TÜRKİYE CUMHURİYET MERKEZ BANKASI

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International Investment Position

What is the International Investment Position (IIP)? What does it really mean to have a positive or negative IIP? What is the relationship between the IIP and the BOP items?
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Economics for All

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CBRT Blog

GDDS Portfolio of Non-Residents: Who Are Those Foreigners?
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Inflation (October 2017)

11.90%

CBRT RESERVES (27 October 2017)

Gross FX Reserves	Gold
USD **95.48** Billion	USD **21.42** Billion

CBRT Policy Rates (26 October 2017)

Late Liquidity Window Overnight Borrowing Rate	Overnight Borrowing Rate	One-Week Repo Rate	Overnight Marginal Funding Rate	Late Liquidity Window Overnight Lending Rate
0%	**7.25%**	**8.00%**	**9.25%**	**12.25%**

International Investment Position

The international investment position (IIP) is a statistical statement that shows at a point in time the value and composition of financial assets of residents of an economy that are claims on nonresidents and gold bullion and foreign currency held as reserve assets and financial liabilities of residents of an economy to nonresidents.

The "resident" concept in IIP denotes a real person who has been residing in an economy permanently and regularly for more than one year and legal entities that are engaged in business activities in that economy. The IIP contains the General Government, the CBRT, banks and other sectors.

What are the sub-items of the IIP?

Similar to a balance sheet statement, the IIP is prepared as a table containing "assets" and "liabilities" sides. The "Assets" side has four and the "Liabilities" side has three main investment groups.

1. Direct Investment: A 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. The definition of direct investment requires that a direct investor should have an ownership of 10 percent or more of the ordinary shares or the voting power in the management of an enterprise.

2. Portfolio Investment: Portfolio investment includes investments in equity and debt securities. Unlike FDI, with the acquisition of less than 10 percent of the shares, the non-resident investor does not have an effective voice in the management. While in FDI, the investor brings production technology and know-how along with the capital, in portfolio investment the sole contribution is the capital.

3. Other Investment: Other investment is a residual category that covers other assets and liabilities such as deposits, loans and commercial loans that are not covered by direct investments, portfolio investments and reserve assets.

4. Reserve assets: Reserve assets are the readily available external assets controlled by monetary authorities to support monetary and exchange rate policies, to reassure the markets, to carry out the Government's domestic and foreign debt services denominated in FX and to maintain foreign exchange liquidity against any external shocks.

The Balance of Payments and Statistics and the International Investment Position Statistics are compiled in the framework of the international standards set forth in the Balance of Payments and International Investment Position Manual (BPM6) prepared by the International Monetary Fund to serve as a guideline for member states.

What Does an Analysis of the International Investment Position Show Us?

In the IIP, the difference between the total financial assets and the total financial liabilities is the net international investment position. In other words, the net international investment position shows the difference between Turkey's assets abroad and the liabilities to non-residents. The net position can either be positive or negative.

International Investment Position

Assets	Liabilities
Direct Investments	Direct Investments
Portfolio Investments	Portfolio Investments
Other Investments	Other Investments
Reserve Assets	

Net International Investment Position = Financial Assets - Financial Liabilities

Balance of Payments and the IIP Relationship

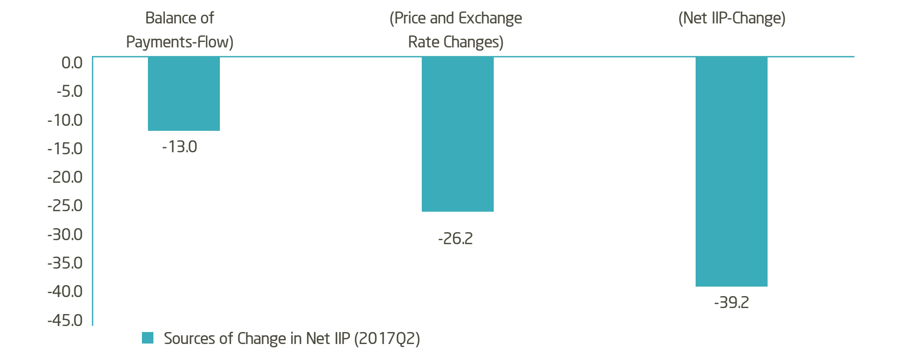
The net international investment position is measured at current market prices at the end of each quarter and converted into US dollars. For the “Assets” and “Liabilities” items of the IIP, which are measured at end-of-quarter market prices and exchange rates, the changes in the positions between the two end periods consist of flows recorded in the financial account of the balance of payments as well as price and exchange rate changes. Consequently, by comparing the change in a country’s net international investment position and the change in its balance of payments, one can calculate how much of the change stems from the flows during the quarter and how much stems from changes in exchange rates and prices.

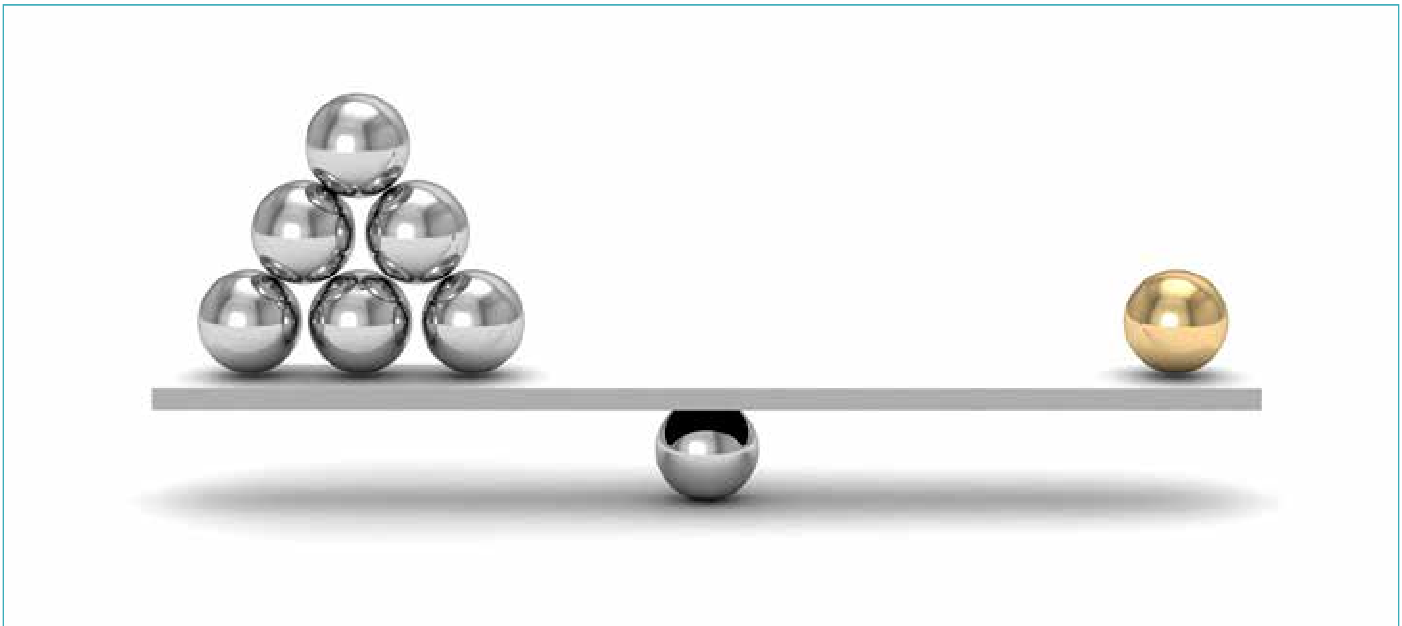
For instance: According to the “Balance of Payments and International Investment Position Report 2017- II”, in 2017Q2, Turkey’s net international investment position increased on the negative side quarter-on-quarter and was recorded at USD 39.2 billion. While USD 13 billion of this change in Net IIP stemmed from the balance of payments, USD 26.2 billion stemmed from changes in price and exchange rates. In the second quarter of the year, the BIST National 100 Index increased by 12.9 percent quarter-on-quarter, and the Turkish lira’s appreciation by 3.6 percent against the USD were the main drivers of the changes in exchange rates and prices.

Where Are the IIP Data?

The IIP data, which are compiled and issued by the CBRT, can be accessed at the CBRT website under “Statistics/ Balance of Payments and Related Statistics/ International Investment Position”. The quarterly “Balance of Payments and International Investment Position Report” is accessible under the “Publications/ Reports/ Balance of Payments and International Investment Position Report” menu.

Chart: Balance of Payments and IIP (billion USD)





The Difference between Foreign Direct Investment and Foreign Portfolio Investment

Foreign direct investments and foreign portfolio investments differ in terms of the management power they bestow on their investors, the investment coverage, the maturity structure, the risk borne by the investor, the type and scope of return, and the investor identity. We can analyze these differences as follows:

1. Management power: Foreign direct investments give the investor direct management power and the company established in the resident country directly falls under the control of the foreign company. However, in foreign portfolio investments, the management power is limited to the investor's vote at the company's general assembly of shareholders, without the intention or ability to play an active role in the management.

2. Investment coverage: In foreign direct investments, foreign investors usually bring their technology, management structure, production methods and the brand value along with their capital. In foreign portfolio investments, there is only the capital entry.

3. Maturity structure: Foreign direct investments are of a long-term and permanent nature whereas foreign portfolio investments are short-term investments.

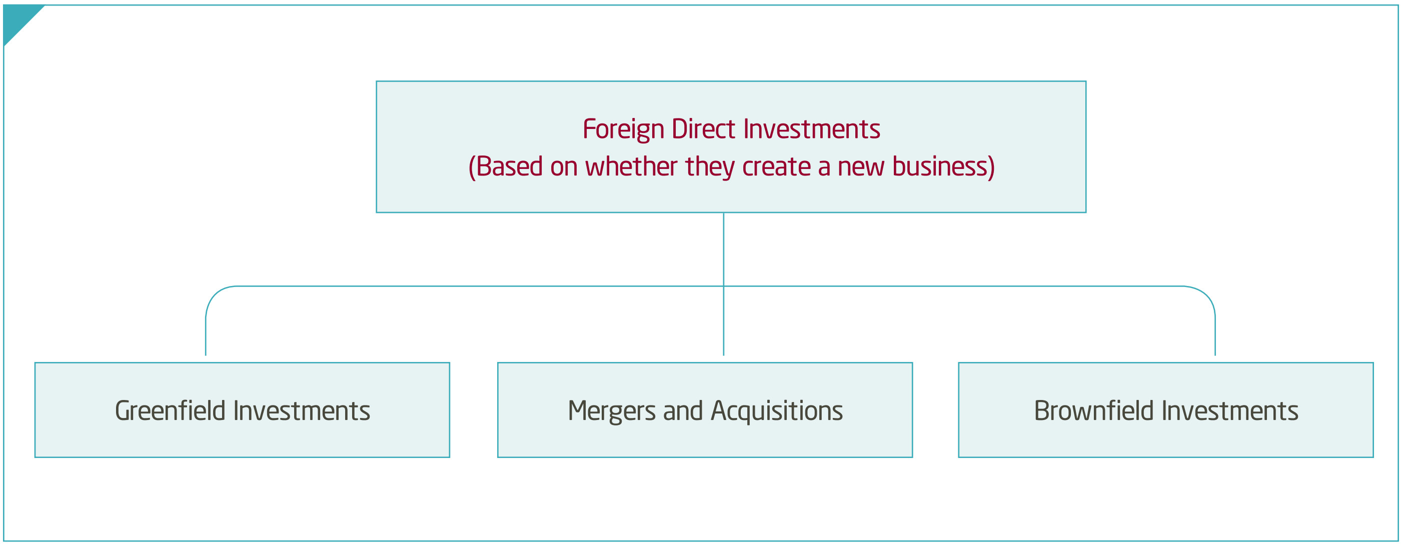
4. Risk factor: In foreign direct investments, investors are exposed to more risks as they cannot easily sell and cash in a manufacturing facility in case of political and economic adversities in the investee country. On the other hand, foreign portfolio investments are more risky for the investee country as these investments can easily leave the country in the event of a crisis and thus may add to instability in that country.

5. Type and scope of return: In foreign direct investments, the return is composed of elements such as dividends, capital gain, commissions, and transfer pricing and may change depending on the economic conditions of the country and the company. As for foreign portfolio investments, the return is in the form of interest and principal payment if the investment is a bond purchase, in the form of dividend and capital gain if the investment is a stock purchase. In this case, there is a fixed return whose repayment conditions have been pre-defined.

6. Investor identity: Foreign direct investments are generally made by multinational companies whereas foreign portfolio investments are usually made by financial institutions, corporate investors and individual investors.

Categorization of Foreign Direct Investments (based on whether they create a new business)

Foreign direct investments are categorized as greenfield investments, acquisitions and mergers, and brownfield investments based on whether they create a new business.



Greenfield investments refer to investments where a foreign company builds an entirely new manufacturing, distribution and research and development (R&D) facility in the host country. These investments are the most preferred investments by the host country as they increase fixed capital stock and employment in the host country. In such investments, foreign investors establish a new business under their ownership with their own technology, production method and management mentality and maximize their profits. However, getting the net return from these investments takes a longer time than other investments.

Mergers and acquisitions take place when foreign investors purchase the equity shares of a company of the host country. In this way, the investor gets the opportunity to rapidly and easily access the domestic market. Through these investments, only the company assets are transferred while they neither lead to an increase in production or employment nor create new businesses unless new investments are made. Here, basically the domestic company's resources are used, consolidated with the management mentality of the investing company.

Brownfield investments are a combination of greenfield investments and mergers and acquisitions. In such investments, a foreign company enters the country via purchasing a domestic company for the purpose of gaining early access to the market and making use of the domestic company's market shares. However, it establishes a new business later by transferring its own resources and combining them with those of the domestic company to increase the return on capital.

Central Bank Reserves

Central Bank reserves are made up of foreign exchange and gold reserves.

- **Foreign Exchange Reserves**

  Foreign exchange reserves are external assets held and controlled by the monetary authority to support monetary and exchange rate policies, give confidence to the markets, enable repayment of foreign currency-denominated domestic and external sovereign debt and safeguard the country against exogenous shocks.

  To serve the purposes cited above, the CBRT has pursued a reserve accumulation policy since 2002 and endeavored to increase its FX reserves throughout this process. FX reserves provide considerable flexibility and room for maneuver to the price stability-oriented CBRT in effectively implementing the exchange rate regime and monetary policies.

  A portion of the CBRT's FX accumulation is composed of its own foreign currency that it purchased in exchange for Turkish lira while the remaining portion consists of required reserves that banks are obliged to maintain at the CBRT. FX reserves are used in line with the prevailing conditions in the international markets respectively taking into account the priorities of safe investment, liquidity and return in the framework of the reserve management strategy developed in view of the economic conjuncture in the country, the exchange rate regime and monetary policies in place.

  For detailed information on FX reserves and the Foreign Exchange Reserve Management by the CBRT, please see "Foreign Exchange Reserve Management at the CBRT" document (in Turkish only).

- **Gold Reserves**

  Gold reserves are strategic assets that are managed according to criteria different from FX reserves but still with a conservative approach. Gold reserves are fully disposable assets in that they can be cashed in any time.

Statistics for the CBRT's gross FX reserves and gold reserves can be accessed via the "CBRT Balance Sheet Data" link in the Electronic Data Delivery System.

From the CBRT Blog

GDDS PORTFOLIO OF NON-RESIDENTS: WHO ARE THOSE FOREIGNERS?

Ahmet Adnan Eken (Deputy Executive Director), Mehmet Kasım Tırpan (Central Bank Specialist), Neslihan Tuba Kavruk (Chief), Başak Erdoğan (Assistant Chief)

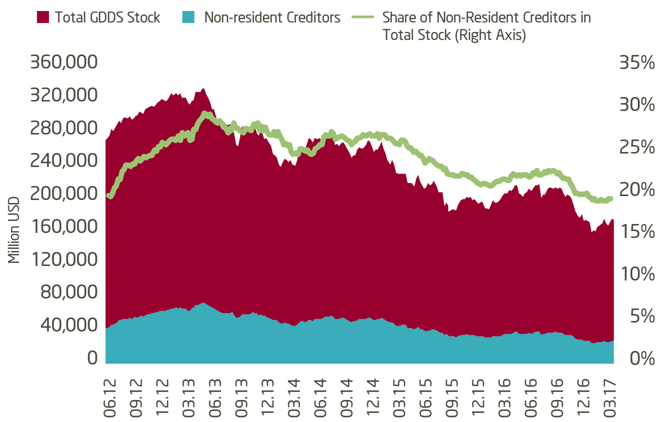
29.06.2017

"... A developed and efficient government domestic debt securities (GDDS) market attracts foreign investors to Turkey. Actually, while GDDS held by non-residents has increased over time, the GDDS portfolio of non-residents has become an important item within the financial account of the balance of payments....

By 2017Q1, non-residents held USD 26.3 billion of GDDS, corresponding to 19 percent of the total GDDS stock. This ratio, which reached a peak in 2013 with 29 percent, has since decreased and has been hovering around 20 percent recently (Chart 1).

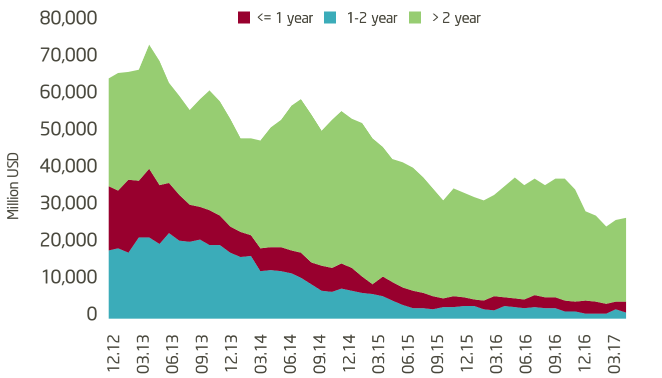
An analysis of the maturity structure of non-residents' Turkish GDDS stock reveals that generally, foreigners tend to invest in securities with longer maturities. The shift in non-residents' demand for Turkish long-term securities has been increasing since 2012 when Turkey's credit rating was upgraded to investment grade. In 2017Q2, 83 percent of foreigners' GDDS stock was composed of securities with maturities longer than 2 years (Chart 2)."

Chart 1. Non-residents' Share in Total GDDS Stock



Source: CBRT

Chart 2: Maturity Breakdown of Domestic Debt Securities Held by Non-residents (Market Value in Million USD)



Source: CBRT

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