

Methodological Commentary to the International Investment Position of the Russian Federation

IMF's *Balance of Payments and International Investment Position Manual, 6th Edition (BPM6)* provides the conceptual and methodological basis.

General concepts of the international investment position statistics

International investment position (IIP) is a statistical statement that shows at a point in time the value and composition of financial assets of residents that are claims on nonresidents and gold bullion held as a reserve asset, and liabilities of residents to nonresidents.

IIP reflects stocks of assets and liabilities at a reference date as well as all changes that have occurred within the reporting period as a result of transactions, valuation changes (revaluation) and other changes.

Changes due to transactions show net foreign assets/liabilities changes that have occurred as a result of financial transactions between residents and nonresidents with those assets/liabilities. Such transactions are reflected in the financial account of balance of payments.

Revaluation changes and other changes reflect changes which are not related to financial transactions between residents and nonresidents. Revaluation changes include net changes in the value of financial assets/liabilities due to exchange rate changes and other price changes of financial instruments. Other changes include all other changes in the value of assets/liabilities. These include changes due to assets/liabilities write-offs; reclassification (reallocation) among institutional sectors and functional categories; changes arising from institutional units changing their economy of residence.

The difference between external financial assets and liabilities is a net investment position, which may be positive when a country is a net creditor to the rest of the world, or negative when a country is a net borrower.

Composition and characteristics of the international investment position of the Russian Federation

IIP of the Russian Federation data are disseminated (published) in several presentations with different data groupings and detail levels.

Main aggregates. This presentation of data represents a set of key components of international investment position.

Standard components. The array of components for this presentation is determined by the International Monetary Fund (IMF) and is standard for all countries submitting data to the IMF in accordance with the Special Data Dissemination Standard (SDDS). It is the most detailed and includes standard components *per se* and supplementary items.

Standard components represent integral components of the system that are taken into account in calculating the resulting aggregates.

Supplementary items are compiled depending on specific economic circumstances. In the standard presentation, supplementary items are italicized.

Financial assets and liabilities in the standard IIP presentation are classified as follows:

- by functional category, i.e. direct investment, portfolio investment, financial derivatives, other investment, and international reserves (reserve assets);
- by financial instrument, i.e. equity and investment fund shares, debt securities, options, forward-type contracts, other financial assets and liabilities;
- by institutional sector and subsector, i.e. central bank; banks; general government; other

sectors, including other financial corporations (except banks), nonfinancial corporations, households and nonprofit institutions serving households;

– by maturity (in case of debt instruments), i.e. long-term (with original maturity of more than one year) and short-term (with original maturity of one year or less or payable upon demand).

Additionally, the main aggregates of the IIP are compiled in breakdown by domestic currency and foreign currency, as well as currency composition of external debt claims and external debt liabilities, which includes classification by sector, maturity and currency (Russian ruble, US dollar and euro). In addition, the IIP is compiled in breakdown by financial instrument and institutional sector with further detail of data on nonfinancial corporations sector.

Functional categories and financial instruments

Foreign investment in the IIP is classified as assets and liabilities depending on the economic model of investor behavior by functional category (as direct investment, portfolio investment and other investment, financial derivatives, reserve assets), which, in turn, are detailed by type of financial instrument, covering a full range of financial relations with nonresidents.

Direct investment

Direct investment is a category of foreign investment associated with a resident institutional unit of one country having control or a significant degree of influence on the management of an enterprise that is resident in another country.

Direct investment relationships occur when direct investor owns directly equity instruments providing 10 or more percent of votes in the management of direct investment enterprise.

Direct investment consists of equity (listed and unlisted shares, real estate), reinvestment of earnings, and debt instruments (securities, loans) excluding transactions with debt instruments between financial intermediaries, linked by direct investment relationships.

Direct investment includes transactions of direct investment enterprise to acquire equity and debt instruments of its direct investor (reverse investment) and transactions between fellow enterprises. Fellow enterprises are those enterprises that are under the control or influence of the same immediate or indirect investor but do not control or influence each other.

Portfolio investment

Portfolio investment is the category of foreign investment in negotiable debt securities and securities assuring equity participation, except those that have been included in direct investment and reserve assets.

Financial derivatives

Financial derivatives represent financial instruments that are linked to other specific instruments, indices or commodities, with the help of which specific financial risks may be resold in the financial markets independently from the basic instrument. The financial derivatives category is sub-divided into options and forward-type contracts.

Other investment

Other investment is the residual category of financial instruments, which have not been included in direct and portfolio investment, financial derivatives, and reserve assets. Other

investment includes other equity, currency and deposits, loans, insurance, pension, and standardized guarantee schemes, trade credit and advances, special drawing rights (SDR) related to liabilities, and other accounts receivable/payable (including debt on declared but unpaid dividends on shares of Russian enterprises owned by foreign portfolio investors).

Reserve assets

Reserve assets represent highly liquid external assets that are readily available to the Bank of Russia and the Government of the Russian Federation and controlled by them for meeting balance of payments financing needs, for intervention in foreign exchange markets to influence the currency exchange rate, and for other related purposes. Reserve assets consist of monetary gold, special drawing rights, reserve position in the IMF, and other reserve assets (currency and deposits, securities, and other claims).

Institutional sectors

Institutional sectors and subsectors in the international investment position relate to the sector (subsector) of residents but not to those of the counterparties, which means that in the case of assets, this is the sector (subsector) of the Russian investor or creditor, and in the case of liabilities, it is the sector (subsector) of the Russian issuer or borrower.

Central bank is represented by the Central Bank of the Russian Federation.

Banks – deposit-taking corporations (except nonbanking credit organizations) and state corporation “Bank for Development and Foreign Economic Activity (Vnesheconombank)” excluding its activities as an agent of the Government of the Russian Federation.

General government includes all government entities of the Russian Federation, government authorities of the regions of the Russian Federation, local governments.

Other sectors is an analytical grouping which includes other financial corporations (except banks), nonfinancial corporations, households and nonprofit institutions serving households (NPISHs):

- *other financial corporations* are nonbank credit institutions and other entities providing financial services;

- *nonfinancial corporations* are corporations whose principal activity is production of goods or rendering nonfinancial services. These include legally constituted corporations as well as quasi-corporations which are organizations operating without legal incorporation (branches and representative offices of nonresident enterprises, notional resident units owning real estate abroad);

- *households* are institutional units, consisting of a person or a group of persons, including individual entrepreneurs;

- *nonprofit institutions serving households (NPISHs)* are institutional units that are nonprofit organizations, created to provide social services to households. Examples include charities, trade unions, professional or scientific societies, religious organizations, etc.