

Reconciliation International Investment Position and Financial Accounts in Belgium

By Rudi Acx¹
Roger De Boeck²

1. HISTORY

Until 2008, the International Investment position (IIP) was compiled on the basis of the cumulative balance of payments flows. Starting with an estimate of the IIP at a given point in 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 although only a rough estimate of the IIP's value and with decreasing quality over time. Changes in the IIP between two points in time are not only the result of the financial transactions conducted during this period.

Changes in the IIP 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 amortization 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 that system was replaced in 2010 , for series starting in 2008, by a method of compiling the IIP on the basis of the data on the actual positions of both assets and liabilities 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 and 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 at yearly frequency. For that reason, comparison between the provisional estimates based on the quarterly estimates and the final data for a given year is meaningless.

¹ Head of the General Statistics department of the National Bank of Belgium (NBB)

² Senior Expert at the Statistics department of the National Bank of Belgium (NBB)

We are grateful for the inputs by the External statistics unit of the NBB.

The views expressed in this paper are those of the authors and do not necessarily reflect those of the National Bank of Belgium.

2. CONTEXT

In recent years the discrepancies between the IIP and the national financial accounts were increasing reaching an unacceptable level.

In 2016 the General statistics Directorate of the National Bank of Belgium decided to proceed to an in depth exercise of reconciliation and adjustment of the concerned statistics with the aim to publish updated figures in September 2017.

The main objective of the revision process was to assure a better coherence between the IIP and comparable financial statistics, fulfilling one of the 2017 priorities defined by the Board of the National Bank of Belgium within its 2020 vision.

A complementary goal was to improve the quality of the IIP by reviewing some methodological aspects and by using new or alternative data sources besides the correction of simple errors.

3. THE AD HOC IIP TASK FORCE

Considering the diversity of the issues and topics to be treated and the interaction with different other statistical domains, a multidisciplinary task force was created consisting of producers and the main internal users of the data. As a result experts of following units of the Bank were associated:

- the External statistics unit which took the lead
- the Financial statistics unit comprising the compilers of the financial accounts,
- the National accounts unit
- the Macroprudential unit
- the Economic research unit

The main objectives of the task force were:

- analysis and validation of the methodological changes proposed by the External statistics unit
- full transparent and preliminary information of the main concerned stakeholders in the Bank
- validation of the publication calendar

The task force produced 3 synthetic documents :

- the description of the existing situation prior to the exercise ("as is")
- the description and evaluation of the proposed methods and processes ("to be")
- the numerical impact analysis of the proposed revisions

4. NATURE OF THE POSSIBLE REVISIONS

From the outset 4 adjustments of different nature were considered:

- **Methodological revisions**
These revisions are related to new or adjusted methodological standards or guidelines defined by the international institutions in charge of the standards for economic statistics. Those changes in the references may impact the gross figures (f.i. valuation at market prices instead of at book value) or may be limited to a shift between components without any effect on the gross figures (f.i. shift from goods to services).
- **Procedural revisions**
These are triggered by the availability of new data sources (not existing before) or the use of data sources not yet addressed previously and include switches to better estimation methods.
- **Coverage of missing data due to late reporting**
Unlike the process in the current account, estimates for missing data for variables in the financial account and the IIP were less present because they were considered as not reliable due to the high volatility of the underlying elements. Some technics for non-response were

nevertheless already developed mostly for positions resulting in or a status quo or an adjustment to a maximum of an existing related flow

- **Correction of simple errors**

As the four types of adjustments were in several cases simultaneous applied to a single time series, it became impossible for those cases to identify the impact by type of adjustment.

5. PROPOSED REVISIONS

5.1 FOREIGN DIRECT INVESTMENT

The main adjustments in this functional component are of 2 natures, one being methodological, the others procedural:

- revision of the calculation considering some specific legal constructions in the Netherlands
- use of the market price for the valuation of equity capital in affiliated enterprises
- elimination of some double counts

5.1.1 STICHTING ADMINISTRATIEKANTOOR (“STAK”)

This type of Dutch legal entities (see annex for more details) are used by residents in Belgium to locate the ownership of a resident enterprise outside Belgium. Considering the resulting kind of home loop, the related assets and liabilities were previously excluded from the IIP to avoid the increasing the gross amounts in the IIP without any effect on the net IIP.

When the concerned assets were not equal to the related liabilities, which became the case in a number of STAK's, the difference was nevertheless registered in the IIP considering it was representative of a non-resident contribution (investor).

This neutralizing procedure is not anymore allowed by neither BPM6, nor the ESA2010. On this basis such a procedure was not applied in the financial accounts initiating some discrepancies between both statistics. It was therefore decided that the IIP would henceforth apply the same approach and include the related gross amounts in its assets and liabilities.

5.1.2 VALORISATION OF OWN FUNDS OF DIRECT INVESTMENTS IN LISTED COMPANIES

Previously, the direct investments in listed companies were valued at book value applying the Own Funds at Book Value (OFBV) method for both the assets and the liabilities. Although the recommended method in BPM6 is market value as for portfolio investment, the above method was allowed for FDI as a proxy for practical reasons, especially for non-listed companies.

The adjustment made to market value on both sides of the FDI equity capital in listed companies in the IIP is in line with the international standards and ensures the full consistency with the treatment of such shares in portfolio investment.

5.1.3 VALORISATION OF EQUITY CAPITAL IN NON-LISTED COMPANIES

Using 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. Belgium was confronted with this kind of situation among others resulting from the use of STAKs by major Belgian investors.

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 at book value.

Accordingly, the more the value of the listed companies rises at the stock exchange, the more the net FDI position in the IIP is negatively biased.

This particular situation is taken into consideration in the BOP guideline of the ECB as one of the two exceptions where it may be chosen to derogate from the main recommendation for non-listed companies (to be registered at book value).

For the sake of consistency between valuations of assets and liabilities and in order to avoid major volatile unbalances, the European methodology allows then 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 the own funds of the listed equity investments recorded as liabilities.

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

At the side of Eurostat, any valuation method is acceptable in so far it is mentioned by the international standards and not excluded by the European regulatory frame (Eurostat and ECB). Considering the major case Belgium was facing, it was in our view justified to switch to this approach and to make use of the leeway offered by the ECB guideline.

5.1.4 COMMERCIAL RECEIVABLES AND DEBTS (case of double counts)

Receivables and commercial debts between related 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 adjustments in this functional component are both of a procedural character:

- on the liability side of the IIP, there is the implementation of a new method to estimate the value of ownership by non-residents (all sectors) of securities issued by residents in Belgium (*residual approach*);
- on the asset side, there is the introduction of a new data source to estimate the amount of securities issued by non-residents owned by the non-financial companies and the households resident in Belgium and given in custody abroad (*Third Party reporting*).

5.2.1 RESIDUAL METHOD

Belgian listed shares can be held all over the world and not necessarily be given in custody in Belgium. As a result, due to the fact that the previous data collection system security by security was restricted to direct reporting and reporting by resident financial institutions acting as depositaries of the securities deposits made by non-residents, the estimate of the amount of liabilities in the form of Belgian listed shares owned by non-residents was understated in the IIP.

To fulfill the requirements of the ESA2010, a new methodology was developed for the financial accounts aiming at a better measure of the ownership of Belgian listed equities by both residents and non-residents globally. This methodology is combining different data sources (data on share issues, data on resident ownership) to determine first the most correct amount held by residents. Afterwards the residual method is applied in allocating the difference with the amount of concerned shares issued to non-resident owners.

The investment by non-residents in Belgian listed shares to be considered as portfolio investment in the IIP is then estimated on the basis of the total residual amount calculated as described above and allocated to non-residents, taking into account the amount held in listed companies by non-resident direct investors (part of the FDI components).

The use of this residual method to estimate the portfolio investment by non-residents ensures that there is no understatement anymore of the fact that Belgian listed shares can be held in custody worldwide and that those investments are only partially or not at all reported.

This method results in a significant higher estimate of this kind of liabilities in the portfolio investment components of the IIP compared to the method previously applied in external statistics.

5.2.2 THIRD PARTY HOLDING (TPH)

The data needed to estimate holdings of listed securities by resident non-financial corporations and households especially when those are owner of depositories abroad, including the euro area, are very patchy and incomplete. Only a non-exhaustive source of data gathered from non-financial corporations was available and no such data are collected from households.

However, the availability of the recently developed Third Party Holding (TPH) statistical series could 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 the households and non-financial companies.

Those data are provided by the members of the Eurozone in the frame of the Securities Holdings Statistics (SHS) regulated by an ECB regulation. Nevertheless a threshold of 10 billion € is applied by reporting custodian. The reported data include a breakdown by country and by sector of investor.

Considering that the Bank does not organize a data collection with the households and that only a partial data collection exists with non-financial companies, for which the risk of double counting is very limited, it was decided to use the TPH data for both sectors.

5.3 OTHER INVESTMENTS

The main revision factors in this heading involve:

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

5.3.1 ELIMINATION OF DOUBLE COUNTS (loans and deposits)

An examination of collected on loans to and/or deposits from non-residents by non-financial corporations has revealed that some declarants have been wrongly reporting) – due to confusing on terminology- loans when they were actually deposits and vice versa, leading in some cases to double counting. This has now been stopped by simply cleaning the content of the concerned IIP components.

5.3.2 NEW DATA SOURCE

Data from the Bank for International Settlements (BIS) constitute a source used since 2008 to estimate deposits by residents held 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 sole ones that also include information on the households sector. For countries that do not take part in BIS surveys, the National Bank of Belgium bases its figures on non-exhaustive direct surveys among resident firms (non-financial companies and financial companies other than banks).

In order to ensure greater consistency between assets and liabilities, the BIS data were also used as a supplementary source for the “Loans”- heading on the liabilities side of the IIP. This approach guarantees at least the homogeneity of the data source for both assets and liabilities.

6. GLOBAL IMPACT OF THE ADJUSTMENTS

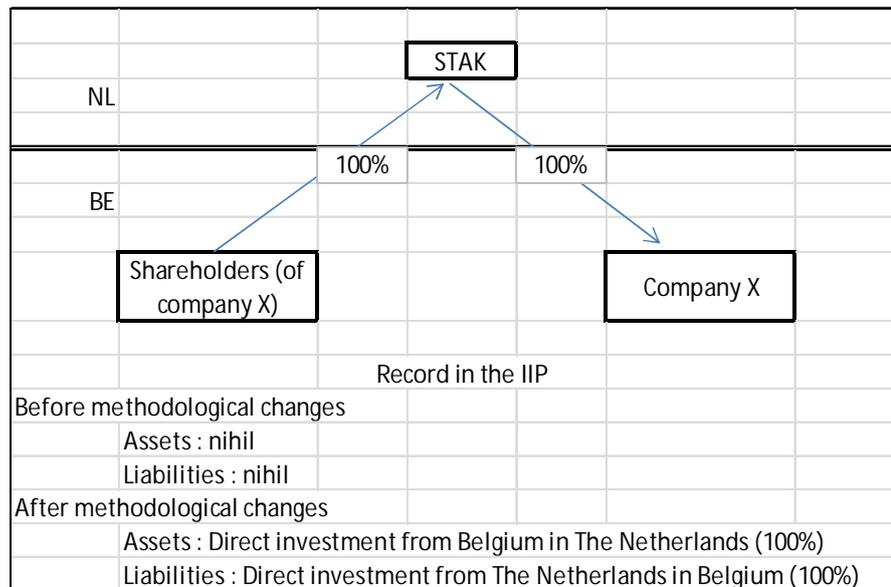
For the years 2014 and 2015, these methodological changes reduce the net position (the difference between assets and liabilities). A comparison by components of the IIP is available in the tables below

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

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.

