# Methodological changes affecting Germany's international investment position

An economy's international investment position (IIP) shows its residents' financial assets and liabilities vis-à-vis non-residents valued at market prices at the end of each quarter.[1] At the end of September 2014, the Bundesbank realigned its IIP concept with the updated Balance of Payments and International Investment Position Manual (BPM6) of the International Monetary Fund (IMF).[2] This brought the IIP's methodological basis into line with that used in the balance of payments, which changed over to the new standard with the publication of the data for May 2014.[3]

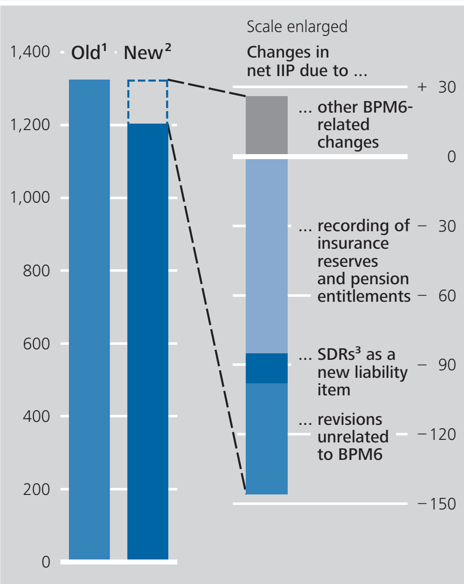
## Quantitative impact

As a result, Germany's net investment position at the end of 2013 now amounts to €1,204 billion (43% of gross domestic product), which is €121 billion lower than previously reported. The introduction of BPM6 accounts for €73 billion of this decline; the remaining €48 billion is attributable to revisions unrelated to BPM6 that were made at the same time. The largest quantitative impact arising from the methodological recalculation relates to the first-time recording of insurance reserves and pension entitlements.[4] As this has a greater impact on the liability side (€119 billion) than on the asset side (€34 billion), it reduces the net IIP by €85 billion. This is partly due to recognising the insurance claims of foreign workers who return to their home country. The pension entitlements of retirees who have taken up permanent residence outside of Germany are also recorded under this item.

Germany's net IIP falls by a further €13 billion as a result of the modified recording of special drawing rights (SDRs) created and allocated by the IMF. Although these were already recorded hitherto on the asset side (under "reserve assets"), a corresponding counter-entry is now also included on the liability side (under "other investment"). The logic behind this is that the BPM6 concurrently defines SDRs as a liability since they may have to be repaid under certain circumstances. Under the new accounting practice, the allocation of SDRs increases reserve assets but has no impact on the net

**Net international investment position at end-2013 according to the old and new concept**

€ billion

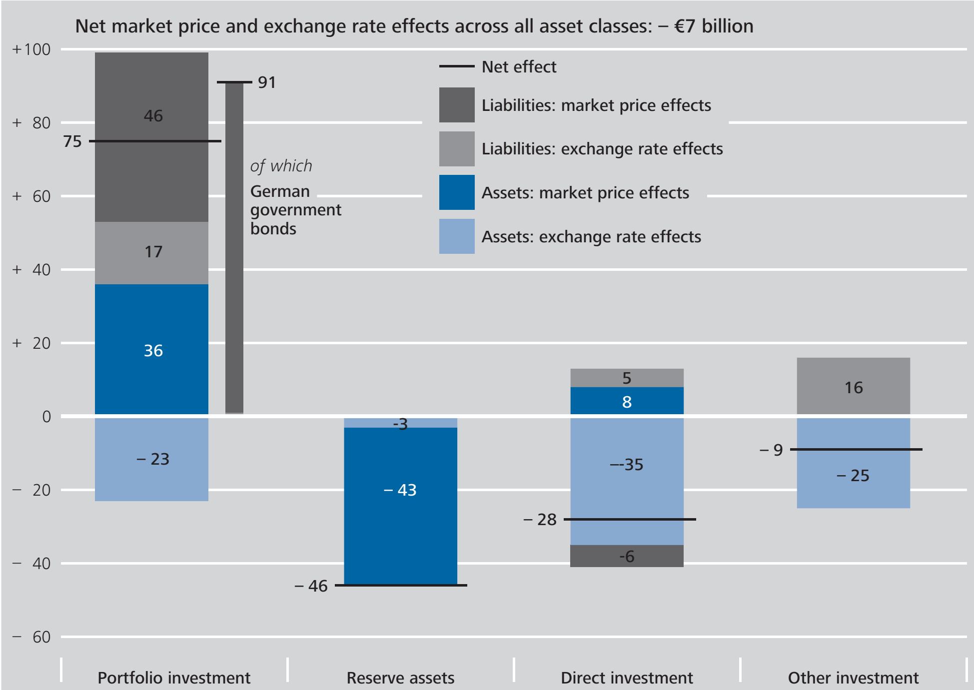



1 According to IMF, Balance of Payments and International Investment Position Manual, Fifth Edition (BPM5). 2 According to BPM6. 3 IMF special drawing rights.
Deutsche Bundesbank

1 For further information on the IIP, see Deutsche Bundesbank, Balance of payments statistics, Statistical Supplement 3 to the Monthly Report, p 38, as well as http://www.bundesbank.de/Navigation/EN/Statistics/External_sector/International_investment_position/international_investment_position.html.
2 IMF (2009), Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6).
3 For information on the principal methodological changes, see Deutsche Bundesbank, Changes in the methodology and classifications of the balance of payments and the international investment position, Monthly Report, June 2014, pp 57-68.
4 This change ensures a greater level of consistency with the financial accounts, which already factor in such entitlements.

International investment position – valuation effects in 2013

€ billion, + indicates increase, – indicates decrease in the net IIP[1]




**1** Differences in the totals may be due to rounding.
Deutsche Bundesbank

IIP. By contrast, various other BPM6-related changes raise the net IIP by approximately €25 billion.

## Integrated external statement and reconciliation account

The integrated statement of external statistics reconciles the IIP with the balance of payments by allocating changes in IIP stock data to financial account transactions, valuation effects resulting from exchange rate and market price movements as well as other adjustments[5]. Although transactions usually have the largest impact on changes in the net IIP in the longer term, valuation effects are also significant. In the 2013 reporting year, valuation effects totalled -€7 billion on balance. Market price gains of €40 billion were offset by exchange rate losses amounting to €47 billion. With growing gross stock figures and a rising net IIP, these effects – depending on the portfolio structure – are playing a greater role in explaining IIP dynamics.[6]

The importance of the detailed information from the reconciliation account for a robust analysis can be illustrated for 2013 by the example of German government bonds. Focusing solely on the decline of €62 billion in liabilities stocks might give the impression that foreign investors shunned German government bonds. However, non-residents actually purchased €29 billion worth of

5 They include write-downs on uncollectible credit claims, changes in sectoral classifications, changes to the functional category of a financing instrument, and statistical discrepancies between the IIP and the balance of payments due to differing data sources. At present, changes in financial derivative stock data unrelated to transactions are also fully recorded under this item.
6 See, inter alia, IMF (2014), World Economic Outlook, October 2014, Chapter 4; P R Lane and G-M Milesi-Ferretti (2014), Global Imbalances and External Adjustment after the Crisis in IMF Working Paper 14/151; P-O Gourchinas and H Rey (2013), External Adjustment, Global Imbalances, Valuation Effects, forthcoming in Handbook of International Economics, Vol IV.

German government bonds on balance last year. The recorded decline is solely attributable to valuation effects of almost -€91 billion due to a fall in the prices of German long-dated bonds.

Market price and exchange rate movements also had a significant impact on the Bundesbank's reserve assets in 2013. In particular, the 28% drop in the gold price caused a valuation loss of €46 billion. German direct investors sustained exchange rate losses of €35 billion. Given their exposure to BRIC countries (Brazil, Russia, India and China), they were noticeably affected by the depreciation of the BRIC currencies that started in spring 2013. Other investment likewise felt the effects of the euro's appreciation. As more assets than liabilities are denominated in foreign currencies, this resulted in net book losses of €9 billion.

**Expanded publication programme**

The quarterly IIP data are published in Statistical Supplement 3 to the Monthly Report, in the balance of payments statistics and on the Bundesbank's website.[7] Each year at the end of September, the IIP of the previous year is presented and explained in a press release.[8] Data compiled according to BPM6 are available as of the 2013 reporting year. Quarterly data have been recalculated back to 2008 based on BPM5 time series. The reconciliation account is published for data as of the first quarter of 2013.

**7** Deutsche Bundesbank, Balance of payment statistics, Statistical Supplement 3 to the Monthly Report, table II 9a General survey and as of October 2014, table II 9b Reconciliation account, as well as on the Bundesbank's website at http://www.bundesbank.de/Navigation/EN/Statistics/External_sector/International_investment_position/Tables/tabellen.html.
**8** http://www.bundesbank.de/Redaktion/EN/Pressemitteilungen/BBK/2014/2014_09_30_internationa_investment_position_2013.html.