

## METHODOLOGICAL NOTES ON THE COMPILATION OF THE INTERNATIONAL INVESTMENT POSITION OF ALBANIA

The Bank of Albania is in charge of the compilation of the International Investment Position (IIP) of the country. Data for the purposes of the IIP compilation are processed by the Balance of Payments and Surveys Division within the Statistics Department of BoA, respective of the confidentiality rules. The IIP statement is compiled in general conformity with the international standards prescribed by the *Fifth Edition* of the “*Balance of Payments Manual*” (IMF, 1993) and the “*International Investment Position – A Guide to Data Sources*” (IMF, 2002).

There is a close relationship between the *International Investment Position* and the balance of payments. The BOP financial account measures economy's transactions in external financial assets and liabilities, which affect the stock of external financial assets and liabilities measured in the international investment position.

### I. ACCOUNTING PRINCIPLES AND CONVENTIONS

The IIP is the balance sheet of the country's stock of external financial assets and liabilities at the end of a specific period.

The data are compiled in millions of Albanian Lek (ALL). The stock of external assets and liabilities nominated in other currencies are converted to ALL at the official exchange rate as published by the BoA at the end of the reference period. The impact of foreign exchange rate fluctuations of original currencies against the ALL is calculated evaluating the stocks. These adjustments are made according to the IMF methodology.

As a rule, stock valuations are based on market prices. If the actual market prices are not available, stock of IIP instruments are valued at the book or nominal value.

The Albanian IIP statement is compiled on annual basis. The preliminary table (concerning the FDI figure) is ready for publication within one quarter from the end of the year of reference. This table is then revised once the latest data are received, and the final IIP statement is ready for publication within three quarters from the end of the year of reference, as required by the international standards of data compilation and dissemination (GDDS and SDDS).

## **II. INTERNATIONAL INVESTMENT POSITION COMPONENTS**

Financial items included in the IIP table are: claims to nonresidents, liabilities towards nonresidents, and reserve assets.

The primary type of classification in the IIP statement is the distinction between assets and liabilities; the difference between them represents the net investment position.

The second level of classification by function is fully consistent with the classification of BOP financial account. The functional types of assets and liabilities are (i) direct investment, (ii) portfolio investment, (iii) financial derivatives and (iv) other investment. Included in assets are also (v) the reserve assets held by the monetary authorities.

The third level of classification is by domestic sector, again consistent with the sectoral classification of BOP. Investment instruments are broken down by four main sectors: general government, monetary authority, banks, and other sector.

## A. DIRECT INVESTMENT

Direct investment is a category of international investment in which a resident of one economy – a direct investor – holds a lasting interest (at least 10% of the ordinary shares or voting power) in an enterprise resident in another economy – a direct investment enterprise. The direct investment includes both the initial transaction, through which the relationship between the direct investor and the direct investment enterprise is established, and all subsequent transactions between them. The direct investment covers transactions related to changes in the direct investor's share in the equity capital of the direct investment enterprise, inter-company debt transactions as well as the share of the direct investor in the undistributed earnings/loss of the direct investment enterprise. Claims on and Liabilities to affiliated enterprises are shown separately, following the directional principle.

### Sources and methods:

For the banking system and non-banking financial institutions the direct investment data are derived by their balance sheets as reported to the BoA. For the other sectors, direct investment data are obtained from the survey conducted in conjunction with INSTAT. Further information on FDI flows driven by privatization and not reflected on the FDI survey, is provided by the Ministry of Economy, Trade and Energy.

Data in the IIP statement are split between equity capital, reinvested earnings and other capital. In the preliminary statement of IIP, the FDI figure is derived by adding to the end of the previous year the year's transaction derived by the BoP statistics, and is then revised once the results from the survey of FDI has been calculated, within the third quarter after the end of the year of reference.

## **B. PORTFOLIO INVESTMENT**

Portfolio investment stock comprise holdings of and liabilities on equity securities and debt securities; the latter are subdivided into bonds and notes (with an original maturity of one year or more) and money market instruments (with an original maturity of less than one year).

### Sources and methods:

Data on portfolio investment on the asset side are obtained from the banks' and other non-banks financial institutions' balance sheets as reported to the BOA. Information is being collected from insurance companies and other financial institutions.

When the market value of securities is not available, the market-equivalent price is derived from the nominal value by subtracting discounts or premiums and adding accrued interest.

## **C. FINANCIAL DERIVATIVES**

Assets and liabilities in financial derivatives cover financial derivative instruments such as forwards, futures, swaps, options, etc. Bank of Albania does not currently obtain stock information on this IIP component.

## **D. OTHER INVESTMENTS**

Other investments cover the stock of assets and liabilities related to short and long-term trade credits and loans, currency and deposits and other assets and liabilities (accounts receivable and payable).

According to the BPM5, *trade credits* consist of claims and liabilities arising from the direct extension of credit by suppliers and buyers for transactions in goods and services, and advance payments for work in progress (or to be undertaken) that are associated with such transactions. Trade-related loans

provided to finance trade are not included in this category but under loans, as recommended in BPM5 .

*Loans* item includes received and paid principals on short- and long-term loans between residents and non-residents if no issue of a tradable security is involved with these loans.

The *Currency and Deposits* component presents on the assets side the changes in the residents' currency deposits held abroad, and on the liabilities side – the changes in the liabilities of the resident commercial banks to non-residents in domestic and foreign currency.

Items *Other assets* and *Other liabilities* includes all transactions on miscellaneous accounts receivable and payable not included elsewhere, they also include arrears in loans payment.

#### Sources and methods:

The *Trade Credit* liabilities data are calculated on import data by applying coefficients and repayment dates for each merchandise group, as provided by the survey on foreign trade, conducted by Bank of Albania in Colaboration with INSTAT.

Data on liabilities in the form of *Loans* for all sectors are obtained from: the banking system; non-banks financial institutions; the Ministry of Finance regarding the official debt; the Foreign Relations, European Integration and Communication department in BoA regarding the debt of the Monetary Authority; and other international organizations and institutions for loans to enterprises, such as the European Bank for Reconstruction and Development and the American Albanian Enterprise Fund.

The transaction value on long-term loans is derived from the difference between the drawdowns during the period and the principal paid. Write offs

during the period are recorded as other adjustments and arrears as other liabilities.

The value of some long-term debt borrowed before 1990 is still subject to political negotiation between the parties. In the international investment position this debt is reported with an approximate value, but is subject to revision; it will show its real value when subsequently settled in international negotiations.

Data on Currency and deposits include foreign currency holdings by the Monetary Authority as reported on the Central Bank's Balance sheet; individual holdings in non resident banks as reported to the Supervision Department to BoA; and notes and coins and deposits in foreign currency from the banking sector balance sheet (assets and liabilities) and non-banks financial institutions (assets), as on their balance sheets reported to BoA.

The value of deposits and loans includes the accrued interest on them at the end of the period, which is shown separately in the BOP income account.

Data on Other assets and liabilities include information on other receivables or payables as reported by commercial banks and non-banks financial institutions.

#### **E. RESERVE ASSETS**

According to the BPM5, *reserve assets* consist of those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances and/or for other purposes. The reserve assets comprise monetary gold, SDRs, the reserve position in the Fund, foreign exchange assets (consisting of currency and deposits and securities) and other claims.

Data are prepared on the basis of reports presented by the Monetary Operations Division of the BOA. The data are considered to be accurate and no classification problems have arisen.