1. METHODOLOGICAL EXPLANATIONS

General review

Foreign direct investments (hereinafter FDI) are form of international capital flow reflecting the purpose of achieving long-term interest between the direct investor (resident from one economy) and the direct investment company (resident of another economy). The foreign direct investments, apart from the initial investment transaction, also incorporate all subsequent investments among them and their affiliations. Long-term interest is a significant influence of the investor in the management of the company of the invested capital[1].

The method of calculating and presenting the FDI within international frameworks is based on the methodological recommendations in the IMF Manual (Balance of Payments Manual-fifth edition, IMF 1993) and the OECD Manual (OECD Benchmark Definition of Foreign Direct Investment-third edition, OECD 1996). According to these recommendations, the FDI include:

- Equity capital and reinvested earning;
- Claims on affiliated companies abroad;
- Liabilities to affiliated companies abroad.

By the end of 1993, the countries applied various criteria for defining direct investments. The fifth edition of the IMF Manual recommends the minimum share of 10% in the capital or the voting right to be applied as a criterion, thus ensuring international data comparability. Therefore, the distinction between direct and portfolio investor is made from the aspect of the percentage of held shares and stakes in the company.

The FDI statistics, as a part of the balance of payments statistics and the international investment position is generally based on data from the International Transaction Reporting System-ITRS, Enterprise Surveys and other sources (printed and TV media, Stock Exchange, various agencies). The direct investments statistics, founded on the reports on the stock and the flow of the affiliated entities, is a part of the statistics of the international investment position of the country, which includes all financial claims and liabilities between residents and non-residents on a specific date (most frequently 31.12).

Each of these basic sources has its advantages and disadvantages (see Table 1).

Table 1

Advantages	Disadvantages
International Transaction Reporting System (ITRS) • Most of the required information on capital transactions are provided through the reports of the commercial banks • The data are obtained within relatively short time period	• Provides data only on cash transactions, while the reinvested earning and the inter-company debt are not included • Requires additional control of the quality of obtained data • Provides no data on

[1] see: *Balance of Payment Manual, IMF, 1993*; *Balance of Payment Compilation Guide, IMF, 1995;*

	analysis of all aspects of FDI - provides data only for the FDI flows, and no data on the FDI stock
Enterprise Surveys • Provide complete and comprehensive data related to the investment activity of the companies, thus providing a basis for various analytical and survey purposes	• Difficulties regarding the identification of companies with FDI and data collection • The data are obtain in relatively longer time period
Other sources ▪ Provide additional information on the agreements made on foreign investments between the investor and the FDI recipient, thus improving the FDI statistics	• The data are often informative and, as such, are rarely used for statistical purposes, since there is a time distance from the announcement to the actual investment, which may happen that never occurs

The data gathered from the foregoing sources are presented in accordance with the standard FDI components (income, transactions and position) as follows[2]:

- Income, divided into: a) income from capital and b) income from interests on credits;
- Transactions, divided into: a) equity capital, b) reinvested earning and c) other capital (inter-company transactions);
- Stock, divided into a) equity capital and reinvested earning and b) other capital.

Methodological approach to FDI to the Republic of Macedonia

Taking into account the FDI role for the economic development, and in line with the statistical survey program, the National Bank of the Republic of Macedonia (NBRM) also conducts statistical survey of the foreign direct investments in and from the Republic of Macedonia. The methodological procedures applied in the Republic of Macedonia for calculating the foreign direct and portfolio investments fully correspond with the methodological procedures applied by the IMF and OECD member states.

In the period from gaining the independence to 1999, the FDI flows were calculated merely on the basis of data from the International Transaction Reporting System (ITRS). Thus, the orders of the commercial banks and the single customs documents of the Customs Administration were a core source of data.

With a view to advancing the existing statistics and introducing more comprehensive survey of calculation of FDI (availability of data for the FDI stocks), in 1999, the NBRM introduced a direct reporting system. Reports[3] on the stock and the flow of the affiliated companies were introduced within the direct reporting system[4]. These reports contain information on the stocks and the flows of capital investments, the reinvested earning and claims and liabilities in and from abroad. All residents - legal entities of the Republic of

[2] Report of Survey of Implementation of Methodological Standards for Direct Investment, OECD, March 2000.
[3] The report from the companies on direct reporting to the affiliated entities was introduced by the Decision on compulsory reporting on the operations of the affiliated entities on the basis on investments in and from abroad ("Official Gazette of the Republic of Macedonia" no.4/99).

[4] Affiliated entities are entities mutually affiliated by investing capital for the purposes of achieving mutual interest.

Macedonia, where foreign investors invested capital, or hold shares are required to submit such reports to the NBRM annually. The forms are filled in as specified by the Instructions for the manner of reporting on the affiliated entities operations based on the investments in and from abroad ("Official Gazette of the Republic of Macedonia" no.79/2002).

The report on foreign direct investments in the Republic of Macedonia presents and processes data on the FDI stock and flow in the Republic of Macedonia, obtained from the reports on the stock and the flow of the affiliated entities. Considering that this is a first report that processes such data, it contains data on the FDI stock and flow in the 1997-2003 period.

This report presents data on FDI in the Republic of Macedonia as defined by the primary classification (direct and portfolio investments) and the structure (shareholder capital, reinvested earning and debt of affiliated entities), analyzed from the aspect of the origin and activity subject to investment.

In methodological terms, the reinvested earning includes:

- Portion of gain allocated to capital;
- Portion of gain allocated to reserves;
- Portion of gain allocated to cover losses from previous period;
- Unallocated gain;
- Uncovered loss;
- Loss from past period, converted into claim on the investor and
- Gain from past period, converted into liability to the investor.