**Methodology for Compilation and Dissemination of BH International Investment Position Statistics**

**I General Notes**

Pursuant to the Law on the CBBH, BH Statistics Law and the Memorandum signed between BH Agency for Statistics and the CBBH, the Central Bank of Bosnia and Herzegovina (hereinafter the CBBH) is an institution in charge of compilation and dissemination of International Investment Position Statistics for Bosnia and Herzegovina (BH). Compilation and dissemination are done according to the internationally recognized standards, set by the International Monetary Fund (IMF), and most recently published in 2009 in the sixth edition of Balance of Payments and International Investment Position Manual (BPM6).

The International Investment Position (IIP) is a statistical report which, for a specific date, shows the values and composition of:

* financial assets of residents of an economy, representing claims of that economy residents on non–residents, as well as gold bullions held as reserve assets, and
* financial liabilities of residents of an economy, representing liabilities of that economy residents towards non–residents.

The difference between financial assets and liabilities is a net international investment position. If net international investment position is negative, it means that the residents of the observed economy have higher net liabilities than net assets, while a positive net position means the reverse situation. Therefore, for the case of negative IIP, the observed economy has a net debt, while in case of positive net IIP, economy is a net lender to the rest of the world.

In addition to IIP reflecting the consequences of financial transactions, IIP is significantly affected by other economic changes which took place over the observed period. Composition of IIP entirely corresponds to the composition of financial account of balance of payments. Therefore, the basic components of both, IIP assets and liabilities, are direct investment, portfolio investment, financial derivatives and other investment, while assets also include reserve assets.

In the compilation of International Investment Position, the CBBH uses the following way of collecting data:

– direct survey (survey on direct investment, survey on trade credits and advance payments),

– statistical and administrative sources of data (publications of the IMF, Bank for International Settlements), and

– statistics compiled in the CBBH (Monetary and Financial Statistics (MFS), Government Finance and Financial Accounts Statistics (GFFAS), and data received from Banking Department, Cash Management Department, Monitoring and Analyses Department, Accounting and Finance Department, and BH Balance of Payments Statistics).

In compilation of the quarterly IIP report, the data for the previous quarters of the current year are also revised, while together with compilation of IIP for the second quarter of the current year quarterly data are revised for the total of three years backwards. Revisions that are related to changes of methodology and significant data revisions are described in detail.

Reports on International Investment Position of BH are compiled and disseminated on quarterly basis. The deadline for publishing reports is the end of the current for the previous quarter. The deadlines for publishing reports are available in the calendar for publishing statistical data available on the web site of the CBBH.

The International Investment Position, is presented in BH currency (convertible mark) using exchange rate published by the CBBH for the date of presented position. Wherever possible, market values of positions are used in the compilation of IIP.

Currently, the International Investment Position, is presented in relation to the rest of the world, without geographical breakdown.

**II Items of International Investment Position**

**Direct Investment**

*Conceptual Framework: Direct investment (DI) is a category of cross–border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. As well as the equity that gives rise to control or influence, direct investment also includes investment associated with that relationship, including investment in indirectly influenced or controlled enterprises, investment in fellow enterprises, debt, and reverse investment. Control or influence may be achieved directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power in another enterprise that has voting power in the enterprise. Immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 present or more of the voting power in the direct investment enterprise. Indirect direct investment relationships arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises. Direct investment covers most financial transactions and positions between affiliates resident in different economies. Standard components of direct investment are equity and investment fund shares and debt instruments. Unlike Balance of Payments (BOP), that reports reinvested earnings as separate financial account item, the IIP reports reinvested earnings as overall equity position.* *Reinvested earnings relate to direct investment and comprise the part of an enterprise’s profits that are not distributed. Reinvestment of earnings arising from a direct investor’s equity in its direct investment enterprise is recorded as an imputed financial account entry. Reinvestment of earnings may be negative in some cases, for example, in case of losses by the direct investment enterprise or if dividends payable in a period are larger than net earnings in that period. Just as positive reinvested earnings are treated as being an injection of equity into the direct investment enterprise by the direct investor, negative reinvested earnings is treated as a withdrawal of equity.*

The CBBH compilation practice: Since 2004, CBBH has conducted a regular quarterly (on a sample) and annual (full coverage of companies with DI exceeding a KM 100,000 threshold) direct survey on DI in BH. The survey includes financial and non–financial corporations which have, or are assumed to have, foreign investment from abroad, which invest abroad or are borrowing funds from foreign countries. For the companies with direct investment below than the mentioned threshold, CBBH makes estimates based on data obtained by courts on registered foreign capital in BH.

For the purpose of compilation of quarterly IIP data on deposit-taking corporations (DTC) and other financial corporations are collected through DI regular quarterly surveys. For non-financial corporations data obtained from annual survey are used for quarterly estimates. The estimate takes into consideration the consequences of financial transactions and other economic changes which took place over the observed period.

According to the new IMF methodology retained earnings are presented on a quarterly basis in the period it is earned. Data on profits and reinvested earnings are collected on annual basis and published within the deadline T + 8 months. During the year, quarterly data on equity capital are adjusted for projected data on reinvested earnings. Reinvested earnings for other financial and non-financial corporations are estimated on the basis of an aggregated estimate and available information on distributed dividends. The aggregated value is projected, based on index of industrial production (published by BH Agency for Statistics). For DTC sector data on reinvested earnings for each particular bank are estimated based on available cumulative data on profit and distributed dividends for past period of current year.

For direct investment enterprises that are traded on stock exchanges, equity has been valued at the most recent bid/ask price. In a case that market value is not known and for unlisted enterprises “Own funds at book value” method is used for valuation of the equity of direct investment enterprises.

Data on direct investment in IIP are shown on assets and liabilities basis, while geographical and activity presentation of DI are compiled according to directional principle. The difference between the assets-liabilities and directional presentations arises from differences in the treatment of reverse investment and some investment between fellow enterprises. Under the directional principle DI is shown as either direct investment abroad or direct investment in the reporting economy.

**Portfolio Investment**

*Conceptual Framework: Portfolio investment include financial instruments in the form of equity or debt securities, usually traded on organized markets, which in accordance with the applied methodology are not classified as direct investment or reserve assets. Foreign investment in equity in percentage lower than 10% of voting power is considered a portfolio investment. Equity not in the form of securities (e.g., in unincorporated enterprises) is not included in portfolio investment; it is included in direct or other investment. Portfolio investment may be presented by instrument, by maturity (original or remaining), or by institutional sector.*

The CBBH compilation practice: The direct investment survey is developed with the ability to compile data on portfolio investment, as well. However, compilation of portfolio investment data in this respect is incomplete regarding coverage. The survey covers only portfolio investment of the companies with direct investment. As an additional data source for DTC and other financial corporations, MFS data are used. Assets of monetary authorities in the form of debt securities are included in reserve assets. Regarding liabilities of General government sector, available data are international government bonds, issued in the debt rescheduling process, and on one occasion, the government bonds issued abroad. The data on these positions are obtained from Government Finance and Financial Accounts Statistics. To a smaller extent, the data on portfolio investment positions are calculated on the basis of balance of payments data.

**Financial Derivatives**

*Conceptual Framework: A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks can be traded in their own right in financial markets.*

The CBBH compilation practice: Data on position of financial derivatives in BH IIP assets and liabilities are collected through the regular quarterly surveys on DI.

##### **Other Investment**

##### Conceptual Framework: If transactions are not included as assets or liabilities of direct or portfolio investment, or reserve assets, these belong to the residual category of investment (Other investment) and are classified as follows:

* *Other equity*
* *Currency and deposits*
* *Loans*
* *Insurance, pensions and standardized guarantee schemes*
* *Trade credit and advances*
* *Other accounts receivable/payable and*
* *Allocations of Special Drawing Rights (SDR), except for SDR holdings included in reserve assets*

*Other equity – represents a part of investment not included in direct investment or reserve assets. Also, other investment are investment which are not in the form of securities and thus not included in portfolio investment. Participation in some international organizations is not in the form of securities and so it is classified as other equity.*

*Currency and deposits – Currency consists of notes and coins in circulations that are of fixed nominal values and are issued or authorized by central banks or governments. Currency in other investment represents the local currency held by non–residents (liabilities) and foreign currencies held by residents (assets) which are most frequently used in payments. Deposits include transferrable and other deposits, which are all claims on the central bank, deposit-taking corporations, and, other institutional units and claims represented by evidence of deposit. Transferrable deposits consist of all deposits that are exchangeable for banknotes and coins on demand at par and without penalty or restriction and directly useable for making payments by check, draft, giro order, direct debit or credit, or other direct payment facility. Interbank positions can be shown as a separate component of deposits. Other deposits consist of all claims, other than transferable deposits, that are represented by evidence of deposit.*

*Loans are financial assets that are created when a creditor lends funds directly to a debtor and are evidenced by documents that are not negotiable. This category includes instalment loans, hire-purchase credit, and loans to finance trade credit. Claims on or liabilities to the IMF (including use of IMF credit) that are in the form of loans are also included in this category. Financial leasing is also classified in loans, although from the legal point of view, they cannot be considered loans.*

*Insurance, pensions and standardized guarantee schemes consists of: nonlife insurance technical reserves; life insurance and annuity entitlements; pension entitlements and provision for calls under standardized guarantees. These reserves, entitlements, and provisions represent liabilities of the insurer, pension fund, or issuer of standardized guarantees, and corresponding asset of the policyholders or beneficiaries.*

*Trade credit and advances consist of credit extended directly by suppliers of goods and services to their customers and advances for work that is in progress (or is yet to be undertaken) and prepayment by customers for goods and services not yet provided.*

*Special Drawing Rights are international reserve assets created by the IMF and allocated to members to supplement existing official reserves. SDR holdings represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members. Holdings of SDRs by an IMF member are recorded as an asset, while the allocation of SDRs is recorded as the incurrence of a liability of the member receiving them (because of a requirement to repay the allocation in certain circumstances, and also because interest accrues). The holdings and allocations should be shown gross, rather than netted.*

CBBH compilation practice: In the compilation of IIP for BH, the data on other equityare obtained from the survey on direct investment conducted in the CBBH and GFFAS for General Government shares in international organizations.

The data on positions of currency and deposits for DTC and other financial corporations are obtained from the Monetary and Financial Statistics. These data for General government sector are obtained from CBBH Banking Department. Data from Bank for International Settlements (BIS) quarterly reports are used as a source of currency and deposits of non-financial corporation.

Quarterly data on loans for DTC are obtained from CBBH MFS, as well as, the quarterly data on loan assets of other financial corporations. Data on loans of General Government sector are provided from GFFAS. Data on liabilities positions of this item for other sectors are obtained from the CBBH survey on direct investment, which also collects data on other investment of companies with direct investment. To a smaller extent, data are calculated using BOP data on these transactions for nonfinancial corporations and supported by data provided by Entities Ministries of Finance.

The data on insurance, pensions and standardized guarantee schemes are obtained from MFS and for households calculated by using BOP data.

Data on trade credits and advances for DTC and Other financial corporations are obtained from Monetary and Financial Statistics. However, majority of data, the data for non-financial corporations, are compiled through the CBBH direct quarterly survey on trade credits and advance payments. Trade credits and advance payments survey has been conducted as of 2007 on a biggest importers and exporters which are selected from all registered importers and exporters in BH. Data from the survey, are also used to estimate quarterly positions on trade credit and advances. Data on trade credits collected through DI survey are compared with individual data collected through survey on trade credits and advance payments and for those companies with overlaps data are treated only as trade credits within direct investments.

Data on other account receivable - payable are obtained from MFS and BIS quarterly reports, while for General Government sector these data are obtained from GFFAS.

##### **Reserve Assets**

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*Conceptual Framework: Reserve assets, according to the definition of the International Monetary Fund, are foreign assets that are readily available to and controlled by monetary authorities for purpose of direct financing of balance of payments imbalance and indirect regulating of the imbalance through the intervention in exchange markets to affect the currency exchange rate and for other purposes. The CBBH does not intervene on the foreign exchange market, as currency board means a fixed exchange rate.*

*Reserve assets of the CBBH include: Monetary gold, Special Drawing Rights, Reserve position in the IMF, and Other active claims.*

*Reserve assets include gross foreign exchange reserves of the CBBH, which consist of the balance positions of short–term foreign assets of the CBBH (gold, special drawing rights, foreign exchange in the vault of the CBBH, short–term foreign exchange deposits held with non–resident commercial or central banks and other) and investment in long–term foreign securities.*

*Net foreign exchange reserves represent a difference between gross foreign exchange reserves and liabilities towards non–residents. The Law on the Central Bank envisages that monetary liabilities of the CBBH cannot be higher than its net international reserves.*

*In the estimate of the country’s credit rating, foreign investors consider the level of reserve assets very important.*

CBBH compilation practice: All accounts of reserve assets are kept in the CBBH Banking Department, Monitoring and Analyses Department and Accounting Department. Therefore, data on reserve assets, i.e. positions of international reserves are obtained from the reports of the mentioned departments, as it follows:

* Report on foreign reserves balance and compliance with CBBH foreign reserves management guidelines,
* Report on maturity, buying and selling of debt and equity securities,
* Report of Monetary and Financial Statistics on Reserve Position at the IMF.

Data compiled are based on original maturity.