

Report on the international investment position of the Republic of Macedonia for 2008 based on revised data¹

Background

International investment position is a standardized statistical review which presents the external financial assets and financial liabilities of the Republic of Macedonia at a certain date.

Apart from showing the stock and structure of financial assets (receivables) from nonresidents and financial liabilities to nonresidents, the international investment position (IIP) also presents the net creditor/debtor position of the country (and of particular institutional sectors) to the rest of the world. Positive net international investment position denotes excess financial assets (receivables) over liabilities, whereas negative net international investment position denotes excess liabilities over financial assets (receivables) in the relations between residents and nonresidents. In the first case, the country is a net creditor, and in the second case, it appears as a net debtor in the international relations.

IIP structure analysis within a longer timeframe provides monitoring of the change in the situation of institutional sectors, and the change in the sectors' preferences to use certain types of financial instruments. Such dynamic perspective ensures that the changes are interpreted as a reflection of the overall macroeconomic developments in the country and the environment, and frequently, as a signal for certain developments in the period to come. Hence, the preparation of international investment position is a necessity in the modern world, as an indicator for the financial position of the country and its integration in the overall international economic developments, which is also proved by the growing significance of this report over the recent years, with the continuous globalization process and the emergence of economic crises worldwide.

Since the beginning of 2009, the international investment position data are compiled on quarterly basis and are revised annually. IIP preparation uses various sources of data and applies methodology consistent with the international standards and recommendations. This methodology is publicly available on the website of the National Bank of the Republic of Macedonia.

Summary analysis of the international investment position for 2008

At the end of 2008, the Republic of Macedonia reported financial assets from nonresidents in the amount of Euro 2,456.2 million and financial liabilities to nonresidents in the amount of Euro 5,723.5 million. As of December 31, 2008, the net international investment position still had a negative sign, totaling Euro 3,267.2

¹ International investment position data have been revised on the basis of processing of data from the annual questionnaire on direct investments of companies with foreign capital for 2008.

million. The net debt position of the Republic of Macedonia, as a percentage of GDP, equaled 50.2% of GDP.

Compared to the end of the preceding year, the international investment position registered significant deterioration (by Euro 866 million, or by 8.7 percentage points, as a percentage of GDP). Deterioration was recorded on the assets side, which went down by 8.6% (Euro 230 million), while external liabilities went up by 12.5% (by Euro 636 million).

IIP analysis of the institutional sectors points to other sectors (dominantly comprised of nonfinancial companies), which account for more than a half (55%) of the total growth of net IIP in 2008, as a driver of the growing negative balance. Banks' net IIP registered considerable deterioration (of Euro 340 million), making up 39% of the total deterioration of net IIP in 2008. Such unfavorable developments reflect the substantial fall of foreign assets the banks hold abroad as deposits, and the simultaneous increase in liabilities (mostly due to the higher foreign direct investments in this sector). Consequently, the banking sector holds a net debt position in the international relations for second subsequent year, which was not the case with the previous years.

The state sector analysis shows that the state remains net debtor to abroad, with almost unchanged net debt compared to 2007. The monetary authority, which usually appears as a net creditor to abroad, due to the gross official state reserves, reported a decrease of 3%, or Euro 45.5 million in the net claims in its international relations, after many years of permanent growth. Thus, the trend of permanent growth of the net IIP of the monetary authority was interrupted.

Observing the IIP structure by instrument, the asset side is still dominated by the instrument of gross official reserves, which decreased by Euro 29.4 million (2%) in 2008. On the liabilities side, financial liabilities to direct investors dominate, which in 2008 went up by 16.6% or Euro 423.6 million (of which: by Euro 180.8 million based on capital and reinvested earnings and by Euro 242.8 million based on other capital). The liabilities to nonresidents based on loans (by 14% or Euro 191 million) and trade credits (by 11.5% or Euro 67 million) markedly increase.

Analysis of the international investment position of other countries shows that most of the other countries, including the Republic of Macedonia, reported deterioration of the net international investment position in 2008.

Net international investment position by country*

Country	2007		2008	
	in billions of euros	% of GDP	in billions of euros	% of GDP
Euro area	-1,164.9	-13.0%	-1,803.9	-19.6%
USA	-1,453.2	-14.1%	-2,355.9	-24.0%
Croatia	-39.9	-93.2%	-35.6	-75.1%
Slovenia	-7.4	-21.3%	-12.1	-32.5%
Macedonia	-2.4	-42.8%	-3.3	-50.2%
Greece	-214.5	-94.7%	-183.9	-76.9%
Bulgaria	-26.5	-91.8%	-36.7	-107.6%
Turkey	-213.8	-45.3%	-135.3	-27.1%

*Source: ECB, EUROSTAT, IMF, websites of central banks and own estimations.

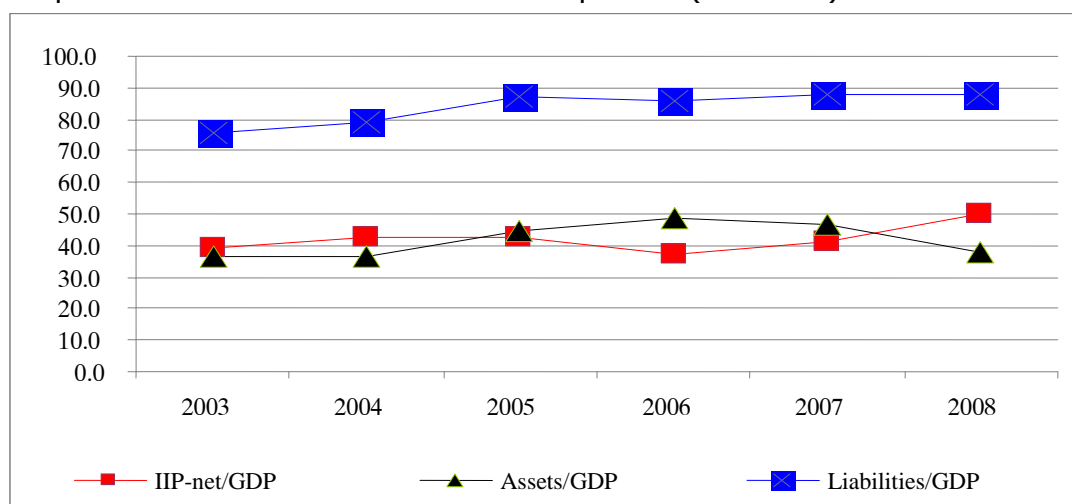
ANNEXES, TABLES AND FIGURES

Table 1
International investment position 2003-2008
(millions of euros)

	2003	2004	2005	2006	2007	2008
IIP-net	-1,599.7	-1,836.6	-1,978.3	-1,878.5	-2,401.1	-3,267.2
Assets	1,495.3	1,589.4	2,081.7	2,472.7	2,686.0	2,456.2
Liabilities	3,095.0	3,426.0	4,060.1	4,351.2	5,087.2	5,723.5
GDP	4,105.0	4,324.5	4,676.0	5,081.3	5,791.1	6,504.3
IIP-net/GDP(%)	-39.0	-42.5	-42.3	-37.0	-41.5	-50.2
Assets/GDP(%)	36.4	36.8	44.5	48.7	46.4	37.8
Liabilities/GDP(%)	75.4	79.2	86.8	85.6	87.8	88.0

Source: National Bank of the Republic of Macedonia

Figure 1
Components of the International investment position (% of GDP)



Source: National Bank of the Republic of Macedonia

Annex 1

Division of IIP sector

For the purposes of IIP preparation and presentation, the sectors have been grouped as follows:

- **Monetary authority:** represented by the central bank, i.e. the National Bank of the Republic of Macedonia
- **State:** consists of central government, local government and social funds. This sector does not include state-owned enterprises which operate on the basis of free market principle.
- **Bank:** includes all money deposit institutions, except for the Central Bank.
- **Other sectors:** this group comprises the following functional categories:
 - Nonbank financial institutions (including insurance companies, investment funds, private pension funds and other financial intermediaries);
 - Nonfinancial institutions (entities involved in goods and services production [including state-owned enterprises]);
 - Households (households and natural persons);
 - Nonprofit institutions serving households (churches, political parties, unions, associations)

Table 2
IIP of institutional sectors

	2003	2004	2005	2006	2007	2008
IIP, net Government-	-1,027.0	-1,016.5	-1,282.8	-1,066.9	-905.9	-906.3
IIP, net- Monetary authorities	693.4	682.9	1,083.4	1,392.2	1,541.6	1,496.1
IIP, net-Banks	251.8	314.5	231.8	87.2	-98.7	-439.2
IIP, net- Other sector	-1,518.0	-1,817.5	-2,010.8	-2,291.0	-2,938.1	-3,417.8
IIP net	-1,599.7	-1,836.6	-1,978.4	-1,878.5	-2,401.1	-3,267.2

Source: National Bank of the Republic of Macedonia

Annex 2

Classification of the International investment position by type of investment:

Divided into assets and liabilities, IIP consists of four functional investment categories and subcategories, where transactions have been classified by type of investment, as follows:

- **Direct investments**, classified:
 - by investment direction:
 - investments abroad
 - investments in the Republic of Macedonia
 - by instrument:
 - equity and reinvested earnings
 - other capital
- **Portfolio investments**, divided into equity and debt securities
- **Other investments**, divided into trade credits, loans, currency and deposits and other assets/liabilities; and
- **Reserves**, classified by type of instruments.

Annex 3

Foreign direct investments

According to the recommendation of the Fifth edition of the IMF Balance of Payments Manual, foreign direct investments are defined as investments with which the investor tends to establish a lasting interest and/or to exercise a right of management the direct investment enterprise. To the end of 1993, the countries applied various criteria for defining the direct investments. The Fifth edition of the IMF Manual recommends using the minimum share of 10% of the capital or voting power as a criteria, thus ensuring international data comparability. Accordingly, the distinction between direct and portfolio investor is based on the percentage of shares and stakes held in the company. Such methodological procedures for calculating foreign direct and portfolio investments fully apply in the Republic of Macedonia. Basic source of direct investments data in the Republic of Macedonia are the annual questionnaires that resident companies with foreign capital submit to the NBRM. The questionnaires contain data on the initial investment, the financial result and the intercompany debt.

Portfolio investments

According to the recommendation of the Fifth edition of the IMF Balance of Payments Manual, portfolio investments are defined as investments in debt and equity securities

(except for those included in foreign direct investments), traded on organized and other financial markets.

As to the equities, portfolio investments imply "passive" holding of securities, where their holder does not have the right to active participation in the management, or control of their issuer. Commonly, this means holding securities with share of below 10% in the capital or voting power.

As to the debt securities, a debtor-creditor relation has been established with the security issuer. According to the maturity, these securities are most frequently grouped into bonds and notes and money market instruments.

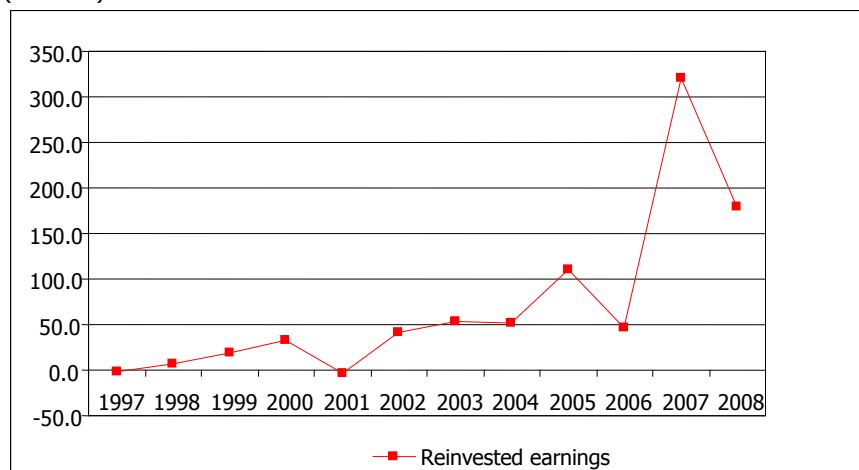
Table 4: Foreign direct investments in the Republic of Macedonia
(in millions of euros)

Year	Total	Equity capital	Claims	Liabilities
1	2=3-4+5	3	4	5
1997	141.2	102.9	12.1	50.5
1998	270.4	219.5	12.8	63.7
1999	359.9	284.3	15.7	91.3
2000	580.1	497.7	16.9	99.3
2001	1,039.2	946.3	40.8	133.7
2002	1,160.7	1,056.6	46.3	150.5
2003	1,292.1	1,182.0	48.0	158.1
2004	1,610.2	1,366.1	36.7	280.8
2005	1,769.0	1,579.6	74.5	263.9
2006	2,098.6	1,863.3	80.9	316.1
2007	2,545.2	2,226.6	106.1	424.7
2008	2,968.8	2,407.4	114.0	675.3

Source: National Bank of the Republic of Macedonia

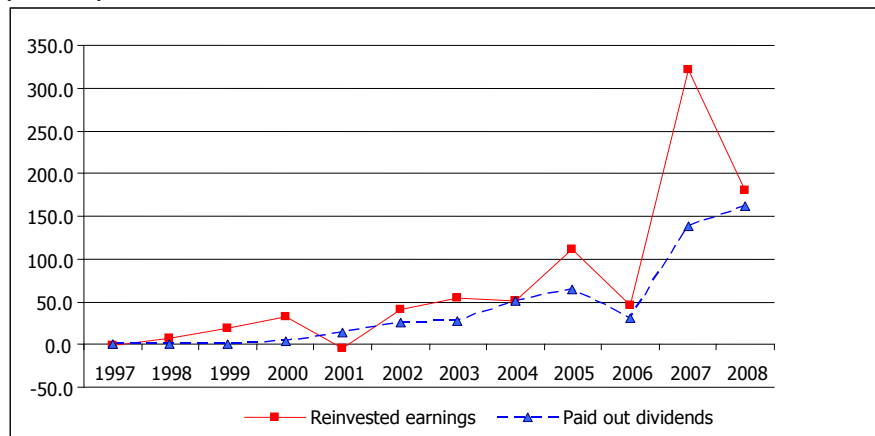
Figure 2

Reinvested and undistributed earnings of direct investment enterprises
(in euros)



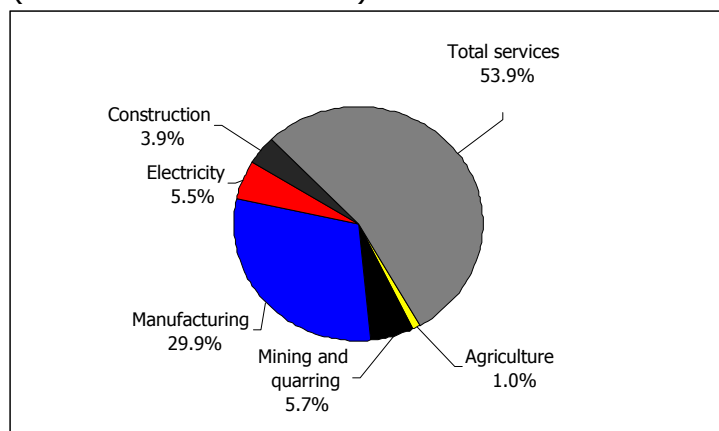
Source: National Bank of the Republic of Macedonia

Figure 3
Reinvested and undistributed earnings and dividends paid
(in euros)



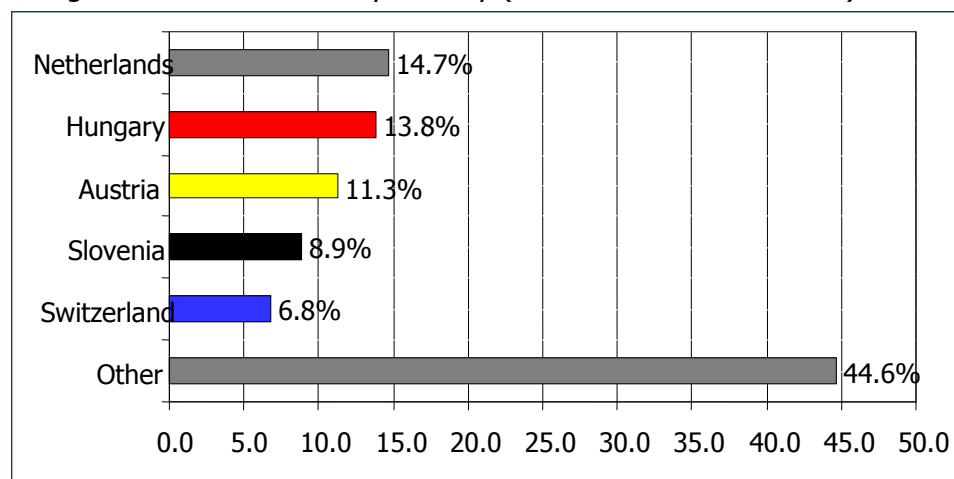
Source: National Bank of the Republic of Macedonia

Figure 4
Foreign direct investments in the Republic of Macedonia by activity
(shares at the end of 2008)



Source: National Bank of the Republic of Macedonia

Figure 5
Foreign direct investments by country (shares at the end of 2008)



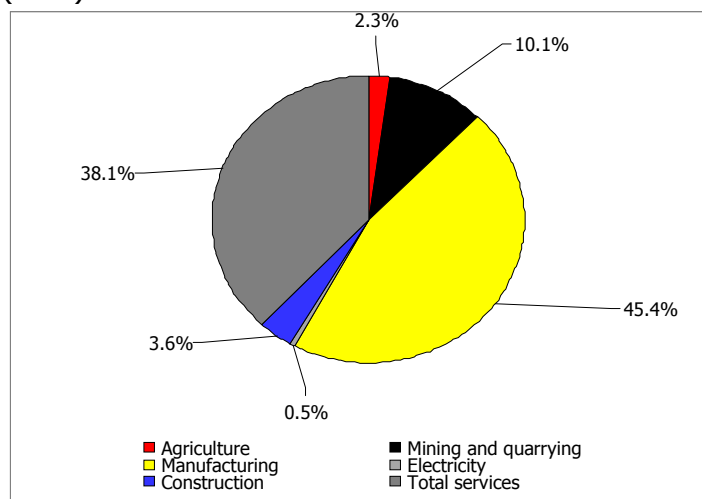
Source: National Bank of the Republic of Macedonia

Table 5
Short-term trade credits claims - structure by country
(in millions of euros)

Country	Value	%
Greece	29.6	52.7
Germany	6.6	11.8
Serbia	4.9	8.8
Bulgaria	3.5	6.2
Italy	2.3	4.2
Netherlands	1.5	2.7
Slovenia	1.1	1.9
Romania	1.1	1.9
Croatia	1.1	1.9
Great Britain	1.0	1.9
Others	3.3	5.9
Total	56.1	100.0

Source: National Bank of the Republic of Macedonia

Figure 6
Trade credits - total claims by activity
(in %)



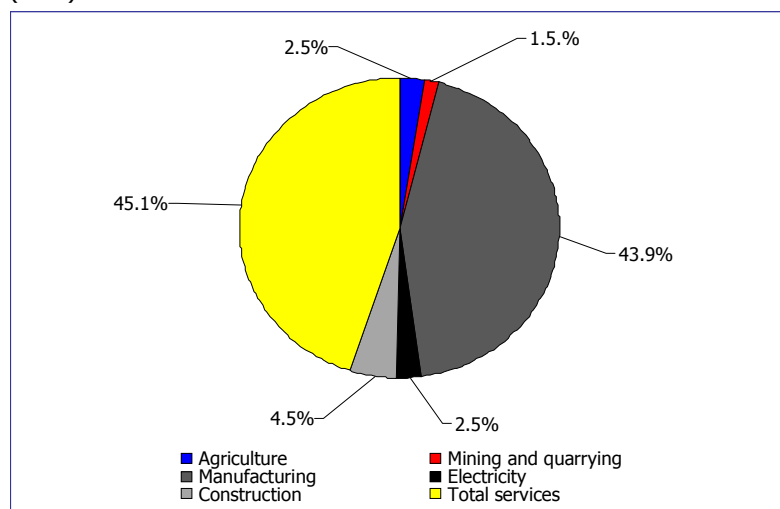
Source: National Bank of the Republic of Macedonia

Table 6
Short-term trade credits liabilities - structure by country

Country	Value	%
Greece	44.4	26.9
Slovenia	31.4	19.0
Switzerland	16.8	10.1
Serbia	13.3	8.1
Croatia	9.9	6.0
Germany	8.9	5.4
Great Britain	8.9	5.4
Turkey	8.9	5.4
Austria	7.6	4.6
Bugaria	7.5	4.5
Others	7.7	4.6
Total	165.2	100.0

Source: National Bank of the Republic of Macedonia

Figure 7
Trade credits - total liabilities by activity
(in %)



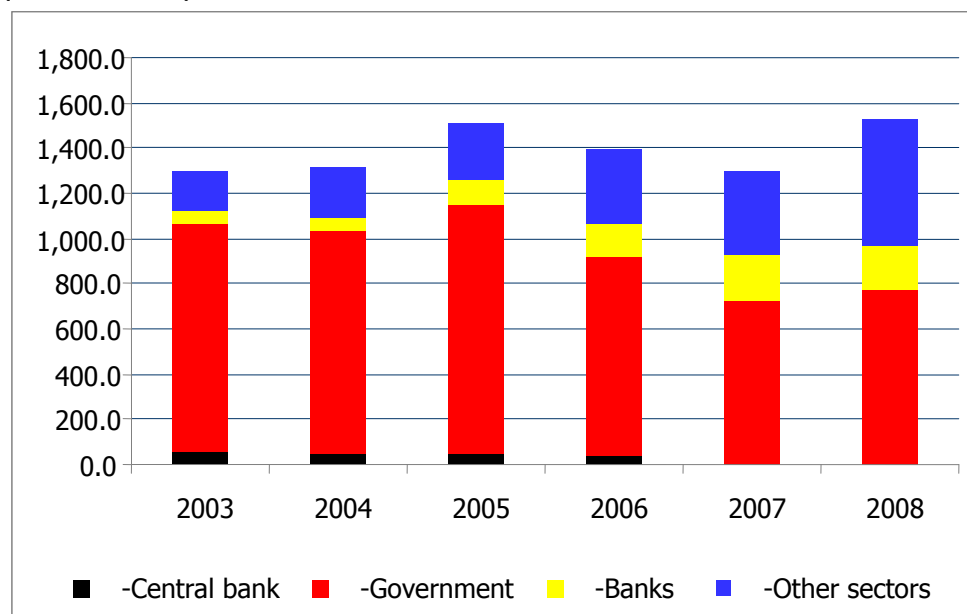
Source: National Bank of the Republic of Macedonia

Table 7
Liabilities based on loans from abroad by debtor
(in millions of euros)

	2003	2004	2005	2006	2007	2008
Short-term loans	25.9	21.1	64.5	11.7	55.8	14.9
-Central bank	0.0	0.0	0.0	0.0	0.0	0.0
-Banks	8.7	7.9	2.3	0.0	16.5	0.0
-Other sectors	17.2	13.3	62.2	11.7	39.3	14.9
Long-term loans	1,300.2	1,312.6	1,505.6	1,395.6	1,300.0	1,532.0
-Central bank	54.7	46.0	52.7	42.4	0.0	0.0
-Government	1,005.5	993.2	1,095.4	875.2	727.2	771.2
-Banks	64.0	57.6	108.8	146.3	199.8	201.1
-Other sectors	175.9	215.8	248.8	331.7	372.9	559.7
Total	1,326.2	1,333.8	1,570.1	1,407.2	1,355.8	1,546.9
GDP	4,105.0	4,324.5	4,676.0	5,081.3	5,782.3	6,504.3
Short-term loans/Total loans (%)	2.0	1.6	4.1	0.8	4.1	1.0
Long-term loans/Total loans (%)	98.0	98.4	95.9	99.2	95.9	99.0
Total loans/GDP(%)	32.3	30.8	33.6	27.7	23.4	23.8

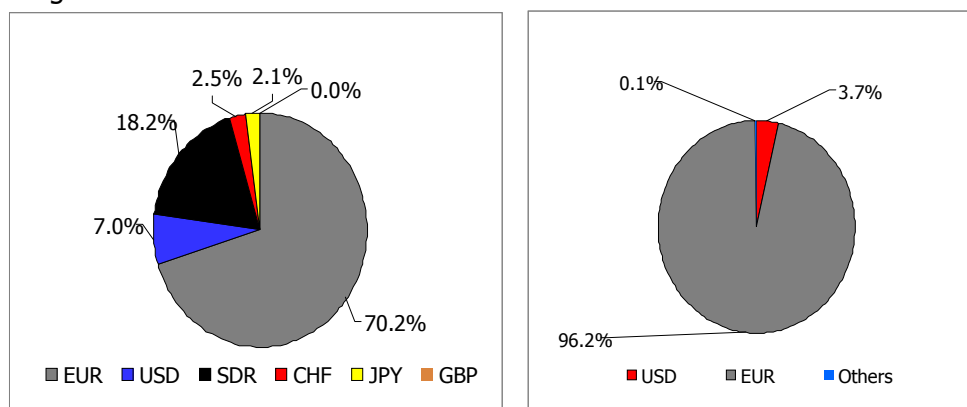
Source: National Bank of the Republic of Macedonia

Figure 8
Long-term loans by sector
(millions of euros)



Source: National Bank of the Republic of Macedonia

Figure 9
Currency structure of the debt based on loans (in %)
Long-term liabilities Short-term liabilities



Source: National Bank of the Republic of Macedonia

Table 8

Banking sector liabilities based on loans from abroad r

(in millions of euros)

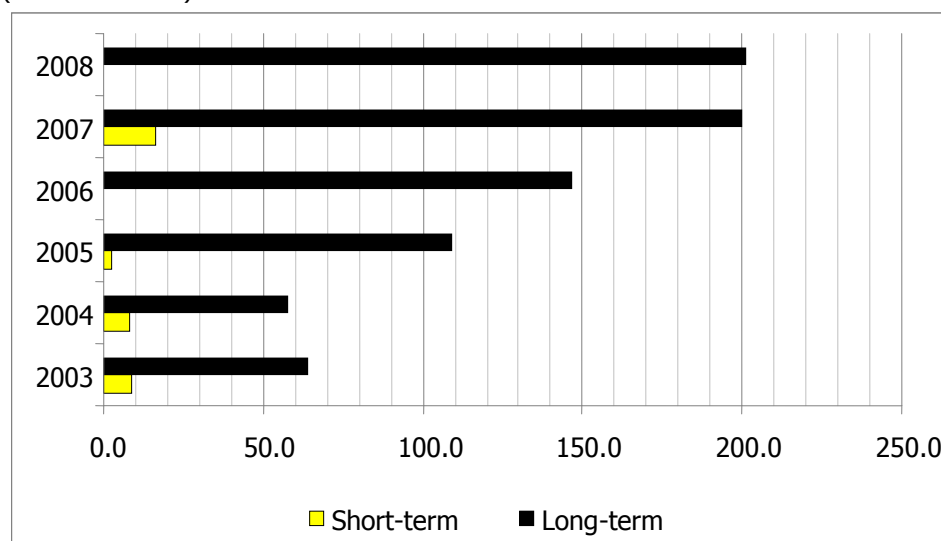
	2003	2004	2005	2006	2007	2008
Loans/banking sector	72.8	65.5	111.1	146.3	216.3	201.1
-Short-term	8.7	7.9	2.3	0.0	16.5	0.0
-Long-term	64.0	57.6	108.8	146.3	199.8	201.1
Total loans	1,326.2	1,333.8	1,570.1	1,407.2	1,355.8	1,546.9
Loans-banking sector/Total loans(%)	5.5	4.9	7.1	10.4	16.0	13.0
Loan -banking sector/GDP (%)	1.8	1.5	2.4	2.9	3.7	3.1

Source: National Bank of the Republic of Macedonia

Figure 10

Short-term and long-term loans of the banking sector

(millions of euros)



Source: National Bank of the Republic of Macedonia

Table 9

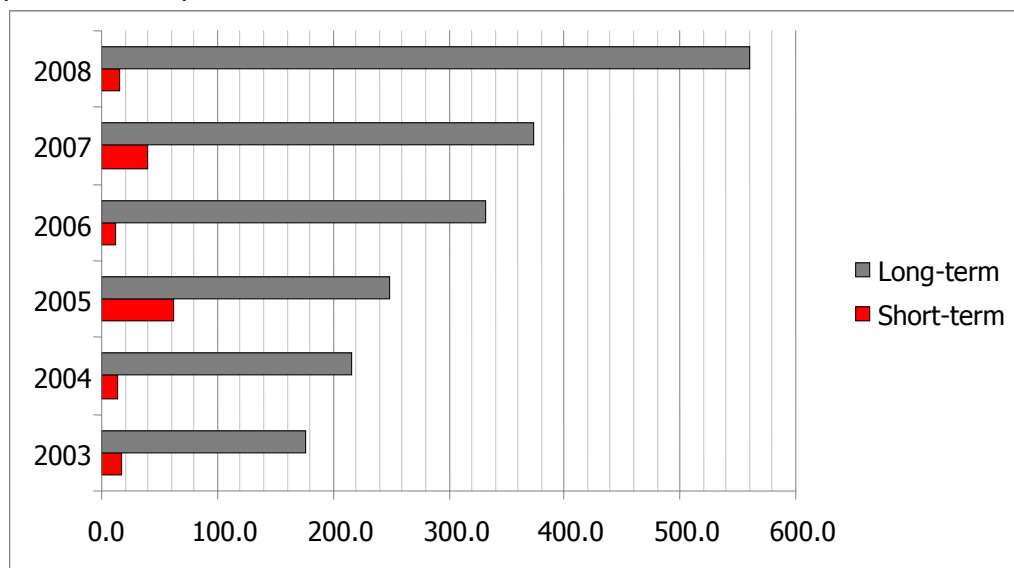
Other sector liabilities based on loans from abroad

(in millions of euros)

	2003	2004	2005	2006	2007	2008
Loans-other sector	193.2	229.1	311.0	343.3	412.2	574.6
-Short-term	17.2	13.3	62.2	11.7	39.3	14.9
-Long-term	175.9	215.8	248.8	331.7	372.9	559.7
Total loans	1,326.2	1,333.8	1,570.1	1,407.2	1,355.8	1,546.9
Loans-other sector/Total loans (%)	14.6	17.2	19.8	24.4	30.4	37.1
Loans-other sector/GDP (%)	4.7	5.3	6.7	6.8	7.1	8.8

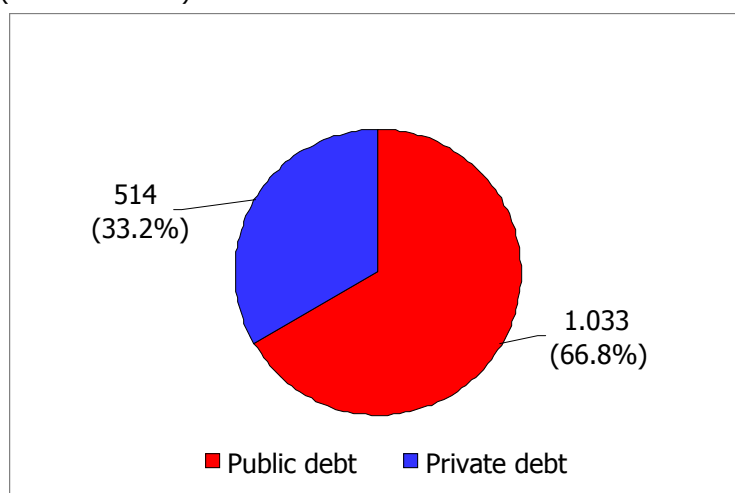
Source: National Bank of the Republic of Macedonia

Figure 11
Short-term and long-term loans of other sectors
(millions of euros)



Source: National Bank of the Republic of Macedonia

Figure 12
Public and private related liabilities based on loans from abroad
(millions of euros)



Source: National Bank of the Republic of Macedonia