

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.

Luxembourg:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in Luxembourg

- **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 LUXEMBOURG

BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Banque centrale du Luxembourg (BCL) and the Service de la Statistique et des Etudes Economiques (STATEC) 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 quarterly with a timeliness of 3 months after the end of the reference period on the STATEC website (<http://www.statec.lu>), and in the *Bulletin trimestriel de la Banque centrale du Luxembourg*, also available on the website of the BCL (<http://www.bcl.lu>). The data are also reported to the IMF and the OECD for publication. (Prior to 2002 separate inward transactions data for Luxembourg were not compiled. The Belgian authorities compiled joint Belgo-Luxembourg Economic Union (BLEU) data for Belgium and Luxembourg for the period through 2001.)

In addition, monthly data are compiled by the BCL and STATEC 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 reported to the ECB with a timeliness of 6 weeks after the end of the reference period, but are not disseminated, are not available on request, and are not reported to the IMF or OECD.

Revision Practices

The data are preliminary when first released. The data are revised 4 times to take account of late reporters and revised source data—once 3 months after their first release, the second time 6 months after their first release, again 12 months after their first release, and the final time 18 months after their first release. At this time, the data are generally considered to be final. The revised data are disseminated together with the preliminary data for the latest quarter.

The revised status of the data is clearly identified in the disseminated data. The general public are informed of the reasons for the revisions. The historical data are revised as far back as relevant 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 and OECD for publication.

Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data for all components except reinvested earnings are collected on an individual transactions basis, while the data on reinvested earnings are collected on an aggregate basis. The reporting requirements are compulsory.

Data Sources

The data for all components except reinvested earnings are compiled from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and cash transactions made through the foreign bank accounts of enterprises, or noncash transactions. The data on

reinvested earnings are estimates derived from an annual enterprise survey of resident enterprises, the results of which are divided into four equal parts. Press reports are used as a secondary data source for the data on equity capital. Information on trade credits obtained from a quarterly enterprise survey of resident enterprises is used as a secondary data source for the data on other capital.

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

Several business registers of enterprises involved in direct investment are used to compile the inward direct investment transactions data. The various registers are maintained by STATEC and the BCL and are updated on an ongoing basis. The STATEC registers use information from (i) the international trade system's list of exporters/importers, (ii) the ITRS's list of transactors, (iii) other statistical collection forms, (iv) a register maintained by other departments within STATEC, (v) the financial press, (vi) compulsory direct investment surveys, and (vii) the Central Business register, which provides basic information including the foreign equity ownership of companies. The same business registers are used to compile the inward and outward direct investment transactions data, but different registers are used for the inward and outward direct investment position data.

Geographic Classification

Annual data showing breakdowns by country for the direct investment income and direct investment financial flows data are compiled by the BCL and STATEC, with a timeliness of 9 months after the end of the reference period. The data are not disseminated, but are available annually on request. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data cover all countries and bilateral data are not used in the compilation of the data.

The transactor principle, rather than 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 Luxembourg during 2002 (ranked in descending order) were: Germany, Spain, the Netherlands, Belgium, and the United States. The five countries with the largest amount of direct investment financial flows into Luxembourg during 2002 (ranked in descending order) were: the United Kingdom, the Netherlands, the United States, Belgium, and Ireland.

In addition to the data showing country breakdowns, annual data are compiled by the BCL and STATEC showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are available on request with a timeliness of 9 months after the end of the reference period and are also reported to the OECD and Eurostat.

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

Industrial Classification

Annual data showing breakdowns by industrial activity for the direct investment income and direct investment financial flows data are compiled by the BCL and STATEC, with a timeliness of 9 months after the end of the reference period. (These are the most timely data.) The data are not disseminated, but are available annually on request. The data showing industrial activity breakdowns for both the direct investment financial flows and direct investment income are also reported to Eurostat. The most comprehensive data show a breakdown for 11 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The four industrial activities with the largest amount of direct investment income from investment in Luxembourg during 2002 (in descending order) were: (i) banking, (ii) services other than banking and insurance, (iii) manufacturing, and (iv) insurance. The five industrial activities with the largest amount of direct investment financial flows into Luxembourg during 2002 (in descending order) were: (i) financial intermediation, (ii) trade and repairs, (iii) manufacturing, (iv) transport and communication, and (v) construction.

Annual data showing breakdowns by (i) both industrial activity and main partner country, and (ii) both industrial activity and region/economic zone, are compiled with a timeliness of 9 months. However, these data are not disseminated and are not available on request.

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

B. Methodology

Definition of Direct Investment Enterprises in Luxembourg

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

Treatment of Indirectly Owned Direct Investment Enterprises

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

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

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. Contrary to the international standards, dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are payable, rather than on the date they are declared payable.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. 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) 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, the data do not 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.

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, and (ii) short-term loans. The data do not include interest on (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) most of the data are recorded on an accrual basis. However, contrary to the international standards, some income on debt 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) other non-voting stocks (shares), and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. Transactions involving participating preference [preferred] shares have not been identified to date. 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, and (iii) trade credits. The data do not include (i) bonds and money market instruments, (ii) financial leases, (iii) nonparticipating preference shares, and (iv) financial derivatives, which have not been identified to date in the present data sources. In accordance with the international standards, the data exclude (i), loan/debt guarantees provided by direct investors or related direct investment enterprises, and (ii) changes in insurance company technical reserves. In accordance with the international standards, (i) the data include most 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 banks and between affiliated financial intermediaries. (Permanent debt is defined as subordinated loans.) Contrary to the international standards, (i) the data do not exclude transactions between affiliated banks and between most affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities, and (ii) some transactions between the financial intermediaries and affiliated nonfinancial direct investment enterprises are excluded.

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 have not occurred to date.

Treatment of Reverse Investment

Transactions involving reverse investment are not treated in accordance with the international standards in some instances.

Assuming that the direct investment enterprise is a resident of Luxembourg 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, equity transactions are recorded in accordance with the international standards 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 Luxembourg and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in Luxembourg: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Luxembourg: Other Capital", without a further breakdown, rather than as "Direct Investment in Luxembourg: Other Capital: Increase in Claims on Direct Investors".

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Luxembourg by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established in Luxembourg by nonresidents at present.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) most activities of SPEs established in Luxembourg by nonresidents are included in the direct investment data, and (ii) in the case of SPEs established in Luxembourg by nonresidents that are able to be identified as having 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. Contrary to the international standards, the data do not include the reinvested earnings transactions of SPEs established in Luxembourg by nonresidents. Transactions of SPEs established in Luxembourg by nonresidents represent approximately 85 percent of Luxembourg's total inward transactions data.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in Luxembourg by nonresident enterprises and nonresident individuals. Land and buildings purchased in Luxembourg by nonresident enterprises and nonresident individuals on long-term leases are not included.

Treatment of Natural Resources Exploration

Contrary to the international standards, expenditure related to natural resources exploration in Luxembourg by nonresidents is not included in the data. However, such expenditure is not thought to be significant.

Exchange Rate Conversion

Most transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. However, reinvested earnings are primarily converted to the unit of account at the average exchange rate for the period.

DIRECT INVESTMENT IN LUXEMBOURG

INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable annual (calendar year) data are compiled by the Service de la Statistique et des Etudes Economiques (STATEC) and the Banque centrale du Luxembourg (BCL) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. The data on equity capital and reinvested earnings are disseminated with a timeliness of 18 months after the end of the reference period on the STATEC website (<http://www.statec.lu>). The data on other capital are not disseminated, and are not available on request. The data are not reported to the IMF for publication, but are reported to the OECD. However, there are plans to begin to report the data to the IMF in the future.

In addition, separately identifiable annual (calendar year) data are compiled by the Service de la Statistique et des Etudes Economiques (STATEC) and the BCL within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. The data are disseminated with a timeliness of 9 months after the end of the reference period in the Bulletin trimestriel de la Banque centrale du Luxembourg, which is also available on the BCL website (<http://www.bcl.lu>). The data are reported to the ECB with a timeliness of 9 months after the end of the reference period, and are also reported to the OECD. The data are not reported to the IMF for publication. However, there are plans to begin to report the data to the IMF in 2005.

Revision Practices

The data are preliminary when first released. The data for the previous two years are revised once a year to take account of late reporters and are disseminated once a year together with the preliminary data for the latest year. The data are considered to be final 24 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 major revisions. To date, there have been no instances of major changes in methodology or data collection systems requiring the revision of the historical data.

Differences in the revision practices between the data disseminated in the national publications and those reported to the IMF for publication are not applicable, as the data are not reported to the IMF at present.

Data Coverage

The data disseminated by STATEC exclude the positions of holding companies (Sections 65.234 and 65.235 of the NACE classification system), including Special Purpose Entities (SPEs). However, no major sectors of the economy or elements within those economic sectors are excluded from the data reported to the ECB, and disseminated only by the BCL.

Differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF for publication are not applicable, as the data are not reported to the IMF at present.

Data Collection Method

The data that are disseminated by STATEC are collected on an aggregate basis. The data that are reported to the ECB and disseminated only by the BCL are collected using a mixture of an individual transactions basis and an aggregate basis—the data are collected primarily on an aggregate basis (an enterprise survey and company accounts), but data collected on an individual transactions basis (an international transactions recording system [ITRS]) are also used as a secondary source. The reporting requirements are compulsory.

Data Sources

All components of the disseminated data are compiled privately from an annual enterprise survey of resident enterprises. Data from company accounts of resident direct investment enterprises are used as a secondary data source for all components, and information from published Articles of Association are used to cross-check the information on equity capital ownership. The perpetual inventory method (a method for deriving position data from transactions data) is not used to compile the data disseminated by STATEC.

All components of the data reported to the ECB and disseminated only by the BCL are compiled primarily from an annual enterprise survey 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. Information from published Articles of Association are used to cross-check the information on equity capital ownership. The perpetual inventory method is used to derive the data from the ITRS, with no adjustments for price changes, exchange rate changes, or other nontransaction changes.

Differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication are not applicable, as the data are not reported to the IMF at present.

Several business registers of enterprises involved in direct investment are used to compile the inward direct investment position data. The various registers are maintained by STATEC and the BCL and are updated on an ongoing basis. The STATEC registers use information from (i) the international trade system's list of exporters/importers, (ii) the ITRS's list of transactors, (iii) other statistical collection forms, (iv) a register maintained by other departments within STATEC, (v) the financial press, (vi) compulsory direct investment surveys, and (vii) the Central Business register, which provides basic information including the foreign equity ownership of companies. The same business registers are used to compile the inward and outward direct investment position data, but different registers are used for the inward and outward direct investment transactions data.

Geographic Classification

Annual data showing breakdowns by country for the inward direct investment position data are compiled by STATEC. The data are disseminated annually on the STATEC website (<http://www.statec.lu>), with a timeliness of 18 months after the end of the reference period, and are also available on request. The data showing country breakdowns for the inward direct investment position data are also reported to the OECD and Eurostat. The data cover 9 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an immediate country basis. (Data compiled on an "ultimate" country basis have been reported to Eurostat under the FATS framework.) The five countries with the largest amount of direct investment in Luxembourg as at the end of 2001 (ranked in descending order) were: Germany, Belgium, the United States, Italy, and France.

In addition to the data showing country breakdowns, annual data are compiled by STATEC and the BCL showing breakdowns of inward position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are available on request with a timeliness of 18 months after the end of the reference period and are also reported to the OECD and Eurostat.

Differences in the data coverage, sources, etc. between the inward position data showing geographic breakdowns made available on request and reported to the OECD and Eurostat, and the aggregate inward position data reported to the IMF for publication are not applicable, as the inward position data are not reported to the IMF at present.

Industrial Classification

Annual data showing breakdowns by industrial activity for the inward direct investment position data are compiled by STATEC and the BCL. The data are disseminated annually on the STATEC website (<http://www.statec.lu>), with a timeliness of 18 months after the end of the reference period, and are also available on request. The data showing industrial activity breakdowns for the inward direct investment position data are also reported to the OECD and Eurostat. The data show a breakdown for 4 industrial activities. The classification

used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The inward position data are classified on the basis of the industrial activity of the resident direct investment enterprises. The four industrial activities with the largest amount of direct investment in Luxembourg as at the end of 2001 (in descending order) were: (i) banking, (ii) manufacturing, (iii) services other than banking and insurance, (iv) insurance.

Data showing breakdowns by (i) both industrial activity and main partner country, and (ii) both industrial activity and region/economic zone, are compiled by STATEC and the BCL. The data are disseminated annually on the STATEC website (<http://www.statec.lu>) with a timeliness of 18 months, and are also available on request. The data are also reported to the OECD and Eurostat.

Differences in the data coverage, sources, etc. between the inward position data showing industrial activity breakdowns made available on request and reported to the OECD and Eurostat, and the aggregate inward position data reported to the IMF for publication are not applicable, as the inward position data are not reported to the IMF at present.

B. Methodology

Definition of Direct Investment Enterprises in Luxembourg

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

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied, primarily because of practical impediments, such as the international perimeter of consolidation. Specifically, the data do not include (i) the relevant share of the reinvested earnings of all 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, except in instances when the direct owner is a holding company.

Enterprises in Luxembourg 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) other non-voting stocks (shares), (iv) participating preference [preferred] 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, except SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include equity positions between SPEs primarily engaged in financial intermediation for a group of related enterprises.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, except 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. Contrary to the international standards, the data do not include reinvested earnings between SPEs primarily engaged in financial intermediation for a group of related enterprises. (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 Luxembourg.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, and (iii) trade credits. The data do not cover (i) bonds and money market instruments, and (ii) financial leases. Positions involving non-participating preference [preferred] shares have not been identified to date. 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 most positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, (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 banks and between affiliated financial intermediaries. (Permanent debt is defined as subordinated loans, and, in the case of affiliated banks, as loans with a maturity of more than one year.) Contrary to the international standards, those positions between financial intermediaries that are holding companies, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and affiliated nonfinancial direct investment enterprises are excluded from the data.

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 have not occurred to date.

Treatment of Reverse Investment

Positions involving reverse investment are not treated in accordance with the international standards in some instances.

Assuming that the direct investment enterprise is a resident of Luxembourg 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, equity positions are recorded in accordance with the international standards 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 Luxembourg and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Portfolio Investment: Equity Securities", rather than as "Liabilities: Direct Investment in Luxembourg: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Luxembourg: Other Capital", without a further breakdown, rather than as "Liabilities: Direct Investment in Luxembourg: Other Capital: Claims on Direct Investors".

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Luxembourg by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established in Luxembourg by nonresidents at present.

Treatment of Special Purpose Entities (SPEs)

Contrary to the international standards, in the case of the position data disseminated by STATEC, activities of most SPEs, namely holding companies and other financial vehicles known as Sociétés de Participations Financières (SOPAFIs), established in Luxembourg by nonresidents are excluded from the inward direct investment position data. However, activities of SPEs established in Luxembourg by nonresidents are included in the additional inward direct investment position data reported to the ECB and disseminated by the BCL.

Treatment of Land and Buildings

Contrary to the international standards, the data do not include ownership of land and buildings in Luxembourg by nonresident enterprises and nonresident individuals. However, these are considered to be insignificant.

Treatment of Natural Resources Exploration

Contrary to the international standards, expenditure related to natural resources exploration in Luxembourg by nonresidents is not included in the data. However, such expenditure is not thought to be significant.

Valuation of Assets and Liabilities

The data on equity capital for both listed enterprises and unlisted enterprises are recorded at book values, which are the historical costs.

The data on other capital are recorded at book values, which are the historical costs.

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 Banque centrale du Luxembourg (BCL) and the Service de la Statistique et des Etudes Economiques (STATEC) 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 on the STATEC website (<http://www.statec.lu>), and in the *Bulletin trimestriel de la Banque centrale du Luxembourg*, also available on the website of the Banque centrale du Luxembourg (BCL) <http://www.bcl.lu>. The data are also reported to the IMF and the OECD for publication. (Prior to 2002 separate inward transactions data for Luxembourg were not compiled. The Belgian authorities compiled joint Belgo-Luxembourg Economic Union (BLEU) data for Belgium and Luxembourg for the period through 2001.)

In addition, monthly data are compiled by the BCL and STATEC 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 reported to the ECB with a timeliness of 6 weeks after the end of the reference period, but are not disseminated, are not available on request, and are not reported to the IMF or OECD.

Revision Practices

The data are preliminary when first released. The data are revised 4 times to take account of late reporters and revised source data—once 3 months after their first release, the second time 6 months after their first release, again 12 months after their first release, and the final time 18 months after their first release. At this time, the data are generally considered to be final. The revised data are disseminated together with the preliminary data for the latest quarter.

The revised status of the data is clearly identified in the disseminated data. The general public are informed of the reasons for the revisions. The historical data are revised as far back as relevant 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 and OECD for publication.

Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data for all components except reinvested earnings are collected on an individual transactions basis, while the data on reinvested earnings are collected on an aggregate basis. The reporting requirements are compulsory.

Data Sources

The data for all components except reinvested earnings are compiled from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, and cash transactions made through the foreign bank accounts of enterprises, or noncash transactions. The data on

reinvested earnings are estimates derived from an annual enterprise survey of resident direct investors, the results of which are divided into four equal parts. Press reports are used as a secondary data source for the data on equity capital. Information on trade credits obtained from a quarterly enterprise survey of resident enterprises is used as a secondary data source for the data on other capital.

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

Several business registers of enterprises involved in direct investment are used to compile the outward direct investment transactions data. The various registers are maintained by STATEC and the BCL and are updated on an ongoing basis. The STATEC registers use information from (i) the international trade system's list of exporters/importers, (ii) the ITRS's list of transactors, (iii) other statistical collection forms, (iv) a register maintained by other departments within STATEC, (v) the financial press, (vi) compulsory direct investment surveys, and (vii) the Central Business register, which provides basic information including the foreign equity ownership of companies. The same business registers are used to compile the inward and outward direct investment transactions data, but different registers are used for the inward and outward direct investment position data.

Geographic Classification

Annual data showing breakdowns by country for the direct investment income and direct investment financial flows data are compiled by the BCL and STATEC, with a timeliness of 9 months. The data are not disseminated, but are available annually on request. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD and Eurostat. The data cover all countries and bilateral data are not used in the compilation of the data.

The transactor principle, rather than 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 Luxembourg during 2002 (ranked in descending order) were: Germany, Italy, Belgium, Switzerland, and the United States. The five countries with the largest amount of direct investment financial flows from Luxembourg during 2002 (ranked in descending order) were: the Netherlands, the United Kingdom, Ireland, France, and Belgium.

In addition to the data showing country breakdowns, annual data are compiled by the BCL and STATEC showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are available on request with a timeliness of 9 months after the end of the reference period and are also reported to the OECD and Eurostat.

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

Industrial Classification

Annual data showing breakdowns by industrial activity for the direct investment income and direct investment financial flows data are compiled by the BCL and STATEC, with a timeliness of 9 months. (These are the most timely data.) The data are not disseminated, but are available annually on request. The data showing industrial activity breakdowns for both the direct investment financial flows and direct investment income are also reported to Eurostat. The most comprehensive data show a breakdown for 11 industrial activities. The classification used is NACE, Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investors. The four industrial activities with the largest amount of direct investment income from investment abroad by residents of Luxembourg during 2002 (in descending order) were: (i) other services, (ii) banking, (iii) manufacturing, and (iv) insurance. The four industrial activities with the largest amount of direct investment financial flows from Luxembourg during 2002 (in descending order) were: (i)

financial intermediation, (ii) manufacturing, (iii) trade and repairs, (iv) real estate and business activities, and (v) other services.

Data showing breakdowns by (i) both industrial activity and main partner country, and (ii) both industrial activity and region/economic zone, are compiled with a timeliness of 9 months. However, these are not disseminated and are not available on request.

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

B. Methodology

Definition of Direct Investors

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

Treatment of Indirectly Owned Direct Investment Enterprises

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

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

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. Contrary to the international standards, dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are payable, rather than on the date they are declared payable.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. 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) 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, the data do not 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.

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, and (ii) short-term loans. The data do not include interest on (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) most of the data are recorded on an accrual basis. However, contrary to the international standards, some income on debt 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) other non-voting stocks (shares), and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not include participating preference [preferred] shares, which have not been identified to date in the present data sources. 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, and (iii) trade credits. The data do not include (i) bonds and money market instruments, (ii) financial leases, (iii) nonparticipating preference shares, and (iv) financial derivatives, which have not been identified to date in the present data sources. In accordance with the international standards, the data exclude (i) loan/debt guarantees provided by direct investors or related direct investment enterprises, and (ii) changes in insurance company technical reserves. In accordance with the international standards, (i) the data include most 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 banks and between affiliated financial intermediaries. (Permanent debt is defined as subordinated loans.) Contrary to the international standards, (i) the data do not exclude transactions between affiliated banks and between most affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities, and (ii) some transactions between the financial intermediaries and affiliated nonfinancial direct investment enterprises are excluded.

Instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise have not occurred to date.

Treatment of Reverse Investment

Transactions involving reverse investment are not treated in accordance with the international standards in some instances.

Assuming that the direct investment enterprise is a resident of Luxembourg 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, equity transactions are recorded in accordance with the international standards 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 Luxembourg and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in Luxembourg: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Luxembourg: Other Capital", without a further breakdown, rather than as "Direct Investment in Luxembourg: Other Capital: Increase in Claims on Direct Investors".

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of Luxembourg of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established abroad by residents of Luxembourg by nonresidents at present.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) most activities of SPEs established abroad by residents of Luxembourg are included in the direct investment data, and (ii) in the case of SPEs established abroad by residents of Luxembourg that have been clearly identified as having 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. Contrary to the international standards, the data do not include the reinvested earnings transactions of SPEs established abroad by residents of Luxembourg. Transactions of SPEs established abroad by residents of Luxembourg represent approximately 85 percent of Luxembourg's total outward transactions data.

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 Luxembourg. Land and buildings purchased abroad by enterprises and individuals resident in Luxembourg on long-term leases are not included.

Treatment of Natural Resources Exploration

Contrary to the international standards, expenditure related to natural resources exploration abroad by residents of Luxembourg is not included in the data.

Exchange Rate Conversion

Most transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. However, reinvested earnings are primarily 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 annual (calendar year) data are compiled by the Service de la Statistique et des Etudes Economiques (STATEC) and the Banque centrale du Luxembourg (BCL) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. The data on equity capital and reinvested earnings are disseminated with a timeliness of 18 months after the end of the reference period on the STATEC website (<http://www.statec.lu>). The data on other capital are not disseminated, and are not available on request. The data are not reported to the IMF for publication, but are reported to the OECD. However, there are plans to begin to report the data to the IMF in the future.

In addition, separately identifiable annual (calendar year) data are compiled by the Service de la Statistique et des Etudes Economiques (STATEC) and the BCL within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. The data are disseminated with a timeliness of 9 months after the end of the reference period in the Bulletin trimestriel de la Banque centrale du Luxembourg, which is also available on the BCL website (<http://www.bcl.lu>). The data are reported to the ECB with a timeliness of 9 months after the end of the reference period, and are also reported to the OECD. The data are not reported to the IMF for publication. However, there are plans to begin to report the data to the IMF in 2005.

Revision Practices

The data are preliminary when first released. The data for the previous two years are revised once a year to take account of late reporters and are disseminated once a year together with the preliminary data for the latest year. The data are considered to be final 24 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 major revisions. To date, there have been no instances of major changes in methodology or data collection systems requiring the revision of the historical data.

Differences in the revision practices between the data disseminated in the national publications and those reported to the IMF for publication are not applicable, as the data are not reported to the IMF at present.

Data Coverage

The data disseminated by STATEC exclude the positions of holding companies (Sections 65.234 and 65.235 of the NACE classification system), including Special Purpose Entities (SPEs). However, no major sectors of the economy or elements within those economic sectors are excluded from the additional data reported to the ECB, and disseminated only by the BCL.

Differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF for publication are not applicable, as the data are not reported to the IMF at present.

Data Collection Method

The data that are disseminated by STATEC are collected on an aggregate basis. The additional data that are reported to the ECB and disseminated only by the BCL are collected using a mixture of an individual transactions basis and an aggregate basis—the data are collected primarily on an aggregate basis (an enterprise survey and company accounts), but data collected on an individual transactions basis (an international transactions recording system [ITRS]) are also used as a secondary source. The reporting requirements are compulsory.

Data Sources

All components of the disseminated data are compiled privately from an annual enterprise survey of resident direct investors. Data from company accounts of resident direct investors are used as a secondary data source for all components, and information from published Articles of Association are used to cross-check the information on equity capital ownership. The perpetual inventory method (a method for deriving position data from transactions data) is not used to compile the data disseminated by STATEC.

All components of the data reported to the ECB and disseminated only by the BCL are compiled primarily from an annual enterprise survey of resident direct investors. 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. Information from published Articles of Association are used to cross-check the information on equity capital ownership. The perpetual inventory method is used to derive the data from the ITRS, with no adjustments for price changes, exchange rate changes, or other nontransaction changes.

Differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication are not applicable, as the data are not reported to the IMF at present.

Several business registers of enterprises involved in direct investment are used to compile the outward direct investment position data. The various registers are maintained by STATEC and the BCL and are updated on an ongoing basis. The STATEC registers use information from (i) the international trade system's list of exporters/importers, (ii) the ITRS's list of transactors, (iii) other statistical collection forms, (iv) a register maintained by other departments within STATEC, (v) the financial press, (vi) compulsory direct investment surveys, and (vii) the Central Business register, which provides basic information including the foreign equity ownership of companies. The same business registers are used to compile the inward and outward direct investment position data, but different registers are used for the inward and outward direct investment transactions data.

Geographic Classification

Annual data showing breakdowns by country for the outward direct investment position data are compiled by STATEC. The data are disseminated annually on the STATEC website (<http://www.statec.lu>) with a timeliness of 18 months after the end of the reference period, and are also available on request. The data showing country breakdowns for the outward direct investment position data are also reported to the OECD and Eurostat. The data cover 10 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an immediate country basis. Data compiled on an "ultimate" country basis have been reported to Eurostat within the FATS framework. The five countries with the largest amount of direct investment from Luxembourg as at the end of 2001 (ranked in descending order) were: Ireland, Belgium, Germany, France, and Switzerland.

In addition to the data showing country breakdowns, annual data are compiled by STATEC and the BCL showing breakdowns of the outward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. These data are available on request with a timeliness of 18 months after the end of the reference period and are also reported to the OECD and Eurostat.

Differences in the data coverage, sources, etc. between the outward position data showing geographic breakdowns made available on request and reported to the OECD and Eurostat, and the aggregate outward position data reported to the IMF for publication are not applicable, as the outward position data are not reported to the IMF at present.

Industrial Classification

Annual data showing breakdowns by industrial activity for the outward direct investment position data are compiled by STATEC and the BCL. The data are disseminated annually on the STATEC website (<http://www.statec.lu>) with a timeliness of 18 months after the end of the reference period, and are also available on request. The data showing industrial activity breakdowns for the outward direct investment position data are also reported to Eurostat. The data show a breakdown for 4 industrial activities. The classification used is NACE,

Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The outward position data are classified on the basis of the industrial activity of the resident direct investors. The four industrial activities with the largest amount of direct investment from Luxembourg as at the end of 2001 (in descending order) were: (i) manufacturing, (ii) banking, (iii) services other than banking and insurance, and (iv) insurance.

Data showing breakdowns by (i) both industrial activity and main partner country, and (ii) both industrial activity and region/economic zone, are compiled and are disseminated annually on the STATEC website (<http://www.statec.lu>) with a timeliness of 18 months after the end of the reference period, and are also available on request. The data are also reported to the OECD and Eurostat.

Differences in the data coverage, sources, etc. between the outward position data showing industrial activity breakdowns made available on request and reported to the OECD and Eurostat, and the aggregate outward position data reported to the IMF for publication are not applicable, as the outward position data are not reported to the IMF at present.

B. Methodology

Definition of Direct Investors

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

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied, primarily because of practical impediments, such as the international perimeter of consolidation. Specifically, the data do not include (i) the relevant share of the reinvested earnings of all 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, except in instances when the direct owner is a holding company.

Enterprises in Luxembourg 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, except SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include equity positions between SPEs primarily engaged in financial intermediation for a group of related enterprises.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, except 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. Contrary to the international standards, the data do not include reinvested earnings between SPEs primarily engaged in financial intermediation for a group of related enterprises. (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, and (iii) trade credits. The data do not cover (i) bonds and money market instruments, and (ii) financial leases. Positions involving non-participating preference [preferred] shares have not been identified to date. 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 most positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, (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 banks and between affiliated financial intermediaries. (Permanent debt is defined as subordinated loans, and, in the case of affiliated banks, as loans with a maturity of more than one year.) Contrary to the international standards, those positions between financial intermediaries that are holding companies, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and affiliated nonfinancial direct investment enterprises are excluded from the data.

Instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise have not occurred to date.

Treatment of Reverse Investment

Positions involving reverse investment are not treated in accordance with the international standards in some instances.

Assuming that the direct investment enterprise is a resident of Luxembourg 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, equity positions are recorded in accordance with the international standards 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 Luxembourg and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Portfolio Investment: Equity Securities", rather than as "Liabilities: Direct Investment in Luxembourg: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Luxembourg: Other Capital", without a further breakdown, rather than as "Liabilities: Direct Investment in Luxembourg: Other Capital: Claims on Direct Investors".

Treatment of Quasi-corporations

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of Luxembourg of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established abroad by residents of Luxembourg by nonresidents at present.

Treatment of Special Purpose Entities (SPEs)

Contrary to the international standards, in the case of the position data disseminated by STATEC, activities of most SPEs, namely holding companies and other financial vehicles known as Sociétés de Participations Financières (SOPAFIs), established abroad by residents of Luxembourg are excluded from the inward direct investment position data. However, activities of SPEs established abroad by residents of Luxembourg are included in the additional outward direct investment position data reported to the ECB and disseminated by the BCL.

Treatment of Land and Buildings

Contrary to the international standards, the data do not include ownership of land and buildings abroad by enterprises and individuals resident in Luxembourg. However, these are considered to be insignificant.

Treatment of Natural Resources Exploration

Contrary to the international standards, expenditure related to natural resources exploration abroad by residents of Luxembourg is not included in the data.

Valuation of Assets and Liabilities

The data on equity capital for both listed enterprises and unlisted enterprises are recorded at book values, which are the historical costs.

The data on other capital are recorded at book values, which are the historical costs.

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

Exchange Rate Conversion

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