

# **FINANCING PROGRAM OF THE REPUBLIC OF SLOVENIA CENTRAL GOVERNMENT BUDGET FOR THE FISCAL YEAR 2007**

## **1 LEGAL BASIS, STRATEGIC AND OPERATIONAL TARGETS OF THE CENTRAL GOVERNMENT BUDGET FINANCING AT THE TIME OF ENTERING THE COMMON EMU MARKET OF GOVERNMENT SECURITIES**

### **1.1 LEGAL BASIS**

Following Article 84 of Public Finance Act /PFA/ (Official Gazette RS No. 79/99, 124/00, 79/01, 30/02), financing of the central government budget execution and debt management operations in a given fiscal year is performed based on a financing program adopted by the government.

### **1.2 STRATEGIC AND OPERATIONAL TARGETS**

According to PFA Articles 82 and 84 the Financing Program represents the basic operational document for the execution of the central government budget financing as well as for execution of debt management transactions. It is rooted in the strategic objectives of optimization of currency, maturity and interest rate structure of the central government debt as well as in the objectives of risk management of the central government debt portfolio.

Financing program for the year 2007 includes operational targets of central government budget financing and debt management for the year 2007, taking into consideration the basic strategic objectives as well as demands originating in Slovenia's entrance to the EMU and adoption of Euro with January 1, 2007 which places Slovenia and the government securities' market as part of the common European financial markets. The entrance into EMU necessitates further changes that will result in a market structure for Slovenian government securities comparable to other EMU countries aiming at securing prices and borrowing costs in line with the credit ratings of the Republic of Slovenia and at further integration of the Slovenian securities market and the entire financial system into the common, highly developed and efficient European financial markets. The above changes are necessary also in order to continue the European financial markets harmonization process this being one of the key economic policies of EU member states in the area of the European financial system development in the middle term perspective.

Within the above, the program substantiates the structure of financing instruments used, the manner of execution of borrowing, both by short- and long term instruments, and the choice of financial markets. The program also includes a proposal of the central government debt management transactions in 2007, primarily targeting the enhancement of liquidity of Slovenian government securities closer to a level comparable to government securities of other EMU members. This ought to reflect in the market prices of securities and in a long term decrease of relative costs of financing as well as in building of a yield curve of Slovenian government securities in the common European market.

The main strategic targets of this program are as follows:

1. to provide central government budget financing
2. to minimize costs of financing while maintaining a sustainable refinancing risk
3. to minimize exposure to market risk
4. to execute all the transactions in adherence to the market principles

5. to broaden the institutional and geographical investor base , within European area
6. to optimise positioning of the Republic of Slovenia in the common European market of EMU government securities
7. to ensure a permanent and steady access to the sources of financing
8. to enhance the liquidity of the central government securities and to provide for efficient and transparent formation of real market pricing of government securities.

The operational target of the Financing program, is primarily to provide the necessary 2007 central government budget financing, taking into account estimates of the budget execution flows at optimal cost in line with market conditions, and a successful entering into the common European market. Therefore it is necessary to:

1. organize both primary and secondary market of central government securities to be comparable to those of other EMU countries
2. include international financial institutions among the primary market participants and market makers
3. establish an adequate standard platform for trading of benchmark central government securities
4. provide appropriate institutional infrastructure including adequate clearing and settlement services for central government securities which, at the same time, is conditional to liquidity enhancement and establishing a transparent market price.

The execution of strategic and operational targets for 2007 is defined by:

1. the proportion of long term versus short term financing
2. the maturity structure of financing instruments , following the debt management targets and demands of Maastricht's criteria on long term rate(s) of interest
3. time schedule of short- and long term borrowing.

## 2 THE 2007 BORROWING

### 2.1 BORROWING SIZE

Following Article 81 of Public Finance Act (OG RS No. 79/99, 124/00, 79/01, 30/02, 56/02) the central government may borrow domestically and externally, in the amounts determined by law. The borrowing amount for 2007 is determined by the 1<sup>st</sup> paragraph of the Article 32 of the Republic of Slovenia Budget Execution Act for fiscal years 2007 and 2008 (OG RS No. 126/2006), in the amount of 1.261.335.947 EUR to finance:

I.	
Current Deficit of the Central Government Budget.....	322.756.910 EUR
Current Deficit of the Central Government Lending and Repayments Account .....	19.519.090 EUR
Central Government Debt Repayment .....	919.059.948 EUR
Total financing needed .....	1.261.335.948 EUR
<b>Less</b>	
II.	
TRP <sup>1</sup> loans repayments.....	-60.924.720 EUR
<b>Financing needs for the fiscal year 2007 (I.-III.).....</b>	<b>1.200.411.228EUR</b>

The 2007 Budget Execution Act permits additional borrowing in case of budget revenues shortfall up to 62.593.891 EUR. The Government is empowered to make such a decision and is obliged to report it to the Parliament. Eventual additional borrowing in 2007 is thus conditioned by the central government budget execution.. The Financing Program would be, in such a case, supplemented in line with the above decision, as regards the size and choice of instruments.

### 2.2 EXECUTION OF BORROWING

Financing needed for the budget execution will be obtained through both short- and long-term financing, in the amount of 1.200,4 million EUR .

In the beginning of the year, a portion of financing needed will be provided by issuing short term instruments, i.e. 3- and 6-month Treasury bills that will be issued every two months. Outstanding aggregate amount of the Treasury bills, issued in 2007, anytime during the year will not exceed 200 million EUR. 6 month Treasury bills will be issued in the first half of the year in order to be repaid before the year end, while 3 month Treasury bills will be issued up to September, to achieve the same result at the end of the year.

The structure and dynamics for long term instruments follows the strategic targets and principles of government debt management and the objective of issuing benchmarks in the common European market, while achieving the minimal issue amounts demanded for secondary market liquidity purposes. At the same time, the operational target to provide

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<sup>1</sup> An investment program for military equipment, specifically outlined by law (Act on Funding the execution of basic development programs of Slovenia's defence forces in the years 1994 to 2007 – OB RS No. 13/94, 97/01) whereby the repayments of the loans outstanding are accounted for in the budget as repayments of principals as well as expenditures of the Ministry of Defence (these contribute to the net budget deficit and have therefore to be deleted from the sum of Lending and Repayments account in order not to be included twice).

timely budget financing is to be respected. Therefore the structure of borrowing for 2007 will be:

- estimated short term borrowing, end 2007 ..... 0 EUR
- estimated total long term borrowing for central government budget 2007 financing, end 2007 ..... 1.200.411.228 EUR

In the case that the conditions in financial markets would deteriorate to the extent that the long term financing target could not be achieved or it would not be reasonable to execute in the total estimated amount, the Ministry of Finance will substitute eventual shortfall through borrowing from the Single Treasury Account or through bank loans or, alternately, using additional issues of 3- and 6month Treasury bills.

## **2.3 THE BORROWING INSTRUMENTS AND THE TIME SCHEDULE OF BORROWING**

The structure of instruments and borrowing dynamics are defined by the strategic targets and principles of central government debt management whereby the objectives of lowest possible cost in middle term perspective and timeliness of borrowing have to be reconciled with term structure of debt ensuring an acceptable level of refinancing risk and with currency and interest rate structure that ensures minimal exposure to market risk possible. Also, the structure of instrument takes into account the requirements of Maastricht criterion of long term interest rate and the need to provide Slovenian government paper liquidity comparable to liquidity of other EMU members' instruments. Simultaneously, the operational target of providing timely budget financing has to be pursued.

### **2.3.1 SHORT TERM SECURITIES**

In the 2007 fiscal year issues of three- and six month Treasury bills will be continued to renew the short term debt and to serve liquidity needs of the central government budget in the first half of the year. Main characteristics of the Treasury bills are as follows:

#### **1. 3-month treasury bills (TZ)**

Provisional issue size:	50 millions EUR
Type of security:	discounted security, dematerialised security in book entry form, registered on the holders' accounts, serial
Denomination:	1.000 EUR
Maturity:	according to amortization schedule
Repayment:	nominal Treasury bill value paid at maturity
Interest rate:	nominal proportional, (calculated as the difference between selling price and nominal value of the Treasury bill)
Payment of interests:	on maturity as the cashed-in difference between selling price and nominal value of the Treasury bill
Issue method:	uniform price

#### **2. 6-month treasury bills (SZ)**

Planned issue size:	50 millions EUR
Type of security:	discounted security, dematerialised security in book entry form, registered on the holders' accounts, serial
Denomination:	1.000 EUR
Maturity:	according to amortization schedule
Repayment:	nominal Treasury bill value paid at maturity
Interest rate:	nominal proportional, (calculated as the difference between selling price and nominal value of the Treasury bill)

Payment of interests: on maturity as the cashed-in difference between selling price and nominal value of the Treasury bill

Issue method: uniform price

### **The method of issuance and time schedule for short-term borrowing**

In the first half of the year, the bills will be issued through parallel auctions to be held every two months, while in the third trimester there will be two three month bill auctions. The provisional issue size is to be 50 million EUR, and is conditional on demand and market conditions. The unified price auctions will be performed using Bloomberg electronic auction system. Treasury bills will be issued into the KDD, Central Clearing and Depository Corporation Inc. Ljubljana.

**Table 1: Treasury bill auctions calendar for 2007**

<b>T-bill designation</b>	<b>Auction date</b>	<b>Settlement date</b>	<b>Maturity date</b>	<b>No. of days</b>	<b>Provisional amount (EUR mill.)</b>
TZ105	30.01.2007	01.02.2007	26.04.2007	84	50
TZ106	27.03.2007	29.03.2007	28.06.2007	91	50
TZ107	22.05.2007	24.05.2007	23.08.2007	91	50
TZ109	24.07.2007	26.07.2007	25.10.2007	91	50
TZ110	25.09.2007	27.09.2007	27.12.2007	91	50

<b>T-bill designation</b>	<b>Auction date</b>	<b>Settlement date</b>	<b>Maturity date</b>	<b>No. of days</b>	<b>Provisional amount (EUR mill.)</b>
SZ45	30.01.2007	01.02.2007	26.07.2007	175	50
SZ46	27.03.2007	29.03.2007	27.09.2007	182	50
SZ47	22.05.2007	24.05.2007	29.11.2007	189	50

In addition to the regular Treasury bill issuance, in the case of mismatches of receipts to expenditures in the central government budget, liquidity borrowing will be executed within the system of single treasury account.

### **2.3.2 LONG TERM SECURITIES**

Two new bond issues are planned for 2007, one with 11- and one with 5-year maturity, each of them planned in 1 billion EUR size, as well as a reopening of an existing bond, RS59. The reopening size depends on the outstanding amount of RS47 callable bond at the time of prepayment. The new total nominal amount of RS59 bond thus depends on the amount necessary for RS47 prepayment. These issues would provide for the condition of three benchmark bonds, each of 1 billion Euro size, being quoted on the MTS Slovenia secondary market. Proceeds of the issues will be used for central government budget financing and execution of debt management transactions, through prepayments where possible and through buybacks performed in the market. The 5-year bond will be issued in the total amount of approximately 1 billion EUR if the buybacks of existing bonds will be performed as planned. The bonds will be issued into the KDD, Central Clearing and Depository Corporation Inc. Ljubljana., or, as the case may be, into Clearstream<sup>2</sup> or Euroclear.

#### **1. Reopening of RS59, fixed rate bond, redenominated in EUR**

Maturity: 9 years

<sup>2</sup> In the case that link between KDD and Clearstream will not be operational by the time of the issue of the first of the two new bond issues (11 year bond in the amount of 1 billion EUR) the bond will have to be issued directly into either Clearstream or Euroclear in order to secure integration into the common European financial market and to achieve a broader investor base as well as to provide for trading conditions, comparable to trading of securities of other EMU member states.

Planned size of reopening:	298,9 millions EUR
Planned total nominal value of RS59 after reopening:	approximately 1 billions EUR
Type of security:	bond issued as dematerialised security in book entry form, registered on the holders accounts
Denomination:	41,73 EUR
Repayment:	bullet, February 17, 2016
Interest rate:	fixed 4 % annual
Interest payable:	annually, linear method
Prepayment:	not callable
Other rights:	no other right
Issue method:	competitive price

## 2. 11-year fixed rate, EUR denominated bond

Maturity	11 years
Planned size of issue:	1 billion EUR
Type of security:	bond issued as dematerialised security in book-entry form registered to the holders' accounts or in bearer form as global note
Denomination:	1000 EUR
Repayment:	bullet, after 11 years from issue date
Interest rate:	fixed annual
Interest payable:	annually, linear day count
Prepayment:	not callable
Other rights:	no other right
Issue method:	syndication

## 3. 5-year fixed rate, EUR denominated bond<sup>3</sup>

Maturity	5 years
Planned size of issue:	1 billion EUR
Type of security:	bond issued as dematerialised security in book-entry form registered to the holders' accounts or in bearer form as global note
Denomination:	1000 EUR
Repayment:	bullet, after 5 years from issue date
Interest rate:	fixed annual
Interest payable:	annually, linear day count
Prepayment:	not callable
Other rights:	no other right
Issue method:	syndication

### Issue method and time schedule for long term borrowing

Reopening of the RS59 will be executed by auction while the two new bonds will be syndicated. The auction will be executed on a particular date while the timing for both syndicated issues is provisional and will be determined following the market conditions (within a given timeframe the optimal market conditions will decide the timing).

**Table 2: Long-term borrowing timeframe**

Bond	Mode of issuance	Auction/sale date	Settlement date	Maturity date/year
RS59	Auction	15.02.2007	19.02.2007	17.02.2016
11 year	Syndicated	March 2007	Determined at issue	2018
5 year	Syndicated	June 2007	Determined at issue	2012

<sup>3</sup> The issue of the bond in the size of 1 billion EUR is conditional upon success rate of buy-back operations.

### 3 MANAGING CENTRAL GOVERNMENT DEBT

Legal preconditions for execution of central government debt management transactions are set by the Article 82 of the Public Finance Act. The government may use proceeds from loans and from issue of securities for prepayment of existing central government debt instruments and/or for purchases of own securities, when this results in:

1. support to measures aimed at achieving economic equilibrium
2. decrease of costs of government debt or
3. improvement of quality of debt portfolio without increasing the outstanding central government debt amount

Article 84, Paragraph 1 empowers the Minister of Finance to make decisions on concluding of deals necessary for managing the government debt in line with annual Financing program, adopted by the Government.

On deciding upon a debt management transaction, effects on cost of debt are measured on the basis of the present value of the cash flows and in terms of budgetary effects on cost of debt servicing. At the same time, effects on central government debt structure, exposure to macroeconomic and market risks and on liquidity are taken into account. Additionally, in 2007 the target of gradual building of the yield curve of Slovenian government bonds in the common European market, after EMU entrance, is going to be pursued.

Prepayments may be executed either as prepayment of principal before maturity, together with payment of accrued interest, or as repurchases of own securities. The choice of method as well as actual execution depends on availability of new borrowing to cover the prepayment and compliance with at least one of the above prepayment conditions. Within the total central government debt portfolio, repayment of the debt with a call option at par value generally is a priority as it is being prepaid regardless of the market conditions, in nominal value, following conditions and procedures known in advance.

Within the callable part of the central government securities RS 47 is scheduled for execution of prepayment in 2007<sup>4</sup>

**Table 3: RS bonds earmarked for prepayment**

Security	Amount of issue (000 SIT)	Currency	Amount outstanding 31.12.06 in EUR	Issue date	Maturity	Repayment	Interest rate%	Planned date of prepayment
RS47	60.524.470	SIT	296.448.854,06	8.11.2002	8.11.2012	At maturity	3,25%	19.3.2007

RS47 bond is indexed to TOM rate with 3,25% fixed interest rate, an annual payment of interests. Total nominal value outstanding on 31.12.2006 is 296,5 million EUR<sup>5</sup>. Proceeds of reopening of the RS59 will be used for the prepayment (see "Issue method and timeframe for long term borrowing"). Based on estimates of borrowing costs in 2007 and preliminary calculations of present value of cash flows, it is our assessment that the conditions of Article 82 of Public Finance Act would be met and that this will make the Minister of Finance decision on borrowing for prepayment possible.

As stated in RS47 terms and conditions, the prepayment must be announced at least 30 days in advance, by publishing an announcement in daily press. The notes can be prepaid partly or in total. The Republic of Slovenia intends to execute prepayment in total amount. The announcement of prepayment is irrevocable and can therefore be made only after the offers are received in the auction of RS59 reopening. The announcement on prepayment will contain the size of prepayment and prepayment date.

<sup>4</sup> After the execution of prepayment of RS47, the portion of callable central government securities will be reduced to 0% by the end of 2007.

<sup>5</sup> Because on indexation, precise total value of prepayment on the date planned will be known by February 28, 2007.

The transaction is intended not only to decrease the government debt and budgetary costs but also to improve the government debt structure. The effects are foreseen as bringing approximately 5.8 million EUR of budget savings in 2007 or 38,8 million EUR in present value, calculated on present market conditions. Share of fixed rate instruments in debt portfolio will increase while the share of inflation linked instruments will decrease which is beneficiary for predictability of budgetary cash flows in future years.

As a result of this reopening, the size of RS59 will reach at least 1 billion EUR which is the minimum size for a benchmark government bond issue in the common European financial market necessary to ensure adequate liquidity level to investors and at the same time the minimum size for listing of the bond in MTS trading system.

Prepayment of debt can also be realised through market purchases of own securities. RS47 is the last item of government debt portfolio containing call option at par value, therefore further prepayment activities will have to be executed mainly through purchases. The purchases are market transactions, executed within conditions existing in the market at a given time and dependent on reactions of market participants to price offered. Therefore, the effects of such actions can not be predicted to a great degree of certainty as they depend on market conditions at the moment of execution of transaction.

In the years 2001 to 2006, the government strategy was to gradually increase the size of bond issues in domestic market to levels comparable to the benchmark issues of EMU members. Nevertheless, the government debt portfolio is still relatively fragmented when observed against conditions of operation in the common European market. On entering this market, it will be necessary to perform repurchases of outstanding debt instruments in order to:

1. consolidate the government debt portfolio
2. form a smaller number of benchmark issues of government securities, each one at least of 1 billion EUR
3. build a yield curve for Slovenian government securities in the common European market to be comparable with other EMU countries
4. to achieve effective positioning of central government debt in the common European market
5. integrate the domestic financial market into the common European markets as fast as possible
6. provide for active government debt management.

On execution of transactions, the effects on state budget costs of debt servicing will be evaluated as well as the impact on debt portfolio structure determining the long term exposure to market and macroeconomic risks. Also, providing enhanced liquidity in the secondary market of government securities and geographic and institutional dispersion of investors to lower the exposure to refinancing risk is one of important elements of proposed transactions.

It is only possible to execute the issues as envisaged, issuing both new bonds in size of 1 billion Euros each, with parallel execution of purchases of the bonds now outstanding. At the time of each of the new issues, market purchases of outstanding bond with maturities closer to the new issues will take place. Terms and conditions of the bonds to be purchased are given in the tables below. The issue of new bonds and the purchase transactions will be separated but simultaneous. The issue size of 5 year bond will depend on the success of purchases against the new 11 year bond issue.

**Table 4: RS bonds earmarked for market purchases financed with proceeds of 11 year bond**

Bond	Amount of issue	Currency	Outstanding amount 31.12.06 in EUR	Issue date	Maturity date	Repayment	Interest rate in %	Repurchase date(s)
RS57	90.000.000.000	SIT	375.570.000,00	14.03.04	15.10.14	at maturity	4,875	Gradual from the issue of 11 year bond
RS62	118.000.000.000	SIT	492.414.000,00	23.01.06	23.03.17	at maturity	3,500	
RS38	100.000.000	EUR	100.000.000,00	19.04.02	19.03.17	at maturity	5,625	
RS53	100.000.000	EUR	100.000.000,00	08.04.03	08.04.18	at maturity	4,875	
RS49	29.789.960	EUR	29.788.960,00	10.01.03	10.01.22	at maturity	4,750	

**Table 5: RS bonds earmarked for repurchases financed with proceeds of 5 year bond**

Bond	Amount of issue	Currency	Outstanding amount 31.12.06 in EUR	Issue date	Maturity date	Repayment	Interest rate in %	Repurchase date(s)
RS52	40.000.000.000	SIT	166.920.000,00	08.04.03	08.04.08	at maturity	6,250	Gradual from the issue of 5 year bond
RS58	99.330.000.000	SIT	414.504.090,00	17.01.05	17.04.08	at maturity	3,250	
RS56	50.000.000.000	SIT	208.650.000,00	11.02.04	11.02.09	at maturity	4,875	
EUR09	400.000.000	EUR	400.000.000,00	18.03.99	18.03.09	at maturity	4,875	
EUR10	500.000.000	EUR	500.000.000,00	24.03.00	24.03.10	at maturity	6,000	
RS60	129.999.990.000	SIT	542.490.000,00	31.03.05	31.03.10	at maturity	3,500	
RS18	50.000.000	EUR	50.000.000,00	26.04.00	26.04.10	at maturity	6,000	
RS61	118.000.000.000	SIT	542.489.958,27	23.01.06	23.01.11	at maturity	3,250	
RS23	40.000.000	EUR	40.000.000,00	13.02.01	13.02.11	at maturity	6,000	
EUR11	450.000.000	EUR	450.000.000,00	11.04.01	11.04.11	at maturity	5,375	
RS26	50.000.000	EUR	50.000.000,00	01.06.01	01.06.11	at maturity	5,375	
RS32	23.865.500	EUR	23.865.500,00	15.01.02	15.01.12	at maturity	5,375	
RS29	55.000.000	EUR	55.000.000,00	15.01.02	15.01.12	at maturity	5,375	
RS44	2.964.930.000	SIT	12.372.652,89	8.11.02	8.11.12	at maturity	6,650	
RS48	60.000.000	EUR	60.000.000,00	2.12.02	2.12.12	at maturity	4,750	
RS50	61.281.800	EUR	61.281.800,00	24.2.03	24.2.13	at maturity	4,500	
RS54	30.000.000.000	SIT	125.190.000,00	15.10.03	15.10.13	at maturity	5,750	

Tentatively, the purchases will be performed through public tender, aiming at successfully buying back the total outstanding bonds listed above, but will provide for partial purchase, depending on reactions of holders. As this will be a market transaction, where the financing of the purchases will be obtained from issue of new bonds, the price offered will be determined as spread tender to benchmark price at the time of preparations of the new issues, in line with setting of the spread of the new issues.

The use of the method envisaged above has the following advantages to other repurchase methods:

- maximum visibility and transparency in the markets
- price determined as spread over benchmark price decreases the risk of changes of yield at execution and facilitates estimates of transactions' effects,
- it provides for comparison with other issuers' transactions
- it provides for equal treatment of all bondholders
- it supports the liquidity of the new bond issue.

The weak points of the above methods are:

- impossibility of explicit investor targeting,
- as a rule, the buyback premium is a little higher than through use of open market repurchase.

A precise proposal of repurchase conditions can only be made in the course of preparations of the transactions and will be submitted to the government for confirmation as a supplement to the Financing program for 2007.

## 4 ESTIMATED SIZE AND STRUCTURE OF DEBT AFTER EXECUTION OF THE 2007 FINANCING PROGRAM

Assuming the execution of this entire Program (not including the debt management transactions), the debt of the Republic of Slovenia forecast at end 2007, will be 7,759 million EUR (Table 6). In US dollars, the size of estimated debt is 9,815 millions USD (Table 7).

**Table 6: Estimate of Republic of Slovenia debt by years, in EUR**

	<i>millions EUR</i>	
	31.12.2006	31.12.2007
Total RS debt	7.350	7.759
I. Domestic debt	5.796	6.223
II. External debt	1.554	1.536
GDP*	29.441	31.657
Debt / GDP (%)	25,0%	24,5%

\* GDP forecast, Stability Program December 2006, recalculated to Euro at conversion rate

**Table 7: Estimate of Republic of Slovenia debt by years, in USD**

	<i>millions USD</i>	
	31.12.2006	31.12.2007
Total RS debt	9.681	9.815
I. Domestic debt	7.634	7.872
II. External debt	2.047	1.944

The domestic debt forecast at the end of 2007 is 80,2% of total debt and external debt 19,8% whole debt portfolio (Table 8).

**Table 8: Estimated debt structure of total Republic of Slovenia debt**

	31.12.2006	31.12.2007
TOTAL R. OF SLOVENIA DEBT	100,0%	100,0%
I. DOMESTIC DEBT	78,9%	80,2%
II. EXTERNAL DEBT	21,1%	19,8%

**Table 9: Estimated currency composition of total Republic of Slovenia debt**

	31.12.2006	31.12.2007
SIT	68,9%	-
USD	0,6%	0,4%
EUR	29,9%	99,1%
OTHER	0,6%	0,5%
TOTAL	100,0%	100,0%

Estimated currency composition of total debt at the end of 2007 shows a concentration of debt exclusively in domestic currency (EUR). There are no major changes in comparison previous years, and the exposure to currency risk is still minor.

**Table 10: Structure of Republic of Slovenia debt by type of interest rate**

	31.12.2006	31.12.2007
INDEXED	16,6%	0,1%
- Inflation (TOM)	7,3%	0,1%
- Foreign Exchange	9,3%	-
FIXED*	81,4%	98,7%
VARIABLE	2,0%	1,2%
TOTAL	100,0%	100,0%

Note:

\* For 2006, Euro denominated fixed rate instruments are included as Fixed.

The estimated structure of debt by interest rate shows a continuing increase of share of fixed rate instruments, as an outcome of the policy shift towards issuing long term fixed rate instruments. From the financing costs' perspective, a larger predictability and smaller servicing costs are thus achieved.

The above estimates of size and structure do not include the planned debt management transactions as the predictability of their outcomes is low.

Exchange rates applied:

- USD / SIT end 2006	181,9314
- EUR / SIT end 2006	239,6400
- USD / EUR end 2006	1,2650