

## 2 Methods, definitions and sources

This special issue presents the results of two survey waves of the Oesterreichische Nationalbank (OeNB) on Austrian direct investments abroad (outward FDI) and foreign direct investments in Austria (inward FDI) as of end-2021. The OeNB started in 1968 to compile data on cross-border equity interests on a regular basis.

In 2006, it revised the questionnaire thoroughly after having made only minor changes in the 15 years previously. The key methodological changes it implemented in 2006 were (1) the valuation of listed stock corporations at market price, (2) a widening of the aggregate other capital, and (3) the exclusion of special purpose entities (SPEs) from the direct investment statistics (see 2.2 below). To further reduce the reporting burden, the OeNB started to increasingly use available statistical data or register data. Moreover, it raised the reporting threshold for transactions from a voting capital share of EUR 72,000 to EUR 100,000, which led to a statistical break in unit-based time series. This reporting threshold was raised to EUR 500,000 in January 2014.

In the reporting year 2008, the OeNB used the revised Austrian statistical classification of industries ÖNACE 2008 for the first time, and it backcast firm-level data. Data based on the former ÖNACE 2003 classification were available up to the reporting year 2012.

The OeNB prepared for the fall 2014 Europe-wide transition to the new international provisions on drawing up the balance of payments as set out in the Balance of Payments and International Investment Position Manual, Sixth Edition (IMF, 2009; OECD, 2008) as follows: it already covered all investment (lending) between fellow enterprises (enterprises that are under the control or influence of the same immediate or indirect investor without one fellow enterprise controlling or influencing the other) for the first time in the reporting year 2010. Previously, only that investment between fellow enterprises could be covered in which the Austrian fellow enterprise was also captured as a direct investor (outward FDI) or as a direct investment enterprise (inward FDI). The direction of direct investment between fellow enterprises is determined by the extended directional principle (IMF, 2009, p. 107f.; OECD, 2008, p. 56f.), i.e. by the residency of the ultimate controlling parent. Intragroup claims of a resident lender<sup>1</sup> increase Austria's outward FDI if the ultimate controlling parent is an Austrian group, whereas it reduces inward FDI if the ultimate controlling parent is a nonresident multinational corporation. Conversely, if a resident enterprise receives a loan from a fellow enterprise, inward FDI increases if the controlling parent is a nonresident, and outward FDI decreases if the controlling parent is headquartered in Austria. The inclusion of lending between fellow enterprises substantially increased the gross volume of direct investment assets and liabilities,<sup>2</sup> whereas the impact on stocks of inward and outward FDI and on the ranking of origin (home) and target (host) countries was limited.

<sup>1</sup> Financial institutions are exempt from this rule. Intragroup lending by banks is still recorded as “other capital – cross-border deposits and loans”, not as direct investment, regardless of whether it takes place between fellow enterprises or between investors and investees.

<sup>2</sup> In turn, the “other investment” values in the financial account diminished, as they are determined even more strongly by bank deposits and loans.

Since fall 2014, the usual directional breakdown of direct investment into inward and outward FDI has been complemented by a presentation on an asset and liability basis, in particular with respect to balance of payments statistics and the international investment position. According to the asset/liability principle, all direct investment assets (claims on nonresidents) and all direct investment liabilities (obligations to nonresidents) are recorded without reflecting the direction of influence – inward or outward – of the direct investor. On its website, the OeNB provides a table mapping direct investment data from the directional principle to the asset/liability presentation.<sup>3</sup> The statistics on direct investment stocks are, however, still exclusively based on the (extended) directional principle determined by the investor’s residency.

## 2.1 Definitions

The Austrian definition of foreign direct investment is essentially in line with the concept used by the relevant international organizations, that is, the latest editions of the IMF’s Balance of Payments Manual and of the OECD Benchmark Definition of Foreign Direct Investment. Accordingly, Austrian direct investment abroad – outward direct investment – is understood to mean residents’ capital investment abroad made for the purpose of establishing and maintaining a long-term economic relationship with a foreign enterprise with the added intention of exercising a significant degree of influence on its management. In line with the international standards mentioned above, such intention is assumed where the direct investor holds a share of at least 10% in the enterprise. The survey does not cover other types of cross-border transactions, e.g. pure cooperation and consultation agreements. The 10% threshold helps distinguish direct investment from other types of long-term capital investment, such as portfolio investment, where the primary objective is profit.

According to these definitions, foreign real estate purchases and sales are also part of FDI and need to be reported for the balance of payments, whereas the corresponding stock item in the international investment position is derived by accumulating the underlying flows. However, this publication and the underlying survey among enterprises explicitly exclude investment in real estate.

There are basically four different types of direct investment:

- Investment in existing or newly established enterprises in the form of cash contributions, setoffs of claims, noncash capital contributions or the transfer of rights;
- reinvestment of profits, i.e. full or partial retention rather than disbursement of the profit earned by the direct investment enterprise;
- loans and other allocations provided to enterprises by foreign investors directly or through other group enterprises to reinforce these companies’ resources (in addition to investors’ equity capital). In line with the directional principle, loans granted by subsidiaries to parent companies are classified as negative direct investment, which can occasionally lead to negative direct investment stocks. Investment (lending) between fellow enterprises (enterprises that are under the control or influence of the same immediate or indirect investor without one fellow enterprise controlling or influencing the other) is also covered. The direction of

<sup>3</sup> [www.oenb.at/isaweb/report.do?lang=EN&report=9.3.81](http://www.oenb.at/isaweb/report.do?lang=EN&report=9.3.81).

direct investment between fellow enterprises is determined by the residency of the ultimate controlling parent. If the latter is resident in Austria, all relevant transactions and positions are classified as outward direct investment, and vice versa.

- Nowadays, direct investment statistics not only capture intragroup loans, but also types of bonds. A corporate bond that is subscribed to exclusively by group enterprises has the same financing function as an intragroup loan and is therefore attributed to direct investment, more precisely, to the “Other direct investment capital” subitem.

The distinction between equity and other capital, which is commonly used in international statistics, is drawn on the basis of the differentiation presented above.

## 2.2 Adjustment for special purpose entities (SPEs)

Worldwide integration, the removal of barriers to capital movements and the complexity of group structures have given rise to a discussion of the information value of traditional direct investment statistics. One of the key reasons for the distortions that some users criticize is the current coverage of foreign-controlled holding companies that have little or no market activity in the country in which they are residents but at the same time own substantial amounts of direct investment assets. According to existing guidelines, such holding companies qualify as inward and outward direct investors at the same time. Some multinational corporations have built up entire chains of holding companies, which, from a critical point of view, leads to double – or even multiple – counting of direct investment and moreover conceals the sources and targets of FDI. Another form of SPE is that of special purpose vehicles founded only to raise funds for the entire group in a specific country. A normal funding operation – borrowing or security issuance – abroad thus becomes a negative direct investment (loan extended by the affiliate to the parent company).

Whereas advocates of the existing definitions point out that these corporate structures are also relevant to the presentation of direct investment, critical researchers intent on capturing real economic developments have doubts about the usefulness of such statistics. To resolve this dilemma, international organizations encourage the presentation of SPEs in a separate item (OECD, 2008, p. 186ff.). Eurostat and the ECB have adjusted their reporting obligations accordingly. However, the small number of resident SPEs in Austria has thwarted the publication of separate statistics – one with, one without SPEs – as simple subtraction would allow users of statistics to identify individual SPEs, which in turn would violate data protection laws. Therefore, the OeNB has decided to publish statistics that exclude SPEs.

Austria has long been host to many partly foreign-controlled holding companies that own subsidiaries abroad themselves as bridgeheads, especially in Central, Eastern and Southeastern Europe. The majority of these bridgeheads, though, undertake manufacturing activities in Austria, and until 2005, there were only very few, moderately sized shell companies. These holding companies did not really distort the direct investment statistics, except that they occasionally caused significant (e.g. regional) shifts as a result of corporate restructuring. But in 2005, SPEs were set up in Austria whose size made it necessary to change their recognition in statistics. Since then, a handful of SPEs with a corporate value of some EUR 50 billion at end-2016 and virtually no employees in Austria that do not

actively pursue business activities in the Austrian market have been explicitly excluded from the direct investment statistics (but not the direct investment survey). While these SPEs must be included in the data reported to Eurostat and the ECB, given the need to preserve bilateral symmetry and to calculate meaningful aggregates at the European level, their exclusion appears to be useful when using purely Austrian statistics.

### 2.3 Adjustment of inward FDI data for the location of the ultimate parent company

In classifying direct investment by origin, the problem arises that the direct investor is not necessarily the actual decision-maker, for example, a German company acquires a stake in an Austrian enterprise via a holding company located in Switzerland. To correct for such distortions, we have been using the location of the parent company instead of the location of the direct owner for assignments to regions. This method has proved suitable in Austria and is now recommended by international organizations<sup>4</sup> for satellite statistics adjusted for SPEs. Reporting for European aggregates, however, still requires the identification and reporting of the direct investor's location.

The adjustment for the ultimate investor may result in the seeming paradox that inward FDI may well be attributed to Austrian investors. In line with international practice, such round tripping is to be shown under both inward and outward FDI. Until the review year 2002, however, Austria adjusted its statistics for the parent company location, which resulted in different total inward direct investment figures, depending on whether they were based on the parent company principle or on the direct owner principle. From 2006, Austrian inward direct investment by Austrian companies has been explicitly shown in the statistics.<sup>5</sup>

### 2.4 Structure of tables

The restructuring of the survey in 2006 implied that the set of tables was also extended and slightly restructured. The tables section in this publication begins with a presentation of key figures in time series and the development over time of the total value of direct investment as well as employment at direct investment enterprises by countries and by industries. In line with international standards applicable to direct investment statistics, the breakdown by industry is based on the activity of the affiliate, not the parent company.

Tables 6 and 7 present the main results not just by home and host countries and industries, but also broken down by provinces, size, duration of investment, investment at establishment, and type of investment<sup>6</sup> or investor<sup>7</sup>. This is complemented by the breakdown by industry or resident affiliates and the direct investor's legal form. The same type of breakdown is applied in tables 8 through 11, which show enterprises' income statements and some important criteria of economic activity (imports and exports, royalty and management fee income).

<sup>4</sup> The OECD, for instance, recommends using the "ultimate investing country" (UIC) (OECD, 2008, p. 113).

<sup>5</sup> This roundtripping phenomenon is evident in many countries.

<sup>6</sup> Minority or majority interest.

<sup>7</sup> Domestic or foreign-controlled investor.

The subsequent set of tables breaks down capital and employment by regions and industries. For confidentiality reasons, the breakdown by countries can show only rough attributions to economic sectors (table 12), and the breakdown by industries (table 13) can be made with only a limited regional attribution. Tables 14 and 15 deal with the issue of foreign control, examining the type of direct investor in the case of outward FDI and the type of investment (minority or majority interest) in the case of inward FDI. Table 16 provides information about the motives of direct investors. The final set of tables, tables 17 and 18, analyze the significance of indirect investment as illustrated by employment.

In line with established practice, the results of the surveys on outward and inward FDI are published together. The tables on outward and inward FDI were given an identical structure wherever the data allowed for such a presentation. This makes it possible to obtain a comprehensive picture from a direct comparison of outward and inward FDI data for Austria.

Adjusting the balance of payments statistics and the international investment position to the provisions set out in the BPM6 has not had a direct impact on the presentation of direct investment stocks. It is, however, true that the results from backcasting the balance of payments and international investment position from 2006 to 2014 cannot be considered in this publication. Any discrepancies between this publication and the current statistics published on the OeNB website<sup>8</sup> are primarily traceable to the inclusion of several large loans between fellow enterprises from 2006 to 2010 and the revision of the time of recording of a few large investments.

## 2.5 Glossary

### Direct investment

According to the Balance of Payments Manual of the IMF (2009, p. 100), direct investment is a category of cross-border investment that reflects an investor's objective to exercise a significant degree of influence on the management of an enterprise that is resident in an economy other than that in which the investor is located. By international convention, a holding of 10% of voting power is considered the threshold for the exercise of control.

The term direct investment also refers to the relationship between a direct investor and a direct investment enterprise. The number of direct investments is larger than the number of direct investors and of direct investment enterprises, as a given investor can hold investments in several direct investment enterprises, and as several investors can hold investments in a given direct investment enterprise.

### Direct investment enterprise

An enterprise in which one or more direct investors hold a stake. In the case of outward direct investment, the (Austrian) direct investment enterprise is located abroad; in the case of inward direct investment, the (foreign) direct investment enterprise is located in Austria.

### Direct investor

One or more individuals or legal entities that own a share of a direct investment enterprise. The direct investor must be resident (domiciled) in a country other

<sup>8</sup> <https://www.oenb.at/en/Statistics/Standardized-Tables/external-sector/foreign-direct-investment.html>.

than that in which the direct investment enterprise is located. From an Austrian perspective, direct investors engaging in outward direct investment are located in Austria; and those engaging in inward direct investment are located abroad.

### **Equity**

In the case of unlisted companies, the liability side of affiliate enterprises' balance sheets is used to determine equity figures. The ECB and the OECD refer to this approach as "own funds at book value," which is used whenever market capitalization is not available from a stock exchange. Equity is the sum total of nominal capital, reserves, profit or loss brought forward and the profit or loss of the current year. The equity of listed stock corporations corresponds to their market value. The ECB and Eurostat refer to this valuation approach as "market valuation".

### **Foreign Affiliates Statistics (FATS)<sup>9</sup>**

Regulation (EC) No 716/2007 of the European Parliament and of the Council of 20 June 2007 on Community Statistics on the structure and activity of foreign affiliates provided a framework for compiling foreign affiliate statistics (FATS), which are closely linked to direct investment statistics. By analogy to direct investment, the framework distinguishes between inward FATS (activities of resident foreign-controlled enterprises) and outward FATS (activities of resident-controlled enterprises abroad). The key differences between the FATS and the direct investment statistics are that FATS capture controlled enterprises only (a direct investment of over 50%) and the fact that FATS data are not weighted with ownership shares. The activity of a controlled enterprise is fully attributed to the majority owner. The Austrian FATS have been compiled by Statistics Austria in cooperation with the OeNB since the reporting year 2007.

### **Indirect investments**

Investment of a direct investment enterprise (first-tier affiliate) in another enterprise (second-tier affiliate). Starting with the 2006 survey and in anticipation of the FATS statistics, instead of compiling data on all indirect second-tier investments of more than 10%, the survey seeks to collect data on all indirect investments controlled by the direct investor (over 50%), independently of the length of the ownership chain.

Note: The OeNB's survey compiles outward direct investment data on all indirect investments abroad and inward direct investment data only on indirect investments in Austrian enterprises.

### **Inward direct investment**

Holding of a foreign direct investor in the equity of an enterprise resident in Austria that gives the direct investor more than 10% of the voting power in that enterprise.

### **Market value**

By definition, market value is the amount a buyer would be willing to pay and a seller willing to accept. In the case of listed stock corporations, market value is the

<sup>9</sup> [www.statistik.at/web\\_en/statistics/Economy/enterprises/foreign\\_affiliates/index.html](http://www.statistik.at/web_en/statistics/Economy/enterprises/foreign_affiliates/index.html).

capitalized value of stocks at the reference date. For the vast majority of companies, book value is given as an approximation where actual market values are not available.

### **Other capital**

All types of intragroup finance excluding own funds. This type of finance used to be limited to long-term intragroup lending but was expanded over the years and now also includes financial relationships between group enterprises in which there are no direct investments (fellow enterprises). The direction of direct investment between fellow enterprises is determined by the residency of the ultimate controlling parent. If the latter is resident in Austria, all relevant transactions and positions are classified as inward direct investment, and vice versa. Corporate bonds that have been subscribed to exclusively by group enterprises are likewise classified as other direct investment capital.

Such financing excludes intragroup settlement accounts and lending between connected banks, provided this lending is not of an equity nature or does not count as subordinate liable capital.

### **Outward direct investment**

Holding of an Austrian direct investor in the equity of an enterprise established abroad that confers more than 10% of the voting power in that enterprise on the direct investor.

### **Payroll employment**

The average number of a direct investment enterprise's employees in a given calendar year weighted (i.e. multiplied) by the direct investor's percentage ownership of the direct investment enterprise's nominal capital. See the statistics on foreign affiliates released by Statistics Austria (foreign affiliates statistics – FATS) for figures on unweighted employment in foreign-controlled enterprises (including those under direct control).

### **Regional breakdown**

- *Euro area-18*: Belgium, Germany, Estonia, Ireland, Greece, Spain, France (including Monaco and overseas departments), Italy (excluding San Marino, the Vatican), Cyprus, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovenia, Slovakia, Finland; Austria is excluded.
- *EU-14*: Belgium, Germany, Greece, Spain, France (including Monaco and overseas departments), Ireland, Italy (excluding San Marino and the Vatican), Luxembourg, the Netherlands, Portugal, Finland, Denmark, Sweden; Austria is excluded.
- *EU-27*: EU-14 + CEEC-5 + Bulgaria, Estonia, Croatia, Cyprus, Latvia, Lithuania, Malta, Romania; Austria is excluded.
- *Potential EU candidates*: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia, Türkiye.
- *Europe* includes European CIS countries.
- *CEEC-5*: Czechia, Hungary, Poland, Slovakia, Slovenia.
- *CESEE*: CEEC-5 + Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Kosovo, Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Romania, Russia, Serbia, Ukraine.

- *OECD*: EU-14 + OECD overseas countries + Czechia, Estonia, Hungary, Iceland, Norway, Poland, Slovakia, Slovenia, Switzerland, Türkiye.
- *OECD overseas countries*: Australia, Canada, Japan, Mexico, New Zealand, South Korea, USA (including Puerto Rico).

### **Special purpose entity (SPE)**

This broadly defined term denotes corporations established within groups for unspecified (e.g. tax or financing) purposes. Their presentation in the direct investment statistics materially influences the Austrian FDI data. Direct investment by Austrian SPEs abroad and by foreign investors in Austrian SPEs is therefore not considered in this publication. SPEs are defined as holdings that are wholly owned by nonresidents, have negligible employment and no market production, and the vast majority of whose assets consist of investments in nonresident enterprises or affiliates abroad.

### **Total value**

Equity plus other capital. Since the review year 2006, valuation has been at market price, meaning that listed stock corporations are valued at market prices and all other enterprises at book value.

### **Type of direct investment**

The breakdown of inward direct investment distinguishes between minority and majority interests, reflecting individual investment rather than foreign control: In practice, several minority interests frequently combine to make up foreign control.

### **Type of investor**

From the reporting year 2006, Austria's outward direct investment statistics distinguish between outward direct investment undertaken by Austrian or Austrian-controlled investors, and such investment undertaken by foreign-controlled investors resident in Austria.

Foreign control means that one or more foreign direct investors together hold the majority of the voting power. A direct investment enterprise is considered Austrian controlled if direct investors hold 50% of the voting power or if a foreign majority is the result of float ownership. Foreign-controlled investors play an especially significant role in Austria, serving as bridgeheads or regional headquarters. They are not to be confused with special purpose entities (see the respective entry), as, unlike SPEs, they undertake market activities or exercise management functions in Austria. One indicator is the classification according to NACE rev. 2, where holding companies fall into the group 64.2, whereas units classified under group 70.1 exercise operational control and day-to-day management.

## **2.6 Classification of industries**

Direct investment companies (or direct investors) have been classified to the respective industries in line with the latest revision of the Austrian statistical classification of industries, i.e. ÖNACE 2008 (Statistics Austria, 2008) since the reporting year 2008. The thorough reclassification reflects the ongoing economic change and was implemented in an internationally harmonized process. ÖNACE 2008 corresponds to the NACE Rev. 2 at the European level and to the UN's ISIC



Rev. 4. The legal basis for the reclassification is Regulation (EC) No 1893/2006 of the European Parliament and of the Council, which became effective on January 1, 2008. The sectoral breakdown of this direct investment statistic at the two-digit level is presented below.

### References

**IMF. 2009.** Balance of Payments and International Investment Position Manual. Sixth Edition (BPM6).

**OECD. 2008.** Benchmark Definition of Foreign Direct Investment. Fourth Edition (BD4).

**Statistics Austria. 2008.** Systematik der Wirtschaftstätigkeiten. ÖNACE 2008. Volume 1 and 2.