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The Chairman's Summing Up at the Conclusion of the
1993 Article IV Consultation with Slovenia
Executive Board Meeting 93/77 - May 28, 1993

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the stabilization efforts since independence, which have permitted a sharp decline in inflation and an increase in foreign exchange reserves. Directors noted, however, the fragility of these achievements in view of the large shocks that the economy still has to absorb. They cautioned that failure to tighten incomes and fiscal policies decisively could reignite an inflation-devaluation spiral, and urged the authorities to accelerate enterprise reform and privatization, as well as related structural reforms, such as the activation of the bankruptcy legislation.

Directors expressed concerns about the difficulty of containing personal incomes in the still-dominant socialized sector. They observed that an anti-inflationary monetary policy would eventually become unsustainable if not supported by direct limits on wages in self-managed enterprises. They commended the authorities for the introduction of a wage intervention law that prescribed tight limits on permissible wage increases, and suggested that wage limitations be maintained until privatization had hardened budget constraints.

Directors urged the authorities to proceed cautiously with the shift to deficit financing, and observed that the proposed deficit for 1993 was not matched by increases in investment for infrastructure and in spending on reforms. Indeed, Directors noted with concern the large increases in social expenditures and public sector wages that were at the heart of the fiscal expansion. Directors endorsed the decision that the Government would seek financing in capital markets and not from the central bank.

Directors welcomed the recent initiation of bank restructuring and emphasized that this effort should be broadened to cover all troubled banks. Otherwise, monetary control would be endangered by the illiquidity of a large segment of the banking system. Directors noted that monetary control was also threatened by the difficulties in containing wages, which had forced the Bank of Slovenia to become increasingly concerned with preserving external competitiveness via the exchange rate. The proposed wage intervention law was clearly essential in this respect. In this regard, Directors cautioned against a policy that would depreciate the currency in line with relative price movements. Given the intrinsically weak budget constraints, such an exchange rate rule could seriously undermine wage discipline. Directors observed that prudent fiscal and monetary policies, supported by

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firm wage guidelines, provided the best assurances for preserving the competitiveness of the economy.

Directors welcomed the recent political consensus on a privatization law and urged that its implementation be accelerated. This would help strengthen financial discipline in the enterprise sector. Directors observed that Slovenia's starting position was in many ways considerably more favorable than that of other reforming countries. It had a relatively high per capita income, a high degree of openness, and strong integration with Western markets. Thus, Slovenia was in a position to move boldly with structural reforms, and Directors added that a return to sustained growth would require high levels of productive investment.

Directors noted Slovenia's strong balance of payments position, and they welcomed the authorities' intention to make an early move to Article VIII status.

It was agreed that the next Article IV consultation with Slovenia will be held on the standard 12-month cycle.