

## **Box 9**

### **International investment position of the euro area: methodological note**

The annual international investment position of the euro area, compiled by the ECB for the first time, covers the net external assets of the euro area for 1997 and 1998 (see Table 8.6 in the “Euro area statistics” section of this issue). The international investment position reports the net external positions of stocks in direct and portfolio investment, financial derivatives, other investment and reserve assets. It complements the balance of payments, which records flows of assets and liabilities, with data on the value of stocks. The change in the international investment position between year-ends can only be partly explained by the balance of payments in the intervening year, since the international investment position also reflects valuation effects arising from changes in asset prices and exchange rates and certain other changes not recorded in the balance of payments (see the main text).

At the current stage the euro area international investment position does not provide full coverage of data, and the data may be revised in the future as the methodology is refined. Furthermore, data for 1998 are not fully comparable with data for 1997. Therefore, the analysis provided here should only be considered as indicative. Nevertheless, the figures reported may help to provide an initial assessment of the external position of the euro area.

The euro area international investment position is based on the aggregation of the international investment positions of individual euro area Member States. At present, however, the international investment positions of euro area Member States do not include a breakdown into cross-border positions within the euro area and positions vis-à-vis non-residents of the euro area. Consequently, in each account of the euro area international investment position only the net external position of the euro area can be identified and, unlike the international investment position of Member States, external assets and liabilities are not available separately. Moreover, national compilation methods have yet to be fully harmonised. Furthermore, only a breakdown by instrument is possible.

The classification of the items in the international investment position follows the standard components of the balance of payments financial account as set out in the IMF Balance of Payments Manual (5th edition), namely direct investment, portfolio investment, financial derivatives, other investment and reserve assets, and is consistent with the investment income items in the balance of payments current account. The euro area international investment position is valued at current prices, with the exception of direct investment stocks, for which book values are used to a large extent.

Direct investment is split into equity capital (plus reinvested earnings) and other capital (debt between affiliated companies). Portfolio investment is classified by instrument, i.e. equity securities and debt securities, and the latter instrument is subdivided into bonds and notes and money market instruments. The other investment account is broken down into trade credits, loans/currency and deposits and other assets and liabilities.

Further information on international investment position statistics is provided on the ECB’s Web site.