

National Bank of the Republic of Macedonia
Statistics Department



**International Investment Position of the Republic
of Macedonia for 2010**

September 2011

Report on the International Investment Position of the Republic of Macedonia for 2010

Background

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

Apart from the stock and structure of financial assets (receivables) from nonresidents and financial liabilities to nonresidents, the report on the international investment position (IIP) also presents the net creditor/debtor position of the country (and institutional sectors) to the rest of the world. Positive net international investment position i.e. excess financial assets (receivables) over liabilities implies that the country is a net creditor to the rest of the world. Negative net international investment position i.e. excess liabilities over financial assets (receivables) in the relations between residents and nonresidents, implies that 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 institutional sectors, and the change in the sectors' preferences to use certain types of financial instruments. Such dynamic perspective makes sure 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 global economic developments, also proved by the growing significance of this report over the recent years of permanent globalization and emergence of economic crises worldwide.

IIP preparation uses 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 2010

At the end of 2010, the Republic of Macedonia reported to be a net debtor to the end of the world, recognizing a negative net international investment position of Euro 3,721.3 million. On December 31, 2010, the financial assets from nonresidents and financial liabilities to nonresidents of the Republic of Macedonia were valued at Euro 2,950.4 million and Euro 6,671.6 million, respectively. The net debt position of the Republic of Macedonia, as a percentage of GDP, equaled 53.6% of GDP.

Compared to the end of 2009, the international investment position deteriorated by additional Euro 107.3 million, i.e. it increased by 3%, on annual basis, primarily

resulting from the faster growth of external liabilities that increased by Euro 451.1 million or by 7.3% in 2010, compared to the growth of external assets of Euro 343.8 million or 13.2%. Yet, the net international investment position to GDP improved by 0.5 percentage points, i.e. it reduced from 54.1% at the end of 2009 to 53.6% at the end of 2010.

IIP analysis by institutional sector, points to all institutional sectors in the economy, except for the monetary authorities, as triggers of the net IIP deterioration in 2010.

Other sectors (predominantly comprised of nonfinancial companies) reported negative growth of net IIP in 2010 of Euro 93.4 million. In 2010, the other sectors' liabilities went up by Euro 244.5 million (mostly based on foreign direct investments in the country (Euro 178.5 million)). On the other hand, in 2010, other sectors' assets increased by Euro 151.1 million, primarily reflecting the increased assets based on short-term trade credits (by Euro 134.7 million).

The General Government sector reported no assets from abroad, and therefore, remaining a net debtor to the rest of the world. In 2010, the General Government external liabilities increased by Euro 57.0 million, mainly based on new long-term borrowings.

In 2010, the banking sector reported enlargement of the negative net IIP of Euro 68.9 million, particularly reflecting the growth of liabilities based on loans and foreign direct investments (by Euro 115.6 and Euro 30.8 million, respectively), partially netted by the increase of assets based on deposits with foreign banks (by Euro 82.2 million). The banking sector, operating in changed environment, turned from a net creditor in the relations with nonresidents in the 2003-2006 period, to a net debtor to abroad in the 2007-2010 period, with the latter period experiencing steady increase of liabilities based on foreign direct investments and loans.

The monetary authorities, which usually appear as a net creditor to abroad, reported a Euro 112.1 million increase of net assets in its international relations, solely reflecting the growth of official foreign reserves.

Observing the IIP structure by instrument, the asset side is still dominated by the instrument of gross official reserves in the amount of euro 1,715.2 million (accounting for 58.1% of the total assets), which increased by Euro 117.7 million (7.4%) in 2010. On the liabilities side, financial liabilities to direct investors dominate with Euro 3,350.7 million (making up 50.2% of the total liabilities), which in 2010 went up by 6.7% or Euro 209.3 million (of which: by Euro 161.4 million based on equity and reinvested earnings and by Euro 47.9 million based on other capital). In 2010, considerable portion of the growth of liabilities also arose from the higher external debt based on loans (by Euro 191.9 million).

The analysis of the international investment position of other countries shows that in most of the countries in the region, the net international investment position deteriorated in 2010, except for the countries in the Euro area and Bulgaria that reported an improvement.

Net international investment position by country*

Country	2009		2010	
	in billions of euros	% of GDP	in billions of euros	% of GDP
Euro area	-1,469.86	-16.44%	-1,187.44	-12.94%
USA	-1,671.38	-16.72%	-1,860.68	-16.98%
Croatia	-38.84	-85.04%	-42.30	-92.16%
Slovenia	-12.59	-35.66%	-12.91	-35.88%
Macedonia	-3.61	-54.13%	-3.72	-53.59%
Greece	-199.61	-84.93%	-219.44	-95.34%
Bulgaria	-35.58	-101.85%	-35.18	-97.64%
Turkey	-192.24	-43.65%	-269.92	-48.76%

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

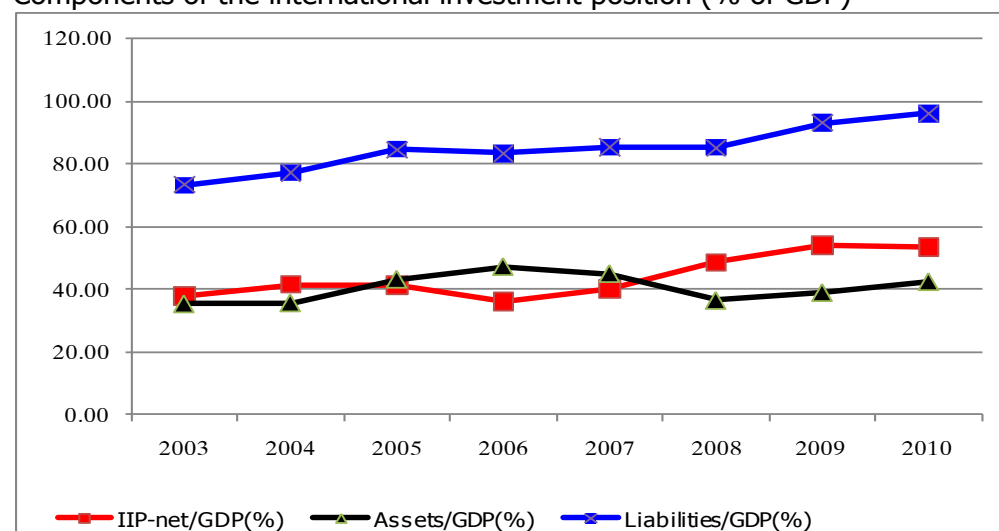
TABLES AND FIGURES

Table 1
International investment position 2003-2010
(millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010
IIP-net,	-1,599.73	-1,846.20	-1,990.79	-1,887.55	-2,401.97	-3,266.77	-3,614.01	-3,721.27
Assets	1,495.28	1,589.06	2,081.58	2,471.72	2,686.04	2,456.76	2,606.56	2,950.37
Liabilities	3,095.01	3,435.26	4,072.37	4,359.26	5,088.01	5,723.53	6,220.57	6,671.64
GDP	4,217	4,442	4,814	5,231	5,965	6,720	6,677	6,944
IIP-net/GDP(%)	-37.94	-41.56	-41.35	-36.08	-40.27	-48.61	-54.13	-53.59
Assets/GDP(%)	35.46	35.77	43.24	47.25	45.03	36.56	39.04	42.49
Liabilities/GDP(%)	73.39	77.34	84.59	83.34	85.30	85.17	93.16	96.08

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 1

Division 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 (include 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
(millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010
IIP,net -General government	-1,026.96	-1,016.45	-1,282.82	-1,065.56	-897.71	-906.33	-1,055.84	-1,112.87
IIP,net- Monetary authorities	693.43	673.30	1,073.28	1,382.60	1,532.53	1,486.92	1,526.73	1,638.81
IIP,net- Banks	265.92	330.56	254.65	94.76	-59.37	-401.91	-362.99	-431.89
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	-3,815.32
IIP,net	-1,599.73	-1,846.20	-1,990.79	-1,887.55	-2,401.97	-3,266.77	-3,614.01	-3,721.27

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 destination:
 - 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.

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 the investor uses to obtain a lasting economic interest and/or to exercise a right of managing the direct investment enterprise. To the end of 1993, the countries used various criteria for defining the direct investments. The Fifth edition of the IMF Manual recommends using the ownership of 10% of the capital or voting power 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 investments and portfolio investments fully apply in the Republic of Macedonia. The annual questionnaires that resident companies with foreign capital submit to the NBRM are basic sources of direct investments data in the Republic of Macedonia. The questionnaires contain data on the initial investment, the financial result and the intercompany debt.

Portfolio investments

According to the recommendation 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.

In terms of equities, 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 means holding securities of below 10% of the capital or voting power. In terms of debt securities, a debtor-creditor relation has been established with the security issuer. According to the maturity, these securities are most often grouped into bonds and notes and money market instruments.

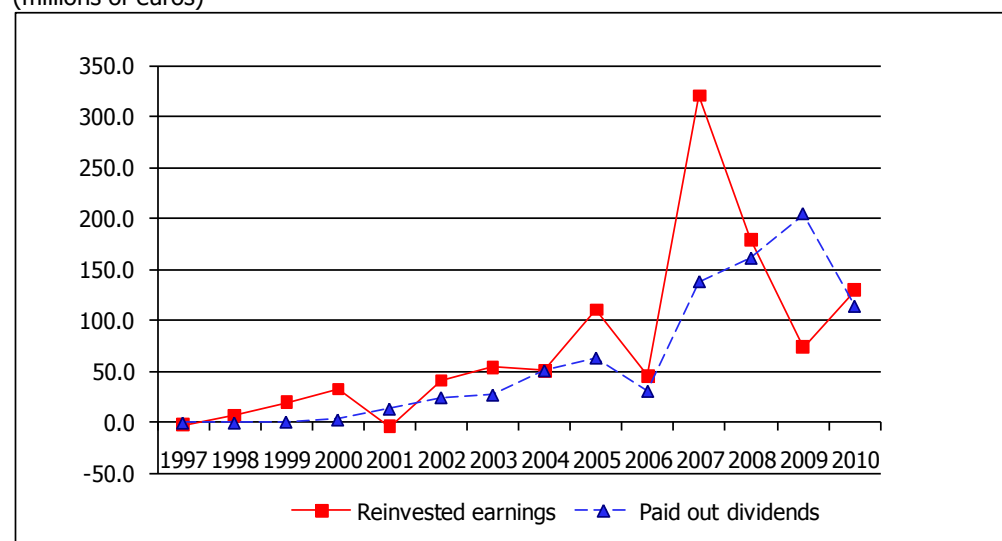
Table 3: Foreign direct investments in the Republic of Macedonia
(millions of euros)

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	3,350.69	2,642.69	229.78	937.78

Source: National Bank of the Republic of Macedonia

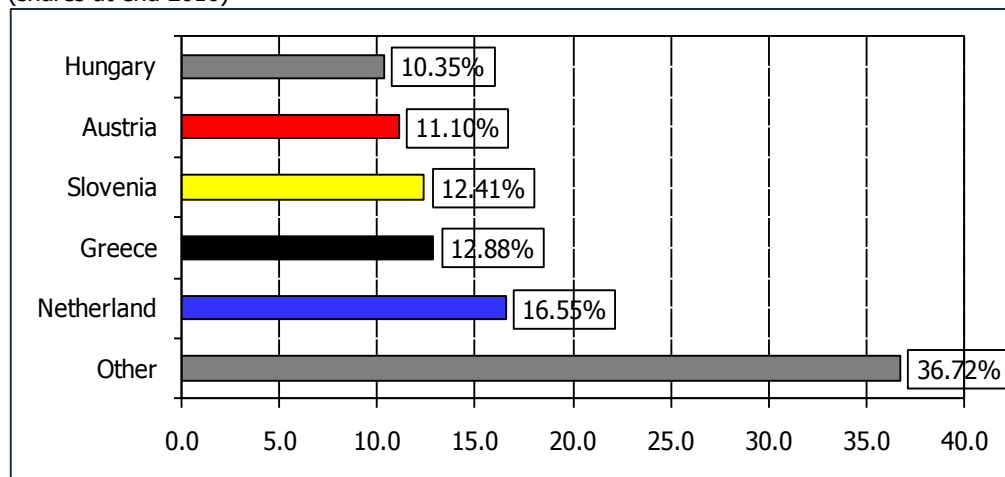
Figure 2

Reinvested and undistributed earnings and dividends paid, arising from inward FDI
(millions of euros)



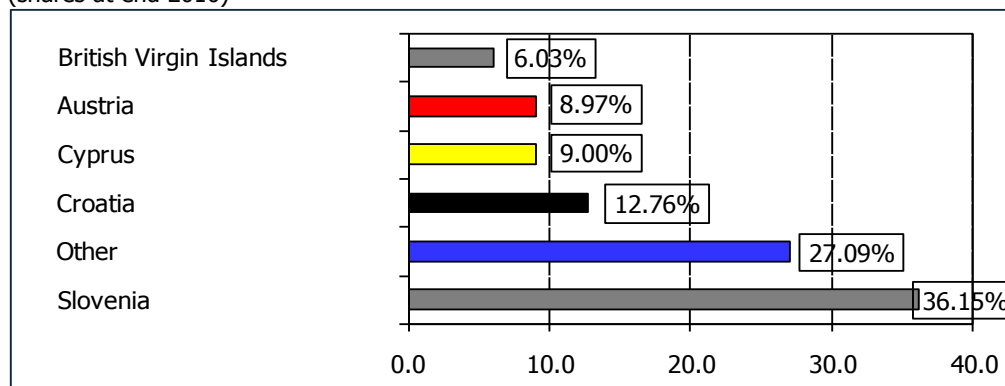
Source: National Bank of the Republic of Macedonia

Figure 3
Foreign direct investments, by country
(shares at end 2010)



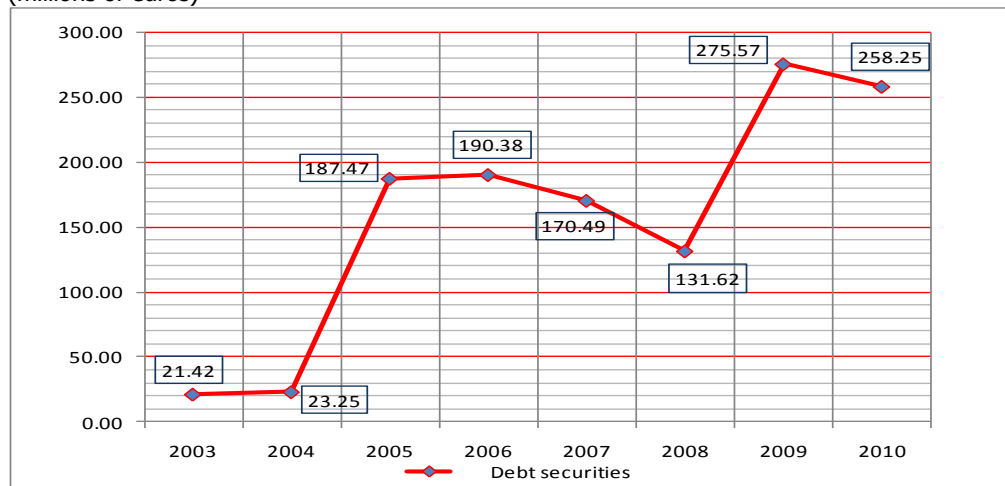
Source: National Bank of the Republic of Macedonia

Figure 4
Portfolio investments, by country - liabilities based on equities held by nonresidents
(shares at end 2010)



Source: National Bank of the Republic of Macedonia

Figure 5
Portfolio investments - liabilities based on domestic debt securities held by nonresidents
(millions of euros)



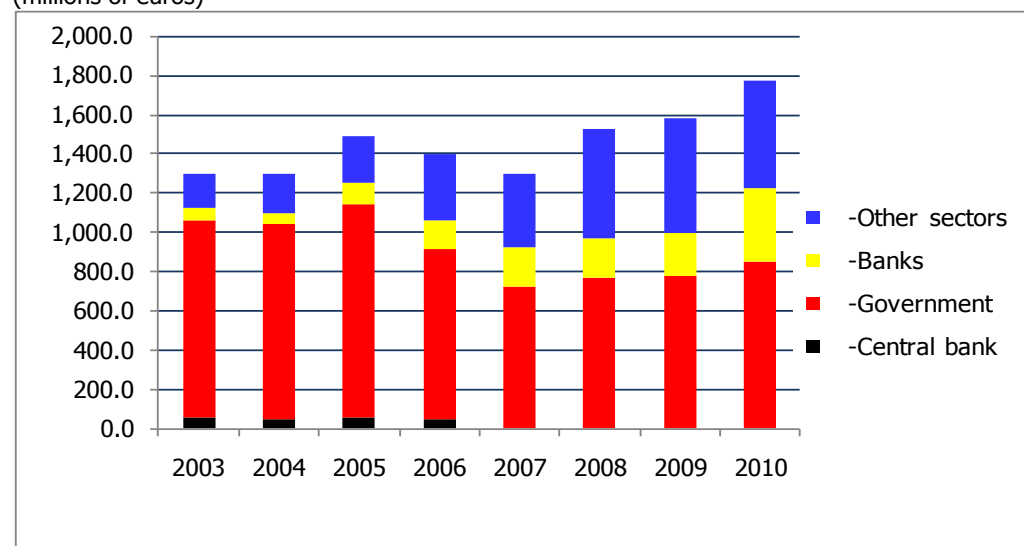
Source: National Bank of the Republic of Macedonia

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

	2003	2004	2005	2006	2007	2008	2009	2010
Short-term loans	25.93	11.81	54.33	11.66	55.82	14.91	47.59	48.35
-Central bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
-Banks	8.71	7.04	1.30	0.00	16.50	0.00	40.00	3.71
-Other sectors	17.22	4.78	53.03	11.66	39.32	14.91	7.59	44.64
Long-term loans	1,300.22	1,302.60	1,488.56	1,395.57	1,299.95	1,532.02	1,583.12	1,774.26
-Central bank	54.70	45.97	52.66	42.39	0.00	0.00	0.00	0.00
-Government	1,005.54	993.20	1,095.36	875.19	727.22	771.22	777.60	852.57
-Banks	64.04	55.79	106.40	146.31	199.81	201.14	220.10	371.98
-Other sectors	175.94	207.63	234.14	331.68	372.92	559.66	585.43	549.71
Total	1,326.15	1,314.41	1,542.89	1,407.23	1,355.77	1,546.93	1,630.72	1,822.61
GDP	4,217	4,442	4,814	5,231	5,965	6,720	6,677	6,944
Short-term loans/Total loans (%)	1.96	0.90	3.52	0.83	4.12	0.96	2.92	2.65
Long-term loans/Total loans (%)	98.04	99.10	96.48	99.17	95.88	99.04	97.08	97.35
Total loans/GDP(%)	31.45	29.59	32.05	26.90	22.73	23.02	24.42	26.25

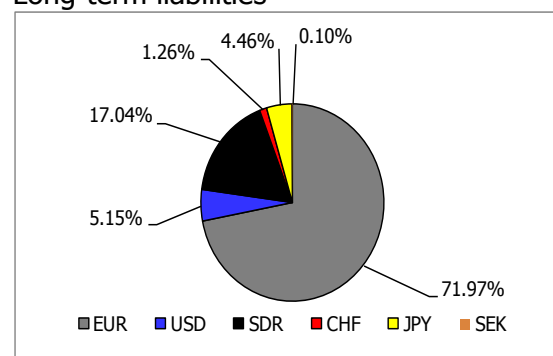
Source: National Bank of the Republic of Macedonia

Figure 6
Long-term loans, by sector
(millions of euros)

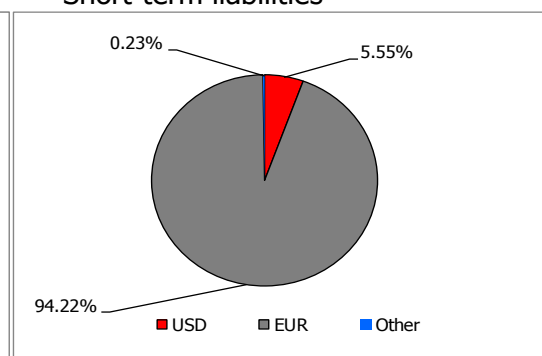


Source: National Bank of the Republic of Macedonia

Figure 7
Currency structure of the debt based on loans (in %)
Long-term liabilities



Short-term liabilities



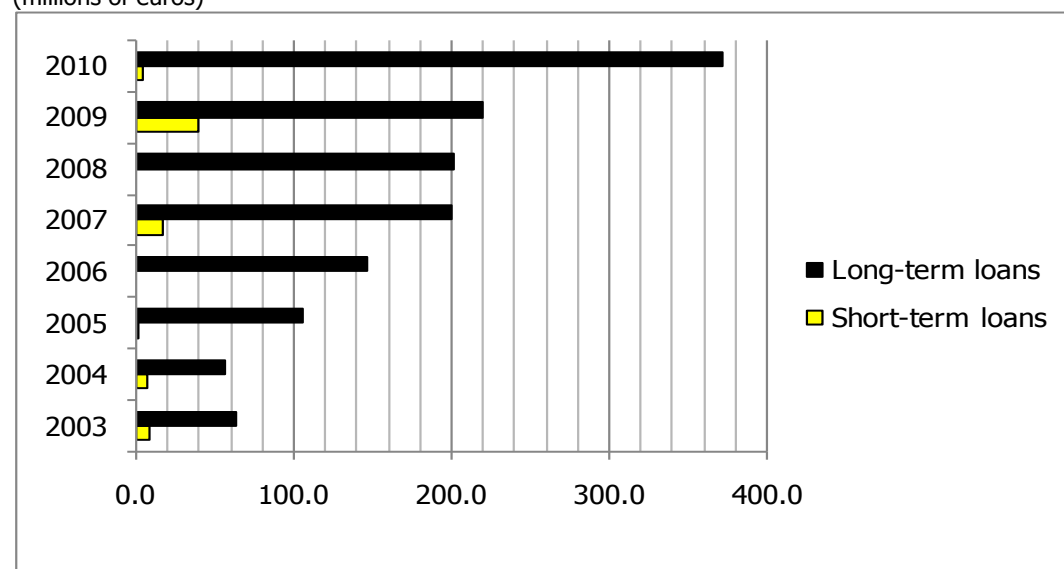
Source: National Bank of the Republic of Macedonia

Table 5
Banking sector liabilities based on loans from abroad
(millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010
Loans/banking sector	72.75	62.83	107.70	146.31	216.31	201.14	260.10	375.69
-Short-term	8.71	7.04	1.30	0.00	16.50	0.00	40.00	3.71
-Long-term	64.04	55.79	106.40	146.31	199.81	201.14	220.10	371.98
Total bans	1,326.15	1,314.41	1,542.89	1,407.23	1,355.77	1,546.93	1,630.72	1,822.61
Loans-banking sector/Total bans (%)	5.49	4.78	6.98	10.40	15.95	13.00	15.95	20.61
Loan -banking sector/GDP (%)	1.73	1.41	2.24	2.80	3.63	2.99	3.90	5.41

Source: National Bank of the Republic of Macedonia

Figure 8
Short-term and long-term loans of the banking sector
(millions of euros)



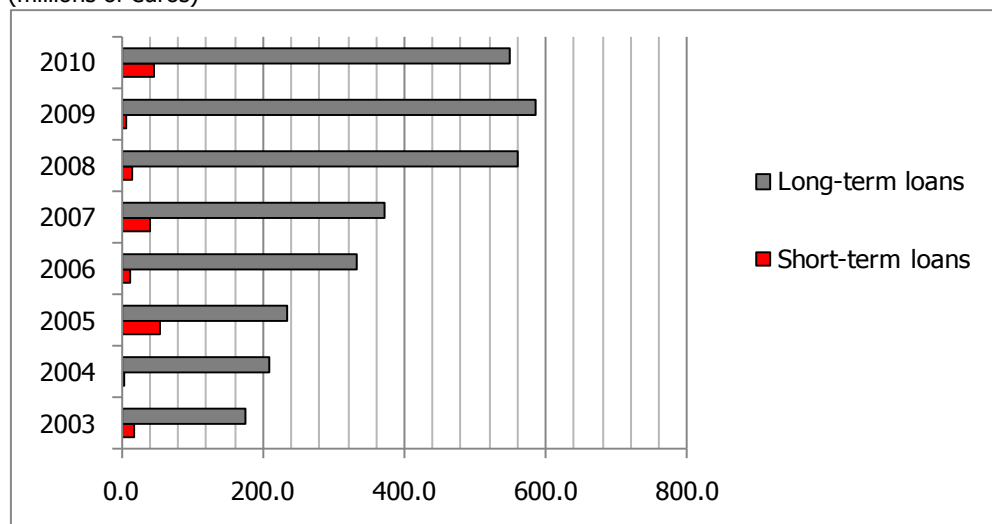
Source: National Bank of the Republic of Macedonia

Table 6
Other sector liabilities based on loans from abroad
(millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010
Loans-other sector	193.16	212.41	287.17	343.34	412.24	574.57	593.02	594.35
-Short-term	17.22	4.78	53.03	11.66	39.32	14.91	7.59	44.64
-Long-term	175.94	207.63	234.14	331.68	372.92	559.66	585.43	549.71
Total bans	1,326.15	1,314.41	1,542.89	1,407.23	1,355.77	1,546.93	1,630.72	1,822.61
Loans-other sector/Total bans (%)	14.57	16.16	18.61	24.40	30.41	37.14	36.37	32.61
Loans-other sector/GDP (%)	4.58	4.78	5.97	6.56	6.91	8.55	8.88	8.56

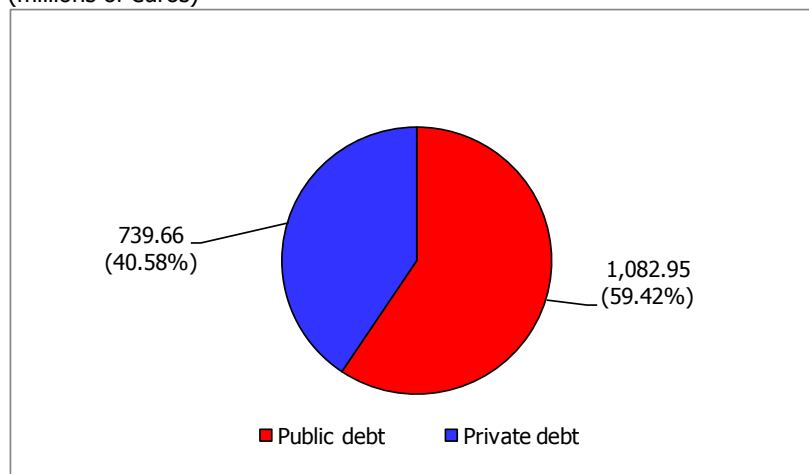
Source: National Bank of the Republic of Macedonia

Figure 9
Short-term and long-term loans of other sectors
(millions of euros)



Source: National Bank of the Republic of Macedonia

Figure 10
Liabilities structure, by debt outstanding from loans
(millions of euros)



Source: National Bank of the Republic of Macedonia