

**Compilation of the international investment position in accordance with the methodology of the sixth
edition of the Balance of Payments and International Investment Position Manual**
(major methodological changes)

1. General information

The BNB compiles the balance of payments statistics and the international investment position in strict adherence to the international methodological standards of IMF balance of payments manuals. These standards also provide for the legal basis in the area of international investment position statistics and the international investment position of the European Central Bank (ECB) and the European Commission (Eurostat) that all EU member states must observe. The direct investment statistics adhere also to the requirements of OECD *Benchmark Definition of Foreign Direct Investment*¹.

The IMF released the sixth edition of the Balance of Payments and International Investment Position Manual (*MBΦ, 2008*) (BPM6, *the Manual*)² in 2009.

The implementation of the new methodological requirements of BPM6 by the EU countries was coordinated by the European System of Central Banks (ESCB) and the European Statistical System (ESS).

The new edition of the IMF's Manual takes into account important developments that have occurred in the global economy since the fifth edition of the Balance of Payments Manual (IMF, 1993) (BPM5) was released.

The major factors that necessitated the revisions to the Manual are:

- globalisation - the growing significance of cross-border production processes, complex structures and relations of international companies, and international labour mobility;
- financial innovation – growing diversity and complexity of financial instruments.

For the purpose of consistency and comparability of macroeconomic data, the Manual was revised in parallel with other basic methodological manuals, including the System of National Accounts (IMF, 2008)³ and the European System of Accounts (ESA 2010)⁴, the External Debt Guide (IMF, 2013)⁵, and Benchmark Definition of Foreign Direct Investment (OECD, 2008)⁶.

¹ www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf

² <http://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm>

³ <http://www.imf.org/external/pubs/ft/qna/>

⁴ <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-02-13-269>

⁵ <http://www.imf.org/external/pubs/ft/eds/eng/edgupdate/pdf/update.pdf>

⁶ www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf

With relation to this, amendments were made at EU level to the regulations in the field of external sector statistics. Included herewith are the recommendation of the European Central Bank of 23 January 2014 amending Recommendation ECB / 2011/24 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB / 2014/2) (2014/C 51/01), and Regulation (EC) № 555/2012 of 22 June 2012 for amending Regulation (EC) № 184/2005⁷ of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment.

At national level, amendments were made to the provisions of the Currency Law⁸ on external statistics in 2011. In 2014 the BNB adopted the new Ordinance No. 27⁹ on the balance of payments statistics, international investment position and securities statistics.

2. Key changes in the changeover to the methodological requirements of the sixth edition of the Balance of Payments and International Investment Position Manual

2.1.Changes in data presentation

- The Manual's title has been changed to Balance of Payments and International Investment Position Manual (BPM6) due to the significance of the international investment position for the economic analysis, and also providing more detailed instruction for its compilation (paragraph 1.1 of BPM6).

- In the financial account, net items are calculated as follows:

$$Net\ items\ (FA) = Assets - Liabilities$$

- Increases in assets and in liabilities are recorded with a positive sign, and decreases are recorded with a negative sign (previously 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) (paragraph 3.31 of BPM6).

- Item *financial derivatives* has been renamed to *financial derivatives (other than reserves) and employee stock options* (paragraph 6.58 of BPM6).

⁷ https://www.ecb.europa.eu/ecb/legal/pdf/c_05120140222bg00010002.pdf and

<http://eur-lex.europa.eu/legal-content/BG/TXT/PDF/?uri=CELEX:32012R0555&from=BG>

⁸ http://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/laws_foreignexchange_bg.pdf

⁹ http://www.bnb.bg/bnbweb/groups/public/documents/bnb_law/regulations_registrationinb_bg.pdf

- The term *trade credit* is replaced by *trade credit and advances* (paragraph 5.70 of BPM6).
- Item *other assets/other liabilities* in other investment is renamed to *other accounts receivable/payable* (paragraph 5.69 of BPM6).
- The term for the financial account entry is changed to *reinvestment of earnings*, to distinguish it from the respective item in primary income, *reinvested earnings* (which continues to be used), although they are essentially identical (paragraphs 8.15-8.16 и 11.33-11.36 of BPM6).

2.2. Methodological changes and reclassifications

The adoption of the new methodological requirements had a larger impact on the financial account of the balance of payments and the international investment position, and especially on direct investment and other investment data.

2.2.1. Direct investment

- An essentially different approach is adopted in the reporting of direct investment. In accordance with BPM5, direct investment recording was based on the **directional principle**, thus including both the initial transaction, respectively position establishing the direct investment relationship between the direct investor and the direct investment enterprise, and all subsequent operations between them. Irrespective of whether they were related to assets or liabilities, all transactions and positions were reported depending on the initially established relationship between the transactors – Bulgarian investment abroad, or foreign direct investment in Bulgaria. Thus, direct investment was reported on a net basis (direct investors' assets minus liabilities) (Appendix 9 of BPM6).
- In accordance with BPM6 and the fourth edition of the OECD *Benchmark Definition of Foreign Direct Investment*, with the new **Asset/Liability principle** the 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 counterparts comes second. In practice, this means that direct investment is reported on a gross basis, as the other items of the financial account. This change has no impact on the values of the direct investment transactions, but their presentation according to BPM6 is completely different. Because of the analytical importance of the former method of direct investment reporting, i.e. the directional principle, from September 2015 on the BNB shall continue to compile and publish direct investment data based on that principle, in parallel with the data published following the new requirements of BPM6 (paragraphs 6.42-6.45 of BPM6).

- Another change is related to the distinction of positions between fellow enterprises in the coverage of direct investment. Fellow enterprises are 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. Positions between fellow enterprises could previously be recorded under *portfolio investment* (equity and debt securities) or under *other investment* (loans, financial lease, trade credits and advances, or other accounts receivable/payable). In accordance with BPM5, the BNB recorded these positions as *direct investment*, so in practice this change would not influence the direct investment data compiled in accordance with BPM56.

- In accordance with the new requirements, permanent debt between banks and intercompany lending between other financial intermediaries (except insurance companies and pension funds) is no longer included under direct investment, as it is considered a normal practice between financial intermediaries. Permanent debt transactions between banks are reported under *other investment* (paragraph 6.28 of BPM6).

- Payments of superdividends (payments that are disproportionately large relative to the recent level of earnings) will be recorded as a withdrawal of equity (paragraph 11.27 of BPM6). In accordance with BPM5, they were reported as payments of income on direct investment.

2.2.2. Portfolio investment

- *Portfolio investment* now covers the retained earnings of investment funds (paragraphs 11.37-11.39 of BPM6). (The data on retained earnings of investment funds are to be included in the balance of payments statistics of Bulgaria before end-2015).

- Equity in international organizations (in the form of securities) is included in *portfolio investment* (paragraph 6.32 of BPM6).

2.2.3. Other investment

- A separate subitem *other equity* is introduced under *other investment*, where equity in international organizations (other than securities) will be recorded (paragraph 6.32 of BPM6). Such positions were reported as direct investment in accordance with BPM5.

- A new subitem *Insurance, pension, and standardized guarantee schemes* is introduced (paragraphs 5.62-5.68 of BPM6) (The data on *insurance, pension, and standardized guarantee schemes* are to be included in the balance of payments statistics of Bulgaria before end-2015).

- SDR allocations (that IMF members may use when in need of balance of payments support, by exchanging them for convertible currencies) are already recorded as incurrence of a liability in *other investment* (paragraphs 5.35, 6.61 и 7.70 of BPM6).

- In accordance with BPM6 and paragraph 5.118 of ESA 2010, short-term loans between deposit-taking corporations are recorded under deposits, and not loans, as previously according to BPM5. In accordance with the ECB and Eurostat requirements, all credits (irrespective of their maturity) between deposit-taking corporations are reported as deposits in the compilation of IIP statistics.

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