Methodological adjustments to the international investment position

A euro-denominated **opening balance sheet** as at 1 January 1999, the date on which monetary union was launched, was presented simultaneously with the international investment position as at the end of 1998. Both accounts differed not only in the denomination of the assets and liabilities but also in the method of evaluating the external reserves. In the international investment position these are shown in accordance with the values in the Bundesbank balance sheet which, up to the balance sheet date of 31 December 1998, followed the strict “lower of cost or market” method (LOCOM).

Since the launch of monetary union, standardised accounting regulations, which require the values to be adjusted quarterly to market prices, apply to the Bundesbank as they do to all the other central banks participating in the Eurosystem. These values have also applied to the international investment position since 1999. As a result of **marking to market**, the D-Mark equivalent value of the external reserves at the beginning of 1999 (€94 billion or DM184 billion) was approximately DM50 billion higher than the value shown at the end of 1998 (DM134 billion), and Germany’s total external assets as well as its net external position increased accordingly. Expressed in euro, German external assets at 1 January 1999 therefore amounted to €1,916 billion, the external liabilities to €1,866 billion and the net external position to €50 billion.

Publishing the international investment position in this form also enabled a **further methodological adjustment** to be made to bring it more into line with the provisions of the IMF Balance of Payments Manual. The figures for corporate direct investment appearing in the accounts of the international investment position now show all the financial links between investors and their (foreign) direct investment enterprises, ie including credit operations. Hitherto, the direct investment shown in the international investment position had comprised merely the equity capital and the land and buildings; the credits between affiliates had been shown together with the other unsecuritised external assets and liabilities. To provide the users of the international investment position with figures which are more comparable internationally, however, the Bundesbank had also published more broadly defined direct investment data for a time as a “memorandum item”.

In the new method of showing direct investment the claims and liabilities arising from loans within a group of affiliates are classified – in line with international practice – according to the direction of the direct investment operation (directional principle), ie loans which the direct investment enterprise grants to the parent company (reverse flows) are deducted from the parent company’s claims on the subsidiary. This results in a contraction of the **balance sheet total** in the international investment position. The application of the directional principle reduced the German external assets and liabilities at the end of 1997, the time at which this amendment was initiated, by approximately DM55 billion in each case. The net external position was not affected by this.