

This metadata describes the compilation practices, sources and methodology in use in 2001. 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

Contact person:

Mr. Aigars Kalnins
Deputy Head
Balance of Payments Division
Statistics Department
Bank of Latvia
Kr. Valdemara 2a
Riga, LV-1050, Latvia

Telephone: (371) 7022-714
Fax: (371) 7022-407
E-mail: aigarsk@bank.lv

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”)**

[Glossary of Direct Investment Terms and Definitions](#)

DIRECT INVESTMENT IN LATVIA
BALANCE OF PAYMENTS (“TRANSACTIONS DATA”)

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) direct investment income (income on equity, reinvested earnings, and income on debt [interest]) and (ii) direct investment financial flows (equity capital and other capital) are disseminated with a timeliness of approximately 3 months after the end of the reference quarter—specifically, the last business day of the following quarter.

Revision Policy: The data are revised at the time of the next release of the quarterly data. The data for each quarter of the calendar year are also revised one quarter after the end of the year, to reflect information obtained from an annual survey of direct investment that covers a larger number of enterprises than the quarterly surveys. At that time the data become final.

Data coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Data are collected on an aggregate basis, and reporting requirements are compulsory.

Data Sources: The data are compiled primarily from three sources: (i) quarterly and annual enterprise surveys of foreign investment, (ii) data submitted by the Financial and Capital Market Commission on investment in credit institutions' share capital, the distribution of share premiums, and credit institutions' annual profit and loss statements, supplemented by banking statistics compiled by the Bank of Latvia; and (iii) data from the State Enterprise Register on recently established enterprises with capital participation by nonresidents. The transactions data are derived from the stock (position) data, with adjustments for exchange rates changes, etc. Data from an international transactions reporting system (ITRS) are used as a secondary source. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from (i) the ITRS list of transactors, (ii) other statistical collection forms, (iii) registers maintained by government licensing and regulatory authorities, (iv) the financial press, and (v) the Central Statistical Bureau's Register of Economically Active Enterprises. The latter is continuously updated using information from a Register Survey, regular business surveys, the administrative State Enterprise register, the VAT register etc.

Geographic Classification: Quarterly data showing country breakdowns are disseminated for direct investment income and financial flows with a timeliness of 3 months. In accordance with the international standards, the debtor/creditor principle, rather than the transactor principle, is used as the basis for the geographic allocation of the data. Bilateral information is not used in the compilation of the data. Data are also disseminated showing breakdowns of direct investment income and financial flows by regions or economic zones for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, and (viii) the breakdown set out in the Eurostat Balance of Payments *Vade Mecum*. The five countries with the largest amount of direct investment flows into Latvia during 2001 (ranked in descending order) were: Sweden, Estonia, Germany, Norway, and the United States.

Industrial Classification: Quarterly data showing a breakdown by industry are disseminated for direct investment income and financial flows with a timeliness of 3 months. The data are based on the industry of the resident direct investment enterprise. The classification is based on the industrial structure used for the Nomenclature generale des Activites economiques dans les Communautés europeenes (NACE), Rev. 1, the classification system used by Eurostat. Data are disseminated broken down by industrial sector/region or economic zone for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, and (viii) the breakdown set out in the Eurostat Balance of Payments *Vade Mecum*. Data showing a breakdown by industrial sector/partner country are also disseminated.

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. Enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. No

value threshold is used to identify 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 by the international standards is partially applied. In accordance with the FCS, the direct investment financial flows data include the equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises. However, contrary to the FCS, the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises. Enterprises in Latvia are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, 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 used to calculate earnings of direct investment enterprises. Specifically, (i) deductions are not made for depreciation of capital, or for provisions for host-country income and corporation taxes; and (ii) realized and unrealized capital gains and losses, write-offs, and exchange rate gains or losses are included. In accordance with the international standards, when a direct investment enterprise makes a loss, the net loss is recorded as negative reinvested earnings.

Treatment of Income on Equity (Dividends and Distributed Branch Profits): The data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, dividends and distributed branch profits are recorded on (i) the date they are payable and (ii) gross of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits: The data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, reinvested earnings and undistributed branch profits are recorded in the period in which they are earned.

Treatment of Income on Debt (Interest): The data cover interest income from: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, and (iv) trade credits. In accordance with the international standards, the data do not include interest from financial derivatives. Contrary to the international standards, interest on deposits, loans and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries is included. In accordance with the international standards, the data are compiled on an accrual basis.

Treatment of Equity Capital: The data cover: (i) listed voting stocks (shares), (ii) unlisted voting stocks, and (iii) non-cash acquisitions of equity, such as through the provision of capital equipment. Other non-voting stocks (including participating preference shares) are not applicable in Latvia at present. In accordance with the international standards, the data include equity transactions between affiliated banks and between affiliated financial intermediaries.

Treatment of Other Capital: The data cover (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, and (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. In accordance with the international standards, transactions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries are included.

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 Latvia and the direct investor is a nonresident: (i) when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, equity and loan transactions are recorded as “Direct Investment Abroad: Increase in Claims on Affiliated Enterprises”; and (ii) when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity and loan transactions are recorded as “Direct Investment in Latvia: Increase in Claims on Direct Investors”.

Treatment of Quasi-corporations: Quasi-corporations involving the operation in Latvia by nonresidents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises, are not applicable at present.

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 generally included in the data, and (ii) in the case of SPEs established in Latvia by nonresidents that have the sole purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries, except transactions in equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include purchases and sales of land and buildings in Latvia by nonresident enterprises and individuals.

Treatment of Natural Resources Exploration: In accordance with the international standards, expenditure on natural resource exploration in Latvia by nonresidents is included in the data.

Exchange Rate Conversion: Income transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Other transactions are converted to the unit of account primarily at the average exchange rate in the period in which the transactions are recorded.

DIRECT INVESTMENT IN LATVIA
INTERNATIONAL INVESTMENT POSITION (“POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) equity capital and reinvested earnings, and (ii) other capital, are disseminated with a timeliness of approximately 3 months after the end of the reference quarter—specifically, the last business day of the following quarter.

Revision Policy: The data are revised at the time of the next release of the quarterly data. The data for each quarter of the calendar year are also revised one quarter after the end of the year, to reflect information obtained from an annual survey of direct investment that covers a larger number of enterprises than the quarterly surveys. At that time the data become final.

Data coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Reporting requirements are compulsory.

Data Sources: The data are compiled primarily from three sources: (i) quarterly and annual enterprise surveys of foreign investment, (ii) data submitted by the Financial and Capital Market Commission on investment in credit institutions' share capital, the distribution of share premiums, and credit institutions' annual profit and loss statements, supplemented by banking statistics compiled by the Bank of Latvia; and (iii) data from the State Enterprise Register on recently established enterprises with capital participation by nonresidents. Data from an international transactions reporting system (ITRS) are used as a secondary source. The perpetual inventory method (a method for deriving position data from transactions data) is partially used, in that, although the positions at the beginning of the calendar year are obtained from the annual enterprise survey, which has a wider coverage than the quarterly surveys, within the calendar year the positions at the end of each quarter are compiled by adding the grossed-up transactions during the quarter to the positions at the beginning of the same quarter, with adjustments for exchange rate changes etc. A business register of enterprises involved in direct investment is maintained. This register 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, and (v) the Central Statistical Bureau's Register of Economically Active Enterprises. The latter is continuously updated using information from a Register Survey, regular business surveys, the administrative State Enterprise register, the VAT register etc.

Geographic Classification: Quarterly data showing country breakdowns are disseminated with a timeliness of 3 months. In accordance with the international standards, the data are compiled on an “immediate country” basis. Bilateral information is not used in the compilation of the data. Data are also disseminated showing breakdowns of position data by regions or economic zones for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, and (viii) the breakdown set out in the Eurostat Balance of Payments *Vade Mecum*. The five countries with the largest amounts of direct investment in Latvia as at the end of 2001 (ranked in descending order) were: Sweden, Estonia, Germany, Denmark, and the United States.

Industrial Classification: Quarterly data showing a breakdown by industry are disseminated with a timeliness of 3 months. The data are based on the industry of the resident direct investment enterprise. The classification is based on the industrial structure used for the Nomenclature generale des Activites economiques dans les Communautés europeenes (NACE), Rev. 1, the classification system used by Eurostat. Data are disseminated showing a breakdown by industrial sector/region or economic zone for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, and (viii) the breakdown set out in the Eurostat Balance of Payments *Vade Mecum*. Data showing a breakdown by industrial sector/partner country are also disseminated.

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. Enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. No

value threshold is used to identify 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 by the international standards is not applied. Specifically, the relevant share of indirectly-owned direct investment enterprises is not included in: (i) the reinvested earnings data, and (ii) the equity capital and other capital position data. Enterprises in Latvia are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, and (ii) identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings: The data cover the following position data affecting equity capital and reinvested earnings: (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) non-cash acquisitions of equity, such as through the provision of capital equipment, and (iv) reinvested earnings. Other non-voting stocks (including participating preference shares) are not applicable in Latvia at present. In accordance with the international standards, the data include equity positions between affiliated banks and between affiliated financial intermediaries. The reinvested earnings data cover both incorporated and unincorporated enterprises and, in accordance with the international standards, are recorded in the period in which they are earned. (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 data cover: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, and (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. In accordance with the international standards, position data associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries are included.

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 Latvia and the direct investor is a nonresident: (i) when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, equity and loan positions are recorded as “Assets: Direct Investment Abroad: Claims on Affiliated Enterprises”; and (ii) when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity and loan positions are recorded as “Liabilities: Direct Investment in Latvia: Claims on Direct Investors”.

Treatment of Quasi-corporations: Quasi-corporations involving the operation in Latvia by nonresidents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises, are not applicable at present.

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 generally included in the direct investment data, and (ii) in the case of SPEs established in Latvia by nonresidents that have the sole purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries, except positions involving equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include ownership of land and buildings in Latvia by nonresident enterprises and individuals.

Treatment of Natural Resources Exploration: In accordance with the international standards, expenditure on natural resource exploration in Latvia is included in the data.

Valuation: Contrary to the international standards, the data for equity capital and other capital are recorded primarily at book values, which is usually the nominal value of the capital. However, some positions are recorded at market value.

Exchange Rate Conversion: The exchange rate used to convert foreign currencies into the unit of account is that prevailing on the day to which the position data relate.

LATVIA: DIRECT INVESTMENT ABROAD
BALANCE OF PAYMENTS (“TRANSACTIONS DATA”)

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) direct investment income (income on equity, reinvested earnings, and income on debt [interest]) and (ii) direct investment financial flows (equity capital and other capital) are disseminated with a timeliness of approximately 3 months after the end of the reference quarter—specifically, the last business day of the following quarter.

Revision Policy: The data are revised at the time of the next release of the quarterly data. The data for each quarter of the calendar year are also revised one quarter after the end of the year, to reflect information obtained from an annual survey of direct investment that covers a larger number of enterprises than the quarterly surveys. At that time the data become final.

Data coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Data are collected on an aggregate basis, and reporting requirements are compulsory.

Data Sources: The data are compiled primarily from two sources: (i) quarterly and annual enterprise surveys of foreign investments, and (ii) banking statistics compiled by the Bank of Latvia. The transactions data are derived from the stock (position) data, with adjustments for exchange rates changes, etc. Data from an international transactions reporting system (ITRS) are used as a secondary source. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from (i) the ITRS list of transactors, (ii) other statistical collection forms, and (iii) the financial press.

Geographic Classification: Quarterly data showing country breakdowns are disseminated for direct investment income and financial flows with a timeliness of 3 months. In accordance with the international standards, the debtor/creditor principle, rather than the transactor principle, is used as the basis for the geographic allocation of the data. Bilateral information is not used in the compilation of the data. Data are also disseminated showing breakdowns of direct investment income and financial flows by regions or economic zones for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, and (viii) the breakdown set out in the Eurostat Balance of Payments *Vade Mecum*. The five countries with the largest amount of direct investment from Latvian residents during 2001 (ranked in descending order) were: Russia, Sweden, Germany, Norway, and the United Kingdom.

Industrial Classification: Quarterly data showing a breakdown by industry are disseminated for direct investment income and financial flows, with a timeliness of 3 months. The data are based on the industry of the resident direct investor. The classification is based on the industrial structure used for the Nomenclature generale des Activites economiques dans les Communautes europeenes (NACE), Rev. 1, the classification system used by Eurostat. Data are disseminated broken down by industrial sector and by region/economic zone for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, and (viii) the breakdown set out in the Eurostat Balance of Payments *Vade Mecum*. Data showing a breakdown by industrial sector/partner country are also disseminated.

B. Methodology

Definition of Direct Investors Abroad: In accordance with the international standards, the basic criterion for defining direct investors abroad is 10 percent ownership of a nonresident enterprise by a resident investor, regardless of whether the investor has an effective voice in management. Investors which own less than 10 percent of a direct investment enterprise but have an effective voice in management are not included. No value threshold is used to identify direct investors abroad and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly-Owned Direct Investment Enterprises: The “Fully Consolidated System” (FCS) recommended by the international standards is partially applied. In accordance with the FCS, the direct investment financial flows data include the equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises. However, contrary to the FCS, the direct investment earnings data do not include the relevant share of all indirectly-owned direct investment enterprises.

Enterprises in Latvia are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, 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 earnings of direct investment enterprises. Contrary to the COPC, (i) deductions are not made for depreciation of capital, or for provisions for host-country income and corporation taxes; and (ii) write-offs and exchange rate gains or losses are included. However, in accordance with the COPC, realized and unrealized capital gains and losses are not included. In accordance with the international standards, when a direct investment enterprise makes a loss, the net loss is recorded as negative reinvested earnings.

Treatment of Income on Equity (Dividends and Distributed Branch Profits): The data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, dividends and distributed branch profits are recorded (i) on the date they are payable, and (ii) gross of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits: The data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, reinvested earnings and undistributed branch profits are recorded in the period in which they are earned.

Treatment of Income on Debt (Interest): The data cover interest income from: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, and (iv) trade credits. In accordance with the international standards, the data do not include interest from financial derivatives. Contrary to the international standards, interest on deposits, loans and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries is included. In accordance with the international standards, the data are compiled on an accrual basis.

Treatment of Equity Capital: The data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks, and (iii) non-cash acquisitions of equity, such as through the provision of capital equipment. Other non-voting stocks (including participating preference shares) are not applicable to Latvian residents with direct investment abroad at present. In accordance with the international standards, the data include equity transactions between affiliated banks and between affiliated financial intermediaries.

Treatment of Other Capital: The data cover: (i) bonds and money market instruments, (ii) long-term loans; (iii) short-term loans, (iv) financial leases, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, and (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. Contrary to the international standards, transactions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries are not included.

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 Latvia and the direct investor is a nonresident: (i) when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, equity and loan transactions are recorded as “Direct Investment Abroad: Increase in Claims on Affiliated Enterprises”; and (ii) when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity and loan transactions are recorded as “Direct Investment in Latvia: Increase in Claims on Direct Investors”.

Treatment of Quasi-corporations: Quasi-corporations involving the operation abroad by Latvian residents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises are not applicable at present.

Treatment of Offshore Enterprises: In accordance with the international standards, the activities of offshore enterprises established abroad by Latvian residents are generally 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 Latvian residents are generally included in the direct investment data, and (ii) in the case of SPEs established abroad by Latvian residents that have the sole purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries, except transactions in equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include purchases and sales of land and buildings abroad by Latvian resident enterprises and individuals.

Treatment of Natural Resources Exploration: In accordance with the international standards, expenditure on natural resource exploration abroad by Latvian residents is included in the data.

Exchange Rate Conversion: Income transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Other transactions are converted to the unit of account primarily at the average exchange rate in the period in which the transactions are recorded.

LATVIA: DIRECT INVESTMENT ABROAD
INTERNATIONAL INVESTMENT POSITION (“POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) equity capital and reinvested earnings, and (ii) other capital, are disseminated with a timeliness of approximately 3 months after the end of the reference quarter—specifically, the last business day of the following quarter.

Revision Policy: The data are revised at the time of the next release of the quarterly data. The data for each quarter of the calendar year are also revised one quarter after the end of the year, to reflect information obtained from an annual survey of direct investment that covers a larger number of enterprises than the quarterly surveys. At that time the data become final.

Data coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Reporting requirements are compulsory.

Data Sources: The data are compiled primarily from two sources: (i) quarterly and annual enterprise surveys of foreign investments, and (ii) banking statistics compiled by the Bank of Latvia. Data from an international transactions reporting system (ITRS) are used as a secondary source. The perpetual inventory method (a method for deriving position data from transactions data) is partially used, in that, although the positions at the beginning of the calendar year are obtained from the annual enterprise survey, which has a wider coverage than the quarterly surveys, within the calendar year the positions at the end of each quarter are compiled by adding the grossed-up transactions during the quarter to the positions at the beginning of the same quarter, with adjustments for exchange rate changes etc. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) other statistical collection forms, and (iii) the financial press.

Geographic Classification: Quarterly data showing country breakdowns are disseminated with a timeliness of 3 months. In accordance with the international standards, data are compiled on the immediate country basis. Bilateral information is not used in the compilation of the data. Data are also disseminated showing breakdowns by regions or economic zones for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, and (viii) the breakdown set out in the Eurostat Balance of Payments *Vade Mecum*. The five countries with the largest amount of direct investment from Latvian residents as at the end of 2001 (ranked in descending order) were: Liberia, Cyprus, Russia, Estonia, and the Ukraine.

Industrial Classification: Quarterly data showing a breakdown by industry are disseminated with a timeliness of 3 months. The data are based on the industry of the resident direct investor. The classification is based on the industrial structure used for the Nomenclature generale des Activites economiques dans les Communautés europeenes (NACE), Rev. 1, the classification system used by Eurostat. Data are disseminated showing a breakdown by industrial sector/region or economic zone for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, (vii) the OPEC countries, and (viii) the breakdown set out in the Eurostat Balance of Payments *Vade Mecum*. Data showing a breakdown by industrial sector/partner country are also disseminated.

B. Methodology

Definition of Direct Investors Abroad: In accordance with the international standards, the basic criterion for defining direct investors abroad is 10 percent ownership of a nonresident enterprise by a resident investor, regardless of whether the investor has an effective voice in management. Investors which own less than 10 percent of a direct investment enterprise but have an effective voice in management are not included. No value threshold is used to identify direct investors abroad and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly-Owned Direct Investment Enterprises: The “Fully Consolidated System” (FCS) recommended by the international standards is not applied. Specifically, the relevant share of indirectly-owned direct investment enterprises is not included in (i) the reinvested earnings data, and (ii) the equity capital and

other capital position data. Enterprises in Latvia are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, and (ii) identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings: The data cover the following position data affecting equity capital and reinvested earnings, (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) non-cash acquisitions of equity, such as through the provision of capital equipment, and (iv) reinvested earnings. Other non-voting stocks (including participating preference shares) are not applicable to Latvian residents with direct investment abroad at present. In accordance with the international standards, the data include equity positions between affiliated banks and between affiliated financial intermediaries. The reinvested earnings data cover both incorporated and unincorporated enterprises and, in accordance with the international standards, are recorded in the period in which they are earned. (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 data cover: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, and (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. Contrary to the international standards, position data associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries are not included.

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 Latvia and the direct investor is a nonresident: (i) when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, equity and loan positions are recorded as "Assets: Direct Investment Abroad: Claims on Affiliated Enterprises" and (ii) when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity and loan positions are recorded as "Liabilities: Direct Investment in Latvia: Increase in Claims on Direct Investors".

Treatment of Quasi-corporations: Quasi-corporations involving the operation abroad by Latvian residents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises, are not applicable at present.

Treatment of Offshore Enterprises: In accordance with the international standards, the activities of offshore enterprises established abroad by Latvian residents are generally 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 Latvian residents are generally included in the direct investment data, and (ii) in the case of SPEs established abroad by Latvian residents that have the sole purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries, except positions involving equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include ownership of land and buildings abroad by Latvian resident enterprises and individuals.

Treatment of Natural Resources Exploration: In accordance with the international standards, expenditure on natural resource exploration abroad by Latvian residents is included in the data.

Valuation: Contrary to the international standards, the data for equity capital and other capital are recorded primarily at book values, which is usually the lower of either the acquisition cost or the market price. However, some positions are recorded at market value.

Exchange Rate Conversion: The exchange rate used to convert foreign currencies into the unit of account is that prevailing on the day to which the position data relate.