

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.

## **Latvia:**

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

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#### **Direct Investment in Latvia**

- **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 LATVIA

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

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable monthly data (the most timely) are compiled by the Bank of Latvia (BOL) 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. (Prior to 2000, monthly data were not compiled.) These data are disseminated with a timeliness of 6 weeks after the end of the reference period on the BOL website <http://www.bank.lv>, and subsequently in the BOL's monthly bulletin *Latvia's Balance of Payments*.

More comprehensive separately identifiable quarterly data are compiled by BOL 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 BOL website <http://www.bank.lv>, and subsequently in the BOL's quarterly bulletin, *Latvia's Balance of Payments*. The quarterly data are also reported to the IMF for publication.

##### Revision Practices

The monthly and quarterly data are preliminary when first released. The monthly data for the current quarter are revised to take account of the results of quarterly surveys and are disseminated quarterly together with the preliminary quarterly data for the latest quarter. At this time the monthly data are considered to be final, that is, between 1.5 and 3.5 months after their first release, depending on the month. The more comprehensive quarterly data are revised at the end of the next quarter if necessary to take account of revised source data and are disseminated together with the preliminary data for the latest quarter. The quarterly data for each calendar year are revised again one quarter after the end of the year to reflect information obtained from an annual survey that covers a larger number of enterprises than the quarterly survey. These revised quarterly data are disseminated together with the preliminary data for the latest quarter. At this time the quarterly data are generally considered to be final, that is, up to 9 months after their first release, although further revisions can be made as a result of ongoing data quality checks. As from 2004, the BOL plans to adopt the harmonized revision policy of Eurostat and the ECB.

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. The historical data are revised back for the last three years in instances of major changes in methodology or data collection systems. The public are also informed of major changes in methodology or data collection systems at least one month in advance.

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 preliminary monthly data are collected using a mixture of an individual transactions basis and an aggregate basis—the data on banks are collected on an aggregate basis and the data for non-banks are collected on an individual transactions basis. The more comprehensive quarterly data (and consequently the final data for the

related months) are collected using a mixture of an individual transactions basis and an aggregate basis—the data on banks are collected on an aggregate basis and the data for non-banks are collected primarily on an aggregate basis, with data collected on an individual transactions basis being used as secondary data sources. The reporting requirements are compulsory.

### **Data Sources**

The data for all components of the preliminary monthly data for the non-banking sector are compiled primarily 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, but not noncash transactions. Data from the State Enterprise Register on recently established enterprises with capital participation by nonresidents is used as a secondary data source for the data on equity capital. The data for all components of the monthly data for the banking sector are compiled from banking statistics compiled by the BOL. Information from press reports are used as an additional data source for all components.

The more comprehensive quarterly data for all components of the non-banking sector are compiled primarily from a quarterly survey of resident enterprises. (The quarterly survey is a sample survey, and the aggregate data comprise the values of the transactions of the 450 largest enterprises, plus the grossed-up values of the transactions of samples of small and medium-sized enterprises. The transactions data are derived as the difference between the reported positions at the beginning and at the end of the reference quarter, with adjustments made to the data on other capital for reclassifications, price changes, and exchange rate changes.) Data from the State Enterprise Register on recently established enterprises with capital participation by nonresidents is used as a secondary data source for the data on equity capital. Information from the ITRS and press reports is used as additional data sources for all components. An annual enterprise survey introduced in 2001, which covers all medium sized enterprises as well as a sample of small enterprises, is also used as an additional data source for the quarterly data on the non-banking sector. The more comprehensive quarterly data for all components of the banking sector are compiled primarily from banking statistics compiled by the BOL. (The transactions data are derived as the difference between the reported positions at the beginning and at the end of the reference quarter, with adjustments made to the data on other capital for reclassifications, price changes, and exchange rate changes.) Data obtained from the Financial and Capital Market Commission on investment in credit institutions' share capital is used as a secondary data source for the banking sector data.

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

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by the BOL and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, (iii) registers maintained by government licensing and regulatory authorities, (iv) the financial press, (v) compulsory direct investment surveys, (vi) the Central Statistical Bureau's Register of Economically Active Enterprises, and (vii) the State Enterprise Register. 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 income data and the direct investment financial flows data are compiled by the BOL with a timeliness of 3 months after the end of the reference period. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The data cover 56 countries and bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment in Latvia during 2003 (ranked in descending order) were: Lithuania, Estonia, Russia, the Netherlands, and Sweden. The five countries with the largest amount of direct investment financial flows into Latvia during 2003 (ranked in descending order) were: Finland, Estonia, the Netherlands, the United States, and Sweden.

In addition to the data showing country breakdowns, quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period 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 not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 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 reported to Eurostat, and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication.

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity for direct investment income and direct investment financial flows are compiled by the BOL with a timeliness of 3 months after the end of the reference period. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The data show a breakdown for 190 industrial activities. The classification used is NACE, Rev. 1.1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment income from investment in Latvia during 2003 (in descending order) were: (i) transport and communications, (ii) financial intermediation, (iii) telecommunications, (iv) manufacturing, and (v) real estate and business activities. The five industrial activities with the largest amount of direct investment financial flows into Latvia during 2003 (in descending order) were: (i) trade and repairs, (ii) financial intermediation, (iii) manufacturing, (iv) real estate and business activities, and (v) electricity, gas, and water.

Quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period 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. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. For direct investment income, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Lithuania, Estonia, Russia, the Netherlands, and Sweden. For direct investment financial flows, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Finland, Estonia, the Netherlands, the United States, and Sweden.

In addition, quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period 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. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 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 reported to 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 Latvia**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Latvia 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 not applied. Specifically, (i) the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not 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. However, there are plans to introduce the FCS with effect from 2008.

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

#### **Measurement of Direct Investment Earnings**

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

There are plans to introduce the COPC to calculate direct investment earnings with effect from 2005.

#### **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 of both incorporated and unincorporated enterprises are recorded gross of any withholding taxes, (ii) dividends and distributed branch profits of both incorporated and unincorporated enterprises are recorded on the date they are declared payable, (iii) 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 (iv) 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 both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (Prior to 2000, the data did not include negative reinvested earnings arising from net losses.)

#### **Treatment of Income on Debt (Interest)**

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (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. (Prior to the data for 2000, the data did not exclude 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 for both incorporated enterprises and unincorporated

enterprises are recorded on an accrual basis, (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 the treatment of other affiliated financial intermediaries and affiliated banks.

### **Treatment of Equity Capital**

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), and (iii) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover (i) participating preference [preferred] shares, and (ii) other non-voting stocks (shares) which are not applicable in Latvia at present. 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) trade credits, and (v) financial leases. The data do not cover non-participating preference shares, which are not applicable in Latvia at present. In accordance with the international standards, the data exclude (i) loan/debt guarantees provided by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, (iii) 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, and (iv) financial derivatives. (Prior to the data for 2000 the data did not exclude financial derivatives.) In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as loan capital representing a permanent interest.)

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 periodic payments of principal and interest made by the guarantor are treated as direct investment lending and recorded under "Direct Investment in Latvia: Other Capital: Increase in Liabilities to Direct Investors" at the time the periodic payments are made.

### **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 Latvia 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 Latvia 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 Latvia: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Latvia: Other Capital: Increase in Claims on Direct Investors", and both are reported as such to the IMF.

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

Not applicable. Activities of quasi-corporations involving the operation in Latvia 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**

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

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

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

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

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in Latvia by nonresident enterprises. Contrary to the international standards, the equity capital data do not include direct purchases and sales of land and buildings in Latvia by nonresident individuals, which are instead classified under Current Transfers in the balance of payments statistics. However, as land and buildings in Latvia can only be purchased by individuals who are Latvian citizens, purchases of land and buildings by nonresidents is usually undertaken through the establishment of an enterprise, which is then deemed to be a local legal entity that is able to purchase land and buildings. Land and buildings purchased in Latvia by nonresident enterprises on long-term leases are not included.

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

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

#### **Exchange Rate Conversion**

For the data compiled in the national currency, all transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. For the data disseminated in US dollars, all transactions are converted at the average exchange rate for the month.

## DIRECT INVESTMENT IN LATVIA

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

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data are compiled by the Bank of Latvia (BOL) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 3 months after the end of the reference period on the BOL website <http://www.bank.lv>, and subsequently in the BOL’s quarterly bulletin, *Latvia’s Balance of Payments*. The data are also reported to the IMF for publication.

##### Revision Practices

The data are preliminary when first released. The data for the previous quarter are revised at the end of each quarter if necessary to take account of revised source data and are disseminated together with the preliminary data for the latest quarter. The quarterly data for each calendar year are revised again one quarter after the end of the year to reflect information obtained from an annual survey that covers a larger number of companies than the quarterly survey. These revised quarterly data are disseminated together with the preliminary data for the latest quarter. At this time the data are generally considered to be final, that is, 9 months after their first release. However, further revisions can be made as a result of ongoing data quality checks.

As from 2004, the BOL plans to adopt the harmonized revision policy of Eurostat and the ECB.

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. The historical data are revised back for the last three years in instances of major changes in methodology or data collection systems. The public are also informed of major changes in methodology or data collection systems at least one month in advance.

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 aggregate basis and an individual transactions basis—the data on direct investment for banks are collected on an aggregate basis, and while the data on direct investment for non-banks are collected primarily on an aggregate basis, data collected on an individual transactions basis are used as additional data sources. The reporting requirements are compulsory.

##### Data Sources

The data for all components for the non-banking sector are compiled primarily from quarterly and annual surveys of resident enterprises. (The quarterly survey is a sample survey, and the aggregate data comprise the values of the transactions of the 450 largest enterprises, plus the grossed-up values of the transactions of samples of small and medium-sized enterprises. An annual enterprise survey introduced in 2001, which covers all medium sized enterprises as well as a sample of small enterprises, is also used as an additional data source for the quarterly data on the non-banking sector.) Data from the State Enterprise Register on recently established enterprises with capital participation by nonresidents is used as a secondary data source for the data on equity



capital. Information from (i) press reports, and (ii) 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, but not noncash transactions, can be used as an additional data source for all components, but are primarily used for cross-checking the data. The data for the banking sector are compiled primarily from banking statistics compiled by the BOL, with data obtained from the Financial and Capital Market Commission on investment in credit institutions' share capital is used as a secondary data source for the banking sector data. 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 positions data. The register is maintained by the BOL and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, (iii) registers maintained by government licensing and regulatory authorities, (iv) the financial press, (v) compulsory direct investment surveys, (vi) the Central Statistical Bureau's Register of Economically Active Enterprises, and (vii) the State Enterprise Register. 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 inward direct investment position data are compiled by the BOL and are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the BOL website <http://www.bank.lv>, and subsequently in the BOL's quarterly bulletin *Latvia's Balance of Payments*. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The data cover 91 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an "immediate country" basis. The five countries with the largest amount of direct investment in Latvia as at the end of 2003 (ranked in descending order) were: Germany, Sweden, Denmark, Finland, and the United States.

In addition to the data showing country breakdowns, quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period showing breakdowns of the inward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (vii) the OPEC countries. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period.

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

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity for the inward direct investment position data are compiled by the BOL and are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the BOL website <http://www.bank.lv>, and subsequently in the BOL's quarterly bulletin *Latvia's Balance of Payments*. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The data show a breakdown for 327 industrial activities. The classification used is NACE, Rev. 1.1, 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 five industrial activities with the largest amount of direct investment in Latvia as at the end of 2003 (in descending order) were: (i) real estate and business activities, (ii) trade and repairs, (iii) manufacturing, (iv) financial intermediation, and (v) transport and communications.

Quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period for the inward direct investment position data showing a breakdown by both industrial activity and main partner country. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The five highest ranking partner countries as at the end of 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Germany, Sweden, Denmark, Finland, and the United States.

In addition, quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period for the inward direct investment position data showing a breakdown by both industrial activity and region/economic zone. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period.

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

## **B. Methodology**

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

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Latvia 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 not applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, there are plans to introduce the FCS with effect from 2008.

Enterprises in Latvia 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), and (iii) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover (i) participating preference [preferred] shares, and (ii) other non-voting stocks (shares) which are not applicable in Latvia at present. 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 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, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (Prior to 2000, the data did not include negative reinvested earnings arising from net losses.) (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 Latvia.)

#### **Treatment of Other Capital**

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. The data do not cover non-participating preference shares, which are not applicable in Latvia at present. In accordance with the international standards, the data exclude (i) loan/debt guarantees provided by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, (iii) 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, and (iv) financial derivatives. (Prior to the data for 2000 the data did not exclude financial derivatives.) In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as loan capital representing a permanent interest.)

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 periodic payments of principal and interest made by the guarantor are treated as direct investment lending and recorded under "Liabilities: Direct Investment in Latvia: Other Capital: Liabilities to Direct Investors" at the time the periodic payments are made.

#### **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 Latvia 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 Latvia 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 Latvia: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Latvia: Other Capital: Claims on Direct Investors", and both are reported as such to the IMF.

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

Not applicable. Activities of quasi-corporations involving the operation in Latvia 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**

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

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

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

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

In accordance with the international standards, the equity capital data include the ownership of land and buildings in Latvia by nonresident enterprises. Contrary to the international standards, the equity capital data do not include the ownership of land and buildings in Latvia by nonresident individuals. However, as land and buildings in Latvia can only be owned by individuals who are Latvian citizens, ownership of land and buildings by nonresidents is usually undertaken through the establishment of an enterprise, which is then deemed to be a local legal entity that is able to own land and buildings. Land and buildings owned in Latvia by nonresident enterprises on long-term leases are not included.

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

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

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

The data on equity capital for listed enterprises are recorded primarily at market values. However, some data are recorded at book values, which is the value of the paid-up capital. The data on equity capital for unlisted enterprises are recorded at book values, which is the value of the paid-up capital. With effect from 2004, the BOL plans to value the equity capital of unlisted enterprises using the equity capital approach (that is, the net asset value) recommended by the ECB for such enterprises.

The data on other capital are recorded at book values, plus accrued interest.

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 monthly data (the most timely) are compiled by the Bank of Latvia (BOL) 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. (Prior to 2000, monthly data were not compiled.) These data are disseminated with a timeliness of 6 weeks after the end of the reference period on the BOL website <http://www.bank.lv>, and subsequently in the BOL's monthly bulletin, *Latvia's Balance of Payments*.

More comprehensive separately identifiable quarterly data are compiled by BOL 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 BOL website <http://www.bank.lv>, and subsequently in the BOL's quarterly bulletin, *Latvia's Balance of Payments*. The quarterly data are also reported to the IMF for publication.

##### Revision Practices

The monthly and quarterly data are preliminary when first released. The monthly data for the current quarter are revised to take account of the results of quarterly surveys and are disseminated quarterly together with the preliminary quarterly data for the latest quarter. At this time the monthly data are considered to be final, that is, between 1.5 and 3.5 months after their first release, depending on the month. The more comprehensive quarterly data are revised at the end of the next quarter if necessary to take account of revised source data and are disseminated together with the preliminary data for the latest quarter. The quarterly data for each calendar year are revised again one quarter after the end of the year to reflect information obtained from an annual survey that covers a larger number of enterprises than the quarterly survey. These revised quarterly data are disseminated together with the preliminary data for the latest quarter. At this time the quarterly data are generally considered to be final, that is, up to 9 months after their first release, although further revisions can be made as a result of ongoing data quality checks. As from 2004, the BOL plans to adopt the harmonized revision policy of Eurostat and the ECB.

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. The historical data are revised back for the last three years in instances of major changes in methodology or data collection systems. The public are also informed of major changes in methodology or data collection systems at least one month in advance.

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 preliminary monthly data are collected using a mixture of an individual transactions basis and an aggregate basis—the data on banks are collected on an aggregate basis and the data for non-banks are collected on an individual transactions basis. The more comprehensive quarterly data (and consequently the final data for the

related months) are collected using a mixture of an individual transactions basis and an aggregate basis—the data on banks are collected on an aggregate basis and the data for non-banks are collected primarily on an aggregate basis, with data collected on an individual transactions basis being used as secondary data sources. The reporting requirements are compulsory.

### **Data Sources**

The data for all components of the preliminary monthly data for the non-banking sector are compiled primarily 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, but not noncash transactions. The data for all components of the monthly data for the banking sector are compiled from banking statistics compiled by the BOL. Information from press reports are used as an additional data source for all components.

The more comprehensive quarterly data for all components of the non-banking sector are compiled primarily from a quarterly enterprise survey of resident direct investors. (The quarterly survey is a sample survey, and the aggregate data comprise the values of the transactions of the 450 largest enterprises, plus the grossed-up values of the transactions of samples of small and medium-sized enterprises. The transactions data are derived as the difference between the reported positions at the beginning and at the end of the reference quarter, with adjustments made to the data on other capital for reclassifications, price changes, and exchange rate changes.) Information from the ITRS and press reports is used as additional data sources for all components. An annual enterprise survey introduced in 2001, which covers all medium sized enterprises as well as a sample of small enterprises, is also used as an additional data source for the quarterly data on the non-banking sector. The more comprehensive quarterly data for all components of the banking sector are compiled primarily from banking statistics compiled by the BOL. (The transactions data are derived as the difference between the reported positions at the beginning and at the end of the reference quarter, with adjustments made to the data on other capital for reclassifications, price changes, and exchange rate changes.)

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

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the BOL and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, (iii) registers maintained by government licensing and regulatory authorities, (iv) the financial press, (v) compulsory direct investment surveys, (vi) the Central Statistical Bureau's Register of Economically Active Enterprises, and (vii) the State Enterprise Register. 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 income data and the direct investment financial flows data are compiled by the BOL with a timeliness of 3 months after the end of the reference period. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The data cover 29 countries and bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by residents of Latvia during 2003 (ranked in descending order) were: Sweden, Denmark, the Netherlands, Germany, and Estonia. The five countries with the largest amount of direct investment financial flows from Latvia during 2003 (ranked in descending order) were: Russia, the United States, Lithuania, Ukraine, and Norway.

In addition to the data showing country breakdowns, quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period 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 not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 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 reported to Eurostat, and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication.

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity for direct investment income and direct investment financial flows are compiled by the BOL with a timeliness of 3 months after the end of the reference period. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The data show a breakdown for 62 industrial activities. The classification used is NACE, Rev. 1.1, 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 five industrial activities with the largest amount of direct investment income from investment abroad by residents of Latvia during 2003 (in descending order) were: (i) real estate and business activities, (ii) construction, (iii) computer activities, (iv) manufacturing, and (v) other financial intermediation. The five industrial activities with the largest amount of direct investment financial flows from Latvia during 2003 (in descending order) were: (i) trade and repairs, monetary intermediation, (iii) real estate and business activities, (iv) transport and communications, and (v) construction.

Quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period 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. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. For direct investment income, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Sweden, Denmark, the Netherlands, Germany, and Estonia. For direct investment financial flows, the five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Russia, the United States, Lithuania, Ukraine, and Norway.

In addition, quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period 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. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 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 reported to 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 not applied. Specifically, (i) the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not 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. However, there are plans to introduce the FCS with effect from 2008.

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

### **Measurement of Direct Investment Earnings**

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

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

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

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (Prior to 2000, the data did not include negative reinvested earnings arising from net losses.)

### **Treatment of Income on Debt (Interest)**

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (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. (Prior to the data for 2000, the data did not exclude 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 for both incorporated enterprises and unincorporated enterprises are recorded on an accrual basis, (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 the treatment of other affiliated financial intermediaries and affiliated banks.

### **Treatment of Equity Capital**

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), and (iii) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover (i) participating preference [preferred] shares, and (ii) other non-voting stocks (shares), which are not applicable for residents of Latvia at present. 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) trade credits, and (v) financial leases. The data do not cover non-participating preference shares, which are not applicable for residents of Latvia at present. In accordance with the international standards, the data exclude (i) loan/debt guarantees provided by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, (iii) 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, and (iv) financial derivatives. (Prior to the data for 2000 the data did not exclude financial derivatives.) In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as loan capital representing a permanent interest.)

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

### **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 Latvia 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 Latvia 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 Latvia: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Latvia: Other Capital: Increase in Claims on Direct Investors", and both are reported as such to the IMF.

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

Not applicable. Activities of quasi-corporations involving the operation abroad by residents of Latvia of: (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date. (Ships belonging to Latvian companies flying under flags of convenience (so-called "one ship companies") and operating in international waters are treated as residents because the mother company registered in Latvia manages all the ships' operations.)

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

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

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

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

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

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises resident in Latvia. Contrary to the international standards, the equity capital data do not include purchases and sales of land and buildings abroad by individuals resident in Latvia, which are instead classified under Current Transfers in the balance of payments statistics. Land and buildings purchased abroad by enterprises resident in Latvia on long-term leases are not included.

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

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

#### **Exchange Rate Conversion**

For the data compiled in the national currency, all transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. For the data disseminated in US dollars, all transactions are converted at the average exchange rate for the month.

## DIRECT INVESTMENT ABROAD

### INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data are compiled by the Bank of Latvia (BOL) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 3 months after the end of the reference period on the BOL website <http://www.bank.lv>, and subsequently in the BOL’s quarterly bulletin, *Latvia’s Balance of Payments*. The data are also reported to the IMF for publication.

##### Revision Practices

The data are preliminary when first released. The data for the previous quarter are revised at the end of each quarter if necessary to take account of revised source data and are disseminated together with the preliminary data for the latest quarter. The quarterly data for each calendar year are revised again one quarter after the end of the year to reflect information obtained from an annual survey that covers a larger number of companies than the quarterly survey. These revised quarterly data are disseminated together with the preliminary data for the latest quarter. At this time the data are generally considered to be final, that is, 9 months after their first release. However, further revisions can be made as a result of ongoing data quality checks.

As from 2004, the BOL plans to adopt the harmonized revision policy of Eurostat and the ECB.

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. The historical data are revised back for the last three years in instances of major changes in methodology or data collection systems. The public are also informed of major changes in methodology or data collection systems at least one month in advance.

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 aggregate basis and an individual transactions basis—the data on direct investment for banks are collected on an aggregate basis, and while the data on direct investment for non-banks are collected primarily on an aggregate basis, data collected on an individual transactions basis are used as additional data sources. The reporting requirements are compulsory.

##### Data Sources

The data for all components for the non-banking sector are compiled primarily from quarterly and annual surveys of resident enterprises. (The quarterly survey is a sample survey, and the aggregate data comprise the values of the transactions of the 450 largest enterprises, plus the grossed-up values of the transactions of samples of small and medium-sized enterprises. An annual enterprise survey introduced in 2001, which covers all medium-sized enterprises as well as a sample of small enterprises, is also used as an additional data source for the quarterly data on the non-banking sector.) Information from (i) press reports, and (ii) 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, but not noncash transactions, can be used

as an additional data source for all components, but are primarily used for cross-checking the data. The data for the banking sector are compiled from banking statistics compiled by the BOL. 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 the BOL and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, (iii) registers maintained by government licensing and regulatory authorities, (iv) the financial press, (v) compulsory direct investment surveys, (vi) the Central Statistical Bureau's Register of Economically Active Enterprises, and (vii) the State Enterprise Register. 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 outward direct investment position data are compiled by the BOL and are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the BOL website <http://www.bank.lv>, and subsequently in the BOL's quarterly bulletin *Latvia's Balance of Payments*. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The data cover 91 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an "immediate country" basis. The five countries with the largest amount of direct investment from Latvia as at the end of 2003 (ranked in descending order) were: Lithuania, Cyprus, Russia, Estonia, and the United States.

In addition to the data showing country breakdowns, quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period 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. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period.

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

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity for the outward direct investment position data are compiled by the BOL and are disseminated quarterly with a timeliness of 3 months after the end of the reference period on the BOL website <http://www.bank.lv>, and subsequently in the BOL's quarterly bulletin *Latvia's Balance of Payments*. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The data show a breakdown for 181 industrial activities. The classification used is NACE, Rev. 1.1, 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 five industrial activities with the largest amount of direct investment in Latvia as at the end of 2003 (in descending order) were: (i) trade and repairs, (ii) manufacturing, (iii) financial intermediation, (iv) real estate and business activities, and (v) transport and communications.

Quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period for the outward direct investment position data showing a breakdown by both industrial activity and main partner country. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period. The five highest ranking partner countries as at the end of 2003 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Lithuania, Cyprus, Russia, Estonia, and the United States.

In addition, quarterly data are compiled by the BOL with a timeliness of 3 months after the end of the reference period for the outward direct investment position data showing a breakdown by both industrial activity and region/economic zone. The data are not disseminated, but are available on request. The data (annual rather than quarterly) are also reported to Eurostat, with a timeliness of 9 months after the end of the reference period.

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

## **B. Methodology**

### **Definition of Direct Investors**

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

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is not applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, there are plans to introduce the FCS with effect from 2008.

Enterprises in Latvia 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), and (iii) noncash acquisitions of equity, such as through the provision of capital equipment. The data do not cover (i) participating preference [preferred] shares, and (ii) other non-voting stocks (shares), which are not applicable for residents of Latvia at present. 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 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, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (Prior to 2000, the data did not include negative reinvested earnings arising from net losses.) (See also the section on the *Measurement*

*of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

#### **Treatment of Other Capital**

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. The data do not cover non-participating preference shares. In accordance with the international standards, the data exclude (i) loan/debt guarantees provided by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, (iii) 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, and (iv) financial derivatives. (Prior to the data for 2000, the data did not exclude financial derivatives.) In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as loan capital representing a permanent interest.)

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

#### **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 Latvia 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 Latvia 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 Latvia: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Latvia: Other Capital: Claims on Direct Investors", and both are reported as such to the IMF.

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

Not applicable. Activities of quasi-corporations involving the operation abroad by residents of Latvia of: (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date. (Ships belonging to Latvian companies flying under flags of convenience (so-called "one ship companies") and operating in international waters are treated as residents because the mother company registered in Latvia manages all the ships' operations.)

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

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

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

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

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

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

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises resident in Latvia. Contrary to the international standards, the equity capital data do not include ownership of land and buildings abroad by individuals resident in Latvia. Land and buildings owned abroad by enterprises resident in Latvia on long-term leases are not included.

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

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

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

The data on equity capital for listed enterprises are recorded at the lower value of either the acquisition cost or the market value. The data on equity capital for unlisted enterprises are recorded at the lower value of either the acquisition cost or the market value.

The data on other capital are recorded at book values, plus accrued interest.

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.