

Foreign Direct Investment — 2018

GENERAL METHODOLOGICAL DESCRIPTION AND COMMENTARY ON FOREIGN
DIRECT INVESTMENT



Czech National Bank — Foreign Direct Investment year — 2018

Obsah

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I. 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.
- **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 realized investment transactions, which implies market valuation. As from the reference year 2015, cross - border equity capital stocks for quoted shares are recorded (in line with the ESA 2010 and BPM6 international manuals) at market value instead of book value. The book value of own funds is used for unquoted shares and the shares of domestic companies in foreign direct investment.

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.

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

„The FDI statistics are compiled using data from CNB questionnaires (Decree No. 235 of 23 July 2013 Coll.), the classifications and breakdowns used in national and international registers, estimates for sub-limit and non-responding entities, corrections of patently incorrect data (such as inconsistencies between data in reports and data in audited financial statements) and checks against mirror statistics of foreign central banks and foreign statistical offices. The quality of the statistics depends primarily on the quality, timeliness and completeness of the input data from the reports obtained from the statistical reporting agents.“

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 Cadaster 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 were assessed at market value using the paid (conceded) average prices of 2018 released in the CZSO publication “Prices of Monitored Types of Property in 2016–2018”. 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 2018 was calculated on the basis of the above information.

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:

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.

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.

II. FATS STATISTICS – methodological description

The growth in foreign investment and its impact on the globalization 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.

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.

III. CZECH DIRECT INVESTMENT ABROAD – survey results

Tab. III.1 Stock of domestic direct investment abroad as of 31 December 2018

	Equity capital	Reinvested earnings	Equity capital + Reinvested earnings	Other capital	TOTAL
	1.	2.	1.+2.	3.	1.+2.+3.
CZK billion	476.9	383.6	860.5	60.6	921.2
USD billion	21.2	17.1	38.3	2.7	41.0
EUR billion	18.5	14.9	33.4	2.4	35.8

Exchange rate as of 31 December 2018:

1 USD = 22.466 CZK

1 EUR = 25.725 CZK

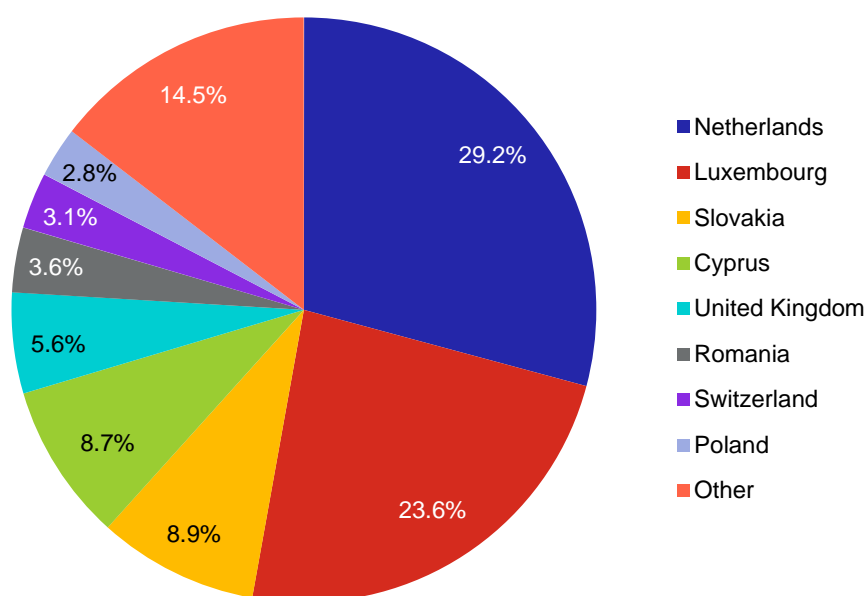
Note: Because of rounding to one decimal place, the sum of the individual items in this table may not correspond to the totals at book value. The rounding principle also applies to the respective charts and tables. Thus, the sum of the sub-aggregates may not correspond to the corresponding aggregate

At the end of 2018 the stock of domestic direct investment abroad increased by CZK 232.1 billion compared to the previous year, to CZK 921.2 billion. The rise in investment was caused mainly by an increase in equity.

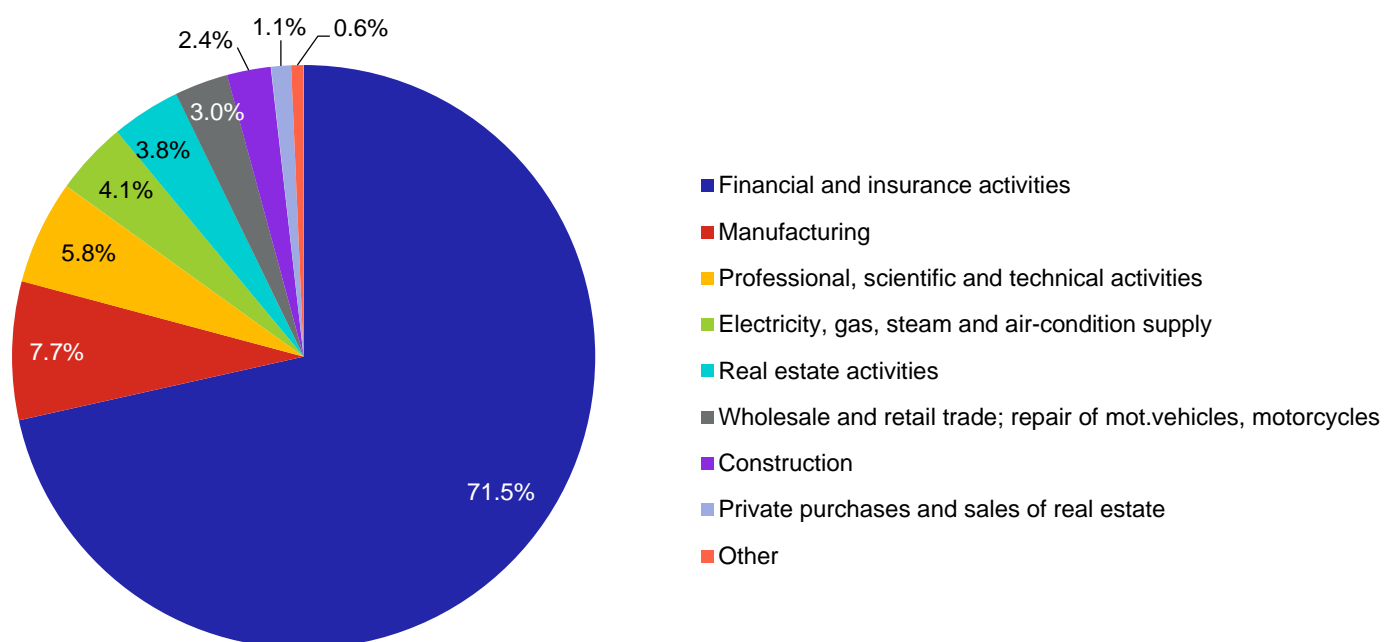
The largest volume of domestic capital was invested in financial and insurance activities. The biggest change in the overall stock of investment abroad was seen in Financial and insurance activities, with a year-on-year increase of roughly CZK 134.7 billion.

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 29.2 % of the stock of total direct investment abroad. The capital invested in Luxembourg makes up 23.6 % of foreign investment, followed by investment in Slovakia (8.9 %).

Graf III.1 Czech direct investment abroad as of 31 December 2018 – by country



Graf III.2 Czech direct investment abroad as of 31 December 2018 – by economic activity



IV. FOREIGN DIRECT INVESTMENT IN THE CZECH REPUBLIC – survey results

Tab. IV.1 Stock of foreign direct investment in the Czech Republic as of 31 December 2018

	Equity capital	Reinvested earnings	Equity capital + Reinvested earnings	Other capital	TOTAL
	1.	2.	1.+2.	3.	1.+2.+3.
CZK billion	1 777.3	1 538.7	3 316.0	373.5	3 689.5
USD billion	79.1	68.5	147.6	16.6	164.2
EUR billion	69.1	59.8	128.9	14.5	143.4

Exchange rate as of 31 December 2018: 1 USD = 22.466 CZK 1 EUR = 25.725 CZK

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 2018 the stock of foreign direct investment in the Czech Republic totaled CZK 3,689.5 billion.

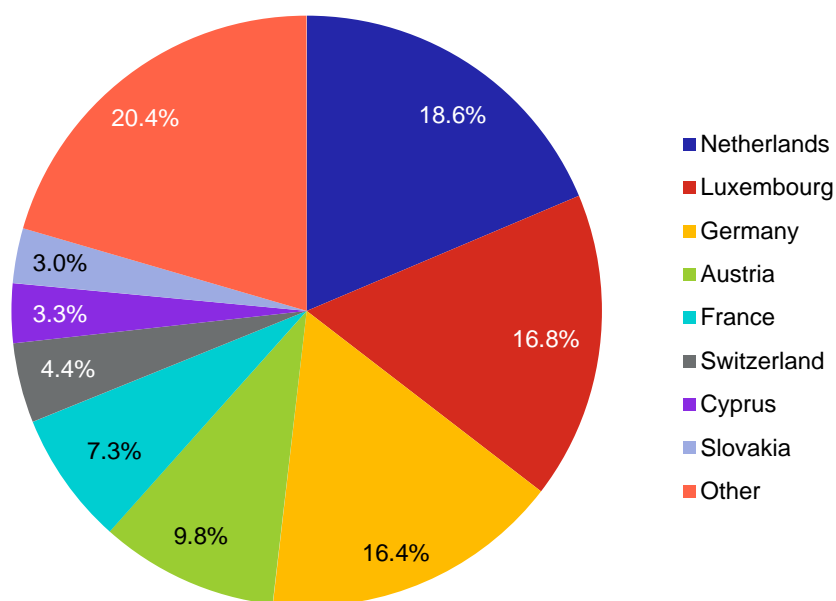
As regards the individual FDI components, a change compared to the end of 2017 was recorded mainly for reinvested earnings (up by CZK 126.2 billion year on year). The volume of dividends paid out to parent enterprises abroad reached CZK 293.5 billion in 2018.

The largest share of foreign capital within the total volume of direct investment in the Czech Republic went into Financial and insurance activities (31.2 %), followed by Manufacturing (28.4 %) and Wholesale and retail trade; repair of motor vehicles, motorcycles (9.1 %).

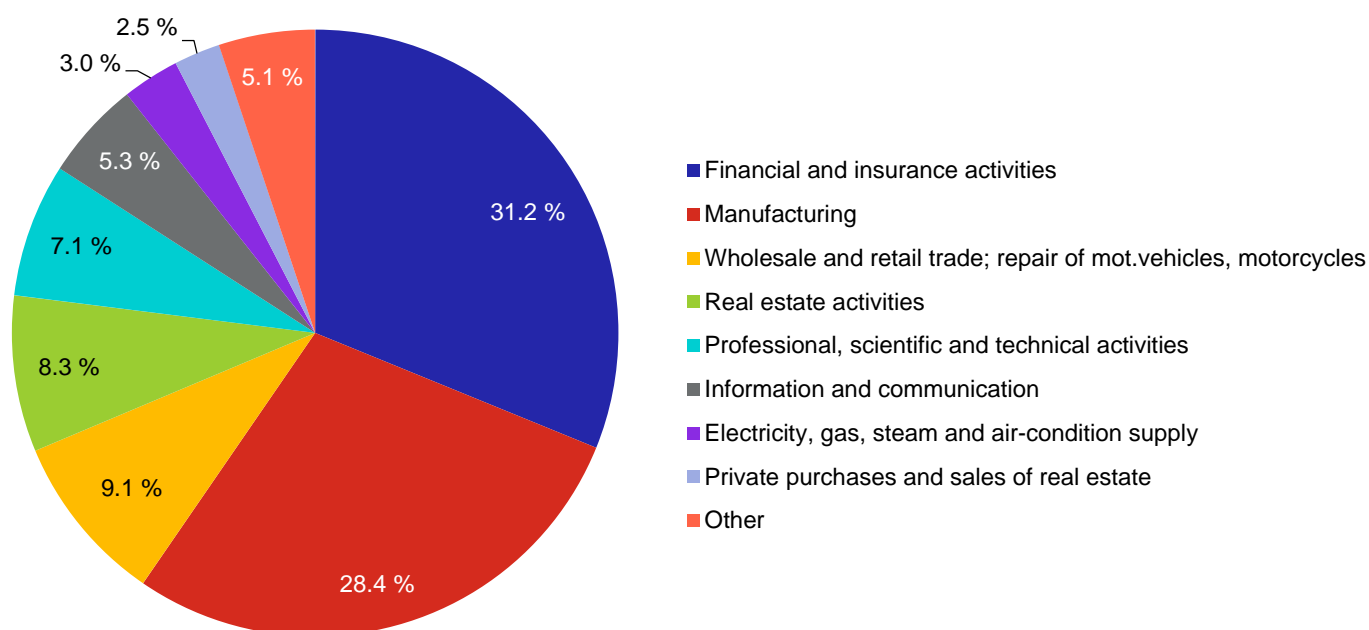
From the geographical perspective, the greatest share of capital invested in the Czech Republic comes from the Netherlands (18.6 %), Luxembourg (16.8 %) and Germany (16.4 %).

The share of investors from EU countries decreased to 88.9 %, and almost 94.2 % of foreign investment in the Czech Republic is from Europe generally. Only 5.8 % of the foreign capital comes from countries outside Europe, with the Republic of Korea, the Japan and the USA being the most significant investors.

Graf IV.1 Foreign direct investment in the Czech Republic as of 31 December 2018 – by country



Graf IV.2 Foreign direct investment in the Czech Republic as of 31 December 2018 – by economic activity



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„Note that the above e-mail address is not intended for enquiries as to the economic interpretation of the FDI statistics (such as positive/negative FDI inflows/outflows) or as to forecasts of future trends and developments.“