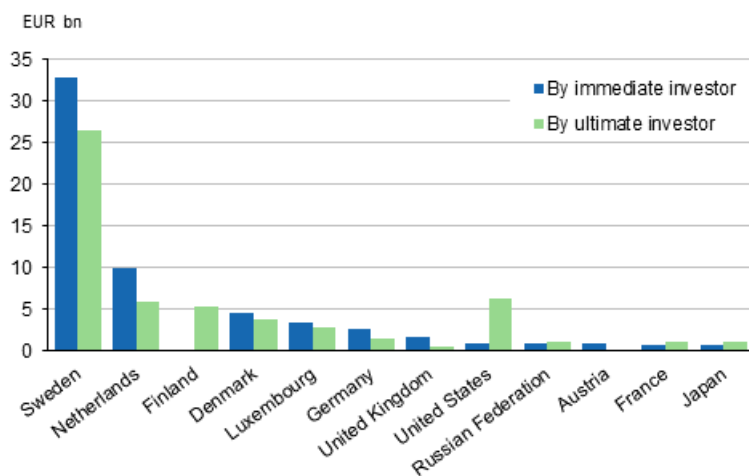


Foreign direct investments 2013

Most significant direct investors to Finland were Sweden and the United States in 2013

The new statistical standards and data collected on a more detailed level than before enable country-specific analyses of foreign direct investments (FDI) to Finland by the ultimate investing country, as well as by the conventional immediate investing country. The significance of the United States as to direct investments to Finland grows particularly in the new examination.

FDI to Finland by the investor country in 2013, investment stock



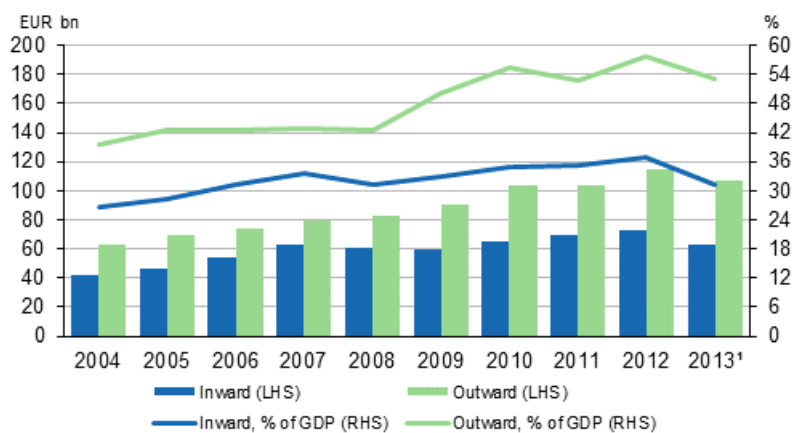
The share of Sweden and the Netherlands in direct investments to Finland gains emphasis when the figures are examined by the immediate investing country. When the figures are compared with those according to the ultimate direct investor, these countries turn out to be transit countries of capital, that is, more capital is immediately invested from them to Finland than what is actually managed there. Correspondingly, a larger share of direct investments to Finland is managed in the United States than actually immediately invested. Examined by the ultimate direct investor, the share of Finland is also significant. This is caused by domestic enterprises recycling capital through their foreign affiliates back to Finland.

Outward exceeds inward FDI

At the end of 2013, the value of direct investments to Finland totalled EUR 63.2 billion. Returns from these investments amounted to EUR 2.7 billion, which corresponds to a rate of return of 4.3 per cent relative to the value of investments at the end of 2013. Examined by the immediate country, direct investments are made to Finland particularly from Sweden (52% of the investment stock), the Netherlands (16%) and Denmark (7%). Investments to Finland especially concern financing and insurance activities and the industry of other services.

At the end of 2013, the value of direct investments from Finland was EUR 106.9 billion. Returns from these investments totalled EUR 6.2 billion, which corresponds to a rate of return of 5.8 per cent. Direct investments have been made from Finland especially to Sweden (31% of the investment stock) and to the Benelux countries (27%). Investors are particularly metal industry and service enterprises.

Stocks of FDI in 2004 to 2013



1) The figures for 2013 are not comparable with those for the years 2004 to 2012 due to changes in the international statistical standard. The changes and their impacts are discussed in more detail in Section 2 of the review included in this publication.

This is the first publication of the statistics on foreign direct investments and now data concerning the statistical reference year 2013 are released. In future, Statistics Finland will release data on foreign direct investments every year.

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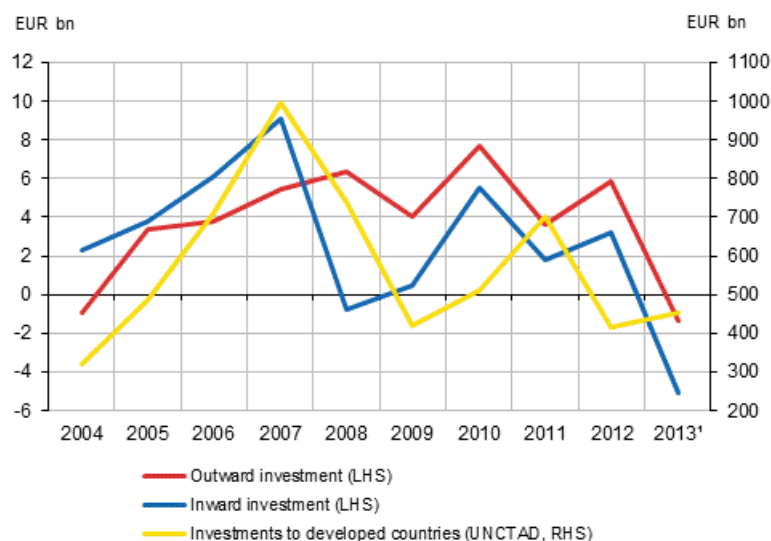
1. Foreign direct investments in 2013

This review is divided into two parts. Section 1 examines the figures of direct investments in 2013. Section 2 discusses changes in the statistical standards and their impacts on the published figures. The definitions of the concepts used in this review can be found in the statistics home page: http://www.stat.fi/til/ssij/kas_en.html.

1.1 Direct investments globally

According to the investment report published by the United Nations Conference on Trade and Development, flows of global FDI grew by nine per cent in 2013 from the previous year (UNCTAD: World Investment Report 2014). During the same period, world trade increased by 2.5 per cent and the whole world's GDP by 2.0 per cent. In 2013, direct investments increased particularly due to new investments related to the production of shale gas, corporate acquisitions of international pharmaceutical enterprises and other arrangements, and grown investment assets of private equity funds. The report predicts that investment flows will grow in coming years as well, although increasing economic and political instability in some emerging market areas brings risks to the realisation of the growth forecast.

Figure 1. Flows of FDI in 2004 to 2013



1) The figures for 2013 are not comparable with those for the years 2004 to 2012 due to changes in the international statistical standard. Changes and their effects are discussed in more detail in Section 2 of the review included in this publication.

1.2 Finland's inward FDI

The year 2013 was the second successive year of downturn for Finland's economy. Gross domestic product went down by 1.2 per cent and the unemployment rate rose from 7.7 to 8.2 per cent. The external balance of Finland's national economy also weakened. Exports decreased by 2.6 per cent from the previous year and the current account showed a deficit of EUR 2.9 billion. Finland did not attract as much FDI as in the previous years either. Finland's inward FDI totalled EUR -5.0 billion on net. New inward capital flow was thus clearly lower than outward capital flow. In this case, outward capital flow refers to repatriation of investments abroad or to loans granted by the direct investment enterprise to the direct investor.

At the end of 2013, the value of FDI was EUR 63.2 billion, of which equity accounted for EUR 55.2 billion and the value of debt capital for EUR 8.0 billion. At the end of 2012, the value of FDI amounted to EUR 73.2 billion, of which the share of equity was EUR 57.9 billion and debt capital EUR 15.4 billion. Equity thus decreased by EUR 2.7 billion, which is mostly explained by negative net investment flow.

Changes in the statistical practices are in turn the main reason for debt capital being cut in half and thus also the whole investment stock falling clearly from the year before (see Section 2).

Examined by country, direct investments have been made to Finland particularly from Sweden (52% of the investment stock), the Netherlands (16%) and Denmark (7%). Examined by country groupings, investments to Finland mainly come from the EU area, whose combined share of the investment stock was 92 per cent in 2013. The share of eurozone countries was 30 per cent in 2013. These shares were calculated by the immediate investor country. In fact, investments are often managed through an affiliate abroad, in which case the ultimate controlling investor is located in another country. These figures calculated by the ultimate investor are examined in more detail in Section 1.5 of this review.

Examined by industry, inward FDI is particularly directed to financing and insurance activities and service enterprises. The industry of the investment is determined by the industry of the domestic unit with foreign liabilities. Then the share of financing and insurance activities is increased by arrangements where a Finnish manufacturing enterprise, for example, is managed from abroad through a domestic holding company established for that purpose.

Finland's inward FDI generated returns of EUR 2.7 billion in total for foreign investors. Dividends paid for these investments amounted to EUR 4.5 billion and interests to EUR 0.7 billion, that is, in total clearly more than the total return on capital in 2013. The difference was EUR 2.5 billion, which is recorded as a negative item in reinvested earnings and correspondingly, it reduces the inward FDI flow. Reinvested earnings describe the difference between the returns accrued and paid to owners in a given year. Negative reinvested earnings are produced in a situation where the return assets generated in earlier years are distributed to owners in one year.

Returns relative to the value of investments decreased from earlier years. In 2013, returns relative to the value of investments at the end of the year were 4.3 per cent, while in 2010 to 2012, the rate of return was 6.6 per cent, on average.

1.3 Finland's outward FDI

In 2013, outward FDI totalled EUR -2.0 billion on net. Thus, new outward capital flow was clearly lower than inward capital flow. In this case, inward capital flow refers to repatriation of investments or to loans granted by the direct investment enterprise to the direct investor. Most outward capital flow on net was direct investments to Switzerland, Ireland and Belgium. Most capital invested in direct investments was in turn repatriated from the Netherlands, Germany and the United States.

At the end of 2013, the value of outward FDI was EUR 106.9 billion, of which equity accounted for EUR 101.2 billion and the value of debt capital for EUR 5.7 billion. At the end of 2012, the value of outward FDI amounted to EUR 114.7 billion, of which the share of equity was EUR 104.3 billion and debt capital EUR 10.5 billion. Equity thus decreased by EUR 3.1 billion, which is mostly explained by negative net investment flow. Changes in the statistical practices are in turn the main reason for debt capital being cut in half and thus also the whole investment stock falling clearly from the year before (see Section 2).

Examined by country, FDI is especially directed to Sweden (31% of the investment stock) and to the Benelux countries (27%). Examined by country groupings, investments from Finland are mainly directed to the EU area, whose combined share of the investment stock was 81 per cent in 2013. The share of the countries belonging to the currency union was 46 per cent at the end of 2013. Significant direct investments outside the EU are found in the United States (EUR 8.7 billion) and Russia (EUR 2.8 billion).

The shares above were calculated according to the country of the immediate investment target, in which case the appeal of the Asian emerging economies is less apparent than expected. For example, the value of investments to China was EUR 1.3 billion and to India EUR 0.1 billion at the end of 2013, while according to the statistics on Finnish affiliates abroad, Asia's share of the turnover generated abroad was 16 per cent in 2012. There are no data available on outward FDI according to the country of the ultimate investment target, so it is not possible to give a more exact specification of the final investment target. Most of the investments to the Benelux countries are connected to the management of a multinational enterprise or its part and the actual production activity is located in some other country - e.g. in Europe or Asia.

Examined by industry, enterprises having made foreign direct investments mainly represent the metal industry and service industries. At the end of 2013, the value of investments by metal industry enterprises was in total EUR 33.5 billion, of which EUR 7.2 billion was directed to the United States, EUR 6.0 billion to Belgium and EUR 5.0 billion to Sweden. In turn, the value of service enterprises' investments was EUR 33.8 billion at the end of 2013. These investments were centred strongly in Sweden (EUR 19.0 billion) and the Netherlands (EUR 7.7 billion).

Outward FDI generated returns of EUR 6.2 billion in total for Finland in 2013. Dividends from these investments amounted to EUR 5.7 billion and interests to EUR 0.3 billion. Returns gained by Finland relative to the value of FDI also decreased from the year before. In 2013, the rate of return was 5.8 per cent, while in 2010 to 2012 the figure was 7.4 per cent, on average.

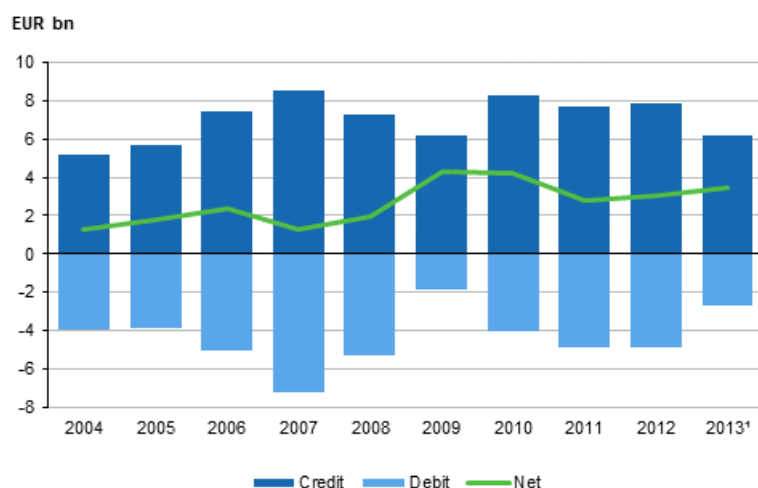
1.4 Direct investments in the balance of payments

At the end of 2013, the value of Finland's inward FDI was EUR 63.2 billion and that of outward FDI was EUR 106.9 billion. Finland thus has clearly more assets than liabilities from direct investments. These investments have a significant effect on Finland's net international investment position, in total EUR +43.7 billion. In particular, direct investments improve the net international investment position of the business and financing sectors. Net international position connected to direct investments is the same in the statistics on balance of payments and international investment position, although the gross figures of balance of payments differ from the figures presented here according to the directional principle (The differing statistical method of balance of payments is discussed more in Section 2.2).

In 2013, returns on outward FDI amounted in total to EUR 6.2 billion and on inward FDI to EUR 2.7 billion. This property income is recorded in the primary income item of Finland's current account and its net effect on Finland's current account was EUR +3.4 billion in 2013. From the viewpoint of Finland's current account, returns on direct investments were also the only type of investment in surplus. The net effect of returns from portfolio investment on the current account was EUR -1.7 billion and that of other investments EUR -1.3 billion.

Figure 2 also shows that returns connected to direct investments have improved Finland's current account throughout the reference period 2004 to 2013. Annual returns gained by Finland have varied between EUR 5.2 and 8.5 billion and these investments have yearly produced a surplus of EUR 1.2 to 4.3 billion.

Figure 2. Returns on FDI in 2004 to 2013



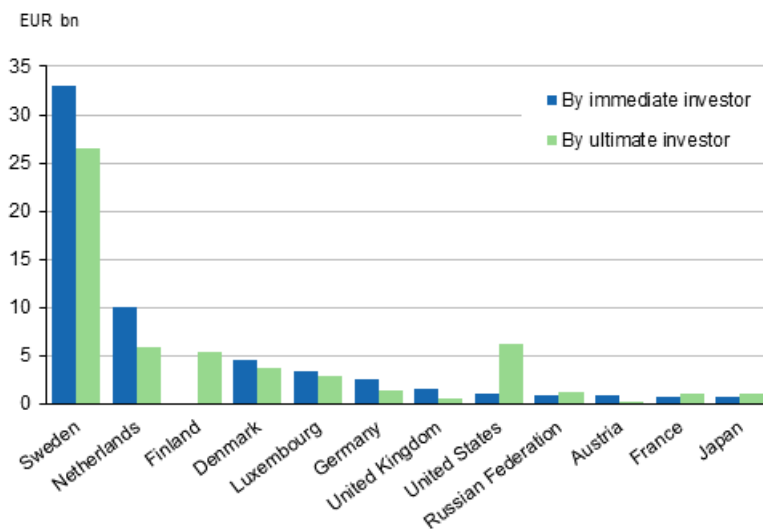
1) The figures for 2013 are not comparable with those for 2004 to 2012 due to changes in the international statistical standard. Changes and their effects are discussed in more detail in Section 2 of the review included in this publication.

1.5 Investments according to the ultimate investing country

The new statistical standards and data collected on a more detailed level than before enable country-specific analyses of direct investments by the ultimate investing country. FDI statistics have traditionally been compiled only on the basis of the immediate investor country. The ultimate direct investor here refers to the one that is topmost in the ownership chain of the foreign direct investor. The ultimate direct investor is not controlled by any other unit and it can also be a domestic unit.

Figure 3 shows that direct investments to Finland have been made clearly more from Sweden and the Netherlands if investments are viewed according to the immediate investor country. This indicates that these investments are made through an enterprise located in Sweden or the Netherlands, although the actual investor is elsewhere. The case is opposite for the United States. The FDI stock to Finland from the United States is larger when viewed on the basis of the ultimate investing country (EUR 6.3 billion) than on the basis of the immediate investor country (EUR 1.0 billion). This means that a larger share of FDI into Finland is managed in the USA than what is made immediately into Finland. Investments from Japan, France and Russia are larger if they are viewed on the basis of the ultimate investing country. In examining by the ultimate direct investor, the share of Finland is also significant. This is caused by domestic enterprises recycling capital through their affiliates abroad back to Finland.

Figure 3. Foreign direct investments to Finland by the investor's home country in 2013, investment stock



2. Reform of statistics on foreign direct investments

The Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) have published their new manuals concerning the compilation of statistics on foreign direct investments (OECD: Benchmark Definition of Foreign Direct Investment, 4th ed. [BD4]) and on balance of payments (IMF: Balance of Payments and International Investment Position Manual, 6th ed. [BPM6]). In Finland, data on balance of payments and international investment position have been released according to the extended balance of payments manual since 11 July 2014. For statistics on foreign direct investments, the compilation of statistics according to the new directional principle is taken into use starting from the statistical reference year 2013 in connection with this publication on 18 November 2014.

As a result of globalisation and deregulation of financial markets, intra-group ownership and financing structures have become more complex and this statistics reform attempts to meet this challenge. As a result, current international FDI statistics tend to reflect the occurrence mentioned above rather than foreign real investments, as was previously the case. The number of so-called pass-through investments in direct investments has grown considerably. The statistics reform aims to eliminate 'inflation' of FDI data due to capital passing through groups' internal holding and financing units. This is achieved by netting debt items between fellow enterprises according to the extended directional principle. In addition, it becomes easier to identify the ultimate investing country or the ultimate direct investor country in inward FDI.

The statistics reform causes a break in the time series in the statistics on direct investments in accordance with the directional principle. In data released on Statistics Finland's website concerning years prior to the statistical reference year 2013, direct investments are given according to the previous directional principle and starting from the statistical reference year 2013, direct investments are presented according to the extended directional principle. For the years prior to the statistical reference year 2013, the Bank of Finland has estimated the capital stock and items between fellow enterprises in accordance with the extended directional principle for the years 2009 to 2012 for the IMF's Coordinated Direct Investment Survey (CDIS). The data of the CDIS can be found on the IMF website at: <http://cdis.imf.org/>. For the year 2008, data on capital stock and items between fellow enterprises in accordance with the extended directional principle have been presented in the Bank of Finland's BoF Online publication where the statistics reforms that apply to direct investments have also been discussed at a more detailed level (http://www.suomenpankki.fi/fi/julkaisut/selvitykset_ja_raportit/bof_online/Documents/BoF_Online_04_2011.pdf).

2.1 Effects of the statistics reform on the figures published

The stock of inward FDI contracts by about six per cent as a result of the statistics reform. Correspondingly, the stock of outward FDI reduces by approximately ten per cent. The total impact of the change is EUR 6,937 million in both directions, that is, the impact is of the same size for both Finland's inward and outward FDI.

Table 1. Summary of outward and inward FDI in 2013 according to the current (BPM6/BD4) and previous (BPM5/BD3) statistics manuals, EUR mil.

	BPM6/BD4	BPM5/BD3	New/Old (%)
OUTWARD FDI	106 896	113 833	94
INWARD FDI	63 153	70 090	90
Net	43 743	43 743	100

The contraction in the stock of FDI is explained by a change in the division of debt capital items. Tables 2 and 3 below describe in more detail how the treatment of debt assets and liabilities between fellow enterprises has changed when moving to the extended directional principle. FDI data do not include equity investments between fellow enterprises, for which reason the statistics reform has no effect on equity.¹⁾

1) By definition, equity investments between fellow enterprises are possible if they entitle to a share of under ten per cent in the voting rights of the enterprise that is the target of the investment.

Table 2. Outward FDI stock according to both the current (BPM6/BD4) and previous (BPM5/BD3) statistics standards at the end of 2013, EUR mil.

	BPM6/BD4	BPM5/BD3
OUTWARD FDI	106 896	113 833
Equity	101 167	101 167
Debt instruments =	5 729	12 666
+ Assets in direct investment enterprises	23 709	23 709
- Liabilities to direct investment enterprises (reverse investments)	-17 292	-17 292
+ Assets in foreign fellow enterprises		6 249
+ Assets in foreign fellow enterprises where ultimate controlling parent is resident in Finland	3 366	
- Liabilities to foreign fellow enterprises where ultimate controlling parent is resident in Finland	-4 054	

According to the previous directional principle, outward FDI (EUR 6,249 million) comprises all debt capital claims on fellow enterprises abroad, while the extended directional principle stipulates that outward FDI only comprises debt claims on fellow enterprises abroad where the ultimate controlling parent is resident in Finland (EUR 3,366 million). Claims on fellow enterprises abroad where the ultimate controlling parent is not resident in Finland (EUR 2,883 million) are transferred to reverse investment in inward FDI.

Table 3. Inward FDI stock according to both the current (BPM6/BD4) and previous (BPM5/BD3) statistics standards at the end of 2013, EUR mil.

	BPM6/BD4	BPM5/BD3
INWARD FDI	63 153	70 090
Equity	55 191	55 191
Debt instruments =	7 962	14 899
+ Liabilities to foreign direct investors	13 074	13 074
- Assets in foreign direct investors (reverse investments)	-6 691	-6 691
+ Liabilities to foreign fellow enterprises		8 516
+ Liabilities to foreign fellow enterprises where ultimate controlling parent is resident abroad	4 462	
- Assets in foreign fellow enterprises where ultimate controlling parent is resident abroad	-2 883	

According to the previous directional principle, inward FDI (EUR 8,516 million) includes all debt capital liabilities to fellow enterprises abroad. According to the extended directional principle, inward FDI includes only debt liabilities to fellow enterprises abroad where the ultimate controlling parent is resident abroad (EUR 4,462 million). Liabilities to fellow enterprises abroad where the ultimate controlling parent is resident in Finland (EUR 4,054 million) are transferred to reverse investment in outward FDI.

The sum of the transferred items, EUR 6,937 million (= 2,883+4,054), reflects the absolute impact of the statistical changes on FDI stocks. However, the changes do not affect the net FDI position, which is EUR 43,743 million according to both the current and previous statistical standards (see Table 1).

2.2 Two views on foreign direct investments

As a result of the statistics reform, direct investments in the statistics on balance of payments and international investment position are given in gross according to the asset/liability principle starting from the statistical reference year 2013 and the figures are also available for the period prior to this.

Correspondingly, direct investments in the statistics on foreign direct investments are presented according to the extended directional principle starting from the statistical reference year 2013. Due to presentation differences, the figures given in the statistics on balance of payments and foreign direct investments differ from one another but are, however, consistent.

The example below illustrates the differences between the directional principle and the asset/liability principle in the statistics on direct investments by means of investment flows between Finland and abroad. Figure 4 shows Finland's outward FDI both based on the directional principle and the asset/liability

principle. In outward FDI the group parent is located in Finland and the investment targets (subsidiaries/affiliates) abroad.

Figure 4. Finland's outward FDI according to the directional principle and the asset/liability principle, flow of direct investments

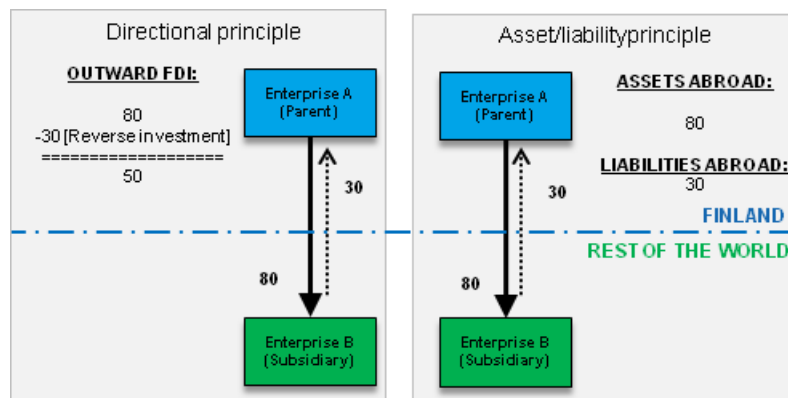


Figure 5 shows Finland's inward FDI based both on the directional principle and the asset/liability principle. In Finland's inward FDI, the group parent is located abroad. Correspondingly, investment targets (subsidiaries/affiliates) are located in Finland.

Figure 5. Finland's inward FDI according to the directional principle and the asset/liability principle, flow of direct investments

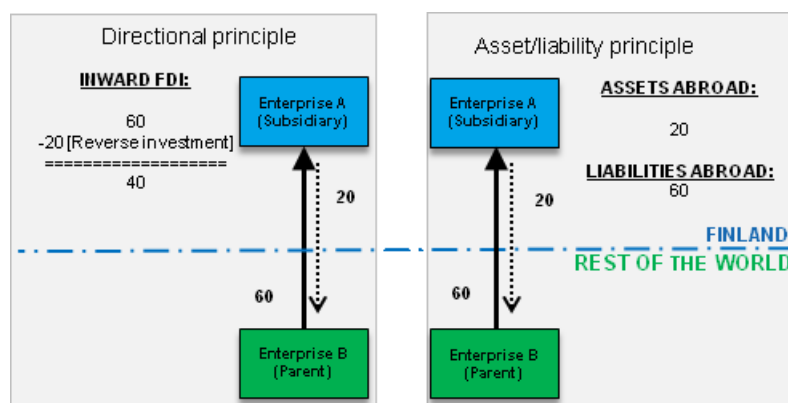


Table 4 shows a summary of investment flows between Finland and abroad. According to the directional principle, outward FDI is higher than inward FDI in this example. According to the asset/liability principle, Finland's foreign claims grew by 100 units. Respectively, Finland's foreign liabilities increased by 90 units.

Table 4. Summary of Finland's FDI flows according to the directional and asset/liability principle.

Directional principle		Asset/liability principle	
OUTWARD FDI	50	Assets	80+20=100
INWARD FDI	40	Liabilities	30+60=90
Net	10	Net	10

Appendix tables

Appendix table 1. Foreign direct investments, stock by country, EUR million

		Year					
		2008	2009	2010	2011	2012	2013 ¹⁾
Inward	Sweden	34 038	30 768	32 848	33 663	34 226	32 921
	Netherlands	7 633	9 455	11 342	12 783	15 736	9 960
	Denmark	4 669	4 852	4 132	3 910	4 337	4 533
	Germany	2 992	2 120	4 337	5 730	4 177	2 543
	Luxembourg	361	1 898	3 268	3 532	3 457	3 447
Outward	Sweden	14 083	21 778	25 435	25 939	29 375	33 062
	Netherlands	16 533	14 490	15 695	16 708	24 525	16 662
	Germany	4 587	4 119	4 769	4 435	6 234	4 078
	Belgium	18 916	19 493	22 362	21 612	9 795	9 170
	United States	8 639	7 923	7 808	7 006	9 787	8 659
	Russian Federation	2 467	2 328	2 783	2 978	3 197	2 835

1) Figures from the year 2013 onwards are not comparable with earlier data due to statistical changes.

Appendix table 2. Foreign direct investments, flow by country, EUR million

		Year					
		2008	2009	2010	2011	2012	2013 ¹⁾
Inward	Sweden	4 289	-290	1 229	626	901	-3 185
	Netherlands	141	1 674	1 979	840	2 271	-2 927
	Denmark	9	72	163	-35	550	198
	Germany	968	-1 035	2 469	1 327	-2 737	-111
	Luxembourg	-23	992	1 486	276	-247	253
Outward	Sweden	-869	2 870	1 020	2 959	2 535	67
	Netherlands	1 345	103	646	1 371	5 545	-3 183
	Germany	-501	-501	583	-104	1 768	-2 293
	Belgium	4 568	694	2 430	-845	-13 807	909
	United States	4 569	-1 056	-815	268	-351	-836
	Russian Federation	763	-313	691	575	318	543

1) Figures from the year 2013 onwards are not comparable with earlier data due to statistical changes.

Appendix table 3. Foreign direct investments, income by country, EUR million

		Year					
		2008	2009	2010	2011	2012	2013 ¹⁾
Inward	Sweden	3 477	2 133	2 891	3 295	4 267	1 572
	Netherlands	619	-1 042	-157	225	-239	431
	Denmark	342	157	252	229	228	355
	Germany	393	295	86	236	378	165
	Luxembourg	-236	34	164	161	-167	-156

		Year					
		2008	2009	2010	2011	2012	2013 ¹⁾
Outward	Sweden	1 862	1 955	2 739	2 821	4 276	1 881
	Netherlands	1 527	39	851	577	786	1 203
	Germany	-210	121	6	160	-206	-517
	Belgium	541	797	753	731	511	631
	United States	368	49	86	407	87	327
	Russian Federation	212	258	437	334	638	572

1) Figures from the year 2013 onwards are not comparable with earlier data due to statistical changes.

Quality description: Foreign direct investments

1. Relevance of statistical information

1.1. Data content and purpose of use

The statistics on annual foreign direct investments describes investment activities that are based on considerable influence or control in the investment target. In practice, the statistics depict financial transactions between domestic and foreign units in multinational groups and the assets and liabilities these generate, as well as international mergers and acquisitions. The statistical data can also be used to assess the degree of globalisation in the economy. Foreign direct investments are part of the balance of payments statistics framework but the data are published once a year as separate statistics.

The statistics compilation is based on Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment. The International Monetary Fund's (IMF) balance of payments manual (Balance of Payments and International Investment Position Manual, 6th ed. [BPM6]) and the Organisation for Economic Co-operation and Development 's (OECD) manual on foreign direct investments (Benchmark Definition of Foreign Direct Investment, 4th ed. [BD4]) are applied in the compilation.

The statistics on foreign direct investments have been published as part of the balance of payments statistics by the Bank of Finland since 1968. The main responsibility for the balance of payments statistics was moved to Statistics Finland on 1 January 2014 and Statistics Finland publishes the statistics on foreign direct investments as a separate set of statistics once a year starting from 18 November 2014. With the new statistical standards direct investments are published in net terms in the statistics on foreign direct investments and in gross terms as part of the balance of payments and international investment position statistics.

1.2. Key concepts and definitions

The classifications used in the statistics are the country classification, the Standard Industrial Classification (TOL 2008) and the Classification of Sectors (2012).

The key concepts of the statistics are:

- **Direct investment:** A direct investment relationship exists between an investor (direct investor) and an object (direct investment enterprise) located in another country when the investor has control (over 50% of the voting power) or influence (from 10% to 50%) over the object. The direction of the investment (either inward or outward) is determined in the statistics on the basis of the direction of the control/influence between parties. Direct investments refer to financial transactions between parties in a direct investment relationship.

The capital of direct investments is divided into equity and debt-based items. The counter item of reinvested earnings presented in the current account is recorded in equity. Equity includes transactions with shares in corporations, share subscriptions in rights issues and other equity transactions. For listed companies, the value of equity capital is recognised at market value and for other enterprises at own funds at book value. The debt capital of direct investments includes individual loans, leasing credits, deposits in consolidated accounts, subordinate loans comparable to equity, trade credits, accrued charges/credits and deferred credits/charges, bonds, and money market instruments. If both the creditor and debtor practise other financial intermediation than insurance, only so-called perpetuals are classified as debt capital of direct investments.

The statistics on foreign direct investments are published according to the so-called extended directional principle. The new statistical standards (BPM6/BD4) recommend that the asset/liability principle is applied to direct investments in statistics on balance of payments and international investment position. Similarly, the extended directional principle in net amounts is recommended to be applied in connection with examinations of direct investments by country or sector. Due to divergent ways of presentation, the figures for direct investments given in the statistics differ from one another.

- **Reverse investment:** Reverse investment refers to the acquisition by a direct investment enterprise of a financial claim on its direct investor.
- **Pass-through investment:** Investments where a domestic investment enterprise receives capital from a foreign direct investor and then reinvests it in its own direct investment enterprises abroad. The same pass-through investment item increases both inward and outward foreign direct investments. When pass-through investments are negative, foreign investors have unwound their foreign investments channelled through Finland, which decreases both Finland's inward and outward direct investments.
- **Local enterprise group:** Enterprises owned by the same controlling enterprise in the same country belong to a local enterprise group. Foreign affiliates and those domestic affiliates where the ownership chain goes through foreign countries are not included in the local enterprise group in question.
- **Ultimate direct investor:** An institutional unit using control in a foreign associated company or affiliate located abroad or in the home country that is topmost in the ownership chain of the direct investment enterprise. The ultimate direct investor is not controlled by any other institutional unit. The ultimate direct investor can also be a private person permanently living abroad or in the home country.
- **Capital inflow/outflow:** In inward foreign direct investments, the capital invested on net by a foreign direct investor in Finnish direct investment enterprises in a given period. Correspondingly, in outward investments, the capital invested on net by a Finnish direct investor in foreign direct investment enterprises in a given period.
- **Asset/liability principle:** According to the asset/liability principle, financial transactions included in direct investments are presented according to the data given on the assets in the balance sheet of the reporting corporations either as assets from abroad or as liabilities to abroad. The asset/liability principle does not take into consideration reverse investments according to the directional principle. Direct investments are recorded in the balance of payments and international investment position according to the asset/liability principle.
- **Stock, position:** The value of the capital invested by a foreign direct investor in Finnish direct investment enterprises at a given moment (inward direct investments). Correspondingly, the value of the capital invested by a Finnish direct investor in foreign direct investment enterprises at a given moment (outward direct investments).
- **Fellow enterprise:** Fellow enterprises are connected to one another through a shared parent company. Fellow enterprises cannot have a direct investment relationship with each other.
- **Directional principle:** Financial assets and liabilities are netted in direct investments data according to the directional principle by the direction of the control//influence between the direct investor and investment target. Direct investments to Finland describe the capital that a foreign investor has invested directly in an enterprise located in Finland under the investors' control or influence. Direct investments abroad describe the capital that a Finnish investor has invested directly in an enterprise located abroad under the investors' control or influence. Reverse investments, or financial assets of the direct investment enterprise from direct investors and investments between affiliates are taken into account in the data according to the directional principle. The financial assets and liabilities of affiliates whose ultimate control is located in Finland are netted and recorded as outward direct investments. Correspondingly, the financial assets and liabilities of affiliates whose ultimate control is located abroad are netted and recorded as inward direct investments. Data on direct investments according to the directional principle are published in the statistics on foreign direct investments.
- **Reinvested earnings:** Reinvested earnings are calculated as the difference between investment income on equity and dividends paid. The counter item of reinvested earnings presented in the current account is recorded in equity.
- **Immediate direct investor:** The institutional unit located abroad that is first in the enterprise's control and influence chain.

1.3. Laws and regulations

Statistics Finland's mandate for data collection is based on the Finnish Statistics Act (280/2004, amended 361/2013). The Bank of Finland's mandate for data collection in the area of balance of payment statistics/direct investments is based on the Act on the Bank of Finland (214/1998).

Finland has statutory obligations to produce and report balance of payment statistics/direct investments to the European Central Bank (ECB) (ECB's guidelines ECB/2004/15, revised ECB/2007/3, and ECB's guidelines ECB/2011/23, revised ECB/2013/25) and to Eurostat, the Statistical Office of the European Communities (Regulation (EC) No 184/2005 of the European Parliament and of the Council, revised (EC) No 707/2009 and Commission Regulation 555/2012), as well as to the International Monetary Fund (IMF).

2. Methodological description of the survey

The main data sources for the statistics on foreign direct investments are the annual balance of payments survey on foreign financial assets and liabilities (BOPA) and the monthly survey on foreign financial assets and liabilities (BOPM). These statistics are based on a joint data collection of Statistics Finland and the Bank of Finland. The data for the annual statistics are collected with an electronic PDF questionnaire.

The annual inquiry is based on a cut off sample, where the respondents are selected so that around 95 per cent of the value of the total foreign direct investments is covered. The framework of the inquiry is based on the Business Register and its additional data on foreign ownership, the Group Register and its data on affiliates, and the data of the Tax Administration. The inquiry includes yearly some 1,100 local enterprise groups. The annual inquiry data are available in September of the year following the statistical reference year as part of the annual publication of the balance of payments and international investment position and in November as part of the publication of the statistics on foreign direct investments. In figures published prior to this, the data collected in the annual inquiry have been estimated based on the latest available annual inquiry.

3. Correctness and accuracy of data

Only financial transactions between institutional units located in Finland and abroad are recorded in the balance of payments and international investment position and thus also in direct investments. If a foreign investor buys the target enterprise under the name of a holding company to be established in Finland and the holding company finances half of the transaction price with money received from the foreign investor and the rest with a bank loan withdrawn in Finland, only the capital invested by the foreign investor in the holding company is recorded in direct investments.

The statistics on foreign direct investments do not describe real investments. If, for example, a company under foreign control makes a factory expansion investment in Finland and does not receive financing for this directly from a foreign investor, nothing is recorded in the statistics on direct investments.

The main sources of error in the statistics are related to non-response and undercoverage. If a response is missing, the statistics are supplemented with the data from the previous year if possible. Otherwise the missing data are patched with imputations. The coverage of the questionnaire survey refers to the correctness of the survey frame in relation to the enterprise population one wishes to reach with the questionnaire. In case of this survey, undercoverage is a possible source of error because the survey sample is based on the balance sheet data in the year preceding the statistical reference year and on the data from the enterprise and enterprise group registers. In addition, undercoverage may occur related to missing data concerning international mergers and acquisitions.

The definitions of direct investments and the data providers' ability to deliver relevant data in accordance with these definitions are also a fundamental source of errors. Misunderstandings occur concerning the definitions of direct investments, which means that the responses may be deficient or are to some extent recoded in wrong items. In addition, it is in some cases difficult for the data providers to collect the correct data from the enterprise's information systems in which case the data are based on the enterprise's estimates.

The reliability of the statistics is also affected by the quality of the data collected with electronic questionnaires. The Bank of Finland combined three former annual balance of payment surveys (the surveys SSU = direct investment abroad, SSS = direct investment into Finland and SVA = foreign assets and liabilities) into a single survey Balance of payments annual survey on foreign financial assets and liabilities (BOPA). The reform enables compilation of FDI statistics in compliance with the new statistical standards and the data for the statistical reference year 2012 are the first set of data collected in line with the new standards. The reform aims at lowering companies' reporting burden and clarifying and harmonising the reporting process. Combining of the surveys also reduces possible errors related to undercoverage as the survey sample is expanded.

4. Timeliness and promptness of published data

The statistics on foreign direct investments is published once a year. The data for the statistical reference year are published ten months after the end of the statistical reference year. The published figures become final at the latest three years after the end of the statistical reference year. The release date for the first annual statistics on foreign direct investments is 18 November 2014.

The monthly FDI flows are released six weeks after the end of the month as part of the balance of payments and international investment position statistics. Quarterly investment positions of direct investments are released two and a half months after the end of the quarter also as part of the balance of payments and international investment position statistics. Distribution by sector and country are only carried out on annual data and are released in the statistics on foreign direct investments. The release schedule for the balance of payments and international investment position statistics can be found at:

http://www.tilastokeskus.fi/til/mata/tjulk_en.html

5. Accessibility and transparency/clarity of data

The statistics on foreign direct investments are released annually on Statistics Finland's website. The release date for the first annual statistics on foreign direct investments is 18 November 2014. Both the capital stock and capital flow data are published by sector, country and country group so that the data of an individual local enterprise group cannot be identified.

6. Coherence and comparability of data

The Bank of Finland and Statistics Finland are committed to follow international statistical standards. The statistics on foreign direct investments are compiled in accordance with the OECD Benchmark Definition of Foreign Direct Investment 4th Edition (BD4) and the IMF Balance of Payments and International Investment Position Manual 6th Edition (BPM6).

Country and sector-specific stock and flow data on direct investments are available on Statistics Finland's website starting from 2004. Similar direct investment data in accordance with international statistical standards are available for several countries in the world.

The renewal of the statistical standards causes a break in the time series of direct investments. Starting from the statistical reference year 2013, items between fellow enterprises are reported in accordance with the extended directional principle, which decrease the stocks of both inward and outward FDI. For the period prior to 2013, the Bank of Finland has assessed the FDI stock and fellow enterprise items in accordance with the extended directional principle for the years 2009 to 2012. The estimates have been compiled for the IMF's Coordinated Direct Investment Survey (CDIS) and the data are available on IMF's website at: <http://cdis.imf.org/Default.aspx>. In line with the new statistical standards, direct investments will be published in connection with the balance of payments and international investment position statistics according to the asset/liability principle and the statistics on foreign direct investments according to the extended directional principle, which results in the figures on direct investments presented in the statistics differing from one another.

Inward Foreign Affiliate Trade Statistics [FATS]) and outward FATS statistics published by Statistics Finland are closely related to the statistics on foreign direct investments.

7. Coherence and consistency/uniformity

The data for the statistics on foreign direct investments are delivered at aggregate level following the confidentiality principle to Eurostat, the Statistical Office of the European Communities, the OECD, the IMF and the UN. The organisations publish the data of the statistics in several printed and Internet publications.

More information on the balance of payments and international investment position statistics can be found on Statistics Finland's website at: http://www.tilastokeskus.fi/til/mata/index_en.html.

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