

METHODOLOGICAL EXPLANATIONS

1. METHODOLOGICAL EXPLANATIONS FOR EXTERNAL STATISTICS

External statistics are a sublimation of several individual statistical surveys for compiling, processing and disseminating data on stocks and/or transactions with non-residents, such as Balance of Payments, Direct Investments, International Investment Position, Official Foreign Reserves, Gross External Debt and Gross External Claims.

Within its continuous efforts for alignment with the international statistical standards and producing internationally comparable data, the National Bank of the Republic of North Macedonia primarily focuses its activities on harmonization with the international standards and applying the latest manuals in the area of Balance of payments, Foreign direct investments, Gross external debt and claims, as well as Official foreign reserves statistics.

1.1 Harmonization with the European and international statistical standards

The harmonization of statistical reports on external statistics is achieved through the implementation of international manuals and EU Regulations and their incorporation in the national statistics.

The international manuals applied for compiling and processing the data are the following:

- Balance of Payments and International Investment Position Manual (BPM6), 2009, IMF;
- International Reserves and Foreign Currency Liquidity: Guidelines for a Template, IMF 2013;
- External Debt Statistics: Guide for Compilers and Users, IMF, 2013;
- OECD Benchmark Definition of Foreign Direct Investment 4th edition BD4;
- Regulation (EC) No 184/2005 of the European Parliament and of the Council;
- Commission Regulation (EC) No 601/2006, implementing Regulation (EC) No 184/2005;
- Commission Implementing Regulation (EU) No 228/2014, amending Regulation (EC) No 601/2006;

The following classifications apply for compiling and processing the data from these surveys:

- National activity classification - compatible with NACE Rev.2
- National classification of institutional sector - compatible with ESA 2010;
- ISO country and currency codes.

The national legislation defining the scope of data compiled for the needs of external statistics is consistent with the Law on the National Bank of the Republic of North Macedonia (Official Gazette of the Republic of Macedonia No. 158/10, 123/12, 43/14, 153/15, 6/16 and 83/18 and Official Gazette of the Republic of North Macedonia No. 110/21) and the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia No. 34/01, 49/01, 103/01, 51/03, 81/08, 24/11, 135/11, 188/13, 97/15, 153/15 and 23/16 and Official Gazette of the Republic of North Macedonia No.110/21). Residency of institutional units is defined under the Law on Foreign Exchange Operations, where natural persons staying temporarily in the Republic of North Macedonia on the basis of a valid residence permit or work permit for a period of at least six months are treated as residents of the country¹.

The **reporting units** are legal entities and natural persons that have economic transactions with non-residents, and depending on the type of transactions, are obliged to report on their claims on and liabilities to non-residents, based on debt instruments, capital investments from and to abroad, claims on and /or liabilities to non-residents based on other financial instruments etc. The reporting on transactions with non-residents can be direct (by the resident reporting units) and indirect (performed by other entities that have at their disposal information on particular types of transactions).

1.2 Dissemination and revision policy

1.2.2 Dissemination policy

The data on external statistics are disseminated in accordance with the Advance Release Calendar (available on the NBRNM's website - http://nbrm.mk/kalendar_na_objavuvanje_na_podatoci-en.nspix).

The methodologies on external statistics are also disseminated on the website of NBRNM.

1.2.3 Revision Policy

The data are revised on a regular annual basis, within a period of T+270 days after the end of the reporting year.

Additionally, if needed, revisions of disseminated data can be done more frequently in the following cases:

- provision of new, updated and / or corrected information and data from the reporting units; or
- data source changes or changes in the methodology for the compilation of a specific statistical survey.

In accordance with the international recommendations for any significant data changes during the revisions, an adequate explanation is given in a footnote or in a press releases.

The historical time series data is revised from the moment of occurrence of the event that led to change in data, or if not applicable, for the longest possible time period back

¹ Such definition of residency of natural persons and its application in the process of creating statistical data is an exception to the recommendation given in the international statistical standards, according to which a criterion for determining residency is a stay or intention to stay in a country for a period of one year or more.

forward. If there is a change in the presentation of data (publication of a new indicator - sector, instrument, etc.), the historical time series is revised beginning from the moment of introducing the new indicator, if appropriate conditions exist for this matter.

FOREIGN EXCHANGE SECTOR

Table no. 18-23 BALANCE OF PAYMENTS

Balance of payments is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of the Republic of North Macedonia with the rest of the world. "Transactions" in BOP include only transactions between residents and nonresidents arising on the basis of mutual agreement and involve exchange of value or transfer.

According to the Law on the National Bank of the Republic of North Macedonia and the regulations in the area of foreign exchange operations, the National Bank of the Republic of North Macedonia (NBRNM) is responsible for compiling and monitoring of the execution of the Balance of Payments.

The data are disseminated (issued) on a quarterly basis, in millions of euros and U.S. dollars. The transactions which are denominated in other currencies are converted in euros and U.S. dollars equivalent to the exchange rate on the day of the transaction.

The main sources of data for compiling the balance of payments are the following:

- the single administrative document (SAD) for the foreign trade of the Republic of Macedonia;
- the system for reporting on the banks' international payment operations (ITRS);
- the system for reporting on the external debt and claims (from the credit indebtedness);
- the banks' reports on the stock of assets and liabilities (the banks' report on the deposit money banks book keeping stock);
- the monthly reports on stocks and flows (changes and stocks) on the accounts abroad of the residents which are not authorized banks and the stock and flow on settlement accounts (monthly reports-MR);
- additional NBRNM's reports on the official foreign exchange reserves stock of the Republic of Macedonia;
- data from the annual direct investment survey - VS 11 and VS 22;
- quarterly reports for realized and planned financial result for the current year (KVS);
- survey on debt/claims takeovers among residents and nonresidents (POZ);
- quarterly reports on claims and liabilities based on international commercial operations of residents (KIPO form);
- reports for stocks and flows data on investments in equity and investment fund shares (VHV-1) and reports for stocks and flows data on investments in debt securities (VHV-2).

Convention on the use of signs in the Balance of Payments

In the current and capital account, credits and debits are presented with a positive sign, while in the financial account, increase in assets and liabilities is presented with a positive sign, while decrease is presented with a negative sign.

Table 1. Convention on the use of signs

	BPM6
<i>Current and capital account</i>	
Credit	+
Debit	+
Net	(Credit - Debit)
<i>Financial account</i>	
<i>Assets</i>	
Increase	+
Decrease	-
Net	(Increase + Decrease)
<i>Liabilities</i>	
Increase	+
Decrease	-
Net	(Increase + Decrease)
<i>Financial account: Net lending (+) / net borrowing (-)</i>	<i>(Assets - Liabilities)</i>

Institutional sectors

Institutional units are grouped into institutional sectors. The classification in institutional sectors applies only to the resident units. The institutional sectors classification has the same sectors and subsectors as the SNA 2008², but with higher level of aggregation.

The resident units are classified within the following sectors and subsectors:

- Central bank
- *Monetary authorities*
- General government
- Deposit-taking corporations, except central bank
- Other sectors, divided to:
 - Other financial corporations and
 - Nonfinancial corporations, households, and NPISHs.

The **Central bank** is the National Bank of the Republic of Macedonia.

The **General government** sector includes unique kinds of legal entities established by political processes and has legislative, judicial, or executive authority over other institutional units within a given area. The Government sector consists of the following subsectors: Central government, Local government and Social security funds.

Deposit-taking corporations, except central bank have financial intermediation as their principal activity. To this end, they have liabilities in the form of deposits or financial instruments that are close substitutes for deposits. This sector includes all banks that were granted a founding and operating license by the Governor of the National Bank of the Republic of Macedonia, as well as branches of foreign banks that were granted a license by the Governor

² System of National Accounts 2008, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, United Nations, World Bank, 2009 (<https://unstats.un.org/unsd/nationalaccount/sna2008.asp>).

of the National Bank of the Republic of North Macedonia to open offices and to operate on the territory of the Republic of Macedonia.

Other financial corporations consist of non-deposit financial corporations and other financial auxiliaries, as well as insurance corporations and pension funds.

Nonfinancial corporations, households, and NPISHs: Nonfinancial corporations are corporations (public or private) whose principal activity is production of market goods or nonfinancial services. A household is defined as a person or a group of persons who share the same living accommodation, who pool some or all of their income and wealth, and who consume certain types of goods and services collectively. NPISHs are entities mainly engaged in providing goods and services to households or the community at large, free of charge or at prices that are not economically significant.

Methodological notes for separate items of Balance of Payments

CURRENT ACCOUNT

Goods

The main source of data on the foreign trade of the Republic of North Macedonia is the SAD, which is prepared by the Customs Administration of the Republic of Macedonia, and processed and published by the State Statistical Office of the Republic of North Macedonia and the NBRNM.

In accordance with the methodology on recording foreign trade in the trade statistics, the State Statistical Office publishes exports data on f.o.b. basis, and imports data on c.i.f. basis.

Adjustment for the coverage and classification are made for goods item in the balance of payments in line with the recommendations given in the BPM6, especially regarding the following:

- coverage: regarding the return of goods and the goods that are imported/exported by migrants;

- classification: regarding the c.i.f./f.o.b. factor and processing of goods. In the balance of payments, both the exports and the imports are presented on f.o.b. basis, because of which an adjustment of the c.i.f. imports for c.i.f./f.o.b. factor is necessary. In the period from 1993 to 1997, the c.i.f./f.o.b. factor was determined on the basis of the average internationally set rates for calculation of these expenses. Since 1998, the c.i.f./f.o.b. factor is calculated on the basis of established methodology based on the SAD data on transport and insurance of the parities with a destination in the Republic of North Macedonia adjusted to the overall imports.

Additional component of the goods account is the item goods under merchanting. The main source of data for this item is the ITRS. Merchants' margins are recorded on the export side, by recording the acquisition of goods by merchants as a negative export of the economy of the merchant and the sale of goods as a positive export of the economy of the merchant.

Services

Manufacturing services on physical inputs owned by others: main data source for this item is the Single Administrative Document (SAD) for the foreign trade of the Republic of Macedonia.

Transportation: The data that refer to transportation are taken from the ITRS and the monthly reports (MR). There is a possibility to make a desegregation by the type of transport (air, sea, railway and road), and on the basis of the category of services (freight, passengers and other). The adjustment is made for the outflow of transportation services (transport of goods) regarding the c.i.f./f.o.b. factor that refers to the costs of transport of goods provided by non-residents.

Travel: The data originate from the ITRS and the monthly reports (MR).

Other services: The data are taken from the ITRS for receipts from and payments to non-residents on the basis of type of services: construction, insurance services, financial services, charges for the use of intellectual property, telecommunications, computer, and information services, other, business services, personal, cultural, and recreational services and government services. An adjustment is made for the insurance outflow regarding the c.i.f./f.o.b. factor that refers to the costs insurance of the transport of goods. An adjustment is made in financial intermediation services, by redistribution of part of Other Investment Income, on the basis of the calculation of exports and imports of financial intermediation services indirectly measured (FISIM). Additional source of data for certain types of services are the data from the monthly reports – MR.

Primary income

The primary income as a balance of payments' component originates from compensation of employees (residents employed with non-residents and vice versa) and investment income. Investment income represents a capital gain from direct investment, portfolio investment, other investment and reserve assets.

Direct investment income: The data include dividends and distributed branch profits, as well as reinvested earnings and undistributed branch profits (for the direct investments in the R. Macedonia), as well as data on intercompany lending. Dividends for the current year are recorded at the moment of their payment/receipts, while for the previous years (starting from 2012) dividends are recorded when declared payable. Major data source for the receipts and payments of dividends is the ITRS. Main data source for reinvested earnings and dividends declared payable for the previous years is the annual direct investment survey. The reinvested earnings for the current year are estimated on the basis of the results from the quarterly reports for realized and planned financial result for the current year (KVS).

Within the direct investment income, dividends and interest are presented separately depending on the type of direct investment: direct investor in direct investment enterprises, reverse investment (direct investment enterprises in direct investor) or between fellow enterprises.

Portfolio investment income: this item includes dividends on equity excluding investment fund shares, investment income attributable to investment fund shareholders and interest. Until 2015, data source for the payments and receipts of dividends is the ITRS. Starting from January 2015, data source for the receipts of dividends is the reports for stocks and flows data on investments in equity and investment fund shares (VHV-1). Data on interest include interest receipts on residents' investments in foreign debt securities and interest payments on nonresidents' investments in domestic debt securities. Data source is the ITRS and the reports for stocks and flows data on investments in debt securities (VHV-2).

Other investment income: The data include received and paid interest on the deposits, as well as accrued interest on short-term and long-term loans. The data sources are

the ITRS and the system for reporting on the external debt and claims, for loans which are obligatorily recorded in the NBRNM. An adjustment is made in the interest from deposits and loans item, by redistributing part of this income in the financial services item, on the basis of the calculation of exports and imports of financial intermediation services indirectly measured (FISIM).

Reserve assets: this item includes accrual interest from investments in foreign debt securities within the reserve assets, as well as interest receipts from deposits within the reserve assets. Main data sources are the NBRNM reports for official reserve assets.

Secondary income

General government transfers mainly refer to the assistance in financial assets and goods received by foreign governments and international organizations. The source of data on the transfers in financial assets is the ITRS, while on the transfers in goods it is the customs administration documents. Additional source of data for the previous years on the item current taxes on income and wealth is the annual direct investment survey VS 22.

Transfers to the sector financial corporations, nonfinancial corporations, households, and NPISHs consist of personal transfers (current transfers between resident and nonresident households), and other transfers (cash exchanged, current taxes on income and wealth, social benefits, social contributions, nonlife insurance premiums and claims). Main data sources are the ITRS and the single administrative document (SAD), for the transfers in goods. According to the BPM6, cash exchanged on the exchange market should be classified in the capital and financial account of the balance of payments. However, considering the fact that the largest part of these assets originates from residents' receipts from non-residents based on provided goods and services (unrecorded transactions) and transfers received in cash foreign currency, these transactions are recorded as a part of the balance of payments' current account (secondary income).

CAPITAL ACCOUNT

This account encompasses gross acquisitions/disposals of nonproduced nonfinancial assets and capital transfers, on a gross basis, for which the main data sources are the system for reporting on the banks' international payment operations (ITRS) and the system for reporting on the external debt and claims.

FINANCIAL ACCOUNT (NET LENDING/NET BORROWING)

Direct investment: Direct investments are recorded on an assets and liabilities basis. Within this category, the investments are recorded separately as investments from direct investor in direct investment enterprises, reverse investments and investments between fellow enterprises. The direct investments include equity, reinvestment of earnings and debt instruments. Debt instruments consist of trade credits, loans and other debt instruments between affiliates. Debt claims and liabilities between deposit corporations and other financial intermediaries (except insurance corporations and pension funds) are excluded from the debt instruments within the direct investments category and are included in the appropriate financial instrument.

The source of data on the investment in financial assets is the system for reporting on the banks' international payment operations (ITRS), while on the investment in goods it is the single administrative document (SAD) for the foreign trade of the R. Macedonia. For the current

year, data on reinvested earnings are estimated on the basis of data from the quarterly reports on realized and planned financial result for the current year (KVS) and on the basis of the reports on realized financial result for the previous year (VS 11 and VS 22). Data for the previous years are revised on a yearly basis, on the basis of the data from the annual direct investment survey (VS 22). Loans within debt instruments are based on the system for reporting on the external debt and claims (NDNP), while the trade credits are based on the quarterly reports on claims and liabilities based on international commercial operations of residents (KIPO form). Data on other claims and liabilities between affiliated entities are based on the survey on debt/claims takeovers among residents and nonresidents (POZ) and the annual direct investment survey (VS 11 and VS 22).

Portfolio investment: Up to 2015 data, the source of data on the portfolio investments - assets is the ITRS. Starting from January 2015, the source of data are the reports for stocks and flows data on investments in equity and investment fund shares (VHV-1) and reports for stocks and flows data on investments in debt securities (VHV-2). The main source of data on the portfolio investments - liabilities is the ITRS.

Other investment:

Other equity: Other equity is comprised of investments, below 10%, that are not in the form of securities. Main data source is the ITRS.

Currency and deposits: The data primarily refer to the changes in the foreign exchange assets and foreign exchange liabilities of the banks. The sources of data include the bank's monthly reports on the deposit money banks' book-keeping stock and the ITRS. The changes in foreign exchange assets and foreign exchange liabilities of the banks are showed with partial exclusion of valuation changes. The changes of foreign exchange assets of individuals include net cash deposited on foreign exchange accounts with the banks, reduced for the imports of goods by the individuals. The source of data for net cash deposited on foreign exchange accounts with the banks is the ITRS and for the imports of goods, it is the SAD. Additional source of data on currency and deposits for other sectors are data for transactions made through the accounts held abroad by the other sectors units, for which the NBRNM has issued an approval in accordance with the positive laws (monthly reports – MR).

Loans: The "loans" category includes disbursements and amortization on short-term and long-term loans. The data are based on the reports on medium-term and long-term public and private external debt prepared by the NBRNM, which are obligatory recorded in the NBRNM.

Trade credits and advances: Short-term trade credits and advances (as net liabilities for trade credits extended to and received from foreign countries) represent a differential between the exports/imports of goods and services and the corresponding settlements. The estimated data on the trade credits are derived from the foreign trade data in the administration customs documents and the corresponding settlements from the ITRS, as well as from the monthly reports for settlement accounts-MR. If the value of exported goods is higher than the value of receipts on exports, the difference is recorded as an extended trade credit. If the value of imported goods is higher than the payments on imports, the difference is recorded as a received trade credit.

Data source on the long-term trade credits is the system for reporting on the external debt and claims (NDNP).

Reserve assets: Transactions are calculated as changes in the stock of the particular components of reserve assets, excluding price changes and exchange rate differentials. The sources of data are the reports of the NBRNM.

Table no. 24 and 25 Foreign trade

The source of the data regarding the foreign trade is the State Statistical Office of the Republic of Macedonia. The data on the international trade of goods of the Republic of North Macedonia is prepared in accordance with the main statistical standards, definitions and recommendations of the UN regarding the concepts and definitions of the foreign trade statistics. The data relating to the exports are published on f.o.b., while those relating to the imports, on c.i.f. basis.

Table no. 26 and 27 Stock of foreign direct investment

The calculation and dissemination of foreign direct investment (FDI) data worldwide is based on the methodological recommendations of the Balance of Payments and International Investment Position Manual, sixth edition (BPM6), 2009, IMF and The OECD Benchmark Definition of Foreign Direct Investment-third edition, 4th Edition, OECD. According to the International and European standards, direct investments **stock** data include assets and liabilities based on:

- Equity (including reinvestment of earnings) and
- Debt instruments, which cover assets and liabilities between affiliated entities from abroad, as follows:
 - Loans between affiliated entities,
 - Trade credits and advances between affiliated entities,
 - Assets and liabilities between affiliated entities based on other debt instruments.

For the subcategory **equity**, annual surveys for inward and outward direct investments (VS - 22 for inward investments and VS 11 for outward investments) are used as main data source.

In methodological terms, the reinvestment of earnings includes:

- Portion of gain allocated to capital;
- Portion of gain allocated to reserves;
- Portion of gain allocated to cover losses from previous period;
- Unallocated gain; and
- Uncovered loss.

For the subcategory **debt instruments** the following data sources are used:

- for loans between affiliated entities, data are used from the reporting system on external debt and claims (EDEC),

- for trade credits and advances between affiliated entities, data are used from the quarterly reports on the claims and liabilities on the basis of international commercial operations of residents (KIPO Form),
- for other assets and liabilities between affiliated entities, the survey on debt/claims takeovers among residents and nonresidents (POZ), as well as the annual reports for inward and outward investments (VS 22 and VS 11) are used as a data source.

Table no. 28 and 29 International investment position

International Investment Position is a statistical report that presents the stock and structure of financial claims (assets) of residents on non-residents and the financial liabilities of residents to non-residents, arising from their operations. In other words, the IIP is a balance sheet of the international financial assets and liabilities of a country on a specific date.

This statement allows the evaluation of the financial state of the country, as well as the economic integration of the domestic economy at an international level.

The international financial assets of the country comprise of claims from direct and portfolio investments, investments in financial derivatives, other investments (in the form of other equity, currency and deposits, loans, insurance, pension and standardized guarantee schemes, trade credit and advances and other accounts receivable), as well as official reserve assets.

The international financial liabilities of the country comprise of liabilities based on direct and portfolio investments, investments in financial derivatives, liabilities based on other investments (in the form of other equity, currency and deposits, loans, insurance, pension and standardized guarantee schemes, trade credit and advances, other accounts payable and the allocation of special drawing rights).

The difference between the total international financial assets and liabilities presents the net-international investment position of a country.

IIP components

IIP contains standard components, classified in three levels:

The first level of classification is Assets and Liabilities.

The second level of classification is by functional categories, fully consistent with the financial account of the balance of payments. In accordance with this classification, the assets and liabilities are divided into Direct Investments, Portfolio Investments, Financial Derivatives (other than reserves) and Employee Stock Options, Other Investments and Reserve Assets (on the assets side only).

1. Direct investments reflect the purpose of achieving long-term interest relationship between the direct investor (resident in one economy) and the direct investment enterprise (resident in another economy). Direct investments consist of investments by which the investor achieves long-term economic relationship and/or the right to manage the direct investment enterprise. Thereby the direct investments are defined in accordance with international recommendations and standards that require minimum 10% capital share (direct or indirect). Despite the initial investment, direct investments include all subsequent investments between the direct investor and the direct

investment enterprise. This category also includes reverse investments and investments between fellow enterprises (below 10%). Direct investments consist of Equity and investment fund shares (including Reinvestment of Earnings) and Debt instruments arising from intercompany lending between affiliated entities. Debt claims and liabilities between deposit corporations and other financial intermediaries (except insurance corporations and pension funds) are excluded from the debt instruments within the direct investments category and are included in the appropriate financial instrument.

2. *Portfolio investments* include investments in equity and investment fund shares, where the investor's share is less than 10%, and debt securities.
3. *Financial derivatives* (other than reserves) *and employee stock options* are financial instruments which involve specific financial risks linked to another underlying financial instrument or indicator or commodity and which can be traded independently from the underlying instrument on the financial markets. The value of a financial derivative derives from the price of the underlying financial instrument.
4. *Other investments* contain assets and liabilities based on other equity, currency and deposits, loans, insurance, pension and standardized guarantee schemes, trade credit and advances, other accounts receivable/payable and the allocation of special drawing rights.
 - other equity - comprised of investments below 10%, that are not in the form of securities;
 - currency and deposits - currency (notes and coins) are claims of non-resident holders on the issuing central bank, . Liabilities based on deposits are liabilities of deposit institutions that take deposits of non-resident depositors, while claims based on deposits arise from funds deposited with non-resident deposit institutions;
 - loans - include claims or liabilities created through direct lending of funds by a creditor (lender) to a debtor (borrower) based on a credit agreement;
 - insurance, pension and standardized guarantee schemes are regarded as liabilities, arising from reserves, entitlements and provisions of an insurance company, pension fund or issuer of standardized guarantee to policyholders and beneficiaries;
 - trade credit and advances - consist of claims or liabilities arising from direct extension of credit by suppliers for transactions in goods and services, as well as advance payment by buyers for goods and services and for work in progress;
 - other accounts receivable/payable - arise from debt instruments not elsewhere classified;
 - special drawing rights (net incurrence of liabilities) are liabilities of the IMF's members arising from the allocation of SDRs.
5. *Reserve assets* are external assets that are readily available to and controlled by the monetary authorities, for direct financing of balance of payments imbalances and indirect regulation of the magnitudes of such imbalances through intervention in exchange markets to affect the exchange rate, and/or for other purposes.

The third level of classification is the disaggregation of financial instruments by institutional sectors.

Institutional units are grouped into institutional sectors. The classification in institutional sectors applies only to the resident units. The institutional sectors classification has the same sectors and subsectors as the SNA 2008³, but with higher level of aggregation.

The resident units are classified within the following sectors and subsectors:

- Central bank (*Monetary authorities*)
- General government
- Deposit-taking corporations, except central bank
- Other sectors, divided to:
 - Other financial corporations and
 - Nonfinancial corporations, households, and NPISHs.

The **Central bank** is the National Bank of the Republic of Macedonia.

The **General government** sector includes unique kinds of legal entities established by political processes and has legislative, judicial, or executive authority over other institutional units within a given area. The Government sector consists of the following subsectors:

- Central government,
- Local government and
- Social security funds.

Deposit-taking corporations, except central bank have financial intermediation as their principal activity. To this end, they have liabilities in the form of deposits or financial instruments that are close substitutes for deposits. This sector includes all banks that were granted a founding and operating license by the Governor of the National Bank of the Republic of Macedonia, as well as branches of foreign banks that were granted a license by the Governor of the National Bank of the Republic of North Macedonia to open offices and to operate on the territory of the Republic of Macedonia.

Other financial corporations consist of non-deposit financial corporations and other financial auxiliaries, as well as insurance corporations and pension funds.

Nonfinancial corporations, households, and NPISHs: Nonfinancial corporations are corporations (public or private) whose principal activity is production of market goods or nonfinancial services. A household is defined as a person or a group of persons who share the same living accommodation, who pool some or all of their income and wealth, and who consume certain types of goods and services collectively. NPISHs are entities mainly engaged in providing goods and services to households or the community at large, free of charge or at prices that are not economically significant.

Furthermore, separate components of other investments (currency and deposits, loans, trade credit and advances and other accounts receivable/payable) are classified by maturity: short-term (maturities of one year or less) and long-term (maturities of more than one year).

Valuation of instruments within functional categories

³ System of National Accounts 2008, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, United Nations, World Bank, 2009 (<https://unstats.un.org/unsd/nationalaccount/sna2008.asp>).

For the annual IIP, *direct investments* are valued at book value. *Portfolio investments*, on the assets and liabilities side, are calculated at market value, with the exception of the equity and investment fund shares on the liability side which are valued at book value.

Nominal value is used for all other instruments.

Data sources and methodological explanations for compiling International Investment Position

International investment position (IIP) is a complex statistical report and its compilation is based on direct or indirect reporting systems for data collection within the NBRNM.

Direct investment

- Within Direct Investments, the investments are recorded separately as investments from direct investor in direct investment enterprises, reverse investments and investments between fellow enterprises. Direct investments include equity (including reinvestment of earnings) and debt instruments. Debt instruments consist of trade credits, loans and other debt instruments between affiliates. Debt claims and liabilities between deposit corporations and other financial intermediaries (except insurance corporations and pension funds) are excluded from the debt instruments within the direct investments category and are included in the appropriate financial instrument.
- For the subcategory Equity and Investment Fund Shares- for the purposes of the annual IIP, reports on stocks and flows between affiliated entities (VS 22 and VS 11) are used as a data source. For the purposes of the Quarterly IIP, the stock is calculated by adding the BOP flows for the current quarter to the stock of equity and investment fund shares at the end of the previous quarter.
- For the subcategory Debt Instruments- for loans between affiliated entities, data are used from the reporting system on external debt (ED) and the reporting system on external claims (EC), while for intercompany lending in the form of trade credit and advances, data are used from the quarterly reports on claims and liabilities based on international commercial operations of residents (KIPO Form). The survey on debt/claims takeovers among residents and nonresidents (POZ) is used as an additional data source.

Portfolio investments

For the subcategory Equity and investment fund shares:

- **on the assets side:**
 - o for the annual and quarterly IIP - for foreign equity and investment fund shares issued abroad and bought by residents, data on the market value of the purchased securities at the end of the reference period is provided by the residents authorized for participation in foreign capital markets (Reports for stocks and flows data on investments in equity and investment fund shares VHV-1);
- **on the liabilities side:**

- up to 2016 data, for the annual IIP, for deposit-taking corporations and other sectors, reports on stocks and flows between affiliated entities (VS 22) were used as a data source. Starting from 2017, the source of data on investments in equity is Central Securities Depository (CSD). For the quarterly IIP, for deposit-taking corporations and the other sectors, stocks are calculated by adding the BOP flows for the current quarter to the stock of equity and investment fund shares at the end of the previous quarter.

For the subcategory Debt Securities - for the annual and quarterly IIP, the same data sources are used.

- **on the assets side:**

- for the annual and quarterly IIP, for foreign debt securities issued abroad and bought by residents, data on the market value of the purchased securities at the end of the reference period is provided by the residents authorized for participation in foreign capital markets (Reports for stocks and flows data on investments in debt securities VHV-2);

- **on the liabilities side:**

- data on debt securities issued on the domestic market and purchased by non-residents are taken from the Central Securities Depository, while data on the prevailing market prices are used from the Macedonian Stock Exchange. For debt securities issued abroad and bought by non-residents, data from the reporting system on external debt (ED), as well as monthly reports on traded securities on foreign market, provided by the residents authorized for participation in foreign capital markets, are used.

Other investments

Other equity

- For the purposes of the annual IIP, reports on stocks and flows between affiliated entities (VS 22 and VS 11) are used as a data source. For the purposes of the quarterly IIP, the stock is calculated by adding the BOP flows for the current quarter to the stock of other equity at the end of the previous quarter.

Currency and deposits

- for the category currency and deposits, for the annual and quarterly IIP, data from banks' reports on assets and liabilities balance (KNBIFO) - banks' monthly reports on the banks' book - keeping stock are used, whereas for other sectors, data from the monthly reports of resident accounts held abroad (MR) are used. For the central bank, for the currency and deposits other than reserves, data from the NBRNM's reports on the foreign assets are used.

Loans

- for the category loans, for the annual and quarterly IIP, data from the reporting system on external debt (ED) and the reporting system on external claims (EC), as well as data from NBRNM's reports on the official foreign reserves of the Republic of North Macedonia are used. The survey on debt/claims takeovers among residents and nonresidents (POZ) is used as an additional data source.

Trade credit and advances

- for the subcategory long-term trade credits - for annual and quarterly IIP, data from the reporting system on external debt (ED) and the reporting system on external claims (EC) are used.
- for the subcategory short-term trade credits - for the annual and quarterly IIP, data from the quarterly reports on claims and liabilities based on international commercial operations of residents (KIPO Form) are used.

Special drawing rights

- for the annual and quarterly IIP, data from the reporting system on external debt (ED) are used.

Reserve assets

- for the annual and quarterly IIP, data from the NBRNM's reports on the official foreign reserves of the Republic of North Macedonia are used.

Table no. 30-32 Gross external debt, Gross external claims and Net external debt

The National Bank of the Republic of North Macedonia (National Bank) is the institution responsible for recording and monitoring of the external debt of the Republic of North Macedonia in accordance with the legislation i.e. the Law on the National Bank of the Republic of North Macedonia and the Foreign Exchange Law.

Within the External Debt Statistics, standard reports are prepared for Gross External Debt, Gross External Claims and Net External Debt, which according to the External Debt Statistics Guide⁴ (Guide) are defined as:

Gross External Debt

Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and /or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. According to this definition, gross external debt at a certain date is the stock of all future liabilities of residents to nonresidents, future installments of principal, arrears in principal and interest, accrued interest costs, as well as late (default) interest, regardless of the type of instrument and maturity.

Gross External Claims

Gross External Claims are the stock of all current, not contingent claims based on debt instruments, of residents on nonresidents. Basically, the definition of gross external claims is identical with the definition of gross external debt, having in mind that the claims of one economy are liabilities for other.

Net External Debt

Net external debt is defined as the difference between the stock of gross external debt and gross external claims. In its structure, net external debt is identical with the gross external

⁴ External Debt Statistics: Guide for Compilers and Users, IMF, 2013.

debt, where the standard presentation contains classification by institutional sectors, maturity and debt instruments.

According to the Guide, the first level of classification is by basic institutional sector of an economy. The institutional sectors classification has the same sectors and subsectors as the SNA 2008, and applies only to the resident units.

The resident units are classified within the following basic sectors:

- General government,
- Central bank,
- Deposit-taking corporations, except central bank, and
- Other sectors.

The **General government** sector includes unique kinds of legal entities established by political processes and has legislative, judicial, or executive authority over other institutional units within a given area. The Government sector consists of the following subsectors: Central government, Local government and Social security funds.

The **Central bank** is the National Bank of the Republic of Macedonia.

Deposit-taking corporations, except central bank have financial intermediation as their principal activity. To this end, they have liabilities in the form of deposits or financial instruments that are close substitutes for deposits. This sector includes all banks that were granted a founding and operating license by the Governor of the National Bank of the Republic of Macedonia, as well as branches of foreign banks that were granted a license by the Governor of the National Bank of the Republic of North Macedonia to open offices and to operate on the territory of the Republic of Macedonia.

Other sectors consists of Other financial corporations (non-deposit financial corporations and other financial auxiliaries, as well as insurance corporations and pension funds), and Nonfinancial corporations, households, and NPISHs.

In the Gross External Debt and the Gross External Claims, in addition to the four basic sectors, separate data are also recorded for the capital-related institutional units, under **Direct Investments: Intercompany Lending**. Data are presented according to the type of the direct investment relationship with the non-residents, as follows:

- direct investment enterprises to direct investors;
- direct investors to direct investment enterprises;
- between fellow enterprises.

Debt claims and liabilities between deposit corporations and other financial intermediaries (except insurance corporations and pension funds) are excluded from the debt instruments within the direct investments category and are included in the appropriate financial instrument.

The separation of Direct Investment - Intercompany Lending is significant in view of the necessary compatibility with the IIP statement, where these claims/liabilities are incorporated within the item Direct Investment (debt instruments).

Second level of classification is by maturity: short term (with original maturity of one year or less) and long term (maturities of more than one year).

Third level of classification is the disaggregation of maturity by financial instruments.

According to the Guide, basic financial instruments are:

- **Currency and deposits** - currency (notes and coins) are claims of non-resident holders on the issuing central bank. Liabilities based on deposits are liabilities of deposit institutions that take deposits of non-resident depositors, while claims based on deposits arise from funds deposited with non-resident deposit institutions;
- **Debt securities** - creation of debt or a claim through the issuance/purchasing of securities as part of the portfolio investment in the country, being traded on organized markets or over-the-counter;
- **Loans** - include those claims or liabilities created through the direct lending of funds by a creditor (lender) to a debtor (borrower) based on a credit agreement;
- **Trade credit and advances** - consist of claims or liabilities arising from direct extension of credit by suppliers for transactions in goods and services, as well as advance payment by buyers for goods and services and for work in progress;
- **Other** - other claims and liabilities arising from debt instruments not classified elsewhere. Arrears are no longer part of this category, as they are included along with the corresponding financial instrument.
- **Special drawing rights (SDR)** - this instrument refers to the liabilities of the central bank based on the allocation of special drawing rights (SDR), as well as on the holdings of SDR.

Data Sources and Methodology for Compiling Gross External Debt and Gross External Claims of the Republic of Macedonia

Data Sources

Data Sources for the General Government Sector:

For the Gross External Debt:

- for the instrument *debt securities*, for debt securities issued abroad and bought by nonresidents, data from the reporting system on external debt (ED) are used, as well as data on the market value of the issued securities at the cut-off date. For debt securities issued on the domestic market and purchased by non-residents, data are taken from the Central Securities Depository, while data on the prevailing market prices are used from the Macedonian Stock Exchange;

- for the instrument *loans* and *long-term trade credits and advances*, data from the reporting system on external debt (ED) are used. The credit records statistics is conveyed by the NBRNM and is based on a loan-by-loan database containing various elements. Various data

can be obtained from this database on the stock of external debt, disbursement, repayments, arrears, accrued interest etc.

For the Gross External Claims:

- for the instrument *loans*, data from the reporting system on external claims (EC) are used. The credit records statistics is conveyed by the NBRNM and is based on a loan-by-loan database containing various elements. Various data can be obtained from this database on the stock of external claims, disbursement, repayments, arrears, accrued interest etc.

Data Sources for the Central Bank Sector

For the Gross External Debt:

- for the instrument *loans*, data are used from the reporting system on external debt (ED) and data from NBRNM's reports on the official foreign reserves of the Republic of Macedonia;

- for the instrument *Special Drawing Rights*, data are used from the reporting system on external debt (ED) and include a debt liability for SDR allocations.

For the Gross External Claims:

- for the instruments currency and deposits, debt securities and holdings of SDR, data from the NBRNM's reports on the official foreign reserves of the Republic of North Macedonia are used.

Data Sources for the Sector of Deposit-Taking Corporations, except Central Bank

For the Gross External Debt:

- for the instrument *currency and deposits*, data from banks' reports on assets and liabilities balance (KNBIFO) are used;

- for the instrument *loans*, data are used from the reporting system on external debt (ED) and survey on debt/claims takeovers among residents and nonresidents (POZ).

For the Gross External Claims:

- for the instrument *currency and deposits*, data from banks' reports on assets and liabilities balance (KNBIFO) are used;

- for the instrument debt securities, for foreign debt securities issued abroad and bought by residents, data on the market value of the purchased debt securities at the end of the reference period, is provided by the residents authorized for participation in foreign capital markets (Reports for stocks and flows data on investments in debt securities VHV-2);

- for the instrument *loans*, data are used from the reporting system on external claims (EC) and survey on debt/claims takeovers among residents and nonresidents (POZ).

Data Sources for the Other sectors:

For the Gross External Debt:

- for the instrument *loans*, data are used from the reporting system on external debt (ED) and survey on debt/claims takeovers among residents and nonresidents (POZ);
- for the instrument short-term trade credits, data are used from the quarterly reports on the claims and liabilities on the basis of international commercial operations of residents (KIPO Form);
- for the instrument *long-term trade credits*, data are used from the reporting system on external debt (ED).

For the Gross External Claims:

- for the instrument *currency and deposits*, data on the balance on accounts held abroad by the other sectors units, for which the NBRNM has issued an approval in accordance with the applicable laws (monthly reports – MR);
- for the instrument *debt securities*, for foreign debt securities issued abroad and bought by residents, data on the market value of the purchased debt securities at the end of the reference period, is provided by the residents authorized for participation in foreign capital markets (Reports for stocks and flows data on investments in debt securities VHV-2);
- for the instrument *loans*, data are used from the reporting system on external claims (EC) and survey on debt/claims takeovers among residents and nonresidents (POZ);
- for the instrument *short-term trade credits*, data are used from the quarterly reports on the claims and liabilities on the basis of international commercial operations of residents (KIPO Form);
- for the instrument *long-term trade credits*, data are used from the reporting system on external claims (EC).

Data Sources for the Intercompany Lending (Direct Investment)

Main data sources for the claims and liabilities based on intercompany lending are:

- for instrument *loans*, data are used from the reporting system on external debt (ED), the reporting system on external claims (EC), and survey on debt/claims takeovers among residents and nonresidents (POZ), that contain information on direct investment relationship between creditors and debtors;
- for instrument *trade credits*, data are used from the quarterly reports on the claims and liabilities based on international commercial operations of residents (KIPO Form);
- for *other claims and liabilities*, data from the reports on stocks and flows between affiliated entities (VS 22 and VS 11) are used as supplementary data source.

Public and Private Sector Debt Data

The memo items in the gross external debt table present separate data on external debt of the public and private sector.

The public sector includes the Government of the Republic of Macedonia, the National Bank, public banks and public enterprises.

The Government of the Republic of North Macedonia comprises of public authorities and their agencies, which are entities established through political processes that exercise legislative, judicial, and executive authority within a territorial area.

General government consists of:

- government units that exist at each government level—central and local—within the national economy;
- all social security funds operated at each level of government; and
- all non-market non-profit institutions that are controlled and mainly financed by government units.

The National Bank is the monetary authority of the Republic of Macedonia.

Public corporation is defined as a non-financial corporation that is subject to control by government units, with the control over a corporation being defined as the ability to determine general corporate policy by choosing appropriate directors, if necessary. Control can be exercised through government ownership of more than half of the voting shares or otherwise controlling more than half of the shareholder voting power, through special legislation, decree, or regulation that empowers the government to determine corporate policy or to appoint directors.

Public banks are institutional units established and controlled by the government, but are separate from the government.

The private sector consists of all other residents, disaggregated into private banks and non-banking private sector.

Valuation Methods

From the aspect of valuation, a nominal value is used for all debt instruments, except for the debt securities, where market value is applied. This is entirely consistent with the methodological recommendations for compilation of the IIP of a country.

Stock data, repayment schedules, arrears, new commitments and accrued interest are converted into the unit of account, using the mid exchange rate of the National Bank at the reference date. Flow data, disbursements and repayments, are converted into the unit of account, using the mid exchange rate of the National Bank on the day of the transaction. Difference between stock data ($t - t_{-1}$) is due to transactions, price or exchange rate changes and other changes.

Table no. 33 Reserve assets

The data reflect the stock of Official reserve assets and other foreign assets of the NBRNM, at a certain date.

Official reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and/or for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing).

Official reserve assets being those external assets that are readily available to and controlled by the monetary authorities, consist of: monetary gold, SDRs, reserve position in the Fund and foreign exchange assets.

The components of reserve assets are defined in accordance with the methodology of the International Monetary Fund (Balance of Payments and International Investment Position Manual, sixth edition).

The stock of reserve assets is calculated using the mid exchange rate of NBRNM on the day for which the data are disseminated.

Monetary gold

Gold: The category monetary gold encompasses gold handled by the NBRNM, consisting of gold in the NBRNM's treasury, gold bullion, monetary gold deposited in foreign banks and monetary gold in transport.

Gold deposits: Gold deposits consist of term deposits in gold with foreign banks for a longer period of time.

Foreign exchange reserves

Deposits with foreign banks: This category comprises of foreign exchange held on current accounts with foreign banks, as well as term foreign exchange deposits held abroad.

Cash in treasury: Cash in treasury consists of cash foreign exchange within the treasury, foreign cheques received at the counter, foreign cheques sent abroad for settlement.

Securities: This category includes placements in coupon and discount debt securities issued or guaranteed by foreign governments, central banks, multilateral development banks and international financial institutions, as well as placements in collateralized bonds. Securities positions are valued daily according to the market price of the instruments concerned, including the amount of accrued interest.

Table no. 34 and 35 Denar exchange rate - average in the period and in the end of the month

The average annual exchange rates are calculated as an arithmetical average of the monthly average rates.

The average quarterly exchange rates are calculated as an arithmetical average of the average monthly exchange rates in the given quarter.

The average monthly rates are calculated as an arithmetical average of the average daily exchange rates.

The exchange rates at the end of the month represents the daily middle exchange rate at the exchange rates list of the NBRNM for the last day of the month.

Table no. 36 Indices on effective exchange rate of the Denar

Real Effective Exchange Rate (REER) is an index calculated by the product of the Nominal Effective Exchange Rate Index of the Denar and the Relative Prices Index.

Nominal Effective Exchange Rate Index (NEER) is calculated as weighted geometric mean of the average monthly nominal exchange rates of 15 countries which are major foreign trade partners of the Republic of North Macedonia (Austria, Bulgaria, Croatia, Germany, Greece, Italy, Russia, Romania, Slovenia, Switzerland, Turkey, Ukraine, United Kingdom, USA and Serbia), with base period 2015=100 and overall trade weights in 2010-2012.

The Relative Prices Index is calculated as a ratio of the domestic price index and the weighted average index of the prices in the selected 15 countries, with base period 2015=100 and overall trade weights in 2010-2012. Consumer Price Index (CPI) and Producer Price Index (PPI) are used as deflators.