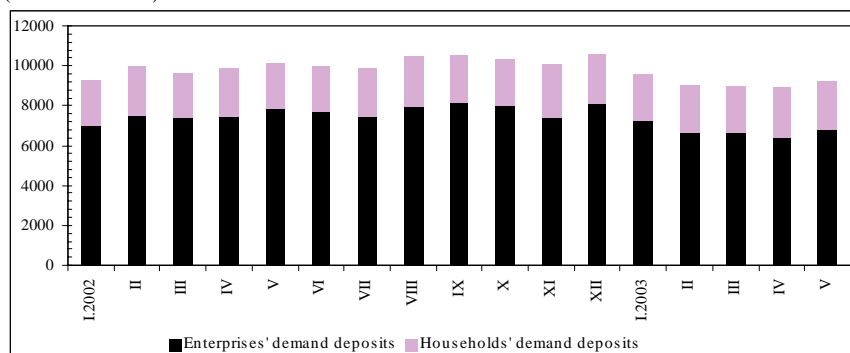


**2.2.****Monetary aggregates***Moderate increase in the monetary aggregate M1*

After the intensive increase in the preceding month, moderate monetary growth rate was registered in May 2003. Thus given the lower demand for currency in circulation, the moderate monthly increase in the money supply M1 (0.8%) is solely due to the higher level of demand deposits (current and giro accounts). After the increase in the previous month due to seasonal factors, the level of currency in circulation registered more moderate fall in May 2003 (of 1.0%). Compared to the same month of the previous year, the currency in circulation is by 5.2% lower. The increment in the demand deposits in May 2003 (of 3.0%) is solely due to the 6.3% increase in the amount of funds on the enterprises' transaction accounts (they are by 14.4% lower on annual basis). The monthly increment in the enterprises' demand deposits is partially due to the following: a. lower interest of the enterprises in investing in CB bills due to the lower yield (since mid-April 2003, the interest rate on the CB bills is fixed and equals 7.0%); and b. the moderate decrease in the propensity of the enterprises to save. Notwithstanding the lower intensity of the demand for currency in circulation, in May 2003, the households' demand deposits were lower by 4.2% on monthly basis, which corresponds with the further strengthening of the propensity of the households to save. From the aspect of the structure of the demand deposits, in May 2003 the share of the households' demand deposits equaled 22.6%, while the share of the enterprises' demand deposits equaled 62.6%.

Chart 14

Demand deposits of enterprises and households
(in Denar million)

*Lower share of currency in circulation in the money supply M1...**...and acceleration of the money multiplication process*

In May 2003, the share of the currency in circulation in the money supply M1 registered a decrease on monthly basis of 1 percentage point and equaled 53.8%. On annual basis, the share of the currency in circulation is by 0.5 percentage points higher. In May 2003, the money multiplication process intensified (the money multiplier of the money supply M1 equaled 1.46, while in the previous month it equaled 1.40).

Share of the currency in circulation in the money supply M1

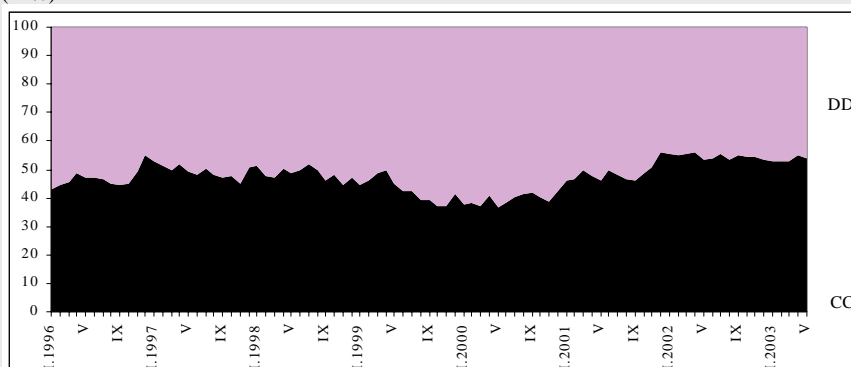
The share of the currency in circulation in the money supply M1 is an indicator of the preferences for holding cash, contrary to the preferences for handling cash-free payment instruments. Additionally, the high demand for currency in circulation indicates the considerable share of the cash transactions in the economy, which is one of the implicit indicators for the so-called "gray economy".



The share of the currency in circulation in the money supply M1 in the Macedonian economy remains permanently high. However, the stabilization of the economy, as well as the extension of the supply of banking products, resulted in a gradual decrease in the share of the currency in circulation in the money supply. Thus, over the 1998 – 2000 period, the average monthly share of the currency in circulation was registering continuous decline (from 48.5% in 1998 to 39.5% in 2000).

In 2001, the share of the currency in circulation resumed its upward trend. Given the security crisis, under the influence of psychological factors, larger amounts of cash were preferred. The cash conversion of the savings in Deutsche Marks prior to the introduction of the Euro, the reform of the payment operations (the transfer of the payment operations into the banks) at the end of 2001, as well as the introduction of the financial transaction tax, additionally acted towards further increase in the share of the currency in circulation in the money supply M1. The influence of these systemic factors, despite the expected temporary character, continued in the following period. Thus in 2002 and in the first five months of 2003, the average share of the currency in circulation equaled 54.2%, thus exceeding the average monthly share in the period between 1996 and 2000 (45.4%). In January 2003, the decrease in the currency in circulation resulted in an annual fall of its share of 2.8 percentage points, which is the highest annual fall registered in the last two and a half years.

Structural share of currency in circulation (CC)
and demand deposits (DD) in the money supply M1
(in %)



Such movements indicate the need for undertaking measures for reduction of the share of the currency in circulation in the money supply. Taking into consideration the autonomous character of the currency in circulation, it will also increase the NBRM capacity to manage the liquidity of the banking system.

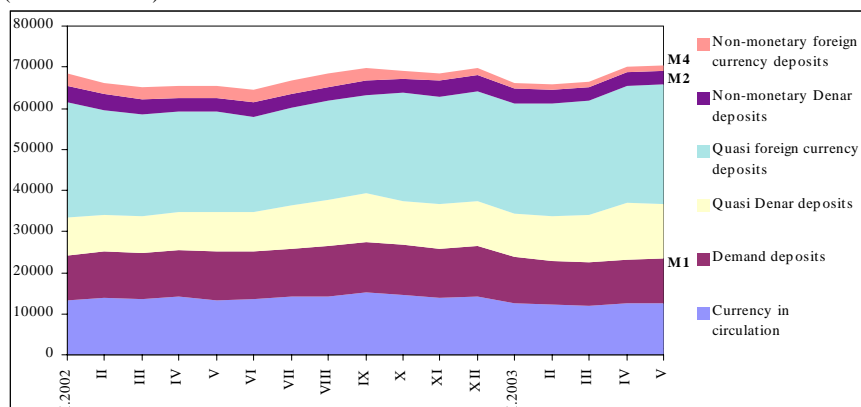
After the intensive positive dynamics in the previous month, in May 2003, the monetary aggregates M2 and M4 registered moderate increase. Thus the money supply M2 was higher by 0.4% on monthly basis, reflecting the strengthened propensity to save in foreign currency on a short run, contrary to the monthly decline in the short-term savings in domestic currency. In May 2003, the long-term deposits registered no considerable changes. The monthly growth rate of the money supply M4 equaled 0.5%. In line with the movements of the currency in circulation and the banks' deposit potential, in May 2003, the money multipliers of the money supply M2 and M4 were higher on monthly basis and equaled 4.11 and 4.40, respectively (3.93 and 4.22, respectively, in the preceding month). From the aspect of the annual dynamics, the monetary aggregates further register high annual growth rates (in May 2003 they equaled 11.3% and 7.4%, respectively).

*The monetary aggregates
M2 and M4 enhanced on
both the monthly and the
annual basis*



Chart 15

Monetary aggregates and their components
(in Denar million)



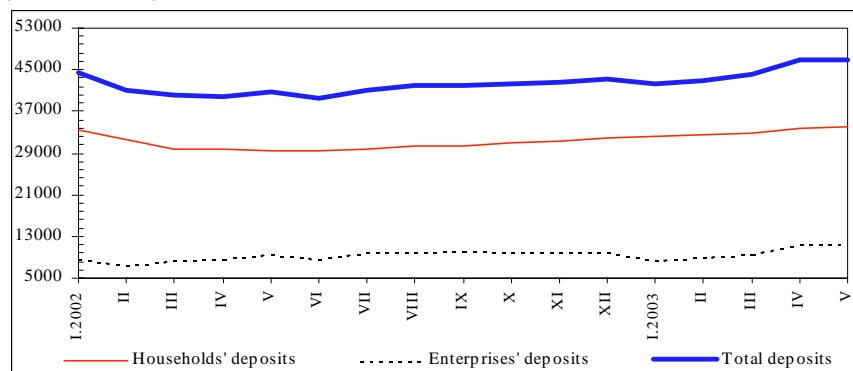
*Moderate increase in the
banks' deposit potential...*

*...entirely due to the higher
level of foreign exchange
deposits*

The upward trend of the banks' deposit potential⁴ continued in May 2003, in substantially more moderate dynamics. Thus the monthly growth rate of the total deposits of the non-government sector equaled 0.3%. Excluding the Denar deposits, an increase was registered in all other deposit categories. In May 2003, compared to the preceding month, no changes were registered in the maturity structure. Thus the share of the short-term deposits equaled 89.9%. From the aspect of currency of denomination, in line with the monthly decline in the Denar deposits, the share of the foreign exchange deposits registered an increase of 0.8 percentage points, reaching 64.5% at the end May 2003. The increasing significance of the saving in the Macedonian economy is confirmed with the further maintenance of high annual growth rate of the deposit potential of the banks, which in May 2003 equaled 15.7%.

Chart 16

Deposit timeframes
(in Denar million)



*Moderate increase in the
households' deposits...*

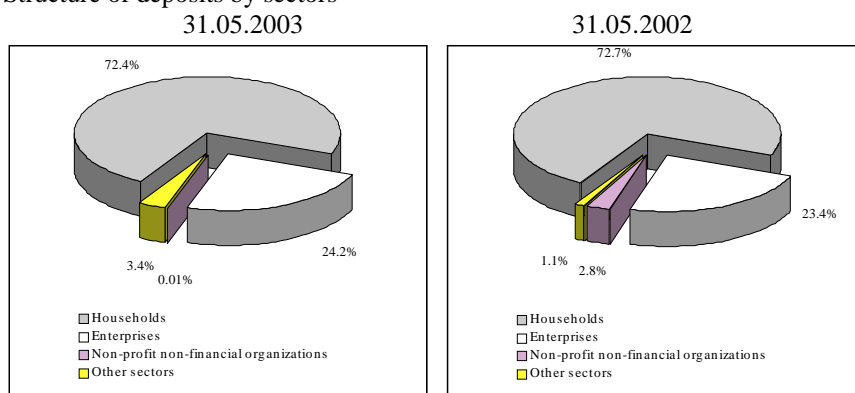
After the acceleration of the monthly dynamics of increase in the households' deposits in the previous month (given the high inflows on the households' accounts, on the basis of payment of a part of the Government bonds for old foreign exchange savings), in May 2003 they were by 0.5% higher on monthly basis. Given the decline in the long-term deposits of the households (of 0.5%), the higher level of the households' deposits was due to the further strengthening of the propensity to save on a short run (increase in the short-term deposits of 0.6%). With respect to the currency of denomination, increase of 0.9% was registered in the Denar deposits, primarily due to depositing funds with one to three months of maturity. The increase in the households' foreign

⁴ The total deposits of the non-government sector cover short-term and long-term (Denar and foreign currency) deposits of the economic agents (excluding the demand deposits).



exchange deposits (0.4%) was primarily due to the higher level of foreign exchange sight deposits. Compared to the same month of the previous year, the total households' deposits are by 15.3% higher.

Chart 17
Structure of deposits by sectors



*...and moderate decline in
the enterprises' deposits*

In May 2003, the total enterprises' deposits registered moderate monthly decrease of 0.5%. From the aspect of the maturity structure, the decrease is due to the lower level of short-term deposits (monthly fall of 1.1%), whereas the long-term deposits were higher by 8.9% on a monthly basis. Redistribution of the funds from the Denar (fall in the Denar deposits of 5.4%) to the foreign exchange accounts (higher level of the foreign exchange deposits by 7.3%) was registered. Thus, contrary to the decline in the Denar sight deposits and in the time deposits with maturity from one to three months in domestic currency, in May 2003, the foreign exchange sight deposits and the time deposits with maturity of up till one month in foreign exchange registered an increase. On annual basis (May 2003 / May 2002) the enterprises' deposits are by 19.5% higher.