

### **Demand for Money in Macedonia**

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The existence of a stable long-run demand for money is important for conducting monetary policy for two main reasons: first, from a more general point of view, stable money demand represents a prerequisite for supplying an adequate quantity of money in accordance with the needs of economic agents (businesses and households); second, more specifically, the stability of money demand is a necessary condition for implementing monetary policy strategies in which monetary aggregates have a prominent role.

The main goal of the paper is to analyse the long-run relationship between money and several other variables, such as: economic activity, interest rates, inflation and exchange rates, in Macedonia. Once we succeed to establish such a long-run relationship, we'll examine the short-run dynamics of the money demand, focusing on the adjustment process. Also, when assessing the existence of stable demand for money in Macedonia, we'll take full account of the relevant issues related to the appropriate choice of the variable representing the opportunity cost of holding money.

As for the methodology, the properties of the long-run demand for money will be explored within the context of the cointegration approach. In addition, the short-run dynamics of the demand for money will be analysed employing the error-correction model. Finally, a series of test procedures will be undertaken in order to assess the stability of the demand for money.

*Keywords:* cointegration, error-correction model, money demand, monetary policy