

International Investment Position Methodology

I. Analytical Framework, Concepts, Definitions, and Classifications

- The International Investment Position (IIP) is a statistical statement that presents external assets and liabilities, and net balance of resident sectors at market value. External assets and liabilities are made up of real and financial assets, either tangible or intangible, held by residents in relation to nonresidents and vice versa. A resident is an individual or a legal entity whose main economic interest or activity is located within the territory of the country. Internationally, it is accepted that an individual be considered resident if he stays or intends to stay in the country for a year or more. In the case of legal entities, they are considered resident when they produce a significant quantity of goods or render a significant quantity of services within the country, for which they shall keep a productive facility during a year or more. IIP is estimated following international standards contained in the fifth edition of the IMF's Balance of Payments Manual, except for the valuation of external liabilities in bonds and debt not instrumented or refinanced in the Financial Plan 1992 (See Accounting Conventions).
- The external assets consist of real and financial assets, either tangible or intangible, held by residents in relation to nonresidents. We can distinguish, following the international classification, four groups of assets held by Argentine residents: international reserves assets, direct investment, portfolio investment, and other assets.
- The concept of international reserves of the balance of payments and of the international investment position comprises Central Bank's external liquid assets such as gold and SDR, foreign currency and freely available placements (which include receivables against nonresidents under the form of bank deposits, public securities, other bonds, monetary market instruments) and net credit positions of payment agreements (Aladi and bilateral agreement with Brazil) that entail reciprocal credits.
- Direct investment abroad reflects an individual or legal entity's - who is a resident of an

economy (direct investor) - intention of having a long term participation in a company who is resident of another economy (direct investment company). It comprises the direct investment abroad of the financial system and the non-financial private sector. For the financial system, the value of subsidiaries abroad of resident entities is considered. For the non-financial private sector, real estate investments and other investments in foreign companies' equity are included.

- Portfolio investment abroad reflects the holding of debt securities issued by governments and foreign private entities and temporary participations in foreign companies' equity traded in organized markets. Measures cover investments held by the nonfinancial private sector, the banking system and the nonfinancial public sector. The data for the financial system comprises portfolio holdings of public and private securities issued abroad (that do not correspond to repo liability transactions with BCRA) and foreign companies' stocks. The data for the non-financial public sector comprises investments in public securities, related with: investments made as collateral of the Financial Schedule 1992, other futures transactions, and temporary investments. The data for the non-financial private sector comprises the holding of financial assets issued by non residents in the form of debt securities and foreign companies' equity.
- Other investment abroad is a residual category that includes financial instruments not included in direct investment, portfolio investment or reserve assets. They are grouped in: cash and cash equivalent that do not constitute reserve assets, commercial financing, and other assets. The first category comprises: foreign currency holdings and bank deposits in foreign entities for the financial system; temporary excess funds in foreign currency deposited abroad for the non-financial public sector; and foreign currency holdings and deposits in foreign banks for the non-financial private sector. The second category comprises foreign assets of Argentine exporter companies related to direct trade financing. The third category comprises: loans and other receivables for the financial system, contribution to international organizations and those assets corresponding to bi-national bodies (Yacyretá and Salto Grande) for the non-financial public sector.

- The external liabilities consist of real assets in the country and financial obligations issued by residents, owned by or owed to nonresidents, respectively. They are classified in: direct investment liabilities, portfolio investment liabilities, and other liabilities.
- Direct investment liabilities comprises equity participation - with identical characteristics as direct investments abroad - in the banking sector, insurance companies and AFJP [private pension funds], and in the resident nonfinancial private sector.
- Portfolio investment liabilities comprises: debt securities, held by nonresidents, issued by the financial system, the nonfinancial public sector, and the nonfinancial private sector; and non-resident investment in stocks, that is not considered as direct investment. For the financial system the information consists in: holdings of bonds, negotiable obligations, and commercial papers by non-residents. For the non-financial public sector information consists in: holding of debt securities by non-residents. For the non-financial private sector information consists in: holdings by non-residents of debt securities issued by domestic companies. Also non-resident investment in stocks of the financial and non-financial private sector are included.
- Other liabilities comprises those external liabilities not included in the other types mentioned above, such as debts with international organisms, governments and government agencies, banks and suppliers and deposits. The information of the financial system comprises: nonresidents' deposits in the domestic financial system, credit facilities taken by residents abroad, financing granted by international organisms to resident entities and sundry obligations of these entities with nonresidents. The information of the non-financial public sector comprises loans to public sector granted by international organisms, banks, official agencies and governments. The information of the non-financial private sector comprises loans from different sources, not instrumented as bonds or securities (loans from international organisms, banks, suppliers, official agencies).

II. Scope of the data

- The estimates attempt to cover all of Argentina's foreign assets and liabilities, together with all related transactions. All institutional sectors are covered. The geographic coverage corresponds to the national economic territory.

III. Accounting Conventions

- The preparation of the Argentine international investment position, in general, is based on estimates of external assets and liabilities taken into account or implicit within estimates of the balance of payments, which are adjusted at market value, according to the Fifth Edition of the International Monetary Fund's Balance of Payments Manual.
- The stocks of international reserves of each period closing date are valued at market price using the prevailing exchange rate.
- The direct investment abroad of the financial system is valued at book value. The real estate investment of the non-financial private sector is valued at market prices (see compilation practices), and the other direct investment abroad of the same sector is valued at book value (book value has been considered the most adequate alternative to value these assets, according to international standards, given the difficulties derived from calculating an individual or sectorial market value of the companies involved).
- The portfolio investment abroad of the financial system is valued at market prices for the securities publicly traded and at acquisition cost (which is further adjusted using different criteria) for those which are non-publicly traded.
- The portfolio investment abroad of the non-financial public sector is valued at purchase value plus implicit interest for the case of the collateral of the Financial Schedule 1992; and at market prices for the temporary investments in public securities.

- The portfolio investment abroad of the non-financial private sector is valued at market price (see compilation practices).
- The other external assets are valued at face value. Data on contributions to international organisms and bi-national bodies are valued at book value.
- The direct investment in the resident financial system and in the resident non-financial private sector are valued at book value. Book value has been considered the most adequate alternative to value these assets pursuant to international standards, given the difficulties implied in the calculation of individual or sectorial market value of the companies involved. Liabilities with parent companies and subsidiaries, included within direct investments, since they are valued at book value, are priced at nominal residual value plus interests capitalized at updated exchange rates.
- In relation to portfolio investment liabilities: debt securities are valued at nominal residual value plus capitalized interest and, additionally, are estimated at market value following the criteria established in the IMF's Balance of Payments Manual. In countries like Argentina, which in the period 1991-1998 recorded significant variations of country risk rate, the application of market value to a portion of external debt, introduces a distortion to the assessment of global results. The size of the effect obviously depends on the change recorded in the period and the degree of volatility of sovereign risk rate. When applying the market value criteria, an increase of the country risk rate (fall of quotations) implies a reduction of external debt liabilities values and, consequently, an improvement of the international investment position. A decrease of the country risk rate (increase of quotations), has the opposite effect.
- Debt securities of the financial entities are valued at nominal residual value and also at market value, and debt securities of the non-financial private sector are valued at nominal residual value and at market prices (see compilation practices).

- Portfolio investment in stocks is valued at market prices. The other portfolio liabilities are valued at nominal residual value plus capitalized interests.

IV. Nature of the Basic Data Sources

- The stock of international reserves is informed by the Central Bank.
- The data on direct investment abroad of the financial entities is obtained from their balance sheets which are provided by the Central Bank.
- The data on direct investment abroad of the non-financial private sector is obtained: from the Central Bank of Uruguay for the case of real estate investments; and from Argentine companies' balance sheets and, in some cases, from foreign companies' balance sheets for the case of other investments.
- The data on portfolio investment abroad of the financial entities are obtained from their balance sheets which are provided by the Central Bank.
- The data on portfolio investment abroad of the non-financial public sector is provided by the Secretariat of the Treasury.
- The data used to estimate the portfolio investment abroad of the non-financial private sector are obtained from several sources, the most important of which are: U.S. Treasury Department, Deutsche Bundesbank, Superintendence of Private Pension Funds Managers, National Superintendence of Insurance, Securities National Commission, and a survey conducted to international brokers.
- The data on other assets of the financial entities are obtained from their

balance sheets provided by the Central Bank. Data on external deposits of the non-financial private sector are obtained from the BIS, and data on commercial financing of the same sector are obtained from a survey on main export companies.

- The data on direct investment in the resident financial system are obtained from their balance sheets provided by the Central Bank. The data on direct investment in the resident non-financial private sector are obtained from companies' balance sheets, the direct investments annual survey, and the Superintendence of Pension Funds Managers and of Insurance Companies.
- The data on portfolio investment in debt securities are obtained from: the balance sheet of entities for the financial system, the Public Debt Register and a survey to local governments for the non-financial public sector; and a survey to issuing companies for the non-financial private sector.
- Data on portfolio investment in stocks is obtained from Caja de Valores S.A. for resident companies' stocks that are traded in the Buenos Aires Stock Exchange and for depository banks of resident companies whose ADRs are traded in U.S. stock exchanges.
- Data on other liabilities are obtained from: the balance sheet of entities for the financial system, the Secretariat of the Treasury for the non-financial public sector, and a survey on companies and international organisms for the non-financial private sector.

V. Compilation Practices

- A wide variety of estimation processes are adopted.

- In the case of real estate investment abroad the estimation of these investments is based on data obtained about investments in the city of Punta del Este, Uruguay. From this estimate it is assumed that investments made in the rest of the countries (basically United States, Brazil and Europe), bears a certain similarity with those made in Uruguay.
- For the estimation of inventories at market value as of a certain date, the base data is the initial balance plus flows from construction, depreciated at 2% per year and adjusted by the U.S. CPI, and later added up to the flows corresponding to land (not depreciated) adjusted by said CPI. For the estimation of the market value of investments made in other countries, it was assumed that they are equivalent to 50% of those made in Uruguay.
- In the case of the portfolio investment abroad of the non-financial private sector, the estimation was made in two steps. Firstly, the portfolio as of end of 1997 at market value and historical value was estimated. This was done on the basis of information or estimates based on data from different sources such as the U.S. Treasury Department, Deutsche Bundesbank, Superintendence of Private Pension Funds Managers, National Superintendence of Insurance, Securities National Commission, Survey of International Brokers and bonds and stocks transaction flows of the balance of payments; and then a backward series was built at historical values, following the behavior of series with known data. In order to estimate historical values of the series at market value, a market value index of portfolio investments of the sector was made, taking into account U.S. and Argentine stocks and bonds prices. The weights used were given by the proportion of investments in stocks and bonds as of the end of 1997, in developed countries (applied to U.S. indices) and in developing countries (applied to Argentine indices).
- In the case of holdings of foreign cash and equivalents of the non-financial private sector, the estimation is based on a level fixed as of the end of 1997,

as a result of a measure of two indicators that provide an idea of the magnitude of the variable. Indicators used were: a) net remittances of bills from U.S. adjusted by income and outlays of cash for Trips and banks and Central Banks holdings, and b) the calculation of a hypothetical demand of dollars for transactions, based on a period in which dollarization was not very significant and adjusting it by the spread use of credit cards. Taking into account the limitations of both estimates (leaks in bills remittances and value reserve demand not measured in the latter case), an intermediate stock was assumed (U\$ 21,000 millions as of end of 1997), which is updated by the variation rate of net adjusted bill remittances. In the case of portfolio investment at home in the non-financial public sector. To estimate the security holder's residence, it is assumed that placement of Euronotes, Bonds of the Financial Schedule 1992, Global Bonex and other securities mainly issued abroad, are considered held by nonresidents, with the exception of those held by the banking sector, pension funds managers, insurance companies and the public sector. The remaining securities (Bonex, Bote, Botesos, Bocon, Bic and other placed domestically) are considered held by residents, except for those informed by the Caja de Valores [entity that clears and holds securities in custody] as kept by holders with a foreign domicile. To estimate the public sector bonds' market value, available market quotations are considered as of the end of each year. During the last years, obligations whose quotations were available accounted for around 80% of the total debt in bonds. For those bonds of which there was no quotation at close, the average value resulting in a pct of the nominal residual value of those bonds with regards to known market values was applied.

- To estimate the market value of bonds issued by the non-financial private sector a quotation value was estimated, taking into account duration as of each date and the relation of the public sector with the yield curve for a bond with similar duration as of said dates. Valuation at market value is available since 1994, inclusive. Valuation at market value of the bonds issued by the financial sector is obtained by discounting the future cash flow at the rate of

the yield curve of the public sector for a term similar to the duration of the bond debt of the sector. Valuation at market value is available since 1998.

VI. Other Aspects

- Reference years are calendar years.
- Information is published with an annual periodicity.
- Historical series commence on the year 1991, and is fully consistent with bop estimates commencing on the year 1992.
- Revision to previously published data, when applicable, are included in each new publication.
- No seasonal adjustment to data is made.