

***BPM7* Chapter 19. Selected Issues in Balance of  
Payments and International Investment Position  
Analysis: Annotated Outline**



# **BPM7 Chapter 19. Selected Issues in Balance of Payments and International Investment Position Analysis: Annotated Outline<sup>1</sup>**

(Update to *BPM6* Chapter 14)

*Changes from BPM6 highlighted in yellow*

## **I. Overview**

- As in *BPM6* Chapter 14, this chapter will provide an introduction to the use of balance of payments and international investment position data in economic analysis. The structure from the *BPM6* chapter will be used as the starting point, and additional sections will be added based on the recommendations in GN B.4 to expand the scope of the chapter. Some of the existing and proposed new text may be streamlined in the drafting process to avoid that the chapter gets too lengthy, and references to recent policy relevant research will be included throughout the chapter.<sup>2</sup>
- The chapter will have separate sections on introduction (Section I), general framework (Section II), nexus between current account and international investment position (Section III), alternative presentations of balance of payments data (Section IV), financing a current account deficit (Section V), balance of payments adjustment in response to a current account deficit (Section VI), implications of a current account surplus (Section VII), the balance sheet approach (Section VIII), valuation paradox (Section IX), calculating and using rates of return (Section X), and further information (Section XI).<sup>3</sup> See the Schematic Overview for details.
- In addition to the highlighted updates/additions below, further changes may be made to improve the consistency of the language with other macroeconomic statistics manuals (e.g., *2025 SNA*) as appropriate.

## **II. Introduction**

- This section will be expanded to provide a brief reference to topics that were not included in the corresponding *BPM6* chapter (i.e., nexus between current account and international investment position, valuation paradox, and calculating and using rates of returns).

## **III. General Framework – no significant changes**

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<sup>1</sup> Prepared by Jannick Damgaard (BPM editor) and cleared by Carlos Sánchez-Muñoz (BPM Project Manager).

<sup>2</sup> Expert users of external sector statistics will be consulted during the drafting process, for instance economists from the IMF's Research Department and the IMF's Strategy, Policy, and Review Department.

<sup>3</sup> Compared to the corresponding *BPM6* chapter, the following new sections have been added based on the recommendations from GN B.4: *nexus between current account and international investment position*, *valuation paradox*, and *calculating and using rates of returns*. The GN also recommends including new sections on the *international investment position and risk measurement* and the *consistency between balance of payments/international investment position and national accounts*. It is proposed to incorporate the former into the existing section on the balance sheet approach, while the latter will be addressed in Annex 11 on the links between international standards for macroeconomic statistics.

#### **IV. Nexus Between Current Account and International Investment Position**

- Following the proposed text on pages 12–14 in GN B.4, it will be shown how the change in the net international investment position (IIP) equals the current account and capital account balances plus valuation effects and other changes in volume. Explicitly linking net IIP changes to the current account balances offers better insights into the dynamics driving IIP developments, including the feedback loop between the current account and IIP through investment income. It will also introduce the three-dimensional account system to show changes in the net IIP by source, instrument, and sector.

**V. Alternative Presentations of Balance of Payments Data** – no significant changes

**VI. Financing a Current Account Deficit** – no significant changes

**VII. Balance of Payments Adjustment in Response to a Current Account Deficit** – no significant changes

**VIII. Implications of a Current Account Surplus** – no significant changes

**IX. The Balance Sheet Approach**

- The balance sheet approach provides a systematic analytical framework for exploring how balance sheet weaknesses contribute to macrofinancial vulnerabilities. Following GN B.4 pages 15–17, this section will be expanded with additional text on liquidity and interest rate risk, currency risk, and credit risk, and potentially also with links to national accounts data.

**X. Valuation Paradox in the International Investment Position**

- Per GN B.4 pages 17–18, this section will emphasize that revaluation effects should be interpreted with a degree of caution since the values recorded in the IIP do not necessarily reflect actual realized gains or losses. It will introduce the so-called valuation paradox, which refers to the fact that a country's net IIP may improve as it approaches insolvency because of large negative revaluations in bonds issued by government and corporations and held by nonresident investors.

**XI. Calculating and Using Rates of Return**

- Following GN B.4 pages 19–21, this section will underscore that rates of return are important for understanding the allocation of capital between economies, differences in the sustainability of current account deficits, and the behavior over time of the current account, the financial account, and the IIP. It will introduce a framework for calculating the income rate of return, the revaluation rate of return, and the total rate of return. The systematic estimation of rates of return across the IIP can shed light on how the characteristics of investment across functional categories can differ.

**XII. Further Information**

- The list of references will be updated with recent policy relevant research, for instance the IMF's work on the External Sector Report, the External Balance Assessment methodology, and dominant currencies.

## Schematic Overview

I	Introduction
II	General Framework
III	<b>Nexus Between Current Account and International Investment Position</b>
IV	Alternative Presentations of Balance of Payments Data Standard Presentation Analytic Presentation Sectoral Analysis Monetary Presentation Partner Analysis
V	Financing a Current Account Deficit
VI	Balance of Payments Adjustment in Response to a Current Account Deficit
VII	Implications of a Current Account Surplus
VIII	The Balance Sheet Approach
IX	<b>Valuation Paradox in the International Investment Position</b>
X	<b>Calculating and Using Rates of Return</b>
XI	Further Information

### References

- GN B.4. This guidance note is posted at [Update of the sixth edition of the \*Balance of Payments and International Investment Position Manual \(BPM6\)\* \(imf.org\)](#).

### Key Stakeholders Consulted

- System of National Accounts Lead Editor
- IMF Statistics Department Financial Institutions Division