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International Investment Position
Initiatives to Improve Data Availability and Timeliness

Prepared by the Statistics Department
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I. Background

1. The purpose of this paper is to update the Committee on the status of international investment position (IIP) reporting to the IMF's Statistics Department (STA) and related developments. Two important international initiatives have focused attention and efforts on improving the availability and timeliness of compiling and reporting IIP data. The first initiative reflects efforts to implement Recommendation #12 of the report *The Financial Crisis and Information Gaps*, provided to G-20 Finance Ministers and Central Bank Governors on October 29, 2009, which states:

*The IMF to continue to work with countries to increase the number of International Investment Position (IIP) reporting countries, as well as the quarterly reporting of IIP data. The Balance of Payments and International Investment Position Manual, sixth edition (*BPM6*) enhancements to the IIP should be adopted by G-20 economies as soon as feasible*.

2. The second initiative was the IMF Executive Board decision in March 2010 to enhance the Special Data Dissemination Standard (SDDS), by prescribing the quarterly reporting of IIP data. After a four-year transition period ending at end-September 2014, subscribers will be required to disseminate IIP data with quarterly periodicity and quarterly timeliness[1] (rather than the current prescription of annual periodicity and nine months timeliness) to improve the usefulness of these data for analysis and surveillance.

3. This paper will report on how STA is supporting these initiatives by increasing the number of IIP reporters, encouraging and facilitating the reporting of quarterly IIP data, and encouraging the adoption of *BPM6* enhancements to the IIP data. The paper will also discuss some preliminary trends in 2007–09 IIP data for advanced economies, to highlight an analytic use of IIP data.

II. Improving Availability of IIP Data

4. STA has continued its efforts to increase the number of countries reporting IIP data through its *IIP Pipeline Project*, an initiative to assist a subset of countries in compiling IIP statistics, notably those countries that STA considers could potentially develop such data in the near future. Since last reporting to the Committee in November 2009, four additional countries have submitted IIP data to STA —Albania, Serbia, Solomon Islands, and Syria. This brings the total number of countries reporting IIP data from under 40 economies in 1998 to 122 in 2010.[2] Including data for the four additional countries resulted in a total of

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[1] End-June 2014 (Q2) quarterly IIP data are to be disseminated by end-September 2014.

[2] IIP data for the Euro Area are published in *BOPSY* and *IFS*, and the Euro Area is included in the count of "economies" reporting IIP data to STA. IIP data for G-20 economies can be found at the Principal Global

(continued)

approximately $43 billion being added to assets and $71 billion to liabilities in 2008 and this spanned three regions – Central and Eastern Europe, Middle East and North Africa, and Developing Asia.

5. To complement work on the *IIP Pipeline Project*, STA coordinates with other technical assistance providers, particularly in the case of countries in the process of developing an IIP statement. One of the tasks of the recent project of the United Kingdom's Department for International Development for African countries—DFID III—is to assist in the development of an IIP statement in the international format that can be submitted to STA for dissemination. For DFID III countries that already report IIP data to STA,[3] technical missions will assist in improving the quality of IIP data, particularly for the private sector. In addition, the DFID missions can provide information to STA on a country that may be a candidate for the IIP pipeline.

6. Also from a regional perspective, technical assistance provided to countries in the Middle East by the Middle East Regional Technical Assistance Center (METAC) includes in most cases IIP development and improvement. In Asia, the Pacific Financial Technical Assistance Centre (PFTAC) also encourages the compilation of IIP statistics in its work plan.

7. Training courses could also provide guidance for countries that have not compiled an IIP or are in the early stages of compilation. A recent workshop jointly organized by STA and the West African Institute for Economic and Financial Management (WAIFEM) provided hands-on training in IIP compilation to each of the five member countries of WAIFEM.[4]

III. Facilitating the Reporting of Quarterly IIP Data

8. The financial crisis highlighted the need for more frequent economic indicators, including quarterly IIP data. The March 2010 decision by the IMF Executive Board, requiring SDDS countries to report quarterly IIP with quarterly timeliness as of September 2014, underscores the importance of these data.

9. In some cases, countries that have recently developed and disseminated IIP data for the first time have done so on a quarterly basis. Therefore, if feasible, countries in the early stages of developing IIP data sources should be encouraged to develop quarterly data from the start, to the extent possible.

Indicators website (the website of the Inter-Agency Group on economic and Financial Statistics: http://www.principalglobalindicators.org/default.aspx).

[3] Nigeria, Mauritius, and Mozambique.

[4] Ghana, The Gambia, Liberia, Nigeria, and Sierra Leone.

10. The number of economies reporting quarterly data to STA has increased by seven since last year, more than double the increase of the previous year. The total number of quarterly reporters now stands at 55, of which 38 are SDDS subscribers. Therefore an additional 30 SDDS subscribers will need to develop and disseminate quarterly IIP data with quarterly timeliness over the next four years.

11. Some countries have noted that the development of this dataset will be challenging in terms of compilation. In order to address these concerns, STA is in the process of preparing a pamphlet to assist countries with the compilation of quarterly IIP data. The pamphlet, which should be available early in 2011, will outline strategies for building this dataset, including estimation techniques, and will contain responses to Frequently Asked Questions (FAQs). The pamphlet will also discuss revision practices, which are essential considerations in connection with the compilation and release of timely high frequency data.

12. Quarterly IIP data should be presented according to the *BPM6* guidelines by functional category, by instrument, and by institutional sector. Some countries report quarterly IIP at aggregate levels with the more detailed breakdowns available only on an annual basis.[5] More robust detail is strongly encouraged, particularly as the detail by instrument and by sector provides data that are highly useful for surveillance.

IV. Adopting *BPM6* Enhancements to the IIP Data

13. To address the recommendation that calls for the adoption by G-20 economies of BMP6 enhancements to the IIP data as soon as feasible, STA is publicizing the enhancements laid down in the Report of the *Task Force on IIP/CPIS Data Enhancements*. This report will be posted on the IMF website shortly after the 2010 Committee meeting. These enhancements include:

- A more detailed sectoral breakdown, including identification of the nonbank financial institutions (Table A9-1, memorandum table);
- Standardized reporting for the currency composition of international assets and liabilities, including financial derivatives (Table A9-1, memorandum table);
- Information on the impairment of cross-border loans (for creditors only) at fair values (memorandum item, if feasible; paragraph 7.46), nonperforming loans at nominal value (supplementary item, or memorandum item if fair value of impaired loans is unavailable; paragraph 7.46);
- Loan loss provisions (supplementary item; paragraph 7.46);

[5] Under the *BPM5* reporting framework, SDDS subscribers should, at a minimum, classify assets and liabilities into direct investment, portfolio investment (broken down into equity and debt), other investment, and reserves (assets only). Reporting of financial derivatives is encouraged.

- Supplementary (voluntary) detail on the remaining maturity of debt liabilities (Table Table A9-IV, supplementary table);

- Increased emphasis and guidance on use of market valuation for direct investment positions (paragraphs 7.16—7.18);

- SDR allocations (standard component of the IIP; memorandum item, Appendix 9, IIP);

- Reserve-related liabilities (short-term reserve-related liabilities on a remaining maturity basis are a memorandum item in Table A9-V; other items in Table A9-V are supplementary);

- Significant off-balance sheet commitments (where these may be significant, compilers should provide supplementary information on their maximum exposure loss, paragraph 7.74);

- Financial derivative positions with non residents at notional value, if feasible by market risk categories (e.g., foreign exchange, single currency interest rate, equity, commodity, credit, and other; supplementary items, paragraph 5.95); and

- Holdings of sovereign wealth funds not included in reserve assets functional category (supplementary IIP items, paragraph 7.73).

V. TRENDS IN 2007-09 IIP DATA FOR ADVANCED ECONOMIES

14. Using preliminary *reported* data for the 2010 *BOPSY* World IIP Tables, it is possible to analyze trends in the stock data for the period that includes the financial crisis, 2007–09.

15. Preliminary results indicate that the gross level of external assets and liabilities (excluding financial derivatives) for selected advanced economies[6] rebounded at end 2009 after an unprecedented decline in 2008. However, the 2009 levels did not reach the record levels reported in 2007, prior to the financial crisis.

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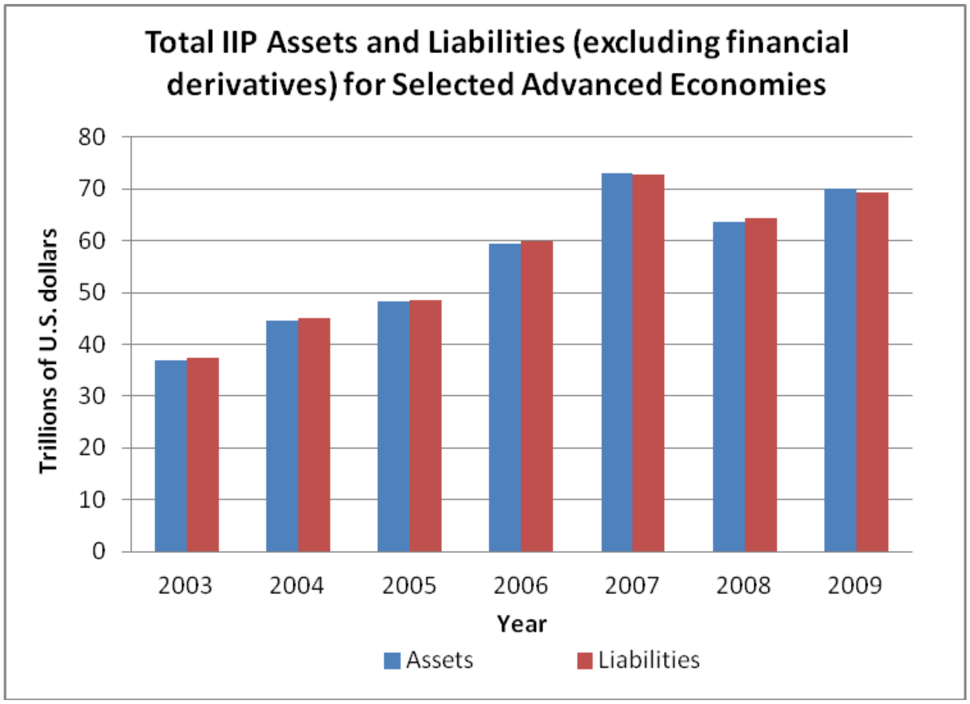
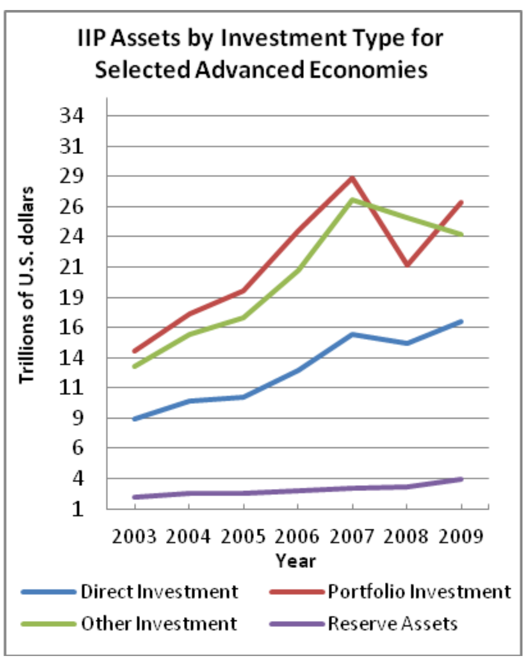
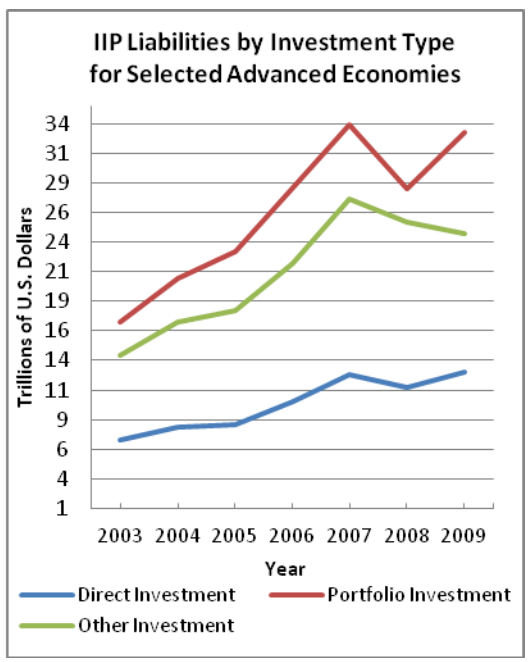
[6] Includes advanced countries reporting 2009 IIP data to STA as of September 15, 2010: Cyprus, Finland, France, Germany, Greece, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia, Spain, Canada, China P.R. Hong Kong, Denmark, Iceland, Israel, Japan, Korea, New Zealand, Singapore, Sweden, Switzerland, Taiwan Province of China (from published sources), United Kingdom, and United States.



16. IIP data on the functional categories of investment can be used to analyze the trends in more detail. The analysis shows that the patterns of recovery differed for the different types of investment.

17. The rebound in 2009 was led by **Portfolio Investment** with **Direct Investment** also resuming an upward trend. **Other Investment** was the only category where the downward trend, which began in 2008, continued in 2009 while Official **Reserve Assets** was the only category to continue an upward trend throughout the period 2007-2009.





18. Portfolio investment (equity and debt securities) accounted for the steepest recovery in 2009, after declining in value approximately 25 percent for assets and 16 percent for liabilities in 2008. Valuation effects resulting from the upward movement in price changes of stocks and bonds in 2009 would have contributed to this recovery, after the sharp fall in prices in 2008.

19. For direct investment (10 percent or more equity ownership), the decline in 2008 (approximately 5 percent for assets and 8 percent for liabilities) was not as pronounced as for portfolio investment. Direct investment rebounded in 2009 and actually surpassed the record levels of 2007. The pattern for direct investment compared to portfolio investment may reflect the longer-term, less volatile nature of direct investment.

20. The pattern for other investment (loans, currency and deposits, trade credits, etc) shows a continued downward movement in many of the advanced economies in 2009 in both assets and liabilities. For liabilities, the decline continued despite the inclusion of SDR allocations in 2009. For most advanced economies that provide a sectoral breakdown of other investment, the data show that the decrease in 2009 was most significant for the **banking sector**.

21. The overall upward trend in reserve assets continued in 2009. The increase in 2008 was small, and almost half the economies experienced a decrease. The strong increase in 2009 (21 percent) was partly due to the increase in SDR Holdings resulting from the SDR allocations that took place in 2009, plus selected lending to the Fund in 2009 that qualified as Reserve Position in the Fund for the lending economies.[7]

22. Financial derivatives data were not included in the analysis as some economies report only net positions and the series is not available for the entire 2003-2009 period for some countries, including for the United States and the United Kingdom.

23. However, it should be noted that the financial derivatives data that are available show a distinctive trend for the 2007-09 period. For both assets and liabilities the levels more than doubled from 2007 to 2008—$6 billion to $13 billion—and then dropped back to approximately $8 billion in 2009. The U.S. Bureau of Economic Analysis provides the following analysis in the July 2010 issue of the Survey of Current Business in connection with data for 2009:

U.S. holdings of financial derivatives as assets (with gross positive fair value) decreased $2,615.4 billion and as liabilities (with gross negative fair value) decreased $2,583.7 billion after even larger rises in 2008. These large changes were mainly due to decreases in U.S. assets and liabilities from interest-rate and credit-default swap contracts. In late 2008, the

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[7] This includes instruments that meet the definition of international reserves—*they must be readily available at the time of a balance of payments need*—including holdings of series A notes and some bilateral loans.

values of interest-rate, exchange-rate, and credit contracts hit a peak as interest rates plunged, the dollar appreciated rapidly, and credit spreads increased sharply. The value of contracts fell in 2009 as the markets adjusted to lower short-term interest rates and long-term interest rates rose, the dollar depreciated, and credit spreads were reduced.

VI. NEXT STEPS

24. STA will continue its work on the *IIP Pipeline Project*, and will further engage with countries in the Middle East and Africa as well as offshore centers, to the extent possible.

25. Early in 2011, STA will produce a pamphlet to assist countries in the compilation of quarterly IIP statistics. This will be particularly relevant for the 30 SDDS countries that do not yet but will need to compile and disseminate quarterly IIP statistics by end-September 2014.

26. STA is planning for the inclusion of memorandum and supplementary items in the *BPM6* report forms that will be completed by countries and submitted to STA for *IFS* and *BOPSY*. This will ensure that there is a mechanism in place to report, process, and publish this important new information.

Questions for the Committee

1. Do Committee members have views on ways to encourage countries to adopt the IIP enhancements in BPM6?

2. Do Committee members have comments on the IMF plans to provide a pamphlet to assist countries in the compilation of quarterly IIP data?

3. Would Committee members be prepared to contribute information for the pamphlet on their country's experience on compiling estimates for quarterly IIP (it would be most useful if STA received this information by end-November 2010)?