

## **Glossary**

### **Affiliates**

Business entities owned from 10 percent to 100 percent by another business entity. Depending on the level of ownership, affiliates are classified as associates or subsidiaries or branches.

### **Associate**

Business entity owned from 10 percent to 50 percent by another business entity.

### **Bonds, debentures, notes**

These are debt securities issued by borrowers to finance their operations. They are sold to investors with the promise that they will be repaid with interest by the end of a specific period. Bonds, debentures and notes can be part of direct or portfolio investment in the balance of payments and international investment position, depending on the relationship between the issuer and the holder.

### **Branch**

Business entity that is unincorporated and is owned by another business entity.

### **Debt**

Financial claim that refers to lending of funds by a creditor (lender) to a debtor (borrower). Debt comprises securities (generally marketable) and other debt instruments (generally not marketable). Debt can be part of direct, portfolio or other investment depending upon the relationship between the issuer and the holder.

### **Debt Rescheduling**

Debt Rescheduling is undertaken through an agreement between the borrower and the creditor to re-arrange the schedule of principal and interest payments due on the debt outstanding. In addition, the rescheduling agreement may include provisions for debt relief to enable the borrower to regain its financial strength to service the rescheduled debt obligation.

### **Debtor / creditor principle**

There are two principles that may serve as basis for geographic allocation of direct investment financial flows: the debtor/creditor principle and the transacted principle. Under the debtor/creditor principle, transactions resulting from changes in financial claims of the compiling economy are allocated to the country of residence of the non-resident debtor, and transactions resulting in changes in financial liabilities are allocated to the country of residence of the non-resident creditor, even if the amounts are paid to or received from a different country.

### **Deposits**

Financial claims including bank deposits, deposit notes, certificates of deposits and all other claims reflecting evidence of deposits, including currency. Largely associated with Pakistani banks, deposits are part of other investment in the balance of payments and international investment position.

### **Direct investment enterprise**

An incorporated or unincorporated enterprise in which a direct investor, who is resident in another country, owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). A direct investment enterprise is made up of related entities which can be in the form of associates, subsidiaries and branches.

**Dividends**

Earnings on current activities distributed to equity holders of incorporated private enterprises, cooperatives and public corporations. This income item is recorded in the current account under portfolio investment or direct investment.

**External Debt**

External debt, at any given time, is the outstanding amount of those liabilities that require payment(s) of principal and interest by the debtor at some point(s) in the future and that are owed to nonresidents by the residents of an economy.

**External Long Term Debt**

Debt payable to non-resident after one year is known as long-term debt.

**External Short Term Debt**

Debt payable to non-resident within a year is known as Short-term debt.

**External Private non-guaranteed Debt**

Private non-guaranteed debt is defined as the external liabilities of the private sector, the servicing of which is not guaranteed by government of the economy as that of the debtor.

**External Public Debt**

External obligations of public debtor including national government.

**External Publicly Guaranteed Debt**

External obligations of autonomous bodies and private debtor that are guaranteed for repayment by a public entity.

**Equities**

Equities comprise common and preferred shares (stocks), which represent a share in the ownership of the company. In addition, the following are also considered as equities: depository receipts, most units of mutual funds, income trusts and warrants. Equities can be part of portfolio investment or direct investment in the balance of payments or international investment position depending upon the relationship of the issuer and the holder.

**Financial assets**

Regrouping of all financial claims on non-residents in the international investment position. Financial assets are further classified to direct, portfolio, other investment and reserves assets.

**Financial liabilities**

Regrouping of all financial liabilities to non-residents in the international investment position. Pakistani financial liabilities are further classified to direct, portfolio and other investment.

**Financial derivatives**

Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. Their value derives from the price of the underlying item (i.e., the reference price) and, unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. Examples are futures, forwards, options, warrants and swaps.

**Financial instruments**

Financial instruments encompass securities (generally marketable) and other financial instruments (generally non-marketable). Financial instruments can be part of direct, portfolio or other investment in

the balance of payments or international investment position depending upon the instrument and the relationship between the issuer and the holder.

### **Foreign Direct Investment**

Direct investment implies a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise. Direct investment comprises initial transaction between the two entities - the transaction that establishes the direct investment relationship- and all subsequent transactions between the entities and among affiliated enterprises, both incorporated and unincorporated. For direct investment, direct investor owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

### **Foreign Portfolio investment**

Portfolio investment implies holding of less than 10 percent share in equity securities by non-resident, investment in debt securities (in the form of bonds and notes) and investment in money market instruments of local company.

### **Gross National Product**

The Gross National Product (GNP) is the value of all the goods and services produced in an economy, plus net factor income from abroad.

### **International Investment Position**

The IIP is a country's balance sheet of the stock of financial assets and liabilities with the rest of the world. Together with the balance of payments transactions, the IIP constitutes a country's set of international accounts.

The international investment position is a statistical statement, compiled at a specified date such as year end, of: (i) the value and composition of the stock of an economy's financial assets or the economy's claims on the rest of the world, and (ii) the value and composition of the stock of an economy's liabilities to the rest of the world.

### **Interest**

Interest is the amount that the debtor owes or pays to the creditor over a given period of time without reducing the amount of principal outstanding, under the terms of the financial instrument agreed between them.

### **Investment income**

Investment income can arise from holdings of equity or debt as part of direct, portfolio or other investment. The equity income comprises profits/ losses on direct investment and dividends on portfolio stocks, while debt income includes interest from direct, portfolio and other investment.

### **Loans**

Financial claims that refer to direct lending of funds by creditors (lenders) to debtors (borrowers) through arrangements in which the lenders may or may not receive a negotiable document or instrument. Loans are treated as other investment in the balance of payments / international investment position.

### **Market Capitalization of Ordinary Shares**

Market Capitalization is the total market value of ordinary shares of companies listed at stock exchange. The market value is worked out by multiplying the market price by the total number of shares.

### **Market price**

It is a valuation based on what willing buyers pay to acquire something from willing sellers; the exchanges are made between two independent parties and on the basis of commercial considerations only. Market price is used as the basis of the valuations for transactions.

### **Monetary gold**

This is an item in reserves assets category. It refers to gold owned by monetary authorities and is held as a financial asset. Transactions are recorded only when monetary gold is transacted between monetary authorities in different countries or between monetary authorities and the IMF.

### **Monetization and demonetization of gold**

Monetization refers to the acquisition by the monetary authorities of commodity gold to increase the stock of monetary gold. Demonetization refers to the disposal by the monetary authorities of monetary gold for non-monetary purposes. While these acquisitions or sales will increase or decrease a country's official reserve assets, the transactions are not recorded in the BoP under reserve assets. When a country's monetary authorities, however, buy or sell gold with the private sector of a foreign country, then those transactions will be recorded in both countries trade statistics.

### **Net National Product**

NNP is the total market value of all final goods and services produced by citizens of an economy during a given period of time (Gross National Product or GNP) minus depreciation.

### **Non-monetary gold**

Under trade-in-goods in the current account, non-monetary gold is treated like any other commodity. That is, it is recorded in a country's imports and exports. Gold bought and sold between different countries' monetary authorities is recorded in the financial account under reserve assets.

### **Non-resident**

A person or business is said to be a non-resident of a country if they have a centre of economic activity outside the country.

### **Ordinary Shares**

The most common term of shares that entitles their holders to have ownership in the company. Holders may receive dividends depending on profitability of the company or recommendation of the directors.

### **Other assets / other liabilities**

Other assets and other liabilities are classes of other investment functional category in international investment position. They include claims that are not loans or deposits.

### **Other investment**

Functional classification in the international investment position that covers loans, deposits, reserves (assets only) and other assets / other liabilities.

### **Preference Shares**

Preference Shares are issued by a company and the company pays a fixed amount of dividend, irrespective of its earning profit or loss. The share holders generally have no voting rights.

### **Portfolio investment**

Functional classification of the international investment position which refers to an investment of a resident entity in one country into equity and debt securities of another country undertaken for the sake of investment income or capital gains. Unlike direct investors, portfolio investors have no significant influence on the operation or management of the enterprises in which they invest.

**Profits**

Profits refer to current earnings of enterprises measured net of income or corporation taxes payable without penalty during the recording period. Profits are treated as investment income on the equity portion of direct investment in the balance of payments.

**Reinvested earnings**

Reinvested earnings are direct investors' share of earnings from their foreign investments that are not distributed. These earnings (or losses as the case may be) are recorded in the current account of the balance of payments under investment income. They are also recorded in the financial account of balance of payments under direct investment, since they represent an increase in investment (or a decrease in the case of losses.)

**Reserve Assets**

Reserve assets consist of those external assets that are readily available to and are controlled by monetary authorities for direct financing of payments imbalance. In IIP, they cover monetary gold, SDRs, reserve position in the fund, foreign currency reserves and other claims.

**Reserve position in the fund**

Reserve asset item that refers to the sum of the reserve tranche purchases that a member may draw upon and any indebtedness of the International Monetary Fund (IMF) that is readily repayable to the member.

**Resident**

A person or business is said to be a resident of a country if they have a centre of economic activity as evidenced by the location of a person's principal residence and where they produce, invest and earn revenues.

**Retirements**

Transactions in securities that represent the amount of capital reimbursed by the issuer at the date of maturity of the securities.

**Securities**

Financial instruments that are marketable, such as publicly traded stocks, bonds, money market securities and other financial instruments. Securities are part of direct and portfolio investment in the international investment position depending upon the direct or portfolio relationship of the issuer and the holder.

**Securitization**

Pooling of non-traded assets for the purpose of issuing standardized securities backed by those assets, which can then be traded like any other security.

**Special drawing rights (SDRs)**

Reserve asset item created by the IMF to supplement other reserve assets that are periodically allocated to IMF members in proportion to their respective quotas. Value of SDRs is determined by a weighted basket of currencies. Transactions in SDRs are recorded in the financial account.

**Subsidiary**

Business entity which has more than 50 percent of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise) owned by another business entity.