



## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

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Pursuant to Article 47 paragraph 1 item 6 of the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 158/10, 123/12, 43/14, 153/15 and 6/16) and Article 65-d paragraph 1 of the Banking Law (Official Gazette of the Republic of Macedonia No. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15 and 190/16), the National Bank of the Republic of Macedonia Council adopted the following

### **DECISION on the Methodology for Determining the Rate of the Countercyclical Capital Buffer for Exposures in the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 26/17)**

#### **I. GENERAL PROVISIONS**

1. This Decision lays down the methodology on the basis of which the National Bank of the Republic of Macedonia (hereinafter: the National Bank) determines the rate of the countercyclical capital buffer for exposures to residents in the Republic of Macedonia (hereinafter: exposures in the Republic of Macedonia), which includes:

- determination of the rate of the countercyclical capital buffer for exposures in the Republic of Macedonia;
- manner of introducing and changes in the rate of the countercyclical capital buffer for exposures in the Republic of Macedonia.

Besides the methodology referred to in paragraph 1 of this item, this Decision also lays down the manner of calculation of the specific rate of the countercyclical capital buffer and the manner of submitting data to the National Bank on its amount and structure.

2. Terms not defined in this Decision shall have the meaning defined in the Banking Law and the National Bank regulation, which regulates the methodology for determining capital adequacy.

#### **II. DETERMINATION OF THE RATE OF THE COUNTERCYCLICAL CAPITAL BUFFER FOR EXPOSURES IN THE REPUBLIC OF MACEDONIA**

3. The rate of the countercyclical capital buffer for exposures in the Republic of Macedonia shall be determined through the following steps:

- determination of the ratio between the loans to the non-financial sector and the gross domestic product (hereinafter: rate of loans), in accordance with item 4 of this Decision;
- determination of the deviation of the rate of loans from its long-term trend (hereinafter: deviation of the rate of loans), in accordance with item 5 of this Decision;

- determination of the reference rate of the countercyclical capital buffer, in accordance with item 6 of this Decision;
- determination of the level of the rate of the countercyclical capital buffer for exposures in the Republic of Macedonia, in accordance with item 8 of this Decision.

4. The rate of loans for each quarter (t) shall be calculated as the ratio of the loans to the non-financial sector and the nominal gross domestic product, using the following formula:

$$\text{Rate of loans (t)} = \left( \frac{\text{Loans to the non – financial sector(t)}}{(\text{GDP(t – 1)} + \text{GDP(t – 2)} + \text{GDP(t – 3)} + \text{GDP(t – 4)})} \right) \times 100$$

5. The deviation of the rate of loans for each quarter(t) shall be calculated as the difference between the rate of loans referred to in item 4 of this Decision and the trend(t), using the following formula:

$$\text{Deviation of the rate of loans (t)} = \text{Rate of loans(t)} - \text{Trend(t)}$$

Trend(t) in the formula referred to in paragraph 2 of this item shall represent average value of the rate of loans, calculated by using the one-sided Hodrick Prescott filter with a lambda parameter equal to 400,000 for the quarter(t).

The deviation of the rate of loans referred to in paragraph 1 of this item shall be presented in percentage points.

6. If the deviation of the rate of loans referred to in item 5 of this Decision is equal to or less than 2 percentage points (lower limit), the reference rate of the countercyclical capital buffer for exposures in the Republic of Macedonia equals 0%.

If the deviation of the rate of loans referred to in item 5 of this Decision is equal to or higher than 10 percentage points (upper limit), the reference rate of the countercyclical capital buffer for exposures in the Republic of Macedonia equals 2.5%.

If the deviation of the rate of loans referred to in item 5 of this Decision is between the lower and upper limit referred to in paragraphs 1 and 2 of this item, the reference rate of the countercyclical capital buffer for exposures in the Republic of Macedonia shall be determined by using the following formula:

$$\text{Reference rate of the countercyclical capital buffer} = \text{Deviation(t)} \times 0,3125 - 0,625$$

7. The National Bank shall determine the reference rate of the countercyclical capital buffer for exposures in the Republic of Macedonia referred to in item 6 of this Decision on a quarterly basis.

8. Depending on the amount of the reference rate of the countercyclical capital buffer, determined according to item 6 of this Decision, the National Bank shall determine the rate of the countercyclical capital buffer for exposures in the Republic of Macedonia.

The rate of the countercyclical capital buffer referred to in paragraph 1 of this item shall range from 0% to 2.5% and shall be presented in intervals of 0.25 percentage points.

As an exception, if it is established that this is necessary in determining the amount of the rate of the countercyclical capital buffer referred to in paragraph 1 of this item, the National Bank may take into account other indicators of the level of systemic risks, as indicators of the financial markets, the real estate market, the resilience of the banking system, the domestic economy and the like.

The National Bank may determine rate of countercyclical capital buffer for exposures in the Republic of Macedonia higher than 2.5% on the basis of the indicators referred to in paragraph 3 of this item.

### **III. MANNER OF INTRODUCING AND CHANGE IN THE RATE OF THE COUNTERCYCLICAL CAPITAL BUFFER FOR EXPOSURES IN THE REPUBLIC OF MACEDONIA**

9. The National Bank shall determine the need for introducing countercyclical capital buffer for exposures in the Republic of Macedonia, considering the rate of the countercyclical capital buffer determined according to item 8 of this Decision and the indicators referred to in item 11 of this Decision.

10. The National Bank shall determine the need for increasing, reducing or releasing the countercyclical capital buffer for exposures in the Republic of Macedonia in each subsequent quarter after the introduction of the countercyclical capital buffer for exposures in the Republic of Macedonia.

11. When determining the need for introducing, increasing, reducing or releasing the countercyclical capital buffer, besides the reference rate of countercyclical capital buffer for exposures in the Republic of Macedonia, determined according to item 7 of this Decision, the National Bank may take into account other indicators of the level of systemic risks, as indicators of the financial markets, the real estate market, the resilience of the banking system, the domestic economy and the like.

12. The National Bank shall publish the introduction, increase, reduction or release of the countercyclical capital buffer on its website pursuant to the law.

Together with the publication referred to in paragraph 1 of this item, the National Bank shall also publish the date of the application of the rate of the countercyclical capital buffer for exposures in the Republic of Macedonia, whereby in instance of reduction of the rate of the countercyclical capital buffer for exposures in the Republic Macedonia, or in instance of release of the application for countercyclical capital buffer for exposures in the Republic of Macedonia, the reduction, i.e. the release shall come into effect immediately.

### **IV. MANNER OF CALCULATION OF THE SPECIFIC RATE OF THE COUNTERCYCLICAL CAPITAL BUFFER FOR EACH BANK**

13. The bank shall determine specific rate of the countercyclical capital buffer.

14. The specific rate of the countercyclical capital buffer shall represent weighted average of the rates of the countercyclical capital buffer for the bank's exposures to private sector customers from all countries to which the bank has an exposure, including the Republic of Macedonia. Determination of the specific rate of the countercyclical capital buffer shall include the exposures to private sector customers from all countries, regardless of whether the National Bank has published or has not published rate of countercyclical capital buffer for the exposures to that country.

The specific rate of the countercyclical capital buffer shall be determined by using the following formula:

$$\text{Specific rate of the countercyclical capital buffer} = \frac{\sum_{Z=1}^n (S_Z \times \text{KPKR}_Z)}{\text{KPKR}} \times 100$$

The terms of the formula referred to in paragraph 2 of this item shall have the following meaning:

- $S_Z$  shall be rate of the countercyclical buffer for exposures to the Z country, published by the National Bank. If the National Bank has not published rate of countercyclical capital buffer for exposures to a particular country,  $S_Z$  shall be equal to 0%;
- $\text{KPKR}_Z$  shall be the capital requirement for credit risk for exposures to private sector customers from the Z country, determined according to the National Bank regulation on the methodology for determining capital adequacy;
- $\text{KPKR}$  shall be the total amount of the capital requirement for credit risk for all bank's exposures to private sector customers, determined according to the National Bank regulation on the methodology for determining capital adequacy.

For the purposes of this item, exposures to private sector customers shall include exposures to non-bank financial institutions, households and non-financial legal entities, with the exception of public sector entities.

## **V. MANNER AND CONTENTS OF REPORTING TO THE NATIONAL BANK**

15. The bank shall submit a report to the National Bank on the amount and structure of the specific rate of the countercyclical capital buffer referred to in item 14 of this Decision (SSPZSK Form), at least on a quarterly basis, as of 31 March, 30 June, 30 September and 31 December.

16. The submission date of the reports referred to in item 15 of this Decision shall be fifteen working days after the date for which the report is submitted.

By way of derogation from paragraph 1 of this item, the submission date of the report referred to in item 15 of this Decision as of 31 December shall be five working days after the expiration of the submission date of the non-audited annual financial statement.

The report referred to in item 15 of this Decision is an integral part of this Decision.

## **VI. CLOSING PROVISIONS**

17. This Decision shall enter into force on the eighth day from the date of its publication in the Official Gazette of the Republic of Macedonia, and shall apply from 1 July 2017.

**D. No. 02-15/II-8/2017**  
**27 February 2017**  
**Skopje**

**Dimitar Bogov**  
**Governor and Chairman**  
**of the Council of the National Bank**  
**of the Republic of Macedonia**