

INTERNATIONAL FINANCIAL POLICIES AND ECONOMIC DEVELOPMENT OF THE REPUBLIC OF NORTH MACEDONIA

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Abstract: With the development of financial market and increased degree of international financial integration around the world, many countries especially developing countries are now trying to remove cross-border barrier and capital control, relaxing the policy on capital restrictions and deregulating domestic financial system. The international capital flow such as direct investment flows has huge contribution to influence the economic behavior of the countries positively. The development was associated with greatly increased interest by international asset holders in the emerging market economies to find trend toward the globalization of financial markets. The global financial markets can gradually create a virtuous circle in which developing and transitional economies strengthen the market discipline that enhances financial system soundness. Government interventions in the financial markets that promoted savings and the efficient allocation of capital are the central factor to the efficiency of financial markets. The Macedonian economy is in the process of growth as a result of the government policy for foreign direct investments. This policy and its system of functioning will be the subject of research in this paper. Through the methods of analysis of primary and secondary data it will be shown the situation at the moment and recommendation for the future.

Keywords: economic growth, investments, financial flows, financial systems, capital.

Introduction

Financial globalization is essentially about integrating financial markets into a global financial market, which means free movement of cash flows and free access to finance without any national boundaries and institutional constraints.

Foreign direct investment is the investment of foreign capital with which the foreign investor acquires not only ownership but also the right to manage the company in which he invests. Foreign direct investment is also the fastest growing form of international capital movement and entry into foreign market.

The positive aspects of foreign direct investment are reflected by the transfer of technology and knowledge, the tendency of growth in world trade, employment and the stimulation of economic development. These investments allow firms to conquer new markets, access cheaper production factors, introduce new technologies and products. The host country and the firm receiving capital are creating conditions for new technologies, new ways of working, greater efficiency, greater level of resource utilization, higher level of management, and all of this can have a strong impact on the economic development of the country. The Republic North Macedonia has directed all its forces and potentials towards economic development and creating a favorable economic environment. Improving the business climate and investment conditions, skilled and highly educated workforce, as well as the growing interest in Macedonian investment potential, has attracted many international companies that have launched business operations in the country, such as greenfield projects, but also through privatization and investment in existing ones.

Characteristics of the financial market

The financial market is the meeting of supply and demand of free funds. Specifically, the financial market, as a segment of the total market, appears as a mechanism that should influence the optimal allocation of funds and the balancing of real investments and money accumulation.

The financial market also serves to finance investments as follows:

- directly,
- indirectly,
- internal financing.

The financial market is a specific market because it deals with specific commodities (money, capital, securities - short and long term, currencies and foreign exchange), in a specific way and under specific conditions. The financial market consists of three segments (each with specific functions):

1. Money Market:

- short-term securities and
- short-term bank loans.

2. Capital market:

- Long-term securities (stocks and bonds) and
- Long-term investment lending (borrowed capital).

Money market is the meeting of supply and demand of free short-term financial assets (short-term cash – short-term bank loans; short-term securities). The money market can be viewed in two aspects, either narrowly or broadly.

From an institutional point of view, the capital market is an integral part of the financial market; it is an organized meeting of supply and demand for free long-term financial assets. In this market, long-term free money and long-term securities (effects) are subject to purchase and sale.

Foreign direct investment

Foreign direct investments are international investment transactions for the acquisition of a lasting economic interest in an enterprise that is a resident in an economy other than that of the investor, as well as for gaining influence in the business strategy of that enterprise. Foreign direct investments are investments by which the investor intends to establish a permanent economic connection or to exercise the right to manage the legal entity in which he invests.

Foreign direct investment plays a very important role in the development of global business. They can enable the firm to provide new markets and marketing channels, cheaper means of production, access to new technologies, products, knowledge and financial resources. Foreign direct investment, in its classical definition, is defined as the investment of a foreign company in a given country.

Investments can be in the form of physical investments that mean building factories and providing equipment and techniques, direct procurement from foreign companies, constructing facilities or investing in joint ventures and encouraging the creation of strategic alliances with the intention of introducing technology, licenses or intellectual knowledge.

When it comes to direct investments it should be noted that they represent direct investments in the means of production of a foreign company in a country. Investments can be in:

- production area – with the intention of creating new operational or production opportunities;
- forming new or merging with existing companies;
- Entering international companies, companies that carry out business activities in more than one country.

For a small and open economy like the Macedonian one, it is extremely important to attract foreign direct investment. They stimulate production and stimulate the economy, enable the transfer

of knowledge and the acquisition of new skills to domestic workers, increase the export and competitiveness of the economy, and most importantly, create new jobs.

Foreign direct investment is one of the most important intermediary instruments that stimulate production, import of know-how, employment growth, infrastructure development, poverty reduction and so on in a national economy. The benefits derived from the inflow of foreign direct investment have caused sharp competition in the global free-market capital markets, with the aim of attracting more extensive and diverse foreign direct investment. The general trend in the world foreign direct investment market is to erase the geographical boundaries between developing countries and developed countries: developing countries in the last three years, besides being a growing foreign direct investment market, also tend to attract capital intensive investments, such as and R&D investment.

The motives for entry of foreign direct investment into the host country may be related to the basic characteristics of foreign direct investment. They are the following:

- foreign direct investment as a source of investment that does not induce borrowing;
- foreign direct investment as a way to access new markets and increase exports - a way to implement the export-oriented concentration of the economy;
- foreign direct investment as a way to increase employment;
- Foreign direct investment as a way of introducing new technologies, knowledge, modern forms of organization and enterprise management. They facilitate the process of technological and organizational modernization of domestic enterprises;
- foreign direct investment as a way of activating domestic resources that would otherwise be left unused for a long time due to lack of domestic capital;
- foreign direct investment as a way for foreign investors to enter the process of ownership transformation in order to provide greater certainty for the ownership transformation, but also to change the management, organization and hence greater efficiency of the transformation.

The Republic North Macedonia, based on its orientation for growth and development of its economy, inter alia, attracts foreign direct investment. The policy of open attraction of foreign direct investments, so far has influenced foreign investors to invest in our country. The dynamics of foreign direct investment as a foreign direct investment in North Macedonia varies by year, but it must be noted that each year foreign direct investment plays an important role in investing in North Macedonia as can be seen from the following table.

Table 1. Movement of foreign direct investments in North Macedonia (*in millions of euros*)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
100,4	323,0	97,0	344,8	699,1	399,9	197,1	210,0	463,3	89,8	334,2

Source: National Bank of the Republic of North Macedonia: Foreign Direct Investment in the Republic of North Macedonia, 2015

It can be concluded from the table that there is a fluctuating movement of foreign direct investments in North Macedonia, with large fluctuations from year to year, without constant continuity. The successful years are 2007 with 699, 1 million Euros, while the successful ones are 2004, 2006, 2008, 2011 with more than 300 million foreign direct investments. According to the Macedonian authorities, foreign direct investments in 2014 will again exceed the amount of 300 m euros.

International financial cooperation

International financial cooperation takes place through cooperation with bilateral lenders and multilateral financial institutions. Cooperation with bilateral creditors is more intense with the Federal Republic of Germany, Japan, Italy and other countries, as well as with their developing financial institutions: Credit Bank for Reconstruction - KfW, Japan International Cooperation Agency - CJKA and others. Cooperation with multilateral financial institutions is carried out with the World Bank Group, the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD), cooperation with other UN agencies, the European Investment Bank (EIB) and the Council of Europe Development Bank. (Pocket).

Within the bilateral cooperation between North Macedonia, the cooperation with the Federal Republic of Germany, which defines the following areas for financial and technical cooperation, is characteristic:

- Drinking water / sanitation and environmental protection;
- Sustainable economic development;
- Democratization / civil society.

In the area of drinking water supply, sanitation and environmental protection, the projects consist of investments in water supply systems, wastewater treatment and treatment plants.

Promotion of small and medium-sized enterprises is part of the field of sustainable economic development, ie implementation of economic reforms and building a market economy.

Within the framework of international cooperation, cooperation with the World Bank is of particular importance. The World Bank is a development bank that provides loans, policy advisory support, technical assistance, and knowledge-sharing services. The World Bank is one of the specialized agencies of the United Nations, which has 187 member states as shareholders. The number of shares a country can hold is based on the size of its economy.

The Republic North Macedonia became a member of the World Bank in 1993 and is part of the Dutch Constituency. The World Bank Mission in the North Macedonia focuses on encouraging and supporting job creation, as well as improving living standards through the implementation and financing of projects, consultancy and research in capacity building, human resource development and investment. in infrastructure

According to the new Partnership Strategy of the North Macedonia with the World Bank, assistance from this international institution will focus on the following:

- supporting the country on its path to the European Union,
- strengthening its competitiveness and improving the macroeconomic environment,
- boosting economic growth by increasing employment,
- strengthening the social protection system and
- supporting investments in renewable energy sources that will contribute to the development of significant projects in the energy sector.

The European Bank for Reconstruction and Development – EBRD has been active in the North Macedonia since 1993 and is one of the largest investors in the North Macedonia. The EBRD's cooperation with the North Macedonia is within the priority sectors and objectives set out in the EBRD Strategy for the North Macedonia 2010-2013, approved by the EBRD Board of Directors on February 23, 2010. As of October 2010, the Bank has approved over 60 projects in the private and public sector in the North Macedonia totaling EUR 563 million.

With the signing of Protocol 3 on financial co-operation to the Co-operation Agreement between the North Macedonia and the European Community in 1997, the European Investment Bank - EIB for the first time started granting loans to the North Macedonia as a sovereign borrower. The EIB granted the North Macedonia 150 EUR million in the form of loans to finance the following projects: Road Project I, intended for the construction of part of Corridor 10 (section Stobi-Demir Kapija) and highway E-65 Skopje-Tetovo, as part of Corridor 3, which has been successfully

completed in 2004 on; This project was followed up by the Road Project II, intended for the construction of the Skopje bypass and the Global Financing of Small and Medium Enterprises and Infrastructure Projects in the amount of EUR 20 million (APEX Global Loan). The cooperation was strengthened in 2000 with the signing of the Framework Agreement between the North Macedonia and the EIB, which opened new opportunities for realization of projects in areas of crucial importance for the North Macedonia. The first EIB loan for the energy sector in North Macedonia was approved in 2003 for the ESM Substation Project. In 2008, the North Macedonia concluded a new Framework Agreement with the EIB to regulate the activities of the EIB in the North Macedonia. Since 1998, the EIB has approved projects in the North Macedonia totaling EUR 280 million. Currently, in the area of investment in water and utility infrastructure EIB participates in the financing of the Waste Water and Wastewater Project, while in the part of support to the SME sector EIB participates in the Project for Financing of SMEs and other Priorities projects.

Conclusion

The Republic North Macedonia is committed to undertaking activities to provide the investment funds necessary to foster its economic growth and development. In this context, special attention is paid to attracting foreign direct investment in cooperation with international financial institutions.

Foreign direct investment is, in fact, capital investment by enterprises from foreign countries into facilities, in the form of enterprises or branches in the host country. Foreign direct investment acquires ownership control. Foreign investment plays a key role in the transfer of knowledge and technology, creates jobs, increases productivity and competitiveness with the ultimate effect of higher economic growth and poverty reduction.

International financial cooperation takes place through cooperation with bilateral lenders and multilateral financial institutions: International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD), cooperation with other UN agencies, European Investment Bank (EIB) and Council of Europe Development Bank (CEB). Cooperation with bilateral creditors is more intense with the Federal Republic of Germany, Japan and Italy.

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