



Macroeconomic Developments in the Republic of Macedonia in July 2003

The trend of achieving positive performances in the real sector of the economy remained in July 2003, as a continuation of the commenced process of consolidation of the Macedonian economy. Thus more considerable monthly increase in the output and foreign trade activity was registered in July, which resulted in acceleration of their cumulative growth rates. Thus the volume of the industrial output in the January – July 2003 period is by 5.2% higher compared to the same period of 2002. Simultaneously, the foreign trade is cumulatively higher by 21.5% in the analyzed period, with more evident increase being registered in the exports (24.6%) compared to the increment in the imports (19.7%).

The movement of the inflation in July was under the influence of the significant fall in the prices of agricultural products (primarily vegetables) caused by seasonal factors, which prevailed compared to the increment in the prices of electricity for households (due to the commenced actual application of the new VAT rate for this category), so that in July, monthly deflation rate of 0.2% was registered. In the January – July 2003 period, the average inflation rate of 0.6% represents proper achievement of the legally defined goal of the monetary policy – maintenance of the price stability. In line with the exchange rate targeting strategy, in July the exchange rate of the Denar against the Euro on the foreign exchange market was stable and remained at a level of Denar 61.24 per one Euro, given the higher supply relative to the demand for foreign exchange.

The trend of reducing the banks' interest rates continued in June, however with considerably lower intensity. The average weighted Denar lending interest rate in July was by 0.3 percentage points lower and equaled 15.5%. The average weighted Denar deposit interest rate registered minimum monthly fall, thus remaining at almost same level as in the previous month (7.4%). The simultaneous decline in the lending and deposit interest rates resulted in almost unchanged level of the interest rate margin (8.1 percentage points). The interest rate on the Money Market remained at relatively unchanged level (9.3%) given the increased activity on the Money Market, while the interest rate on the CB bills auctions was again fixed in July and equaled 7%. In line with the lower level of liquidity in the banking sector in the month, the amount of sold CB bills registered modest decrease.

Further increase in the total deposit potential of the banks was registered in July, as a basis for an increase in their credit activity. Given the more intensive increase in the enterprises deposits (5.2%) compared to the increment in the households deposits (1.7%), the total deposits with the banks registered monthly increase of 2.7% in July. The total banks' placements registered an increase of 2.6% given the substantially more evident growth in the Denar credits (2.8%) compared to the foreign exchange credits (1.0%).

The higher demand for currency in circulation due to seasonal factors (summer vacations) resulted in monthly increase in the reserve money (2.5%) in July. Consequently, the money supply M1 was by 2.4% higher. The higher short-term and long-term saving contributed to enhancing the broader monetary aggregates M2 and M4, as well, which registered monthly increase of 2.4% and 2.6%, respectively. Considering the almost identical monthly increase in the monetary aggregates and the reserve money, the money multipliers remained unchanged compared to the previous month. On annual basis, except for the money supply M1 which dropped due to the lower level of currency in circulation, the other monetary aggregates M2 and M4 registered significant increase (14.6% and 10.3%, respectively) in line with the essentially higher level of saving on a short run.

Amendments to the Law on the National Bank of the Republic of Macedonia*

In July 2003, important amendments to the Law on the National Bank of the Republic of Macedonia (NBRM) were adopted aimed at increasing the independence of the NBRM, as well as larger transparency in its operations.

With the amendments, the NBRM gained full independence in the establishment of the Denar exchange rate policy, which, so far, required prior approval of the Government of the Republic of Macedonia. The second relevant aspect of the higher independence of the NBRM pertains to the appointment of Vice-Governors, which,



according to the preceding legal provisions was made at proposal of the President of the Republic of Macedonia, while the amendments allow the Vice-Governors to be appointed at a proposal of the Governor.

The supervisory function of the NBRM is supplemented with rights and responsibilities for issuance and revocation of founding and operating license of a bank and a savings house and for status changes in line with the Banking Law, for which the NBRM is required to submit written notification to the Ministry of Finance. The NBRM was given an opportunity for more extensive exchange of information with domestic supervisory agencies and agencies from other countries regarding the supervision of the internationally active banks. Also, in order to monitor the financial system, the NBRM is required to inform the Ministry of Finance on the applied supervisory measures and to submit data on the performances of the banking system (on quarterly basis).

Larger transparency in the NBRM operations is also acquired through the amendments that provide for the Governor of the NBRM to convene with the competent commissions in the Parliament of the Republic of Macedonia, at least twice a year, in order to inform them on the NBRM operations.

From the aspect of the operations of the NBRM Council, the amendments abolished the provision according to which two of the six external members were to be professionally engaged in the Council. The Council members are persons that graduated from the economics or law school and persons with working experience of at least five years (in the last ten years prior to the appointment) in the area of finance, banking or scholarly work in the area of economics. Simultaneously, all Council members, as well as the Vice-Governor who is not a member of the Council, during the term of office, as well as two years after the dismissal, may not be members of managing bodies, employ in or found a bank or a savings house.

Unlike so far, the NBRM is committed to publish all reports it submits to the Parliament of the Republic of Macedonia not later than six months after the expiration of the period for which they were prepared (previously, this commitment applied only to the semi-annual and the annual report on the operations).

*Official Gazette of the Republic of Macedonia no. 51/2003 of July 31, 2003, in force since August 8, 2003.