



## II. Monetary developments in the Republic of Macedonia<sup>2</sup>

	<b>Basic monetary indicators</b>				
	<b>31.10.2003</b>	<b>Monthly changes</b>		<b>Annual changes</b>	
	<b>In Denar</b>	<b>In Denar</b>	<b>in %</b>	<b>In Denar</b>	<b>in %</b>
	<b>million</b>	<b>million</b>		<b>million</b>	
<b>Reserve money</b>	15,895	-539	-3.3	-2,125	-11.8
<b>Currency in circulation</b>	13,110	64	0.5	-1,378	-9.5
<b>Demand deposits</b>	11,701	-166	-1.4	-475	-3.9
<b>Money supply M1</b>	24,811	-102	-0.4	-1,853	-6.9
<b>Money supply M2 - denar</b>	39,903	1,011	2.6	2,400	6.4
<b>Money supply M2</b>	73,227	2,525	3.6	9,517	14.9
<b>Money supply M4</b>	78,051	2,519	3.3	9,109	13.2
<b>Total deposits</b>	53,240	2,621	5.2	10,962	25.9
<b>Short - term</b>	48,416	2,627	5.7	11,370	30.7
<b>Long - term</b>	4,824	-6	0.1	-408	-7.8
<b>In Denar</b>	18,480	1,164	6.7	4,196	29.4
<b>In foreign currency</b>	34,760	1,457	4.4	6,766	24.2
<b>Total banks' placements</b>	48,655	974	2.0	4,162	9.4
<b>In Denar</b>	41,790	977	2.4	4,570	12.3
<b>In foreign currency</b>	6,865	-3	0.0	-408	-5.6
		In percentage points			
<b>Average weighted interest rate on the CB bills auctions (on 28 days)</b>	6.80%	-0.20		4.25	
<b>Weighted average money market interest rate</b>	7.87%	0.46		-6.49	
<b>Weighted banks' lending interest rates</b>	14.69%	-0.60		-3.02	
<b>Weighted banks' deposit interest rates</b>	7.31%	-0.06		-1.86	

Source: National Bank of the Republic of Macedonia

<sup>2</sup> The January 2003 analysis of the banks' monetary developments, (banks' deposits and placements), does not include 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 combination of the CB bills auctions and the NBRM transactions on the foreign exchange market, enabled maintenance of a stable exchange rate of the Denar against the Euro in October 2003, contributing to further successful maintenance of the price stability (in October 2003, the average inflation rate equaled 1%). With respect to the liquidity management in the banking system, in October 2003 the NBRM partially sterilized the excess liquidity created through the higher budget spending (due to the regular repayment of a part of the bonds for old foreign exchange savings).

Table 1  
Reserve money creation and withdrawal

	31.10.2003 (monthly changes, in Denar million)
<b>Reserve money</b>	<b>-539</b>
Currency in circulation	64
Bank liquidity	-603
<b>Reserve money creation</b>	<b>1,190</b>
Other	8
Net domestic assets	1,182
<b>Reserve money withdrawal</b>	<b>-1,729</b>
Net foreign assets	-898
CB' Bills auctions	-831

*Higher average daily liquidity  
of banks*

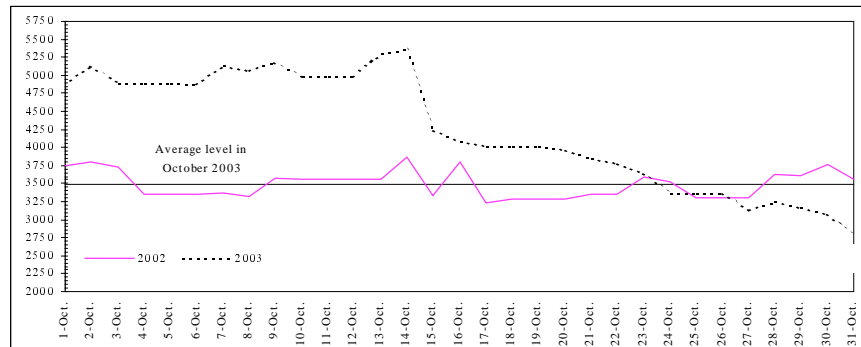
In October 2003, the average daily liquidity of the banking system registered considerable monthly increase of Denar 739.5 million or 21.1%, and reached Denar 4,247.3 million. Such dynamics in particular reflects the effect of the regular payment of the Government liabilities based on the bonds for old foreign exchange savings. Thus given the partial sterilization of the excess liquidity through the CB bills auctions, this liquidity effect was exhausted in the period of payment of the tax liabilities (in the middle of the month). In the second half of the month, the liquidity of the banks fluctuated in line with the dynamics of regular factors. At the end of the month, the total liquidity of the banks equaled Denar 2,785 million, and dropped on both monthly and annual basis by Denar 603 million (by 17.8%) and by Denar 747 million (by 21.1), respectively.

In October 2003, the excess liquidity of the banks was partially allocated in banking credits and CB bills, while one portion was used for demand for foreign exchange on the foreign exchange market. This partially contributed to lower excess liquidity over the compulsory reserve requirement (in Denars) at the end of the accounting period<sup>3</sup>. Thus in October this excess equaled 35.3%, which is a monthly decrease of 13.3 percentage points. However, taking into account the opportunity cost of the unused funds, the allocated excess signalizes the need of more rational liquidity management policy by the banks.

<sup>3</sup> The period for maintaining (fulfilling) the banks' compulsory reserve requirement covers the period from the 11<sup>th</sup> in the current month to the 10<sup>th</sup> in the following month.



**Chart 9**  
Daily dynamics of the liquidity of the banks  
(in Denar million)



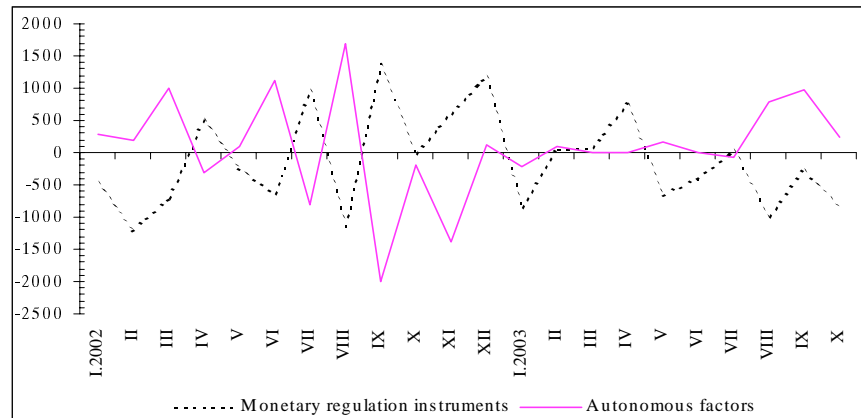
*In October 2003, the Government Denar deposits with the NBRM acted towards liquidity creation*

The one-time significant increase in the budget expenditures at the beginning of the month (due to the regular repayment of the Government liabilities based on bonds for old foreign exchange savings), caused substantial decline in the Government Denar deposits with the NBRM in October 2003. Thus at the end of October 2003, they were lower by 17.6% on monthly basis, thus acting towards liquidity creation.

*Reserve money withdrawal through the NBRM foreign exchange transactions...*

Upon the three-month continuous net-purchase of foreign exchange on the foreign exchange market, in October 2003 the NBRM intervened on the foreign exchange market by a net-sale of foreign exchange. Thus the NBRM foreign exchange transactions act towards liquidity withdrawal. Closing the gap between the demand and the supply of foreign exchange on the foreign exchange market through the NBRM interventions contributed to maintaining the stability of the exchange rate of the Denar against the Euro.

**Chart 10**  
Monetary regulation instruments and autonomous factors of liquidity creation and withdrawal\*  
(monthly changes in Denar million)



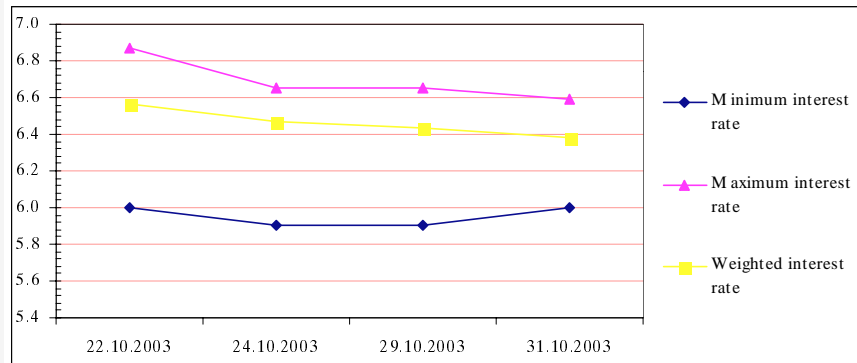
\*Positive change – liquidity creation, negative change – liquidity withdrawal



### Changes in the CB bill auctions layout

On October 22, the NBRM started organizing “interest rate tender” auctions, with fixed maximum interest rate (7%), conversely to the previous application of “volume tender” auctions. Such auction layout means a possibility for setting the exchange rate on a market basis, through bidding by the banks. Thus the interest rate registered a downward trend. Also in October, the NBRM was organizing two auctions a week, and the maturity of the CB bills was 28 days.

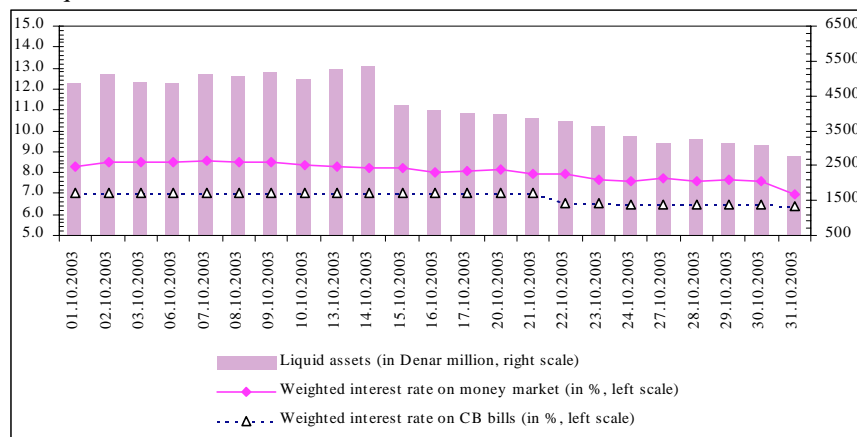
Interest rates on CB bill auctions  
(interest rate tender)  
(in %)



...and through the CB bills auctions

At the end of October 2003, the amount of CB bills reached Denar 6,189 million, which is an increase of 15.5% compared to the preceding month. Thus the total amount of additionally withdrawn liquid funds through the CB bills auctions equaled Denar 831 million in October 2003. The substantial excess liquidity, created through the repayment of the Government bonds for old foreign exchange savings contributed to maintenance of the demand for CB bills at considerably higher level compared to the offered amounts. At the beginning of the third 10-day period of the month (October 22, 2003) the NBRM switched to “interest rate tender” auctions enabling establishment of the interest rates on a market basis. Thus due to the high demand for CB bills, the weighted interest rate on the last day of the month reduced to 6.38%. In this month, the amount of CB bills registered permanent upward trend, in line with the high interest in investing in CB bills.

Chart 11  
Movements of the interest rates on the Money Market, the CB bills auctions and the liquid funds of the banks

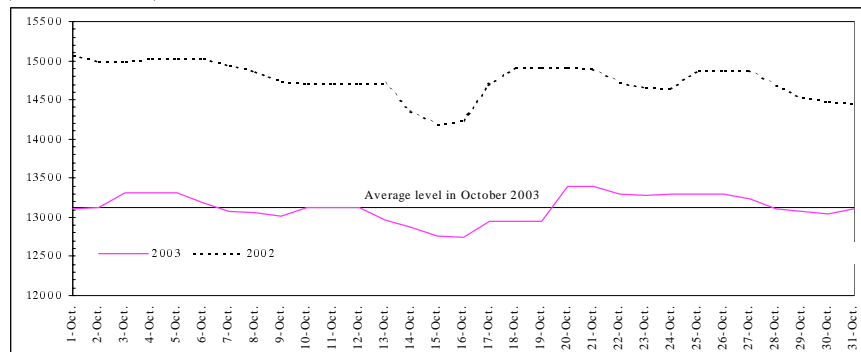




*In October 2003, the turnover on the Money Market dropped by 21.4% on monthly basis*

A portion of the short-term liquidity in October was also proportionally redistributed through the institutionalized Money Market. Given the almost identical total supply and demand for liquid funds, the average weighted interest rate on the Money Market equaled 7.9% (monthly increase of 0.5 percentage points). With respect to the dynamics, in the first three weeks of the month the interest rate on the Money Market remained above 8%, upon which it gradually reduced partially due to the changes in the monetary policy layout. With respect to the monthly change in the supply, the demand and the turnover on the Money Market, in October 2003 they went down by 17.7%, 18.1% and 21.4%, respectively. The turnover on the non-institutionalized market (bilateral interbank transactions) was higher compared to the turnover on the institutionalized market.

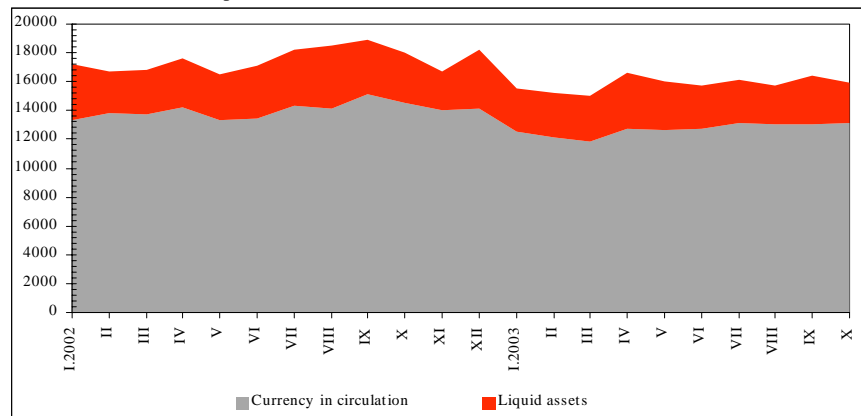
Chart 12  
Daily dynamics of the currency in circulation  
(in Denar million)



*Slight increase in the currency in circulation...*

At the end of October 2003, the currency in circulation equaled Denar 13,110 million, registering slight monthly increase of Denar 64 million or 0.5%. The dynamical analysis indicates higher level of currency in circulation at the beginning of the month, reflecting a portion of the additionally available funds created through the payment of the Government bonds. In this month, the currency in circulation registered a downward trend, except for the increase in the days of payment of the pensions. In October 2003, the average daily level of currency in circulation equaled Denar 13,125.6 million, which is by Denar 217.1 million, or by 1.7% higher compared to the previous month. Compared to the same month of the preceding year, the average daily amount of currency in circulation is by Denar 1,630 million, or 11% lower.

Chart 13  
Reserve Money  
(in Denar million, end of period)



\* The banks' liquid funds include the banks' account with the NBRM and the currency in circulation in the banks' vaults.



*...given the decrease in the  
reserve money*

The decrease in the level of liquidity in the banking system, given the simultaneous slight increase in the currency in circulation, resulted in monthly decrease in the reserve money of 3.3%, thus reducing to Denar 15,895 million at the end of the month. On annual basis (October 2003 / October 2002), the reserve money is by Denar 2,125 million, or 11.8% lower (in line with the lower preferences for holding cash after the abolishment of the financial transactions tax and the lower level of liquidity).