

DIRECT INVESTMENT COMPILATION
IN ACCORDANCE WITH THE METHODOLOGICAL REQUIREMENTS OF THE
SIXTH EDITION OF *THE BALANCE OF PAYMENTS AND*
***INTERNATIONAL INVESTMENT POSITION MANUAL*¹**

The Bulgarian National Bank compiles the data on *direct investment* in conformity with international standards set out in sixth edition of the *Balance of Payments and International Investment Position Manual*² (BPM6), the fourth edition of the *Benchmark Definition of Foreign Direct Investment*³ (BMD4), as well as in the regulations of the European Commission and the European Central Bank in the field of balance of payments statistics.

In accordance with these standards, direct investment *is a category of 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*. As well as the equity that gives rise to control or influence, direct investment also includes investment associated with that relationship, including investment in indirectly influenced or controlled enterprises, investment in fellow enterprises, debt, and reverse investment.

I. Key definitions related to direct investment

A **direct investment** relationship arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy. Because there is control or a significant degree of influence, direct investment tends to involve a lasting relationship, and to have different motivations from other forms of investment. As well as equity (which is associated with voting power), the direct investor may also supply other types of finance, as well as knowhow.

A **direct investor** is an entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy.

A **direct investment enterprise** is an entity subject to control or a significant degree of influence by a direct investor.

¹ Last updated: October 2024.

² *Balance of Payments and International Investment Position Manual*, IMF, Sixth Edition, 2009;
<http://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm>

³ *Benchmark Definition of Foreign Direct Investment*,³ OECD, Fourth Edition;
www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf

Immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to **10 percent or more** of the voting power in the direct investment enterprise.

- **Control** is determined to exist if the direct investor owns more than 50 percent of the voting power in the direct investment enterprise. A direct investment enterprise over which the direct investor is able to exercise control, is a *subsidiary*.

- A significant degree of **influence** is determined to exist if the direct investor owns from 10 to 50 percent of the voting power in the direct investment enterprise. A direct investment enterprise over which the direct investor is able to exercise a significant degree of influence, but not control, is an *associate*.

Indirect direct investment relationships arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, that is, an entity is able to exercise indirect control or influence through a chain of direct investment relationships.

Affiliates of an enterprise consist of:

- its **direct investor(s)**, both immediate and indirect;
- its **direct investment enterprises**, whether subsidiaries (including branches and other quasi-corporations), associates, and subsidiaries of associates, both immediate and indirect;
- its **fellow enterprises**, i.e. those enterprises that are under the control or influence of the same immediate or indirect investor, but neither fellow enterprise controls or influences the other fellow enterprise.

All affiliates are in a direct investment relationship with each other.

II. Coverage of direct investment transactions and positions

Direct investment transactions comprise the cross-border transactions qualifying as direct investments that are recorded during the reference period (year, quarter, or month). Direct investment stocks (positions) represent the value of the stock of direct investments held at the end of the reference period (year, quarter, or month). Direct investment stocks are affected not only by financial transactions recorded prior to and during the period but also by other changes in price, exchange rates, and volume.

Direct investment covers most financial transactions and stocks between affiliates resident in different economies. According to the relationship between the investor and the entity receiving the investment, direct investment is classified as:

- (a) investment by a direct investor in its direct investment enterprise (whether in an immediate relationship or not);
- (b) reverse investment by a direct investment enterprise in its own immediate or indirect direct investor;
- (c) investment between resident and nonresident fellow enterprises.

III. Components of direct investment

In accordance with the standard presentation of the balance of payments, ***direct investment*** is reported in the financial account and comprises equity, reinvestment of earnings, and debt instruments (intercompany lending).

Equity consists of all instruments and records that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met. It represents the owners' funds in the institutional unit, and is treated as a liability of the issuing institutional unit (a corporation or other unit). In addition to the purchase of shares, the value of equity can be affected by a range of factors, such as share premiums, accumulated reinvested or retained earnings, or revaluations. Direct investment equity covers also *real estate* investment, including investment properties and vacation homes.

Ownership of equity in legal entities is usually evidenced by shares, stocks, participations, depository receipts, etc. Equity may be split on a supplementary basis into:

- (a) *listed shares* (those listed on an exchange; sometimes referred to as *quoted shares*);
- (b) *unlisted shares* (sometimes referred to as *private equity*);
- (c) *other equity* is equity that is not in the form of securities, such as equity in quasi-corporations (branches, trusts, limited liability and other partnerships, unincorporated funds, and notional units for ownership of real estate, etc.).

Reinvestment of earnings represents the direct investors' share of the retained earnings of the direct investment enterprise that are attributed to direct investors who are in an immediate direct investment relationship with the direct investment enterprises. It is recorded

separately under direct investment equity. The rationale behind the treatment of reinvestment of earnings on direct investment is that, because a direct investment enterprise is, by definition, subject to control, or influence, by a direct investor or investors, the decision to retain and reinvest some of its earnings within the enterprise represents an investment decision on the part of the direct investor(s). The undistributed earnings of branches are also considered to be reinvested earnings. Retained earnings of a direct investment enterprise are measured after deducting corporate taxes charged on the income of the enterprise.

Reinvestment of earnings can be negative when a direct investment enterprise has a loss on its operations or the dividends declared in a period are larger than net income in that period. Just as positive reinvestment of earnings is treated as being an injection of equity into the direct investment enterprise by the direct investor, negative reinvestment of earnings is treated as a withdrawal of equity.

In a chain of direct investment relationships, reinvested earnings need only be recorded between the direct investor and directly owned direct investment enterprises.

Debt instruments. *Intercompany lending* is used to describe direct investment debt positions between affiliated enterprises. It includes debt instrument transactions and stocks other than those between selected affiliated financial corporations (it is not classified as direct investment because it is not considered to be so strongly connected to the direct investment relationship). The financial corporations covered by this case are: deposit-taking corporations (both central banks and deposit-taking corporations other than the central bank); investment funds and other financial intermediaries except insurance companies and pension funds. Under intercompany lending are included also *insurance technical reserves* when the parties are in a direct investment relationship, whereas transactions between affiliates in *financial assets issued by an unrelated third party* are not direct investment transactions.

IV. Income on direct investment

Direct investment income includes all investment income arising from direct investment stocks between resident and nonresident institutional units. It comprises dividends, reinvested earnings, and interest on intercompany lending. In accordance with the standard presentation of the balance of payments, direct investment income is reported in the current account of the balance of payments.

Reinvested earnings arising from a direct investor's equity in its direct investment enterprise are the corresponding entry equal to item reinvestment of earnings recorded under direct investment in the financial account, and representing the direct investors' proportion, in terms of equity held, of the earnings that subsidiaries and associates do not distribute as dividends.

Reinvestment of earnings may be negative in some cases, for example, in case of losses by the direct investment enterprise or if dividends payable in a period are larger than net earnings in that period. If direct investment in the country generates negative earnings, the entry should be shown as a negative income payable by the direct investor.

Dividends and withdrawals from income of quasi-corporations. *Dividends are the distributed earnings allocated to the owners of equity for placing funds at the disposal of corporations.* In addition to dividends from corporations, distributed income from quasi-corporations (such as distributed branch profits) should be included under this heading. Income from rent earned on land and buildings directly held by nonresidents is also classified under dividends and distributed incomes from a notional direct investment enterprise.

Exceptional payments by corporations (including quasi-corporations such as branches) to their shareholders that are made out of accumulated reserves or sales of assets should not be treated as dividends. Such exceptional payments, sometimes called **superdividends**, are treated as withdrawals of equity, and therefore recorded in the financial account as a reduction in equity, rather than as income payable to the owners. The exceptional nature of the payments is normally determined as being disproportionately large relative to the recent level of dividends and earnings.

Dividends are recorded at the time the shares go ex-dividend (i.e. when they are excluded from the market price of shares). Withdrawals of income from quasi-corporations (i.e. distributed profits) are recorded when they are withdrawn by their owners. Dividends and withdrawals from income of quasi-corporations are recorded gross of any withholding taxes.

Interest *is a form of investment income that is receivable by the owners of certain kinds of financial assets, (deposits, debt securities, loans, and other accounts receivable) for putting the financial assets at the disposal of another institutional unit.* Interest is recorded on an accrual basis; that is, interest is recorded as accruing continuously over time to the creditor on the amount outstanding. Under the accrual basis, as interest accrues, the amount outstanding

increases; thus, accrued interest not yet paid is a part of the amount outstanding. Interest payments are therefore financial account transactions that reduce the debtor's existing liability.

V. Accounting principles and conventions

Debits and credits on **direct investment income** (income payable and income receivable) are recorded with a positive sign (under BPM5 Compilation guide, debits used to be recorded with a negative sign), and net income on direct investment is calculated as follows:

Net item (Income on direct investment) = Credit entries (income receivable) – debit entries (income payable)

An exception is made for *reinvested earnings* (when losses are reported).

Increases in **direct investment** assets and in liabilities are recorded with a positive sign, and decreases are recorded with a negative sign (previously, following the requirements of BPM5 Compilation guide, a positive sign indicated a decrease in assets and an increase in liabilities, and a negative sign denoted an increase in assets and a decrease in liabilities). Therefore, net direct investment is calculated as follows:

Net item (Direct investment) = Assets (Direct investment) – Liabilities (Direct investment)

VI. Presentation of data according to the asset/liability principle and the directional principle

With the implementation of the new methodological requirements of BPM6 and BMD4, the presentation of direct investment data according to the ***asset and liability principle*** was adopted. Its leading criterion is whether the transaction/position is connected with an asset or a liability of the local person, and the initial direct investment relationship between the transactors comes second. In practice, this means that direct investment is reported on a gross basis, as the other items of the financial account.

*The **directional principle** is a presentation of direct investment data organized according to the direction of the direct investment relationship.* Thus, direct investment is shown as either direct investment abroad or direct investment in the reporting economy:

(a) *Direct investment abroad* covers assets and liabilities between resident direct investors and their direct investment enterprises. It also covers assets and liabilities between resident and

nonresident fellow enterprises if the ultimate controlling parent is resident, as well as assets between resident and nonresident fellow enterprises if the residency of the ultimate controlling parent is unknown.

(b) *Direct investment in the reporting economy* includes all liabilities and assets between resident direct investment enterprises and their direct investors. It also covers assets and liabilities between resident and nonresident fellow enterprises if the ultimate controlling parent is nonresident and liabilities between resident and nonresident fellow enterprises if the residency of the ultimate controlling parent is unknown. Under the directional principle, direct investment abroad and direct investment in the reporting economy include both assets and liabilities, and thus, negative values may arise.

The difference between the asset-liability and directional presentations arises from differences in the treatment of reverse investment and some investment between fellow enterprises. Because of the analytical importance of the former method of direct investment reporting, i.e. the directional principle, the BNB will continue to compile and publish direct investment data based on that principle, in parallel with the data published following the requirements of BPM6.

VII. Analytical use of the different presentations of direct investment

Data on both the *asset and liability presentation* and the *directional principle presentation* are useful for different kinds of analysis.

- Data on an *asset and liability basis* are consistent with monetary, financial, and other balance sheet data, and thus facilitate comparison between the data sets. These data are needed on an immediate counterparty basis to adequately monitor flows and stocks.

- Data on a *directional principle basis* assist in understanding the motivation for direct investment and take account of control and influence. In the directional presentation, reverse investment can be seen as equivalent to the withdrawal of investment.

VIII. Sources of data for the compilation of direct investment and direct investment income

The BNB compiles direct investment using data from direct reporting enterprises, the Central Depository, from notaries and registrars of deeds, from the Banking Supervision Department and the Monetary and Financial Statistics Division of the BNB, the Financial

Supervision Commission, and the National Statistical Institute. The data provided by the different sources are cross-checked to avoid double counting.

- **direct reporting enterprises** provide quarterly statistical data on direct investment flows and stocks in equity, intercompany lending (including loans and trade credits) and retained earnings, as well as data on direct investment income (dividends and interest);

- the **Central Depository** provides monthly data on shares and bonds issued by resident entities that are purchased or sold by nonresidents, recorded at nominal value and at market price;

- **notaries** and **registrars of deeds** provide monthly data on real estate transactions between residents and nonresidents;

- the **Banking Supervision** department at the BNB provides monthly data on nonresident shareholders' equity in Bulgarian banks, as well as quarterly balance sheet data of direct investment financial institutions under Art.3a of LCI;

- the **Monetary and Financial Statistics** Division at the BNB provides deposit taking corporations' and financial enterprises' balance sheets;

- the **Financial Supervision Commission** provides quarterly data on nonresident shareholders' equity in investment intermediaries and management companies; balance sheet data of direct investment insurance companies;

- the **National Statistical Institute** provides statistical data from its annual census survey on non-financial direct investment enterprises in the country;

- the **Public Enterprises and Control Agency** provides data on state-owned shares of Bulgarian enterprises sold to non-residents. Only actually received, and not contracted, amounts on privatisation deals are included in the direct investment data;

IX. Periodicity, frequency and timeliness of publication

The data on direct investment, being part of the balance of payments data, are compiled on a monthly basis and are published within seven weeks after the close of the reference period according to the *BNB Statistical Data Release Calendar*.

The BNB publishes monthly data on direct investment flows by instrument (equity, reinvestment of earnings, and debt instruments), and quarterly and annual flows breakdowned

by instrument, geographic allocation, and industry, as well as quarterly and annual stocks breakdowned by instrument, geographic allocation, and industry.

X. Data revision policy

The periodic data revisions that the BNB implements are in compliance with the *ECB Timetable for Exchange of Balance of Payments, International Investment Position and Reserve Assets Statistics within the ESCB* (which includes a data revision timetable), as well as with the *Eurostat Timetable for exchange of data* and the policy of revisions in the European Union.

Revisions to the preliminary direct investment data are necessitated by the different frequency, timeliness and coverage of the incoming data provided by various sources, and are mandatory international practice, especially with view to the short deadlines after the end of the reporting period, in which the data are compiled and published. Observing the policy of revisions ensures the comparability of statistics between Member States of the European Union and the European System of Central Banks.

Following the requirements of the ECB and Eurostat Timetables, the policy on revisions pursued by the BNB is based on the following principles:

(i) With the report for the first month of each quarter the monthly data for the whole current year are revised. With the reports for the second month of each quarter, only the data for the previous month are revised. With the reports for the third month of each quarter, the data for the two previous months are revised. With the January data, published in March, and the July data, published in September of the current reporting year, the timetables give opportunity for revising the data for the previous up to three years, if necessary. In December with the publication of the data for October, a data revision for the current and previous year is possible, if necessary. Every five years, coordinated EU-wide benchmark revisions are carried out (providing an opportunity to revise earlier periods), which are aimed to ensure a maximum degree of consistency within and between the different statistical domains.

(ii) On-going revisions due to additional information collected or resulting from elimination of errors are indicated in the footnotes of the monthly press releases and the balance of payments tables.

(iii) When significant revisions are made due to changes in the methodology for reporting of certain BOP components or for other reasons, the BNB publishes information on those changes in advance in order to facilitate the users of the data.

XI. Data dissemination

The BNB disseminates direct investment and balance of payments data on its website *<http://www.bnb.bg>*.

Direct investment data series are available under *Statistics, External sector, Direct investment* (left-hand menu), as well as in the *Statistical database*.

Monthly direct investment information can be found in the balance of payments press release (Annex 2) under *Statistics, Press Releases, Balance of Payments* (right-hand menu), or alternatively under *Press Office, Statistical Press Releases, Balance of Payments* (left-hand menu).

XII. Contacts

If you have any questions on the methodology applied by the Bulgarian National Bank or on the direct investment data published, please do not hesitate to contact BNB's Press Office by email (at mailto:press_office@bnbank.org), or at the following address:

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