



II. Monetary developments in the Republic of Macedonia²

Basic monetary indicators					
	31.05.2003	Monthly changes		Annual changes	
	In Denar	In Denar	in %	In Denar	in %
	million	million		million	
Reserve money	15,994	-628	-3.8	-505	-3.1
Currency in circulation	12,600	-123	-1.0	-691	-5.2
Demand deposits	10,805	316	3.0	-839	-7.2
Money supply M1	23,405	193	0.8	-1,530	-6.1
Money supply M2 - denar	36,824	-107	-0.3	2,279	6.6
Money supply M2	65,688	293	0.4	6,678	11.3
Money supply M4	70,443	322	0.5	4,857	7.4
Total deposits	47,038	129	0.3	6,387	15.7
Short - term	42,283	100	0.2	8,208	24.1
Long - term	4,755	29	0.6	-1,821	-27.7
In Denar	16,717	-315	-1.8	3,758	29.0
In foreign currency	30,321	444	1.5	2,629	9.5
Total banks' placements	44,661	1,572	3.6	1,246	2.9
In Denar	38,229	1,490	4.1	1,620	4.4
In foreign currency	6,432	82	1.3	-374	-5.5
In percentage points					
Average weighted interest rate on the CB bills auctions (on 28 days)	7.00 %	-0.01		-6.00	
Weighted average money market interest rate	9.36 %	-1.23		-2.26	
Weighted banks' lending interest rates	16.57 %	-0.68		-1.86	
Weighted banks' deposit interest rates	8.72 %	-0.13		-0.71	

Source: National Bank of the Republic of Macedonia

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**

In May 2003, the monetary regulation and the monetary policy layout resulted in maintenance of the price stability (average inflation rate of only 0.2%) and the Denar exchange rate stability. The increased pressures on the foreign exchange market were eliminated through the adequate NBRM interventions, given the higher budget spending which resulted in higher interest in investing in CB bills.

Table 1
Reserve money withdrawal and creation

	31.05.2003 (monthly changes, in Denar million)
Reserve money	-628
Currency in circulation	-123
Bank liquidity	-505
Reserve money withdrawal	-1,494
Net domestic assets	-817
CB' Bills auctions	-670
Other	-7
Reserve money creation	866
Net foreign assets	866

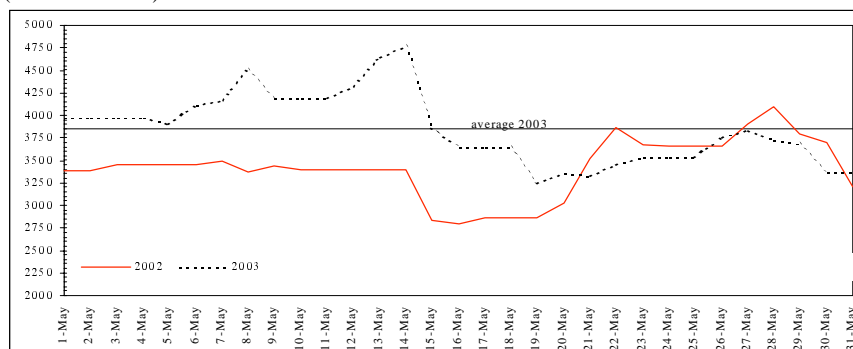
*Fall in the liquidity of the
banking system*

The average daily liquidity of the banks in May 2003 registered a monthly fall of 2.2% and equaled Denar 3,852.3 million. From the aspect of the daily dynamics of the liquidity of the banks, in the first week of the month the liquidity of the banks was stable (due to the non-working days of the Labor Day's Holiday) which kept it at higher level in the second week of the month (given the more intensive budget spending). In the middle of the month, the liquidity of the banks registered the usual decline, in line with the set deadline for settling the tax liabilities by the tax payers, whereby it remained at a lower level compared to the average one by the end of the month. At the end of May 2003, the liquidity of the banking system reduced to Denar 3,394 million, registering a significant drop of 12.9%, which partially normalized its level after the payment of the Government bond based on old foreign exchange savings in April. Compared to the end of May 2002, the liquidity of the banks went up by 5.8%. Thus at the end of the accounting period³, the banks' allocated compulsory reserve exceeds the set requirement by 16%, indicating satisfactory level of liquidity of the banking system.

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



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



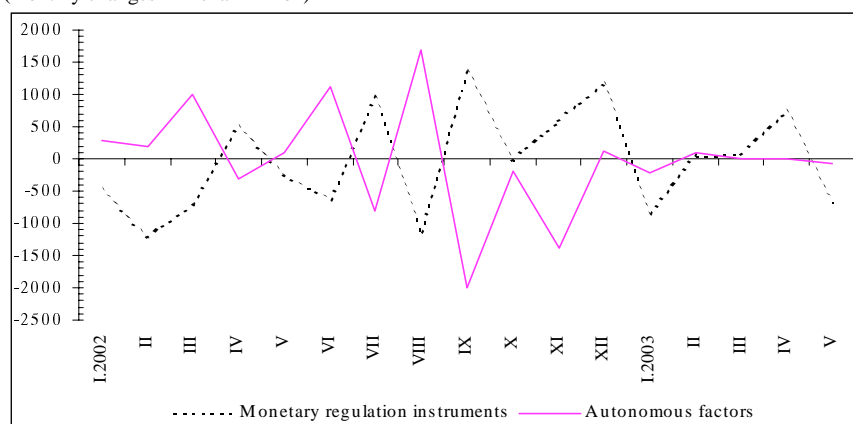
The Government Denar deposits with the NBRM were directed towards reserve money creation

Same as in the previous month, in May 2003 the Government Denar deposits with the NBRM acted towards reserve money creation, but with lower intensity. In May, they registered a decrease of 1.4% on a monthly basis, thus creating reserve money in the amount of Denar 139 million. More evident budget spending was registered in the second week of the month (payment of wages).

Reduction in the liquidity through the NBRM foreign exchange transactions

In May 2003, same as in the previous month, the foreign exchange market registered higher demand relative to the supply of foreign exchange. Consequently, the NBRM intervened on the foreign exchange market so as to meet the increased demand by a net-sale of foreign exchange. Therefore, the NBRM foreign exchange transactions acted towards withdrawal of liquidity from the banking system, thus preserving the Denar exchange rate stability.

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

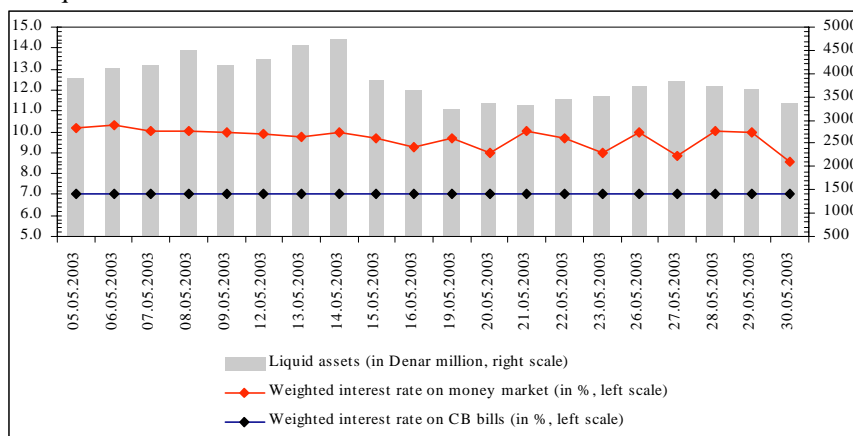
Liquidity withdrawal through the CB bills auctions

The increased demand for CB bills in May 2003 resulted in a 22.3% rise in the total amount of CB bills sold at auction, compared to the previous month. Thus Denar 670 million were withdrawn through this monetary regulation instrument. From the aspect of the daily changes, the amount of sold CB bills steadily increased during the month, with more intensive increment being registered in the first half of the month, which corresponds with the higher liquidity of the banks in the aforementioned period. Considering the applied type of auction based on the “volume tender” principle, the interest rate on the CB bills auctions was fixed in May 2003 and amounted to 7.0%. CB bills with 28 days of maturity were further offered, while the auctions were organized three times a week.



Chart 11

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

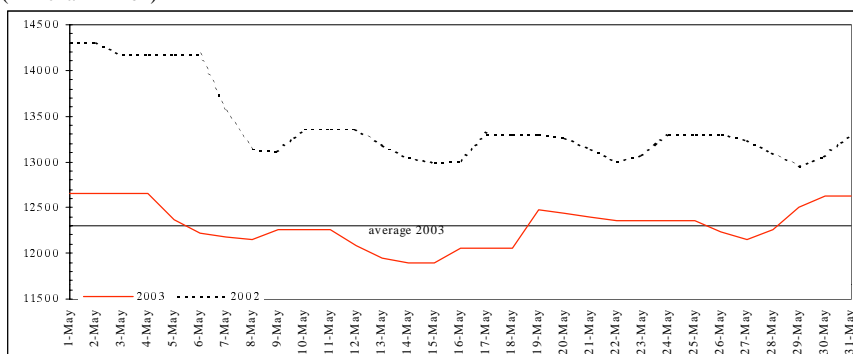


Reduction of the interest rate on the Money Market

In May 2003, the average weighted interest rate on the Money Market was by 1.2 percentage points lower compared to the preceding month and equaled 9.4%, which is a continuation of its downward trend. For the first time since the beginning of the year, the Money Market registered higher demand relative to the supply of liquid funds (by 18.5%). Compared to the previous month, the supply and the demand for liquid funds registered considerable decline (of 42.5% and 14.1%, respectively). It led to a drop in the turnover on the Money Market (of 27.5%), which in May 2003 reduced to Denar 978 million (the lowest level since September 2001).

Chart 12

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

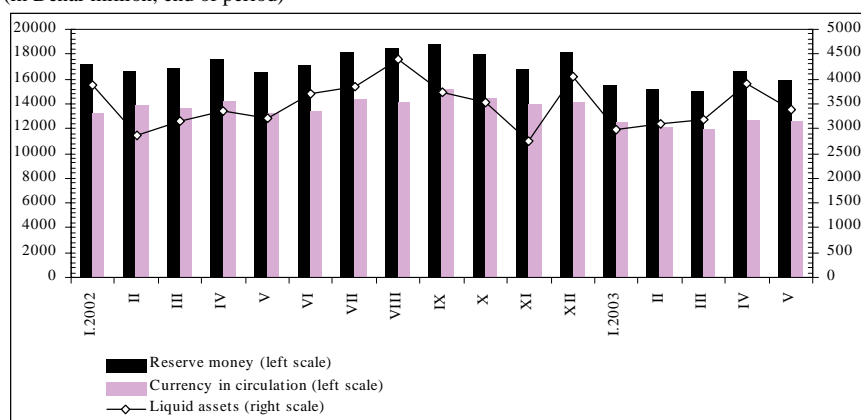


The currency in circulation is stable

In May 2003, the currency in circulation reduced by Denar 123 million (1.0%) compared to the preceding month and amounted to Denar 12,600 million on May 31, 2003. In May, the average daily amount of currency in circulation reached Denar 12,302.6 million, which is by Denar 36 million or by 0.3% more compared to April. No considerable oscillations in the daily dynamics were registered, except for the usual decrease in the demand for currency in circulation after the Labor Day's Holidays. The lower demand for currency in circulation in this year relative to the previous one, in May 2003, resulted in an annual fall in the average daily amount of currency in circulation of Denar 1,098.7, i.e. 8.2%.



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



*Monthly decrease in the
reserve money of 3.8%*

The more intensive fall in the liquidity of the banks, as well as the lower level of currency in circulation in May 2003, resulted in monthly fall in the reserve money of 3.8%. On annual basis, the lower level of currency in circulation in May 2003 resulted in an annual decline in the reserve money of 3.1%.