Direct Investment Report

2021

BANCO CENTRAL DO BRASIL

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* This translated report represents the best effort from the Banco Central do Brasil to provide an English version of its Direct Investment Report. In case of any inconsistency, the original version in Portuguese prevails.

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Introduction

This Direct Investment Report (RID) presents statistical analyses of flows and positions of direct investment assets and liabilities in 2020. The focus of the publication is participation in the equity of enterprises, the main component of Brazil's direct investment, for both assets and liabilities. The RID also addresses intercompany debt transactions and income flows associated with direct investment.

Direct investment is the most important investment category in Brazil's economic and financial relationship with the rest of the world. At the end of 2020, direct investment liabilities reached USD 521.3 billion, a sharp fall from the USD 874 billion of 2019 due to exchange rate and valuation changes. Nonetheless, as in previous years, they accounted for more than half Brazil's total external liabilities. Following the time series trend, net inflows of direct investment liabilities were positive in 2020 and less volatile than portfolio investments and other investments (loans and trade credits, among others). Furthermore, despite smaller than in recent years, they remained relevant as financing flows for the balance of payments. Direct investment assets reached USD 448.0 billion at the end of 2020, equivalent to 48.7% of total foreign assets. They accounted for the largest amount of foreign assets, even higher than international reserves (USD 355.6 billion).

Brazilian direct investment statistics are compiled in accordance with the Sixth edition of the International Monetary Fund (IMF) Balance of Payments and International Investment Position Manual (BPM6) and the 4th edition of the Organization for Economic Cooperation and Development (OCDE)Benchmark Definition of Foreign Direct Investment (BD4). According to international methodological standards, a direct investment relationship occurs when an investor in one economy holds voting power equal to or greater than 10% in an enterprise or investment fund of another economy.[1] Under these conditions, the direct investor participates effectively in the enterprise's strategic and managerial decisions, generally maintaining long-term interest in the invested enterprise.

This report has the following structure: Introduction; Chapter 1: Overview of direct investment in 2020, covering and integrating positions and transactions, and boxes on the valuation criteria for direct investment enterprises and direct investment enterprises turnover in the Populational *Censo;* Chapter 2: Evolution of direct investment income and implicit profitability rates of direct investment positions; Chapter 3: Breakdown of investment positions by regions and partner economies, and a box on Special Purpose Entities (SPEs) positions; Chapter 4: Breakdown of transactions and positions of direct investment enterprises by industry; Chapter 5: Foreign trade, productivity, wages, employment, and research and development

1 See paragraphs 6.8 to 6.14 of the IMF BPM6 Balance of Payments and International Investment Position Manual (BPM6), and paragraphs 11 and 12 of the OECD BD4 Benchmark Definition of Foreign Direct Investment.

activities of resident direct investment enterprises; Appendix I: basic concepts of direct investment, plus a discussion on the asset/liability criteria and directional principle, SPEs and round-tripping; Appendix II: direct investment data source and data collection and compilation practices.

1 Overview of Direct Investment

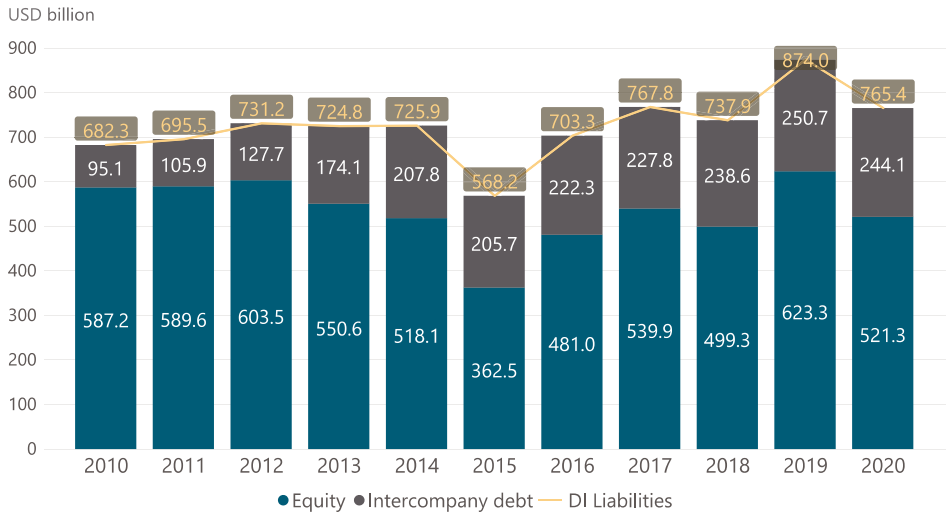
1.1 Overview of direct investment liabilities

Overall direct investment liabilities position decreased 12.4% in 2020 compared with 2019, mainly impacted by exchange rate changes (-USD 140.1 billion). Net inflows totaled USD 37.8 billion.

1.1.1 Positions and transactions

The overall direct investment liabilities position reached USD 765.4 billion in 2020, comprising USD 521.3 billion in equity and USD 244.1 billion in intercompany debt. The 2020 position declined USD 108.6 billion when compared with 2019 (Figure 1).

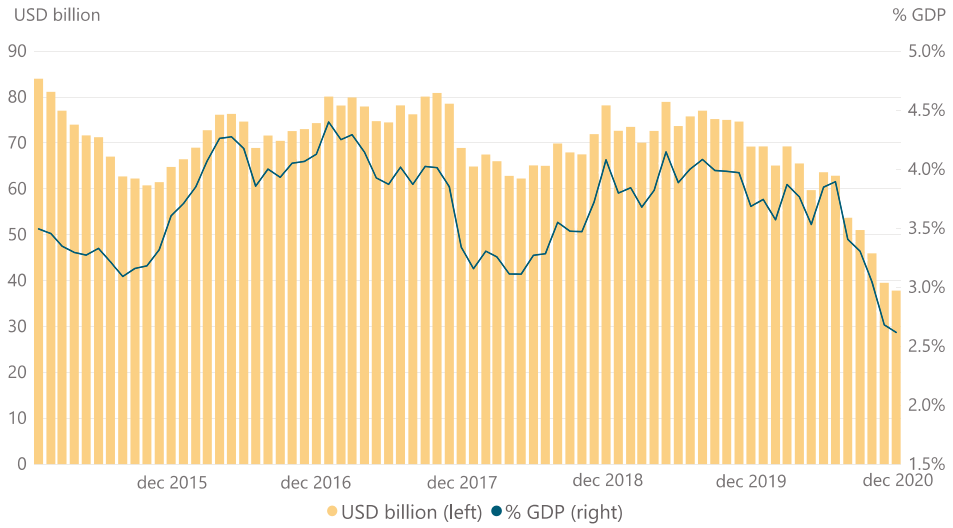
Figure 1 – Direct investment liabilities position



Net inflows of direct investment liabilities totaled USD 37.8 billion in 2020, equivalent to 2.62% of GDP (Figure 2). Due to the pandemic, the average value of net inflows of direct investment liabilities dropped in comparison with the average of recent years. Compared with 2019, overall inflows of direct investment liabilities

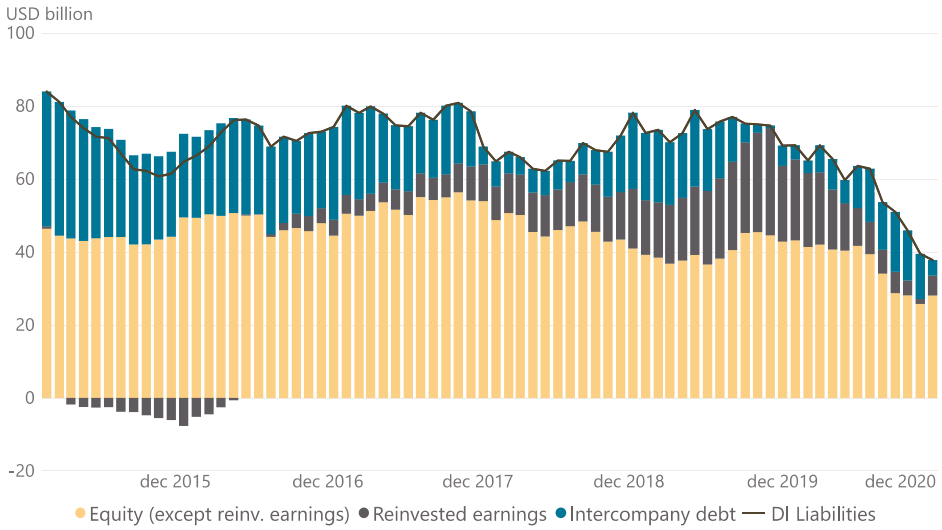
decreased by USD 31.4 billion, reflecting declines of USD 30.1 billion in equity inflows and USD 1.3 billion in intercompany debt inflows.

Figure 2 – Net transactions of direct investment liabilities – 12-month accumulated



Net equity inflows, including reinvested earnings, dropped from USD 63.3 billion in 2019 to USD 33.6 billion in 2020. They corresponded to 88.9% of the overall direct investment liabilities inflows. Net intercompany debt inflows totaled USD 4.2 billion in 2020 compared with USD 5.5 billion in 2019. The evolution of the components of direct investment liabilities transactions is shown in Figure 3.

Figure 3 – Breakdown of 12-month accumulated net transactions of direct investment liabilities

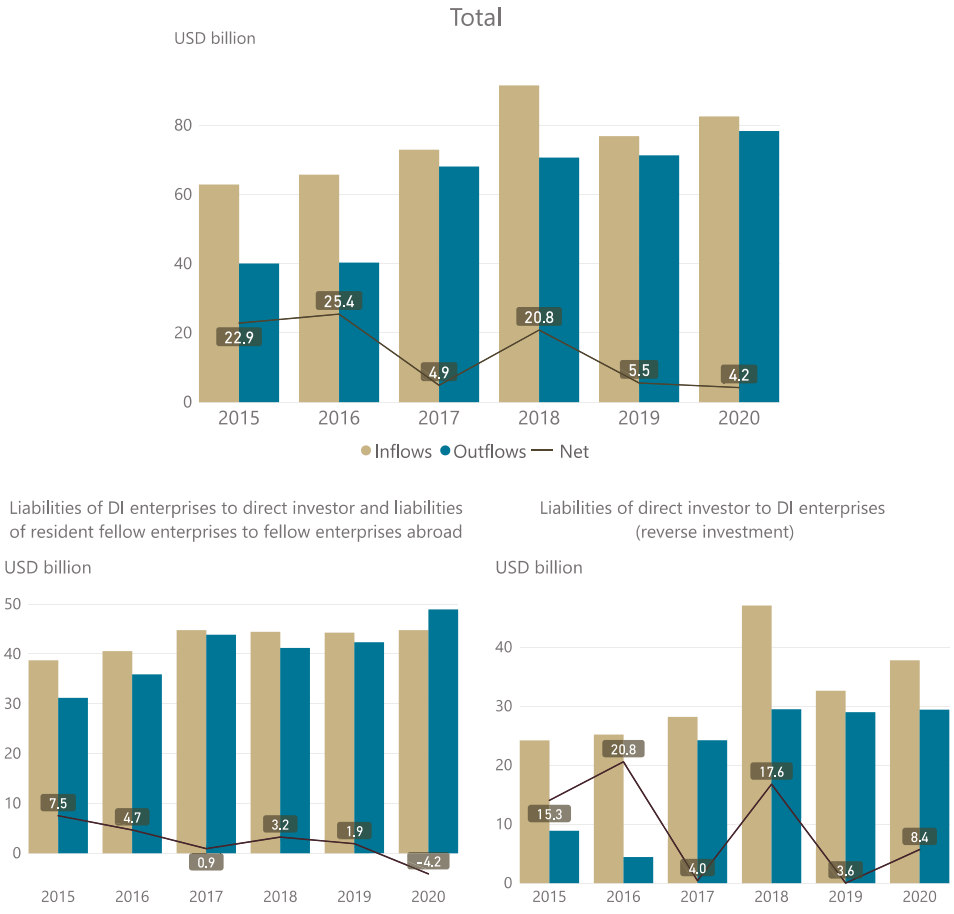


Gross equity inflows, excluding reinvested earnings, added up to USD 32.9 billion in 2020, compared with USD 49.9 billion in 2019. The distribution by transaction value ranges reveals a sharper decrease in operations of more than USD 500 million (Figure 4). Operations of more than USD 50 million accounted for more than half (56.7%) of gross inflows.

Figure 4 – Equity direct investment liabilities, excluding reinvested earnings – Gross inflows according to transaction value ranges

When comparing 2020 with 2019, the USD 1.3 billion reduction in net inflows of intercompany debt was mostly due to credits granted by headquarters abroad to affiliated companies in Brazil and credits granted by enterprises abroad to fellow enterprises in Brazil. These credits declined USD 6.1 billion, resulting in net amortizations of USD 4.2 billion. Conversely, credits granted by affiliated companies abroad to headquarters in Brazil (reverse investment) expanded USD 4.7 billion, leading to net disbursements of USD 8.4 billion. These transactions are shown in Figure 5.

Figure 5 – Direct investment liabilities transactions – Intercompany debt

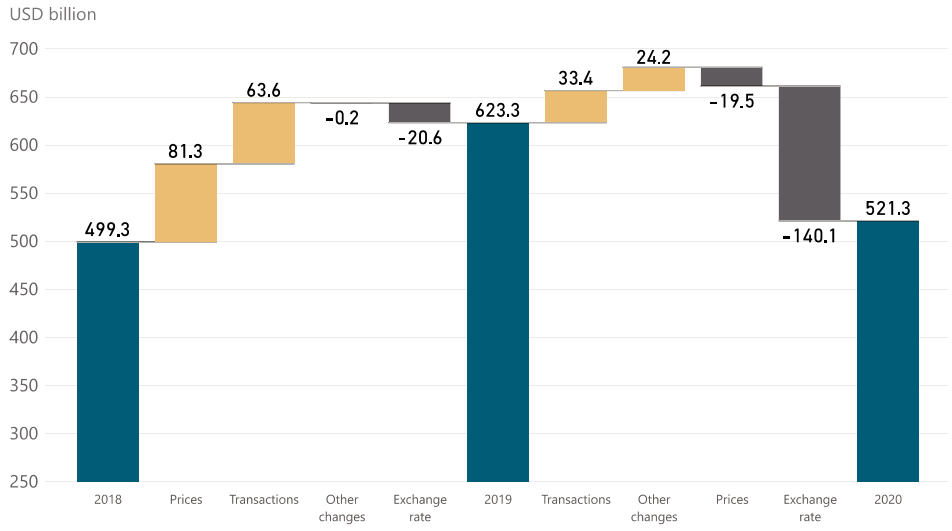


1.1.2 Breakdown of changes in direct investment liabilities equity position

Changes in direct investment liabilities position from one period to another arise from total economic flows in the time frame between positions.[2] These economic flows comprise transactions (which compose the balance of payments) and changes due to fluctuations such as exchange rate changes, pricing of assets (valuation), among others (change of residence, for instance).

The breakdown of changes in direct investment liabilities equity position from 2018 to 2020 is shown in Figure 6. From 2018 to 2019, direct investment liabilities equity position rose from USD 499.3 billion to USD 623.3 billion (24.8%). This increase was due to price changes and transactions, USD 81.3 billion and USD 63.6 billion, respectively. Exchange rate movements and other changes had negative effects, of USD 20.6 billion and USD 0.2 billion, respectively. From 2019 to 2020, direct investment liabilities equity position dropped by 16.3% to USD 521.3 billion. This decline was mainly driven by the negative contribution of exchange rate changes, USD 140.1 billion, and also by price changes of enterprises, USD 19.5 billion. Contributions to the increase of position were lower, adding up USD 33.4 billion in transactions and USD 24.2 billion in other changes.

Figure 6 – Breakdown of changes in the direct investment liabilities equity position



2 For conceptual details, see Appendix I of this Report.

Direct investment position – Valuation criteria and direct investment enterprises

Direct investment position statistics are sensitive to the criteria used for measuring the value of each enterprise. The market value is the recommended criterion for the valuation of all positions and transactions between residents and non-residents[3], including direct investments.[4] For listed enterprises, the price of shares negotiated in stock exchanges represents the price of purchase and sale, as it reflects a free market transaction. The best way to estimate the market value of unlisted enterprises in conceptual terms and considering the availability of information is the object of continuing debate.

Within the IIP framework, BPM6 recommends the following methods,[5] with no order of preference for estimating the market value of unlisted direct investment enterprises:

- the recent transaction price: direct total or partial purchase or sale of the enterprise;
- net value of assets: valuation of the assets and liabilities by the enterprise itself or by auditors;
- present value of future profits: discount rate on the flow of expected profits;
- market capitalization: price/net equity or price/assets ratio of listed enterprises applied to unlisted enterprises;
- own funds at book value (OFBV): considers paid-in capital, reserves and accumulated profits, and gains/losses on these accounts; and
- share of the global value: proportion of the enterprise in the total value of the multinational group. The group's headquarter may be listed, and the proportion calculated by revenues, profits, assets, or number of employees.

The IMF Coordinated Direct Investment Survey (CDIS)[6] comprises direct investment positions with breakdowns by counterpart countries. The bilateral comparison – if the liability position of one country coincides with the asset position measured by the counterpart country – is a key feature in the CDIS. For this, the CDIS Guide recommends the OFBV criterion for estimating the market value of unlisted direct investment enterprises.[7] The market value of listed enterprises, both in the CDIS and in the IIP, is estimated according to the value of their stocks.

The *Censo* requires accounting information from direct investment enterprises and an own assessment of their estimated market value, according to one of the methods listed in BPM6, presented above. Thus,

3 See paragraphs 3.67, 3.68 and 3.84 of the BPM6.
4 See paragraph 39 of the BD4.
5 See paragraph 7.16 of the BPM6.
6 Coordinated Direct Investment Survey (CDIS).
7 See paragraph 3.12 of the CDIS Guide.

unlisted direct investment enterprises are valued by accounting criteria (net equity) for the CDIS, and by different own valuation methods by enterprises, for the market value in the IIP. The stock market price is used to value listed direct investment enterprises in both the CDIS and the IIP. Figure 7 shows that the value of the direct investment liabilities equity position is sensitive to the valuation criterion. The criteria for estimating the market value, according to the IIP, resulted in higher positions (USD 52.4 billion in 2019 and USD 31.4 billion in 2020) when compared with the estimation according to the book value used in the CDIS.

Figure 7 – Direct investment liabilities equity position according to different valuation criteria

The research agenda of the updating process of BPM6 and BD4 included the discussion on how to estimate the values of unlisted direct investment enterprises. The proposal under discussion[8] considers that the recommendation of multiple valuation methods has led to different approaches to measuring direct investment position statistics. One likely solution to guide the choice of compilers is to build a decision tree with emphasis on data availability and hierarchy of methods.

8 The preliminary version of Guidance Note D.2 Valuation of Unlisted Equity, was released in the updating BPM6 page.

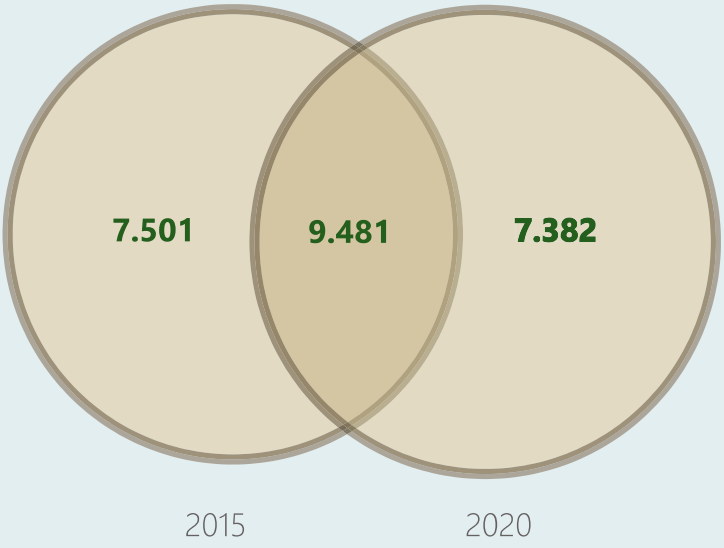
Direct investment enterprises turnover in the Populational *Censo*

The comparison of the most recent Populational *Censo*, base years 2020 and 2015, which encompass the entire population of respondents, revealed a high rate of renewal of direct investment enterprises. The number of respondents, however, has not changed significantly. For base year 2015, the survey was responded by 16,982 direct investment enterprises, compared with 16,863 respondents for base year 2020. Only 56% of respondents (9,481 enterprises) participated in both editions of the *Censo*. This group accounted for the largest portion of the direct investment position: 83% in 2015 and 74% in 2020.

There are different reasons for a direct investment enterprise not to be listed in the *Censo*. Out of the 30 largest respondents of the *Censo* 2015 base year, 19 did not participate in the *Censo* 2020 base year due to corporate restructuring and mergers and acquisitions, with changes in the enterprise registration number but no closure of activities. Furthermore, 3 enterprises were acquired by resident investors and are no longer direct investment enterprises.

Censo base year 2020 included 7,382 enterprises that did not participate in the 2015 edition. Figure 8 illustrates the comparison of the number of respondents in both Populational *Censo* editions.

Figure 8 – Populational *Censo* 2015 and 2020 – Number of respondent direct investment enterprises



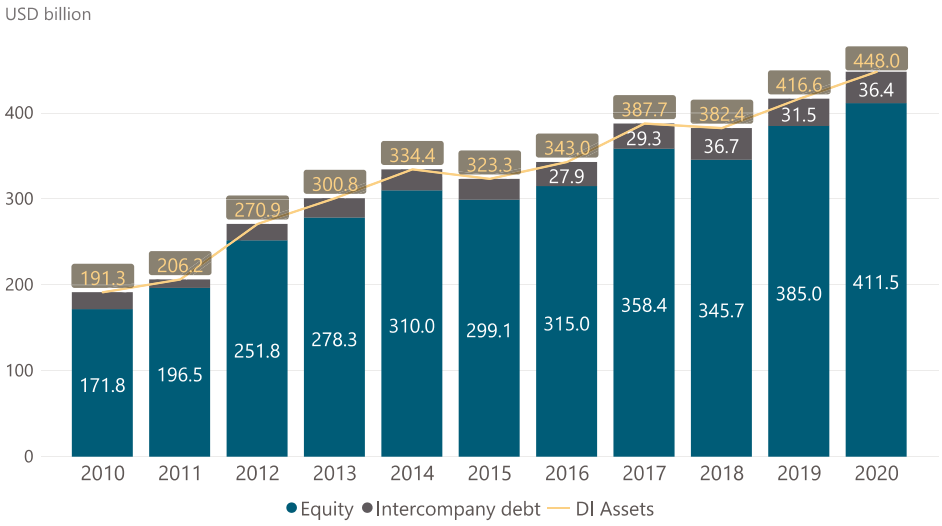
1.2 Overview of direct investment assets

The overall direct investment assets position totaled USD 448.0 billion in 2020, more than doubling in the decade.

1.2.1 Positions and transactions

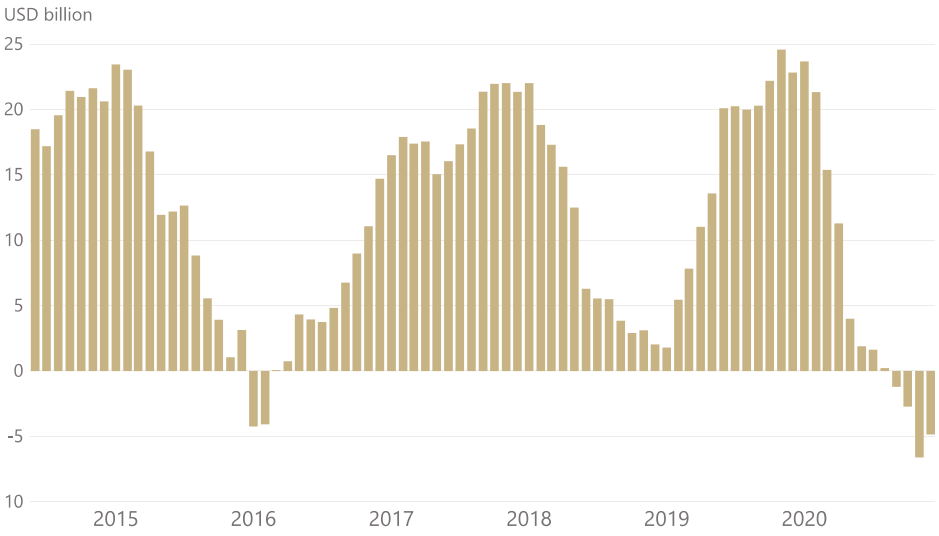
The overall direct investment assets position reached USD 448 billion in 2020, of which USD 411.5 billion in equity and USD 36.4 billion in intercompany debt. The annual direct investment assets position has outweighed the reserve assets position since 2017. The direct investment assets position in 2020 was the largest of the time series, growing by USD 31.4 billion compared with 2019 (Figure 9).

Figure 9 – Direct investment assets position



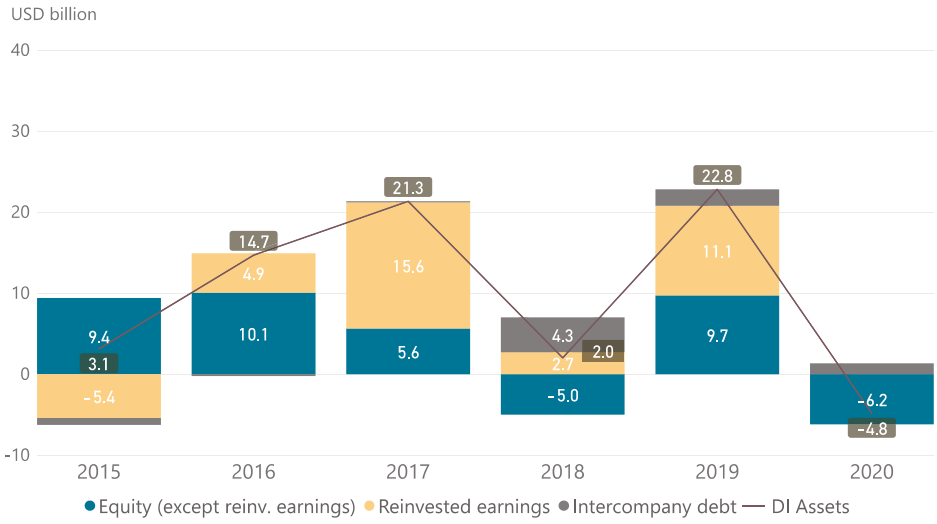
The direct investment assets transactions registered net divestments of USD 3.5 billion in 2020, compared with net investments of USD 22.8 billion in 2019. The evolution of direct investment assets transactions accumulated in 12 months is shown in Figure 10.

Figure 10 – Net transactions of direct investment assets – 12-month accumulated



In 2020, net equity divestments amounting to USD 6.2 billion, excluding reinvested earnings, contributed to reduce the overall direct investment assets position. These divestments were associated with the resident financial sector's capital reduction in subsidiaries abroad. These capital reductions were motivated by changes in Brazilian tax and prudential regulation (overhedge[9]). Reinvested earnings dropped from USD 11.1 billion, in 2019, to USD 1.4 billion in 2020, a sharp decline due to the global economic outlook during the pandemic. Net outflows of intercompany debt accounted for USD 1.3 billion of the direct investment assets position in 2020. Transactions of direct investment assets are illustrated in Figure 11.

Figure 11 – Breakdown of net transactions of direct investment assets



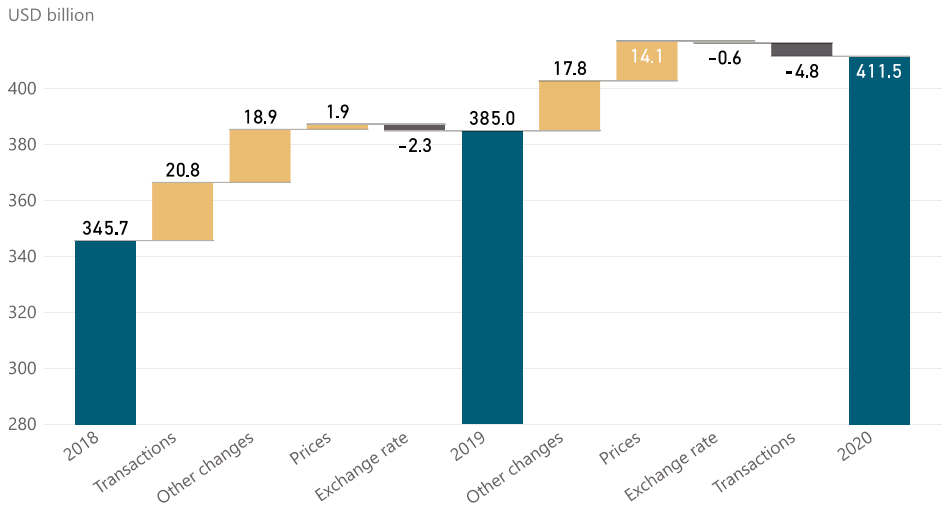
1.2.2 Breakdown of changes in direct investment assets equity position

Changes in direct investment assets position are explained by overall economic flows in the time frame between positions. These economic flows comprise transactions (which compose the balance of payments) and changes due to fluctuations such as exchange rate changes, pricing of assets (valuation), among others (change of residence, for instance).

The breakdown of changes in direct investment assets equity positions from 2018 to 2020 is shown in Figure 12. From 2018 to 2019, the position rose from USD 345.7 billion to USD 385.0 billion, negatively affected by exchange rate changes only. From 2019 to 2020, the direct investment assets equity position rose by 6.9% to USD 411.5 billion. In that period, in addition to the negative contribution of exchange rate changes, divestments (return of capital to Brazil) reached USD 4.8 billion. However, both negative contributions were outweighed by price increases and other changes, which added up to USD 32.0 billion.

9 Changes in the tax regime and the obligatory exchange hedge removed the incentives for maintaining bank subsidiaries abroad.

Figure 12 – Breakdown of changes in direct investment assets equity positions



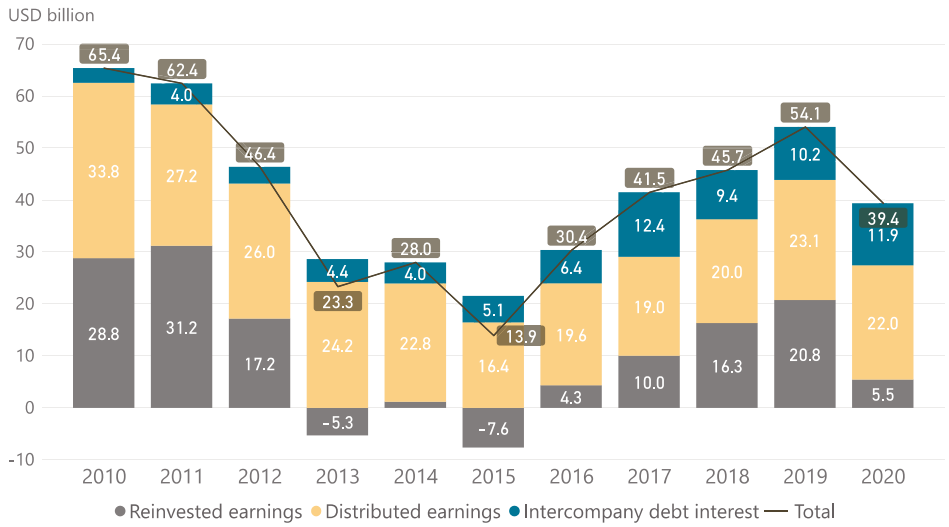
2 Direct Investment Income

In 2020, the profitability of direct investment liabilities enterprises and direct investment assets enterprises reached 5.3% and 3.2%, respectively, lower than in 2019.

2.1 Evolution of direct investment income

The breakdown of direct investment liabilities income by component (reinvested and distributed earnings and interest from intercompany debt) for 2010 to 2020 is shown in Figure 13. Direct investment liabilities income reached USD 39.4 billion in 2020, declining after four consecutive annual increases. This decline mainly derived from lower reinvested earnings, which added up to USD 5.5 billion in 2020 (USD 20.8 billion in 2019). In 2020, distributed earnings totaled USD 22.0 billion, and interest from intercompany debt, USD 11.9 billion.

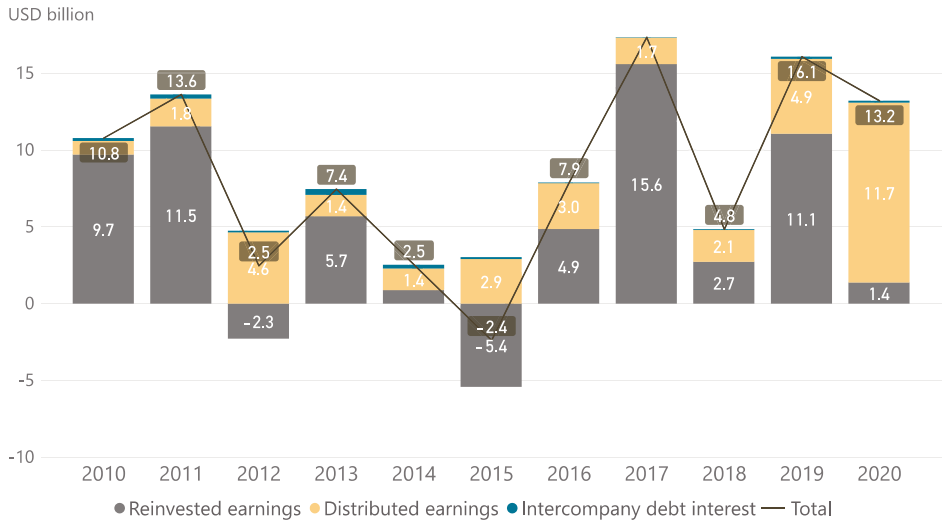
Figure 13 – Direct investment liabilities income breakdown



The breakdown of direct investment assets income by component for the 2010-2020 period is shown in Figure 14. The reduction in total earnings in 2020 compared with 2019 is mainly explained by the decline of reinvested earnings, from USD

11.1 billion to USD 1.4 billion. This decline was partially offset by the increase in distributed earnings, from USD 4.9 billion to USD 11.7 billion in 2020. Interest from intercompany debt represents a small fraction of direct investment assets income (USD 109 million in 2020), reflecting the small share of intercompany debt in the direct investment assets position (Figure 9).

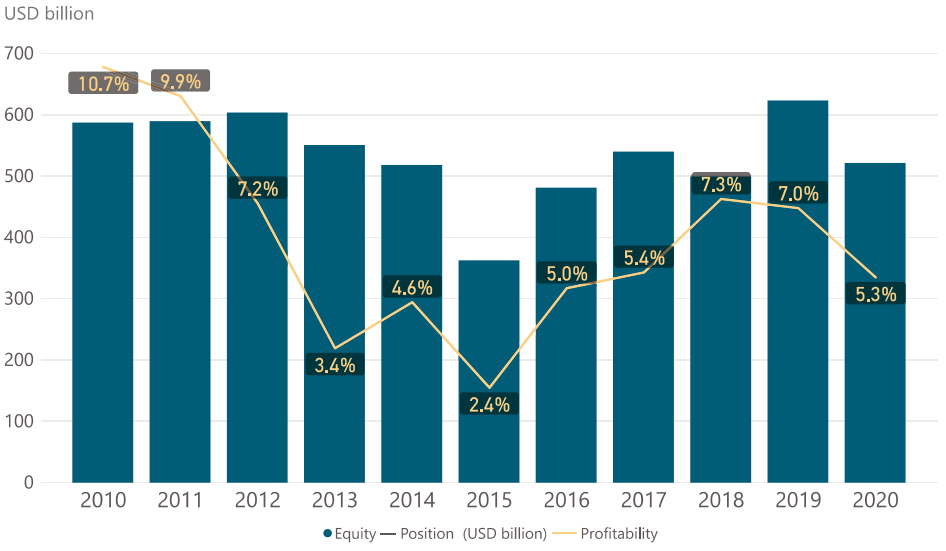
Figure 14 – Direct investment assets income breakdown



2.2 Profitability of direct investment positions

The profitability[10] of direct investment liabilities equity position was 5.3% in 2020, lower than the 6.2% average observed from 2010 to 2020 and the 7% rate of 2019. The highest profitability of direct investment liabilities was observed in 2010, 10.7%, and the lowest, in 2015, 2.4%. Direct investment liabilities equity position and the respective annual profitability rates are shown in Figure 15.

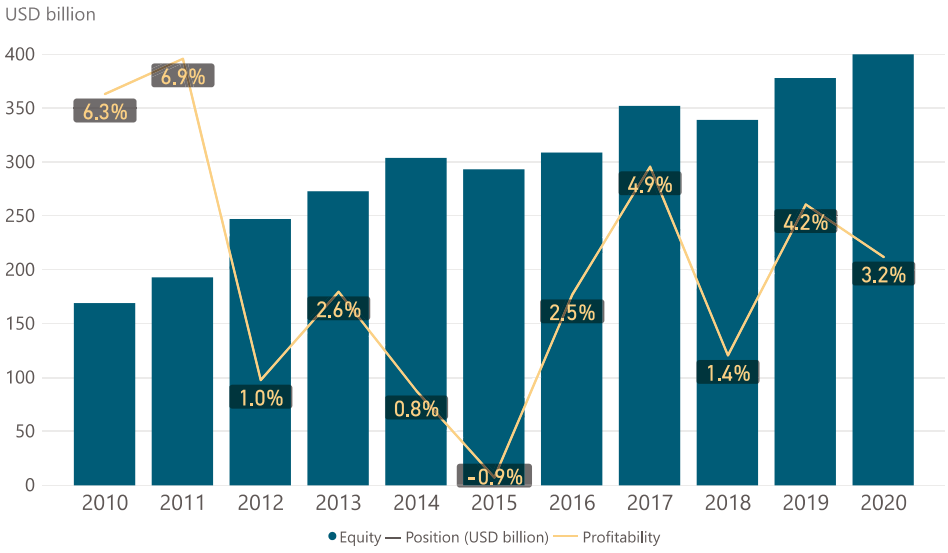
Figure 15 – Profitability of direct investment liabilities equity position



10 In this Report, the implicit annual profitability of the direct investment position is defined as the ratio between the earnings in a given year and the direct investment equity position at the end of that year.

The profitability of direct investment assets equity was 3.2% in 2020, slightly higher than the 3.0% average observed from 2010 to 2020 but lower than in 2019 (4.2%). Total earnings of direct investment assets enterprises in 2020, USD 13.1 billion, was 17.8% lower than in 2019, USD 15.9 billion. The highest direct investment assets profitability rate was observed in 2011, 6.9%, and the lowest, in 2015, -0.9%.[11] Direct investment assets equity position and the respective annual profitability rates are shown in Figure 16.

Figure 16 – Profitability of direct investment assets equity position



2.3 Ordinary revision of direct investment profitability statistics

The definitive sources for direct investment profitability statistics are the CBE (credits from direct investment asset earnings, reinvested earnings, and distributed earnings) and *Censo* (debits from direct investment asset earnings, reinvested earnings, and distributed earnings) surveys.

Although data collected through these surveys are aligned with standard methodology, they do not have the monthly frequency and the four-week timeliness required for the release of balance of payments statistics by the Banco Central do Brasil (BCB).

Direct investment earnings are compiled monthly based on estimates, later replaced by data collected in the surveys. Credits from direct investment earnings are estimated according to information reported in the quarterly CBE and to global economic growth indicators. Debits from direct investment reinvested earnings are estimated according to quarterly information provided in the Economic and Financial Statement (DEF) of the Electronic Declaratory Registry – Foreign Direct Investment (RDE-IED) system, profitability data of publicly traded companies, monthly information from the Accounting Plan of National Financial System Institutions (Cosif), the BCB Economic Activity Index – Brazil (IBC-Br), and other

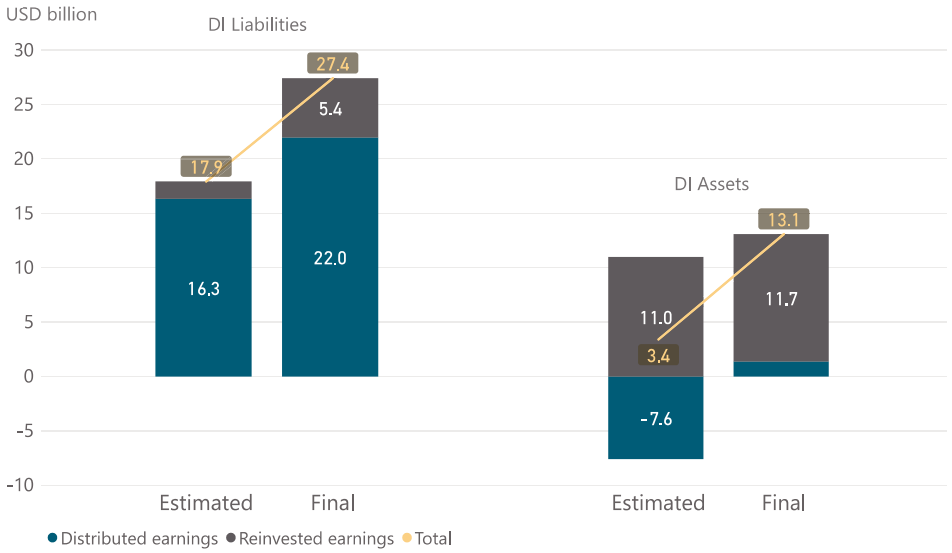
11 Negative profitability means the occurrence of aggregate loss.

domestic sectoral indicators. For both credit and debit from distributed earnings, the source for monthly estimates is foreign exchange settlements of the *Sistema Câmbio,* with daily frequency and timeliness, replaced only during the ordinary revision, based on the CBE and *Censo* data.

Ordinarily, final annual data (after validation) from the CBE and *Censo* replace the preliminary monthly data of the balance of payments in July and November, respectively, of the subsequent year, as published in the BCB's statistical revision calendar. In 2020, the BCB started to incorporate the extraordinary revision of earnings expenses (reinvested only) in July, according to the DEF, which collects data regarding direct investment enterprises in the country on a quarterly basis and has a relevant sample that allows the BCB to anticipate the revision. The process of revising preliminary data of the previous year with final data comprises the re-estimation of data for the current year, allowing the adjustment of level and trend of the time series.

Figure 17 compares total credits and debits from direct investment earnings preliminarily estimated for 2020 with their final values, obtained after the collection and validation of data from the CBE and *Censo* surveys. Preliminary values overestimated the impacts of the pandemic on the profitability of direct investment enterprises. Total earnings of direct investment liabilities enterprises were revised upward by USD 9.5 billion (initially estimated at USD 17.9 billion; according to the *Censo*, USD 27.4 billion), and total earnings of direct investment assets enterprises also upward by USD 9.7 billion (initially estimated at USD 3.4 billion; according to the CBE, USD 13.1 billion).

Figure 17 – Comparison between preliminary and final direct investment earnings

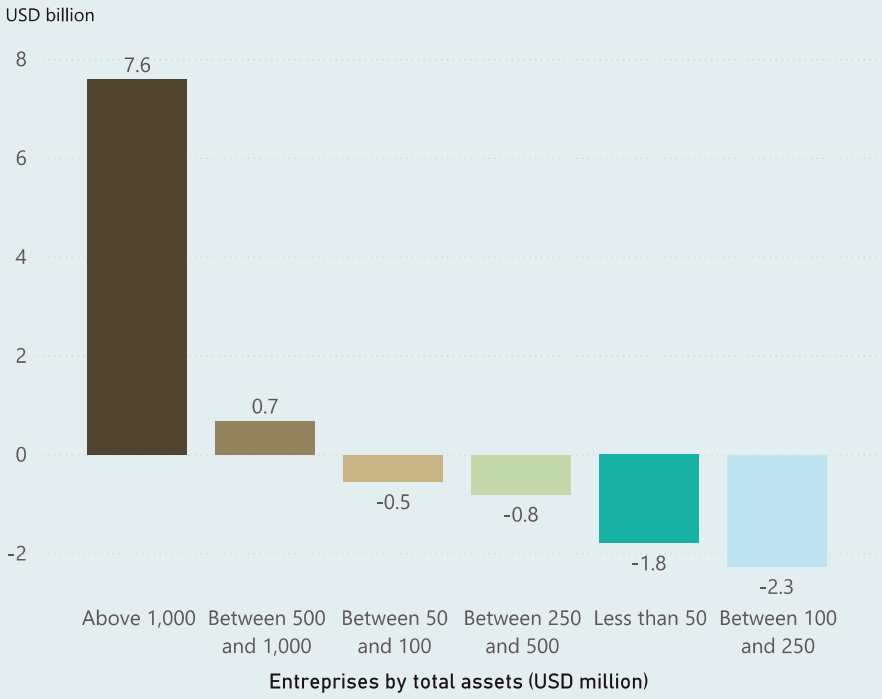


Impact of the pandemic on the profitability of non-financial direct investment enterprises

The profitability of non-financial direct investment enterprises in 2020 was affected by the pandemic and its consequences on the economy. This box highlights the differentiated impacts on the profitability according to the enterprise size and the composition of accounting profitability, considering the Current Operating Performance Concept (COPC),[12] used in direct investment statistics (COPC profitability).

According to data reported in the *Censo*, the book profit of the 15,871 non-financial direct investment enterprises totaled USD 2.9 billion in 2020. The breakdown of this result by enterprise size is shown in Figure 18. Direct investment enterprises with total assets worth USD 500 million or more (1,059 enterprises) registered an overall book profit of USD 8.3 billion. Enterprises with total assets worth less than USD 500 million (14,812 enterprises), in turn, incurred net losses of USD 5.4 billion.

Figure 18 – Book profit of non-financial direct investment enterprises by the value of total assets – 2020



COPC profitability of non-financial direct investment enterprises, used in the compilation of direct investment and balance of payments statistics, was much higher than the book profit: USD 20.7 billion. COPC profitability deducts from the book profit non-operating items such as exchange rate

12 Direct investment and external sector statistics reflect only the COPC profitability, not the total accounting profitability. See paragraphs 206 to 210 of BD4 and 11.44 of BPM6.

losses or gains, fixed asset revaluations, and changes in market prices of financial assets and liabilities.

Figure 19 highlights the foreign exchange losses worth USD 16.0 billion in the breakdown of the total profitability of non-financial direct investment enterprises in the 2020 results. After deducting additional USD 1.7 billion losses relative to asset revaluation and non-recurring results, the book profit of USD 2.9 billion resulted in COPC profitability of USD 20.7 billion.

Figure 19 – Direct investment enterprises profitability – COPC and other components – 2020

Periods of exchange rate and other asset price volatility tend to widen the gap between book profit and COPC profitability. The former is more visible in the press and in open company balance sheet databases, whereas the latter is used in direct investment statistics. This phenomenon, first observed in 2015, was also observed in 2020.

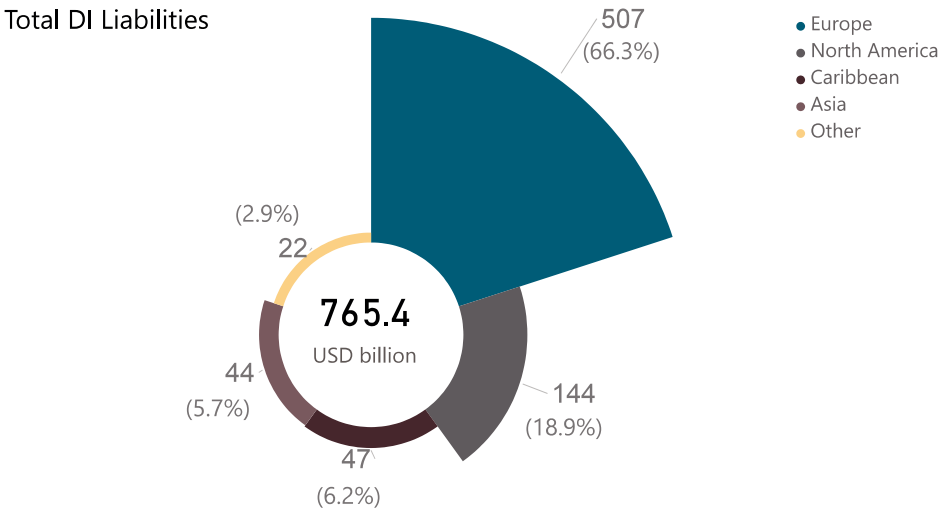
3 Partner Economies

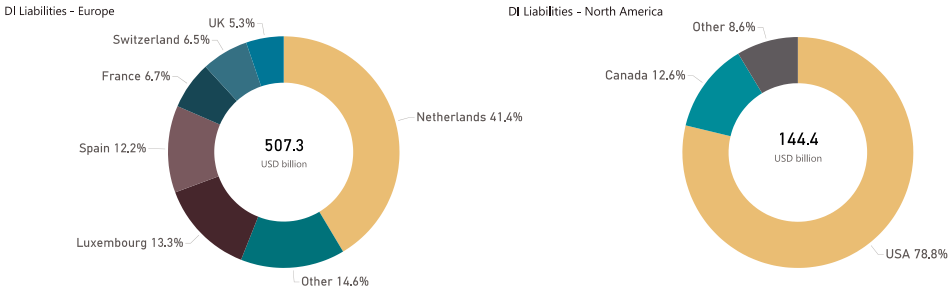
3.1 Positions

Europe is the main investor region in Brazil; the Caribbean and Europe are the main immediate host regions.

According to the immediate investor criterion, Europe remained as the region with the largest direct investment position in Brazil in 2020, 66.3% of a total of USD 765.4 billion (Figure 20). North America holds the second highest direct investment position, 18.9% of the total. The main European immediate investors are the Netherlands, 41.4%, followed by Luxembourg, 13.3%, and Spain, with 12.2% of the total European position (USD 507.3 billion). The direct investment position of North American immediate investors totaled USD 144.4 billion, of which 78.8% came from the United States.

Figure 20 – Direct investment liabilities position by region and country – Immediate investor



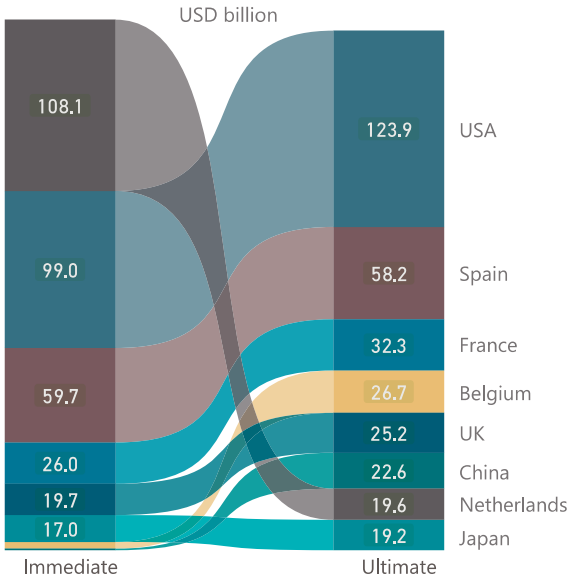


Some countries hold significantly larger positions when compiled by the immediate investor criterion rather than by the ultimate controlling criterion.[13] It is the case of the Netherlands and Luxembourg. These economies shelter intermediary enterprises through which direct investments are passed from ultimate investor countries to destination countries.

Other countries hold higher direct investment equity positions in Brazil according to the ultimate controlling criterion, such as the United States, Spain, Belgium, France, and China. These countries host the headquarters of enterprises that channel their investments by means of intermediary economies.

Among the major ultimate controlling countries, the Netherlands present the sharpest discrepancy: as an immediate investor, its position is USD108.1 billion, and, by the ultimate controlling criterion, its position is USD19.6 billion (Figure 21). Belgium shows the largest discrepancy in the opposite direction: a position of USD 4.2 billion by the immediate investor criterion rises to USD 26.7 billion by the ultimate controlling criterion.

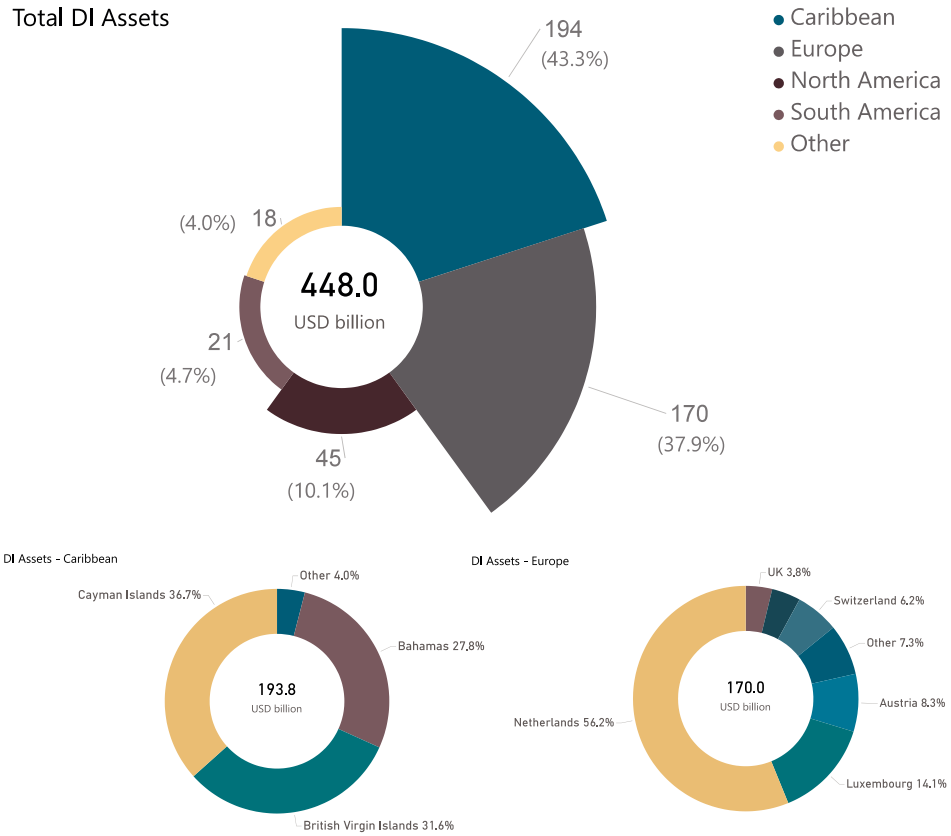
Figure 21 – Direct investment liabilities equity positions in Brazil – Immediate investor vs. ultimate controlling country for selected economies



13 The last decades have seen the rise of transnational corporations made up of complex organizational structures, involving the control and influence of several enterprises. As a result, the international methodology for foreign sector statistics has developed two concepts for the identification of the country of origin of the direct investment: the immediate investor country and the ultimate controlling country. The immediate investor country is the country of domicile of the non-resident enterprise that invested directly in its Brazilian subsidiary. The ultimate controlling country is that of residence of the investor that holds the effective control and economic interest in the invested enterprise in Brazil. Thus, the ultimate controller is identified according to following analysis: starting on the direct investment hosting enterprise, one follows up the chain of controlling relationships until the non-resident enterprise with no further controlling group is found.

For direct investment assets, the largest positions by the immediate investor criterion are in the Caribbean and Europe, 43.3% and 37.9% of the total, respectively (Figure 22). In the Caribbean, positions in the Cayman Islands, 36.7%, and in the British Virgin Islands, 31.6%, stand out. In Europe, the most significant partner economies are the Netherlands (56.2%) and Luxembourg (14.1%).

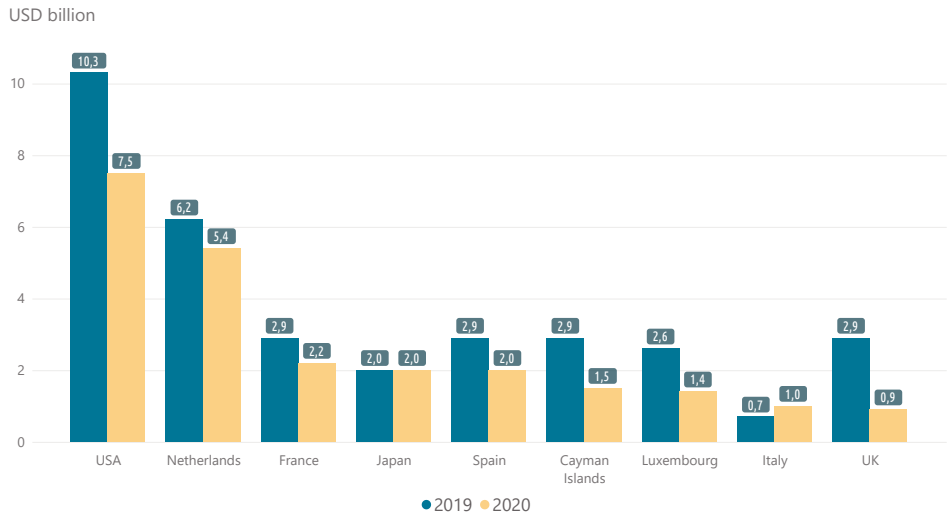
Figure 22 – Direct investment assets position by region and country – Immediate investor



3.2 Transactions – Equity

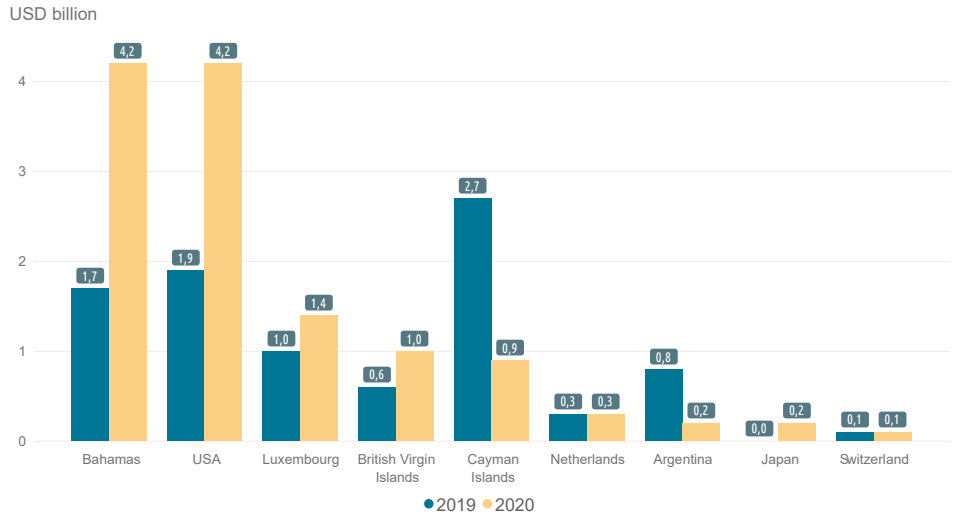
According to the immediate investor country criterion, as in previous years, direct investment liabilities equity inflows, except reinvested earnings, mainly originated from the United States and the Netherlands. The decrease of direct investments liabilities equity inflows was widespread across countries, with the exceptions of Italy and Japan (Figure 23).

Figure 23 – Direct investment liabilities equity transactions, excluding reinvested earnings – Breakdown by immediate investor economy – Selected countries



Direct investment assets outflows were mainly directed to tax havens and low taxation countries (Figure 24). Particularly noteworthy was the increase of direct investment assets outflows to the United States and the Bahamas and the reduction to the Cayman Islands.

Figure 24 – Direct investment assets equity transactions, excluding reinvested earnings – Breakdown by immediate host economy – Selected countries



3.3 Transactions – Reinvested and distributed earnings

In absolute values, both reinvested earnings and remittance of dividends abroad were mainly targeted to direct investors from the Netherlands, Spain, and Luxembourg, in that order (Figure 25).

Figure 25 – Reinvested and distributed earnings – Immediate investor

Transactions and positions of Special Purpose Entities (SPEs)

Special Purpose Entities (SPEs)[14] are commonly used for channeling resources between countries, which poses challenges for the interpretation of direct investment statistics. The Task Force on Special Purpose Entities (TFSPE),[15] coordinated by the IMF and with the participation of Brazil, has developed strategies to capture, in external sector statistics, SPE transactions and positions. A model[16] for reporting data to the IMF Statistics Department that only includes resident SPEs has been defined. The identification of SPEs and non-SPEs increases the analytical value of direct investment statistics.

The rules for the identification of SPEs defined by the TFSPE have been implemented by Brazil in the *Censo* and CBE surveys. Out of the universe of nearly 20,000 reporting enterprises in both surveys, 210 were classified as SPEs resident in Brazil that i) conduct transactions almost exclusively with foreign countries; and ii) have up to 5 employees; and iii) operate within an economic sector related to holdings.

Figure 26 shows transactions and positions of the 210 resident companies classified as SPEs in 2020. Values are not significant (compared with positions and transactions of resident non-SPEs), indicating that the Brazilian economy is not characterized by the channeling of direct investment resources. In Brazil's external sector, the relationship is more intense with non-resident SPEs.

Figure 26 – Direct investment transactions and positions of resident SPEs

USD million

Transactions	DI Assets	DI Liabilities
Equity	5	425
Intercompany debt	1	2
Total	**5**	**427**

Positions	DI Assets	DI Liabilities
Equity	10	689
Intercompany debt	11	21
Total	**21**	**710**

14 For conceptual details, see Appendix I of this Report.
15 The final report of the TFSPE is available at https://www.imf.org/external/pubs/ft/bop/2018/pdf/18-03.pdf.
16 Special Purpose Entities: Guidelines for a Data Template (2020). Available at: https://www.imf.org/external/pubs/ft/bop/2020/pdf/20-26.pdf.

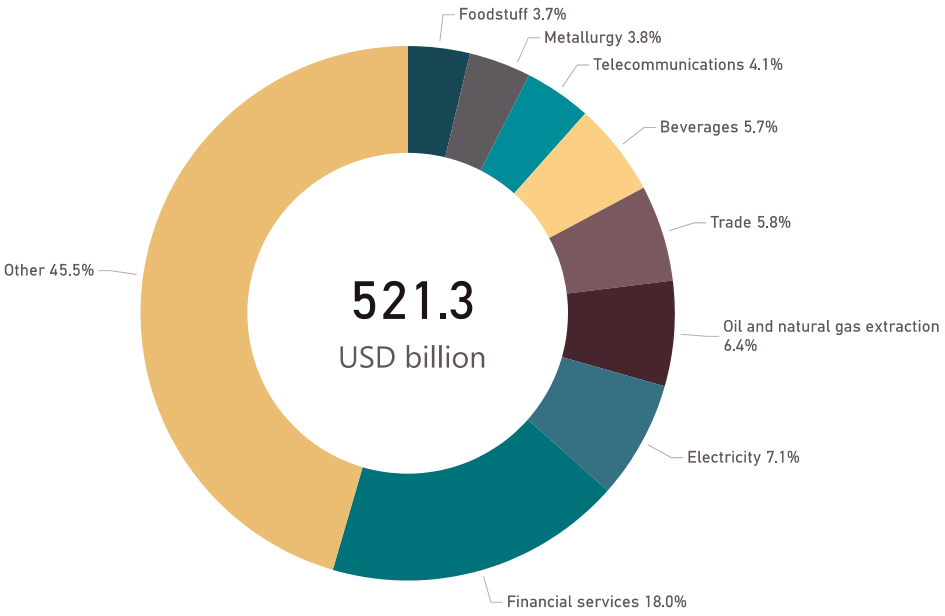
4 Industry Breakdowns

4.1 Positions

Enterprises operating in the financial and auxiliary services sector accounted for 18% of the direct investment liabilities position and more than 30% of the direct investment assets position.

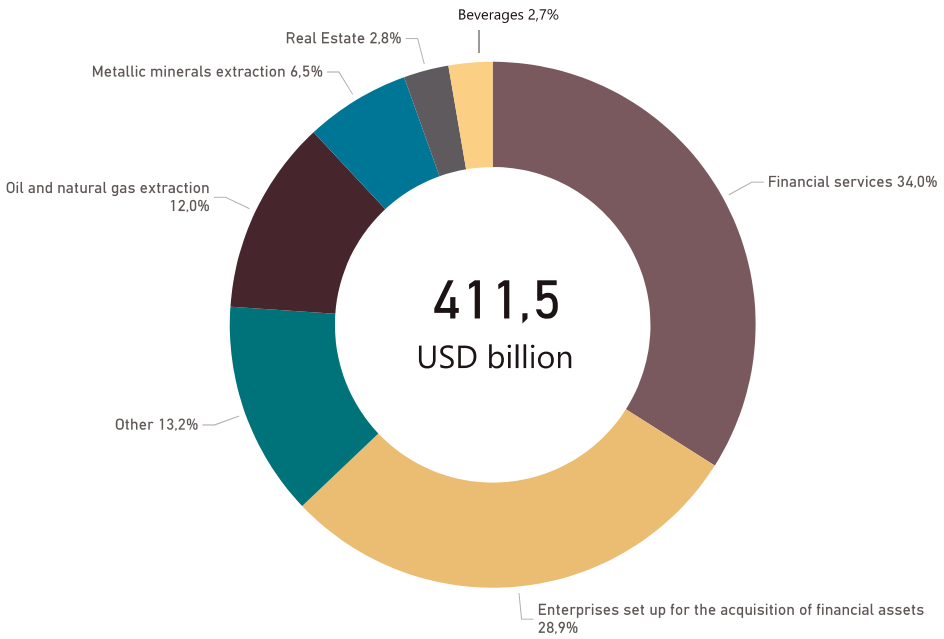
In 2020, resident enterprises operating in financial services, including investment funds, accounted for 18.0% (USD 93.8 billion) of the direct investment liabilities equity position, followed by enterprises of the electricity (7.1%) and the oil and natural gas extraction (6.4%) sectors, as shown in Figure 27.

Figure 27 – Direct investment liabilities equity position by resident industry



More than one-third of the direct investment assets enterprises' position is associated with financial and auxiliary services (Figure 28).

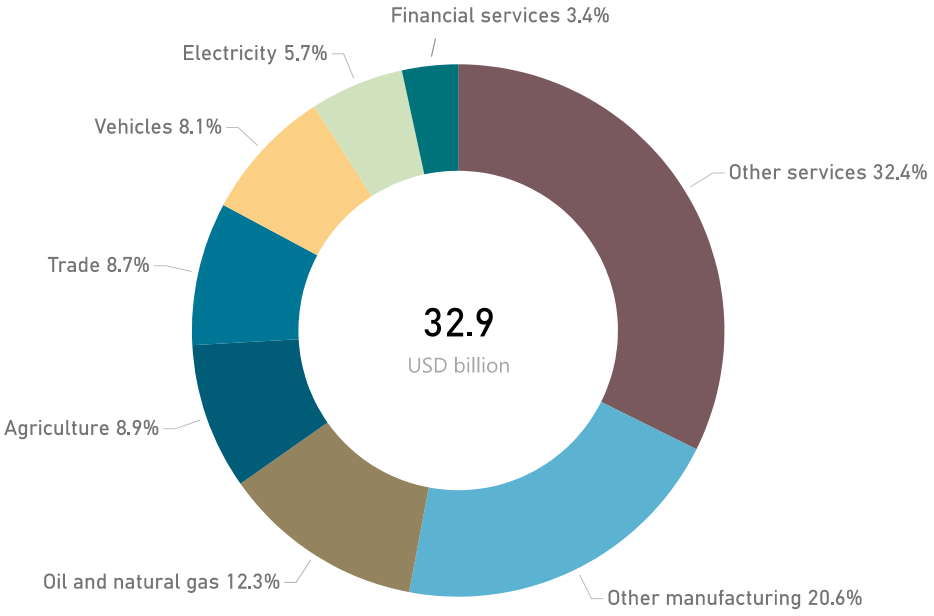
Figure 28 – Direct investment assets equity position by non-resident industry



4.2 Transactions – Equity and intercompany debt

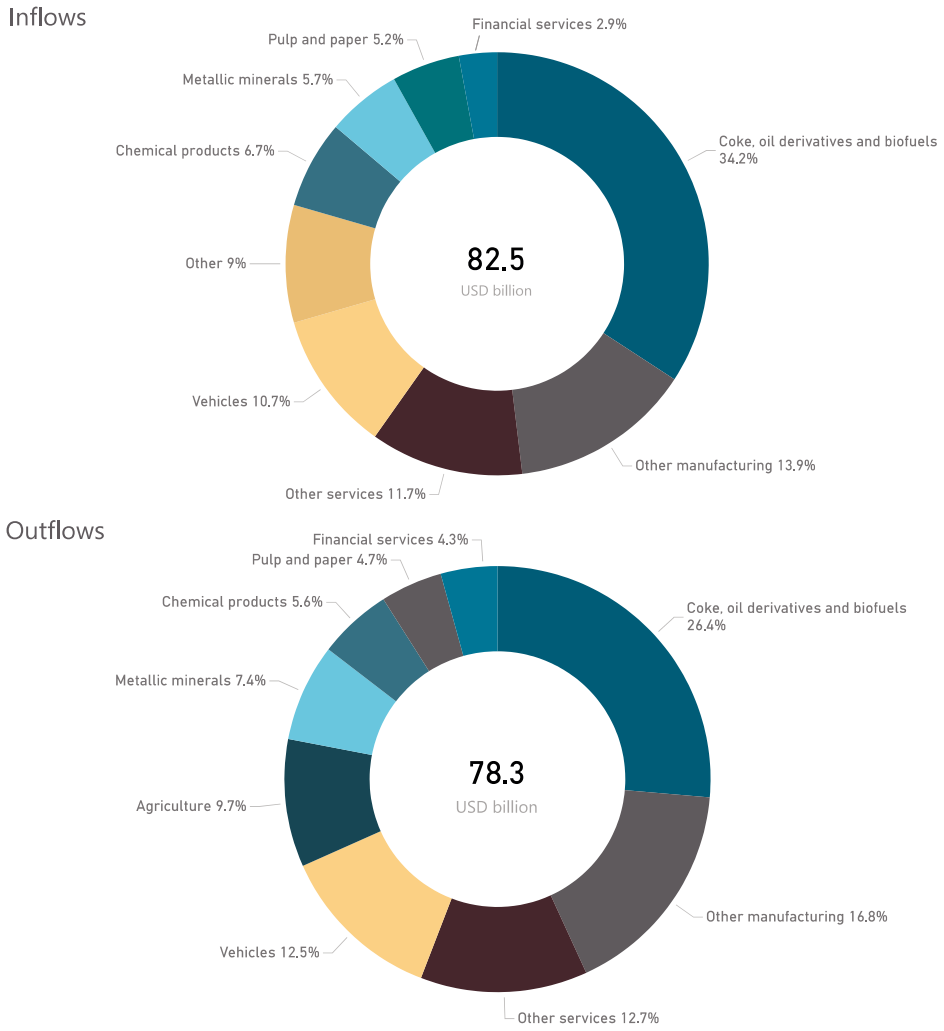
In 2020, gross inflows of direct investment liabilities equity, excluding reinvested earnings, remained widespread across sectors, with emphasis on the sectors of oil and natural gas extraction, electricity, gas and other utilities (12.3% and 5.7% of gross inflows, respectively), as shown in Figure 29.

Figure 29 – Direct investment liabilities equity transactions, excluding reinvested earnings – Breakdown of gross inflows by industry



With regard to gross direct investment liabilities intercompany debt operations, enterprises operating in the sectors of coke, oil-derived products and biofuels stood out, both in credits and amortizations (Figure 30).

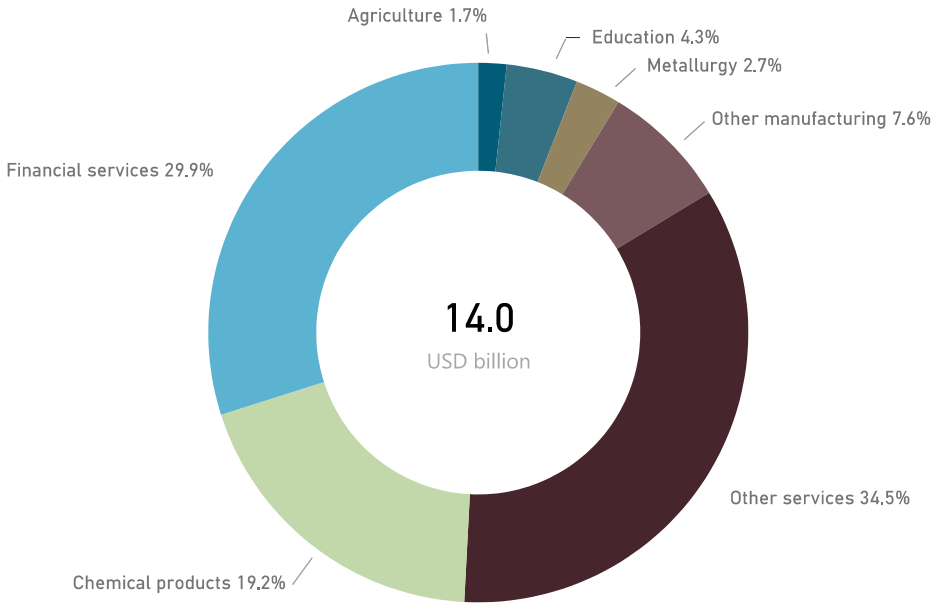
Figure 30 – Direct investment liabilities intercompany debt transactions – Breakdown by industry



Exports advanced payment operations (PAE), in which the enterprise resident in Brazil first receives the payment and later exports the goods, account for a significant share of the direct investment liabilities intercompany debt transactions. In 2020, out of the USD 78.4 billion in amortizations, USD 27.0 billion were paid in goods, not in currency.

Gross outflows of direct investment assets equity, excluding reinvested earnings, reached USD 14.0 billion in 2020. Financial services enterprises were the destination of most of those flows (Figure 31).

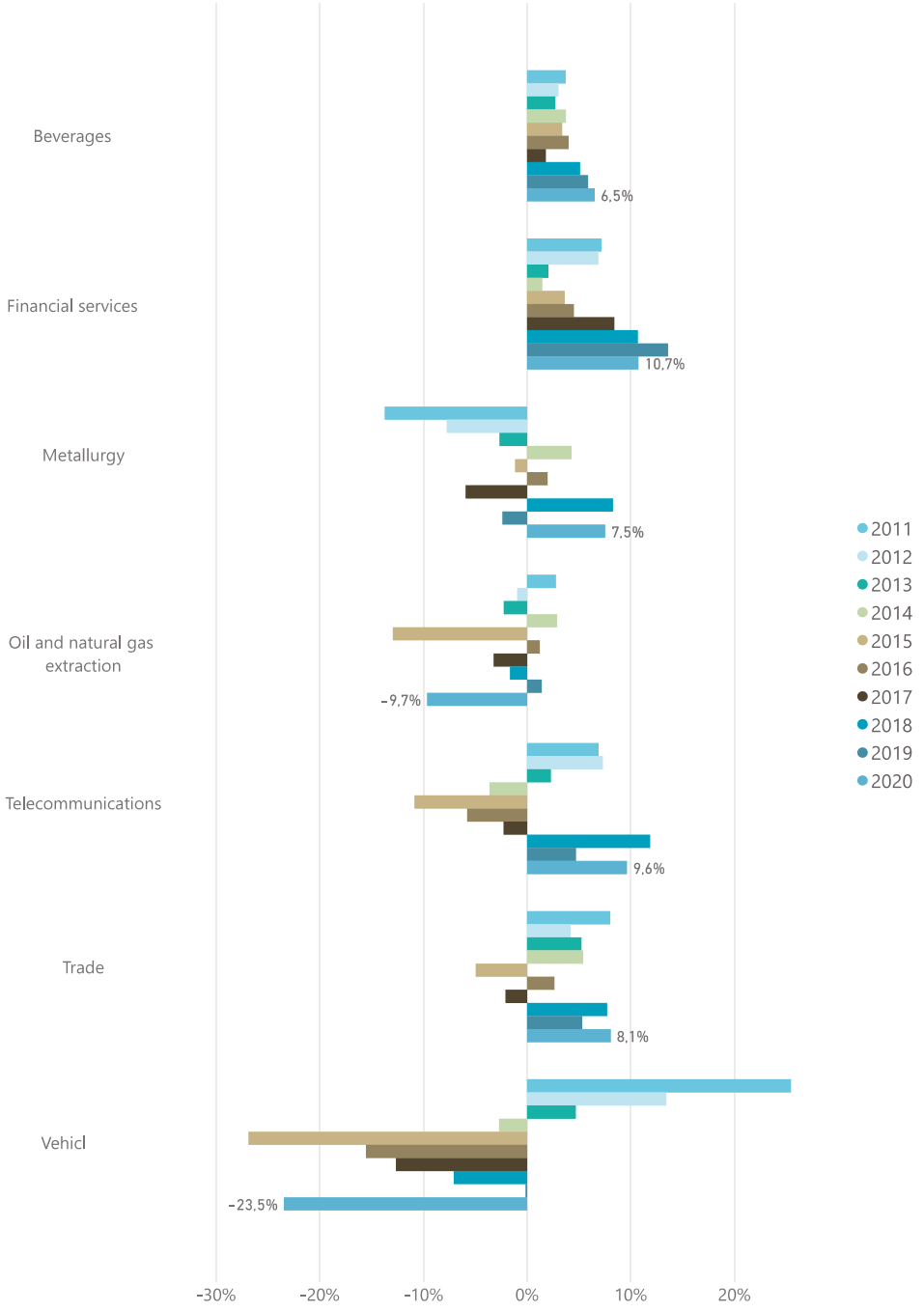
Figure 31 – Direct investment assets equity transactions, excluding reinvested earnings – Breakdown of gross outflows by industry



4.3 Profitability

Profitability of direct investment liabilities equity was uneven across economic sectors in 2020 (Figure 32). From 2010 to 2020, the sectors of beverages and financial services were consistently profitable; trade, oil and natural gas extraction, metallurgy, and telecommunications went through periods of profits and losses; and the automotive industry registered profits from 2010 to 2014 and losses as of 2015.

Figure 32 – Profitability of direct investment liabilities equity position – Selected industries



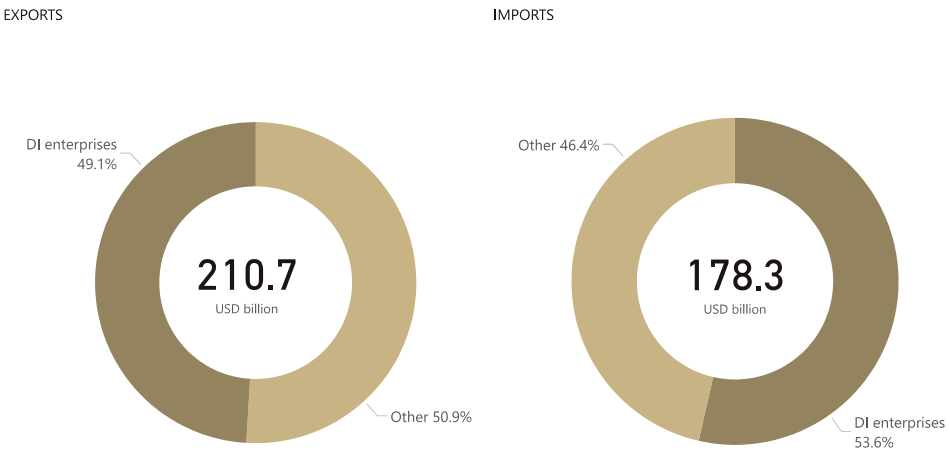
5 Activities of Resident Direct Investment Enterprises

5.1 Foreign trade

Resident direct investment enterprises, highlighting the food products sector, accounted for more than half (51%) of the Brazilian foreign trade in goods in 2020.

In 2020, the trade balance on goods in the balance of payments[17] posted a surplus of USD 32.4 billion, derived from exports of USD 210.7 billion and imports of USD 178.3 billion. As in previous years, resident direct investment enterprises accounted for a significant share of the Brazilian foreign trade. Exports and imports of goods carried out by those enterprises reached 49.1% (USD 103.4 billion) and 53.6% (USD 95.6 billion) of the total, respectively (Figure 33). The contributions of resident direct investment enterprises accounted for 51.1% (USD 389.0 billion) of Brazilian total foreign trade on goods, and 24.2% (USD 7.8 billion) of the trade balance surplus (USD 32.4 billion).

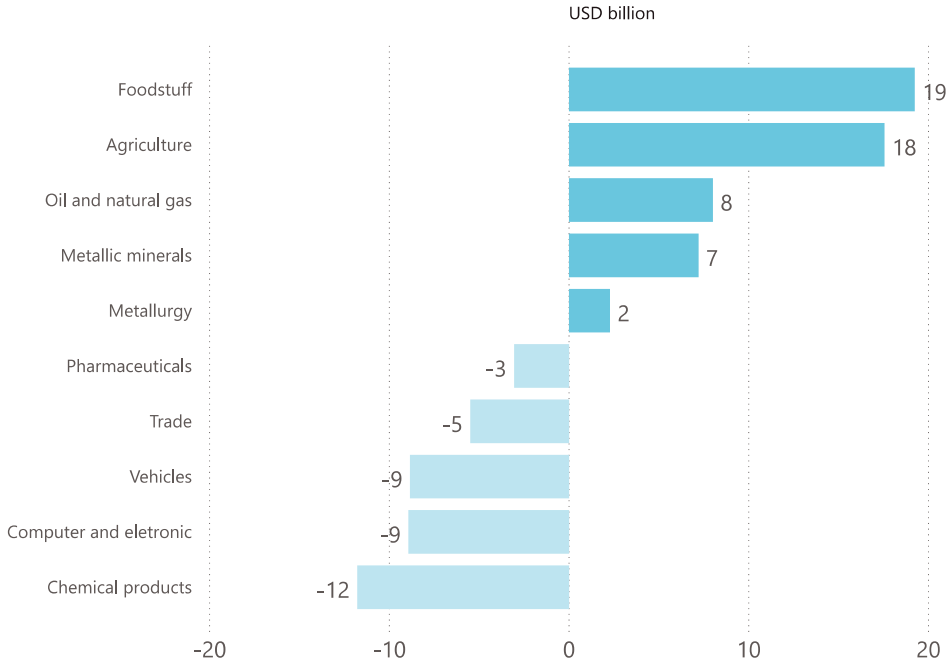
Figure 33 – Share of resident direct investment enterprises in the foreign trade on goods



17 See Methodological note: Trade balance on goods – reconciliation between international merchandise trade and balance of payments statistics and the table 32 reconciliation.

Resident direct investment enterprises of the sectors of food products, agriculture and livestock, and oil and gas extraction generated a trade surplus of USD 44.8 billion in 2020. In turn, resident direct investment enterprises of the sectors of automotive vehicles; computer equipment, electronics, and optical products; and chemical products generated a trade deficit of USD 29.6 billion.

Figure 34 – Trade balance – Resident direct investment enterprises by industry



5.2 Productivity, workforce, payroll, and Research and Development (R&D)

Trade, food products, and automotive were the sectors with the greatest number of jobs in direct investment enterprises in 2020.

In addition to data on foreign trade carried out by resident direct investment enterprises, the *Censo* survey collects data on other activity fields of multinational groups in Brazil, useful for assessing the impacts on the domestic economy. This assessment may support the elaboration of public policies targeted at the attraction of foreign investments and composes the research on globalization.[18]

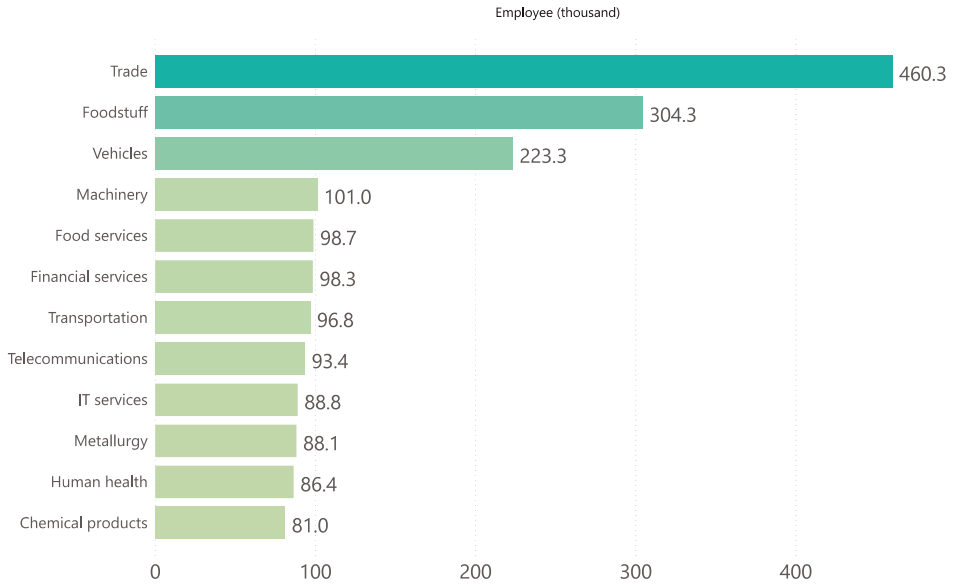
Regarding the productivity of resident direct investment enterprises, the comparison of annual gross revenue with total payroll expenses and the workforce, according to the enterprise's economic activity sector, is shown in Figure 35. The sectors of insurance, social security and health insurance, and financial services stood out.

18 The OECD gathers and disseminates information about the activities of multinational enterprises: https://www.oecd.org/sti/ind/amne.htm.

Figure 35 – Productivity of resident direct investment enterprises

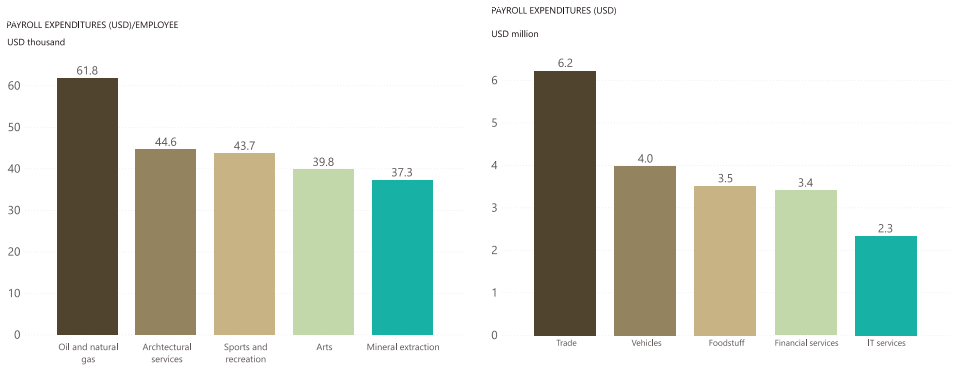
Workforce statistics, measured according to the position on September 30 of each base-year with the aim of smoothing seasonal factors at the year-end, according to economic activity sector, are shown in Figure 36. The three main employing sectors of resident direct investment enterprises are trade, food products, and automotive vehicles (988 thousand employees in September 2020).

Figure 36 – Workforce of resident direct investment enterprises



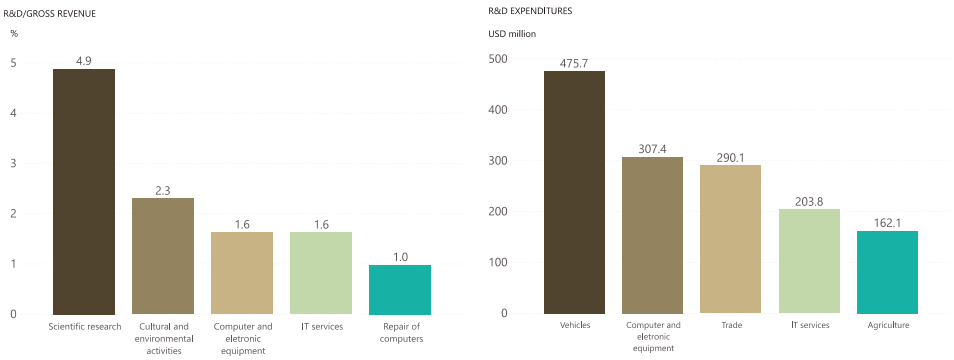
Indicators of average wages (total expenditure per employee, including labor charges) and absolute values, by economic activity sector, are shown in Figure 37. Payroll expenses include wages and labor-related charges to employers during the period. The sectors of oil and gas extraction (highest average wage per employee, USD 61.8 thousand/year) and trade, except automotive vehicles (highest absolute wage expense, USD 6.2 million/year) stood out.

Figure 37 – Payroll of resident direct investment enterprises



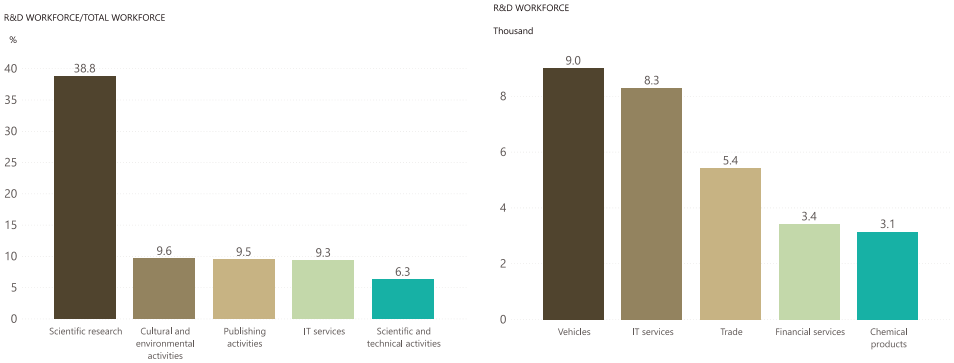
Expenditures of resident direct investment enterprises on R&D – carried out on technical and scientific research with the aim of creating or improving products or services, are shown in Figure 38.

Figure 38 – R&D expenditures and gross revenue



The sectoral distribution for the expenses of resident direct investment enterprises in R&D regarding the workforce, as well as the absolute amount of jobs, is shown in Figure 39.

Figure 39 – Workforce in R&D



Annex I: Direct investment methodology

Brazil's direct investment statistics are compiled in accordance with the most recent international methodological guidelines, established in the Sixth edition of the IMF Balance of Payments and International Investment Position Manual (BPM6) and the 4th edition of the OECD Benchmark Definition of Foreign Direct Investment (BD4). The BPM6 addresses external sector statistics methodology while the BD4 specifically covers direct investment statistics, with a more in-depth approach to some related topics. This annex presents the main concepts presented in BPM6 and BD4, which are harmonized and complementary manuals that form the methodological framework for the compilation and dissemination of direct investment statistics presented in this report and in other BCB publications.

Direct investment definition

A direct investment relationship exists when an investor in one economy holds 10% or more of voting equity of an enterprise or investment fund in another economy.[19] The direct investor is considered to have a long-term interest in the direct investment enterprise and a significant degree of influence (or control, in the case of a share greater than 50%) in its management. The motivation of the direct investor differs from that of the portfolio investor, as the latter does not seek to exert influence on the management of the invested enterprise.

The direct investment relationship may occur in an immediate way, when the direct investor holds voting power equal to or greater than 10% in the invested enterprise, or indirectly, when, for example, an enterprise holds a subsidiary in another economy which in turn holds 10% or more voting power in a third enterprise. Although the first enterprise does not directly hold a share in the equity of the third enterprise, it exerts influence or indirect control. Therefore, direct investment relationships may be passed through a chain of ownership. There is also a direct investment relationship between enterprises that have a common direct investor but do not exercise control or influence over each other. They are called fellow enterprises. These three forms of direct investment relationships (immediate, indirect and between fellows) represent the most general cases of relationships between enterprises belonging to the same economic group.

19 See paragraphs 6.8 to 6.14 of the IMF BPM6, and paragraphs 11 and 12 of OECD BD4.

Direct investment transactions and positions are subdivided into two components: equity and intercompany debt. Equity includes voting power equity, which defines the existence of a direct investment relationship and occasional non-voting shares. In the case of liabilities, the equity component refers to non-resident investment in shares of enterprises resident in Brazil. In the case of assets it refers to Brazilian residents' investments in enterprises residing abroad. In both cases, equity transactions include capitalization and decapitalization operations, in which the direct investor increases or reduces equity on the direct investment enterprise, such as those of mergers and acquisitions, in which the direct investor buys or sells pre-existing shares in an invested enterprise.

Intercompany debt transactions are transactions of credits granted between enterprises of the same economic group. In general these are loans, but they can also be trade credits, securities and other instruments. In the case of liabilities, intercompany debt refers to credits granted by non-residents to enterprises resident in Brazil and, in the case of assets, credits granted by residents in Brazil to non-resident enterprises. Naturally, if the enterprises involved do not belong to the same economic group, the operation will not be considered intercompany debt, being classified in other investment categories.

The activities of the direct investment enterprise may be funded by other companies of the multinational group, but also by third parties. For example, a direct investment enterprise plans to build a plant by pooling resources via: i) capital injection by the parent company; ii) loan received from another subsidiary of the group, resident in another economy; iii) loan from a nonresident bank; iv) loan from a resident bank; v) issuance of securities in the domestic market, to be acquired by resident investors. Of the total value of the plant construction project, the capital contribution and the loan from the subsidiary, when they occur, will be recorded in the balance of payments as inflow of equity and intercompany debt, making up the direct investment. The loan from the bank abroad, when it occurs, will be a balance of payments transaction registered in the functional category other investments, and not direct investment. The funds obtained in the domestic market, from banks, and the issuance of securities purchased by local investors, are not balance of payments transactions because both parties are residents. Thus, the total value of the investment made by a direct investment enterprise does not necessarily correspond to the flow of direct investment to be observed in the balance of payments.

Asset/liability principle x directional principle

The direct investment statistics published by the BCB, including those of this Direct Investment Report, comply with the asset/liability principle recommended by BPM6.[20] However, transaction statistics according to the directional principle are also published as a memo item.

20 The presentation of direct investment statistics according to the directional principle was a recommendation of BPM5, while the asset/liability principle became standard in the BPM6 (see paragraphs 6.42 and 6.43 of BPM6. The directional principle is shown as a supplementary presentation). BD4 recommends the presentation of statistics in both concepts (see paragraph 147 of BD4).

Under the asset/liability principle of direct investment all assets are presented in one component, direct investment assets, while all liabilities are presented in another component, direct investment liabilities. This separation is independent of the direction of influence, that is, whether it is the investor who takes or grants credit, or whether it is the invested enterprise who takes or grants credit.

Direct investment assets therefore comprise the following external assets:

- equity of a resident direct investor in a non-resident direct investment enterprise;
- intercompany lending by a resident direct investor to a non-resident direct investment enterprise;
- intercompany lending by a resident direct investment enterprise to a non-resident direct investor (reverse investment, direction contrary to influence).

Similarly, direct investment liabilities comprise the following foreign liabilities:

- equity of a non-resident direct investor in a resident direct investment enterprise;
- intercompany lending by a non-resident direct investor to a resident direct investment enterprise;
- intercompany lending by a non-resident direct investment enterprise to a resident direct investor (reverse investment, direction contrary to influence).

In the directional principle, transactions and positions are allocated according to the direction of influence, always from the direct investor to the direct investment enterprise. The treatment given to reverse liabilities and reverse assets, respectively "asset-reducing liabilities" and "liability-reducing assets", causes Brazilian direct investments abroad and foreign direct investments to tend to be smaller than their corresponding direct investment assets and direct investment liabilities, in which assets and liabilities are presented grossly. However, for net direct investment (Brazilian direct investments abroad minus foreign direct investments and direct investment assets minus direct investment liabilities) the two concepts show identical results.

The classification of intercompany debt transactions between fellow enterprises considers the residence of their ultimate controlling parent. If the controller resides in Brazil, the classification is Brazilian direct investment abroad, if it resides abroad, it is foreign direct investment.

The Brazilian direct investment abroad component comprises transactions and positions in which the direction of influence is from Brazil to abroad, including assets but also reverse liabilities:

- equity of a resident direct investor in a non-resident direct investment enterprise;
- intercompany lending by a resident direct investor to a non-resident direct investment enterprise;
- intercompany lending by a non-resident direct investment enterprise to a resident direct investor (reverse investment, direction contrary to influence).

The foreign direct investment component comprises transactions and positions in which the direction of influence is from abroad to Brazil, including liabilities but also reverse assets. Foreign direct investment includes:

- equity of a non-resident direct investor in a resident direct investment enterprise;
- intercompany lending by a non-resident direct investor to a resident direct investment enterprise;
- intercompany lending by a resident direct investment enterprise to a non-resident direct investor (reverse investment, direction contrary to influence). It is a liability-reducing asset.

Special Purpose Entities (SPEs)

Special Purpose Entities (SPEs)[21] are financial vehicles commonly used for channeling investments, including direct investments, between countries. Its growing utilization poses challenges for interpreting external sector statistics. This is a cutting-edge methodological subject, and its approach in the BPM6[22] was broadened in 2018 by the Task Force on Special Purpose Entities,[23] coordinated by the IMF with the participation of Brazil. The task force defined SPEs as institutional entities with zero to five employees, little or no physical presence, and little or no real activity in the economy where they are constituted. SPEs should be directly or indirectly controlled by non-residents. SPEs deal almost entirely with non-residents, and much of their balance sheet consists of cross-border assets and liabilities.

By establishing SPEs in specific jurisdictions, owners seek to: (i) ensure access to sophisticated capital markets or financial services; (ii) isolate financial risks; and/or (iii) reduce regulatory and tax burdens; and/or (iv) safeguard the confidentiality of transactions.

According to the task-force, some specific functions of the SPEs are:[24] raising funds, often in the open markets, and remitting these funds to other enterprises of the same economic group; operating as a holding of enterprise participation, with no active management; operating as holding of other financial and non-financial assets; holding the ownership of fixed assets leased to third parties; concentrating intangible assets and intellectual property of the same economic group, and the receipt of royalties related to them; keeping and managing the assets of individuals and households.

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21 Special Purpose Entities (SPEs) are not the same as Specific Purpose Entities, as provided for by Brazilian law. The latter are conceptual entities usually created to isolate financial risk from their activity. These entities are, in general, restricted and time-bound. The SPEs are so characterized for statistical purposes, regardless of their legal format.

22 See paragraphs 4.50 to 4.52 of the BPM6.

23 The final report of this task force is available at: https://www.imf.org/external/pubs/ft/bop/2018/pdf/18-03.pdf.

24 Not every enterprise that carries out these functions are necessarily SPEs, but only those that comply with the general definition of SPEs.

Pass-through and round-tripping

"Pass-through funds" or "funds in transit"[25] are funds that pass through an enterprise resident in an economy to an affiliate in another economy. Thus, these funds do not stay in the economy of that enterprise, which is often a SPE. Funds in transit may can be in the form of equity capital or intercompany debt, comprising direct investment positions and transactions. These funds, due to their nature, make it difficult to identify the origin and final destination of investment and have little or any influence on the economy they pass through.

Round-tripping[26] is a particular case of pass-through, which occurs when the ultimate host economy and the ultimate investing economy are the same. One example is when an enterprise resident in Brazil invests in an enterprise in a third country that, in turn, invests in an enterprise resident in Brazil. In fact, a round-tripping operation may involve several intermediary enterprises in many countries.

Direct investment income

Income associated with direct investment is composed of earnings and interests. Equity participation generates earnings, while intercompany lending generates interest. Direct investment income is registered in the primary income account,[27] being a component of the current account in the balance of payments.

Direct investment earnings can be distributed to the direct investor or retained by the direct investment enterprise. Given the significant degree of influence of the direct investor on the management of the enterprise, one assumes that it participates on the decision of maintaining the earnings in the invested enterprise instead of distributing them. Reinvested earnings are offset by the increase in equity participation; it is registered in the current account and offset in the financial account of the balance of payments.

Direct investment earnings are registered in the balance of payments according to the proportion of the direct investor's participation in the direct investment enterprise. For example, if the direct investor's participation is 70% (and the remaining 30% belongs to residents) this percentage is applied to the earnings of the direct investment enterprise to calculate the share of the direct investor.

Reinvested earnings can be positive, when total earnings are larger than distributed earnings, or, less often, negative, when the amount distributed is larger than total earnings obtained in the period. The latter may be a case of negative total earnings, i.e., loss. The distribution of values larger than total earnings is possible by distributing reserve earnings accumulated in previous periods. Whereas positive reinvested earnings imply expansion in equity participation, negative reinvested earnings are offset by the reduction in equity participation.

25 See paragraphs 6.33 to 6.34 of the BPM6.
26 See paragraph 6.46 of the BPM6.
27 For the definition of primary income, see paragraph 11.3 of BPM6.

Direct investment income receipts (credits in the balance of payments) represent the income associated with direct investment asset positions (direct investment of residents abroad) and comprise:

- Earnings distributed to resident direct investors due to equity participation in non-resident direct investment enterprises.
- Reinvested earnings of resident direct investors in non-resident direct investment enterprises, offset by the expansion of direct investment equity assets in the financial account. Should reinvested earnings be negative, they are registered as negative receipts offset by the reduction of direct investment equity; and
- Interest on intercompany debt transactions on credit granted by a resident to non-resident entities belong of the same economic group.

Expenses on direct investment income (debits in the balance of payments) represent the income associated with direct investment liabilities positions (direct investments of residents) and comprise:

- Distributed earnings to non-resident direct investors on their equity participation in resident enterprises.
- Reinvested earnings of non-resident direct investors in resident direct investment enterprises, offset by the expansion of direct investment equity liabilities. If they are negative, they are registered as negative expenses offset by a reduction of direct investment equity liabilities.
- Interest from intercompany debt transactions on credit granted by a non-resident to resident entities of the same economic group.

In the balance of payments, reinvested earnings do not include capital losses and gains derived from exchange rate changes, revaluation of fixed assets, changes in the prices of financial assets, debt write-offs, among other non-operational events.[28]

Breakdown of changes in direct investment position

In external sector statistics, transactions[29] are exchange of economic value between two institutional units resident in different economies. Transactions are recorded in the balance of payments, unlike the other flows (changes by exchange rate and by prices) and other changes in volume.

Exchange rate changes correspond to changes in positions resulting from fluctuations in the exchange rate between the US dollar (US$) and other currencies. The position value varies as the exchange rates change because, in direct investment liabilities, enterprises that host direct investment in Brazil have their balance sheets expressed in BRL, meaning that fluctuations in the nominal exchange rate affect their US$-expressed value. In direct investment assets, assets denominated in currencies other than US$ are subject to exchange rate changes.

28 See paragraphs 11.44 from BPM6 and 208 from BD4.
29 In Brazilian external accounts, the US dollar is the unit of measurement.

Market prices changes (preferred criterion for valuation of positions) result from changes in the share prices of enterprises listed in stock exchanges or from enterprises that present market value different from their book value due to the valuation method used (e.g. net present value, recent trading value of shares, or expert valuation).

Finally, the other changes by volume are calculated residually, taking into account reclassifications (e.g. from portfolio investments to direct investments, when the 10% of voting power threshold is exceeded by subsequent investments of the same investor) and also capturing discrepancies between statistical sources used to measure positions, transactions, and changes by exchange rate and by prices.

Annex II: Sources for direct investment compilation

Brazilian Foreign Capitals Survey (*Censo*)

The main data source for the compilation of direct investment liabilities statistics – positions and earnings – presented in this report is the Brazilian Foreign Capitals Survey (*Censo*).

The *Censo* legal basis is Law 4,131, of September 3, 1962. The first edition of *Censo* was released in 1996, with data for reference year 1995. Its main objective is to measure direct investment liabilities positions, although information on other external liabilities are collected in the survey. In the Populational (quinquennial) editions 1995, 2000, and 2005 the following entities were required to report: i) enterprises receiving external credits; and ii) enterprises receiving direct or indirect foreign investments, with direct or indirect shares or quotas with voting rights held by non-residents of at least 10%, or at least 20% of the total capital.

From 2011, the *Censo* frequency was increased to annual, with differences in coverage of samples from the corporate population, when compared to the Populational *Censo*. The Populational *Censo*, for base years ending in five and zero, remains mandatory for all enterprises in which a non-resident shareholder participates in its capital, while the Sample *Censo* covers a subset of these respondents (basically large enterprises).

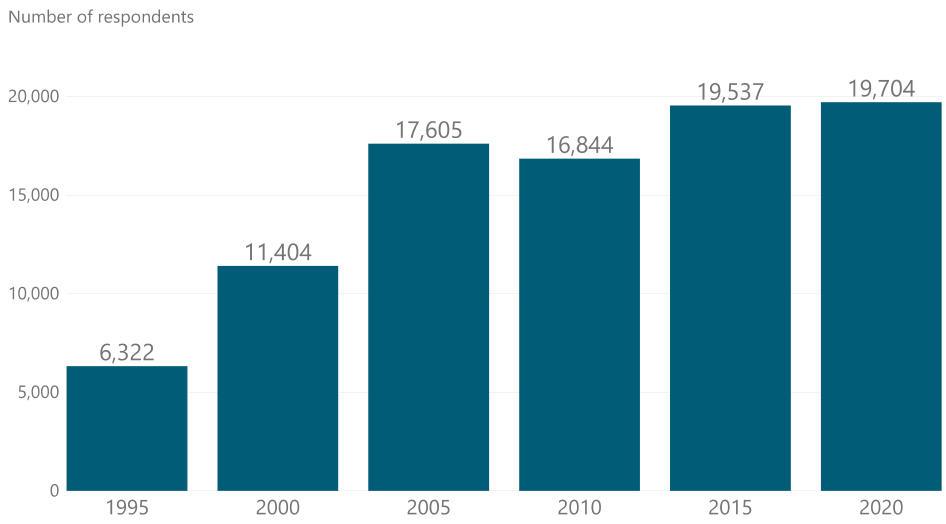
The Populational *Censo* and the Sample *Censo* were changed in 2011, with methodological and operational modifications, including: i) the introduction of market value as a preferential criterion for measuring the value of the resident direct investment enterprise, aligned with the international methodology. When the market value cannot be assessed, book value is the next valuation criterion for the enterprise; ii) identification of both the immediate investors and the ultimate controllers; and iii) consolidation of responses by economic group resident in Brazil, providing rationalization of the surveys, lower compliance costs and reduction of the number of respondents.

The Populational *Censo* must be reported by:

- corporations resident in Brazil with non-resident shareholders in any amount on December 31 (reference date);
- investment funds, through its management, with non-resident shareholders on December 31; and
- corporations headquartered in Brazil with a total outstanding balance of short-term trade credits and advances (up to 360 days) granted by non- residents equal to or greater than US$ 1 million on December 31.

The number of respondents to the Populational *Censo* is expressive and has been increasing over the years (Figure 40). In 1995 –first edition of the survey– there were 6,322 respondents. In the following edition, in 2000, the number of respondents grew by 80% to 11,404. In 2005, the number of respondents increased 54%, to 17,605. In 2010, when the survey was revamped to allow enterprises that control economic groups in Brazil to respond to the questionnaire by consolidating information from their subsidiaries, the number of respondents decreased slightly to 16,844. In 2015, however, a further increase of 16% was observed, and the number of respondents totaled 19,537. In 2020, there was 19,704 respondents, the greatest number ever registered for populational *Censo.*

Figure 40 – Population *Censo* (quinquennial) – Number of respondents

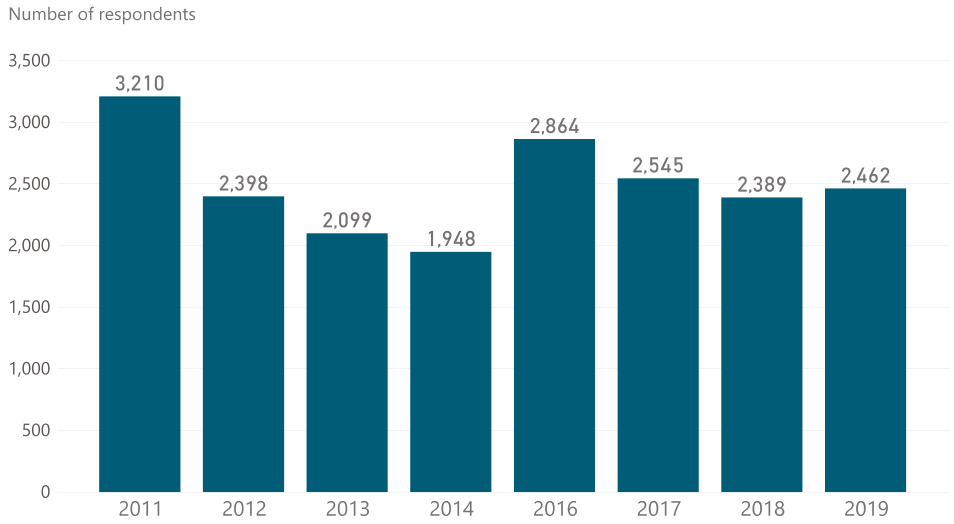


The Sample *Censo* must be reported by:

- corporations headquartered in Brazil with non-resident shareholders – in any amount – and with book value equal to or greater than US$ 100 million on December, 31 of the reference year;
- investment funds, through its administrators, with non-resident shareholders and book value equal to or greater than US$ 100 million on December, 31 of the reference year; and
- corporations resident in Brazil with a total outstanding balance of short-term trade credits and advances (up to 360 days) granted by nonresidents equal to or greater than US$ 10 million on December, 31 of the reference year.

Figure 41 shows the number of respondents to the Sample *Censo*. The largest number of respondents was in 2011, when 3,210 enterprises participated in the survey. From that year on, the number of respondents declined until 2014, recovered in 2016, and reached 2,462 enterprises in 2019.

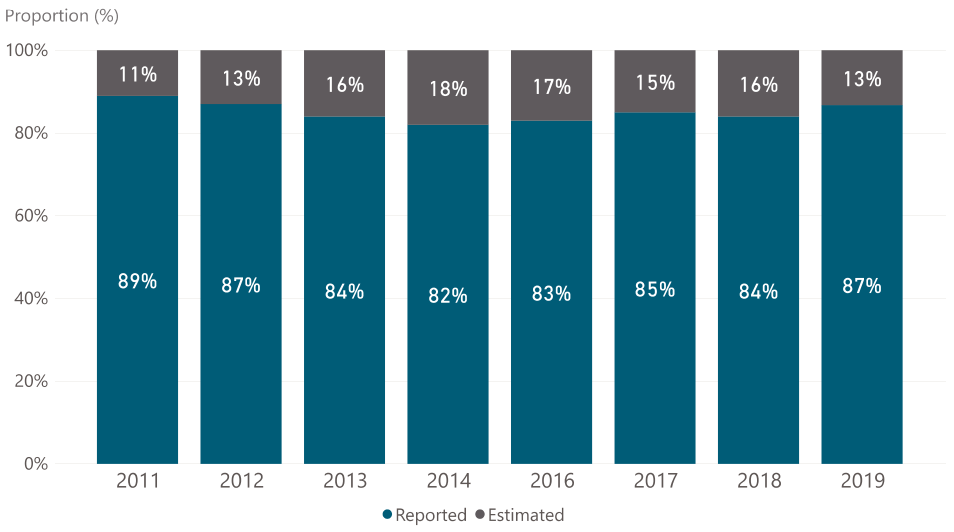
Figure 41 – Sample *Censo* (annual) – Number of respondents



Despite recording less than 20% of the total of the Populational *Censo* respondents, the Sample *Censo* collects over 80% of the direct investment equity liabilities positions, due to the concentration of investments. Experience shows that the Sample *Censo* is quite efficient for producing direct investment liabilities statistics, obtaining good coverage with a small number of respondents.

For the reference year 2019, as shown in Figure 42, 87% of direct investment equity liabilities positions were collected through the Sample *Censo*. The remaining 13% was collected from transactions registered in exchange contracts, parity adjustments and declarations from previous *Censo* editions.

Figure 42 – Direct investment equity liabilities positions – Reported and estimated values



It is worth noting that the direct investment liabilities data obtained through *Censo* surveys are validated through multiple consistency checks. Eventual discrepancies in the reported information are double-checked with the reporting enterprises and corrected, if necessary.

Brazilian Capitals Abroad Survey (CBE)

The data source for compiling the statistics of direct investment assets positions and earnings presented in this report is the Brazilian Capitals Abroad Survey (CBE) Survey.

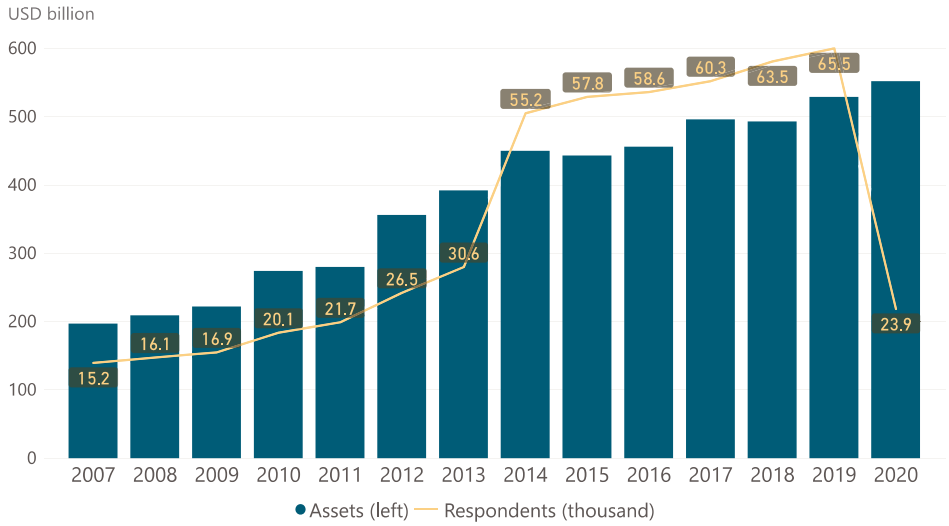
The legal basis of the CBE goes back to Decree-Law 1,060 of October 21, 1969, which determined the National Monetary Council (CMN) to define the form, limits, and other conditions to submit to BCB the assets and values held abroad. Afterwards, CMN issued Resolution 139, on February 18, 1970, stipulating that the CBE reporting, as mentioned in the Decree-Law, should be filed at the Finance Ministry, which would issue complementary instructions on the matter. However, the form, limits, and other conditions for filing the statement were not established in that ruling. Only upon issuance of CMN Resolution 2,337 on November 28, 1996 was it established that the reporting of information and earnings on Brazilian investment abroad should be filed at the BCB. Provisional Measure 2,224 of September 4, 2001 established fines, in legal terms, concerning the filing of reports in response to the CBE.

Since 2002 (2001 reference year), the CBE survey has been conducted annually by the BCB to measure foreign assets held by residents of Brazil on December 31 of each year. The reporting was mandatory for resident households and corporations with assets abroad, at the end of each reference year, equal to or greater than US$ 100 thousand. This minimum value for the annual reporting of the CBE survey was increased from US$ 100 thousand to US$ 1 million, considering all assets and values held abroad, in accordance with Resolution 4,841 of July 30, 2020, which entered into force on September 1, 2020.

CBE frequency became quarterly from 2011, with the addition of reference dates of March 31, June 30 and September 30. The quarterly CBE is mandatory for resident households and corporations with assets abroad equal to or greater than US$ 100 million.

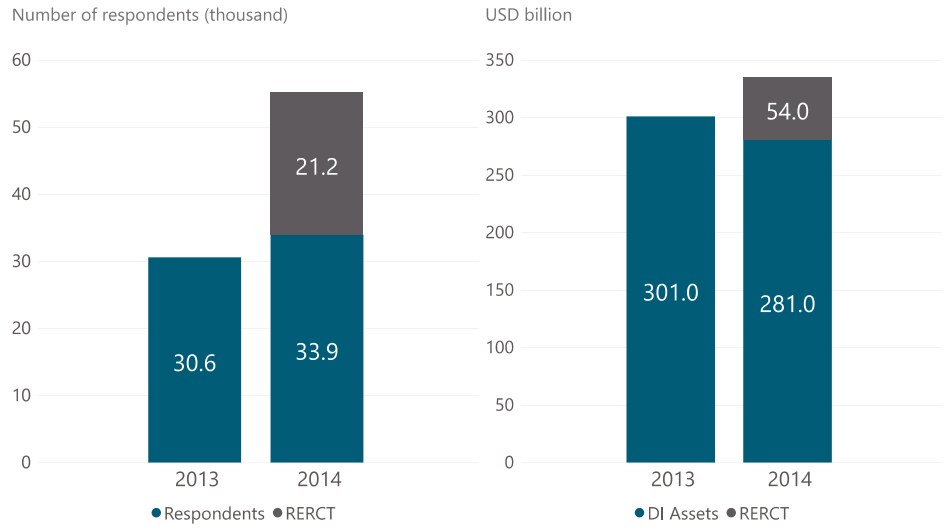
The number of CBE respondents increased from around 15,000, in 2007, to 65,500 in 2019. During that period, the assets position abroad, of all kinds except international reserves, increased from US$ 197 billion to US$ 529 billion (Figure 43).

Figure 43 – Sample CBE – Number of respondents and total foreign assets position



The number of CBE respondents changed to a new plateau in 2014, due to the implementation of the Brazilian Special Regime for Exchange and Tax Regularization (RERCT), which promoted the regularization of Brazilian residents' previously undeclared foreign assets. Implemented in two stages, the RERCT accounted for approximately 22 thousand CBE additional respondents, and an increase of US$ 54 billion in the foreign assets position. The first stage of the RERCT, effective from the 2014 reference year position, resulted in more than 96% of the total value of legalized assets.

Figure 44 – RERCT – Impact on the number of respondents and in the DI assets position

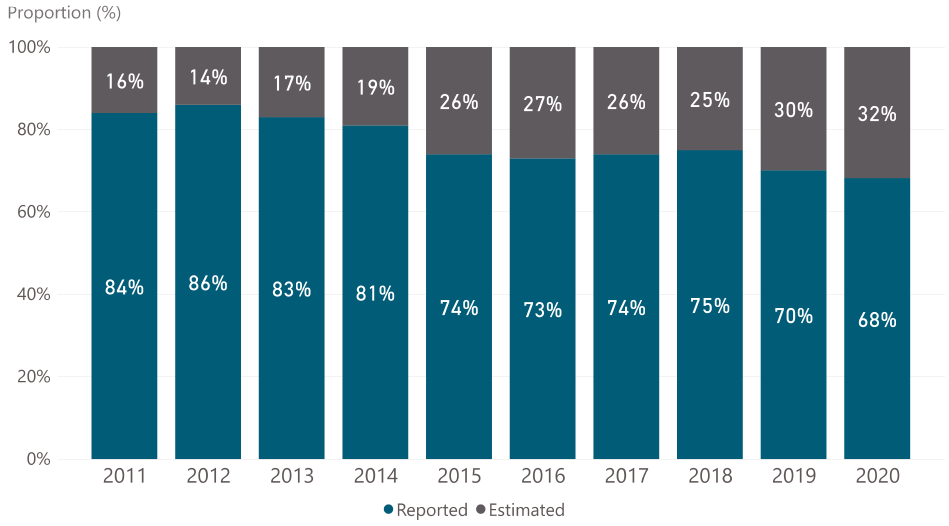


The number of quarterly CBE respondents is significantly lower than of the Sample CBE respondents, given the difference between mandatory reporting thresholds of US$ 100 million and US$ 100 thousand, respectively. The average number of quarterly respondents exceeded 500 between 2015 and 2019, less than 1% of the population of respondents.[30] However, in an efficient way and with lower

30 Nearly 100 investors resident in Brazil respond to the quarterly CBE even when they have an amount of assets abroad lower than US$ 100 million, and therefore, not being required to provide information.

compliance cost, the quarterly CBE captured at least 70% of the total direct investment assets position in the same period. Quarterly CBE non-respondent investors' direct investment assets positions are estimated from the Populational CBE (annual).

Figure 45 – Quarterly direct investment assets position (annual average) – Reported vs. estimated



Electronic Declaratory Registry – Financial Operations Registry (RDE-ROF)

Direct investment intercompany debt liabilities are sourced from the Electronic Declaratory Registration – Financial Operations Registration Module (RDE-ROF) system. This system stores individualized information on financial transactions between resident debtors and non-resident creditors. The resident debtors are responsible for providing information and filling out registers, which cover most debt instruments.

Each register receives an individual identifier and contains detailed information on the operations, such as: i) type of financial instrument (loan, securities, long-term imports financing, among others); ii) principal amount and basic payment characteristics, such as grace period, frequency and number of installments; iii) interest payment basic characteristics, such as grace period, frequency, number of installments and interest rate; iv) amortization schedule; (v) information on the existence or otherwise of ancillary charges, such as fees and commissions; vi) denominated currency; and vii) identification of all transaction parts and detailed classification of creditors, debtors and guarantors.

The RDE-ROF system also requires payments and modifications to be informed and accrued in the original agreement, registering all transactions carried out through the International Transactions Reporting System (ITRS) or international transfers in BRL performed by automatic linkage between systems. Transactions abroad not settled in Brazil, reported by the debtor, must also be informed.

The existence of the RDE-ROF identifier is necessary for settlements of exchange contracts for which registration is registers are required, and all information is immediately available to statistical compilers.

International Transactions Reporting System (*Sistema Câmbio*)

The main source for the compilation of the balance of payments transactions, including direct investment, is the International Transactions Reporting System (*Sistema Câmbio*). Through this system, financial institutions authorized to operate in the foreign exchange market electronically inform the BCB of their foreign exchange operations. The contracts registered in the system, which reflect transactions between residents and non-residents, contain information required for balance of payments compilation. The foreign exchange system is commonly known in other countries by the acronym ITRS (International Transactions Reporting System).

Foreign exchange codes identify direct investment transactions in the form of equity and distinguish direct investment liabilities from direct investment assets. The compilation of direct investment transactions in the form of intercompany debt, including the differentiation between operations from parent to subsidiary, fellow enterprises, and subsidiary to parent (reverse investment) requires data sources other than the foreign exchange transactions.