

**2.2.****Monetary aggregates**

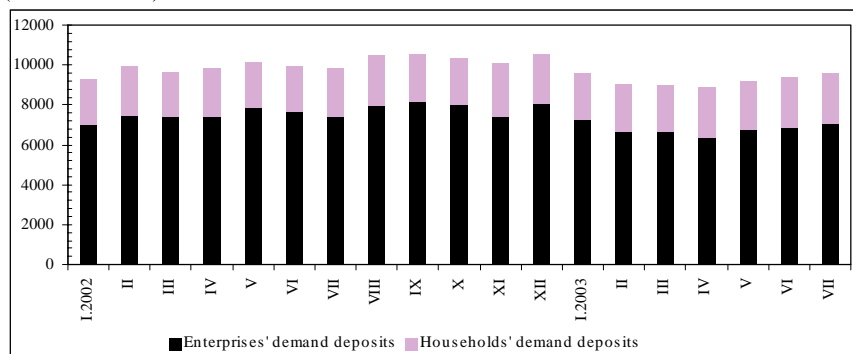
The accelerated demand for currency in circulation (under the influence of seasonal factors), the higher level of enterprises' transaction deposits (given the registered acceleration of the economic activity), as well as the increase in the saving in the banking system, in July 2003 resulted in positive monthly dynamics of the monetary aggregates.

In July 2003, the demand for currency in circulation further intensified. Thus compared to the preceding month the level of currency in circulation was by 3.6% higher. The positive monthly dynamics of the currency in circulation was primarily due to the seasonal effects in the period of summer vacations and prior to the Ilinden Holidays. However, on annual basis, their level is lower by considerable 8.1%. The increase in the demand deposits (current and giro accounts) was less intensive and equaled 1.1% (compared to the same month of the previous year they are by 0.3% lower). The dynamics of the total demand deposits was under the prevailing influence of the change in the enterprises' demand deposits, given the moderate increment in the households' demand deposits (monthly increase of 0.5%). Thus given the registered acceleration of the economic activity (monitored through the development of the industrial output), in July 2003, the enterprises' demand deposits registered monthly increase of 3.4%. From the aspect of the annual dynamics, contrary to the higher level of households' demand deposits (4.8%), the enterprises' demand deposits registered annual fall of 4.7%, which is a slowdown in the annual fall of 5.8 percentage points. In the structure of the total demand deposits, the households' demand deposits make up 22.1%, while the share of the enterprises' demand deposits equals 61.6%. Such movements in the currency in circulation and the demand deposits resulted in monthly increase in the money supply M1 of 2.4%, whereas on annual basis it was by 4.6% lower.

In July 2003, the money supply M1 was higher by 2.4% on monthly basis

Chart 14

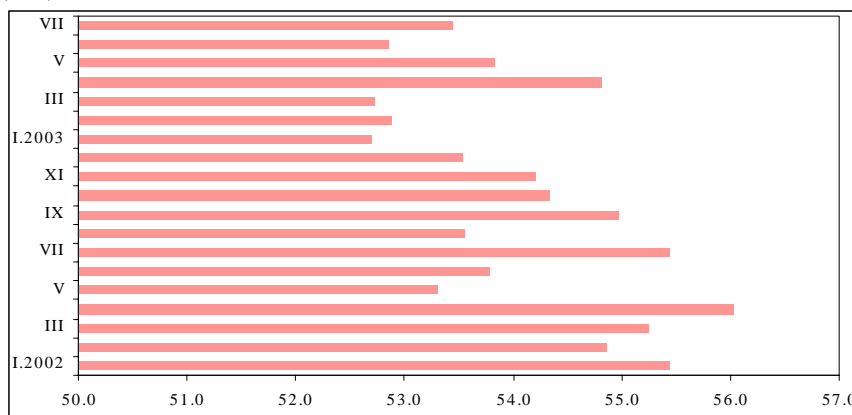
Demand deposits of enterprises and households
(in Denar million)



The significant intensity of growth in the currency in circulation, relative to the increase in the transaction deposits in July 2003, resulted in monthly growth in the share of the currency in circulation in the money supply M1 of 0.6 percentage points, thus equaling 53.4% at the end of the month (on annual basis, the share of the currency in circulation was lower by 2 percentage points). From the aspect of the money multiplication, in July 2003, the money multiplier of the money supply M1 equaled 1.53, which is identical to that in the previous month.



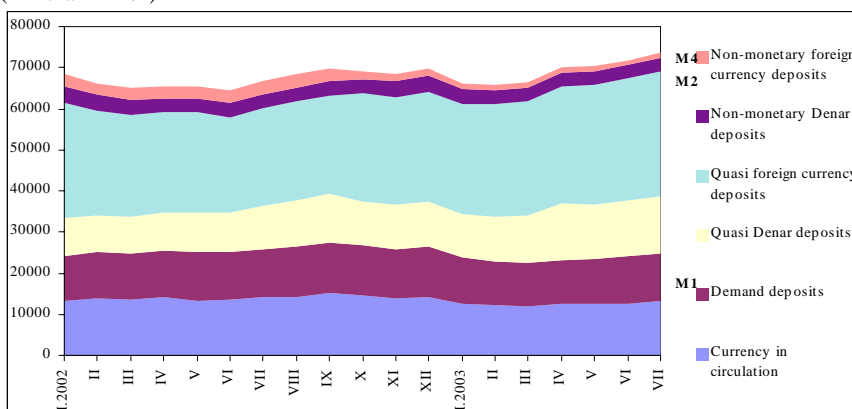
Chart 15
Share of currency in circulation (CC)
in the money supply M1
(in %)



The upward trend of the broader monetary aggregates M2 and M4 continues

The increase in the currency in circulation and the transaction accounts, supplemented with the further increase in the banks' deposit potential resulted in positive monthly change in the monetary aggregates M2 and M4. Thus, the preferences of the economic agents to save on a short run resulted in monthly increase in the money supply M2 of 2.4%. The insignificant increase in the long-term saving in domestic currency and the increment in the enterprises' restricted deposits for foreign exchange remittances led to a monthly growth in the money supply M4 of 2.6%. In July 2003, the dynamics of the monetary multiplication process was almost identical as in the previous month, with the money multipliers of the money supply M2 and M4 equaling 4.28 and 4.58, respectively. Compared to the same month of the previous year, the monetary aggregates M2 and M4 are higher by 14.6% and 10.3%, respectively, reflecting the further acceleration of the preferences to short-term savings.

Chart 16
Monetary aggregates and their components
(in Denar million)



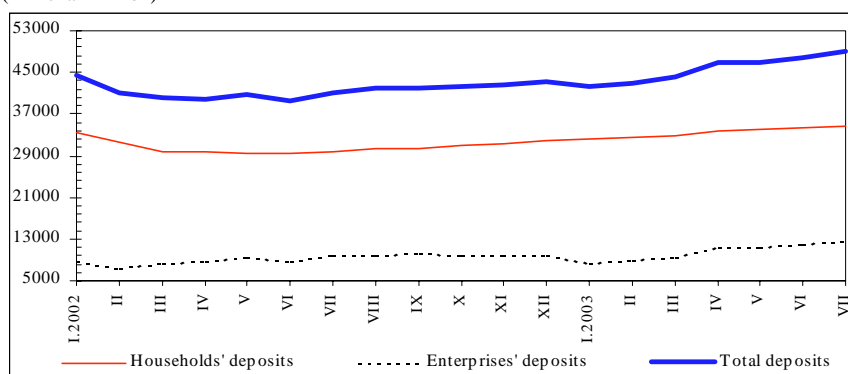


*Strengthened acceleration
of the deposit potential of
the banks...*

*...given the higher level of
short-term and long-term
deposits of the non-
government sector*

In July 2003, the monthly growth rate of the total deposits of the non-government sector⁴ intensified. Thus the banks' deposit potential was by 2.7% higher on monthly basis. From the aspect of the maturity structure and the structure of the currency of denomination, an increase was registered in all types of deposits. As a response to the changes in the banks' interest rate policy, the short-term Denar deposits registered redistribution from time deposits with maturity of up to one month to sight deposits. Although the higher level of the long-term deposits was almost solely generated from the enterprises' deposits intended for foreign exchange remittances, the long-term households' deposits also registered slight increase. In the maturity structure, the share of the short-term deposits in the total deposits equaled 90.4% which is by 0.2 percentage points lower on monthly basis. From the aspect of the currency of denomination, the foreign exchange deposits remain dominant (in July 2003, their share equaled 64.7% and compared to the preceding month remained almost unchanged). On annual basis, the banks' deposit potential is by considerable 19.8% higher.

Chart 17
Deposit timeframes
(in Denar million)



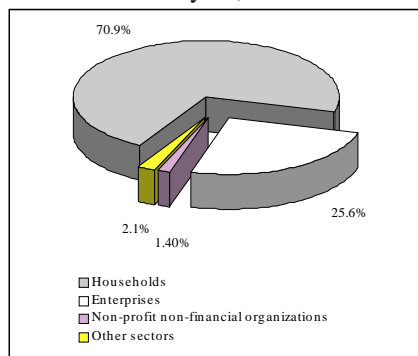
*Monthly and annual
increase in the
households' deposits*

In July 2003, the total households' deposits registered monthly increase of 1.7%. Thus the most intensive positive dynamics was registered in the short-term deposits in foreign currency, primarily as a result of the accumulation of foreign exchange on the sight deposit accounts. The households' short-term time deposits were by 1.8% higher on monthly basis, whereas the long-term time deposits registered less intensive increase (0.7%). With respect to the currency of denomination, the deposits in domestic currency registered no change, whereas the foreign exchange deposits were higher by 2.2% on monthly basis. The higher level of time deposits with maturity of six months in domestic currency was fully compensated with the decrease in the Denar sight deposits. The solid credibility of the banking system, as well as the increasing importance of the savings within the banking system are confirmed with the further maintenance of the high annual growth rate of the total households' deposits (in July 2003 it equaled 17.1%).

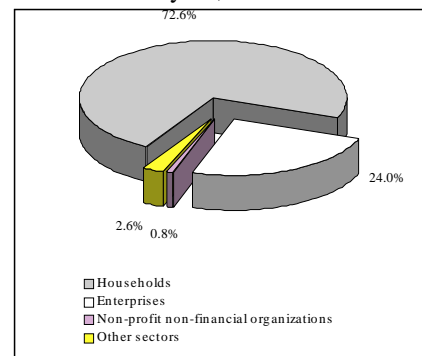
⁴ The total deposits of the non-government sector cover short-term and long-term (Denar and foreign currency) deposits of the economic agents (excluding the demand deposits).



Chart 18
Structure of deposits by sectors
July 31, 2003



July 31, 2002



*Evident responsiveness of
the enterprises' deposits to
the banks' interest rate
policy*

Same as in the previous month, in July 2002, the total enterprises' deposits were higher on both monthly and annual basis (5.2% and 27.7%, respectively). Higher level was registered in all types of deposits. With respect to the maturity structure, the short-term deposits were by 3.7% higher on monthly basis, whereas the increase in the long-term deposits was more intensive and equaled 28.6%. As a response to the changes in the banks' interest rate policy layout (decrease in the interest rates on the time deposits with maturity of up to one month) within the short-term Denar deposits, a redistribution of funds from the time deposits with maturity of up to one month to the sight deposit accounts was registered. Movements in the same direction were also registered in the short-term deposits in foreign exchange. The higher amount of funds for foreign exchange remittances was the primary determinant of the monthly increase in the enterprises' long-term deposits. With respect to the currency of denomination, both Denar and foreign exchange enterprises' deposits went up on a monthly basis by 4.5% and 6.1%, respectively.