Explanatory notes

What is foreign direct investment?

Foreign direct investment (FDI) is a category of cross-border equity investment in which the aim of the direct investor is to exert considerable influence on or control over the management of the direct investment enterprise. Cross-border holdings of the capital and reserves of enterprises, branches and permanent establishments are regarded as FDI where at least 10% of the shares or voting rights are directly attributable to the investor, or, taken together, more than 50% of the capital shares or voting rights are directly and indirectly attributable to the investor. With respect to FDI in the reporting country, a direct investment relationship also exists if a group of related enterprises have a joint holding of 10% or more in an enterprise in the reporting country. When it comes to longer chains of ownership, determining whether a direct investment relationship exists depends on the method used. According to the direct influence/indirect control method (DIIC),[1] all enterprises in a continuous chain of majority ownership ("dependent enterprises"), all enterprises in which an investor directly owns 10% or more of the shares or voting power, and all enterprises that are controlled by them (more than 50% of the shares or voting power) represent a direct investment relationship. The German FDI statistics are based on the DIIC with the exception of the lattermost type of majority ownership, which is not included in the German definition.

The German FDI statistics generally observe the concepts and requirements set down in the sixth edition of the International Monetary Fund's (IMF) Balance of Payments and International Investment Position Manual, Sixth Edition, 2009 (BPM6) and the OECD's Benchmark Definition of Foreign Direct Investment, Fourth Edition, 2008. For the EU Member States, the statistical reporting requirements based on these are laid down in a regulation adopted by the European Commission (Regulation (EC) No 184/2005 of 12 January 2005). Moreover, a European Central Bank (ECB) guideline specifies the reporting requirements of the national central banks of the Eurosystem (Guideline (ECB) No 23/2011 of 9 December 2011).

The Bundesbank publishes a range of FDI statistics in order to meet users' various analytical needs and respective international organisations' reporting requirements. A distinction should be made here between stock and transaction statistics, which provide data at a given point in time and over a given period, respectively. These results can still be presented in accordance with the asset/liability (A/L) principle or the extended directional principle (xDP). In more in-depth analyses, a distinction is also made between immediate and ultimate FDI. The next section provides more detail about the subsets of statistics available and the concepts they are based on. The final section of the methodological notes includes a summary table listing the data provided by individual FDI statistics, specifying the available breakdowns of each (granularity).

Stocks and transactions

The stock statistics for German FDI include the FDI stock statistics and FDI in the international investment position (i.i.p.).

The FDI stock statistics are based on reports by domestic enterprises and individuals on "residents' assets abroad" and "non-residents' assets in the reporting country", which have to be submitted to the Bundesbank once a year.

Owing to a national reporting threshold, reports only need to be submitted for direct investment enterprises with total assets of (the equivalent of) €3 million or more. Indirect holdings must be reported if capital shares or voting rights are majority-owned. For German publications, FDI stocks are calculated from the (share of) equity (nominal capital, capital and revenue reserves, retained earnings/accumulated losses brought forward and annual result) and the credit relationships between German investors and affiliated enterprises. As far as credit relationships are concerned, loans between financial intermediaries (banks and financing institutions) do not count as FDI.

The i.i.p.[2] records FDI stocks, amongst other things, on a quarterly basis; these are based on various sources of primary statistical data. The main source for equity capital is the annual FDI stock statistics. However, data on the intra-year quarters must be supplemented by extrapolating transactions from the balance of payments. The same

1 An overview of the internationally recognised methods can be found in the Annex to the Organisation for Economic Co-operation and Development's (OECD) Benchmark Definition of Foreign Direct Investment, Fourth Edition 2008 (Annex 4, pp. 164 ff.).
2 The i.i.p. captures Germany's total stock of assets and liabilities vis-à-vis non-residents. Alongside FDI, the i.i.p. also includes portfolio investment, other investment and the reserve assets.

applies to the current quarters of the i.i.p, for which no FDI stock statistics are yet available. Since the results of the FDI stock statistics are compiled from balance sheets, the 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.

Moreover, data on cross-border real estate as well as construction work for construction sites existing for more than one year are added from the balance of payments. As described above, equity capital is calculated at book value from the balance sheets of the investment enterprises. Shareholdings in direct investment enterprises listed on stock exchanges, by contrast, are recorded at the listed price.

All direct investment loans in the i.i.p., i.e. long and short-term intra-group loans and trade credits, are based on the monthly stock statistics on the external position of non-banks.

FDI transactions are recorded in the balance of payments[3]. The purpose of the balance of payments is to provide a systematic breakdown of all economic transactions between residents (natural and legal persons resident in Germany) and non-residents (natural and legal persons resident abroad) within a given period (month, quarter, year). The balance of payments is broken down into the following sub-accounts based on the economic character of the various transactions: current account, capital account and financial account.

As a way to better understand external sector activities, the changes in stocks between i.i.p. quarters are subdivided in a table into transaction-related and valuation-related changes as well as other changes. Transaction-related changes correspond to the financial account. Like the i.i.p, this comprises the functional categories FDI, portfolio investment and other investment (associated investment income, including income from FDI, is captured by the current account under primary income).

The flow accounts used for the balance of payments consist of reported transactions as well as derivative transactions. The threshold set for the primary statistical reporting requirement of the balance of payments (reported transactions) is €12,500 (per month, per country and per transaction category). This threshold has virtually no relevance for FDI, which is why it may be assumed that more or less all transactions are reported. This threshold value applies to FDI reported as real transactions. All equity capital transactions and long-term loans come under this definition.

Long-term trade credits as well as short-term loans and trade credits are derived from the monthly stock statistics on the external position of non-banks, from which data on reinvested earnings are also derived. Reinvested earnings comprise the part of the annual result which stems from the ordinary operations of the investment enterprise and which exceeds the (share of) distributions paid. Thus, methodologically speaking, reinvested earnings represent an implied reinvestment of financial resources. They are determined on the basis of the FDI stock statistics and allocated to the year in which the earnings were realised.

Presentation methods for FDI statistics: asset/liability principle and extended directional principle

Two ways of presenting foreign direct investment (FDI) have become established internationally; they are most frequently referred to as the asset/liability principle and the extended directional principle. In German FDI statistics, the two presentation forms differ only in terms of debt instruments, i.e. the credit transactions between affiliated enterprises. The presentation of equity (irrespective of whether transactions or stocks are concerned), is identical for both presentation principles.[4] The extended directional principle focuses on the direction of the original FDI. Capital flows from the direct investor to the direct investment enterprise are considered the "normal" direction, while investments in the opposite direction are termed "reverse investments". For this reason, loans from the investment enterprise to the investor are deducted from the loans from investors to the investment enterprises. The way in which loans between fellow enterprises are recorded in the statistics depends on the domicile of the group's headquarters. If the group's headquarters are domiciled in Germany, all debt positions

3 The balance of payments of the Federal Republic of Germany provides a systematic breakdown of all economic transactions between residents and non-residents within a given period. It constitutes an important part of the consolidated balance of payments of the euro area and the European Union. At national and international level, the balance of payments provides the authorities responsible for monetary and economic policy, associations and enterprises as well as researchers with important information on the external trade links of the economic territory under analysis.

4 In contrast to debt instruments, for equity it is assumed that a direct investment enterprise does not have an equity stake in the direct investor. Because of this assumption, both presentation methods lead to the same result.

between resident and non-resident fellow enterprises are recorded as German outward FDI. For group headquarters domiciled abroad, debt positions are recorded as inward FDI in Germany.

Following the changeover to the requirements set out in the sixth edition of the IMF's Balance of Payments and International Investment Position Manual, 2009 (BPM6) in 2014, intra-group loans are also presented in accordance with the asset/liability principle. Both the credit claims of German shareholders on their foreign affiliated enterprises as well as loans from German direct investment enterprises to their foreign investors are shown under claims on affiliated enterprises abroad. Conversely, loans from foreign shareholders to German investment enterprises and loans from foreign direct investment enterprises to their German shareholders are categorised as liabilities to foreign affiliated companies.

Analytical differences regarding country allocation: immediate FDI and ultimate concepts

Direct investment relationships frequently have longer chains of ownership across multiple countries. The standard international format for presenting FDI is by immediate country of the direct investor (for FDI in the reporting country) or the direct investment enterprise (for domestic FDI abroad). One alternative of additional analytical benefit is presentation using ultimate concepts. Applying this method, regional presentation is expanded either "upwards" or "downwards" along the chain of ownership for both FDI in the reporting country and domestic FDI abroad. With respect to FDI in the reporting country, investments are presented according to the country of the uppermost direct investor or the group headquarters (ultimate investing country, or UIC).

Domestic FDI abroad can be presented according to the country of the final investment object (ultimate host country, or UHC). In this context, immediate FDI held indirectly via dependent holding companies domiciled abroad is shown in a consolidated form. This is done by exchanging the immediate investments in dependent holding companies for investments of these holding companies in other dependent companies. Consolidation thus makes it possible to "look through" the dependent holding companies and thereby identify the region or sector where the actual investment object is located without counting the employed capital multiple times.

One other method of presentation, which, strictly speaking, does not belong to the ultimate concepts since it does not involve presentation by country but nevertheless by final investment object, is presentation according to the economic sector of the final investment object.

This particular manner of presenting FDI in the reporting country involves the consolidated recording of immediate and indirect FDI. In doing so, investments in directly held, dependent holding companies in Germany are exchanged for investments indirectly held via these dependent holding companies. This manner of presentation also allows the actual investment object in Germany to be identified without capital being recorded twice.

Overview of data provided by different sets of FDI statistics:

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Position	FDI stock statistics	International investment position	Balance of payments		
	Frequency				
	Annually	Quarterly	Monthly	Quarterly	Annually
Presentation principle:					
xDP	x	x	–	x	x
A/L	–	x	x	–	–
Breakdown:					
Countries	x	x	x	x	x
Sectors	–	x	x	x	x
Countries x sectors	–	x	x	x	x
Economic sectors	x	–	x	x	x
Countries x economic sectors	x	–	x	x	x
Country allocation:					
Immediate	x	x	x	x	x
Ultimate	x	–	–	–	–

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