gradually decrease throughout 1994, and was on the average 4% lower than in the preceding year. From January to December it decreased from 2.097 to 1.882, which is 11%. The decrease in the multiplier can be mainly attributed to the increase in the ratio of bank reserves to deposits, and to a lesser degree to the change in the ratio of currency in circulation and non-banks' deposits at the central bank to bank deposits. 22% of the total increase in money originating from the increase in base money supply was neutralized by changes in the credit multiplier.

Effects of the Bank of Slovenia foreign exchange transactions were again in 1994 the most important flow in base money creation. The net increase in foreign exchange assets of the Bank of Slovenia almost equaled the increase in its international monetary reserves, which grew by US\$ 642.4 million. This growth is the result of the sales of foreign exchange bills and of the temporary and final purchases of foreign exchange with the various instruments the Bank uses.

Table 4: Derivation of base money (in SIT million)

	31.12.93	Change in quarter				Total	31.12.94
		I	II	III	IV		
Base money	48,965	-848	13,258	760	24,831	38,001	86,966
Bank reserves	12,548	881	7,091	-3,524	14,062	18,510	31,058
Currency	32,547	-2,500	4,805	2,557	9,617	14,479	47,026
Non-banking sector deposits	3,870	771	1,362	1,727	1,152	5,012	8,882
Creation	132,495	3,449	30,775	56,419	5,905	96,548	229,043
Net foreign assets	97,894	621	32,695	18,981	33,586	85,883	183,777
Claims on general government	18,599	212	366	111	-3,922	-3,233	15,366
Claims on domestic banks	15,845	2,572	-2,738	36,392	-22,431	13,795	29,640
- lombard loans	351	-351	159	-58	-101	-351	0
- liquidity loans	14,006	882	-1,287	682	-144	133	14,139
- repurchase agreements	1,488	2,041	-1,610	35,768	-22,186	14,013	15,501
Other claims	157	44	452	935	-1,328	103	260
Withdrawal	83,528	4,298	17,656	55,521	-18,925	58,550	142,078
Foreign exchange liabilities	8,507	-1,088	2,498	1,052	11,538	14,000	22,507
Bank of Slovenia bills	50,385	-554	14,688	58,971	-23,722	49,383	99,768
Net other liabilities	24,636	5,940	470	-4,502	-6,741	-4,833	19,803

Source: Bank of Slovenia.

The Bank of Slovenia operations with domestic clients resulted in a decrease in base money. Through sale of Bank of Slovenia bills more base money was withdrawn from circulation than was the decrease in the net domestic assets of the Bank of Slovenia; claims against banks based on monetary policy instruments which the Bank of Slovenia used in the second half of the year to influence the foreign exchange rate fluctuations on the market, went up by the amount of the difference.

Claims of the Bank of Slovenia on the government at the end of 1994 were by SIT 3.1 billion lower than at the end of the preceding year. This reduction in claims was the result of settlement of obligations to the International Monetary Fund in 1993 debited to the surplus of income over expenditure in the Bank's financial accounts for 1993.

Three-fourths of the increase in total financial liabilities of the monetary system in 1994, in the amount of SIT 250 billion, arose from the increase in net foreign assets, and one fourth from the increase in claims on domestic non-banking sectors. Real changes in the balance sheet of the monetary system show that the total real increase in financial liabilities was directed toward the real increase in net foreign exchange assets, which sufficed to finance four-fifths of this increase; one-fifth of the total real increase in foreign exchange assets was financed by the net increases in other liabilities. Claims on enterprises and the government decreased in real terms in 1994, while those on households increased insignificantly.

Table 5: Derivation of money in circulation (in SIT million)

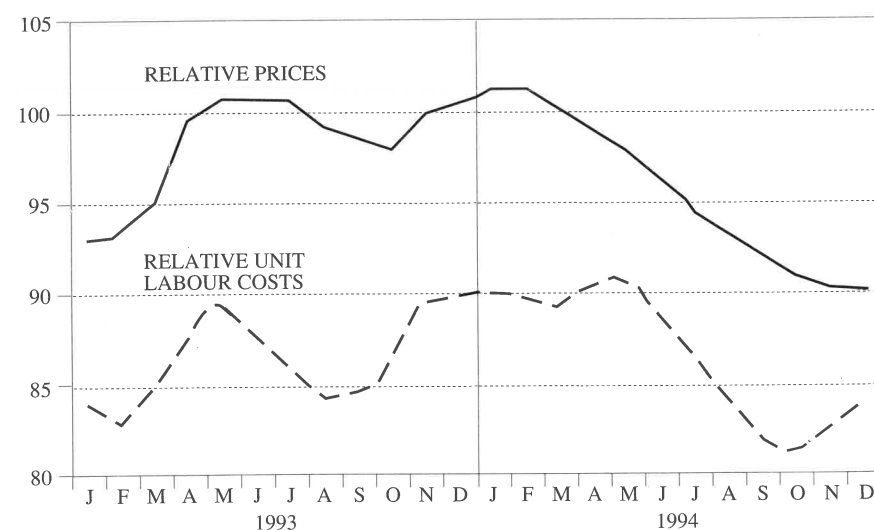
	31.12.93	Change in quarter				Total	31.12.94
		I	II	III	IV		
Money (M1)	116,005	-831	14,744	5,416	34,903	54,232	170,237
Deposits at commercial banks	79,779	858	8,592	1,642	25,024	36,116	115,895
Deposits at Bank of Slovenia	3,505	802	1,318	1,190	243	3,553	7,058
Currency	32,721	-2,491	4,834	2,584	9,636	14,563	47,284
Increase	707,461	52,658	52,063	109,645	66,887	281,253	988,714
Net foreign assets	118,102	36,361	39,015	74,266	38,352	187,994	306,096
Claims on general government	213,730	20,575	-302	-436	3,195	23,032	236,762
Claims on households and enterprises	373,184	-4,497	12,996	35,091	23,554	67,144	440,328
Claims on other financial institutions	2,455	219	354	724	1,786	3,083	5,528
Decrease	591,454	53,472	37,337	104,231	31,980	227,020	818,474
Non-monetary deposits	375,468	54,618	47,077	36,641	57,891	196,227	571,695
- households and enterprises	326,962	25,867	34,743	25,978	63,216	149,804	476,766
- general government and OFI	48,506	28,751	12,334	10,663	-5,325	46,423	94,929
Securities	30,445	-3,357	-509	30,376	-21,097	5,413	35,858
Restricted deposits	11,480	1,515	456	-792	1,470	2,649	14,129
Net other liabilities	174,061	696	-9,687	38,006	-6,284	22,731	196,792

Source: Bank of Slovenia.

Increases in the net foreign exchange assets of the monetary system in the individual quarters of 1994 were steady with the exception of the third quarter, which shows a typical seasonal increase. Thus the most important task of the Bank of Slovenia throughout 1994 was to ensure sterilization of the monetary effects of foreign exchange transactions with an appropriate choice of monetary policy instruments. From the viewpoint of efficacy in carrying out this task and opportunities to implement it, two separate periods can be discerned in 1994: the period up to the maturity of the Bank's bills with warrants, i.e., up to December 1, and the period after the repayment of obligations on these bills, i.e., the last month of the year. The period of efficient sterilization of the monetary effects of foreign exchange transactions also denotes the period during which the Bank of Slovenia was able to lead an active exchange rate policy with the aim to prevent an uncontrolled development of the real effective exchange rate and, consequently, the competitiveness of Slovenian exporters.

Within the framework of its legal authorization the Bank of Slovenia decided to issue a bill with warrants. This instrument was first issued and offered for sale in the last decade of June. The interest rate on the bill was determined in accordance with the projected foreseen for 1994 (which was expected to amount to 13%) and a supplement for the real interest rate in the amount of four percentage points. The interest rate was in effect negative in real terms since actual inflation in 1994 was 18.3%. A warrant was added to the bill in order to ensure the buyer against risk of higher inflation than the one officially expected, and against the risk of a change in the foreign exchange rate that would be smaller than the officially expected inflation. The owner asserts his rights by having the possibility to buy with the warrant, at a discount, a new Bank of Slovenia tolar or foreign currency bill. The amount of the discount depends on the number of parts of the warrant that the buyer submits, and on the monthly rate of inflation and the rate of change of the exchange rate compared to the officially expected inflation rate.

Figure 4: Real effective exchange rate (indices 1992=100)



The effective exchange rate, deflated with relative retail prices and with relative unit labour costs. Growth of index growth denotes growth of value of foreign currencies, and vice versa.
Source: Bank of Slovenia.

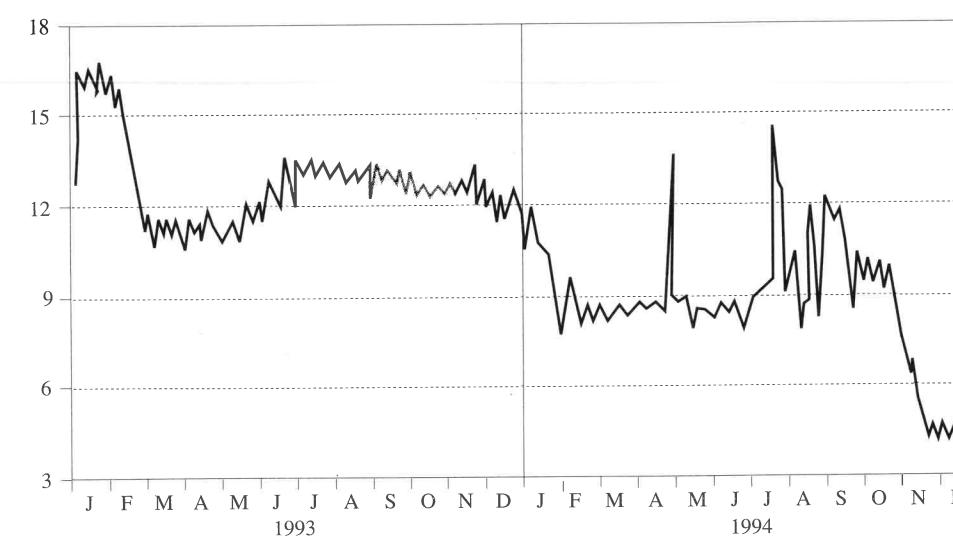
The Bank of Slovenia did not decide, therefore, to issue a bill at interest rates higher than current market rates (e.g., in May the interbank interest rate amounted to 8.3% over the inflation index). Such a solution would have directly and in equal measure affected all interest rates to rise, which would have been an undesired effect from the viewpoint of the long-term goal of the Bank of Slovenia to lower interest rates.

The most significant effect of the sale of the bill with warrants from the viewpoint of the purpose of the instrument and the implementation of monetary policy, was the decrease in base money by 31.3 billion tolar. The Bank of Slovenia thus gained approximately so much room for intervention via instruments influencing the exchange rate. At the end of November 1994, i.e., just before the maturity of the bills, the Bank of Slovenia level of interventions through repurchase agreements with bills was 18.3 billion tolar and with foreign exchange 29 billion tolar. The Bank of Slovenia conditioned this supply of liquidity with the levels of exchange rates at which the banks bought foreign currency from exporters.

An important monetary policy instrument besides the bill with warrants was the foreign currency bill, with which financial investment abroad was encouraged. From the end of June to the end of November the amount of foreign exchange bill subscriptions increased by DM 285.5 million and US\$ 37 million. Through its offer of these instruments the Bank of Slovenia prevented the foreign exchange rate from falling in nominal terms. Despite large surpluses in inflows, the exchange rate of the tolar even depreciated on the market, but it nevertheless increased its foreign purchasing power by 12%.

The effect of the instruments for the sterilization of the monetary effects of foreign exchange transactions on the increase in interest rates was relatively small due to their indirect nature. After the first series of bills with warrants matured on December 1, however, the interest rates settled at an even lower level than before their issue, that is, before June 1994.

Figure 5: Interest rates on the money market
(annual real rates over revaluation /R/ in percent)



Source: Bank of Slovenia.

2. MONETARY POLICY INSTRUMENTS

The Bank of Slovenia implemented its monetary policy with instruments it already had at hand from previous years, continuing to improve and adapt them to the current monetary developments and policy targets. The Bank of Slovenia also supported the global orientation towards a general reduction of interest rates.

Required Reserves

The system of required reserves is in force at all banks and savings banks (including savings cooperatives) and is one of the most stable monetary policy instruments. From April 1992, when the present methodology was adopted, to the end of 1994, various adjustments were made in the technical requirements. In June the prescription was changed in a manner which provides that after November, in the case that individual banks and savings banks exceed the average effective deposit rates of banks and savings banks, each day they are required to hold a part of the calculated required reserves on a special account (previously they determined the amount on this account by themselves, in proportion to their liquidity). An important amendment was adopted at the end of 1994, which has been in use since April 1995. It cancels the required reserves on deposits over one year, reduces the rate of the required reserve on three-month to one-year deposits, and increases the rate on deposits from one to three months.

In 1994, the required reserve was calculated for all tolar deposits, received loans and securities issued at the rate which varies according to maturity: 12.5 percent for sight deposits and time deposits up to thirty days, 3 percent for deposits from 31 days to one year and 0.5 percent for deposits with longer than one year maturity.

Deposits, used to calculate the required reserve, increased throughout the year by a monthly average of at least 2.3% in September to 7.4 % in December. In nominal terms the base for calculating required reserves increased by 170 billion tolar (62%), amounting to 442 billion tolar at the end of the year. The structure of deposits also changed. Long-term deposits increased more (by 142%), deposits from one to twelve months by 77%, while one-month and sight deposits increased by 41%. These changes indicate a growing confidence in tolar savings. This is also an effect of the stability of the instrument, which prescribes a lower required reserve for a longer maturity. The changed structure of deposits reduced the average actual reserve requirement from 7.8% in December 1993 to 7.0% in December 1994.

The calculated reserves of banks and savings institutions amounted to 21.1 billion tolar at the beginning of the year and 31.0 billion tolar at the end of the year. The amount of the calculated required reserves grew at an average monthly rate of 7.4%.

The actual level of reserves exceeded calculated levels in all months; balances on giro accounts, cash in vaults, and balances on special accounts grew by an average of 6% monthly. A surplus over the required amount was registered in all months of the year. Due to the favorable liquidity position and because of the requirement that all banks have to hold a part of their reserves on a special daily account, the surplus was especially high in the last several months of the year.

The share of required reserves held by the banks and savings banks on special accounts amounted to a daily average of 56%, while the remaining part was held on giro accounts and as cash in vaults. This measure has allowed the Bank of Slovenia to positively influence the liquidity risk exposure of those banks that pay high (above average) deposit interest rates, and to effect a decrease in the banks' deposit interest rates and, in consequence, a decrease in their lending interest rates. The immediate result of this measure is a steadier achievement of the required reserves during the month and, on average, a higher reserve amount. It also represents a certain liquidity reserve to make the payments and in this way reduces liquidity risks due to increased or unexpected outflows from the bank giro accounts.

Foreign exchange minimum

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

The methodology of calculating the foreign exchange minimum remained unchanged in 1994. Each bank determines the amount of its foreign exchange minimum on a monthly basis with regard to its foreign payment 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%). Banks meet the prescribed foreign exchange minimum with balances on bank accounts abroad, foreign currency and checks, foreign exchange claims on domestic banks and the Bank of Slovenia, Bank of Slovenia foreign currency bills with maturity of up to 120 days, certain investments in safe foreign securities, and special rights to foreign exchange repurchases from the Bank of Slovenia.

Due to the growth of foreign exchange investments and increased payments turnover, the foreign exchange minimum of all banks increased from ECU 897 million in December 1993 to ECU 1,170 million at the end of 1994, i.e., by ECU 273 million.

During all months of 1994, banks held more than the prescribed foreign exchange minimum. On the last day of the year the overshooting was US\$ 470 million (ECU 383 million). In 1994, the banks undergoing rehabilitation were temporarily and partially relieved of fulfilling the foreign exchange minimum requirement. One bank was relieved of this obligation only for the first two months of the year, a second until May, and a third until September.

Beside the foreign exchange minimum, a net foreign exchange position (the difference between a bank's foreign exchange holdings and its short-term liabilities abroad), amounting to at least 75% of the foreign exchange minimum, was prescribed for the banks. This obligation was met by all banks.

Bank of Slovenia bills

In 1994 the Bank of Slovenia continued to withdraw money from circulation by issuing foreign currency bills, twin bills, and tolar bills with various maturities. In addition to the bills put forth in the preceding years, the Bank of Slovenia issued a bill with warrants, which was issued, like the twin bill, as an actual security (rather than a book entry). The overall purchases of the Bank of Slovenia bills (excluding foreign currency bills) amounted to 115.3 billion tolar and the total repayments were 104.6 billion tolar. The purchases were thus 10.7 billion tolar higher than the repayments, which represents a decrease in base money.

Foreign currency bills are transferable securities and have been issued by the Bank of Slovenia since January 1992. The Bank of Slovenia uses them for balancing foreign exchange supply by preventing monetization and thus affecting the exchange rate. Besides banks, other legal entities may purchase the bills. Investors may make the payment for the bill in DM or US\$, and the subscription periods are 60, 90 or 120 days and, since May 1994, also 180, 270 or 360 days (these are not included in the foreign exchange minimum). A discount is allowed when a foreign currency bill with a 180-day maturity is purchased with a coupon from the bill with warrants.

Turnover depends in particular on the profitability of the bill, i.e., on the interest rate, the exchange rate fluctuations (temporarily postponed monetization), while in the second half of the year it depended also on the level of discount, when the bill with warrants coupon was submitted at the time of subscription. The interest rate depends on interest rate trends on foreign markets and on the goals of monetary policy, and the discount with the coupon depends on the difference between the fluctuation of the official Bank of Slovenia exchange rate, officially expected inflation, and the number of submitted coupons. Interest rates for bills denominated in DM were reduced on two occasions, while for the US\$ denominated bills they were increased four times.

Foreign currency bills outstanding at the beginning of the year amounted to DM 566 million and US\$ 17 million. This amount continued to decrease until May, when it began to increase again, and reached its highest level at the end of September, with the subscription of an additional DM 877 million and US\$ 126 million. Discounts from purchases with coupons amounted to a total of DM 22 million and US\$ 36 million. The foreign currency bills subscription was highest by the banks, because the bills serve as the base for participation in other monetary policy instruments: they are used to satisfy the foreign exchange minimum (with 120-day maturity), they are accepted as collateral against lombard loans, as collateral for liquidity loans or can be temporarily sold to the Bank of Slovenia in its repurchase operations. Since November they have also served as collateral basis for short-term loans.

Twin bills are transferable securities which can be purchased on the primary market by legal entities, and, through banks as intermediaries, also by natural persons. They are composed of a tolar and a foreign currency part, bought in tolar at a discount, and paid out half in tolar and half in German marks. They are issued as actual securities, which simplifies their sale on the secondary market, where their tolar and foreign currency parts can be traded separately. In order to maintain real value, the tolar part is indexed and is paid out on maturity in tolar, while the foreign currency part is paid out in foreign currency. With a 6% interest rate for the tolar part and a 5.25% interest rate for the foreign currency part, both parts assure real profit. With this bill, first issued in July 1992, the Bank of Slovenia expands its operations on the securities primary market and widens its scope for intervention on the open market. The twin bill offers an opportunity for safe and profitable investment also to households.

In 1994 investors could purchase three series, two of which reached maturity in the same year, and one in January 1995. Because of other investments, the interest in this bill was smaller than in previous years. The overall series totals were 7.3 billion tolar in payments, which is 34% of the preceding year's amount, and 5.1 billion tolar and DM 65 million in outpayments. In spite of the decline in interest, 2.2 billion tolar were withdrawn from circulation via the twin bill.

Tolar bills may be bought by banks as two-, twelve- and sixty-day bills and by savings banks as seven- and fourteen-day bills, and are continuously available. In 1994, changes were made only in their interest rates, which were determined by the Bank of Slovenia according to the fluctuation of interest rates on the domestic money market. They are purchased by making a payment to a special account at the

Bank of Slovenia, which issues a receipt for the payment. Compared to the preceding year, banks have increased their purchase of tolar bills, with the total amount outstanding at 74 billion tolar. The purchases were 8 billion tolar higher than the outpayments, which also represents a net decrease in base money.

In 1994 the interest in purchases of two-day bills increased and banks' purchases amounted to 21.1 billion tolar, while outpayments amounted to 20.4 billion tolar. Purchases increased especially towards the end of the year and in the end-of-month periods, when banks had already fulfilled their reserve requirements and were in this way making safe short-term investments with their increased liquidity surpluses.

Purchases of twelve-day bills increased even more, due to the favorable interest rate and excess liquidity. Subscriptions were made for a total of 49.5 billion tolar and 42.6 billion tolar were paid out. As an additional benefit, holding these bills made banks eligible for liquidity loans for three days. Liquidity loan disbursements amounted to 13.5 billion tolar.

At the end of the year, when the first issue of bills with warrants reached its maturity, the Bank of Slovenia introduced a sixty-day bill in order to neutralize the creation of base money. It differs from other tolar bills in that it is serial, a minimum payment for its purchase is determined, the time period for payment is limited and under specific conditions it can be transferred to another bank. In 1994, 0.3 billion tolar of this bill were bought.

Savings banks have also increased their purchases of seven- and fourteen-day bills. They paid in 2.9 billion tolar, while 2.8 billion tolar were paid out.

The bills with warrants are serial, transferable securities, with a nominal value of a half million tolar, bought at a discount in tolar. The first series was offered for sale in June 1994, the second in December 1994. By issuing these bills, the Bank of Slovenia intended to assure greater stability in the demand for base money. The bills earn interest at a nominal annual interest rate without a revaluation factor and a specially determined real interest rate. A coupon is attached to the bill, ensuring the buyer against the risk of inflation higher than the officially projected one, and the risk against slighter changes in the exchange rate than the officially projected inflation. The holder exercises his right by buying a new tolar bill or a foreign currency bill at a discount. The amount of the discount depends on the number of parts of the coupon that the buyer submits, the growth in retail prices and the exchange rate of the Bank of Slovenia in comparison with the officially projected inflation.

The bill was issued twice in 1994, each time for a maturity of six months, and so that the second series came out on the maturity date of the first one. The first series earned interest at a 17% rate, and the second one at a 14% annual interest rate. The second issue, in comparison to the first one, included a reduced number of coupons, and was sold only via auction (the first issue was also sold by banks on behalf of the Bank of Slovenia). Furthermore, the investor in the second issue did not receive new coupons with the bill bought at a discount.

There was strong interest in buying the bills with warrants in the first issue, and its sales amounted to 33.1 billion tolar. 66,233 bills were issued and 200,698 parts of coupons. 50,235 parts of coupons were submitted at a total discount of 14.2 million tolar for the purchase of new tolar bills, and 149,446 parts were submitted at a total discount of 6.2 billion tolar (DM 21.8 million and US\$ 35.7 million) for the purchase of foreign currency bills. In December, when the bills matured, almost the whole amount was paid out, except for 26 bills (13 million tolar) and 1,017 parts of coupons.

Liquidity loans

The Bank of Slovenia regulates the overall liquidity of the banking system with liquidity loans. It grants them against a collateral of its own bills and government bonds of the first and second issue. As in the previous year, in 1994 they were the most frequently applied instrument of monetary policy, especially for banks undergoing rehabilitation.

The Bank of Slovenia did not expand its offer of liquidity loans in comparison to the previous year. Occasionally, it adjusted interest rates according to the developments on the interbank money market and the objectives of monetary policy. In order to lead an active foreign exchange policy, in the second half of the year the Bank of Slovenia introduced a condition, according to which banks drawing on these loans had to purchase foreign exchange inflows from enterprises at a determined exchange rate, during a certain time period.

Liquidity loans outstanding amounted to a daily average of 15.8 billion tolar (14.6 billion tolar in the year before), of which the major part was accounted for by loans to banks undergoing rehabilitation, while overnight loans amounted to only 0.5 billion tolar.

Overnight liquidity loans are available to all banks under the same conditions: they must be net debtors in interbank crediting and accept offers made by other banks before taking a loan at the Bank of Slovenia and they are to use the funds exclusively to meet their obligations and not lend them to others. The Bank of Slovenia approves these loans on the evening interbank money market, where it participates with a special offer and with a limited amount. Through its presence on the money market, the Bank of Slovenia influences the lowering of interbank interest rates. The rates decreased in real terms (above indexation) from 11% at the end of 1993 to 4.2% at the end of 1994. In addition, the Bank of Slovenia decreased the interest rates on its overnight loans from 8% to 5% in the real part. Demand for these loans was low, and it grew only in October.

Special liquidity loans are intended for banks undergoing rehabilitation and are granted for one day or for fourteen days at an interest rate higher than for overnight loans, and with the condition of purchasing foreign exchange inflows. Against paid out potential liabilities, the banks undergoing rehabilitation also received longer term liquidity loans, but no longer than one year, if the Agency for Bank Rehabilitation had issued government bonds reserved for this purpose at the beginning of the bank rehabilitation process. In 1994, these loans represented the largest share of these banks' indebtedness to the central bank.

Lombard loans

Unlike the year before, when lombard loans were the second most frequently used instrument of monetary policy, in 1994 they represented only a minimal share. The Bank of Slovenia did not make any offers for banks through auctions in 1994, and banks could acquire these loans only at the permanently open lombard loan window under conditions determined in advance.

The intervention lombard loan is intended for all banks. It is a permanent liquidity window for banks of a five-day loan, the amounts determined as a given percentage of the value of collateral in Bank of Slovenia foreign currency bills. The interest rate for this loan was favorable, 17% p.a., however, as collateral, the bank had to submit bills worth fifty-nine times (until April) or forty times (from May on) more than the amount of the received loan. An additional condition was introduced in May, by which banks had to purchase the foreign exchange inflows from enterprises at least at the stipulated rate, which changed weekly. Interest in this loan increased in the beginning of May, when the Bank of Slovenia increased the percentage of loan to bills submitted from 1.7% to 2.5%.

These loans were mostly drawn upon during the summer months. After that the demand decreased because of other offers. This instrument, which, to the banks, also represents a solution of last resort, brought into circulation 4.3 billion tolar, and repaid 4.5 billion tolar, representing a reduction in base money of 0.3 billion tolar.

Short-term loan

The short-term loan is a new, more stable instrument of monetary policy, which was introduced in November, because of large foreign exchange surpluses on the accounts of banks and is intended for those banks which have been most active in buying foreign exchange from enterprises. The amount of the loan for individual banks is calculated according to the bank's share in the total net foreign exchange position. With the short-term loan the Bank of Slovenia regulates the liquidity of these banks within a month, using temporary data on the base money, because the monetization of foreign exchange is not possible until the final estimate on the required amount of base money is made. The collateral required for drawing upon the loan are Bank of Slovenia foreign currency bills. The amount of the loan in each month depends on the share of the individual bank in the aggregate surplus in the net foreign exchange position of all banks in the preceding month, and on offers of the Bank of Slovenia. The interest rate remains unchanged within individual periods, depending on the Bank of Slovenia discount rate and expressed as an annual percentage. In 1994 the annual interest rate was 16% (equal to the discount rate).

Based on four offers, banks drew a daily average of 244 million tolar (24% of the available amount) in November, and 2.0 billion tolar (50% of the available amount) in December.

Repurchase agreements

Temporary purchase of foreign currency bills was the most frequently used instrument of monetary policy and one of the most important in terms of volume of operations. The Bank of Slovenia temporarily purchased 91.9 billion tolar in bills, while bank repurchases amounted to 94.6 billion tolar, with the net effect of this instrument of a 2.7 billion tolar decrease in base money.

Through its special bids at 207 auction sales, the Bank of Slovenia made temporary purchases of bills with obligatory repurchase after one month. Besides the amount offered, the most important item in the bid were the contents of the auction sales, which depended on the objectives of the monetary policy in each time period. The instrument was offered in four different forms.

In January banks auctioned the real part of the interest rate, at which they were willing to repay the loan acquired through the temporary purchase of bills. The 17 bids were realized in full at 5 billion tolar each, and the accepted rate varied from 9.6% to 12.8%. From April until mid-July banks auctioned the exchange rate for the repurchase of bills, and an additional condition was introduced requiring that a specified amount of foreign exchange be purchased from enterprises in the first week at the established rate. At 38 auctions, bids in the amount of DM 227 million were made, 93% of which were realized, in the amount of 16.6 billion tolar. From mid-July to November banks auctioned the exchange rate for the purchase of foreign exchange inflows from enterprises. In addition to the purchase of foreign exchange in the first week, a condition was introduced fixing the foreign exchange rate until the bills had been repurchased. From a total of DM 696 million offered for sale at 96 auctions, 91% of the bids were realized in the amount of 51.1 billion tolar. An additional bid was made during the period from September to November, where banks auctioned a percentage of foreign exchange purchases from enterprises, while all additional conditions from previous auctions applied. 81% of the bids in the amount of DM 295 million, made at 56 auctions, were realized in the amount of 19.1 billion tolar.

Intervention on the foreign exchange market

As in the two preceding years, the foreign exchange transactions were again the most important source of base money creation. In addition to the instruments applied in the previous year, including the purchase and sale of foreign exchange with the right or obligation to repurchase, the purchase of all offered quantities with obligatory repurchase, and the temporary purchase of a specified amount of foreign exchange with obligatory repurchase, were introduced in 1994.

The total purchase of foreign exchange amounted to DM 2,123 million, consisting of final purchases of DM 947 million and temporary purchases of DM 1,176 million. The total sales of foreign exchange amounted to DM 1,495 million, consisting of final sales of DM 319 million and temporary sales of DM 1,176 million. At current exchange rates these foreign exchange operations accounted for 166 billion tolar entering and 119 billion tolar withdrawn from circulation, representing 46 billion tolar of net base money creation. Foreign payments executed for the Government are taken into account in both purchases and sales.

Purchases of foreign exchange in 1994, represented, like in 1992, the major part of foreign exchange interventions. Most foreign exchange purchases were temporary and not final like two years ago. The Bank of Slovenia bought foreign exchange in open offers and at auctions. On the basis of an offer open continuously until July, the Bank of Slovenia bought the offered amounts of foreign exchange at the intervention rate, which was up to 3.9% lower than the official buying rate. The final purchase amounted to DM 211 million, which equals 16.3 billion tolar at the realized exchange rates. From July to November, the Bank of Slovenia bought temporarily, also in an open offer, all foreign exchange that was offered, at an intervention rate which changed so that it was on average about 1.7% lower than the official Bank of Slovenia buying rate. This offer included an additional requirement, by which banks had to purchase a minimum of 90% of foreign exchange inflows from enterprises at a given rate. Temporary foreign exchange purchases amounted to DM 990 million or 76.7 billion tolar, and obligatory repurchases, 79.8 billion tolar. In November and December, the open offer was modified to provide the banks the opportunity to cancel the open offer and make a choice between obligatory repurchase and final foreign exchange sales. Because of the foreign exchange surplus this opportunity was used by most banks in the second half of December, and final monetization amounted to DM 361.7 million, representing 28.8 billion tolar at the contracted exchange rates.

The Bank of Slovenia intervened with the instrument of *temporary foreign exchange purchase* and obligatory repurchase from February to April. Based on special offers, banks auctioned the repurchase exchange rate. 39 offers were sent to the banks, purchases of DM 185.8 million or 14.5 billion tolar were made, and 95% of the total offer was realized. At maturity, the repurchase amounted to 14.6 billion tolar.

Purchase of foreign exchange with the right to repurchase was introduced in 1993. The Bank of Slovenia did not use this instrument in 1994, nevertheless one bank used its right to repurchase from the previous year and bought DM 0.3 million for 20 million tolar, while nine banks prolonged their rights to a total of DM 60 million repurchase.

A significant amount of foreign exchange was purchased from *banks undergoing rehabilitation* for the repayment of matured overnight liquidity loans, amounting to DM 249.4 million, for the repayment of liquidity loans for purchased potential liabilities, amounting to DM 38.4 million, and DM 64.4 million for the fulfilment of obligatory reserve requirements. The total purchases amounted to DM 352.1 million, equalling 27.8 billion tolar at the Bank of Slovenia current buying rates.

Sales of foreign exchange as a final operation based on offers did not reach even half of the operational volume of that reached in the previous year. The Bank of Slovenia sold foreign exchange to banks only in the first two months by auctioning the exchange rate, when it sold DM 30.5 million and withdrew from circulation 2.4 billion tolar.

In its foreign payment operations for the Government, the Bank of Slovenia withdrew 21.2 billion tolar from circulation (at the Bank of Slovenia official rate), since sales exceeded purchases by DM 266.4 million.

Bank of Slovenia Interest Rates

Given the gradual slowing of inflation and in accordance with the interest rate developments on domestic and foreign markets, the Bank of Slovenia took a number of steps to gradually lower its interest rates. Using monetary policy instruments and taking other measures, the central bank directly influenced the interest rates on the interbank money market, and indirectly the levels and the lowering of other interest rates of banks. The Bank of Slovenia began to gradually introduce nominal interest rates, expressed in annual percentages, without separating the rates into revaluation and real parts. This manner of expressing and calculating interest rates, usual in conditions of lower inflation, represented the intention of the central bank to lower inflation and consequently reduce financial repression.

Table 6: Interest rates in 1994 (in percent per annum over indexation, except for the discount and lombard rate - overall nominal rate)

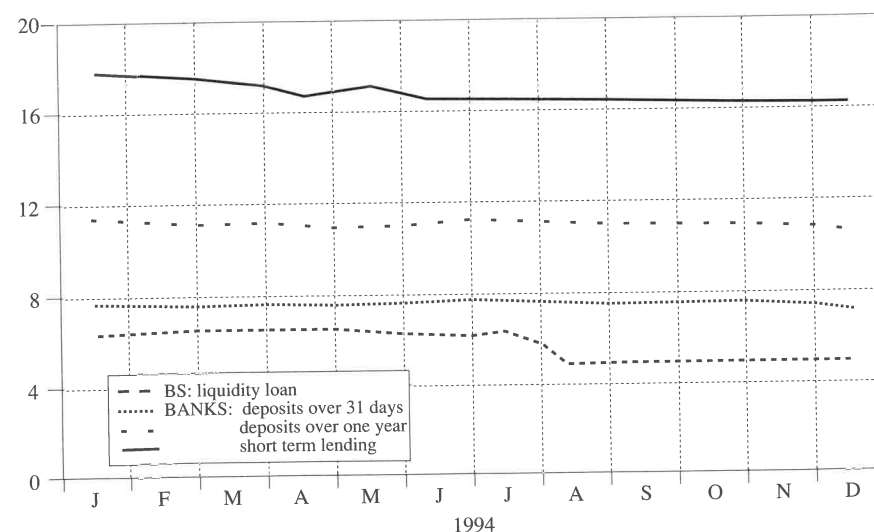
	Bank of Slovenia			Banks		
	Discount rate	Lombard rate	Overnight liquidity loan	Time deposits over 31 days	Time deposits over 1 year	Short-term loans
January	18.0	19.0	6.5	7.8	11.1	17.9
February	16.0	17.0	6.5	7.7	10.9	17.7
March	16.0	17.0	6.5	7.7	10.9	17.4
April	16.0	17.0	6.5	7.7	10.9	16.9
May	16.0	17.0	6.5	7.6	10.9	17.1
June	16.0	17.0	6.0	7.7	11.0	16.6
July	16.0	17.0	6.0	7.8	11.1	16.6
August	16.0	17.0	5.0	7.7	11.1	16.6
September	16.0	17.0	5.0	7.5	11.0	16.5
October	16.0	17.0	5.0	7.5	11.0	16.5
November	16.0	17.0	5.0	7.5	11.0	16.4
December	16.0	17.0	5.0	7.3	10.9	16.3

Source: Bank of Slovenia.

In January, the Bank of Slovenia lowered its discount rate from 18% to 16% per annum. At the same time the lombard rate was lowered from 19% to 17%. In addition to lowering its discount rate, the Bank of Slovenia gradually lowered interest rates for special liquidity loans from a real 11% to 5%, and for overnight loans from a real 8% in December 1993 to 6.5% in January 1994 and 5% at the end of the year. This interest rate represents a floor for banks' interbank liquidity loans, and can achieve an even lower level in conditions of very favorable liquidity, as in December 1994, when it dropped below the Bank of Slovenia interest rate and was at 4.7%. The average monthly real interest rate (above indexation) fell on the interbank money market from 15.8% in December 1992 to 11.7% in December 1993, and to 4.7% in December 1994, i.e., a four-fold decrease in two years. In parallel with lowering its interest rates on loans and in accordance with the goals of its monetary policy, the Bank of Slovenia also lowered interest rates on its bill issues, and adjusted the opportunity costs of other instruments, by which it indirectly influenced the lowering of bank interest rates.

In its efforts to lower banks' interest rates and to lower the exposure to liquidity risks by banks paying above-average deposit rates because of worsened liquidity, the Bank of Slovenia adopted a resolution in June, stipulating that banks which had above-average interest rates had to hold, daily, a part of the required reserves on a special account as a liquidity reserve. This measure was also supposed to influence the lowering of banks' deposit rates and indirectly lead to a reduction in lending rates. After this measure was introduced, the average annual effective deposit rate on received short-term funds gradually decreased (from 8.4% in the first to 7.6% in the fourth quarter, real rate over indexation), while the measure also stimulated the banks to negotiate reductions in deposit and lending rates. The change in calculation of required reserves, according to which more stimulation was given for 90-day deposits, for which the level of required reserves was reduced, and in the case of deposits for over one year, for which reserve requirements were cancelled, should influence the lowering of bank interest rates on sight deposits and short-term deposits.

Figure 6: Interest rates in 1994 (in percent per annum over indexation)



Source: Bank of Slovenia.

Control of implementation of monetary policy

The Bank of Slovenia supervises the implementation of its monetary policy measures and compliance with the rules and conditions of its operations on the open market through direct and indirect control of banks and savings banks.

Indirect control is implemented by constantly checking reports and documentation received from banks and savings banks. Inspections are also occasionally carried out on site.

In 1994, the Bank of Slovenia discovered, through indirect control, 13 irregularities at ten banks, one savings bank and two savings cooperatives, which is less than in the previous year, especially regarding the savings cooperatives. The largest number of irregularities involved obligatory reserves and failure to meet requirements related to central bank interventions.

The Bank of Slovenia issued seven decrees with measures including a prohibition on purchasing Bank of Slovenia bills, a restriction on the growth of credits, a proposal to suspend an executive responsible for irregularities, and a temporary prohibition on participating in Bank of Slovenia interventions. Furthermore, the Bank of Slovenia brought to the banks' attention, in writing, the discovered deficiencies, irregularities, and irrational operations.

IV. REHABILITATION OF THE BANKING SYSTEM

The project of the rehabilitation of the banking system in the Republic of Slovenia is reaching its final stage, which will represent the privatization of the banks undergoing rehabilitation. With the adoption of the law on the disbursed households' foreign currency deposits the linear rehabilitation of the banking system will be encompassed as well.

Rehabilitation of Ljubljanska banka d.d., which commenced in January 1993, and of Kreditna banka Maribor d.d., in March 1993, together with additional changes effected by the amendments to the law made at the end of July 1994 have enabled the two banks in rehabilitation to clear off their debts and cut all their links with former Yugoslavia. In particular, the two banks have reinforced their capital and they are again gradually taking over the same position in the banking community of the Republic of Slovenia as they had had before rehabilitation. An important step in the institutional field has been achieved by joining two of the banks in rehabilitation, i.e., Nova Kreditna banka Maribor and Komercialna Banka Nova Gorica. In this way the second largest bank in the Republic of Slovenia (measured by its share of over 10% in total bank assets) has been established, which has also surmounted the narrow regional framework otherwise typical of the organization of the Slovenian banking system. The main positive changes achieved by the banks undergoing rehabilitation in 1994 include the following:

- Operational costs continued to decrease in 1994, in average for the banks undergoing rehabilitation by 3% in real terms compared to those in 1993. This result was achieved by reducing the number of employees and through rigorous control and management of other operational costs.
- The negative cash flow was brought to a final stop, as indicated by the level of average daily indebtedness of the banks undergoing rehabilitation to the Bank of Slovenia, which decreased by almost SIT 7.5 billion compared to 1993. Moreover, a positive cash flow in the profit and loss account was achieved by both banks.
- By the end of 1994 both banks undergoing rehabilitation had fulfilled all requirements and regulations of the Bank of Slovenia, except for those related to guarantees which had not been repaid by the debtors, and for which appropriate loans had been secured by the Bank of Slovenia.
- The two banks undergoing rehabilitation have exceeded the required 8% level of capital adequacy. They are also forming a sufficient volume of provisions against potential losses.
- Uniform standards and procedures for approving credits and for asset and liability management have been put into force in both banks.
- In 1995 the rehabilitation of the banking system of the Republic of Slovenia is expected to be concluded, and the two banks undergoing rehabilitation are expected to have solved their liquidity problems. A particularly important role in this process will be played by the macro-economic policy, especially monetary policy, which has to achieve, most importantly, a reduction in the lagging of the exchange rate behind the growth in inflation in the Republic of Slovenia. On the other hand, the legislative and executive authorities will have to enable improvements in the term, currency and interest rate structures of the banks' balance sheets by making amendments to the existing legislation. This will create all the substantive conditions needed to start the process of privatization in the banks undergoing rehabilitation.

V. OTHER BANK OF SLOVENIA OPERATIONS

1. BANKER FOR THE GOVERNMENT

Foreign Payments

The Bank of Slovenia has a legal obligation to perform foreign payments and other foreign currency transactions for the Government of the Republic of Slovenia. Compared to the previous year, the volume of operations expanded in 1994: DM 288.3 million were sold to the users of the central budget, and DM 21.9 million were bought from them. The Bank of Slovenia made foreign payments amounting to DM 334 million, paid DM 10 million in obligations from letters of credit, and paid out DM 7 million in currency.

Vouchers and Securities

The Bank of Slovenia performs, on contract, operations for the Government connected with the issuing of administrative and court stamps. It also performs all professional and technical tasks associated with tobacco stamps, including storage and distribution. In 1994 the Bank of Slovenia participated in the issue and distribution of government securities and took over and processed matured bonds and overdue coupons from previous years.

In the fourth quarter the Bank of Slovenia was also engaged in a new task connected to certificate of control stickers for audio and video cassettes.

Foreign Loans

On the basis of a contract with the Government of the Republic of Slovenia, the Bank of Slovenia acts as an agent for all operations connected with a US\$ 33.5 million loan of the Republic of Slovenia from the International Bank for Reconstruction and Development for the restructuring of the banking and entrepreneurial sectors. Disbursements in 1994 amounted to US\$ 12.3 million.

The Bank of Slovenia also managed a US\$ 100 million loan of the Republic of Slovenia from a foreign commercial bank syndicate, granted in 1993, used to finance the central budget deficit. Only US\$ 80 million were disbursed in 1993. In 1994 the remaining US\$ 18.4 million were used, and US\$ 15 million, anticipated for 1994, were disbursed. The first installment of US\$ 14.6 million was repaid in August.

In 1994 the Republic of Slovenia was granted a loan of DM 84.4 million to be used for financing the budget deficit, from a foreign commercial bank syndicate. The loan was disbursed in two installments, the first DM 39.4 million and the second US\$ 30.0 million. DM 15.5 million has been used and the remaining amount is managed by the Bank of Slovenia in accordance with the rules applying to the management of foreign exchange reserves and according to the anticipated disbursement schedule.

Payments for Coupons from Bonds for Undisbursed Foreign Currency Deposits The Bank of Slovenia has a legal and contractual obligation to assure foreign exchange to banks for matured and redeemed bond coupons, issued according to the law on the settlement of liabilities from undisbursed foreign currency deposits. The coupons mature semi-annually and by the end of 1994, an amount of DM 17 million was sold to the Republic of Slovenia for this purpose.

Fiduciary Accounts

On the authorization of the Government of the Republic of Slovenia, the Bank of Slovenia opened two fiduciary accounts at the Dresdner Bank Luxembourg. The first account serves for payments of the matured principal and interest according to the 1988 New Financing Agreement for the allocated debt, and 16.3% in matured interest for the unallocated debt, as well as Slovenian liabilities in accordance with the 1988 Trade and Deposit Facility Agreement. By the end of 1994, US\$ 88 million had been paid to this account. The second account serves to make payments of obligations according to the Osimo and Rome Agreements, at approximately 60% of the overall obligation. By the end of the year US\$ 10 million had been paid to this account.

2. SUPERVISION OF BANKS AND SAVINGS BANKS

In 1994, banks and savings banks had to go through a process of intense adjustment to new laws and regulations. Banks and savings banks now manage their books in accordance with international accounting standards. Since the end of 1993 there have been more rigorous standards for the classification of assets in regard to the creditworthiness of the debtor and the obligation to form special provisions for potential losses.

At the end of 1993 more rigorous standards for the calculation of capital and capital adequacy were put into effect. This made the process of achieving a suitable level of capital even more difficult for the banks. To keep an unrestricted operating license the banks had to have capital amounting to SIT 2,040 million, and to avoid the regional limitations on their branch network their capital had to be SIT 1,020 million.

Since most of the banks had unrestricted operating licenses, they intensively collected additional capital in the third quarter of 1994. Most of the banks increased their capital with hybrid and debt instruments, and some with share capital. The operating licenses of the banks that had not been successful in raising adequate capital were restricted, and expansion of their operational network outside the region of the bank's head offices was limited. Some of the banks chose to merge with other banks.

In 1994, savings banks also had to significantly increase their capital, which had to reach SIT 68 million by the end of the year. Most of the savings banks succeeded in this effort by increasing their share capital. Some of them decided to merge with a bank in 1994, and a number of others are in the process of merging still in the beginning of 1995, to be completed in the first half of this year.

Due to the increases in their capital, banks and savings banks had no difficulty in fulfilling certain relatively severe legal ordinances, which came into effect on August 1, 1994. These included an increase in the level of minimal capital adequacy from 6.25% to 8% (enacted with a change in the law on banks and savings banks in July 1993), a reduction in the maximal credit exposure to a single client or a group of connected entities from 30% to 25%, and a change in the ratio of capital investments and fixed assets to capital from 1.0 to 0.6.

There were no changes in the requirements for obtaining operating licenses for banking and savings institutions and for obtaining approvals for shareholders in 1994. Unlike in 1993, no operating licenses were issued to new banks or savings banks in 1994. Several approvals were granted for an increase in ownership shares of the existing stockholders and for the entry of new stockholders. Several approvals were also granted for the appointment of bank managers.

Banks and savings banks operated relatively well within the conditions described. By the end of 1994, they had significantly increased the extent of their operations compared to the end of 1993. The number of their clients also significantly increased, while the level of credit exposure to single clients decreased. Major changes occurred in 1994 in the structure of the banks balance sheets, especially in liabilities, where there was a relatively large increase in the share of the non-financial sector and in the share of capital. On the other side, there were changes in assets, where the share of credits to financial and non-financial institutions decreased on account of an increase in the share of investments into securities.

Banks improved the structure of their risk portfolio and at the end of 1994 about 85% of their assets were risk-free (compared to 81% at the end of 1993).

Banks and savings banks are supervised by the Bank of Slovenia. The supervision of banks is carried out also by auditing the banks' annual financial reports, performed by authorised auditors.

Based on the reports that banks and savings banks are obliged to submit, the Bank of Slovenia performed off-site supervision:

- regular monthly banks' and savings banks' operations on the basis of data from their balance sheets and their profit and loss statements;
- quarterly the classification of credit portfolios, rectifications and creation of provisions;
- quarterly the credit exposure vis-a-vis their clients;
- semi-annually the capital and capital adequacy;
- semi-annually the extent of capital investments and fixed assets;
- semi-annually the extent of credits to bank management and owners; and
- the audited banks' annual financial reports.

The described inspection activities established that some banks were in violation of the legal decree on the maximal allowed exposure to a single client, which amounts to 25% in relation to capital. The violations resulted from investments into bad companies, and therefore a longer time period has been planned by the banks to remove these irregularities (with assistance from the Government). Several savings banks, which were also in violation of the above-mentioned decree, removed the irregularities by the end of 1994.

Especially after September 1994 banks on the whole highly exceeded the minimal capital adequacy decreed by law. Despite this some banks continue to be in violation of the decree on the highest allowed ratio between capital and fixed asset investments and capital.

Additional control, targeted specifically at savings banks, included inspections of:

- accordance of operations to the operating licenses, and
- level of insurance for citizens deposits.

Supervision was also carried out directly in banks and savings banks (on-site supervision).

On-site supervision covered in particular the following:

- establishing the reliability of banks' and savings banks' reports in regard to the quality of their accounting system;
- testing the quality of the credit portfolio in respect to reports received by the Bank of Slovenia;
- establishing connected persons to judge the diversification of credit risk;
- checking the capital adequacy calculation;
- assessment of management to manage operational risks;
- evaluating the internal controls systems and their findings;
- electronic data processing; and
- share book.

In cases of established irregularities the Bank of Slovenia acts in accordance to the Law on Banks and Savings Banks and the Law on the Bank of Slovenia and in cases concerning major problems in operations it acts according to the Law on Pre-rehabilitation, Rehabilitation, Bankruptcy and Liquidation of Banks and Savings Banks.

In 1994, 17 requests were made for the performance of certain activities and 11 requests for the execution of certain activities. Five decrees were issued to withdraw operating licenses for carrying out certain banking operation and two decrees putting regional restrictions on branch networks. An expert opinion on a documentation audit review was issued in one case, and a decree to start the pre-rehabilitation process was issued in another.

Banks and savings banks respected the stipulations of the Bank of Slovenia regarding operating procedures and removed irregularities within the prescribed time-limits.

3. PAYMENT SYSTEMS REFORM

In 1994 the Bank of Slovenia continued the work on its Payment Systems Reform Project. The goal of the project, planned for completion by the end of 1997, is to institute a payment system compatible with the payment systems in EU countries.

The foundation of the reformed payment system will be real time gross settlement for high value transactions, and bulk processing of low value payments. As in the present system, the reformed system will be based especially on giro payments. This will ensure a suitable velocity in settling obligations and a low cost of services. The settlement of the transactions which are to be settled via debit payment instruments such as checks is to be carried out in the course of the next working day.

A special company, which will perform payment services (DOPS) will be established for clearing and settlement of obligations. It will be owned by commercial banks and the central bank. This company will take over the payment functions, which have until now been performed by the Agency for Payments, Supervision and Information.

Extensive cash flow analyses were carried out in 1994 and based on their findings strategic decisions were made about the most suitable payments system for Slovenia. The project is carried out by the Bank of Slovenia project unit, consisting of working teams which work on issues including legal, settlement and risk, accounting and informatics, technological and standards' issues. Commercial banks, which had previously not performed domestic payments operations because of legal restrictions, were included in the project in 1994. Thus commercial banks represent their own interests through the Association of Slovenian Banks and work on the harmonization of standards, which should contribute to a reduction in tariffs.

On the institutional side an important step towards normalizing payments has been made. The new Law on the Agency for Payments, Supervision and Information, adopted in July 1994, abolished the former Social Accountancy Service, which was a monopoly institution for domestic payments operations in the former system and in addition performed the tax collection function, supervision of adherence to laws in operation and statistical functions. In the coming years these functions will be transferred to suitable governmental bodies or will be performed according to commercial principles. A section of the previous service, dealing with payments, will be joined to the planned company for payment services (DOPS). New legal solutions required for this transition will be presented to the Parliament at the end of 1995.

The Payment Systems Reform Project is moving towards a more detailed definition of institutional and operational solutions, which will represent the basis for an invitation to tender for procurement of equipment and program packages.

4. DEVELOPMENT OF THE STATISTICAL FUNCTION

The Bank of Slovenia has an extensive system of statistical data collection. These data serve as the basis for monetary policy management, in regulating the international liquidity of Slovenia and in supervising the banking system. Data on monetary and balance of payments statistics, exchange rates and operations on the domestic foreign exchange market, and interest rates on domestic financial markets are regularly published to a broad audience.

A statistical bulletin with a circulation of 550 copies in Slovene and 800 copies in English is published monthly. The bulletin is regularly sent to international organizations, in particular the International Monetary Fund. To ensure methodological uniformity and international comparability of data, the Bank of Slovenia takes into account the IMF approaches and recommendations in compiling financial statistics.

At the beginning of 1994 the Bank of Slovenia established a Department of Financial Statistics to undertake key data collection and analysis. One of the tasks of this department is adjusting and improving the collection of data and increasing applicability without breaking the principle of confidentiality of individual data, by formulating a uniform data base.

5. MANAGEMENT OF INTERNATIONAL RESERVES

The international monetary reserves of the Bank of Slovenia are defined as:

- foreign currency and deposits at foreign banks;
- first-class securities of foreign issuers;
- monetary gold;
- reserve position at the International Monetary Fund;
- holdings of Special Drawing Rights at the International Monetary Fund.

Foreign investments of the Bank of Slovenia are limited to government securities issued by OECD countries and Eurodeposits at commercial banks meeting the norms on credit-worthiness as defined by IBCA.

The Bank of Slovenia influences the extent of Slovenia's international liquidity also by determining the minimum amount of foreign exchange holdings which the commercial banks are obliged to hold on their foreign accounts. The overall foreign exchange reserves of the Republic of Slovenia are the sum of the required operating foreign exchange reserves of commercial banks and the foreign exchange reserves of the Bank of Slovenia. The total foreign exchange reserves of the Republic of Slovenia, not including gold and reserves at the IMF, grew in 1994 from US\$ 1,566 million to US\$ 2,764 million, that is, by 76.5%. The foreign exchange reserves of the Bank of Slovenia increased from US\$ 770 million to US\$ 1,480 million (i.e., by 92.2%), and the foreign exchange reserves of commercial banks increased in 1994 from US\$ 796 million to US\$ 1,284 million (i.e., by 61.2%).

Table 7: International monetary reserves of the Bank of Slovenia, and foreign exchange reserves of the Bank of Slovenia and commercial banks; in US\$ million at end of month

	BANK OF SLOVENIA					BANKS	Total
	International monetary reserves (without gold)				Other claims abroad	Foreign exchange reserves	
	SDRs	Reserve position with IMF	Foreign exchange reserves	Total			
31.12.1993	0.0	17.6	770.1	787.7	1.1	796.2	1,566.2
31.01.1994	0.5	20.3	717.9	738.7	34.4	902.6	1,620.4
28.02.1994	0.0	23.2	738.1	761.3	40.2	961.4	1,699.5
31.03.1994	1.3	21.8	751.1	774.2	46.3	1,026.9	1,778.1
30.04.1994	0.5	13.4	779.0	793.0	53.1	1,089.6	1,868.5
31.05.1994	0.2	15.3	893.7	909.2	53.6	1,078.1	1,971.8
30.06.1994	0.1	15.1	1,010.6	1,025.7	62.7	1,111.2	2,121.8
31.07.1994	1.2	12.3	1,125.1	1,138.6	62.4	1,066.1	2,191.2
31.08.1994	0.8	16.2	1,191.5	1,208.5	70.9	1,141.3	2,332.8
30.09.1994	0.2	15.2	1,338.3	1,353.7	81.6	1,083.2	2,421.5
31.10.1994	0.6	12.7	1,376.7	1,389.9	92.3	1,177.6	2,554.2
30.11.1994	0.1	8.8	1,424.8	1,433.6	90.7	1,164.0	2,588.7
31.12.1994	0.1	14.7	1,480.1	1,494.9	102.1	1,283.5	2,763.6

Source: Bank of Slovenia.

The international reserves of the Bank of Slovenia are divided into two parts:

- net international monetary reserves for which the Bank of Slovenia has no foreign exchange obligations; and
- international monetary reserves formed against sales of the Bank of Slovenia foreign currency bills.

The Bank of Slovenia foreign exchange obligations to domestic sectors increased by the end of 1994 from US\$ 466 million to US\$ 1,014 million (i.e., by 117.7%).

6. BANKNOTE ISSUE

The Bank of Slovenia, in accordance with its legal authorization, continued to issue tolar banknotes and exchange tolar coupons. Since all banknotes from the new series went into circulation in 1992 and in spring 1993, and the highest denomination, the 5,000 tolar note, was introduced at the end of 1993, there was no need to keep the 5,000 tolar coupons in circulation any more.

A total of 64.8 million notes at a value of 52.1 billion tolar were in circulation at the end of 1994. This means that there are approximately 32 banknotes per inhabitant currently in circulation. The total value of banknotes in circulation increased by 20% compared to 1993, and the number of notes in circulation decreased by 21%. This shows that in 1994 notes of higher nominal values are better represented while lower value notes are being returned to the Agency for Payments, Supervision and Information. There has been no interference in the circulation of money due to this trend in the nominal values of notes. No such interference is expected, either, since the supply of notes in all nominal values is large enough to cover all the needs of cash transactions.

In November 1992 the Bank of Slovenia withdrew from circulation the 1,000 tolar coupon, 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 coupon ceased to be legal tender at the end of January 1994 and could be exchanged until April 30, 1994, at the organizational units of the Agency for Payments, Supervision and Information. After this date, coupons of any nominal value could be exchanged exclusively at the cash register of the Bank of Slovenia. This policy of coupon exchange without time limit has been very positively accepted by the public since the money thus keeps its full nominal value also after it had been withdrawn from circulation. A total of 110.1 million of coupons was withdrawn from circulation and returned to the treasuries of the Bank of Slovenia by December 31, 1994. Currently there are only 20.7 million coupons left outside the Bank of Slovenia, representing 13.51% of the total number of issued coupons. A very high share of coupons in higher nominal values have been returned from circulation (98.28%) while the coupons of lower nominal values, which are also not expected to be returned to the Bank in large numbers, remain with the public (19.8 million coupons of under 100 tolar, or 23%).

During the exchange of coupons at the Bank of Slovenia cash register a total of 815 counterfeit 1,000 tolar coupons, 84 cases of 5,000 tolar counterfeit coupons, 6 counterfeit 500 tolar coupons and one counterfeit 50 tolar coupon were discovered. The counterfeit 1,000 tolar coupons were known since their appearance in 1992, while the others were photocopies made on color photo-copiers. There was also one case of a colored photocopy counterfeit 1,000 tolar banknote, and 255 cases of 5,000 tolar counterfeit notes made by the same process. They were discovered before they were cashed and thus presented no danger for money circulation.

In 1994, 34.4 million coins in the nominal values of 5, 2, 1 and 0.50 tolar were put into circulation. Including coins issued in 1993, there are 134.4 million coins with a total value of 261.7 million tolar currently in circulation. Theoretically, there should be 67 coins per inhabitant in circulation, which is 32% more than in the last year, but still considerably below European norms. Nevertheless, only minting of coins indispensable for cash circulation is foreseen for the future. Larger supplies of coins will not be minted since their real value is falling due to inflation, even though the latter is minimal, while the costs of coin production are mounting due to fluctuations in the cost of raw materials on the world market.

In 1994 the Bank of Slovenia participated in the preparation of two memorial coin sets, issued by the Republic of Slovenia to mark the 50th anniversary of the establishment of the Monetary Institute of Slovenia and the 100th anniversary of the death of Bishop Abraham, associated with the Bričinski Documents. On each occasion a sovereign for 5,000 tolar and a silver 500 tolar coin were on sale, and circulation coins for 5 tolar entered into circulation.

7. INTERNATIONAL COOPERATION

The Bank of Slovenia' international cooperation in 1994 focused mainly on:

- strengthening ties with foreign central banks;
- negotiations with foreign creditors concerning inherited debts; and
- strengthening ties with international financial institutions.

In 1994 the Bank of Slovenia opened its current account and deposit at the Bank for International Settlements. Despite the fact that the Bank is not yet a member central bank of the BIS, it is invited to meetings of the Governors and will in the future continue to endeavour for membership status.

Slovenia's entry on financial markets contributed to the increase of activities related to obtaining credits for the Government of the Republic of Slovenia. The Bank of Slovenia participates in these activities as a financial intermediary.

The Bank of Slovenia participates in international financial and other negotiations such as the continuation of the Uruguay Round of the former GATT and present World Trade Organization on financial services, where it took over such obligations as permitted by the current laws.

VI. THE BANK OF SLOVENIA

ANNUAL FINANCIAL STATEMENT

Statement of responsibilities of the Governing Board

The Law on the Banka Slovenije ("the Bank") and the Statutes of the Bank require the Governing Board to prepare financial statements for each financial year which fairly present the state of affairs of the Bank and the surplus or deficit of the Bank for that period. In preparing those financial statements the Governing Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Governing Board is responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the financial statements comply with Slovenian law. It has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Auditors' report to the Governing Board of the Banka Slovenije

We have audited the financial statements set out on pages 44 to 53.

Respective responsibilities of the Governing Board and auditors

As set out on page 42 these financial statements are the responsibility of the Bank's Governing Board. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinions

Except as discussed below, we conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions given below.

Opinions

We were not appointed auditors until 6 March 1995 and in consequence it was not possible for us to obtain sufficient appropriate audit evidence concerning the opening balance sheet. Hence we cannot express an opinion on the statement of income and expenditure for the year ended 31 December 1994 or on whether the comparative figures in the financial statements are comparable.

In our opinion the balance sheet gives a true and fair view of the financial position of the Bank as at 31 December 1994 in accordance with International Accounting Standards and complies with Slovenian law.

KPMG
Chartered Accountants
Authorized Auditors
London
9 May 1995

Statement of income and expenditure

for the year ended 31 December 1994
(expressed in thousands of tolar)

	Notes	1994	1993
Operating income:			
Income from financial assets	4	13,032,753	22,478,217
Expenses on serviced liabilities	5	11,704,620	4,460,595
Net investment income		1,328,133	18,017,622
Other income	6	1,180,844	223,878
Total operating income		2,508,977	18,241,500
Operating expenses	7	1,482,149	1,295,014
Operating surplus available for appropriation		1,026,828	16,946,486
Appropriations			
Provision for transfer of surplus		982,837	4,693,118
Transfer to reserves	12	43,991	12,253,368
Total appropriations		1,026,828	16,946,486

The notes on pages 46 to 53 form an integral part of the financial statements.

Balance sheet

at 31 December 1994
(expressed in thousands of tolar)

	Notes	1994	1993
Assets			
Financial assets	8	237,068,862	140,298,694
Fixed assets	9	1,323,474	552,236
Total assets		238,392,336	140,850,930
Liabilities and reserves			
Serviced liabilities	10	165,298,097	80,672,941
Notes in circulation	11	50,617,843	34,612,454
Provision for transfer of surplus		982,837	4,693,118
Total liabilities		216,898,777	119,978,513
Reserves	12	21,493,559	20,872,417
Total liabilities and reserves		238,392,336	140,850,930

These financial statements were approved by the Governing Board on 9 May 1995 and were signed on its behalf by:

Dr. France Arhar
President of the Governing Board and
Governor of the Banka Slovenije.

In accordance with Article 82 of the Law on the Banka Slovenije these financial statements are still to be approved by the Parliament of the Republic of Slovenia.

Notes to the financial statements**1 Constitution**

The Banka Slovenije (the Bank) is the central bank of the Republic of Slovenia. It was constituted by the Law on the Banka Slovenije dated June 25, 1991. The Bank is self governing and is an independent institution with its own distinct legal personality. The Republic of Slovenia guarantees the obligations of the Bank and it is supervised by the Parliament. The Bank is responsible for the stability and liquidity of the national currency, the Tolar (SIT), and the efficiency of payments settlement.

2 Accounting standards and conventions

These financial statements have been prepared in accordance with International Accounting Standards (IAS) as promulgated by the International Accounting Standards Committee. The Governing Board adopted IAS for the 31 December 1994 year end and as a consequence the 1993 comparative figures have been restated. The statements are prepared under the going concern concept and the historical cost convention amended for the revaluation of certain assets. Accrual accounting has been used to match expenses and revenues.

The Bank does not provide a cash flow statement, since the Governing Board considers that given the nature of its operations this would not provide any meaningful additional information.

Current purchasing power convention

In previous years the financial statements have been presented under the current purchasing power convention. This resulted in those statements being restated for changes in the purchasing power of the Slovenian currency. The Slovenian Retail Price Index (RPI) was applied to effect the restatement. The RPI rose by 23% in 1993 and by 18% in 1994. Since the expected inflation rate in 1995 is forecast to be lower again, it is the opinion of the Governing Board that there is no longer a requirement for the application of the current purchasing power convention. The 31 December 1993 restated figures are nevertheless the basis for the opening carrying amounts in the 1994 financial statements.

3 Specific accounting policies*Foreign currencies*

Foreign currency financial assets and liabilities have been translated into SIT using mid-market exchange rates of the Banka Slovenije applying at the balance sheet date. Transactions in foreign currencies have been translated into SIT using exchange rates applying on the settlement dates of those transactions.

Fee and commission income

Fee and commission income mainly arises from settlement services, supervisory and regulatory functions and the distribution of fiscal stamps on behalf of the state.

Marketable securities

Marketable securities are carried at the lower of cost and market value.

Bills with warrants

The discount and coupon on bills with warrants, which are included in serviced liabilities, are amortised over the total period over which the bills and any related financing are outstanding, in proportion to the value of the related indebtedness. The future potential discount costs, inherent in the warrants outstanding on bills issued, is accrued at market value, amortised over the total period and value of the related indebtedness.

Notes in circulation

Notes issued by the Bank represent a charge on the Bank in favour of the holder and are recognised as an unserviced liability at face value.

Fixed assets

Investment properties located in Austria are carried at market value and are not depreciated. All other fixed assets are stated at cost and net of depreciation. Property revaluations are taken to reserves.

Depreciation is provided on a straight line basis so as to write off the costs of the assets over their estimated useful lives at the following annual percentage rates:

Buildings	1.3%
Computer and other equipment	10 - 20%

Taxation

The Bank is not subject to Slovenian income or profit taxes.

4 Income from financial assets

	1994	1993
	SIT 000's	SIT 000's
Income from foreign currency assets		
Interest on current accounts and deposits	6,102,141	5,999,351
Investment income on marketable securities, net	618,194	99,220
Interest on International Monetary Fund deposits	29,221	18,830
Net foreign exchange gain	374,319	10,139,858
	7,123,875	16,257,259
Income from domestic currency assets		
Interest on deposits and loans with banks	5,908,878	6,220,958
Total income from financial assets	13,032,753	22,478,217

5 Expenses on serviced liabilities

	1994	1993
	SIT 000's	SIT 000's
Expenses on foreign currency liabilities		
Interest on current accounts and deposits	137,916	311,762
Interest on Banka Slovenije bills	8,723,740	3,374,882
	8,861,656	3,686,644
Expenses on domestic currency liabilities		
Interest on current accounts and deposits	92,974	5,947
Interest on Government deposits	13	35,101
Interest on Banka Slovenije bills	2,749,977	732,903
	2,842,964	773,951
Total expenses on serviced liabilities	11,704,620	4,460,595

6 Other income

	1994	1993
	SIT 000's	SIT 000's
Fee and commission income	1,093,783	116,611
Other income	87,061	107,267
	1,180,844	223,878

7 Operating expenses

	1994	1993
	SIT 000's	SIT 000's
Staff costs	890,799	682,284
Commissions and fees for banking services	137,789	81,126
Administration costs	383,339	339,958
Minting costs	61,500	191,646
Other	8,722	-
	1,482,149	1,295,014

8 Financial assets

	1994	1993
	SIT 000's	SIT 000's
Foreign currency assets		
Current accounts and deposits	198,885,650	100,873,672
Marketable securities	11,559,190	6,726,698
Receivable from the Republic of Slovenia	6,716,015	9,948,878
International Monetary Fund	2,384,913	2,320,500
Other	1,293,537	1,154,801
	220,839,305	121,024,549
Domestic assets		
Receivable from Succession Fund of the Republic of Slovenia	8,649,807	8,649,807
Deposits with and loans to banks	7,112,494	10,070,851
Other	467,256	553,487
	16,229,557	19,274,145
Total financial assets	237,068,862	140,298,694

The Succession Fund of the Republic of Slovenia was established in February 1993 as an intermediary in the process of the division of assets and liabilities of former Yugoslavia. It assumed, on behalf of the Republic of Slovenia, all the claims on and the obligations to the former National Bank of Yugoslavia which included SIT 8,649,807,000 due to the Bank. This amount will be repaid after the settlement of claims and liabilities of the Republic of Slovenia and the states of the former Yugoslav federation. The amount is not interest bearing and has no fixed repayment term.

Currency concentration

The nature and manner in which the Bank conducts its operations give rise to currency concentrations in financial assets. This primarily arises from geographical and counterparty concentration of exposures.

These concentrations of risk by currency and type of counterparty are as follows at 31 December 1994:

	Tolars	Deutsche-	US	Other	Total
	%	marks	Dollars	Currencies	%
Sovereign issue	3.87	1.73	0.94	3.76	10.30
Domestic Banks	3.00	4.68	0.06	0.10	7.84
Foreign Banks	-	54.69	19.24	7.93	81.86
Total	6.87	61.10	20.24	11.79	100.00

Financial assets at 31 December 1994 will mature or reprice within the following periods analysed by currency:

	Tolars	Deutsche-	US	Other	Total
		marks	Dollars	Currencies	
Up to 1 month	3,785,186	37,251,359	19,945,363	4,321,910	65,303,818
1 to 3 months	3,274,903	65,147,986	24,728,485	12,743,321	105,894,695
3 to 12 months	164,777	41,536,720	2,719,983	2,550,401	46,971,881
1 year and over	9,004,691	792,848	-	9,100,929	18,898,468
	16,229,557	144,728,913	47,393,831	28,716,561	237,068,862

9 Fixed assets

	Land and buildings SIT 000's	Computer and other equipment SIT 000's	Total SIT 000's
Cost or valuation:			
At 1 January 1994	926,695	590,384	1,517,079
Additions	-	358,975	358,975
Revaluations	500,000	-	500,000
Disposals	-	-98,997	-98,997
At 31 December 1994	1,426,695	850,362	2,277,057
Depreciation:			
At 1 January 1994	462,103	502,740	964,843
Disposals	-	-96,590	-96,590
Charge for year	9,490	75,840	85,330
At 31 December 1994	471,593	481,990	953,583
Net Book Value:			
At 31 December 1994	955,102	368,372	1,323,474
At 31 December 1993	464,592	87,644	552,236

Included in the land and buildings is an amount of SIT 500,000,000 relating to investment properties in Austria. These properties are valued on the basis of an appraisal by the Governing Board substantiated by a multiple of rental earnings and the price at which property transfers are presently taking place in the same neighbourhood.

10 Serviced liabilities

	1994 SIT 000's	1993 SIT 000's
Foreign currency liabilities		
Current accounts and deposits	24,330,068	8,872,768
International Monetary Fund	4,694,766	4,571,811
Other financial organisations	923,805	1,540,997
Banka Slovenije bills	87,588,707	47,927,959
Other	150,445	-
	117,687,791	62,913,535
Domestic liabilities		
Current accounts and deposits	28,570,522	11,450,492
Banka Slovenije bills	12,446,553	2,826,933
Republic of Slovenia deposits	5,953,578	2,538,076
Other	639,653	943,905
	47,610,306	17,759,406
	165,298,097	80,672,941

Serviced liabilities at 31 December 1994 will mature or reprice within the following periods analysed by currency:

	Tolars	Deutsche -marks	US Dollars	Other Currencies	Total
Up to 1 month	26,972,999	36,099,257	12,070,572	5,484,537	80,627,365
1 to 3 months	785,672	30,133,097	8,534,184	-	39,452,953
3 to 12 months	4,219,205	14,376,771	5,370,802	-	23,966,778
1 year and over	15,632,430	-	-	5,618,571	21,251,001
	47,610,306	80,609,125	25,975,558	11,103,108	165,298,097

11 Notes in circulation

Value of notes in circulation		1994 SIT	1993 SIT
SIT 10	16,072,885	160,728,850	109,198,620
SIT 20	7,169,765	143,395,300	84,155,980
SIT 50	5,055,037	252,751,850	136,460,300
SIT 100	8,293,967	829,396,700	468,557,300
SIT 200	2,841,844	568,368,800	239,986,600
SIT 500	2,252,184	1,126,092,000	685,507,000
SIT 1000	13,532,100	13,532,100,000	13,144,480,000
SIT 5000	6,716,036	33,580,180,000	8,577,370,000
		50,193,013,500	23,445,715,800
Tolar coupons		424,829,339	11,166,738,577
Total		50,617,842,839	34,612,454,377

12 Reserves

	1994 SIT 000's	1994 SIT 000's
At January 1993 per statutory accounts		8,570,461
1993 Transfer to reserves as originally stated	1,500,000	
Interest accrual	805,156	
Net foreign exchange gain	10,139,858	
Minting costs	-191,646	
1993 Transfer to general reserve as restated		12,253,368
Contribution to the welfare fund		48,588
At 31 December 1993 as restated		20,872,417
1994 Transfer to reserves		43,991
Contribution to the welfare fund		77,151
Investment properties revaluation		500,000
		21,493,559
The closing reserves can thus be analysed as follows:		
Revaluation reserve		500,000
Welfare fund		403,625
Foreign exchange reserve		17,351,035
General reserve		3,238,899
		21,493,559

The foreign exchange reserve relates to cumulative net foreign exchange gains which by law are only available to offset any future net foreign exchange losses and are not distributable.

The prior year adjustments to the income and expenditure account relate to the changes in accounting policies required to adopt International Accounting Standards.

In 1993 the Bank transferred net foreign exchange gains and minting costs directly to reserves. From 1 January 1994 the Bank changed its accounting policy and now accounts for these items through the income and expenditure account. Accordingly 1993 net foreign exchange gains and minting costs have been reversed from reserves and recognised in the statement of income and expenditure.

The welfare fund has been established to provide recreational and other facilities for the staff of the Bank. The assets representing the fund are included in the Bank's balance sheet and any movement thereon is taken directly to reserves.

The general reserve has been established in recognition of the economic and other risks inherent in the discharge of the Bank's responsibilities and in its portfolio of financial assets.

MEMBERS OF THE GOVERNING BOARD OF THE BANK OF SLOVENIA

dr. France ARHAR, Governor
mag. Bogomir KOS, Deputy Governor
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, Agency for Payments, Supervision and Information, Celje
Jurij KLEINDIENST, Kolektor, Idrija
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

