

## Box 9

### Enhanced compilation of the euro area international investment position statistics for the 1999-2001 period

The statistical section of the Monthly Bulletin contains, for the first time, a more comprehensive and improved compilation of the euro area's annual international investment position (i.i.p.) from 1999 to 2001. These data are presented in the "Euro area statistics section" of the Monthly Bulletin in Tables 8.7.1 to 8.7.4. The i.i.p. reports the net external positions of stocks of direct and portfolio investment, financial derivatives, other investment and reserve assets. In this context, it complements the balance of payments (b.o.p.) statistics, which record flows of assets and liabilities, with data on the value of stocks. So far the euro area i.i.p. has been compiled by aggregating, on a net basis, euro area countries' year-end external positions (see Box 9 in the December 1999 Monthly Bulletin, when the i.i.p. for the euro area was first reported). By contrast, the new i.i.p. data allow for a differentiation between the asset and liability sides – in line with the practice applied in the reporting of the euro area b.o.p. flows from as early as 1999 – and are compiled by totalling the positions with counterparts outside the euro area (i.e. compilation on an extra-euro area basis). Data prior to 1999 are not subject to such compilation improvements and, therefore, are not fully comparable.

The definition and classification of the items follow the standard components of the b.o.p. financial account and i.i.p. as established by the International Monetary Fund, namely direct investment, portfolio investment, financial derivatives, other investment and reserve assets. These items are further broken down by instrument and resident sector. As indicated above, to facilitate the reconciliation with flows, the i.i.p. presentation has the same level of detail as the quarterly euro area b.o.p. statistics. Direct investment is split into equity capital (plus reinvested earnings) and other capital (debt between affiliated companies), and each of these items is subdivided further by sector according to the MFI/non-MFI classification. Portfolio investment is classified by instrument, i.e. equity securities and debt securities, with the latter instrument category being subdivided into bonds and notes and money market instruments. The other investment account is broken down into trade credits, loans/currency and deposits as well as other assets and liabilities.

Showing assets and liabilities separately requires the euro area countries to distinguish between positions with residents of other euro area countries and positions with non-euro area residents. All EMU countries are now in a position to provide this breakdown for all items except portfolio investment liabilities (as in the case of b.o.p. flow statistics) for year-end positions from 1999 onwards. The additional information on euro area assets and liabilities sheds further light on the link between euro area b.o.p. flows and the i.i.p., by classifying the total change between two end-of-period positions into (i) changes due to real transactions (b.o.p. flows) and (ii) other changes for each financial account item. "Other changes" include valuation changes due to price and exchange rate effects and other adjustments (for instance write-offs, reclassifications and so on). The euro area i.i.p. is valued at market prices, with the exception of direct investment stocks, for which book values are used to a large extent.

#### Small overall net debtor position of the euro area

Total outstanding assets held by euro area residents amounted to €5,796.7 billion in 1999 compared with €7,459.4 billion in 2001, representing an increase of 28.7% over the two-year period (see Table). During the same period, the outstanding stock of euro area assets held by non-residents (i.e. euro area liabilities) increased by 24.9% from €6,094.0 billion to €7,611.6 billion. On balance, the euro area has a small and decreasing overall debtor position vis-à-vis the rest of the world, with net liabilities of €152.2 billion in 2001 (representing 2.2% of euro area GDP). The size of this net debtor position is substantially smaller than in 1999 and 2000, when it stood at €297.3 billion (4.7% of GDP) and €414.7 billion (6.3% of GDP) respectively. The decrease in the debtor position mostly reflects the increase in the net direct investment asset position and the decrease in the net portfolio investment liability position in the period under review.

## The international investment position of the euro area

(EUR billions)

	1999	2000			End-of-year stocks	2001			End-of-year stocks
	End-of-year stocks	Total changes	of which			Total changes	of which		
			Transactions	Other changes			Transactions	Other changes	
<b>Total</b>									
<i>Net</i>	-297.3	-117.4	-74.6	-42.9	-414.7	262.5	40.5	222.0	-152.2
<i>Assets</i>	5,796.7	943.3	998.6	-55.3	6,740.0	719.5	766.9	-47.3	7,459.5
<i>Liabilities</i>	6,094.0	1,060.7	1,075.0	-14.3	7,154.7	457.0	730.1	-273.1	7,611.7
<b>Direct investment</b>									
<i>Net</i>	369.6	58.9	14.7	44.2	428.5	102.2	101.5	0.7	530.7
<i>Assets</i>	1,174.5	435.2	438.7	-3.5	1,609.7	250.2	255.8	-5.6	1,859.9
<i>Liabilities</i>	804.9	376.3	424.0	-47.7	1,181.2	148.0	154.3	-6.4	1,329.2
<b>Portfolio investment</b>									
<i>Net</i>	-881.2	76.3	106.4	-30.1	-804.9	122.2	-38.1	160.3	-682.7
<i>Assets</i>	2,058.1	286.0	398.4	-112.4	2,344.1	155.7	288.0	-132.3	2,499.8
<i>Liabilities</i>	2,939.3	209.8	291.9	-82.1	3,149.1	33.4	326.1	-292.7	3,182.5
<b>Financial derivatives</b>									
<i>Net</i>	16.0	-7.5	1.8	-9.3	8.5	-14.4	3.7	-18.1	-5.9
<i>Assets</i>	111.1	6.8	-	-	117.9	5.8	-	-	123.7
<i>Liabilities</i>	95.1	14.2	-	-	109.3	20.2	-	-	129.5
<b>Other investment</b>									
<i>Net</i>	-183.9	-253.3	-183.0	-70.3	-437.2	50.2	-8.8	59.0	-387.0
<i>Assets</i>	2,070.8	207.1	176.0	31.1	2,277.9	305.5	240.9	64.6	2,583.4
<i>Liabilities</i>	2,254.7	460.4	359.0	101.4	2,715.1	255.4	249.6	5.8	2,970.5
<b>Reserve assets</b>	382.2	8.2	-14.5	22.7	390.4	2.3	-17.8	20.1	392.7

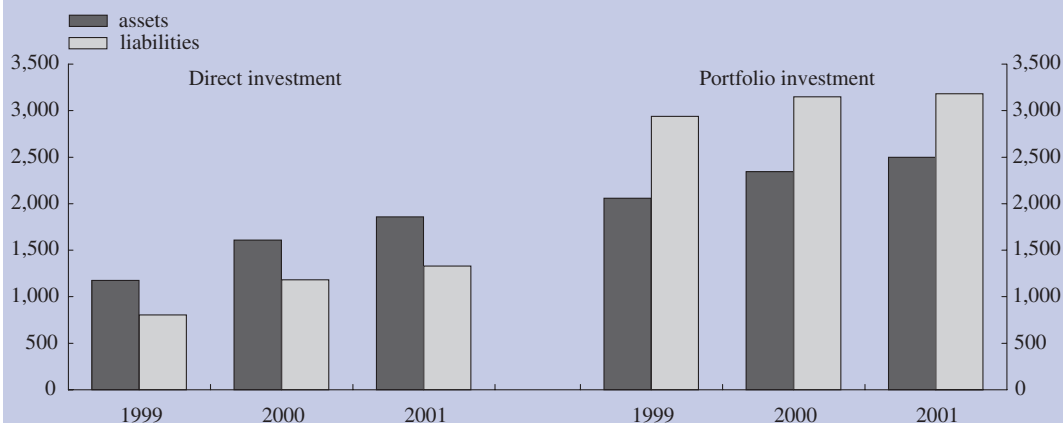
Source: ECB.

In more detail, the net direct investment asset position increased from €369.6 billion in 1999 to €530.7 billion in 2001 (see the chart below). Conversely, the net portfolio investment liability position declined from €881.2 billion in 1999 to €682.7 billion in 2001. With regard to the remaining items of the euro area i.i.p., the net "other investment" position shows a net debtor position of €387.0 billion in 2001, down from €437.2 billion in 2000. Furthermore, the net financial derivative positions were of a small magnitude in the period under review, resulting in a net debtor position of €5.9 billion in 2001. Reserve assets increased slightly to €392.7 billion at the end of 2001.

Turning to the subcategories of the i.i.p., developments in the international direct investment position of the euro area were largely driven by cross-border transactions in the form of equity capital and reinvested

## The international direct and portfolio investment position of the euro area

(EUR billions, end-of-period)



Source: ECB.

earnings, particularly in the non-MFI sector. In fact, euro area non-MFI firms held €853 billion worth of foreign assets of this type in 1999, which increased by 57.8% to €1,346.4 billion in 2001. Similarly, foreign firms' holdings of euro area non-MFI equity capital and reinvested earnings were equal to €582 billion in 1999, and rose by 62.1% to €943.2 billion in 2001. These developments appear to be largely accounted for by the surge in international merger and acquisition activity observed over most of this period. Similarly, the cross-border loans between non-MFI affiliated companies rose considerably over the same period, i.e. by almost two-thirds in the case of euro area assets and by almost three-quarters in the case of euro area liabilities. Nevertheless, the outstanding gross positions of the inter-company loans are of a much smaller magnitude and are positive in net terms.

Developments in the international portfolio investment position of the euro area were largely affected by developments in bonds and notes. Euro area holdings of foreign bonds and notes amounted to €937.2 billion in 1999, rising by 28.9% to €1,208.1 billion in 2001. This increase was, to a large extent, attributable to acquisitions by the MFI sector, which rose from €257.2 billion to €422.1 billion. Similarly, non-euro area residents increased their net holdings of euro area bonds and notes by 32.2% from €1,138.5 billion in 1999 to €1,505.5 billion in 2001. Non-resident demand for euro area debt securities over this period may have been partly driven by the broadening and deepening of the euro area corporate debt markets as well as shifts from equities to bonds in an environment where conditions in global equity markets had become highly volatile. With regard to portfolio equity investment, euro area assets in the form of equity securities increased by 9.7% between 1999 and 2001, while non-euro area residents reduced their outstanding position with the euro area by 7.1% over the same period. As shown in the table above, the outstanding positions in portfolio equity securities were influenced by valuation changes, and particularly by the decline in stock market prices in 2000 and 2001.

With regard to the other investment category, most of the developments occurred in the MFI (excluding the Eurosystem) sector, partly as a result of the transactions in direct and portfolio investment. Indeed, MFI assets increased from €1,317.7 billion in 1999 to €1,719.5 billion in 2001. Similarly, MFI liabilities increased from €1,823.5 billion to €2,407.3 billion over the same period.