



Banking Sector Trends and Challenges in Slovenia

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Note: These are the author's own views, not necessarily those of the IMF. This presentation is based on the 2007 IMF Article IV report for the Republic of Slovenia – Selected Issues (by R. Bems and J. Andritzky), IMF Country Report No. 07/182, available at www.imf.org/cee



European integration poses new challenges for the Slovene banking system

- Competition from small foreign-owned banks (vs. large Slovene state-dominated banks)
- Deepening integration with West and East European financial markets, accelerated by euro adoption
- Declining interest margins, loss of some exchange rate revenues
- Vulnerabilities from cross border exposure

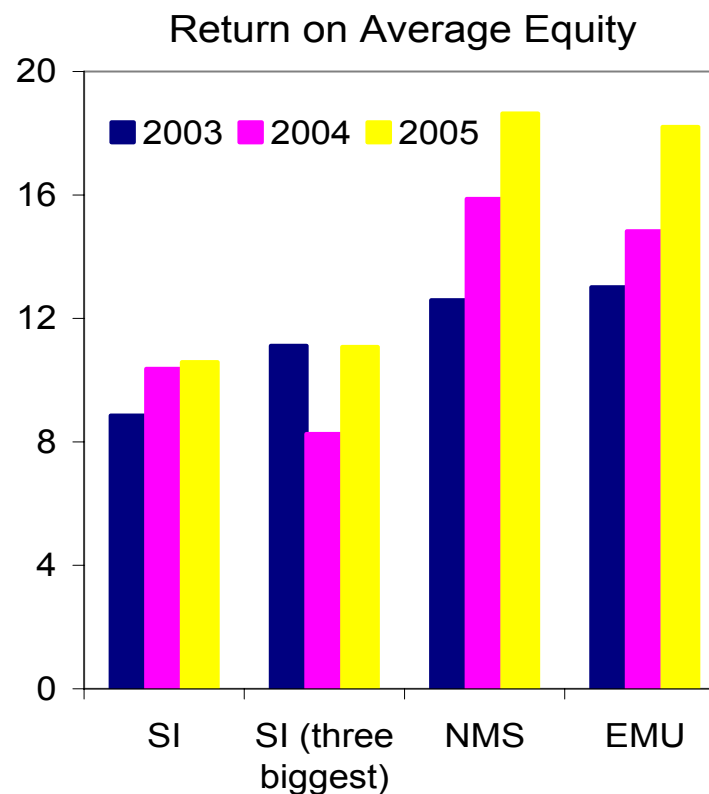
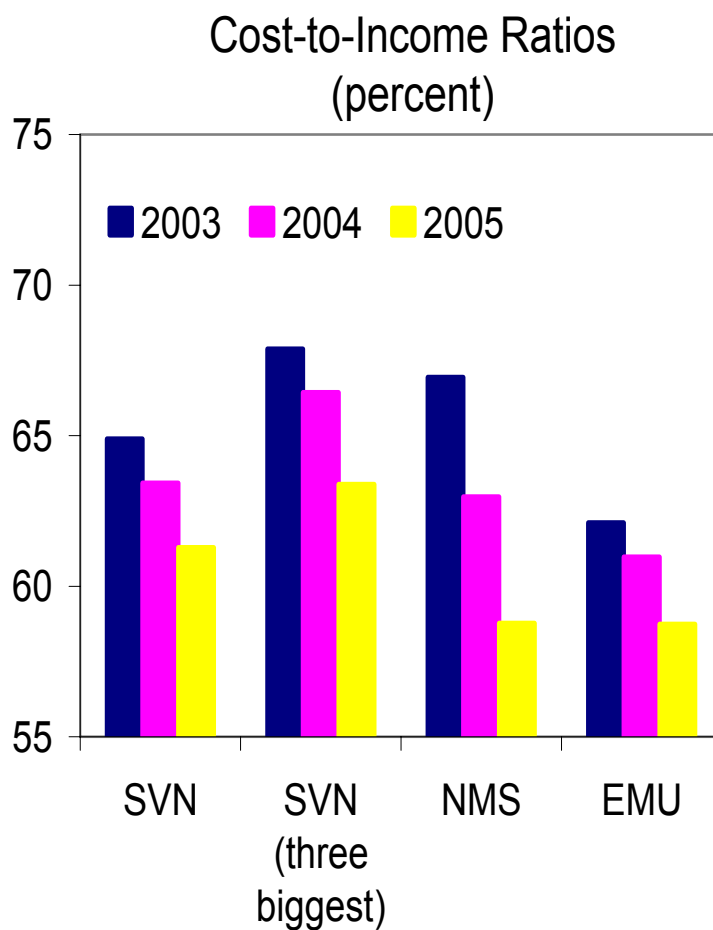


How efficient is the Slovene banking system?

- Study by IMF Article IV team, May 2007 -low efficiency and profits in the EU context
- Comparison with commercial banks in smaller EMU and NMS markets
- Based on bank-level balance sheet and income statement data from BankScope

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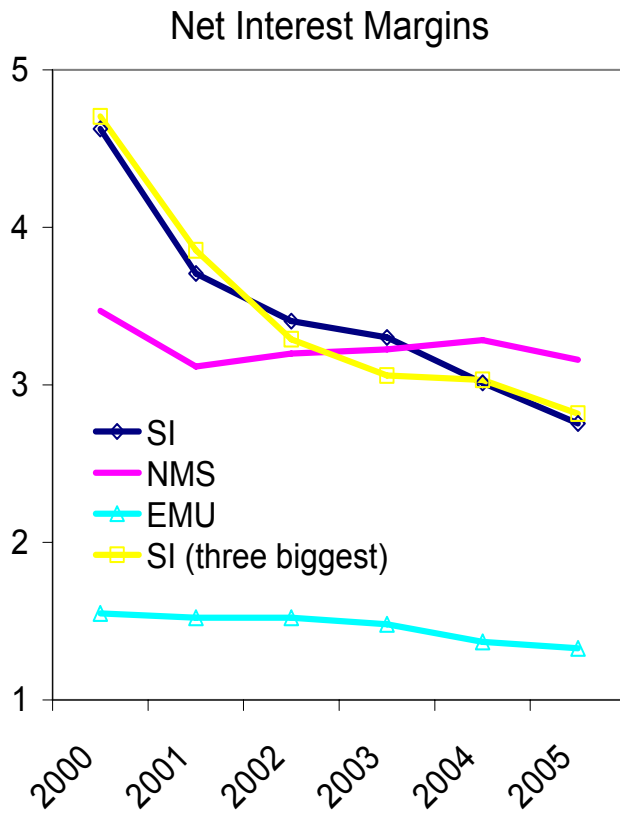
Cost and Profit Indicators



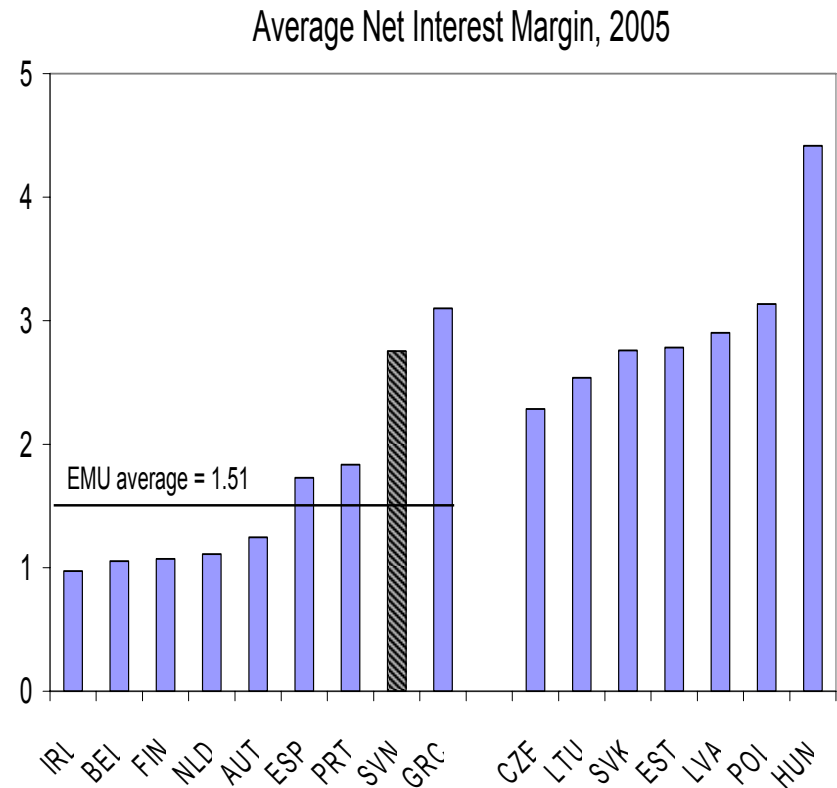
Source: Bankscope.

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Profits in Slovenia have been affected by declining net interest margin



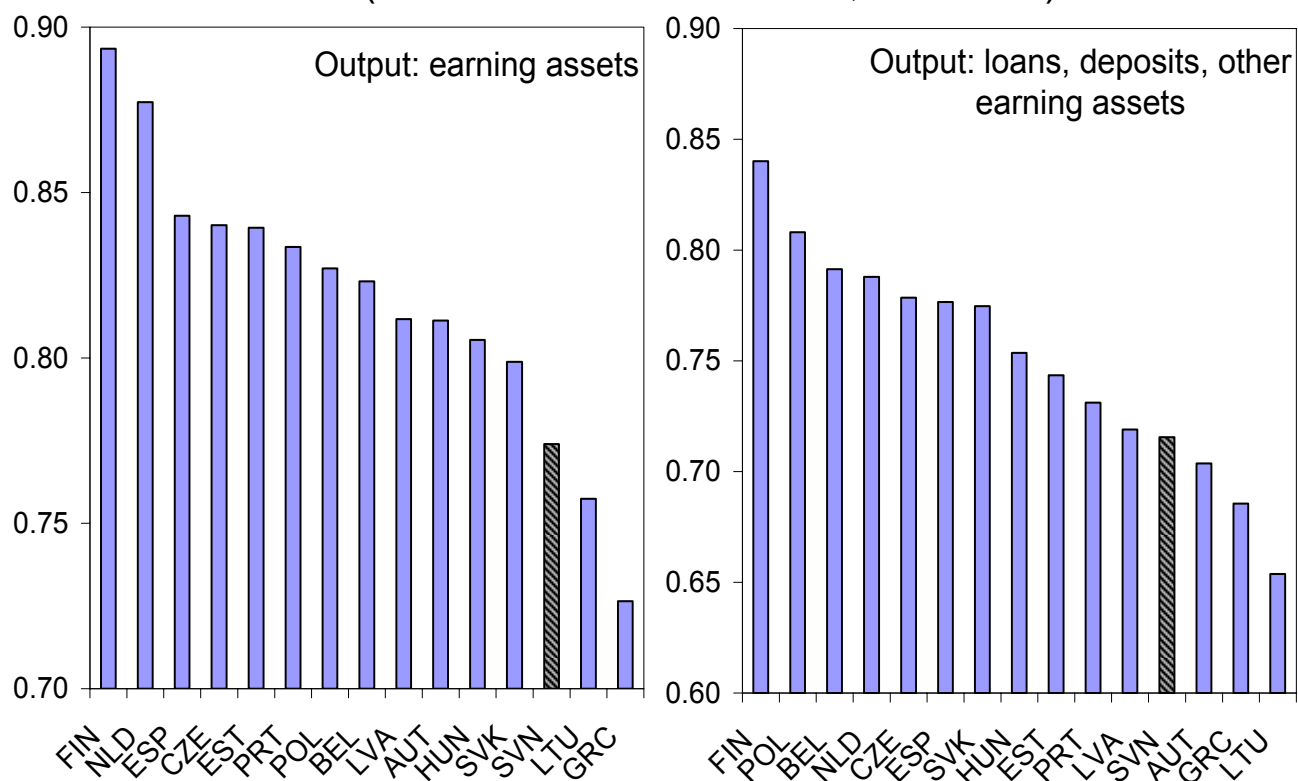
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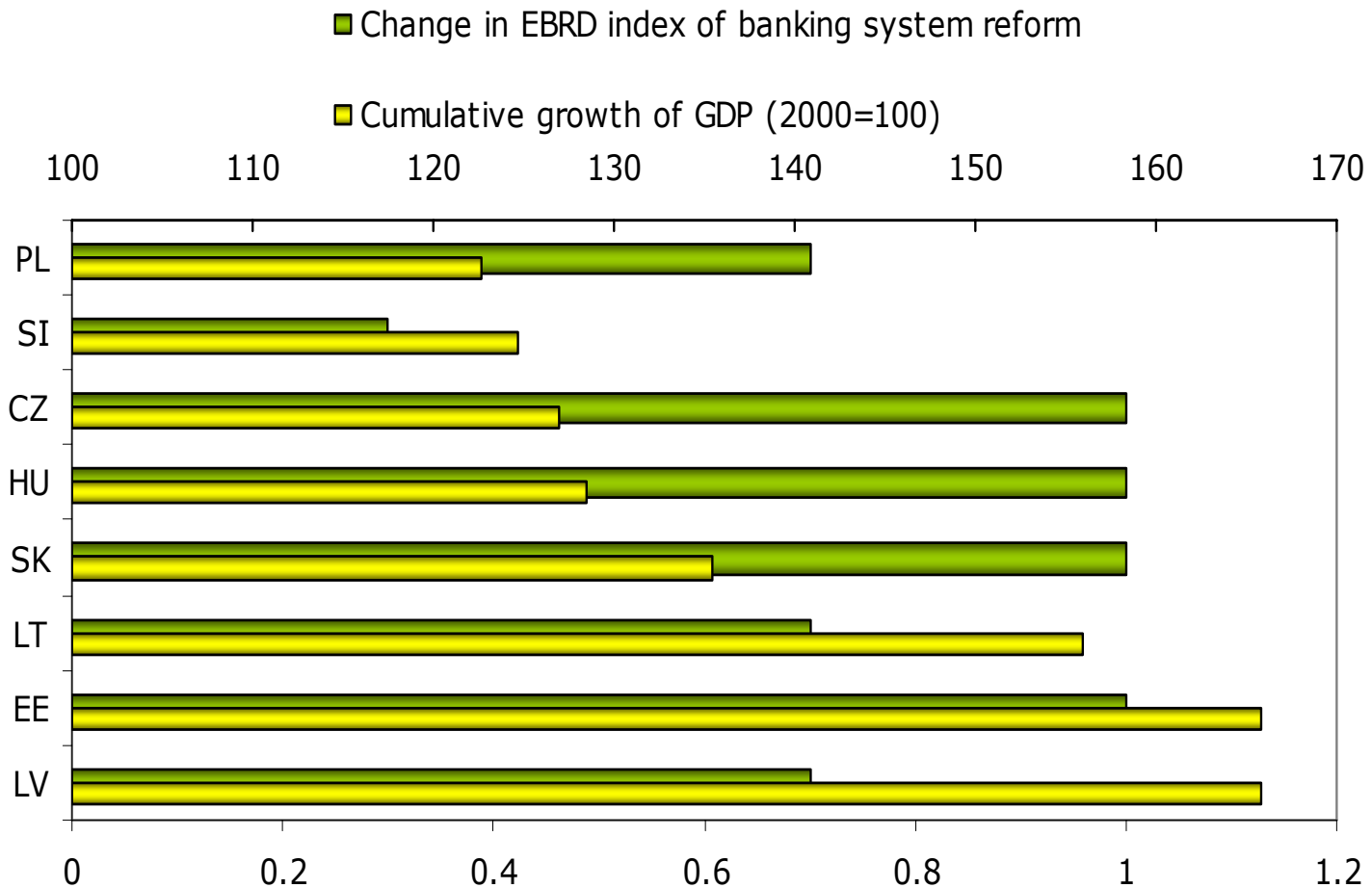
Estimates of the Distance from the Cost Efficiency Frontier

Average Bank Efficiency Scores by Country, 2005
(Distance from cost frontier, frontier=1)



Source: Staff calculations.

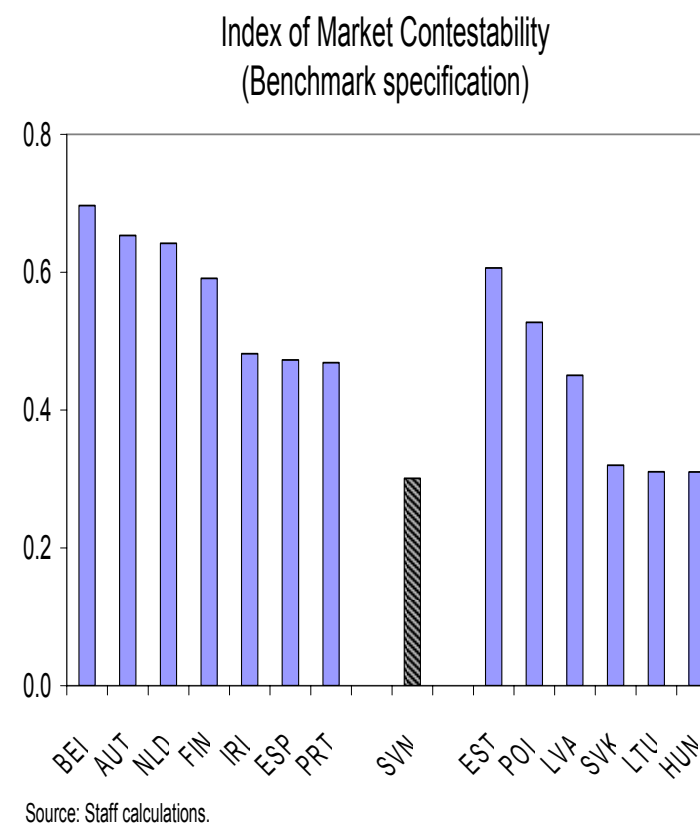
Fast-growing NMS have made efforts to make their banking systems more efficient



Market contestability – Econometric analysis

Market contestability is analyzed using an index that measures the extent of the pass-through of changes in input prices to revenues in banks (Panzar & Rose 1987)

Under perfect competition bank revenues increase by the same amount of as input prices, with output quantity staying constant and output prices increasing proportionally
(index=1)





Efficiency and contestability – Summary

- There is a correlation between contestability index and cost efficiency
- Larger cross-country studies show that concentration, state ownership, market entry and activity restrictions reduce contestability and hence efficiency
- Banking concentration and state ownership are high in Slovenia, financial sector reform has been slow
- A more efficient banking system in Slovenia would enhance growth and financial stability



Policy conclusions

- Deeper EU integration and capital markets development will add to competitive pressures and force Slovene banks to improve efficiency
- Policy support:
 - Privatization,
 - Implementation of EU integration laws
 - Listing in the stock exchange (transparency and accountability of managers)
 - Developing a long-term growth strategy for the sector
 - Strong bank supervision to monitor bank performance and risks (including due to cross-border exposures)