

DANMARKS NATIONALBANK

FDI RELATED INVESTMENT INCOME – THE DANISH SYSTEM

Kristian Nørgaard Bentsen



DANMARKS
NATIONALBANK

Agenda

- 1. The danish setup – quick overview
- 2. Direct investment equity income (main part)
- 4. Interest on intercompany debt
- 5. Grossing up
- 6. New requirements in BPM6

The danish setup – quick overview

- BoP statistics a shared responsibility between Statistics Denmark and Danmarks Nationalbank
- Statistics Denmark: Current account + Capital account
- Danmarks Nationalbank: Financial account

But – investment income is related to financial instruments

- > responsibility of Danmarks Nationalbank

- Monthly publication of BoP
- Media interest first and foremost on the current account surplus/deficit

Equity income

- Based on corporate financial statements reported yearly (from both monthly and yearly reporters)
- Included in data with a lag. 2012 statements included in October publication
- Before that we use estimation (tricky part – see below)
- Equity income equally distributed in the reported period
- Dividends are reported monthly, but neutral on total FDI income in the system
- We try to use accrual principle on total DI equity income not on subcomponents (RIE and Dividends)

Equity income

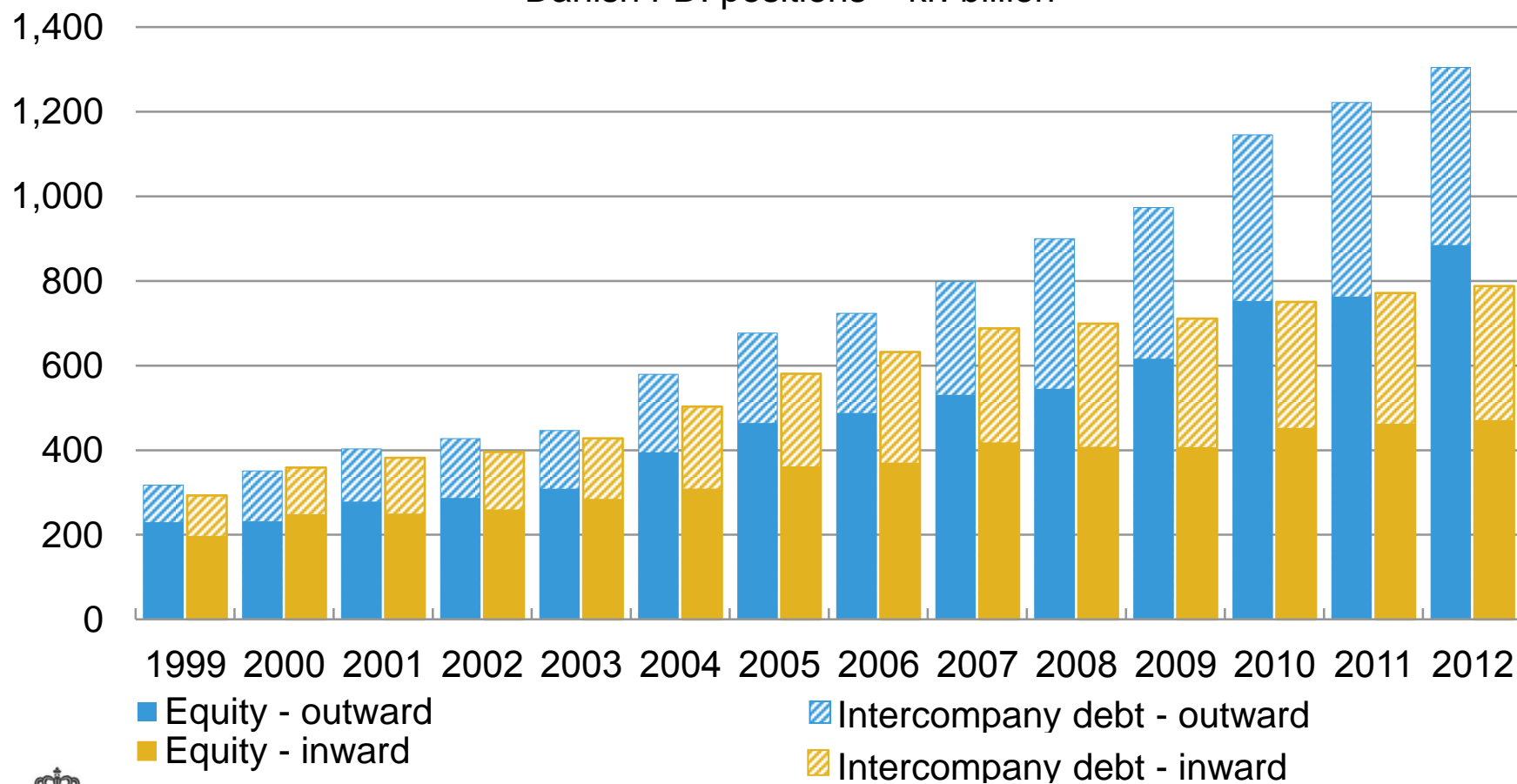
- Numbers says more than words!
 - Example. A Danish company have reported a direct investment in Norway. Pays dividends once a year. Reported result after tax DKK 1471.343. After December 2012 the model takes over.

Month	Reported dividends	RIE	Total DI Equity income
201201		122.612	122.612
201202		122.612	122.612
201203		122.612	122.612
201204		122.612	122.612
201205	1.774.227	-1.651.615	122.612
201206		122.612	122.612
201207		122.612	122.612
201208		122.612	122.612
201209		122.612	122.612
201210		122.612	122.612
201211		122.612	122.612
201212		122.612	122.612
201301		25.726	25.726
201302		25.499	25.499
201303		25.413	25.413
201304		26.775	26.775
201305	1.359.382	-1.332.354	27.028
201306		21.944	21.944

A bit of history

Estimation of direct investment equity income

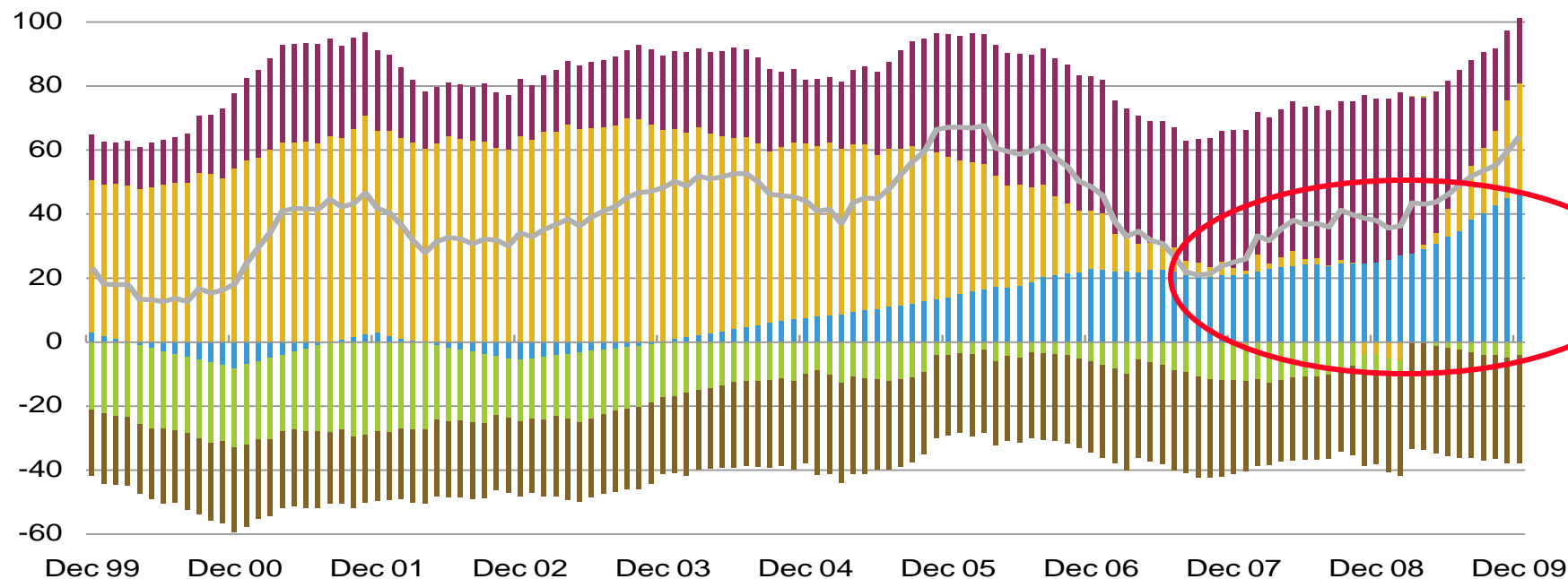
Danish FDI positions – kr. billion



Estimation of direct investment equity income

Danish Current Account, Acc. 12-month data

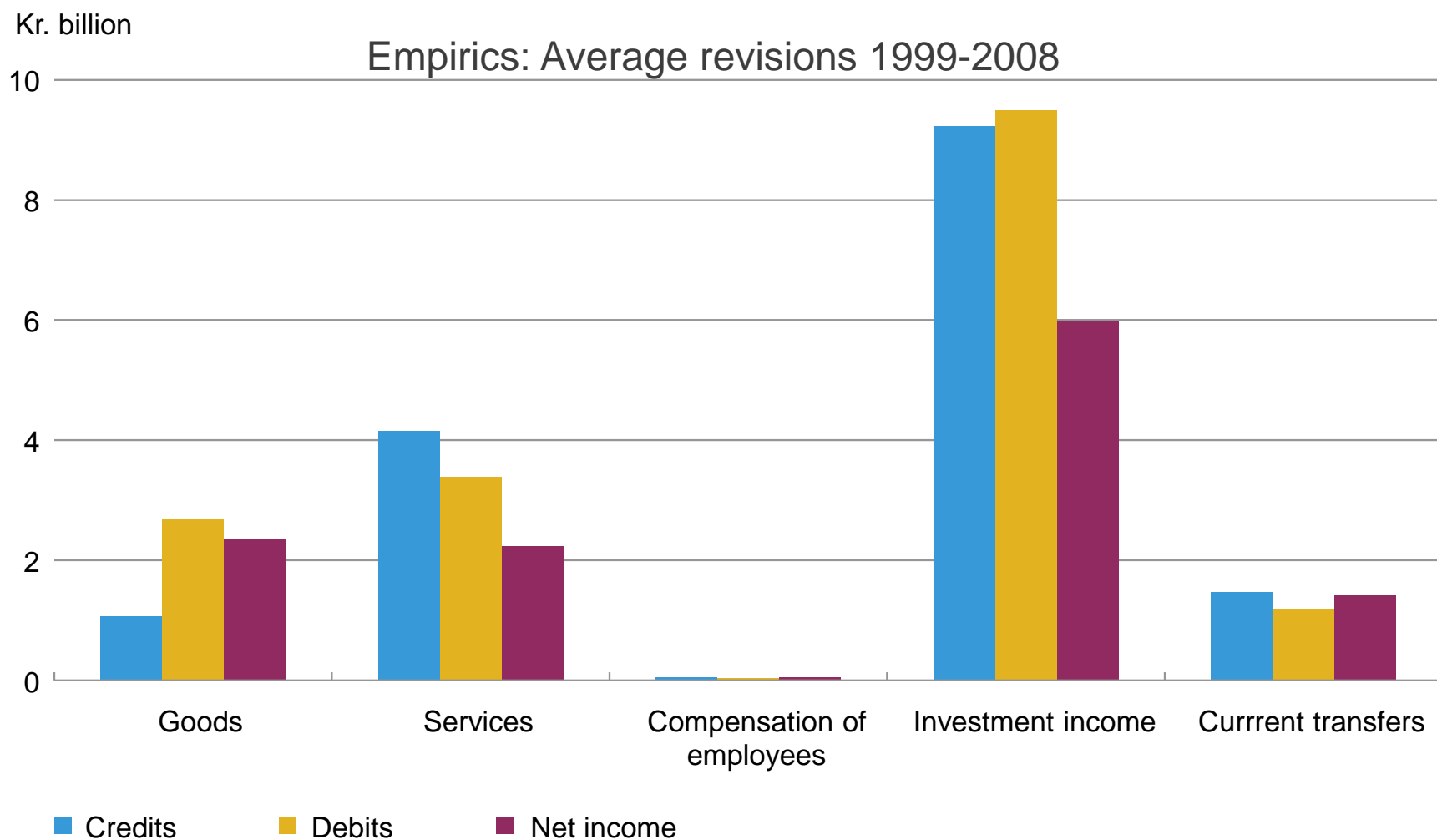
Kr. billion



Direct investment income
Services
Current transfers

Goods
Primary income, excl. direct investment
Current account, total

Estimation of direct investment equity income

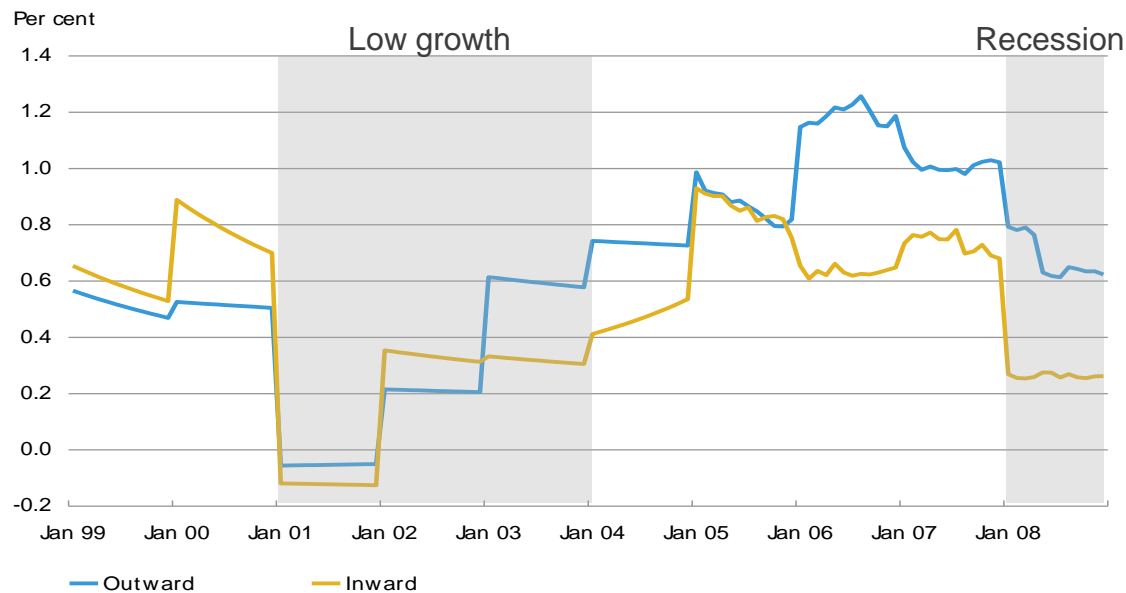


Estimation of direct investment equity income

- As many others, Denmark have applied estimates based on historical profits only
- Builds on the assumption that the near past is the best prediction of the near future
- The estimates have proved unable to capture cyclical reversals
- Also: One-size-fits-all approach

Estimation of direct investment equity income

- New model includes data for expected cyclical developments
- Corporate profits (monthly return on direct investment) are affected by the economy in general



Estimation of direct investment equity income

- New model: Keep it simple
- Still historic but also a cyclical indicator.
- We found that the acceleration/deceleration in expected private consumption is the best general indicator:
- Asset side – three country groups
- Liability side – three industry groups
- Some restrictions (cannot make unrealistic estimates compared to history)
- individual estimates are provided for investment income generated by special enterprises not fitting into the general pattern (eg. oil companies)

Estimation of direct investment equity income

- Experience with new model: Good, but still room for improvement
- We are using individual estimates for still more companies – using quarterly financial reports
- Snowball-effect. Estimates are made using estimates from the previous period. Can be solved.

Interest on intercompany debt

- Interest is reported directly by our reporters
- We ask them to use the accrual method if possible
- Difficult to validate

Grossing up

- Since we have a survey system with a cut-off grossing up is necessary
- Both on equity income and interest on intercompany debt
- The equity positions are grossed up using information from private data providers.
- Equity income. We use the same total return on equity on our grossed up position as we have from our reporters.
- Intercompany debt is more problematic. We use factors estimated from our previous system.
- We lack a data source to estimate loans outside our survey.

6. New requirements in BPM6

In BPM5:

- DI abroad: All entries on the credit side (even payables)
- DI Inward: All entries on the debit side (even receivables)

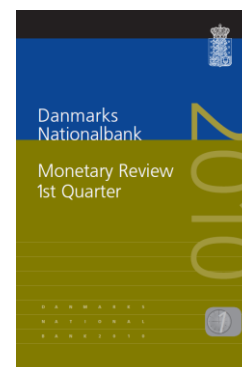
In BPM6:

- Direct investor in direct investor enterprise
- Direct investment enterprises in direct investor (reverse investment – **gross basis**)
- Between fellow enterprises

Want to know more about the model?

- Monetary Review, 2010 1st Quarter

<http://www.nationalbanken.dk/DNUK/Publications.nsf/Publikationer.HTML?openview&RestrictToCategory=Monetary%20Review>



- Working Paper 65/2010

<http://www.nationalbanken.dk/DNUK/Publications.nsf/Publikationer.HTML?openview&RestrictToCategory=Working%20Papers>

