



II. Monetary developments in the Republic of Macedonia⁵

Basic monetary indicators					
	31.08.2003	Monthly changes		Annual changes	
	In Denar million	In Denar million	in %	In Denar million	in %
Reserve money	15,759	-337	-2.1	-2,778	-15.0
Currency in circulation	13,059	-121	-0.9	-1,086	-7.7
Demand deposits	11,836	356	3.1	-428	-3.5
Money supply M1	24,895	235	1.0	-1,514	-5.7
Money supply M2 - denar	38,700	56	0.1	869	2.3
Money supply M2	70,229	1,267	1.8	8,532	13.8
Money supply M4	74,811	1,124	1.5	6,541	9.6
Total deposits	49,916	889	1.8	8,055	19.2
Short - term	45,334	1,032	2.3	10,046	28.5
Long - term	4,582	-143	-3.0	-1,991	-30.3
In Denar	17,135	-168	-1.0	2,301	15.5
In foreign currency	32,781	1,057	3.3	5,754	21.3
Total banks' placements	47,040	597	1.3	1,605	3.5
In Denar	40,124	424	1.1	2,014	5.3
In foreign currency	6,916	173	2.6	-409	-5.6
In percentage points					
Average weighted interest rate on the CB bills auctions (on 28 days)	7.00%	0.00		-3.18	
Weighted average money market interest rate	8.52%	-0.82		-2.32	
Weighted banks' lending interest rates	15.50%	-0.05		-2.76	
Weighted banks' deposit interest rates	7.36%	-0.05		-2.25	

Source: National Bank of the Republic of Macedonia

⁵ From January 2003 analysis of the banks' monetary aggregates, (deposits and placements), does not cover 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**

Given the refrained public consumption, in August 2003 the monetary regulation instruments were directed towards absorption of the excess liquidity created through the NBRM interventions on the foreign exchange market and the lower intensity of demand for currency in circulation. The continuing growth in the interest in investing in CB bills in this month indicates the monetary instruments capacity for offsetting the flows with potential negative effects on the monetary policy objectives. In line with such movements, the stability of the exchange rate of the Denar against the Euro was maintained in August 2003, along with low average inflation rate of 0.8%.

Table 1
Reserve money creation and withdrawal

	31.08.2003 (monthly changes, in Denar million)
Reserve money	-337
Currency in circulation	-121
Bank liquidity	-216
Reserve money withdrawal	-4,281
Net domestic assets	-3,277
CB' Bills auctions	-1,004
Reserve money creation	3,944
Net foreign assets	3,944

*Higher average daily liquidity
of banks*

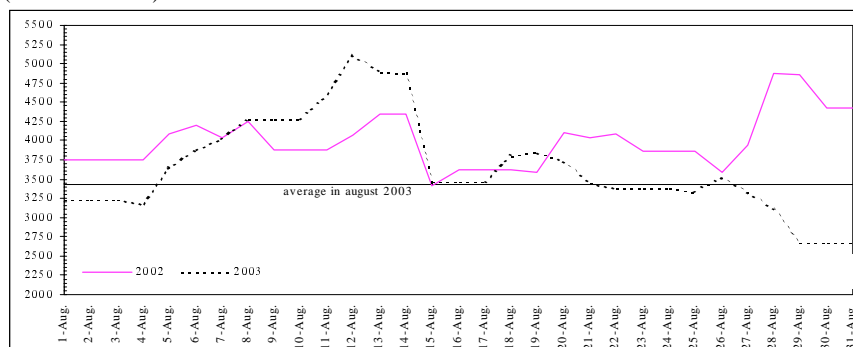
Conversely to the downward trend in the previous three months, in August 2003, the average daily liquidity of the banking system went up by Denar 232.9 million, or by 6.8% and equaled Denar 3,658.4 million. The daily movement of the liquidity of the banks largely reflected the effects of the seasonal factors, primarily the regular dynamics of the budget inflows and outflows. On August 31, 2003, the total banks' liquidity amounted to Denar 2,700 million, which is by Denar 216 million or by 7.4% lower on monthly basis. On annual basis (August 2003 / August 2002), the total liquidity of the banking system considerably dropped by Denar 1,692 million, or by 38.5%, which is partially due to the high liquidity of the banks in the same month of the preceding year, given the intensified public consumption in the pre-election period.

Notwithstanding the intensified banks' credit activity, as well as the considerably higher interest in investing in CB bills, at the end of the accounting period⁶ for August, the banks allocated 26.9% (increase on monthly basis of 0.2 percentage points) over the set compulsory reserve requirement (in Denar). Such movements indicate the need of more rational liquidity management by particular banks, which at the same time would enable more balanced dispersion of the liquidity of the banking system.

⁶ 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 9
Daily dynamics of the liquidity of the banks
(in Denar million)



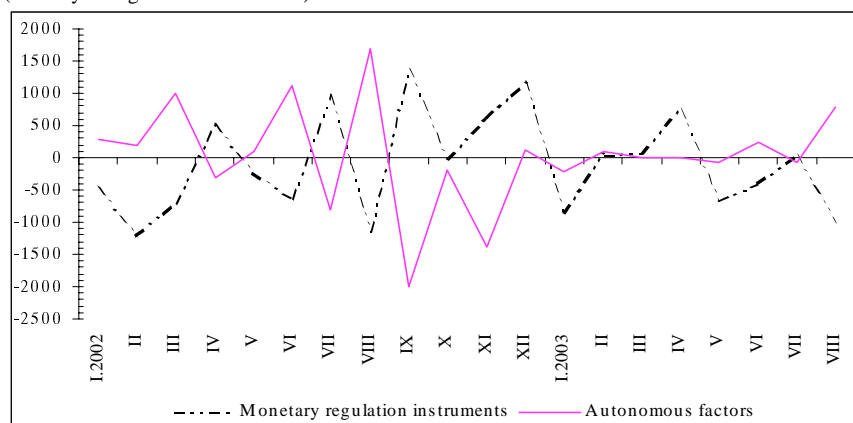
*Liquidity withdrawal through
the Government Denar
deposits with the NBRM...*

In August 2003, the Government Denar deposits with the NBRM registered a monthly increase of 0.9%. Thus they acted towards withdrawal of liquidity. Such movement of the Denar demand deposits partially reflects the moderate budget spending which considerably diverges from the anticipated dynamics. In this month, the fluctuations of the Government demand deposits followed the usual dynamics.

*...and through the CB bills
auctions*

In August 2003, the CB bills auctions again managed to offset the effects of the autonomous factors. Thus given the lower level of currency in circulation and NBRM interventions on the foreign exchange market by a net purchase of foreign exchange, Denar 1,004 million were withdrawn through the CB bills (increase in the amount of CB bills of 24.7%, which at the end of the month reached Denar 5,065 million). From the aspect of the daily dynamics, in this month the amount of CB bills was continuously growing, with the demand exceeding the supply of CB bills on average. The CB bills auctions layout remained the same, i.e. "volume tender" auctions were organized three times a week, with fixed interest rate of 7.0% and maturity of 28 days.

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

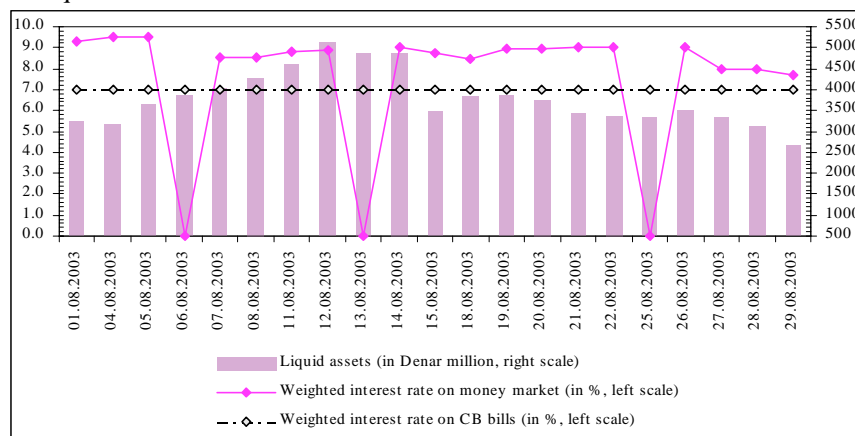
*The NBRM foreign exchange
transactions acted towards
liquidity creation*

In August 2003, the NBRM foreign exchange transactions acted towards liquidity creation. Given the higher supply of relative to the demand for foreign exchange, the NBRM intervened on the foreign exchange market by a net-purchase of foreign exchange. Thus the pressures on the foreign exchange market were repulsed, thus maintaining stable exchange rate.



Chart 11

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



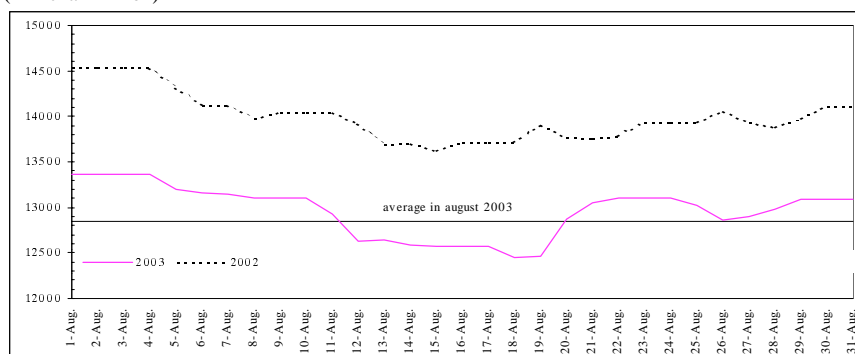
* Since there are no registered transactions, in certain days the average weighted interest rate on the Money Market equals zero.

Considerably lower turnover on the Money Market

In August 2003, the Money Market registered higher supply relative to the demand for liquid funds (the coverage of the demand with the supply equaled 1.18). Such movements resulted in monthly fall in the average weighted interest rate of 0.8 percentage points, thus equaling 8.5% in August 2003. In the course of the month, the demand exceeded the supply of liquid funds only in the days prior to the payment of the taxes and prior to the payment of the pensions. In August 2003, compared to the previous month, the turnover on the Money Market was substantially lower. Thus given the monthly decline in both the supply and the demand by 51.7% and 62.3%, the total turnover on the Money Market dropped by significant 60.4%. On the other hand, the bilateral interbank transactions on the non-institutionalized market went up.

Chart 12

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

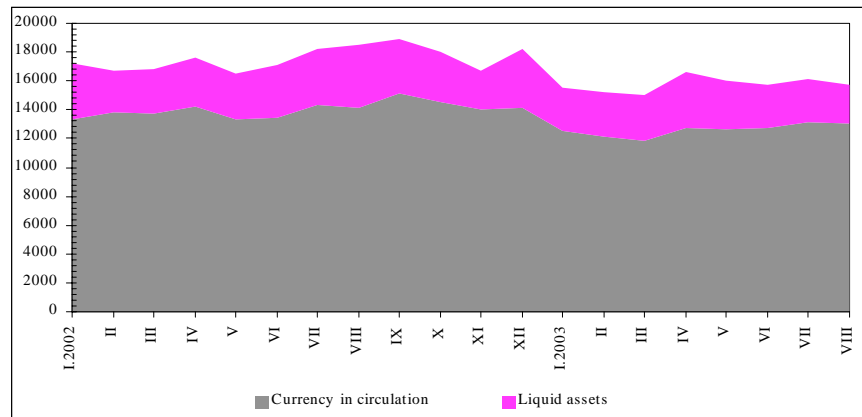


Decrease in the currency in circulation at the end of the month...

After the increase in the previous month due to seasonal factors, in August 2003, the currency in circulation dropped. Thus on August 31, 2003, they equaled Denar 13,059 million and compared to the preceding month they were by Denar 121 million or by 0.9% lower. The timeframe analysis indicates downward trend of the currency in circulation in the first half of the month, whereas the remaining period registered usual fluctuations. In August 2003, the average daily currency in circulation equaled Denar 12,966.9 million, which is an increase of Denar 126.2 million or 1% compared to the preceding month. On annual basis, the average daily level of currency in circulation was lower by Denar 1,034.1 million or by 7.4% (reflecting the effect of the abolishment of the financial transactions tax).



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.

*...as well as in the level of
reserve money*

Given the stabilization of the demand for currency in circulation, as well as the lower level of liquidity in the banking system, in August 2003, the level of currency in circulation dropped. Thus, at the end of the month, the reserve money equaled Denar 15,759 million, which is a monthly fall of Denar 337 million or 2.1%. Compared to the same month of the previous year, the reserve money fell by considerable Denar 2,778 million or by 15%.