



**International Investment Position
of the Republic of Macedonia for 2013**

September 2014

Information on the International Investment Position of the Republic of Macedonia for 2013

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 2013

At the end of 2013, the Republic of Macedonia was a net debtor to the rest of the world, with a negative net international investment position of Euro 4,558.4 million, or 55% of GDP. As of 31 December 2013, the Republic of Macedonia holds non-resident financial assets of Euro 4,082.5 million and financial liabilities to non-residents of Euro 8,640.8 million.

Compared with the end of 2012, the negative international investment position increased by Euro 380.8 million, or 9.1% on an annual basis. Moreover, the net debt position also increased due to the reduction of assets of Euro 175 million and increase of liabilities of Euro 205.8 million.

Observing the IIP structure by instrument, on the assets side, foreign reserves and loans registered the steepest fall, while all other instruments registered an annual growth. Foreign reserves are still the most important instrument on the assets side (Euro 1.993 million or 48.8% of total assets), which in 2013 dropped by Euro 200.4 million, of which Euro 156.4 million arising from price and exchange rate changes, while Euro 44 million arising from transactions with non-residents. Analyzing other investments, trade credits and advances dominate (17.9% of total assets) with Euro 730.3 million, increasing by Euro 46.2 million during 2013. Currency and deposits amount to Euro 540 million (13.2% of total assets), registering a marginal growth of Euro 3 million during the year. The loans amount to Euro 91.3 million (2.2% of total assets), given the annual decrease of Euro 155.1 million, mainly due to the lower claims on loans from reverse-repo transactions of the central bank. Assets based on direct investments increased by Euro 84.3 million, climbing to Euro 617.8 million (15.1% of total assets), at the end of the year, with a dominant share of debt instruments (87.2% of assets based on direct investments). Portfolio investments recorded a continuous growth, hitting record high during 2013, and equaled Euro 44.6 million, mainly determined by the investments of other financial institutions in equity and investment funds shares/units.

Liabilities contributed towards higher net debt position of Euro 205.8 million, mainly due to the growth of direct investment liabilities and loans, at a time when liabilities of all other instruments drop. Analyzing instruments, direct investments still have a predominant share of Euro 4,485.7 million (51.9% of total liabilities), which in 2013 increased by Euro 338.9 million (or 8.2%). The growth of direct investments in 2013 almost equally affects the increase in the debt instruments of Euro 171.4 million (mostly investments by direct investors in domestic companies), and the increase in the stock of equity and reinvestment of earnings (Euro 167.4 million). Loans are the second most important financial instrument on the liabilities side (accounting for 33.4% of total liabilities), which at the end of 2013 amounted to Euro 2,883.1 million, with an annual increase of Euro 111.3 million. Liabilities on trade credits and advances to non-residents amounted to Euro 773.2 million (8.9% of total liabilities), which in 2013 dropped by Euro 59.6 million. Portfolio investments, currency and deposits, other equity and special drawing rights are less important financial instruments on the liabilities side, aggregately making up 5.8% in total external liabilities.

The analysis in terms of institutional sectors shows that changes in all sectors made during 2013 are aimed at increasing the negative net IIP.

The general government sector is a net debtor to abroad, where during 2013 the negative net IIP increased by Euro 21.1 million. The growth of liabilities arising entirely from loans (by Euro 160.3 million) is partly offset by the reduction of liabilities on debt securities (of Euro 141.4 million) as a result of the repayment of liabilities based on Eurobonds.

During 2013, other sectors reported by Euro 140.8 million higher negative net IIP. The other sectors' liabilities in 2013 increased by Euro 318 million, mainly due to the increase in direct investments in the amount of Euro 299.8 million. Other sectors' assets in 2013 increased by Euro 177.1 million, mainly due to increased assets based on direct investments (by Euro 84.3 million), coupled with the increase in portfolio investments and trade credits and advances in the amount of Euro 43.5 million and Euro 46.2 million, respectively.

In 2013, the sector of deposit-taking corporations, except central bank also reported an increase in the negative net IIP of Euro 43.5 million. The rise of Euro 29.8 million of depository-taking corporations' liabilities mainly reflects the increased liabilities based on direct investments (of Euro 39.1 million) and loans (of Euro 20.8 million), vis-à-vis the lower liabilities based on currency and deposits (by Euro 30.3 million). The decrease of assets of Euro 13.7 million mainly results from the reduced claims on loans (by Euro 19.3 million).

The central bank is the only institutional sector that is a net lender to abroad. During 2013, the net claims in foreign relations reduced by Euro 175.4 million. The assets reduction solely reflects the fall in foreign reserves and loans in the amount of Euro 200.4 million and Euro 136.1 million, respectively. The central bank's liabilities also reduced by Euro 161 million, mainly due to the reduction of placements in repo transactions.

Net international investment position of individual countries*

Country	2012		2013	
	in billions of euros	% of GDP	in billions of euros	% of GDP
Euroarea	-1,237.47	-13.05	-1,136.05	-11.86
Greece	-210.85	-109.05	-217.14	-119.27
Croatia	-38.96	-89.61	-37.94	-87.97
Bulgaria	-31.21	-78.16	-30.43	-76.20
Romania	-89.48	-68.01	-87.36	-61.41
Slovenia	-16.16	-45.75	-13.66	-38.73
Hungary	-99.42	-102.52	-91.21	-93.12
Macedonia	-4.18	-56.05	-4.56	-55.04
Serbia			-30.61	-95.69
Kosovo	0.25	5.06	0.40	7.78
Turkey	-318.73	-52.04	-283.18	-45.94
USA	-3,472.84	-27.61	-3,905.53	-30.93

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

*Macedonia, Serbia and the United States have already started to disseminate data according to BPM6. The other countries in the table above still disseminate data using BPM5.

A comparative analysis of international investment position of the Republic of Macedonia and other countries was made, primarily in the region and beyond. The comparative results indicate that in most countries in the region the negative net international investment position (% of GDP) decreased during 2013, with the exception of the United States, Greece and Kosovo. Moreover, Hungary, Slovenia, Romania and Turkey reported pronounced reduction in the net IIP to GDP ratio, while in Bulgaria and Croatia this reduction was lower. During 2013, the euro area reported a minor drop in the net IIP to GDP ratio.

Analyzing the structure of changes in net IIP of individual countries in the region, we could summarize the following:

- Compared with other countries, Greece reported the highest growth of negative international investment position of Euro 6.3 billion (by 10.2 percentage points of GDP), resulting from the reduction of assets (by Euro 23.5 billion), amid fall of liabilities by Euro 17.2 billion. All instruments acted towards increasing the net debt position, with the largest contribution to the increase in the negative net IIP being made by loans, and currency and deposits. On the assets side, a decrease was registered mainly in the sector of monetary financial institutions, excluding the central bank. On the liabilities side, the greatest impact was made by the reduced

liabilities on loans and currency and deposits of the central bank sector, partly offset by the increased liabilities of the general government sector.

In 2013, the negative net IIP of Turkey decreased by Euro 35.5 billion (by 6.1 percentage points of GDP). Changes were almost entirely recorded on the liabilities side, by reducing liabilities on direct and portfolio investments, partially offset by increased liabilities in other investments, primarily loans and trade credits.

- Croatia registered a decrease in the negative net IIP by Euro 1 billion (1.6 percentage points of GDP), mainly on the assets side, with the largest positive contribution of foreign reserves, and simultaneous reduction of assets based on all other instruments.

- Bulgaria registered lower negative IIP by Euro 0.8 billion (2 percentage points of GDP). The growth on the assets side was faster, given the increase in currency and deposits, loans and portfolio investments, vis-à-vis the reduction in official foreign reserves. On the liabilities side, the increase reflects the rise in direct and portfolio investments, significantly offset by reductions in other investments.

ANNEX - TABLES AND CHARTS

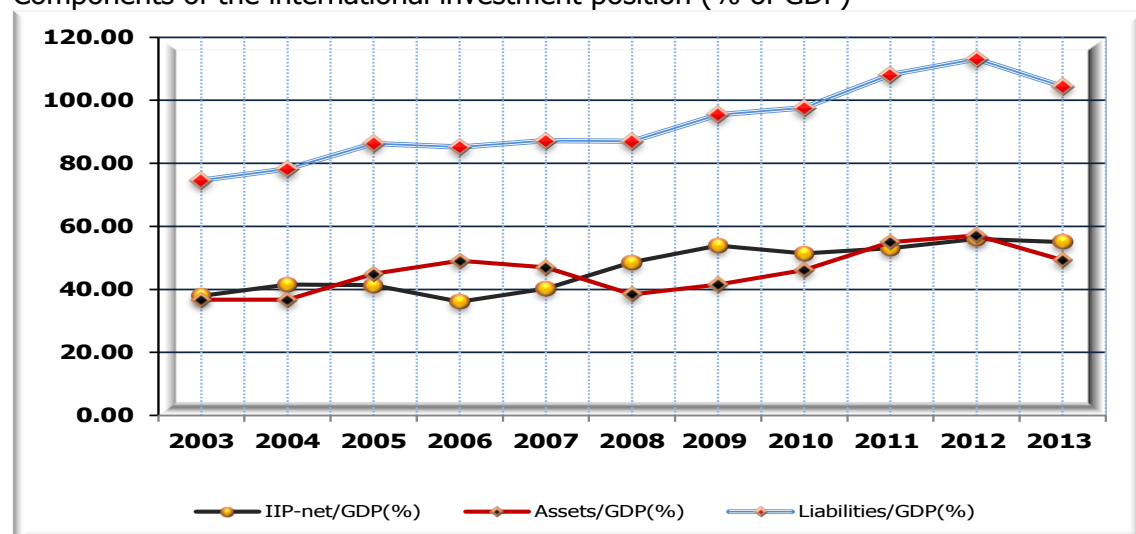
Table 1
International investment position 2003-2013*
(in millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
IIP - net	-1,599.73	-1,846.20	-1,990.79	-1,887.55	-2,401.24	-3,265.10	-3,612.48	-3,629.55	-3,965.79	-4,177.57	-4,558.38
Assets	1,546.87	1,629.47	2,161.80	2,565.79	2,798.99	2,579.77	2,785.54	3,258.38	4,113.22	4,257.50	4,082.47
Liabilities	3,146.60	3,475.67	4,152.59	4,453.34	5,200.23	5,844.87	6,398.02	6,887.92	8,079.01	8,435.08	8,640.84
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	7,453.56	8,281.40
IIP-net/GDP(%)	-37.94	-41.56	-41.35	-36.08	-40.26	-48.59	-53.89	-51.43	-53.07	-56.05	-55.04
Assets/GDP(%)	36.68	36.68	44.91	49.05	46.92	38.39	41.56	46.17	55.04	57.12	49.30
Liabilities/GDP(%)	74.62	78.25	86.26	85.13	87.18	86.98	95.45	97.60	108.11	113.17	104.34

Source: National Bank of the Republic of Macedonia.

*The data on gross domestic product (GDP) for 2013 has been revised by the State Statistical Office of the Republic of Macedonia in accordance with the changes in the calculation methodology (Source: Press release "Gross Domestic Product, Second Quarter of 2014" from 12 September 2014).

Chart 1
Components of the international investment position (% of GDP)*



Source: National Bank of the Republic of Macedonia.

*The data on gross domestic product (GDP) for 2013 has been revised by the State Statistical Office of the Republic of Macedonia in accordance with the changes in the calculation methodology (Source: Press release "Gross Domestic Product, Second Quarter of 2014" from 12 September 2014).

Box 1

Division of IIP sectors

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

- **Central Bank** is the National Bank of the Republic of Macedonia.
- **General Government** includes institutional units established through political processes that enjoy legislative, judicial and executive authority over other institutional units of a particular territory.

The **general government** sector consists of the following subsectors:

- central government,
- local government,
- social insurance funds.

This sector does not include government-owned enterprises which operate on the basis of free market principle.

- **Deposit-taking corporations, except central bank:** includes

institutions whose primary activity is financial intermediation. This sector includes all banks that have been granted a founding and operating license by the Governor of the National Bank of the Republic of Macedonia, as well as foreign bank branches that have been granted a license to be opened and to operate in the Republic of Macedonia.

Other sectors: this group comprises the following categories:

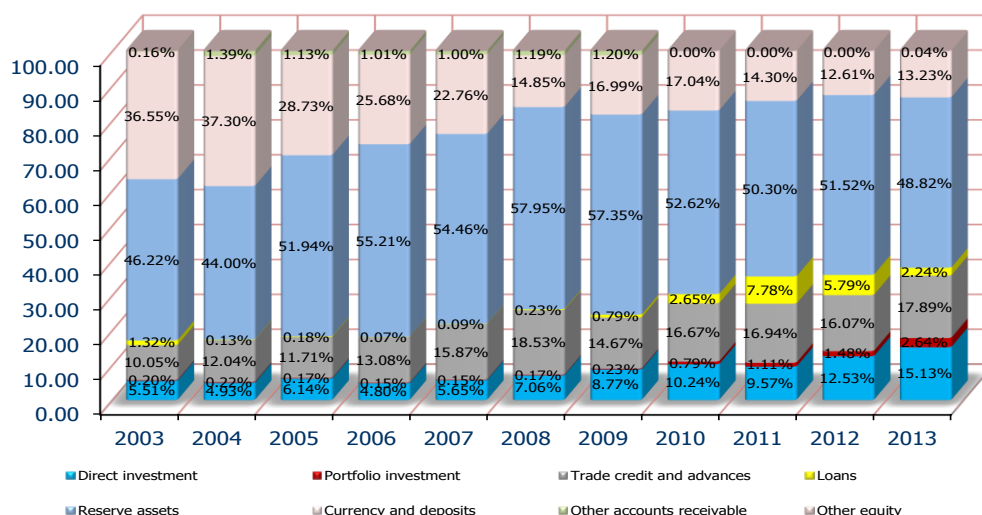
- *Other financial institutions* (include non-deposit financial institutions and other financial intermediaries, as well as insurance companies and pension funds);
- *Nonfinancial institutions* (institutional units, public or private, whose primary activity is the production of goods and/or provision of nonfinancial services intended for sale);
- *Households* (persons or groups of persons who share the same accommodation, pool income and wealth and consume certain types of goods and services together);
- *Nonprofit institutions serving households* (institutional units whose principal activity is provision of goods and services to households and the community free of charge or at prices that are economically insignificant. This category includes churches, political parties, unions, associations, etc.).

Table 2
IIP, by institutional sector
(in millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
IIP, net - General government	-1,026.96	-1,016.46	-1,282.82	-1,065.56	-897.71	-906.33	-1,055.84	-1,067.80	-1,417.44	-1,539.90	-1,560.99
IIP, net - Central bank	693.43	673.30	1,073.29	1,382.60	1,532.53	1,486.92	1,526.73	1,638.82	1,991.78	2,095.80	1,920.39
IIP, net - Deposit-taking corporations, except central bank	270.46	335.47	254.65	131.18	-51.73	-363.90	-361.46	-416.82	-420.60	-536.64	-580.14
IIP, net - Other sectors	-1,536.67	-1,838.51	-2,035.90	-2,335.77	-2,984.34	-3,481.79	-3,721.90	-3,783.75	-4,119.54	-4,196.83	-4,337.65
IIP, net	-1,599.73	-1,846.20	-1,990.79	-1,887.55	-2,401.24	-3,265.10	-3,612.48	-3,629.55	-3,965.79	-4,177.57	-4,558.38

Source: National Bank of the Republic of Macedonia.

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



Source: National Bank of the Republic of Macedonia

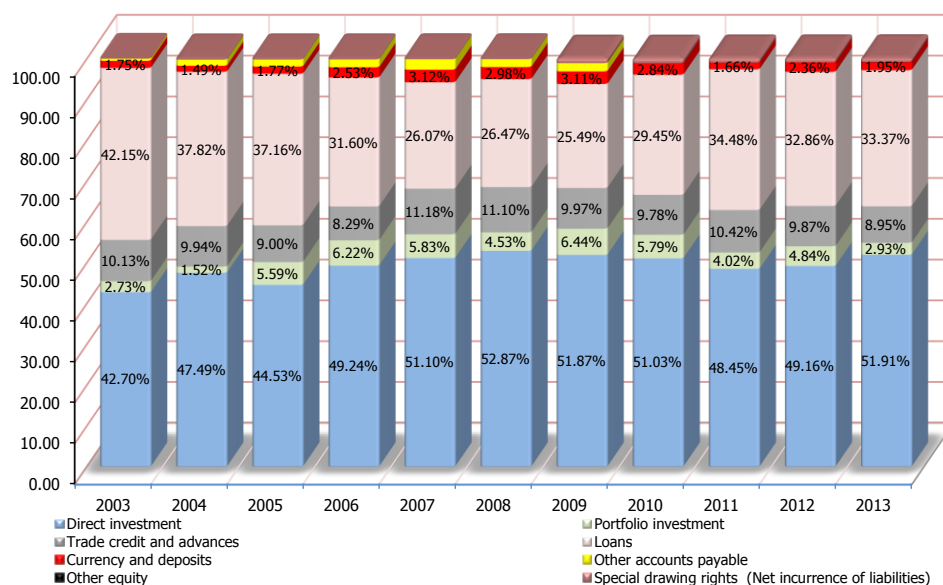
Box 2Classification of the international investment position, by type of investment:

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

- **Direct investments** are presented on the basis of assets-liabilities principle and include the following instruments:
 - equity and investment funds shares/units (including reinvestment of earnings) and
 - debt instruments.
- **Portfolio investments** are divided into equity investment funds shares/units, and debt securities
- **Financial derivatives (other than reserves) and employee stock options**
- **Other investments** are divided into: other equity, currency and deposits, loans, insurance schemes, pension and standardized guarantees, trade credits and advances, other accounts receivable/payable and allocation of special drawing rights
- **Foreign reserves** are classified by type of instruments.

Chart 3

IIP structure - external liabilities, by instrument
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Box 3Foreign direct investments

Direct investments reflect the objective of achieving a long-term interest between the direct investor (resident of an economy) and the invested enterprise (resident of another economy). Direct investments include investments where an investor intends to establish a long-lasting economic relation and/or acquire the right to manage the invested legal entity. A minimum share of 10% (directly or indirectly) in equity is a criterion for defining direct investments, as specified by international recommendations and standards of the sixth edition of the Manual on Balance of

Payments and International Investment Position of the International Monetary Fund. Direct investments, despite initial investment transaction, also incorporate any subsequent investment between the direct investor and the invested company. This category also includes reverse investment (investment of a enterprise with direct investments in the equity of direct investor of below 10%) and investment between fellow enterprises within the same group (of below 10%).

Annual questionnaires submitted by resident companies with foreign capital to the NBRM are the main source of direct investments data in the Republic of Macedonia. Questionnaires, *inter alia*, contain data on the initial investment, the financial results and intercompany debt.

Portfolio investments

Portfolio investments, according to the recommendations of the sixth edition of the Manual on Balance of Payments and International Investment Position of the International Monetary Fund, are defined as investments in equity investment funds shares/units where the investor holds below 10% of equity, and investments in debt securities (excluding those included in foreign direct investments).

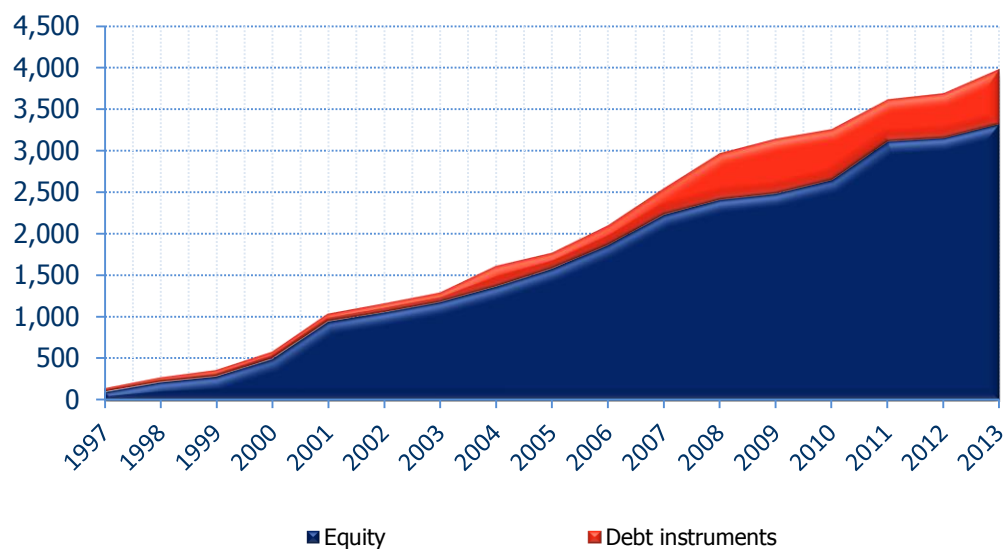
Table 3: Stock of the foreign direct investments in the Republic of Macedonia
(in millions of euros)

Year	Direct Investment in reporting economy								
	Total	Equity				Debt instruments			
		Direct investor in direct investment enterprises (liabilities)	Reverse investment (assets)	Between fellow enterprises (net-liabilities)	Total	Direct investor in direct investment enterprises (liabilities)	Reverse investment (assets)	Between fellow enterprises (net-liabilities)	Total
	1=5+9	2	3	4	5=2-3+4	6	7	8	9=6-7+8
1997	141.22	102.88	0.00	0.00	102.88	50.48	12.13	0.00	38.35
1998	270.37	219.51	0.00	0.00	219.51	63.66	12.81	0.00	50.86
1999	359.90	284.26	0.00	0.00	284.26	91.35	15.70	0.00	75.65
2000	580.05	497.72	0.00	0.00	497.72	99.28	16.95	0.00	82.34
2001	1,039.15	946.28	0.00	0.00	946.28	133.72	40.84	0.00	92.87
2002	1,160.71	1,056.57	0.00	0.00	1,056.57	150.48	46.35	0.00	104.13
2003	1,292.14	1,181.98	0.00	0.00	1,181.98	158.14	47.98	0.00	110.16
2004	1,610.22	1,366.11	0.00	0.00	1,366.11	280.82	36.70	0.00	244.11
2005	1,768.97	1,579.62	0.00	0.00	1,579.62	263.89	74.54	0.00	189.36
2006	2,098.57	1,863.35	0.00	0.00	1,863.35	316.14	80.91	0.00	235.23
2007	2,545.17	2,226.62	0.00	0.00	2,226.62	424.66	106.11	0.00	318.55
2008	2,968.75	2,407.42	0.00	0.00	2,407.42	675.29	113.96	0.00	561.33
2009	3,141.38	2,481.27	0.00	0.00	2,481.27	830.07	169.96	0.00	660.10
2010	3,255.97	2,642.52	0.00	0.00	2,642.52	860.33	246.88	0.00	613.45
2011	3,615.08	3,110.17	0.00	0.00	3,110.17	789.45	284.53	0.00	504.92
2012	3,685.54	3,148.89	0.00	0.00	3,148.89	980.06	443.41	0.00	536.66
2013	3,979.97	3,311.58	0.00	4.72	3,316.30	1,143.34	479.67	0.00	663.67

Source: National Bank of the Republic of Macedonia.

Chart 4

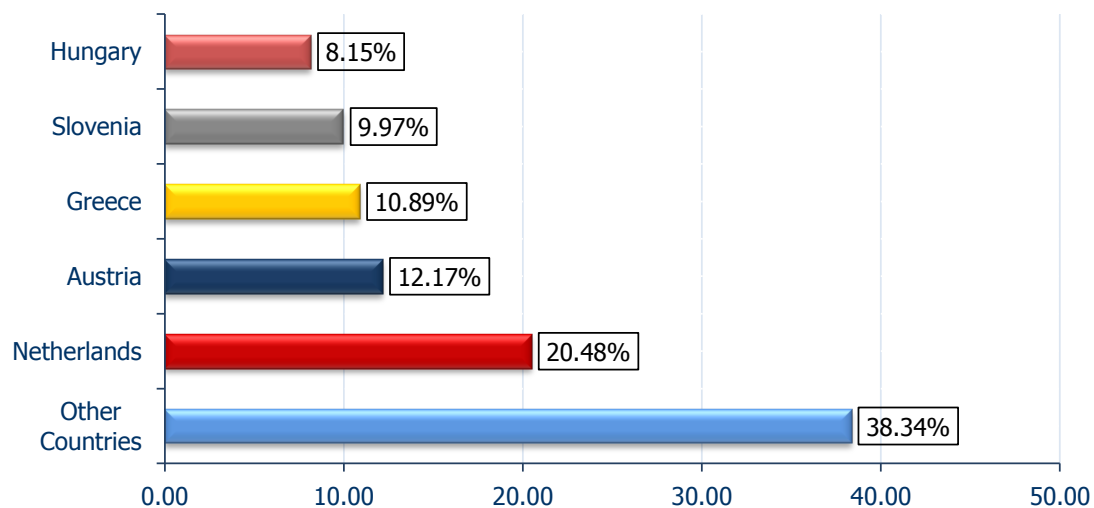
Foreign direct investments in the Republic of Macedonia
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Chart 5

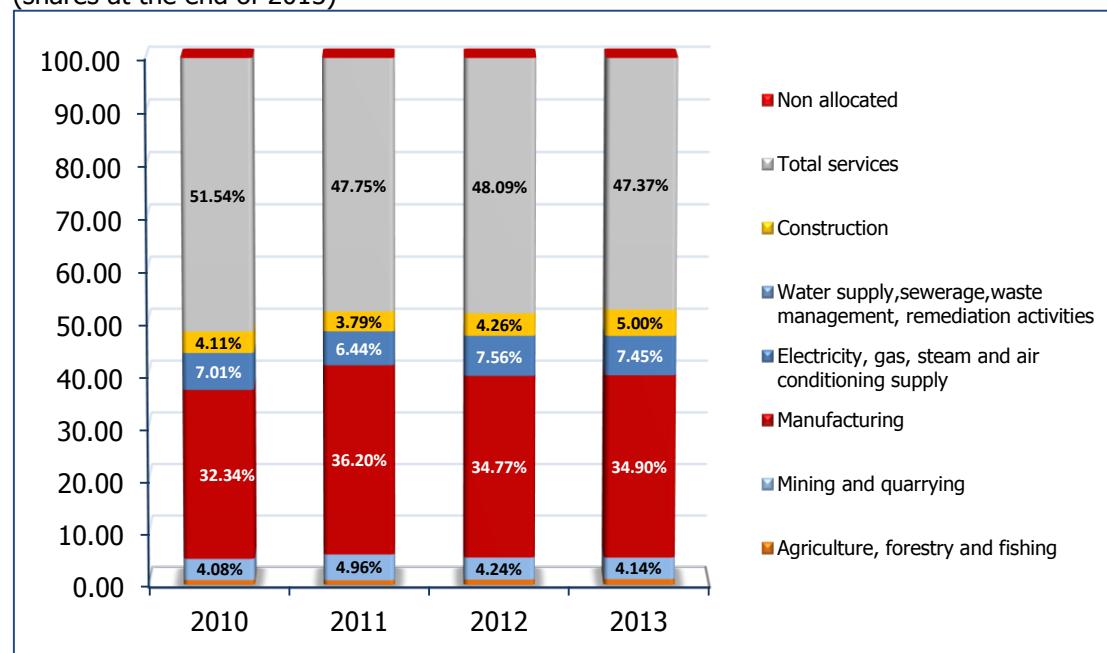
Foreign direct investments in the Republic of Macedonia, by country
(shares at the end of 2013)



Source: National Bank of the Republic of Macedonia.

Chart 6

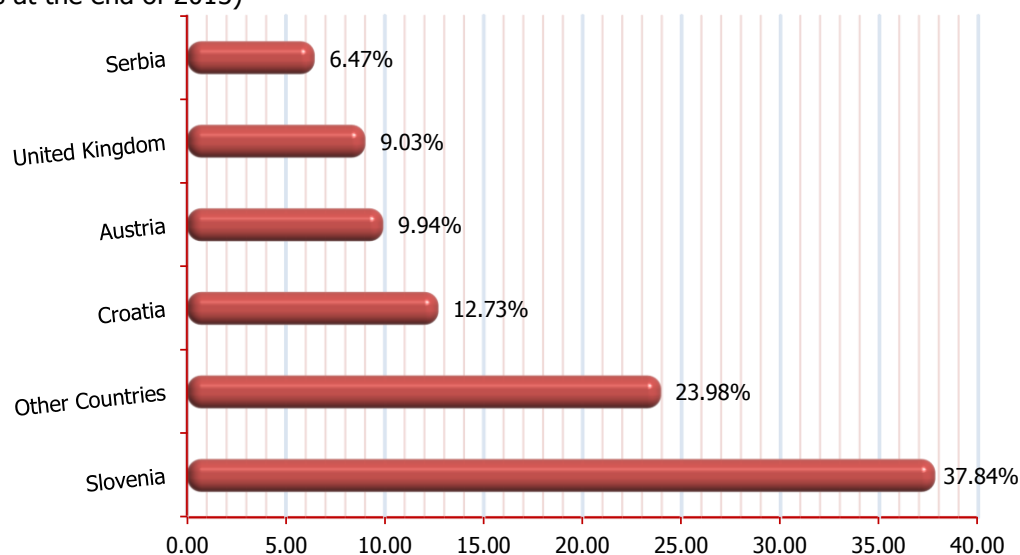
Foreign direct investments in the Republic of Macedonia, by activity
(shares at the end of 2013)



Source: National Bank of the Republic of Macedonia.

Chart 7

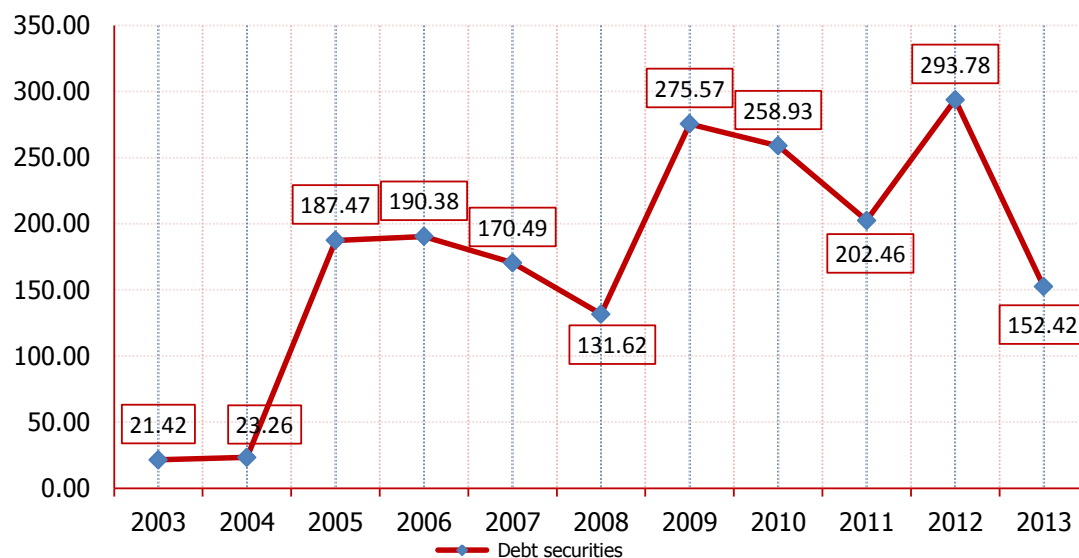
Portfolio investments, by country - liabilities - equity securities
(shares at the end of 2013)



Source: National Bank of the Republic of Macedonia.

Chart 8

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	2013
Short-term Loans	25.93	11.81	54.33	11.65	55.82	14.91	47.59	71.99	258.23	214.03	48.81
- Central bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	232.53	157.57	0.00
- Deposit-taking corporations, except central bank	8.71	7.04	1.30	0.00	16.50	0.00	40.00	3.71	0.00	0.00	0.00
- Other sectors	17.22	4.78	53.03	11.65	39.32	14.91	7.59	68.28	25.70	56.47	48.81
Long-term Loans	1,300.22	1,302.60	1,488.56	1,395.56	1,299.95	1,532.02	1,583.12	1,956.46	2,527.67	2,557.80	2,834.32
- Central bank	54.70	45.97	52.66	42.39	0.00	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	1,256.76	1,292.88	1,453.20
- Deposit-taking corporations, except central bank	64.04	55.79	106.40	146.31	199.81	201.14	220.10	379.26	430.71	420.16	440.95
- Other sectors	175.94	207.63	234.14	331.68	372.92	559.66	585.43	724.64	840.20	844.76	940.17
Total Loans	1,326.15	1,314.41	1,542.89	1,407.22	1,355.77	1,546.93	1,630.72	2,028.45	2,785.90	2,771.83	2,883.12
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	7,453.56	8,281.40
Short-term Loans/Total Loans (%)	1.96	0.90	3.52	0.83	4.12	0.96	2.92	3.55	9.27	7.72	1.69
Long-term Loans/Total Loans (%)	98.04	99.10	96.48	99.17	95.88	99.04	97.08	96.45	90.73	92.28	98.31
Total Loans/GDP (%)	31.45	29.59	32.05	26.90	22.73	23.02	24.33	28.74	37.28	37.19	34.81

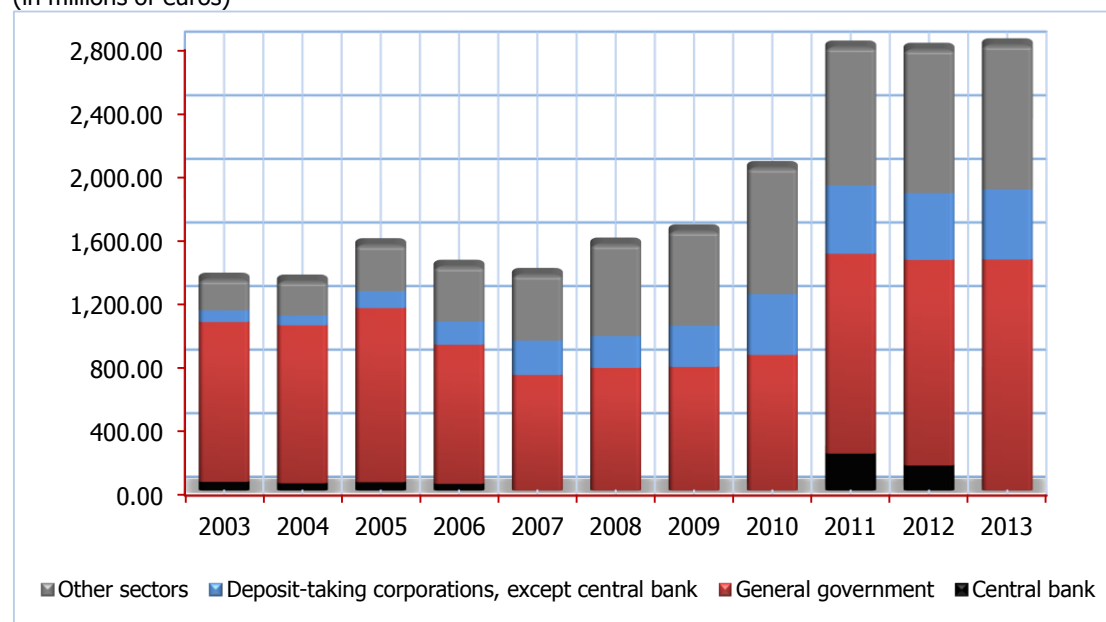
Source: National Bank of the Republic of Macedonia.

*The data on gross domestic product (GDP) for 2013 has been revised by the State Statistical Office of the Republic of Macedonia in accordance with the changes in the calculation methodology (Source: Press release "Gross Domestic Product, Second Quarter of 2014" from 12 September 2014).

Chart9

Liabilities based on loans from abroad, by debtor*

(in millions of euros)



Source: National Bank of the Republic of Macedonia.