

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.

Croatia:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in Croatia

- **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 CROATIA

BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Croatian National Bank (HNB) 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 3 months after the end of the reference period in the *Croatian National Bank Bulletin* and on the HNB website (www.hnb.hr). 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 revisions to the sample survey and are disseminated quarterly together with the preliminary data for the latest quarter. The data are considered to be final 9 months after their first release.

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. The historical data are not revised in instances of major changes in methodology or data collection systems.

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 for equity capital, dividends, and reinvested earnings are collected on an aggregate basis, while the data on other capital and income on debt are collected on an individual transactions basis. The reporting requirements are compulsory.

Data Sources

The data for dividends, reinvested earnings, and equity capital are compiled from quarterly enterprise surveys of resident enterprises. The data for income on debt (interest) and other capital are compiled from a debt register.

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 HNB and is updated on an ongoing basis using information from (i) an international transactions reporting system (ITRS), (ii) registers maintained by government licensing and regulatory authorities, industry associations, and other departments within the HNB, (iii) a debt register, (iv) the financial press, and (v) the Central Depository Agency. There are plans to use the bilateral data of selected partner countries as a source for updating the register in the future. 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 HNB and disseminated quarterly with a timeliness of 3 months after the end of the reference period on the HNB website www.hnb.hr. Quarterly data showing breakdowns by country for the direct investment income data are compiled by the HNB with a timeliness of 3 months after the end of the reference period. These data are not disseminated, but are available on request. The data cover all countries and bilateral data are 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 Croatia during the first three quarters of 2003 (ranked in descending order) were: the United States, Germany, Austria, Italy, and Luxembourg. The five countries with the largest amount of direct investment financial flows into Croatia during the first three quarters of 2003 (ranked in descending order) were: Austria, the United States, Germany, the Netherlands, and Slovenia.

In addition to the data showing country breakdowns, quarterly data are compiled by the HNB showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) European developed countries, (ii) other developed countries, (iii) European developing countries, (iv) other developing countries, and (v) international financial institutions. The data on direct investment financial flows are disseminated quarterly with a timeliness of 3 months after the end of the reference period in the *Croatian National Bank Bulletin* and on the HNB website www.hnb.hr. The data on direct investment income are not disseminated but are available on request with a timeliness of 3 months after the end of the reference period. In addition, quarterly data are compiled by the HNB showing breakdowns of both the direct investment income and direct investment financial flows for (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 3 months after the end of the reference period.

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 HNB and are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the HNB website www.hnb.hr. Quarterly data showing breakdowns by industrial activity for the direct investment income data are compiled by the HNB with a timeliness of 3 months after the end of the reference period. These data are not disseminated, but are available on request. The data show a breakdown for 503 industrial activities. The classification used is the 4-digit level of the *National Classification of Activities*, 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 Croatia during the first three quarters of 2003 (ranked in descending order) were: (i) manufacturing of chemicals and chemical products, (ii) post and telecommunications, (iii) financial intermediation, (iv) manufacturing of food products and beverages, and (v) manufacturing of other non-metallic mineral products. The five industrial activities with the largest amount of direct investment financial flows into Croatia during the first three quarters of 2003 (in descending order) were: (i) other retail sales in non-specialized stores, (ii) other monetary intermediation, (iii) other wholesale trade, (iv) hotels and motels with restaurants, and (v) business and management consulting activities.

Quarterly data are compiled by the HNB 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 not disseminated, but are available on request with a timeliness of 3 months after the end of the reference period. For direct investment income, the five highest ranking partner countries during the first three quarters of 2003 (ranked in descending order) for which breakdowns by industrial activity are available on request were: the United States, Germany, Austria, Italy, and Luxembourg. For direct investment financial flows, the five highest ranking partner countries during the first three quarters of 2003 (ranked in descending order) for which

breakdowns by industrial activity are available on request were: Austria, the United States, Germany, the Netherlands, and Slovenia.

In addition, data compiled by the HNB 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 3 months 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 Croatia

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Croatia 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. 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.

Enterprises in Croatia are required not by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) identify all transactions with the parent company. However, the Securities Commission requires companies listed on the stocks exchange to prepare consolidated accounts.

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 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.

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

The data on dividends and distributed branch profits cover incorporated enterprises, but not unincorporated enterprises. Contrary to the international standards, (i) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes, and (ii) dividends and distributed branch profits 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, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, (i) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (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, 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. Contrary to the international standards, the reinvested earnings and undistributed branch profits are not recorded in the period in which they are earned, but instead in the month in which the decision on the distribution of profits is made.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover incorporated enterprises, but not unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) long-term trade credits, and (v) financial leases. The data do not include interest on short-term trade credits, which is instead classified under Other Investment income in the balance of payments statistics. 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) the data are recorded on 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 shares, and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover other non-voting stocks (shares). 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.

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) long-term trade credits, and (v) financial leases. The data do not include short-term trade credits, which are instead classified under Other Investment in the balance of payments statistics. 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 non-participating preference [preferred] shares, (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, (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, and (iv) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries (Permanent debt is defined as subordinated loan 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 a direct investment equity injection by the guarantor and classified under "Direct

Investment in Croatia: Equity 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 in all instances.

Assuming that the direct investment enterprise is a resident of Croatia 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 recorded 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 Croatia 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 Croatia: Equity Capital: Increase in Claims on Direct Investors”, and loan transactions are recorded as “Direct Investment in Croatia: Other Capital: Increase in Claims on Direct Investors”, and both are reported as such to the IMF.

Treatment of Quasi-corporations

Not applicable. Quasi-corporations arising from the operation in Croatia by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of off-shore enterprises established in Croatia by nonresidents are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

Not applicable. There are no SPEs established in Croatia by nonresidents at present.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include some purchases and sales of land and buildings in Croatia by nonresident enterprises, namely those made by a nonresident enterprise through an existing resident affiliated enterprise. Contrary to the international standards, the equity capital data do not include purchases and sales of land and buildings in Croatia made directly by nonresident enterprises and purchases and sales of land and buildings in Croatia by nonresident individuals, as these transactions cannot be identified from the present data sources. However, it is expected that these transactions will be able to be identified in the future. Land and buildings purchased in Croatia by nonresidents on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, expenditure related to natural resources exploration in Croatia by nonresidents is included in the equity capital data. Although the data are included only if the expenditure is undertaken by a resident legal entity, this is considered to always be the case. Expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is not applicable, as such expenditure has not occurred to date. In accordance with the international standards, in instances of the shutdown of a direct investment enterprise established in Croatia by nonresidents for natural resource exploration, no transactions are shown in the balance of payments statistics.

Exchange Rate Conversion

For the data compiled in Croatian kuna, all transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. For the data compiled in US dollars or Euro, all transactions are converted to the unit of account at the average exchange rate for the period.

DIRECT INVESTMENT IN CROATIA

INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Croatian National Bank (HNB) 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 in the *Croatian National Bank Bulletin* and on the HNB website (www.hnb.hr). The data are also reported to the IMF for publication. (Prior to 2002, annual data were compiled but not disseminated.)

Revision Practices

The data are preliminary when first released. The quarterly data for the current year are revised each quarter to take account of revisions to the sample survey and are disseminated quarterly together with the preliminary data for the latest quarter. The data are considered to be final 9 months after their first release.

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 are no plans to revise the historical data in instances of major changes in methodology or data collection systems in the near future.

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 for equity capital and reinvested earnings are collected on an aggregate basis, while the data on other capital are collected on an individual transactions basis. The reporting requirements are compulsory.

Data Sources

The data for equity capital and reinvested earnings are compiled from quarterly enterprise surveys of resident enterprises. The data for other capital are compiled from a debt register. The perpetual inventory method (a method for deriving position data from transactions data) is not used.

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 HNB and is updated on an ongoing basis using information from (i) an international transactions reporting system (ITRS), (ii) registers maintained by government licensing and regulatory authorities, industry associations, and other departments within the HNB, (iii) a debt register, (iv) the financial press, and (v) the Central Depository Agency. There are plans to use the bilateral data of selected partner countries as a source for updating the register in the future. 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 of the inward direct investment position data are compiled by the HNB with a timeliness of 3 months after the end of the reference period. These data are not disseminated, but are available on request. The data cover all countries and bilateral data are 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 Croatia as at the end of 2002 were: Austria, Germany, the United States, Italy, and Luxembourg.

Inward position data showing breakdowns by regions/economic zones are not compiled.

There are no differences in the data coverage, sources, etc. between the inward position data showing geographic breakdowns made available on request and the aggregate inward position data reported to the IMF for publication.

Industrial Classification

Not applicable. Data showing industrial activity breakdowns are not compiled for the inward direct investment position data.

B. Methodology

Definition of Direct Investment Enterprises in Croatia

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Croatia 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. 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 not applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, or (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.

Enterprises in Croatia are required not by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) identify all transactions with the parent company. However, the Securities Commission requires companies listed on the stocks exchange to prepare consolidated accounts.

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 shares, and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover other non-voting stocks (shares). 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.

The reinvested earnings data cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, (i) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (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, 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. Contrary to the international standards, the reinvested earnings are not recorded in the period in which they are earned, but instead in the month in which the decision on the distribution of profits is made.

(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 Croatia.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, and (iv) financial leases. The data do not include trade credits. 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 non-participating preference [preferred] shares, (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 the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries (Permanent debt is defined as subordinated loan 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 a direct investment equity injection by the guarantor and classified as "Liabilities: Direct Investment in Croatia: Equity 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 in all instances.

Assuming that the direct investment enterprise is a resident of Croatia 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 recorded 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 Croatia 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 Croatia: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Croatia: Other Capital: Claims on Direct Investors". However, data showing claims on direct investors are not reported to the IMF, but instead, contrary to the international standards, are reported under the data for liabilities to direct investors.

Treatment of Quasi-corporations

Not applicable. Quasi-corporations arising from the operation in Croatia by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of off-shore enterprises established in Croatia by nonresidents are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

Not applicable. There are no SPEs established in Croatia 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 Croatia by nonresident enterprises, namely those originally purchased by a nonresident enterprise through an existing resident affiliated enterprise. Contrary to the international standards, the equity capital data do not include ownership of land and buildings in Croatia that is owned directly by nonresident enterprises and ownership of land and buildings in Croatia by nonresident individuals, as these positions cannot be identified from the present data sources. Land and buildings owned in Croatia by nonresidents on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with the international standards, expenditure related to natural resources exploration in Croatia by nonresidents is included in the equity capital data. Although the data are included only if the expenditure is undertaken by a resident legal entity, this is considered to always be the case. Expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is not applicable, as such expenditure has not occurred to date. Instances of the shutdown of a direct investment enterprise established in Croatia by nonresidents for natural resource exploration are also not applicable, as no such instances have occurred to date.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are reported primarily at book values, which are the values shown in the accounting records of the individual enterprises. (If the data reported by enterprises have not been reported at market prices, this adjustment is made by the HNB using the stock exchange index.) Some data on equity capital for listed enterprises are reported at market values. The data on equity capital for unlisted enterprises are reported at book values, which are the values shown in the accounting records of the individual enterprises. The data are then adjusted by the HNB to market values, using the stock exchange index.

The data on other capital are recorded at book values, which are the values shown in the accounting records of the individual enterprises.

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

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.

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 Croatian National Bank (HNB) 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 3 months after the end of the reference period in the *Croatian National Bank Bulletin* and on the HNB website (www.hnb.hr). 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 revisions to the sample survey and are disseminated quarterly together with the preliminary data for the latest quarter. The data are considered to be final 9 months after their first release.

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. The historical data are not revised in instances of major changes in methodology or data collection systems.

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 for equity capital, dividends, and reinvested earnings are collected on an aggregate basis, while the data on other capital and income on debt are collected on an individual transactions basis. The reporting requirements are compulsory.

Data Sources

The data for dividends, reinvested earnings, and equity capital are compiled from quarterly enterprise surveys of resident direct investors. The data for income on debt (interest) and other capital are compiled from a debt register.

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 HNB and is updated on an ongoing basis using information from (i) an international transactions reporting system (ITRS), (ii) registers maintained by government licensing and regulatory authorities, industry associations, and other departments within the HNB, (iii) a debt register, (iv) the financial press, and (v) the Central Depository Agency. There are plans to use the bilateral data of selected partner countries as a source for updating the register in the future. 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 HNB and disseminated quarterly with a timeliness of 3 months after the end of the reference period on the HNB website www.hnb.hr. Quarterly data showing breakdowns by country for the direct investment income data are compiled by the HNB with a timeliness of 3 months after the end of the reference period. These data are not disseminated, but are available on request. The data cover all countries and bilateral data are 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 Croatia during the first three quarters of 2003 (ranked in descending order) were: Bosnia and Herzegovina, Poland, Hungary, the Czech Republic, and Slovenia. The five countries with the largest amount of direct investment financial flows from Croatia during the first three quarters of 2003 (ranked in descending order) were: Serbia and Montenegro, Bosnia and Herzegovina, Germany, Switzerland, and the United Kingdom.

In addition to the data showing country breakdowns, quarterly data are compiled by the HNB showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) European developed countries, (ii) other developed countries, (iii) European developing countries, (iv) other developing countries, and (v) international financial institutions. The data on direct investment financial flows are disseminated quarterly with a timeliness of 3 months after the end of the reference period in the *Croatian National Bank Bulletin* and on the HNB website www.hnb.hr. The data on direct investment income are not disseminated but are available on request with a timeliness of 3 months after the end of the reference period. In addition, quarterly data are compiled by the HNB showing breakdowns of both the direct investment income and direct investment financial flows for (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 3 months after the end of the reference period.

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 direct investment financial flows are compiled by the HNB and are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the HNB website www.hnb.hr. Quarterly data showing breakdowns by industrial activity for the direct investment income data are compiled by the HNB with a timeliness of 3 months after the end of the reference period. These data are not disseminated, but are available on request. The data show a breakdown for 503 industrial activities. The classification used is the 4-digit level of the *National Classification of Activities*, 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 investors. The five industrial activities with the largest amount of direct investment income from investment abroad by residents of Croatia during the first three quarters of 2003 (ranked in descending order) were: (i) post and telecommunications, (ii) financial intermediation, (iii) manufacturing of chemicals and chemical products, (iv) manufacturing of food products and beverages, and (v) buying and selling of own real estate. The five industrial activities with the largest amount of direct investment financial flows from Croatia during the first three quarters of 2003 (in descending order) were: (i) management activities of holding companies, (ii) manufacturing of cement, (iii) other monetary intermediation, (iv) other services activities not elsewhere classified, and (v) buying and selling of own real estate.

Quarterly data are compiled by the HNB 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 not disseminated, but are available on request with a timeliness of 3 months after the end of the reference period. For direct investment income, the five highest ranking partner countries during the first three quarters of 2003 (ranked in descending order) for which breakdowns by industrial activity are available on request were: Bosnia and Herzegovina, Poland, Hungary, the Czech republic, and Slovenia. For direct investment financial flows, the five highest ranking partner countries during the first three quarters of 2003 (ranked in descending order) for

which breakdowns by industrial activity are available on request were: Serbia and Montenegro, Bosnia and Herzegovina, Germany, Switzerland, and the United Kingdom.

In addition, data compiled by the HNB 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 3 months 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. Unincorporated enterprises are treated differently from incorporated enterprises in that unincorporated enterprises are not included in the direct investment statistics. However, there are plans to begin to include unincorporated enterprises in the near future.

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.

Enterprises in Croatia are required not by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) identify all transactions with the parent company. However, the Securities Commission requires companies listed on the stocks exchange to prepare consolidated accounts.

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 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.

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

The data on dividends and distributed branch profits cover incorporated enterprises, but not unincorporated enterprises. Contrary to the international standards, (i) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes, and (ii) dividends and distributed branch profits 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, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, (i) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (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, 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. Contrary to the international standards, the reinvested earnings and undistributed branch profits are not recorded in the period in which they are earned, but instead in the month in which the decision on the distribution of profits is made.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover incorporated enterprises, but not unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) long-term trade credits, and (v) financial leases. The data do not include interest on short-term trade credits, which is instead classified under Other Investment income in the balance of payments statistics. 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) the data are recorded on 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 shares, and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover other non-voting stocks (shares). 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.

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) long-term trade credits, and (v) financial leases. The data do not include short-term trade credits, which are instead classified under Other Investment in the balance of payments statistics. 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 non-participating preference [preferred] shares, (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, (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, and (iv) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries (Permanent debt is defined as subordinated loan 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 a direct investment

equity injection by the guarantor and classified as “Direct Investment Abroad: Equity 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 in all instances.

Assuming that the direct investment enterprise is a resident of Croatia 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 recorded 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 Croatia 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 Croatia: Equity Capital: Increase in Claims on Direct Investors”, and loan transactions are recorded as “Direct Investment in Croatia: Other Capital: Increase in Claims on Direct Investors”, and both are reported as such to the IMF.

Treatment of Quasi-corporations

Not applicable. Quasi-corporations arising from the operation abroad by residents of Croatia of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date.

Treatment of Offshore Enterprises

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

Treatment of Special Purpose Entities (SPEs)

Not applicable. There are no SPEs established abroad by residents of Croatia at present.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include some purchases and sales of land and buildings abroad by enterprises resident in Croatia, namely those made by a resident enterprise through an existing nonresident affiliated enterprise. Contrary to the international standards, the equity capital data do not include purchases and sales of land and buildings abroad by enterprises resident in Croatia that are made directly by the resident enterprises, and purchases and sales of land and buildings abroad by individuals resident in Croatia, as these transactions cannot be identified from the present data sources. However, it is expected that these transactions will be able to be identified in the future. Land and buildings purchased abroad by residents of Croatia 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 Croatia by nonresidents is included in the equity capital data. Although the data are included only if the expenditure is undertaken by a resident legal entity, this is considered to always be the case. Expenditure on bonus payments made by residents of Croatia to the host country for the right to undertake exploration for natural resources is not applicable, as such expenditure has not occurred to date. In accordance with the international standards, in instances of the shutdown of a direct investment enterprise established abroad by residents of Croatia for natural resource exploration, no transactions are shown in the balance of payments statistics.

Exchange Rate Conversion

For the data compiled in Croatian kuna, all transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. For the data compiled in US dollars or Euro, all transactions are converted to the unit of account at the average exchange rate for the period.

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 Croatian National Bank (HNB) 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 in the *Croatian National Bank Bulletin* and on the HNB website (www.hnb.hr). The data are also reported to the IMF for publication. (Prior to 2002, annual data were compiled but not disseminated.)

Revision Practices

The data are preliminary when first released. The quarterly data for the current year are revised each quarter to take account of revisions to the sample survey and are disseminated quarterly together with the preliminary data for the latest quarter. The data are considered to be final 9 months after their first release.

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 are no plans to revise the historical data in instances of major changes in methodology or data collection systems in the near future.

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 for equity capital and reinvested earnings are collected on an aggregate basis, while the data on other capital are collected on an individual transactions basis. The reporting requirements are compulsory.

Data Sources

The data for equity capital and reinvested earnings are compiled from quarterly enterprise surveys of resident direct investors. The data for other capital are compiled from a debt register. The perpetual inventory method (a method for deriving position data from transactions data) is not used.

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 HNB and is updated on an ongoing basis using information from (i) an international transactions reporting system (ITRS), (ii) registers maintained by government licensing and regulatory authorities, industry associations, and other departments within the HNB, (iii) a debt register, (iv) the financial press, and (v) the Central Depository Agency. There are plans to use the bilateral data of selected partner countries as a source for updating the register in the future. 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 of the outward direct investment position data are compiled by the HNB with a timeliness of 3 months after the end of the reference period. These data are not disseminated, but are available on request. The data cover all countries and bilateral data are 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 Croatia as at the end of 2002 were: Switzerland, Slovenia, Liberia, Poland, and Bosnia and Herzegovina.

Outward position data showing breakdowns by regions/economic zones are not compiled.

There are no differences in the data coverage, sources, etc. between the outward position data showing geographic breakdowns made available on request and the aggregate outward position data reported to the IMF for publication.

Industrial Classification

Not applicable. Data showing industrial activity breakdowns are not compiled for the outward direct investment position data.

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. Unincorporated enterprises are treated differently from incorporated enterprises in that unincorporated enterprises are not included in the direct investment statistics. However, there are plans to begin to include unincorporated enterprises in the near future.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is not applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, or (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.

Enterprises in Croatia are required not by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) identify all transactions with the parent company. However, the Securities Commission requires companies listed on the stocks exchange to prepare consolidated accounts.

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, and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover other non-voting stocks (shares). 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.

The reinvested earnings data cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, (i) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (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, 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. Contrary to the international standards, the reinvested earnings are not recorded in the period in which they are earned, but instead in the month in which the decision on the distribution of profits is made.

(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, and (iv) financial leases. The data do not include trade credits. 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 non-participating preference [preferred] shares, (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 the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries (Permanent debt is defined as subordinated loan 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 a direct investment equity injection by the guarantor and classified under Asserts: Direct Investment Abroad: Equity 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 in all instances.

Assuming that the direct investment enterprise is a resident of Croatia 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 recorded 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 Croatia 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 Croatia: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Croatia: Other Capital: Claims on Direct Investors". However, data showing claims on direct investors are not reported to the IMF, but instead, contrary to the international standards, are reported under the data for liabilities to direct investors.

Treatment of Quasi-corporations

Not applicable. Quasi-corporations arising from the operation abroad by residents of Croatia of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date.

Treatment of Offshore Enterprises

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

Treatment of Special Purpose Entities (SPEs)

Not applicable. There are no SPEs established abroad by residents of Croatia 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 Croatia, namely those originally purchased by a resident enterprise through an existing nonresident affiliated enterprise. Contrary to the international standards, the equity capital data do not include ownership of land and buildings abroad by enterprises resident in Croatia that is owned directly by the resident enterprises, and ownership of land and buildings abroad by individuals resident in Croatia, as these positions cannot be identified from the present data sources. Land and buildings owned abroad by residents of Croatia 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 Croatia by nonresidents is included in the equity capital data. Although the data are included only if the expenditure is undertaken by a resident legal entity, this is considered to always be the case. Expenditure on bonus payments made by residents of Croatia to the host country for the right to undertake exploration for natural resources is not applicable, as such expenditure has not occurred to date. Instances of the shutdown of a direct investment enterprise established abroad by residents of Croatia for natural resource exploration are also not applicable, as no such instances have occurred to date.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are reported primarily at book values, which are the values shown in the accounting records of the individual enterprises. (If the data reported by enterprises have not been reported at market prices, this adjustment is made by the HNB using the stock exchange index.) Some data on equity capital for listed enterprises are reported at market values. The data on equity capital for unlisted enterprises are reported at book values, which are the values shown in the accounting records of the individual enterprises. The data are then adjusted by the HNB to market values, using the stock exchange index.

The data on other capital are recorded at book values, which are the values shown in the accounting records of the individual enterprises.

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

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.