IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

DITEG ISSUE PAPER #16

Maturity and Instrument Split for Direct Investment

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Maturity and Instrument Split for Direct Investment

1. Current international standards

The current international standards for balance of payments statistics recommend that the direct investment instrument be split into "equity capital", "reinvested earnings" and "other capital." For the international investment position (IIP), only a breakdown into "equity capital and reinvested earnings" and "other capital" is recommended (i.e. "reinvested earnings" is combined with "equity capital" in the IIP). No maturity split is recommended. *BPM5* suggests (para. 339) that a split between "long-term capital" and "short-term capital" is not meaningful as investment decisions are made on an arbitrary basis by the enterprise involved and that there is no meaningful analytic distinction between the two maturities for intercompany flows.[1]

2. Concerns/shortcomings of the current treatment

One of the goals of the *BPM5* and the *1993 System of National Accounts* (*1993 SNA)* was the creation of an integrated framework of statistics, ensuring, to the maximum extent possible, that the two frameworks were compatible. That goal was achieved to a very large extent but there are some areas where integration remains problematic. One of those is the linking of "other capital" in direct investment to the financial account and balance sheet of the "rest of the world" in the *1993 SNA*, because it is not broken down by instrument or maturity.

In addition, there is growing interest in obtaining more detail of "other capital" for analysis of cross-border financial positions flows, such as for trade credit.

3. Possible alternative treatments

In order for compilers of the national accounts' financial account and balance sheets to be able to compile their data more easily, it would be useful for an instrument breakdown to be obtained, (that is, a breakdown showing (i) securities other than shares (i.e., debt securities), (ii) loans, (iii) accounts receivable/payable (further broken down into "trade credit and advances" and "other"), and (iv) other. It is proposed that this breakdown would be encouraged on a supplementary basis for countries where debt instruments other than loans are an important financing instrument. For all of these instruments, a long-term/short-term distinction would also be useful to fit the requirements of the national accounts, as the national accounts financial account has a similar split. However, for the reasons indicated in para. 339 of *BPM5,* it might not be meaningful or feasible to compile such a split, especially for loans.

[1] "Short term" is defined as up to and including one year and "long term" as more than one year.

The encouraged information would be for both transactions and positions. However, if transactions breakdowns were to prove too difficult to collect, data on a positions basis would still be very useful supplementary information.

Repeating the concerns raised in *BPM5* may be necessary as the points raised are probably still relevant.

4. Responses to Annotated Outline

Paragraph 5.28: *Should debt in direct investment be broken down between long- term and short-term components, and into the underlying instruments, to permit reconciliation with the 1993 SNA financial account and balance sheets?*

Total responses	9	
Yes	5	• Supplementary only (1).
No	4	• Supplementary only (1).

5. Questions/points for discussion

1. Do the members of DITEG have a view about the desirability and practicality of collecting, on a supplementary basis, a breakdown of "other capital" in direct investment into the instrument classification (viz. debt securities, loans, accounts receivable/payable, and other) of the 1993 SNA, *in order to assist the integration of the balance of payments financial account and IIP with the financial account and balance sheet of the* 1993 SNA *and for analytical reasons?*

2. Do members of DITEG feel that obtaining an additional instrument breakdown of accounts receivable/payable (i.e., "trade credit and advances" and "other") on a supplementary basis, is desirable and practical?

3. Do members of DITEG feel that a short-term/long-term breakdown for debt securities is achievable? Do they feel that it would be meaningful and feasible to make such a breakdown for loans and accounts receivable/ payable (or trade credits)? Or do they feel that the issues raised in BPM5 about the arbitrariness of a short-term/long-term distinction is still appropriate, especially with regard to loans?

4. Do members of DITEG feel that a breakdown of "other capital" positions data would be easier to obtain than transactions?

Annex of the most relevant documents

Annotated outline Paras. 5.28

BPM5 paras. 339 and 370.

1993 SNA Table 11.3a