

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.

## **Estonia:**

### **Direct Investment Compilation Practices, Data Sources and Methodology**

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#### **Direct Investment in Estonia**

- **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 ESTONIA

### BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data are compiled by the Bank of Estonia 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 with a timeliness of 12 weeks after the end of the reference period on the BE website <http://www.bankofestonia.info> under the statistical indicators section (on the page for quarterly balance of payments, long version). The data are also reported to the IMF for publication.

In addition, monthly data showing total inward direct investment financial flows are compiled and disseminated with a timeliness of 30 working days after the end of the reference period on the same website. There are plans to begin to disseminate a more detailed breakdown of the monthly direct investment data by the end of 2004.

##### Revision Practices

The data are preliminary when first released. The quarterly data for the current year are revised each quarter to take account of revised source data and are disseminated quarterly together with the preliminary data for the latest quarter. Revised annual data (the sum of the revised quarterly data for the previous year) are disseminated together with the preliminary data for the first quarter of the following year. At this time the quarterly data are considered to be final, that is, up to 12 months after their first release. However, in exceptional cases, further revisions can be made after the data have been deemed to be final.

The general public are informed of the reasons for the revisions through a press release. The revised status of the data is clearly identified in the disseminated data. The historical data are revised as far back as relevant in instances of major changes in methodology or data collection systems. The public are also informed of major changes in methodology or data collection systems through a press release.

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

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data are collected primarily on an aggregate basis, but data collected on an individual transactions basis are used as a secondary source. The reporting requirements are compulsory.

## **Data Sources**

The data for all components are compiled primarily from quarterly enterprise surveys of resident enterprises. An international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions, is used as a secondary data source. Other data sources include (i) the banking statistics database of the Bank of Estonia, (ii) information from the business register on changes in officially registered equity capital, (iii) information from the register of the Central Register of Securities, and (iv) estimations. Press reports, bilateral sources, and the published reports of resident companies are also used for cross-checking the data.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF 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 Balance of Payments and Economic Statistics Department of the Bank of Estonia and is updated on an ongoing basis using information from (i) other statistical collection forms, (ii) registers maintained by the corporate affairs authorities, the stock exchange authorities, and other departments within the Bank of Estonia, (iii) the financial press, and (iv) the Central Business register, which provides basic information including the foreign equity ownership of companies. The same business register is used to compile the inward direct investment transactions and position data, but a different register is used for 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 Bank of Estonia and disseminated quarterly with a timeliness of 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the statistical indicators section. Quarterly data showing breakdowns by country for the direct investment income data have been compiled by the Bank of Estonia since 2003 and are available on request, subject to confidentiality constraints. However, there are plans to begin to disseminate these data beginning in 2004. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to Eurostat on a regular basis. The data cover all countries and bilateral data are used on an irregular basis in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data compiled from the primary data source, namely the quarterly enterprise survey. However, when data from the ITRS are used in the compilation, the transactor principle is used. The five countries with the largest amount of direct investment income from investment in Estonia during 2003 (ranked in descending order) were: Finland, Sweden, the Netherlands, the United States, and Russia. The five countries with the largest amount of direct investment financial flows into Estonia during 2003 (ranked in descending order) were: Finland, Sweden, the Netherlands, the United Kingdom, and Germany.

In addition to the data showing country breakdowns, quarterly data are compiled by the Bank of Estonia showing breakdowns of both the direct investment income and direct investment financial flows for various regions/economic zones, including: (i) the EU15, (ii) the EMU, (iii) EFTA, (iv) the OECD, (v) NAFTA, (vi) the CIS countries, (vii) the ASEAN countries, and (viii) the OPEC countries. These data are available on request with a timeliness of 12 weeks after the end of the reference period and are also reported to Eurostat on a regular basis.

There are no differences in the data coverage, sources, etc. between the inward transactions data showing geographic breakdowns disseminated in the national publications 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 direct investment financial flows are compiled by the Bank of Estonia and are disseminated quarterly with a timeliness of 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the statistical indicators section. Quarterly data showing breakdowns by industrial activity for the direct investment income data have been compiled by the Bank of Estonia since 2003 and are available on request, subject to confidentiality constraints. However, there are plans to begin to disseminate these data beginning in 2004. The data showing breakdowns

by industrial activity for both the direct investment financial flows and direct investment income are also reported to Eurostat on a regular basis.

The data show a breakdown for 17 industrial activities. The classification used 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 Estonia during 2003 (in descending order) were: (i) manufacturing, (ii) financial intermediation, (iii) transport, storage, and communications, (iv) wholesale and retail trade, and (v) real estate, leasing, and business services. The five industrial activities with the largest amount of direct investment financial flows into Estonia during 2003 (in descending order) were: (i) wholesale and retail trade, (ii) manufacturing, (iii) real estate, leasing, and business services, (iv) financial intermediation, and (v) transport, storage and communications.

Quarterly data are disseminated by the Bank of Estonia in the annual *Balance of Payments Yearbook* 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 with a timeliness of 9 months after the end of the reference period. 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: Finland, Sweden, the Netherlands, the United States, and Russia. 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: Finland, Sweden, the Netherlands, the United Kingdom, and Germany.

In addition, data compiled by the Bank of Estonia 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 are available on request with a timeliness of 12 weeks after the end of the reference period.

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 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 Estonia**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Estonia 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 fully applied. Specifically, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, and (ii) 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. Although it is not considered to be a significant problem, it is possible that some reporting enterprises lack complete information on the activities of related enterprises.

Enterprises in Estonia 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, interest receivable/payable is included. Contrary to the COPC, (i) deductions are not made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are included, and (iii) debt repayments receivable/payable are not excluded.

There are plans to develop in the second half of 2004 a ratio of (i) earnings compiled using the COPC method against (ii) earnings compiled using the all inclusive method, for future use in deriving an approximation of the COPC to measure direct investment earnings.

### **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. In accordance with the international standards, (i) dividends and distributed branch profits are recorded gross of any withholding taxes, (ii) 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 (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. In accordance with the international standards, most dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are declared payable. However, dividends and distributed branch profits of a small number of reporters, involving negligible amounts, are recorded on the date they are paid, rather than 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. 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, income on a small number of reporters, involving negligible amounts, 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, non-participating preference [preferred] shares are classified under equity capital, rather than under other capital. However, these shares rarely occur.

#### **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. 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, (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) the data include transactions associated with permanent debt between affiliated financial intermediaries and, since 2003, between affiliated banks. (Permanent debt is defined as subordinated loans.) Contrary to the international standards, the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital when they occur.

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 Estonia: Other Capital: Increase in Liabilities to Direct Investors" at the time the guarantee is invoked.

#### **Treatment of Reverse Investment**

Reverse investment involving equity transactions is not applicable, as the acquisition of equity by a direct investment enterprise in its direct investors is not permitted by law in Estonia except in specific cases, and generally a subsidiary cannot have an equity participation in its parent company. The situation of the direct investment enterprise owning at least 10 percent of its nonresident direct investor, and thereby establishing a direct investment relationship in its own right, therefore does not arise.

Loan transactions involving reverse investment are treated in accordance with the international standards in the applicable situations. Assuming that the direct investment enterprise is a resident of Estonia and the direct investor is a nonresident, when the direct investment enterprise lends to its nonresident direct investor, loan transactions are recorded in accordance with the international standards as "Direct Investment in Estonia: Other Capital: Increase in Claims on Direct Investors" and are reported as such to the IMF.

#### **Treatment of Quasi-corporations**

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation of construction enterprises in Estonia by nonresidents. Quasi-corporations arising from the operation in Estonia by nonresidents of mobile equipment, such as ships, aircraft, and drilling rigs, are not applicable as such activities have not occurred to date.

#### **Treatment of Offshore Enterprises**

Not applicable. Offshore enterprises cannot be established in Estonia by nonresidents.

#### **Treatment of Special Purpose Entities (SPEs)**

In accordance with the international standards, (i) activities of SPEs established in Estonia by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Estonia by nonresidents that have the primary purpose of financial intermediation, transactions with affiliated banks and

affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

**Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in Estonia by nonresident enterprises and nonresident individuals. However, the coverage of the data is considered to be poor as transactions are recorded only if they are settled through a domestic bank. Land and buildings purchased in Estonia by nonresident enterprises and nonresident individuals on long-term leases are included, as no distinction is made between the type of financing used for the acquisition.

**Treatment of Natural Resources Exploration**

Not applicable. Expenditure related to natural resources exploration in Estonia by nonresidents has not occurred to date.

**Exchange Rate Conversion**

All transactions, with the exception of some equity capital transactions, are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Data for some equity capital transactions, which are obtained from the Central Register of Securities, are converted at the average exchange rate for the period.

## DIRECT INVESTMENT IN ESTONIA

### INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data are compiled by the Bank of Estonia 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 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the statistical indicators section (on the page for the quarterly IIP, long version). The data are also reported to the IMF for publication.

##### Revision Practices

The data are preliminary when first released. The quarterly data for the current year are revised each quarter to take account of revised source data and are disseminated quarterly together with the preliminary data for the latest quarter. Revised annual data (the sum of the revised quarterly data for the previous year) are disseminated together with the preliminary data for the first quarter of the following year. At this time the quarterly data are considered to be final, that is, up to 12 months after their first release. However, in exceptional cases, further revisions can be made after the data have been deemed to be final.

The general public are informed of the reasons for the revisions through a press release. The revised status of the data is clearly identified in the disseminated data. The historical data are revised as far back as relevant in instances of major changes in methodology or data collection systems. The public are also informed of major changes in methodology or data collection systems through a press release.

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

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data are collected primarily on an aggregate basis, but data collected on an individual transactions basis are used as a secondary source. The reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of resident enterprises. Secondary data sources are (i) the banking statistics database of the Bank of Estonia, (ii) information from the business register on changes in officially registered equity capital, (iii) information from the register of the Central Register of Securities, and (iv) estimations. Press reports and, for a small number of positions, an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions, are used as additional data sources. Bilateral sources and the published reports of resident companies are also used for cross-checking the data. The perpetual inventory method (a method for deriving position data from transactions data) is used for the data obtained from the ITRS. No adjustments are made for price changes, exchange rate changes, and other nontransaction changes, given the negligible amount of the positions that are derived using the perpetual inventory method.



There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF 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 Balance of Payments and Economic Statistics Department of the Bank of Estonia and is updated on an ongoing basis using information from (i) other statistical collection forms, (ii) registers maintained by the corporate affairs authorities, the stock exchange authorities, and other departments within the Bank of Estonia, (iii) the financial press, and (iv) the Central Business register, which provides basic information including the foreign equity ownership of companies. The same business register is used to compile the inward direct investment transactions and position data, but a different register is used for the outward direct investment transactions and position data.

### **Geographic Classification**

Quarterly data showing breakdowns by country are compiled by the Bank of Estonia for the inward direct investment position data. These data cover all countries and are disseminated quarterly with a timeliness of 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the section on statistical indicators. The data showing country breakdowns are also reported to Eurostat on a regular basis. Bilateral data are used on an irregular basis in the compilation of the data.

In accordance with the international standards, the data are compiled on an "immediate country" basis. (Data compiled on an "ultimate country" basis are also compiled but not disseminated, although they are available on request.) The five countries with the largest amount of direct investment in Estonia as at the end of 2003 (ranked in descending order) were: Sweden, Finland, the United States, the Netherlands, and Norway.

In addition to the data showing country breakdowns, quarterly data are compiled by the Bank of Estonia showing breakdowns for various regions/economic zones, including: (i) the EU15, (ii) the EMU, (iii) EFTA, (iv) the OECD, (v) NAFTA, (vi) the CIS countries, (vii) the ASEAN countries, and (viii) the OPEC countries. These data are available on request with a timeliness of 12 weeks after the end of the reference period and are also reported to Eurostat on a regular basis.

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

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity are compiled by the Bank of Estonia for the inward direct investment position data and are disseminated quarterly with a timeliness of 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the section on statistical indicators. The data show a breakdown for 17 industrial activities, and the classification used broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). The data showing breakdowns by industrial activity are also reported to Eurostat on a regular basis.

The 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 Estonia as at the end of 2003 (in descending order) were: (i) financial intermediation, (ii) transport, storage, and communications, (iii) manufacturing, (iv) wholesale and retail trade, and (v) real estate, leasing, and business services.

Quarterly data are disseminated by the Bank of Estonia in the annual *Balance of Payments Yearbook* showing a breakdown by both industrial activity and main partner country. These data are disseminated with a timeliness of 9 months after the end of the reference period. The five highest ranking partner countries as at the end of 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Sweden, Finland, the United States, the Netherlands, and Norway.

In addition, data compiled by the Bank of Estonia showing a breakdown by both industrial activity and region/economic zone are available on request with a timeliness of 12 weeks after the end of the reference period.

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 the aggregate inward position data reported to the IMF for publication.

## **B. Methodology**

### **Definition of Direct Investment Enterprises in Estonia**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Estonia 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 fully applied. Specifically, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. Although it is not considered to be a significant problem, it is possible that some reporting enterprises lack complete information on the activities of related enterprises.

Enterprises in Estonia 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. 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, non-participating preference shares are classified as equity capital, rather than other capital. However, these positions rarely occur.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings are recorded in the period in which they are earned, (ii) 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, (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 Estonia.)

### **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. 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, (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) the data include positions associated with permanent debt between affiliated financial intermediaries and, since 2003, between affiliated banks. (Permanent debt is defined as subordinated loans.) Contrary to the international standards, the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital when they occur.

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 Estonia: Other Capital: Liabilities to Direct Investors" at the time the guarantee is invoked.

### **Treatment of Reverse Investment**

Reverse investment involving equity positions is not applicable, as the acquisition of equity by a direct investment enterprise in its direct investors is not permitted by law in Estonia except in specific cases, and generally a subsidiary cannot have an equity participation in its parent company. The situation of the direct investment enterprise owning at least 10 percent of its nonresident direct investor, and thereby establishing a direct investment relationship in its own right, therefore does not arise.

Loan positions involving reverse investment are treated in accordance with the international standards in the applicable situations. Assuming that the direct investment enterprise is a resident of Estonia and the direct investor is a nonresident, when the direct investment enterprise lends to its nonresident direct investor, loan positions are recorded in accordance with the international standards as "Liabilities: Direct Investment in Estonia: Other Capital: Claims on Direct Investors" and are reported as such to the IMF.

### **Treatment of Quasi-corporations**

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation of construction enterprises in Estonia by nonresidents. Quasi-corporations arising from the operation in Estonia by nonresidents of mobile equipment, such as ships, aircraft, and drilling rigs, are not applicable as such activities have not occurred to date.

### **Treatment of Offshore Enterprises**

Not applicable. Offshore enterprises cannot be established in Estonia by nonresidents.

### **Treatment of Special Purpose Entities (SPEs)**

In accordance with the international standards, (i) activities of SPEs established in Estonia by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Estonia by nonresidents that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

### **Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include ownership of land and buildings in Estonia by nonresident enterprises and nonresident individuals. However, the coverage of the data is considered to be poor as the position data are derived from the transaction data using the perpetual inventory method, and transactions are recorded only if they are settled through a domestic bank. Land and buildings owned in Estonia

by nonresident enterprises and nonresident individuals on long-term leases are included, as no distinction is made between the type of financing used for the acquisition.

#### **Treatment of Natural Resources Exploration**

Not applicable. Expenditure related to natural resources exploration in Estonia by nonresidents has not occurred to date.

#### **Valuation of Assets and Liabilities**

The data on equity capital for listed enterprises are recorded at market values. However, the data on equity capital for unlisted enterprises are recorded primarily at the so-called "accounting value" or net asset value, which is defined as the nominal capital, plus agio, plus reserves, plus retained earnings. ("Agio" is defined as the difference between the value of the paid up capital and the nominal value in the case of the primary issuance of shares.) However, in some instances, when the value of the last transaction is known, the estimated market value is used.

The data on other capital are recorded primarily at market values. However, some are recorded at book values, which in the case of assets are the fair values, and in the case of liabilities are the nominal values.

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. The exchange rate prevailing on the date the stocks were acquired is used only in the small number of cases when the position data are derived using the perpetual inventory method, such as the ownership by private individuals of land and buildings.

## DIRECT INVESTMENT ABROAD

### BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data are compiled by the Bank of Estonia (BE) 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 with a timeliness of 12 weeks after the end of the reference period on the BE website <http://www.bankofestonia.info> under the statistical indicators section (on the page for quarterly balance of payments, long version). The data are also reported to the IMF for publication.

In addition, monthly data showing total outward direct investment financial flows are compiled and disseminated with a timeliness of 30 working days after the end of the reference period on the same website. There are plans to begin to disseminate a more detailed breakdown of the monthly direct investment data by the end of 2004.

##### Revision Practices

The data are preliminary when first released. The quarterly data for the current year are revised each quarter to take account of revised source data and are disseminated quarterly together with the preliminary data for the latest quarter. Revised annual data (the sum of the revised quarterly data for the previous year) are disseminated together with the preliminary data for the first quarter of the following year. At this time the quarterly data are considered to be final, that is, up to 12 months after their first release. However, in exceptional cases, further revisions can be made after the data have been deemed to be final.

The general public are informed of the reasons for the revisions through a press release. The revised status of the data is clearly identified in the disseminated data. The historical data are revised as far back as relevant in instances of major changes in methodology or data collection systems. The public are also informed of major changes in methodology or data collection systems through a press release.

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

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data are collected primarily on an aggregate basis, but data collected on an individual transactions basis are used as a secondary source. The reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of direct investors resident in Estonia. An international transactions reporting system (ITRS), which covers cash transaction made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions, is used as a secondary data source. Other data sources are (i) the banking statistics database of the Bank of Estonia, (ii) the Register of the Central Register of Securities, and (iii) estimations. Press reports, and bilateral sources are also used for cross-checking the data.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF 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 Balance of Payments and Economic Statistics Department of the Bank of Estonia and is updated on an ongoing basis using information from (i) the international trade system's list of exporters, (ii) the ITRS's list of transactors, (iii) other statistical collection forms, (iv) registers maintained by the corporate affairs authorities, the stock exchange authorities, and other departments within the Bank of Estonia, (v) the financial press, and (vi) the Central Business register, which provides basic information including the information for the companies' annual reports. The same business register is used to compile the outward direct investment transactions and position data, but a different register is used for 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 Bank of Estonia and disseminated quarterly with a timeliness of 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the statistical indicators section. Quarterly data showing breakdowns by country for the direct investment income data have been compiled by the Bank of Estonia since 2003 and are available on request, subject to confidentiality constraints. However, there are plans to begin to disseminate these data beginning in 2004. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to Eurostat on a regular basis. The data cover all countries and bilateral data are used on an irregular basis in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data compiled from the primary data source, namely the quarterly enterprise survey. However, when data from the ITRS are used in the compilation, the transactor principle is used. The five countries with the largest amount of direct investment income from investment abroad by residents of Estonia during 2003 (ranked in descending order) were: Latvia, Cyprus, Lithuania, the British Virgin Islands, and Finland. The five countries with the largest amount of direct investment financial flows from Estonia during 2003 (ranked in descending order) were: Lithuania, Latvia, Cyprus, the Ukraine, and Finland.

In addition to the data showing country breakdowns, quarterly data are compiled by the Bank of Estonia showing breakdowns of both the direct investment income and direct investment financial flows for various regions/economic zones, including: (i) the EU15, (ii) the EMU, (iii) EFTA, (iv) the OECD, (v) NAFTA, (vi) the CIS countries, (vii) the ASEAN countries, and (viii) the OPEC countries. These data are available on request with a timeliness of 12 weeks after the end of the reference period and are also reported to Eurostat on a regular basis.

There are no differences in the data coverage, sources, etc. between the outward transactions data showing geographic breakdowns disseminated in the national publications 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 Bank of Estonia and disseminated quarterly with a timeliness of 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the statistical indicators section. Quarterly data showing breakdowns by country for the direct investment income data have been compiled by the Bank of Estonia since 2003 and are available on request, subject to confidentiality constraints. However, there are plans to begin to disseminate these data beginning in 2004. The data show a breakdown for 17 industrial activities. The classification used broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). The data showing industrial activity breakdowns for both the direct investment financial flows and direct investment income are also reported to Eurostat on a regular basis.

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 Estonia during 2003 (in descending order) were: (i) financial intermediation, (ii) transport, storage, and communication, (iii) wholesale and retail trade, (iv) real estate, leasing, and business services, and (v) construction. The five industrial activities with the largest

amount of direct investment financial flows from Estonia during 2003 (in descending order) were: (i) financial intermediation, (transport, storage and communications, (iii) wholesale and retail trade, (iv) real estate, leasing and business services, and (v) manufacturing.

Quarterly data are disseminated by the Bank of Estonia in the annual *Balance of Payments Yearbook* 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 with a timeliness of 9 months after the end of the reference period. 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: Latvia, Cyprus, Lithuania, the British Virgin Islands, and Finland. 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: Lithuania, Latvia, Cyprus, the Ukraine, and Finland.

In addition, data compiled by the Bank of Estonia 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 are available on request with a timeliness of 12 weeks after the end of the reference period.

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 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 fully applied. Specifically, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, and (ii) 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. Although it is not considered to be a significant problem, it is possible that some reporting enterprises lack complete information on the activities of related enterprises.

Enterprises in Estonia 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, interest receivable/payable is included. Contrary to the COPC, (i) deductions are not made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are included, and (iii) debt repayments receivable/payable are not excluded.

There are plans to develop in the second half of 2004 a ratio of (i) earnings compiled using the COPC method against (ii) earnings compiled using the all inclusive method, for future use in deriving an approximation of the COPC to measure direct investment earnings.

#### **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. In accordance with the international standards, (i) dividends and distributed branch profits are recorded gross of any withholding taxes, (ii) 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 (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. In accordance with the international standards, most dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are declared payable. However, dividends and distributed branch profits of a small number of reporters, involving negligible amounts, are recorded on the date they are paid.

#### **Treatment of Reinvested Earnings and Undistributed Branch Profits**

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) 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, (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) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. Contrary to the international standards, reinvested earnings and undistributed branch profits are not recorded in the period in which they are earned, but in the last quarter of the financial year of the individual enterprises. There are plans to introduce an estimation method in the future in order to begin recording the data in the period in which they were earned, as recommended in the international standards.

#### **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, income on a small number of reporters, involving negligible amounts, 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, non-participating preference [preferred] shares are classified under equity capital, rather than under other capital. However, these shares rarely occur.



### **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. 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, (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) the data include transactions associated with permanent debt between affiliated financial intermediaries and, since 2003, between affiliated banks. (Permanent debt is defined as subordinated loans.) Contrary to the international standards, the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital when they occur.

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**

Reverse investment involving equity transactions is not applicable, as the acquisition of equity by a direct investment enterprise in its direct investors is not permitted by law in Estonia except in specific cases, and generally a subsidiary cannot have an equity participation in its parent company. The situation of the direct investment enterprise owning at least 10 percent of its nonresident direct investor, and thereby establishing a direct investment relationship in its own right, therefore does not arise.

Loan transactions involving reverse investment are treated in accordance with the international standards in the applicable situations. Assuming that the direct investment enterprise is a resident of Estonia and the direct investor is a nonresident, when the direct investment enterprise lends to its nonresident direct investor, loan transactions are recorded in accordance with the international standards as "Direct Investment in Estonia: Other Capital: Increase in Claims on Direct Investors" and are reported as such to the IMF.

### **Treatment of Quasi-corporations**

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation abroad of construction enterprises by residents of Estonia. Quasi-corporations arising from the operation abroad of mobile equipment, such as ships, aircraft, and drilling rigs, by residents of Estonia are not applicable as such activities have not occurred to date.

### **Treatment of Offshore Enterprises**

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Estonia are included in the direct investment data.

### **Treatment of Special Purpose Entities (SPEs)**

In accordance with the international standards, in principle (i) activities of SPEs established abroad by residents of Estonia are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Estonia that have the primary purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt. However, in practice no instances of such SPEs have been identified to date.

### **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 and individuals resident in Estonia. However, the coverage of the data on purchases and sales by resident individuals is considered to be poor as the transactions are recorded only if they

are settled through a domestic bank. Land and buildings purchased abroad by enterprises and individuals resident in Estonia on long-term leases are included, as no distinction is made between the type of financing used for the acquisition.

**Treatment of Natural Resources Exploration**

Not applicable. Expenditure related to natural resources exploration abroad by residents of Estonia has not occurred to date.

**Exchange Rate Conversion**

All transactions are converted to the unit of account 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 are compiled by the Bank of Estonia 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 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the statistical indicators section (on the page for the quarterly IIP, long version). The data are also reported to the IMF for publication.

##### Revision Practices

The data are preliminary when first released. The quarterly data for the current year are revised each quarter to take account of revised source data and are disseminated quarterly together with the preliminary data for the latest quarter. Revised annual data (the sum of the revised quarterly data for the previous year) are disseminated together with the preliminary data for the first quarter of the following year. At this time the quarterly data are considered to be final, that is, up to 12 months after their first release. However, in exceptional cases, further revisions can be made after the data have been deemed to be final.

The general public are informed of the reasons for the revisions through a press release. The revised status of the data is clearly identified in the disseminated data. The historical data are revised as far back as relevant in instances of major changes in methodology or data collection systems. The public are also informed of major changes in methodology or data collection systems through a press release.

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

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data are collected primarily on an aggregate basis, but data collected on an individual transactions basis are used as a secondary source. The reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of direct investors resident in Estonia. Secondary data sources are the banking statistics database of the Bank of Estonia, and estimations. Press reports and, for a small number of positions, an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions, are used as additional data sources. Bilateral sources and the published reports of resident companies are used also for cross-checking the data. The perpetual inventory method (a method for deriving position data from transactions data) is used for the data obtained from the ITRS. No adjustments are made for price changes, exchange rate changes, and other nontransaction changes, given the negligible amount of the positions that are derived using the perpetual inventory method.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF 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 Balance of Payments and Economic Statistics Department of the Bank of Estonia and is updated on an ongoing basis using information from (i) the international trade system's list of exporters, (ii) the ITRS's list of transactors, (iii) other statistical collection forms, (iv) registers maintained by the corporate affairs authorities, the stock exchange authorities, and other departments within the Bank of Estonia, (v) the financial press, and (vi) the Central Business register, which provides basic information including the information for the companies' annual reports. The same business register is used to compile the outward direct investment transactions and position data, but a different register is used for the inward direct investment transactions and position data.

### **Geographic Classification**

Quarterly data showing breakdowns by country are compiled by the Bank of Estonia for the outward direct investment position data. These data cover all countries and are disseminated quarterly with a timeliness of 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the statistical indicators section. The data showing country breakdowns are also reported to Eurostat on a regular basis. Bilateral data are used on an irregular basis in the compilation of the data.

In accordance with the international standards, the data are compiled on an "immediate country" basis. (Data on an "ultimate country" basis are also compiled but not disseminated, although they are available on request.) The five countries with the largest amount of direct investment from Estonia as at the end of 2003 (ranked in descending order) were: Lithuania, Latvia, Cyprus, Italy, and Russia.

In addition to the data showing country breakdowns, quarterly data are compiled by the Bank of Estonia showing breakdowns for various regions/economic zones, including: (i) the EU15, (ii) the EMU, (iii) EFTA, (iv) the OECD, (v) NAFTA, (vi) the CIS countries, (vii) the ASEAN countries, and (viii) the OPEC countries. These data are available on request with a timeliness of 12 weeks after the end of the reference period and are also reported to Eurostat on a regular basis.

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

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity are compiled by the Bank of Estonia for the outward direct investment position data and are disseminated quarterly with a timeliness of 12 weeks after the end of the reference period on the Bank of Estonia website <http://www.bankofestonia.info> under the statistical indicators section. The data show a breakdown for 17 industrial activities and the classification used broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). The data showing breakdowns by industrial activity are also reported to Eurostat on a regular basis.

The 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 Estonia as at the end of 2003 (in descending order) were: (i) financial intermediation, (ii) transport, storage, and communication, (iii) real estate, leasing, and business services, (iv) manufacturing, and (v) wholesale and retail trade.

Quarterly data are disseminated by the Bank of Estonia in the annual *Balance of Payments Yearbook* showing a breakdown by both industrial activity and main partner country. These data are disseminated with a timeliness of 9 months after the end of the reference period. The five highest ranking partner countries as at the end of 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Lithuania, Latvia, Cyprus, Italy, and Russia.

In addition, data compiled by the Bank of Estonia showing a breakdown by both industrial activity and region/economic zone are available on request with a timeliness of 12 weeks after the end of the reference period.

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 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 fully applied. Specifically, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. Although it is not considered to be a significant problem, it is possible that some reporting enterprises lack complete information on the activities of related enterprises.

Enterprises in Estonia 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. 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, non-participating preference shares are classified as equity capital, rather than other capital. However, these positions rarely occur.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. 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, (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) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. Contrary to the international standards, reinvested earnings are not recorded in the period in which they are earned, but in the last quarter of the financial year of the individual enterprises. There are plans to introduce an estimation method in the future in order to begin recording the data in the period in which they were earned, as recommended in the international standards. (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. 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, (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) the data include positions associated with permanent debt between affiliated financial intermediaries and, since 2003, between affiliated banks. (Permanent debt is defined as subordinated loans.) Contrary to the international standards, the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital when they occur.

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**

Reverse investment involving equity positions is not applicable, as the acquisition of equity by a direct investment enterprise in its direct investors is not permitted by law in Estonia except in specific cases, and generally a subsidiary cannot have an equity participation in its parent company. The situation of the direct investment enterprise owning at least 10 percent of its nonresident direct investor, and thereby establishing a direct investment relationship in its own right, therefore does not arise.

Loan positions involving reverse investment are treated in accordance with the international standards in the applicable situations. Assuming that the direct investment enterprise is a resident of Estonia and the direct investor is a nonresident, when the direct investment enterprise lends to its nonresident direct investor, loan positions are recorded in accordance with the international standards as "Liabilities: Direct Investment in Estonia: Other Capital: Claims on Direct Investors" and are reported as such to the IMF.

### **Treatment of Quasi-corporations**

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation abroad of construction enterprises by residents of Estonia. Quasi-corporations arising from the operation abroad of mobile equipment, such as ships, aircraft, and drilling rigs, by residents of Estonia are not applicable as such activities have not occurred to date.

### **Treatment of Offshore Enterprises**

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Estonia are included in the direct investment data.

### **Treatment of Special Purpose Entities (SPEs)**

In accordance with the international standards, in principle (i) activities of SPEs established abroad by residents of Estonia are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Estonia that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt. However, in practice no instances of such SPEs have been identified to date.

### **Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises and individuals resident in Estonia. However, the coverage of the data on purchases and sales by resident individuals is considered to be poor as the position data are derived from the transaction data

using the perpetual inventory method, and transactions are recorded only if they are settled through a domestic bank. Land and buildings owned abroad by enterprises and individuals resident in Estonia on long-term leases are included, as no distinction is made between the type of financing used for the acquisition.

#### **Treatment of Natural Resources Exploration**

Not applicable. Expenditure related to natural resources exploration abroad by residents of Estonia has not occurred to date.

#### **Valuation of Assets and Liabilities**

The data on equity capital for listed enterprises are recorded at market values. However, the data on equity capital for unlisted enterprises are recorded primarily at book values, which in accordance with the Estonia Accounting Law is the historical cost adjusted for income calculated using the equity method. However, in some instances, the data on equity capital for unlisted enterprises are recorded at market values, which are primarily the net asset value (i.e. total assets less non-equity liabilities), with recent transaction prices being used as a secondary method of measuring the market value.

The data on other capital are recorded primarily at market values. However, some are recorded at book values, which in the case of assets are the fair values, and in the case of liabilities are the nominal values.

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

#### **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. The exchange rate prevailing on the date the stocks were acquired is used only in the small number of cases when the position data are derived using the perpetual inventory method, such as the ownership by private individuals of land and buildings.