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IMF Publishing Global Portfolio Investment Survey

The first survey of portfolio investment holdings by the main investing countries, which was organized by the International Monetary Fund (IMF), shows portfolio holdings of equity and long-term debt securities reached nearly US$5.2 trillion at the end of 1997.

The United States, United Kingdom, and Japan were the largest investing countries, accounting for almost 68% of such holdings, according to the *Coordinated Portfolio Investment Survey*. The shares of the Netherlands, Italy, and France were each within 4% to 6% of the total. The *Survey* is the first major internationally coordinated statistical initiative designed to gauge portfolio claims on individual countries by the world's principal investing nations. Some 29 countries participated.

The *Survey* enabled identification of previously uncovered portfolio investment holdings totaling US$750 billion. The newly identified assets were largely attributable to investors resident in European and North American countries, and were derived from completely new collections (e.g., Canada, Ireland, Italy, and Spain), and an updated benchmark survey in the United States. Bermuda, the only offshore financial center participating in the *Survey*, accounted for US$133 billion. The *Survey* also permitted the identification of previously unmeasured liabilities of some US$500 billion, mostly related to offshore financial centers (about 45% of the newly identified liabilities) and emerging market countries (about 36%). As a result of these adjustments, it could be estimated that outstanding portfolio investment liabilities in both equity and long-term debt securities were US$9.4 trillion at the end of 1997, and outstanding portfolio investment asset positions were US$7.7 trillion.

In principle, however, world portfolio investment assets should equal world portfolio investment liabilities. In practice, a discrepancy remains. Notwithstanding the improved coverage of portfolio investment assets resulting from the survey, there remained a difference of US$1.7 trillion represented about 18% of total liabilities, which is largely attributable in the considerable growth in portfolio investment channeled through offshore financial centers that did not participate in the *Survey*.

By providing a snapshot of where portfolio assets are held and a basis for cross-country comparison, the results of the *Survey* are a step towards providing a foundation for deeper analysis of potential vulnerabilities among nations that rely heavily on portfolio investment flows to sustain economic growth. As the *Survey* is repeated, it should also be possible to assess the impact of changes in portfolio preferences by the major investing countries over time

The report on the *Survey* contains general tables that show how the participating countries allocated their portfolio investment assets among major partner countries; country tables containing all *Survey* data collected at the national level; and descriptions of the essential features of its implementation in each country.

"The *Survey* represented for the majority of the participating countries, the first time that such data were collected in accordance with standardized definitions and methodologies," said Carol Carson, Director of the IMF's Statistics Department, which is spearheading the *Survey*. "This approach enhanced data quality and comparability. Only two thirds of these countries already compiled an international investment position statement, mostly without any geographic details." In order to meet the requirements of the *Survey*, major changes and refinements were introduced by most compilers, even those who already collected stock data attributed geographically. Overall, the *Survey* covered portfolio investments made by more than 4,000 banks, 8,000 non-bank financial institutions, and 13,000 non-financial enterprises.

An important reason for conducting the *Survey* was to respond to global asymmetries in reported balance of payments data, especially those in portfolio investment flows. These asymmetries were originally identified and analyzed in the IMF's *Report on the Measurement of International Capital Flows in 1992*, which recommended that steps be taken by countries to ensure: (1) an improved coverage and better implementation of international standards for balance of payments financial account

statistics; (2) that statistical activities be endowed with appropriate resources and legal powers; (3) that stock data be collected on a regular basis; and (4) that an effort be made to undertake a coordinated benchmark survey of international portfolio assets and liabilities broken down by partner country.

The major goal of the *Survey* was to ensure that: (1) all the main investing countries undertook a benchmark portfolio asset survey at the same time; (2) participating countries followed definitions and classifications that were mutually consistent; (3) all participating countries provided a breakdown of their stock of portfolio investment assets by the country of residency of the nonresident issuer; and (4) best practices in survey design and implementation were drawn on to the maximum extent possible.

These data will be analyzed in a separate forthcoming paper intended to complement the publication of the results of the *Survey*. Publication of the analysis is expected sometime in Spring 2000. In particular, the data will be used to investigate global imbalances in portfolio investment assets and liabilities in the light of the evidence made available by the *Survey* and some additional sources of information. Data provided by eight countries that collected geographical details on their portfolio investment liabilities will also be compared with the corresponding assets reported by their *Survey* partners.

"The size of the global discrepancy between portfolio investment assets and liabilities remained substantial," said Carson. This could be attributed to the lack of data sources for offshore financial centers and some countries, for which no estimate could be made, and a lack of coverage of holdings of portfolio investment assets by households. "These considerations underscore the need for a more complete participation of major investing countries in future surveys, including offshore financial centers, that would address the remaining sources of under-reporting of global portfolio investment assets, and provide an indication of the reliability of the global data for portfolio investment liabilities," she said.

In addition to shedding some light on the size of global discrepancies in portfolio investment positions, the *Survey* also showed that a coordinated effort could be successfully organized across a large number of countries with respect to the scope, coverage, timing, definitions and concepts used in the compilation of data. The *Survey* also provided an effective and efficient vehicle for establishing and spreading good methodological standards world-wide, and facilitated a greater understanding of country

practices with respect to survey design and alternative approaches to data collection.

Carson also noted that the *Survey* resulted in a greater awareness of the IMF's *Balance of Payments Manual* and promoted its implementation. "As more countries take steps to compile an annual international investment position, the likely outcome is the improved reporting of stocks and flows of portfolio investment and a reduction in global discrepancies," she said.

A follow-up *Survey* is being planned for end-December 2001, which will include short-term portfolio investment positions. Efforts are also under way to ensure a broader participation by countries and offshore financial centers.