BANKA SLOVENIJE

BANK OF SLOVENIA

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YEAR 1992

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SLOVENIJE

For the Bank of Slovenia 1992 was the year of formulation and consolidation of a new monetary policy, with all the problems entailed in the transition from one economic system to another. In spite of all the difficulties the Slovenian state faced in this first year, the Bank of Slovenia made efforts to achieve as far as possible the primary goal of all monetary policy - monetary stability and the related stability of prices. Macroeconomic stability is the most important factor in the process of transforming an economy. Instability decreases the value of reform achievements, increases political tension and, at the same time, renders reform efforts impossible. Therefore the fundamental question in the process of transformation is how a newly founded central bank, with the aid of stability-oriented monetary policies, can affirm confidence in the domestic currency and thereby in the national economy. In its attempts to reach this goal, the Bank of Slovenia relied mainly on regulating the quantity of money in circulation; given the relatively stable demand for money, the exchange rate and the interest rate are two factors through which the Bank of Slovenia could only with great difficulty or not at all contribute towards bringing down inflation or stabilising activity. In its operations, the Bank of Slovenia constantly took into consideration the consequences of a restrictive monetary policy. Had it not, then inflation may have been lower, but such strong negative effects would have resulted that the Bank would have been forced to radically change its monetary policy.

It is recognised that even an independent central bank cannot completely succeed in its efforts if they are not accompanied by the stabilisational support of an appropriate incomes policy and fiscal policy. These two policies, however, have in 1992 frequently been influenced by considerations dating back to the previous economic and political system.

Money is as timid as a deer, according to an old Slovenian proverb, which is why confidence in the system - the economic, political and banking system - is a primary condition for money to return to the Slovenian economy; this applies to domestic savings as well as to foreign investment. As financial markets are becoming increasingly interwoven, it is on the basis of signals sent out by monetary policies that confidence or lack of it is created. That is why the stability of the Slovenian tolar and the related stability of prices are the basic conditions for new economic growth, for new job creation and for the integration of Slovenia into international monetary flows.

Governor
Dr France Arhar

Arhar

BANKA
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I. BANK OF SLOVENIA:
LEGAL STATUS AND RESPONSIBILITIES

The Bank of Slovenia was officially established as the central bank of the Republic of Slovenia on 26 June 1991. During the first months following its establishment it continued operating within the dinar monetary system and in compliance with the monetary policy of the National Bank of Yugoslavia. It took effective control of the monetary system on 8 October 1991, following the introduction of the new Slovenian currency.

The primary responsibilities of the Bank of Slovenia are to maintain the stability of the national currency and the general liquidity of payments within Slovenia and abroad. The law also gives the following more detailed list of responsibilities:

- the regulation of the quantity of money in circulation,
- the maintainance of the general liquidity of banks and savings banks,
- the maintainance of liquidity in foreign payments,
- the supervision of banks and savings banks,
- the issue of banknotes and the circulation of banknotes and coins,
- the regulation of guarantees for personal bank deposits,
- the regulation, organisation and coordination of an information system, necessary for the performance of its functions,
- the conduct of banking services for the Republic of Slovenia in accordance with the law,
- other tasks prescribed by law.

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

In the implementation of these tasks, defined by law, the Governor and the Governing Board are responsible to the Parliament. The Bank of Slovenia must submit a report to the Parliament at least every six months; the Parliament endorses the financial plan and annual account of the Bank. In the implementation of monetary policy and other tasks defined by law the Bank of Slovenia is independent. The law specifically states that the Bank of Slovenia may only approve loans to the Republic of Slovenia up to 5 per cent of the annual budget or one fifth of the budget deficit; loans must be settled by the end of the financial year, which means that they cannot be a source of deficit financing. The government had not taken a loan from the Bank of Slovenia by the end of 1992.

II. THE SLOVENIAN ECONOMY IN 1992

1. GENERAL OVERVIEW

In 1992 the Slovenian economy was facing up to problems that had accumulated through a very long period of time. Output performance had been in stagnation or decline throughout the 1980s, while misuse of fiscal and monetary redistributive mechanisms had already once brought former Yugoslavia to the edge of hyperinflation. The gradual disintegration of the country only made matters so much the worse.

By 1992 Slovenian sales to former Yugoslav markets had decreased to a quarter of their previous level. Real gross domestic product of Slovenia decreased in 1992 by 6.5%, industrial production by 13.2% and employment by 7.1 %.

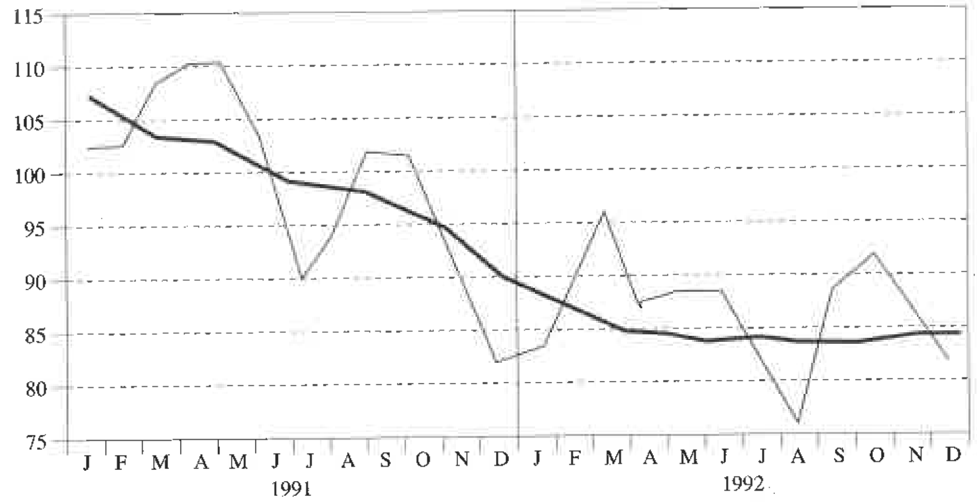
Table 1: Real growth rates of Gross domestic product and industrial production (annual growth rates in %)

	1988	1989	1990	1991	1992
Gross domestic product	**-1.7**	**-1.8**	**-4.7**	**-9.3**	**-6.5**
• Agriculture and forestry	-3.6	-3.3	1.7	-3.3	-13.0
• Manufacturing	-2.9	-0.5	-10.8	-11.6	-14.5
• Construction	0.1	1.6	-10.8	-16.6	-10.7
• Wholesale and retail trade	-5.8	-10.6	-5.8	-11.1	-15.4
• Transport and communication	2.6	-0.2	-2.0	-14.6	2.0
• Public administration, education, health	-0.7	0.4	1.6	-0.9	2.4
Industrial production	**-2.6**	**1.1**	**-10.5**	**-12.4**	**-13.2**
• Capital goods	-7.0	4.0	-19.3	-21.9	-20.0
• Intermediate goods	0.2	-0.6	-10.1	-12.6	-10.6
• Final consumption goods	-3.9	2.1	-6.5	-9.5	-16.4

Source: GDP - estimates of the Institute of Macroeconomic Analysis and Development; industrial production - Statistical Office of RS.

A mix of policies was applied in 1992 to address the situation. The transition to a market economy was to be supported primarily by the preparation and the beginning of implementation of ownership reform, that is by the abolition of the social ownership of enterprises, linked with the restructuring of the economy and banks. For the short term however, the most urgent need has been to put down inflation, which was again running at over 20% per month in October 1991, at the time of effective policy take-over with the introduction of the Slovenian Tolar currency. "Soft" rather than "shock" measures were used and they succeeded in bringing inflation rates down to an average monthly of 2.2% in the second half of the year. As the main burden of the stabilisation policy was borne by the Bank of Slovenia, the adverse effect on production was probably greater than it would otherwise have been, although the major cause for the drop in production was the loss of the former Yugoslav market and the uncertainties accompanying ownership reform.

Figure 1: Industrial production index (1991 = 100)



Source:
Statistical Office of RS.

Stabilisation policies, carried out mainly by the Bank of Slovenia had consequences, for example, in investment activity and in the external sector. The high real interest rates were determined mostly by structural factors, but the restraint put on the appreciation of the tolar pushed them somewhat higher still. It remains an open question, however, how much these higher interest rates really influenced investment activity.

In 1992 overall foreign sales fell markedly. In the second half of the year some positive real growth in domestic demand began to compensate, fuelled by increases in wages and government expenditure. Fiscal policy was tight in the sense that the government sector even ran a surplus, but both receipts and expenditures were expanding. Towards the end of the year an upturn in activity was reported in a number of production sectors, but it is too early as yet to expect a push into longer-lived sustained growth.

Table 2: Final expenditure on Gross domestic product (in %)

	1990	1991	1992
1. Gross domestic product (4+5)	100.0	100.0	100.0
2. Exports of goods and services	**80.2**	**90.1**	**64.6**
• to former Yugoslav republics	47.6	37.5	16.8
• to rest of world	32.5	52.6	47.5
3. Imports of goods and services	**68.6**	**78.0**	**55.1**
• from former Yugoslav republics	35.5	28.9	13.6
• from rest of world	33.1	49.1	41.5
4. Foreign balance (2-3)	**11.6**	**12.1**	**9.5**
• former Yugoslav republics	12.1	8.6	3.2
• rest of world	-0.5	3.5	6.3
5. National consumption (6+7+8+9+10)	**88.4**	**87.9**	**90.5**
6. National private consumption	53.2	52.4	53.2
7. Government consumption	17.0	18.3	20.3
8. Gross fixed investment	18.0	18.9	16.6
9. Change in stocks	-1.4	-2.6	-0.3
10. Statistical errors & omissions	1.6	0.9	0.8

Source: Estimates of the Institute of Macroeconomic Analxsis and Development.
National private and total consumption include expenditures of Slovenian residents abroad.

2. PUBLIC FINANCE

The fiscal reform begun in 1991 continued in 1992. The sales tax system was simplified, lower tax rates and a broader tax base were introduced. The centralisation of the tax system continued. A high rate of autonomy was preserved in the health and social insurance systems, which prescribe their own special contributions, some 45% of total public revenue. In the tax group the sales tax comes first with a 23% share and the income tax with a 15% share. The significance of customs and other import duties has fallen considerably in recent years - to 7% of total revenue (see Table 3).

In line with the general stabilisation effort, the 1992 consolidated general government account closed with a surplus of SIT 2.9 billion, or 0.3% of the Gross domestic product. But there was a marked expansion on both the revenue and expenditure side. Total receipts for the year as a whole increased by 1.4% in real terms over 1991. Moreover, the trend during the year was steadily upwards. This is explained by growth in the prevailing tax base, i.e., personal incomes, and by the singular increase in the Health Insurance Fund contribution rate.

Table 3: Consolidated general government account

	Amount in SIT mil		As % of GDP	
	1991	1992	1991	1992
Revenue	**152,797**	**466,818**	**43.8**	**47.5**
Personal income tax	21,635	69,089	6.2	7.0
Corporate profit tax	3,839	6,087	1.1	0.6
Social security contributions	68,457	225,897	19.6	23.0
Sales tax	35,614	107,491	10.2	10.9
Customs and import duties	12,555	32,460	3.6	3.3
Other revenues	10,697	25,794	3.1	2.6
Expenditure	**143,554**	**463,908**	**41.2**	**47.2**
Pension fund	38,597	127,660	11.1	13.0
Health fund	17,518	72,812	5.0	7.4
Central government	60,745	215,080	17.4	21.9
Local governments	23,653	48,356	6.8	4.9
Federation	3,041	-	0.9	-
Surplus	**9,243**	**2,910**	**2.7**	**0.3**

Source: Ministry of Finance.

Expenditures grew somewhat faster, and with wide diversity across the sector. The Health Insurance Fund displayed a surplus of SIT 14.7 billion or 18% of its total revenues. Local governments also finished the year in surplus, while the pension fund and the central budget ended the year in deficit, the latter in the amount of SIT 9.4 billion.

In December the first issue of treasury bills was offered to the public (a number of local governments had previously already issued communal bonds), but the value of their sales in 1992 amounted to only SIT 440 million. The greater part of the deficit of the central budget was financed from reserves and by borrowing within the sector, from the pension and health funds, in a net amount of SIT 8.4 billion. In relations outside the government sector the treasury returned net debts in 1992, mainly to commercial banks, to a value of SIT 4.7 billion.

At year's end the government debt outstanding from domestic loans and bond issues, particularly bonds from 1990 (RSL 1) and 1991 (RSL 2) and bonds for the restructuring of steelworks, reached a total of SIT 270.9 billion. The external public debt, mainly from loans for roads and railways amounted to SIT 42.6 billion or USD 427 million. The estimated obligations of Slovenia from succession (unallocated foreign debt of former Yugoslavia and repayment of other foreign loans) amounted to SIT 45.4 billion, and the total value of government guarantees reached SIT 71.5 billion. The total public debt of Slovenia at the end of the year was estimated at SIT 430.4 billion or USD 4.3 billion, an equivalent of 36.2% of GDP.

3. THE EXTERNAL SECTOR

The Slovenian external sector has undergone considerable change over the last three years - in terms of institutional organisation, volume and regional orientation, as well as in financing. Exports and imports of goods and services, which compared with about 150% of GDP in 1990 decreased in 1992 to approximately 120%; trade with the former Yugoslav republics diminished from 83% to 30% (Table 2).

Table 4: The balance of payments (in USD mil)

	1992	Q.1	Q.2	Q.3	Q.4
A. Current account	**932**	**384**	**169**	**304**	**75**
1. Trade balance	542	353	92	170	-73
2. Non-factor services	397	47	83	120	147
2.1. Transport	97	10	19	32	36
2.2. Travel	389	60	87	114	128
2.3. Merchanting	94	14	28	24	28
2.4. Leasing	-63	-23	-15	-13	-13
3. Factor services	-92	-30	-24	-8	-30
4. Unrequited transfers	86	15	19	22	30
B. Long-term capital	**102**	**-12**	**12**	**63**	**39**
1. Direct investments	113	6	17	52	39
2. Portfolio investments	-4	-0	-3	-2	1
3. Other long-term capital	-7	-18	-2	13	-0
3.1. Resident official sector	-18	-3	-1	-5	-10
3.2. Deposit money banks	-45	-7	-24	6	-20
3.3. Other resident sectors	56	-8	24	12	29
C. Short-term capital	**-119**	**35**	**-48**	**-59**	**-47**
1.1. Resident official sector	...	...	...	...	...
1.2. Deposit money banks	-119	-58	-18	-59	16
1.3. Other resident sectors	-0	93	-29	-1	-63
of which: Households	9	98	-26	-1	-61
D. Net errors and omissions	**-283**	**-303**	**54**	**-61**	**26**
E. Counterpart items	**-29**	**-9**	**28**	**33**	**-81**
F. Change in external position of the Bank of Slovenia	**-602**	**-95**	**-215**	**-281**	**-12**
International reserves	-603	-95	-215	-281	-13
Other assets	1	0	-0	0	1

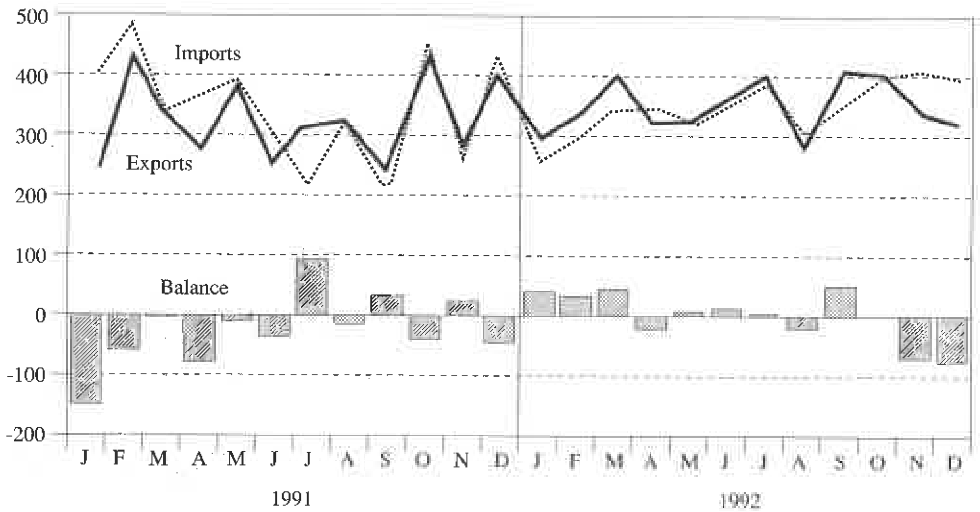
Source: Bank of Slovenia.
Minus sign (-) indicates imports or surplus of imports over exports in current transactions, export of capital in capital transactions and growth of assets in central bank position.

Slovenia has traditionally produced a surplus in foreign transactions. In 1990 and 1991 this amounted to approximately 12% of total final expenditure on GDP and in 1992 still accounted for 9.5% or USD 932 million, comprising a surplus of USD 143 million with regions of former Yugoslavia and USD 789 million with the rest of the world. In most years exports have exceeded imports in goods trade, and regularly in tourism, transport and processing. The current account surplus was a product of specific Yugoslav conditions. In trade within the country it was financed through extensive fiscal and other inter-regional transfers. The surplus with foreign countries reflected the exchange rate level formed on the Yugoslav foreign exchange market under the impact of other, predominantly importing regions, and which was very attractive for Slovenian enterprises.

Goods

In 1992 the value of goods exports from Slovenia was USD 6,681 million, while imports were worth USD 6,141 million. Exports to former Yugoslav republics were USD 1,508 million and imports from this region USD 1,218 million. Exports to the rest of the world amounted to 77% of the total exports (USD 5,173 million) and increased by 8.0% over 1991 (or by 3.9% if currency cross-rates are kept constant). Imports from the rest of the world amounted to 80% of total imports or USD 4,923 million, and grew by 0.1% over the previous year (or fell by 4.7% at constant cross-rates).

Figure 2: Exports and imports of goods (excluding processing, excluding trade with former Yugoslav republics; in USD mil)



Source:
Statistical Office of RS,
Bank of Slovenia.

Despite a 6.5 % fall in economic activity and a 13.2 % drop in industrial production, and in spite of the increase in the external value of the tolar, relatively good results were achieved in goods trade with the rest of the world excluding former Yugoslavia. Over the past few years Slovenia has lost some very important markets, first a large part of its traditional Middle East markets and then the market of the former Soviet Union (sales to which fell by 29% in 1992 and by 59% in the past two years), with a total effect of approximately 10% of total goods exports. By 1992 Slovenia had more than compensated for these losses by redirecting to the markets of the West, above all to the countries of the European Community, where exports in 1992 increased by 14%, and to the EFTA countries, where exports increased by 17%.

The redirecting of exports from the former Soviet Union to Western markets did not in most cases concern the same range of goods, rather it was accomplished by structural adjustments in supply and production. The same applies to sales to the former Yugoslavia, but here the scale of disruption was a wholly different matter. Exports to this area shrank in 1992 alone by around 60%, to less than 25% of what they were at the end of the eighties (estimates for exports of goods and services). The trade continued to fall for the whole of 1992, mostly because of the international sanctions against Serbia and Montenegro, but there was also a drop in business with Croatia.

Table 5: Main trading partners (in USD mil)

	Exports			Imports		
	1991+	1992+	1992*	1991+	1992+	1992*
European Community	**2,471**	**2,816**	**3,669**	**2,489**	**2,417**	**3,078**
• France	427	595	616	480	475	492
• Italy	742	732	880	668	683	839
• Germany	1,025	1,185	1,805	1,016	954	1,394
• Netherlands	53	63	92	90	82	104
• United Kingdom	107	126	141	77	66	74
EFTA	**330**	**385**	**461**	**566**	**622**	**689**
• Austria	222	281	341	379	449	500
• Sweden	45	39	45	57	60	64
• Switzerland	41	43	50	101	87	100
Other OECD countries	**247**	**264**	**288**	**298**	**278**	**303**
• USA	164	175	195	147	144	167
•Japan	18	15	16	108	88	88
Former USSR	**313**	**222**	**226**	**287**	**242**	**251**
Former Yugoslavia	-	**1,432**	**1,508**	-	**1,139**	**1,218**
• Croatia	-	892	952	-	778	852
• FR Yugoslavia	-	385	400	-	263	268
Other countries	**513**	**495**	**529**	**491**	**576**	**602**
TOTAL	**3,874**	**5,614**	**6,681**	**4,131**	**5,274**	**6,141**

Source: Bank of Slovenia Monthly Bulletin.
+ excluding processing
* including processing.

Services

Receipts from non-factor services amounted to USD 1,214 million or 15% of all current receipts. Slovenia has a surplus in the majority of service sectors, which in 1992 amounted to a total of USD 397 million. In previous years however, and with processing included, it usually exceeded USD 1 billion (excluding transactions with other Yugoslav republics).

In 1992 Slovenian receipts from **tourism** (and other travel) were estimated at USD 670 million, with this sector once again making the largest contribution to the total current surplus. Statistics on the spending of foreign tourists, as well as that of Slovenian residents abroad, are still deficient, but indicators show a relatively successful recovery of this sector after its 1991 crisis. The structure of tourist demand is obviously changing quite rapidly: one-day arrivals of foreign visitors are becoming increasingly important, overnight stays are becoming less important, while transit has greatly decreased. Due to the expansion of servicies offered outside the basic hotel facilities, the overall receipts have not dropped greatly below their levels prior to 1991.

In 1992 the spending of Slovenian tourists abroad was concentrated mainly on Croatia; the net value of Slovenian tourist "imports" from Croatia was estimated at around USD 150 million.

The value of **transport** services in 1992 fell considerably, amounting to USD 288 million worth of exports and USD 190 million worth of imports. Other non-factor services showed a negative balance of USD 90 million, primarily as a result of the high expenditures in leasing, where the deficit amounted to USD 63 million. **Factor income** includes mainly interest payments of USD 135 million and interest receipts of USD 56 million. Net interest payments (USD 79 million) greatly decreased in comparison to previous years, mostly because of the newly formed foreign exchange reserves.

Capital account

The increase in foreign **direct investment** in Slovenia is estimated at some USD 111 million, as compared with USD 65 million in 1991 and with smaller amounts in previous years. Greater activity on the part of foreign investors is expected in 1993, when privatisation gets underway. Records on foreign equity capital are currently still being drawn up, but estimates point to around USD 800 million worth of investments registered so far, not all of which have yet been fully implemented. Other long-term capital in 1992 was less important.

Surpluses in the current account were in 1992 financed through outflows of **short-term capital** and partly under the influence of central bank policies (see Table 4). Short-term foreign liabilities of banks fell by USD 119 million, while precise data on short-term capital of the enterprise sector is not yet available. The errors and omissions item could point to a USD 280 million increase of this sector's net claims; this would include an increase of around USD 150 million with the countries of former Yugoslavia, which represents the difference between the Slovenian goods surplus with this region, of USD 290 million, and other recorded transactions, primarily in tourism.

The Bank of Slovenia increased its **foreign exchange reserves** by USD 603 million and commercial banks their operating reserves by USD 119 million. Slovenia's total foreign exchange reserves increased in 1992 by USD 799 million, reaching USD 1,163 million by the end of the year, the equivalent of 2.3 months of goods imports or 2.0 months of imports of goods and services.

External debt

On the attainment of sovereignty in 1991, Slovenia declared willingness to assume the share of the external debt of former Yugoslavia pertaining to the Republic of Slovenia, as well as its share of obligations arising from guarantees given to legal entities registered in Slovenia. It has also expressed to be prepared to take over a corresponding share of the debts of the former federation which it is not possible to allocate.

Table 6: Slovenian external debt and debt flows[1] (in USD mil)

	1990	1991	1992
Total debt stocks	**1,954**	**1,866**	**1,741**
Long-term debt	**1,813**	**1,765**	**1,659**
Public and publicly guaranteed	1,391	1,357	1,203
• official creditors	909	884	807
• private creditors	482	472	396
Private nonguaranteed	422	408	456
Debt flows (long-term debt):			
Commitments	292	118	245
• official creditors	173	45	8
• private creditors	119	73	237
Disbursements	314	146	271
Principal repayments	188	196	255
Net flows	126	-50	16
Interest payments	143	148	133
Net transfers	-17	-198	-117
Total debt service	**331**	**344**	**388**

Source: Bank of Slovenia.
[1] Excluding unallocated debts totalling USD 3.1 billion.

At the end of 1992 Slovenian external debt amounted to USD 1,741 million, of which long-term debt USD 1,659 million (see Table 6). Included are obligations that have already been settled with the National Bank of Yugoslavia (NBY), which took over their repayment at maturity, in the amount of USD 65 million. The data does not show relations with the International Monetary Fund, which Slovenia joined in January 1993. On the basis of the decision of the Executive Board of the IMF in December 1992 that Yugoslavia had ceased to exist, Slovenia was found to be one of the successors to the assets and liabilities of the former SFRY to the Fund; its initial net position was determined at SDR 51 million liabilities, of which SDR 25.5 million in disbursed IMF credit.

Approximately half the long-term debt pertains to official creditors, i.e. to international financial institutions (USD 487 million) and governments and their agencies (USD 320 million). The share of public and publicly guaranteed debt amounted to 73% of the total long-term debt. Along with the gradual decrease in the total debt, 1992 saw a fall in the share of the public and publicly guaranteed debt, due primarily to the purchase of debts on the secondary market, in the amount of USD 97 million, as well as to the repayment of loans to international institutions and the Paris club restructured debts.

The gradual normalisation of conditions in the field of foreign financial relations is shown by the data on new commitments in 1992. In total they amounted to USD 245 million and were nearly entirely (USD 237 million) approved by private creditors; disbursements amounted to USD 198 million. Principal repayments on long-term loans amounted to USD 255 million, excluding buy-backs, with approximately an equal share of repayments to official and private creditors. Good foreign exchange liquidity made possible the regular settlement of Slovenian obligations, except for those whose legal status, because of unsettled relations with the NBY and with other entities from the former Yugoslavia, has so far remained unsolved.

The total amount of principal and interest payments has rapidly increased in recent years, and in 1992 amounted to USD 388 million (debt service), which still represents only 4.8% of the total export of goods and services. The total debt outstanding compared to 22% of the value of goods and services exports, with official foreign exchange reserves reaching 67% of the debt. The future servicing of foreign debts should not essentially threaten the foreign exchange liquidity of Slovenia, even if it is increased to include an appropriate share of the unallocated external debt of the former Yugoslavia.

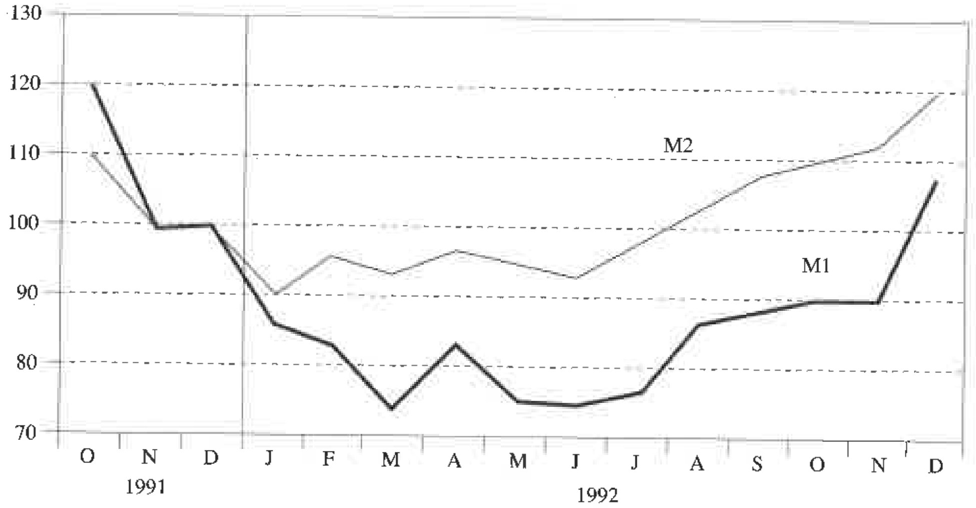
III. MONETARY POLICY AND INSTRUMENTS

1. GOALS AND GUIDELINES OF MONETARY POLICY

In the first months after taking over monetary functions, the Bank of Slovenia drained the surplus liquidity of banks with a thorough initial reduction of the money supply. After this urgent introductory measure, with which the Bank of Slovenia included the previously various types of obligatory bank deposits with the central bank in the obligatory reserve, there followed a lowering of the reserve rate, accompanied by a normalisation of the structure of primary money with a parallel decrease in rediscount quotas. This initial monetary adjustment lasted in some degree until February 1992.

In the given conditions, the Bank of Slovenia set itself a basic goal in its monetary policy, to bring down inflation which, at the time of effective monetary take-over, was rising and had already exceeded 20% per month. The choice of the indirect target of monetary policy - exchange rates or money supply - was determined to a great extent by the given macroeconomic circumstances.

Figure 3: Real money aggregates (31 Dec 1991=100)



Source: Bank of Slovenia.

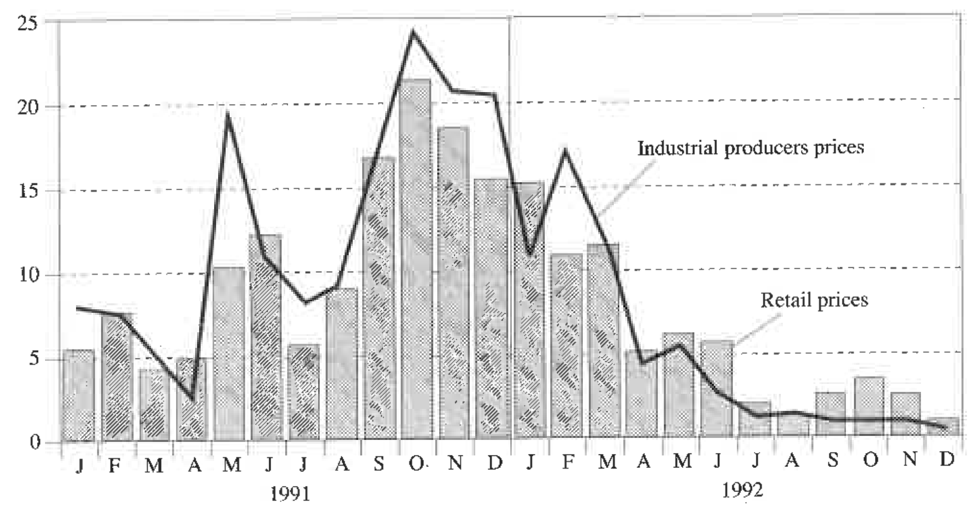
As the demand for money has shown, in the period since 1990, much more stability than the supply and demand for goods, and particularly for foreign currency, and given the ultimate goal of reducing inflation, monetary policy throughout 1992 was aimed at regulating the quantity of money in circulation. The Bank of Slovenia acted directly by targeting the quantity of high-powered money. Monthly goals were determined using the demand for money function and the multiplier. The exchange rate and other Bank of Slovenia secondary goals were monitored and supported by individual measures insofar as this was possible in such a defined monetary framework.

Because of the very uncertain economic environment, the Bank of Slovenia had to greatly reduce the time horizon of its policies, which in 1992 was no more than a monthly explicit quantification of the target. The aim of the central bank of maintaining a strict anti-inflationary position was, however, very clearly declared.

As a result of the gradual decrease in inflation rates, the real demand for money was rising, which the central bank was able to adapt to without threatening the stabilisation objective. At the end of the year there was a further increase in the demand for money stemming from a rise in real transactions (the very high growth of money aggregates displayed in Figure 3 in December reflects in part the regular seasonal decrease of money transfers in transit, which is much lesser at the ends of other months).

Despite some of the aforementioned limitations, the anti-inflationary policy proved to be successful, with the retail price growth rate falling from 20% per month to less than 2% per month by mid-1992 (Fig 4). Price growth remained around this level, to be precise at 2.2%, throughout the second half of the year.

Figure 4: Retail prices and industrial producers prices (monthly growth in %)



Source:
Statistical Office of RS.

One of the main problems facing the Bank of Slovenia throughout the year was the high current account surplus and the related large supply of foreign currency. In line with the basic orientation of its monetary policy, the Bank of Slovenia did not guarantee automatic monetisation, but it did intensively exploit the scope allowed within the margins of the anti-inflation goal. In the first six months the liquidity of banks was regulated primarily by operations on the foreign exchange market; Bank of Slovenia purchases on the interbank market amounted to DEM 340 million over the whole year. In January Bank of Slovenia foreign exchange bills were introduced, with which monetisation was delayed for 60, 90 or 120 days and through which pressure on the foreign exchange market was eased by about DEM 400 million for the half-year, and for the whole year by DEM 603 million. Access to liquidity in the last resort was also possible with the sale or depositing of foreign exchange, while later this was conditioned with amounts of purchases or exchange rates offered on the foreign exchange market; in the second half of the year special lombard loans were also made available.

Table 7: Derivation of reserve money (in SIT mil)

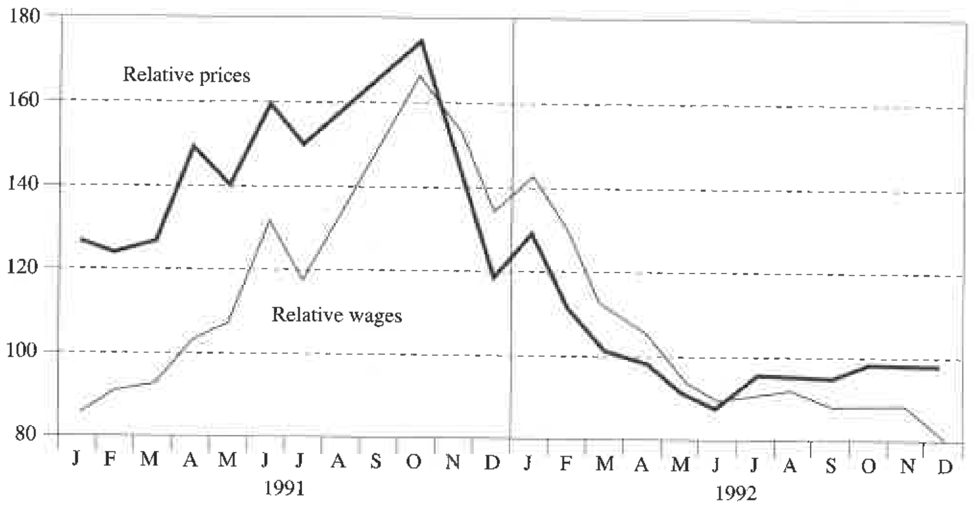
	31 Dec 1991	Change in quarter				31 Dec 1992
		I	II	III	IV	
Creation	**18,970**	**8,426**	**18,128**	**34,084**	**16,306**	**95,914**
Net foreign assets	6,499	10,881	15,288	25,147	12,954	70,769
Claims on central government	8,650	0	158	0	42	8,850
Claims on domestic banks	3,821	-2,455	2,682	8,937	3,310	16,295
• Rediscount quotas	934	-249	-685	0	0	0
• Lombard loans	0	0	702	999	1,549	152
• Repurchase agreements	1,005	-1,005	2,697	-2,042	-655	0
• Liquidity loans	0	0	0	9,980	5,020	15,000
• Other loans	458	-1	-0	3	-17	443
• Deposits and other claims	1,425	-1,200	-32	-2	509	700
Withdrawal	**12,289**	**8,499**	**18,150**	**31,770**	**17,522**	**88,229**
Foreign exchange deposits of banks	0	0	0	0	4,381	4,381
Deposits of business and non-banks	60	-18	216	409	196	862
Public sector deposits	1,644	1,870	985	2,851	-1,568	5,782
Bank of Slovenia bills	0	1,991	9,001	22,021	7,748	40,760
Net other liabilities	1,408	4,308	3,539	3,136	-131	12,260
CURRENCY IN CIRCULATION	9,176	348	4,410	3,353	6,896	24,183
Banks' reserves	**6,682**	**-73**	**-22**	**2,314**	**-1,216**	**7,685**

Source: Bank of Slovenia.

The effects of the policies outlined above are reflected in the increase in the international reserves of the Bank of Slovenia in 1992 by USD 603 million and in the increase in total official foreign exchange reserves (which include that part of the foreign exchange portfolio of banks, that is under the control of the central bank) by USD 798 million. Intervention was strongest in the first half of the year, until the end of August to be precise, when it was still made possible by the considerable decrease in the monthly inflation rates, which meant a corresponding marked growth in the real demand for money. Despite this, the external value of the tolar increased in real terms during this period, by 29% from December 1991 to June 1992 (Fig. 5), which highlights the intense pressure coming from the balance of payments. In addition to the current account surplus, the supply of foreign exchange was in the first quarter supplemented with sales by households, arising from the privatisation of apartments. It must not be overlooked that all comparisons with 1992 proceed from the extremely low value of the domestic currency in 1991, which was a consequence of the reverse external imbalance (deficit) transferred from 1990, and the factors of political instability and the holding back of export earnings abroad.

In the second half of the year conditions on the foreign exchange market stabilised, while on the other hand the central bank's room for manoeuvre became much narrower. During this period, the Bank of Slovenia increased its latitude through sterilisation, effected with the sale of the new twin bill, and through the use of some other instruments. In the third and fourth quarters an additional demand for foreign exchange was again financed by households. However, the problem was in this period showing essentially in the field of domestic cost pressures. The real effective exchange rate, adjusted for inflation with relative wages, (Fig.5), demonstrates continuing appreciation, as in the second half of the year the growth in average wages exceeded the growth in producers prices by 31.1%.

Figure 5: Real effective exchange rate indices; average monthly market rates, adjusted for inflation with relative industrial producers prices and with relative wages in industry (1992 = 100)



Source: Bank of Slovenia.

Monetary policy was made additionally difficult by the state of the Slovenian banking system in conditions of greatly reduced inflation and delays in the implementation of the bank rehabilitation programme. The Bank of Slovenia was frequently called upon to supply liquidity to banks in cases where difficulties were arising from an inherited bad asset structure and from unsettled relations connected to the inheritance of the former federation. The extent of this pressure in the second half of 1992 is reflected in the increased share of liquidity loans (Table 7).

2. MONETARY POLICY

In 1992 the Bank of Slovenia managed the money supply with instruments aimed at regulating the quantity of money in circulation, with instruments aimed at the maintainance of the general liquidity of banks and savings banks, and with measures for maintaining the general liquidity of banks in foreign payments.

The choice of monetary policy instruments was mostly dependent on the needed quantity of money. In 1992 three periods can be determined, in which these needs differed in terms of both quality and quantity.

In the first period, from monetary take-over in October 1991 until the end of February 1992, the money growth rates had to be cut back. In order to ensure the appropriate quantity of central bank money and thereby a corresponding liquidity of banks, the Bank of Slovenia lowered and, in April, abolished the rediscount quotas and adjusted the obligatory reserves rates. The occasional liquidity deficits were covered with temporary purchases of government securities.

In the second period, from March to around mid-year, the Bank of Slovenia gradually adjusted the quantity of money to the decrease in inflation rates and the falling velocity of circulation. Bank liquidity was maintained with purchases of foreign exchange and the foreign exchange bills as well as with the temporary purchase of government securities and foreign exchange bills.

In the third period, the second half of the year, monetary policy was stabilised as the necessary changes in the quantity of central bank money were considerably smaller than in the first half year, because of the relatively much lower price growth. In the last quarter the quantity of money increased more markedly, particularly as a result of the growth in real transactions. Throughout this period the Bank of Slovenia was issuing money through lombard loans, the purchase of foreign currency, intervention in the interbank market, overnight loans and through liquidity loans to banks in the pre-rehabilitation process.

The instruments which the Bank of Slovenia used in managing its monetary policy depended on two other important factors. On the one hand, the Bank of Slovenia, in accordance with its responsibilities, had to guarantee the liquidity of those banks which would have undergone rehabilitation if the legal basis had been adopted in time. The Bank of Slovenia guaranteed daily liquidity by approving special liquidity loans (always covered by 100 per cent collateral in Bank of Slovenia bills, government securities or in foreign exchange) to those banks in which the pre-rehabilitation process had been introduced. These banks were set a number of conditions by the Bank of Slovenia when approving the liquidity loans (the volume of new loans, type of clients, etc.), which limited their independence. On the other hand, the Bank of Slovenia intervened on the interbank money market with liquidity loans, through which an influence on the interbank interest rates was established.

There was a large supply of foreign exchange on the market throughout 1992 because of the surplus on current account. The Bank of Slovenia did not automatically purchase the amounts offered, as this would have increased the quantity of reserve money. The balancing of supply and demand for foreign exchange was left to the exchange rate, while an excessive appreciation of the tolar was avoided by selling foreign exchange bills and by intervening on the open market with lombard loans and the purchase of foreign exchange, meanwhile conditioning this intervention on the amount of foreign exchange which the banks had to purchase from exporters, and with the exchange rate at which the transactions were made. The Bank of Slovenia created additional scope for such intervention through the sale of its bills, which withdrew money from circulation.

The legislation governing the foreign exchange regime - the Law on Foreign Exchange and the Law on Foreign Credit Transactions - did not change in 1992, but some implementation regulations under the jurisdiction of the Bank of Slovenia were changed.

Unhindered payments abroad and free access to the foreign exchange market for current account transactions are the basic principles of the regime. Exporters are allowed two days to freely choose a buyer (and price) before the obligatory sale of foreign currency to a bank, but sales and purchases mostly proceed through banks. The sale of foreign currency to domestic natural persons was initially linked to the amounts of purchase in one week, and after February in one month. Since April 1992 the banks have had to ensure the constant sale of foreign currency in their branch offices, which enabled the inflow of foreign exchange from the interbank market, a consequence of which was that both exchange rates (the exchange rate on the foreign exchange market and the exchange rate of foreign currency on the exchange offices market) became linked to each other.

Authorised banks must maintain a minimum of foreign exchange on their accounts abroad for safeguarding liquidity. In the first three months this amount was linked to the amounts of foreign payments of individual banks, and since April also to new foreign exchange deposits of households. In May the Bank of Slovenia also began to monitor the net foreign exchange position of banks, that is the difference between certain foreign exchange holdings of the banks and their short-term debt.

Since July term foreign exchange transactions have been permitted, but the banks have made very little use of these.

In June the Bank of Slovenia limited borrowing abroad for conversion into tolars, and in July also limited the increase of short-term borrowing abroad. Later, in October, the Bank of Slovenia changed its regulations in such a way that it relaxed limitations for those loans which are only partly converted into tolars and spent on the domestic market. In the second half of the year short-term borrowing of the banks fell considerably.

Foreign currency loans to domestic enterprises for the payment of imported goods and services could initially only be approved by those domestic banks which did not have outstanding obligations in foreign exchange deposits of households, and since April also by banks which hold on their accounts abroad at least 110% of the amount, prescribed by the resolution on the minimum amount of foreign exchange. These loans are also payable in tolars. Since November banks have been allowed to approve loans in foreign currency for periods of longer than one year.

Restrictions relating to foreign credit were relaxed in 1992. By the end of 1992 a regime of full current account convertibility was already in force in Slovenia.

3. INSTRUMENTS OF MONETARY POLICY

Obligatory Reserves

The policy of obligatory reserves underwent considerable changes in 1992.

The basis for calculating obligatory reserves are all tolar deposits in banks, with rates varying according to maturity. Until April the rates were 7% for sight deposits and for time deposits up to three months, and 5% for time deposits over 90 days. From April until the end of the year new rates came into force, which were: 12.5% for sight deposits and time deposits up to 30 days, 3% for time deposits from 31 days up to one year and 0.5% for time deposits over one year.

The obligatory reserves were regularly fulfilled by the banks except, on some occasions, by banks in the pre-rehabilitation process. If we exclude the latter, banks, especially in the first half of the year, formed higher reserves than prescribed. In the second half of the year, when the central bank began to intervene on the evening money market, these surpluses decreased.

Table 8: Average monthly obligatory reserves in 1992

MONTH	RESERVE REQUIREMENT							ACTUAL	
	sight deposits and time deposits up to 90 days		time deposits over 91 days		time deposits over one year		TOTAL	SIT mil	in %
	SIT mil	share (%)	SIT mil	share (%)	SIT mil	share (%)			
Jan	3.987	81,9	582	12,0	300	6,2	4,870	5,125	105,2
	sight deposits and time deposits up to 30 days		time deposits from 31 days to 1 year						
Apr	6.252	85,3	1.040	14,2	38	0,5	7.330	6.587	89,9
Jul	8.123	84.4	1.452	15,1	48	0,5	9.622	10.006	104,0
Oct	10.514	85,7	1.711	13,9	50	0,4	12.275	10.418	84,9
Dec	11.165	84,9	1.942	14,8	51	0,4	13.158	11.031	83,8
Banks	10.693	84,9	1.852	14,7	49	0,4	12.594	10.386	82,5
Savings banks	62	63,0	37	36,9	0	0,1	99	113	113,9
Savings associations	409	88,0	54	11,5	2	0,5	465	533	114,5

Source: Bank of Slovenia.

Foreign exchange minimum

The amount of the foreign exchange minimum was initially linked to the foreign payments performed by banks. In April in addition to payments (35% of the average monthly inflow and outflow in the previous three months) the new foreign exchange deposits of households (30% of this basis) was also taken into account. The new foreign exchange deposits denotes both new deposits and the part of the old deposits which is not restricted.

By June the percentage of the prescribed foreign exchange minimum on the basis of new foreign exchange deposits increased from 30% to 90%, to guarantee safety and to win back the confidence of the public. From September on new foreign exchange deposits are considered with regard to maturity: sight deposits 90%, time deposits up to three months 75%, time deposits up to one year 35% and time deposits of one year and more 5%.

With the change in the methodology in June the banks not only had to ensure a foreign exchange minimum but also a net foreign exchange position, which means the difference between the foreign exchange holdings of a bank and its short-term foreign indebtedness. The net foreign exchange position initially amounted to at least 60% of the required foreign exchange minimum, and from August to 75%.

In 1992 the banks met the prescribed foreign exchange minimum with foreign exchange on current accounts and short-term time deposits abroad, with foreign currency and cheques in vaults and in transfer, with interbank foreign exchange claims and from May on with claims on the Bank of Slovenia for foreign exchange bills.

Bank of Slovenia bills

In 1992 the Bank of Slovenia issued Bank of Slovenia foreign exchange bills, Bank of Slovenia twin transferable bills and Bank of Slovenia tolar bills.

With **foreign exchange bills** the Bank of Slovenia regulates the supply of foreign exchange on the foreign exchange market, since through the sale of the bills it absorbs foreign exchange from the market and influences the exchange rate. For the banks the bills represent securities which they can sell or deposit with the Bank of Slovenia when it intervenes in the open market.

The **twin bills** are short-term transferable securities. They are on offer to banks and, through their intermediation, also to enterprises and households. The bill is composed of two parts, which are both paid in in tolars. At maturity the first part is paid out in tolars, indexed to domestic price growth, while the second part is paid out in foreign currency.

Table 9: Foreign exchange bills turnover

	Amount in DEM mil	%
Paid in	**1,593.5**	**100.0**
less: discount	27.6	1.7
Paid in net	1,565.9	98.3
Matured by 31 Dec	**991.2**	**100.0**
of which:		
• Bank of Slovenia repurchase	59.1	6.0
• Paid out	125.3	12.6
• Revolved (next issue)	806.1	81.3
• Uncollected after maturity	0.8	-
Balance 31 Dec	**602.3**	-

Source: Bank of Slovenia.

With the twin bills the Bank of Slovenia widened its scope for intervening on the open market. As these securities can also be bought by enterprises and households, the Bank of Slovenia has widened investment opporunities for non-bank transactors. The sale of twin bills between July and the end of the year made room for a 1 to 1.5 billion tolars reserve money creation each month.

With its offer of the **tolar bill** the Bank of Slovenia enabled the banks to invest their surplus liquidity in its own interest-bearing securities, occasionally in the first half and constantly in the second half of the year.

At the end of the year banks had paid in two and twelve-day tolar bills in the amount of 565 million tolars, and savings banks seven and fourteen-day bills in the amount of 360 million tolars.

Liquidity loans

The Bank of Slovenia is responsible for the maintainance of the general liquidity of banks and savings banks. After the abolition of rediscount quotas, which it was still using in the first quarter of 1992, it performs this task mainly through the granting of liquidity loans to banks, against collateral of its bills and government bonds of the first and second issue. Liquidity loans for bridging temporary liquidity problems were received in 1992 by banks in the pre-rehabilitation process to fulfil their regular obligations. The Bank of Slovenia began its policy of approving special liquidity loans in March, which it continued throughout the year. Special liquidity loans are approved with a repayment term of about fifteen days, or exceptionally up to one month, while the interest rate is in line with the general trends on the money market.

In the daily regulating of bank liquidity in 1992, exceptional increases in money flows between banks were apparent on certain days in the month, especially on days when taxes and contributions were being paid and money collected for larger payments. These flows caused irregular large fluctuations in bank liquidity. Because of this the Bank of Slovenia decided in July to begin participating on the evening interbank market with overnight liquidity loans. The Bank of Slovenia only grants overnight loans to banks which are net debtors in interbank crediting. The banks are only allowed to use the received funds for ensuring their liquidity and not for granting loans to other banks and savings banks. The average real interbank interest rate, after the inclusion of the Bank of Slovenia in the evening balancing of bank liquidity decreased first from 30% to 19% in August and then to 15% by the end of the year.

Lombard loans

Lombard loans were introduced by the Bank of Slovenia at the end of June against Bank of Slovenia foreign exchange bills. Banks may choose among three offers: (i) combined offer of "repo" and lombard, (ii) lombard loan acquired through auction and (iii) a constant lombard loan window.

The combination of "repo" and lombard loans was used from July to October. Banks selected at auctions temporarily sold their bonds or bills for a specific period, usually for ten days. During this period they had to purchase foreign exchange from enterprises at no less than the exchange rate reached at the auction, after the end of this period they repurchased the securities and received lombard loans for 35% to 50% of the deposited securities.

Intervention lombard loans meant a liquidity window for banks, as they were always available for a period of five days, but in amounts of only 5% or 2.5% of the deposited bills. From October on the intervention lombard loan was conditioned with the obligation of banks to purchase foreign exchange from enterprises at an agreed exchange rate, which was linked to the rates reached at the last regular lombard auction. The total of approved intervention lombard loans in 1992 came to 6.2 billion tolars, of which 2.2 billion in November.

Repurchase agreements

In the first half of 1992 an important source of reserve money was represented by the temporary purchase of government bonds of the first issue.

In all 34 offers were made to banks for the temporary (5 to 14 days) purchase of bonds. The price of repurchase was fixed at the time of purchase, and was formed and took into account the retail price index and a real rate of interest. The purchase of bonds proceeded through auction, with the banks auctioning the repurchase price.

Intervention on the foreign exchange market

An important flow of reserve money creation in 1992 was represented by foreign exchange transactions of the Bank of Slovenia: with the purchase and sale of foreign exchange to banks and the budget, with the premature repurchase of its own foreign exchange bills on the secondary market, with the purchase of foreign currency, with the purchase of foreign exchange in reconciliation of claims and liabilities for legal entities.

Table 10: Creation of reserve money through foreign exchange transactions

	DEM million	SIT million
Total purchases	**438.9**	**23,831.3**
of which:		
• from banks	362.9	19,802.7
• on the stock exchange	58.4	3,096.5
• from the budget	3.1	183.6
• reconciliation	7.2	357.4
• currency	8.0	391.0
Sales	**186.2**	**11,088.4**

Source: Bank of Slovenia.

In the first half of the year the banks offered exchange rates at which they were prepared to sell foreign exchange to the central bank, in which case the auction was downwards from the initially set rate. During this period the Bank of Slovenia also determined the lowest intervention exchange rate at which it bought all offered quantities of foreign exchange from the banks; but this was applied only until the beginning of June.

In the second half of the year the technique of auctioning foreign exchange was changed. The banks offered exchange rates at which they were prepared to buy a certain amount of foreign exchange from enterprises or offered a percentage with which they undertook to buy a certain quantity of foreign exchange from enterprises at the set exchange rate. The Bank of Slovenia used both options alternately, depending on its goal in individual periods, as it influenced the level of the exchange rate and the amount of foreign exchange purchases.

Control of the implementation of monetary policy

The Bank of Slovenia indirectly and directly supervises the implementation of measures, adopted by the Governing Board of the Bank, by the banks and savings banks.

With continuous indirect control of the reports and documents which the Bank of Slovenia is sent by banks and savings banks, a precise record is kept on irregularities, incorrectness and violations of regulations which are defined for every instrument of monetary policy. Irregularities discovered in this process are additionally checked for directly in the banks themselves. Usually, these irregularities are the first sign that a more detailed supervision of a bank's or savings bank's operations is necessary.

In 1992 ten records of irregularity were compiled on the basis of the discoveries of the indirect control of banks, the majority due to failure to meet regulations on obligatory reserves. In three cases a direct inspection of the bank was also carried out. Because of the irregularities determined in banks, ten decrees for harmonising operations with regulations were issued and measures from Article 53 of the Law on the Bank of Slovenia were applied. In all cases there was a temporary limitation on the growth of investments of the banks, a ban put on lombard loans and the purchase of securities, and a proposal made to the managing body to suspend the leading executives responsible for the irregularity. For a determined time the bank was also not permitted to participate in further intervention by the Bank of Slovenia on the open market.

With the introduction of the legal provision for savings banks also to maintain obligatory reserves from 1 July on, including the savings associations in agricultural and small business cooperatives, the quantity of control operations and determinations of irregularities related to obligatory reserves increased greatly, due in a large part to inexperience and insufficient technical facilities of the savings banks.

A total of 44 irregularities in banks and savings banks was discovered in the implementation of measures of monetary policy, and 21 decrees to impose sanctions were issued.

Transfer of budget funds to the Bank of Slovenia

According to the Law on the Bank of Slovenia the funds of the budget of the Republic of Slovenia are kept at the Bank of Slovenia. In February the Governing Board of the Bank of Slovenia defined by resolution the manner of transferring the budget account to the Bank of Slovenia gradually, to be completed by the end of May.

IV. OTHER BANK OF SLOVENIA OPERATIONS

1. SUPERVISION OF BANKS AND SAVINGS BANKS

The Bank of Slovenia carries out prudential supervision of banks and savings banks. In its first year of operation as the central bank these responsibilities were defined to a large extent with the provisions of the Law on Banks and Savings Banks, and within this framework particularly with provisions regulating the fields further elaborated below.

Adaptation of the operation and organisation of banks and other financial organisations already operating

Banks, savings banks and other financial organisations had to bring their organisation, operations and acts into line with the Law on Banks and Savings Banks by 30 June 1992. The harmonisation of the operation of some banks was not possible by 30 June, since this date had been set on the assumption that the process of bank rehabilitation would have begun by then. As it would not be possible to harmonise their operations with some of the legal provisions without rehabilitation, these banks will actually adapt after the rehabilitation has been carried out in 1993.

Until 1991 savings banks could operate without central bank licence, so the harmonisation of their operations with the Law on Banks and Savings Banks meant the acquisition of licence from the Bank of Slovenia. The problem of the savings associations remains unsolved, as these were founded according to a special law which is still valid, and their status makes it in a number of ways impossible to harmonise their operations with the Law on Banks and Savings Banks.

On 30 June 1992 all branch offices of banks from other republics of the former Yugoslavia ceased operations in Slovenia, since not one of them had brought their operation into line with the Law on Banks and Savings Banks.

In May the Bank of Slovenia adopted additional limitations on savings banks and savings associations which wished to transform into savings banks. These additional limitations mostly apply to the manner of operation (only under their own name and for their own account), regional dispersion, types of clients and types of business. In 1992 operating licences were issued to 13 savings banks. One savings bank already operating was denied the licence, as it did not meet the required conditions and as it was estimated that its rehabilitation was not economically justifiable, so the decision was adopted to initiate bankruptcy proceedings.

The founding of new banks and savings banks and the increase of equity capital

The Law on Banks and Savings Banks is very liberal with regard to the founding of new banks and savings banks, while on the other hand the Bank of Slovenia had to link its policies on issuing licences for founding banks with the goals on the rehabilitation of the banking system. Four licences were issued for carrying out all types of banking operations, but only for the territory of the Republic of Slovenia, while quite a large number of applications remains outstanding.

The type of bank operation licence depends on the amount of founding capital. An unlimited licence may only be acquired by a bank if the paid in capital is at least ten times the minimum founding capital requirement, which at year's end stood at SIT 350 million, while some other conditions must also be met. For the founding of a bank which is specialised in performing specific banking operations, the Bank of Slovenia may issue a licence based on other criteria.

In August the Bank of Slovenia decided to make decisions on applications once a year (in October) for all applications submitted until May.

The Bank of Slovenia also issues licences for the founding of representative offices of foreign banks, for increasing equity capital of banks and for expanding the scope of operations. In 1992 the Bank of Slovenia issued two licences for foreign equity investments into already operating banks. It also issued two licences for expanding the scope of operations, while one application was rejected.

In the processing of applications for founding new savings banks it appeared that a great majority of savings banks were planning founding capital which would not ensure safe and profitable operation. Therefore the Bank of Slovenia adopted a moratorium on issuing licences to new savings banks at the end of June, until an appropriate change to the legislation is made. Until May one new savings bank was granted licence, while two had to be rejected because of unfulfilled legal conditions.

The findings of the Bank of Slovenia in its supervision of savings banks at the end of 1992, confirm the correctness of its decision to introduce a moratorium on issuing licences to newly founded savings banks. One of the reasons for this is that a general characteristic of savings banks is their strong under-capitalisation with regard to the extent of the operations they perform. Therefore the issuing of licences to new savings banks will be justifiable only after the provisions of the Law on Banks and Savings Banks are changed, particularly from the point of view of fundamentally increasing the required minimum capital for founding savings banks.

Supervision of the operation of banks and savings banks

The supervision of the operations of banks and savings banks is performed by the Bank of Slovenia:

- with an inspection of reports and other documents received from banks or savings banks, as well as an inspection of the data and other documents it has at its disposal,
- by requiring answers to written questions to banks and savings banks,
- through on-site examination of the accounts and other documents of the banks and savings banks.

In 1992 the Bank of Slovenia monitored the operation of banks primarily on the basis of regulations for the calculation of capital adequacy, the determining of capital suitability, the measuring of the risk of investments and the determining of potential losses. The current solutions do not yet fully compare with the solutions of more developed countries, therefore the Bank of Slovenia is preparing a proposal for changes to the existing legal regulations.

As a result of the change of the scheme of accounts for banks and savings banks, which came into effect on 1 January 1992, it was necessary to construct a completely new information system on the operation of financial organisations. The information system is composed of a database of the balance sheet and the profit-and-loss account, supported by a number of subsystems enabling easier analysis of the economic and financial conditions of banks and savings banks.

2. MANAGEMENT OF INTERNATIONAL RESERVES

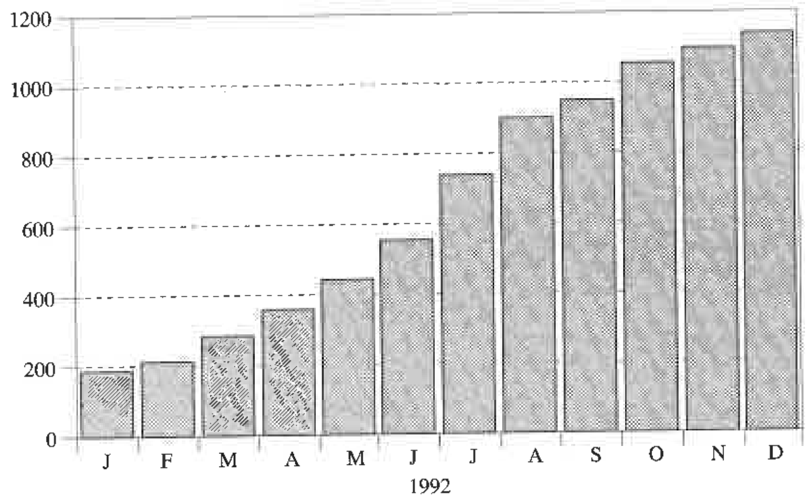
The international reserves of the Republic of Slovenia are the sum of the international reserves of the Bank of Slovenia and the operating foreign exchange reserves of banks. The Bank of Slovenia has an influence on the foreign exchange reserves of banks by determining their minimum amounts of liquid foreign exchange holdings. The international reserves under the direct management of the Bank of Slovenia are divided into two parts:

- the net international reserves for which the bank of Slovenia has no obligations in its liabilities,
- international reserves which are a counter-item to Bank of Slovenia liabilities proceeding from the Bank of Slovenia foreign exchange bills outstanding.

The average value of foreign exchange holdings of the Bank of Slovenia in January 1992 was DEM 188.2 million, reaching DEM 1,143 million by December.

The foreign exchange reserves of the Bank of Slovenia in 1992 were deposited according to criteria adopted by the Governing Board on the basis of International Banking and Credit Analysis ratings. In this process the Bank of Slovenia has established contacts with many international banks, particularly in Europe.

Figure 6: International reserves of the Bank of Slovenia (average monthly balances in DEM mil)



Source: Bank of Slovenia.

Among foreign exchange liabilities of the Bank of Slovenia the greatest share is taken by Bank of Slovenia bills, which the bank began issuing at the beginning of 1992. The value of the issues increased particularly in the second half of the year. A major reason for this was the granting of lombard loans by the central bank against collateral of Bank of Slovenia bills, so that under the influence of these operations the value of bills outstanding grew from DEM 3.5 million at the end of January to DEM 603.5 million at the end of November.

3. BANKNOTE ISSUE

The Bank of Slovenia is authorised by law to issue banknotes, to determine their main characteristics, to circulate banknotes and withdraw banknotes from circulation. In addition the Bank of Slovenia also decides on circulating and withdrawing coins, while resolutions on issuing coins and their main characteristics are passed by the Government of the Republic of Slovenia.

In 1992 the Bank of Slovenia continued the implementation of the Slovenian banknote project, with the aim of replacing the coupons from 1991 as soon as possible.

The first three denominations of banknotes (100, 500 and 1,000 tolars) were put into circulation by the Bank of Slovenia at the end of September, followed at the end of 1992 by the 10-tolar (November) and 20-tolar (December) notes. The replacement of the coupons is expected to be a gradual process, in order to avoid disturbances in the circulation.

4. INTERNATIONAL COOPERATION

In 1992, when it was still asserting itself as an independent state, Slovenia's integration into the international financial community was an important issue. After the first international recognition in the middle of January, the government and other institutions made rapid efforts to establish necessary international contacts. At the same time the willingness to join into the important international financial institutions was declared. Integration proceeded in the following manner:

- the establishment of bilateral relations with individual countries and their export credit agencies;
- the beginning of enrollment into international financial institutions (International Monetary Fund, World Bank, European Bank for Reconstruction and Development, Bank for International Settlements and others);
- the strengthening of ties with foreign creditors and the settling of the succession of the former Yugoslavia;
- the strengthening of ties with central banks of other countries.

A large part of the activities was aimed at efforts to gain membership in the International Monetary Fund. In June and September Slovenia was visited by fact-finding Fund missions, the purpose of the visits being to become acquainted with the financial, balance of payments and general economic situation in Slovenia. Because of the unsettled issues of the succession of assets and liabilities of the former Yugoslavia membership was postponed. In December, by a decision of the Executive Board of the Fund, the former state of Yugoslavia was found to have ceased to exist, and successor states were invited to become members of the Fund, provided they took over a determined share of the assets and liabilities of the former Yugoslavia to the Fund. A share of 16.39% was determined for Slovenia according to the Fund's methodology for setting membership quotas. Following Slovenia's acceptance of the conditions for membership, it was formally accepted into the Fund on 15 January 1993.

With this act the conditions for membership in the World Bank and its affiliations (IBRD, IDA, MIGA, IFC) were fulfilled. Representatives of the World Bank visited Slovenia in 1992 and expressed their preparedness to establish financial links. Slovenia is expecting support from the World Bank in financing the programme of restructuring the Slovenian economy.

Slovenia became a member of the European Bank for Reconstruction and Development on 12 January 1993. Cooperation with this institution is of particular interest, because the EBRD does not condition its financing on a determined level of per capita income. The EBRD is already providing technical assistance in the rehabilitation of the banking system, and is also prepared to finance a large number of investment programmes in Slovenia.

The Bank of Slovenia is making arrangements with the Bank for International Settlements on succession in this bank. But the question of membership in other international financial institutions of which Yugoslavia was a member remains open. The Inter-American and African Banks are of particular interest.

The Bank of Slovenia has made contacts and strengthened ties with a large number of central banks. It has exchanged visits with the central banks of Germany, Austria, Italy, Great Britain, France and Switzerland as well as with the Federal Reserve Board in the USA.

In 1992 all conditions for Slovenia's integration into the international financial community were fulfilled, which represented at the same time the basis for more active cooperation on the international financial markets and for the settling of relations with foreign creditors. All this will contribute to a clarification of Slovenia's financial situation and confirm its credibility in the international financial community.

V. THE BANK OF SLOVENIA

1992 ANNUAL FINANCIAL STATEMENT

Pursuant to Article 5 of the Constitutional Law for the Implementation of the Basic Charter on the Independence and Sovereignty of the Republic of Slovenia and Article 94 of the Law on the Bank of Slovenia, the Bank of Slovenia was founded as the central bank of the Republic of Slovenia on 26 June 1991. As a result and pursuant to Article 16 of the Law on Accounting, on 30 June it prepared an Annual Account. Thus for 1991 two separate accounts were prepared: for the first half year, when the National Bank of Slovenia was still part of the monetary system of the SFRY, and for the second half year, when it became the independent central bank of the Republic of Slovenia.

Effective takeover of monetary authority followed on 8 October 1991, when the Law on the Currency Unit of the Republic of Slovenia was enacted. As a result the assets and liabilities of the Bank of Slovenia in the balance sheet of 31 December 1992 differ greatly from those of 31 December 1991, while the profit-and-loss account for 1992 cannot even be compared with the account for the preceding year. Therefore the profit-and-loss account is shown only in comparison with the financial plan.

Accounting principles applied

The balance sheet scheme for the annual account provides an analysis according to prevailing international standards for central bank asset and liability items. In the evaluation of the balance sheet items, provisions for evaluating items according to the Law on Accounting have been considered. Claims and liabilities in foreign currencies were calculated in tolars according to the middle exchange rate of the Bank of Slovenia on 31 December 1992. Gold is evaluated in line with the price in the Report on Prices of Precious Metals of 31 December 1992.

In 1992 the Bank of Slovenia transferred to the Republic of Slovenia a surplus of income over expenditures in 1991 of 462 million tolars.

The Bank of Slovenia Balance Sheet as at 31 December 1992

	in SIT thousands	
ASSETS	31 Dec 1992	31 Dec 1991
1. FOREIGN ASSETS (2+8)	**70,768,712**	**6,499,249**
2. International monetary reserves (3-7)	70,635,035	6,363,872
3. Gold	10,461	6,365
4. Foreign currencies	18,816	177,074
5. Sight deposits	481,505	2,260,808
6. Time deposits	69,565,108	3,919,625
7. Securities	559,145	0
8. Other claims abroad	133,677	135,377
9. CLAIMS ON CENTRAL GOVERNMENT	**8,850,426**	**8,649,807**
10. CLAIMS ON DOMESTIC BANKS (11+17+18)	**16,295,966**	**3,806,306**
11. Loans (12-16)	15,594,989	2,396,456
12. Rediscounts	0	934,207
13. Lombard loans	152,095	0
14. Liquidity loans	15,000,000	0
15. Other loans	442,894	457,707
16. Repurchase agreements	0	1,004,542
17. Deposits at domestic banks	99,282	432,352
18. Other claims on domestic banks	601,695	977,498
19. COINS	**29,160**	**0**
20. FIXED ASSETS	**403,871**	**249,817**
21. INTEREST AND FEES RECEIVABLE	**1,301,713**	**31,363**
22. OTHER SHORT-TERM CLAIMS	**99,954**	**3,825**
23. OTHER ASSETS	**72**	**18,993**
24. JOINT CONSUMPTION FUND	**151,715**	**47,068**
25. TOTAL ASSETS (1+9+10+19+20+21+22+23+24)	**97,901,589**	**19,306,428**

Balance Sheet (continued)

	in SIT thousands	
LIABILITIES	31 Dec 1992	31 Dec 1991
1. NOTES ISSUE	**25,532,167**	**9,768,671**
2. DEPOSITS (3+6+10)	**17,360,545**	**7,791,440**
3. Deposits of banks (4+5)	10,716,008	6,089,073
4. Giro and reserves accounts	6,335,455	6,089,073
5. Foreign exchange deposits	4,380,554	0
6. Public sector deposits (7+8+9)	5,782,149	1,643,956
7. Central government deposits	2,519,762	0
8. Other sight deposits	53,404	3,738
9. Foreign exchange deposits	3,208,983	1,640,218
10. Other domestic deposits (11+12)	862,388	58,411
11. Deposits of business	109,394	39,354
12. Deposits of nonmonetary financial institutions	752,993	19,057
13. BANK OF SLOVENIA BILLS (14+15)	**40,760,211**	**0**
14. Tolar bills	2,442,748	0
15. Foreign exchange bills	38,317,463	0
16. RESTRICTED DEPOSITS	**38,371**	**56,649**
17. MONEY TRANSFERS IN TRANSIT	**521,271**	**-1,629**
18. CAPITAL	**488,154**	**279,969**
19. RESERVES	**7,804,421**	**1,109,902**
20. REVALUATION RESERVES	**0**	**0**
21. PROVISIONS	**0**	**102**
22. UNDISTRIBUTED PROFIT FROM PREVIOUS YEAR	**158,286**	**0**
23. PROFIT	**3,574,857**	**158,286**
24. EXCHANGE RATE CHANGES	**0**	**0**
25. OTHER SHORT-TERM LIABILITIES	**1,385,420**	**29,866**
26. JOINT CONSUMPTION FUND	**277,886**	**113,172**
27. TOTAL LIABILITIES (1+2+13+16+17+18+19+20+21+22+23+24+25+26)	**97,901,589**	**19,306,428**

The Bank of Slovenia Profit and Loss Account, 1 January to 31 December 1992

	in SIT thousands		
	Plan	Actual	Index
	1 Jan to 31 Dec 1992	1 Jan to 31 Dec 1992	Actual/Plan
I. INCOME			
1. Interest on foreign exchange reserves	1,156,077	3,359,714	291
2. Interest on loans	284,000	2,526,306	890
3. Discounts	1,947,090	1,452,384	75
4. Commission	42,030	62,507	149
5. Other income	382,009	412,697	108
6. Total income (1 to 5)	**3,811,206**	**7,813,608**	**205**
II. EXPENDITURE			
1. Interest	187,846	2,074,573	1,104
2. Costs of open market policy	2,320,433	1,013,609	44
3. Commission	3,454	6,348	184
4. Banknote manufacture	422,417	101,494	24
5. Premises, equipment and depreciation	236,178	270,566	115
6. Salaries and benefits	510,477	510,466	100
7. Other (YUD:SIT conversion, JIK write-off)	-	136,008	-
8. Total expenditure (1 to 7)	**3,680,805**	**4,113,064**	**112**
III. NET INCOME	**130,401**	**3,700,544**	**2,838**
IV. ALLOCATION OF NET INCOME			
1. Capital (business fund)	25,687	25,687	100
2. Bank rehabilitation	100,000	100,000	100
3. Reserve fund	4,714	-	-
4. Total Allocation of Net Income (1 to 3)	**130,401**	**125,687**	**96**
V. NET INCOME AFTER ALLOCATION	**-**	**3,574,857**	**-**

Notes to balance sheet - Assets

1. FOREIGN ASSETS

2. International monetary reserves

3. Gold was evaluated on the basis of Article 56 of the Law on Accounting at 1,058.1 tolars per gram of pure metal.

4. Foreign currencies in vaults of the Bank of Slovenia are mainly used for servicing the government and for minimum intervention by the Bank of Slovenia.

5. Sight deposits are holdings on the accounts of the Bank of Slovenia abroad. They decreased in comparison with 1991 as the composition of the international reserves has moved more towards time deposits.

6. Time deposits are also holdings on the accounts of the Bank of Slovenia abroad.

7. Securities are investments in DEM nominated bills, guaranteed by the German government.

8. Other claims abroad

Other claims abroad are claims on the account of the Gorica Treaty on local border traffic, part of the 1955 bilateral treaty with Italy.

9. CLAIMS ON CENTRAL GOVERNMENT

Pursuant to Article 10 of the Constitutional Law on the Implementation of the Basic Constitutional Charter on the Independence and Sovereignty of the Republic of Slovenia, the Bank of Slovenia and the Government of the Republic of Slovenia have reached agreement (Protocol of 5 May 1992) that claims of the Bank of Slovenia on the National Bank of Yugoslavia be transferred to a long-term claim on the Republic of Slovenia, pending final settlement of the assets and liabilities of former Yugoslavia, for which purpose a Succession Fund of the Republic of Slovenia has been established.

Net claims of the Bank of Slovenia on the National Bank of Yugoslavia include (in SIT mil):

CLAIMS:	
• Checques payable by NBY	0.1
• Dinar banknotes received during conversion to tolars'	8,576.2
• Banks' settlements funds at NBY	3,583.3
• Banks'm obligatory reserves	2,525.7
• Other deposits taken over from NBY by BS	283.8
LIABILITIES:	
• Liabilities of BS to the NBY	4,573.8
• Current account balance at the Social Accounting Service	1,745.5
TOTAL NET CLAIMS	**8,649.8**

The difference between this net total and the overall claims on central government includes an advance of net income accruing from the 1991 annual account in the amount of SIT 158 million, and claims for the costs of minting the first issue of coins in the amount of SIT 42 million.

10. CLAIMS ON DOMESTIC BANKS

11. Loans (asset items 12 to 16)

In 1992 the composition of loans was changing in line with the choice of monetary instruments. In April the rediscount quotas were put out of use, as well as repurchase agreements. Lombard loans against collateral of foreign exchange bills were introduced, and were outstanding at SIT 152 million on 31 December 1992. The major part of the loans outstanding at the end of the year was represented by special and overnight liquidity loans in the amount of SIT 15,000 million. The item Other loans includes loans granted against deposits of foreign exchange by households in the amount of SIT 21.6 million, and loans which were by a special federal law rescheduled from short-term to long-term in 1984, 1986 and 1990, in the amount of SIT 422.2 million.

17. Deposits at domestic banks

Deposits at domestic banks are time deposits held by the Bank of Slovenia against housing loans from the banks, amounting to SIT 95.7 million, and foreign exchange deposits at domestic banks, amounting to SIT 3.5 million. Since December 1992 the Bank of Slovenia has performed nearly all foreign payments for the Government through its own accounts abroad.

18. Other claims on domestic banks

Other claims on domestic banks are foreign exchange and tolar advances for the repayment of the Bank of Slovenia twin bills maturing on 10 December 1992 in the amount of 600.2 million tolars, and a claim amounting to 1.4 million tolars from guarantees for the savings deposits at JIK Banka Koper, which ceased operation in Slovenia on 30 June 1992.

19. COINS

The item Coins indicates the nominal value of coins received from the first issue.

20. FIXED ASSETS

The net book value of land, buildings and equipment was 154.1 million tolars over that at the end of 1991, which is a consequence of new purchases and revaluation.

21. INTEREST AND FEES RECEIVABLE

Interest from loans to banks and fees receivable include:

- Claims for interest and fees for not meeting reserve requirements in December amounting to SIT 44 million;
- Interest payments maturing in 1993 and included by accrual in the 1992 income in the amount of SIT 707.8 million;
- Interest accruing to 1992 by a special resolution of the Governing Board of the Bank of Slovenia in the amount of SIT 549.8 million.

22. OTHER SHORT-TERM CLAIMS

The major items in this group include (in SIT thousands):

• Claims for personal incomes (sickness benefit, ETC)	1,457
• Accounts receivable (commission sales of occasional coin issue)	6,145
• Claims on clients for foreign bank costs	590
• Claims on the reserve fund	90,927

23. OTHER ASSETS

Other assets include cash in vaults and deferred postage expenses.

24. JOINT CONSUMPION FUND

Assets of the joint consumption fund include (in SIT thousands):

• Housing loans to employees	47,617
• Houses and apartments	80,507
• Holiday accommodation	20,298
• Catering equipment	1,293

Notes to Balance Sheet - Liabilities

1. NOTES ISSUE

Notes issue includes currency in circulation and in banks' vaults.

2. DEPOSITS

3. Deposits of banks

4. Giro and reserves accounts are deposits at the Bank of Slovenia.

5. The item Foreign exchange deposits denotes collateral deposited by Ljubljanska banka d.d. for tolar liquidity loans.

6. Public sector deposits

7. In accordance with Article 60 of the Law on the Bank of Slovenia, the central budget account was in 1992 gradually transferred to the Bank of Slovenia in 1992.

8. Other sight deposits are deposits of public sector entities which do not hold a contract to deposit settlement funds with a bank.

9. Foreign exchange deposits at the Bank of Slovenia are held by the Development Fund (SIT 3,107.5 million) and the Agency for Economic Restructuring (SIT 10.7 million). A foreign exchange deposit is also kept by the Ministry of Finance for confiscations etc. related to foreign exchange regulations, amounting to SIT 90.7 million on 31 December 1992.

10. Other domestic deposits

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

12. Deposits of nonmonetary financial institutions increased markedly in 1992, as after 1 July, on the basis of the Law on Banks and Savings Banks, savings banks which received operating licences from the Bank of Slovenia were also liable to holding obligatory reserves.

13. BANK OF SLOVENIA BILLS

14. Tolar bills

Liabilities from Bank of Slovenia tolar bills outstanding amounted to 925.5 million tolars at the end of the year, and liabilities from the tolar part of the twin bill amounted to 1,517.2 million tolars.

15. Foreign exchange bills

The tolar value of issued foreign exhange bills outstanding amounted to 36,143.5 million tolars at the end of the year, and liabilities from the foreign exchange part of the twin bill amounted to 2,174.0 million tolars.

16. RESTRICTED DEPOSITS

Restricted deposits are foreign exchange deposits of public sector entities for payments abroad and restricted deposits deposits of enterprises.

17. MONEY TRANSFERS IN TRANSIT

Money transfers in transit at the Social Accounting Service are payments settled but not yet accounted for by the receiver.

18. CAPITAL

Capital is still in the form of a business fund which is socially owned. The increase of the business fund in 1992 reflects mainly the revaluation of fixed assets and of depreciation.

19. RESERVES

The increase in reserves is due exclusively to allocation of exchange rate changes.

22. UNDISTRIBUTED PROFIT FROM PREVIOUS YEAR

This item shows the net income of the Bank of Slovenia from the second half of 1991.

23. PROFIT

In 1992 the Bank of Slovenia showed a profit of SIT 3,574.9 million.

25. OTHER SHORT-TERM LIABILITIES

Other short-term liabilities include the following major items (in SIT thousands):

• Liabilities accruing from the conversion of dinars to tolars	134,561
• Liabilities to reserve fund	90,927
• Liabilities to the Agency for the Rehabilitation of Banks and Savings Banks	100,000
• Deferred payments (interest up to 31 December 1992)	969,783

Notes to Profit and Loss Account

I. INCOME

1. Interest on foreign exchange reserves

The considerable income from interest on foreign exchange reserves reflects the strong growth of reserves in 1992. Their average value increased from DEM 188.2 million in January to DEM 1,143.3 million in December.

2. Interest on loans

Interest on loans was higher than projected due to the considerable use of liquidity loans in 1992 and due to income from fees paid by banks for not meeeting reserve requirements, which was not included in the plan.

3. Discounts

Discounts are income accruing from foreign exchange operations, in which are included the margins between the selling or buying rates and the mid rate, in the amount of 567 million tolars, and income from trading in securities amounting to 885 million tolars.

4. Commission

The Bank of Slovenia charges a commission for services related to foreign payments, for the purchase of foreign currency and for various other services for which tariffs are set by the Bank.

5. Other income

Other income includes extraordinary exchange rate changes, income from rents and income from contracts on transporting foreign currency for banks.

II. EXPENDITURE

1. Interest

This item includes interest payments for tolar and foreign exchange bills, for foreign exchange deposits with the Bank of Slovenia, for the obligatory reserve holdings of banks and savings banks and for the account of the central budget with the Bank of Slovenia.

2. Costs of open market policy

This item includes the negative margin from purchases of foreign exchange; costs of interest payments on tolar bills were planned, but has been included in item II/1.

3. Commission

The Bank of Slovenia pays banks a commission for services such as foreign payments, commission sale of Bank of Slovenia bills, etc.

4. Banknote manufacture

In the closing account of the National Bank of Slovenia on 30 June 1991, a reserve allocation was made for the printing of banknotes from income from exchange rate changes. The projection for 1992 therefore included only the difference between the as yet unused allocations and the actual costs of manufacture. As the project is not yet concluded, the unused amounts will be carried over into the financial plan for 1993.

5. Premises, equipment and depreciation

Expenditures in this item exceeded projection by 14.6%.

6. Salaries and benefits

The Bank of Slovenia employees' salaries and benefits have been calculated in accordance with the collective agreement between the Bank of Slovenia and the Union, which represents its workers, and tax payments from personal income in accordance with the legal prescriptions.

7. Other

The main part of this item includes extraordinary expenditure amounting to SIT 134.6 million, accruing from the decree of the Boverning Board of the Bank of Slovenia on the method of covering the conversion of dinars to tolars on accounts at the Social Accounting Service.

Also included are the expenses accrued by the Bank of Slovenia from guarantees for tolar savings deposits at JIK Banka Koper.

IV. ALLOCATION OF NET INCOME

1. Capital (business fund)

Allocation to the business fund was made at the level forecast.

2. Bank rehabilitation

The Law on the Budget of the Republic of Slovenia for 1992 had no provisions for the financing of the Agency for the Rehabilitation of Banks and Savings Banks, for which reason the Bank of Slovenia made an allocation from its income in the amount of 100 million tolars.

V. NET INCOME AFTER ALLOCATION

In accordance with the Law on the Bank of Slovenia, the remaining income surplus is income to the budget of the Republic of Slovenia. After confirmation of the annual financial statement of the Bank of Slovenia for 1992 by Parliament, the amount of SIT 3,574,856,622.60 tolars will be transferred to the account of the budget of the Republic of Slovenia.

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