# Monetary Policy

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

| Monetary aggregates, end-of-month stock*, % growth | 2002 | | 2003 | | |
|---|---|---|---|---|---|
| | **Dec 2002/ Dec 2001** | **Φ Oct 02-Dec 02/ Φ Oct 01-Dec 01** | **Sept 2003/ Aug 2003** | **Sept 2003/ Sept 2002** | **Φ July 03-Sept 03/ Φ July 02-Sept 02** |
| M1 | 11.1 | 15.4 | 1.3 | 11.5 | 12.3 |
| M2 | 25.1 | 26.1 | 0.0 | 17.2 | 18.6 |
| M3 | 18.4 | 21.4 | 0.1 | 9.8 | 13.0 |
| **End-of-month exchange rate, % rise** | **Dec 2002/ Dec 2001** | **Φ Jan 02-Dec 02/ Φ Jan 01-Dec 01** | **Sept 2003/ Aug 2003** | **Sept 2003/ Sept 2002** | **Φ Oct 02-Sept 03/ Φ Oct 01-Sept 02** |
| EUR | 4.0 | 4.1 | 0.1 | 3.0 | 3.6 |
| USD | -11.9 | -2.0 | -4.3 | -11.7 | -12.4 |
| **Nominal interest rates, %** | **Dec 02** | **Jan-Dec 02** | **Jan-Mar 03** | **Apr-June 03** | **Aug 2003** |
| Overnight deposit | 4.0 | 4.0 | 4.0 | 4.0 | 3.5 |
| Repo DBZ[1] 7-d | 9.3 | 10.1 | 9.5 | 7.9 | 7.4 |
| Repo DBZ[1] 60-d | 10.7 | 10.7 | - | - | - |
| TBZ[2] 60-d | 8.4 | 8.4 | 8.1 | 7.2 | 6.5 |
| TBZ[2] 270-d | 9.7 | 9.7 | 9.1 | 7.7 | 6.6 |

*Source of data:* the BS. *Notes*: * end-of-month stock (the average of daily stock levels published earlier), revised BS' data from October 2003; [1] foreign currency bills (7- and 60-days), [2] tolar bills (60- and 270-days). N/A – not available; figures have not yet been issued.

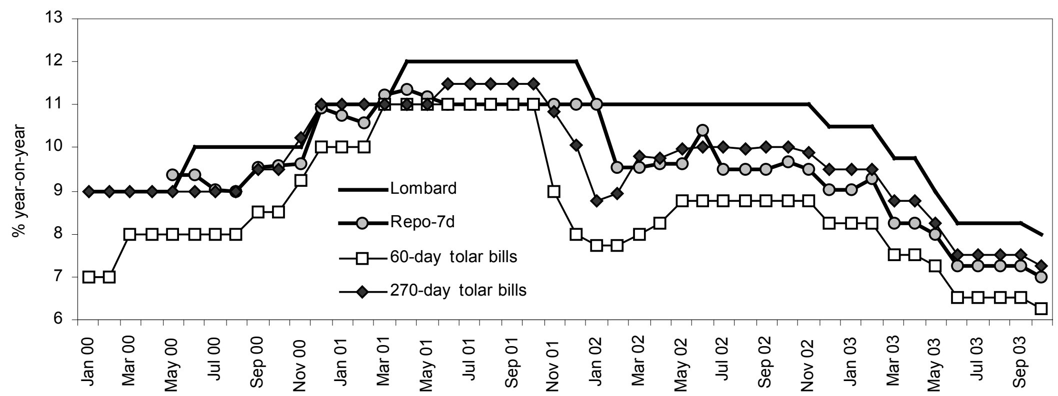
The Bank of Slovenia **further cut some of its key interest rates** in early October (by 0.25 of a percentage point) after having lowered them in March, May and June. The interest rate on Lombard loans now stands at 8.0%, 2.5 percentage points lower than at the beginning of the year, the interest rate on the repurchase facility for bills denominated in foreign currency is 7.0%, 2.0 percentage points lower, and the interest rates on 60- and 90-day tolar bills are 6.25% and 7.25%, respectively, 2.0 and 2.25 percentage points lower than at the beginning of the year. Unlike in March and June, the BS did not cut the price for foreign exchange swaps, which also left the refinancing rate unchanged. Subsequently, these two rates were cut by 0.25 of a percentage point in the second half of October and now stand at 3.25% and 5.25%, respectively. Assuming that the BS will keep the level of interest rate parities unchanged, this measure will allow the tolar's depreciation to slow down faster which, taking into account the high pass-through effect of the exchange rate rise on price growth, could also bring inflation down.

A net supply of foreign exchange has been recorded in the spot **foreign exchange market** since the beginning of the year and totalled SIT 110.7 billion in August alone. With the exception of the first two months, the biggest surplus was generated by non-residents, which created 88% of the total net foreign exchange supply on average, or SIT 101.5 billion in August alone. At the same time, the futures market recorded excess demand, amounting to SIT 80.9 billion in August. Non-residents also dominated this market, with their net demand totalling SIT 80.5 billion. The net supply in both markets combined was over 40% lower than in the same period last year as a result of reduced financial inflows from abroad. Namely, there were no major financial inflows, except the stronger borrowing of banks in June and July.

Against the background of these developments and the BS' continuing intervention, the tolar's monthly depreciation ranged between 0.2% and 0.3% up until August and slowed down to 0.1% in September. The euro's annual appreciation slowed down from 3.8% in January to 3.0% in September. Consequently, changes in the tolar's real effective exchange rate were primarily due to changes in the US dollar. The tolar appreciated by 0.2% in September and by 2.6% in the last twelve months, 0.5 of a percentage point less than in the same period last year.

Growth in broad **monetary aggregates** continued to ease in the summer months. The average rise in the monetary aggregate M1 (see table) was 7.8 percentage points lower than a year ago, growth in M2 was 4.3 percentage points lower and growth in M3, totalling 13%, was 8.8 percentage points lower than last year.

Graph: **The Bank of Slovenia's interest rates**




Source of data: BS.