



**International Investment Position of the Republic
of Macedonia for
2012**

September, 2013

Information on the international investment position of the Republic of Macedonia for 2012

General remarks

The international investment position is standardized statistical review which presents the balances of the external financial assets and financial liabilities of the Republic of Macedonia, i.e. receivables from nonresidents and liabilities to nonresidents based on financial instruments on a certain date.

The international investment position (IIP) presents the stock and the structure of financial assets (receivables) from nonresidents and financial liabilities to nonresidents, as well as net creditor/debtor position of the country (and particular institutional sectors) relative to the rest of the world. If there is a positive net international investment position, i.e. if the financial assets are higher than the financial liabilities, the country is a net creditor to the rest of the world. If there is a negative net international investment position, i.e. if the financial liabilities exceed the financial assets in the relations between residents and nonresidents, the country is a net debtor to the rest of the world.

IIP structure analysis within a longer timeframe provides monitoring of the change in the situation of individual institutional sectors, and the change in the sectors' preferences to use certain types of financial instruments. Such a 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, in conditions of intensified globalization process and the emergence of economic crises worldwide in the recent years.

IIP preparation requires 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 2012

As at the end of 2012, the Republic of Macedonia reported a negative net international position of Euro 4,182 million, which is 55.9% of GDP. The net debtor position to the rest of the world was due to the financial claims on nonresidents in the amount of Euro 3,792 million and financial liabilities to nonresidents in the amount of Euro 7,974 million.

As compared to the end of 2011, the negative international investment position increased by Euro 216 million, i.e. 5.4% on an annual basis. Major

determinant of the annual growth of net IIP was the increase of external liabilities of Euro 194 million (2.5%), accounting for 90% of the annual growth of net IIP, accompanied by the decrease of external assets of Euro 22 million (0.6%). Thus, in 2012, the net IIP to GDP ratio increased by 2.8 p.p.

Observing the IIP structure by instrument, the assets side registers an increase only in the assets of reserves and portfolio investments, whereas the assets of all other instruments decreased. Gross official reserves still dominate with Euro 2,193 million (57.8% of the total assets), which in 2012 increased by Euro 124 million. Claims from trade credits totaled Euro 684 million (18% of the total assets), while during the year they went down by Euro 13 million. Currency and deposits equaled Euro 537 million (14.2% of the total assets) decreasing by Euro 51 million during the year. Loans totaled Euro 217 million (5.7% of the total assets), decreasing by Euro 76 million on an annual basis. The significance of direct and portfolio investments abroad and other assets in the assets structure is minor, making up 1.9%, 1.6% and 0.8%, respectively.

On the liabilities side, all instruments registered an increase, except the liabilities based on trade credits and loans. The structure is still dominated by direct investments in the country worth Euro 3,746 million (47% of the total liabilities), which augmented by Euro 51 million (1.4%) in 2012. The increase of direct investments in 2012 mainly arises from the increase of new investments in equity and reinvested earnings (Euro 39 million) and the increase on the basis of other capital (intercompany liabilities and claims on financing and commercial operations) in the amount of Euro 13 million. Loans are the second important financial instrument on the liabilities side (constituting 31.8% of the total liabilities), equaling Euro 2,534 million as at 31 December 2012, decreasing by Euro 25 million on an annual basis. Liabilities based on trade credits to nonresidents totaled Euro 813 million (10.2% of the total liabilities), decreasing by Euro 10 million in 2012. Portfolio investments, other liabilities and currencies and deposits are less significant financial instruments on the liabilities side, with a cumulative share of 11% in the total external liabilities.

The IIP analysis at the level of institutional sectors shows an increase of negative net IIP of all institutional sectors in 2012, except for the monetary authority.

The General Government sector is a net debtor to abroad and during 2012, the negative net IIP increased by Euro 126 million, largely due to the increase of liabilities to nonresidents based on Eurobonds (after being sold to nonresidents by the domestic investors), followed by the rise of liabilities of Euro 44 million in the form of loans.

In 2012, Other Sectors (mostly nonfinancial enterprises) reported an increase of the negative net IIP of Euro 114 million. Other sectors' liabilities increased by Euro 95 million in 2012, primarily in the form of foreign direct investments in the country (by Euro 47 million) and other investments (by Euro 38 million). In 2012, Other Sectors' assets went down by Euro 19 million, mainly due to the decrease of foreign direct investments abroad of Euro 22 million.

In 2012, the Banking Sector registered an increase in the negative net IIP of Euro 80 million. The increase in banks' liabilities of Euro 50 million mainly accounts

for the raise in liabilities based on nonresident deposits (of Euro 65 million) and decline in liabilities based on long-term loans (of Euro 11 million). The decrease of claims of Euro 30 million partially reflects the lower deposits with foreign banks (by Euro 51 million), partially netted with the higher claims based on loans (by Euro 20 million).

The Monetary Authority is the only institutional sector which is a net creditor to abroad. In 2012, the net claims in foreign relations increased by Euro 104 million. Namely, the claims increased by Euro 27 million as a result of the central bank operations with foreign reserves (an increase of Euro 124.5 million) and reverse repo transactions (a decrease of Euro 97 million). The liabilities were reduced by Euro 77 million as a result of placements in repo transactions.

Net international investment position of individual countries*

Country	2011		2012	
	in billions of euros	% of GDP	in billions of euros	% of GDP
Euroarea	-1,309.61	-15.22	-1,239.55	-14.50
USA	-2,883.21	-23.83	-2,930.97	-23.57
Croatia	-40.11	-108.82	-38.71	-107.16
Slovenia	-14.75	-46.71	-15.87	-51.57
Macedonia	-3.97	-53.07	-4.18	-55.87
Greece	-179.56	-99.75	-221.87	-131.66
Bulgaria	-33.02	-122.03	-32.04	-117.51
Kosovo	-0.13	-2.69	-0.25	-5.25
Romania	-84.39	-91.05	-85.56	-91.67
Serbia	-25.58	-112.45	-27.73	-124.05
Hungary	-95.32	-106.57	-99.13	-112.79
Turkey	-242.62	-48.64	-318.05	-62.36

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

A comparative analysis has been conducted of the international investment position of the Republic of Macedonia and other countries, primarily in the region and beyond. The comparative results indicate that in 2012, the negative net international investment position (in % of GDP) of most regional countries increased. With the exception of Croatia and Bulgaria, other countries in the region increased their negative net international investment position to GDP. In some countries (Greece, Turkey and Serbia) the increase is more pronounced, while in Romania, Kosovo, Macedonia and Slovenia, the increase is less severe. In 2012, the euro area and the U.S. reported minor improvement of the net IIP to GDP ratio.

The findings of the analysis of the structure of changes in net IIP of individual countries in the region are given below:

- Greece reported the highest growth of negative international investment position of Euro 42 billion (31.9 percentage points of GDP), mainly because of the increased loan liabilities of the government sector, which is only partly netted by the increased investments of banking and government sector in debt securities, on the assets side.

- Serbia increased the negative IIP by Euro 2.1 billion (11.6 percentage points of GDP), primarily given the growth of liabilities based on the issue of new Eurobonds, and the reduction of assets mainly due to the lower foreign reserves.

- The negative IIP of Turkey during 2012 further increased by Euro 75 billion (by 13.7 percentage points of GDP). However, these movements are not necessarily

negative, given that the changes are mainly due to a significant increase in the liabilities based on direct and portfolio investments in the country, while assets increased as a result of the growth of official foreign reserves.

- Croatia registered lower negative net IIP by Euro 1.4 billion (by 1.7 percentage points of GDP), due to the significant reduction of liabilities based on loans, and currency and deposits, with simultaneous increase of liabilities based on the issue of new bonds of the government and other sectors.

- Bulgaria reported a decrease of the negative IIP of Euro 1 billion (4.5 percentage points of GDP). Namely, the growth is faster on the assets side given the increase of official foreign reserves and investments in debt securities, compared to the growth of liabilities side, which stems from the direct investments in the country and the borrowing based on loans of the banking sector.

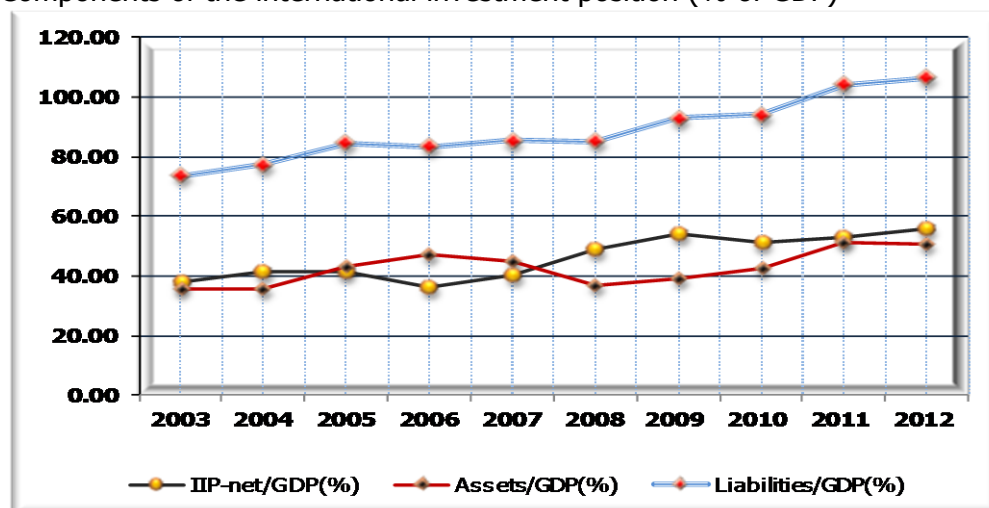
ANNEX - TABLES AND FIGURES

Table 1
International investment position 2003-2012
(in millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
IIP - net	-1,599.73	-1,846.20	-1,990.79	-1,887.55	-2,401.23	-3,265.12	-3,612.49	-3,629.54	-3,965.79	-4,181.54
Assets	1,495.28	1,589.06	2,081.58	2,471.72	2,686.78	2,458.41	2,608.09	2,999.53	3,813.93	3,792.25
Liabilities	3,095.01	3,435.26	4,072.37	4,359.26	5,088.01	5,723.53	6,220.57	6,629.08	7,779.73	7,973.79
GDP	4,217	4,442	4,814	5,231	5,965	6,720	6,703	7,057	7,473	7,486
IIP-net/GDP(%)	-37.94	-41.56	-41.35	-36.08	-40.26	-48.59	-53.89	-51.43	-53.07	-55.86
Assets/GDP(%)	35.46	35.77	43.24	47.25	45.04	36.58	38.91	42.50	51.04	50.66
Liabilities/GDP(%)	73.39	77.34	84.59	83.34	85.30	85.17	92.80	93.94	104.11	106.52

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 1Division of IIP sectors

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

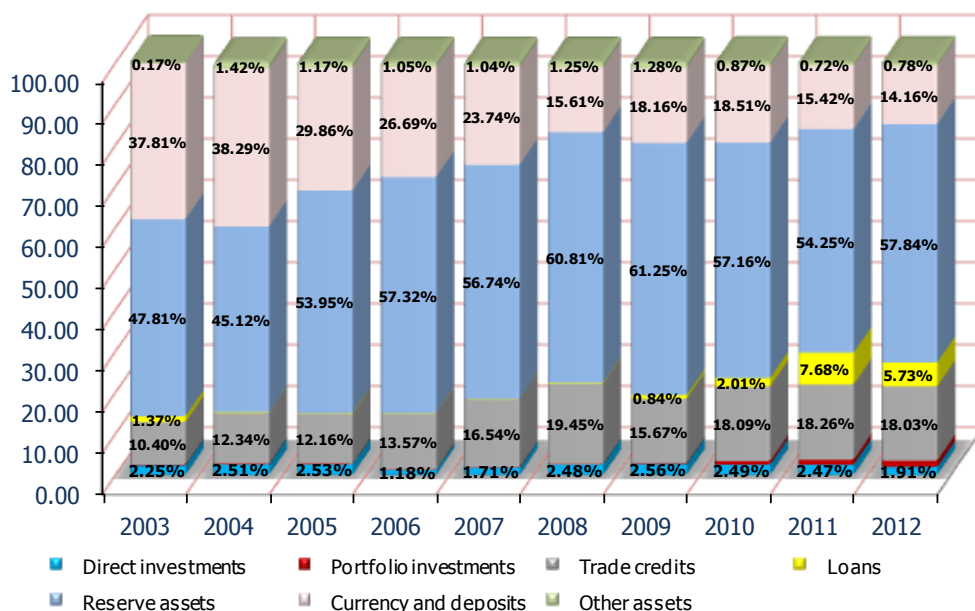
- **Monetary authorities:** represented by the central bank, i.e. the National Bank of the Republic of Macedonia
- **General Government:** consists of central government, local government and social funds. This sector does not include state-owned enterprises which operate on the basis of free market principle.
- **Banks:** 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, by institutional sector
(in millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
IIP, net - Government	-1,026.96	-1,016.45	-1,282.82	-1,065.56	-897.71	-906.33	-1,055.84	-1,067.80	-1,417.44	-1,543.87
IIP, net - Monetary authorities	693.43	673.30	1,073.28	1,382.60	1,532.53	1,486.92	1,526.73	1,638.82	1,991.78	2,095.80
IIP, net - Banks	265.92	330.56	254.65	94.76	-58.64	-400.26	-361.46	-434.21	-456.86	-536.64
IIP, net - Other Sectors	-1,532.13	-1,833.61	-2,035.90	-2,299.35	-2,977.42	-3,445.46	-3,721.91	-3,766.35	-4,083.28	-4,196.83
IIP, net	-1,599.74	-1,846.20	-1,990.79	-1,887.55	-2,401.23	-3,265.12	-3,612.49	-3,629.54	-3,965.79	-4,181.54

Source: National Bank of the Republic of Macedonia.

Figure 2
IIP structure - claims from abroad by instruments
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

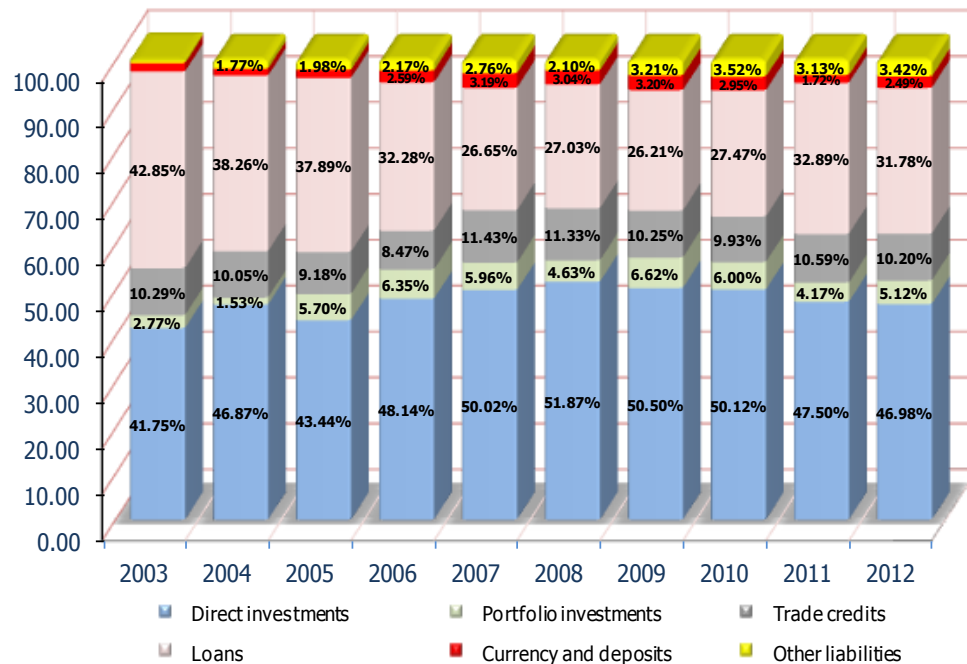
Annex 2

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.

Figure 3
IIP structure - external liabilities, by instruments
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Annex 3

Foreign direct investments

According to the recommendations 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 in the direct investment enterprise. To the end of 1993, the countries applied various criteria for defining direct investments. The Fifth edition of the IMF Manual recommends the use of minimum share of 10% of the capital or voting right as a criterion, 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 realized financial result and the intercompany debt.

Portfolio investments

According to the recommendations 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 equity securities, the 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 implies holding of securities with share of below 10% in the capital or voting power.

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

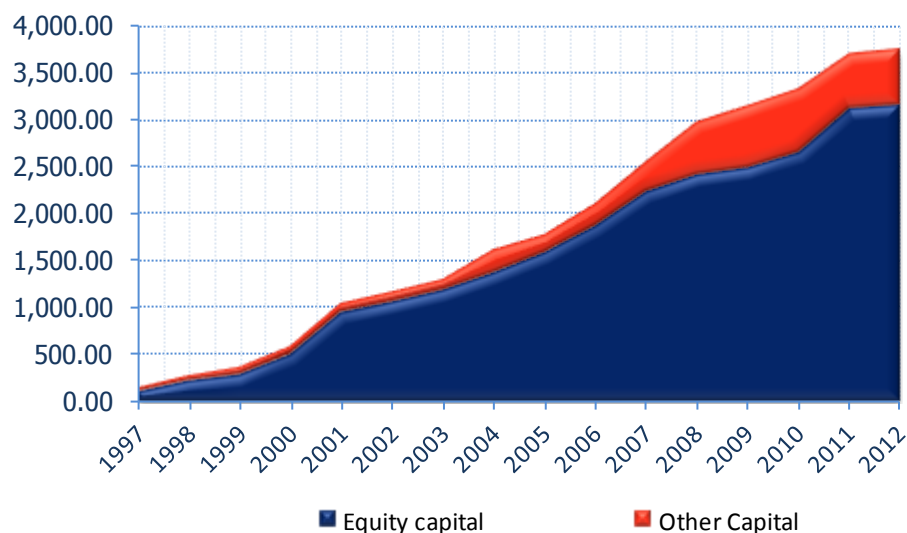
Table 3: Stock of the foreign direct investments in the Republic of Macedonia
(in millions of euros)

Year	Total	Equity capital	Other capital	
			Claims	Liabilities
1	2=3-4+5	3	4	5
1997	141.22	102.88	12.13	50.48
1998	270.37	219.51	12.81	63.66
1999	359.90	284.26	15.70	91.35
2000	580.05	497.72	16.95	99.28
2001	1,039.15	946.28	40.84	133.72
2002	1,160.71	1,056.57	46.35	150.48
2003	1,292.14	1,181.98	47.98	158.14
2004	1,610.22	1,366.11	36.70	280.82
2005	1,768.97	1,579.62	74.54	263.89
2006	2,098.57	1,863.35	80.91	316.14
2007	2,545.17	2,226.62	106.11	424.66
2008	2,968.75	2,407.42	113.96	675.29
2009	3,141.38	2,481.27	169.96	830.07
2010	3,322.32	2,642.52	246.88	926.67
2011	3,695.01	3,110.17	284.53	869.37
2012	3,746.42	3,148.89	443.41	1,040.94

Source: National Bank of the Republic of Macedonia.

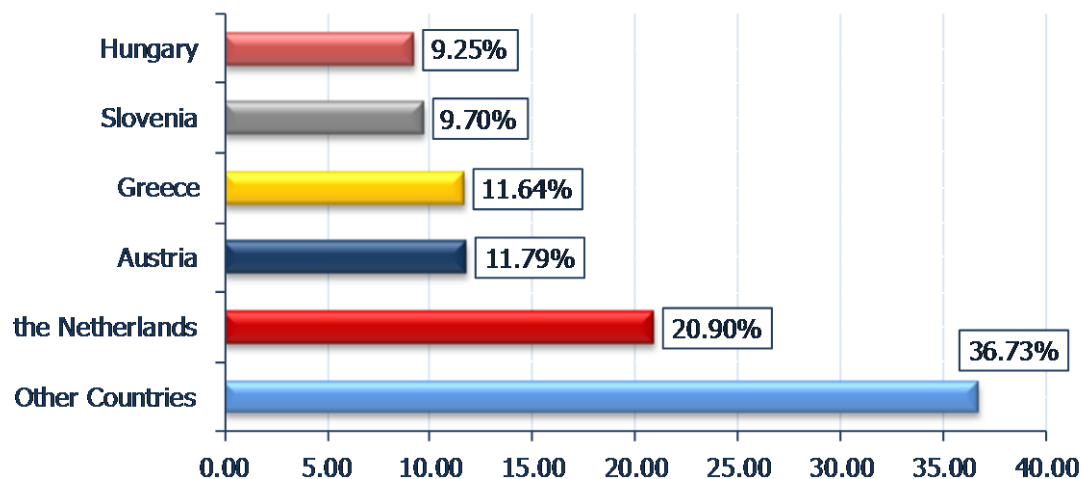
Figure 4

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



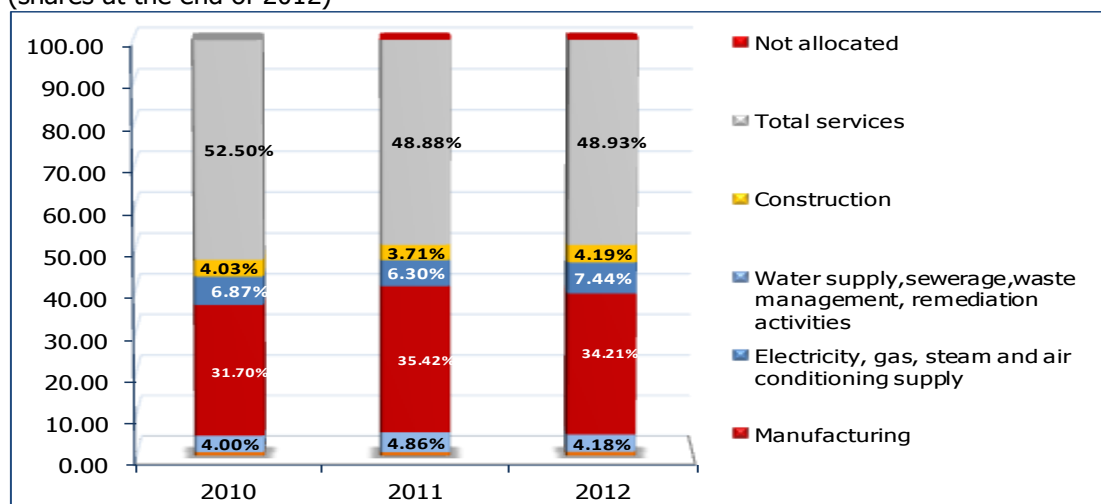
Source: National Bank of the Republic of Macedonia.

Figure 5
Foreign direct investments, by country
(shares at the end of 2012)



Source: National Bank of the Republic of Macedonia.

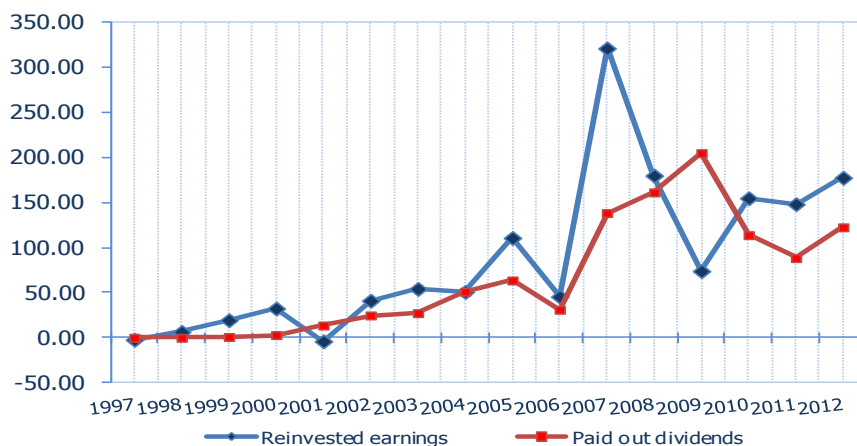
Figure 6
Foreign direct investments, by activity
(shares at the end of 2012)



Source: National Bank of the Republic of Macedonia.

Figure 7

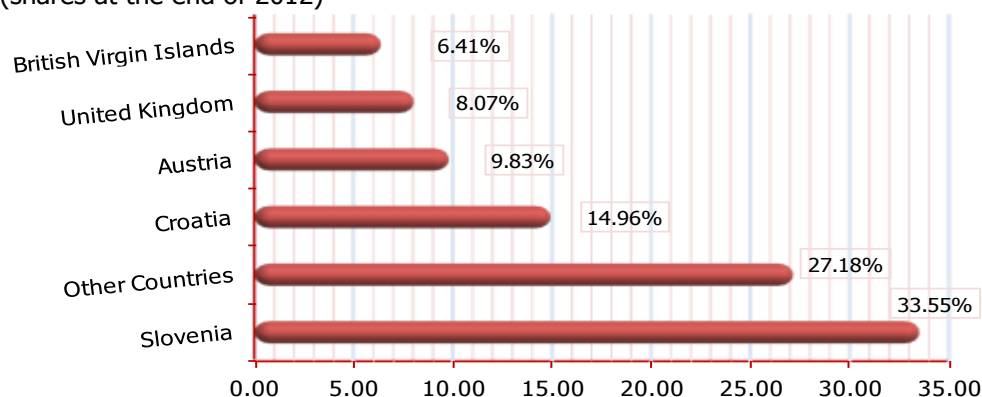
Reinvested earnings and paid dividends from direct investments
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Figure 8

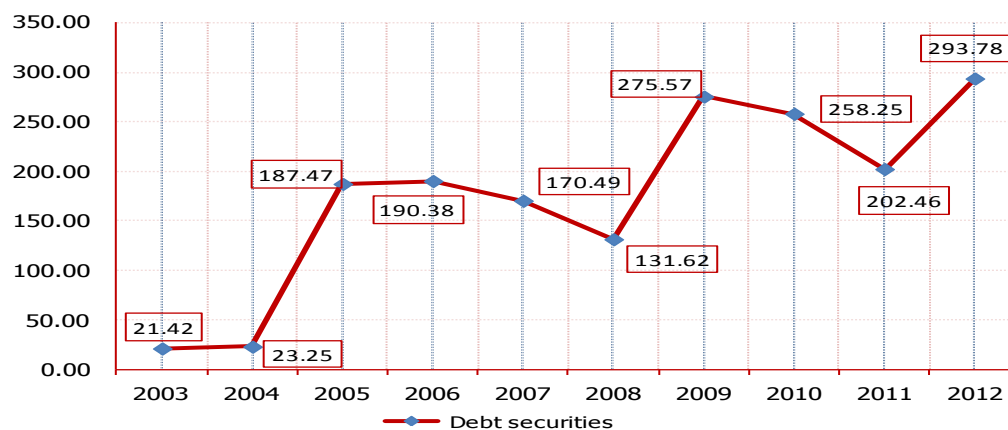
Portfolio investments, by country - liabilities - equity securities
(shares at the end of 2012)



Source: National Bank of the Republic of Macedonia.

Figure 9

Portfolio investments - liabilities based on domestic debt securities owned by nonresidents
(in millions of euros)



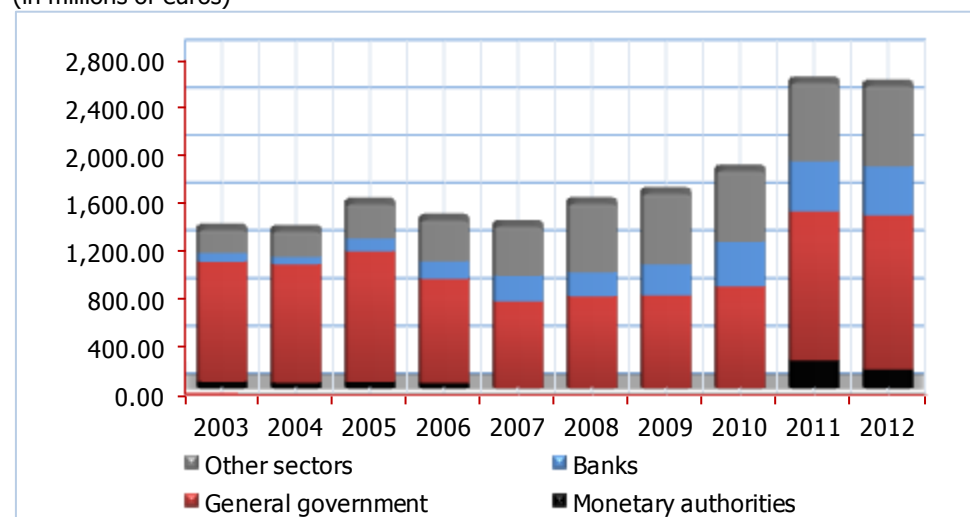
Source: National Bank of the Republic of Macedonia.

Table 4
Liabilities based on loans from abroad, by debtor
(in millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Short-term Loans	25.93	11.81	54.33	11.66	55.82	14.91	47.59	48.35	235.62	162.65
- Monetary authorities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	232.53	157.57
- Banks	8.71	7.04	1.30	0.00	16.50	0.00	40.00	3.71	0.00	0.00
- Other sectors	17.22	4.78	53.03	11.66	39.32	14.91	7.59	44.64	3.09	5.08
Long-term Loans	1,300.22	1,302.60	1,488.56	1,395.57	1,299.95	1,532.02	1,583.12	1,772.81	2,323.35	2,371.61
- Monetary authorities	54.70	45.97	52.66	42.39	0.00	0.00	0.00	0.00	0.00	0.00
- General government	1,005.54	993.20	1,095.36	875.19	727.22	771.22	777.60	852.57	1,247.75	1,291.52
- Banks	64.04	55.79	106.40	146.31	199.81	201.14	220.10	371.98	422.93	412.26
- Other sectors	175.94	207.63	234.14	331.68	372.92	559.66	585.43	548.26	652.66	667.84
Total Loans	1,326.15	1,314.41	1,542.89	1,407.23	1,355.77	1,546.93	1,630.72	1,821.16	2,558.97	2,534.26
GDP	4,217.00	4,442.00	4,814.00	5,231.00	5,965.00	6,720.00	6,703.00	7,057.01	7,472.73	7,484.92
Short-term Loans/Total Loans (%)	1.96	0.90	3.52	0.83	4.12	0.96	2.92	2.66	9.21	6.42
Long-term Loans/Total Loans (%)	98.04	99.10	96.48	99.17	95.88	99.04	97.08	97.34	90.79	93.58
Total Loans/GDP(%)	31.45	29.59	32.05	26.90	22.73	23.02	24.33	25.81	34.24	33.86

Source: National Bank of the Republic of Macedonia.

Figure 10
Liabilities based on loans from abroad, by debtor
(in millions of euros)



Source: National Bank of the Republic of Macedonia.