National Bank of the Republic of Macedonia
Statistics Department

Information on the compilation and dissemination of the Net External Debt Position of the Republic of Macedonia in accordance with international standards

November 2007

1. General methodological notes

Net External Debt

The External Debt Statistics: Guide for compilers and Users by the International Monetary Fund (2003), contains general directions on the compilation and presentation of the gross and net external debt of a country. Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and /or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. These liabilities will imply the future engagement of domestic resources, thus making the external debt of an economy an important macroeconomic variable. From the aspect of external debt compilation, the Guide recommends defining the external indebtedness on gross basis (without including the claims) and on net basis (netting the liabilities with claims to/from non residents).

According to the Guide, net external debt is defined as the difference between the stock of gross external debt and gross external claims. In accordance with this definition, the netting out of the gross liabilities and claims shows whether a certain economy owes to or claims from the rest of the world.

The net external debt incorporates the gross external debt and gross external claims reports, and at the same time corresponds i.e. is an integral part of the international investment position (IIP) of a country. Net external debt can be derived from the IIP, by substracting the amounts of assets and liabilities on equity, financial derivatives and certain elements of gross foreign reserves (SDRs and monetary gold). At the same time foreign indebtedness flows i.e. disbursements and repayments that affect the increase/decrease of the debt and credit extensions and receipts that affect the increase/decrease of the claims, correspond to the balance of payments, being the statistical statement that systematically summarizes, for a specific time period, the economic transactions of a country with the rest of the world. All these reports reflect certain aspects of the relations with non-residents, in order to provide for a comprehensive analysis of the relations of a country with the rest of the world.

In its structure, net external debt is identical with the gross external debt, where the standard presentations contain classification by institutional sectors, maturity and debt instruments.

According to the Guide, the basic classification of debt is among the four basic institutional sectors of an economy:

- general government (government units that exist at each level—central and local—of government within the national economy and all social security funds operated at each level of government);
- monetary authorities - (the central bank or other institution carrying out the operations of a monetary authority);
- banking sector (financial intermediaries carrying out activities of taking deposits and extending credits);
- other sectors (non-bank financial intermediaries, non-financial corporations, households and non-profit institutions serving households).

Furthermore, within each of the sectors, debt is classified by maturity, on short term (with original maturity of one year or less) and long term (maturities of more than one year). On the third level of disaggregation, debt is distributed amongst the standard types of debt instruments, such as:

- trade credits - consist of claims or liabilities arising from the direct extension of credit by suppliers for transactions in goods and services, and advance payment by buyers for goods and services and for work in progress (or to be undertaken);

- loans - include those claims or liabilities created through the direct lending of funds by a creditor (lender) to a debtor (borrower) based on a credit agreement;
- debt securities - creation of debt or a claim through the issuance/purchasing of securities as part of the portfolio investment in the country, being traded on organized markets or over-the-counter;
- currency and deposits - currency (notes and coins) are claims on a central bank or a government that have issued them, from the nonresident holders. Liabilities on deposits are liabilities of the financial institutions that take deposits to nonresident depositors, while claims on deposits arise from the funds deposited with nonresident financial institutions; and
- other - other claims and liabilities, not included under previous debt instruments. An important category within this item are arrears, that have a treatment of short-term claims/liabilities, as they are considered to be immediately due and are a cumulative amount of arrears on all previously mentioned instruments.

Direct investment - intercompany lending claims or liabilities are shown separately. The separation of these claims/liabilities within net external debt is significant in view of the necessary compatibility with the IIP statement, where these claims/liabilities are incorporated within the item Direct investment (Other capital).

From the aspect of valuation, the Guide recommends the nominal value to be used for all debt instruments, except debt securities, where it is recommended to use the market value of debt. This is entirely consistent with the methodological recommendations for the compilation of the IIP of a country.

Gross external debt

Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and /or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. According to this definition, gross external debt at a certain date is the stock of all future liabilities of residents to nonresidents, future installments of principal, arrears in principal and interest, as well as late (default) interest, regardless of the type of instrument and maturity.

Gross external claims

Gross external claims are the stock of all current, not contingent claims based on debt instruments, of residents from nonresidents. Basically, the definition of gross external claims is identical with the definition of gross external debt, having in mind that the claims of one economy are liabilities for other.

2. Net external debt of the Republic of Macedonia

At year end 2006, the net external debt of the Republic of Macedonia, according to the above presented methodology, equals Euro 67.8 million or 1.4% of GDP. The moderate net external debt position of the Republic of Macedonia to the rest of the world is a result of the larger amount of gross external debt (Euro 2,495.2 million or 50.3% of GDP) compared to the gross external claims (Euro 2,427.4 million). According to the preliminary data, at the end of the first half of 2007, as a result of the decrease in gross external debt (by Euro 125.0 million, mainly due to the prepayment of part of the public debt) and the increase in gross external claims (by Euro 100.8 million, mainly due to enlarged claims of the other sectors), the country has recorded growth in its net external claims in the amount of Euro 158.0 million.

Table 1
Net external debt - positions
(in millions of euros)

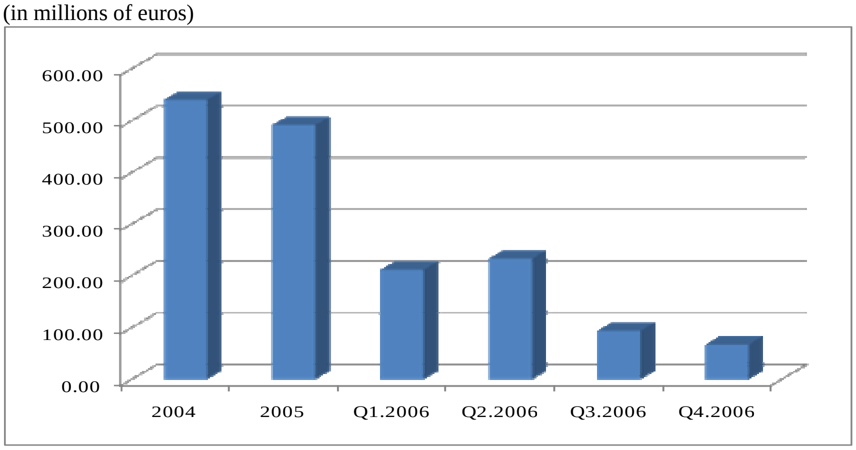
	31.12.2004			31.12.2005			31.12.2006			30.06.2007		
	Gross external debt	Gross external claims	Net external debt	Gross external debt	Gross external claims	Net external debt	Gross external debt	Gross external claims	Net external debt	Gross external debt	Gross external claims	Net external debt
1. GENERAL GOVERNMENT	1,016.46	0.00	1,016.46	1,282.82	0.00	1,282.82	1,066.92	0.00	1,066.92	895.10	0.00	895.10
1.1 Short-term	0.01	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1.2 Long-term	1,016.45	0.00	1,016.45	1,282.82	0.00	1,282.82	1,066.92	0.00	1,066.92	895.10	0.00	895.10
2. MONETARY AUTHORITY (NBRM)	45.97	664.66	-618.69	52.66	1,040.51	-987.85	42.39	1,326.97	-1,284.58	0.00	1,329.96	-1,329.96
2.1 Short-term	0.00	664.66	-664.66	0.00	1,040.51	-1,040.51	0.00	1,167.82	-1,167.82	0.00	1,000.55	-1,000.55
2.2 Long-term	45.97	0.00	45.97	52.66	0.00	52.66	42.39	159.16	-116.77	0.00	329.41	-329.41
3. BANKING SECTOR	123.24	619.59	-496.34	192.02	635.87	-443.85	269.88	668.26	-398.38	316.22	658.13	-341.92
3.1 Short-term	67.32	618.75	-551.43	81.41	634.56	-553.14	115.44	667.17	-551.72	146.40	641.29	-494.89
3.2 Long-term	55.93	0.84	55.09	110.60	1.31	109.29	154.44	1.10	153.34	169.82	16.84	152.98
4. OTHER SECTORS	600.40	197.77	402.63	721.01	253.94	467.07	786.69	336.54	450.15	780.38	409.79	370.59
4.1 Short-term	370.02	196.55	173.47	475.84	253.46	222.38	435.42	335.63	99.79	451.78	408.76	43.03
4.2 Long-term	230.39	1.23	229.16	245.18	0.49	244.69	351.27	0.91	350.36	328.60	1.03	327.57
5. DIRECT INVESTMENT: INTERCOMPANY LENDING	284.52	47.98	236.54	269.57	95.87	173.71	329.30	95.60	233.70	378.47	130.31	248.16
NET EXTERNAL DEBT	2,070.61	1,530.00	540.60	2,518.09	2,026.19	491.90	2,495.18	2,427.38	67.80	2,370.17	2,528.19	-158.02

Source: National Bank of the Republic of Macedonia

At year end 2006, the main component of the external indebtedness of the country (42.8% of gross external debt) stems from concluded long-term loans and the Eurobonds. Then follows the external indebtedness of the other sectors (for the most part nonfinancial corporations that cover for 31.5% of gross external debt). Analyzed by types of instruments, the external indebtedness of other sectors comes from the relatively large amount of trade credits (Euro 349.6 million) and long-term loans (Euro 331.7 million). The total external indebtedness of the banking sector covers 10,8% of gross external debt, mainly determined by long-term loans (Euro 146.3 million) and liabilities from deposits of non-residents (Euro 104.7 million). The external indebtedness of the NBRM (the monetary authority) at end 2006, is entirely from loans from the IMF, and amounts to Euro 42.4 million (1.7% of gross external debt).

Gross external claims, as for the debt, are distributed among three major sectors: monetary authority, banks and other sectors. A dominant share in gross external claims have those of the monetary authority (54.7% participation in gross external claims), that stem from the currency and deposits component of gross official reserves. The external claims of the banking sector participate with 27.5% in gross external claims, also mainly due to the large amounts of currency and deposits of domestic banks abroad (that stand for 96.0% of the total claims of the banking sector). The other sectors (mainly non-financial corporations) cover for 13.9% of gross external claims at end 2006. Analyzed by types of instruments, the external claims of this sector are for most part approved short-term trade credits (Euro 334.8 million).

Figure 1 Net external debt 2004-2006
(in millions of euros)



Source: National Bank of the Republic of Macedonia

Analyzed on net basis (gross external debt minus gross external claims), the government and other sectors are net debtors to abroad, while the monetary authority and the banking sector are net creditors to the rest of the world. The maturity structure of net debt is relatively favorable, considering that the liabilities of the general government are long-term, while the assets of the monetary authority are mostly short-term and liquid. The liabilities of the banking sector are mostly long term, while the currency and deposits at disposal are placed on short terms.

Analysis of the external indebtedness of the countries in the region

The compilation of external indebtedness data for the Republic of Macedonia according to the international recommendations and standards, provides comparability of data and a real comparative analysis of the external indebtedness of the country with other countries.
This analysis is particularly important when compared with countries within the region. A relevant indicator in this analysis is the comparison of the indicators on external indebtedness, particularly the ratio of debt to GDP of a country.
Gross external debt of Slovenia at end 2006 is around 78,5% of GDP. Analyzed by categories, a major part of the gross external debt comes from long-term loans (mostly by the private sector). Within the gross external claims, a dominant category are the placements in bonds abroad and deposits abroad. The net external debt of Slovenia is moderate and equals to around 11% of GDP.

Table 2
External indebtedness at end 2006 - regional comparison
(in percentage)

	Macedonia	Croatia	Slovenia	Bulgaria	Hungary
Gross external debt / GDP	50.3	85.3	78.5	80.1	93.3
Net external debt / GDP	1.4	45.0	10.8	23.8	42.6

Source: web sites of central banks and calculations

Gross external debt of Bulgaria at end 2006 equals to app. 80.1% of GDP. The largest portion of the gross external debt of Bulgaria stems from loans to the private sector, as well as the relatively high debt as intercompany lending. At the same time, Bulgaria has relatively large gross external claims, determined for the most by the gross foreign reserves. As a result, the net external debt of Bulgaria at end 2006 amounts to around 23.8% of GDP.
The analysis of Croatia implies that the gross external debt at end 2006 is around 85.3% of GDP. For the most part, the high gross external debt stems from the significant amount of loans to the private sector. On the side of gross external claims, the major part is due to official foreign reserves and foreign assets of banks held abroad, which results with a net external debt of Croatia at end 2006 of around 45% of GDP.
At end 2006, Hungary had gross external debt of 93.3% and net external debt of 42.6% of GDP.
From the analysis above, of all the countries in the region, the highest gross external indebtedness is pertinent to Hungary 93.3% and Croatia 85.3%, while the lowest is characteristic for Macedonia 50.3% (gross external debt to GDP). Almost identical is the situation with net external indebtedness, where the highest ratio is recorded for Croatia 45.0% and Hungary 42.6%, while Macedonia with 1.4% net external debt to GDP is the least indebted country.

Compared with end 2005, when net external debt was Euro 491.9 million, at end 2006 it declined significantly. This is a result of two parallel developments, characteristic for 2006. On the one hand, government debt decreased by Euro 215.9 million (a significant part of this amount is due to the early repayment of debt towards the London Club of creditors of Euro 135.4 million), while on the other, gross foreign reserves went up by Euro 286.5 million (27.5%). At the same time, the net claims of the banking sector decreased by Euro 45.5

million, while net external debt from intercompany lending between affiliates increased by Euro 60.0 million.

3. Conclusions

The compilation of data on gross external debt, gross external claims and, consequently, the net external debt of the Republic of Macedonia is supplementing and enriching the information basis of the NBRM for quality decision making. Simultaneously, this manner of compilation and presentation of the external indebtedness of the country, leads to a complete harmonization with international recommendations and standards, thus providing for international comparability of these data.

These data are compiled and disseminated on a regular quarterly basis, with up to three months lag (t+90 days) for the reporting period.