



## 2.2.

## Monetary aggregates

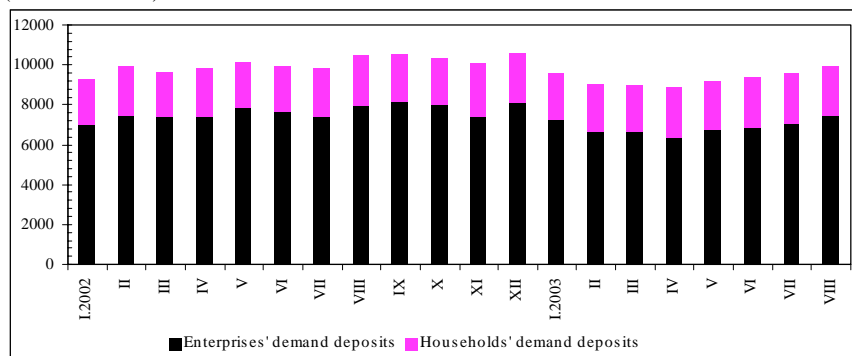
Notwithstanding the higher level of transaction deposits and the intensified short-term saving in foreign currency, the stabilization of the demand for currency in circulation, the decrease in the short-term Denar deposits, as well as the decline in the long-term deposit potential in August 2003 led to more moderate monthly growth rates of the monetary aggregates.

After the increase in July due to seasonal factors, at the end of August 2003, the demand for currency in circulation registered moderate stabilization. Thus compared to the preceding month, the level of currency in circulation was by 0.9% lower. The decrease on annual basis (August 2003 / August 2002) is more intensive and equals 7.7%. Contrary to the negative dynamics of the currency in circulation, the transaction deposits of the non-government sector (current and giro accounts) in August 2003 were by 3.1% higher on monthly basis. Such dynamics was a result of the 5.8% increase in the level of enterprises' demand deposits, given the monthly decrement in the households' demand deposits of 3.6%. The annual analysis indicates a decline in the total demand deposits of 3.5%, with simultaneous drop in the demand deposits of both the households and the enterprises of 2.5% and 6.2%, respectively. With respect to the structure, the share of the demand deposits of the households and the enterprises equaled 20.7% and 63.2%, respectively. The divergent movements of the currency in circulation and the demand deposits resulted in a decrease in the intensity of the positive monthly dynamics of the money supply M1, which in August 2003 registered moderate monthly increase of 1%, whereas compared to the same month of the previous year it was by 5.7% lower.

Monthly increase in the  
monetary aggregate M1 of  
1%

Chart 14

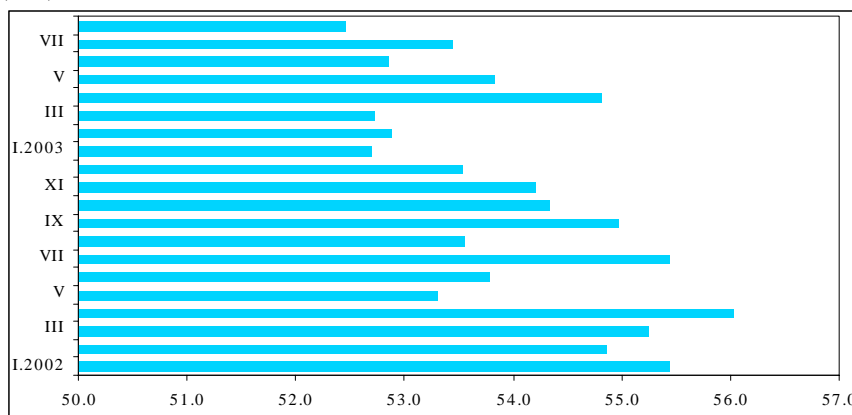
Demand deposits of enterprises and households  
(in Denar million)



The lower demand for currency in circulation, and simultaneously, the higher level of the funds on the transaction accounts resulted in a decline in the share of the currency in circulation in the money supply M1. Thus at the end of August 2003, it equaled 52.5%, which is a drop on monthly and annual basis of 0.9 percentage points and 1.1 percentage point, respectively. Such movements led to strengthening of the money multiplication process. Thus the money multiplier of the money supply M1 equaled 1.58 (1.53 in the previous month).



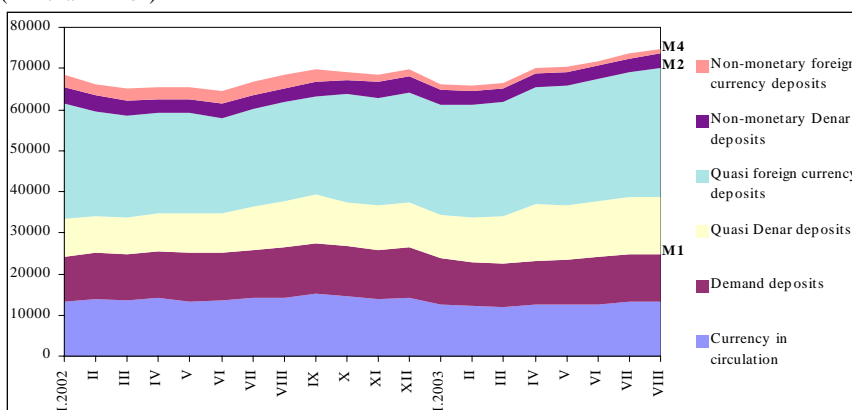
Chart 15  
Share of currency in circulation (CC)  
in the money supply M1  
(in %)



*Lower intensity of the monthly growth in the monetary aggregates M2 and M4*

The monthly increase in the monetary aggregates M2 and M4 continued in August, however, with more moderate dynamics. Thus as a combined effect of the lower level of currency in circulation and the short-term saving in Denars and the simultaneously higher level of the transaction accounts and the short-term foreign exchange deposits, in August 2003 the money supply M2 was higher on monthly basis by 1.8%. The decrease in the long-term deposit potential (primarily caused by the fall in the restricted deposits intended for transactions on the basis of the external payment operations instruments) resulted in more moderate monthly increase in the monetary aggregate M4 of 1.5%. The extension of the deposit base of the banks, given the simultaneous decrease in the demand for currency in circulation resulted in an increase in the money multipliers. Thus the money multipliers of the money supply M2 and M4 equaled 4.46 and 4.75, respectively (4.28 and 4.58, respectively in the previous month). In August 2003, the annual growth rates of the broader monetary aggregates M2 and M4 equaled 13.8% and 9.6%, respectively.

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

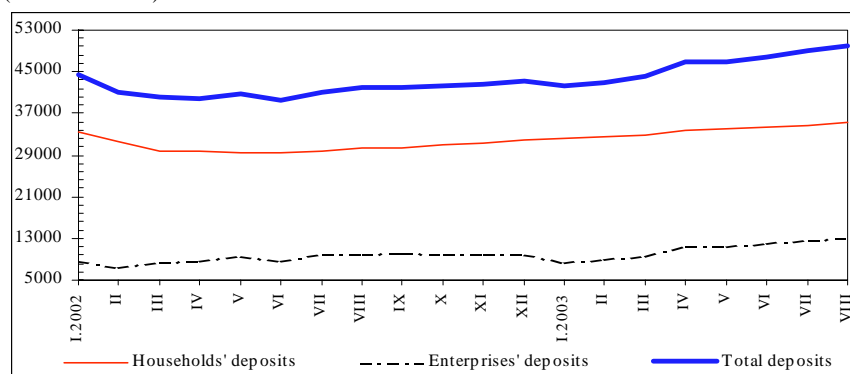




*Seven-month continuing  
increase in the total  
deposits in the banking  
system*

August is the seventh month in a row of uninterrupted increase in the total deposit potential of the banking system. Thus the total deposits of the non-government sector<sup>7</sup> picked up by 1.8% on monthly basis. The analysis of the monthly movements in August 2003 indicates more evident propensity of the households and the enterprises to short-term saving in foreign currency. The long-term deposits were under the dominant influence of the outflows from the accounts intended for foreign exchange remittances. Such movements resulted in monthly decrease in the Denar and the long-term deposits, with simultaneous increase being registered in the short-term deposits and the deposits in foreign currency. From the aspect of the maturity structure, the share of the short-term deposits remains dominant (in August 2003, it equaled 90.8%, which compared to the previous month is by 0.4 percentage points higher). With respect to the structure of the currency of denomination, the share of the foreign exchange deposits registered monthly increase of 1 percentage point and equaled 65.7% at the end of the month. Compared to the same month of the previous year, the total deposits in the banking system are by 19.2% higher.

Chart 17  
Deposit timeframes  
(in Denar million)



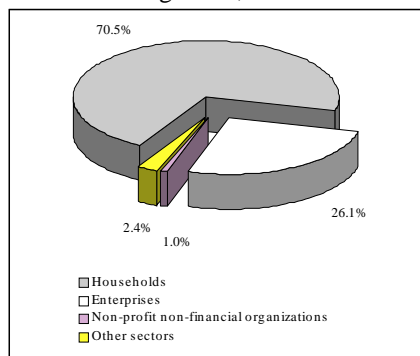
*Monthly increase in the  
total households'  
deposits...*

In August 2003, the households' deposits registered a monthly increase of 1.2%. Thus the following typical movements were registered at the end of the month: a) considerable decrease in the Denar sight deposits; b) moderate increase in the long-term households' saving and c) considerable increase in the short-term deposits in foreign currency (given the monthly depreciation of the Denar against the US Dollar, thus having higher Denar value of the foreign exchange categories). Such movements resulted in monthly increase in the short-term and the long-term households' deposits of 1.3% and 1.2%, respectively. With respect to the currency of denomination, the foreign exchange deposits were higher by 1.9% on monthly basis, whereas the deposits in domestic currency dropped by 0.7%. Notwithstanding the lower intensity, the annual growth rate of the total households' deposits remains high and equaled 15.7% in August 2003.

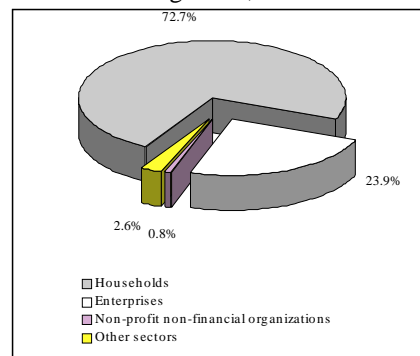
<sup>7</sup> The total deposits of the non-government sector include short-term and long-term (Denar and foreign currency) deposits of the economic agents (excluding the demand deposits).



Chart 18  
Structure of deposits by sectors  
August 31, 2003



August 31, 2002



*...and in the total  
enterprises' deposits*

The two-month increase in the enterprises' deposits continued in August 2003. Thus compared to the previous month they were by 4.1% higher, while their annual growth rate intensified and equaled 30%. The enterprises' short-term Denar deposits registered a redistribution of the funds from the sight deposit account to the time deposits with maturity of up to one month and up to three months. In addition, the accumulation of the funds from the short-term foreign exchange deposits was typical for August 2003. Major factor of the dynamics of the enterprises' long-term deposits in August 2003 were the outflows of the restricted deposits intended for foreign exchange remittances. In accordance with such movements, in August 2003 the enterprises' short-term deposits went up by 5.9%, whereas the long-term deposits were by 19.7% lower on monthly basis. The enterprises Denar and foreign exchange deposits registered monthly decrease of 0.5%, i.e. increase of 9.9%, respectively.