

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 03-Dec 03/ Φ Oct 02-Dec 02	Feb 2004/ Jan 2004	Feb 2004/ Feb 2003	Φ Dec 03-Feb 04/ Φ Dec 02-Feb 03
M1	10.6	10.8	0.7	13.4	12.9
M2	5.2	8.5	0.3	5.8	5.7
M3	4.9	7.2	0.2	5.9	5.7
End-of-month exchange rate, % rise	Dec 2003/ Dec 2002	Φ Jan 03-Dec 03/ Φ Jan 02-Dec 02	Feb 2004/ Jan 2004	Feb 2004/ Feb 2003	Φ Mar 03-Feb 04/ Φ Mar 02-Feb 03
EUR	2.8	3.3	0.2	2.6	3.1
USD	-15.0	-14.0	0.0	-10.5	-13.0
Nominal interest rates, %	Dec 03	Jan-Dec 03	Sept 03	Dec 03	February 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	5.50
TBZ ² 270-d	6.75	8.0	7.50	6.75	6.25
Temp. purchase of FX	3.00	3.7	3.50	3.00	2.50
BS' refinancing rate	5.00	5.9	5.50	5.00	4.50

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 **continued to adjust its interest rates** in the early months of this year. After interest rates fell rapidly at the end of the first and in the second quarter of 2003, when certain cuts were up to 1.0 percentage point, each cut totalled 0.25 of a percentage point in the last four months. Following January and February's lowering, the Bank of Slovenia's key interest rates were 0.5 of a percentage point lower than in December while, at the same time, the European Central Bank's interest rates stayed unchanged and consumer prices fell by 1.0 of a percentage point (see p. 7).

After the interest rate on temporary foreign exchange purchases fell by 0.5 of a percentage point, the **euro's year-on-year appreciation continued to slow down** in the first two months of this year. While the tolar depreciated by 0.4% in nominal terms in the first two months, the euro's year-on-year appreciation slowed down by 0.2 of a percentage point to 2.6%. In line with the adopted guidelines to bring inflation down further, we expect both the tolar's depreciation and interest rates to slow down in the upcoming months.

No major changes were seen in the **foreign exchange markets** early in the year. In January, the spot foreign exchange market was characterised by an excess supply of foreign exchange, totalling SIT 53.8 billion (SIT 22.5 billion in December), which was generated by the oversupply of non-residents (SIT 61.0 billion). At the same time, the futures market recorded excess demand, amounting to SIT 48.2 billion (SIT 8.1 billion in December). The **overall excess supply** totalled SIT 5.6 billion. The excess supply of foreign exchange seen in the last twelve months resulted from inflows of foreign loans, while its fall compared to 2003 was due to lower inflows related to foreign direct investment.

Growth in monetary aggregates picked up in early 2004. Year-on-year growth in the narrow aggregate M1 persisted at a higher level than in the same period last year, mainly reflecting changes in interest rates. Year-on-year growth in the broad monetary aggregates continued to ease despite January's strengthening mainly due to the changed net capital flows. The share of net foreign assets in issuing M3 has been falling in the last twelve months. While foreign assets rose by 15.1% year-on-year in January 2003, they fell by 11.5% in January 2004.

Graph: The Bank of Slovenia's interest rates

