1. Introduction

This publication *International Investment Position of Pakistan (IIP)* is an improved version of the publication entitled *Foreign liabilities and assets and foreign investment in Pakistan*. It is designed to meet the ever increasing demand of our stakeholders, both internal and external, to have gross basis information on all foreign assets & liabilities. The scope and coverage of the publication has been broadened and aligned it with the format of International Investment Position of Pakistan. The need for revamping the earlier publication was felt as there always existed differences in actual stocks and stocks measured on the basis of flows during a particular period. The concept of flows is to be distinguished from the general perception of change in stock positions during a period. The flows represent the net outcome of transactions. It was therefore, necessary to provide clear identification of causes, resulting in the overall changes in stocks in addition to changes due to flows over a period of time measured through balance of payments (BoP). It has also been observed that any such comparison of stocks is possible if flows are included into the reconciliation process to see what has happened to the stock on account of other changes. It is evident that stocks arrived through flows will give a different position, due to price changes, exchange rate and other changes which also affect the stock positions.

The publication provides a detailed picture of all items of foreign assets and liabilities of Pakistan. The direct investment (DI) has now been classified on directional basis as recommended by the IMF manual on Balance of Payments which will provide an insight into foreign investment and would support improved analysis at the domestic and international level. Similarly, portfolio investment (PI) has now been broken down into PI in Pakistan and abroad separately instead of giving a net picture.

The revised format of the publication will serve the purpose of cross country comparison in a meaningful way instead of giving just a net basis picture where it is not possible to know what Pakistan owns and what it owes to the rest of the world. Efforts have also been made to provide complete information on movements in the stocks to see what has happened to the stocks over the time.

For each item, the publication provides information on changes in the form:

OP+TX+ERC+PC+OC=CP

Where,

OP=Opening position

TX = Transaction

ERS=Exchange rate changes

PC=Price changes

OC=Other changes

CP= Closing position.

The initial concept of forming position through transactions changed substantially revealing that other factors also play important role and need to be identified. Functional categories of the international investment position (IIP) provide a detailed decomposition of changes under various heads. This will result in knowing the areas which are otherwise not known when taking net position. The gross basis analysis together with reconciliation will provide a clear picture of how various stock movements are measured.

The information provided in the publication are mainly based on data collected through a survey of enterprises both incorporated and un-incorporated in Pakistan. The survey questionnaires have also been revamped to align them with the balance sheet information and data from questionnaires can be utilized instead of referring back to balance sheets. Besides, some other heads which were missing in the earlier questionnaires have also been added. The changes made in the questionnaires, besides filling the gaps in BoP Statistics, will enable us to derive maximum data from the questionnaires for the corporate sector. The data on changes will be useful in reconciliation of flows and stocks and will also help in assessing the actual causes of changes in addition to transaction changes like price, exchange rate and other. This will also help identify areas where international transactions reporting system (ITRS) does not provide us sufficient information due to its limitations such as transactions involving settlements made via accounts held abroad and intercompany indebtedness.

To give a broader picture of all areas such as government, monetary authority, banks and other sectors, the publication has been aligned with the format of IIP. The IIP format provides reconciliation of all assets and liabilities and net IIP gives the position of what a country owns and what it owes to the rest of the world. It also provides positions of stocks, as well as, flows. These are based on gross basis and flows can also be compared with those recorded in BoP transactions captured through ITRS besides other flows which these records fail to provide such as settlements made via accounts maintained abroad and intercompany debt transactions.

The publication is expected to have immense utility as the data it contains follow international classification of IIP framework. IIP is useful for analysts to know about foreign investment, movements in stocks of investments and economic relationship with other countries. The publication will provide a detailed assets position outside Pakistan and movements in such stocks at a particular point.

2. Concepts and Coverage

Definition

The international investment position (IIP) is a statistical statement that shows an economy's stock of external financial assets (financial claims on non-residents) and liabilities (liabilities to non-residents) at a particular point of time. The changes in stock are results of past external transactions (financial flows e.g. drawings and repayments of loans, issuance of shares) measured according to current market values (current market prices and exchange rates) and other factors (for example, allocation or cancellation of SDRs, the monetization or demonetization of gold, reclassifications, bad debt write offs and measurement errors) at a specific point.

The international investment position, compiled at the end of a specific period such as year-end, is the balance sheet of the stock of external financial assets and liabilities. The items that constitute financial assets and liabilities are financial claims on and liabilities to nonresidents, equity assets and liabilities, financial derivative instruments, monetary gold, and SDRs.

The net IIP combined with the stock of an economy's nonfinancial assets is the total net worth of that economy.

Residence

Residence is a particularly important attribute of an institutional unit in the IIP because the identification of transactions between residents and nonresidents underpins the system. The concept of residence used in IMF's

Balance of Payments Manual fifth edition (BPM5) is not based on nationality or legal criteria, although it may be similar to concepts of residence used for exchange control, tax, and other purposes in many countries. The concept of residence is based on a sectoral transactor's center of economic interest. Moreover, country boundaries recognized for political purposes may not always be appropriate for economic purposes. Therefore, it is necessary to recognize the economic territory of a country as the relevant geographical area to which the concept of residence is applied. An institutional unit is a resident unit when it has a center of economic interest in the economic territory of a country. To have some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. The location need not be fixed so long as it remains within the economic territory. For IIP, the concept of residence implies that only those assets and liabilities of residents that represent claims on or liabilities to nonresidents are recorded. The distinction between residents and nonresidents is closely related to the description between the compiling economy and the rest of the world. Residents of an economy are institutional units such as households, corporations, and government that have a center of economic interest in the economy in question. For simplicity one year's stay in an economy is considered as a threshold for considering the unit to be resident.

Valuation

In principle, all asset and liability positions constituting a country's international investment position should be measured at market prices. The market price measurement cannot always be implemented, especially if financial instruments are not traded in the market. Cash items (currency and transferable deposits) have only one value that could be assigned for any purpose. Similarly, non-marketable financial items such as loans in one form or the other are valued at the nominal values. Balance sheet (or book) value is often the only valuation available or reported for direct investment. When direct investment enterprises are listed on stock exchanges, the listed prices should be used as the market values of shares in those enterprises. Similarly in case of non-listed enterprises the break up values may be used.

Time of recording

The international investment position presents data related to a country's external financial conditions at a specific point (such as year-end). The time of recording financial items that constitute the position is governed by the principle of accrual accounting.

3. Classification Scheme of IIP

As the objective of classification scheme is to set various types of financial assets and liabilities into analytically useful components, therefore, the classification is based on:

- **Financial assets and liabilities and**
- **Functional types of investment**

Financial assets and liabilities

Financial assets are the financial claims. Financial claims and obligations come from contractual relationships when one institutional unit provides funds to other. A financial claim is an asset that entitles its owner, the creditor, to receive a payment, or series of payments, from the debtor, in certain circumstances specified in the contract between them. The claim is renounced when the debtor discharges the liability, paying a sum agreed to in the contract. In addition, the creditor may receive a series of interest payments, that is, property income. Financial instruments such as cash and deposits, loans, advances and other credits, and securities such as bills and bonds represent financial claims.

In the IIP, the external financial claims are classified as assets when the holders are residents. They are classified as liabilities when the issuers are residents.

Functional types of investment

In the classification, various financial instruments that make up the financial assets and liabilities are grouped according to the intent of the resident holders / issuers of the financial instruments. They are grouped according to the functional type of investment, direct investment, portfolio investment, financial derivatives, other investment, and reserve assets.

Assets	**Liabilities**
1. Direct investment abroad	**1. Direct investment in reporting economy**
1.1 Equity capital and reinvested earnings	1.1 Equity capital and reinvested earnings
1.1.1 Claims on affiliated enterprises	1.1.1 Claims on direct investors
1.1.2 Liabilities to affiliated enterprises	1.1.2 Liabilities to direct investors
1.2 Other capital	1.2 Other capital
1.2.1 Claims on affiliated enterprises	1.2.1 Claims on direct investors
1.2.2 Liabilities to affiliated enterprises	1.2.2 Liabilities to direct investors
2. Portfolio investment	**2. Portfolio investment**
2.1. Equity securities	2.1. Equity securities
2.2. Debt securities	2.2. Debt securities
2.2.1. Bonds and notes	2.2.1. Bonds and notes
2.2.2. Money market instruments	2.2.2. Money market instruments
3. Financial derivatives	**3. Financial derivatives**
4. Other investment	**4. Other investment**
4.1. Trade Credits	4.1. Trade Credits
4.2. Loans	4.2. Loans
4.3. Currency and deposits	4.3. Currency and deposits
4.4. Other assets	4.4. Other liabilities
5. Reserve assets	
5.1. Monetary Gold	
5.2. SDRs	
5.3. Reserve position in the Fund	
5.4. Foreign Exchange	
5.4.1. Currency and deposits	
5.4.2. Securities	
5.4.3. Financial derivatives (net)	
5.5. Other claims	

Direct investment

Direct investment reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy. The resident entity is the direct investor and the enterprise is the direct investment enterprise. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. According to BPM5, a lasting interest can usually be assumed if the direct investor has ownership of a minimum of 10 percent of the ordinary shares or voting power or the equivalent in the direct investment enterprise. Direct investment comprises not only the initial transaction establishing the relationship between the investor and the enterprise but also all subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated.

Portfolio investment

The portfolio investment covers financial instruments in the form of equity and debt securities that are usually traded (or tradable) in organized markets and where the resident holders / issuers are largely driven by consideration of portfolio diversification. Debt securities are subdivided into bonds and notes and money-market instruments. The instruments are further classified by institutional resident sectors, namely, monetary authorities, general government, banks, and other sectors.

Financial derivatives

Financial derivatives are financial instruments that are linked to another specific financial instrument, indicator, or commodity and through which specific financial risks can be traded in financial markets in their own right.

Other investment

Other investment is a residual category that covers all financial instruments other than those classified as direct investment, portfolio investment, financial derivatives, or reserve assets. It is primarily classified by instrument and secondarily by sectors. The instruments include trade credits, loans, currency and deposits, and other assets and liabilities.

Reserve assets

Reserve assets are external assets that are readily available to and are under the effective control of monetary authorities for balance of payments or other purposes. These are classified as monetary gold, SDRs, reserve position in the IMF, foreign exchange, and other claims. Foreign exchange position is further divided into currency and deposits, securities, and financial derivatives.

4. Significance of IIP

The International Investment Position (External Balance Sheet) presents complete picture of the stock position of a country’s external assets / liabilities with the rest of the world. The statement explains the position of stock at the start and at the end. Changes to these stocks are attributable to transactions, price changes, exchange rate changes and other changes e.g., reclassification, write off.

On vertical side, Assets / Liabilities classified into Direct Investment on directional basis, Portfolio Investment, Financial Derivatives, Other Investment and Reserve assets are given with breakup of instruments, sectors and maturity.

Further, IIP depicts relationship with Balance of Payments financial account. The figure below shows the position of IIP in integrated balance of payments accounts and its definitional relationship with the balance of payments flows.

	Current account balance			
	Capital account balance			
IIP (opening stock)	Financial account balance	Revaluation account	Other changes	IIP (closing stock)
	Net errors and omissions			
	=			
	Balance of payments			

The change in the assets/ liabilities between two points is equal to the net changes in the financial account plus or minus net changes in revaluation account and net other changes on the horizontal line and vertically it is zero sum balance of payments.