IV. Annex

Impact of the Global Financial Crisis on Selected Countries' International Investment Positions

The international investment position (IIP) is an important indicator for the International Monetary Fund to monitor the member countries' ability to make external payments and maintain financial stability. It also provides valuable reference for credit ratings agencies, syndicated loan markets and international investors to assess country risk or make investment decisions.

The global financial crisis of 2008 caused market turbulence and a shrinkage of wealth worldwide. This report observes changes in the external assets and liabilities of 19 countries[1] based on their IIP data at the end of 2008. The findings are then used to analyze the impact of the global financial crisis on these countries.

Direct investment

Direct investment may be expressed at either market values or book values[2]. As the global financial crisis induced a severe plunge in asset prices, the difference between market and book values widened drastically. For example, when measured at year-end book values, assets and liabilities of direct investment increased by 7.2 percent and 8 percent for the U.S. in 2008. France recorded respective increases of 9.6 percent and 5.7 percent, and Japan posted even larger increases of 25.4 percent and 53.1 percent. However, when measured at market values, both assets and liabilities decreased by more than 26 percent for the U.S. and Japan. France showed a substantial 46.6 percent decrease in assets, leading to an abrupt increase in its net liabilities.

Among emerging economies, Russia and Hong Kong experienced the deepest decline in foreign direct investment. Russia reported a decline of 56.5 percent in 2008, as its stock market suffered the largest drop worldwide. Acting as an intermediary for investment in China, Hong Kong possesses five times as much bilateral direct investment as the other three Asian tigers. Its bilateral direct investment evaporated by US$577 billion or 26.4 percent in 2008, due to nose-diving global asset prices. Direct investment to China increased by 24.5 percent in 2008, sustaining a rising trend.

1 These include G7 (U.S., Canada, Japan, U.K., Germany, France and Italy), four other developed countries (Luxemburg, Netherlands, Switzerland and Spain), and the emerging economies known as the "four Asian tigers" (South Korea, Hong Kong, Singapore and Taiwan) and the "Brics" (Brazil, Russia, India and China).

2 In IIP statistics, direct investment exhibits the most varied valuation methods among countries. Portfolio investment and derivatives are generally reported at market values, while other investment and reserve assets are generally reported at book values.

Portfolio investment

Portfolio investment registered the largest decline among all the investment categories. In particular, equity investment fell drastically along with worldwide stock markets. Both the total equity assets and liabilities of the 19 countries experienced over 40 percent declines, a major cause for the shrinkage of global wealth.

The U.S. recorded the deepest decline in equity investment. Its equity assets decreased by 2.1 times as much as liabilities, leading to a steep rise in net liabilities. By contrast, in emerging economies, equity liabilities decreased by 2.8 times as much as assets. Russia, South Korea, Brazil and Hong Kong all recorded over 50 percent declines in liabilities, causing a sharp depreciation in their currencies[3]. China was the only country that enjoyed continually rising inward equity investment, as well as sustained outward equity investment.

As global stock markets plunged, bond markets provided a safe haven for international investors. Moreover, governments worldwide issued large amounts of bonds to finance economic stimulus programs. Therefore, bonds issued by the US, French, German and Japanese governments became favorable investment targets. The US government issued bonds on an unprecedented scale to bail out troubled financial institutions, leading to a US$329 billion increase in liabilities of debt securities.

As global liquidity flooded bond markets, bond yields fell and bond prices rose. Following the outbreak of the global financial crisis in October 2008, the average yield on 10-year government bonds issued by major countries clearly dropped and hit a nadir around the end of 2008. It then rebounded along with the pace of market stabilization.

Other investment

Banks are the main traders in other investment. Large investment banks in Europe and the U.S. engaged in a de-leveraging process amid the financial crisis to improve their financial conditions. Many of them sold overseas assets to fill the capital shortfall of their parent banks. As a result, these banks experienced shrinkages in both assets and liabilities of other investment. The U.K. suffered the most severe shrinkage with assets and liabilities decreasing by US$1,301 billion and US$1,806 billion, respectively.

Amid the international liquidity shortage, banks in Japan and emerging countries became fund providers to their overseas affiliated banks. Therefore, other investment increased in these countries, with Japan recording the largest increase.

Reserve assets

The "Brics," the four Asian tigers and Japan all possessed large pools of foreign exchange

3 At the end of 2008, the Korean won, Brazilian real and Russian ruble depreciated by 25.7 percent, 24.2 percent and 16.4 percent, respectively, compared with the end of 2007.

reserves, and hence large positions of reserve assets. Among these countries, China continued to rank first in foreign exchange reserves due to sustained capital inflows and trade surpluses. On the other hand, South Korea and Russia both experienced an exodus of foreign capital and strong demand for US dollars in their domestic markets. They provide foreign currency liquidity from their own reserves, hence recording the largest decreases in reserve assets.

Changes in IIPs of Selected Countries in 2008

Unit: US$ billion

	US	Japan	UK	France	South Korea	Hong Kong	Taiwan	China	Russia	Others	Total
Assets	1,609	366	-2,390	-1,689	-105	-450	10	546	-89	-2,220	-4,412
Direct investment abroad	247	138	-264	-1,141	21	-235	17	53	-167	36	-1,295
Portfolio investment	-2,643	-147	-825	-473	-83	-223	-60	-33	-2	-2,288	-6,776
Equity securities	-2,397	-179	-679	-394	-57	-242	-68	1	-1	-1,862	-5,878
Debt securities	-246	32	-145	-79	-26	19	8	-34	-1	-426	-898
Financial derivatives	4,065	38	—	99	7	39	10	—	4	435	4,698
Other investment	-77	279	-1,301	-163	11	-61	22	106	128	-424	-1,479
Reserve assets	17	57	-1	-12	-61	30	21	419	-51	21	441
Liabilities	2,939	76	-3,091	-795	-225	-586	-87	189	-470	-2,392	-4,442
Dir. invest. in rep. economy	197	71	-276	-582	-37	-342	-3	173	-277	-94	-1,172
Portfolio investment	-805	-397	-1,009	-197	-205	-246	-97	15	-233	-2,293	-5,466
Equity securities	-1,134	-490	-838	-396	-195	-218	-97	15	-210	-2,347	-5,911
Debt securities	329	93	-171	200	-10	-28	0	0	-23	55	444
Financial derivatives	3,977	42	—	88	9	36	11	—	10	449	4,622
Other investment	-430	360	-1,806	-103	7	-34	2	2	32	-454	-2,426
Net IIP	-1,329	290	702	-895	120	136	98	357	381	172	31

Annual Growth Rates of IIPs of Selected Countries in 2008

Unit:%

	US	Japan	UK	France	South Korea	Hong Kong	Taiwan	China	Russia	Others	Total
Assets	8.8	6.8	-18.7	-21.8	-17.6	-16.6	1.2	23.0	-8.1	-7.9	-5.5
Direct investment abroad	7.2	25.4	-14.4	-46.6	27.8	-23.3	10.6	46.1	-45.2	0.6	-7.9
Portfolio investment	-36.5	-5.8	-24.3	-15.7	-52.5	-28.7	-24.1	-11.5	-7.9	-21.5	-24.0
Equity securities	-45.7	-31.2	-45.0	-45.9	-54.3	-47.1	-49.3	5.7	-33.3	-39.9	-43.1
Debt securities	-12.3	1.6	-7.7	-3.6	-48.8	7.2	7.4	-12.8	-3.3	-7.2	-6.1
Financial derivatives	158.8	98.6	—	42.5	290.8	82.1	281.7	—	272.5	122.7	144.9
Other investment	-1.6	21.8	-17.3	-8.4	11.5	-8.4	12.2	24.9	57.4	-4.3	-5.5
Reserve assets	6.0	5.9	-1.1	-10.7	-23.3	19.6	7.8	27.1	-10.6	2.1	8.6
Liabilities	14.4	2.4	-23.1	-10.8	-27.2	-26.2	-22.5	15.6	-38.3	-8.4	-5.7
Dir. invest. in rep. economy	8.0	53.1	-21.9	-36.0	-30.1	-29.0	-6.5	24.5	-56.5	-1.7	-8.6
Portfolio investment	-7.8	-20.4	-26.3	-6.9	-44.9	-51.5	-46.7	9.9	-67.7	-17.4	-16.2
Equity securities	-35.1	-39.3	-51.1	-39.5	-61.1	-50.3	-48.0	11.6	-71.8	-37.3	-40.0
Debt securities	4.6	13.3	-7.8	10.8	-7.0	-63.0	-1.8	-2.4	-44.7	0.8	2.3
Financial derivatives	159.9	96.4	—	25.9	191.3	110.4	296.1	—	1088.3	122.4	141.0
Other investment	-8.3	34.6	-21.9	-4.0	3.0	-6.2	1.3	0.4	8.1	-5.0	-8.7

Notes: (1) The tables are compiled according to IFS. Direct investments of the U.S. and Japan are based on book values, while those of France are market values.
(2) "—" figure not available.

Sources: IMF and central banks of selected countries.