

## **Towards to interpretable FDI data in external statistics - Filtering distortions arising from globalisation from data of multinational enterprises - Practice of the Central Bank of Hungary**

Topic 7 – Better statistics for a globalised world

Keywords: Foreign Direct Investment (FDI) Statistics, special purpose entities, capital in transit transaction

### **Introduction**

FDI is a key element in the evolving international economic integration. However, statistical data collection, compilation of statistics and data dissemination are primarily designed and run by countries. Due to the widening globalisation, multinational enterprises become key players of cross border investments. In order to optimise their profitability (including tax considerations), they establish complex production and financial structures of enterprises including special purpose entities (SPEs) in different countries within the enterprise group.

Although from statistical point of view SPEs are residents, they basically perform their activities abroad, their connection with the domestic economy is minimal. They are primarily involved in the intra-group intermedi-ation of financial resources, that might be resulted in substantial external financial flows and positions.

Furthermore, there are companies that perform both real economic operations and in-termediary financial activities as well, so they cannot be classified as SPEs, however they also take part in intermediary activities and their foreign parents pass through them large amounts from one foreign subsidiary to the other.

These special entities and activities may have signifi-cant distortive effects on the national statistical data. In order to avoid these kinds of distortions, even data collections, processing, publications- and interpretation - of national FDI-statistical publications need to be supplemented.

### **Methods / Problem statement**

In Hungary off-shore companies could legally be established until 2003. After they lost their off-shore status most of them remained in Hungary and kept going unchanged their activity. They were labelled and separated as SPEs. New distortive effects appeared in the 2010's, by foreign direct investors involving their Hungarian non-SPE subsidiaries in rechannelling large financial funds among foreign subsidiaries. In the BOP statistics these were identified as capital in transit and restructuring of asset portfolio transactions.

The new editions of international guidelines provide new supplementary measures of FDI aiming at identifying SPEs and capital in transit that had already been done so in Hungary preceding the implementation of the revised international standards. The findings and practices applied in Hungary to cope with the distortive effects on BoP and FDI statistics and thus providing interpretable FDI data in external statistics are presented in this paper. Hungary is continuously experiencing the distortive effects published by the international organizations as national data.

We have made initiatives in order to achieve, that all affected countries be allowed to report and international organizations publish their relevant statistics both excluding and including SPEs drawing the

attention of users to the confusing distortion of data including SPEs, that they are not appropriate for analysing country data, interpretation of economic trends, debt indicator

## Results / Proposed solution

The MNB in its practice has identified and has been published FDI statistics supplemented with the following elements: o separate BOP compilation for Special Purpose Entities (SPE) as from 2006 o separate publications of capital in transit- and asset portfolio restructuring transactions as from 2012 Despite our efforts after the BPM6/BMD4/ESA2010 changeover in most of the international organizations' databases national BOP data are available only including SPEs.

This holds even in those cases, where users could have an access to national external statistics excluding SPEs, if they wished, before the changeover. Although only a few countries are impacted significantly by this issue (Luxemburg, the Netherlands, Hungary, and partly Austria and Iceland within the OECD), they are all aware of the importance of publishing and interpreting national FDI data excluding SPEs. For these countries some widely used indicators (ex. debt ratios, FDI stock/GDP) computing from data including SPEs have meaningless values in economic terms and incomparable with the indicators of countries that are not affected with these distortions.

## Conclusions

Globalisation may have significant distortive effects on the national statistical data collection, processing, publication - thus interpretation - of national FDI-statistical publications. The weight of FDI compared to GDP significantly varies among countries and in time. In those countries where the role and effects of FDI is high, more detailed FDI statistics are needed inward and outward FDI alike. In order to improve the quality and usability of these statistics and to reduce the distortive impact of FDI statistics the Central Bank of Hungary has developed and implemented a practice separating SPEs (as required in BMD4/ BPM6, too) and publishing data on capital in transit and asset portfolio restructuring transactions as supplementary information, as well.