

International Investment Position: methodological changes

1. Introduction

The *International Investment Position (IIP)* is a statistic that reflects the value of the assets and liabilities of residents of a given economy in relation to non-residents ("the rest of the world") at a given point in time. The IIP supplements the balance of payments, which provides an overview of all economic and financial transactions between residents and non-residents for a given period.

2. History

Until 2008, the IIP was compiled on the basis of the cumulative balance of payments flows. Starting with an estimate of the IIP at a given time - based on the available data sources and various assumptions - subsequent values of the IIP were calculated by adding to the starting position the net figure for the components of the balance of payments financial account. That approach provides a rough estimate of the IIP's value. Changes in the IIP between two points in time are not only the result of the financial transactions conducted during this period. They are also affected by changes in the value of the existing assets and liabilities caused by fluctuating prices or exchange rates and by other factors such as the amortisation of claims or debts in the event of insolvency. Finally, methodological adjustments may also alter the value of the IIP.

The cumulative flow method has been excluded from the methodologies approved by the international authorities in charge of economic statistics. Therefore, for series starting in 2008, that system was replaced in 2010 by a method of compiling the IIP on the basis of the data on assets and liabilities (positions) in relation to the rest of the world reported directly by resident enterprises, using a survey system introduced in 2006.

The IIP is compiled annually following this method; it is published in September of the following calendar year. However, the quarterly IIP figures, between two annual publications, are still estimated on the basis of cumulative flows, because some data are only available annually. For that reason, comparison with the provisional estimates for 2016 published before September 2017 is meaningless because the IIP for the year 2016 will be published for the first time in September 2017 on the basis of observed positions instead of cumulative flows.

3. Methodological framework

The IIP is compiled in accordance with the methodologies described in the Sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). It also respects the requirements of the other competent international bodies, in particular the European Central Bank (guideline ECB 2011/23 -9 Dec 2011), the European Commission (Eurostat, Commission Regulation (EU) No 555/2012 - 22 June 2012) and the OECD (OECD Benchmark Definition of foreign direct investment, 4th Edition, 2008).

4. Structure of the IIP

The IIP identifies five following categories of assets and liabilities:

1. Direct investment, consisting mainly of holdings of 10% or more in the equity capital of enterprises and/or loans/borrowings between associated enterprises and investments in real estate.
2. Portfolio Investment, recording residents' holdings of securities (equities, bonds, mutual funds, commercial paper, etc.) issued by non-residents on the assets side, and conversely, holdings by non-residents of securities issued by residents on the liabilities side.
3. Financial derivatives, recording the current value of derivatives concluded with non-resident counterparties.
4. Other investment, covering other equities, deposits and currency, other loans/borrowings, insurance products and pension rights/liabilities, trade credit, other accounts receivable/payable, and IMF special drawing rights.
5. Reserve Assets of the central bank.

Each of these categories is broken down according to the resident institutional sector which holds the asset or has contracted the liability: the central bank, monetary and financial institutions, general government and the other sectors, comprising other financial institutions, non-financial corporations and households.

5. Improvements to the methodology

Once a year, in September, all the quarters of the three previous years are revised so as to take the latest available data into account.

For the September 2017 revision, the methodology has been improved for three headings of the IIP: Direct Investment, Portfolio Investment and Other Investment. There have also been reclassifications between headings, as well as efforts to remove double counting.

5.1 Direct investment

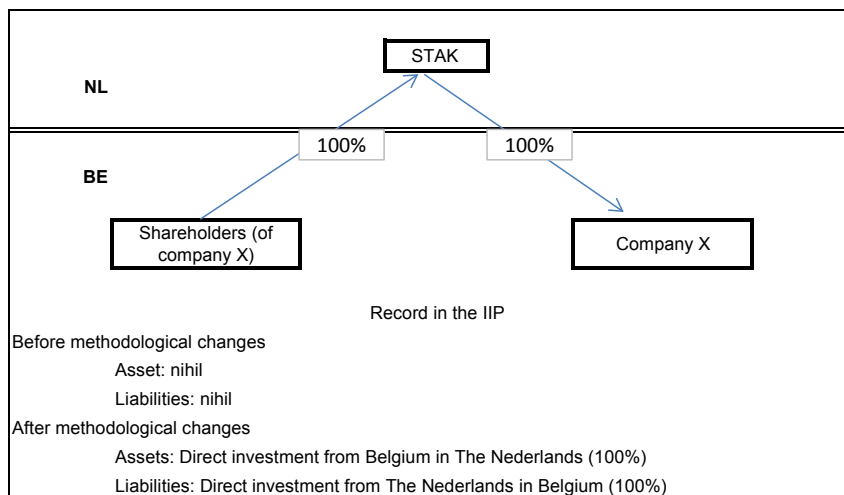
The main methodological changes in this heading involve:

- taking account of certain legal constructions under Dutch law,
- implementation of a new method for valuation of own funds of equity investment,
- removing double counting.

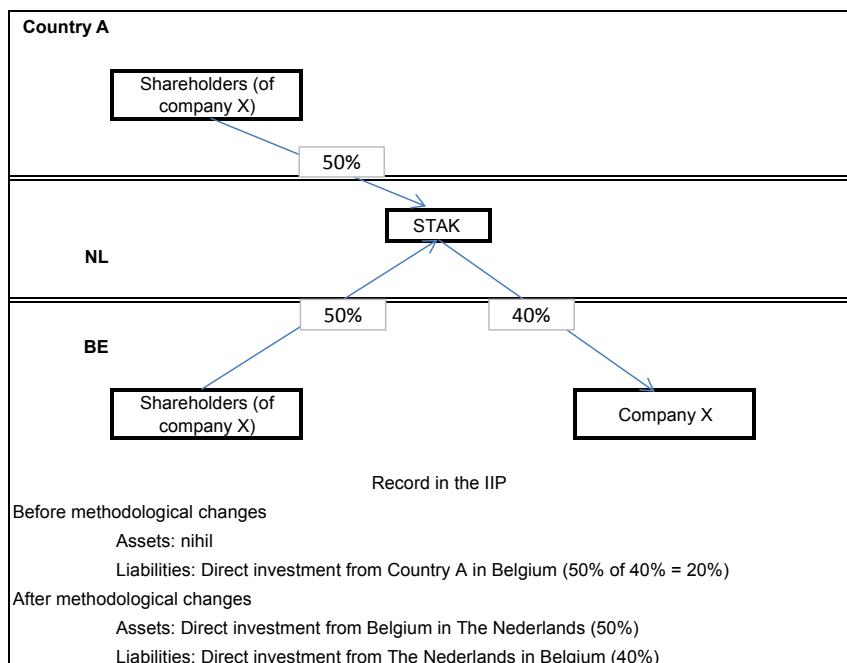
5.1.1 Stichting administratiekantoor (STAK)

Institutional entities under Dutch law (Stichting Administratiekantoor, STAK) used by residents to base in the Netherlands their equity investment stakes in resident firms were not previously recorded in the IIP. The idea was not to unnecessarily inflate the assets and liabilities positions in the IIP, without having any impact on the net position.

However, this neutralisation of STAKs in the IIP is no longer allowed under the BPM6 methodology. The amendment therefore involves taking account of these entities for calculating the IIP.



When the assets and liabilities positions were not the same, the net difference was nevertheless recorded in the IIP and the new valuation method could modify the value of the IIP.



5.1.2 Valuation of own funds of listed equity investment

Up to now, listed equity investment was valued using the Own Funds at Book Value method on both the assets and liabilities side of the IIP. While allowing this method to be used, the BPM6 methodology actually prefers a method based on market value, as it is already the case for portfolio investment - another IIP component.

The methodological change consists of using market value for the valuation of own funds of listed equity investment both for assets and liabilities in the IIP.

5.1.3 Valuation of own funds of unlisted equity investment

Use of the market value – instead of the book value – for listed equity investment can be a source of imbalances for direct investment and thus for the IIP in cases where the listed resident firm holds unlisted equity investment stakes in non-resident firms. Actually, in this case, holdings by non-residents in these listed resident firms (recorded on the liabilities side of the IIP) would be valued at market value while holdings of unlisted equity investment by these same resident firms in non-resident firms (recorded on the assets side of the IIP) would be valued by book value.

In the case in point, to improve consistency between valuations of assets and liabilities, the methodology allows the valuation of own funds of unlisted equity investment booked on the assets side on the basis of a ratio established according to the market price observed for own funds of listed equity investment recorded as liabilities¹.

The revision effectively implements this method for valuing own funds of unlisted equity investment on the assets side of the IIP.

5.1.4 Receivables and commercial debts

Receivables and commercial debts between residents and non-residents used to be recorded in the *Direct Investment* heading when they were already in the *Other Investment* heading. This double counting has been removed from the *Direct Investment* heading.

5.2 Portfolio investment

The main methodological changes in this heading involve:

- implementing a new method, the so-called residual method, for estimating holdings by non-residents (from all institutional sectors) of securities issued by residents, on the liabilities side of the IIP;
- taking account of a new source of data for holdings by residents (for the non-financial corporations and household sectors) of securities issued by non-residents and held outside Belgium but still in the euro area (Third Party Holding), recorded under assets in the IIP.

5.2.1 Residual method

Quoted shares issued by residents can be held anywhere in the world and are not necessarily recorded by the current system of security-by-security data collection. In fact, only shares held by non-residents with resident depositories are included in the security-by-security data collection. This leads to an under-estimation of non-residents' holdings of listed securities issued by residents.

The residual method has been developed to get round this shortcoming and consists of valuing the outstanding total of listed securities issued by residents and held by non-residents by subtracting from the total outstanding amount of these issued securities those which can be proved to be held by -residents.

This method, combined with the results obtained from security-by-security data collection, is now being put into practice.

¹ Guideline of the ECB/2013/25 of 30 July 2013 amending guideline ECB/2011/23 on the statistical reporting requirements of the ECB in the field of external statistics.

5.2.2 Third party holding (tph)

The data needed to estimate holdings of listed securities by non-financial corporations and households with non-resident depositories from the euro area are very patchy and incomplete. Only a non-exhaustive source of data gathered from non-financial corporations is available and no such data area collected from households.

However, new Third Party Holding (TPH) statistical series can be used as a source of data for estimating these holdings in the euro area.

This more complete source is now taken into account when estimating such securities holdings for these sectors.

5.3 Other investment

The main revision factors in this heading involve:

- removing duplications on the assets side of the IIP in the loans to non-residents heading,
- taking a new data source into account on the liabilities side of the IIP.

5.3.1 Elimination of double counting

An examination of collected data relating to loans to and/or deposits from non-residents by non-financial corporations has revealed that some declarants have been wrongly reporting loans when they were actually deposits and vice versa, leading in some cases to double counting. This has now been stopped.

5.3.2 Bank for international settlements data

Data from the Bank for International Settlements (BIS) constitute a source used since 2008 to estimate deposits by residents with non-resident banks, in the *Assets from other sectors, currency and deposits* heading on the assets side of the IIP. These data are actually the only ones that also include information on the households sector. For States that do not take part in BIS surveys, the National Bank of Belgium bases its figures on non-exhaustive direct surveys among resident firms.

In order to ensure greater consistency between assets and liabilities, the BIS data will also be used as a supplementary source for the *Loans* heading on the liabilities side of the IIP.

6. Global impact

For the years 2014 and 2015, these methodological changes reduce the net position (the difference between assets and liabilities). A comparison by components of the IIP is available in the tables below

2014 (millions EUR)	Published Sept 2016 (a)			Published Sept 2017 (b)			(b)-(a)				
	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets		Liabilities		Net
Direct investment	851.045	864.577	-13.532	931.765	914.311	17.454	80.720	9,5%	49.734	5,8%	30.986
Portfolio Investment	576.437	444.566	131.871	603.061	511.620	91.441	26.624	4,6%	67.054	15,1%	-40.430
Financial Derivatives	10.741	12.197	-1.456	16.274	20.885	-4.611	5.533	51,5%	8.688	71,2%	-3.155
Other Investment	490.286	390.329	99.957	468.128	412.760	55.368	-22.158	-4,5%	22.431	5,7%	-44.589
Reserve Assets	20.911	0	20.911	20.911	0	20.911	0	0,0%	0		0
International Investment Position	1.949.420	1.711.669	237.751	2.040.139	1.859.576	180.563	90.719	4,7%	147.907	8,6%	-57.188

2015 (millions EUR)	Published Sept 2016 (a)			Published Sept 2017 (b)			(b)-(a)				
	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets		Liabilities		Net
Direct investment	865.925	874.310	-8.385	979.251	925.575	53.676	113.326	13,1%	51.265	5,9%	62.061
Portfolio Investment	587.701	480.271	107.430	615.234	562.205	53.029	27.533	4,7%	81.934	17,1%	-54.401
Financial Derivatives	20.749	9.006	11.743	16.251	17.315	-1.064	-4.498	-21,7%	8.309	92,3%	-12.807
Other Investment	496.921	378.866	118.055	474.277	408.225	66.052	-22.644	-4,6%	29.359	7,7%	-52.003
Reserve Assets	22.135	0	22.135	22.135	0	22.135	0	0,0%	0		0
International Investment Position	1.993.431	1.742.453	250.978	2.107.148	1.913.320	193.828	113.717	5,7%	170.867	9,8%	-57.150

7. Schedule for revisions

Revised quarterly and annual IIP series for the years 2014 to 2016 are being published in September 2017 in accordance with the international schedule.

The quarterly IIP series for the years before, from 2008 to 2013, will be published in 2019 for the sake of consistency with a planned occasional revision of the national accounts. In this way, temporary inconsistencies (vintage) between Belgium's macroeconomic series can be avoided.