



II. Monetary developments in the Republic of Macedonia²

Basic monetary indicators					
	31.07.2003	Monthly changes		Annual changes	
	In Denar million	In Denar million	in %	In Denar million	in %
Reserve money	16,096	391	2.5	-2,075	-11.4
Currency in circulation	13,180	454	3.6	-1,156	-8.1
Demand deposits	11,480	125	1.1	-39	-0.3
Money supply M1	24,660	579	2.4	-1,195	-4.6
Money supply M2 - denar	38,644	928	2.5	2,297	6.3
Money supply M2	68,962	1,624	2.4	8,765	14.6
Money supply M4	73,687	1,845	2.6	6,893	10.3
Total deposits	49,027	1,266	2.7	8,088	19.8
Short - term	44,302	1,045	2.4	9,960	29.0
Long - term	4,725	221	4.9	-1,872	-28.4
In Denar	17,303	380	2.2	3,443	24.8
In foreign currency	31,724	886	2.9	4,645	17.2
Total banks' placements	46,443	1,159	2.6	1,972	4.4
In Denar	39,700	1,094	2.8	1,877	5.0
In foreign currency	6,743	65	1.0	95	1.4
In percentage points					
Average weighted interest rate on the CB bills auctions (on 28 days)	7.00%	0.00		-4.96	
Weighted average money market interest rate	9.34%	0.18		-2.99	
Weighted banks' lending interest rates	15.55%	-0.28		-2.69	
Weighted banks' deposit interest rates	7.41%	-0.07		-2.20	

Source: National Bank of the Republic of Macedonia

² 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**

The monetary policy layout and the adequate application of the monetary regulation instruments in July 2003 contributed to further successful achievement of the primary, legally determined, goal of the monetary policy – maintenance of the price stability. The average inflation rate of 0.6% registered in July 2003, the stable level of the Denar exchange rate and the further reduction in the banks' interest rates create favorable economic environment directed towards stimulation of the economic development. From the aspect of the monetary regulation, the liquidity in the banking system in July created on the basis of the NBRM transactions on the foreign exchange market (net-purchase of foreign exchange) was a compensations for the lower budget spending and the higher demand for currency in circulation caused by seasonal factors.

Table 1
Reserve money creation and withdrawal

	31.07.2003 (monthly changes, in Denar million)
Reserve money	391
Currency in circulation	454
Bank liquidity	-63
Reserve money withdrawal	1,362
Net domestic assets	1,301
CB' Bills auctions	18
Other	43
Reserve money creation	-971
Net foreign assets	-971

Lower banks' liquidity...

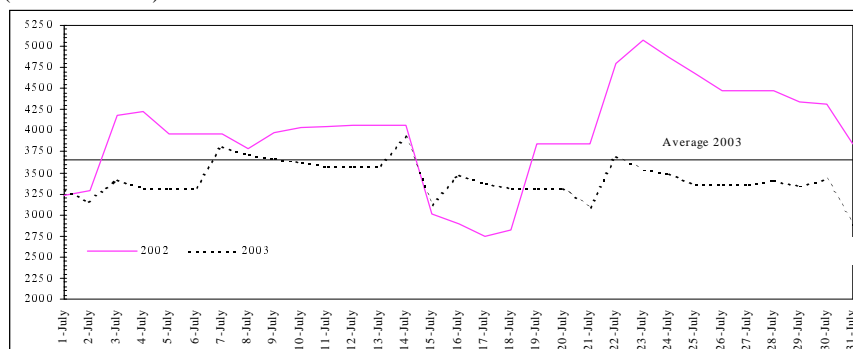
July 2003 is a third month in a row in which the liquidity of the banks registers a decrease on monthly basis. Thus the average daily amount of liquid funds of the banks in July compared to June dropped by 6.1% and reduced to Denar 3,425.5 million. From the aspect of the daily dynamics, the movement of the liquidity of the banks in this month registered no considerable oscillations and was primarily under the influence of the common factors (usual budget expenditures, payment of taxes in the middle of the month and the usual payment of pensions). At the end of July 2003, the liquidity of the banking system amounted to Denar 2,916 million, which is by 2.1% lower relative to the end of the preceding month. Compared to the same month of 2002, the level of liquidity in the banking system in July 2003 registered substantial annual fall of 24%.

Notwithstanding the drop in the liquidity in the banking sector, at the end of the accounting period³ for July, the banks allocated 26.7% over the set compulsory reserve requirement in Denar. However, the substantial amount of excess funds allocated for this purpose is lower compared to the excess in the previous month (by 7.3 percentage points), which is an indicator that the banks gradually adjust to the changes, taking into account that July is the second month in which the new lower compulsory reserve requirement is applied.

³• 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)



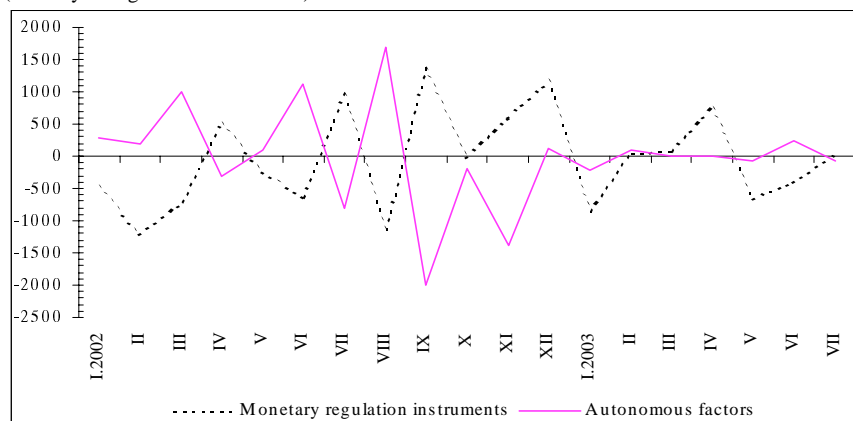
...in line with the increase in the Government Denar deposits with the NBRM

In July 2003, the Government Denar deposits with the NBRM acted towards withdrawal of the liquidity from the banking sector, in line with their increase of 19.3%. The increment in the Government deposits reflects the lower budget spending during the summer period. With respect to the dynamics, in the first half of the month they registered a tendency of slight decrease, followed by a moderate increase in the middle of the month, while till the end of the month they remained relatively stable.

Liquidity creation through the NBRM foreign exchange transactions...

Unlike the previous three months, in July 2003 the supply exceeded the demand for foreign exchange on the foreign exchange market. In order to maintain stable Denar exchange rate, the NBRM intervened on the foreign exchange market by a net-purchase of foreign exchange, which resulted in creation of Denar liquidity.

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

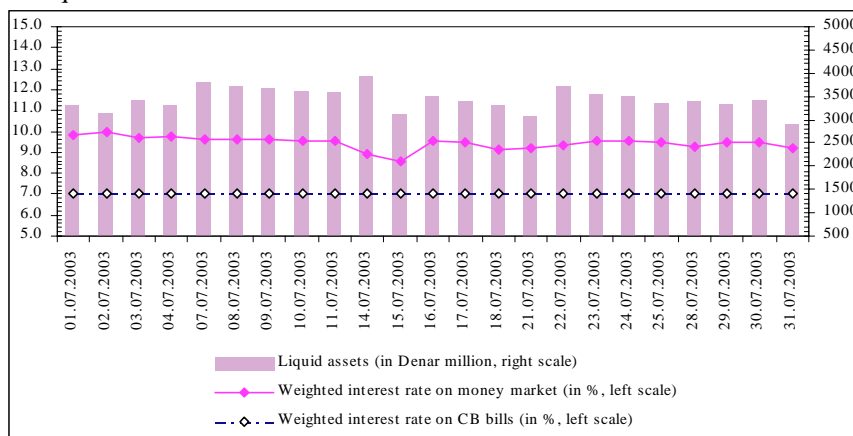
...and through the CB bills auctions

In July, the CB bills auctions acted towards liquidity creation. The lower demand for CB bills resulted in modest decrease in the total amount of CB bills sold at auction (by Denar 18 million, or by 0.4%), equaling Denar 4,061 million at the end of July. From the aspect of the daily movements, in the first half of July, the amount of sold CB bills registered moderate growth. In conformity with the movement of the liquidity, however, in the remaining part of the month, the demand for CB bills was lower. Same as in the previous month, in July, “volume tender” auctions were organized three times a week, with fixed interest rate of 7.0% and maturity of 28 days.



Chart 11

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

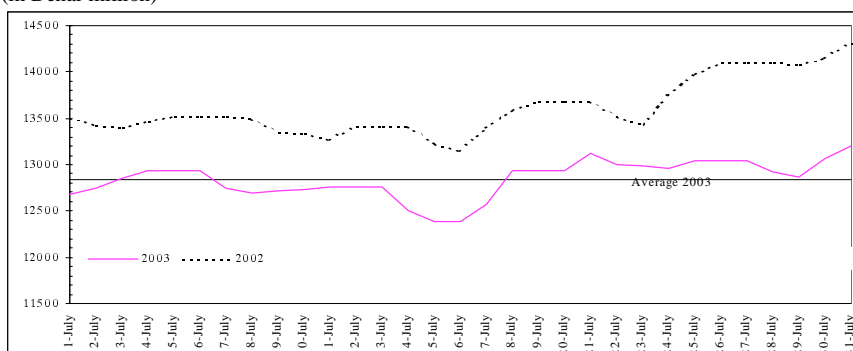


The interest rate on the Money Market almost unchanged

In July, the average weighted interest rate on the Money Market equaled 9.3%, and was almost unchanged compared to the preceding month. In the course of the month, the demand exceeded the supply of liquid funds (by 8.9%), with the supply being almost fully realized. Compared to the previous month, lower supply and demand for liquid funds (by 14.5% and 10.8%, respectively) was registered in July. Consequently, the turnover on the Money Market was by 12.2% lower and amounted to Denar 1,204.8 million.

Chart 12

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

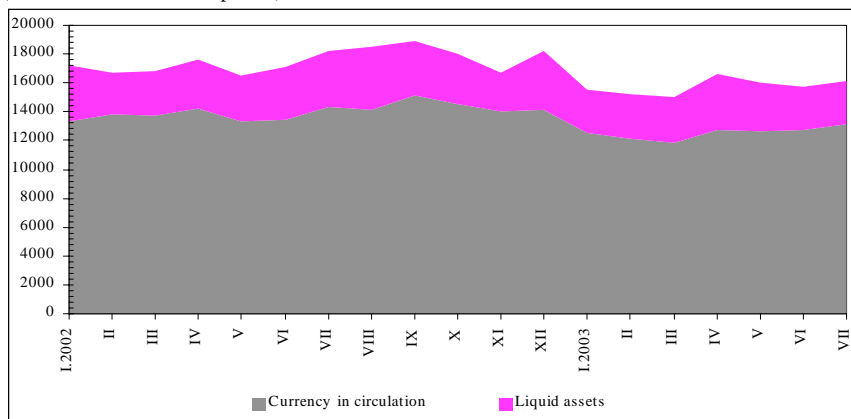


Increase in the currency in circulation due to seasonal factors

At the end of July 2003, the level of currency in circulation reached Denar 13.180 million, which is a monthly fall of Denar 454 million, or 3.6%. Its increase is common for this month of the year, when the demand for currency in circulation is higher due to the summer vacations. Thus, the daily dynamics of movement of the currency in circulation was moderate in June and primarily oscillated around the average daily level of Denar 12,840.7 million. Compared to the previous month, the average daily level of currency in circulation in July was higher by Denar 316.2 million or by 2.5% while compared to the same month of the previous year, it was lower by Denar 772.9 million or 5.7%.



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



*Increase in the reserve money
of 2.5%*

The movement of the reserve money in July 2003 was determined by the divergent movements of its both components, in line with their structural share. Thus the evident monthly growth in the currency in circulation, as a dominant component, given the lower liquidity in the banking system, resulted in a monthly increase in the reserve money of Denar 391 million or 2.5%. On annual basis, the reserve money further register high annual fall (by 11.4%) due to the lower level of currency in circulation and the decreased liquid funds of the banks.