



## **Macroeconomic Developments in the Republic of Macedonia in October 2003**

According to the indicators of the economic activity, relatively successful results in the area of economy were attained in October 2003. It is of particular importance that the registered positive economic performances were made given the maintained price stability and stable Denar exchange rate. The unchanged level of costs of living in October compared to the preceding month led to preserving low average inflation rate in the first ten months of 2003 of only 1%. The Denar exchange rate remained stable and at the end of October it equaled Denar 61.24 per one Euro. The NBRM interventions on the foreign exchange market were directed towards offsetting the pressures for depreciation of the Denar, which resulted from the higher demand for foreign exchange, with a net sale of foreign exchange by the NBRM being registered. The industrial output continued its upward trend, thus registering moderate monthly growth of 1.7% in October, notwithstanding the extremely high comparison base. The increase was due to the higher production of basic metals, as a continuation of the positive movements in the preceding month and the higher power production, in line with the beginning of the heating season (seasonal factor). Along with the accelerated production activity, in October the foreign trade picked up by 11.9%, given the increase in both the export and import of goods of 6.1% and 15.7%, respectively. Cumulatively observed, in the first ten months of 2003, compared to the same period of 2002, the domestic output and the foreign trade went up by 6.8%, and 18.2%, respectively (increase in the exports and the imports of 20.9% and 16.7%, respectively).

October registered general decrease in the interest rates in the economy. An exception is the movement of the interest rate on the institutionalized Money Market (increase of 0.5 percentage points), which is partially explained with the lower volume of trading in liquid funds on this market and the larger interest in direct inter-bank trading on bilateral basis. As a result of the switch from volume tender auctions into interest rate tender auctions of CB bills, the interest rate on the CB bills auctions fell, with the interest rate on the CB bills with 28 days of maturity being reduced from the previous fixed level of 7% to 6.4% at the end of the month. Notwithstanding the reduction in the interest rate, the higher liquidity due to the budget spending (payment of the due installment of the Government bonds for the old foreign exchange savings) and the NBRM interventions on the foreign exchange market resulted in higher amount of sold CB bills. The lending and the deposit interest rates of the banks were also reduced, with more intensive decline in the lending compared to the deposit ones. Thus, in October, the weighted interest rate on short-term Denar credit went down by 0.6 percentage points and equaled 14.7%, while the weighted interest rate on three-month Denar deposit dropped by 0.1 percentage point and equaled 7.3%.

With respect to the maturity, currency of denomination and the sector structure (excluding the long-term deposits, the level of which remained almost unchanged), the total bank's deposit potential went up (by 5.2%) in this month. Considering that the deposits are a basis for acceleration of the bank's credit activity, such acceleration positively affected the movement of the bank's total placements, which registered monthly growth of 2% in October.

The decline in the transaction deposits, given the moderate increase in the currency in circulation, in October 2003 resulted in lower money supply M1 of 0.4%. The other monetary aggregates registered monthly increase due to the higher short-term savings (in both domestic and foreign currency), primarily caused by the inflow from the households on the basis of payment of the Government bonds for old foreign exchange savings. Thus the money supply M2 and M4 were higher by 3.6% and 3.3%, respectively. In line with such movements, given the drop in the reserve money (by 3.3%), in October the money multiplication process was strengthened.