



II. Monetary developments in the Republic of Macedonia⁸

	Basic monetary indicators				
	31.12.2003	Monthly changes		Annual changes	
	In Denar	In Denar	in %	In Denar	in %
	million	million		million	
Reserve money	18,252	2,551	16.2	77	0.4
Currency in circulation	14,177	1,017	7.7	41	0.3
Demand deposits	13,096	1,394	11.9	1,018	8.4
Money supply M1	27,273	2,411	9.7	1,059	4.0
Money supply M2 - denar	42,841	2,677	6.7	5,772	15.6
Money supply M2	76,028	3,332	4.6	12,365	19.4
Money supply M4	80,813	3,382	4.4	12,377	18.1
Total deposits	53,540	971	1.8	11,318	26.8
Short - term	48,755	921	1.9	11,306	30.2
Long - term	4,785	50	1.1	12	0.3
In Denar	19,065	362	1.9	4,717	32.9
In foreign currency	34,475	609	1.8	6,601	23.7
Total banks' placements	50,442	898	1.8	8,077	19.1
In Denar	43,195	662	1.6	6,565	17.9
In foreign currency	7,247	236	3.4	1,512	26.4
		Во процентни поени			
Average weighted interest rate on the CB bills auctions (on 28 days)	6.15%	0,03		-9,06	
Weighted average money market interest rate	5.81%	-1,44		-8,55	
Weighted banks' lending interest rates	14.53%	-0,18		-3,18	
Weighted banks' deposit interest rates	6.69%	-0,37		-2,48	

Source: National Bank of the Republic of Macedonia

⁸ The December 2002 analysis of the banks' monetary developments, (banks' deposits and placements), does not include one bank which has been under the administration of the NBRM since January 2003 (for data comparison).



2.1.

Monetary Regulation

In December 2003, the combined application of the NBRM interventions on the foreign exchange market and the monetary regulation instruments contributed to the maintaining of a stable exchange rate (as an intermediary monetary objective). The achievement of an average inflation rate of 1.2% indicates successful achievement of the ultimate monetary objective. From the aspect of the banking system liquidity management, in December 2003, given the seasonally higher needs for liquidity, the CB bills acted towards liquidity creation. Additional liquidity in the banking system was also created through the government deposits with the NBRM, while the foreign exchange transactions and the currency in circulation acted towards liquidity withdrawal.

Table 1
Reserve money creation and withdrawal

	31.12.2003 (monthly changes, in Denar million)
Reserve money	2,551
Currency in circulation	1,017
Bank liquidity	1,534
Reserve money creation	2,585
Net foreign assets	503
Net domestic assets	774
CB' Bills auctions	1,308
Reserve money withdrawal	-34
Other	-34

*Higher average daily liquidity
of banks*

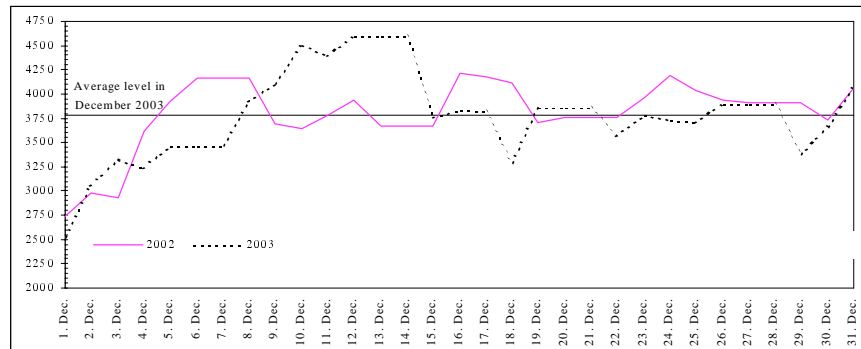
In December 2003, the average daily liquidity of the banking system equaled Denar 3,777 million, which is a monthly increment of Denar 350.6 million, or 10.2%. Such monthly dynamics reflects the higher needs for liquidity of the banks at the end of the year. The dynamical analysis indicates upward trend in the banks' liquidity in the first half of the month (notwithstanding the occasional oscillations), which corresponds with the lower intensity of the demand for currency in circulation, net-outflows from the Denar accounts of the Government with the NBRM and the lower interest for investing in CB bills. In the second half of the month, after the depletion of a portion of the liquidity due to the payment of the tax liabilities, the total liquid funds of the banks permanently fluctuated. More considerable increment in the liquidity was registered in the last day of the month, given the lower amount of CB bills, the considerable decline in the currency in circulation and the net outflows from the Government's accounts. On December 31, 2003, the total liquid funds of the banks were higher on both monthly and annual basis by Denar 1,534 million, or by 60.4% and by Denar 36 million, or by 0.9%, respectively.

In December 2003⁹, the excess liquidity of the banks over the compulsory reserve requirement (in Denars) equaled 39.4%, which is a monthly increase of 18.9 percentage points. Such liquidity management policy is partially a result of the higher needs for liquidity in the last month of the year due to seasonal factors. However, the permanent maintenance of excess liquidity signals the need of more rational banks' liquidity management, and thus decrease in the opportunity cost.

⁹ The period for maintaining (fulfilling) the banks' compulsory reserve requirement covers the period from the 11th in the current month to the 10th in the following month.



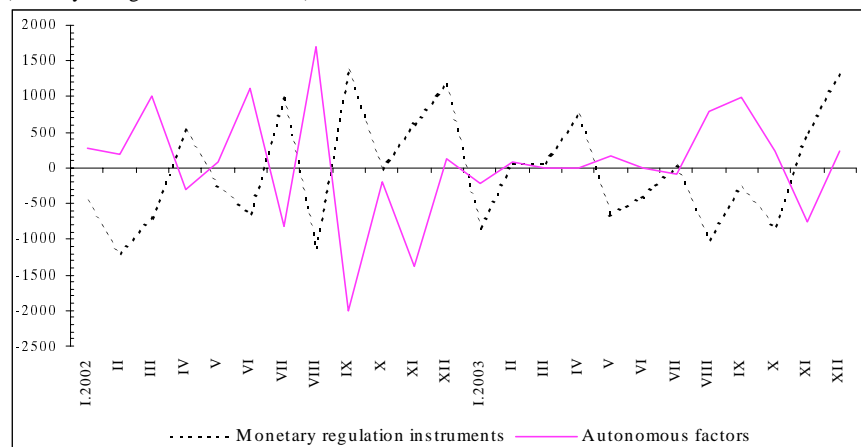
Chart 12
Daily dynamics of the liquidity of the banks
(in Denar million)



The NBRM interventions on the foreign exchange market acted towards liquidity withdrawal

In December 2003, the NBRM again intervened on the foreign exchange market in order to overcome the discrepancy between the demand and the supply, in line with the applied exchange rate targeting strategy. Given the excess demand over the supply of foreign exchange, the NBRM interventions acted towards net-sale of foreign exchange, thus the NBRM foreign exchange transactions acted towards liquidity withdrawal.

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



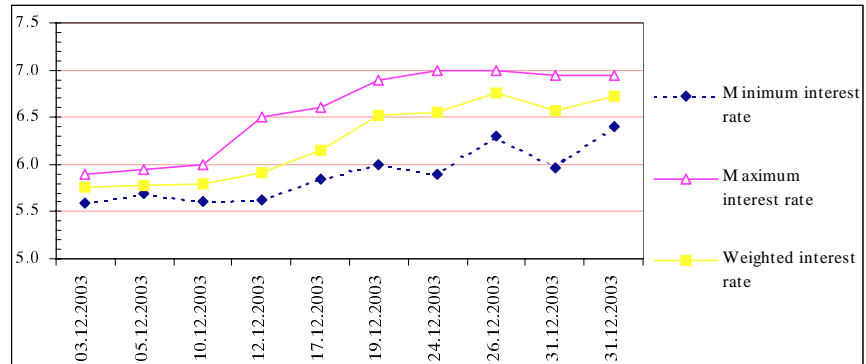
*Positive change – liquidity creation, negative change – liquidity withdrawal

Liquidity creation through the Government Denar deposits with the NBRM...

In December 2003, the Government Denar deposits with the NBRM dropped by significant 51.4% on monthly basis. Thus they acted towards liquidity creation. With respect to the dynamics, considerable decline in the Government Denar deposits was registered in the last 10-day period of the month, reflecting the intensified generation of the planned expenditures of the budget users.



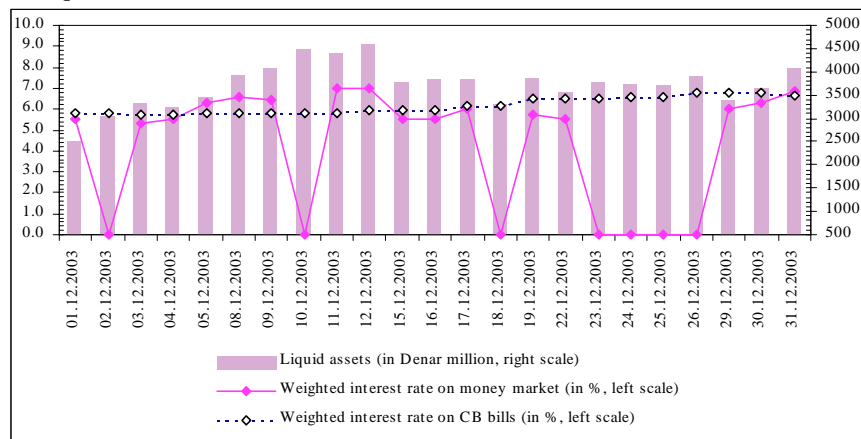
Chart 14
Interest rates on the CB bills auctions in December 2003
(in %)



...as well as through the CB bills auctions

Same as in the preceding month, in December 2003, the CB bills auctions acted towards creation of liquidity in the banking system. In this month, the amount of CB bills registered downward trend, and at the end of the month the level of CB bills reduced to Denar 4,379 million and went down by 23% on monthly basis (created liquidity of Denar 1,308 million). Almost half of the reduction in the CB bills was concentrated in the last week of the month, which given the intensified public consumption was due to the seasonally intensified demand for currency in circulation, the NBRM foreign exchange transactions and the preferences of the banks to hold higher amount of liquid funds. The relation between the demand and the supply of CB bills equaled 0.82 on average. The average weighted interest rate registered gradual increase and equaled 6.15% in December 2003.

Chart 15
Movements of the interest rates on the Money Market, the CB bills auctions and the liquid funds of the banks*



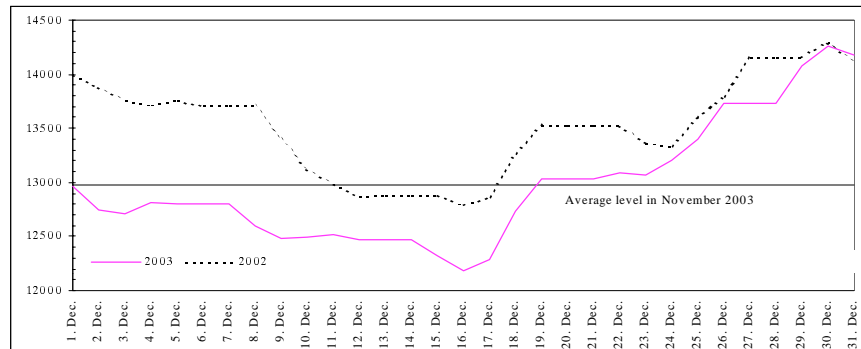
*In some days of the month, the Money Market registers no transactions and interest rate.

Higher turnover on the Money Market in December 2003

In December 2003, the supply of liquid funds exceeded the demand by 13.7% on the institutionalized money market, thus contributing to the lower average weighted interest rates on the Money Market by 1.4 percentage points and its reduction of 5.8%. Compared to the preceding month, the supply, the demand and the total turnover on the Money Market increased by 23.4%, 57.9% and 59.6%, respectively. In November 2003, the turnover on the non-institutionalized money market (bilateral interbank transactions) was higher compared to the turnover on the institutionalized market.



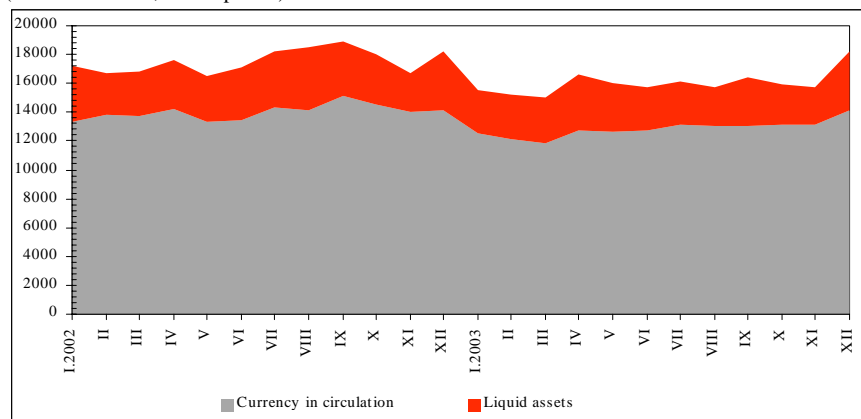
Chart 16
Daily dynamics of the currency in circulation
(in Denar million)



Increase in the demand for currency in circulation due to seasonal factors...

In December 2003, the currency in circulation registered a monthly increase of Denar 1,017 million or 7.7%, reflecting the seasonal increase in the currency in circulation prior to the New Year's and Christmas holidays. The highest level of currency in circulation was registered on December 30, 2003 (Denar 14,264 million). The analysis from the aspect of the dynamics indicates downward trend of the currency in circulation in the first half of the month. In the second half of the month, the demand for currency in circulation intensified, as a combined effect of the payment of pensions and social transfers, as well as the higher demand prior to the New Year and Christmas holidays. The average daily amount of currency in circulation equaled Denar 12,976.2 million in December 2003, and was higher by Denar 56.8 million or 0.4% on monthly basis. Compared to the same month of the previous year, the average amount of currency in circulation went down by Denar 547.6 million or 4% (largely reflecting the effect of the repeal of the financial transactions tax).

Chart 17
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.

...and higher level of the reserve money

In line with the dynamics of the currency in circulation and the banks' total liquidity, in December 2003, the reserve money went up by 16.2% on monthly basis. Thus, on December 31, 2003, they reached Denar 18,252 million. The annual analysis indicates inconsiderable increase in the reserve money of 0.4%.