# Monetary Developments

**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** | **Oct 2003/ Sept 2003** | **Oct 2003/ Oct 2002** | **Φ Nov 02-Oct 03/ Φ Nov 01-Oct 02** |
| EUR | 4.0 | 4.1 | 0.2 | 2.9 | 3.5 |
| USD | -11.9 | -2.0 | -2.3 | -13.4 | -13.1 |
| **Nominal interest rates, %** | **Dec 02** | **Jan-Dec 02** | **Apr-June 03** | **July-Sept 03** | **September 2003** |
| Overnight deposit | 4.0 | 4.0 | 4.0 | 3.8 | 3.5 |
| Repo DBZ[1] 7-d | 9.3 | 10.1 | 7.9 | 7.1 | 7.1 |
| Repo DBZ[1] 60-d | 10.7 | 10.7 | - | - | - |
| TBZ[2] 60-d | 8.4 | 8.4 | 7.2 | 6.5 | 6.5 |
| TBZ[2] 270-d | 9.7 | 9.7 | 7.7 | 6.6 | 6.7 |

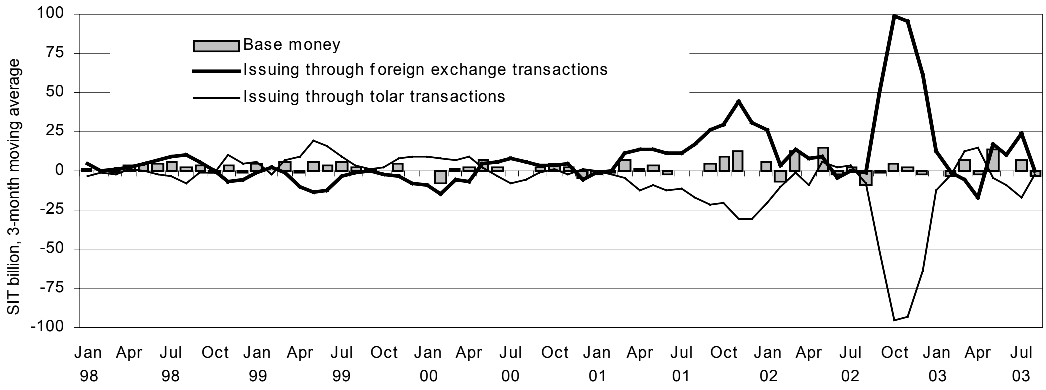
*Source of data:* the BS. *Notes*: * end-of-month stock (the average of daily stock levels published earlier), revised BS' data from October 2003; [1] foreign currency bills (7- and 60-days), [2] tolar bills (60- and 270-days). N/A – not available; figures have not yet been issued.

At its first November meeting the Governing Board of the Bank of Slovenia decided to **cut some of the BS' key interest rates** by 0.25 of a percentage point after having lowered them by the same rate in the second half of October. The Bank of Slovenia's interest rates are now 2.25 to 2.75 percentage points lower than at the beginning of the year. The interest rate on Lombard loans stands at 7.75%, the interest rate on the repurchase facility for bills denominated in a foreign currency is 6.75%, while interest rates on 60- and 90-day tolar bills are 6.0% and 7.0%, respectively. The interest rate on foreign exchange swaps is 3.0% after its last cut, while the refinancing rate is 5.0%. The lowering of interest rates seen in the last few months is proportional with falls in inflation, which declined by 2.4 percentage points in the first ten months of this year. As the Bank of Slovenia further cut the interest rate on foreign exchange swaps, thus enabling a slower rise in the euro's exchange rate, the lower contribution of the euro's exchange rate rise to inflation could also help bring inflation down further. Both cuts in nominal interest rates and a fall in inflation are necessary to ensure a smooth entry into the exchange rate mechanism ERM2 and help other convergence criteria to be met.

An oversupply of foreign exchange has been recorded in the spot **foreign exchange market** since the beginning of the year and totalled SIT 85.5 billion in September alone. As in the preceding months, the main part of this oversupply came from non-residents (SIT 110.7 billion), while the rest (SIT 2.4 billion) came from individuals. Unlike in previous months, enterprises purchased foreign exchange in a total net amount of SIT 23.5 billion. As far as the futures market is concerned, September again saw excess demand, totalling SIT 80.9 billion, and this market was also dominated by non-residents. The difference between net supply of foreign exchange in the spot market and net demand in the futures market amounted to SIT 130.5 billion in the first nine months.

After slowing down to 0.1% in September, the **tolar's monthly nominal depreciation** against the euro climbed to 0.2% in October, while the tolar's annual depreciation continued to slow down. Since inflation dropped and the tolar's nominal depreciation against the euro eased off compared to the same period last year, movements in the tolar's real effective exchange rate were mainly influenced by the US dollar's faster depreciation. While the tolar appreciated by 3.5% in real terms in the first ten months of 2002, its appreciation came in at 3.0% in the same period this year, or 0.7% in October alone.

Graph: **Issuing of base money**




Source of data: BS.