A new standard for compiling and disseminating foreign direct investment statistics

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The IMF, the OECD, UNCTAD and all of the international bodies that disseminate statistics on FDI (FDI) report a steady increase in FDI flows around the world in recent years, except during the financial crisis in 2008. Some of this increase stems from such phenomena as the increasing power of multinational groups, which have continued to gain strength through cross-border mergers and acquisitions, or the spread of globalisation to emerging and developing countries.

In some countries, such as France, however, the growth of FDI concerns both inward and outward investment, including intercompany loans, which are loans between companies belonging to the same group. This growth reflects the impact that the continental and global financing structures set up by international groups have on statistics. More specifically, the creation of special purpose entities (SPEs) that specialise in financing or cash pooling within groups has led to a substantial increase in intercompany loans. This type of lending artificially inflates inward and outward FDI flows and distorts their country and sector allocation. This is why the 2008 edition of the OECD Benchmark Definition of FDI recommends disseminating data that are corrected for such flows. The adjusted data are more understandable and more meaningful. Such adjusted statistics are bound to become the main standard for the international dissemination of FDI statistics in the next few years.

This article compares France's conventional FDI statistics with the data compiled using the new methodology recommended by the OECD.[1] The data are adjusted by reclassifying intercompany loans according to the country of residence of the ultimate controlling parent of the group. This adjustment does not change the net balance of FDI, but greatly reduces inward and outward flows of intercompany loans. For example, France's flows of outward FDI for all transactions combined in 2008 shrink from EUR 136.8 billion to EUR 80.1 billion, while the inward flows of FDI fall from EUR 66.3 billion to EUR 9.7 billion. The geographical allocation derived from the adjusted data also greatly reduces the importance of countries, such as Luxembourg, that are known to host large numbers of SPEs as sources or destinations of FDI. The impact on the sector allocation seems to be less pronounced, especially for inward

1 *On the other hand, data compiled according to the future international standard cannot yet be compared to data from other countries, since France is one of the rare countries to disseminate such data at the time of this writing.*

investment flows, but the share of outward investment of the business services sector, which includes holding companies, is smaller.

Under the new OECD recommendations, stocks of inward and outward FDI are smaller, but the net position is still the same. The book value of France's stock of outward FDI is reduced by 30% to EUR 697.4 billion (instead of EUR 1,003.8 billion), while the stock of inward investment shrinks by 43% to EUR 406.0 billion (instead of EUR 712.4 billion).

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JEL codes: F21, F23, G34.

1| Foreign direct investment statistics are increasingly difficult to interpret

1|1 More complex intercompany dealings within multinational groups

In most global business sectors, there are a several multinational groups that have vast international networks of subsidiaries. These subsidiaries are located in all geographical areas, and often in countries with favourable tax rules as well. They are likely to carry out certain transactions on behalf of the group as a whole. These subsidiaries may be delegated to set up new companies, take over existing companies, centralise the group's financing at the regional level, in Europe, for example, issue bonds on international markets, raise funds from banking syndicates, etc.

This means that special purpose entities (SPEs) play a key role. Although there is still no official definition of SPEs, they do share the following characteristics:

- SPEs are legal entities, formally registered with a national authority subject to the legal and tax obligations of the country in which they are resident;

- SPEs are ultimately controlled by a non-resident group;

- SPEs have few or no employees, little or no production in the host country and little or no physical presence;

- most of their assets and liabilities represent investments in or from other countries;

- SPEs' core business consists of holding and financing non-resident companies on behalf of their group and channelling funds between affiliates in the group. Management of local business must play only a minor role or no role at all in SPEs' daily activity.

SPEs are often set up for tax purposes and give rise to greater complexity in intercompany dealings within multinational groups. Two key aspects of FDI transactions may be affected by the existence of SPEs.

The first aspect is financing. Groups set up specialised structures to provide financing for other entities in the group by issuing securities on international markets and obtaining bank loans. These structures are usually incorporated in certain countries with advantageous tax rules, which are not the countries where the investments are actually being made. This means that the funds are channelled from the countries where they are raised to the countries where they are used via the countries where the SPEs are incorporated. All of these funds transfers are recorded as FDI. Other SPEs may be given the task of pooling the cash within a group. This means that they receive funds from entities with surplus cash and channel them to entities with borrowing needs. All such transactions are recorded as FDI transactions.

The second aspect of FDI affected by SPEs is the payment flows related to transactions. An acquisition by one country in another country may give rise to payments made to or from a cash pooling facility located in a third country. The greater the regional or international economic and financial integration, the greater the disconnection between the "real" transaction and the payment flows.

Ultimately, SPEs' impact on the financing and payment flows for FDI transactions makes the circulation of funds between affiliates increasingly complex. Two phenomena are growing in importance:

- "capital in transit" (or pass-through capital), which refers to funds channelled from one affiliate to another through one or more other affiliates. The entities in the middle of the chain merely channel the funds that they receive to other affiliates. Cash pooling facilities are one example of such intermediate entities, since they channel funds from affiliates with cash surpluses to affiliates with cash needs;

- "round-tripping", which refers to capital that is transferred from one affiliate to another, non-resident, affiliate and then returned, in part or in whole, directly or indirectly, to the original entity.

1|2 Impact on foreign direct investment statistics

The greater complexity of financing and payment circuits between affiliates leads to growing problems in the compilation and interpretation of FDI statistics. SPEs mean that different types of FDI transactions become indistinguishable and the geographical or sector allocation of FDI statistics becomes distorted.

The balance of payments statistics distinguish three categories of FDI: equity capital transactions, which correspond to buying and selling shares in non-resident companies, reinvested earnings, which correspond to the share of the subsidiary's current income that is not passed on to the parent company in the form of a dividend) and other capital, which correspond to long-term and short-term cross-border loans between affiliates. In mergers and acquisitions, the acquiring entity very often sets up a foreign acquisition entity to buy the target company's shares. For this purpose, the parent provides financing to the acquisition entity in the form of a loan. This means that the transaction is not recorded as an equity capital transaction. Instead it is recorded under other capital.

The geographical allocation is based on the first counterparty country, meaning the country of immediate origin or destination of the funds. This means that inward and outward FDI shares of the SPEs' host countries are overstated and those of the actual destination countries of the investment are understated. Similarly, the sector allocation is based on the activity of the non-resident direct investment enterprise. This is why the business activity of the SPEs, which is usually management of holding companies, is overrepresented.

SPEs also mean that FDI flows are overstated. In accordance with the conventional IMF methodology,[2] FDI flows in the French balance of payments are established according to the principle that, in most cases, resident entities' assets and claims vis-à-vis non-resident affiliated enterprises are treated as outward investment and their liabilities towards non-resident affiliated enterprises are treated as inward investment. The two *phenomena* discussed above (capital in transit and round-tripping), which increase intercompany loan flows between resident and non-resident affiliates, mean that inward and outward flows are overstated.

The disconnection between investment transactions and the related payments leads to unhelpful overstatement of the number of transactions recorded in FDI statistics and a consequent overstatement of the transaction amounts.

The box below illustrates how a simple transaction between two countries generates two transactions in opposite directions (an inward investment and an outward investment) in the FDI statistics of the two countries concerned and shows up in the statistics of two other countries that host the group's cash pooling facilities. This explains why inward and outward FDI flows seem to have become more and more correlated recently and also stand at similar levels quarter after quarter (see Figure 1).

2| New OECD recommendations

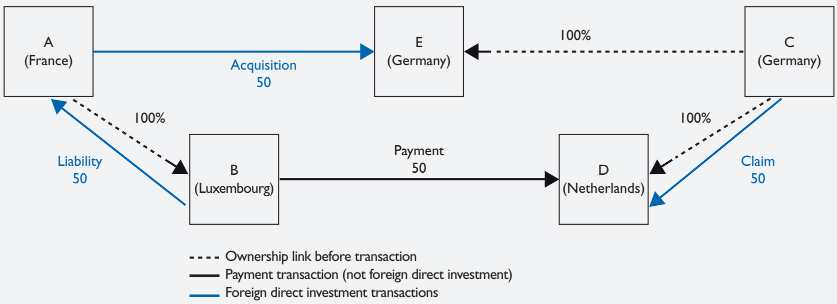
To overcome the problems that complex financial relationships between affiliated enterprises pose for the interpretation of FDI statistics, the 2008 edition of the OECD *Benchmark Definition of FDI* recommends dissemination

2 *In the fifth edition of the Balance of Payments Manual published in 1993.*

BOX

An example of overstatement of foreign direct investment flows

Take the case of a French enterprise A, which spends 50 monetary units to acquire an enterprise E in Germany. The transaction should show up in France's outward FDI in Germany. However, if the payment is made by the French group's cash pooling facility B located in Luxembourg to the German group C's cash pooling facility D located in the Netherlands, the FDI statistics will record these transactions as well.



Consequently, the French group's liabilities towards its cash pooling facility in Luxembourg increase, since the facility has to advance the funds to pay for the acquisition. This transaction is recorded as an outward direct investment by Luxembourg in France. Meanwhile, the German group's claims on its cash pooling facility in the Netherlands increase, giving rise to an increase in Germany's outward FDI in the Netherlands. Ultimately, a transaction that really concerned only France and Germany, will give rise to the following accounting items:

- *France's FDI statistics will show an outward investment (acquisition of the German enterprise E) and an inward investment (debt to the cash pooling facility B in Luxembourg that made the payment);*

- *German FDI statistics will show an inward investment (France's acquisition of enterprise E) and an outward investment (claim on the cash pooling facility in the Netherlands that received the payment);*

- *Luxembourg's FDI statistics will show an outward investment (claim of the cash pooling facility B on the French enterprise A);*

- *and the Dutch FDI statistics will show an inward investment (debt of cash pooling facility D towards the German enterprise C).*

.../...

France	
Outward FDI	Inward FDI
Equity capital (Germany): 50	
	Other capital (Luxembourg): 50

Luxembourg	
Outward FDI	Inward FDI
Other capital (France): 50	

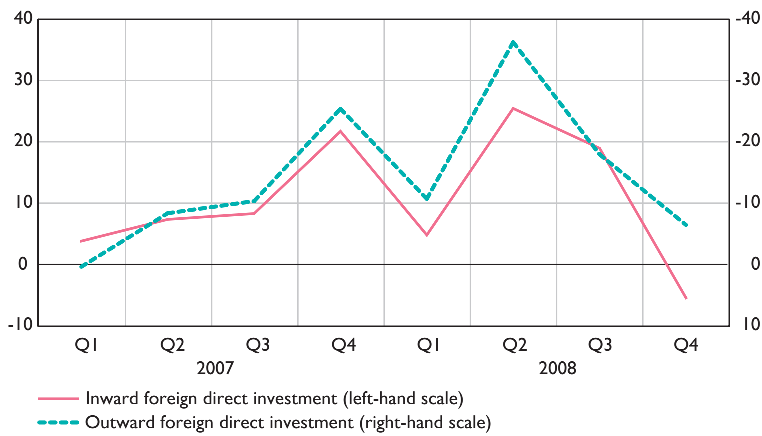
Germany	
Outward FDI	Inward FDI
	Equity capital (France): 50
Other capital (Netherlands): 50	

Netherlands	
Outward FDI	Inward FDI
	Other capital (Germany): 50

The payment for the transaction consists of a transfer from the bank account of enterprise B in Luxembourg to the bank account of enterprise D in the Netherlands. It will be recorded in the balances of payments of Luxembourg and the Netherlands under the Other Investment item (and not FDI) since the payment is a banking transaction.

Figure 1 Comparison of France's quarterly "other capital" flows in 2007 and 2008
(inverted scale for outward investment)

(EUR billions)



of data that neutralise such transactions. There are two recommendations along these lines. The first is that resident SPEs' FDI transactions should be presented separately and the second is that the "directional" principle should be used for all loans between fellow enterprises (meaning entities with no direct ownership links involving 10% or more of equity capital between them).

2|1 Conventional directional principle

FDI statistics in the balance of payments have been presented according to the directional principle since the entry into force of the rules defined in the fifth edition of the IMF *Balance of Payments Manual*. Unlike the other items in the balance of payments financial account, FDI is presented according to the direction of the investment (outward or inward) and not according to the distinction between assets and liabilities. The investment direction indicates the direction of underlying control or influence in a FDI relationship. Under the directional principle, the direct investor is assumed to exercise control or influence over the direct investment enterprise, which means that resident direct investors' assets and liabilities with regard to the non-resident direct investment enterprises are reclassified as outward FDI. On the other hand, non-resident investors' assets and liabilities with regard to resident direct investment enterprises are recorded as inward FDI. In other words, a loan from a foreign subsidiary to its French parent is classified in as a reduction in France's outward FDI, as if the French investor was reducing its initial investment by asking its subsidiary to lend it funds that the subsidiary could have used to finance its own development.

This presentation indicates the direction of control or influence, as well as making it possible to record some transactions in net terms. For example, in the case of round-tripping between a parent and its subsidiary, the inward and outward flows are both recorded as outward flows from the investor's country of residence, thereby cancelling each other out, and as inward flows for the direct investment enterprise's country of residence.

The international recommendations on the directional principle clearly apply to transactions between parents and subsidiaries. But a very large share of lending and borrowing between affiliates takes place between fellow enterprises, meaning enterprises with no direct ownership links involving more than 10% of equity capital. In such cases, it is no longer possible to identify the direction of control or influence clearly, since there is no longer a direct investor or a direct investment enterprise by definition; there are only two fellow enterprises. The lack of clear-cut methodological recommendations meant that countries adopted different practices: a minority (including the United States, along with Ireland and

Sweden) applied various techniques to use the directional principle for transactions between fellow enterprises. Other countries, including France, classified the transactions according to the asset/liability principle, with assets recorded as outward FDI and liabilities as inward FDI.

2|2 Extended directional principle

The 2008 edition of the OECD *Benchmark Definition of FDI* seeks to set uniform rules in this area and now recommends applying the "extended directional principle". This principle maintains the previous rules for transactions between direct investors and direct investment enterprises (lending and borrowing by resident investors are classified as outward investment, whereas lending and borrowing by resident direct investment enterprises are classified as inward investment. Furthermore, the conventional directional principle is extended to lending between fellow enterprises according to the following rule: lending and borrowing between resident entities of a resident group and foreign fellow enterprises must be recorded as outward FDI and, conversely, lending and borrowing between resident entities belonging to a non-resident group and foreign fellow enterprises must be recorded as inward FDI.

In the case of the "round-tripping" and funds in transit transactions described above, which mainly concern fellow enterprises, all of the flows for the entities in a given group would be reclassified in the same category, either inward or outward FDI. This means that when a resident entity sends funds to a non-resident fellow enterprise that then lends the funds to another resident fellow company, the two transactions are no longer classified respectively as outward and inward FDI; instead, they are classified as outward FDI, in the case of a resident group, or as inward FDI, in the case of a non-resident group. Lending and borrowing between fellow enterprises thus offset each other, either completely or partially, instead of artificially inflating outward and inward FDI flows.

However, it is important to note that the adjustment of FDI statistics under the extended directional principle is only partial, since it applies to only a limited category of transactions, meaning *Other capital*, or intercompany loans. The other types of transactions, meaning equity capital transactions, are still recorded according to the conventional methodology. Consequently, if a Luxembourg holding company of a French group injects funds into its direct subsidiary, which is also resident in France, this transaction is recorded as inward FDI, even though the ultimate controlling entity is French.

These two categories of FDI statistics are merely different ways of presenting the same basic data. These categories are used to reclassify transactions, assets and liabilities, which are still recorded in the balance of payments and the international investment position. This explains why the net balances of FDI flows and stocks remain the same.

The basic criterion for such reclassification is the home country of the group that the entity lending or borrowing funds from a non-resident fellow enterprise belongs to. A group's residence is determined by the residence of the ultimate investor of the group. This means that a group is deemed to be resident if the enterprises comprising the group are controlled directly or indirectly by the same resident ultimate investor, which is usually the parent company of the group. The ultimate investor and its country of residence are identified using the annual *Financial Links Survey* conducted by INSEE.

The identification of the ultimate controlling parent introduced by the extended directional principle produces a geographical allocation that is different from the conventional allocation based on the first counterparty country. This now makes it possible to provide a geographical allocation based on the ultimate investing country, which provides a clearer picture of the ultimate source of the funds invested in a country. Furthermore, the OECD recommends presenting this second geographical allocation on voluntary basis.

3| Impact of the OECD's new recommendations on France's foreign direct investment statistics

3|1 Impact on foreign direct investment volumes and flows

The new presentation of FDI flows changes the classification of lending and borrowing compared to the conventional presentation. This means that the net balance of *Other capital* and the net balance of FDI are unchanged. Nevertheless, the new presentation provides a different, but complementary, view compared to the usual presentation. It makes the outward and inward investment flows more economically meaningful. These flows can now be analysed separately.

Under the new presentation, outward FDI falls from EUR 136.8 billion (see Table 1) to EUR 80.1 billion in 2008, whereas inward FDI falls from EUR 66.3 billion to EUR 9.7 billion. Under the extended directional principle FDI flows are reduced by some EUR 57 billion in 2008 and by EUR 42 billion in 2007.

Table 1 Comparison of France's foreign direct investment flows in the conventional presentation and under the extended directional principle in 2007 and 2008

(EUR billions)

	2007		2008	
	Conventional presentation	New presentation	Conventional presentation	New presentation
Outward FDI (1) (a)	**123.5**	**81.9**	**136.8**	**80.1**
Equity capital	57.4	57.4	52.7	52.7
Reinvested earnings	22.3	22.3	12.6	12.6
Other capital	43.9	2.2	71.5	14.8
Between enterprises with a direct equity capital link	-0.5	-0.5	14.8	14.8
Between fellow enterprises belonging to a resident group	24.9	2.6	18.0	0.0
Lending	*24.9*	*24.9*	*18.0*	*18.0*
Borrowing	–	*-22.3*		*-18.0*
Between fellow enterprises belonging to a non-resident group	19.4	–	38.7	–
Lending	*19.4*	–	*38.7*	–
Inward FDI (2)	**75.9**	**34.3**	**66.3**	**9.7**
Equity capital	22.7	22.7	15.4	15.4
Reinvested earnings	11.8	11.8	7.0	7.0
Other capital	41.3	-0.3	43.9	-12.7
Between enterprises with a direct equity capital link	-3.0	-3.0	-5.8	-5.8
Between fellow enterprises belonging to a non-resident group	22.1	2.7	31.7	-7.0
Borrowing	*22.1*	*22.1*	*31.7*	*31.7*
Lending	–	*-19.4*		*-38.7*
Between fellow enterprises belonging to a resident group	22.3	–	18.0	–
Borrowing	*22.3*	–	*18.0*	–
Net balance (2)-(1)	**-47.6**	**-47.6**	**-70.4**	**-70.4**

(a) Outward FDI shows up in the balance with the opposite sign. An increase in assets is signalled by a positive sign.

Over the whole period from 2000 to 2008, outward and inward FDI are reduced by an average of EUR 31 billion per year and the trend shows a growing differential between the two presentations. Under the new presentation, outward FDI shows growth from 2004 forward, but inward FDI contracts. In 2008, it falls to the levels seen in 2003 and 2004, which are lowest in the last decade.

The restatements under the extended directional principle lead to slightly different findings than the conventional statistics do. First of all, outward

Table 2 France's foreign direct investment flows since 2000 under the conventional presentation and the new presentation

(EUR billions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Outward FDI (conventional presentation)	**192.6**	**97.0**	**53.6**	**47.1**	**45.7**	**92.5**	**88.2**	**123.5**	**136.8**
Outward FDI (new presentation)	**180.0**	**67.8**	**33.7**	**19.4**	**24.1**	**56.4**	**51.4**	**81.9**	**80.1**
Equity capital	151.1	60.9	41.4	11.8	25.7	27.6	58.3	57.4	52.7
Reinvested earnings	7.8	0.4	-9.6	1.7	10.5	21.7	25.1	22.3	12.6
Other capital (conventional presentation)	33.7	35.6	21.7	33.6	9.5	43.2	4.8	43.9	71.5
Other capital (new presentation)	21.1	6.5	1.9	5.9	-12.2	7.1	-32.0	2.2	14.8
Inward FDI (conventional presentation)	**46.9**	**56.4**	**52.1**	**37.7**	**26.2**	**68.3**	**57.3**	**75.9**	**66.3**
Inward FDI (new presentation)	**34.3**	**27.3**	**32.3**	**10.0**	**4.4**	**32.3**	**20.4**	**34.3**	**9.7**
Equity capital	29.9	23.1	36.0	15.1	4.2	18.4	21.8	22.7	15.4
Reinvested earnings	2.6	-2.8	-4.8	-1.9	4.8	14.2	9.5	11.8	7.0
Other capital (conventional presentation)	14.5	36.2	20.9	24.5	17.2	35.7	26.0	41.3	43.9
Other capital (new presentation)	1.8	7.0	1.1	-3.2	-4.6	-0.4	-10.8	-0.3	-12.7

FDI expands from 2004 forward, but the levels reached in 2007 and 2008 are still much lower than those reached in the early years of the decade. Furthermore, the change in the adjusted FDI data provides a much truer picture of the increase in merger and acquisition activity (see Figure 2).

Figure 2 Outward foreign direct investment flows

(EUR billions)

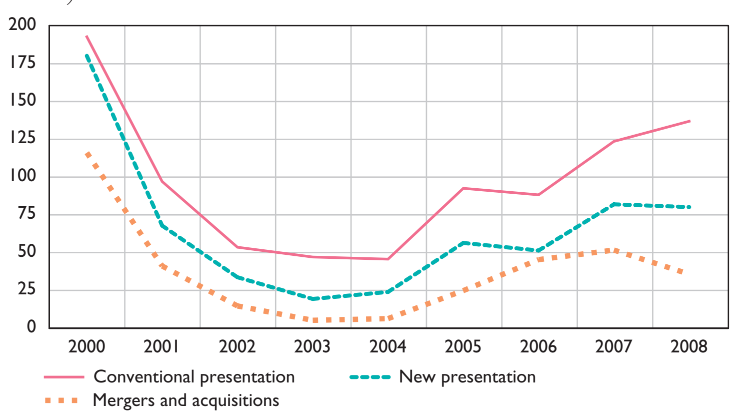
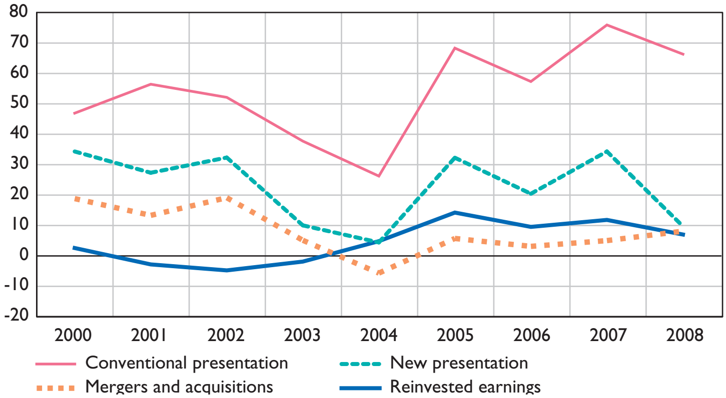


Figure 3 France's inward foreign direct investment flows

(EUR billions)



Under the conventional presentation, France's inward FDI reached a historic high in 2007 and remained high in 2008. The scale of this recent growth in France's inward FDI is hard to explain: mergers and acquisitions show only moderate growth in 2008, and reinvested earnings expand over the period as a whole, but not enough to explain the increase in France's inward FDI (see Figure 3). The findings are different when the extended directional principle is used to present the data. It shows that inward FDI is stable over the period from 2000 to 2008 and that the growth of reinvested earnings offsets the decline in mergers and acquisitions (see Figure 3).

3|2 Impact on the geographical allocation

The extended directional principle also leads to a significant change in the geographical allocation of FDI flows. Under the conventional presentation, Belgium, Luxembourg and the United States are the top three destinations for France's outflows of FDI in 2008. When the transactions are reclassified according to the extended directional principle, Belgium and the United States maintain their same respective rankings, but Luxembourg loses its place to Egypt.[3] The difference in the amounts between the two presentations is particularly great. There is a particularly large decrease for certain countries that are reputed to be home to a large number of SPEs. One such country is Luxembourg, where transaction amounts shrink by 91% compared to the conventional presentation. Other countries are much less affected by the reclassification. For example, the United States sees a

3 One of the largest merger and acquisition transactions in 2008 was Lafarge's acquisition of the Egyptian company Orascom Cement.

Table 3 Comparison of the geographical allocation of France's 2008 outward foreign direct investment flows under the conventional presentation and the new presentation

(amounts in EUR billions, change in percent)

Conventional presentation		New presentation		Change from conventional presentation
Countries	Amounts	Countries	Amounts	
Belgium	45.3	Belgium	43.9	-3.0
Luxembourg	20.8	Egypt	8.5	-0.2
United States	11.9	United States	8.4	-29.2
Netherlands	11.6	Netherlands	4.9	-57.6
Egypt	8.6	Sweden	3.8	-15.5
Germany	7.6	Russia	3.1	-2.6
Switzerland	5.4	Italy	2.8	31.4
Sweden	4.5	Germany	1.9	-74.7
Spain	4.1	Luxembourg	1.9	-90.7
Russia	3.2	Brazil	1.6	-5.1
Italy	2.1	Ireland	1.4	-29.4
Ireland	2.0	Switzerland	1.3	-75.6
Poland	1.8	China	1.2	6.7
Brazil	1.7	Hong Kong	1.0	-17.3
Australia	1.2	Japan	0.8	-23.5
Hong Kong	1.2	Romania	0.8	-14.3
Jersey	1.1	Poland	0.8	-55.5
Japan	1.1	Morocco	0.7	-5.2
China	1.1	Australia	0.7	-40.8
United Kingdom	-10.2	United Kingdom	-17.1	-68.0
Other countries	10.7	Other countries	7.6	-29.3
Total	**136.8**	**Total**	**80.1**	**-41.4**

contraction of 29%, whereas the amounts decline by an average of 41%. The conventional presentation also understated the flows to Italy and China, which increase by 31% and 7% respectively under the new presentation. This was due to the fact that French groups' investment in Italy and China are partially offset by the divestments of foreign groups' French subsidiaries in the same two countries.

A similar observation can be made about France's inward FDI. Table 4 shows that a comparison of the conventional presentation and the new one based on the extended directional principle gives contrasting results. Whereas Luxembourg is the leading investor in France in 2008, according to the conventional presentation, its divestments were some of the largest according to the new presentation. Cyprus, which does not even make the

Table 4 Comparison of the geographical allocation of France's 2008 inward foreign direct investment flows under the conventional presentation and the new presentation

(amounts in EUR billions, change in percent)

Conventional presentation		New presentation		Change from conventional presentation
Countries	Amounts	Countries	Amounts	
Luxembourg	15.3	Belgium	8.2	-14.3
Belgium	9.6	United States	4.8	-41.8
United States	8.3	Egypt	2.8	-0.7
Netherlands	8.2	Cyprus	1.6	ns
Germany	5.6	Netherlands	1.5	-81.9
Switzerland	4.6	Japan	1.0	-21.0
United Kingdom	4.5	Ireland	0.9	-39.1
Egypt	2.9	Canada	0.7	-26.5
Ireland	1.5	Finland	0.6	-16.0
Poland	1.4	Switzerland	0.5	-88.8
Japan	1.2	Poland	0.4	-71.1
Canada	0.9	Denmark	0.4	-45.9
Finland	0.7	Austria	0.3	-56.5
Austria	0.7	Lebanon	0.3	-0.9
Denmark	0.7	Norway	-0.6	-17.1
Australia	0.5	Italy	-1.1	36.9
Norway	-0.5	United Arab Emirates	-1.5	-43.6
United Arab Emirates	-1.0	United Kingdom	-2.4	-153.7
Italy	-1.8	Luxembourg	-3.6	-123.3
Spain	-1.9	Spain	-5.9	-208.8
Other countries	5.0	Other countries	0.8	-84.4
Total	**66.3**	**Total**	**9.7**	**-85.4**

ns: not significant.

list of the top fifteen investors in France, according to the conventional presentation, ranks fourth in 2008, behind Belgium, the United States and Egypt. These results should be kept in perspective, since the countries listed here merely correspond to the first counterparty countries. In other words, Cyprus does not really rank as the fourth largest investor in 2008, but a number of foreign groups investing in France in 2008 channelled the funds through Cyprus. Similarly, Luxembourg is not necessarily one of the countries making the largest divestments in France in 2008. On the other hand, foreign groups that withdrew funds from their French subsidiaries in 2008 channelled the funds through their subsidiaries in Luxembourg. In fact, a more accurate picture of the true geographical origin of investors in France requires a breakdown by the ultimate investing country, as recommended by the OECD.

Figure 4 Main destinations for outward foreign direct investment flows

(EUR billions)

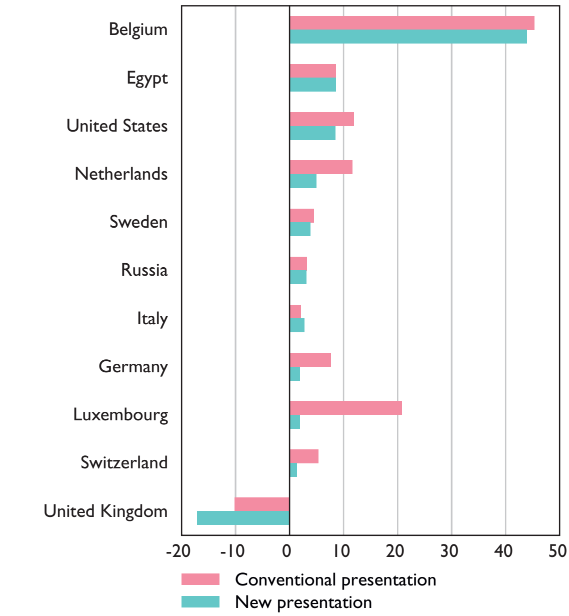


Figure 5 Main sources of inward foreign direct investment flows

(EUR billions)

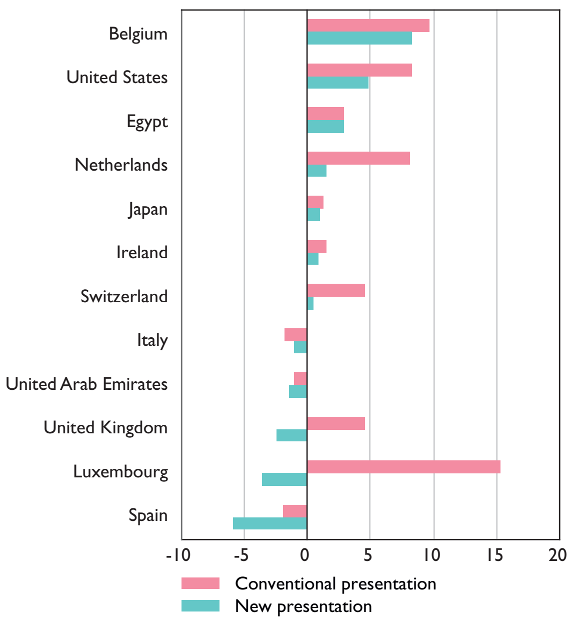


Table 5 France's 2008 foreign direct investment flows by ultimate investing country

(EUR billions)

Outward		Inward	
Countries	**Amounts**	**Countries**	**Amounts**
France	79.3	France	4.1
Netherlands	0.9	Belgium	3.5
Belgium	0.3	United States	2.3
Sweden	0.2	Luxembourg	1.8
United States	0.1	Switzerland	1.4
Luxembourg	0.1	Netherlands	1.2
Italy	0.1	Spain	-1.4
United Kingdom	-0.2	Italy	-1.5
Germany	-0.6	United Kingdom	-3.3
Other countries	0.0	Other countries	1.6
Total	**80.1**	**Total**	**9.7**

Table 5 shows the geographical allocation of France's 2008 outward and inward FDI according to ultimate investing country, using the extended directional principal. The bulk of France's outward investment, once it is adjusted using the extended directional principle, is attributable to French groups; foreign groups play only a minor role according to the new presentation. On the other hand, it seems the leading ultimate investing country in France in 2008 is… France itself, with an investment of EUR 4.1 billion, followed by Belgium (EUR 3.5 billion) and the United States (EUR 2.3 billion). Luxembourg rises to fourth place among investing countries, with a flow of EUR 1.8 billion, versus EUR 20.8 billion according to the conventional presentation. France's ranking as the leading ultimate investing country shows that the adjustment produced by applying the directional principle is still incomplete, since it applies only to intercompany loans. France ranks as the leading ultimate investing country in France in 2008 because of the investments of non-resident subsidiaries of French groups in their French subsidiaries in the form of equity capital investments or reinvested earnings.

3|3 Impact on sector allocation

The introduction of the extended directional principle also has an impact on the sector allocation of France's FDI. This impact is minor for inward FDI flows (see Table 7), but the impact on outward flows is a major one, with a sharp contraction in the real estate and business services sectors, which cover the activity of holding companies (see Table 6). The main sectors accounting for outward investment flows in 2008, according to the new presentation, are now industry, followed by financial intermediation and the production and distribution of electricity, gas and water.

Table 6 Comparison of the sector allocation of France's 2008 outward foreign direct investment flows under the conventional presentation and the new presentation

(amounts in EUR billions, change as a %)

Conventional presentation		New presentation		Change from conventional presentation
Investing sector	**Amounts**	**Investing sector**	**Amounts**	
Manufacturing	41.3	Manufacturing	26.3	-36.4
Real estate and business services	27.2	Financial intermediation	22.0	-6.9
Financial intermediation	23.7	Electricity, gas and water	5.8	-1.7
Trade and repairs	19.1	Real estate and business services	5.4	-80.0
Electricity, gas and water	5.9	Trade and repairs	4.7	-75.2
Other services	2.2	Other services	1.7	-20.9
Construction	2.2	Transport and communications	0.4	-549.9
Hotels and restaurants	1.1	Hotels and restaurants	0.4	-63.9
Extractive industries	0.5	Construction	0.3	-88.2
Agriculture and fishing	0.1	Agriculture and fishing	0.0	-52.6
Transport and communications	-0.1	Extractive industries	-0.5	-197.9
Unallocated amounts (a)	13.8	Unallocated amounts (a)	13.5	ns
Total	**136.8**	**Total**	**80.1**	**-41.4**

ns: not significant.
(a) Reinvested earnings for 2008 are estimated and are not allocated by sector.

Table 7 Comparison of the sector allocation of France's 2008 inward foreign direct investment flows under the conventional presentation and the new presentation

(amounts in EUR billions, change as a %)

Conventional presentation		New presentation		Change from conventional presentation
Sector of the FDI enterprise	**Amounts**	**Sector of the FDI enterprise**	**Amounts**	
Real estate and business services	34.6	Real estate and business services	12.9	-62.8
Manufacturing	23.3	Manufacturing	8.3	-64.4
Financial intermediation	3.2	Financial intermediation	1.5	-51.6
Hotels and restaurants	1.3	Hotels and restaurants	0.6	-51.7
Extractive industries	1.1	Other services	0.3	-61.8
Other services	0.7	Electricity, gas and water	0.3	-27.7
Electricity, gas and water	0.4	Extractive industries	0.1	-90.1
Agriculture and fishing	0.0	Agriculture and fishing	0.0	-77.7
Construction	-0.1	Construction	-2.0	ns
Transport and communications	-2.9	Transport and communications	-2.4	-17.1
Trade and repairs	-3.1	Trade and repairs	-17.4	-465.8
Unallocated amounts (a)	7.8	Unallocated amounts (a)	7.5	ns
Total	**66.3**	**Total**	**9.7**	**-85.4**

ns: not significant.
(a) Reinvested earnings for 2008 are estimated and are not allocated by sector.

3|4 Impact on foreign direct investment stocks

After reclassifying intercompany loans, in accordance with the OECD's recommendations, the stocks of outward and inward FDI at the end of 2008 are reduced by EUR 300 billion compared to the conventional presentation (see Table 8). Stocks of outward FDI stand at EUR 697.4 billion, which is 30% less than the stocks calculated using the conventional methodology, whereas inward FDI stands at EUR 406 billion, representing a decrease of 43%. The time required to compile and process the annual financial statements of enterprises for 2008 means that the findings of the surveys on equity capital investment positions and financial assets and liabilities within groups are not available as of this writing. The stocks of FDI at book value at the end of 2008 presented here are estimated on the basis of stocks at the end of 2007, FDI flows in 2008 and exchange rate variations for positions in foreign currencies.

Table 8 Comparison of the book value of France's foreign direct investment stocks under the conventional presentation and the new presentation

(EUR billions)

	2007		2008	
	Conventional presentation	New presentation	Conventional presentation	New presentation
Outward FDI (1)	**877.4**	**628.8**	**1 003.8**	**697.4**
Equity capital and reinvested earnings	595.7	595.7	649.3	649.3
Other capital	281.7	33.1	354.5	48.1
Between enterprises with a direct equity capital link	24.9	24.9	39.8	39.8
Between fellow enterprises belonging to a resident group	126.8	8.2	145.3	8.2
Lending	*126.8*	*126.8*	*145.3*	*145.3*
Borrowing	–	*-118.5*	–	*-137.0*
Between fellow enterprises belonging to a non-resident group	130.0	–	169.3	–
Lending	*130.0*	–	*169.3*	–
Inward FDI (2)	**645.6**	**397.0**	**712.4**	**406.0**
Equity capital and reinvested earnings	378.2	378.2	400.6	400.6
Other capital	267.4	18.9	311.8	5.4
Between enterprises with a direct equity capital link	29.6	29.6	23.8	23.8
Between fellow enterprises belonging to a non-resident group	119.2	-10.8	150.9	-18.4
Borrowing	*119.2*	*119.2*	*150.9*	*150.9*
Lending	–	*-130.0*	–	*-169.3*
Between fellow enterprises belonging to a resident group	118.5	–	137.0	–
Borrowing	*118.5*	–	*137.0*	–
Net FDI position (2)-(1)	**-231.8**	**-231.8**	**-291.4**	**-291.4**