

NATIONAL BANK OF THE REPUBLIC OF  
MACEDONIA

STATISTICS DEPARTMENT

**FOREIGN DIRECT INVESTMENTS  
REPORT  
-1997-2003-**

## 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<sup>1</sup>.

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**

<b>Advantages</b>	<b>Disadvantages</b>
<i>International Transaction Reporting System (ITRS)</i> <ul style="list-style-type: none"><li>• Most of the required information on capital transactions are provided through the reports of the commercial banks</li><li>• The data are obtained within relatively short time period</li></ul>	<ul style="list-style-type: none"><li>• Provides data only on cash transactions, while the reinvested earning and the inter-company debt are not included</li><li>• Requires additional control of the quality of obtained data</li></ul>

<sup>1</sup> see: *Balance of Payment Manual*, IMF, 1993; *Balance of Payment Compilation Guide*, IMF, 1995;

	<ul style="list-style-type: none"> <li>Provides no data on analysis of all aspects of FDI - provides data only for the FDI flows, and no data on the FDI stock</li> </ul>
<i>Enterprise Surveys</i> <ul style="list-style-type: none"> <li>Provide complete and comprehensive data related to the investment activity of the companies, thus providing a basis for various analytical and survey purposes</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties regarding the identification of companies with FDI and data collection</li> <li>The data are obtain in relatively longer time period</li> </ul>
<i>Other sources</i> <ul style="list-style-type: none"> <li>Provide additional information on the agreements made on foreign investments between the investor and the FDI recipient, thus improving the FDI statistics</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>

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

- 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<sup>3</sup> on the stock and the flow of the affiliated companies were introduced within the direct reporting system<sup>4</sup>. These reports contain information on the

<sup>2</sup> Report of Survey of Implementation of Methodological Standards for Direct Investment, OECD, March 2000.

<sup>3</sup> 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).

<sup>4</sup> Affiliated entities are entities mutually affiliated by investing capital for the purposes of achieving mutual interest.

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 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.

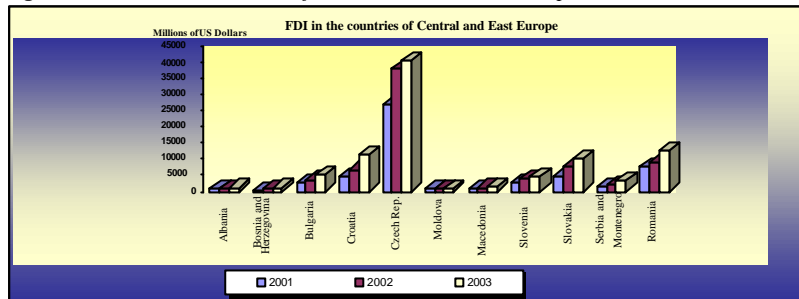
## **2. FOREIGN DIRECT INVESTMENTS IN THE REPUBLIC OF MACEDONIA**

### ***Flows and stocks of foreign direct investments***

In the 1997-2003 period, the FDI level in the Republic of Macedonia registered a permanent upward trend. Thus, the FDI from Euro 141 million in 1997 picked up to Euro 1,285 million in 2003, i.e. in the observed period it went up by 9 times.

With such level of FDI, the Republic of Macedonia ranges in the group of countries with low level of FDI. Analyzing per capita, FDI in the Republic of Macedonia equaled Euro 635 in 2003.

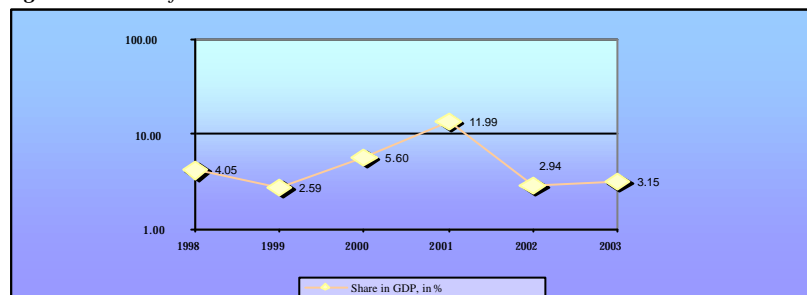
**Figure 1: FDI in the countries of Central and Eastern Europe**



Source: UNCTAD: "World Investment Report-2003"

The low level of FDI is also reflected through their relatively low share in the Gross Domestic Product (GDP) of the Republic of Macedonia. Thus, in the 1998-2003 period, the average annual share of FDI in the GDP equals 5.0%. Also, one should take account of the relatively high share in 2001 of 12.0%, related to the privatization in the area of telecommunications. In the other years, this share is relatively low and ranges from 2.6% in 1999, 5.6% in 2000, 2.9% in 2002 and 3.1% in 2003.

**Figure 2: Share of FDI in GDP**

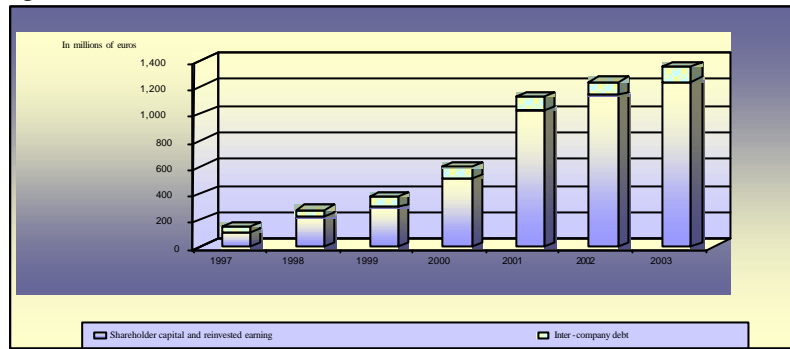


#### **FDI structure in the Republic of Macedonia**

The FDI structure in the Republic of Macedonia is dominated by the shareholder capital and reinvested earning. At the end of 2003, the share of shareholder capital and reinvested earning in the total FDI value equals 92% (Euro 1,176 million). Simultaneously, the net liabilities to the foreign investors constitute the remaining 8% (Euro 109 million) of the total value of the foreign direct investments.

Observing the dynamics, the share of the shareholder capital and the reinvested earning permanently goes up from 73% in 1997 to 92% in 2002 and 2003. Notwithstanding the lower share, the net liabilities to foreign investors register an upward trend (in 2003 they rose by 6.7% relative to the preceding year). It indicates that the foreign investors do not invest only in shareholder capital, but also actively support the Macedonian companies in their current financial operations.

**Figure 3: FDI structure**

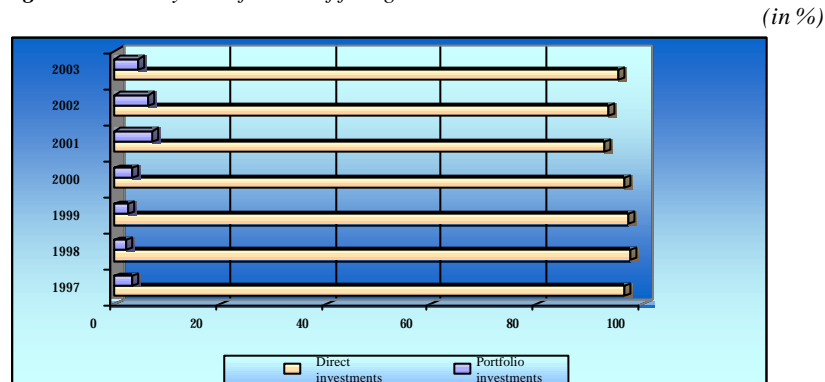


#### **FDI versus portfolio investments**

Under the primary classification, the total foreign investments are divided into direct and portfolio investments. This classification is based on the internationally accepted statistical limit of 10% share in the shareholder capital. Direct investments imply investments with long-term interest (over 10% share), and portfolio investments are investments with short-term interest (below 10% share).

According to such division, in 2003, the direct investments made up 95% of the total foreign investments, and the portfolio investments account for 5%. Almost identical ratio is evident over the whole analyzed period.

**Figure 4: Primary classification of foreign investments**



***Difference in the FDI data from the reports and the banks' international payment operations***

The changes in the stocks between two years calculated on the basis of the reports compiled by resident companies cannot be fully explained by the annual flows of the banks' international payment operations and customs declarations. Such discrepancy in the data collected from the both FDI sources stems from the following reasons:

- The reports show the accounting value of the transactions, while the payment operations use the market value of the transactions;
- Some of the changes in the accounting value also result from the revalorization and the revaluation of the capital items of the companies, which is not the case with the transactions in the payment operations;
- The payment operations register only transactions executed through the payment operations of the commercial banks and the Customs Administration (it does not include the reinvested earning, transformation of credits into capital, and vice versa);
- Different FX valuation of the transactions: when calculating the stocks, the reports use exchange rate at the end of the year, and the payment operations use daily exchange rate on the transaction date.

***New, current and other investments<sup>5</sup>***

Observing by type of investment, FDI are classified into new investments<sup>6</sup> (greenfield investments), existing investments<sup>7</sup> (mergers and acquisitions) and other investments<sup>8</sup>. Under this classification, in 2003 of the total capital invested in the Republic of Macedonia, the foreign investors invested 53% in existing firms (existing investments), and 47% in newly incorporated companies (new investments). The amount of other investments in the Republic of Macedonia is insignificant.

Analyzing the dynamics, the share of new investments of 34% in 1997, registers permanent downward trend in the three years that followed, reducing to 22% in 2000. The highest share of the new investments of 53% was registered in 2001, and in 2002 and 2003 their share equaled 47%.

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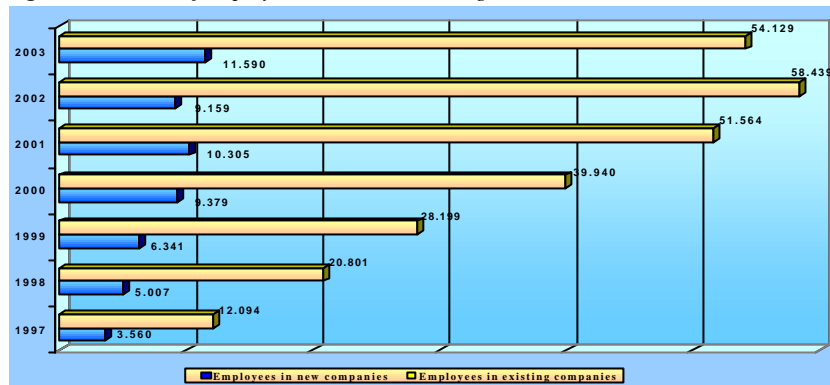
<sup>5</sup> The analysis also includes portfolio investments.

<sup>6</sup> New investments imply investments where the investors-non-residents are founders of the company.

<sup>7</sup> Existing investments are investments where the investors-non-residents invest capital in already incorporated firms, i.e. the non-residents are not founders of the company.

<sup>8</sup> Other investments are investments in various organizations and foundations.

**Figure 5: Number of employees in new and existing FDI**



According to the data from the reports, the employees in the newly incorporated companies at the end of 2003 number 11,590 (3,560 in 1997), and the employee number of in the existing companies equals 54,129 (12,094 in 1997). This is primarily due to the higher number of existing companies attractive for foreign investors.

#### **Foreign direct investments by country and activity**

Analyzing by country, the largest foreign investors in the Republic of Macedonia are Hungary, Greece, Cyprus, Switzerland and the Netherlands. At the end of 2003, the investments of these 5 countries make up 66.4% of the total FDI in the Republic of Macedonia.

Observing by year, in 1997 most of FDI originated from Austria, Slovenia and Serbia and Montenegro. The FDI share from Cyprus and Switzerland picked up in 1998, and in 2000, Greece joined the group of leading investing countries. In 2001, Hungary took the leadership, and the group of five largest investing countries was completed in 2002 with the Netherlands.



(share in %)



The share of FDI from Hungary is the highest amount with 23.9% of the total FDIs in the Republic of Macedonia, due to the privatization in the telecommunications in 2001.

Hungary is followed by Greek investors, who by the end of 2003 invested Euro 220.9 million, i.e. 16.9% of the total FDI in the Republic of Macedonia. The FDI from Greece are allocated in the following activities:

- services (financial intermediation, wholesales and retail sales);
- output (oil refining, food and construction materials industry);
- mining and extraction (marble industry).

FDI from Cyprus are relatively high constituting 10.8% (Euro 141 million), allocated at:

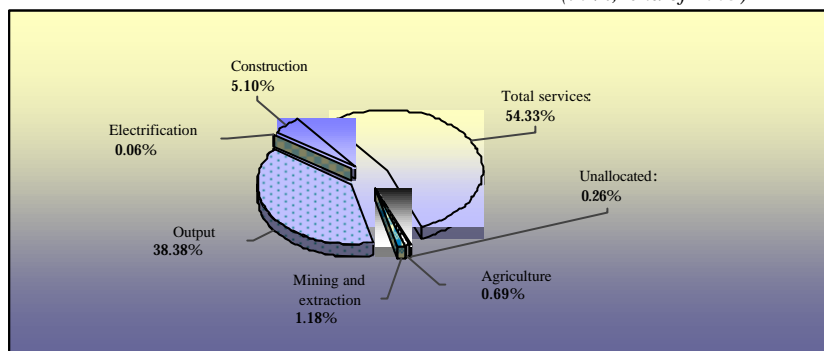
- output (food, textile and chemical industry);
- services (trade and financial intermediation);
- business activities.

Except for the USA and Serbia and Montenegro, the first 10 leading investors in the Republic of Macedonia come from the EU member states.

Observing by activity, most of FDIs in the Republic of Macedonia are allocated in the service sector - 54.3% (33.4% of which in telecommunications, 13.4% in financial intermediation), and in the output - 38.4% (13.4% of which in food products, 8.9% in metal products).

**Figure 7: FDIs in the Republic of Macedonia by activity**

(in %, end of 2003)



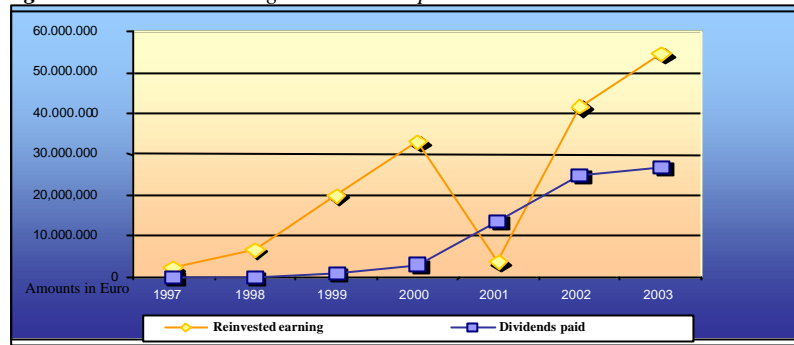
Observing the dynamics, in 1997 most of the FDIs were located in the output (48%) and services (49%). In the 1998-2000 period, the FDI share in the output went up, equaling around 58% on average. In the years that followed (2001-2003) priority was given to the services, registering an average share of around 54%.

#### **Financial result and its allocation**

With respect of the financial result of the enterprises with foreign capital, in aggregate, the highest net gain<sup>9</sup> was registered in 2002 and 2003 in the amount of Euro 42.1 million and Euro 57.8 million, respectively. In 2001, owing to the deteriorated security in the country, the companies with foreign capital incurred a net loss totaling Euro 0.2 million.

<sup>9</sup> Part of the net gain commensurate to the share of the foreign capital.

**Figure 9: Reinvested earning and dividends paid**



Relatively significant portion of the generated gain of the companies is distributed as dividend, with the dividend paid registers permanent upward trend. In 2003, Euro 26.9 million were paid as dividends. On the other hand, Euro 54.3 million are reinvested earning. The reinvested earning is mostly unallocated gain, equaling Euro 97.8 million at the end of 2003. The uncovered loss equaled Euro 50.2 million at the end of 2003.

## 2. STATISTICAL ANNEX

*Table 1:* Stocks of foreign direct investments and portfolio investments in the Republic of Macedonia- 1997-2003

*Table 2:* Stock of foreign direct investments in the Republic of Macedonia by country of investors - 1997 - 2003

*Table 3:* Stock of foreign direct investments in the Republic of Macedonia by activity- 1997 - 2003

*Table 4:* Foreign direct investments in the Republic of Macedonia - by country, 31.12.2003

*Table 5:* Foreign direct investments in the Republic of Macedonia - by country, 31.12.2002

*Table 6:* Foreign direct investments in the Republic of Macedonia - by country, 31.12.2001

*Table 7:* Foreign direct investments in the Republic of Macedonia - by country, 31.12.2000

*Table 8:* Foreign direct investments in the Republic of Macedonia - by country, 31.12.1999

*Table 9:* Foreign direct investments in the Republic of Macedonia - by country, 31.12.1998

*Table 10:* Foreign direct investments in the Republic of Macedonia - by country, 31.12.1997

*Table 11:* Foreign direct investments in the Republic of Macedonia - by activity, 31.12.2003

*Table 12:* Foreign direct investments in the Republic of Macedonia - by activity, 31.12.2002

*Table 13:* Foreign direct investments in the Republic of Macedonia - by activity, 31.12.2001

*Table 14:* Foreign direct investments in the Republic of Macedonia - by activity, 31.12.2000

*Table 15:* Foreign direct investments in the Republic of Macedonia - by activity, 31.12.1999

*Table 16:* Foreign direct investments in the Republic of Macedonia - by activity, 31.12.1998

*Table 17:* Foreign direct investments in the Republic of Macedonia - by activity, 31.12.1997

*Table 18:* Gain/loss from foreign direct investments in the Republic of Macedonia - by country, 31.12.2003

*Table 19:* Gain/loss from foreign direct investments in the Republic of Macedonia - by country, 31.12.2002

*Table 20:* Gain/loss from foreign direct investments in the Republic of Macedonia - by country, 31.12.2001

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