



II. Monetary developments in the Republic of Macedonia²

Basic monetary indicators					
	30.11.2003	Monthly changes		Annual changes	
	In Denar million	In Denar million	in %	In Denar million	in %
Reserve money	15,701	-194	-1.2	-1,041	-6.2
Currency in circulation	13,160	50	0.4	-823	-5.9
Demand deposits	11,702	1	0.0	-107	-0.9
Money supply M1	24,862	51	0.2	-930	-3.6
Money supply M2 - denar	40,164	261	0.7	3,535	9.7
Money supply M2	72,696	-531	-0.7	9,796	15.6
Money supply M4	77,431	-620	-0.8	8,917	13.0
Total deposits	52,569	-671	-1.3	9,847	23.0
Short - term	47,834	-582	-1.2	10,726	28.9
Long - term	4,735	-89	-1.8	-879	-15.7
In Denar	18,703	223	1.2	3,995	27.2
In foreign currency	33,866	-894	-2.6	5,852	20.9
Total banks' placements	49,544	889	1.8	4,579	10.2
In Denar	42,533	743	1.8	4,672	12.3
In foreign currency	7,011	146	2.1	-93	-1.3
In percentage points					
Average weighted interest rate on the CB bills auctions (on 28 days)	6.12%	-0.68		-6.80	
Weighted average money market interest rate	7.25%	-0.62		-6.11	
Weighted banks' lending interest rates	14.71%	-0.02		-3.32	
Weighted banks' deposit interest rates	7.06%	-0.25		-2.10	

Source: National Bank of the Republic of Macedonia

² The December 2002 analysis of the banks' monetary developments, (banks' deposits and placements), does not include 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**

From operational aspect, in November 2003, the CB bills auctions were actively used as a basic monetary instrument. The withdrawal of liquidity through the foreign exchange transactions was partially offset through the CB bills auctions, as well as through the influence of some autonomous factors (Denar Government deposits with the NBRM).

Table 1
Reserve money creation and withdrawal

	30.11.2003 (monthly changes, in Denar million)
Reserve money	-194
Currency in circulation	50
Bank liquidity	-244
Reserve money creation	895
Net domestic assets	393
CB' Bills auctions	502
Reserve money withdrawal	-1,089
Net foreign assets	-1,080
Other	-9

*Lower average daily liquidity
of banks*

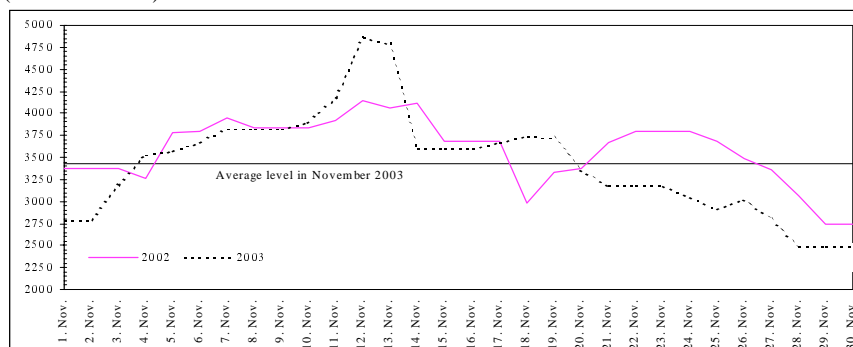
In November 2003, the banks' liquidity was under the influence of the regular dynamics of the autonomous factors. Thus, a portion of these liquidity effects was neutralized through the monetary regulation instruments. With respect to the dynamics, in the first half of the month, the total banks' liquidity registered an upward trend, which given the liquidity withdrawal through the foreign exchange transactions and the inconsiderable changes in the amount of CB bills, reflects the regular budget spending and the lower preferences for holding cash. In the second half of the month, after the significant depletion of the liquidity in the period of payment of tax liabilities, the total liquid funds of the banking system registered a downward trend, reflecting the regular increase in the currency in circulation and the NBRM interventions on the foreign exchange market. The average daily liquidity of the banking system amounted to Denar 3,426.4 million and was lower by Denar 820.9 million or by 19.3% on monthly basis (in line with the higher comparison base due to the payment of the Government bonds for old foreign exchange savings in October). At the end of the month, the total banks' liquidity was lower on monthly and annual basis by Denar 244 million (8.8%) and Denar 218 million (7.9%), respectively.

In November 2003³, the allocated excess liquidity of the banks over the compulsory reserve requirement (in Denars) registered a monthly fall of 14.8 percentage points and equaled 20.5%. The lower amount of liquid funds over the compulsory reserve requirement corresponds with the further acceleration of the banks' credit activity, as well as with the higher banks' demand for foreign exchange on the foreign exchange market. By conducting such liquidity management policy, the banks reduce the level of non-rationally exploited funds.

³ The period for maintaining (fulfilling) the banks' compulsory reserve requirement 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)



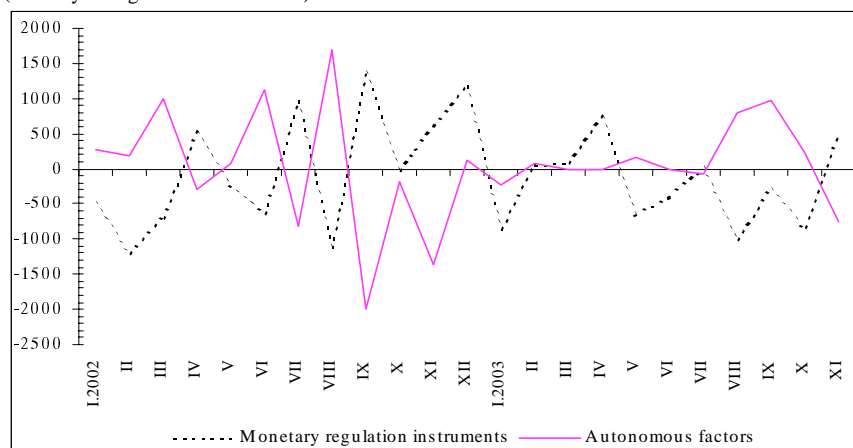
In November 2003, the NBRM foreign exchange transactions acted towards liquidity withdrawal

In November 2003, the NBRM took active part on the foreign exchange market in order to maintain the exchange rate stability. Given the excess demand over the supply of foreign exchange, the NBRM interventions acted towards net-sale of foreign exchange. Thus, in November 2003, the foreign exchange transactions (same as in the preceding month) acted towards liquidity withdrawal.

The Government Denar deposits with the NBRM acted towards liquidity creation...

In November 2003, the Government Denar deposits with the NBRM dropped by 2% on monthly basis, thus acting towards liquidity creation. In this month, the Government Denar deposits fluctuated in line with the regular dynamics of the budget inflows and outflows.

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

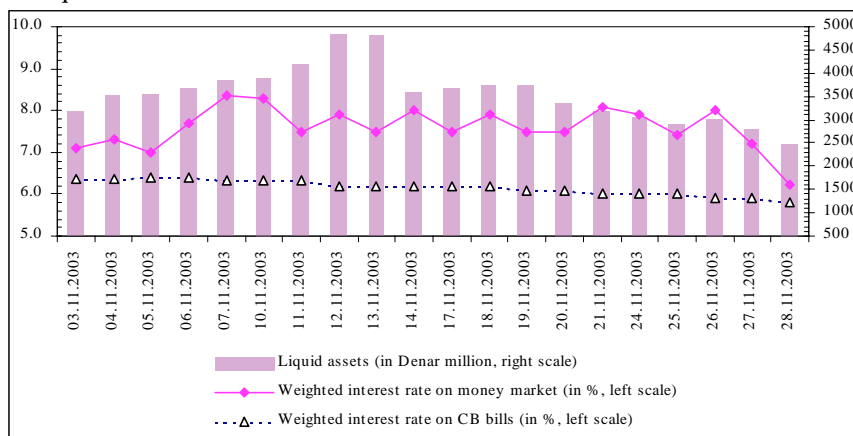
...and through the CB bills auctions

Conversely to the function of liquidity withdrawal, in November 2003, the CB bills auctions acted towards liquidity creation. Thus, at the end of the month, the amount of CB bills reached Denar 5,687 million (created liquidity of Denar 502 million on monthly basis) and went down by 8.1% on monthly basis. Notwithstanding the oscillations in this month, the relation between the demand and the supply of CB bills equaled 1:2 on average (in favor of the demand), which contributed to continuous decrease in the weighted interest rate (on the last day of the month it reduced to 5.79%). The average weighted interest rate on the CB bills auctions equaled 6.12% in November 2003, registering monthly fall of 0.7 percentage points.



Chart 11

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

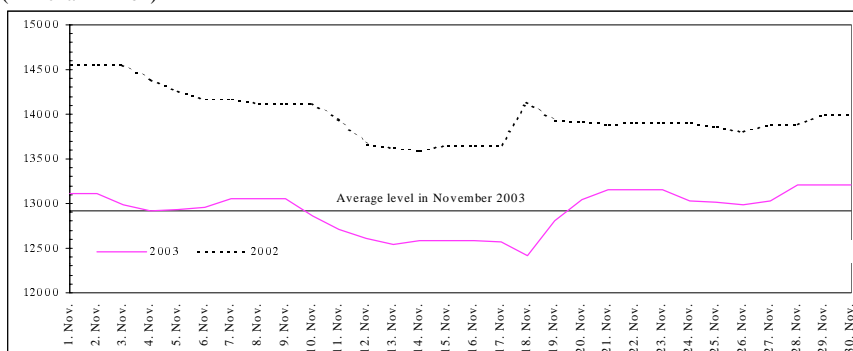


Further decrease in the turnover on the Money Market

Given the considerably higher supply relative to the demand for short-term liquid funds (by 45.4%), in November 2003, the average weighted interest rate on the Money Market fell down by 0.6 percentage points on monthly basis and reduced to 7.25% at the end of the month (it indicates the prompt response of the interest rate on the Money Market to the changes in the interest rate on the CB bills auctions). Such supply to demand ratio for liquid funds on the Money Market is not typical for the whole month. It, in particular, reflects the substantial discrepancy between the supply and the demand in several days of the month. The monthly comparison indicates an increase in the supply of liquid funds of 22.2%, and simultaneous decrease in the demand and the total turnover by 14.7% and 15.0%, respectively. Also in November 2003, the non-institutionalized market (bilateral interbank transactions) registered high turnover compared to the turnover on the institutionalized market.

Chart 12

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

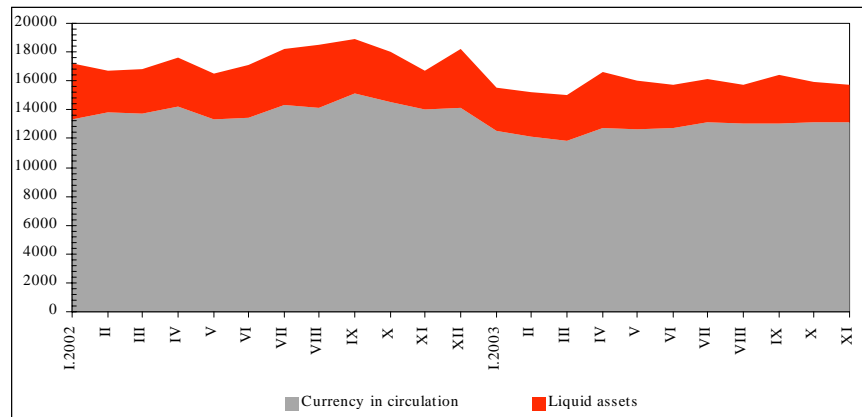


Slight changes in the currency in circulation...

In November 2003, the currency in circulation registered no considerable monthly change. Thus compared to the previous month, it was by Denar 50 million or 0.4% higher. The analysis from the aspect of the dynamics indicates regular movements in this month. Thus more considerable acceleration of the demand for currency in circulation was registered in the period of payment of the pensions and the social welfare. In November 2003, the average daily level of currency in circulation equaled Denar 12,919.4 million (decrease of Denar 206.2 million, or 1.6%). The annual analysis indicates lower average amount of currency in circulation by 5.9%.



Chart 13
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.

*...and simultaneous decrease
in the reserve money*

In November 2003, the reserve money went down by 1.2% on monthly basis, reflecting the monthly fall in the total banks' liquidity. Thus, on November 30, 2003, they equaled Denar 15,701 million. The lower demand for currency in circulation and the lower level of liquidity caused the fall in the reserve money of 6.2% on annual basis.