



**International Investment Position
of the Republic of Macedonia for 2014**

September 2015

Information on the International Investment Position of the Republic of Macedonia for 2014

General remarks

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

Beside presenting the stock and structure of claims and liabilities from/to nonresidents, the international investment position (IIP) report is used to calculate the net international investment position of the country (and individual 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 net position of individual institutional sectors, and the change in the sectors' preferences to use certain types of financial instruments to fund their needs. 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 compilation of international investment position, as indicator for the financial position of the country and its integration in the global economic flows, is a requirement nowadays, as confirmed by the increasing monitoring of these indicators since the onset of the global economic crisis.

IIP compilation requires various data sources 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 2014

At the end of 2014, the Republic of Macedonia was a net debtor to the rest of the world, with a negative net international investment position of Euro 4,549 million, or 53.3% of GDP. As of 31 December 2014, the Republic of Macedonia holds non-resident financial assets of Euro 4,634 million and financial liabilities to non-residents of Euro 9,183 million.

Compared with the end of 2013, the negative international investment position slightly decreased by Euro 9.4 million (0.2% on an annual basis). The increase of assets of Euro 551.6 million exceeds the annual growth of liabilities by Euro 542.2 million.

The growth of assets acts towards reducing net debt position. All types of financial instruments, with the exception of direct investments, registered an annual growth. With respect to the structure by financial instrument, foreign reserves still prevail (with Euro 2,436.5 million or 52.6% of total assets). During 2014, official reserves increased by Euro 443.5 million, mostly (Euro 408.9 million) due to

transactions with non-residents¹, with Euro 34.6 million being due to price and exchange rate changes. Claims from commercial operations, i.e. trade credits and advances (18.2% of total assets or Euro 842.7 million) are an important instrument on the assets side, with an annual increase of Euro 112.4 million. Currency and deposits account for 13.5% (or Euro 623.6 million), with significant annual growth of Euro 83.7 million. At the end of 2014, assets from direct investments amounted to Euro 475.6 million, or 10.3% of total assets (amid dominant share of claims from debt instruments in their structure - 75.7% of assets from direct investments), and during 2014, they decreased by Euro 142.2 million. Portfolio investments amounted to Euro 155 million (3.3% of total assets) at the end of 2014 and the annual growth of Euro 47.3 million mainly results from investment activities of other financial institutions in foreign financial markets, mainly in equity and stock/shares in investment funds. Loans equal Euro 98.2 million (2.1% of total assets), amid moderate annual growth of Euro 6.9 million, mainly based on foreign exchange gains.

During 2014, liabilities increased by Euro 542.2 million, with the most pronounced growth in portfolio investments and loans. Analyzing the IIP composition by instrument, direct investments still have a predominant share of Euro 4,378.3 million (47.7% of total liabilities), which in 2014 decreased by Euro 107.4 million. The fall of direct investments in 2014 reflects the fall in the stock of equity and reinvested earnings (of Euro 232.1 million), only partially netted by new debt through debt instruments, among entities in direct investment relationship (of Euro 124.8 million). Loans are the second most important financial instrument on the liabilities side (accounting for 32.9% of total liabilities), which at the end of 2014 amounted to Euro 3,024.4 million, with an annual increase of Euro 141.3 million. The stock of liabilities from portfolio investments reached Euro 776.6 million (or share of 8.5% in total liabilities), and the higher share and significance of this instrument for financing reflects the high annual growth (of Euro 523.5 million), primarily due to the issuance of the third Eurobond by the government. Liabilities from trade credits and advances from non-residents amounted to Euro 763.4 million (8.3% of total liabilities), which in 2014 dropped by Euro 9.8 million. Currency and deposits, other equity and special drawing rights are less important financial instruments on the liabilities side, aggregately making up 2.6% in total external liabilities.

The analysis in terms of institutional sectors shows that changes in all sectors during 2014 resulted in decreasing the negative net IIP, except the general government sector.

The general government sector is a net debtor to the rest of the world, where during 2014 its negative net IIP increased by Euro 510.9 million. Higher liabilities fully reflect the increased liabilities from debt securities (by Euro 522 million), whereas liabilities from other financial instruments decreased.

During 2014, other sectors reported a lower negative net IIP, by Euro 36.1 million. Liabilities dropped by Euro 18.2 million, with the reduction of liabilities from direct investments (of Euro 143.8 million) being significantly offset by the growth of loan liabilities (of Euro 128.9 million). Assets register an annual growth of Euro 17.9 million, mainly due to increased assets from trade loans and advances (Euro 112.4 million) and portfolio investments (Euro 46.2 million), almost entirely netted by the fall of direct investments (about Euro 142.2 million).

¹ A significant part of accumulation of reserve assets is associated with the proceeds from the issuance of the third Eurobond by the government in July 2014.

In 2014, the sector of deposit-taking corporations, except the central bank also reported a decrease in the negative net IIP of Euro 45.6 million. The decrease of assets of Euro 84.3 million mainly results from the increased claims on currency and deposits (by Euro 83.6 million). The rise of Euro 38.7 million of depository-taking corporations' liabilities mainly reflects the increased liabilities based on direct investments (of Euro 36.4 million) and loans (of Euro 15.8 million), vis-à-vis the lower liabilities based on currency and deposits (by Euro 10.7 million).

The central bank is the only institutional sector that is a net lender to the rest of the world. In 2014, the net IIP increased by Euro 438.5 million, mainly due to the higher foreign reserves on the assets side, without significant changes being registered on the liabilities side.

Net international investment position of individual countries ¹⁾

Country	2013		2014		Differences	
	in billions of Euros	% of GDP	in billions of Euros	% of GDP	IIP, net (in billions of Euros)	% of GDP (p.p.)
Euroarea	-1,467.6	-14.7	-1,397.1	-13.8	70.5	0.9
Greece	-220.4	-120.8	-218.3	-121.9	2.1	-1.1
Croatia	-38.5	-88.3	-38.1	-88.5	0.3	-0.2
Bulgaria	-30.8	-75.1	-30.5	-72.5	0.4	2.6
Romania	-89.0	-61.7	-85.4	-56.9	3.6	4.8
Slovenia	-16.6	-46.1	-16.3	-43.6	0.3	2.5
Hungary	-84.5	-84.1	-76.0	-73.6	8.6	10.5
Macedonia	-4.6	-56.2	-4.5	-53.3	0.0	2.9
Serbia	-30.9	-90.1	-32.9	-99.6	-2.0	-9.4
Kosovo ²⁾	0.4	6.8	0.3	5.4	-0.1	-1.4
Turkey ²⁾	-285.2	-46.1	-359.4	-59.2	-74.2	-13.1
USA	-3,865.3	-30.6	-5,772.8	-44.0	-1,907.5	-13.4

¹⁾ Data have been presented under the BPM6 Methodology.

²⁾ GDP data for 2014 is estimated data of the IMF.

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

The comparative analysis of net IIP between the Republic of Macedonia and other countries, mainly from the region, indicates that more pronounced increase in the negative net international investment position (expressed as % of GDP) was reported in the United States, Turkey and Serbia, while Hungary and Romania reported a decrease of the net IIP to GDP ratio. During 2014, the net IIP to GDP ratio for the euro area decreased by 0.9 percentage points.

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

- Compared with other countries, the United States reported the highest growth of the negative net IIP (13.4 percentage points of GDP) mainly determined by the growth of liabilities on portfolio investments.

- Greece reported lower negative international investment position as a result of the increase in assets and decline in liabilities, though the net IIP to GDP ratio increased by 1.1 percentage points. On the assets side, portfolio investments made the greatest positive contribution, which is almost entirely netted by the fall of currencies and deposits. Analyzing liabilities, the growth of loans is netted by the fall of currency and deposits, and direct and portfolio investments.

- Turkey reported an increased negative international investment position of 13.1 percentage points, resulting from the growing liabilities (of Euro 99.6 billion), compared to the growth of assets (of Euro 25.4 billion). On the liabilities side, all instruments increased the net debt position, with the largest contribution made by

direct and portfolio investments, and loans. Significant change on the assets side is the growth of foreign reserves and direct investments.

- Croatia reported a slight decrease in the negative net IIP, amid almost identical increase of assets and liabilities. However, expressed as % of GDP, net IIP rose by 0.2 percentage points. Significant positive contribution was made by direct investments on the sides of both assets and liabilities.

- Bulgaria reported lower negative net IIP of 2.6 percentage points of GDP, amid almost balanced growth of assets and liabilities. On the assets side, there are significant changes in currency and deposits, and in foreign reserves. The increase in liabilities arises from the increasing direct and portfolio investments, and loans.

- Serbia reported higher net negative IIP of 9.4 percentage points of GDP. The growth on the liabilities side is faster mainly due to the increase in direct and portfolio investments. On the assets side, the increase reflects the rise in other investments, significantly offset by the fall of foreign reserves.

Net direct investments, by country

Country	2013		2014		Differences 2014 - 2013
	DI, net		DI, net		in p.p.
	in mill. EUR	% of GDP	in mill. EUR	% of GDP	("-" Increase)
Bulgaria	-33,922.4	-82.6	-34,895.8	-83.1	-0.4
Greece	10,039.0	5.5	10,602.1	5.9	0.4
Cyprus	-14,465.0	-79.8	-13,370.0	-76.4	3.5
Kosovo ¹⁾	-2,668.9	-50.1	-2,786.9	-50.5	-0.5
Macedonia	-3,867.9	-47.7	-3,902.7	-45.7	1.9
Romania	-59,340.0	-41.1	-60,981.0	-40.6	0.5
Slovakia	-38,967.6	-52.9	-41,381.5	-55.0	-2.1
Slovenia	-3,718.0	-10.4	-4,814.9	-12.9	-2.6
Serbia	-20,793.0	-60.7	-21,966.7	-66.4	-5.8
Turkey ¹⁾	-83,311.4	-13.5	-110,436.8	-18.2	-4.7
Hungary	-42,236.7	-42.0	-41,984.5	-40.7	1.3
Croatia	-18,640.4	-42.8	-20,237.8	-47.0	-4.2

¹⁾ GDP data for 2014 is estimated data of the IMF.

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

The comparative analysis of the stock of net direct investments of Southeast European countries points to Bulgaria, Serbia and Cyprus (over 65%) as countries with the highest share of net foreign direct investments in GDP. Macedonia, along with Romania, Hungary, Croatia and Kosovo are countries with share that ranges from 40% to 55%, while in Slovenia and Turkey, this share is relatively lower and equals 12.9% and 18.2%. Greece is the only country with net claims on direct investments (5.9% of GDP).

During 2014, many countries reported an increase in net liabilities from direct investments, with significant increase in net liabilities as a percentage of GDP being reported by Serbia, Turkey and Croatia. Besides Macedonia, in 2014, Cyprus and Hungary recorded lower share of more than 1 percentage point.

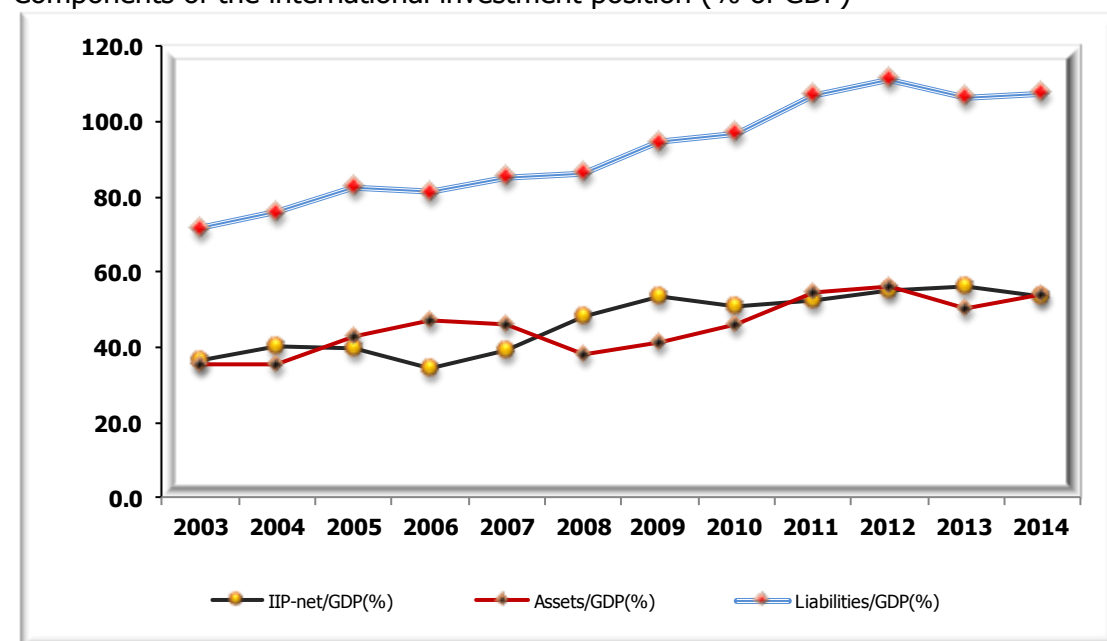
ANNEX TABLES AND CHARTS

Table 1
International investment position for 2003-2014
(in millions of euros)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
IIP - net	-1,599.7	-1,846.2	-1,990.8	-1,887.5	-2,401.2	-3,265.1	-3,612.5	-3,629.5	-3,965.8	-4,177.6	-4,558.4	-4,549.0
Assets	1,546.9	1,629.5	2,161.8	2,565.8	2,799.0	2,579.8	2,785.5	3,258.4	4,113.2	4,257.5	4,082.5	4,634.0
Liabilities	3,146.6	3,475.7	4,152.6	4,453.3	5,200.2	5,844.9	6,398.0	6,887.9	8,079.0	8,435.1	8,640.8	9,183.0
GDP	4,385.9	4,577.7	5,031.9	5,472.3	6,094.6	6,772.0	6,766.8	7,108.8	7,544.2	7,584.9	8,112.0	8,533.3
IIP-net/GDP(%)	-36.5	-40.3	-39.6	-34.5	-39.4	-48.2	-53.4	-51.1	-52.6	-55.1	-56.2	-53.3
Assets/GDP(%)	35.3	35.6	43.0	46.9	45.9	38.1	41.2	45.8	54.5	56.1	50.3	54.3
Liabilities/GDP(%)	71.7	75.9	82.5	81.4	85.3	86.3	94.6	96.9	107.1	111.2	106.5	107.6

Source: National Bank of the Republic of Macedonia, State Statistical Office

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



Source: National Bank of the Republic of Macedonia, State Statistical Office

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

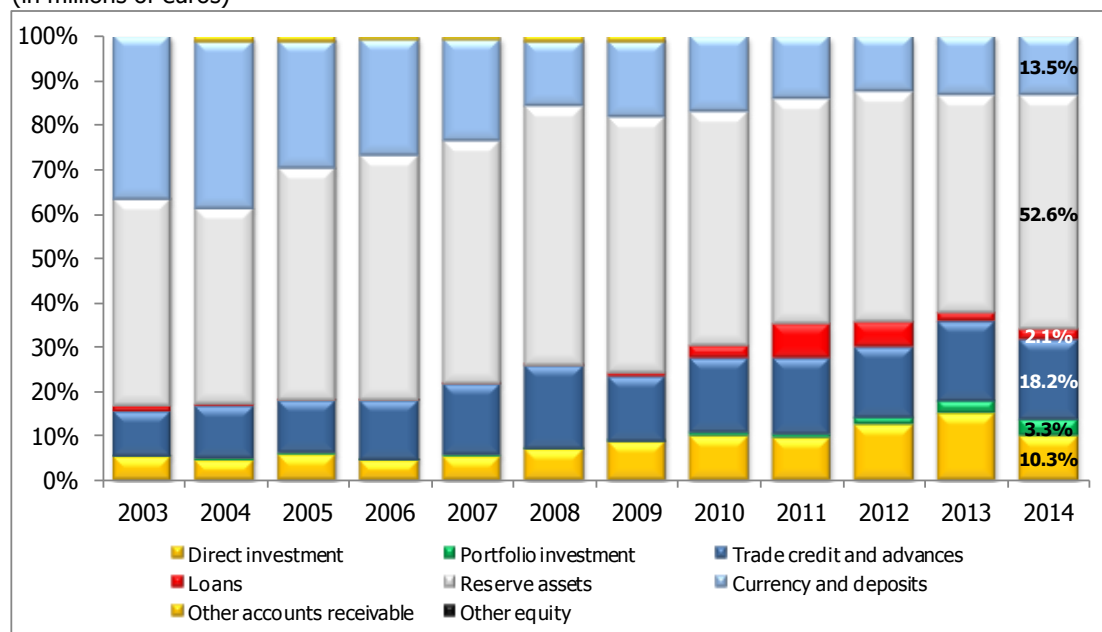
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
IIP, net - General government	-1,027.0	-1,016.5	-1,282.8	-1,065.6	-897.7	-906.3	-1,055.8	-1,067.8	-1,417.4	-1,539.9	-1,561.0	-2,071.9
IIP, net - Central bank	693.4	673.3	1,073.3	1,382.6	1,532.5	1,486.9	1,526.7	1,638.8	1,991.8	2,095.8	1,920.4	2,358.9
IIP, net - Deposit-taking corporations, except central bank	270.5	335.5	254.6	131.2	-51.7	-363.9	-361.5	-416.8	-420.6	-536.6	-580.1	-534.5
IIP, net - Other sectors	-1,536.7	-1,838.5	-2,035.9	-2,335.8	-2,984.3	-3,481.8	-3,721.9	-3,783.8	-4,119.5	-4,196.8	-4,337.6	-4,301.6
IIP, net	-1,599.7	-1,846.2	-1,990.8	-1,887.5	-2,401.2	-3,265.1	-3,612.5	-3,629.5	-3,965.8	-4,177.6	-4,558.4	-4,549.0

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

Annex 1

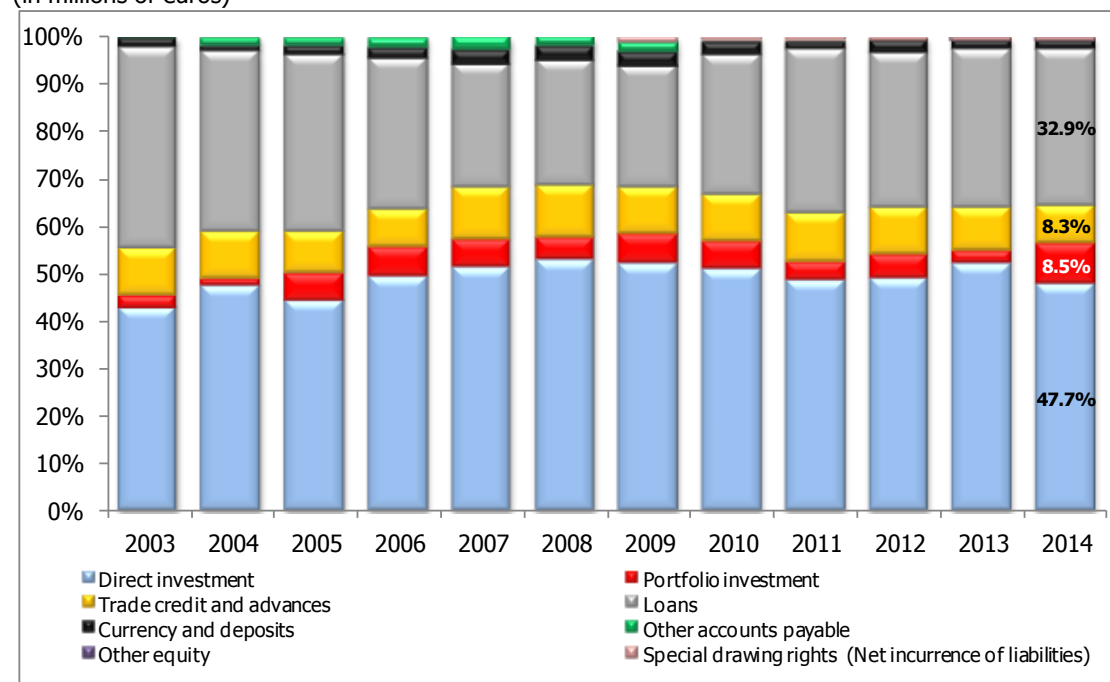
Classification of the international investment position, by type of investment:

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

Annex 2

Foreign 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%).

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

Portfolio investment:

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).

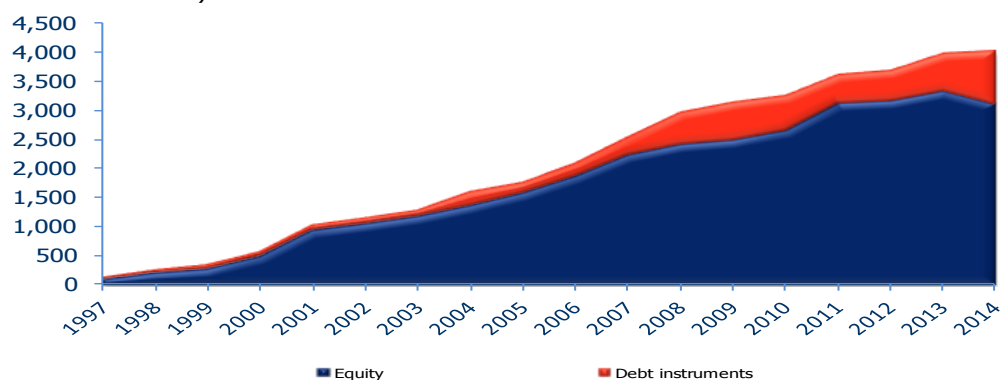
Table 3: Stock of the foreign direct investments in the Republic of Macedonia
(in millions of euros)

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	141.2	102.9	0.0	0.0	102.9	50.5	12.1	0.0	38.3
1998	270.4	219.5	0.0	0.0	219.5	63.7	12.8	0.0	50.9
1999	359.9	284.3	0.0	0.0	284.3	91.3	15.7	0.0	75.6
2000	580.1	497.7	0.0	0.0	497.7	99.3	16.9	0.0	82.3
2001	1,039.2	946.3	0.0	0.0	946.3	133.7	40.8	0.0	92.9
2002	1,160.7	1,056.6	0.0	0.0	1,056.6	150.5	46.3	0.0	104.1
2003	1,292.1	1,182.0	0.0	0.0	1,182.0	158.1	48.0	0.0	110.2
2004	1,610.2	1,366.1	0.0	0.0	1,366.1	280.8	36.7	0.0	244.1
2005	1,769.0	1,579.6	0.0	0.0	1,579.6	263.9	74.5	0.0	189.4
2006	2,098.6	1,863.3	0.0	0.0	1,863.3	316.1	80.9	0.0	235.2
2007	2,545.2	2,226.6	0.0	0.0	2,226.6	424.7	106.1	0.0	318.5
2008	2,968.8	2,407.4	0.0	0.0	2,407.4	675.3	114.0	0.0	561.3
2009	3,141.4	2,481.3	0.0	0.0	2,481.3	830.1	170.0	0.0	660.1
2010	3,256.0	2,642.5	0.0	0.0	2,642.5	860.3	246.9	0.0	613.5
2011	3,615.1	3,110.2	0.0	0.0	3,110.2	789.5	284.5	0.0	504.9
2012	3,685.5	3,148.9	0.0	0.0	3,148.9	980.1	443.4	0.0	536.7
2013	3,980.0	3,311.6	0.0	4.7	3,316.3	1,143.3	479.7	0.0	663.7
2014	4,023.6	3,079.4	0.0	4.8	3,084.2	1,085.2	296.5	150.8	939.5

Source: National Bank of the Republic of Macedonia

Chart 4

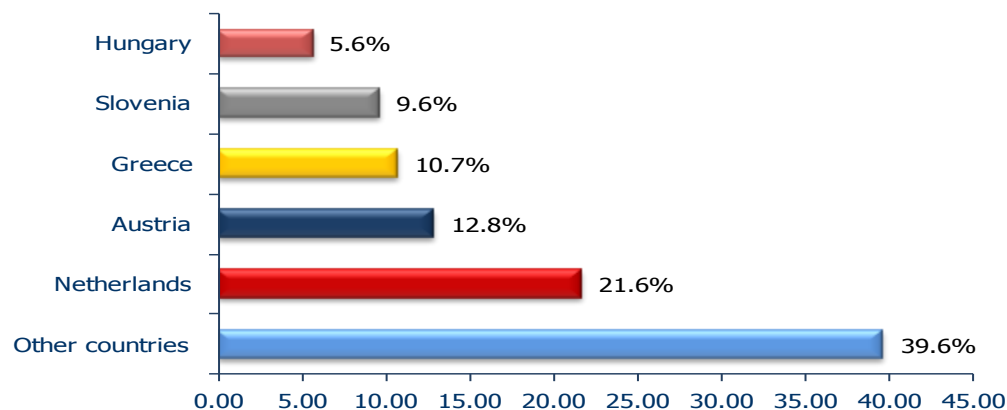
Foreign direct investments in the Republic of Macedonia
(in millions of euros)



Source: National Bank of the Republic of Macedonia

Chart 5

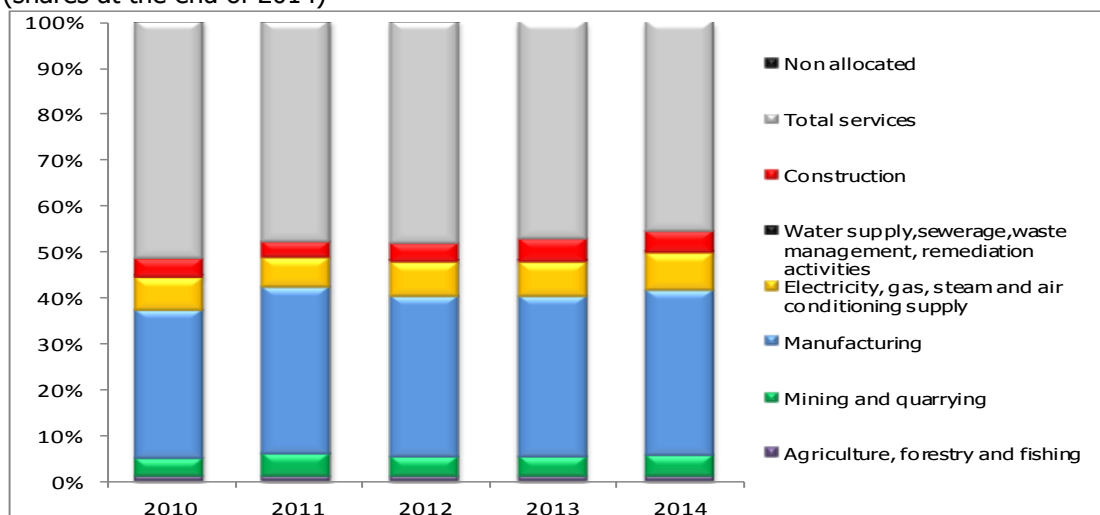
Foreign direct investments in the Republic of Macedonia, by country of foreign investors
(shares at the end of 2014)



Source: National Bank of the Republic of Macedonia

Chart 6

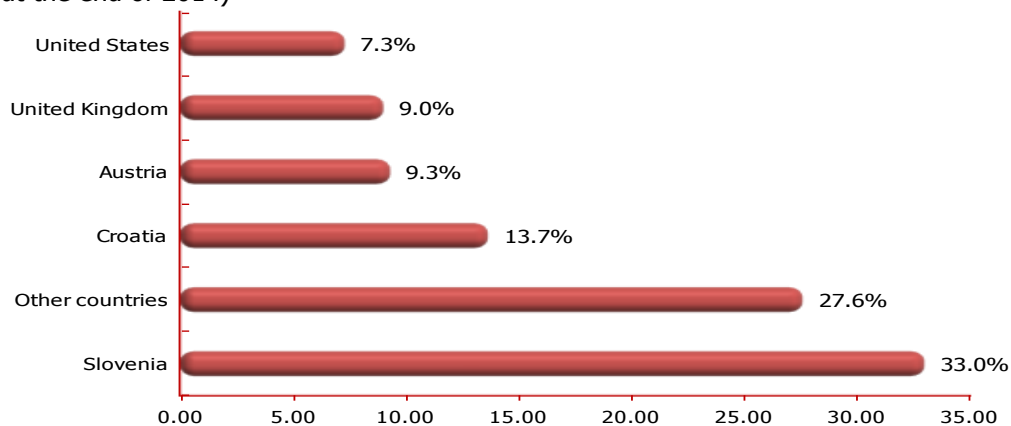
Foreign direct investments in the Republic of Macedonia, by activity
(shares at the end of 2014)



Source: National Bank of the Republic of Macedonia

Chart 7

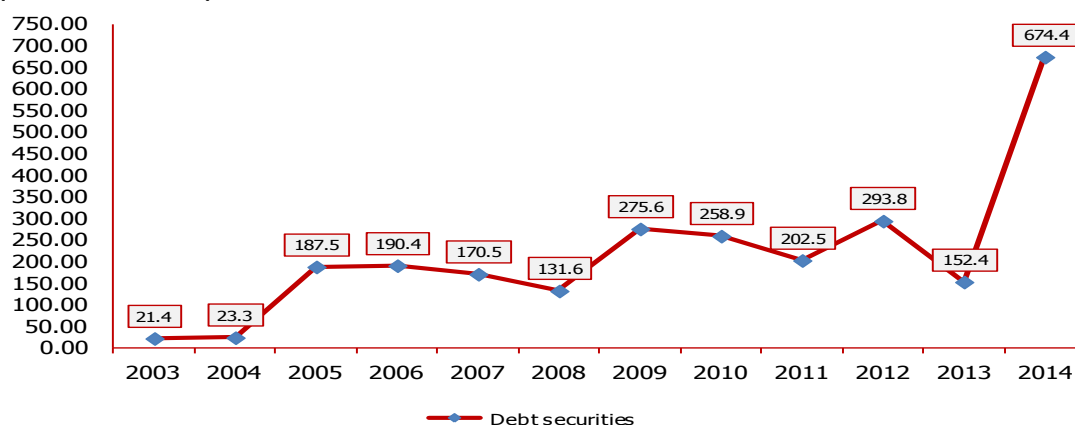
Portfolio investments, by country - liabilities - equity securities
(shares at the end of 2014)



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)



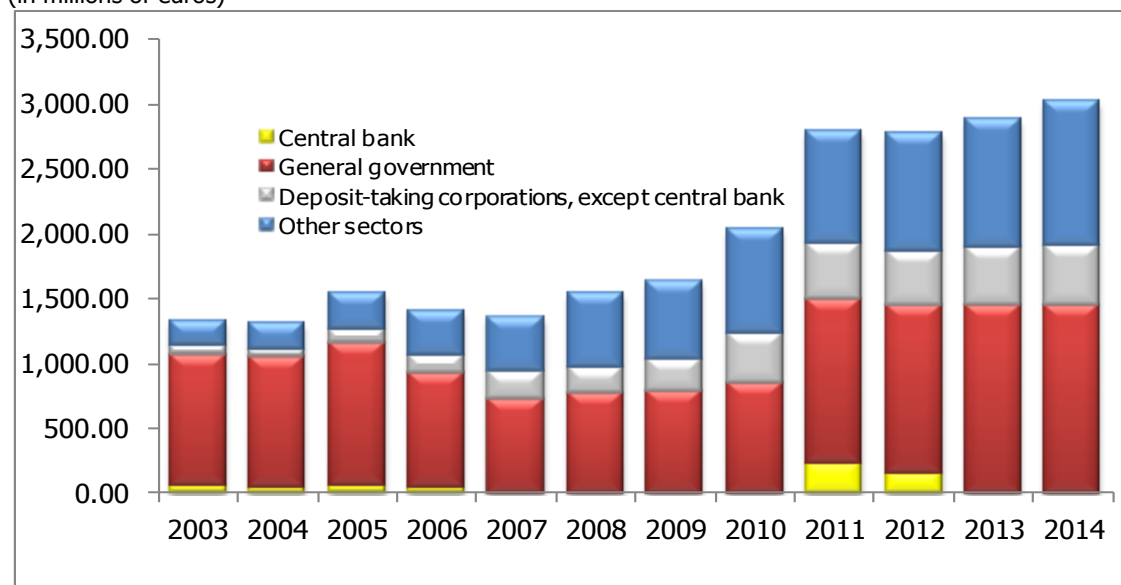
Source: National Bank of the Republic of Macedonia

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	2014
Short-term Loans	25.9	11.8	54.3	11.7	55.8	14.9	47.6	72.0	258.2	214.0	48.8	54.0
- Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	232.5	157.6	0.0	0.0
- Deposit-taking corporations, except central bank	8.7	7.0	1.3	0.0	16.5	0.0	40.0	3.7	0.0	0.0	0.0	0.0
- Other sectors	17.2	4.8	53.0	11.7	39.3	14.9	7.6	68.3	25.7	56.5	48.8	54.0
Long-term Loans	1,300.2	1,302.6	1,488.6	1,395.6	1,299.9	1,532.0	1,583.1	1,956.5	2,527.7	2,557.8	2,834.3	2,970.5
- Central bank	54.7	46.0	52.7	42.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- General government	1,005.5	993.2	1,095.4	875.2	727.2	771.2	777.6	852.6	1,256.8	1,292.9	1,453.2	1,449.8
- Deposit-taking corporations, except central bank	64.0	55.8	106.4	146.3	199.8	201.1	220.1	379.3	430.7	420.2	440.9	456.8
- Other sectors	175.9	207.6	234.1	331.7	372.9	559.7	585.4	724.6	840.2	844.8	940.2	1,063.8
Total Loans	1,326.2	1,314.4	1,542.9	1,407.2	1,355.8	1,546.9	1,630.7	2,028.5	2,785.9	2,771.8	2,883.1	3,024.4
GDP	4,385.9	4,577.7	5,031.9	5,472.3	6,094.6	6,772.0	6,766.8	7,108.8	7,544.2	7,584.9	8,112.0	8,533.3
Short-term Loans/Total Loans (%)	2.0	0.9	3.5	0.8	4.1	1.0	2.9	3.5	9.3	7.7	1.7	1.8
Long-term Loans/Total Loans (%)	98.0	99.1	96.5	99.2	95.9	99.0	97.1	96.5	90.7	92.3	98.3	98.2
Total Loans/GDP (%)	30.2	28.7	30.7	25.7	22.2	22.8	24.1	28.5	36.9	36.5	35.5	35.4

Source: National Bank of the Republic of Macedonia, State Statistical Office

Chart 9
Liabilities based on loans from abroad, by debtor
 (in millions of euros)



Source: National Bank of the Republic of Macedonia