

**2.2.****Monetary aggregates**

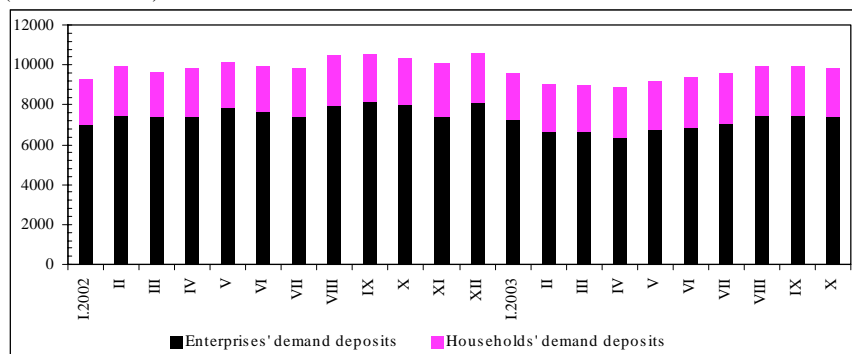
Given the moderate monthly changes in the currency in circulation, the transaction deposits and the long-term deposit potential, in October 2003 the monetary growth dynamics was under the dominant influence of the short-term savings in domestic and foreign currency. The largest portion of the additional available funds, created through the payment of the Government bonds for old foreign exchange savings remained within the banking system as short-term deposits of the households. Exceptionally significant increase was registered in the enterprises' short-term deposits.

In October 2003, the currency in circulation registered moderate monthly increase of 0.5%. However the annual analysis indicates intensive decline in the demand for currency in circulation (by 9.5%), partially reflecting the lower preferences for holding cash after the rescind of the financial transaction tax. In October 2003, the funds on the transaction accounts (current and giro accounts) were lower on both monthly and annual basis by 1.4% and 3.9%, respectively. The negative monthly and annual dynamics of the demand deposits arises from the lower level of enterprises' demand deposits (monthly and annual decrease of 1.1% and 7.4%, respectively). In October 2003, the households' demand deposits registered monthly and annual increase of 0.8% and 4.3%, respectively. The enterprises' demand deposits account for 63.3% in the structure of the total demand deposits, while the share of the households' demand deposits equals 21.2%. In line with the dynamics of each component, the money supply M1 registered moderate monthly fall of 0.4%. The fall on annual basis is more intensive and equals 6.9%.

*Moderate monthly decrease
in the monetary aggregate
M1...*

Chart 14

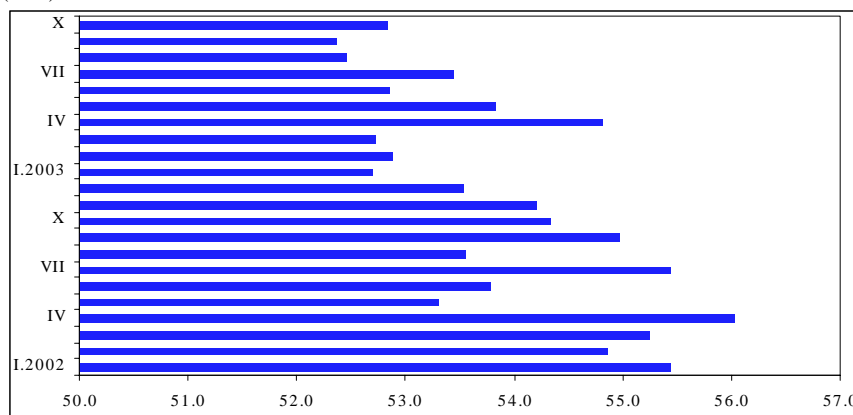
Demand deposits of enterprises and households
(in Denar million)



Due to the decrease in the demand deposits given the slight increase in the level of currency in circulation, in October 2003, the share of the currency in circulation in the money supply M1 dropped by 0.5 percentage points on monthly basis and equaled 52.8%. Compared to the same month of the preceding year, it was by 1.5 percentage points lower. In line with the lower level of reserve money, in October 2003, the money multiplier of the money supply M1 was higher on monthly basis and equaled 1.56 (1.52 in the preceding month).



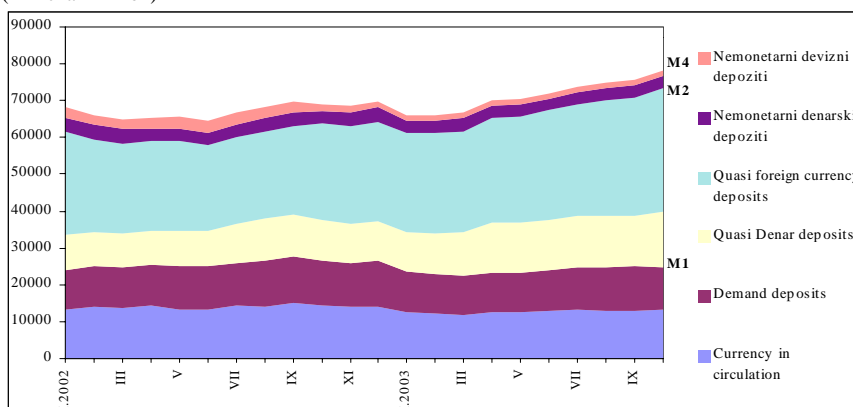
Chart 15
Share of currency in circulation (CC)
in the money supply M1
(in %)



...and intensive increase in the monetary aggregates M2 and M4

The intensive increase in the short-term deposit potential of the banks was a major factor of growth of the broader monetary aggregates M2 and M4 in October 2003. Such movements reflect the effect of the payment of the Government liabilities based on bonds for old savings (which resulted in higher short-term saving of the households) and the substantial increment in the short-term foreign exchange deposits of the enterprises. Consequently, in October 2003, the monetary aggregate M2 picked up on both monthly and annual basis, by 3.6% and 14.9%, respectively. The inconsiderable decline in the non-monetary deposits resulted in more moderate monthly growth in the money supply M4 (3.3%), while compared to the same month of the previous year it picked up by significant 13.2%. The higher deposit potential of the banks made the money multiplication process stronger. Thus in October 2003, the money multipliers of the money supply M2 and M4 equaled 4.61 and 4.91, respectively (4.30 and 4.60, respectively in the previous month).

Chart 16
Monetary aggregates and their components
(in Denar million)



Further increase in the banks' deposit potential

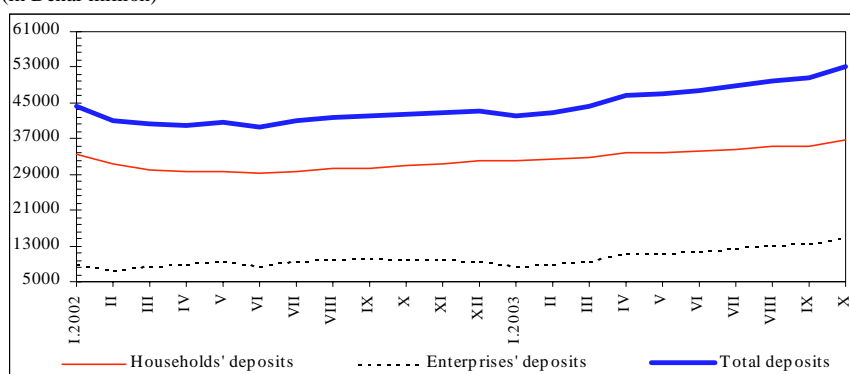
The eight-month continuous increase in the banks' deposit potential continued in October 2003. Thus the monthly growth rate of the total deposits of the non-government sector⁴ considerably intensified and equaled 5.2%. Given the almost unchanged level of long-term deposits, the positive dynamics of the total deposits is solely generated from the increase in the short-term deposit potential.

⁴ The total deposits of the non-government sector include short-term and long-term (Denar and foreign currency) deposits of the economic agents (excluding the demand deposits).



The regular payment of the Government liabilities based on bonds issued for the old foreign exchange savings was made in October 2003. The largest portion of the paid funds remained in the form of short-term savings of the households in domestic currency. In October 2003, the enterprises' short-term foreign assets went up. Such movements resulted in higher level of short-term deposits in domestic and foreign currency. In line with such movements, the share of the short-term deposits in the maturity structure of the total deposits registered a monthly increment of 0.4 percentage points and reached 90.9%. With respect to the structure of the currency of denomination, in October 2003, the foreign exchange deposits made up 65.3% of the total deposits (decrease of 0.5 percentage points on monthly basis). On annual basis (October 2003 / October 2002), the total banks' deposits are by considerable 25.9% higher.

Chart 17
Deposit timeframes
(in Denar million)

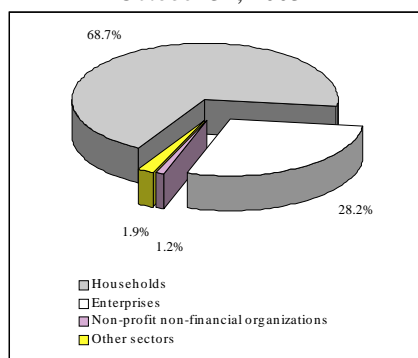


*Monthly increase in the
total households' deposits
of 3,3%...*

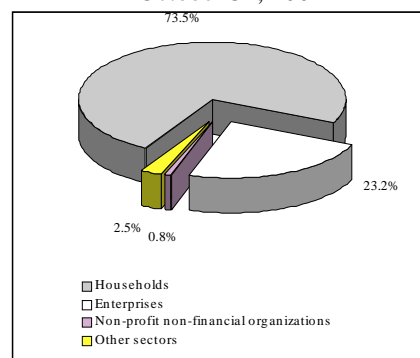
In October 2003, the households' deposits registered a monthly and annual increase of 3.3% and 17.8%, respectively. The payment of the regular installment of the Government bonds based on old foreign exchange savings was an additional income, the largest portion of which remained as Denar sight deposits (two thirds of the total increase in the households' deposits in October was due to the higher level of Denar sight deposits), thus confirming the growing confidence in the banking system. Also, more considerable growth was registered in the Denar households' deposits with up to one month of maturity, as well as in the short-term households' foreign exchange deposits. With respect to the long-term households' savings, in October 2003 the foreign exchange long-term time deposits dropped contrary to the moderate increase in the long-term savings in domestic currency. In line with such dynamics, the short-term deposits of the households registered a monthly increment of 3.7%, while the long-term savings went down by 1.3%. Both Denar and foreign exchange deposits of the households were higher on monthly basis by 10.4% and 0.9%, respectively.



Chart 18
Structure of deposits by sectors
October 31, 2003



October 31, 2002



*...given the simultaneous
monthly increase in the
enterprises' deposits of
10.8%*

In October 2003, the enterprises' deposits were by 10.8% higher on monthly basis, while on annual basis they were higher by substantial 52.8%. With respect to the maturity structure, all types of enterprise deposits went up. The short-term Denar deposits were redistributed from sight deposits to deposits with up to three months of maturity. Typical for October is the considerable accumulation of funds on the foreign exchange sight accounts and the foreign exchange enterprises' deposits with up to one month of maturity. These movements resulted in monthly growth in both short-term and long-term enterprises' deposits of 11.5% and 1.4%, respectively. With respect to the currency of denomination, both Denar and foreign exchange enterprises' deposits picked up on monthly basis by 3.5% and 18.7%, respectively.