



II. Monetary developments in the Republic of Macedonia²

Basic monetary indicators					
	30.04.2003	Monthly changes		Annual changes	
	In Denar million	In Denar million	in %	In Denar million	in %
Reserve money	16,622	1,591	10.6	-946	-5.4
Currency in circulation	12,723	862	7.3	-1,484	-10.4
Demand deposits	10,489	-144	-1.4	-662	-5.9
Money supply M1	23,212	718	3.2	-2,146	-8.5
Money supply M2 - denar	36,931	2,753	8.1	2,260	6.5
Money supply M2	65,395	3,676	6.0	6,366	10.8
Money supply M4	70,121	3,534	5.3	4,782	7.3
Total deposits	46,909	2,816	6.4	6,928	17.3
Short - term	42,183	2,958	7.5	8,512	25.3
Long - term	4,726	-142	-2.9	-1,584	-25.1
In Denar	17,032	1,793	11.8	4,397	34.8
In foreign currency	29,877	1,023	3.5	2,531	9.3
Total banks' placements	43,089	-786	-1.8	387	0.9
In Denar	36,739	-837	-2.2	749	2.1
In foreign currency	6,350	51	0.8	-362	-5.4
In percentage points					
Average weighted interest rate on the CB bills auctions (on 28 days)	7.01%	-2.59		-5.99	
Weighted average money market interest rate	10.59%	-1.60		-0.82	
Weighted banks' lending interest rates	17.25%	-0.01		-1.28	
Weighted banks' deposit interest rates	8.85%	-0.26		-0.57	

² The 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***Further reduction in the
NBRM interest rates*

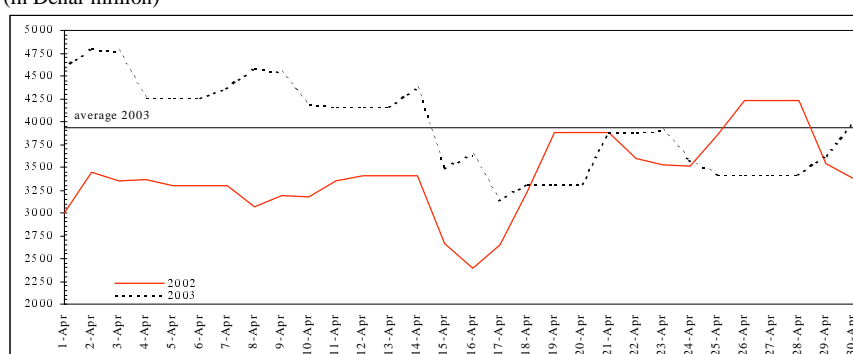
In April 2003, a Decision on further decrease in the NBRM interest rates was adopted aimed at further easing of the monetary policy, in line with the developments in the economy, and in the financial sphere, in particular. Thus, on April 8, 2003, the discount rate was reduced from 8% to 6.5%, while the interest rate on the Lombard credits (credits of last resort) went down from 17.5% to 16%. Also, since April 11, 2003, volume tender has been applied on the CB bills auctions, with a fixed interest rate of 7%. These changes in the NBRM monetary policy are expected to result in larger responsiveness of the banks and proportional reduction in their lending interest rates, in order to induce the economic activity in the country.

Table 1
Reserve money creation and withdrawal

	30.04.2003 (monthly changes, in Denar million)
Reserve money	1,591
Reserve money creation	1,591
Net domestic assets	153
Net foreign assets	694
CB' Bills auctions	729
Other	15

In April 2003, the monetary regulation was aimed at maintenance of the Denar exchange rate stability through the NBRM interventions on the foreign exchange market, taking into account the higher liquidity of the banks, lower interest in investing in CB bills and intensified budget spending. The adequate positioning of the monetary policy enabled successful achievement of the legally set objective – price stability (minimum average inflation rate of 0.1% in the first four months of 2003).

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

*Higher liquidity of the banks*

In April 2003, the average daily liquidity of the banking system amounted to Denar 3,937.5 million, which is an increase of 3% compared to the previous month. The monthly dynamics of the liquidity of the banks was determined by the Government budget expenditures and the movement of the currency in circulation. Thus, in the first half of the month, the liquidity of the banks was preserved at relatively high level (primarily due to the higher budget spending for repayment of the third installment and the interest on the bonds for the old foreign exchange savings, due on April 1 2003), which was gradually normalized in the middle of the month, while in the second half of the month it



was maintained below the average level. At the end of April 2003, the liquidity of the banking system reached Denar 3,899 million and registered substantial increase on both monthly and annual basis of 23% and 16%, respectively. In conformity with the high level of liquidity, at the end of the accounting period³, the banks allocated 28% over the compulsory reserve requirement.

The Government deposits with the NBRM dropped

In April 2003, the Government Denar deposits with the NBRM decreased by 8.8%, acting towards reserve money creation of Denar 983 million. The fall was due to the higher budget spending in April. The decrease was the most evident in the first half of the month, which corresponds with the high liquidity of the banks in this period.

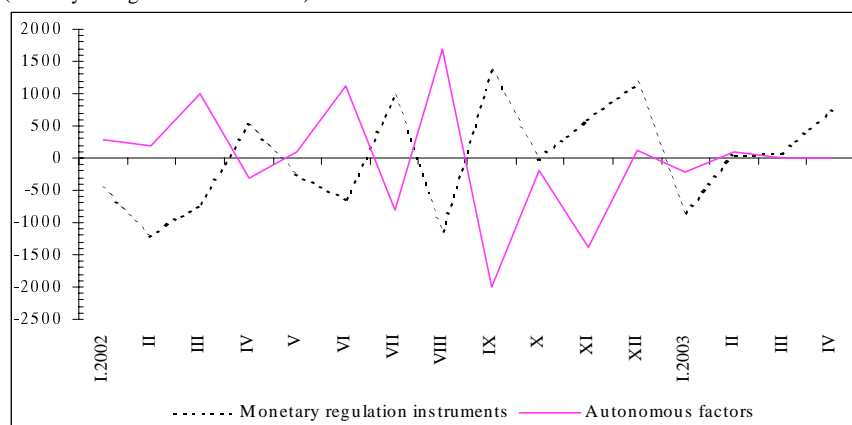
The NBRM foreign exchange transactions acted towards reserve money withdrawal

Unlike the preceding two months, in April 2003, the demand for foreign exchange was higher relative to the supply on the foreign exchange market, thus creating pressure for depreciation of the Denar exchange rate. In April the NBRM carried out a net sale of foreign exchange on the foreign exchange market, in order to preserve the Denar exchange rate stability, thus acting towards a withdrawal of the liquidity from the banking system.

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

Lower amount of CB bills sold at auction...

...and further decrease in the weighted interest rate on the CB bills...

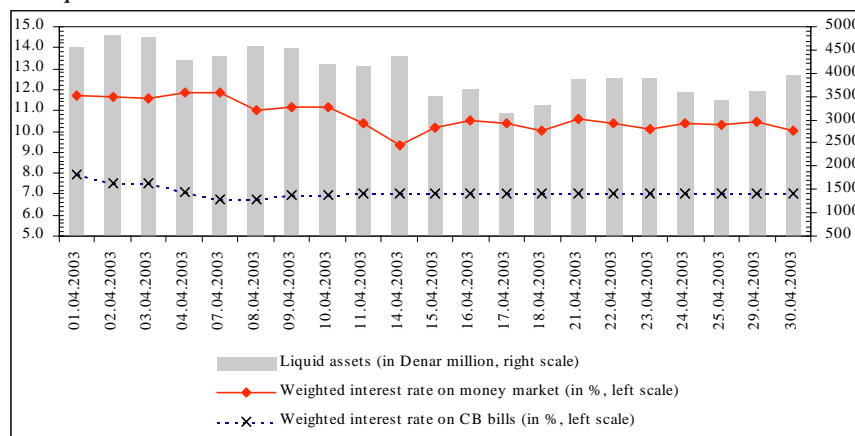
In April 2003, the total amount of CB bills sold at auction registered monthly fall of Denar 729 million (19.5%). With respect to the dynamics, in the first half of the month, the demand for CB bills was higher, which is in line with the increase in the liquidity of the banks in this period. Such movements caused continuous decrease in the interest rate in the first ten days of the month, and its reduction from 7.5% to 6.9%. Starting from the middle of the month (since the introduction of the “volume tender” with interest rate of 7%), the demand as well as the amount of CB bills sold at auction registered continuous decrease. Thereby, in April 2003, compared to the previous month, the average weighted interest rate on the CB bills auctions reduced by 2.6 percentage points, and equaled 7.0%. In addition, the maturity of the offered CB bills and the weekly dynamics of organizing auctions in April, remained the same (28 days, three times a week).

³ The accounting period of the compulsory reserve of the banks is from 11th in the current month till the 10th of the next month.



Chart 11

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

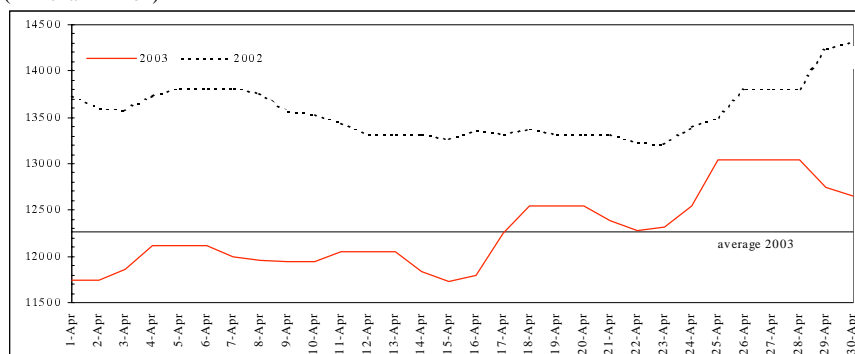


...and on the Money Market

The lower interest rate on the CB bills proportionately reduced the interest rate on the Money Market. Thus the average weighted interest rate on the Money Market reduced by 1.6 percentage points and equaled 10.6% in April 2003. Additionally, the Money Market registered identical fall of 11% in both the demand and the supply of liquid funds, with the discrepancy between the higher supply relative to the demand for liquid funds remaining at the level of the preceding month (26.1%). The decrease in the supply and the demand for liquid funds resulted in lower turnover on the Money Market by 9.6%, compared to the previous month. Thus, in April 2003, the turnover on the Money Market reduced to Denar 1,350 million, which is the lowest level since November 2001.

Chart 12

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

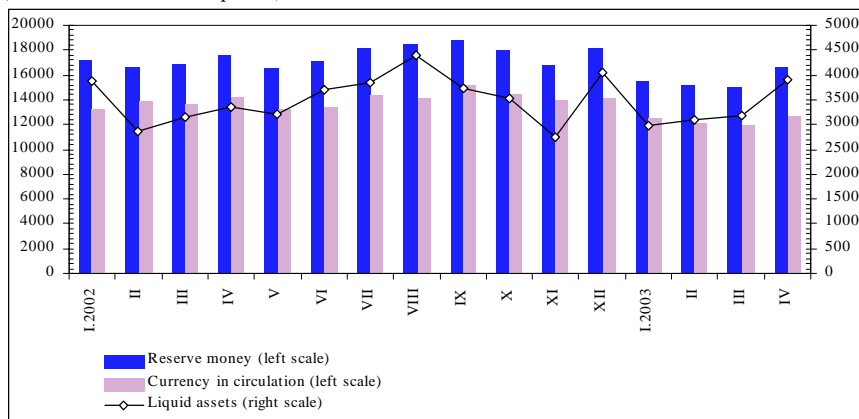


Increase in the currency in circulation

In April 2003, the currency in circulation registered monthly increase of Denar 862 million, or 7.3%, thus reaching Denar 12,723 million at the end of April. Simultaneously, in April, the average daily amount of currency in circulation was by Denar 282.5 million, or by 2.4% higher compared to March, and equaled Denar 12,266.6 million. Their monthly dynamics was primarily determined by the influence of the common seasonal factors, as well as the higher demand for currency in circulation in the last week of the month due to the Easter Holidays and immediately before the Labor's Day Holidays. In conformity with the lower demand for currency in circulation relative to the previous year, in April 2003 compared to the same month of 2002, the average daily amount of currency in circulation was by Denar 1,298.9 million or by 9.6% lower.



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



*Significant monthly increment
in the reserve money of 10.6%*

The increase in the currency in circulation and the liquidity of the banking sector in April 2003 significantly increased the reserve money by 10.6%, on monthly basis. On annual basis, in April 2003, compared to the same month of 2002, the reserve money was by 5.4% lower, due to the annual fall in the currency in circulation.