

Methodological notes on foreign direct investment

Definition

Foreign direct investment (FDI) is defined as cross-border investment in enterprises with the objective of establishing a lasting and significant influence over business activities. Where investors hold 10% or more of the shares or voting rights, they are considered to have a significant degree of influence. A strategic long-term relationship is what differentiates FDI from portfolio investment.

The German FDI statistics observe the concepts and requirements set out in the sixth edition of the IMF's Balance of Payments and International Investment Position Manual, 2009 (BPM6) and the OECD's Benchmark Definition of Foreign Direct Investment, Fourth Edition, 2008. For the EU Member States and euro area countries, the resulting statistical data submission requirements are laid down in a European Commission Regulation. Moreover, a European Central Bank (ECB) guideline specifies the reporting commitments of the national central banks of the Eurosystem (Commission Regulation (EU) No 555/2012 of 22 June 2012 and Guideline (ECB) No 23/2011 of 9 December 2011).

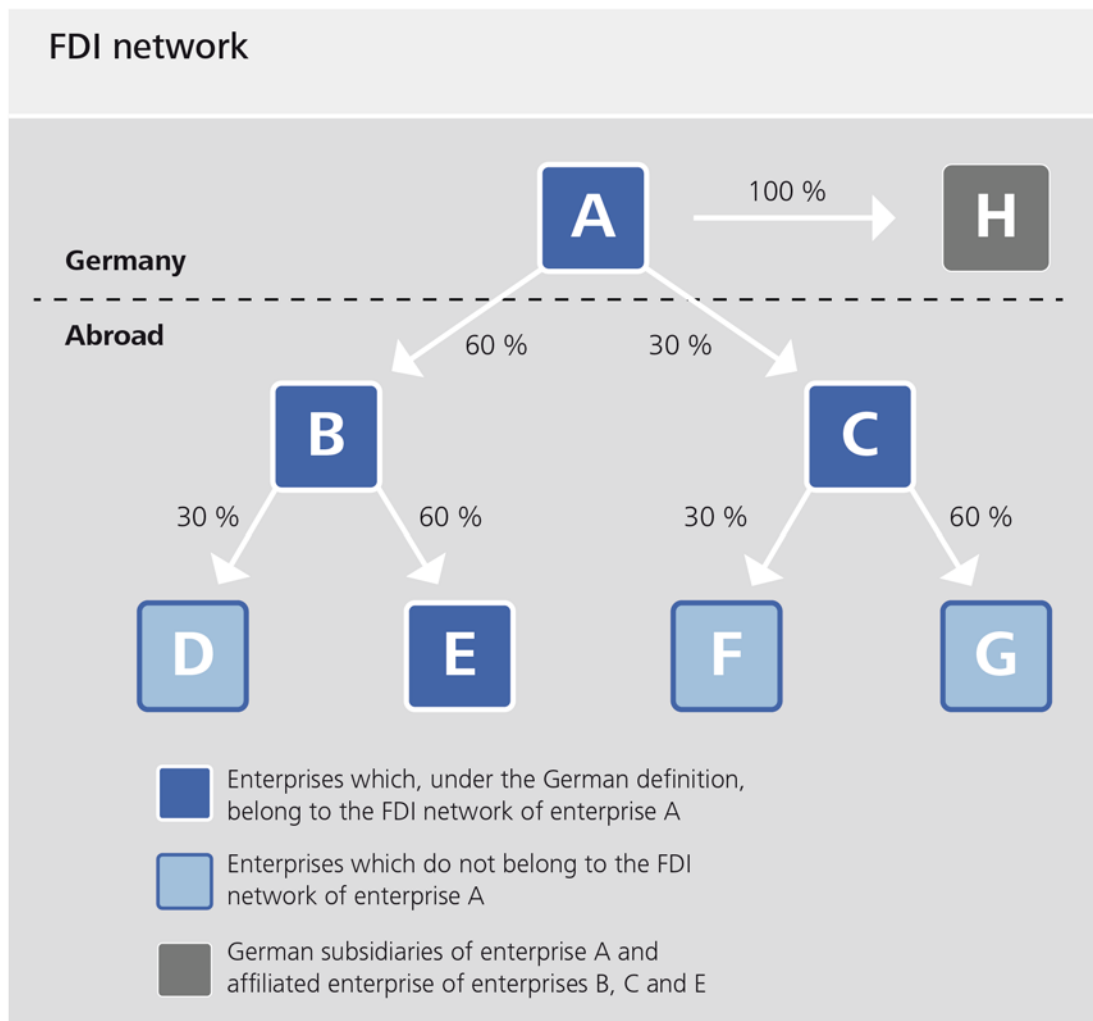
Transactions and stocks

The data on FDI are incorporated into three sets of statistics: The financial account – as a sub-account of the balance of payments – contains, on a monthly basis, the reported transactions at market value. The international investment position (i.i.p.) shows stocks at the end of each quarter. The FDI stock statistics report shows stocks at book value at the end of the year, based on corporate financial statements.

Definition of immediate / indirect relationships

FDI may take place immediately between two enterprises or indirectly via a chain of ownership. If enterprise A has a 60% stake in enterprise B and enterprise B a 60% stake in enterprise E, then enterprises A may be able to exercise indirect control and influence over enterprise E.

Chart: FDI relationship



Definition of influence / control

The level of ownership determines whether a direct investor is assumed to have a significant degree of influence or complete control. Investors that hold 10% or more and up to 50% of the capital or voting rights are deemed to have a significant degree of influence. Investors that hold over 50% of capital or voting rights control the enterprise; the direct investment enterprise is deemed to be dependent.

Definition of fellow enterprise

Fellow enterprises are enterprises which have neither control of nor influence over each other but belong to the same direct investor. For enterprises B, C and E the enterprise H is a fellow enterprise.

Definition of a FDI relationship

When it comes to longer chains of ownership, defining whether a direct investment relationship exists depends on the approach used. The German FDI statistics are based on the Direct Influence/Indirect control method (DIIC). This method is presented in Annex 4 of the OECD's Benchmark Definition of Foreign Direct Investment, Fourth Edition.

According to the DIIC, all enterprises in a continuous chain of majority ownership, all enterprises in which an investor directly owns 10% or more of the shares or voting power, and all enterprises this investor controls (more than 50% of the shares or voting power), represent an FDI relationship. The lattermost type of majority ownership is not included in the German definition.

Breakdown of FDI

FDI includes equity capital and debt between affiliated enterprises. Loans between investors and investment enterprises are distinguished from loans between enterprises in Germany and fellow enterprises abroad (see chart, e.g. inter-company loan between enterprises H and C). Debt between affiliated enterprises in the financial sector is not classified as FDI.

Extended directional principle / asset/ liability principle

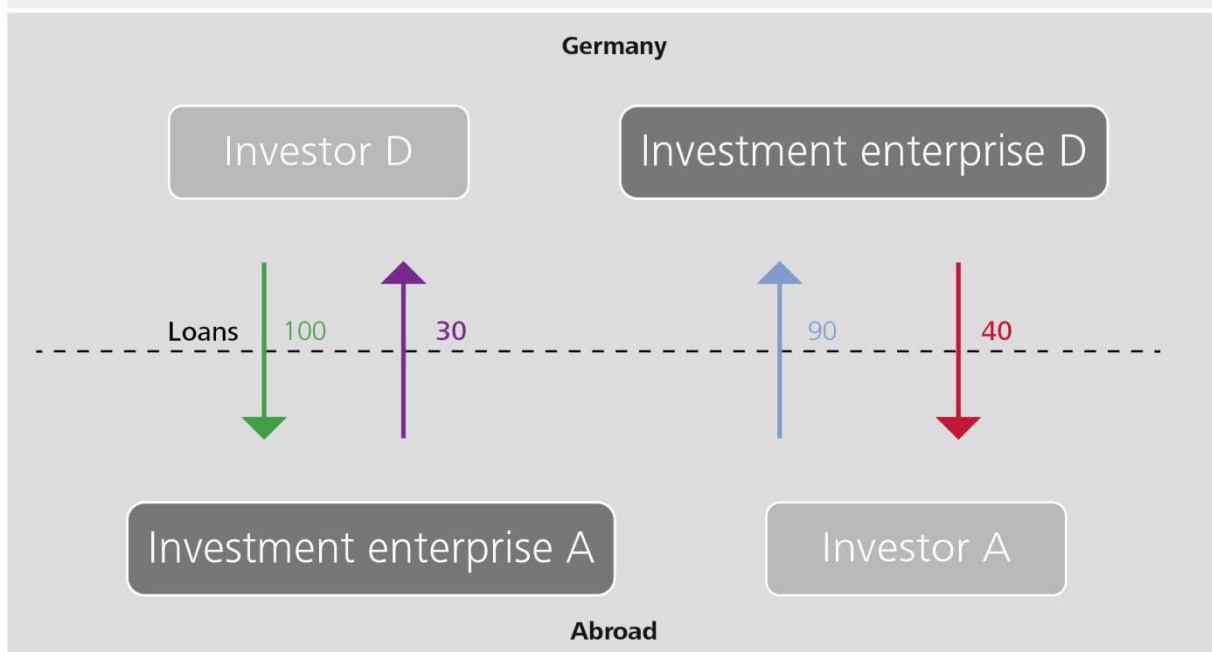
FDI data can be presented either according to the asset/liability principle or the extended directional principle. The former shows all assets and liabilities gross, irrespective of the actual direction of the investment.

The extended directional principle focuses on the direction of the original FDI. For this reason, loans from the investment enterprises to the investor are subtracted (reverse investments). Loans between fellows are assigned depending on where group headquarters are domiciled. If the group's headquarters are domiciled in Germany, all debt positions between resident and non-resident fellow enterprises are recorded as outward FDI. For group headquarters domiciled abroad, all debt positions are recorded as FDI in Germany.

Zahlenbeispiel zu den Darstellungsprinzipien

Kreditbeziehung zwischen Investor und Investitionsobjekt	Deutsche Direktinvestitionen im Ausland	Ausländische Direktinvestitionen in Deutschland	Netto
Forderungen-Verbindlichkeiten-Prinzip	140	120	20
Kredit Investor -> Investitionsobjekt	100	90	
Kredit Investitionsobjekt -> Investor	40	30	
Erweitertes Richtungsprinzip	70	50	20
Kredit Investor -> Investitionsobjekt	100	90	
Kredit Investitionsobjekt -> Investor	-30	-40	

Sample figures to illustrate the presentation system



Methodological differences between the international investment position and stock statistics

The international investment position (i.i.p.) records the FDI stocks, amongst other functional categories, on a quarterly basis; these are based mainly on the annual survey of FDI stocks. Since the results of the FDI stocks survey are compiled from balance sheets, data are available only with a lag of 16 months after year-end. Therefore, the i.i.p. data at the current end are estimated using transaction reports from the balance of payments and are subsequently revised using the collected stock data.

The i.i.p. and also the balance of payments follow the asset/liability principle, while the annual FDI stock survey is conducted according to the extended directional principle.

Equity capital is calculated at book value from the balance sheets of the investment enterprises. By contrast, shareholdings in direct investment enterprises listed on stock exchanges are recorded in the i.i.p. at the listed price. Furthermore, private investments in real estate and construction sites existing for more than one year count towards direct investment in the balance of payments and the international investment position.

Immediate FDI / consolidated immediate and indirect FDI

Alongside immediate FDI, the stock statistics on FDI also show consolidated immediate and indirect FDI. Consolidation makes it possible to look through dependent holding companies and thus identify the region or sector where the actual investment object is located without counting the employed capital twice.

Foreign affiliates statistics (FATS)

The foreign affiliates statistics (FATS) provide information on, inter alia, the number of foreign affiliates an investor controls, the number of persons employed and turnover, broken down by geographical location and activity. FATS are in conformity with the provisions of Regulation (EC) No 716/2007 of the European Parliament and of the Council of 20 June 2007.

The Bundesbank collects the data on foreign affiliates controlled by German investors (outward FATS), whereas the Federal Statistical Office provides data on domestic affiliates controlled by foreign investors (inward FATS).

In Germany, outward FATS are closely linked to the FDI stock survey. All direct or indirect ownership stakes in foreign enterprises, including branches and permanent establishments,

are included in the calculation of outward FATS variables, provided they are ultimately controlled by German investors. Control refers to the opportunity to dictate the dependent enterprise's business policy. In practice, it is defined as holding (directly and/or indirectly) more than 50% of the capital or voting power.

Economic activities are classified in line with the internationally harmonised classification of economic activities, NACE Rev. 2, according to the main focus of the foreign affiliates' activities. FATS do not include Section A "Agriculture, forestry and fishing" or Section O "Public administration and defence; compulsory social security".