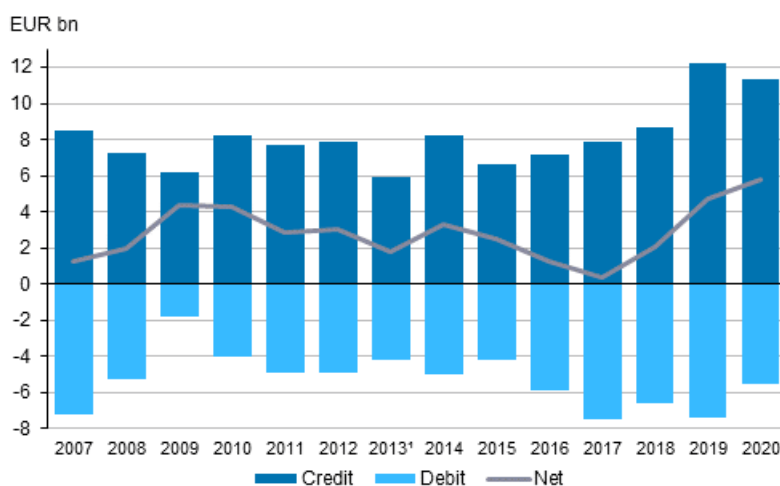


Foreign direct investments 2020

Net returns from direct investments record high in 2020

During 2020, Finnish investors' returns from foreign direct investments (FDI) totalled EUR 11.3 billion. Returns generated by foreign owners on direct investments to Finland totalled EUR 5.5 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 in 2020 was record high, EUR 5.8 billion.

Returns on FDI in 2007 to 2020

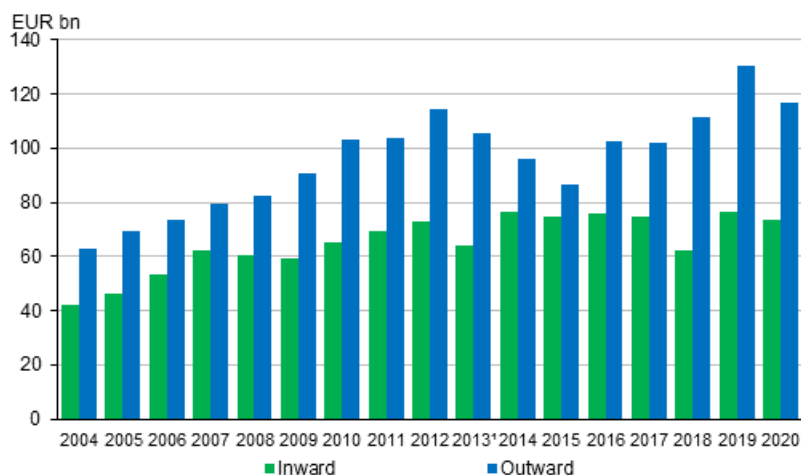


Dividends and interest payments on the returns amounted to EUR 7.7 billion from abroad to Finland and to EUR 4.4 billion from Finland abroad. The share of reinvested earnings in total returns was EUR 3.6 billion for investments from Finland abroad and EUR 1.1 billion for investments from abroad to Finland.

During 2020, the value of foreign direct investments (FDI) to Finland from abroad fell from EUR 76.4 billion to EUR 73.8 billion. As financial transactions, foreign investors reduced their net investments in Finland to the value of EUR 2.4 billion. The effect of reinvested earnings on the stock of investments was EUR 1.1 billion positive.

The value of direct investments from Finland abroad fell from EUR 130.4 billion to EUR 117.1 billion. EUR 18.4 billion of the fall is explained by classification, exchange rate and price changes. Reinvested earnings increased the stock of investments by EUR 3.6 billion. Investments abroad as financial transactions totalled on net EUR 1.5 billion.

FDI investment portfolio in 2004 to 2020



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

Examined by country group, investments to Finland came mainly from the EU area, whose combined share of the investment stock was 81 per cent at the end of 2020. The share of the euro area in the stock of Finland's inward FDI was 47 per cent. Correspondingly, Finland's outward FDI was mostly directed to the areas of the EU (79%) and euro area countries (46%).

This release includes a review that examines in more detail the development of foreign direct investments in 2020.

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1. Foreign direct investments in 2020

In 2020, the closing stocks of FDI both from Finland abroad and from abroad to Finland decreased from the previous year. At the end of 2020, the value of Finland's inward FDI was EUR 73.8 billion, while one year before, the corresponding figure was EUR 76.4 billion.

The value of Finland's outward FDI was EUR 117.1 billion at the end of the year. The drop from the previous year's EUR 130.4 billion is largely explained by classification changes and price changes independent of the real economy, so it should not be concluded that 2020 would have been particularly bad for Finnish direct investors. Quite the contrary – a record value of EUR 5.8 billion was recorded as net returns on direct investments to Finland.

The review begins by summarising the data content and purpose of use of the statistics. After that, the development of direct investments worldwide during the exceptional year 2020 is examined in a number of ways. Section 1.3 describes in more detail the presentation of database tables that changed in autumn 2020 and the effect of flows on the net international investment position of direct investments. Both Finland's inward and outward FDI in line with the directional principle will be examined next. Section 1.6 describes the importance of direct investments to the balance of payments. Finally, the statistics on direct investments are presented according to the ultimate investing country.

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 and the assets and liabilities they generate, as well as international corporate acquisitions. The definitions of the concepts used in the review can be found in the statistics home page at: https://tilastokeskus.fi/til/ssij/kas_en.html. The netting of financial assets and liabilities according to the directional principle is described in more detail in the 2018 review.

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).

According to Leino and Ali-Yrkkö, pass-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. Strong concentration of entrepreneurial activity also creates challenges to the interpretation of FDI data: a large number of small investments made into growth enterprises are covered by the normal intra-group financing arrangements of multinational enterprises.

The industries used in the review describe the Finnish national TOL version derived from the statistical classification of economic activities in the European Community (NACE) and, for example, the industry category "technology industry" does not necessarily describe all enterprises belonging to the Technology Industries of Finland, but industry categories C24 to C26, C28. When speaking of industry figures, the exact industry category is always given and the same figures can be found in the database tables.

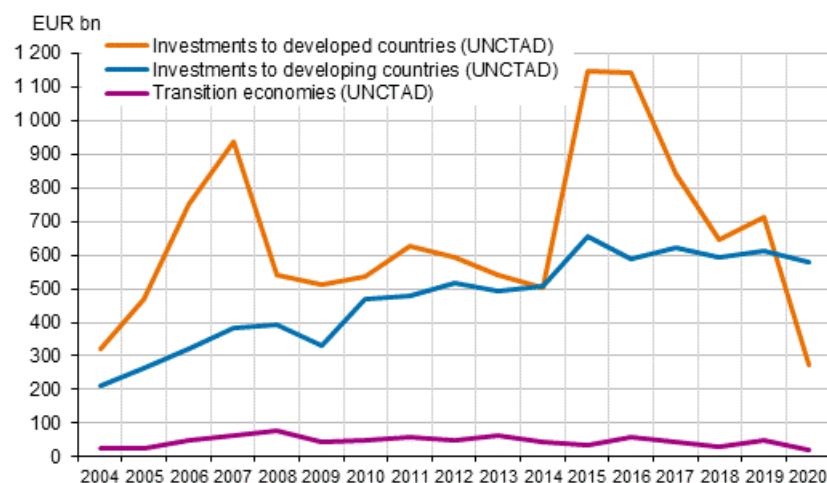
1.2 Global FDI

According to the investment report published by the United Nations Conference on Trade and Development (UNCTAD: World Investment Report 2021), flows of global foreign direct investment (FDI) contracted strongly due to the coronavirus pandemic in 2020. Measured in US dollars, flows decreased by 35 per cent and fell to the level of 2005. Measured in euros, flows contracted by 36 per cent. Less capital than

in the previous year flowed to both developed, developing and transition economies. Investment flows to developed economies decreased in particular, as measured in euros they declined by 59 per cent.

The effects of the coronavirus pandemic on global FDI were focused on the first half of 2020. During the second half of the year, foreign direct investments recovered as concerns international corporate acquisitions and project financing agreements. The negative effects of the pandemic on investments that create new activities, which are particularly important for developing economies, continued in the second half of 2020 and the first quarter of 2021.

Figure 1. Global flows of direct investments in 2004 to 2020



In total, global foreign direct investments amounted to EUR 875 billion in 2020, of which EUR 580 billion were directed at developing economies, EUR 273 billion at developed economies and EUR 21 billion at transition economies. The share of developing economies of the world’s FDI flows was around two thirds, while one year earlier, the corresponding share was still around one half. Examined by country, the United States was the largest host country of foreign direct investments followed by China and Hong Kong. The largest investor countries were China, Luxembourg and Japan.

Foreign direct investments to Europe decreased by 80 per cent from the year before. The fall in investment flows is partly explained by large fluctuations in pass-through investments. Investment flows decreased considerably to most large European economies, such as the Netherlands, Ireland, Cyprus and Great Britain. In contrast, investments to Luxembourg, Switzerland, Sweden and Belgium increased.

The investment report of the United Nations Conference on Trade and Development (2021) predicts global flows of foreign direct investments to level off and increase by around 10 to 15 per cent in 2021. In 2022, investment flows are expected to continue to grow and at best to rise to pre-pandemic levels. It is stressed that the prediction involves a high degree of uncertainty. The realisation of the growth forecast is affected, for example, by economic recovery, changes in the pandemic situation, the possible impact of economic recovery packages on direct investments, and political pressures.

1.3 Flows of FDI

FDI flows have conventionally been examined by bundling together financial transactions (T2) and reinvested earnings (T1). In connection with the release of FDI data for 2019 in autumn 2020, the database tables were updated so that reinvested earnings and dividends and interests paid to owners (NT) were combined into the variable “return on investments” and the flow variable (“Financial transactions excl. reinvested earnings”) includes only financial transactions (T2).

Whether reinvested earnings are part of flows or returns depends on the perspective. The source data for the calculations are the results of direct investments. Namely, the results of Finnish-owned affiliates, associate companies and branches abroad as well as the results of foreign-owned Finnish companies. An investor can repatriate part of the result as dividends and interests and leave part of the result as reinvested

earnings in the investee's equity. The return perspective is supported by the fact that the returns included in the investee's balance sheet represent returns belonging to the investor just as dividends and interests paid out.

In addition, it is not an external flow but a return produced in the home country of the investment target, which a foreign investor has decided not to repatriate. Flows recorded as financial transactions are often based on some active decision: an investor can increase capital in the country to finance, for example, an acquisition or expansion of a production plant.

If, on the other hand, we look at changes in the value of the stock of investments during the year, reinvested earnings can well be regarded as flows: The closing stock LE_t of a certain year equals the closing stock LE_{t-1} of the previous year plus flows that occurred during year t and other changes K .

$$LE_t = LE_{t-1} + (T1_t + T2_t) + K_t$$

Changes in stocks of investments are presented according to the equation above in Tables 1 and 2 of this review because the causes of changes in stocks are precisely interesting in them.

The database tables published since September 2020 are in turn based on the equation:

$$LE_t = LE_{t-1} + (NT_t + T1_t) + T2_t + K_t - NT_t$$

The closing stock is thus the closing stock of the previous year + returns on investments + financial transactions + other changes - dividends and interests paid abroad. Because NT_t is not published independently in the tables but only as part of returns on investments, the stocks and changes published in the database tables are not summed up evenly between different years. In order for the data to be even, it is necessary to deduct NT_t from the closing stock as in the previous equation, which can be calculated from the table data as follows:

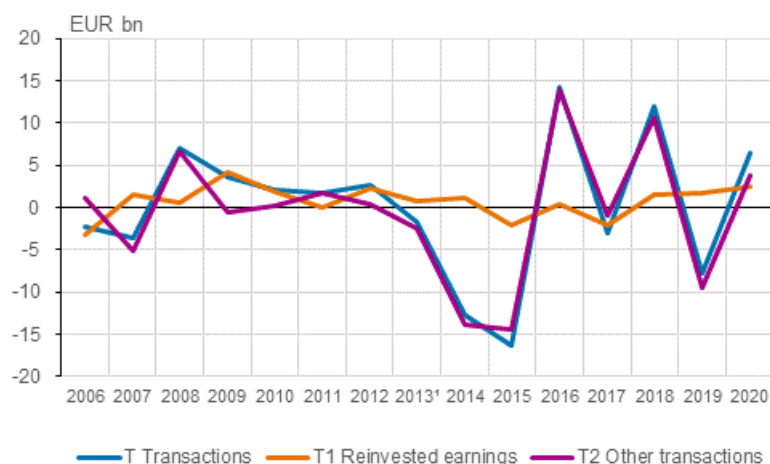
$$NT_t = LE_{t-1} + (NT_t + T1_t) + T2_t + K_t - LE_t$$

For example, dividends and interests on direct investments paid abroad from Finland in 2020 totalled $76,394 + 5,535 + (-2,362) + (-1,388) - 73,758 = \text{EUR } 4,421$ million. Because returns on investments are by definition $NT + T1$, reinvested earnings total $5,535 - 4,421 = \text{EUR } 1,114$ million. The flow component $T1 + T2$ as in the previously published tables is in this case $1,114 + (-2,362) = \text{EUR } -1,248$ million.

Dividends and interests as well as flows described according to the previous style can be calculated in the same way with any variable selected in the table.

Figure 2 shows flows divided into reinvested earnings and financial transactions in 2006 to 2020. Finland's inward and outward FDI is netted so that positive values reflect the strengthening of Finland's net investment position, i.e. a situation in which the value of the stock of outward FDI rises more than that of inward FDI. For example, in 2020 the net amount of the flows is EUR 6.4 billion, so net capital outflow from Finland as financial transactions (3.9) and as reinvested earnings (2.5) was that much bigger than net capital inflow to Finland. The figure also shows the importance of financial transactions to the total level of flows: while reinvested earnings remain fairly stable from one year to another, financial transactions vary very much between years. Finland's inward and outward flows in 2020 are examined in more detail in Sections 1.4 and 1.5.

Figure 2. Net flows of FDI in 2006 to 2020



1) Starting from 2013, the figures are not fully comparable with those for 2006 to 2012 due to changes in the international statistical standard.

1.4 Finland's inward FDI

The value of Finland's inward FDI stock fell by EUR 2.6 billion, from EUR 76.4 billion to EUR 73.8 billion during 2020. As financial transactions, foreign investors reduced their investments in Finland to the net value of EUR 2.4 billion. Reinvested earnings left in Finland totalled EUR 1.1 billion. Exchange rate and other valuation changes had a total effect of EUR -1.4 billion on the value of the stock of investments. The content of other valuation items is presented in more detail in Section 1.5.

In 2020, investments flowed into equity-based items as financial transactions to the tune of EUR 0.3 billion. In the case of debt capital (-2.6), a negative sign can be interpreted as meaning that the net amount of loans granted by foreign investors to Finnish subsidiaries decreased.

It should be noted that in the case of debt capital, there can be liabilities and assets equally from the affiliate to the parent company and vice versa. The change was now caused, on the one hand, by the decrease in the amount of debt taken by Finnish enterprises from their foreign owners and, on the other hand, by the increase in Finnish enterprises' assets from their foreign investors. Both changes had similar effects on the net figure.

Table 1. Finland's inward FDI, EUR billion.

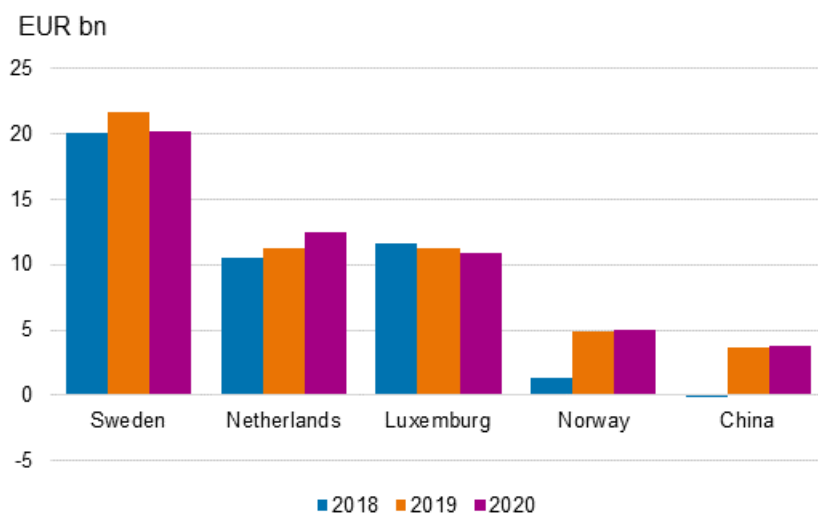
	Total	Equity	Debt
Stock of investments 31 Dec 2019	76,4	62,2	14,2
Financial transactions excl. re-invested earnings	-2,4	0,3	-2,6
Re-invested earnings	1,1	1,1	0,0
Changes in the exchange rates	0,1	0,0	0,1
Other valuation adjustments	-1,5	-1,0	-0,5
Stock of investments 31 Dec 2020	73,8	62,6	11,2

Examined by industry, the flows of manufacturing industry (industry C) caused EUR -1.5 billion on net of the negative flow of EUR 2.4 billion generated from financial transactions. Of this, the share of the chemical industry (C19-22) was EUR -0.5 billion. In the technology industry (C24-26, 28) the drop amounted to EUR 0.3 billion. A decrease of EUR 0.7 billion in investments in information and communication (J) and an increase of EUR 0.3 billion in financial and insurance activities (K) can be mentioned of the considerable changes in other fields.

Examined by country, direct investments have been made to Finland particularly from Sweden (27% of the investment stock), the Netherlands (17%), Luxembourg (15%), Norway (7%) and China (5%). Examined by country group, investments to Finland mainly come from the EU area, whose combined share of the

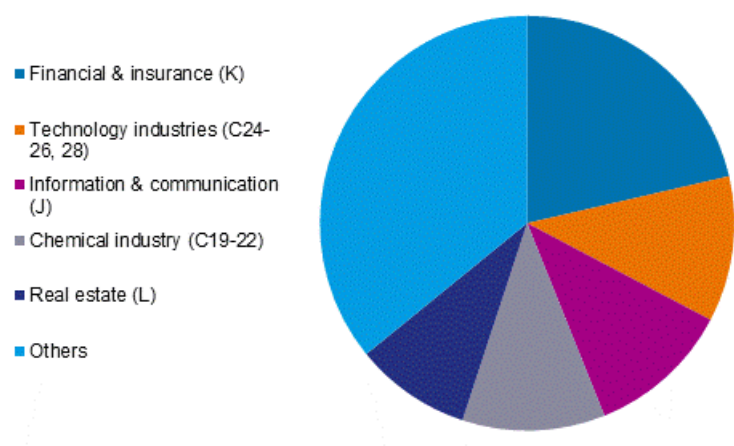
investment stock was 81 per cent in 2020. The share of euro area countries was 47 per cent of the investment portfolio. The shares presented here were calculated according to the immediate investor country. In fact, investments are often managed through an affiliate abroad, in which case the ultimate 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 to Finland according to the immediate investor country, stock of investments on 31 December



Examined by industry, Finland's inward FDI is directed to financial and insurance enterprises (21%), information and communication enterprises (11%) and real estate (L) enterprises (9%). In manufacturing, most investments have been made in technology industry enterprises (11%) and chemical industry enterprises (11%). The industry of the investment is determined based on the industry of the domestic unit. Then, the share of financing activities is increased by arrangements where a Finnish manufacturing enterprise, for example, is managed from abroad through a holding company classified in the financial sector and established in Finland for that purpose.

Figure 4. Finland's inward FDI by industry, stock of investments 31 December



In 2020, Finland's inward FDI generated returns of EUR 5.5 billion in total for foreign investors. Dividends amounting to EUR 4.0 billion and interests to EUR 0.4 billion were recorded in returns. In addition, reinvested earnings amounted to EUR 1.1 billion. Compared to 2019, all return items were now at a lower

level: EUR 0.8 billion less dividends were paid and EUR 0.1 billion less interests than during 2019. Reinvested earnings reduced by EUR 1.0 billion.

In addition to the total level, returns generated by foreign investors also declined from the year before relative to the value of the stock of investments. In 2020, the returns amounted to 7.5 per cent, having been 9.7 cent in the year before. Examined by country, most returns on direct investments in Finland were generated to Sweden (EUR 2.2 billion), the Netherlands (1.3) and Luxembourg (0.6).

1.5 Finland's outward FDI

The closing stock of foreign direct investments abroad from Finland declined by EUR 13.3 billion in a year, from EUR 130.4 billion to EUR 117.1 billion. The drop is primarily explained by other valuation changes. These include price changes and classification changes caused by other than exchange rates. Classification changes refer to changes in the value of the asset or liability stock that are not caused by financial transactions between Finland and foreign countries. Classification changes include changes caused by intra-group capital reorganisations within multinational groups and value changes in the asset or liability stock caused by changes in the home country of the company head office.

The inquiries on foreign financial assets and liabilities, which are the main source data for the statistics, do not provide information on all factors affecting changes in the value of investments. Within the framework of the inquiries, the closing stock of investments at the end of a certain year is the closing stock of the previous year \pm financial transactions \pm dividends and interests \pm reinvested earnings. In addition, the data are enriched with exchange rate changes and with market value for listed companies. In a perfect world, the equation works well, but in practice, investment stocks are often influenced by other factors as well. Such differences that are not explained by inquiry data are recorded in other valuation changes. Large changes in the reported investment stocks are always validated by consulting the data supplier.

Except for other changes, all other items influencing the value of the investment stock were positive. Finland's net outflow of financial transactions was EUR 1.5 billion during 2020, of which the share of debt capital was based clearly more on a decrease in liabilities (EUR -1.6 billion) than on an increase of EUR 0.1 billion in assets. Reinvested earnings increased the investment stock by EUR 3.6 billion, and a positive effect of EUR 0.5 billion was recorded from exchange rate changes.

Table 2. Finland's outward FDI, EUR billion

	Total	Equity	Debt
Stock of investments 31 Dec 2019	130,4	132,0	-1,6
Financial transactions excl. re-invested earnings	1,5	-0,2	1,7
Re-invested earnings	3,6	3,6	0,0
Changes in the exchange rates	0,5	1,0	-0,5
Other valuation adjustments	-19,0	-18,9	-0,1
Stock of investments 31 Dec 2020	117,1	117,5	-0,4

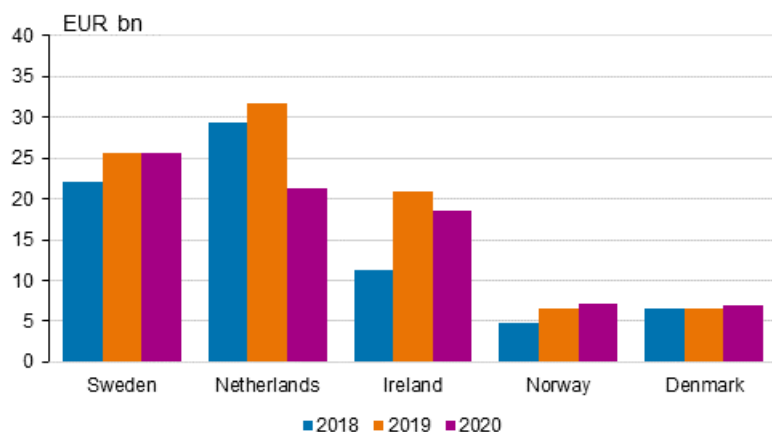
Equity-based investments on net decreased as a result of financial transactions by EUR 0.2 billion, but the seemingly small figure hides interesting flows when viewed by industry: Investments in financial and insurance activities (industry K) grew by EUR 1.8 billion in the year while net investments in manufacturing (C) decreased by EUR 1.6 billion. In manufacturing, too, there was great variation within the industries. For example, the investment stock of the technology industry (C24-26, 28) decreased by EUR 2.9 billion, but the value of investments in the chemical industry (C19-22) increased by EUR 0.5 billion. EUR 0.3 billion flowed to wholesale and retail trade (G).

Reinvested earnings boosted investment stocks particularly in financial and insurance activities (EUR 1.5 billion), the technology industry (1.0) and the chemical industry (0.9).

Examined by country, FDI from Finland is especially directed to Sweden (22% of the investment stock), the Netherlands (18%), Ireland (16%), Norway (6%), and Denmark (6%). Examined by country group, investments are mainly directed to the EU area, whose combined share of the investment portfolio was

79 per cent at the end of 2020. The share of the countries belonging to the euro area in the stock of outward FDI was 46 per cent.

Figure 5. Finland's outward FDI by immediate investor country, stock of investments 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 Finland's outward FDI according to the country of the ultimate investment object, so it is not possible to give a more detailed specification of the final investment object. However, most of the investments directed abroad are connected to the management of a global enterprise or its part and the actual production activity is located in another investing country.

The industry of foreign direct investments from Finland is determined based on the industry of the Finnish investor. Examined by industry, outward FDI is held particularly by enterprises in financing and insurance activities (25% of the investment stock of all industries), the technology industry (22%) and the forest industry (C16-18) (12%).

In 2020, returns from outward FDI generated revenues for Finnish investors totalling EUR 11.3 billion. Of the returns, EUR 7.3 billion were dividends, EUR 0.4 billion interests and EUR 3.6 billion reinvested earnings. The amount of dividends paid to Finland decreased by EUR 0.8 billion from one year ago and EUR 0.2 billion less reinvested earnings were generated than in the previous year. The returns on interests were on level with 2019.

Relative to the value of the stock of investments, the returns received by Finnish investors remained almost unchanged, while the rate rose to 9.6 per cent from 9.4 per cent in 2019. Examined by country, Finland generated most returns in euros from Sweden (EUR 4.0 billion), the Netherlands (1.9 billion) and Singapore (0.8 billion).

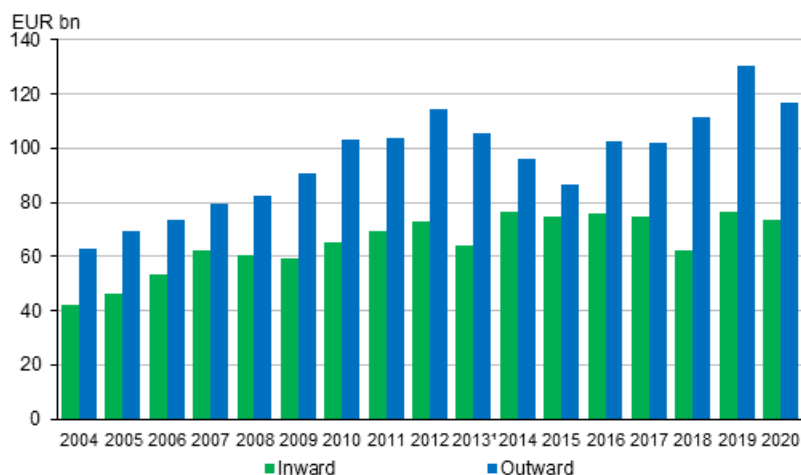
1.6 Direct investments in the balance of payments

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 2020, the value of Finland's inward FDI stock was EUR 73.8 billion and that of outward FDI stock was EUR 117.1 billion. In 2020, the value of the stock of Finland's both inward and outward FDI fell. The net international investment position of direct investments weakened as the value of the stock of outward FDI fell more than that of inward FDI. Foreign direct investment assets on net dropped to EUR 43.3 billion from the previous year's EUR 54.0 billion. As mentioned above, the weakening of the net investment position was primarily due to other valuation changes. By contrast, the net effect of recorded investment flows (T1 + T2) was EUR 6.4 billion.

In particular, direct investments improve the net international investment position of the enterprise sector. The 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 6. Foreign direct investments in 2004 to 2020

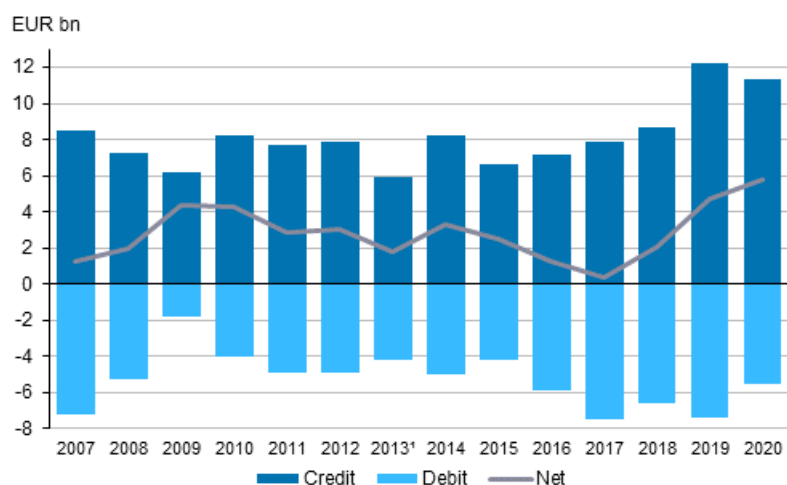


1) Starting from 2013, the figures are not fully comparable with those for 2004 to 2012 due to changes in the international statistical standard.

In 2020, returns on inward FDI amounted in total to EUR 11.3 billion and on outward FDI to EUR 5.5 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 5.8 billion in 2020.

Net returns on direct investments grew from the previous year, although the level of returns generated for Finnish investors from abroad fell slightly. However, returns generated by foreign investors in Finland diminished more, so the net effect of the changes was positive. Figure 7 shows that returns connected to direct investments have improved Finland's current account throughout the reference period 2007 to 2020. The net effect of returns from foreign direct investments on the primary income of the current account has fluctuated between EUR 0.4 billion and EUR 5.8 billion.

Figure 7. Returns on FDI in 2007 to 2020



1) Starting from 2013, the figures are not fully comparable with those for 2007 to 2012 due to changes in the international statistical standard.

When examining the return figures, it should be borne in mind that the returns generated for “Finnish investors” are not equal to those generated for Finland or Finns. For example, relatively few Finnish listed

companies have foreign owners with more than 10 per cent ownership, whereby the returns made by their foreign affiliates appear to remain in Finland in full if only the statistics on direct investments are examined. However, it is clear from Euroclear’s ownership statistics that many of Finland’s big listed companies have a fairly international ownership base. A majority of the returns on direct investments accrued to “Finnish investors” flows as returns from portfolio investments back abroad. In balance of payments, portfolio investments are foreign investments in which the holding or voting power remains below 10 per cent after the investment.

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 in this connection refers to the one that is at the top of the control chain of the foreign direct investor. The ultimate direct investor is not controlled by any other unit and it may also be a domestic unit.

Figure 8 shows that examined by the home country of the immediate investor, clearly more direct investments to Finland have been made from Sweden, the Netherlands and Luxembourg than when viewed by the home country of the ultimate investor. This indicates that these investments are managed through a company domiciled in these countries, although the ultimate owner making the investment decisions is elsewhere. The opposite is true for the United States, Germany and China. In other words, a much larger share of FDI flows to Finland originate from these countries than the customary examination according to the immediate investor country would suggest.

When examined by the ultimate direct investor, the share of Finland should also be considered. This is because Finnish enterprises own domestic affiliates through their foreign affiliates. At the end of 2020, the closing stock of FDI to Finland, where the ultimate investing country was also Finland, stood at EUR -1.4 billion. A negative sign can be interpreted as meaning that these Finnish enterprises had on net more assets than liabilities from their foreign parent companies.

Figure 8. Foreign direct investments to Finland according to the immediate and ultimate investing country, stock of investments on 31 December

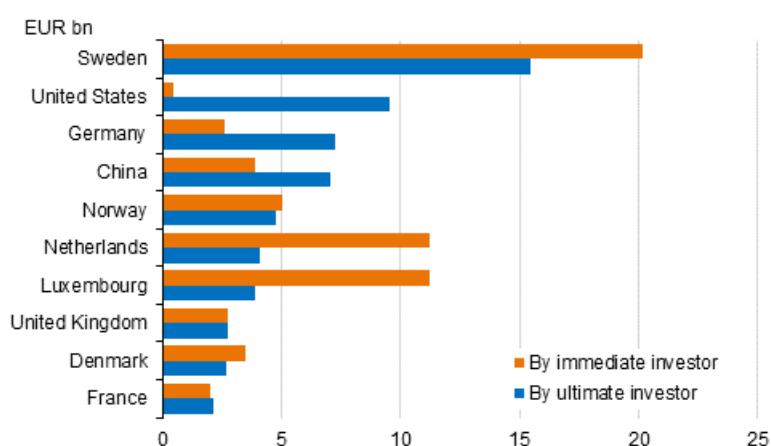


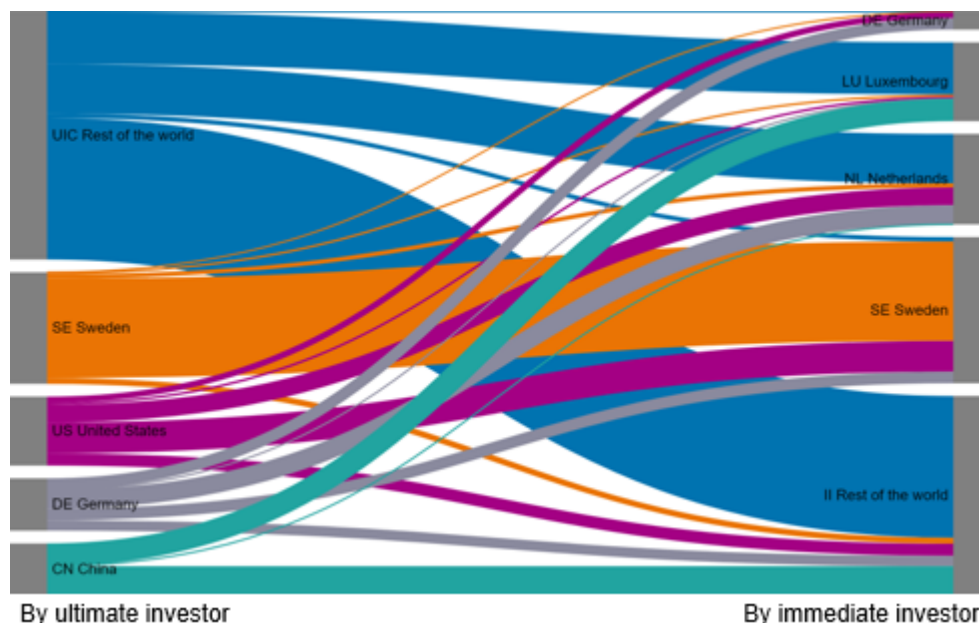
Figure 9 describes investment flows relative to the largest ultimate and immediate investing countries. The left-hand side describes the shares in the stock of investments according to the ultimate investing country. From top to bottom, the countries are Sweden, the United States, Germany and China. The blue bar at the top describes all other countries. The figure shows that more than half (53%) of investments originate in Finland from the four countries mentioned above according to the ultimate investing country.

On the right side of the figure, the countries are described in the order of the immediate investor: from top to bottom, Germany, Luxembourg, the Netherlands, Sweden and the rest of the world. Presented like this, the four major investor countries account for 63 per cent of total direct investments to Finland.

In addition to showing that investments concentrate on certain countries according to both the ultimate and immediate investors, there are also other interesting aspects that can be interpreted from the figure. Sweden has a thick bar running from left to right, which means that plenty of investments to Finland come directly from Sweden. Similarly, most of the investment stocks of many other ultimate investing countries geographically close to Finland (the other Nordic countries and Russia) come directly from the countries in question. On the other hand, investments from countries that are located farther geographically often come to Finland immediately through some country that is closer geographically: For the United States and Germany in particular, the figure shows that the bars on the left side spread evenly across different countries. Thus, investments from these sources often come to Finland through a transit country.

A practical example to facilitate the interpretation of the figure is a situation where a U.S. enterprise owns a Dutch holding company for its European operations, which in turn owns a Swedish parent company for Nordic operations, whose affiliate is located in Finland. Sweden is recorded in the statistics as the immediate investor country of this Finnish company and the United States as the ultimate investor country. From the perspective of Finnish statistics, the countries in the chain of ownership or their number between the ultimate and immediate investors are not significant.

Figure 9. Finland's inward FDI between the largest ultimate and immediate investors, stock of investments on 31 December



Through Sweden, plenty of investments also come to Finland from the United States, Germany and the rest of the world. Finland also receives much more investments through Luxembourg and the Netherlands according to the immediate than the ultimate investing country. These countries have long traditions and favourable conditions for financial sector actors, and Finland is by no means the only country where the share of these countries is highlighted.

1.8 Investments from Finland according to 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.

At the end of 2020, the value of Finland's outward FDI was EUR 117.1 billion, of which 90 per cent were held by enterprises under Finnish control. The United States (2%), Luxembourg (2%) and Sweden (1%) were the most significant ultimate investing countries outside Finland. Therefore, Finland cannot be regarded as 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	2019	2020
Inward	Sweden	33 222	32 125	37 056	34 540	26 288	20 035	21 594	20 209
	Netherlands	9 993	13 751	13 509	11 853	15 257	10 529	11 210	12 528
	Luxembourg	3 478	8 390	819	7 874	11 776	11 561	11 255	10 911
	Norway	211	428	871	586	1 335	1 381	4 864	5 052
	China	12	-36	-44	-47	-73	-64	3 697	3 843
Outward	Sweden	33 057	30 425	28 930	28 247	26 996	22 070	25 674	25 536
	Netherlands	16 190	18 381	12 787	18 267	31 565	29 280	31 671	21 402
	Ireland	11 723	10 883	11 143	9 460	10 162	11 190	20 998	18 539
	Norway	1 023	1 129	2 213	2 327	1 837	4 820	6 582	7 142
	Denmark	975	943	1 380	1 970	2 574	6 472	6 579	7 037

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

		2013	2014	2015	2016	2017	2018	2019	2020
Inward	Sweden	-387	1 697	2 129	594	-2 272	-2 933	2 852	-964
	Luxembourg	476	4 255	-2 796	7 710	2 612	-153	2 058	-422
	Netherlands	-1 512	4 254	782	577	1 721	-1 809	327	215
	Norway	1	238	432	359	157	356	3 079	161
	China	2	-8	19	8	-41	5	3 734	134
Outward	Sweden	331	2 137	-4 828	3 027	342	1 825	1 461	1 424
	Netherlands	-3 849	2 537	-10 850	3 799	12 680	-202	47	-2 123
	Norway	-428	37	2 678	-64	-233	465	1 251	1 244
	United States	-457	-1 443	958	1 392	-4 433	2 487	-1 397	3 352
	Ireland	996	-843	-176	-1 137	517	1 535	890	2 539

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

		2013	2014	2015	2016	2017	2018	2019	2020
Inward	Sweden	2 209	2 308	2 914	3 107	3 503	3 001	3 806	2 169
	Netherlands	1 089	2 549	1 705	471	1 318	1 336	1 305	1 307
	Luxembourg	-156	-1 644	-2 086	705	630	218	1 047	573
	Germany	169	350	442	291	304	228	78	215
	Denmark	346	451	412	301	462	543	267	191
Outward	Sweden	1 873	3 502	2 803	2 785	2 822	4 039	3 974	4 010
	Netherlands	1 135	1 580	1 634	2 308	1 587	1 156	2 385	1 884
	Singapore	175	224	204	508	573	364	978	767
	Norway	99	120	40	205	41	278	641	702
	Ireland	131	129	58	111	107	78	258	407

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.

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.

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