

# METHODOLOGICAL NOTES ON THE COMPILATION OF THE INTERNATIONAL INVESTMENT POSITION OF BULGARIA<sup>1</sup>

(in accordance with the sixth edition of the *Balance of Payments and International Investment Position Manual*)

The Bulgarian National Bank (BNB) is in charge of the compilation of international investment position (IIP) as part of the financial accounts of the country. The legal basis for the IIP compilation in Bulgaria is provided for in Article 42 of the *Law on the Bulgarian National Bank*<sup>2</sup>. Data for the purposes of IIP compilation are collected on the basis of Article 42 of the *Law on the Bulgarian National Bank*, Articles 7–10 of the *Currency Law*<sup>3</sup>, and *Ordinance No 27 on the Balance of Payments Statistics, International Investment Position and Securities Statistics*. These data are processed by the Macroeconomic Statistics Division within the Statistics Directorate of the BNB, while strictly respecting data confidentiality. At present, the BNB compiles and publishes the international investment position in accordance with the *Sixth Edition* of the “*Balance of Payments and International Investment Position Manual*” (IMF, 2009), the “*BPM6 Compilation Guide*” (IMF, 2014), and the “*Recommendation of the European Central Bank*”<sup>4</sup>).

The IIP methodology is conceptually related to that of the *System of National Accounts (SNA)*, as the IIP items correspond closely to the relevant categories of the *rest of the world* account in the SNA and the gross external debt.

There is a close linkage between the *international investment position* and the balance of payments as well. The BOP financial account measures an economy's transactions in external financial assets and liabilities, which affect the stock of external financial assets and liabilities measured in the international investment position.

## ACCOUNTING PRINCIPLES AND CONVENTIONS

The time of recording of positions in the IIP is as of the end of the reporting period.

The valuation of the positions of financial assets and liabilities should be at their current market prices at the end of the reporting period. When market prices are not known, additional estimates based on market prices of similar financial instruments for the respective groups of statistical units are used, and in some cases fair and balance sheet values are used. Changes in the value of assets or liabilities held abroad that are due to exchange rates, revaluations and other changes are reflected in the IIP. The units of account for the IIP of Bulgaria are the EUR and the BGN, and conversion into the unit of account is made using the exchange rate at the end of the reporting period.

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<sup>1</sup> Updated October 2021.

<sup>2</sup> Prom. SG No. 46 of 10 June 1997; latest amendment SG No. 12 of 2021.

<sup>3</sup> Prom. SG No. 83 of 21 September 1999; latest amendment SG No. 14 of 18 February 2021.

<sup>4</sup> 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)

## II. INTERNATIONAL INVESTMENT POSITION COMPONENTS

The IIP is the balance sheet of the country's stocks of external financial assets and liabilities at the end of a specific period. The primary level of classification in the i.i.p. statement is the distinction between assets and liabilities. The second level of classification by function is fully consistent with the b.o.p. financial account. The functional categories of assets and liabilities are (i) direct investment, (ii) portfolio investment, (iii) financial derivatives (other than reserves) and employee stock options, and (iv) other investment. The assets also include the reserve assets of the country. The liabilities in the IIP are a broader concept than the liabilities that constitute the country's gross external debt, as they include equity related liabilities and financial derivatives and employee stock options. The third level of classification is by financial instrument. The IIP components are classified in the following main categories:

### A. DIRECT INVESTMENT

*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.

Direct investment covers most financial transactions and positions between affiliates resident in different economies. Investment income associated with direct investment positions is also included in direct investment.

*Intercompany lending is used to describe direct investment debt positions between affiliated enterprises.* It includes debt instrument positions (in debt securities, loans, deposits, trade credits and advances and other accounts payable, insurance, pension and standardised guarantee schemes) other than those between selected affiliated financial corporations (which is not classified as direct investment because it is not considered to be 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.

*Direct investment has two presentations: asset and liability / presentation (used in the IIP statistics) and directional principle presentation (used in the direct investment statistics).* The directional principle is a presentation of direct investment data organized according to the direction of the direct investment relationship. The difference between the two presentations arises from the different treatment of reverse investments and some types of investments between fellow enterprises. When presenting data according to the *asset and liability presentation*, the leading factor is whether the position represents an asset or a liability for the country. Under the directional principle, 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, and assets of resident enterprises in nonresident affiliates if the ultimate controlling entity's residence is unknown.* Direct investment abroad is also called outward direct investment.

*(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 of resident enterprises to nonresident affiliates if the ultimate controlling entity's residence is unknown.* Direct investment in the reporting economy is also called inward direct investment.

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.

Data on both the asset and liability presentation and on the directional principle basis 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 datasets. These data are needed on an immediate counterparty basis to adequately monitor flows and positions (for example, in the case of SPEs (special purpose entities)).
- 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. The directional principle may be particularly useful for an economy with large values of pass-through (transit) funds, because the large investment flows into and out of a economy may not be of primary interest to analysts of direct investment.

The international investment position uses direct investment assets and direct investment liabilities (so that reverse investment is not netted in totals).

The BNB publishes FDI data according to both presentations.

*Sources:* The Bulgarian National Bank receives monthly data on direct investments in the country from the balance sheets of the banks and the Banking Supervision Department of the BNB, from the Central Depository, from notaries and registry offices and the Public Enterprises and Control Agency, as well as from the reporting system of banks on transactions between residents and non-residents (until August 2016); quarterly data from the direct investment enterprises, from the Financial Supervision Commission, from the insurance companies and pension insurance companies; annual data from the NSI on foreign direct investment stock in enterprises from the non-financial sector. For data on direct investments abroad the Bulgarian National Bank uses the information from DIA declaration forms, from the reports of enterprises and from the reporting system of banks on transactions between residents and non-residents until August 2016.

## **B. PORTFOLIO INVESTMENT**

*Portfolio investment is defined as cross-border positions involving debt or equity securities or investment fund' shares, other than those included in direct investment or reserve assets.* Debt securities are subdivided into

long-term (with an original maturity more than one year) and short-term (with an original maturity of one year or less). The stocks of portfolio investment assets cover securities issued by non-residents and held by residents. The stocks of portfolio investment liabilities cover securities issued by residents and held by non-residents.

Securities are debt and equity instruments that have the characteristic feature of negotiability.

Sources: The *main sources* of information on the liabilities side of the *Portfolio investment* are the data provided by the Ministry of Finance, the Bulgarian National Bank, the Central Depository, monthly and quarterly statistical forms by resident enterprises. Data on the assets side of the *Portfolio investment* is provided by banks and non-bank custodians (which give information about their and their clients' portfolio investments), non-bank financial institutions, insurance companies and pension funds, the General Government sector, directly by residents who invest in foreign securities without the mediation of a resident investment intermediary and the Bulgarian National Bank.

### **C. FINANCIAL DERIVATIVES**

The assets and liabilities in financial derivatives (other than reserves) and employee stock options include positions in forward and future contracts, swaps, options, etc.

Sources: The main source of information are the monetary financial institutions.

### **D. OTHER INVESTMENT**

*Other investment* covers other equity, currency and deposits, loans, insurance, pension, and standardised guarantee schemes, trade credits and advances, and other accounts receivable/payable. The liability position includes also the SDR liabilities to the IMF.

The *Other Equity* component includes other equity that is not included in direct or portfolio investment or reserve assets.

The *Currency and Deposits* component presents on the assets side the positions in the residents' currency deposits held abroad, and on the liabilities side – the positions in the liabilities of the resident banks to non-residents in domestic and foreign currency.

Sources: The main sources on the asset side are the BIS-Basel and the balance sheet data of deposit taking corporations and other financial institutions, the annual statistical forms of the local natural individuals and non-financial corporations. On the liabilities side data are provided by the deposit taking corporations and the BNB.

*Loans* item includes outstanding positions (including accrued interest) on short- and long-term loans between residents and non-residents (if no issue of a tradable security is involved with these loans).

Sources: Data on the item *Loans* (assets and liabilities) is received by the Ministry of Finance, the Bulgarian National Bank, the banks and directly by the enterprises that have lent to or borrowed from abroad

(the firms report on a quarterly or an annual basis to the BNB), as well as the annual reports of the natural individuals.

According to the IIP conventions trade credit arises from the direct extension of credit from a supplier to a buyer, i.e. this is a credit extended by a trade partner without issue of a tradable security.

Item *Insurance, pension and standardised guarantee schemes* includes nonlife insurance technical reserves, life insurance and annuity entitlements, pension entitlements, claims of pension funds on pension managers, entitlements to nonpension benefits and provisions for calls under standardized guarantees.

Sources: quarterly balance sheet data of insurance companies and pension funds.

Items *Other accounts receivable/payable* include the positions on miscellaneous accounts receivable and payable not included elsewhere.

Sources: The main source of information on *trade credits and advances* and *other accounts receivable/payable* (assets and liabilities) are the quarterly reports of resident enterprises and sole traders on their assets/liabilities to non-residents, the quarterly reports of the investment funds and the balance sheet data of deposit taking corporations.

#### **E. RESERVE ASSETS**

*Reserve assets* include those external assets that are readily available to and controlled by the central bank (government) and which could be used for direct financing of balance of payments imbalances. The reserve assets comprise monetary gold, SDRs, reserve position in the Fund, other reserve assets (consisting of currency and deposits, securities, financial derivatives and other claims). The entries under this category correspond to the assets in the BNB's external holdings which are administered by the Issue Department.

### **III. PERIODICITY, FREQUENCY AND TIMELINESS OF THE BALANCE OF PAYMENTS PUBLICATIONS**

The Bulgarian National Bank compiles and publishes the international investment position of the country on a quarterly basis. The schedule of the Bulgarian National Bank is to publish the data within three months after the close of the reference period.

#### **IV. DATA REVISION POLICY**

Revisions to the preliminary international investment position data are mandatory international practice. They are particularly important in compiling the balance of payments and international investment position because of the short deadlines after the end of the reporting period, in which the data is compiled and published. Various sources (banks, non-bank financial enterprises, direct investment enterprises, the Central Depository, the National Statistical Institute, *etc.*) are used for the data compilation. The incoming data from these sources

are with different frequency, timeliness (deadline for submitting the information after the reporting period) and coverage. The different frequency and timeliness of the incoming information necessitate these revisions.

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 policy of revisions in the European Union. Observing this policy of revisions ensures the comparability of statistics between Member States of the European Union and the European System of Central Banks. These revisions provide users with timely information on the updated data by separate items<sup>5</sup>. Following the requirements of the ECB and Eurostat Timetables, the policy on revisions pursued by the Bulgarian National Bank is based on the following principles:

(i) Each publication might include, if necessary revisions of the data for the previous reporting period. With the fourth quarter data, published in March, and the second quarter 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 the third quarter, data revision for the current and previous years is possible, if necessary.

(ii) When on-going changes are made due to additional information collected, as well as resulting from elimination of errors, the Bulgarian National Bank timely informs the users through the notes at the end of the IIP table.

(iii) When significant revisions are made due to changes in the methodology for reporting of certain IIP components or other reasons, the Bulgarian National Bank publishes in advance information on the changes to facilitate the users of the data.

## **V. DATA DISSEMINATION**

The Bulgarian National Bank disseminates the quarterly IIP data on its web site – <http://www.bnb.bg>.

The data is published also in the *Bulgarian National Bank Monthly Bulletin*.

Data on the international investment position of the country is included also in the semi-annual and in the annual official reports of the Bulgarian National Bank, in the statistical databases of the ECB and Eurostat, as well as in the national summary page of the International Monetary Fund's Special Data Dissemination Standard Plus.

Data are simultaneously released to all interested parties.

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<sup>5</sup> The annual data on foreign direct investment in the country are revised 15 months after the close of the reporting period (after the annual NSI data on the nonfinancial sector are received in the BNB).

## **VI. CONTACTS**

If you have any questions on the methodology applied by the Bulgarian National Bank or on the international investment position data published, please do not hesitate to contact BNB's Press Office ([press\\_office@bnbank.org](mailto:press_office@bnbank.org)) or send them by mail to the following address:

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BULGARIA