

Monetary aggregates, exchange rates, the Bank of Slovenia's interest rates					
Monetary aggregates ¹ , end-of-month stock*, % growth	2003		2004		
	Dec 2003/ Dec 2002	Φ Oct-Dec 03/ Φ Oct-Dec 02	Jan 2004/ Dec 2003	Jan 2004/ Jan 2003	Φ Nov 03-Jan 04/ Φ Nov 02-Jan 03
M1	10.6	10.8	-1.8	14.9	11.0
M2	5.2	8.5	-0.4	6.0	6.2
M3	4.9	7.2	0.2	6.2	5.7
End-of-month exchange rate, % rise	Dec 2003/ Dec 2002	Φ Jan-Dec 03/ Φ Jan-Dec 02	Jan 2004/ Dec 2003	Jan 2004/ Jan 2003	Φ Feb 03-Jan 04/ Φ Feb 02-Jan 03
EUR	2.8	3.3	0.2	2.7	3.2
USD	-15.0	-14.0	2.0	-10.8	-13.6
Nominal interest rates, %	Dec 03	Jan-Dec 03	Sept 03	Dec 03	January 2004
Overnight deposit	3.00	3.6	3.30	3.00	2.75
TBZ ² 60-d	6.00	6.9	6.50	6.00	5.75
TBZ ² 270-d	6.75	8.0	7.50	6.75	6.50
Temp. purchase of FX	3.00	3.7	3.50	3.00	2.75
BS' refinancing rate	5.00	5.9	5.50	5.00	4.75

Source of data: the BS. Notes: *end-of-month stock (the average of daily stock levels published earlier), revised BS' data from October 2003; ¹national definition, ²tolar bills (60- and 270-days).

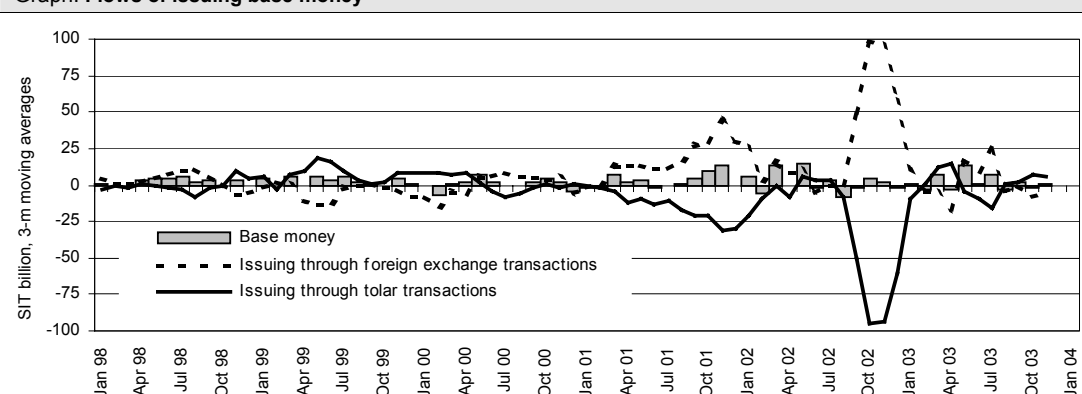
The **Bank of Slovenia cut its key interest rates** by 0.25 of a percentage point in **early January** after lowering them by 1.0 to 3.25 percentage points in 2003. Hence, it adjusted the level of interest rates to the rise in consumer prices, which declined to 4.6% in December (see p. 7). In order to introduce the euro as soon as possible, it is necessary to cut interest rates and meet the Maastricht criteria concerning the level of interest rates as early as in the process of entering the ERM2.

The fall in the interest rate on temporary foreign exchange purchases should allow the **tolar's nominal depreciation to decelerate further** even though January's depreciation stayed unchanged at 0.2% compared to the last three months of 2003. In line with the adopted programme of entering the ERM2 and the relating need to bring inflation down further, we expect the tolar's depreciation to slow down further in the upcoming months and come to an end towards the end of the year. Developments where both inflation and the tolar's nominal depreciation are on a downward trend do not cause any volatility in the **real effective exchange rate**. Hence, appreciation of the tolar's real effective exchange rate climbed from 0.2% in December to 0.4% in January mainly due to the US dollar's movements.

In late 2003, the spot foreign exchange market was characterised by a relatively low oversupply of foreign exchange, totalling SIT 22.5 billion in December, which was generated by the oversupply of non-residents. In the futures market, excess supply dropped to SIT 8.1 billion in December. December's **total oversupply** (SIT 14.4 billion) represented one-tenth of the annual oversupply in 2003, while the oversupply seen in 2002 totalled as much as SIT 518 billion. Last year's relatively low net supply of foreign exchange was chiefly due to reduced foreign direct investment inflows, while most of the remaining inflows took place in the form of foreign loans (see pp. 5 and 10).

The changed conditions in the foreign exchange market allowed the Bank of Slovenia to further **cut the volume of swaps**. The stock of swaps began to fall in August, when it totalled SIT 667.1 billion (SIT 4.7 billion in August 2000), and reached a volume of SIT 508.1 billion at the end of December. As a result, the structure of issuing base money changed in the last few months of 2003 (see graph).

Graph: **Flows of issuing base money**



Source of data: BS.