

National Bank of the Republic of Macedonia
Statistics Department



**International Investment Position
of the Republic of Macedonia for 2007**

December 2008

1. SUMMARY

The International Investment Position (IIP) is a report which presents the position of the international assets and liabilities of the Republic of Macedonia as of a certain date. The data on the IIP are compiled and published on annual basis, with available time series from 2003.

The net IIP is the difference between the two main components: (1) international assets, which represent the total claims of the residents on non-residents; and (2) international liabilities, which represent the total liabilities of the residents to non-residents. In order to ensure comparability with the other macroeconomic reports, primarily the balance of payments, international assets and liabilities are decomposed in a standard manner. Within the international assets, the individual types of financial instruments are grouped as follows: (1) direct investments; (2) portfolio investments; (3) other investments; and (4) official foreign reserves. Within the international liabilities there is an identical grouping of the financial instruments, except for the category official foreign reserves, which appears only on the side of the international assets.

The main sources of data for compiling the IIP are few statistical researches conducted by the National Bank and pertaining to the compilation of data on:

1) investments on the basis of direct and portfolio investments, trade credits and loans which appear in the international relations - reports are submitted by domestic resident companies from the financial and non-financial sectors, which at the end of the year recorded assets/liabilities on this basis;

2) transactions with securities - reports are submitted by the resident brokerage houses;

3) positions of the securities owned by non-residents - the data are obtained from the Central Securities Depository;

4) market prices of domestic securities - the data are obtained from the Macedonian Stock Exchange;

5) position of the foreign exchange assets and liabilities of domestic banks - reports are submitted by the commercial banks;

6) position of the assets of residents from the non-banking sector on regular FX accounts in foreign banks - reports are submitted by domestic companies from the non-financial sector; and

7) position of the official reserves - the data are compiled by the NBRM.

1.1. International investment position for 2007

The net IIP of the Republic of Macedonia, calculated as a difference between the international assets and liabilities, at the end of 2007 registered a negative balance of Euro 2,401 million, or 41.5% of the gross domestic product (GDP). Compared with the end of 2006, this negative balance went up by Euro 522.6 million, or 27.8%. The rise in the negative balance is a result of the faster growth of the international liabilities of 16.9% relative to the registered growth in the international assets of 8.6%.

At the end of 2007, international assets reached Euro 2,686.0 million, while international liabilities totaled Euro 5,087.2 million. In the period 2003-2007, the international assets and international liabilities were continuously increasing, so that the share of the international assets in GDP went up from 36% in 2003 to 46.5% of GDP in 2007, while that of the international liabilities increased from 75% of GDP in 2003 to 88% of GDP in 2007.

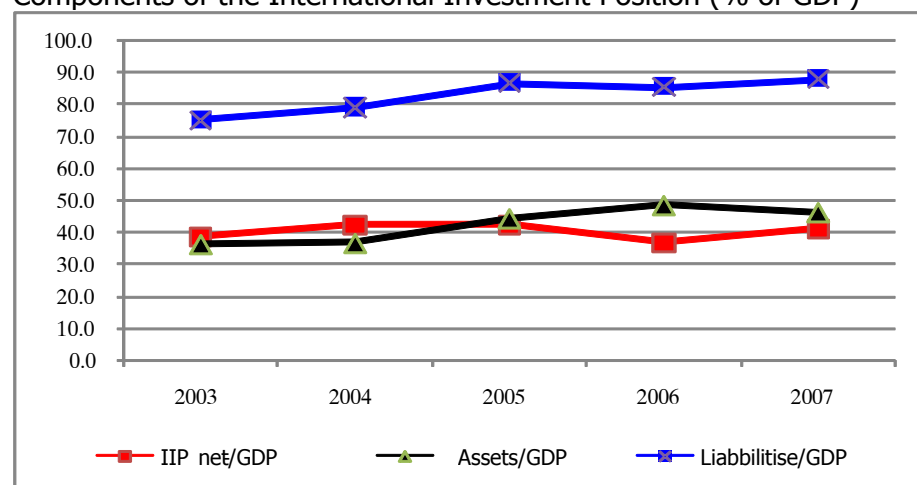
Table 1
International investment position for 2003-2007
(in millions of euros)

	2003	2004	2005	2006	2007
IIP-net	-1,599.7	-1,836.6	-1,978.3	-1,878.5	-2,401.1
Assets	1,495.3	1,589.4	2,081.7	2,472.7	2,686.0
Liabilities	3,095.0	3,426.0	4,060.1	4,351.2	5,087.2
GDP	4,105.0	4,324.5	4,676.0	5,081.3	5,782.3
IIP-net/GDP(%)	-39.0	-42.5	-42.3	-37.0	-41.5
Assets/GDP(%)	36.4	36.8	44.5	48.7	46.5
Liabilities/GDP(%)	75.4	79.2	86.8	85.6	88.0

Source: National Bank of the Republic of Macedonia

The faster growth of the international liabilities relative to that of the international assets led to a continuous increase in the negative balance of the net IIP in the period 2003-2007 (except for 2006 when a moderate decline was registered). The average annual growth rate of the negative balance of IIP in the period 2003-2007 equals 11.3% with a simultaneous average growth of the international assets of 16.3% and of the international liabilities of 13.5%.

Figure 1
Components of the International Investment Position (% of GDP)



Source: National Bank of the Republic of Macedonia

Attachment 1**Division of the sectors in IIP**

For the purpose of compiling and presenting the IIP, sectors are grouped as follows:

- **Monetary authorities:** represented by the central bank i.e. the National Bank of the Republic of Macedonia
- **State:** comprises the central government, local government and social welfare funds. This sector does not include the state-owned companies operating according to the free market principle.
- **Banks:** covers all deposit institutions, except for the Central Bank.
- **Other sectors:** this group comprises the following functional categories:
 - Non-banking financial institutions (including insurance companies, investment funds, private pension funds and other financial intermediaries);
 - Non-financial institutions (entities involved in the production of goods and services (including state-owned enterprises);
 - Households (households and natural persons);
 - Non-profit institutions at service of households (churches, political parties, associations).

The sector-by-sector analysis of IIP shows that the negative balance of the net IIP is mostly determined by the negative balance of the difference between the financial assets and financial liabilities of the other sector (mostly non-financial institutions). Net liabilities of this sector register the highest increase in the period 2003 - 2007 (from Euro 1,518 million in 2003 to Euro 2,938 million in 2007). In 2007, except for the monetary authority, all other sectors had net external liabilities, i.e. negative balance on their net IIP. It should be emphasized that in 2007 for the first time the banking sector shows net external liabilities, unlike the previous years when this sector continuously had net claims from abroad.

Table 2
IIP at the level of institutional sectors

	2003	2004	2005	2006	2007
IIP, net - government	-1,027.0	-1,016.5	-1,282.8	-1,066.9	-905.9
IIP, net- monetary authorities	693.4	682.9	1,083.4	1,392.2	1,541.6
IIP, net- banks	251.8	314.5	231.8	87.2	-98.7
IIP, net- other sectors	-1,518.0	-1,817.5	-2,010.8	-2,291.0	-2,938.1
IIP, net	-1,599.7	-1,836.6	-1,978.4	-1,878.5	-2,401.1

Source: National Bank of the Republic of Macedonia

In 2007, the net liabilities of the state reduced by 15% relative to the end of 2006, mainly as a result of the early repayment of the long-term credits to the Paris Club of creditors, World Bank and the European Investment Bank, as well as the decline of the liabilities on the basis of government debt securities, owned by non-residents (by Euro 13.0 million).

The sector of the monetary authority registers continuous increase in the positive balance (net claim) which at the end of 2007 reached Euro 1,542 million. The main growth determinant were the international official reserves, which at the end of 2007 reached an amount of Euro 1.524 million (rise of 7.6% compared with the end of 2006). Of this amount, 59% are invested in deposits, 33% in securities and the remaining portion in monetary gold and special drawing rights. The other foreign assets of the monetary authority at the end of 2007 stood at Euro 17.2 million. It should be emphasized that due to the complete repayment of the debt to the IMF, at the end of 2007 the monetary authority did not have any foreign liabilities. At the same time, this sector is the only net creditor to the rest of the world, while the other three sectors are net debtors.

Within the banking sector, in 2007 the international assets (mostly in the form of currencies and deposits) registered a decline of Euro 22 million, and reduced down to Euro 623 million at the end of 2007. As for the banks' international liabilities, during 2007 banks' debt as a result of borrowings increased heavily (growth of the long-term liabilities by Euro 53.5 million and of the short-term liabilities by Euro 16.5 million), with a simultaneous increase in the non-residents' deposits (by Euro 49.4 million). At the same time, rise was registered also in the foreign direct investments in the banking sector, which totaled Euro 282 million at the end of 2007. The faster growth of the international liabilities relative to the international assets caused the net position of the banking sector to register a negative balance of Euro 99 million for the first time in the analyzed period 2003-2007.

The fastest increase in 2007 was registered in the net liabilities of the other sector (of Euro 647 million). This is due to the faster growth of the international liabilities of the other sector (Euro 776 million), relative to the increment in the international assets (of Euro 128 million). The analysis of the structure shows that on the side of the assets a significant increase was registered in the extended trade credits (by Euro 109 million), while on the side of the international liabilities a remarkable growth was registered in the foreign direct investments (by Euro 383 million), received trade credits (by Euro 212.4 million) and used external loans (by Euro 69 million).

2. ANALYSIS OF THE INTERNATIONAL INVESTMENT POSITION ACCORDING TO FINANCIAL INSTRUMENTS (INVESTMENTS)

Attachment 2

Classification of the International Investment Position according to types of investments:

Split into two parts as assets and liabilities, IIP consists of four functional investment categories and sub-categories in which the transactions are classified according to the investment type, as follows:

- **Direct investments**, classified:
 - according to the investment direction:
 - outward investments
 - investments in the Republic of Macedonia
 - according to the instruments:
 - equity and reinvested earnings
 - other capital
- **Portfolio investments**, divided into equity and debt securities
- **Other investments**, divided into: trade credits, loans, currencies and

deposits and other assets/liabilities; and

- **Reserves**, classified according to the types of instruments.

2.1. DIRECT INVESTMENTS

Attachment 3

Foreign Direct Investments

The Fifth Edition of the IMF Manual recommends the use of a minimum participation of 10% in the capital or voting right, as a criterion, which ensures international comparability of data. Accordingly, the distinction between a direct and portfolio investor is based on the percentage of owned shares and stakes in the company. Such methodological procedures for calculating foreign direct and portfolio investments are completely implemented also in the Republic of Macedonia. The main source of data on direct investments in the Republic of Macedonia are the annual questionnaires which the resident companies with foreign capital submit to the NBRM. The questionnaires contain data on the initial investment, realized financial result and the intercompany debt.

At the end of 2007, net foreign direct investments stood at Euro 2,499.2 million with a negative sign, having in mind that the liabilities to direct investors (in the amount of Euro 2,545.2 million), heavily exceed the assets on the basis of direct investments (of Euro 46.0 million). Relative to the last year, net liabilities on the basis of foreign direct investments went up by Euro 430.7 million, mainly as a result of the increased investments of the foreign investors (of Euro 446.6 million).

2.1.1. Direct investments in the Republic of Macedonia

The item foreign direct investments in the Republic of Macedonia, which is included on the side of the international liabilities in the IIP, consists of two major categories: equity and reinvested earnings; and (2) other capital, which contains the net intercompany debt of the related entities (calculated as a difference between the claims and liabilities mostly on the basis of credits and loans). The category other capital is presented on a net basis as a difference between the claims and liabilities on the part of the foreign investor in the relations with the company in the Republic of Macedonia in which the investment was made.

At the end of 2007, the amount of foreign direct investments in the Republic of Macedonia totaled Euro 2,545.2 million Euro, i.e. 44.0% of GDP. The share of foreign direct investments in the total international liabilities of the Republic of Macedonia at the end of 2007 was 50.0% (at the end of 2006 this share was 48%). Compared with the end of 2006, the amount of foreign direct investments in the country went up by 21.3%.

Table 3

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

Year	Total	Equity capital	Claims	Liabilities
1	2=3-4+5	3	4	5
1997	141.2	102.9	12.1	50.5
1998	270.4	219.5	12.8	63.7
1999	359.9	284.3	15.7	91.3
2000	580.1	497.7	16.9	99.3
2001	1,039.2	946.3	40.8	133.7
2002	1,160.7	1,056.6	46.3	150.5
2003	1,292.1	1,182.0	48.0	158.1
2004	1,610.2	1,366.1	36.7	280.8
2005	1,769.0	1,579.6	74.5	263.9
2006	2,098.6	1,863.3	80.9	316.1
2007	2,545.2	2,226.6	106.1	424.7

Source: National Bank of the Republic of Macedonia

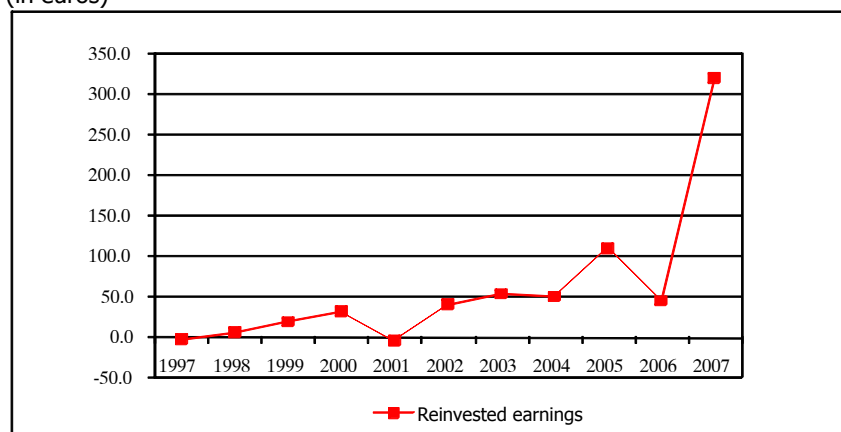
Equity and reinvested earnings

The analysis from a viewpoint of the individual components of foreign direct investments in the Republic of Macedonia shows the dominant share of the equity and reinvested earnings. At the end of 2007 this share equaled 87.5% (at the end of 2006 it was 88.8%). Expressed in absolute terms, at the end of 2007 the amount of the *equity and reinvested earnings* totaled Euro 2,226.6 million, which is by 19% more relative to the end of 2006. The increase is mostly a result of the extremely high positive financial result realized in 2007 by the companies with foreign capital, which was reinvested in the country in the form of reinvested earnings and increased the capital of the direct investors.

The analysis from a viewpoint of the distribution of the financial result by the companies with foreign capital shows that almost the entire realized financial result in the current year is distributed and paid in the form of dividends in the following years. Thus, for the period 1997-2006 the amount of the re-invested and undistributed earnings stood at Euro 356 million, i.e. as much at the amount of the paid out dividends for the period 1998-2007 (Euro 355 million).

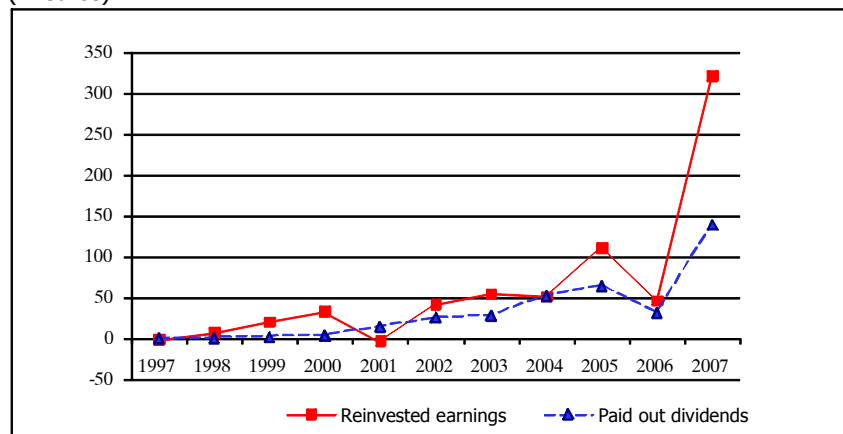
Figure 3

Re-invested and unallocated earnings of the companies with foreign capital
(in euros)



Source: National Bank of the Republic of Macedonia

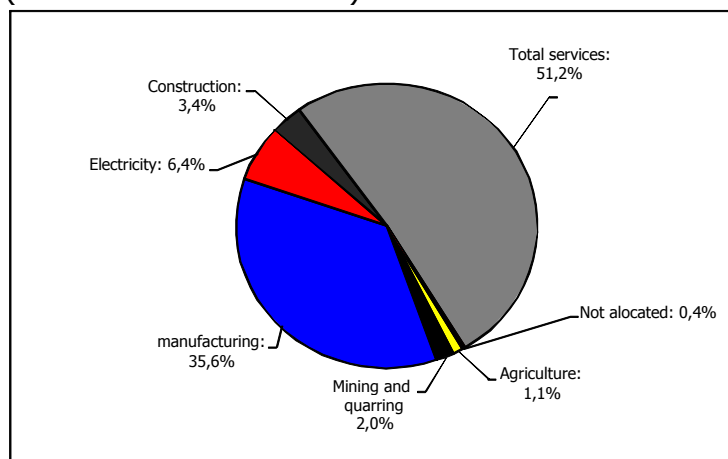
Figure 4
Re-invested and unallocated earnings and paid out dividends
(in euros)



Source: National Bank of the Republic of Macedonia

The analysis of foreign direct investments in the Republic of Macedonia by activity¹ indicates that foreign direct investments are mostly concentrated in the services (with a share of 51.2% in the total foreign direct investments at the end of 2007). Within services, dominant are the foreign direct investments in transport and communications (21.3%) and financial intermediation (12.6%). Of the total foreign direct investments in the country, 35.6% are located in production, most of which in the production of metal products (14.3%) and food products (6.8%).

Figure 5
Foreign direct investments in the Republic of Macedonia by activity
(shares at the end of 2007)



Source: National Bank of the Republic of Macedonia

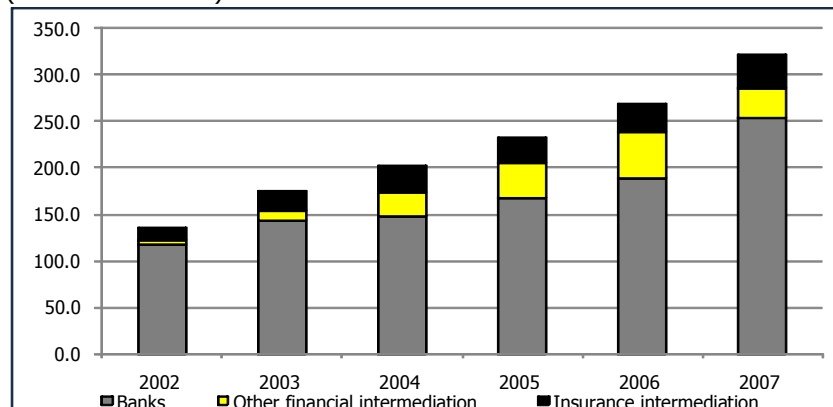
Within financial intermediation, foreign direct investments register a significant rise from Euro 11.5 million in 1997 to Euro 321.6 million at the end of

¹ The classification of the foreign direct investments by activity is made on the basis of the "Nomenclature statistique des Activités économiques dans la Communauté Européenne-NACE Rev1.1", prescribed by the European Union.

2007. Such rise was mostly a result of the higher foreign direct investments in the banking sector.

Figure 6

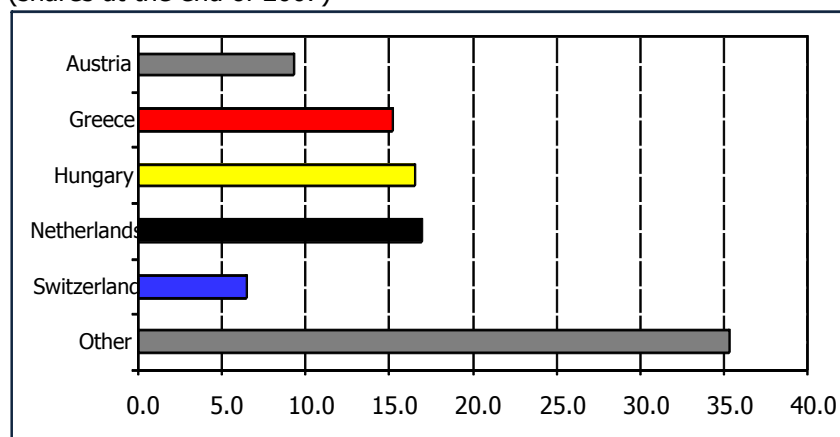
Foreign direct investments in the financial intermediation
(in millions of euros)



Source: National Bank of the Republic of Macedonia

The analysis of foreign direct investments in the Republic of Macedonia by country indicates that the largest portion of foreign direct investors come from: Holland, Hungary, Greece, Austria and Switzerland. These five countries cover 64.6% of the total foreign direct investments at the end of 2007. The individual analysis shows that the share of Holland is the largest equaling 16.9% (Euro 431.3 million), with the largest portion being allocated in the production (metal products and production of food products). Next are Hungarian investors, who invested Euro 421.3 million by the end of 2007, which is about 16.6% of the total foreign investments in the Republic of Macedonia. Foreign direct investments from Hungary are mostly allocated in transport and telecommunications. Third country on the list of the five largest investors is Greece, which as of end 2007 has invested Euro 387.1 million, or about 15.2% of the total foreign direct investments). The largest portion of the Greek direct investments is allocated in the production (refinement of oil derivatives), services sector (financial intermediation) and construction. Direct investments from Austria also have a relatively high share (9.3%, or Euro 238.2 million), mostly allocated in the electricity business (electricity supply), transport and communications (telecommunications) and production (production of gypsum). Direct investments from Switzerland total Euro 166.8 million and are mostly allocated in the production (production of metal products).

Figure 7
Foreign direct investments by country
(shares at the end of 2007)



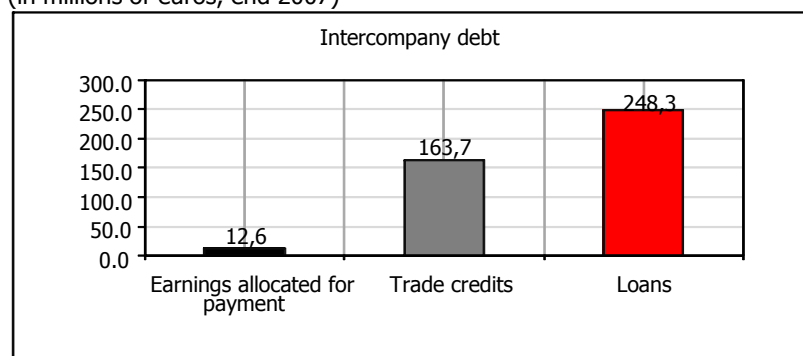
Source: National Bank of the Republic of Macedonia

Other capital

The other capital defined as a difference between the claims and liabilities of the foreign investor in the relations with the company in the Republic of Macedonia in which the investment is made, reached Euro 318.6 million at the end of 2007. Compared with end 2006, this category (net debt of entities mutually related on the basis of used loans and trade credits) registers a significant growth of around 35%. The share of the other capital in the amount of the foreign direct investments at the end of 2007 equaled 12.5% (at the end of 2006 this share was 11.2%). Thus, in the last two years foreign direct investors show a growing tendency of investing in the Republic of Macedonia in the form of loans that they extend to the companies in which they have invested.

The structure of the net debt of the related entities on the basis of used loans and trade credits may be analyzed from a viewpoint of the sources for its creation, as follows: (1) liabilities from financing (loans); (2) liabilities from commercial operations (trade credits); and (3) liabilities arising from the earnings allocated for payment, but still unpaid. The liabilities arising from financing (the loans) participate with the highest percentage of 58.5%, liabilities from commercial operations with 38.5%, while the liabilities for payment of the gain allocated for payment participate with 3.0% in the amount of the other capital at the end of 2007.

Figure 8
Components of the other capital (mutually related entities)
(in millions of euros, end 2007)



Source: National Bank of the Republic of Macedonia

2.1.2. Direct outward investments

Direct outward investments of the Republic of Macedonia are relatively small and at the end of 2007 they stood at Euro 46 million. Compared with the end of 2006, direct outward investments went up by around Euro 16 million. Regarding the structure, the largest portion of the direct outward investments belong to the equity and reinvested earnings (Euro 35 million), while the other capital (intercompany debt) covers around Euro 11 million.

2.2 .PORTFOLIO INVESTMENTS

Annex 4

Portfolio investments

Portfolio investments, in conformity with the recommendations of the Fifth Edition of the IMF Balance of Payments Manual, are defined as investments in debt and equity securities (except to those included in the foreign direct investments), traded on organized and other financial markets.

In the part of equity securities, the portfolio investments mean "passive" possession of securities, with their holder having no right for active participation in the management, or control over their issuer. Commonly, this means possession of securities the share of which is below 10% in the capital, or voting right.

In the part of debt securities, debit-credit relationship towards the security issuer is established. These securities, according to the maturity, are most commonly divided on: bonds and notes and instruments on the money market.

The outstanding amount of the portfolio investments on net basis has negative sign and at the end of 2007 they amounted to Euro 308.2 million. Such a situation is due to the significantly larger amount of liabilities than assets on the basis of portfolio investments. According to the end of 2006, the net liabilities based on portfolio investments went up by Euro 33 million.

2.2.1. Assets

The international assets based on portfolio investments of residents abroad are very small and at the end of 2007 they equaled Euro 3.0 million. They remained almost unchanged compared to the end of the preceding year. The low level of portfolio investments to abroad is due to the constant legal restrictions, having in mind that the portfolio investment of most of the residents from the non-bank sector abroad is not liberalized².

² See Law on the Foreign Exchange Operations about the level of liberalization of the portfolio investments abroad.

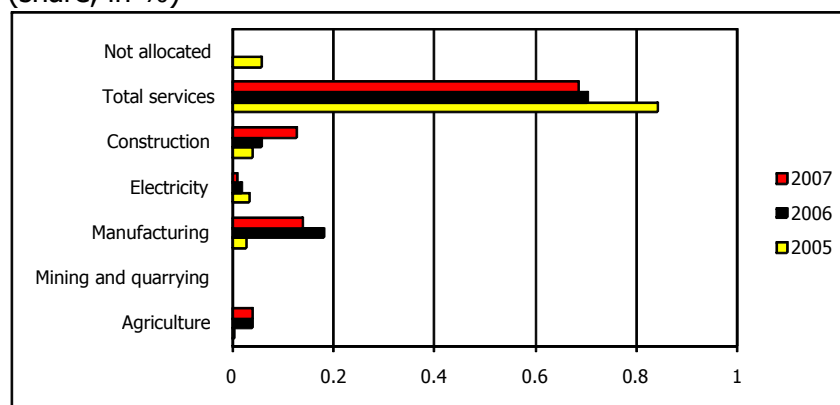
2.2.2. Liabilities

On the side of the international liabilities, in 2007 the portfolio investments continue to increase intensively. The total amount of the portfolio investments on the side of the international liabilities on December 31, 2007 amounts to Euro 311.2 million and it is by 12% higher compared to 2006. The investments of the non-residents in ownership and debt securities traded on the Macedonian Stock Exchange totaled Euro 161.2 million at the end of 2007 (Euro 128.3 million at the end of 2006), while the debt based on issued Eurobond amounted to Euro 150 million.

Equity securities

The liability based on portfolio investment arising from the purchased domestic equity securities by non-residents at the end of the year equaled Euro 132.6 million, i.e. by 53% more compared to the end of 2006. At the end of 2007, the equity securities participate with 43% the total amount of portfolio investments, which is by 12 percentage points more compared to the share in 2006.

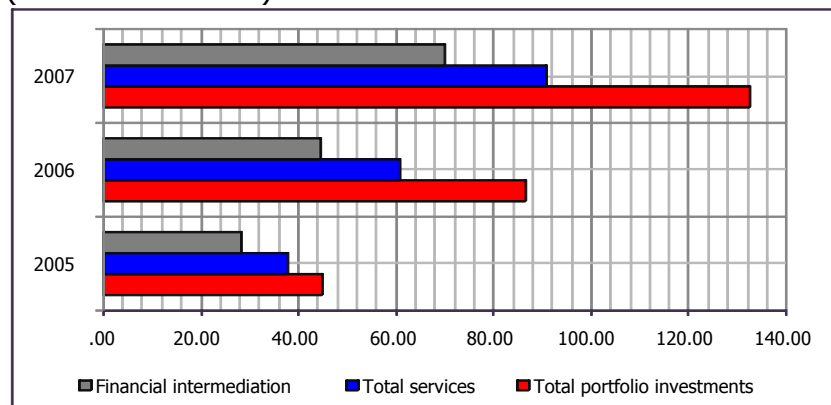
Figure 9
Portfolio investments (equity securities) in the Republic of Macedonia
(share, in %)



Source: National Bank of the Republic of Macedonia

Analyzed from the aspect of the activity where the portfolio investments (equity securities) are allocated in, the largest portion accounts for the portfolio investments in services sector, within which the largest part pertains to the banking sector. Thus at the end of 2007 Euro 90.8 million were invested in the services sector (about 70% of the total portfolio investments in form of equity securities), Euro 69.8 million of which in the financial intermediation activity. Total of Euro 18.5 million were invested in the manufacturing (the largest share of which in the production of chemicals and product thereof), and Euro 16.9 million in construction.

Figure 10
Structure in the portfolio investments in services sector
(in millions of euros)



Source: National Bank of the Republic of Macedonia

The fact that in 2007 significant rise in the portfolio investments in form of equity securities with the non-banking sector (increase of 12 times, or of Euro 65 million) should be emphasized.

Debt securities

The portfolio investments in the Republic of Macedonia consist of liabilities based on bonds issued by the Government, and owned by non-residents (including also the issued Eurobond). At the end of 2007, these portfolio investments amounted to Euro 178.7 million, with the debt based on government bonds issued in the country, and owned by non-residents equaled Euro 27.8 million (reduced by 31% compared to the end of 2006). The liabilities based on debt securities participate with 57% in the total liabilities based on portfolio investments at the end of 2007

2.3. OTHER INVESTMENTS

Other investments represent standard summary component in MIP occurring also on the side of both international assets and international liabilities. This component incorporates: (1) trade credits; (2) loans; (3) currencies and deposits; and (4) other assets/liabilities.

2.3.1. Trade credits

Trade credits denote claims or liabilities arising from commercial operating with non-residents i.e. all claims on buyers-nonresidents, i.e. liabilities to suppliers-non-residents based on purchase of goods and services such as: issued/received invoices for export/import of goods and services; collection/payments based on export/import of goods and services; issued/received advances based on goods and services; purchased/sold claims based on initially concluded commercial deal and taken over/retreated liabilities originating from initially concluded commercial deal. The data on this item are received from the quarterly report (KIPO) the companies submit to NBRM on a regular quarterly basis.

On December 31, 2007 net liabilities in the amount of Euro 137.3 million were registered with trade credits. Compared to the end of 2006, this is significant rise of the net liabilities based on commercial operations (in 2006, the net liabilities amounted to Euro 33.7 million). Such a situation is result of the higher rise in the liabilities (of Euro 212.4 million) compared to the growth in the rise of assets (of Euro 108.8 million).

2.3.1.1. Assets

The outstanding amount of the total claims based on trade credits equaled Euro 444.3 million at the end of 2007 (compared to the end of 2006, it equaled Euro 335.5 million). The increment in the assets of the other sectors on this basis in 2007 equaled 32%. Analyzed from the aspect of the maturity, almost the entire amount of trade credits is short-term, with regard that the claims based on long-term trade credits equal only Euro 0.7 million.

Table 4

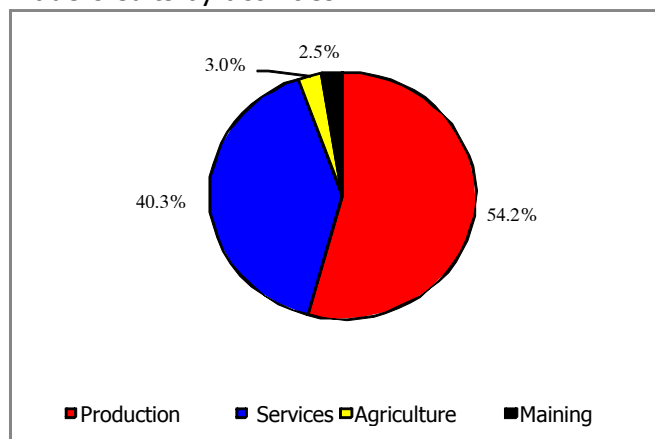
Outstanding amount of the short-term trade claims - structure by countries
(in millions of euros)

Country	Value	%
Serbia	96.3	21.7
Greece	41.5	9.4
Albania	31.7	7.2
United Arab Emirates	29.8	6.7
Germany	29.0	6.5
Bulgaria	24.0	5.4
United Kingdom	21.9	4.9
Croatia	20.5	4.6
Slovenia	17.7	4.0
Bosnia and Hercegovina	14.3	3.2
Other countries	116.7	26.3
Total	443.5	100.0

Source: National Bank of the Republic of Macedonia

The analysis of the claims based on trade credits by counties shows that the largest portion accounts for the claims from the partners from Serbia with a share of 21.7% in the total claims at the end of 2007. This corresponds with the data on the foreign trade according to which the largest part of the Macedonian products are exported to Serbia. There are also more significant claims based on trade credits from Greece and Albania.

Figure 11
Trade credits by activities



Source: National Bank of the Republic of Macedonia

The structure of the claims based on trade credits from the aspect of the activities of the companies having uncollected claims, at the end of 2007 is almost identical with the structure of the export of goods. Thus the largest portion of these claims are registered in the mechanical industry (Euro 89 million), in food industry (Euro 49 million), in oil and chemical industry (Euro 32 million), i.e. 54% are allocated in the production sector. The claims of the companies in the services sector participate with 40% in the total claims (mostly in trade, transport and hotel management).

2.3.1.2. Liabilities

The outstanding amount of the total liabilities based on trade credits at the end of 2007 amounts to Euro 581.6 million, which is significant increase of 57.5%) compared to the end of 2006. As in the case of the claims, the dominant share accounts for the short-term credits (they equal Euro 567 million). Such a high rise in the liabilities based on trade credits corresponds to the relatively high increase in the import of goods registered in 2007, i.e. the trade credits were mainly used for financing the imported goods from abroad.

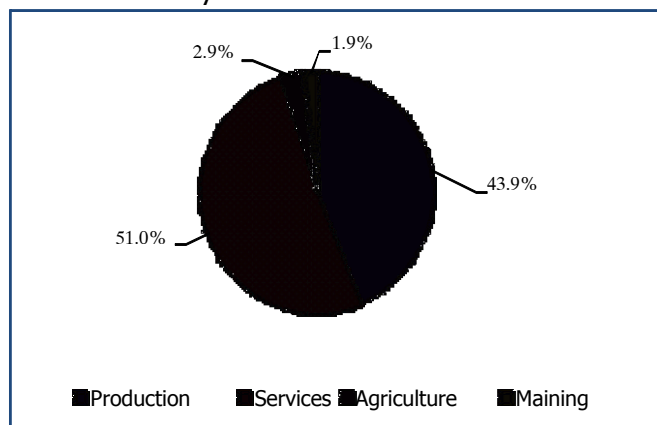
Table5
Outstanding amount of short-term trade liabilities - structure by countries

Country	Value	%
Grece	94.6	16.7
Serbia	67.8	12.0
Germany	44.6	7.9
Switzerland	43.2	7.6
Bulgaria	40.2	7.1
Slovenia	35.3	6.2
Austria	28.9	5.1
Italy	21.3	3.8
Poland	17.8	3.1
Croacia	15.7	2.8
Other countries	157.5	27.8
Total	567.1	100.0

Source: National Bank of the Republic of Macedonia

The analysis of the liabilities based on trade credits by countries shows that the largest participation accounts for liabilities to partners from Greece and Serbia, 29% of the total liabilities at the end of 2007 account for. The relatively high amounts of trade credits we also register with Germany, Switzerland and Bulgaria.

Figure 12
Trade credits by activities



Source: National Bank of the Republic of Macedonia

Analyzed from the aspect of the prevailing activity of the company, the biggest liabilities based on trade credits account for companies from the services sector (Euro 291 million), participating with 51% in the total liabilities at the end of 2007. The largest portion of them is allocated in trade (73%) and transport (12%). The companies from the manufacturing activity participate with 44% in the total liabilities (allocated mainly in the mechanical, oil and food industry).

2.3.2. Loans

The loans denote claims or liabilities arising from direct borrowing of financial assets (funds) by the debtor's creditor on the basis of credit agreement. The data on loans re obtained from the obligatory credit record maintained in NBRM.

Within the loan category, the Republic of Macedonia is traditionally a net debtor to abroad. Thus at the end of 2007, the net external debt based on loans amounted to Euro 1,353.1 million. Compared to the end of 2006, it decreased by Euro 52.3 million.

2.3.2.1. Assets

The outstanding amount of the claims based on loans extended to abroad by residents (banks and other sector) is relatively small and at the end of 2007 it amounts about Euro 3 million.

2.3.2.2. Liabilities

Liabilities based on used loans from abroad in 2007 continued to decrease (by Euro 51.5 million) and at the end of 2007 they reduced to Euro 1,355.8 million.

Analyzed from the aspect of maturity, the dominant share in the structure of used loans from abroad accounts for the long-term liabilities (a share of 96%). In comparison with the gross domestic product, at the end of 2007 this percentage equals 23.4%, i.e. 4.2% of the GDP less compared to the end of 2006.

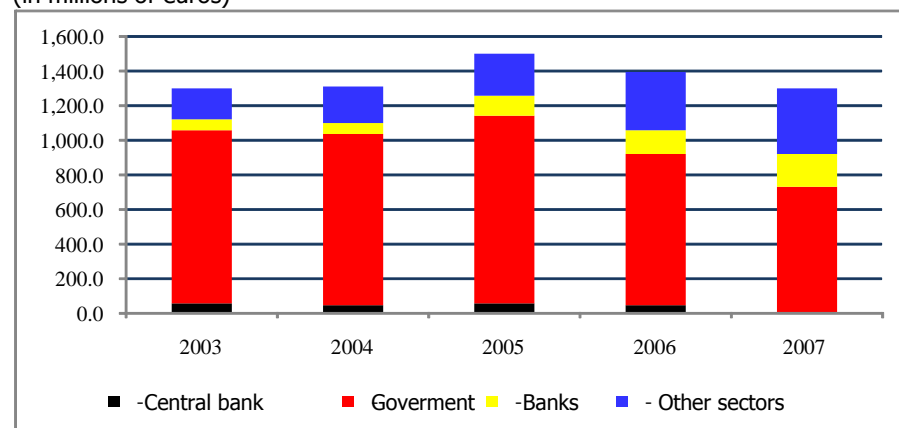
Table 6
Liabilities based on loans from abroad by debtors
(in millions of euros)

	2003	2004	2005	2006	2007
Short-term loans	25.9	21.1	64.5	11.7	55.8
-Centralna banka	0.0	0.0	0.0	0.0	0.0
-Banks	8.7	7.9	2.3	0.0	16.5
-Other sectors	17.2	13.3	62.2	11.7	39.3
Long-term loans	1,300.2	1,312.6	1,505.6	1,395.6	1,300.0
-Central bank	54.7	46.0	52.7	42.4	0.0
-Government	1,005.5	993.2	1,095.4	875.2	727.2
-Banks	64.0	57.6	108.8	146.3	199.8
-Other sectors	175.9	215.8	248.8	331.7	372.9
Total	1,326.2	1,333.8	1,570.1	1,407.2	1,355.8
GDP	4,105.0	4,324.5	4,676.0	5,081.3	5,782.3
Short-term loans/Total loans (%)	2.0	1.6	4.1	0.8	4.1
Long-term loans/Total loans (%)	98.0	98.4	95.9	99.2	95.9
Total loans/GDP(%)	32.3	30.8	33.6	27.7	23.4

Source: National Bank of the Republic of Macedonia

The debt based on used short-term loans from abroad at the end of 2007 is relatively small and equals Euro 56 million, with the largest part of which being concentrated in the remaining sectors (the government and the monetary authority register no debt based on short-term loans from abroad). Simultaneously, the liabilities based on long-term loans from abroad equal Euro 1,300 million, and they fell by Euro 96 million relative to the end of 2006. In 2007, the long-term liabilities based on used loans from abroad went up in the banks and other sectors, while these liabilities went down in the sector 'government'.

Figure 13
Long-term loans by sectors
(in millions of euros)



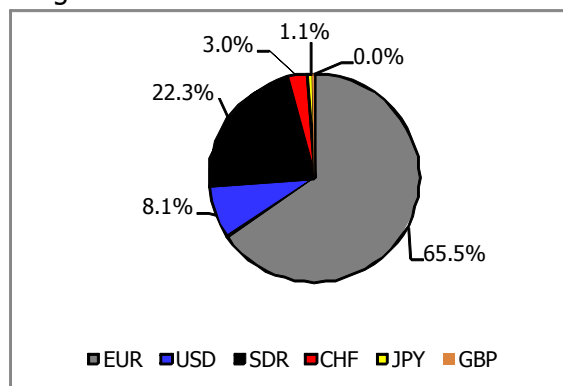
Source: National Bank of the Republic of Macedonia

Analyzed from the aspect of the currency structure of the external debt based on used loans from abroad, at the end of 2007 the largest portion of the debt is denominated in Euros (65% with the long-term and 95% with the short-term liabilities). The share of the debt denominated in special drawing rights

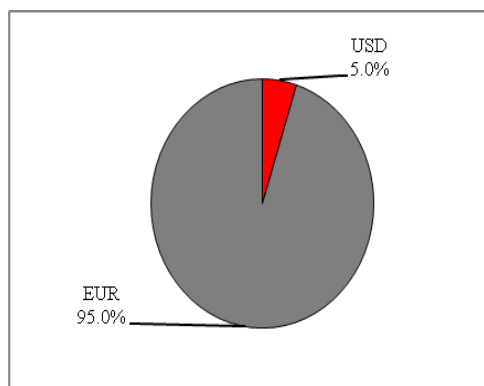
Figure 14-15

Debt currency structure based on loans (in %)

Long-term liabilities



Short-term liabilities



Source: National Bank of the Republic of Macedonia

According to the sector analysis, the liabilities of the sector "government" based on used loans from abroad at the end of 2007 amounted to Euro 727.2 million. In comparison with the end of 2006, this government debt reduced by Euro 147.9 million, as a result of the temporary repayment of the debt towards the Paris Club of Creditors and part of the debt to the International Bank for Reconstruction and Development (IBRD) and the European Investment Bank (EIB). Presented as a percentage of the GDP, the external debt of the Government based on used loans equals 12.6% at the end of 2007 (reduced by 4.6 percentage points relative to the end of 2006).

As a result of the early and full repayment of the liabilities to the International Monetary Fund (in the amount of Euro 32.8 million) in 2007, the National Bank of the Republic of Macedonia registers no liabilities based on used loans from abroad as of December 31, 2007.

Liabilities based on used loans from abroad by the banking sector at the end of 2007 equaled Euro 215.3 million, which is an increment of 48% compared to the end of 2006 (Euro 70 million). From the aspect of maturity, long-term loans dominate (with maturity over one year), which equal Euro 199.8 million (increased by Euro 53.5 million compared to 2006). Also the relative utilization of the short-term banks loans from abroad in 2007 should be emphasized, which was not the case in the previous years.

Table 7

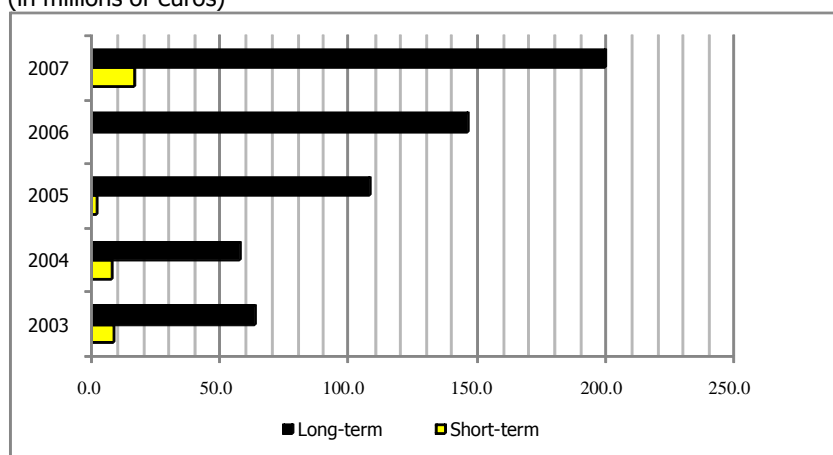
Liabilities based on loans from abroad from the banking sector
(in millions of euros)

	2003	2004	2005	2006	2007
Loans/banking sector	72.8	65.5	111.1	146.3	216.3
-Short-term	8.7	7.9	2.3	0.0	16.5
-Long-term	64.0	57.6	108.8	146.3	199.8
Total loans	1,326.2	1,333.8	1,570.1	1,407.2	1,355.8
Loans-banking sector/Total loans (%)	5.5	4.9	7.1	10.4	16.0
Loans-banking sector/GDP (%)	1.8	1.5	2.4	2.9	3.7

Source: National Bank of the Republic of Macedonia

Figure 16

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



Source: National Bank of the Republic of Macedonia

The liabilities based on used loans from abroad by other sectors in 2007 continued to grow (by 20%, or by Euro 69 million) and on December 31, 2007 they reached the level of Euro 412 million. Analyzed from the aspect of maturity, the largest portion are long-term liabilities (Euro 373 million), which is growth of Euro 41 million, while the amount of the short-term liabilities is relatively small (Euro 39 million - increase of Euro 27 million compared to the end of 2006).

Table 8

Used loans from abroad by other sectors
(in millions of euro)

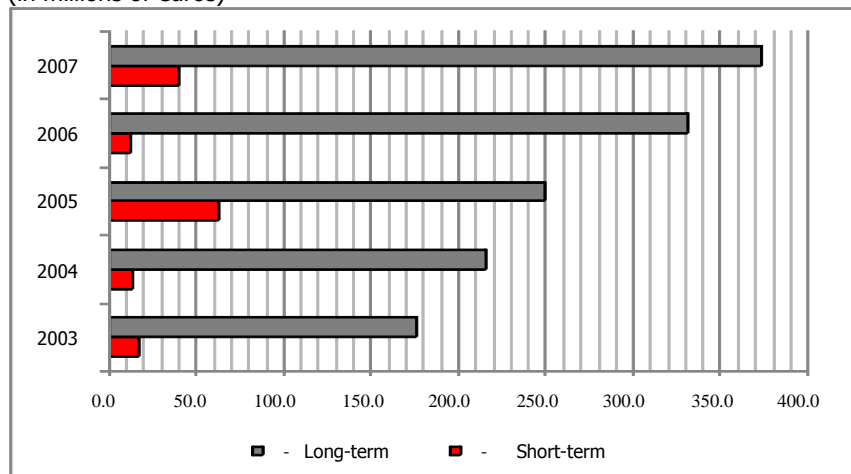
	2003	2004	2005	2006	2007
Loans-Other sector	193.2	229.1	311.0	343.3	412.2
-Short-term	17.2	13.3	62.2	11.7	39.3
-Long-term	175.9	215.8	248.8	331.7	372.9
Total loans	1,326.2	1,333.8	1,570.1	1,407.2	1,355.8
Loans-Other sector/Total loans (%)	14.6	17.2	19.8	24.4	30.4
Loans-Other sector/GDP (%)	4.7	5.3	6.7	6.8	7.1

Source: National Bank of the Republic of Macedonia

The share of the external debt of other sectors based on loans in the total liabilities based on used loans from abroad in 2003 - 2007 period registers

continuous increase (at the end of 2007 it equals about 30%). Also the share of this external debt in the GDP, which equaled 7.1% at the end of 2007, surged.

Figure 17
Short-term and long-term loans of other sectors
(in millions of euros)

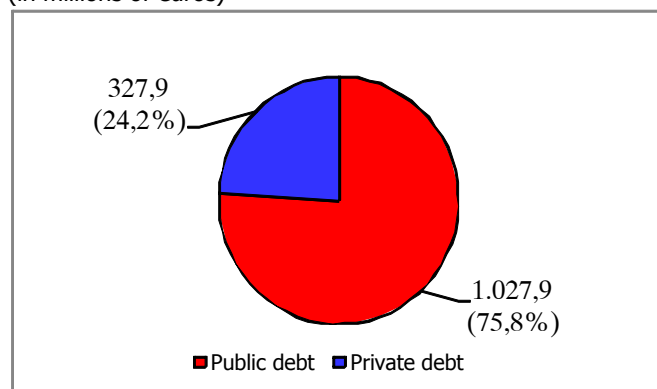


Source: National Bank of the Republic of Macedonia

Public and private debt based on used loans from abroad

The division into external debt based on used loans from abroad and private debt has been made from the aspect of the debtor's sector, which is set starting from its ownership structure (public and private sector). The public sector includes the Government, the National Bank and the public trade companies. The Government consists of public authority and their agencies i.e. Government units at all levels (central and local Government), social funds at all levels, all non-market non-profit institutions, which are mainly controlled, or financed by Government institutions³.

Figure 18
Division of used loans
(in millions of euros)



Source: National Bank of the Republic of Macedonia

³ Control denotes the possibility to determine the enterprise management policy, through appointing managers, through ownership over 50% of the equity, or through special act, decree, or regulation enabling the Government to determine the business policy or the appoint managing staff.

At the end of 2007, the public debt equaled Euro 1,027.9 million, which is 75.8% of the total debt based on loans, while the remaining 24.2% of the debt based on loans, i.e. in the absolute amount of Euro 327.9 million, account for the private sector. Presented as a percentage of the GDP, at the end of 2007 the public debt equals 17.8%, while the private one, 5.7%.

2.3.3. Currencies and deposits

The currencies are claims of their holders from the central bank that issued the banknotes and coins. The liabilities based on deposits are liabilities of the financial institutions having non-residents' deposits, while claims based on deposits occur on the basis of deposited assets with non-resident financial institutions by residents.

On a net basis, on the basis of this instrument, the domestic banks are net creditors to the rest of the world. Namely, the net claims of the sector "banks" based on currencies and deposits at the end of 2007 equals Euro 475.2 million. Compared to the end of 2006, when they equaled Euro 546.5 million, decline of Euro 71.4 million was registered. Such movements are result of the decrease in the assets (of about Euro 22 million), given simultaneous increment of liabilities (of Euro 49 million).

2.3.3.1. Assets

The currency and the deposits on the side of the assets include: (1) foreign currencies managed by the residents; (2) foreign currency deposits not included in the gross foreign reserves; (3) domestic banks' deposits held abroad; and (4) deposits of the residents from the non-bank sector held abroad.

The external assets based on currencies and deposits of residents at the end of 2007 totaled Euro 637 million, which is drop of Euro 22 million compared to the end of 2006. The largest portion of this amount (97%) accounts for the foreign assets the banks held abroad, with these assets registering moderate decrease of Euro 21 million in 2007. The legal restrictions for maintaining assets of the entities from the non-banking sector on accounts abroad should also be taken into consideration⁴.

2.3.3.2. Liabilities

The currencies and deposits on the side of the liabilities consist of: (1) liabilities to nonresidents possessing domestic currency; and (2) liabilities based on deposited assets of non-residents with domestic banks. At the end of 2007, the external liabilities based on deposits of non-residents in domestic banks equal Euro 162 million. According to the end of 2006, these liabilities augmented by Euro 49 million, thus continuing the trend of their increase (in the 2003 - 2007 period, the non-residents' deposits cumulatively went up by Euro 107 million).

⁴ See Law on Foreign Exchange Operations.

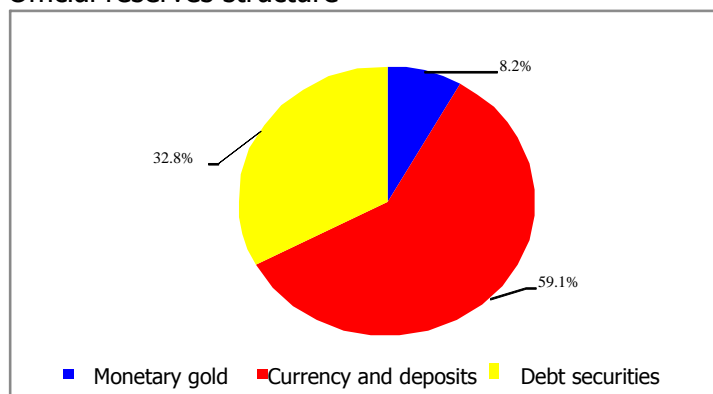
2.3.4. Other assets and liabilities

Other claims and liabilities occur as a result of the debt instruments that are not included in the previous groups of instruments. Primarily, overdue liabilities and overdue claims based on extended and used foreign credits are presented in this item. At the end of 2007, the outstanding amount of other assets equals Euro 28 million, while the outstanding amount of other liabilities equal Euro 131 million. Compared to the end of 2006, the other assets register minimal rise of Euro 2 million, and the remaining liabilities increase of Euro 46 million.

2.4. INTERNATIONAL OFFICIAL RESERVES

The international official reserves equaled Euro 1,524 million at the end of 2007, i.e. by 8% more compared to the end of the preceding year. Analyzed by components, at the end of 2007 the largest portion of the international official reserves accounts for the deposits abroad (share of 59%) and investments in foreign debt securities (share of 33%). The share of the monetary gold in the total international official reserves equals about 8%.

Figure 19
Official reserves structure



Source: National Bank of the Republic of Macedonia