



Balance of Payments Division
IMF Statistics Department



Other Investment (L7)

Course on External Sector Statistics

Nay Pyi Taw, Myanmar

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Other Investment - Definition

- Functional category - is a residual category in the financial account and IIP
- Comprises all transactions not included under direct investment, portfolio investment, financial derivatives, and reserve assets.
- Collection of data on other investment -- problematic because it is dispersed across different institutional units.
- Assets and liabilities flows classified primarily by instrument categories, by resident institutional sectors, and by maturity.



Other Investment

Classification by Instruments:

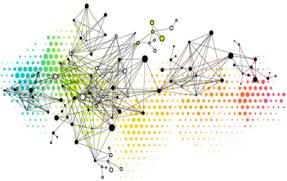
- ❖ other equity
- ❖ currency and deposits
- ❖ loans
- ❖ insurance, pension, and standardized guarantees schemes
- ❖ trade credits and advances
- ❖ other accounts receivable/payable
- ❖ special drawing rights.



Other Investment: Classification by Instruments

Other equity:

- other equity is equity that is not in the form of securities
- all “other equity investment” not included under direct investment
- ownership of some international organizations e.g. World Bank and regional development banks such as the AsDB, AfDB, IADB, and the EBRD
- ownership of currency union central banks
- investments in quasi corporations such as branches, partnerships, and notional units for ownership of real estate in the form of other equity: direct investment.



Other Investment: Classification by Instruments

Other equity:

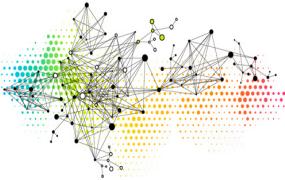
- Capital contributions to **nonmonetary** development organizations above should be recorded on a gross basis, i.e., inclusive of the foreign and domestic currency portion of the subscription. The latter in the form of domestic currency should be recorded under currency and deposits (if deposits) and other accounts payable if in the form of nonnegotiable promissory note.



Other Investment: Classification by Instruments

Loans

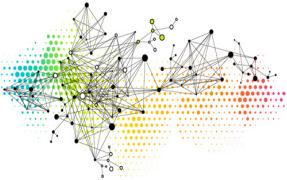
- Assets/liabilities created through the direct lending of funds by the creditor to the debtor.
- The lender receives no instrument or receives a nonnegotiable document.
- Include:
 - financial leases, repurchase agreements
 - borrowing from Fund
 - loans to finance trade and all other loans (including mortgages).



Other Investment: Classification by Instruments

Loans: Financial leases

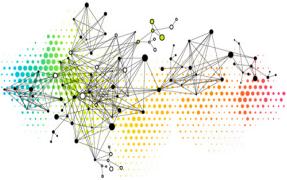
- Financial leases are included under loans because these arrangements are taken as presumptive evidence that an economic change in the ownership of goods has occurred.
- The financial lease is essentially a method by which the lessee finances the purchase of goods.
- The financial lease entails a financial claim which is an asset of the lessor and the liability of the lessee.



Other Investment: Classification by Instruments

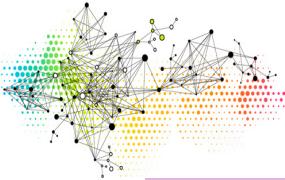
Loans: financial leases

- At the time the imputed change in ownership occurs, the market value of the goods is recorded and counterpart entries as assets or liabilities made under “loans”.
- In subsequent periods, the actual lease payment is divided into financial services (FISIM), interest, and loan repayments. Appendix 6 of BPM6 provides a numerical example of the relevant entries pertaining to financial lease arrangements.



Other Investment: Classification by Instruments

- Loans: Repurchase agreements
 - A repurchase agreement (repo) is an arrangement involving the sale of securities at a specified price with a commitment to repurchase the same or similar securities at a fixed price on a specified future date (usually very short-term e.g. overnight or one day).



Other Investment: Classification by Instruments

Loans: Repurchase agreements

- The economic nature of a repo is similar to that of a collateralized loan in that the purchaser of the securities is providing funds backed by the securities to the seller for the period of the agreement and is receiving a return from the fixed price when the repurchase agreement is reversed.
- Cash received against securities lending and gold loans treated as collateralized loan.
- However, if the cash received is included under broad money in national definition of money supply, it is included in currency and deposits.



Other Investment: Classification by Instruments

Loans: Debt assumption

- Debt assumption means that one party takes on the liability of another party. Debt may be assumed under an existing guarantee, or without a guarantee, such as where a government wants to assist a project or a direct investor assumes the liabilities of its direct investment enterprises for reputational (or other) reasons.
- In all cases, the debt-assuming party records the creation of a new liability to the creditor as a transaction in the financial account (see Box 8.1).



Other Investment: Classification by Instruments

Loans: Use of Fund credit

- Use of Fund credit and loans from the Fund comprises a member country's drawing on the Fund- other than those drawn against the country's reserve tranche.
- Use of Fund credit and loans includes purchases and borrowings under stand-by, extended, structural adjustment, systemic transformation facility, poverty reduction and growth facility, compensating and contingency financing, and buffer stock financing facility.
- A reduction in the Fund's holding of a member's currency in excess of a member's quota in the Fund minus the member's reserve tranche position reflects a repayment of the use of Fund credit.



Other Investment: Classification by Instruments

Loans

- If the original terms of a debt are changed by renegotiation by the parties, then the treatment is that the original liability is repaid and a new liability is created (This treatment applies to all types of debt instruments: loans, debt securities, and other debt items)
- In contrast, if the **original** terms of the contract provide that the maturity and/or interest rate terms change as a result of an event such as a default or decline in credit rating, then this involves a reclassification.
- Loans are recorded when amounts are actually disbursed and repayment of loans are effected when the debt obligations are extinguished through repayments or debt forgiveness by the creditors.
- Accrual of arrears on debt instruments are not recognized as transactions but those that represent exceptional financing transactions are shown as a memorandum item.



Other Investment: Classification by Instruments

Currency and Deposits

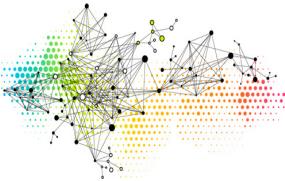
- Currency and deposits are summed as one component although separate data may be compiled by countries desiring to do so for analytic and other purposes.
- Currency consists of notes and coins that are in circulation and commonly used to make payments.
- Deposits comprise both transferable and other deposits.
- Transferable deposits consist of deposits that are exchangeable on demand at par without restriction or penalty, freely transferable by check or giro order, and otherwise commonly used to make payments.
- Other deposits include all claims (other than transferable deposits) reflecting evidence of deposit.



Other Investment: Classification by Instruments

Currency and Deposits

- Interbank positions can be shown as a separate component of deposits. There may be cases where the instrument classification of interbank positions is unclear, for example because the parties are uncertain, or one party considers it as a loan and the other a deposit. Therefore, as a convention to assure symmetry, all interbank positions other than securities and accounts receivable/payable are classified under deposits.
- Typical examples of other deposits are nontransferable savings deposits, time deposits, and “shares” (evidence of deposit)—which are legally (or practically) redeemable on demand or on short notice—in savings and loan associations, credit unions, building societies, etc.
- Deposits may be denominated in domestic or foreign currencies.



Other Investment: Classification by Instruments

Insurance technical reserves, pension fund entitlements, and provisions for calls under standardized guarantees

- Insurance, pension fund, and standardized guarantee transactions need to be broken down into their service, income, transfer, and financial account elements.
- An overview of the statistical treatment of insurance, pension funds, and standardized guarantees is given in Appendix 6 of *BPM6*.
- For non life insurance, the changes in insurance technical reserves are due to prepayments of insurance premiums and outstanding claims.
- Prepayments of premiums result from the fact that, in general, insurance premiums are paid in advance.



Other Investment: Classification by Instruments

Insurance technical reserves, pension fund entitlements, and provisions for calls under standardized guarantees

- Technical reserves against outstanding claims are reserves that insurance enterprises hold in order to cover the amounts they expect to pay in respect of claims that have been reported and are not yet resolved and estimates of claims incurred but not yet reported—including equalization reserves that relate to events that have occurred.
- For life insurance, pension funds, and standardized guarantee schemes, the changes in technical reserves due to transactions consist of estimated obligations to beneficiaries that were accrued during the period.
- Pension fund entitlements include those under both funded and unfunded schemes.



Other Investment: Classification by Instruments

Trade credits and advances

- Trade credits consist of claims and liabilities arising from the direct extension of credit by suppliers and buyers for transactions in goods and services and advance payments for work in progress (or to be undertaken) that is associated with such transactions.
- When a contract of sale is agreed in advance, progressive change of ownership occurs for the work-in-progress of high-value capital goods such as ships, heavy machinery, buildings and other structures which may take several months or years to complete. When the contract calls for stage payments (progress payments), the transaction values may often be approximated by the value of stage payments made in each period, although a difference in timing between the change of ownership and progress payment may give rise to trade credit and advances.



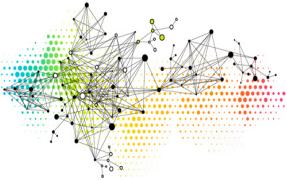
Other Investment: Classification by Instruments

Other accounts receivable/payable

- These include liabilities for taxes, purchase and sale of securities, wages and salaries, dividends (once they have gone “ex-dividend”), and social contributions that have accrued but not yet paid.

Special Drawing Rights

- The allocation of SDRs to IMF member countries is shown in the incurrence of liabilities of the recipient under SDRs in other investment with a counter-entry under SDRs in reserve assets. This is a change from BPM5
- Other acquisitions and sales of SDRs are included in reserve assets.



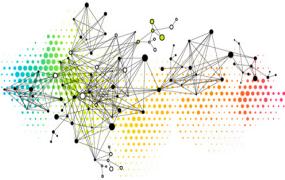
Other Investment: Classification by Sectors

- For assets, the institutional sector of the domestic (resident) creditor, and for liabilities, that of the domestic debtor, are important analytical information.
- The sectoring also improves links with government finance, financial statistics, and the SNA.



Other Investment: Classification by Sectors

- The sectors identified are:
 - central bank
 - general government
 - deposit-taking corporations other than the central bank
 - other financial corporations and
 - non financial corporations, households, and NPISHs.
- As supplementary information, data may be compiled on the sector of the non resident counter party, particularly in the case of government borrowing.



Other Investment: Maturity Breakdown

- The maturity breakdown is based on the original maturity of the instrument.
- Instruments up to 1 year of maturity are designated short-term while instruments over one year in maturity are designated long-term.
- In addition, supplementary information is encouraged on a remaining maturity basis for short-term obligations and long-term obligations falling due for payment in one year or less.