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.

Portugal:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in Portugal

- **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 PORTUGAL

BALANCE OF PAYMENTS ("INWARD TRANSACTIONS") DATA

A.   Compilation Practices and Data Sources

Data Availability

Separately identifiable monthly data are compiled by the Banco de Portugal 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 8 weeks after the end of the reference period in the Banco de Portugal's *Statistical Bulletin* and on the Banco de Portugal website (http://www.bportugal.pt). The data are also reported to the IMF (quarterly rather than monthly) and the OECD for publication.

Revision Practices

The data are preliminary when first released. The data are revised on a quarterly basis (at the end of the relevant quarter, at the end of the semester, and at the end of the year) to take account of revised source data and the revised data are disseminated quarterly together with the preliminary data for the latest month. The data are revised again to take account of data obtained from surveys of direct investment conducted every two years. At this time the data are considered to be final, that is, 12 months after the end of the reference year and 24 months after the end of the previous year, or up to 33 months after their first release. There are plans to move from biennial surveys to annual surveys beginning in 2005, which will reduce the time lag between the first release of the data and the time at which they are considered to be final.

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

Data Coverage

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

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

Data Collection Method

The data are collected on an individual transactions basis and the reporting requirements are compulsory.

Data Sources

The data for all components except reinvested earnings are compiled primarily from an international transactions reporting system (ITRS), which covers (i) cash transactions made through the domestic banking system, and (ii) cash transactions made through the foreign bank accounts of enterprises, but does not cover noncash transactions. Press reports are used as a secondary data source. The monthly data on reinvested earnings are estimated based on the latest available information obtained from annual enterprise surveys conducted every two years. The results of the biennial enterprise surveys of direct investment enterprises are used to revise the data—in particular the estimates of reinvested earnings.

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

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by the Banco de Portugal and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, (iii) the financial press, and (iv) compulsory direct investment surveys. 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

Monthly data showing breakdowns by country for the direct investment income data and for the direct investment financial flows data are compiled by the Banco de Portugal. The data are disseminated monthly with a timeliness of 8 weeks after the end of the reference period on the Banco de Portugal website http://www.bportugal.pt and subsequently in the Banco de Portugal publication *Boletim Estatistico.* The data (annual rather than monthly) are also reported to the OECD and Eurostat. The data cover all countries, but data for only 7 countries are disseminated in the national publications. Bilateral data are used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment in Portugal during 2002 (ranked in descending order) were: Germany, Spain, France, the Netherlands, and Luxembourg. The five countries with the largest amount of direct investment financial flows into Portugal during 2002 (ranked in descending order) were: Spain, Luxembourg, the United Kingdom, Brazil, and the Netherlands.

In addition to the data showing country breakdowns, monthly data are compiled by the Banco de Portugal showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU 25, (ii) the Euro area, and the OECD. The data are disseminated monthly with a timeliness of 8 weeks after the end of the reference period on the Banco de Portugal website cited above and subsequently in the Banco de Portugal publication *Boletim Estatistico.* Data (annual rather than monthly) are also reported to the OECD and Eurostat showing the regional/economic zone breakdowns required by those organizations.

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

Industrial Classification

Monthly data showing breakdowns by industrial activity for the direct investment income data and for the direct investment financial flows data are compiled by the Banco de Portugal. The data are disseminated monthly with a timeliness of 8 weeks after the end of the reference period on the Banco de Portugal website http://www.bportugal.pt and subsequently in the Banco de Portugal publication *Boletim Estatistico.* The data (annual rather than monthly) are also reported to the OECD and Eurostat. The data cover 11 industrial activities. The classification used is the Portuguese economic activity classification, which is based on NACE, Rev. 1, which in turn broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

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 Portugal during 2002 (in descending order) were: (i) wholesale and retail trade, repairs, hotels and restaurants, (ii) manufacturing, (iii) production and distribution of electricity, gas, and water, (iv) financial intermediation, and (v) other activities. The five industrial activities with the largest amount of direct investment financial flows into Portugal during 2002 (in descending order) were: (i) financial intermediation, (ii) transport, storage and communications, (iii) real estate, rentals and business activities, (iv) other activities, (v) production and distribution of electricity, gas, and water.

Monthly data are compiled by the Banco de Portugal with a timeliness of 6 weeks 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 five countries with the largest amount of direct investment income from investment in Portugal during 2002 (ranked in descending order) were: Germany, Spain, France, the Netherlands, and Luxembourg.

The five countries with the largest amount of direct investment financial flows into Portugal during 2002 (ranked in descending order) were: Spain, Luxembourg, the United Kingdom, Brazil, and the Netherlands.

Data showing a breakdown by both industrial activity and region/economic zone are not disseminated by the Banco de Portugal. However, these data can be obtained by the user by combining both the industrial activity data and the partner country data.

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

B.   Methodology

Definition of Direct Investment Enterprises in Portugal

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Portugal 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. (Contrary to the international standards, prior to 2002, enterprises in which the nonresident investor owned less than 10 percent but had an effective voice in management, as evidenced by the existence of stable and lasting economic links between the direct investor and the direct investment enterprise, were also included.) In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

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

Enterprises in Portugal are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

Measurement of Direct Investment Earnings

Contrary to the international standards, the "Current Operating Performance Concept" (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) deductions are 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 excluded, and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, interest receivable/payable is not included.

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) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between

the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are paid, rather than on the date they are declared payable, and (ii) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits

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

Treatment of Income on Debt (Interest)

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

Treatment of Equity Capital

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

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) changes in insurance company technical reserves, (iii) loan/debt guarantees provided by direct investors or related direct investment enterprises, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being loan capital representing a permanent interest.)

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 cannot be identified from the present data sources.

Treatment of Reverse Investment

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

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

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

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in Portugal by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

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

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in Portugal by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Portugal 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 Portugal by nonresident enterprises and nonresident individuals. Land and buildings purchased in Portugal by nonresident enterprises and nonresident individuals on long-term leases are included. (Long-term leases are defined as being leases with a duration of more than one year.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration in Portugal by nonresidents is included in the equity capital data, and (ii) in instances of the shutdown of a direct investment enterprise established in Portugal by nonresidents for natural resource exploration no transactions are shown in the balance of payments statistics. Expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is not applicable, as such expenditure has not occurred to date.

Exchange Rate Conversion

All transactions except reinvested earnings are primarily converted to the unit of account at the exchange rate prevailing on the day of the transaction, although some are converted at the average exchange rate for the period. The data for reinvested earnings are primarily converted to the unit of account at the average exchange rate for the period, although some are converted at the exchange rate prevailing on the day of the transaction.

DIRECT INVESTMENT IN PORTUGAL

INTERNATIONAL INVESTMENT POSITION LIABILITIES ("INWARD POSITION DATA")

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Banco de Portugal 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 8 weeks after the end of the reference period in the Banco de Portugal's *Statistical Bulletin* and on the Banco de Portugal website (http://www.bportugal.pt). The data are also reported to the IMF and the OECD for publication.

In addition, separately identifiable annual data (the most comprehensive) are compiled by the Banco de Portugal within the IIP framework on (a) equity capital and reinvested earnings, and (b) other capital. The data are disseminated with a timeliness of between 12 ands 24 months after the end of the reference year in the Banco de Portugal's *Statistical Bulletin* and on the Banco de Portugal website (http://www.bportugal.pt) – data for the latest year are disseminated with a timeliness of 12 months and those for the previous year are disseminated with a timeliness of 24 months. The data are also reported to the IMF and the OECD for publication.

Revision Practices

The data are preliminary when first released. The quarterly data are revised in the event of any revisions to the monthly transactions data for the relevant quarter and the revised data are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data are revised again to take account of data obtained from surveys of direct investment conducted every two years. At this time the data are considered to be final, that is, 12 months after the end of the reference year and 24 months after the end of the previous year, or up to 31 months after their first release. The annual data are final when first released. There are plans to move from biennial surveys to annual surveys beginning in 2005, which will reduce the time lag between the first release of the data and the time at which they are considered to be final.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. The historical data are revised as far back as 1996 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 and OECD for publication.

Data Coverage

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

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

Data Collection Method

The data are collected using a mixture of an individual transactions basis (an international transactions reporting system [ITRS]) and an aggregate basis (an enterprise survey). The reporting requirements are compulsory.

Data Sources

All components of the quarterly data are compiled primarily from (a) an international transactions reporting system (ITRS), which covers (i) cash transactions made through the domestic banking system, and (ii) cash transactions made through the foreign bank accounts of enterprises, but does not cover noncash transactions, and (b) an annual survey of resident enterprises, using a form of perpetual inventory method (a method for deriving position data from transactions data). Specifically, the quarterly data are compiled by adding the

cumulative monthly transactions for the quarter to the outstanding position data obtained from the latest biennial enterprise survey. Adjustments are made for exchange rate changes, based on estimates, but no adjustments are made to the transactions data for price changes, or other nontransaction changes. Press reports are used as a secondary data source, and information obtained from the Central Balance Sheet Data Unit of the Banco de Portugal are also used to adjust the data on the reinvested earnings of nonfinancial enterprises, and for cross-checking purposes.

All components of the annual data are compiled primarily from annual enterprise surveys of resident direct investment enterprises conducted every two years. Press reports are used as a secondary data source, and information obtained from the Central Balance Sheet Data Unit of the Banco de Portugal are also used to adjust the data on the reinvested earnings of nonfinancial enterprises, and for cross-checking purposes.

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

A business register of enterprises involved in direct investment is used to compile the inward direct investment position data. The register is maintained by the Banco de Portugal and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, (iii) the financial press, and (iv) compulsory direct investment surveys. 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 and annual data showing breakdowns by country are compiled by the Banco de Portugal for the inward direct investment position data, with a timeliness of 8 weeks for the quarterly data, and 12-24 months for the annual data. These data are not disseminated, but are available on request. The annual data are also reported to the OECD and Eurostat. The data cover all countries and bilateral data are used in the compilation of the data.

In accordance with the international standards, the data made available on request are compiled on an "immediate country" basis. Data are also compiled on an ultimate country basis, but are not disseminated. The five countries with the largest amount of direct investment in Portugal as at the end of 2002 (ranked in descending order) were: Spain, the Netherlands, the United Kingdom, Luxembourg, and Germany.

In addition to the data showing country breakdowns, annual data are reported to the OECD and Eurostat showing the regional/economic zone breakdowns required by those organizations. These data are not disseminated, and are not available on request.

There are no 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 for publication, and the aggregate inward position data reported to the IMF for publication.

Industrial Classification

Quarterly and annual data showing breakdowns by industrial activity are compiled by the Banco de Portugal for the inward direct investment position data, with a timeliness of 8 weeks for the quarterly data, and 12-24 months for the annual data. These data are not disseminated, but are available on request. The annual data are also reported to the OECD and Eurostat. The data cover 11 industrial activities. The classification used is the Portuguese economic activity classification, which is based on NACE, Rev. 1, which in turn broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The inward direct investment position data are classified the basis of the industrial activity of the resident direct investment enterprises. In addition, data based on the industry of the nonresident direct investors are compiled but are not disseminated. The five industrial activities with the largest amount of direct investment in Portugal as at the end of 2002 (in descending order) were: (i) real estate, rentals, and business activities, (ii) wholesale and retail trade, repairs, hotels, and restaurants, (iii) financial intermediation, (iv) manufacturing, and (v) other activities.

Quarterly and annual data are compiled by the Banco de Portugal with a timeliness of 8 weeks for the quarterly data, and 12-24 months for the annual data, 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 five highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are available on request were: Spain, the Netherlands, the United Kingdom, Luxembourg, and Germany.

Data showing a breakdown by both industrial activity and region/economic zone are not disseminated by the Banco de Portugal for the inward position data. However, these data can be obtained by the user by combining both the industrial activity data and the partner country data.

There are no 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 for publication, and the aggregate inward position data reported to the IMF for publication.

B.   Methodology

Definition of Direct Investment Enterprises in Portugal

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Portugal 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. (Contrary to the international standards, prior to 2002, enterprises in which the nonresident investor owned less than 10 percent but had an effective voice in management, as evidenced by the existence of stable and lasting economic links between the direct investor and the direct investment enterprise, were also 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.

Enterprises in Portugal are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

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

The data on reinvested earnings 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. (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 Portugal.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) changes in insurance company technical reserves, (iii) loan/debt guarantees provided by direct investors or related direct investment enterprises, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being loan capital representing a permanent interest.)

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 cannot be identified from the present data sources.

Treatment of Reverse Investment

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

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

Assuming that the direct investment enterprise is a resident of Portugal 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 "Liabilities: Direct Investment in Portugal: Equity Capital: Claims on Direct Investors" and loan positions are recorded as "Liabilities: Direct Investment in Portugal: Other Capital: Claims on Direct Investors", and both are reported as such to the IMF.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in Portugal by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

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

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in Portugal by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Portugal 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 quarterly equity capital data include ownership of land and buildings in Portugal by nonresident enterprises and nonresident individuals. However, the coverage is considered to be poor, as only that portion of the data that is derived from the ITRS include purchases and sales of land and buildings. Land and buildings purchased in Portugal by nonresident enterprises and nonresident individuals on long-term leases are included. (Long-term leases are defined as being leases with a duration of more than one year.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration in Portugal by nonresidents is included in the equity capital data and (ii) in instances of the shutdown of a direct investment enterprise established in Portugal by nonresidents for natural resource exploration, an adjustment to reflect that shutdown is made to the liabilities data on direct investment equity capital in the international investment position statistics. Expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources are not applicable, as such expenditure has not occurred to date.

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 ECB concept of "own funds book values" (OFBV).

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

The book values used are those shown in the accounting records of both the resident direct investment enterprises, and the nonresident direct investors. (Some items are taken from the accounting records of the resident direct investment enterprises, while the remainder are obtained from the accounting records of 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 are compiled by the Banco de Portugal 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 8 weeks after the end of the reference period in the Banco de Portugal's *Statistical Bulletin* and on the Banco de Portugal website (http://www.bportugal.pt). The data are also reported to the IMF (quarterly rather than monthly) and the OECD for publication.

Revision Practices

The data are preliminary when first released. The data are revised on a quarterly basis (at the end of the relevant quarter, at the end of the semester, and at the end of the year) to take account of revised source data and the revised data are disseminated quarterly together with the preliminary data for the latest month. The data are revised again to take account of data obtained from surveys of direct investment conducted every two years. At this time the data are considered to be final, that is, 12 months after the end of the reference year and 24 months after the end of the previous year, or up to 33 months after their first release. There are plans to move from biennial surveys to annual surveys beginning in 2005, which will reduce the time lag between the first release of the data and the time at which they are considered to be final.

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

Data Coverage

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

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

Data Collection Method

The data are collected on an individual transactions basis and the reporting requirements are compulsory.

Data Sources

The data for all components except reinvested earnings are compiled primarily from an international transactions reporting system (ITRS), which covers (i) cash transactions made through the domestic banking system, and (ii) cash transactions made through the foreign bank accounts of enterprises, but does not cover noncash transactions. Press reports are used as a secondary data source. The monthly data on reinvested earnings are estimates based on the latest available information obtained from annual enterprise surveys conducted every two years. The results of the biennial enterprise surveys of direct investment enterprises are used to revise the data—in particular the estimates of reinvested earnings.

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

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the Banco de Portugal and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, (iii) the financial press, and (iv) compulsory direct investment surveys. 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

Monthly data showing breakdowns by country for the direct investment income data and for the direct investment financial flows data are compiled by the Banco de Portugal. The data are disseminated monthly with a timeliness of 8 weeks after the end of the reference period on the Banco de Portugal website http://www.bportugal.pt and subsequently in the Banco de Portugal publication *Boletim Estatistico.* The data (annual rather than monthly) are also reported to the OECD and Eurostat. The data cover all countries, but data for only 7 countries are disseminated in the national publications. Bilateral data are used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by residents of Portugal during 2002 (ranked in descending order) were: the Cayman Islands, Ireland, Angola, Macao, SAR, and Poland. The five countries with the largest amount of direct investment financial flows from Portugal during 2002 (ranked in descending order) were: Spain, the Netherlands, Brazil, the Cayman Islands, and the United States.

In addition to the data showing country breakdowns, monthly data are compiled by the Banco de Portugal showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU 25, (ii) the Euro area, and the OECD. The data are disseminated monthly with a timeliness of 8 weeks after the end of the reference period on the Banco de Portugal website cited above and subsequently in the Banco de Portugal publication *Boletim Estatistico.* Data (annual rather than monthly) are also reported to the OECD and Eurostat showing the regional/economic zone breakdowns required by those organizations.

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

Industrial Classification

Monthly data showing breakdowns by industrial activity for the direct investment income data and for the direct investment financial flows data are compiled by the Banco de Portugal. The data are disseminated monthly with a timeliness of 8 weeks after the end of the reference period on the Banco de Portugal website http://www.bportugal.pt and subsequently in the Banco de Portugal publication *Boletim Estatistico.* The data (annual rather than monthly) are also reported to the OECD and Eurostat. The data cover 11 industrial activities. The classification used is the Portuguese economic activity classification, which is based on NACE, Rev. 1, which in turn broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investors. In addition, data compiled on the basis of the industrial activity of the nonresident direct investment enterprise are compiled, but not disseminated. The five industrial activities with the largest amount of direct investment income from investment abroad by residents of Portugal during 2002 (in descending order) were: (i) real estate, rentals, and business activities, (ii) financial intermediation, (iii) manufacturing, (iv) other activities, and (v) wholesale and retail trade, repairs, hotels and restaurants. The five industrial activities with the largest amount of direct investment financial flows from Portugal during 2002 (in descending order) were: (i) real estate, rentals, and business activities, (ii) manufacturing, (iii) other activities, (iv) construction, and (v) production and distribution of electricity, gas, and water.

Monthly data are compiled by the Banco de Portugal with a timeliness of 6 weeks 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 five countries with the largest amount of direct investment income from investment abroad by residents of Portugal during 2002 (ranked in descending order) were: the Cayman Islands, Ireland, Angola,

Macao SAR, and Poland. The five countries with the largest amount of direct investment financial flows from Portugal during 2002 (ranked in descending order) were: Spain, the Netherlands, Brazil, the Cayman Islands, and the United States.

Data showing a breakdown by both industrial activity and region/economic zone are not compiled by the Banco de Portugal. However, these data can be compiled by the user by combining both the industrial activity data and the partner country data.

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

B.   Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—than 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. (Contrary to the international standards, prior to 2002, enterprises abroad in which the resident investor owned less than 10 percent but had an effective voice in management, as evidenced by the existence of stable and lasting economic links between the direct investor and the direct investment enterprise, were also included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

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

Enterprises in Portugal are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

Measurement of Direct Investment Earnings

Contrary to the international standards, the "Current Operating Performance Concept" (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) deductions are 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 excluded, and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, interest receivable/payable is not included.

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) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily

engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are paid, rather than on the date they are declared payable, and (ii) dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits

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

Treatment of Income on Debt (Interest)

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

Treatment of Equity Capital

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

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) changes in insurance company technical reserves, (iii) loan/debt guarantees provided by direct investors or related direct investment enterprises, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being loan capital representing a permanent interest.)

Instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise cannot be identified from the present data sources.

Treatment of Reverse Investment

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

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

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

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation abroad by residents of Portugal of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Portugal 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 Portugal are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Portugal 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 and individuals resident in Portugal. Land and buildings purchased abroad by enterprises and individuals resident in Portugal on long-term leases are included. (Long-term leases are defined as being leases with a duration of more than one year.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration abroad by residents of Portugal is included in the equity capital data, and (ii) in instances of the shutdown of a direct investment enterprise established abroad by residents of Portugal for natural resource exploration, no transactions are shown in the balance of payments statistics. Expenditure on bonus payments made by residents of Portugal to the host country for the right to undertake exploration for natural resources are not applicable, as such expenditure has not been identified to date.

Exchange Rate Conversion

All transactions except reinvested earnings are primarily converted to the unit of account at the exchange rate prevailing on the day of the transaction, although some are converted at the average exchange rate for the

period. The data for reinvested earnings are primarily converted to the unit of account at the average exchange rate for the period, although some are converted at the exchange rate prevailing on the day of the transaction.

DIRECT INVESTMENT ABROAD

INTERNATIONAL INVESTMENT POSITION ASSETS ("OUTWARD POSITION DATA")

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Banco de Portugal 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 8 weeks after the end of the reference period in the Banco de Portugal's *Statistical Bulletin* and on the Banco de Portugal website (http://www.bportugal.pt). The data are also reported to the IMF and the OECD for publication.

In addition, separately identifiable annual data (the most comprehensive) are compiled by the Banco de Portugal within the IIP framework on (a) equity capital and reinvested earnings, and (b) other capital. The data are disseminated with a timeliness of between 12 ands 24 months after the end of the reference year in the Banco de Portugal's *Statistical Bulletin* and on the Banco de Portugal website (http://www.bportugal.pt) – data for the latest year are disseminated with a timeliness of 12 months and those for the previous year are disseminated with a timeliness of 24 months. The data are also reported to the IMF and the OECD for publication.

Revision Practices

The data are preliminary when first released. The quarterly data are revised in the event of any revisions to the monthly transactions data for the relevant quarter and the revised data are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data are revised again to take account of data obtained from surveys of direct investment conducted every two years. At this time the data are considered to be final, that is, 12 months after the end of the reference year and 24 months after the end of the previous year, or up to 31 months after their first release. The annual data are final when first released. There are plans to move from biennial surveys to annual surveys beginning in 2005, which will reduce the time lag between the first release of the data and the time at which they are considered to be final.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. The historical data are revised as far back as 1996 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 and OECD for publication.

Data Coverage

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

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

Data Collection Method

The data are collected using a mixture of an individual transactions basis (an international transactions reporting system [ITRS]) and an aggregate basis (an enterprise survey). The reporting requirements are compulsory.

Data Sources

All components of the quarterly data are compiled primarily from (a) an international transactions reporting system (ITRS), which covers (i) cash transactions made through the domestic banking system, and (ii) cash transactions made through the foreign bank accounts of enterprises, but does not cover noncash transactions, and (b) an annual survey of resident direct investors, using a form of perpetual inventory method (a method for deriving position data from transactions data). Specifically, the quarterly data are compiled by adding the

cumulative monthly transactions for the quarter to the outstanding position data obtained from the latest biennial enterprise survey. Adjustments are made for exchange rate changes, based on estimates, but no adjustments are made to the transactions data for price changes, or other nontransaction changes. Press reports are used as a secondary data source, and information obtained from the Central Balance Sheet Data Unit of the Banco de Portugal are also used to adjust the data on the reinvested earnings of nonfinancial enterprises, and for cross-checking purposes.

All components of the annual data are compiled primarily from annual enterprise surveys of resident direct investment enterprises conducted every two years. Press reports are used as a secondary data source, and information obtained from the Central Balance Sheet Data Unit of the Banco de Portugal are also used to adjust the data on the reinvested earnings of nonfinancial enterprises, and for cross-checking purposes.

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

A business register of enterprises involved in direct investment is used to compile the outward direct investment position data. The register is maintained by the Banco de Portugal and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, (iii) the financial press, and (iv) compulsory direct investment surveys. 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 and annual data showing breakdowns by country are compiled by the Banco de Portugal for the outward direct investment position data, with a timeliness of 8 weeks for the quarterly data, and 12-24 months for the annual data. These data are not disseminated, but are available on request. The annual data are also reported to the OECD and Eurostat. The data cover all countries and bilateral data are used in the compilation of the data.

In accordance with the international standards, the data are compiled on an "immediate country" basis. The five countries with the largest amount of direct investment from Portugal as at the end of 2002 (ranked in descending order) were: Spain, Brazil, the Netherlands, the United Kingdom, and Ireland.

In addition to the data showing country breakdowns, annual data are reported to the OECD and Eurostat showing the regional/economic zone breakdowns required by those organizations. These data are not disseminated, and are not available on request.

There are no 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 the aggregate outward position data reported to the IMF for publication.

Industrial Classification

Quarterly and annual data showing breakdowns by industrial activity are compiled by the Banco de Portugal for the outward direct investment position data, with a timeliness of 8 weeks for the quarterly data, and 12-24 months for the annual data. These data are not disseminated, but are available on request. The annual data are also reported to the OECD and Eurostat. The data cover 11 industrial activities. The classification used is the Portuguese economic activity classification, which is based on NACE, Rev. 1, which in turn broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The outward direct investment position data are classified on the basis of the industrial activity of the resident direct investors. In addition, data based on the industry of the nonresident direct investment enterprises are compiled and reported to the OECD for publication but are not disseminated in the national publications. The five industrial activities with the largest amount of direct investment from Portugal as at the end of 2002 (in descending order) were: (i) real estate, rentals, and business activities, (ii) financial intermediation, (iii) wholes and retail trade, repairs, hotels, and restaurants, (iv) transport, storage, and communications, and (v) manufacturing.

Quarterly and annual data are compiled by the Banco de Portugal with a timeliness of 8 weeks for the quarterly data, and 12-24 months for the annual data, 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 five highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are available on request were: Spain, Brazil, the Netherlands, the United Kingdom, and Ireland.

Data showing a breakdown by both industrial activity and region/economic zone are not disseminated by the Banco de Portugal for the outward direct investment position data. However, these data can be obtained by the user by combining both the industrial activity data and the partner country data.

There are no 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 for publication, 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—than 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. (Contrary to the international standards, prior to 2002, enterprises abroad in which the resident investor owned less than 10 percent but had an effective voice in management, as evidenced by the existence of stable and lasting economic links between the direct investor and the direct investment enterprise, were also 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.

Enterprises in Portugal are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

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

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

are earned, (ii) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) changes in insurance company technical reserves, (iii) loan/debt guarantees provided by direct investors, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt id defined as being loan capital representing a permanent interest.)

Instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise cannot be identified from the present data sources.

Treatment of Reverse Investment

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

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

Assuming that the direct investment enterprise is a resident of Portugal 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 "Liabilities: Direct Investment in Portugal: Equity Capital: Claims on Direct Investors" and loan positions are recorded as "Liabilities: Direct Investment in Portugal: Other Capital: Claims on Direct Investors", and both are reported as such to the IMF.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation abroad by residents of Portugal of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Portugal 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 Portugal are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Portugal 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 quarterly equity capital data include ownership of land and buildings abroad by enterprises and individuals resident in Portugal. Land and buildings owned abroad by enterprises and individuals resident in Portugal on long-term leases are included. (Long-term leases are defined as being leases with a duration of more than one year.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) expenditure related to natural resources exploration abroad by residents of Portugal is included in the equity capital data, and (ii) in instances of the shutdown of a direct investment enterprise established abroad by residents of Portugal for natural resource exploration, an adjustment to reflect that shutdown is made to the assets data on direct investment equity capital in the international investment position statistics. Expenditure on bonus payments made by residents of Portugal to the host country for the right to undertake exploration for natural resources are not applicable, as such expenditure has not occurred to date.

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 ECB concept of "own funds book values" (OFBV).

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

The book values used are those shown in the accounting records of both the resident direct investors, and the resident direct investment enterprises. (Some items are taken from the accounting records of the resident direct investors, while the remainder are obtained from the accounting records of 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.