

DANMARKS NATIONALBANK

14 OCTOBER 2020

FOREIGN DIRECT INVESTMENT, STOCKS, 2019

Foreign direct investment often passes through holding companies



Foreign investors often
invest through holding
companies

33 per cent

of inward FDI in the manufacturing
industry passes through holding
companies in Denmark.



Major trading partner
countries are the largest
investors in Denmark

27 per cent

of inward FDI in Denmark is ultimately
controlled by US companies and funds,
equivalent to kr. 219 billion.



In 2019,
Danish outward
FDI amounted to

kr. 1,453bn

67 per cent of Danish outward FDI
is located in European countries.



Danish investors
earned a return of

kr. 99bn

on outward FDI in 2019, 35 per cent of
which from the manufacturing industry,
especially the pharmaceutical industry.

FDI rose in 2019

In 2019, the value of inward FDI in Denmark increased by kr. 53 billion to kr. 811 billion, see chart 1. Equity investments, at kr. 778 billion, account for most of this investment, while intercompany loans make up the rest. The main increase in equity investments in Denmark has come from European investors.

Danish outward FDI increased by kr. 90 billion to kr. 1,453 billion, with equity investments accounting for kr. 1,293 billion. The main driver is a rise in equity investments by Danish firms through acquisitions and capital increases. For instance, DSV's acquisition of Swiss freight forwarder Panalpina contributed to increasing Danish outward FDI. On the other hand, the significance of changes in exchange rates and prices was limited.

The value of outward FDI exceeds that of inward FDI. In other words, Denmark's net FDI position is positive. The gap between outward and inward FDI increased further in 2019. This should be seen in the light of the large Danish current account surpluses in recent years. The current account surplus means that Denmark has a net savings surplus. Part of the savings surplus is invested by Danish companies and funds in outward FDI.

FDI in Denmark often passes through holding companies

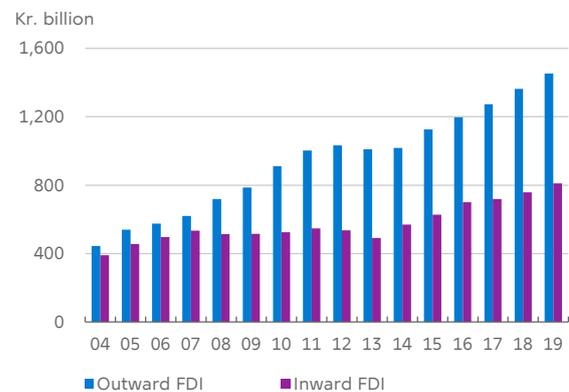
Inward FDI in Denmark often passes through holding companies, owning one or more subsidiaries in which the real economic activity associated with the investment takes place.

Foreign investors had direct equity investments totalling kr. 235 billion in Danish holding companies, equivalent to 30 per cent of inward equity investments. Over the past 15 years, holding company investments have accounted for between 20 and 30 per cent of total inward FDI.

It is possible to look beyond Danish holding companies, thereby identifying the ultimate target industry of inward FDI in Denmark, see box 2. E.g. in manufacturing industry, a large share, 33 per cent, of inward

FDI has increased

Chart 1



Note: The directional approach has been applied, and pass-through investments have been eliminated. Set-off of balances with fellow subsidiaries is recognised from 2013, resulting in a change of levels (decline) in 2013.

Source: Danmarks Nationalbank.

What is foreign direct investment?

Box 1

Foreign direct investment, FDI, is investment in foreign firms or branches in which the investor holds at least 10 per cent of the equity or voting rights.

FDI includes both equity investments and intercompany loans between affiliated companies. Equity investments typically have a long investment horizon, while intercompany loans, etc. are largely used for liquidity management and may therefore show greater fluctuations.

As FDI typically has a long investment horizon, FDI is often assumed to have been made with a view to establishing a long-term financial relationship between the investor and the firm. The investment can be an indicator of how open an economy is and of economic integration. For example, FDI can stimulate local real economic activity by boosting production and employment in the target country. The purpose of the investment could be to create added value through active ownership if, say, the investor has the expertise to grow the firm. The investment can also be made with a view to acquiring and gaining access to e.g. distribution networks and customer bases or intellectual skills or patents.

In this edition of *Statistics - Insight*, Danmarks Nationalbank looks into Danish outward FDI and inward FDI in Danish firms. This publication is released simultaneously with the annual FDI statistics for 2019, based, inter alia, on reporting by the largest Danish firms.

FDI and holding companies

Box 2

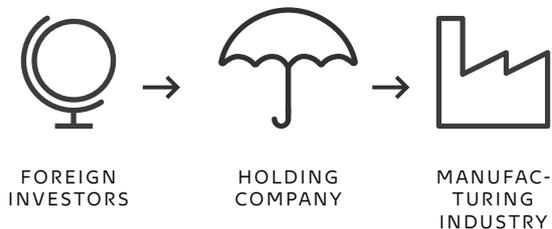
Using ownership data for Danish firms, it is possible to track investments passing through holding companies and identify the ultimate target industry of inward FDI in Denmark. This provides a better picture of the real economic activity from inward FDI in Denmark.

Inward FDI in Denmark is compiled by immediate Danish counterparty industry. In other words, the entire investment is allocated to the industry of the ultimate Danish group company. For instance, if a foreign firm invests in a Danish manufacturing firm through a holding company in Denmark, the investment will be shown as FDI in a holding company – not in an underlying subsidiary in the manufacturing industry.

Holding companies tend to have very limited real economic activity, and the value of holding companies is derived from their subsidiaries in which the real economic activity associated with the investment takes place.

From holding company to underlying subsidiary

In order to produce a compilation of where the real economic activity takes place, foreign equity investments in holding companies are allocated between the industries of the underlying subsidiaries. Data can be found at Danmarks Nationalbank's website ([link](#)). This makes it possible to look



beyond the holding companies in the industry compilation, and the compilation reflects the target of the inward FDI in holding companies, e.g. in manufacturing industry as illustrated above.

Where a holding company owns multiple companies, FDI is allocated between the underlying subsidiaries based on the holding company's equity investments, i.e. the ownership interests of the holding company multiplied by the recognised equity of the subsidiaries.

To the extent that investments are outward FDI, this portion of the investment is regarded as a holding activity. In such cases, the holding company will be allocated as industry. As the holding companies also own Danish companies with real economic activity, they are not classified as pass-through holding companies.

FDI passes through holding companies in Denmark, see chart 2.

Looking at investments passing through holding companies, most inward FDI in Denmark is made in business service, trade and transport and manufacturing industry. Almost half of inward FDI in Denmark is targeted at these industries.

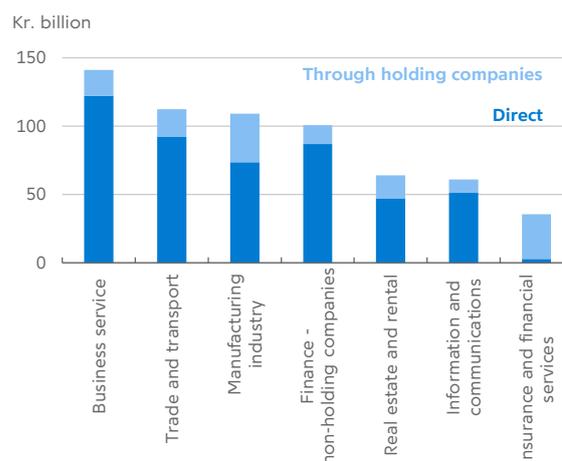
The USA is a large-scale investor in Denmark

The USA remains a large-scale investor in Denmark, see chart 3. In 2019, US investors accounted for just over a quarter of inward FDI in Denmark, compiled by ultimate investor country, which is the same pattern as in 2018.

The compilation by ultimate investor country looks beyond the immediate counterparty country, i.e. the country from which the investment is transferred to

Inward FDI through holding companies plays a major role in many industries

Chart 2



Note: Data for 2019. Inward direct equity investments excluding pass-through investments, broken down by immediate counterparty (blue bar) and through holding company (light blue bar). The chart excludes FDI, which is still classified as holding company investments in holding company compilations.

Source: Danmarks Nationalbank.

Denmark. This provides a picture of the countries from which inward FDI in Denmark is controlled.¹

49 per cent of inward FDI passes through *transit countries*, especially Luxembourg and the Netherlands, but also Ireland and offshore centres. Transit countries are especially used by US firms and corporate funds.

US manufacturing investments pass through transit countries or holding companies

Looking at investments passing through transit countries and holding companies, the economic significance of, for instance, US FDI for the manufacturing industry becomes more visible. US investors have invested a total of kr. 40 billion in Danish manufacturing firms, 85 per cent of which has passed through transit countries and holding companies, see chart 4.

Outward FDI was driven by acquisitions

Danish outward FDI increased by kr. 90 billion in 2019 to kr. 1,453 billion. A number of major acquisitions in 2019 contributed to the rise in Danish outward FDI.

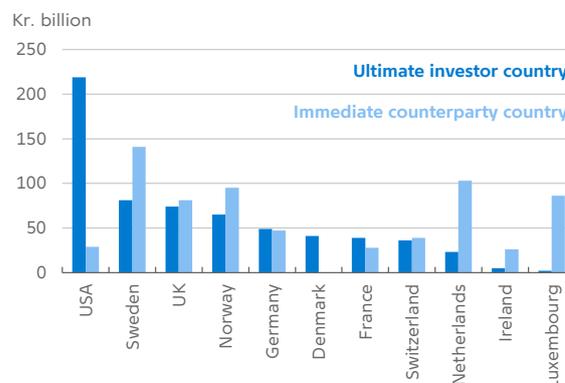
The largest acquisition was DSV's acquisition of Swiss freight forwarder Panalpina, totalling kr. 35 billion, in the 3rd quarter of 2019.² Moreover, ATP acquired a stake in Norwegian Tampnet; Kirkbi, in partnership with foreign investors, acquired full control of Merlin Entertainment, the owner of the Legoland theme parks; and Lundbeck acquired US Alder BioPharmaceuticals.

FDI in close trading partner countries

Danish outward FDI is largely focused on our largest trading partners. FDI in Europe and the USA accounts for 78 per cent of total outward FDI, see chart 5. In addition, Danish firms have large investments

Ultimate investor country

Chart 3

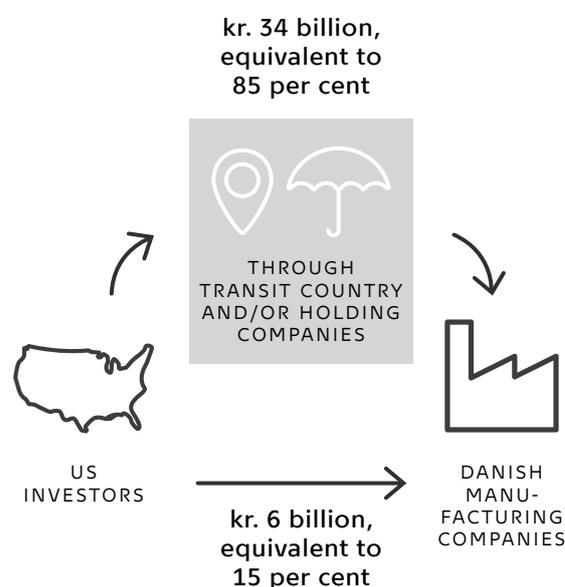


Note: Inward FDI in Denmark for 2019, compiled by immediate counterparty country and ultimate investor country, respectively. The directional approach has been applied, and Danish pass-through holding companies have been eliminated.

Source: Danmarks Nationalbank.

The lion's share of US manufacturing investments in Denmark passes through transit countries or holding companies

Chart 4

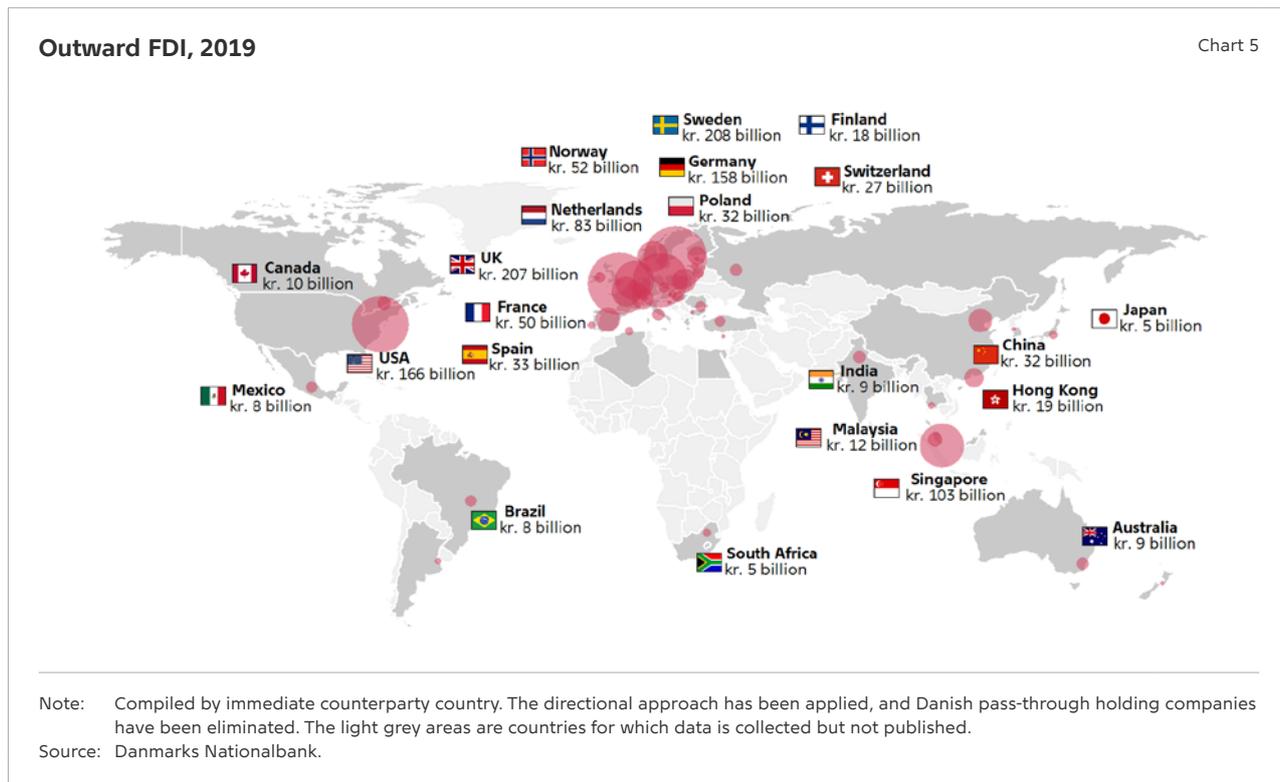


Note: The straight arrow includes all US investments in the Danish manufacturing industry, compiled by the immediate counterparty. Through transit country and/or holding company include all manufacturing investments that are ultimately controlled from the USA, i.e. the investment passes through a transit country, through a holding company or through both a transit country and a holding company. Inward equity investments excluding pass-through investments.

Source: Danmarks Nationalbank.

1 For a detailed description and review of ultimate investor country, see Danmarks Nationalbank ([link](#)).

2 DSV press release, 19 August 2019 ([link](#)).



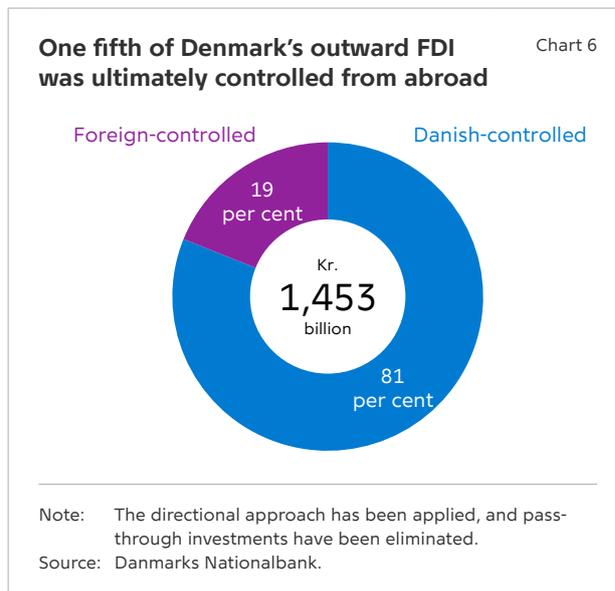
in Singapore, the hub of maritime transport and a transit country for investment in Asia.

The country breakdown of outward FDI has been fairly constant over time, the reason being that FDI reflects long-term financial relationships.

FDI controlled from abroad

Investment abroad is compiled as Danish if made by a resident or a firm registered in Denmark. However, some firms registered in Denmark have foreign owners or belong to a group ultimately controlled by foreign investors. In order for a Danish firm to be considered to be controlled from abroad, the firm or its Danish parent must have a foreign owner that controls at least 50 per cent of the voting rights.

At the end of 2019, approximately 19 per cent of Danish outward FDI was made by Danish firms ultimately controlled from abroad, see chart 6, equivalent to kr. 275 billion.



Holding companies in Denmark account for 33 per cent of foreign-controlled outward FDI.

Rates of return

Returns on both inward and outward FDI have been stable over the past five years, see chart 7.

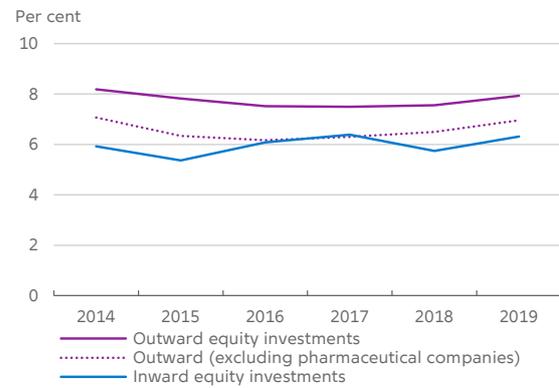
The return on Danish outward FDI exceeds the return on inward FDI in Denmark. This is particularly attributable to Danish pharmaceutical companies' high earnings on patents in foreign subsidiaries. If the pharmaceutical industry is eliminated, the spread between the returns on outward and inward FDI is considerably smaller.

Foreign investors make a solid profit on Danish manufacturing industry

The manufacturing industry accounts for 10 per cent of inward equity investments, but 19 per cent of the return of investors, see chart 8. Manufactur-

Stable returns on FDI

Chart 7



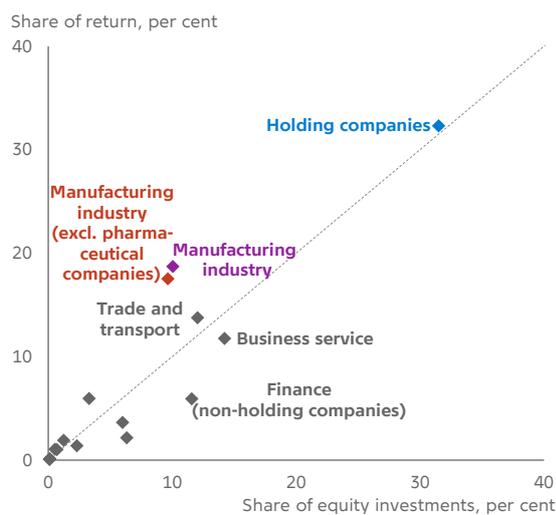
Note: Rates of return are calculated exclusive of pass-through investments as the profit as a percentage of the average equity held during the year.

Source: Danmarks Nationalbank.

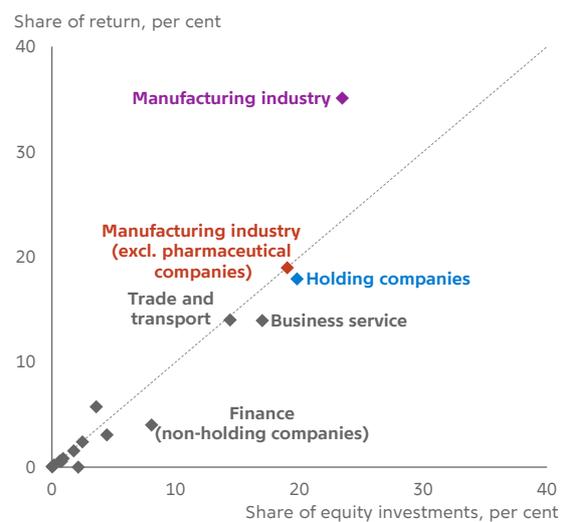
High manufacturing returns on both inward and outward FDI

Chart 8

Inward FDI



Outward FDI



Note: The directional approach has been applied, and pass-through investments have been eliminated.

The compilation of inward FDI is not of investments passing through holding companies because it is not possible to accurately allocate profit, and thus asset costs, between the underlying subsidiaries of holding companies. The reason is conceptual differences between the statistics compilation and accounting policies when it comes to profit and loss. This means that it is not possible to use the financial results to allocate returns of inward FDI.

Source: Danmarks Nationalbank.

ing earnings are broadly based across various types of manufacturing firms. On the other hand, investments in finance and business service yield a lower than average return.

Danish investors also receive a higher return on equity investments in manufacturing firms abroad than on outward equity investments overall. The manufacturing industry generates 35 per cent of the return on outward equity investments, but accounts for just 24 per cent of the volume of equity investments. The pharmaceutical industry is the primary driver of the higher return, generating a return of kr. 16 billion, thereby accounting for 46 per cent of the manufacturing firms' return. The considerably higher return from the pharmaceutical industry than for other industries applies only to Danish outward FDI. This difference is due to the group structure of Danish pharmaceutical companies.

Rates of return on FDI should be interpreted with caution as they are highly dependent on whether investments are compiled at market values or at book values, which tend to be lower. This means that accounting policies may contribute to high rates of return for the pharmaceutical industry's FDI.

The Statistics - Insight consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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