

National Bank of the Republic of North Macedonia
Statistics Department



**Methodological explanations on the
International Investment Position**

1. Methodological Explanations for External Statistics

External statistics are a sublimation of several individual statistical surveys for compiling, processing and disseminating data on stocks and/or transactions with non-residents, such as Balance of Payments, Foreign Direct Investments, International Investment Position, Official Foreign Reserves, Gross External Debt and Gross External Claims.

Within its continuous efforts for alignment with the international statistical standards and producing internationally comparable data, the National Bank of the Republic of North Macedonia primarily focuses its activities on harmonization with the international standards and applying the latest manuals in the area of Balance of payments, Foreign direct investments, Gross external debt and claims, as well as Official foreign reserves statistics.

1.1 Harmonization with the European and international statistical standards

The harmonization of statistical reports on external statistics is achieved through the implementation of international manuals and EU Regulations and their incorporation in the national statistics.

The international manuals applied for compiling and processing the data are the following:

- Balance of Payments International Investment Position Manual (BPM 6), 2009, IMF;
- International Reserves and Foreign Currency Liquidity: Guidelines for a Template, IMF 2013;
- External Debt Statistics: Guide for Compilers and Users, IMF, 2013;
- OECD Benchmark Definition of Foreign Direct Investment 4th edition BD4;
- Regulation (EC) No 184/2005 of the European Parliament and of the Council;
- Commission Regulation (EC) No 601/2006, implementing Regulation (EC) No 184/2005;
- Commission Implementing Regulation (EU) No 228/2014, amending Regulation (EC) No 601/2006;

The following classifications apply for compiling and processing the data from these surveys:

- National activity classification - compatible with NACE Rev.2;
- National classification of institutional sector - compatible with ESA 2010;
- ISO country and currency codes.

The national legislation defining the scope of data compiled for the needs of external statistics is consistent with the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 158/10, 23/12, 43/14, 153/15 and 6/16) and the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia No. 34/01, 49/01, 103/01, 51/03, 81/08, 24/11, 135/11, 188/13, 97/15, 153/15 and 23/16). Residency of institutional units is defined under the Law on Foreign Exchange Operations, where natural persons staying temporarily in the Republic of Macedonia on the basis of a valid residence permit or work permit for a period of at least six months are treated as residents of the country¹.

The **reporting units** are legal entities and natural persons which have economic transactions with non-residents, and depending on the type of transactions, are obliged to report on their claims on and liabilities to non-residents, based on debt instruments, capital investments from and to abroad, claims on and /or liabilities to non-residents based on other financial instruments etc. The reporting on transactions with non-residents can be direct (by the resident reporting units) and indirect (performed by other entities that have at their disposal information on particular types of transactions).

1.2 Dissemination and revision policy

1.2.2 Dissemination policy

The data on external statistics are disseminated in accordance with the Advance Release Calendar (available on the NBRNM's website- http://nbrm.mk/kalendar_na_objavuvanje_na_podatoci-en.nspj).

The methodologies on external statistics are also disseminated on the website of NBRNM.

1.2.3 Revision Policy

The data are revised on a regular annual basis, within a period of T+270 days after the end of the reporting year.

Additionally, if needed, revisions of disseminated data can be done more frequently in the following cases:

-provision of new, updated and / or corrected information and data from the reporting units; or

-data source changes or changes in the methodology for the compilation of a specific statistical survey.

In accordance with the international recommendations for any significant data changes during the revisions, an adequate explanation is given in a footnote or in a press releases.

The historical time series data is revised from the moment of occurrence of the event that led to change in data, or if not applicable, for the longest possible

¹ Such definition of residency of natural persons and its application in the process of creating statistical data is an exception to the recommendation given in the international statistical standards, according to which a criterion for determining residency is a stay or intention to stay in a country for a period of one year or more.

time period back forward. If there is a change in the presentation of data (publication of a new indicator - sector, instrument, etc.), the historical time series is revised beginning from the moment of introducing the new indicator, if appropriate conditions exist for this matter.

2. International Investment Position

International Investment Position is a statistical report that presents the stock and structure of financial claims (assets) of residents on non-residents and the financial liabilities of residents to non-residents, arising from their operations. In other words, the IIP is a balance sheet of the international financial assets and liabilities of a country on a specific date.

This statement allows the evaluation of the financial state of the country, as well as the economic integration of the domestic economy at an international level.

The international financial assets of the country comprise of claims from direct and portfolio investments, investments in financial derivatives, other investments (in the form of other equity, currency and deposits, loans, insurance, pension and standardized guarantee schemes, trade credit and advances and other accounts receivable), as well as official reserve assets.

The international financial liabilities of the country comprise of liabilities based on direct and portfolio investments, investments in financial derivatives, liabilities based on other investments (in the form of other equity, currency and deposits, loans, insurance, pension and standardized guarantee schemes, trade credit and advances, other accounts payable and the allocation of special drawing rights).

The difference between the total international financial assets and liabilities presents the net-international investment position of a country.

2.1 IIP components

IIP contains standard components, classified in three levels:

The first level of classification is Assets and Liabilities.

The second level of classification is by functional categories, fully consistent with the financial account of the balance of payments. In accordance with this classification, the assets and liabilities are divided into Direct Investments, Portfolio Investments, Financial Derivatives (other than reserves) and Employee Stock Options, Other Investments and Reserve Assets (on the assets side only).

1. Direct investments reflect the purpose of achieving long-term interest relationship between the direct investor (resident in one economy) and the direct investment enterprise (resident in another economy). Direct investments consist of investments by which the investor achieves long-term economic relationship and/or the right to manage the direct investment enterprise. Thereby the direct investments are defined in accordance with international recommendations and standards that require minimum 10% capital share (direct or indirect). Despite the initial investment, direct

investments include all subsequent investments between the direct investor and the direct investment enterprise. This category also includes reverse investments and investments between fellow enterprises (below 10%). Direct investments consist of Equity and investment fund shares (including Reinvestment of Earnings) and Debt instruments arising from intercompany lending between affiliated entities. Debt claims and liabilities between deposit corporations and other financial intermediaries (except insurance corporations and pension funds) are excluded from the debt instruments within the direct investments category and are included in the appropriate financial instrument.

2. *Portfolio investments* include investments in equity and investment fund shares, where the investor's share is less than 10%, and debt securities.
3. *Financial derivatives* (other than reserves) *and employee stock options* are financial instruments which involve specific financial risks linked to another underlying financial instrument or indicator or commodity and which can be traded independently from the underlying instrument on the financial markets. The value of a financial derivative derives from the price of the underlying financial instrument.
4. *Other investments* contain assets and liabilities based on other equity, currency and deposits, loans, insurance, pension and standardized guarantee schemes, trade credit and advances, other accounts receivable/payable and the allocation of special drawing rights.
 - other equity - comprised of investments below 10%, that are not in the form of securities;
 - currency and deposits - currency (notes and coins) are claims of non-resident holders on the issuing central bank, . Liabilities based on deposits are liabilities of deposit institutions that take deposits of non-resident depositors, while claims based on deposits arise from funds deposited with non-resident deposit institutions;
 - loans - include claims or liabilities created through direct lending of funds by a creditor (lender) to a debtor (borrower) based on a credit agreement;
 - insurance, pension and standardized guarantee schemes are regarded as liabilities, arising from reserves, entitlements and provisions of an insurance company, pension fund or issuer of standardized guarantee to policyholders and beneficiaries;
 - trade credit and advances - consist of claims or liabilities arising from direct extension of credit by suppliers for transactions in goods and services, as well as advance payment by buyers for goods and services and for work in progress;
 - other accounts receivable/payable - arise from debt instruments not elsewhere classified;
 - special drawing rights (net incurrence of liabilities) are liabilities of the IMFs members arising from the allocation of SDRs.

5. *Reserve assets* are external assets that are readily available to and controlled by the monetary authorities, for direct financing of balance of payments imbalances and indirect regulation of the magnitudes of such imbalances through intervention in exchange markets to affect the exchange rate, and/or for other purposes.

The third level of classification is the disaggregation of financial instruments by institutional sectors.

Institutional units are grouped into institutional sectors. The classification in institutional sectors applies only to the resident units. The institutional sectors classification has the same sectors and subsectors as the SNA 2008², but with higher level of aggregation.

The resident units are classified within the following sectors and subsectors:

- Central bank (*Monetary authorities*)
- General government
- Deposit-taking corporations, except central bank
- Other sectors, divided to:
 - Other financial corporations and
 - Nonfinancial corporations, households, and NPISHs.

The **Central bank** is the National Bank of the Republic of North Macedonia.

The **General government** sector includes unique kinds of legal entities established by political processes and has legislative, judicial, or executive authority over other institutional units within a given area. The Government sector consists of the following subsectors:

- Central government,
- Local government and
- Social security funds.

Deposit-taking corporations, except central bank have financial intermediation as their principal activity. To this end, they have liabilities in the form of deposits or financial instruments that are close substitutes for deposits. This sector includes all banks that were granted a founding and operating license by the Governor of the National Bank of the Republic of North Macedonia, as well as branches of foreign banks that were granted a license by the Governor of the National Bank of the Republic of North Macedonia to open offices and to operate on the territory of the Republic of Macedonia.

Other financial corporations consist of non-deposit financial corporations and other financial auxiliaries, as well as insurance corporations and pension funds.

Nonfinancial corporations, households, and NPISHs: Nonfinancial corporations are corporations (public or private) whose principal activity is production of market goods or nonfinancial services. A household is defined as a person or a group of persons who share the same living accommodation, who pool some or all of their income and wealth, and who consume certain types of goods and services

² System of National Accounts 2008, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, United Nations, World Bank, 2009 (<https://unstats.un.org/unsd/nationalaccount/sna2008.asp>).

collectively. NPISHs are entities mainly engaged in providing goods and services to households or the community at large, free of charge or at prices that are not economically significant.

Furthermore, separate components of other investments (currency and deposits, loans, trade credit and advances and other accounts receivable/payable) are classified by maturity: short-term (maturities of one year or less) and long-term (maturities of more than one year).

2.2 Valuation of instruments within functional categories

For the annual IIP, *direct investments* are valued at book value. *Portfolio investments*, on the assets and liabilities side, are calculated at market value, with the exception of the equity and investment fund shares on the liability side which are valued at book value.

Nominal value is used for all other instruments.

2.3 Data sources and methodological explanations for compiling International Investment Position

International investment position (IIP) is a complex statistical report and its compilation is based on direct or indirect reporting systems for data collection within the NBRNM.

Direct investment

- Within Direct Investments, the investments are recorded separately as investments from direct investor in direct investment enterprises, reverse investments and investments between fellow enterprises. Direct investments include equity (including reinvestment of earnings) and debt instruments. Debt instruments consist of trade credits, loans and other debt instruments between affiliates. Debt claims and liabilities between deposit corporations and other financial intermediaries (except insurance corporations and pension funds) are excluded from the debt instruments within the direct investments category and are included in the appropriate financial instrument.
- For the subcategory Equity and Investment Fund Shares- for the purposes of the annual IIP, reports on stocks and flows between affiliated entities (VS 22 and VS 11) are used as a data source. For the purposes of the Quarterly IIP, the stock is calculated by adding the BOP flows for the current quarter to the stock of equity and investment fund shares at the end of the previous quarter.
- For the subcategory Debt Instruments- for loans between affiliated entities, data are used from the reporting system on external debt (ED) and the reporting system on external claims (EC), while for intercompany lending in the form of trade credit and advances, data are used from the quarterly reports on claims and liabilities based on international commercial operations of residents (KIPO Form). The survey on debt/claims takeovers among residents and nonresidents (POZ) is used as an additional data source.

Portfolio investments

For the subcategory Equity and investment fund shares:

- **on the assets side:** for the annual and quarterly IIP, for foreign equity and investment fund shares issued abroad and bought by residents, data on the market value of the purchased securities at the end of the reference period is provided by the residents authorized for participation in foreign capital markets (Reports for stocks and flows data on investments in equity and investment fund shares VHV-1);
- **on the liabilities side:** up to 2016 data, for the annual IIP, for deposit-taking corporations and other sectors, reports on stocks and flows between affiliated entities (VS 22) were used as a data source. Starting from 2017, the source of data on investments in equity is Central Securities Depository (CSD). For the quarterly IIP, for deposit-taking corporations and the other sectors, stocks are calculated by adding the BOP flows for the current quarter to the stock of equity and investment fund shares at the end of the previous quarter.

For the subcategory Debt Securities - for the annual and quarterly IIP, the same data sources are used.

- **on the assets side:** for the annual and quarterly IIP, for foreign debt securities issued abroad and bought by residents, data on the market value of the purchased securities at the end of the reference period is provided by the residents authorized for participation in foreign capital markets (Reports for stocks and flows data on investments in debt securities VHV-2);
- **on the liabilities side:** data on debt securities issued on the domestic market and purchased by non-residents are taken from the Central Securities Depository, while data on the prevailing market prices are used from the Macedonian Stock Exchange. For debt securities issued abroad and bought by non-residents, data from the reporting system on external debt (ED), as well as monthly reports on traded securities on foreign market, provided by the residents authorized for participation in foreign capital markets, are used.

Other investments

Other equity

- For the purposes of the annual IIP, reports on stocks and flows between affiliated entities (VS 22 and VS 11) are used as a data source. For the purposes of the quarterly IIP, the stock is calculated by adding the BOP flows for the current quarter to the stock of other equity at the end of the previous quarter.

Currency and deposits

- for the category currency and deposits, for the annual and quarterly IIP, data from banks' reports on assets and liabilities balance (KNBIFO) - banks' monthly reports on the banks' book - keeping stock are used, whereas for other sectors, data from the monthly reports of resident accounts held abroad

(MR) are used. For the central bank, for the currency and deposits other than reserves, data from the NBRNM's reports on the foreign assets are used.

Loans

- for the category loans, for the annual and quarterly IIP, data from the reporting system on external debt (ED) and the reporting system on external claims (EC), as well as data from NBRNM's reports on the official foreign reserves of the Republic of Macedonia are used. The survey on debt/claims takeovers among residents and nonresidents (POZ) is used as an additional data source.

Trade credit and advances

- for the subcategory long-term trade credits - for annual and quarterly IIP, data from the reporting system on external debt (ED) and the reporting system on external claims (EC) are used.
- for the subcategory short-term trade credits - for the annual and quarterly IIP, data from the quarterly reports on claims and liabilities based on international commercial operations of residents (KIPO Form) are used.

Special drawing rights

- for the annual and quarterly IIP, data from the reporting system on external debt (ED) are used.

Reserve assets

- for the annual and quarterly IIP, data from the NBRNM's reports on the official foreign reserves of the Republic of North Macedonia are used.