Money supply aggregates, exchange rates, the Bank of Slovenia's interest rates

Money aggregates, % growth	2002		2003		
	Dec 2002/ Dec 2001	Φ Oct 02-Dec 02/ Φ Oct 01-Dec 01	May 2003/ April 2003	May 2003/ May 2002	Φ Mar 03-May 03/ Φ Mar 02-May 02
Base money	7.4	10.9	-0.2	5.8	6.4
M1	13.8	14.8	1.2	10.7	11.1
M2	26.4	24.3	1.3	21.3	21.4
M3	22.8	22.7	0.8	16.4	16.6
End-of-month exchange rate, % rise	**Dec 2002/ Dec 2001**	**Φ Jan 02-Dec 02/ Φ Jan 01-Dec 01**	**May 2003/ April 2002**	**May 2003/ May 2002**	**Φ June 02-May 03/ Φ June 01-May 02**
EUR	4.0	4.1	0.2	3.4	3.9
USD	-11.9	-2.0	-5.1	-17.6	-10.9
Nominal interest rates, %	**Dec 02**	**Jan-Dec 02**	**Oct-Dec 02**	**Jan-March 03**	**May 2003**
Overnight deposit	4.0	4.0	4.0	4.0	4.0
Repo DBZ[1] 7-d	9.3	10.1	9.7	9.5	8.1
Repo DBZ[1] 60-d	10.7	10.7	10.7	-	-
TBZ[2] 60-d	8.4	8.4	8.6	8.1	7.4
TBZ[2] 270-d	9.7	9.7	9.9	9.1	7.9

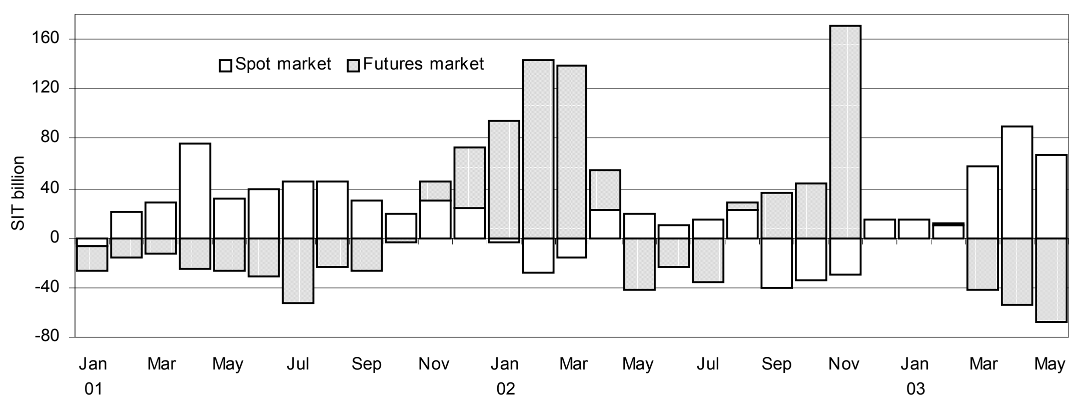
Source of data: the BS. *Notes*: [1] foreign currency bills (7- and 60-days), [2] tolar bills (60- and 270-days).

At its June session, the Board of Governors of the Bank of Slovenia decided to **cut interest rates further**. The reasons given by the BS were the European Central Bank's lowering of its interest rates on one hand and the need to keep domestic real interest rates at appropriate levels on the other. The Lombard rate was cut for the third time this year, by 0.75 of a percentage point to 9.0%, interest rates on repurchase agreements in foreign currency bills were cut by the same amount to 7.25%, while interest rates on 60-day tolar bills were lowered to 6.5% and those on 270-day tolar bills to 7.5%. After the interest rate on foreign currency swaps had remained unchanged at 4.5% since October 2001, the BS cut this rate to 4.0% in March this year and by a further 0.5 of a percentage point in June. The interest rate on foreign currency swaps, which the BS is using as one of the instruments to manage the exchange rate, now stands at 5.5%. This combination of interest rates keeps the simultaneous use of currency swaps and tolar bills attractive for banks, which was evident in the foreign exchange market in the last three months.

Conditions in the foreign exchange market changed little compared to the previous months of this year. **Net supply of foreign exchange** in the spot market totalled SIT 66.4 billion in May (SIT 90.0 billion in April). Most supply was generated by non-residents, offering a net amount of SIT 58.3 billion in May and SIT 207.3 billion in the first five months (they generated demand totalling SIT 37.4 billion in the same period last year), while enterprises offered a net amount of SIT 5.1 billion in foreign exchange. The futures market saw no marked changes either; non-residents created a net demand of SIT 67.1 billion (SIT 53.2 billion in April), while the net demand of other players amounted to SIT 2.0 billion.

From the point of view of keeping the gap between domestic and foreign interest rates the same, the cuts in the above interest rates also helped slow down the **tolar's depreciation**. After maintaining the monthly rise in the exchange rate at 0.3% in 2002, the BS slowed down this rise slightly in the last two months. The BS' exchange rate of the euro rose by 0.5% since April, which led to a 0.1 of a percentage point deceleration in the year-on-year rise in the exchange rate to 3.4%. With the US dollar appreciating in nominal terms, the tolar's real effective exchange rate climbed by 1.4%, while the tolar's annual appreciation was 4.8%.

Graph: **Net supply of foreign exchange and foreign cash**



Source of data: BS.