



## II. Monetary developments in the Republic of Macedonia<sup>6</sup>

<b>Basic monetary indicators</b>					
	<b>30.09.2003</b>	<b>Monthly changes</b>		<b>Annual changes</b>	
	<b>In Denar million</b>	<b>In Denar million</b>	<b>in %</b>	<b>In Denar million</b>	<b>in %</b>
<b>Reserve money</b>	16,434	675	4.3	-2,440	-12.9
<b>Currency in circulation</b>	13,046	-13	-0.1	-2,088	-13.8
<b>Demand deposits</b>	11,867	31	0.3	-532	-4.3
<b>Money supply M1</b>	24,913	18	0.1	-2,620	-9.5
<b>Money supply M2 - denar</b>	38,892	192	0.5	-366	-0.9
<b>Money supply M2</b>	70,702	473	0.7	7,541	11.9
<b>Money supply M4</b>	75,532	721	1.0	5,899	8.5
<b>Total deposits</b>	50,619	703	1.4	8,519	20.2
<b>Short - term</b>	45,789	455	1.0	10,161	28.5
<b>Long - term</b>	4,830	248	5.4	-1,642	-25.4
<b>In Denar</b>	17,316	181	1.1	2,109	13.9
<b>In foreign currency</b>	33,303	522	1.6	6,410	23.8
<b>Total banks' placements</b>	47,681	641	1.4	1,468	3.2
<b>In Denar</b>	40,813	689	1.7	2,503	6.5
<b>In foreign currency</b>	6,868	-48	-0.7	-1,035	-13.1
<b>In percentage points</b>					
<b>Average weighted interest rate on the CB bills auctions (on 28 days)</b>	7.00 %	0.00		-2.51	
<b>Weighted average money market interest rate</b>	7.41 %	-1.11		-3.42	
<b>Weighted banks' lending interest rates</b>	15.29 %	-0.21		-2.91	
<b>Weighted banks' deposit interest rates</b>	7.37 %	0.01		-2.16	

Source: National Bank of the Republic of Macedonia

<sup>6</sup> From January 2003 analysis of the banks' monetary developments, (banks' 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 price stability (in September 2003 average inflation rate of 0.9%) and the stable level of exchange rate of the Denar against the Euro are the fundamental postulates of the NBRM monetary policy and reflect the adequate application of the monetary regulation instruments. The higher demand for CB bills contributed to partial absorption of the excess liquidity created through higher budget spending, the NBRM interventions on the foreign exchange market (net purchase of foreign exchange) and the lower demand for currency in circulation.

Table 1  
Reserve money creation and withdrawal

	30.09.2003 (monthly changes, in Denar million)
<b>Reserve money</b>	<b>675</b>
Currency in circulation	-13
Bank liquidity	688
<b>Reserve money creation</b>	<b>1,606</b>
Net domestic assets	1,606
<b>Reserve money creation</b>	<b>-931</b>
Net foreign assets	-636
CB' Bills auctions	-293
Other	-2

*Lower average daily liquidity  
of banks compared to the  
preceding month*

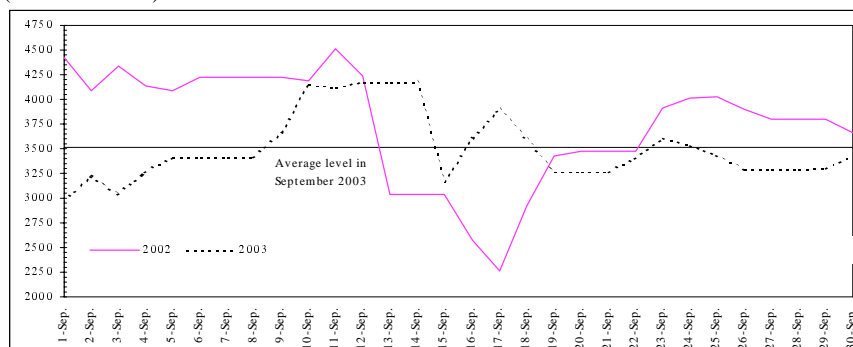
The average daily liquidity of the banks equaled Denar 3,507.8 million in September 2003, and compared to the preceding month it went down by Denar 150.6 million or 4.1%. Thus its daily dynamics was determined by the change in the autonomous factors (the dynamics of the budget inflows and outflows and the movement of the currency in circulation). Conversely to the fall in the average daily liquidity, the total liquidity of the banks registered significant monthly increase of Denar 688 million or 25.5%, reaching Denar 3,388 million at the end of September 2003. Compared to the same month of the previous year, in September 2003, the total liquidity of the banking system was by Denar 352 million or by 9.4% lower. The annual fall was due to the higher comparison base of the previous year, caused primarily by the high public consumption in the pre-election period in the first half of the month.

The relevance of the problem regarding the insufficient rationality in the liquidity management by certain banks and its unbalanced dispersion within the banking system remains present. In line with the considerable monthly increase in the liquidity of the banks, in September 2003<sup>7</sup>, the banks allocated 48.6% over the set compulsory reserve requirement in Denars.

<sup>7</sup> The period for maintaining (fulfilling) the banks' compulsory reserve requirement covers the period from the 11<sup>th</sup> in the current month to the 10<sup>th</sup> in the following month.



Chart 12  
Daily dynamics of the liquidity of the banks  
(in Denar million)



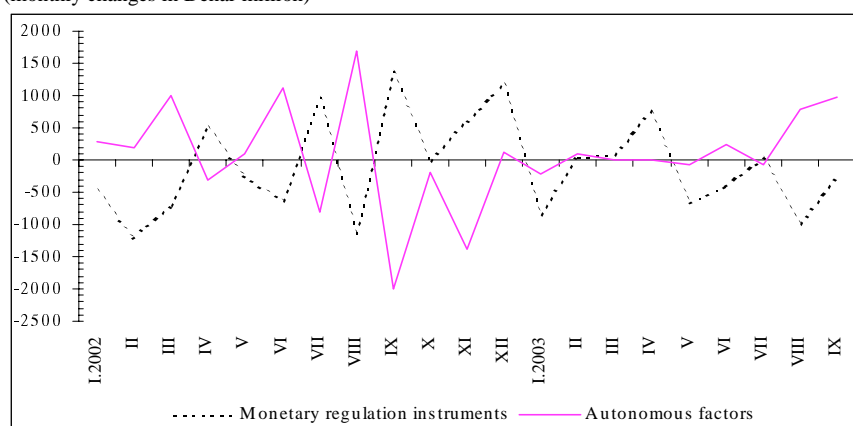
*Liquidity creation through the  
Government Denar deposits  
with the NBRM...*

In September 2003, the Government Denar deposits with the NBRM registered a significant monthly fall of 18.4%. Such significant fall was due to the transfer of the cumulative amount of unpaid funds from the Government bonds from the account of the budget with the NBRM to a new special Government account with the NBRM opened for this purpose. Considering the nature of such transaction, it had no effect on the liquidity of the banks. The actual decrease in the Denar Government deposits with the NBRM was considerably lower in September and equaled 1.5%.

*...and through the NBRM  
foreign exchange transactions*

It is the third month in a row that the NBRM interventions on the foreign exchange market act towards liquidity creation given the higher supply relative to the demand for foreign exchange. The NBRM net-purchase of foreign exchange on the foreign exchange market in September 2003 successfully offset the pressures on the foreign exchange market, thus maintaining stable exchange rate.

Chart 13  
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  
CB bills auctions*

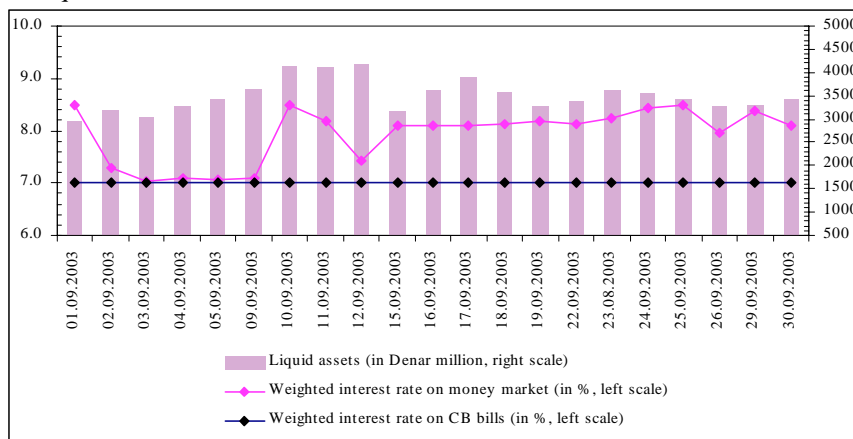
Given the high liquidity in the banking system caused by the influence of the autonomous factors, in September 2003 the CB bills auctions acted towards liquidity withdrawal. Thus, in September, Denar 293 million were withdrawn through this monetary regulation instrument, with the total amount of CB bills at the end of the month reaching Denar 5,358 million (monthly increase of 5.8%). With respect to the daily dynamics, the demand for CB bills was higher in the first and the last 10-day period of the month, when the demand for CB bills exceeded the NBRM supply. In line with the usual decrease in the liquidity



towards the middle of the month, the second 10-day period registered lower demand for CB bills. However, on average, the demand for CB bills exceeded the supply of CB bills in this month. At the end of the month, the dynamics of organizing CB bills auctions changed, and since September 29, 2003 they have been organized twice a week: on Wednesday and on Friday (instead of the previous dynamics when they were organized three times a week). The other features of their layout remain unchanged ("volume tenders" fixed interest rate of 7.0% and maturity of 28 days).

Chart 14

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

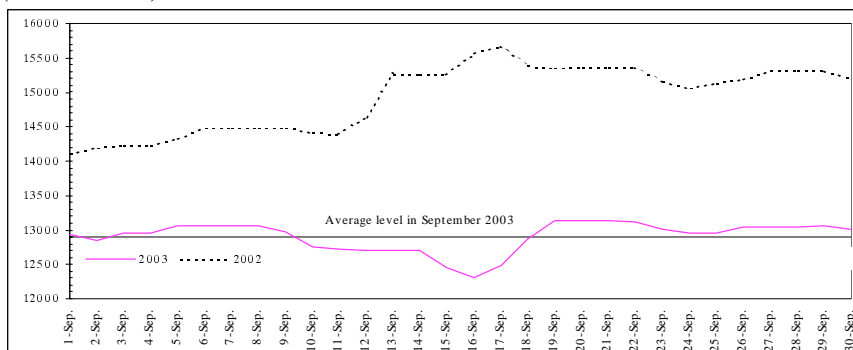


*Further decrease in the interest rate on the Money Market*

The decrease in the average weighted interest rate on the Money Market continued in September 2003, thus reducing to 7.4% p.a. (monthly fall of 1.1 percentage point). September compared to the preceding month (an exceptionally low comparison base), registered considerable monthly increase in both the supply and the demand on the Money Market (by 53.7% and 79.1%, respectively) thus being almost equal. Consequently, the total turnover registered substantial increase of 75.7%. However, the turnover registered on the Money Market in September is the second lowest amount of turnover registered since the beginning of 2003, and such situation on the Money Market was due to the increasingly evident preferences of the banks to trade in liquid funds on bilateral basis.

Chart 15

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



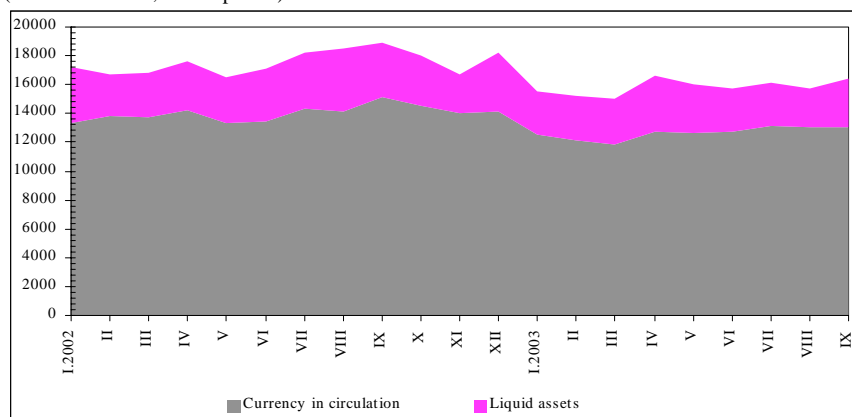
*The level of currency in circulation almost unchanged*

At the end of September 2003, the currency in circulation equaled Denar 13,046 million, and remained almost unchanged compared to the preceding month (minimal fall of Denar 13 million, or 0.1%). Thus the daily fluctuations of the currency in circulation in this month were moderate and



primarily ranged around the average level of Denar 12,908.5 million. Compared to the previous month, the average daily level of currency in circulation is by Denar 58.4 million, or by 0.4% lower. On annual basis, the fall in the average daily amount of currency in circulation was more evident and equaled Denar 2,027.3 million, or 13.6% (besides the effect of the repeal of the financial transaction tax, the essential monthly increase in the currency in circulation registered in September of the previous year caused the annual fall, due to the higher consumption in the election period and a new manner of payment of the pensions).

Chart 16  
Reserve Money  
(in Denar million, end of period)



\* The banks' liquid funds include the banks' account with the NBRM and the currency in circulation in the banks' vaults.

*Monthly increase in the level  
of reserve money*

In September 2003, the reserve money registered a monthly increase of Denar 675 million, or 4.3%, due to the high level of liquidity in the banking system, considering the minimum monthly fall in the currency in circulation. Thus, the level of reserve money reached Denar 16,434 million on September 30, 2003. On annual basis, the reserve money registered substantial annual fall of Denar 2,440 million, or 12.9% with simultaneous drop being registered in both its components.