

# **BASIC PRINCIPLES FOR COMPILING STATISTICS**

## **1 THE BALANCE OF PAYMENTS**

### **1.1 Introduction**

The balance of payments is a statistical statement summarising economic transactions of Latvia's residents with the rest of the world (non-residents). Residents shall be all institutions, including foreign institutions, registered and operating in the territory of the Republic of Latvia, as well as private persons whose households are located in Latvia and who do not leave Latvia for a period of time exceeding one year (excl. students). Diplomatic, consular and other official representative offices of the Republic of Latvia abroad shall also be regarded as residents. Non-residents shall be all institutions that are registered abroad and private persons whose households are located outside Latvia or who are staying in Latvia for a period of time not exceeding one year (excl. students). Foreign diplomatic and consular representative offices, those of international institutions, and other official representative offices in Latvia shall also be regarded as non-residents.

The balance of payments reflects the transactions related to goods, services, income and transfers, and such net transactions that result in financial claims (Assets) on or financial obligations (Liabilities) to the rest of the world. It incorporates the current account, the capital account and the financial account, and net errors and omissions.

In the balance of payments, economic transactions with the rest of the world shall be accounted for by making entries on both the credit and debit sides of the balance of payments:

- under both the current and financial accounts – e.g. cash inflows into Latvia as a result of a decrease in financial claims or an increase in financial liabilities are used for importing goods or services (a credit entry under the relevant item of the financial account and a debit entry under the relevant item of the current account);
- under the financial account only – e.g. cash inflows into Latvia as a result of a decrease in financial claims or an increase in financial liabilities are placed in foreign assets or used for reducing foreign liabilities (a credit entry and a debit entry under the relevant items of the financial account). Where foreign currency cash inflows into Latvia are converted into euro for financing domestic transactions, reserve assets post an increase.

Balance of payments statistics are collected in accordance with the "National Statistics Law", which names Latvijas Banka among those institutions that organise and conduct statistical work in the Republic of Latvia. The Law on Latvijas Banka stipulates that Latvijas Banka shall collect, store and process statistical data as well as develop, compile, analyse and distribute statistics to ensure the fulfilment of its tasks, including assisting the European Central Bank in compiling the statistics required for the execution of the tasks of the European System of Central Banks in accordance with the requirements of the legislation of the European Union and legal acts and instruments of the European Central Bank.

### **1.2 Sources for the Balance of Payments**

In compiling the balance of payments, Latvijas Banka uses its own statistics or statistics collected by other institutions. Data sources are as follows:

#### **Current account**

##### **Goods**

- Foreign trade statistics (CSB)
- Survey on transportation and intermediary services (Latvijas Banka)
- Non-bank external payment data (Latvijas Banka)
- Data on fisheries (CSB)
- Latvijas Banka's profit and loss statement (Latvijas Banka)

##### **Services**

- Foreign trade statistics (CSB)
- Survey on transportation and intermediary services (Latvijas Banka)
- Non-bank external payment data (Latvijas Banka)
- Survey on services (Latvijas Banka)
- Data on the number of passenger departures (SJSC Riga International Airport)
- Number of persons entering and leaving the country at border checkpoints with Russia and Belarus, railway, sea and airport checkpoints (CSB)
- Statistics on persons entering and leaving the country (CSB)
- Latvijas Banka's profit and loss statement (Latvijas Banka)
- Survey on foreign assets and liabilities (Latvijas Banka)
- General government external debt (Treasury)
- Data on balance of government accounts abroad (Treasury)
- MFI (excl. central bank) statistics (Latvijas Banka)
- Data on direct insurance and reinsurance premiums and claims paid (FCMC)

Data on revenue and expenditure of Republic of Latvia embassies, representative offices and consulates (MFA)  
Data on VAT repaid to foreign embassies, representative offices and consulates (SRS)  
Latvijas Banka's profit and loss statement (Latvijas Banka)  
Contributions to the EU budget (MF)

#### **Primary income**

Survey on contracts concluded by sailors for working abroad (Latvijas Banka)  
Labour statistics (CSB)  
Data on revenue and expenditure of Republic of Latvia embassies, representative offices and consulates (MFA)  
Data on social security contributions by foreign embassies, representative offices and consulates (SRS)  
MFI (excl. central bank) statistics (Latvijas Banka)  
Latvijas Banka's profit and loss statement (Latvijas Banka)  
Survey on foreign assets and liabilities (Latvijas Banka)  
General government external debt (Treasury)  
Non-bank external payment data (Latvijas Banka)  
Data on balance of government accounts abroad (Treasury)  
Data on holders of securities (Latvijas Banka)  
Resources received from EU funds (Treasury)  
Contributions to the EU budget (MF)

#### **Secondary income**

Non-bank external payment data (Latvijas Banka)  
Resources received from EU funds (Treasury)  
Contributions to the EU budget (MF)  
MFI (excl. central bank) statistics (Latvijas Banka)  
State budget revenue and expenditure (Treasury)  
Latvijas Banka's profit and loss statement (Latvijas Banka)  
Labour statistics (CSB)  
Data on revenue and expenditure of Republic of Latvia embassies, representative offices and consulates (MFA)  
Data on pension payments (SSIA)  
Data on direct insurance and reinsurance premiums and claims paid (FCMC)  
Data on VAT repaid to foreign embassies, representative offices and consulates (SRS)

#### **Capital account**

Resources received from EU funds (Treasury)  
Non-bank external payment data (Latvijas Banka)

#### **Financial account**

##### **Direct investment**

Survey on foreign assets and liabilities (Latvijas Banka)  
MFI (excl. central bank) statistics (Latvijas Banka)  
Data on holders of securities (Latvijas Banka)  
Non-bank external payment data (Latvijas Banka)  
Prices for company shares quoted on the Stock Exchange (NASDAQ OMX Riga)  
RE data (LURSOFT Ltd)

##### **Portfolio investment**

MFI (excl. central bank) statistics (Latvijas Banka)  
Latvijas Banka's balance sheet (Latvijas Banka)  
Prices for company shares quoted on the Stock Exchange (NASDAQ OMX Riga)  
Data on holders of securities (Latvijas Banka)  
Data on assets and liabilities of insurance companies (FCMC)

##### **Financial derivatives**

Latvijas Banka's balance sheet (Latvijas Banka)  
Latvijas Banka's profit and loss statement (Latvijas Banka)  
MFI (excl. central bank) statistics (Latvijas Banka)  
Data on financial derivatives (Treasury)  
Non-bank external payment data (Latvijas Banka)

##### **Other investment**

Survey on foreign assets and liabilities (Latvijas Banka)  
MFI (excl. central bank) statistics (Latvijas Banka)  
Latvijas Banka's balance sheet (Latvijas Banka)  
General government external debt (Treasury)

Data on balance of government accounts abroad (Treasury)

Data on assets and liabilities of insurance companies, private pension funds, pension plans managed by private pension funds, state-funded pension scheme funding, and assets and liabilities of investment funds (FCMC)

Data on direct insurance and reinsurance technical reserves (FCMC)

#### Reserve assets

Latvijas Banka's balance sheet (Latvijas Banka)

### 1.3 Current Account

The current account shows exports and imports of goods and services, primary income and expense (wages and salaries, dividends, interest payments), as well as secondary income (EU funds, contributions to the EU budget, cash transfers of private persons, pensions, donations, taxes, etc) not intended for investment, in a specified period of time. Funds arising from exports of goods and services as well as other transactions recorded in the current account and receivable from non-residents are credited to the account with a positive sign (+), whereas funds arising from imports of goods and services as well as other transactions recorded in the current account and payable to non-residents are debited to the account with a negative sign (–) (see Chart 1.3.1).

Item	Sign	Clarification
Credit	+	Funds arising from transactions and receivable from non-residents (incl. for exports of goods and services)
Debit	–	Funds arising from transactions and payable to non-residents (incl. for exports of goods and services)

Chart 1.3.1. Sign convention for the current account

#### 1.3.1 Goods

*Goods* covers exports (dispatches) and imports (arrivals) of general merchandise and net exports of goods under merchanting.

##### 1.3.1.1 General Merchandise

Data under *General merchandise* are derived from foreign trade statistics provided by the CSB. They include Intrastat data on trading of goods with the EU Member States and customs cargo declaration data on trading of goods with countries outside the EU (Extrastat data). In compiling foreign trade statistics in Latvia, a special trade system scheme is used (where goods are imported to customs warehouses from abroad and exported from customs warehouses abroad, such imports and exports are excluded from the total).

Foreign trade statistics data are adjusted in accordance with the methodological requirements for compiling balance of payments:

- adjustment from CIF to FOB values of goods imports is made, i.e. freight and insurance costs are deducted from the value of goods (Intrastat data adjustments are made separately for each country of consignment, while those of Extrastat data made in the breakdown by resident and non-resident carrier for each mode of transport and each country of goods' origin separately);
- in addition, information from survey on transportation and intermediary services compiled by the Bank of Latvia about the goods procured by non-resident carriers for own consumption in Latvia (exports) and resident carriers for own consumption abroad (imports) is included;
- in addition, data compiled by the CSB on exports from Latvian shipping vessels fishing in the extraterritorial waters;
- in addition, information on banknote production and coinage costs from the Latvijas Banka's profit and loss statement is included;
- information on goods sent outside Latvia for manufacturing if the goods are subsequently returned to Latvia, as well as information on goods sent to Latvia for manufacturing if they are subsequently returned to the same country which sent them to Latvia for manufacturing is excluded. The net value of transactions with goods excluded from general merchandise is reported under Services.

Data are compiled according to the so-called 'national principle': contrary to the so-called 'Community principle', data do not contain information on exports of goods that are sold by an EU country via Latvia to a third country (non-EU country) and on imports of goods that are sold by a third country (non-EU country) via Latvia to an EU country. Also, data on goods sent to an EU country who imports them via Latvia from a third country, and data on goods arrivals from an EU country who exports them via Latvia to a third country, although customs cargo declarations are filled in Latvia.

##### 1.3.1.2 Net exports of goods under merchanting

*Net exports of goods under merchanting* is reported here, i.e. acquisition and sale of goods abroad, without transporting them to Latvia.

Information on net exports of goods under merchanting is derived from the non-bank external payment data.

## **1.3.2 Services**

### **1.3.2.1 Manufacturing services**

*Manufacturing services* on physical inputs owned by others cover processing, assembly, labelling, packing, etc. undertaken by residents of an individual country who do not own the goods concerned. Only those services are reported under this item after which the acquired goods will be returned to the same country where they arrived from for manufacturing; only the value of the provided services must be reported.

Data under Manufacturing services are derived from foreign trade statistics provided by the CSB.

### **1.3.2.2 Maintenance and repair services n.i.e.**

*Maintenance and repair services n.i.e.* cover costs of maintenance and repair work by a resident of an individual country on ships, aircraft and other fixed assets that are owned by non-residents, increasing the value of fixed assets.

Information on maintenance and repair services is derived from Latvijas Banka's survey on transportation and intermediary services and non-bank external payment data.

### **1.3.2.3 Transport**

*Transport* covers all transportation services rendered by residents of an individual country to non-residents and includes passenger traffic, freight traffic, rentals of transportation equipment (with crew), and other supporting and transportation auxiliary services.

In the balance of payments, transportation services are recorded under items *Sea transport, Air transport, Rail transport, Road transport* and *Other transport services, postal and courier services*.

Data on transportation services are derived from Latvijas Banka's survey on transportation and intermediary services and survey on services, as well as non-bank external payment data. CSB foreign trade statistics are also used to obtain, in accordance with the calculation methodology described in Section 1.3.1.1, the difference between CIF and FOB values of imported goods. The share of transportation services rendered by non-residents is set apart and recorded under Transport in the balance of payments consistently with the respective mode of transportation. Data on passenger transportation by air are obtained by using information on the number of passenger departures in the breakdown by airline provided by the SJSC Riga International Airport, CSB monthly data on the number of residents and non-residents crossing the border of the Republic of Latvia by air, and information on the average ticket prices of each airline.

### **1.3.2.4 Travel**

*Travel* covers all goods and services purchased by non-resident travellers in Latvia and all purchases (expense) made by resident travellers outside Latvia. International carriage of travellers is not recorded under this item.

A traveller is a person arriving on a private or business trip in a non-residence country and staying in it for less than one year. Students, trainees and patients of medical establishments shall be an exception – they shall be classified as travellers regardless of the duration of their stay in another country.

Data on travel are obtained from the CSB statistics on persons entering and leaving the Republic of Latvia.

JSC Riga International Airport conducts random surveys of travellers on a permanent basis; travellers are polled at other border checkpoints four times a year, thus obtaining information about non-residents' spending in Latvia and residents' spending abroad. The average spending of a traveller is calculated by mathematical methods, thereafter obtaining total travellers' spending. The number of travellers crossing the state border at border checkpoints with Russia and Belarus, railway, sea and airport checkpoints is provided by the State Boarder Guard of the Republic of Latvia.

For evaluating foreign student expenditure in Latvia, data compiled by the CSB on the number of foreign students and income gained by institutions of higher education from their tuition fees, broken down by country, are used.

For evaluating expenditure of Latvian residents studying abroad, UNESCO data on the number of Latvian residents studying abroad and estimates of average expenditure per student, broken down by country, are used.

### **1.3.2.5 Financial services**

*Financial services* comprise *Explicitly charged and other financial services* and *Financial intermediation services indirectly measured (FISIM)*.

Commissions and fees for loans, financial leasing, factoring, financial asset management, financial advisory services, foreign exchange transactions, brokerage services, issue, purchase and sale of securities, and arranging transactions with financial derivatives are reported under *Explicitly charged and other financial services*.

Information on the above services is obtained from the survey on services and data on external payments by non-banks compiled by Latvijas Banka, as well as MFI (excluding the central bank) statistical data compiled by Latvijas Banka, and profit and loss statement of Latvijas Banka.

Interest calculated on loans and deposits comprises a share of both income and payment for services. Lenders and receivers of deposits offer their depositors interest rates lower than those they charge their borrowers. The resulting interest rate margin used by the financial corporations for covering their expenses and earning profit shall be reported under *Financial intermediation services indirectly measured (FISIM)*.

The indirectly measured financial services are calculated on the basis of the survey on external assets and liabilities and MFI (excluding the central bank) statistical data compiled by Latvijas Banka, as well as data provided by the Treasury on the general government external debt and data on balance of government accounts abroad.

Exports of financial intermediation services indirectly measured comprise the margin calculated by Latvian credit institutions:

- between the actually calculated interest on loans granted to the foreign non-financial sector and the calculated interest on the above loans (based on the average interest rate between Latvian and foreign credit institutions);
- between the calculated interest on deposits received from the foreign non-financial sector (based on the average interest rate between Latvian and foreign credit institutions) and the corresponding actually calculated interest on deposits received from the foreign non-financial sector.

Imports of financial intermediation services indirectly measured comprise the margin calculated by Latvian non-financial sector:

- between the actually calculated interest on loans received from foreign credit institutions and the calculated interest on the above loans (based on the average interest rate between Latvian and foreign credit institutions);
- between the calculated interest on deposits made with foreign credit institutions (based on the average interest rate between Latvian and foreign credit institutions) and the corresponding actually calculated interest on deposits made with foreign credit institutions.

#### **1.3.2.6 Other services**

*Other services* include construction, insurance and pension services, charges for the use of intellectual property n.i.e., telecommunications services, computer services and information services, other business services, personal, cultural and recreational services, and government goods and services n.i.e.

Information on other services is mainly obtained from the survey on services and on non-bank external payments compiled by Latvijas Banka. MFI (excl. central bank) statistics compiled by Latvijas Banka, Latvijas Banka's profit and loss statement, data on revenue and expenditure of the Republic of Latvia embassies, representative offices and consulates provided by the MFA, data on disbursed direct insurance and reinsurance premiums and claims compiled by the FCMC, and information provided by the MF on contributions to the EU budget are also used. Data on expenditure of foreign embassies, representative offices and consulates in Latvia are calculated using information of the SRS on VAT repayments to foreign embassies, representative offices and consulates.

#### **1.3.3 Primary income**

##### **1.3.3.1 Compensation of Employees**

*Compensation of employees* comprises wages and salaries earned by non-residents in Latvia and by residents outside Latvia. Social security contributions to social security and pension funds made by employers on behalf of employees are also included.

The information source for credit entries is Latvijas Banka's survey on contracts concluded by sailors for working abroad. Information on wages and salaries of residents employed at foreign embassies, representative offices and consulates in Latvia is obtained from data compiled by the SRS on social security contributions made by foreign embassies, representative offices and consulates. Latvijas Banka assesses the amount of compensation of Latvia's residents abroad using also information provided by foreign embassies on labour permits issued to the residents of Latvia for working abroad.

Debit entries are based on labour statistics compiled by the CSB and revenue and expenditure data of the Republic of Latvia embassies, representative offices and consulates of the Republic of Latvia compiled by the MFA.

##### **1.3.3.2 Investment Income**

*Investment income* covers residents' income from holdings of foreign financial assets and payments on foreign financial liabilities. The increase or decrease in the value of capital arising from holdings of financial assets or financial liabilities is not regarded as investment income but is a part of assets or liabilities recorded in the international investment position as price changes.

Investment income consists of income from direct investment, portfolio investment, other investment and reserve assets.

Direct investment income consists of income on equity (dividends and reinvested earnings) and income on debt instruments (interest). Dividends are payments from the profit made by the issuer of equity securities to holders of securities.

Reinvested earnings are such part of company's profit or loss that is available to the direct investor in proportion to investor's holding in the company and remains at the disposal of the direct investment company. Regarding foreign direct investment, reinvested profit or loss is reported in the balance of payments as follows:

– The share of profit of a direct investment company, due to the direct investor, is reported both as an outflow of income from direct investment on the current account item D12380 (payment of earnings to the direct investor) and an inflow of foreign direct investment into the financial account item N30800 (reinvested earnings). Where dividends are paid, it is reported as an outflow of income from direct investment on the current account item D12280, at the same time reducing reinvested earnings on the current account item D12380 and financial account item N30800 by the amount of the dividends paid.

– The share of loss of a direct investment company, attributable to the direct investor, is at the same time reported as an inflow of income from direct investment on the current account item D12380 (the direct investor's payment for covering losses) and an outflow of foreign direct investment from the financial account item N30800 (as a rule, foreign investors offset this outflow by additional capital injection into equity capital, reported under the financial account item N30680, or in the form of debt instruments, reported under the financial account item N31020).

Income on debt instruments is interest payable to holders of debt securities or similar financial assets (loans, trade credits and deposits).

The time of recording the direct investment income depends on the type of income. Dividends are recorded at the time of their calculation, i.e. as of the date on which they become payable to investors. Reinvested earnings are recorded in the period in which they are earned. Income on debt instruments (interest) is recorded on an accrual basis.

Data on the direct investment income are obtained from survey on foreign assets and liabilities, data on holders of securities, and MFI (excl. central bank) statistics compiled by Latvijas Banka.

Similar to direct investment income, portfolio investment income is recorded in the balance of payments in the breakdown by investment instrument (income on equity, incl. investment funds shares (dividends) and income on debt securities). Data on portfolio investment income are obtained from data on holders of securities, survey on foreign assets and liabilities compiled by Latvijas Banka, and Latvijas Banka's profit and loss statement.

Other investment income is income on investment other than direct investment and portfolio investment. They include dividend, interest and investment income attributable to policyholders in insurance, standardized guarantees, and pension funds.

Data on other investment income are obtained from survey on foreign assets and liabilities, non-bank external payment data, and MFI (excl. central bank) statistics compiled by Latvijas Banka, Latvijas Banka's profit and loss statement, and statistics on general government foreign debt compiled by the Treasury, FCMC data on assets and liabilities of insurance companies, private pension funds, pension plans managed by private pension funds, state-funded pension scheme funding, and assets and liabilities of investment funds, and FCMC data on direct insurance and reinsurance technical reserves.

### **1.3.3.3 Other primary income**

*Other primary income* includes taxes on production and imports, subsidies and rent.

Data on subsidies are obtained from information on the inflow of funds from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development (subsidies to farmers) provided by the Treasury. Data on taxes on production and imports are obtained from information on traditional own resources (customs duties) provided by the MF. The Member States have to pay to the EU budget 75% of the actually collected traditional own resources. Nevertheless, all collected amount is recorded under Other primary income, with 25% recorded under Government goods and services n.i.e. (credit) as EU reimbursement for cost of collecting traditional own resources.

### **1.3.4 Secondary income**

*Secondary income* is transactions where a resident, without any compensation, provides a non-resident with or receives from non-resident goods, services, financial or non-financial assets not intended for investment. Secondary income includes personal income, property and other taxes, social contributions, social benefits, net non-life insurance premiums, non-life insurance claims, government funds transfers under cross-border cooperation, value added tax and gross national income own resources, as well as a variety of other transfers, inter alia transfers between resident and non-resident households.

Data on secondary income are based on information provided by the Treasury on the resources received from the EU funds (e.g. the European Social Fund and the European Fisheries Fund, information provided by the MF on payments to the EU budget (VAT own resource, the rebate of the United Kingdom, as well as own resources of the national gross income). Data on secondary income of financial institutions, non-financial corporations and households are derived from non-bank external payment data compiled by Latvijas Banka (including data on all types of payments made by private persons using services of credit institutions).

Data on direct insurance and reinsurance premiums and claims paid (compiled by the FCMC) as well as information compiled by the SSIA on pensions paid to residents by foreign governments and pensions paid to non-residents and other sources are also used.

#### 1.4. Capital Account

*Capital account covers Acquisitions/disposals of nonproduced nonfinancial assets and Capital transfers.*

Non-produced non-financial assets cover transactions with assets, which are used or are necessary for use in the manufacture of goods and provision of services but which are not produced, and transactions involving non-produced intangibles (patents, copyright, trademarks, franchise, etc). Funds arising from transactions and receivable from non-residents are credited with a positive sign (+), whereas funds arising from transactions and payable to non-residents are debited with a negative sign (-) (see Chart 1.3.1 of Section 1.3). Capital transfers are transactions where a resident, without any compensation, provides a non-resident with or receives from a non-resident financial or non-financial assets intended for investment.

Capital account data are based on data provided by the Treasury on resources received from the EU funds and non-bank external payment data compiled by Latvijas Banka. The resources of the EU funds are mostly made up of funds transfers from the Cohesion Fund and the European Regional Development Fund. Funds received under other EU programmes and initiatives are also included.

#### 1.5 Financial Account

*Financial account* shows transactions with financial assets and financial liabilities between residents and non-residents. Data of the financial account provides information about the adequacy of financial resources available for financing the transactions recorded in the current account.

All entries in the financial account reflect net changes, i.e. a difference between credit and debit entries (inflow of funds is shown with a positive sign (+) indicating either a decrease in assets or an increase in liabilities, whereas outflow of funds is shown with a negative sign (-) indicating either an increase in assets or a decrease in liabilities; see Chart 1.5.1).

Net sign	Clarification
-	Increase in assets (incl. direct investment abroad) Decrease in liabilities (incl. direct investment in Latvia)
+	Decrease in assets (incl. direct investment abroad) Increase in liabilities (incl. direct investment in Latvia)

Chart 1.5.1 Sign convention for the financial account

The financial account includes five large groups of financial resources: *Direct investment, Portfolio investment, Financial derivatives, Other investment* and *Reserve assets*.

##### 1.5.1 Direct Investment

*Direct investment* is investment by a foreign investor (direct investor) made directly or indirectly (through subsidiaries or associated companies) to acquire a lasting interest (corresponding to at least a 10% ownership of ordinary shares or voting rights) in a commercial company of Latvia (direct investment company; *Direct investment* in Latvia) or by a Latvian investor in a foreign company (*Direct investment abroad*). The components of direct investment are equity capital, reinvested earnings and debt instruments. Direct investment implies long-term relationship between a direct investor and direct investment company. Direct investor can be either a natural or legal person.

Equity capital comprises quoted and unquoted shares of direct investment company and other equity securities. The acquisition of the historic investment and new investments in a direct investment company are included. Investment in real estate is also included.

Reinvested earnings are a part of an company profit or loss that belongs to the direct investor in proportion to its holding and remains at the disposal of direct investment company (see methodology referred to in Section 1.3.3.2).

Debt instruments comprise trade credits, borrowing and lending transactions conducted between direct investors and direct investment enterprises, reciprocal acquisition and disposal of debt securities issued by direct investors and direct investment companies, as well as other mutual assets and liabilities of direct investor and direct investment company. Debt instruments also comprise mutual assets and liabilities of residents of an individual country with foreign sister companies, i.e. non-residents classified in the same direct investment group. Assets and liabilities of fellow companies are classified depending on the ultimate controlling parent. If the ultimate controlling parent of a Latvian direct investment company is a non-resident, all mutual assets and liabilities are reported as direct investment in Latvia. In case the ultimate controlling parent of a Latvian direct investment company is a Latvian resident, all mutual assets and liabilities are reported as direct investment abroad.

Information on direct investment is derived from survey on foreign assets and liabilities and data on holders of securities and MFI (excl. central bank) statistics compiled by Latvijas Banka. Non-bank external payment data compiled by Latvijas Banka and RE data compiled by LURSOFT Ltd are also used.

To the extent possible, foreign direct investment in equity capital in Latvia is recorded at market value. The value of investment in unlisted and listed companies is valued differently. The values of investment in unlisted companies are obtained by using the equity capital approach (own funds at book value) recommended by the ECB. Equity capital (EC) comprises the following items: shares and equity holdings (share capital), share premium, revaluation reserve of long-term investment, reserves, undistributed profit of previous years, and undistributed profit of the reporting year. The value of EC is obtained as a difference between assets and liabilities for each provider of information from Latvijas Banka's survey on foreign assets and liabilities and from MFI (excl. central bank) statistics. The value of one share (unit) is obtained from the total EC book value. EC changes in the reporting period with regard to each foreign investor are recorded in the breakdown by change arising from transaction (D), price changes for historic investment (P) and other changes (C):

$\Delta PK = D + P + C$ , where

$$D = D_n \cdot P_b \quad P = K_s \cdot (P_b - P_s) \quad C = C_n \cdot P_b$$

where

$D_n$  is changes in the number of shares (units) owned by a foreign investor in the share capital arising from a transaction;  
 $C_n$  is changes in the number of shares (units) owned by a foreign investor in the share capital arising from other changes;  
 $K_s$  is the number of shares (units) owned by a foreign investor in the share capital at the beginning of the reporting period;  
 $P_b$  and  $P_s$  are share (unit) prices (EC/total share capital) at the end and the beginning of the reporting period, respectively.

The values of investment in listed companies are obtained in a similar way, with an exception that the price of one share at the end and beginning of the reporting period is obtained using NASDAQ OMX Riga data.

Only changes arising from transactions (D) are recorded in the balance of payments, whereas the international investment position records all changes in investment positions resulting from all kinds of developments (D, P and C).

### 1.5.2 Portfolio Investment

*Portfolio investment* covers acquisitions by Latvia's residents of securities issued by non-residents (*Assets*), and acquisitions by non-residents of the securities issued by Latvia's residents (*Liabilities*).

Portfolio investment is made with the purpose of increasing the investment value or earning dividends or interest, without directly influencing the management of the company. Portfolio investment includes the short-term and long-term financial instruments.

Financial instruments included under portfolio investment are freely tradable. In the balance of payments, portfolio investment is classified by type of financial instrument (equity, incl. investment funds shares and income on debt securities).

Portfolio investment in equity securities (new securities issues and securities traded in the secondary market) covers acquisition and disposal of equity securities if they represent a holding of less than 10% of a non-resident's ownership in the capital of a resident's company or of a resident's holding in the capital of a non-resident's company. A holding of less than 10% in the capital of a direct investor's company (recorded under direct investment) shall be an exception. Investment in investment fund shares irrespective of the size of the holding in the fund is reported under portfolio investment.

Portfolio investment in debt securities includes transactions where all residents of an individual economy acquire and dispose of their holdings of debt securities issued by non-residents if the above transactions are not classified as direct investment. The redemption of such debt securities is also reflected under portfolio investment.

Debt securities issued with an original maturity of more than one year are long-term securities. Short-term debt securities are debt securities issued with an original maturity of up to one year (inclusive).

Portfolio investment transactions are marked to market, using the ECB's Centralised Securities Database information on financial instrument prices.

Each category of portfolio investment is recorded in the breakdown by institutional sector (central bank, MFIs (excl. central bank), general government, and other sectors). Portfolio investment data of the central bank are derived from Latvijas Banka's balance sheet. Data on portfolio investment in the MFI (excl. central bank) and general government sectors are obtained from MFI (excl. central bank) statistics and data on holders of securities compiled by Latvijas Banka. Information regarding portfolio investment in other sectors is derived from Latvijas Banka's data on holders of securities and FCMC data on assets and liabilities of insurance companies.



### **1.5.3 Financial Derivatives**

*Financial derivatives* covers futures, forward foreign exchange contracts and options with a resident and non-resident as contracting parties, and other contracts that are concluded on the basis of a real or notional asset and whose value depends on changes in interest rates, exchange rates, share prices, stock indices, goods prices and other similar factors in the period between the contract conclusion and expiration date. In the balance of payments, investment in financial derivatives is recorded in the breakdown by sector (central bank, MFIs (excl. central bank), general government, and other sectors).

Data on investment in financial derivatives are derived from Latvijas Banka's balance sheet and profit and loss statement, MFI (excl. central bank) statistics, the Treasury's data on financial derivatives, and non-bank external payment data compiled by Latvijas Banka.

### **1.5.4 Other Investment**

*Other investment* covers all financial transactions that are not included under *Direct investment*, *Portfolio investment*, *Financial derivatives* and *Reserve assets*. Other investment is broken down by investment type (other equity; currency and deposits; loans/borrowing; insurance, pension schemes and standardized guarantees; trade credit and advances; Special Drawing Rights (SDR); other assets, and other liabilities) and institutional sector (central bank; MFIs (excl. central bank); general government; other sectors).

*Other equity* comprises transactions with equity (other than securities), if it represents a holding of less than 10%. A holding of less than 10% in the equity of a direct investor's company (recorded under direct investment) shall be an exception. The above transactions comprise investment in the capital of a limited liability company, as well as acquisition and disposal of units in the capital of a limited liability company. Latvia's payments to the capital of international organisations are also recorded under this item (except equity payment in the BIS reported under the portfolio investment).

*Currency and deposits* covers an increase or decrease in deposits made by residents with non-resident (foreign) credit institutions, changes in foreign currency in vault, and an increase or decrease in non-residents' deposits with Latvia's MFIs.

Mutual borrowing, lending and deposits of all types among credit institutions are recorded in *Currency and deposits*.

*Loans/borrowings* are transactions where the creditor, upon an agreement with the debtor, transfers financial assets to the debtor; if the creditor receives a document confirming the debt, it cannot be sold or transferred to a third party.

*Insurance, pension schemes and standardized guarantee schemes* comprise insurance technical reserves, assets of pension funds, pension plan assets and other liabilities incurred in relation to insurance policyholders, members of pension funds and plans.

*Trade credit and advances* are transactions where the supplier of goods or provider of services procures goods or renders services in advance (direct extension of credit) or where the buyer of goods or services makes an advance payment (prepayment).

*Other assets* and *Other liabilities* include any other transactions that cannot be classified as other equity; currency and deposits; loans/borrowing; insurance, pension schemes and standardized guarantee schemes; trade credit and advances; other assets and other liabilities.

Data on other investment are derived from survey on foreign assets and liabilities compiled by Latvijas Banka, FCMC data on assets and liabilities of insurance companies, private pension funds, pension plans managed by private pension funds, state-funded pension scheme funding, and assets and liabilities of investment funds, FCMC data on direct insurance and reinsurance technical reserves and MFI (excl. central bank) statistics. Data on other investment of Latvijas Banka are based on Latvijas Banka's balance sheet, whereas data on other investment of the government sector are derived from data on the government external debt and the balance of government accounts abroad provided by the Treasury.

### **1.5.5 Reserve Assets**

In the balance of payments, reserve assets are made up of monetary gold, Special Drawing Rights (SDR), reserve position in the IMF, claims on countries outside the euro area in foreign currency (currency, deposits and securities), and other claims.

Financial assets that are at the disposal of the central bank and cannot be classified as reserve assets are recorded under *Portfolio investment* or *Other investment*.

Data on reserve assets are derived from Latvijas Banka's balance sheet.

### **1.6 Net Errors and Omissions**

As the balance of payments is prepared using various data sources compiled not only by Latvijas Banka but also other institutions, discrepancies in entries, known as errors and omissions, may occur.

Over a longer horizon, with the deviation being positive at one time and negative at another, errors and omission should level out; yet it is important for either tendency not to persist too long.

## 2 LATVIA'S INTERNATIONAL INVESTMENT POSITION

*International investment position* is a statistical statement reflecting the value and composition of Latvia's financial claims (*Assets*) on and financial obligations (*Liabilities*) to the rest of the world, respectively, at a specified date, as well as reasons for changes in the residual values in the respective time period.

Changes in the residual values may occur as a result of net flows (balance of payments data), exchange rate changes, price changes, and other adjustments (mainly due to various reclassifications in the system of information provider, debt capitalisation, etc.; see Chart 2.1).

		<b>Balance of payments</b>				
		Current account				
		Capital account				
<b>International investment position</b>	Opening position	Financial account (net flows)	Price changes	Exchange rate changes	Other adjustments	Closing position
		Net errors and omissions				

Chart 2.1. Relationship between the balance of payments and international investment position

Investment under international investment position is classified into assets and liabilities. Both assets and liabilities include direct investment, portfolio investment, financial derivatives, and other investment, with reserve assets also included under *Assets*. Sources for the international investment position are the same as for the financial account of the balance of payments.

## 3 LATVIA'S EXTERNAL DEBT

Latvijas Banka compiles data on Latvia's external debt in accordance with the IMF manual External Debt Statistics: Guide for Compilers and Users on the basis of international investment position data.

External debt data (gross) present debt-related liabilities of Latvia to other countries. They are disseminated in the breakdown by sector (general government, central bank, MFIs (excl. central bank) and other sectors), maturity and type of instrument.

The net external debt position is equal to gross external debt less the respective items of foreign assets.

## ABBREVIATIONS AND SYMBOLS

CIF	cost, insurance and freight at the importer's border
CSB	Central Statistical Bureau of Latvia
ECB	European Central Bank
EU	European Union
EU28	28 countries of the EU (historical data are calculated consistently with the current EU membership)
Extrastat	System for the collection and compilation of statistics relating to the trade in goods between EU Member States and non-EU countries
FCMC	Financial and Capital Market Commission
FOB	free on board at the exporter's border
IMF	International Monetary Fund
Intrastat	Intra-Community Trade Statistical System
LCD	Latvian Central Depository
Ltd	limited liability company
MF	Ministry of Finance of the Republic of Latvia
MFA	Ministry of Foreign Affairs of the Republic of Latvia
MFIs	monetary financial institutions (the central bank, credit institutions, credit unions and money market funds)
OMXR	NASDAQ OMX Riga indice
RE	Register of Enterprises of the Republic of Latvia
SJSC	state joint stock company
SRS	State Revenue Service
SSIA	State Social Insurance Agency