

D.7 Sectoral Breakdown of Direct Investment

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Within the IMF's Balance of Payments and International Investment Position Manual, sixth edition (BPM6), financial account of the balance of payments and international investment position (IIP), direct investment (DI) is the functional category for which the financial instruments are not presented by resident institutional sector breakdown. Sectoral breakdown provides a convenient way to analyze net foreign lending or borrowing of each domestic sector, as well as to detect any external sustainability and vulnerability risks emanating from specific domestic sectors. In that respect, the presentation of DI statistics by institutional sector breakdown will enhance its usefulness for policy makers and analysts. This composition will be included within the standard components of the balance of payments and IIP in the updated manual and the BPM6 assets-liabilities breakdown will be recorded as memorandum items to the standard presentation. This note describes the new DI classification shown in Appendix I.

SECTION I: THE ISSUE

BACKGROUND

- 1. Direct investment (DI) is the only functional category in the balance of payments and the international investment position (IIP) standard components within the IMF's *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*, that is not presented by institutional sector.** However, the *BPM6* recognizes the importance of the sectoral breakdown and states that direct investment by institutional sector should be shown as a supplementary item where relevant (*BPM6*, paragraph 2.32 and table 7.2).
- 2. This note describes the new DI classification which will include the resident institutional sector² breakdown.** The new presentation consists of (i) including the sectoral breakdown of direct investment in the standard components of the balance of payments and the IIP rather than as supplementary items,³ (ii) including the *BPM6* assets and liabilities components as memorandum items to the standard components, and (iii) reviewing the *BPM6* classification of the direct investment to avoid numerous components under a single functional category.
- 3. The sectoral classification of DI will allow to usefully compare external sector statistics (ESS) data with other datasets, also allowing to complement each other as necessary.** The sectoral classification links with balance sheet and other sectoral data compiled in the system of national accounts

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² This implies the sector of the domestic holder or lender for assets, and the sector of the domestic issuer or borrower for liabilities, and not the nonresident sector.

³ It is possible that the *BPM6* sectoral breakdown will change in *BPM7* depending on the work of the Financial and Payments System Task Team on topics F.1 (More disaggregated definition of the financial sector and financial instruments) and F.6 (Nonbank financial intermediation) as well as on the recommendations from DITT on the topic D.3 on the treatment of collective investment institutions in DI statistics. Any changes in the sectoral breakdown that will be agreed to include in the standard components should be applied to DI as well.

(SNA), monetary and financial statistics (MFS), and government finance statistics (GFS), thus facilitating comparison with these datasets. Also, sectoral presentation provides a convenient way to analyze the net foreign lending or borrowing of each domestic sector. These data help detect issues of external sustainability and vulnerability for specific domestic sectors. The sectoral breakdown of DI will also allow synergy of ESS data with the Handbook on Securities Statistics dataset.

4. **Additionally, the sectoral breakdown of DI will support Balance Sheet Approach (BSA) by providing details on the external positions for the domestic sectors.** As indicated in the *BPM6*, BSA provides an analytical framework for exploring how balance sheet weaknesses contribute to macro financial vulnerabilities, including the origin and propagation of modern-day financial crises (*BPM6*, paragraph 14.57 to 14.66). The economy's aggregate balance sheet—the external assets and liabilities of all sectors—is vital to the analysis. Finally, the sectoral breakdown of DI is needed to produce integrated economic accounts.

5. **The BSA matrix provides a snapshot view to understand the financial interconnectedness between institutional sectors of an economy and the rest of the world.** One of the main data gaps found in building the BSA matrix is the lack of sectoral classification of the direct investment in the IIP. The provision of this breakdown will close this data gap. Therefore, the sectoral presentation is needed to be able to (i) aggregate international accounts data to build the balance sheet matrix (paragraph 14.59 of the *BPM6*) and (ii) compare international accounts with the balance sheets in the SNA, MFS, and GFS (paragraphs 2.32 and 2.34 of the *BPM6*).

NEW CLASSIFICATION OF DI

6. **The sectoral breakdown of DI should be part of the standard components of the balance of payments and the IIP.** All ESS functional categories are classified by sector in the *BPM6* standard components of the balance of payments and the IIP, except for DI. The classification of DI by resident institutional sector will be included in the updated standards to close one of the outstanding data gaps in building the balance sheet of the economy and to easily compare ESS with other datasets.

7. **Direct investment data should be classified by the same institutional sectors as proposed in the *BPM6* or in *BPM7*, as some changes are expected as a result of the work of other workstreams (see footnote 3).** Similar to the rest of the functional categories, the sectors will be:

- central bank,
- deposit-taking corporations, except the central bank,
- general government,
- other financial corporations, and
- nonfinancial corporations, households, and NPISHs.

Annex I shows the new classification of direct investment.

8. **Based on the following paragraphs of the *BPM6*, in principle, a government and a central bank could be direct investors, but they cannot be DI enterprises.** However, large direct investment values from these two domestic sectors are not expected in many countries. 6.20: *A direct investor could be: (a) an individual or household; (b) an enterprise, incorporated or unincorporated, public or private; (c) an investment fund; (d) a government or international organization; (e) a nonprofit institution in an enterprise that operates for profit; however, the relationship between two nonprofit institutions is excluded*

from direct investment; (f) an estate, trustee in bankruptcy, or other trust; or (g) any combination of two or more of the above. 6.24: A direct investment enterprise is always a corporation, which as a statistical term includes branches, notional resident units, trusts, other quasi-corporations, and investment funds, as well as incorporated entities. Because a direct investment enterprise is owned by another entity, households or governments can be direct investors, but they cannot be direct investment enterprises. 2.32: Direct investment, if any, of the central bank and other deposit taking corporations is needed to derive aggregates consistent with monetary and financial statistics.

9. **There will be no changes to the instrument and maturity classification of DI.** To avoid a large number of standard components, DI classification only provides the two main categories of financial instruments: equity and investment fund shares, and debt instruments. Therefore, the category “debt instruments” is not disaggregated by specific instruments and includes debt securities; currency and deposits; loans; insurance, pension, and standardized guarantee schemes; trade credits and advances; and other accounts between related companies.⁴ Just debt securities, the only negotiable debt instrument, are requested as a supplementary item. The maturity breakdown of DI is not requested in the standard components of the *BPM6*. A convention that classifies debt instruments between related parties as long-term instruments could be adopted.

10. **The *BPM6* standard, memorandum, and supplementary items under DI were reviewed in light of the inclusion of the sectoral classification.** As stated in paragraph 1.15 of the *BPM6*: **standard components** are items that are fully part of the framework and contribute to the totals and balancing items; **memorandum items** are part of the standard presentation, but are not used in deriving totals and balancing items; and **supplementary items** are outside the standard presentation, but are compiled depending on circumstances in the particular economy, taking into account the interests of policymakers and analysts as well as resource costs.

11. **As the standard components are used to obtain the aggregated totals, the balance of payments and IIP presentations only allow the inclusion of one breakdown under the DI standard components.** The DI sectoral breakdown will be included under the standard components. Having the sectoral breakdown for DI will enable the analyses of capital flows and their dynamics by sector covering all functional categories. Therefore, the *BPM6* standard breakdown of the DI, necessary to derive the quarterly directional values, will be included as memorandum items, which are also part of the balance of payments and the IIP standard presentations. The *BPM6* supplemental breakdown of DI relating to the ultimate controlling parent (UCP) residency of DI between fellows, which is also used to derive the quarterly extended directional principle, will remain supplemental.⁵

⁴ A new ECB guideline to be implemented in March 2021, requires the euro area countries to report separated debt instruments.

⁵ The current international standards extend the application of the directional principle to fellow enterprises and refer to the extended directional principle.

12. **Standard components:** The *BPM6* direct investment classification (Annex II) was introduced as a first step to move from the *BPM5* directional principle classification to the *BPM6* asset/liability presentation, keeping the possibility of converting the *BPM6* presentation to the directional presentation.

- *The directional presentation is more useful for examining the natures and motivations for DI, so the guidelines recommend that **the detailed DI statistics by country and by industry** be published according to the directional presentation.*⁶ For example, DI data by partner economy following the directional principle are collected annually through the coordinated direct investment survey (CDIS).
- The *BPM6* standard components will be requested as memorandum items without the instrument breakdown, as the values reported under equity and investment fund shares, reverse investment, are very small.
- Additionally, the reinvestment of earnings will be separately identified in the financial account of the balance of payments as an *of which* item within the standard presentation as a memorandum item.
- The *BPM6* financial account of the balance of payments records the same standard components as the IIP, except for reinvestment of earnings. Reinvestment of earnings is reported as a separate item in the financial account of the balance of payments and aggregated to the total value of the direct investment equity in the IIP.
- Since reinvestment of earnings is an important part of DI, it should also be broken down by institutional sector. In order to avoid the confusion that numerous standard components could cause and to align the financial account classification to the IIP, reinvestment of earnings will be aggregated to the equity and investment fund shares values in the standard components of the financial account of the balance of payments and will be also separately identified as a memorandum item (an “*of which*” item) as shown in Annex I. Reinvested earnings will still be a separate standard component in the primary income account of the balance of payments (see Annex V).

13. **Memorandum items:** As indicated above, the DI memorandum items will include the *BPM6* standard components used to derive the directional values. This will enable the calculation of the directional figures on a quarterly basis. These data are important for some analyses of recent developments in DI, such as those by the OECD⁷ and UNCTAD.⁸ The reinvestment of earnings of the financial account will be also included as a memorandum item.

14. **Supplementary Items:** Based on the small number of reporters and the considerations explained before, the direct investment classification will only include as supplementary items: (i) Of which, debt securities (under debt instruments) and (ii) If UCP is resident, nonresident, or unknown (under between fellow enterprises), to maintain the possibility to retrieve the extended directional principle. The new DI classification is shown in Annex I.

⁶ <https://www.oecd.org/daf/inv/FDI-statistics-by-ultimate-investing-country.pdf>

⁷ OECD's [FDI in Figures](#).

⁸ UNCTAD's [Investment Trends Monitor](#).

SECTION II: OUTCOMES

NEW DI CLASSIFICATION AS SHOWN IN ANNEX I

15. Include the sectoral breakdown of DI in the standard components of the balance of payments and the IIP, as presented in Annex I, replacing the *BPM6* standard components shown in Annex II. This new classification comprises the following:

- Include the sectoral breakdown of DI for both equity and debt instruments as the primary breakdown within the standard⁹ components of the balance of payments and the IIP, like the other functional categories. The sectoral breakdown of the total equity investment is applied to reinvestment of earnings as well, in both the balance of payments and the IIP. Include reinvestment of earnings as a separate memorandum (“of which”) item in the financial account of the balance of payments presentation.
- Maintain the *BPM6* standard components used to derive the directional values within DI to support the reconciliation of DI statistics to directional principle as memorandum¹⁰ items (Annex I).
- Given the extensive work being conducted on multinational enterprises (MNEs) within the DITT and in other task teams, after coordination, should the need arise to have additional supplemental statistics on DI, the collection of DI by the directional components may be contemplated as a set of separate memorandum items as part of this new exercise.

16. Include new memorandum items:

- Include the *BPM6* DI standard components: direct investor in direct investment enterprise; direct investment enterprises in direct investor (reverse investment); and between fellow enterprises, as memorandum items, combining equity and debt investment as shown in Annex I.
- Include reinvestment of earnings as a new memorandum item of the balance of payments, which should be consistent with the standard component, reinvested earnings, recorded in the primary income account.

17. For the supplementary items¹¹ under DI:

- Keep the total of debt securities.
- Keep the following items: “if ultimate controlling parent is resident,” “nonresident”, and “unknown.”
- Remove “of which, Investment fund shares/units” and “Money market fund shares/units.”
- Remove the split under debt securities (direct investor in direct investment enterprise; direct investment enterprises in direct investor (reverse investment); and between fellow enterprises)

⁹ Standard components are items that are fully part of the framework and contribute to the totals and balancing items (*BPM6*, paragraph 1.15a).

¹⁰ Memorandum items are part of the standard presentation but are not used in deriving totals and balancing items. (*BPM6*, paragraph 1.15b).

¹¹ Supplementary items are outside the standard presentation but are compiled depending on circumstances in the particular economy (*BPM6*, paragraph 1.15c).

OTHER RELATED ISSUES

18. The inclusion of the sectoral classification of DI in the currency composition of the IIP will be considered along with the update of the tables requested in section C. “Additional Analytical Position Data” of Appendix 9 of the *BPM6*, during the update of the BPM Compilation Guide.
19. The sectoral classification of DI will be also included in external debt statistics (EDS) as a separate item under intercompany lending.
20. The number of standard and supplementary items of the primary income account will be reduced to be consistent with the standard components of the IIP (Annex III).
21. CDIS: consequent changes to the CDIS are not contemplated in this note.

Annex I. New Standard Components, Memorandum, and Supplementary Items of DI

	BOP		IIP	
	NAFA	NIL	Assets	Liabilities
Direct investment				
Equity and investment fund shares				
Central Bank		n.a.		n.a.
Deposit-taking corporations, except the central bank				
General government		n.a.		n.a.
Other sectors				
Other financial corporations				
Nonfinancial corporations, households, and NPISHs				
<i>Of which, Reinvestment of earnings (only BOP)</i>				
Debt instruments				
Central Bank				
Deposit-taking corporations, except the central bank				
General government				
Other sectors				
Other financial corporations				
Nonfinancial corporations, households, and NPISHs				
Direct Investment,				
Direct investor in direct investment enterprises				
Direct investment enterprises in direct investor (reverse inv.)				
Between fellow enterprises				
<i>if ultimate controlling parent is resident</i>				
<i>if ultimate controlling parent is nonresident</i>				
<i>if ultimate controlling parent is unknown</i>				
Of Which Debt securities				

Annex II. BPM6 Standard Components and Supplementary Items of Direct Investment

	BOP		IIP	
	NAFA	NIL	Assets	Liabilities
Direct investment				
Equity and investment fund shares				
Equity other than reinvestment of earnings				
Direct investor in direct investment enterprises				
Direct investment enterprises in direct investor (reverse investment)				
Between fellow enterprises				
<i>if ultimate controlling parent is resident</i>				
<i>if ultimate controlling parent is nonresident</i>				
<i>if ultimate controlling parent is unknown</i>				
Reinvestment of earnings (only BOP)				
<i>Of Which, Investment fund shares/units</i>				
<i>Money market fund shares/units</i>				
Debt instruments				
Direct investor in direct investment enterprises				
Direct investment enterprises in direct investor (reverse investment)				
Between fellow enterprises				
<i>if ultimate controlling parent is resident</i>				
<i>if ultimate controlling parent is nonresident</i>				
<i>if ultimate controlling parent is unknown</i>				
<i>Of Which, Debt securities</i>				
<i>Direct investor in direct investment enterprises</i>				
<i>Direct investment enterprises in direct investor (reverse investment)</i>				
<i>Between fellow enterprises</i>				
<i>if ultimate controlling parent is resident</i>				
<i>if ultimate controlling parent is nonresident</i>				
<i>if ultimate controlling parent is unknown</i>				

Annex III. New Primary Income Direct Investment. Standard and **Supplementary** Components

	BOP	
	Credits	Debits
Investment income		
Direct investment		
Income on equity and investment fund shares		
Dividends and withdrawals from income of quasi-corporations		
Direct investor in direct investment enterprises		
Direct investment enterprises in direct investor (reverse investment)		
Between fellow enterprises		
if ultimate controlling parent is resident		
if ultimate controlling parent is nonresident		
if ultimate controlling parent is unknown		
Reinvested earnings		
Investment income attributable to policyholders in insurance, pension schemes, and standardized guarantees, and to investment fund shareholders		
Of which: Investment income attributable to investment fund shareholders		
Interest		
Direct investor in direct investment enterprises		
Direct investment enterprises in direct investor (reverse investment)		
Between fellow enterprises		
if ultimate controlling parent is resident		
if ultimate controlling parent is nonresident		
if ultimate controlling parent is unknown		
Memorandum: Interest before FISIM		