

This metadata describes the compilation practices, sources and methodology in use in 2003. Please refer to the contact person below for details of any changes that may have been introduced by the country since that time.

Czech Republic:

Direct Investment Compilation Practices, Data Sources and Methodology

Ms. Lidmila Gregorova
Balance of Payments Specialist
Balance of Payments Division
Monetary and Statistics Department
Czech National Bank
Na Prikope 28
115 03 Prague 1
Czech Republic

Telephone: (420-2) 2441-2888
Fax: (420-2) 2441-2147
E-mail: lidmila.gregorova@cnb.cz

Direct Investment in the Czech Republic

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

Direct Investment Abroad

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

DIRECT INVESTMENT IN THE CZECH REPUBLIC
BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable monthly data (the most timely) are compiled by the Czech National Bank (CNB) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital, with a timeliness of 10 weeks after the end of the reference period. (Prior to January 2003, quarterly data, rather than monthly data, were compiled.) These data are disseminated on the CNB website (<http://www.cnb.cz>). In addition, quarterly data for the latest available quarter showing the components specified above are disseminated in the CNB's quarterly bulletin *Inflation Report*. The data (quarterly rather than monthly) are also reported to the IMF for publication and to the OECD (annual rather than monthly).

More comprehensive annual data are compiled by the CNB within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated 14 months after the end of the reference year in the annual publications *Balance of Payments Report* and *Foreign Direct Investment*, which are also available on the CNB website (<http://www.cnb.cz>).

Revision Practices

Monthly data first began to be compiled in January 2003. The monthly data are preliminary when first released. It is planned that the monthly data for the previous year will be revised to take account of the results of the annual enterprise survey for that year and will be disseminated once a year at the end of February, together with the preliminary data for the latest month, and at the time of the release of the more comprehensive annual data. At that time, it is planned that the monthly data will be considered to be final, that is, up to 25 months after their first release. (The monthly data for January 2003 would therefore become final in February 2005.) The more comprehensive annual data are final when first released.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. There has been only one instance of major changes in methodology or data collection systems to date (the compilation of data on reinvested earnings and other capital, which began in 1998) and in that case the historical data were not revised.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the most timely monthly data are collected on an individual transactions basis, and the more comprehensive annual data are collected on an aggregate basis. The reporting requirements are compulsory.

Data Sources

The monthly data for all components except reinvested earnings and income on debt (interest) are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and noncash transactions, but not cash transactions made through the foreign bank accounts of enterprises. Data on privatizations obtained from the National Property Fund are used as a secondary data source for the data on equity capital and other capital. The data for reinvested earnings and income on debt (interest) are estimates made by the CNB.

The more comprehensive annual data for all components are compiled from an annual enterprise survey of resident enterprises. Data on privatizations obtained from the National Property Fund are used as a secondary data source for the data on equity capital and other capital.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by the CNB and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) registers maintained by the stock exchange authorities, and by other departments within the CNB, (iii) the financial press, (iv) compulsory direct investment surveys, and (v) a register maintained by the Ministry of Justice. The same business register is used to compile the inward direct investment transactions and position data, and the outward direct investment transactions and position data.

Geographic Classification

Quarterly data showing breakdowns by country for the direct investment financial flows data are compiled by the CNB and disseminated quarterly with a timeliness of 3 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). Quarterly data showing breakdowns by country for the direct investment income data are not compiled. In addition, more comprehensive annual data showing breakdowns by country for the direct investment income data and the direct investment financial flows data are compiled by the CNB and disseminated once a year with a timeliness of 14 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). The annual data are also reported to the OECD and Eurostat for publication. The data cover 80 countries and bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment in the Czech Republic during 2003 (ranked in descending order) were: the Netherlands, Germany, Austria, France, and the United States. The five countries with the largest amount of direct investment financial flows into the Czech Republic during 2003 (ranked in descending order) were: Germany, Austria, France, Netherlands Antilles, and the United Kingdom.

In addition to the data showing country breakdowns, annual data are compiled by the CNB showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are disseminated once a year with a timeliness of 14 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). The data are also reported to the OECD and Eurostat for publication.

There are no differences in the data coverage, sources, etc. between the inward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication.

Industrial Classification

Quarterly data showing breakdowns by industrial activity for the direct investment financial flows data are compiled by the CNB and disseminated quarterly with a timeliness of 3 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). Quarterly data showing breakdowns by industrial activity for the direct investment income data are not compiled. In addition, more comprehensive annual data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are compiled by the CNB and disseminated once a year with a timeliness of 14 months after the end of the

reference period on the CNB website (<http://www.cnb.cz>). The annual data showing industrial activity breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data cover 99 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment income from investment in the Czech Republic during 2003 (in descending order) were: (i) financial intermediation, (ii) manufacturing of motor vehicles, (iii) land transport and transport via pipelines, (iv) electricity, gas, and steam, and (v) food and beverage production. The five industrial activities with the largest amount of direct investment financial flows into the Czech Republic during 2003 (in descending order) were: (i) financial intermediation, (ii) real estate activities, (iii) manufacturing of basic metals, (iv) manufacturing of motor vehicles, and (v) wholesale trade.

Annual data are compiled by the CNB for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are disseminated once a year with a timeliness of 9 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). The data are also reported to the OECD and Eurostat. For direct investment income, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the Netherlands, Germany, Austria, France, and the United States. For direct investment financial flows, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Germany, Austria, France, the Netherlands Antilles, and the United Kingdom.

In addition, annual data are compiled and disseminated by the CNB for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone. These data are disseminated once a year with a timeliness of 9 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). The data are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the inward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat, the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication.

B. Methodology

Definition of Direct Investment Enterprises in the Czech Republic

In accordance with the international standards, the basic criterion for defining direct investment enterprises in the Czech Republic is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. In accordance with the FCS, the direct investment financial flows data include all equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. (Prior to 2002, the data did not include equity and other capital transactions between

resident enterprises and nonresident enterprises of the same group of related enterprises.) Contrary to the FCS, the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises. (Only the earnings of indirectly owned enterprises at the first level of indirect ownership, that is, an enterprise that is directly owned by an enterprise that is in turn directly owned by a direct investor, are included.)

Enterprises in the Czech Republic are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company.

Measurement of Direct Investment Earnings

Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) deductions are not made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) interest receivable/payable is included, and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are included. (Prior to 2002, in accordance with the international standards, the data excluded unrealized capital gains and losses.)

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. (Prior to 2002, the data covered only incorporated enterprises.) Contrary to the international standards, (i) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes, and (ii) most dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are paid, rather than the date they are declared payable. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iii) some dividends and distributed branch profits are recorded on the date they are declared payable.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. (Prior to 2002, the data covered only incorporated enterprises.) In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) most of the data are recorded on an accrual basis. However, contrary to the international standards, some income on debt (interest) is compiled on a paid basis, rather than an accrual basis.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data include non-participating preference shares, which are classified under equity capital, rather than under other capital.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. (Prior to 2002, the data did not include financial leases.) In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (ii) the data do not include non-participating preference shares, which are instead classified under equity capital.

In instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Direct Investment in the Czech Republic: Other Capital: Increase in Liabilities to Direct Investors" at the time the guarantee is invoked.

Treatment of Reverse Investment

Transactions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of the Czech Republic and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are treated as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of the Czech Republic and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity transactions are recorded as "Direct Investment in the Czech Republic: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in the Czech Republic: Other Capital: Increase in Claims on Direct Investors". However, there have been no such instances to date.

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in the Czech Republic by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, as these activities cannot be identified from the present data sources. However, these activities are considered to be negligible.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established in the Czech Republic by nonresidents at present.

Treatment of Special Purpose Entities (SPEs)

Not applicable. There are no SPEs established in the Czech Republic by nonresidents at present.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in the Czech Republic by nonresident enterprises. However, nonresident enterprises are permitted to purchase land and buildings only if they have a registered business or organizational unit in the Czech Republic, and are not permitted to purchase land belonging to the Agricultural Land Fund. Land and buildings purchased in the Czech Republic by nonresident enterprises on long-term leases are not included. Purchases and sales of land and buildings in the Czech Republic by nonresident individuals are forbidden by law.

Treatment of Natural Resources Exploration

In accordance with the international standards, expenditure related to natural resources exploration in the Czech Republic by nonresidents is included in the equity capital data. Contrary to the international standards, expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise, as this information is not available from the present data sources. In accordance with the international standards, in instances of the shutdown of a direct investment enterprise established in the Czech Republic by nonresidents for natural resource exploration, no transactions are shown in the balance of payments statistics.

Exchange Rate Conversion

Most transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Some transactions for all components except equity capital are converted to the unit of account at the average exchange rate for the period. (All equity capital transactions are converted at the exchange rate prevailing on the day of the transaction.)

DIRECT INVESTMENT IN THE CZECH REPUBLIC

INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Czech National Bank (CNB) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 3 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). Quarterly data for the latest available quarter showing the components specified above are also disseminated in the CNB's quarterly bulletin *Inflation Report*. These data are also reported to the IMF for publication.

More comprehensive annual data are compiled by the CNB within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. These data are disseminated 15 months after the end of the reference year in the annual CNB publications *Balance of Payments Report* and *Foreign Direct Investment*, which are also available on the CNB website (<http://www.cnb.cz>).

Revision Practices

The quarterly data are preliminary when first released. The quarterly data for the current and previous year are revised once a year to take account of the results of the annual enterprise survey and are disseminated once a year together with the preliminary data for the latest quarter. At this time the quarterly data are considered to be final, that is, up to 21 months after their first release. The more comprehensive annual data are final when first released.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. There has been only one instance of major changes in methodology or data collection systems to date (the compilation of data on reinvested earnings and other capital, which began with the reference year 1997) and in that case the data for previous years were not revised.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Collection Method

The data are collected on an aggregate basis and reporting requirements are compulsory.

Data Sources

The most timely quarterly data for all components are compiled from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and noncash transactions, but not cash transactions made through the foreign bank accounts of enterprises, using the perpetual inventory method (a method for deriving position data from transactions data). Adjustments are made for exchange rate changes, and other nontransaction changes, but not for price changes.

The most comprehensive quarterly data for all components are compiled from an annual enterprise survey of resident enterprises.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment position data. The register is maintained by the CNB and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) registers maintained by the stock exchange authorities, and by other departments within the CNB, (iii) the financial press, (iv) compulsory direct investment surveys, and (v) a register maintained by the Ministry of Justice. The same business register is used to compile the inward direct investment transactions and position data, and the outward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the inward direct investment position data are compiled by the CNB and disseminated once a year with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>). The data showing country breakdowns for the inward direct investment position data are also reported to the OECD and Eurostat. The data cover 80 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an immediate country basis. The five countries with the largest amount of direct investment in the Czech Republic as at the end of 2002 (ranked in descending order) were: the Netherlands, Germany, Austria, France, and the United States.

In addition to the data showing country breakdowns, annual data are compiled by the CNB showing breakdowns of the inward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are disseminated with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>).

There are no differences in the data coverage, sources, etc. between the inward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate inward position data reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity for the inward direct investment position data are compiled by the CNB and disseminated once a year with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>). The data showing industrial activity breakdowns for the inward direct investment position data are also reported to the OECD and Eurostat. The data cover 99 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The inward direct investment position data are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment in the Czech Republic as at the end of 2002 (in descending order) were: (i) financial intermediation, (ii) post and telecommunications, (iii) electricity, gas, and steam, (iv) manufacturing of motor vehicles, and (v) wholesale trade.

Annual data are compiled by the CNB for the inward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are disseminated once a year with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>), and are also reported to the OECD and Eurostat. The five highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the Netherlands, Germany, Austria, France, and the United States.

In addition, annual data are compiled by the CNB for the inward direct investment position data showing a breakdown by both industrial activity and region/economic zone. These data are disseminated once a year with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>), and are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the inward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat, the aggregate inward position data reported to the IMF for publication.

B. Methodology

Definition of Direct Investment Enterprises in the Czech Republic

In accordance with the international standards, the basic criterion for defining direct investment enterprises in the Czech Republic is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. In accordance with the FCS, the data include all equity and other capital positions held directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. (Prior to the data for the reference year 2001, the data did not include other capital positions between resident enterprises and nonresident enterprises of the same group of related enterprises.) Contrary to the FCS, the data do not include the relevant share of the reinvested earnings of all indirectly-owned direct investment enterprises. (Only the earnings of indirectly owned enterprises at the first level of indirect ownership, that is, an enterprise that is directly owned by an enterprise that is in turn directly owned by a direct investor, are included.)

Enterprises in the Czech Republic are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. (Prior to 2002, the data did not include noncash acquisitions of equity, such as through the provision of capital equipment.) In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data include non-participating preference shares, which are classified under equity capital, rather than under other capital.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. (Prior to 2002, the data covered only incorporated enterprises.) In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as

negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in the Czech Republic.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. (Prior to 2002, the data did not include financial leases.) In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (ii) the data do not include non-participating preference shares, which are instead classified under equity capital.

In instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Liabilities: Direct Investment in the Czech Republic: Other Capital: Liabilities to Direct Investors" at the time the guarantee is invoked.

Treatment of Reverse Investment

Positions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of the Czech Republic and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are treated as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of the Czech Republic and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity positions are recorded as "Liabilities: Direct Investment in the Czech Republic: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in the Czech Republic: Other Capital: Claims on Direct Investors". However, there have been no such instances to date

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in the Czech Republic by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, as these activities cannot be identified from the present data sources. However, these activities are considered to be negligible.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established in the Czech Republic by nonresidents at present.

Treatment of Special Purpose Entities (SPEs)

Not applicable. There are no SPEs established in the Czech Republic by nonresidents at present.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings in the Czech Republic by nonresident enterprises. However, nonresident enterprises are permitted to own land and buildings only if they have a registered business or organizational unit in the Czech Republic, and are not permitted to own land belonging to the Agricultural Land Fund. Land and buildings owned in the Czech Republic by nonresident enterprises on long-term leases are not included. Ownership of land and buildings in the Czech Republic by nonresident individuals is forbidden by law.

Treatment of Natural Resources Exploration

In accordance with the international standards, expenditure related to natural resources exploration in the Czech Republic by nonresidents is included in the equity capital data. Contrary to the international standards, (i) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (ii) in instances of the shutdown of a direct investment enterprise established in the Czech Republic by nonresidents for natural resource exploration, an adjustment to reflect that shutdown is not made to the liabilities data on direct investment equity capital in the international investment position statistics, as this information is not available from the present data sources.

Valuation of Assets and Liabilities

The data on equity capital for both listed and unlisted enterprises are recorded at book values, which are the "Own Funds Book Values" (OFBV), which is defined in accordance with the *Guidelines of the ECB on the Statistical Reporting Requirements in the Field of BOP and IIP Statistics*, as (i) paid-up capital (excluding own shares and including share premium accounts), (ii) all types of reserves (including investment grants when accounting guidelines consider them to be company reserves, and (iii) non-distributed profits, net of losses (including the results for the current year).

The data on other capital are recorded at book values, which are the value of the loan minus repayments.

The book values used are those shown in the accounting records of the resident direct investment enterprises, rather than the nonresident direct investors.

Exchange Rate Conversion

Most positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate. Some positions are converted at the exchange rate prevailing on the day the stocks were acquired.

DIRECT INVESTMENT ABROAD

BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable monthly data (the most timely) are compiled by the Czech National Bank (CNB) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital, with a timeliness of 10 weeks after the end of the reference period. (Prior to January 2003, quarterly data, rather than monthly data, were compiled.) These data are disseminated on the CNB website (<http://www.cnb.cz>). In addition, quarterly data for the latest available quarter showing the components specified above are disseminated in the CNB's quarterly bulletin *Inflation Report*. The data (quarterly rather than monthly) are also reported to the IMF for publication and to the OECD (annual rather than monthly).

More comprehensive annual data are compiled by the CNB within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated 14 months after the end of the reference year in the annual publications *Balance of Payments Report* and *Foreign Direct Investment*, which are also available on the CNB website (<http://www.cnb.cz>).

Revision Practices

Monthly data first began to be compiled in January 2003. The monthly data are preliminary when first released. It is planned that the monthly data for the previous year will be revised to take account of the results of the annual enterprise survey for that year and will be disseminated once a year at the end of February, together with the preliminary data for the latest month, and at the time of the release of the more comprehensive annual data. At that time, it is planned that the monthly data will be considered to be final, that is, up to 25 months after their first release. (The monthly data for January 2003 would therefore become final in February 2005.) The more comprehensive annual data are final when first released.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. There has been only one instance of major changes in methodology or data collection systems to date (the compilation of data on reinvested earnings and other capital, which began in 1998) and in that case the historical data were not revised.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the most timely monthly data are collected on an individual transactions basis, and the more comprehensive annual data are collected on an aggregate basis. The reporting requirements are compulsory.

Data Sources

The monthly data for all components except reinvested earnings and income on debt (interest) are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and noncash transactions, but not cash transactions made through the foreign bank accounts of enterprises. Information from press reports are used as a secondary data source for the data on equity capital and other capital. The data for reinvested earnings and income on debt (interest) are estimates made by the CNB.

The more comprehensive annual data for all components are compiled from an annual enterprise survey of direct investors resident in the Czech Republic.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the CNB and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) registers maintained by the stock exchange authorities, and by other departments within the CNB, (iii) the financial press, (iv) compulsory direct investment surveys, and (v) a register maintained by the Ministry of Justice. The same business register is used to compile the outward direct investment transactions and position data, and the inward direct investment transactions and position data.

Geographic Classification

Quarterly data showing breakdowns by country for the direct investment financial flows data are compiled by the CNB and disseminated quarterly with a timeliness of 3 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). Quarterly data showing breakdowns by country for the direct investment income data are not compiled. In addition, more comprehensive annual data showing breakdowns by country for the direct investment income data and the direct investment financial flows data are compiled by the CNB and disseminated once a year with a timeliness of 14 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). The data are also reported to the OECD and Eurostat for publication. The data cover 80 countries and bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by residents of the Czech Republic during 2003 (ranked in descending order) were: Lithuania, Croatia, the United Kingdom, Hungary, and Portugal. The five countries with the largest amount of direct investment financial flows from the Czech Republic during 2003 (ranked in descending order) were: Portugal, the United Kingdom, the United States, Lithuania, and the British Virgin Islands.

In addition to the data showing country breakdowns, annual data are compiled by the CNB showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are disseminated once a year with a timeliness of 14 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). The data are also reported to the OECD and Eurostat for publication.

There are no differences in the data coverage, sources, etc. between the outward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication.

Industrial Classification

Quarterly data showing breakdowns by industrial activity for the direct investment financial flows data are compiled by the CNB and disseminated quarterly with a timeliness of 3 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). Quarterly data showing breakdowns by industrial activity for the direct investment income data are not compiled. In addition, more comprehensive annual data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are compiled by the CNB and disseminated once a year with a timeliness of 14 months after the end of the

reference period on the CNB website (<http://www.cnb.cz>). The annual data showing industrial activity breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data cover 99 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the nonresident direct investment enterprises. The five industrial activities with the largest amount of direct investment income from investment abroad by residents of the Czech Republic during 2003 (in descending order) were: (i) manufacturing of tobacco products, (ii) other service activities, (iii) financial intermediation, (iv) publishing and printing, and (v) other non-metallic mineral products. The five industrial activities with the largest amount of direct investment financial flows from the Czech Republic during 2003 (in descending order) were: (i) real estate activities, (ii) extraction of petroleum and gas, (iii) financial intermediation, (iv) computer and related activities, and (v) manufacturing of tobacco products.

Annual data are disseminated by the CNB for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are disseminated once a year with a timeliness of 9 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). The data are also reported to the OECD and Eurostat. For direct investment income, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Lithuania, Croatia, the United Kingdom, Hungary, and Portugal. For direct investment financial flows, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Portugal, the United Kingdom, the United States, Lithuania, and the British Virgin Islands.

In addition, annual data are compiled and disseminated by the CNB for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone. These data are disseminated once a year with a timeliness of 9 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). The data are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the outward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat, the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. In accordance with the FCS, the direct investment financial flows data include all equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. (Prior to 2002, the data did not include equity and other capital transactions between

resident enterprises and nonresident enterprises of the same group of related enterprises.) Contrary to the FCS, the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises. (Only the earnings of indirectly owned enterprises at the first level of indirect ownership, that is, an enterprise that is directly owned by an enterprise that is in turn directly owned by a direct investor, are included.)

Enterprises in the Czech Republic are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company.

Measurement of Direct Investment Earnings

Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) deductions are not made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) interest receivable/payable is included, and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are included. (Prior to 2002, in accordance with the international standards, the data excluded unrealized capital gains and losses.)

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. (Prior to 2002, the data covered only incorporated enterprises.) Contrary to the international standards, (i) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes, and (ii) most dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are paid, rather than the date they are declared payable. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iii) some dividends and distributed branch profits are recorded on the date they are declared payable.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. (Prior to 2002, the data covered only incorporated enterprises.) In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) most of the data are recorded on an accrual basis. However, contrary to the international standards, some income on debt (interest) is compiled on a paid basis, rather than an accrual basis.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data include non-participating preference shares, which are classified under equity capital, rather than under other capital.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. (Prior to 2002, the data did not include financial leases.) In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (ii) the data do not include non-participating preference shares, which are instead classified under equity capital.

In instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises" at the time the guarantee is invoked.

Treatment of Reverse Investment

Transactions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of the Czech Republic and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are treated as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of the Czech Republic and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity transactions are recorded as "Direct Investment in the Czech Republic: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in the Czech Republic: Other Capital: Increase in Claims on Direct Investors". However, there have been no such instances to date.

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of the Czech Republic of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, as these activities cannot be identified from the present data sources. However, these activities are considered to be negligible.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established abroad by residents of the Czech Republic at present.

Treatment of Special Purpose Entities (SPEs)

Not applicable. There are no SPEs established abroad by residents of the Czech Republic at present.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises resident in the Czech Republic. Contrary to the international standards, purchases and sales of land and buildings abroad by individuals resident in the Czech Republic are not included in the direct investment data as these purchases and sales cannot be identified from the present data sources. Land and buildings purchased abroad by enterprises and individuals resident in the Czech Republic on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, expenditure related to natural resources exploration abroad by residents of the Czech Republic is included in the equity capital data. Contrary to the international standards, expenditure on bonus payments made by residents of the Czech Republic to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise, as this information is not available from the present data sources. In accordance with the international standards, in instances of the shutdown of a direct investment enterprise established abroad by residents of the Czech Republic for natural resource exploration, no transactions are shown in the balance of payments statistics.

Exchange Rate Conversion

Most transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Some transactions for all components except equity capital are converted to the unit of account at the average exchange rate for the period. (All equity capital transactions are converted at the exchange rate prevailing on the day of the transaction.)

DIRECT INVESTMENT ABROAD

INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Czech National Bank (CNB) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 3 months after the end of the reference period on the CNB website (<http://www.cnb.cz>). Quarterly data for the latest available quarter showing the components specified above are also disseminated in the CNB's quarterly bulletin *Inflation Report*. These data are also reported to the IMF for publication.

More comprehensive annual data are compiled by the CNB within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. These data are disseminated 15 months after the end of the reference year in the annual CNB publications *Balance of Payments Report* and *Foreign Direct Investment*, which are also available on the CNB website (<http://www.cnb.cz>).

Revision Practices

The quarterly data are preliminary when first released. The quarterly data for the current and previous year are revised once a year to take account of the results of the annual enterprise survey and are disseminated once a year together with the preliminary data for the latest quarter. At this time the quarterly data are considered to be final, that is, up to 21 months after their first release. The more comprehensive annual data are final when first released.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. There has been only one instance of major changes in methodology or data collection systems to date (the compilation of data on reinvested earnings and other capital, which began with the reference year 1997) and in that case the data for previous years were not revised.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Collection Method

The data are collected on an aggregate basis and reporting requirements are compulsory.

Data Sources

The most timely quarterly data for all components are compiled from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and noncash transactions, but not cash transactions made through the foreign bank accounts of enterprises, using the perpetual inventory method (a method for deriving position data from transactions data). Adjustments are made for exchange rate changes, and other nontransaction changes, but not for price changes.

The most comprehensive quarterly data for all components are compiled from an annual enterprise survey of direct investors resident in the Czech Republic.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment position data. The register is maintained by the CNB and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) registers maintained by the stock exchange authorities, and by other departments within the CNB, (iii) the financial press, (iv) compulsory direct investment surveys, and (v) a register maintained by the Ministry of Justice. The same business register is used to compile the outward direct investment transactions and position data, and the inward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the outward direct investment position data are compiled by the CNB and disseminated once a year with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>). The data showing country breakdowns for the outward direct investment position data are also reported to the OECD and Eurostat. The data cover 80 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an immediate country basis. The five countries with the largest amount of direct investment from the Czech Republic as at the end of 2002 (ranked in descending order) were: the Slovak Republic, Lithuania, Cyprus, the British Virgin Islands, and Slovenia.

In addition to the data showing country breakdowns, annual data are compiled by the CNB showing breakdowns of the outward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are disseminated with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>).

There are no differences in the data coverage, sources, etc. between the outward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD and Eurostat, and the aggregate outward position data reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity for the outward direct investment position data are compiled by the CNB and disseminated once a year with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>). The data showing industrial activity breakdowns for the outward direct investment position data are also reported to the OECD and Eurostat. The data cover 99 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The outward direct investment position data are classified on the basis of the industrial activity of the nonresident direct investment enterprises. The five industrial activities with the largest amount of direct investment from the Czech Republic as at the end of 2002 (in descending order) were: (i) financial intermediation, (ii) activities auxiliary to financial intermediation, (iii) wholesale trade, (iv) manufacturing of chemical products, and (v) other business activities.

Annual data are compiled by the CNB for the outward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are disseminated once a year with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*, which is also available on the CNB website (<http://www.cnb.cz>), and are also reported to the OECD and Eurostat. The five highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the Slovak Republic, Lithuanian, Cyprus, the British Virgin Islands, and Slovenia.

In addition, annual data are compiled by the CNB for the outward direct investment position data showing a breakdown by both industrial activity and region/economic zone. These data are disseminated once a year with a timeliness of 15 months after the end of the reference period in the annual publication *Foreign Direct Investment*,

which is also available on the CNB website (<http://www.cnb.cz>), and are also reported to the OECD and Eurostat.

There are no differences in the data coverage, sources, etc. between the outward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD and Eurostat, the aggregate outward position data reported to the IMF for publication.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. In accordance with the FCS, the data include all equity and other capital positions held directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. (Prior to the data for the reference year 2001, the data did not include other capital positions between resident enterprises and nonresident enterprises of the same group of related enterprises.) Contrary to the FCS, the data do not include the relevant share of the reinvested earnings of all indirectly-owned direct investment enterprises. (Only the earnings of indirectly owned enterprises at the first level of indirect ownership, that is, an enterprise that is directly owned by an enterprise that is in turn directly owned by a direct investor, are included.)

Enterprises in the Czech Republic are required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, and (ii) identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. (Prior to 2002, the data did not cover noncash acquisitions of equity, such as through the provision of capital equipment.) In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data include non-participating preference shares, which are classified under equity capital, rather than under other capital.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. (Prior to 2002, the data covered only incorporated enterprises.) In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries

and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. (Prior to 2002, the data did not cover financial leases.) In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (ii) the data do not include non-participating preference shares, which are instead classified under equity capital.

In instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises" at the time the guarantee is invoked.

Treatment of Reverse Investment

Positions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of the Czech Republic and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are treated as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of the Czech Republic and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity positions are recorded as "Liabilities: Direct Investment in the Czech Republic: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in the Czech Republic: Other Capital: Claims on Direct Investors". However, there have been no such instances to date.

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of the Czech Republic of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, as these activities cannot be identified from the present data sources. However, these activities are considered to be negligible.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established abroad by residents of the Czech Republic at present.

Treatment of Special Purpose Entities (SPEs)

Not applicable. There are no SPEs established abroad by residents of the Czech Republic at present.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises resident in the Czech Republic. Contrary to the international standards, ownership of land and buildings abroad by individuals resident in the Czech Republic is not included in the direct investment data as this ownership cannot be identified from the present data sources. Land and buildings owned abroad by enterprises and individuals resident in the Czech Republic on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, expenditure related to natural resources exploration abroad by residents of the Czech Republic is included in the equity capital data. Contrary to the international standards, (i) expenditure on bonus payments made by residents of the Czech Republic to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (ii) in instances of the shutdown of a direct investment enterprise established abroad by residents of the Czech Republic for natural resource exploration, an adjustment to reflect that shutdown is not made to the assets data on direct investment equity capital in the international investment position statistics, as this information is not available from the present data sources.

Valuation of Assets and Liabilities

The data on equity capital for both listed and unlisted enterprises are recorded at book values, which are the "Own Funds Book Values" (OFBV), which is defined in accordance with the *Guidelines of the ECB on the Statistical Reporting Requirements in the Field of BOP and IIP Statistics*, as (i) paid-up capital (excluding own shares and including share premium accounts), (ii) all types of reserves (including investment grants when accounting guidelines consider them to be company reserves, and (iii) non-distributed profits, net of losses (including the results for the current year).

The data on other capital are recorded at book values, which are the value of the loan minus repayments.

The book values used are those shown in the accounting records of the nonresident direct investment enterprises, rather than the resident direct investors.

Exchange Rate Conversion

Most positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate. Some positions are converted at the exchange rate prevailing on the day the stocks were acquired.