

V. NOTES ON METHODOLOGY FOR THE MONETARY SECTOR TABLES

Criteria for desegregation of Assets and Liabilities

Data in the aggregated Deposit Money Banks' and National banks' (NBRM) balances are desegregated according to sectoral and currency criteria, as well as according to the financial instrument on the base of which certain assets and liabilities occur. Data in the presented balances refer to the latest balances at the end of the referent period. Amounts that are denominated in foreign currency are converted by using the middle exchange rate of Denar at the end of the referent period, according to the indicative foreign exchange list of NBRM.

In the sectoral classification, clients are classified in two basic groups: residents and nonresidents. In the residents group, there are five sectors: nonfinancial legal entities, Government, banks and other financial institutions, other clients and households.

- The sector of nonfinancial legal entities is consisted of three subsectors: public nonfinancial corporations, corporations which are not organized as public, but are state owned in more than 50%, and private corporations.
- The Government sector is desegregated to Central Government (Budget and Central Government bodies); institutions of Central Government (Courts, Public Prosecutor etc.); Funds (Social security funds and other funds and agencies); Local Government; Public sector institutions (schools, hospitals etc.). The last two subsectors are money holders.
- The sector of Banks and other financial institutions is consisted of five subsectors;
 - National Bank of the Republic of Macedonia (monetary authority);
 - Deposit Money Banks;
 - Savings houses;
 - Insurance companies in which associations and institutions involved in insuring and reinsuring operations, Deposits insurance fund, investment funds, financial institutions that are involved in financial leasing and other financial services, are included.
 - Other financial institutions in which are included institutions involved with intermediation on the Capital market, Brokerage Houses, Clearing Houses, Stock exchange.
- The sector of other clients includes nonprofit and nonfinancial organizations (organizations of social-humanitarian character, Chambers of Commerce, Political parties, Citizens associations religious associations, Unions, Red Cross).
- The sector of households includes: households and individuals with registered activity.

Within the Bulletin there is nonfinancial and nonbanking sector, which is combination of certain sectors, and includes: nonfinancial legal entities, households, nonprofit and nonfinancial organizations. In line with the development level of the financial system in the Republic of Macedonia, the other financial institutions sector includes insurance companies and savings houses.

Within the nonresidents group there is a sector Foreigners that includes two subsectors: foreign legal entities and individuals with registered activity and banks from Former Yugoslavia.

Table 7 Deposit Money Banks' Balance sheet-Assets

Deposit Money Banks' Balance sheet is aggregated balance of assets and liabilities of all deposit money banks¹.

The asset side of the DMBs' balance sheet includes: Liquid assets; Deposits with NBRM; Foreign assets.

Within the liquid assets, Account of the banks at NBRM² and Cash in Vaults are included.

Deposits with NBRM refer to the effects of the instruments of monetary policy: Compulsory reserves held at the NBRM, Deposits sold to the banks at auctions, Holdings of NBRM bills.

Foreign assets are claims from nonresidents and include: gold (Gold in bank's vault and Gold deposited abroad), Foreign currency and cheques, Foreign currency accounts held abroad (Regular foreign currency accounts abroad and Foreign currency deposits), Other claims (based on foreign currency nostro covered letters of credit and guarantees and on the basis of credits extended) and Overdue claims.

Banks' claims are classified according to type (on the basis of given credits, on the basis of securities, other claims and overdue claims), maturity (short-term and long-term), currency (Denar and Foreign currency) and the sector to which they refer. Thus, from sectoral point of view there are: Claims on Government, Claims on non financial and non banking sector, Interbank claims and Claims on the banks from former Yugoslavia (they refer to the period prior to monetary independence of the Republic of Macedonia on 26.04.1992).

¹ Besides Deposit money banks, until 31.05.2001 Deposit Money Banks' Balance sheet included also Post savings house, when it was transformed into Postenska banka and it is part of the banking system.

² In February 2002 Giro-account of the banks at NBRM and Compulsory reserve account of the banks have been merged into single account - Account of banks at NBRM.

Interbank claims include the interactions between banking institutions, that is: Credits to other banks, Deposits with other banks, Claims on bank's branches, Claims on the base of issued securities from other banks or other financial institutions, Other claims and Overdue claims.

The category "Other assets" includes: Fixed assets, Accrued undue and due interest, Doubtful and contested based on interest, Fees and commissions and Other. The components are decomposed by their sector and currency structure.

Table 8 Deposit Money Banks' Balance sheet-Liabilities

The Liability side of the Deposit Money Banks' Balance sheet includes: liabilities that occur on the basis of: received deposits, Credits, Liabilities based on securities issued, Capital accounts and Other liabilities.

Deposits are classified as: Demand deposits (Giro and Current accounts), Sight deposits, Time deposits - up to one year, Restricted deposits and Time deposits over one year.

Credits refer to the sources of funds received from non banking institutions, classified by their maturity structure - up to and over one year.

Securities refer to commercial papers issued by the financial institutions in order to strenght the banks' total financial potential. For the time being, in the banking system of the Republic of Macedonia only certificates of deposits have been issued.

Liabilities of Deposit Money Banks are sectoral decomposed to: Liabilities to Government sector (Demand deposits, Sight deposits, Term deposits and Restricted deposits), liabilities to nonresidents (on the basis of deposits, credits or instruments of payment operations abroad), Loans from NBRM (Credits, Deposits bought on auction, Other liabilities on the basis of received advances for purchase of foreign currency, Arrears), Interbank liabilities (Credits from other banks, Deposits received from other banks, Liabilities to bank's branches, Liabilities on the basis of issued securities).

Capital accounts include: Paid - in capital (money and non-money form), Reserve fund of the bank, Special funds (joint consumption funds), as well as total revenues and expenditures of the financial institution.

Other liabilities include: payables on the basis of accrued undue interest, due interest and other payables. Other liabilities include also contingent activities (activities of the bank on behalf of and on account of others). Also, categories: revenues, expenditure, profit for distribution and correction of value of different types of balance positions are treated as Other liabilities.

Special category of liabilities are the Liabilities to banks from Former Yugoslavia, occurred prior to monetary independence (26.04.1992), denominated in foreign currency, on the basis of foreign currency giro - accounts of the banks from Former Yugoslavia.

Table 9 Monetary authorities' Balance sheet - Assets

The asset side of the Monetary authorities' Balance sheet includes the following categories: Foreign assets, Claims and Other assets.

Foreign assets of the NBRM are consisted of: monetary gold in the NBRM and monetary gold deposited abroad, Foreign currency, Checks, Foreign currency temporary account with authorized banks, reserve position in IMF denominated in Special Drawing Rights (SDR), deposits of NBRM in foreign banks, securities of nonresidents denominated in foreign currency, foreign currency placements with international financial institutions and other foreign assets (foreign currency nostro covered letters of credit and foreign currency nostro covered guaranties).

NBRM Claims on Government sector refer to relations with IMF (SDR allocations and claims on the basis of re extended IMF credits), claims on the Government sector based on the transactions abroad (External account of the Government³), also claims on the basis of placements in securities. Placements in securities are specific category. Namely, the issuance of this securities is one of the mechanism in the process of the banks' rehabilitation process, through which bad placements in the portfolio of a bank were overtaken (Stopanska banka). Those securities are owned by the Bank Rehabilitation Agency. Their amortization is according to the concluded agreement between the Government and the Central bank.

Claims on Banks and Other financial institutions include: Credits, claims based on securities, other claims and overdue claims. With respect to the maturity structure, credits are decomposed to: Short -term credits (Rediscount credits, Lombard loans, Credits extended at auctions) and long – term credits (selective credits for agriculture – short - term credits, which with the reforms in the monetary sphere, in 1994 as qualitative instrument for monetary regulation were converted into long-term credits.

Other assets includes: Fixed assets, Assets for special purposes and under special regulations, Inventories, Receivables on the basis of interest, Doubtful and contested claims based on interest, Fees, and Claims on the National Bank of the Former Yugoslavia on the basis of conversion of old currency (Dinar) with the currency of the Republic of Macedonia (Denar).

³ Since June 2003, External account of the Government has been closed, and according to that, assets and liabilities of the NBRM based on external transaction of the Government are closed.

Table 10 Monetary authorities' Balance sheet Liabilities

With respect to the structure, the liabilities of the Monetary authorities' Balance sheet are consisted of: Reserve money; Compulsory reserve of denar deposits, net⁴ (the rates of Compulsory reserve are applied to the average monthly balance of the respective deposits. Average system of allocating the Compulsory reserve is applicable, according to which the banks are allowed to use the Compulsory reserve to maintain daily liquidity up to 60% of their obligation); Deposits bought at auction; Bills sold at auctions; Deposits; Foreign liabilities (NBRM liabilities to nonresidents - liabilities on the basis of checks and credit letters in foreign currency are included, also the liabilities from used IMF credits); Government deposits; Liabilities to the Government on the basis of external transactions⁵; Other liabilities (allocated Compulsory reserve on foreign currency deposits of the banks⁶, Capital accounts, Payables on the basis of interest, with sectoral distribution of the Payables on the basis of due interest, liabilities for outstanding payments upon collection abroad, Temporary payments, Liabilities to the Government Budget, liabilities on the basis of Foreign currency giro-accounts of domestic banks and Received credits denominated in foreign currency, Accounts payable, Liabilities based on foreign reserves, Other liabilities on other basis, Liabilities for special purposes and under special regulations and contingent accounts).

Table 11 Reserve money, the narrowest definition (M0)

Reserve money, according to the narrowest definition includes: Currency in circulation⁷, Account of the banks at NBRM⁸ and Cash in vaults with the banks. Data for Currency in circulation are taken from the Treasury Department of NBRM, and data for daily liquidity of the Banks and Savings houses are based on their daily reports submitted to the NBRM.

Table 12; 13; 14; 15 and 16

Monetary aggregates as aggregates of financial instruments, classified according to the level of their liquidity, are defined in manner compatible with the internationally accepted definitions and criterias (according to the methodology for IMF Monetary and Financial Statistics, based of the System of National Accounts, 1993). Deposits included within the monetary aggregates, refer to the following sectors: non-financial legal entities, households, other financial institutions, public sector money holder (Local Government and Public sector Institutions) and other clients - nonprofit and non-financial institutions.

Money supply M1 is consisted of currency in circulation and demand deposits. Demand deposits refer to current and giro-accounts.

Money supply M11 includes Money supply M1 and Denar Sight deposits. The relatively high liquidity of sight deposits (without possibility to be used in transaction goals) imposed compilation of separate monetary aggregate, which doesn't have practical role in following the monetary movements.

Money supply M2 (liquid assets) includes Monetary aggregate M1 and Quasi deposits. Quasi deposits are defined as short-term deposits in which Sight deposits, Time deposits up to one year, Short-term liabilities based on issued securities and Short-term credits from nonbanking institutions are included.

Money supply M3 (total liquid assets) includes Monetary aggregate M2 and Restricted deposits (Deposits that are used for certain purpose stated with regulation - for setting open letters of credits in payments operations abroad, guaranties, remittances abroad, etc.).

Money supply M4 (total deposit potential of the Monetary system) includes Monetary aggregate M3 and Nonmonetary deposits, that is Time deposits over one year, Long-term securities and Long-term credits obtained from non banking institutions.

Table 17: Flows of money supply creation

Consolidated Deposit Money Banks Balance sheet is one of the components of the Monetary Survey. Deposit Money Banks Balance sheet is based on the following main quantitative identities: the total of Domestic and Foreign assets is identical to the total of Domestic and Foreign liabilities. With Domestic assets equaling the sum of Domestic credits and Other assets and Domestic liabilities equaling the sum of Money supply and Other liabilities, Money supply is sum of Domestic credits, Net Foreign assets and Other items, Net, so they are flows of it's creation or withdrawal.

⁴ See footnote 2.

⁵ See footnote 3.

⁶ Starting from June 2003, banks have an obligation for allocation of Compulsory reserve on foreign currency deposits. Obligation is in Euro and there is no possibility for its utilization during the period of fulfillment.

⁷ Currency in circulation are difference between the total amount of banknotes and coins issued and amount of cash in vaults of Deposit Money Banks, the NBRM's treasury and local offices of the cash management department.

⁸ See footnote 2.

Table 18 Survey of deposit money banks

With Domestic assets equaling the sum of Domestic credits and Other assets and Domestic liabilities equaling the sum of Money supply and Other liabilities, Net Domestic assets of Deposit Money Banks is difference between Money supply and the total of Net Foreign exchange Assets of Deposit Money Banks. Thus, the components of the money supply, Net Domestic Assets, the components of Net Foreign Assets are flows of creation or withdrawal of Net Domestic Assets of Deposit Money Banks.

Table 19 Survey of NBRM

Net Domestic Assets of NBRM is difference between Reserve money and Net Foreign Assets. According to this, flows of NBRMs' Net Domestic Assets creation and withdrawal: Net Foreign assets, Reserve money and the components of Net Domestic assets (Credits to banks, Net position of the Government with NBRM as difference between Claims on Government and Government deposits, including the External account of the Government⁹ and Other items, net).

Table 20 Monetary survey

The Monetary system of the Republic of Macedonia is consisted of the Central Bank and Deposit Money Banks. On the basis of the aggregation of Monetary Authorities Balance sheet and Deposit money Banks Balance sheet, the Monetary Survey is prepared. The Monetary Survey is prepared as consolidated balance of the Monetary system and it is a base for its permanent following. At the same time, the Monetary Survey enables the analysis of interactions of the basic macroeconomic sectors: real, fiscal, external and monetary sector. By analyzing the Monetary Survey, flows of creation and withdrawal of Net Domestic Assets of the Monetary system are stated.

Table 21 Deposit Money Banks' Total placements

The Total placements of Deposit Money banks refer to Credits, Placements in securities, Other placements and Overdue claims on the basis of placements. The placements of Deposit Money banks are decomposed by their sector, maturity and currency structure. According to the accepted standards of Monetary and Financial statistics for consolidation, e.i. exclusion of mutual assets and liabilities in one sector, the placements exclude the Interbank claims.

Table 22 Deposit Money Banks' Total Claims to enterprises

The Claims to enterprises refer to Claims on the basis of Loans, Securities, Other placements and Overdue claims. According to the ownership, there are: Loans to Public, Social and Private enterprises.

Deposit Money Banks extend loans from different sources of funds: deposits, own sources, foreign loans, credit lines and other sources.

The Claims on the basis of securities are the Claims based on short-term securities (checks and bills of exchange) and Claims based on long-term securities, e.i. shares or investments by banks in securities of nonfinancial legal entities with management rights, preference shares, as well as specific investments according to the law for restructuring of companies at a loss.

The Claims which comprise the category Other placements refer to Foreign currency advances, Claims for payments made upon issuance of backing guarantees and guarantees and Advances referring to the regular operation of the banks.

Overdue claims are classified as Overdue claims on the basis of short-term and long-term claims and on the basis of Doubtful and contested claims.

Table 23 Deposit Money Banks' Total Claims on households

Claims on Households refer to Claims on the basis of loans, securities and overdue claims, classified by their currency, maturity structure and by their purpose.

According to the purpose, the Short-term loans are desegregated to Consumer loans, Loans to self employed individuals (they are approved to individuals running registered business), Loans as overdrafts on current account and Loans for other purposes. Long-term loans, according to their purpose, are decomposed to: Loans for housing construction, for business premises, for self-employed activity and Loans for other purposes.

Table 24 Deposit money banks' total claims on other clients - non-profit non-financial organizations

The claims are categorized by their maturity and current structure, by the type (loans, securities, other claims, and overdue claims), and by the source of funds on the basis of which the credits are given. Thus, the Short-term foreign exchange loans are categorized as Loans based on using foreign credits, Loans based on bank's deposit potential and Loans based on foreign credit lines.

⁹ See footnote 3.

Other claims of deposit money banks on other clients- non profit and non financial institutions are bank's claims for payments made upon issuance of backing guarantees for securities and guarantees.

Table 25 Deposit Money Banks ' Total claims on Government

Deposit Money Banks' claims on Government refer to Claims based on loans, securities and overdue claims. As sources of short-term loans given to the Government, Credits in foreign currency, Credit lines, Deposit potential and other sources are used.

Claims on Government based on securities are Claims based on specific securities. Thus, there are following categories based on securities:

1. Long-term investments of the public sector in foreign currency securities -According to the Law on guarantee of the strategic investors' investments and overtaking of claims from ultimate users by the Republic of Macedonia, the Government took over claims of Stopanska Banka a.d.-Skopje from companies at a loss, out of the banks' balance sheet, as of 31.12.1999 and issued long-term bonds.
2. Claims on public sector based on bonds - Payment instruments due for collection in over one year. Base for issuing these bonds are the Claims on frozen foreign currency savings deposits to households. After separation of Former Yugoslavia, the banks in the Republic of Macedonia ended with claims on NBY on the basis of re deposited foreign currency and on the basis of negative exchange rate differentials and for which the banks obtained guarantees from NBY. According to the law regulation, the Government took over the claims on this basis from the banks' balances and issued bonds.
3. Claims based on bonds issued by the Bank Rehabilitation Agency - bonds issued by the Republic of Macedonia based on overtaken claims from the balance sheet of Stopanska Banka a.d. Skopje in the process of it's rehabilitation. In order to rehabilitate the largest bank and to rebuild the confidence in the Banking system, the Government took over the claims based on the non-performing placements of this bank.

Table 26 Deposit Money Banks' claims on other public sector institutions- money holders

Claims on public sector institutions- money holders (Local Government, Public sector institutions) refer to the Claims on short-term and long-term loans (loans up to and over one year) and claims on securities.

Table 27 NBRM total placements

The NBRM placements refer to public sector and Deposit Money banks.

The claims on Public sector are decomposed by their currency and maturity structure.

The claims on Deposit Money Banks' include the claims based on: Lombard loans, Rediscount credits, Long-term Loans, Liquidity loans, Credits extended at auctions, Repurchased agreements, Other claims and Overdue claims.

Lombard loan is monetary policy instrument used as a last resort facility, and it is extended to overcome short-term liquidity problems of the banks. Banks can use the Lombard loans for a limited number of days during the month.

Credit extended at auctions is instrument for regulating the liquidity of the banking system, and it was introduced for the first time in November 1993. Credits extended at auctions are colateralised credits with maturity of 7 days and market based interest rate (formed at auctions).

Deposit Money Banks Claims based on long-term loans refer to: Claims based on Selective credits, that were abolished as Monetary policy qualitative instrument on March 31, 1994. In order to reform the issue mechanism of the Central bank and in order to set it on a more flexible basis, in May 1993 NBRM converted the short-term claims based on selective credits into long-term credits.

Claims on securities (repo arrangements) in Republic of Macedonia are not operative, yet.

The Other claims include: Claims based on authorized exchange offices operations, Claims based on Advance payments to authorized exchange offices for purchasing foreign exchange cash and Claims based on other advance payments.

Table 28 Monetary policy instruments

Auctions of bills are instrument for monetary regulation, which by definition are used for reserve money withdrawal. They were introduced in February 1994. In order to redesign the instruments for monetary regulation i.e. setting them at a more market oriented basis and giving them higher flexibility, certain changes in the NBRM auctions of bills were introduced. Thus, starting from April 2000 there are two types of auctions: "interest rate tender" (with market based interest rate) and "volume tender" (interest rate is formed by NBRM, while the available amounts for investing in CB bills are being auctioned). For higher flexibility, possibilities for changing the setting of the instruments are opened. Auctions of credits, as a monetary policy instrument for money creation and withdrawal were actively used until 1999, since when there is no need for their further use.

Table 29 NBRM claims on Government

According to law regulations, (Law of NBRM, January 2002) NBRM does not extend loans and credits to the central government and government administration bodies, except for financing of liabilities to the IMF and with up to one-day maturity, with no possibility to be renewed or extended. Loans are decomposed by their currency, maturity and sector structure (loans extended to institutions of Central Government and to Other public sector - Agency for strategic reserves).

Claims based on relation with IMF include Net Cumulative Allocation of SDR (totally allocated and revoked SDR) and Claims based on re extended IMF credit. As claims on public sector, NBRM long-term investments in the securities of the Bank Rehabilitation Agency (securities issued by the Bank Rehabilitation Agency for takeover the debt of frozen foreign currency savings deposits and investments in Government securities based on repurchase agreement), and Claims on Government based on foreign transactions (external account for recording receivables and payables of the Government from and to abroad)¹⁰, are also included.

Table 30 NBRM liabilities to Government

NBRM liabilities to Government refer to Deposits of public sector institutions. According to NBRM methodology and the universal world practice, Government deposits are not included in definitions of Money supply, because of their specific nature, e.i. the ability public expenditures to be financed by creating budget deficit. Government deposits are classified according to their currency structure. Thus, the Single Treasury Account of the Government (in Denar)¹¹ and the Government Account in foreign currency are administrated at NBRM. In June 2003, the Account of the Government for monetary policy support was closed¹² (it was open in order to coordinate monetary and fiscal policy and to neutralize the effects Central Bank interventions on the Foreign exchange market, i.e. sterilization of part of issued Denars when the Central bank purchase foreign currency, as potential danger for deterioration of the macroeconomic stability and opposite). Within the Government liabilities, also Government liabilities based on external transactions are included.¹³

Table 31 Deposit Money Banks liabilities to enterprises

According to the dominant, traditional, deposit-credit activity of the banks in the Republic of Macedonia, Deposit Money Banks liabilities to enterprises include the deposits of nonfinancial legal entities and credits obtained from nonfinancial legal entities.

The deposits are desegregated according to their maturity, currency structure and according to their purpose. Credits are desegregated according to their maturity and currency structure.

Table 32 Deposit Money Banks' liabilities to households

Liabilities to households include: Current and Giro accounts, Sight deposits, Time deposits (up to three months, over three months, up to one year and over one year) and Restricted deposits, with purpose of covering letters of credit in the domestic payment operations.

Table 33, 34, 35, and 36 present the Deposit Money Banks' liabilities to non-profit and non-financial organizations, to the Government, to other financial institutions, as well as the liabilities to the public sector – money holders, respectively. These are liabilities based on various types of deposits, classified according to their maturity and currency structure, as well as the liabilities based on securities and short term and long term credits.

Table 37 Deposit and lending interest rates of the National bank of the Republic of Macedonia

1. Discount rate: by definition it is the rate at which the Central bank extends discount credits to deposit banks. In our practice, the discount rate is used as a base for calculating the default rates to the banking system, as well as signal for the changes in the Monetary policy stance.
2. The Lombard credits interest rate: Lombard credits represent monetary policy instrument which serve as a last resort facility and are extended on the base of collateral. Types of securities that can be used as collateral and terms for their utilization are revised on a quarterly basis and published ("List of securities that can be used as a collateral for NBRM credits").
3. Interest rate on credit extended at auction: the Credits auctions are conducted according to the Monetary policy projection and the weekly banking system liquidity projection. The purpose of this instrument is regulation of the global liquidity level. The interest rates on these auctions are formed on a market basis, through bids.
4. Interest rates on loans not paid back on maturity i.e. loans pertaining to regulation violations (default interest rate): are calculated at a rate 200% above the discount rate.
5. Interest rate on a daily overdraft on the bank's account at NBRM. For the payment operations purposes, the banks have an opportunity for daily overdraft on the account at NBRM, on the base of collateral of security. If the daily

¹⁰ See footnote 3.

¹¹ Starting from January 2003.

¹² In June 2003, netting - out of the amounts of Fund for monetary policy support and External account of the Government was done, these two accounts were closed, and the positive balance was transferred on the Single Treasury Account.

¹³ See footnote 3.

overdraft is not covered at the end of the term, NBRM charges Default interest rate (200% above the Discount rate) on the amount of the daily overdraft.¹⁴

6. Interest rate on Compulsory reserve not deposited on time: when the average amount of compulsory reserve is not deposit within the specified period, default interest rate of 200% above the discount rate is charged on the not provided amount;
7. The interest rate for utilization of Compulsory reserves: when, within the reference period, the banks utilize the Compulsory reserve above the allowed amount (regardless whether at the end of the referent date, the total amount of Compulsory reserves is provided), default interest rate of 200% above the discount rate is charged.
8. Interest rates on CB' bills sold at auction: the weighted interest rate at the CB' bills auctions conducted within the month is presented, regardless of the CB' bills maturity and the type of the auction.
9. Interest rates on Compulsory reserves: the opportunity costs of the sterilized liquidity, when allocating compulsory reserves, is compensated by this interest rate which for NBRM is a deposit interest rate. This interest rate is not charged on a surplus of Compulsory reserve.

Table 38 Review of banks' interest rates

On the basis of the banks' reports, submitted on a regular monthly basis, an aggregated review of the banks' interest rates on the Denar deposits is compiled (Sight deposits, Time deposits up to 1,3,6,24 and 36 months), as well as on Denar placements (short-term and long-term). The interest rates are classified according to their sector structure (deposits of households and enterprises). The interest rates are presented in a range, comprised of the lowest and the highest interest rate.

On the basis of submitted interest rates by the banks and appropriate items of banks' balance sheet (Denar placements and deposits), weighted deposit and lending interest rates of the banking system are composed on a monthly basis. The weighted lending interest rates, which are presented, refer to short-term Denar placements (up to 1 year), and weighted deposit interest rates refer to short-term Denar deposits (up to 3 months).

Table 39 Compulsory reserve rate

The rate of the compulsory reserve is calculated on the basis of the deposits' average balance in the previous calculation period. The calculation period is between the 11th of the current month and 10th of the next month.

Until June 2003, deposits were divided in two groups: deposits at which higher rate is applied and deposits at which lower rate is applied. The first group includes: Demand deposits, Sight deposits and Time deposits up to three months, Credits received from households and legal entities with maturity up to three months, Funds received by issuance of short term securities up to three months and other deposits up to three months, in the previous calculation period. The second group includes: Time deposits over three months, funds received by issuance of long term securities, credits received by households and legal entities over three months and other deposits over three months. Starting from June 2003, the rate of compulsory reserve is unified and stands for every category of Denar deposits (with respect to their maturity structure). At the same time, starting from June 2003, banks have to allocate compulsory reserve on foreign currency deposits (see footnote 6), with unique rate, equal to the rate for compulsory reserve of the Denar deposits.

¹⁴ According to payment system reform, from 2002.