# INTERNATIONAL INVESTMENT POSITION (IIP) STATISTICAL REPORTING AND ITS RELEVANCE IN FINANCIAL SYSTEM STABILITY

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# Outline

- What is the IIP
- Conceptual Framework
- Statistical Reporting
- Importance of IIP statistics
- Closing remarks

# What Is the IIP?

- The international investment position (IIP) is a statistical statement that shows at a point in time the value and composition (*BPM6*, para 7.1) of:
  - financial assets of residents of an economy that are claims on nonresidents or gold bullion held as reserve assets, and
  - liabilities of residents of an economy to nonresidents.
- The difference between an economy's external financial assets and liabilities is the **net IIP**, which may be positive or negative.
- The IIP is a subset of the national balance sheet

# What Is the IIP?

## Financial Assets and Liabilities

- ***Equity and investment fund shares***
  - Equity
  - Investment fund shares/units
- ***Debt instruments***
  - Special Drawing Rights
  - Currency and deposits
  - Debt securities
  - Loans
  - Insurance, pension, and standardized guarantee schemes
  - Trade credit and advances
  - Other accounts payable/receivable
- ***Other financial assets and liabilities***
  - Monetary gold
  - Financial derivatives and employee stock options

# What Is the IIP?

- Functional categories (*BPM6* Chapter 6):
  - Direct investment
  - Portfolio investment
  - Financial derivatives (other than reserves) and employee stock options
  - Other investment
  - Reserve assets

# What Is the IIP?

## Additional splits

- By sector
  - Central bank (monetary authorities where relevant);
  - Deposit-taking corporations, except the central bank;
  - General government;
  - Other sectors:
    - Other financial corporations;
    - Nonfinancial corporations, households, and NPISHs.

# What Is the IIP?

- Additional splits:
  - By maturity (BPM6 Para. 5.103 -5.105):
    - Original maturity:
      - Short-term - one year or less;
      - Long-term - more than one year.

# What Is the IIP?

- Integrated IIP Statement :
  - Stocks measured at different points in time and explanation of the changes between them.
  - Beginning-of-period value;

    \+ changes during period:
    - transactions (financial account);
    - other flows (other changes in financial assets and liabilities account):
      - other changes in volume, revaluation due to exchange rate movements, other price changes;
  - = End-of-period value.

# What Is the IIP?

| International Investment Position | Opening Position | Transactions | Other Changes in volume | Revaluation | Closing Position |
| --- | --- | --- | --- | --- | --- |
| **Assets** | | | | | |
| Direct Investment | | | | | |
| Portfolio Investment | | | | | |
| Financial derivatives | | | | | |
| Other investment | | | | | |
| Reserve assets | | | | | |
| **Liabilities** | | | | | |
| Portfolio Investment | | | | | |
| Prortfolio investment | | | | | |
| Financial derivatives | | | | | |
| Other investment | | | | | |
| **Net IIP** | | | | | |

# Conceptual Framework

## Transactions

- A transaction is an interaction between two institutional units that occur by mutual agreement or through the operation of the law and involves an exchange of value.

# Conceptual Framework

- Direct investment assets and liabilities cover:
  - Equity and investment fund shares
  - Reinvestment of earnings
  - Debt instruments
- Financial derivatives are <u>not</u> included in direct investment.

# Conceptual Framework

- Portfolio investment
  - Two instruments:
    - Equity securities:
      - Holdings less than 10% of voting power.
    - Debt securities:
      - Long-term (> 1 year) - bonds, notes, debentures, ...
      - Short-term - treasury bills, commercial paper, bankers' acceptances, …

# Conceptual Framework

- Financial derivatives (other than reserves) and employee stock options:
  - Risk management objective;
    - Linked to another instrument or other value;
    - Insulate against price changes.
  - Forward-type contracts and options.

# Conceptual Framework

- Other investment:
  - Residual for instruments not included elsewhere;
  - Consists of:
    - Other equity;
    - Currency and deposits;
    - Loans;
    - Insurance technical reserves etc.;
    - Trade credit and advances;
    - Other accounts receivable/payable;
    - Special drawing rights

# Conceptual Framework

- Reserve assets:
  - Assets available to and under control of monetary authorities;
  - Consist of:
    - Monetary gold
    - Special drawing rights
    - Reserve position in the IMF
    - Currency and deposits
    - Debt and equity securities
    - Financial derivatives (for purposes of reserve management only)
    - Other claims

# Statistical Reporting: IIP Compilers

- **Compilers**
  - Jamaica
  - Barbados
  - Bermuda
  - Suriname
  - Trinidad and Tobago
  - Haiti

- **Upcoming Compilers**
  - Anguilla
  - Antigua and Barbuda
  - Dominica
  - Grenada
  - St. Kitts and Nevis
  - St. Lucia
  - St. Vincent and The Grenadines
  - Montserrat
  - Eastern Caribbean Currency Union
  - Guyana

# Why Is It Important?

- Assess economic relations with the rest of the world.
- Monitor developments in external relations between countries.
- Measure degree of financial openness.
- Monitor external debt.
- Indicate external debt sustainability.
- Indicate financial stability

# Why Is It Important?

**IIP and *BPM6***

- Increasing emphasis on the IIP data
  - International accounts compilation
    - balance of payments (flows) and IIP (stocks) are of the same importance.
  - Recognition of role of balance sheet analysis in understanding. sustainability and vulnerability, including currency mismatches, the effect of maturity structure on liquidity, etc.

# Why Is It Important?

**Balance Sheet Approach**

- Composition/size of an economy's financial balance sheet is an important source of vulnerability to crises (*BPM6*, para 14.57-14.66).
- Analytic framework for assessing balance sheet risks focuses on five types of balance sheet mismatches (*BPM6*, paragraph 14.63):
  - **Maturity mismatches**: Gap between short-term liabilities and liquid assets.
  - **Currency mismatches**: When changes in exchange rate lead to holding loss.
  - **Financial structure problems**: Heavy reliance on debt rather than equity.
  - **Solvency problems**: Assets (including PV of future streams) insufficient to cover liabilities (including contingent liabilities).
  - **Dependency problems**: Over reliance on another economy.

# Why Is It Important? :

## Maturity Mismatches

- Mismatches between short-term liabilities and longer-term assets can expose an economy to liquidity and interest rate risk.
- The IIP provides information on an original maturity basis for debt instruments.
- But, also important is the information on debt coming due in the near term,
    - In *BPM6*, a *supplementary* item is included for the position in debt on a remaining maturity basis.

# Why Is It Important? :

## Currency Composition

- In analyzing the potential impact of exchange rate movements on economic activity and financial stability,
  - information on the currency composition is increasingly relevant as exchange rates become more flexible.

# Closing Remarks

- **The IIP is important for external vulnerability assessments** because it provides a balance sheet snapshot of the levels, sectoral distribution, and maturity of a country's external liabilities (*e.g.*, external debt), and the size and composition of its external claims (*e.g.*, banks' foreign claims), that may be available to meet its external obligations.

END OF PRESENTATION