

FOREIGN DIRECT INVESTMENT IN 2014

Statistics and Data Support Department
Balance of Payments and Economics Statistics Division

2016

General methodological description and commentary on foreign direct investment in reference year 2014

1. Foreign direct investment statistics – methodological description

The foreign direct investment (FDI) statistics are compiled in accordance with international standards¹ and the requirements of the OECD, the ECB, Eurostat and the IMF for compilation of the balance of payments and the international investment position, of which they are a part.

When compiling the FDI statistics, the CNB applies the internationally accepted definition of foreign direct investment:

“Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (“direct investor”) in an entity resident in an economy other than that of the investor (“direct investment enterprise”). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise.”

The FDI indicators provide information on international investment activities taking the form of equity participations and related loans and on income arising from such invested capital. Direct investment involves both the initial transaction between the two entities (direct investor – direct investment enterprise) and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

A direct investment enterprise includes directly and indirectly owned affiliates. These are divided – according to the investor’s percentage ownership of the ordinary shares or voting power – into subsidiaries (more than 50%), associates (10%–50%) and branches (wholly-owned permanent establishments or offices of a direct investor; land and structures directly owned by a foreign resident; or mobile equipment that operates within an economy for at least one year).

In addition to shares in equity capital, foreign direct investment covers reinvested earnings and other capital, including lending transactions with direct investors. Direct investment has three components and its composition can be expressed as:

Direct investment = equity capital + reinvested earnings + other capital

- Equity capital comprises non-resident investment in the equity of a company.

¹ IMF Balance of Payments and International Investment Position Manual – sixth edition (BPM6)
OECD Benchmark Definition of Foreign Direct Investment – fourth edition (BD4)

- Reinvested earnings consist of the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends.
- Other capital covers the borrowing and lending of funds, including debt securities and trade credits, between direct investors and their affiliated enterprises and fellow companies in the same enterprise group. These transactions are recorded under intercompany claims and liabilities.

When recording foreign direct investments there arises the issue of their valuation. Direct investment flows are compiled on the basis of realised investment transactions, which implies market valuation. If stocks of direct investment were also reported at market value, the foreign-owned shares in all individual companies would have to be revalued on a regular basis, which is not feasible. Therefore, when recording the value of direct investment stocks, the sum of own funds at book value (this value consists of the items equity plus reinvested earnings in the following tables) and other capital is used.

In compliance with international methodology, the main presentation of the territorial breakdown of foreign direct investment is based on the country of the immediate investor. In addition, foreign direct investment is presented by ultimate owner for analytical purposes. The ultimate owner differs from the immediate owner in not being a subsidiary or affiliate of another entity. Both legal entities and natural persons may be ultimate owners.

The sectoral breakdown is based on the branch classification of economic activities, which corresponds to the internationally used NACE Rev. 2 classification.

In compliance with international regulations, the principle of data confidentiality is observed in data publication. Therefore, the symbols C (maintenance of primary confidentiality) and D (maintenance of secondary confidentiality) are used in the relevant statistical aggregates.

Private purchases & sales of real estate

In connection with the introduction of NACE Rev. 2 into the FDI statistics, the publication includes data on real estate owned by non-resident natural persons.² The administrative source for the stock calculation is the Cadastre Information System (ISKN), which contains the number, ownership interests and area of individual sites, buildings (i.e. dwelling houses and family houses) and units (apartments) of natural persons having permanent residence abroad. The ISKN does not register the citizenship of property holders. The administrative data on buildings and units obtained in this way

² The transitional period of five years from the date of accession of the Czech Republic to the European Union for the acquisition of residential property by non-residents expired on 1 May 2009. The seven-year transitional period for the acquisition of agricultural and forestry land expired on 1 May 2011.

were assessed at market value using the paid (conceded) average prices of 2014 released in the CZSO publication "Prices of Monitored Types of Property in 2012–2014". The Ministry of Finance's Price Bulletin (and Act No. 151/1997 Coll., on Valuation of Property) and also price maps and asking prices on the internet were used for the prices of the individual types of sites. The market valuation of the stock of property owned by non-resident natural persons as of 31 December 2014 was calculated on the basis of the above information.

As from the reference year 2014, statistics on foreign property held by residents are also monitored on the basis of bilateral data exchange with foreign statistical offices.

Changes in the presentation of foreign direct investment data

Changes in data presentation have been made in connection with the introduction of the sixth edition of the Balance of Payments and International Investment Position Manual:

1) As from the reference year 2014, the statistics are broken down not only according to the **directional principle** into domestic direct investment abroad and foreign direct investment in the Czech Republic, but also according to the **asset/liability principle**. Under the directional principle, related assets and liabilities are netted out within the same direct investment component (equity capital, reinvested earnings, other capital). Under the asset/liability principle, netting-out is not performed, so assets and liabilities are presented on a gross basis.

2) As from the reference year 2014, additional statistics on the stock of foreign direct investment in the Czech Republic are presented for analytical purposes, broken down into assets and liabilities by ultimate owner.

2. FATS statistics – methodological description

The growth in foreign investment and its impact on the globalisation of the world economy has created interest in additional information permitting a deeper analysis of the activities of foreign-controlled corporations. Providing this type of information is the goal of the statistics on the structure and activity of foreign affiliates (FATS). Since 2007, in line with the principles of Regulation (EC) No 716/2007, the FATS variables have been reported only by companies under foreign control, which is defined as direct or indirect control of more than half of the voting power or more than half of the shares. The controlling country is determined according to the registered office of the "ultimate controlling institutional unit", which means the company, proceeding up the chain of

control, which is not controlled by another institutional unit. Since 2007 there has been a division of competencies – the Czech National Bank reports data for outward statistics on foreign affiliates (i.e. foreign companies under domestic ultimate control), while inward statistics on foreign affiliates (for domestic companies under foreign control) are compiled by the Czech Statistical Office.

3. Survey results – CZECH DIRECT INVESTMENT ABROAD

Stock of domestic direct investment abroad as of 31 December 2014:

	Equity capital	Reinvested earnings	Equity capital + reinvested earnings	Other capital	Total at book value
	1.	2.	1.+2.	3.	1.+2.+3.
CZK billion	242.5	167.9	410.4	6.0	416.4
USD billion	10.6	7.4	18.0	0.3	18.2
EUR billion	8.7	6.1	14.8	0.2	15.0

Exchange rate as of 31 December 2014: USD 1 = CZK 22.834 EUR 1 = CZK 27.725

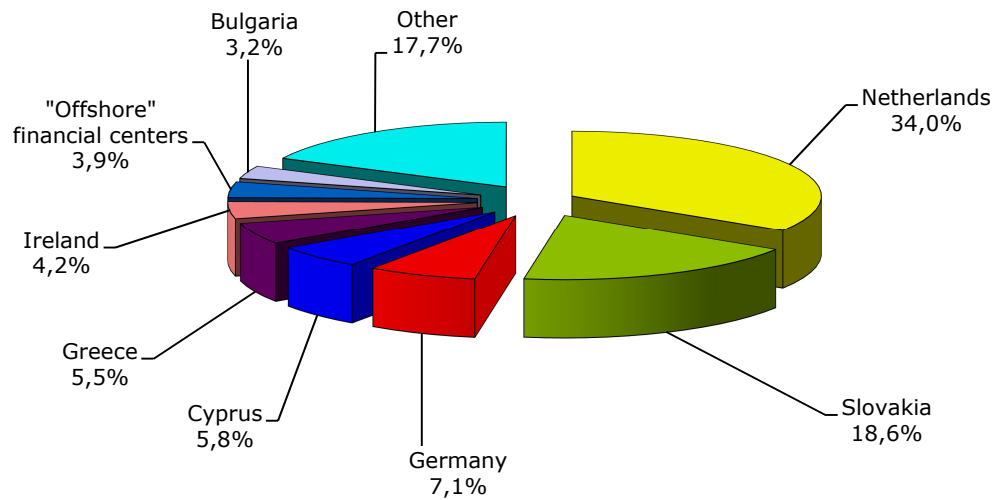
Note: Because of rounding to one decimal place, the sum of the individual items in this table may not correspond to the totals at book value. The rounding principle also applies to the respective charts and tables. Thus, the sum of the sub-aggregates may not correspond to the corresponding aggregate.

At the end of 2014 the stock of domestic direct investment abroad increased by CZK 4.8 billion compared to the previous year, to CZK 416.4 billion. The rise in investment was caused mainly by an increase in equity.

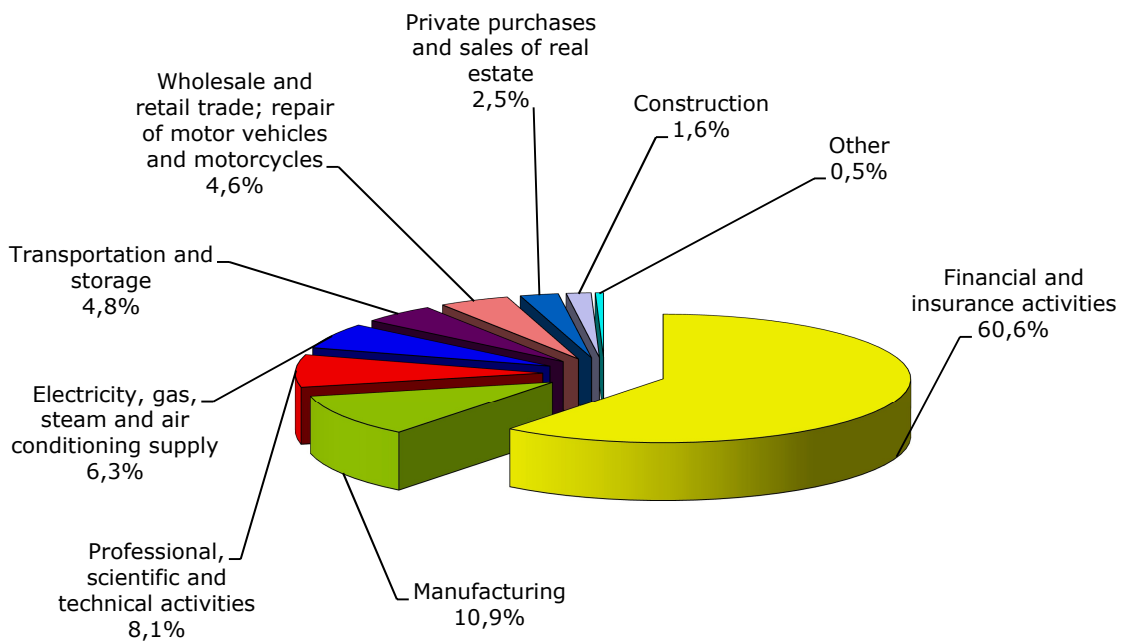
The largest volume of domestic capital was invested in financial and insurance activities. The biggest change in the overall stock of investment abroad was seen in manufacturing, with a year-on-year increase of roughly CZK 19.2 billion.

As regards the territorial breakdown of capital under domestic influence abroad, the Netherlands was again the most attractive country for foreign investment and accounted for 34.0% of the stock of total direct investment abroad. The capital invested in Slovakia makes up 18.6% of foreign investment, followed by investment in Germany, which overtook Cyprus compared to the previous year.

**Czech direct investment abroad as of 31 December 2014
by country**



**Czech direct investment abroad as of 31 December 2014
by economic activity**



4. Survey results - FOREIGN DIRECT INVESTMENT IN THE CZECH REPUBLIC

Stock of foreign direct investment in the Czech Republic as of 31 December 2014:

	Equity capital	Reinvested earnings	Equity capital + reinvested earnings	Other capital	Total at book value
	1.	2.	1.+2.	3.	1.+2.+3.
CZK billion	1,332.9	1,189.9	2,522.8	251.8	2,774.6
USD billion	58.4	52.1	110.5	11.0	121.5
EUR billion	48.1	42.9	91.0	9.1	100.1

Exchange rate as of 31 December 2014: USD 1 = CZK 22.834 EUR 1 = CZK 27.725

Note: Because of rounding to one decimal place, the sum of the individual items in this table may not correspond to the totals at book value. The rounding principle also applies to the respective charts and tables. Thus, the sum of the sub-aggregates may not correspond to the corresponding aggregate.

At the end of 2014 the stock of foreign direct investment in the Czech Republic totalled CZK 2.77 trillion.

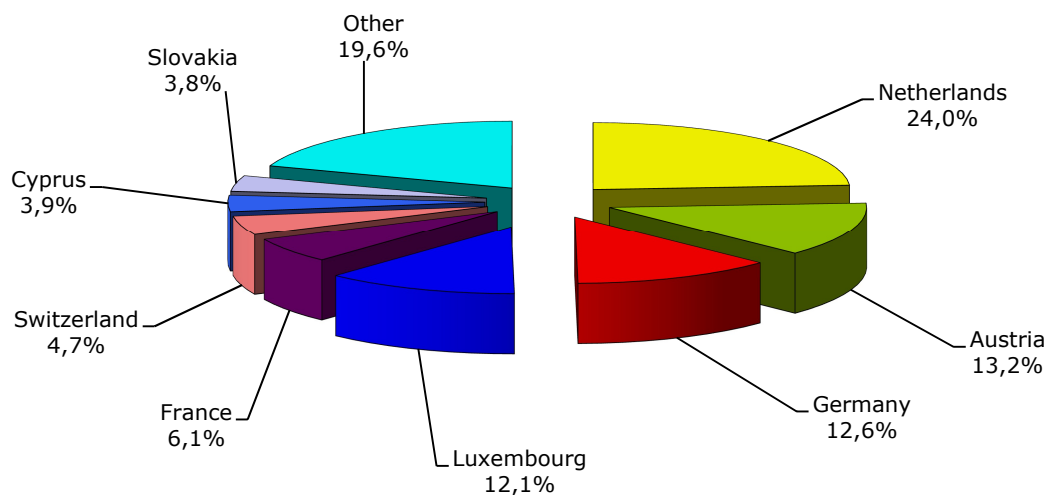
As regards the individual FDI components, changes compared to the end of 2013 were recorded for reinvested earnings and other capital. Compared to the previous year, reinvested earnings rose by CZK 69.0 billion and other capital by CZK 42.3 billion. Equity capital saw only marginal changes by comparison with the end of 2013. The volume of dividends paid out to parent enterprises abroad reached CZK 200.0 billion in 2014.

The largest share of foreign capital within the total volume of direct investment in the Czech Republic went into manufacturing (33.4%), followed by financial and insurance activities (25.4%) and wholesale and retail trade and repair of motor vehicles (10.7%).

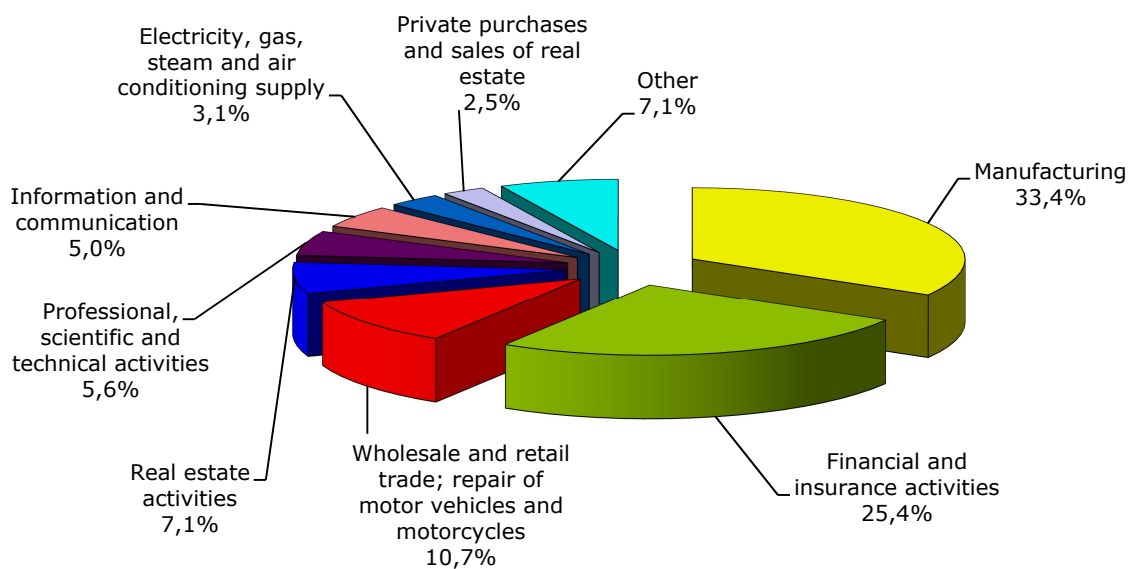
From the geographical perspective, the greatest share of capital invested in the Czech Republic comes from the Netherlands (24.0%), Austria (13.2%) and Germany (12.6%). Countries with total invested capital exceeding CZK 100 billion also include Luxembourg, France, Cyprus, Switzerland, Slovakia and the USA.

The share of investors from EU countries decreased to 86.9%, and almost 92.4% of foreign investment in the Czech Republic is from Europe generally. Only 7.6% of the foreign capital comes from countries outside Europe, with the USA and the Republic of Korea being the most significant investors.

**Foreign direct investment in the Czech Republic
as of 31 December 2014
by country**



**Foreign direct investment in the Czech Republic
as of 31 December 2014
by economic activity**



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