

SOURCES AND METHODS

FOREIGN DIRECT INVESTMENT, FLOWS

Financial Statistics
Securities and External Statistics

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FOREIGN DIRECT INVESTMENT, FLOWS

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0 ADMINISTRATIVE INFORMATION ABOUT THE STATISTICAL PRODUCT

0.1 Name

Foreign direct investment, flows.

0.2 Subject Area

Direct investments
National accounts and balance of payments.

0.3 Responsible Authority, Office, Person, etc.

Danmarks Nationalbank, Statistics, Securities and External Statistics
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0.4 Purpose and History

The purpose of the statistics is to show Danish direct investments abroad and foreign direct investments in Denmark which have taken place during a period, i.e. transaction data. The statistics are a subset of Danmarks Nationalbank's statistics Balance of payments – Financial account. The statistics were commenced in 1957.

0.5 Users and Application

The statistics can be used as an indicator – among others – of the internationalization and openness of an economy. The users are ministries, professional and industrial bodies, Danmarks Nationalbank, banks and mortgage banks, the ECB, IMF, OECD, BIS, etc.

0.6 Sources

Since 2004, the collection of information on the international investment position and the financial account of the balance of payments have been based on the following main sources:

- Reporting by enterprises
- Banking and mortgage lending, balances, cf. the sources and methods of the statistics
- General-government statistics
- Investment funds, cf. the sources and methods of the statistics
- Securities, cf. the sources and methods of the statistics information from the Danish tax authorities on holiday residences.

0.7 Legal Authority to Collect Data

Pursuant to section 14a of the National Bank of Denmark Act, inserted by Act no. 579 of 1 June 2010, Danmarks Nationalbank has separate authority to collect, compile and publish statistical information to perform its tasks. The collected information may be used for other purposes than compilation of statistics. This particularly applies in connection with oversight of financial stability and when laying down monetary and foreign-exchange policies, as well as in relation to Danmarks Nationalbank's participation in the European cooperation in the financial area.

0.8 Response Burden

There is no direct reporting burden, since data is collected from other registers or by others.

0.9 EU Regulation

The collection of data is based on the ECB's statistical reporting requirements in the field of balance of payments and international investment position statistics, and the international reserves template (ECB/20011/3) amended in ECB/2013/25.

1 Contents

1.1 Description of Contents

The statistics contain quarterly flow data for direct investments broken down by equity and intercompany debt, which are broken down by industry and country. The statistics are compiled both on a net basis according to the directional principle and on a gross basis according to the

asset/liability principle (balance of payments principle). The two principles are described in section 1.2.

1.2 Statistical Concepts

The primary source for compilation of flow data for direct investments is reporting from a segment of Danish enterprises. Approximately 500 enterprises report on a monthly basis and approximately 250 report on an annual basis. Together the two groups represent a coverage of around 90 per cent. The coverage depends on type of investor and sector. The reported data is aggregated. The coverage of the other sources is close to 100 per cent, therefore this data is not grossed up.

The statistics are based on the flow identity:

stock, end of previous period
+ transactions during the period
+ revaluations, etc. during the period

= stock, end of period.

Stock data (asset/liability principle) corresponds to the international investment position, cf. Danmarks Nationalbank's statistics Denmark's international investment position, and credit flow data corresponds to Danmarks Nationalbank's statistics Balance of payments – Financial account.

Revaluations, etc. comprise not only changes in exchange rates and prices, but also other changes resulting from among other things reclassification between sectors or instruments. For example, a portfolio investment is reclassified as a direct investment when an investor increases the ownership from less than 10 per cent to more than 10 per cent of the equity capital in an enterprise. In Danmarks Nationalbank's statistics Balance sheets of banks and mortgage banks and in most of the reporting by enterprises all the elements of the identity are reported. Thus the reported figures can be reconciled.

Definition of direct investment

In accordance with the definition in the IMF's Balance of Payments Manual from 2009 (BPM6) direct investments comprise shares and other forms of equity where an investor holds at least 10 per cent of the equity capital or voting power of an enterprise. Investments of this size are assumed to be made for the purpose of obtaining a long-term economic relationship between the investor and the enterprise as well as provide the investor a significant (but not necessarily controlling) influence on the management. A direct investment, cf. the above definition, may be in the form of equity capital, etc. or intercompany loan, etc.

The foreign direct investment statistics are compiled both on a net basis (directional principle) and a gross basis (asset/liability principle). Under the directional principle investment of foreign enterprises into their Danish parent enterprises are classified as divestments, and are thus deducted from direct investments abroad. In the same way investments of Danish enterprises into foreign parent enterprises are deducted from foreign investments in Denmark. This is in contrast to the asset/liability principle, where Danish investments in foreign parent enterprises are not deducted, and vice versa for foreign branches reverse investments in Danish parent enterprises.

The directional principle leads to a netting of intercompany loans between mother and daughter enterprises (see example below) and between fellow enterprises. The direction of the investment for fellow enterprises is determined by the ultimate investing country.

	Investing country	Asset/liability principle		Directional principle	
		DK-Asset	DK-Liability	Outwards	Inwards
Example 1	Denmark	5000	300	4700	0
Example 2	Spain	2000	1000	0	-1000

Equity, etc.

Equity, etc. is equity capital transfers relating to shares and other equity as well as reinvested earnings. Equity capital transfers include either setting up new enterprises, purchase/merger of existing enterprises or increase of equity in existing enterprises. Reinvested earnings comprise the part of an enterprise's profit that is not distributed. Reinvested earnings are projected on the basis of the profit margin of the enterprises and current information on dividends paid. Projection is subject to uncertainty and entails revision when the actual profits are reported in connection with the annual reporting.

Holiday residences

Private holiday residences are classified as equity. Data as from end-2006 are based on information from the Danish tax authorities. Until end-2004 Danish residents' holiday residences abroad were estimated on the basis of the Payments statistics in which non-residents' holiday residences in Denmark, as well as those of residents who had moved abroad, were not registered. Data until end-2005 are therefore 0. Data as of end-2005 and through 2006 are estimated on the basis of the Danish tax authorities' end-2006 data.

Intercompany debt, etc.

Intercompany debt, etc. comprises trade credits, intercompany loans and other transactions between group enterprises. Besides transactions directly between investor (parent enterprise) and the enterprise invested in, e.g. a subsidiary, it also covers transactions between indirect group enterprises, e.g. sister enterprises. Branches are treated as wholly owned subsidiaries, with the exception of branches of financial intermediaries, which are not included.

Banks' intercompany debt, etc.

For banks only equity capital transfers to subsidiaries and associates are included, whereas intercompany debt, etc. between group enterprises are excluded, since they are considered to be ordinary banking activities.

Pass-through investments

Pass-through investments are direct investments from abroad into a holding company in Denmark, which reinvests the capital abroad. This type of investment is also characterised by the holding company having no real-economic activity, e.g. employees or production, in Denmark (of significance) and normally owning no enterprises in Denmark.

Industrial classification

The industrial classification is in accordance with the joint European nomenclature NACE Rev. 2, which is the basis for the Danish industrial classification of all economic activities (Dansk Branchekode 2007 (DB07)). The industry breakdown is based on the industry of the resident enterprise.

Holding companies

Outward investments via Danish holding companies or inward investments in Danish holding companies are registered under the industry "Financial intermediation" in 1720 "holding companies (not head offices)". The objective of a holding company is typically to own shares in other Danish enterprises which usually do not belong to the group. This leads to an overrepresentation of investments in the industry.

2 TIME

2.1 Reference Period

The statistics are compiled at end-quarter.

2.2 Date of Publication

The statistics are normally published 1½ month after the end of the quarter; i.e. the 10th banking day of February, May, August and November.

2.3 Punctuality

The statistics are usually published without delay in relation to the scheduled date.

2.4 Frequency

The statistics are published every quarter.

3 ACCURACY

3.1 Overall Accuracy

The statistics are based on reports from approximately 750 enterprises. The overall accuracy is therefore dependent on the accuracy of the reports from each of the enterprises. The accuracy of the other sources is stated in the sources and methods for these statistics.

3.2 Sources of Inaccuracy

The statistics are among other things based on projections of reinvested earnings calculated on the basis of the profit ratios of the enterprise, as well as current information on distributed dividend. Projection is subject to considerable uncertainty and entails revision when the actual earnings are reported in connection with the annual reporting.

Since the statistics are a subset of Danmarks Nationalbank's statistics Balance of payments – Financial account, see the sources and methods for these statistics.

3.3 Measures on Accuracy

The statistical uncertainty is not calculated.

4 COMPARABILITY

4.1 Comparability over Time

At the turn of the year 2004/05 Danmarks Nationalbank implemented a different system for collecting information on the international investment position and the financial account of the balance of payments. The system also applies to Direct investments. This means that data from before 2005 was compiled in a different way.

Since the statistics are a subset of Danmarks Nationalbank's statistics Balance of payments – Financial account, see the Sources and method for these statistics.

4.2 Comparability with other Statistics

Comparable statistics are not available.

4.3 Coherence between Provisional and Final Statistics

The statistics are normally revised 2 reference periods back when the present quarter is published, cf. also Danmarks Nationalbank's revision policy for financial statistics and the appurtenant revision cycle.

5 ACCESSIBILITY

5.1 Forms of Dissemination

Published quarterly via:

www.nationalbanken.dk

<http://nationalbanken.statbank.dk>

www.statbank.dk

5.2 Basic Material: Storage and Usability

These Sources and methods do not comprise data which are stored.

5.3 Documentation

The present statistics are described in detail in Jens Hald, Denmark's balance of payments and international investment position, Danmarks Nationalbank, 2007.

5.4 Other Information

No further information is available.

6 SUPPLEMENTARY DOCUMENTATION

None.