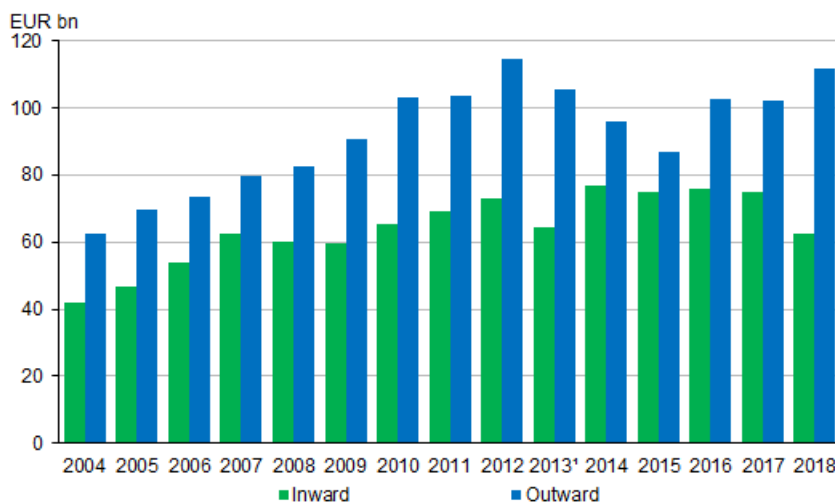


# Foreign direct investments 2018

## Finland's inward FDI decreased in 2018

The value of direct investments to Finland decreased from EUR 75.0 billion to EUR 62.4 billion during 2018. Investments as financial transactions were made to Finland for EUR -2.1 billion on net, that is the investments decreased. The drop in the stock of direct investments is, however, mainly explained by valuation changes, EUR -10.5 billion.

### FDI investment stocks in 2004 to 2018



\*) Starting from 2013, the figures are not fully comparable with those for 2004 to 2012 due to changes in the international statistical standard.

At the end of 2018, the value of the stock of Finland's outward FDI was EUR 111.7 billion, of which equity accounted for EUR 115.4 billion and the value of debt capital for EUR -3.7 billion. The stock of outward FDI grew by EUR 9.4 billion from the year before. In 2018, Finland's financial transactions recorded as outward FDI stood at EUR 9.3 billion on net.

Examined by country group, investments to Finland mainly came from the EU area, whose combined share of the investment stock was 90 per cent at the end of 2018. The share of the euro area in the stock of Finland's inward FDI was 50 per cent.

In 2018, returns on inward FDI amounted in total to EUR 8.6 billion and on outward FDI to EUR 6.6 billion. Returns gained by Finland relative to the value of FDI remained on last year's level. In 2018, the rate of return was 7.7 per cent.

This release includes a review that examines the development of foreign direct investments in 2018 in more detail

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# 1. Foreign direct investments in 2018

This review examines the development of foreign direct investments in 2018. The different sections of the review raise factors that affect the interpretation of the figures. The description of the statistics should also be considered when using the figures.

In terms of foreign direct investments in Finland, 2018 was characterised by enterprise reorganisations of large multinational enterprises. At the end of 2018, the value of Finland's inward FDI was EUR 62.4 billion, which translates to a decline of EUR 12.6 billion from 2017. At the end of 2018, the value of Finland's outward FDI was EUR 111.7 billion, an increase of EUR 9.4 billion from the year before. In 2018, Finland's profits from inward FDI totalled EUR 2.1 billion on net.

## 1.1 Data content and purpose of use

The statistics on foreign direct investments mainly depict financial transactions between domestic and foreign units in multinational groups, the assets and liabilities they generate, as well as international corporate acquisitions.

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. Correspondingly, 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 considered 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.

**Table 1. Outward FDI**

Equity
Debt instruments =
+ Assets in direct investment enterprises
- Liabilities to direct investment enterprises (reverse investments)
+ Assets in foreign fellow enterprises
+ Assets in foreign fellow enterprises where ultimate controlling parent is resident in Finland
- Liabilities to foreign fellow enterprises where ultimate controlling parent is resident in Finland

**Table 2. Inward FDI**

Equity
Debt instruments =
+ Liabilities to foreign direct investors
- Assets in foreign direct investors (reverse investments)
+ Liabilities to foreign fellow enterprises
+ Liabilities to foreign fellow enterprises where ultimate controlling parent is resident abroad
- Assets in foreign fellow enterprises where ultimate controlling parent is resident abroad

The statistics on foreign direct investments do not, in most cases, describe foreign real investments into Finland. If, for example, a domestic company under foreign control makes a factory expansion investment in Finland and does not receive financing for this directly from a foreign investor, nothing of the value of the factory expansion investment is recorded in the statistics on direct investments. Foreign direct investments are often interpreted too simply as real investments, but this is not often the case according to a study published by the Research Institute of the Finnish Economy (ETLA) in 2014 (ETLA 2014: Topias Leino and Jyrki Ali-Yrkkö: How does foreign direct investment measure real investment by foreign

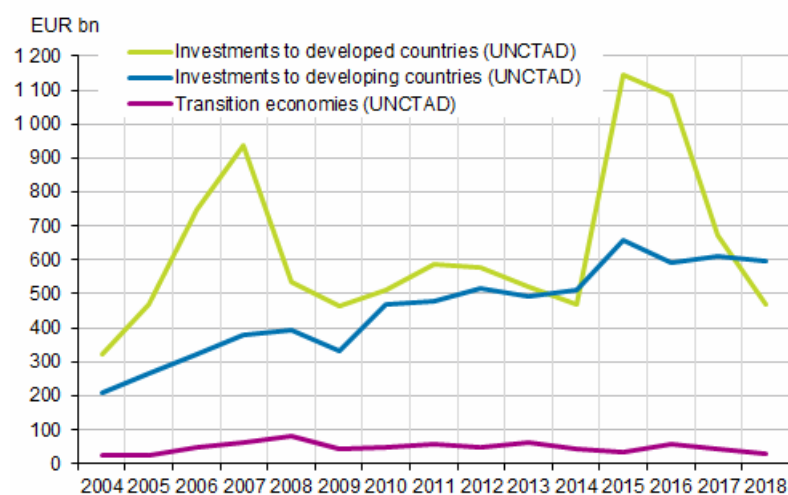
owned companies). Flow-through investments and enterprises' ownership changes do not often lead to real investments in the host country of the investment. Additionally, if international enterprises operating in the country use domestic financing channels to finance their investments, this is not visible as a foreign direct investment. Another challenge for interpreting data on foreign direct investments is created by the heavy concentration of business activities. Several small investments made into growth enterprises disappear into the normal intra-group financing solutions of multinational enterprises.

More about the definitions of the concepts used in this review can be found on the statistics home page: [http://www.stat.fi/til/ssij/kas\\_en.html](http://www.stat.fi/til/ssij/kas_en.html).

## 1.2 Global FDI

According to the investment report published by the United Nations Conference on Trade and Development, flows of global FDI decreased by around 17 per cent in 2018 (UNCTAD: World Investment Report 2019). The decrease in investment flows was particularly directed at investments in developed economies. The flows of investments directed at emerging countries remained more or less unchanged, while the investment flows at developed countries contracted sharply, by around 30 per cent. The contraction in the flows is mainly explained by the repatriation of profits accrued by American multinational enterprises in the first half of 2018 and at the end of 2017 due to tax reforms carried out in the United States.

**Figure 1. Global flows of direct investments in 2004 to 2018**



In total, global foreign direct investments amounted to EUR 1,098 billion in 2018, of which EUR 472 billion were directed at developed countries and EUR 598 billion at emerging economies. Examined by country, the USA was the largest host country of direct investments followed by China and Hong Kong. The largest investor countries were Japan, China and France. (UNCTAD 2019.)

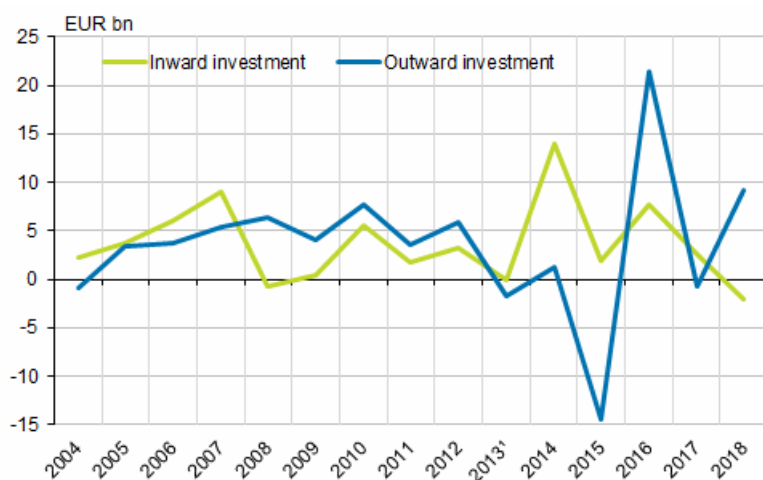
The investment report by the United Nations Conference on Trade and Development predicts a moderate 10 per cent growth in global flows of direct investments in 2019, which will, however, be below the average of the past 10 years. The expected growth is based, for example, on the effects from the tax reforms melting away. In addition, announcements of projects creating new activities (greenfield investments) increased in 2018, which also helps support the growth expectations. On the one hand, trade tensions can weaken the growth development of direct investments. (UNCTAD 2019.)

## 1.3 Finland's flows of FDI

In 2018, Finland's inward FDI declined when foreign direct investments of EUR -2.1 billion on net were made to Finland, including reinvested earnings. Last time Finland's inward FDI was negative was in 2013. Examined by country group, a majority of the investments to Finland came from the EU area. Finland's outward FDI, in turn, grew, as EUR 9.3 billion on net were made in direct investments abroad, including

reinvested earnings. Examined by country group, most investments were made in the EU area and North America. Finland's inward and outward FDI are examined in more detail in Sections 1.4 and 1.5.

**Figure 2. Flows of FDI in 2004 to 2018**



Starting from 2013, the figures are not fully comparable with those for 2004 to 2012 due to changes in the international statistical standard.

## 1.4 Finland's inward FDI

In 2018, a total of EUR -2.1 billion direct investments were made to Finland on net, which was clearly less than in the two previous years. In 2018, investments in equity-based items were EUR -4.0 billion including reinvested earnings, and EUR 1.9 billion in debt-based items. Negative equity-based investments are partially caused by negative reinvested earnings that depict the difference between the returns accrued and paid. The returns paid to owners of Finland's inward FDI were EUR 1.4 billion higher than accrued returns in 2018. In addition to negative reinvested earnings, enterprises have returned capital from Finnish enterprises to their home country.

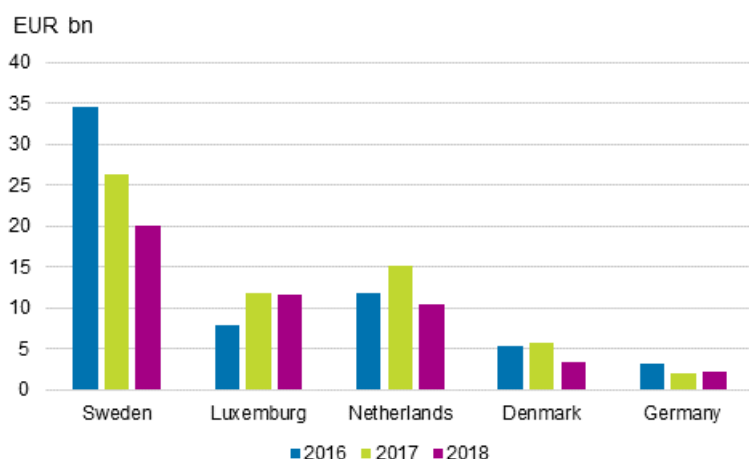
At the end of 2018, the value of FDIs totalled EUR 62.4 billion, of which equity accounted for EUR 56.7 billion and the value of debt capital for EUR 5.7 billion. For listed companies, the value of equity capital is recognised at market value and for other enterprises at book value. In connection with corporate acquisitions, the value of equity is valued based on the market value and the actual transaction price is utilised in determining the market value.

During 2018, the value of FDIs fell by EUR 12.6 billion. The stock of debt-based items increased by EUR 1.8 billion, which is explained by financial transactions. The investment stock of equity-based items, in turn, contracted by EUR 14.4 billion mainly due to classification changes that are recorded in other valuation changes. Classification changes refer to value changes in the stock of financial assets and liabilities, which is not the result of cross-border financial transactions or other changes. Classification changes include, for example, value changes in the stock of financial assets and liabilities as a result of a cross-border change in the enterprise's domicile and changes caused by enterprise restructuring where an enterprise group organises its internal ownership structure. Changes caused by a change in the type of investment are also recorded in this item. For example, if the voting power entitling to ownership in a foreign investment object falls below ten per cent, the investment no longer fulfils the criteria of a direct investment and it is classified in the balance of payments either as a portfolio investment or other investment.

**Table 3. Finland's inward FDI, EUR billion.**

	Total	Equity	Debt
<b>Stock of investments 31 Dec 2017</b>	<b>75,0</b>	<b>71,1</b>	<b>3,9</b>
Financial transactions excl. re-invested earnings	-0,7	-2,6	1,9
Re-invested earnings	-1,4	-1,4	0,0
Changes in the exchange rates	0,0	0,0	0,0
Other valuation adjustments	-10,5	-10,5	-0,1
<b>Stock of investments 31 Dec 2018</b>	<b>62,4</b>	<b>56,7</b>	<b>5,7</b>

Examined by country, direct investments have been made to Finland particularly from Sweden (32% of the investment stock), Luxembourg (19%), the Netherlands (17%), Denmark (5%) and Germany (4%). Examined by country group, investments to Finland mainly come from the EU area, whose combined share of the investment stock was 90 per cent in 2018. The share of euro area countries was 50 per cent of the investment portfolio. The shares presented here were calculated according to the immediate investor country. In fact, investments are often managed through an affiliate abroad, in which case the ultimate controlling investor is located in some other country. These figures calculated according to the ultimate investing country are examined in more detail in Section 1.7 of this review.

**Figure 3. Direct investments into Finland according to the immediate investor country on 31 December.**

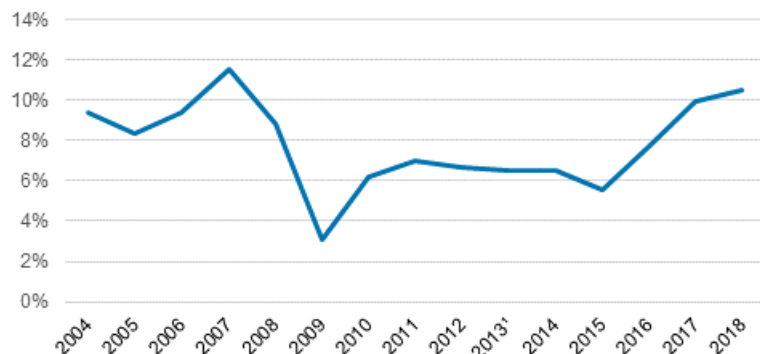
Examined by industry, inward FDI to Finland is particularly directed within services to enterprises engaged in other service activities (39% of the total investment portfolio) and other service enterprises (9%). In manufacturing, most investments have been made in metal industry enterprises (16%) and chemical industry enterprises (12%). Compared to one year ago the biggest drops were seen in manufacturing and service industries. The drop in manufacturing is mainly explained by the sub-category manufacture of computer, electronic and optical products that was EUR 4.5 billion. The sub-category of services, financial and insurance activities decreased by EUR 6.0 billion year-on-year. The industry of the investment is determined based on the industry of the domestic unit. In this case, the share of financing activities increases by arrangements where a Finnish manufacturing enterprise, for example, is managed from abroad through a Finnish holding company classified in the financial sector and established for that purpose.

In 2018, Finland's inward FDI generated total returns of EUR 6.6 billion for foreign investors. A total of EUR 7.6 billion in dividends was recorded in returns and EUR 0.3 billion in interest. EUR -1.4 billion of the returns were reinvested earnings that describe the difference between the returns accrued and paid to owners in a given year. The reinvested earnings of EUR -1.4 billion are also recorded in Finland's inward FDI (see Table 3).

Returns generated by foreign investors relative to the value of the investment portfolio decreased from the year before. In 2018, returns relative to the value of investments at the end of the year were 10.5 per

cent, while in 2017, the rate of return was 10.0 per cent. Most returns in euros were generated to the biggest investor countries, EUR 3.0 billion to Sweden, EUR 1.3 billion to the Netherlands and EUR 0.5 billion to Denmark.

**Figure 4. The rate of return of Finland's inward FDI in 2004 to 2018**



<sup>1)</sup> Starting from 2013, the figures are not fully comparable with those for 2004 to 2012 due to changes in the international statistical standard.

## 1.5 Finland's outward FDI

In 2018, outward FDI totalled EUR 9.3 billion on net. Foreign equity investments totalled EUR 1.6 billion on net including reinvested earnings, and debt investments amounted to EUR 7.7 billion on net. In 2018, the net amount of FDI from Finland amounted to EUR 9.3 billion, which was clearly higher than in 2017, when FDI from Finland was EUR -0.7 billion on net. The change in outward FDI is largely explained by an increase in financial transactions with debt-based items.

At the end of 2018, the value of the stock of outward FDI was EUR 111.7 billion, of which equity accounted for EUR 115.4 billion and the value of debt capital for EUR -3.7 billion. The value increase of EUR 9.4 billion in the investment stock is primarily explained by positive development in financial transactions with debt-based items. The biggest change in debt-based items was seen in reverse loan investments. In 2018, classification changes recorded under other valuation changes amounted to EUR 3.0 billion. However, the overall changes in other valuation items were small because the effects of price changes also recorded under other valuation changes was reversed compared to that of classification changes.

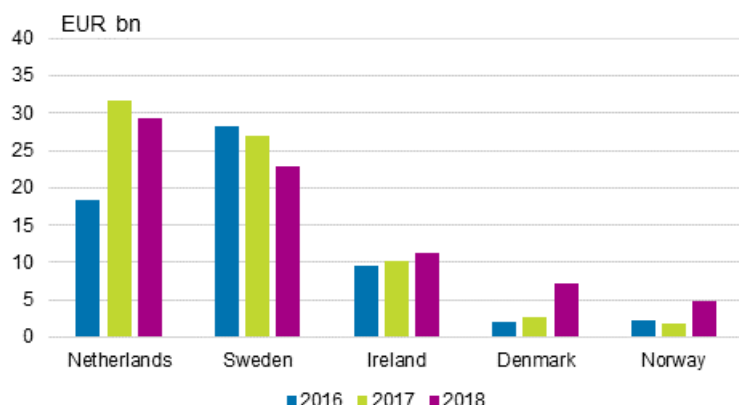
**Table 4. Finland's outward FDI, EUR bn**

	Total	Equity	Debt
<b>Stock of investments 31 Dec 2017</b>	<b>102,3</b>	<b>113,7</b>	<b>-11,5</b>
Financial transactions excl. re-invested earnings	9,2	1,5	7,7
Re-invested earnings	0,1	0,1	0,0
Changes in the exchange rates	0,5	0,2	0,3
Other valuation adjustments	-0,4	-0,1	-0,2
<b>Stock of investments 31 Dec 2018</b>	<b>111,7</b>	<b>115,4</b>	<b>-3,7</b>

Examined by country, FDI from Finland is especially directed to the Netherlands (26% of the investment stock), Sweden (20%), Ireland (10%), Denmark (6%) and Norway (4%). Examined by country group, investments are mainly directed to the EU area, whose combined share of the investment portfolio was 80 per cent at the end of 2018. The share of the countries belonging to the euro area in the stock of outward FDI was 50 per cent.



**Figure 5. Finland's outward FDI by immediate investor country on 31 December, EUR billion.**



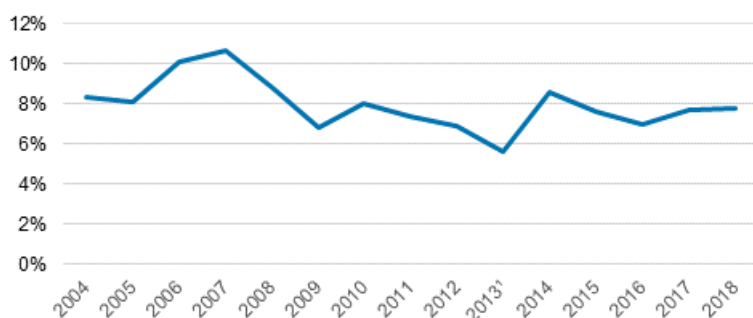
The shares above were calculated according to the country of the immediate investment target. There are no data available on outward FDI according to the country of the ultimate investment target, so it is not possible to give a more exact specification of the final investment target. However, most of the foreign investments are connected to the management of a global enterprise or its part and the actual production activity is located in some other destination country.

The industry of foreign direct investments from Finland is determined based on the industry of the Finnish investor. Examined by industry, Finland's outward FDI is dominated by manufacturing industries, especially by metal industry (28% of the total investment portfolio) and forest industry (10%) enterprises. Among service industries, most foreign investments were made by enterprises engaged in financial and insurance activities (22%) and other services (10%). The value of financial and insurance activity enterprises' foreign investments grew by EUR 4.6 billion from 2017 and the value of other industries increased by EUR 3.0 billion. The biggest drop in the investment portfolio by industry was seen in the metal industry, EUR -1.2 billion, the total drop in manufacturing was balanced out by an increase of EUR 1.6 billion in other manufacturing.

Outward FDI generated returns of EUR 8.6 billion in total for Finland in 2018, which is EUR 0.8 billion more than in 2017. Of the 2018 returns, EUR 8.2 billion were dividends, EUR 0.3 billion interests and EUR 0.1 billion reinvested earnings. Dividends received increased by EUR 1.0 billion from the year before. The reinvested earnings of EUR 0.1 billion are also recorded in Finland's outward FDI (see Table 4).

Returns gained by Finland relative to the value of FDI remained almost on level with the previous year as the rate of return was 7.7 per cent both in 2017 and 2018. Although the stocks of investment have grown, the return relative to the stock has remained unchanged. Measured in euros, most returns for Finland were generated by Sweden, EUR 4.0 billion, the Netherlands EUR 1.2 billion and the United States EUR 0.7 billion.

**Figure 6. The rate of return of Finland's outward FDI in 2004 to 2018**



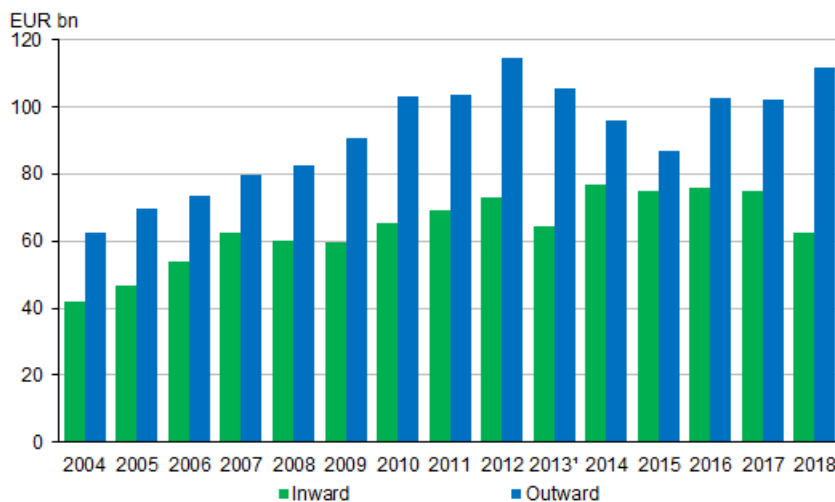
<sup>1)</sup> Starting from 2013, the figures are not fully comparable with those for 2004 to 2012 due to changes in the international statistical standard.

## 1.6 Direct investments in the balance of payments

The figures for direct investments according to the directional principle presented in this review differ from the gross figures presented in the statistics on balance of payments and international investment position. The differing statistical method of balance of payments is discussed more in Section 2.2 of the review for the statistical reference year 2013.

At the end of 2018, the value of Finland's inward FDI stock was EUR 62.4 billion and that of outward FDI stock was EUR 111.7 billion. In 2018, the value of the stock of Finland's inward FDI decreased, while the value of the stock of Finland's outward FDI increased. As a result of this, the net investment position of direct investments strengthened considerably as the foreign direct investment assets on net increased to EUR 49.2 billion from EUR 27.2 billion the year before. In particular, direct investments improve the net international investment position of the enterprise sector. 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.

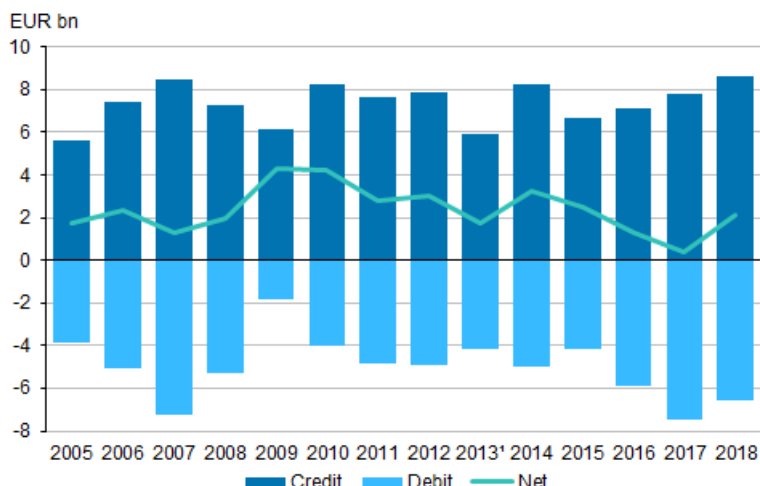
**Figure 7. Foreign direct investments in 2004 to 2018.**



<sup>1)</sup> Starting from 2013, the figures are not fully comparable with those for 2004 to 2012 due to changes in the international statistical standard.

In 2018, returns on inward FDI amounted in total to EUR 8.6 billion and on outward FDI to EUR 6.6 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 2.1 billion in 2018. Net returns from direct investments grew from the previous year, which was due to both a drop in returns paid abroad, that is, direct investments directed to Finland and on the other hand, to an increase in returns paid to Finland. Figure 8 shows that returns connected to direct investments have improved Finland's current account throughout the reference period 2004 to 2018. The net effect of the return from foreign direct investments on the primary income of the current account has fluctuated between EUR 0.4 billion and EUR 4.3 billion.

**Figure 8. Returns on FDI in 2004 to 2018.**



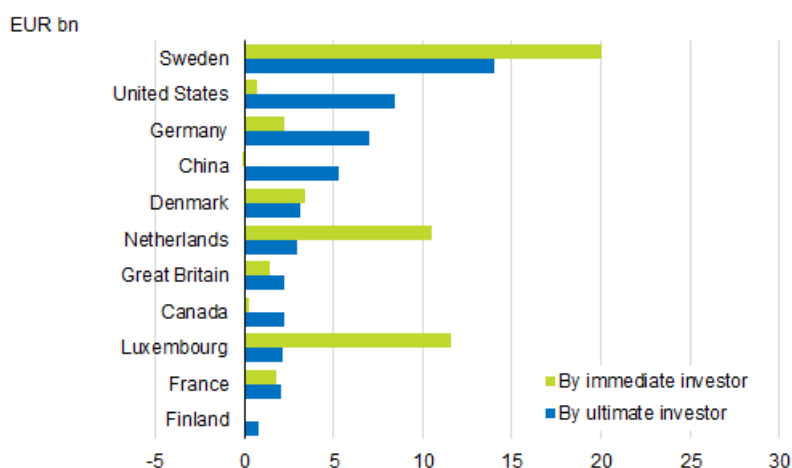
<sup>1</sup>) Starting from 2013, the figures are not fully comparable with those for 2004 to 2012 due to changes in the international statistical standard.

## 1.7 Investments according to the ultimate investing country

Direct investments have conventionally been examined only on the basis of the immediate investor country. The new statistical standards and data collected on a more detailed level than before also enable country-specific analyses of direct investments by the ultimate investing country starting from 2013. 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 9 shows that direct investments to Finland have been made clearly more from Sweden, the Netherlands and Luxembourg if investments are viewed according to the immediate investor country than when the investments are examined according to the ultimate investing country. This indicates that these investments are managed through an enterprise located in these countries, although the actual investor is elsewhere. The opposite is true for the United States, Germany and China. This means that a clearly larger share of FDI into Finland is managed in these countries than made immediately into Finland. When examined by the ultimate direct investor, the share of Finland should also be considered. This is because domestic enterprises own domestic affiliates through their foreign affiliates.

**Figure 9. Foreign direct investments to Finland according to the immediate and ultimate investing country, stock of investments on 31 December 2018, EUR billion.**



## 1.8 Investments from Finland, according to the country of the highest controlling owner

It is not possible to compile statistics on Finland's outward FDI by ultimate investing country with the help of the available data sources. However, by examining the ownership chains of enterprises that have made foreign investments from Finland we can examine what proportion of Finland's outward FDI has been made by enterprises that are under Finnish control. The limitation of such an examination is also that it covers only the ownership chain of units in corporate form. For example, the actual owners of a parent company registered in Luxembourg can be Finnish private citizens.

In 2018, the value of Finland's outward FDI was EUR 111.7 billion, of which 90 per cent were held by enterprises under Finnish control. The most significant ultimate investing countries outside Finland were the United States (four per cent) and Sweden (three per cent). When examining investments from Finland, according to the country of the highest controlling owner, Finland cannot be considered a significant pass-through country for direct investments.

# Appendix tables

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

		2013	2014	2015	2016	2017	2018
Inward	Sweden	33 222	32 125	37 056	34 540	26 288	20 040
	Luxembourg	3 478	8 390	819	7 874	11 776	11 561
	Netherlands	9 993	13 751	13 509	11 853	15 257	10 493
	Denmark	4 482	5 686	4 761	5 455	5 701	3 408
	Germany	2 553	2 691	3 381	3 303	2 138	2 210
Outward	Sweden	33 057	30 425	28 930	28 247	27 001	22 853
	Netherlands	16 190	18 381	12 787	18 267	31 565	29 260
	Denmark	975	943	1 380	1 970	2 574	7 218
	Ireland	11 724	10 883	11 143	9 460	10 162	11 190
	Norway	1 023	1 129	2 213	2 327	1 837	4 815

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

		2013	2014	2015	2016	2017	2018
Inward	Sweden	-387	1 697	2 129	594	-2 272	-2 954
	Luxembourg	476	4 255	-2 796	7 710	2 612	-153
	Netherlands	-1 512	4 254	782	577	1 721	-1 819
	Denmark	194	1 149	-786	39	370	374
	Germany	-238	-331	809	504	330	146
Outward	Sweden	331	2 137	-4 828	3 027	343	1 824
	Netherlands	-3 849	2 537	-10 850	3 799	12 680	-124
	Denmark	-478	-69	88	882	392	-163
	Ireland	996	-843	-176	-1 137	517	1 535
	Norway	-428	37	2 678	-64	-233	462

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

		2013	2014	2015	2016	2017	2018
Sijoitus Suomeen	Sweden	2 209	2 308	2 914	3 107	3 503	3 002
	Luxembourg	-156	-1 644	-2 086	705	630	218
	Netherlands	1 089	2 549	1 705	471	1 318	1 335
	Denmark	346	451	412	301	462	525
	Germany	169	350	442	291	304	226
Sijoitus ulkomaille	Sweden	1 873	3 502	2 803	2 785	2 823	4 037
	Netherlands	1 135	1 580	1 634	2 308	1 587	1 233
	Denmark	51	135	200	215	558	267
	Ireland	131	129	58	111	107	78
	Norway	99	120	40	205	41	278

# Quality description: Foreign direct investments

## 1. Relevance of statistical information

### 1.1. Data content and purpose of use

The statistics on foreign direct investments annually describe investment activities that are based on considerable influence or control in the investment object. In practice, the statistics depict financial transactions between domestic and foreign units in multinational enterprise groups and the assets and liabilities these generate, as well as international corporate 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 only 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 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 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 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 investment of basic capital. For listed companies, the value of equity capital is recognised at market value and for other enterprises at book value. In connection with corporate acquisitions the value of equity is valued based on the market value and the actual transaction price is utilised in determining the market value. The debt-based 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-based capital of direct investments.

The statistics on foreign direct investments are published according to the revised 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 revised 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 enterprise located abroad or in the home country that is topmost in the ownership chain of the foreign direct investor. 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 investor in Finnish objects in a given period. Correspondingly, in outward investments, the capital invested on net by a Finnish investor in foreign objects 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. The treatment of investments between fellow enterprises is also different. Direct investments are recorded in the balance of payments according to the asset/liability principle.
- **Stock, position:** The value of the capital invested by a foreign investor in Finnish objects at a given moment (inward direct investments). Correspondingly, the value of the capital invested by a Finnish investor in foreign objects at a given moment (outward direct investments).
- **Fellow enterprise:** Fellow enterprises are connected to one another through a shared parent company.
- **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 considered 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 in the financial account.
- **Immediate direct investor:** The institutional unit located abroad that is first in the enterprise's control and influence chain.

### 1.3. Acts and regulations

Statistics Finland's mandate for data collection is based on the Finnish Statistics Act (280/2004, amended 361/2013). 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 Union (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). Until 2017, the data collection has been a joint data collection between Statistics Finland and the Bank of Finland. Starting from the beginning of 2017, full responsibility for the data collection was transferred to Statistics Finland. In connection with this, the monthly data collection on foreign financial assets and liabilities (BOPM) was replaced by the quarterly inquiry on financial assets and liabilities (BOPQ). The data are collected with web questionnaires implemented in Statistics Finland's data collection system.

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 portfolio of 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 October 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 population one wishes to cover with the survey. 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 corporate acquisitions.

The definitions of direct investments and the data providers' ability to deliver 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 enterprises' reporting burden and clarifying and harmonising the reporting process. Starting from 2017, the responsibility for the data collection was transferred to Statistics Finland.



#### 4. Timeliness and promptness of published data

The statistics on foreign direct investments are published once a year. The data for the statistical reference year are published around nine to eleven 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 monthly net FDI flows are released around six weeks after the end of the month as part of the statistics on balance of payments and international investment position. Quarterly investment portfolios of direct investments are also released two-and-a-half months after the end of the quarter as part of the statistics on balance of payments and international investment position. The distributions by sector and country are carried out only on annual data and are released in the statistics on foreign direct investments. A link to the release schedule for the statistics on balance of payments and international investment position can be found at: [http://www.tilastokeskus.fi/til/mata/tjulk\\_en.html](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. 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

Statistics Finland is committed to following the 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 revised directional principle, which decrease the stocks of FDI both to and from Finland. For the period prior to 2013, the Bank of Finland has assessed the capital stock and fellow enterprise items in accordance with the revised 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](http://cdis.imf.org/Default.aspx) (<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 revised 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 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](http://www.tilastokeskus.fi/til/mata/index_en.html).

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Source: Foreign direct investments 2018, Statistics Finland