



# Thirty-Fourth Meeting of the IMF Committee on Balance of Payments Statistics

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For discussion

## D.7 Sectoral Breakdown of Direct Investment: Outcome of the Public Consultation

Prepared by the Direct Investment Task Team (DITT)

INTERNATIONAL MONETARY FUND



## D.7 Sectoral Breakdown of Direct Investment: Outcome of the Public Consultation<sup>1</sup>

*The general consensus favors the adoption of the sectoral breakdown of Direct Investment (DI) in the standard components of the balance of payments and the International Investment Position (IIP) and moving the current ones as memorandum items. The minority, which expressed diverging views, have put forward arguments that the sectoral breakdown will have less significant analytical value and moving the current components as memorandum items can ultimately run the risk that countries stop reporting those details. In view of the broad agreement received during the public consultation, the GN is proposed to be considered by the Committee for final decision.*

- 1. The public consultation<sup>2</sup> revealed general support to include sectoral breakdown of DI in the standard components of the balance of payments and the IIP, emphasizing a harmonized approach with the other functional categories within the financial account.** The current standard components will be reported as memorandum items so as to derive the directional values.
- 2. Those opposing the proposed recommendation pointed at the limited relevance of this breakdown, particularly for DI, coming up with a counter proposal to maintain the standard components but instead consider adding the sectoral breakdown as memorandum item.** The majority of DI transactions and positions, given their nature, will be mostly allocated to ‘Nonfinancial corporations’, of which specific industries, thereby rendering the institutional sector breakdown of limited value for analytical purposes. One respondent concurred with the strong preference expressed by two international organizations to retain the current DI standard and supplemental presentations, arguing that compared to institutional sector breakdown, DI by direct investment relationships is more meaningful in analyzing DI, and understanding the motivation of direct investment. Another respondent has suggested if an industry breakdown of DI as a supplementary table could be considered, which would be of higher analytical value, given the link with production. Such data could be reasonably readily acquired by compilers given their need to collect information directly from individual direct investment enterprises and investors.
- 3. It has been mentioned that it is likely, if included as memorandum item, there is a risk that countries may not report the directional information, which is important for the CDIS.** From a practical perspective, it is considered relatively easy and less costly for compilers to identify sectoral breakdown from their current surveys or other compilation procedures, while collection of directional information requires more effort.
- 4. Respondents were generally fine with the new DI presentational format in terms of new memorandum and supplementary items, although a few concerns were mentioned for certain components.** One request is applying the ‘ultimate controlling parent’ breakdown separately to ‘equity and investment fund shares’ and ‘debt instruments’ consistently with the additional details, to quantify pass-through funds. There has been a preference to keep reinvested earnings as a standard component, not only because it is analytically useful, but also practically it provides a check with reinvested earnings

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<sup>1</sup> Prepared by Ms. Padma S. Hurree-Gobin (IMF), and Ms. Émilie Kothe (OECD), both DITT Secretariat

<sup>2</sup> Thirteen responses, out of which two respondents from the same country. See partial detailed results in Annex II.

in the current account. It was recognized that the detail 'of which debt securities', although indicated as supplementary, could be avoided given its marginal importance and the difficulty for separate identification.

5. **Regarding the preferences on other related options concerning the sectoral classification of DI, the public consultation results showed overall diverging views.** The majority did not favor adopting the same sectoral breakdown for DI components within the currency composition of the IIP, underscoring mostly confidentiality concerns. With respect to adopting the breakdown for DI components within primary income and EDS, preferences were mixed with a marginal inclination in favor of adoption. One respondent expressed support keeping the inter-company lending category in EDS and currency composition, because of the different nature and implications for external sustainability of intercompany<sup>3</sup> borrowing compared with arms-length borrowing.

6. **The public consultation largely favored keeping the current convention that debt instruments between related parties are treated as long term instruments.** The respondents barely see any practical issues to be considered when adopting the proposed new DI presentation, except the possibility of disclosure concerns.

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<sup>3</sup> The vast majority of inter-company borrowing is likely to be among nonfinancial corporations given most inter-company lending among financial institutions is not included in this item.

## Annex I. WGIIS Consultation on GN D.7

- 1. To ensure consistency remains across the upcoming *BPM7* and *BD5*, the IMF and the OECD are collaborating in the work of the Direct Investment Task Team (DITT), serving as co-Chairs and in the DITT Secretariat.**<sup>4</sup> The DITT was established to research issues and make recommendations in the area of DI statistics for the update of the manuals. The DITT's Terms of Reference also calls for the OECD's Working Group on International Investment Statistics (WGIIS) to review the guidance notes at the same time as the Balance of Payments Task Team (BPTT). The OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition (BD4)* provides detailed guidance on the compilation of direct investment (DI) statistics that is aligned with the recommendations in the IMF's *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*.
- 2. The WGIIS secretariat consulted with WGIIS delegates on the DITT GNs, and the questions put to the WGIIS delegates were the same as in the questionnaires used in the public consultations.** This was intended to gauge the WGIIS delegates' support as any recommendations would need to be reflected in the update of the *Benchmark Definition* as well.
- 3. Twenty countries responded, but not all countries responded to every question.** The OECD organized a webinar on October 13 to discuss the outcomes of the consultation. There were more than 90 participants, and no dissenting opinions from those expressed during the consultation emerged.
- 4. Fifteen of the respondents indicated that they were already compiling DI statistics by institutional sector.** There was broad support (17 out of 20 respondents) for including the institutional sector breakdown in the standard complements and to move the current standard components used to derive the directional presentation to the memorandum items of the standard table. Those that disagreed noted that most DI would be in the nonfinancial corporate sector and that a breakdown by economic activity provides more information to users. There was widespread agreement (17 out of 20 respondents) for the proposed memorandum items as presented in Annex I of the GN.
- 5. The GN raised several other issues about the sectoral breakdown of DI.** First, it asked if the sectoral breakdown of DI should be included in the currency composition of the IIP. Second, it asked if the sectoral breakdown of DI should be included in external debt statistics. Third, it asked if the sectoral breakdown should also be included in the primary income account. Only a few responses were received on these questions, and no strong views emerged.
- 6. Finally, the questionnaire asked about the practical impediments to producing an institutional sector breakdown of DI.** The biggest concerns were expressed about potential confidentiality issues, especially as some of the sectors are thinly populated. Respondents also expressed concerns about low quality data or data gaps affecting some sectors. One respondent noted that some of the adjustments at the aggregate level are not carried down to the sector level. There were also questions raised about the analytical usefulness of the sectoral breakdown and how to explain it to users.

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<sup>4</sup> The OECD's Working Group on International Investment Statistics (WGIIS) is expected to formally endorse the update of *BD4* at its November 2020 meeting.

## Annex II. Summary Results of the Public Consultation

1. Do you agree to include the sectoral breakdown of DI within the standard components of the balance of payments and the IIP?

Yes	No	Abstention
69%	23%	8%

2. Do you agree to move the current standard assets and liabilities components for DI as memorandum items in order to derive the directional values?

Yes	No	Abstention
77%	15%	8%

3. Do you support the presentation of DI in terms of new memorandum and supplementary items?

Yes	No	Abstention
77%	15%	8%

4. Do you have a preference for adopting the sectoral breakdown for DI components within the currency composition of the IIP?

Yes	No
31%	69%

5. Do you have a preference for adopting the sectoral breakdown for DI components within the breakdown of primary income?

Yes	No
54%	46%

6. Do you have a preference for adopting the sectoral breakdown for DI components within EDS?

Yes	No
54%	46%

7. By convention, debt instruments between related parties are treated as long term instruments. This GN recommends no changes to this convention, including for debt securities. Do you agree with this recommendation?

Yes	No
77%	23%