



Thirtieth Meeting of the IMF Committee on Balance of Payments Statistics

Paris, France
October 24–26, 2017

BOPCOM—17/29

Eurostat's FDI Network and Possibility of Expanding It Beyond the EU

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BACKGROUND

The EU FDI Network is a framework within which the EU Member States can initiate the reconciliation of selected FDI transactions or positions with the partner EU Member States. In this way the countries can improve their statistical samples, becoming aware of transactions and positions that for whatever reason might have previously escaped their attention. The network also gives important insight into why asymmetries in FDI statistics exist between EU Member States.

This is the annual activity report showing EU Member States' participation in the FDI Network both as initiators and counterparts of reconciliation requests.

The activity report shows the numbers and amounts of transactions and positions exchanged in the FDI Network in 2016 and their status in the reconciliation process. It also gives an indication of the reasons for failures of the reconciliation process (positions) and reports on the EU Member States' responsiveness to the reconciliation requests.

FDI NETWORK ACTIVITIES IN 2016 - TRANSACTIONS AND POSITIONS EXCHANGES

- In 2016 both the numbers and amounts of transactions and positions exchanged in the FDI Network increased, reaching the highest level since 2013 (Table 1). An estimated 30% of the total intra-EU positions were cross-checked in the Network in 2016.
- Table 2 shows that the use of the Network is to a large extent still concentrated on 8 EU Member States, but 17 EU Member States launched at least one reconciliation request in 2016 which is an improvement from 2015 (13 Member States).

Table 1 - Transactions and positions exchanged in the FDI Network 2013 - 2016

	2013	2014	2015	2016
Transactions, N° of cases	143	81	83	157
Transactions, Amounts (€ Bn)	478	336	808	1448
Positions, N° of cases	195	67	292	393
Positions, Amounts (€ Bn)	1462	822	2490	2787

Table 2 - Transactions and positions exchanged in 2016 per Member State

	Transactions				Positions			
	as initiator		as counterpart		as initiator		as counterpart	
	N° of cases	Amounts (€ Bn)	N° of cases	Amounts (€ Bn)	N° of cases	Amounts (€ Bn)	N° of cases	Amounts (€ Bn)
Austria	1	28	4	1	12	49	1	1
Belgium	12	96	8	29	76	532	20	138
Bulgaria	0	0	0	0	0	0	0	0
Croatia	0	0	0	0	0	0	0	0
Cyprus	0	0	2	0	0	0	5	39
Czech Republic	0	0	1	2	0	0	0	0
Denmark	0	0	0	0	0	0	3	16
Estonia	0	0	0	0	0	0	0	0
Finland	0	0	4	27	0	0	1	1
France	6	34	4	16	20	109	30	194
Germany	0	0	7	33	8	58	29	167
Greece	0	0	0	0	5	2	1	2
Hungary	5	22	2	-1	4	22	1	12
Ireland	0	0	20	88	0	0	20	157
Italy	6	21	1	4	27	55	6	50
Latvia	4	1	0	0	0	0	0	0
Lithuania	1	0	0	0	1	0	0	0
Luxembourg	45	542	31	391	51	583	76	531
Malta	0	0	1	3	0	0	0	0
Netherlands	37	482	44	434	0	0	123	956
Poland	2	2	0	0	5	3	3	12
Portugal	0	0	2	9	7	20	4	13
Romania	0	0	0	0	0	0	2	3
Slovakia	0	0	0	0	0	0	0	0
Slovenia	4	1	0	0	1	0	0	0
Spain	10	31	0	0	28	204	10	68
Sweden	3	14	3	4	6	36	11	36
United Kingdom	21	174	23	409	142	1112	47	390
Total	157	1448	157	1448	393	2787	393	2787

RESULTS OF THE RECONCILIATION PROCESS IN 2016

The method:

The analysis of the results of the reconciliation process has been performed following the results of the pre-filled questionnaire sent in March 2017 to the concerned EU Member States. Through this questionnaire, EU Member States had the possibility to confirm (or correct) Eurostat's information regarding each data exchange in which they were involved in 2016, either as initiator or counterpart.

The EU Member States had around three weeks to reply to Eurostat's first follow up request on the status of exchanges sent out beginning of March and afterwards Eurostat has been following up on ongoing basis on EU Member States that did not reply and received last replies around end May.

The results in Table 3 show that:

- Despite of the increasing activity very few transactions and positions were confirmed to be *closed after corrections* by EU Member States via the FDI Network (2,6% for positions and 0,4% for transactions). However, together with those cases which were directly matched or after investigation i.e. where no other reconciliation was needed than simple validation the volume of the *overall successful cases* totalled to 24% for transactions and 29% for positions.
- This can be contrasted to reconciliation requests which were confirmed closed as the *reconciliation failed* which amounted 17% for transactions and 31% for positions.
- Largest category for transactions is *pending cases or those still in progress*, with one third of all reconciliation requests. For positions this amounts only to 11% of all requests.
- The status of around one fourth of transactions and close to one third of positions remains *unknown* because initiators (and Eurostat) did not receive feed-back from the counterpart. This causes difficulties for both Member States as well as for Eurostat in following up on the exchanges.

Table 3 - Status of the reconciliation process 2016

status of the transaction	Transactions		Positions	
	N° of cases	Amounts (€ bn)	N° of cases	Amounts (€ bn)
pending or in progress	46	477	33	296
closed – matched (directly or after investigation)	46	342	113	725
closed – reconciled (correction)	4	7	11	72
closed – reconciliation failed	29	241	116	871
unknown status	32	381	120	823
TOTAL	157	1448	393	2787

Table 4 shows Eurostat's analysis of the reasons why positions could not be reconciled (as indicated by EU Member States):

- As in previous years different use of valuation methods for unlisted equity remains a main cause for failure to reconcile positions accounting for around 21% of the total.
- Also the use of 'consolidated vs non-consolidated data' or 'entity not covered' were important reasons together accounting for around 36% of the total amount.
- In around one third of the cases Eurostat could not classify the failure to reconcile either due to insufficient or lacking information.

Table 4 - Reasons expressed to justify a failure in the 2016 reconciliation process on positions' data exchanges

	N° of cases	Amounts (€ Bn)
Different valuation methods: Total	28	185
<i>Different valuation method: OFBV vs historical costs</i>	8	61
<i>Different valuation method: OFBV vs net assets values</i>	3	8
<i>Different valuation method: DIE balance sheet vs DI balance sheet</i>	12	77
<i>Different valuation method: OFBV vs market value</i>	2	17
<i>Different valuation method: OFVB vs not specified by counterpart</i>	3	22
Other (identified) reasons:	57	414
<i>Entity not covered (1)</i>	22	139
<i>Corresponding positions not found (2)</i>	3	31
<i>Different opinions on immediate counterpart (3)</i>	8	42
<i>Not in FDI (4)</i>	5	23
<i>Consolidated vs non consolidated data</i>	19	179
Other (no sufficient explanation given)	19	180
No explanations given	12	92
TOTAL	116	871

(1) I.e. Entity not sampled, name of the DIE not identified, entity has no legal domicile, DIE not yet included in data sources

(2) I.e. Entity found but position to be reconciled not found or entity liquidated.

(3) I.e. IMC versus "pass-through SPEs" etc...

(4) Not in FDI due to methodological differences (classified in PI instead of FDI) or no direct investment link acc to counterpart

For the success of the FDI Network and for the EU Member States' motivation to initiate reconciliation requests, it is essential that the counterpart EU Member States remain disciplined in the Network process and are respectful towards their colleague statistical institutes.

Table 5 shows the number of reconciliation requests per EU Member State (as counterpart) for both transactions and positions where the status in the FDI Network remains unknown i.e. where an EU Member State has neither reacted to the reconciliation request during the year nor at Eurostat's follow-up exercise. In the Table this has been indicated as 'blanks'.

The situation is relatively satisfying in particular for transactions' reconciliations. Even those EU Member States which are object to a high number of reconciliation requests have generally speaking been able to fulfil well their role as counterpart. The situation in positions is somewhat weaker.

Table 5 - Number of reconciliation requests with unknown status per participant in 2016

Counterpart	Transactions					Positions				
	Total (as counterpart)		'blanks'		% 'blanks' of total amount	Total (as counterpart)		'blanks'		% 'blanks' of total amount
	N° of cases	Amounts (€ Bn)	N° of cases	Amounts (€ Bn)		N° of cases	Amounts (€ Bn)	N° of cases	Amounts (€ Bn)	
Austria	4	1	1	0.1	15%	1	1			0%
Belgium	8	29			0%	20	138	8	63	46%
Bulgaria	0	0			0%	0	0			0%
Croatia	0	0			0%	0	0			0%
Cyprus	2	0			0%	5	39			0%
Czech Republic	1	2			0%	0	0			0%
Denmark	0	0			0%	3	16			0%
Estonia	0	0			0%	0	0			0%
Finland	4	27	4	27	100%	1	1	1	1	100%
France	4	16			0%	30	194	4	27	14%
Germany	7	33			0%	29	167			0%
Greece	0	0			0%	1	2	1	2	100%
Hungary	2	-1			0%	1	12			0%
Ireland	20	88			0%	20	157	5	22	14%
Italy	1	4			0%	6	50			0%
Latvia	0	0			0%	0	0			0%
Lithuania	0	0			0%	0	0			0%
Luxembourg	31	391			0%	76	531	18	116	22%
Malta	1	3	1	3	100%	0	0			0%
Netherlands	44	434	10	81	19%	123	956	50	454	48%
Poland	0	0			0%	3	12			0%
Portugal	2	9			0%	4	13			0%
Romania	0	0			0%	2	3			0%
Slovakia	0	0			0%	0	0			0%
Slovenia	0	0			0%	0	0			0%
Spain	0	0			0%	10	68	6	51	75%
Sweden	3	4			0%	11	36	8	25	69%
United Kingdom	23	409	16	270	66%	47	390	19	62	16%
Total	157	1448	32	381	26%	393	2787	120	823	30%

POSSIBILITY OF EXPANDING THE FDI NETWORK BEYOND THE EU

During the twenty-ninth meeting of the IMF Committee on Balance of Payments Statistics it was proposed to reflect about the possibility of expanding the FDI network beyond the group of EU countries and to offer similar possibility for exchange and reconciliation of the FDI data to non-EU countries.

Eurostat is prepared to share the expertise gained in running the FDI network for a possible set-up of similar network for non-EU countries, including e.g. support on templates that the countries can use for bilateral exchanges of transactions and positions. One opportunity for this is the forthcoming Workshop on CDIS Bilateral Asymmetries in Hamburg organized by the IMF in cooperation with the Deutsche Bundesbank.

Due to resource reasons Eurostat is, however, not currently in the position to open the existing FDI network to countries outside Europe.

CONCLUSIONS

Despite of the growing activity in the FDI Network only very few transactions and positions were confirmed reconciled by EU Member States via the Network. A much larger number of reconciliations requests were confirmed to have failed.

One of the main reasons for failure to reconcile positions was the use of different valuation methods for unlisted equity, but also the use of 'consolidated vs non-consolidated data' and 'entity not covered' were important reasons.

In many cases the status of transactions and positions remains unknown because initiators (and Eurostat) did not receive feed-back yet from the counterpart. This causes difficulties for both participants in the Network as well as for Eurostat in following up on the exchanges.

Measured by the total euro amounts introduced in FDI Network in 2016 over a quarter of the reconciliation requests remains unanswered. For the success of the FDI Network and in particular for Member States' motivation to keep on initiating reconciliation requests it is essential that the counterpart Member States remain disciplined in the Network process, are respectful towards their colleagues and reply to the reconciliation requests received.

Eurostat is prepared to share the expertise gained in running the FDI network for a possible set-up of similar network for non-EU countries.