



II. Monetary developments in the Republic of Macedonia⁷

	Basic monetary indicators				
	30.06.2003	Monthly changes		Annual changes	
	In Denar million	In Denar million	in %	In Denar million	in %
Reserve money	15,705	-289	-1.8	-1,412	-8.3
Currency in circulation	12,726	126	1.0	-701	-5.2
Demand deposits	11,355	550	5.1	-181	-1.6
Money supply M1	24,081	676	2.9	-882	-3.5
Money supply M2 - denar	37,716	892	2.4	3,186	9.2
Money supply M2	67,338	1,650	2.5	9,360	16.1
Money supply M4	71,842	1,399	2.0	7,383	11.5
Total deposits	47,761	723	1.5	8,265	20.9
Short - term	43,257	974	2.3	10,242	31.0
Long - term	4,504	-251	-5.3	-1,977	-30.5
In Denar	16,923	206	1.2	4,010	31.1
In foreign currency	30,838	517	1.7	4,255	16.0
Total banks' placements	45,284	623	1.4	1,221	2.8
In Denar	38,606	377	1.0	1,241	3.3
In foreign currency	6,678	246	3.8	-20	-0.3
			In percentage points		
Average weighted interest rate on the CB bills auctions (on 28 days)	7.00%	0.00		-6.00	
Weighted average money market interest rate	9.16%	-0.20		-2.95	
Weighted banks' lending interest rates	15.83%	-0.74		-2.55	
Weighted banks' deposit interest rates	7.48%	-1.24		-2.10	

Source: National Bank of the Republic of Macedonia

⁷ The January 2003 analysis of the monetary movements, (banks' deposits and placements) does not cover the data on one bank which is under the administration of the NBRM, due to which the presented annual comparisons partially reflect the effect of this change.

**2.1.****Monetary Regulation**

The current monetary policy layout and the monetary regulation activities undertaken by the NBRM have yielded positive results. Thus in June 2003, the average inflation rate equaled 0.3%, the Denar exchange rate was stable (Denar 61.3 were exchanged per one Euro, on average), and the trend of gradual decrease in the banks' interest rates continued as a response to the previous reduction in the NBRM interest rates. The higher demand for foreign exchange and the increased budget spending in June were successfully offset through the NBRM interventions on the foreign exchange market and the CB bills auctions.

Table 1
Reserve money creation and withdrawal

	30.06.2003 (monthly changes, in Denar million)
Reserve money	-289
Currency in circulation	126
Bank liquidity	-415
Reserve money withdrawal	-3,254
Net domestic assets	-2,797
CB' Bills auctions	-409
Other	-48
Reserve money creation	2,965
Net foreign assets	2,965

Fall in the banks' liquid funds

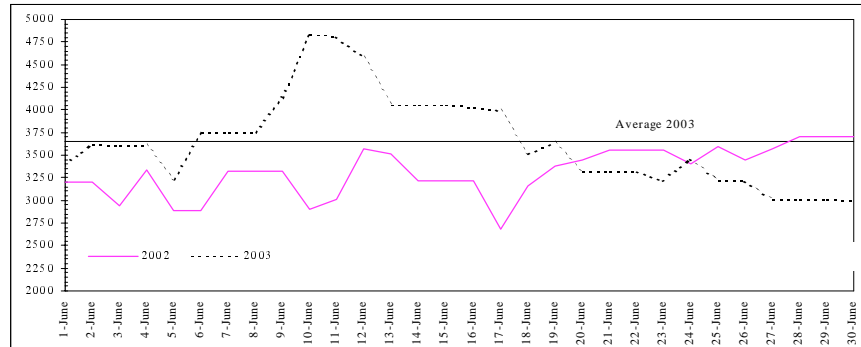
In June 2003, the average daily liquidity of the banks equaled Denar 3,648.4 million and was by 5.3% lower compared to the previous month. The analysis of the daily dynamics of the liquidity of the banks indicates more significant divergences from the average level at the beginning of the second 10-day period of the month, when due to the higher budget spending the liquidity of the banks registered substantial increase. By the end of the month, the movement of the liquid funds registered downward trend, (under the influence of the movement of the currency in circulation and the monetary regulation instruments), which kept them at lower level compared to the average one in the last 10-day period of the month. At the end of June 2003, the liquidity of the banking system amounted to Denar 2,979 million, registering a significant monthly drop of 12.2%, which resulted in considerable annual fall of 19.3%.

At the end of the accounting period⁸, the banks allocated 34.0% more compared to the set compulsory reserve requirement. The substantial amount of excess allocated funds is due to the slow adjustment of the banks to the lower compulsory reserve requirement (according to the latest amendments, the application of which started on June 11, 2003).

⁸ The accounting period for banks' compulsory reserve covers the period from the 11th in the current month to the 10th in the following month.



Chart 12
Daily dynamics of the liquidity of the banks
(in Denar million)



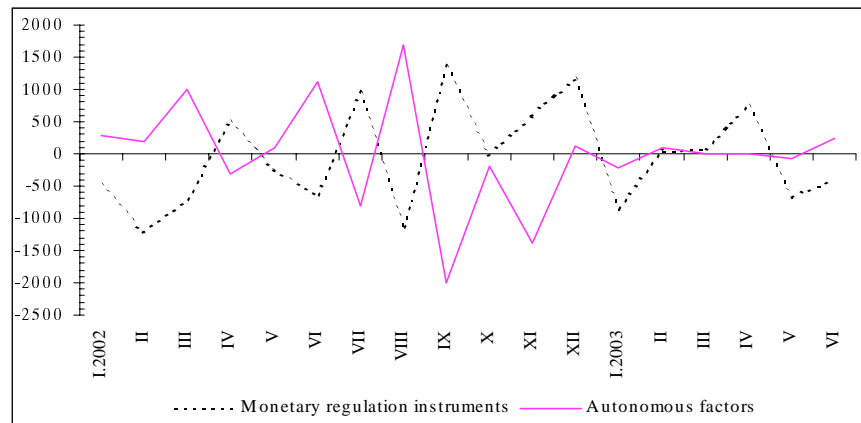
Decrease in the Government Denar deposits with the NBRM

In June 2003, the Government Denar deposits with the NBRM registered substantial monthly fall of 39.3%. The fall was primarily due to the changes of accounting nature⁹, which resulted in one-time considerable decrease in the level of the Government Denar deposits in the first half of the month, when the budget spending increased (and consequently, the liquidity of the banks went up). By the end of the month they remained relatively stable.

Withdrawal of liquidity through the NBRM foreign exchange transactions

As a continuation of the movements in the preceding month, in June 2003 the demand exceeded the supply of foreign exchange on the foreign exchange market, putting pressure on the exchange rate. In order to maintain stable Denar exchange rate, the NBRM intervened on the foreign exchange market by a net sale of foreign exchange, which resulted in withdrawal of liquidity from the banking system.

Chart 13
Monetary regulation instruments and autonomous factors of liquidity creation and withdrawal*
(monthly changes in Denar million)



*Positive change – liquidity creation, negative change – liquidity withdrawal

The CB bills auctions acted towards liquidity withdrawal

At the end of June, compared to the end of the previous month, the total amount of CB bills sold at auction was by 11.1% higher, thus this instrument was acting towards liquidity withdrawal in the amount of Denar 409 million. With respect to the dynamics, in the first 10-day period of June, the amount of sold CB bills registered a trend of slight decrease, whereas in the remaining part of the month it was continuously increasing, reaching Denar 4,079 million at the

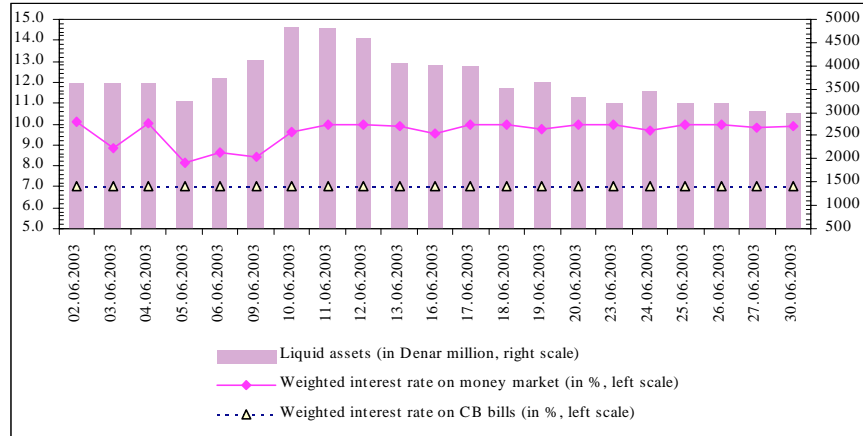
⁹ In June 2003, the account of the Monetary Policy Support Fund and the external account of the Government were netted, after which these two accounts were closed, and the remaining positive balance was transferred to the single treasury account.



end of June 2003. In June, the “volume tender” auctions were further organized three times a week¹⁰, with fixed interest rate of 7.0% and maturity of 28 days.

Chart 14

Movements of the interest rates on the Money Market, the CB bills auctions and the liquid funds of the banks

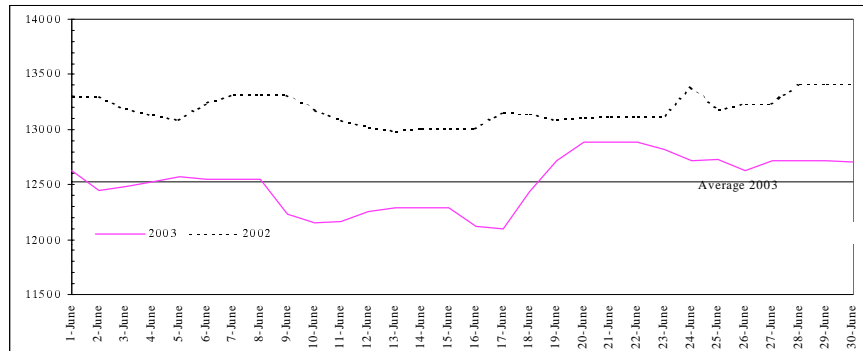


Further reduction of the interest rate on the Money Market

In June 2003, the average weighted interest rate on the Money Market continued to fall and reduced to 9.2%, which is by 0.2 percentage points lower compared to the preceding month. Unlike the previous month, in June, the supply and the demand for liquid funds increased (by 39.4% and 22.8%, respectively) which resulted in high increase in the in the turnover on the Money Market (of 40.2%), which reached Denar 1,372 million.

Chart 15

Daily dynamics of the currency in circulation (in Denar million)



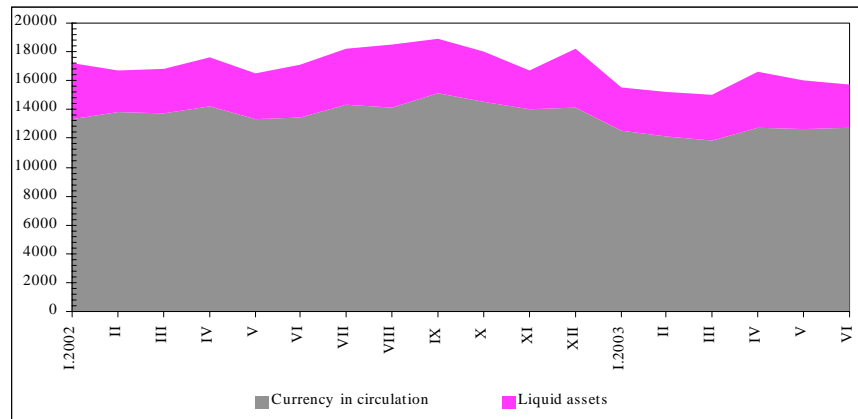
Stable level of currency in circulation

In June, the currency in circulation registered no considerable monthly change. Thus, at the end of June 2003, they equaled Denar 12,726 million, which is by Denar 126 million, or by 1.0% more compared to the preceding month. In June, the currency in circulation registered moderate daily oscillations, with their average daily amount reaching Denar 12,524.5 million, which is by Denar 221.9 million or by 1.8% more compared to May. Compared to the same month of the previous year, in June 2003, the average daily amount of currency in circulation is by Denar 663.4 or by 5.0% lower.

¹⁰ On June 12, 2003, an extraordinary CB bills auction was organized, in order to mop up the excess liquidity in the banking sector, generated from the decrease in the compulsory reserve requirement.



Chart 16
Reserve Money
(in Denar million, end of period)



Monthly decrease in the reserve money of 1.8%

Given the slight increase in the currency in circulation, the significant drop in the liquidity of the banks in June 2003 caused moderate decrease of 1.8% in the reserve money (due to its insignificant share in the reserve money of 19%). On annual basis, the reserve money dropped by 8.2%, due to the decrease registered in both components, with more intensive fall being registered in the liquidity of the banks.