



National Bank
of Ukraine

Estimation of round tripping transactions for 2010-2019

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Summary

Purpose

Estimation of volume of *round tripping transactions* (involves funds from an resident entity being invested in an entity in a second economy, that are then invested in another resident entity) based on available statistical data by:

- identifying whether the UCP is a resident *;
- redistribution of FDI flows by the countries of the UCP.

Estimation of the volume of round-tripping transactions was carried out

- by sectors of the economy – banks and other sectors;
- by instruments - equity other than reinvestment of earnings and loans from direct investors.

Time period: Y2010 – Y2019.



An investor (company or individual) is considered to be the **ultimate control parent (UCP)** if it is at the head of a chain of companies and directly or indirectly controls all the enterprises in the chain without itself being controlled by another investor.

Summary

Results

- Volume of *round tripping* transactions (where UCP is resident) during 2010 – 2019 were estimated at \$9.3 billion, representing 23.2% of direct investment inflow* (\$39.9 billion).
- The biggest volume of round tripping transactions were registered during 2010 – 2013 - on average 32.7% of the total FDI inflow, in 2014 -2015 there was net outflow of funds from Ukraine due to round tripping transactions.
- In 2016 - 2018 share of round tripping transactions slightly increased, while volumes remained lower then before crisis. In 2016 the share of such transactions was only 4.1%, in 2017 – 12.3%, in 2018 – 22.6%.
- In 2019 volume of *round tripping* transactions estimated at \$1 billion or 36.6% of FDI net inflow (97.3% of which were directed to real sector).
- The largest volumes of round tripping transactions were routed through Cyprus, Netherlands, Switzerland and Austria



Without reinvestment of earnings

Data Sources for Estimation of Round Tripping

Sources

- Statistical reports “Bank/enterprise data on financial transactions with nonresident” for determining the FDI inflows in form of cash and “FDI loans obtained from nonresidents ”
- Official web-sites of relevant enterprises on ownership structure;
- Open source commercial data hubs (information on relevant enterprises’ ultimate controlling parent (UCP));
- Ministry of Justice of Ukraine web-site: unified state register of legal entities, individual entrepreneurs and community groups;
- Enterprise`s annual reports, financial statements.

Methodology

- Balance of payments and international investment position manual. – Washington, D.C.: International Monetary Fund, 2009;
- OECD benchmark definition of foreign direct investment: fourth edition – OECD 2008;
- Balance of payments and international investment position compilation guide. – Washington, D.C. : International Monetary Fund, 2014;
- The coordinated direct investment survey guide. – Washington, D.C. : International Monetary Fund, 2015

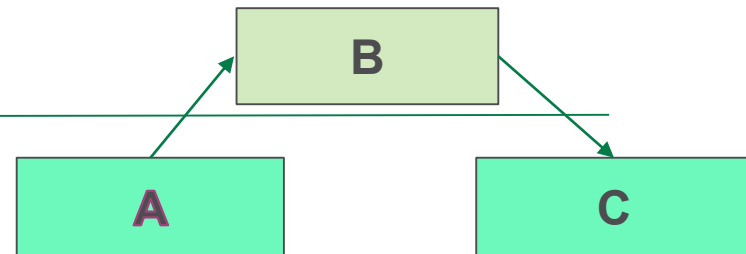
Incentives for *round tripping*

Definition

- **Round tripping** refers to the channeling abroad by residents of local funds and the subsequent return of these funds to the local economy in the form of direct investment

“Transit” country

Ukraine

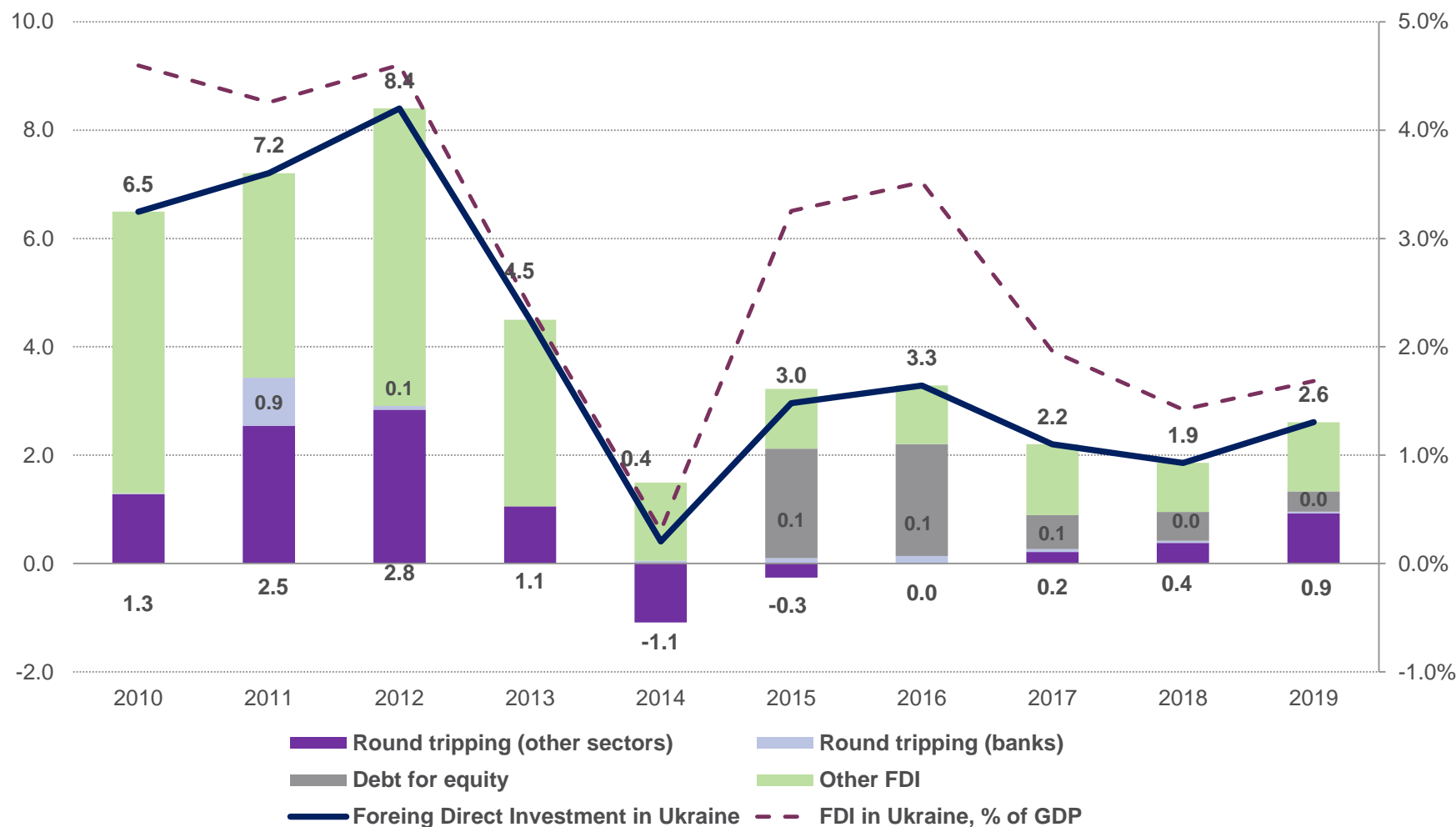


Main incentives

- Property right protection
- Tax and fiscal advantages; use of preferential policies to attract FDI
- Expectations on exchange control and exchange rate: round-tripping for greater flexibility in foreign exchange management.
- Accessing better financial services

Round tripping transactions in FDI net inflow for 2010-2019

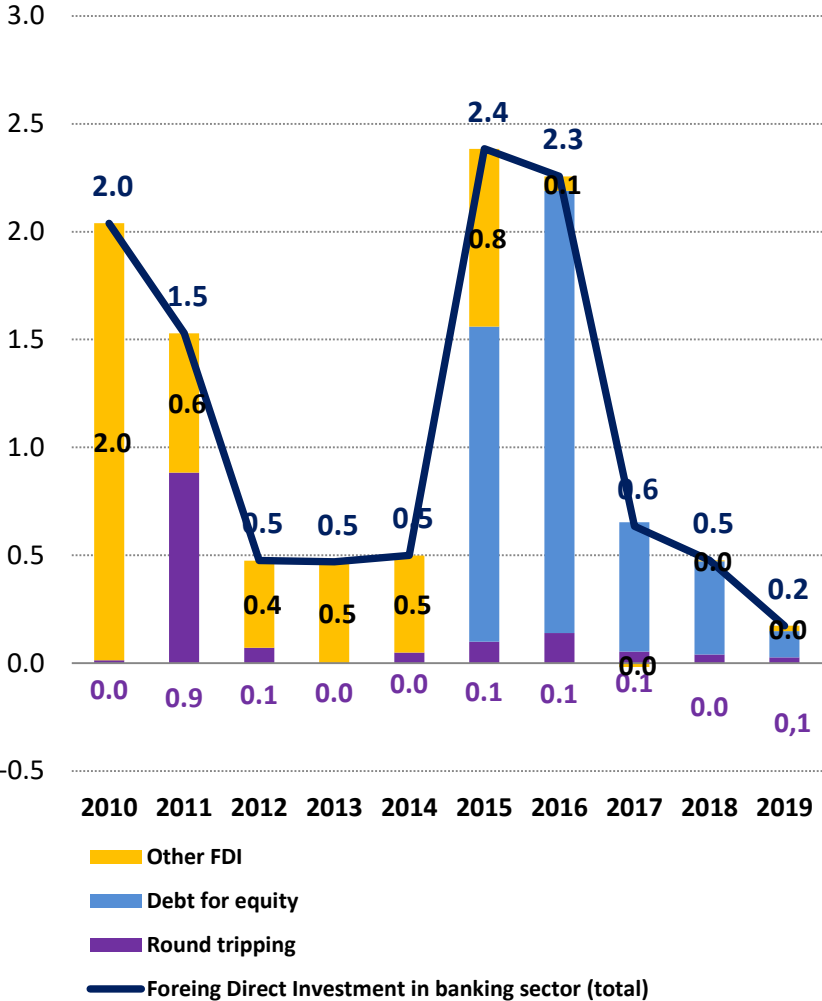
Foreign Direct investments in Ukraine*, billion USD



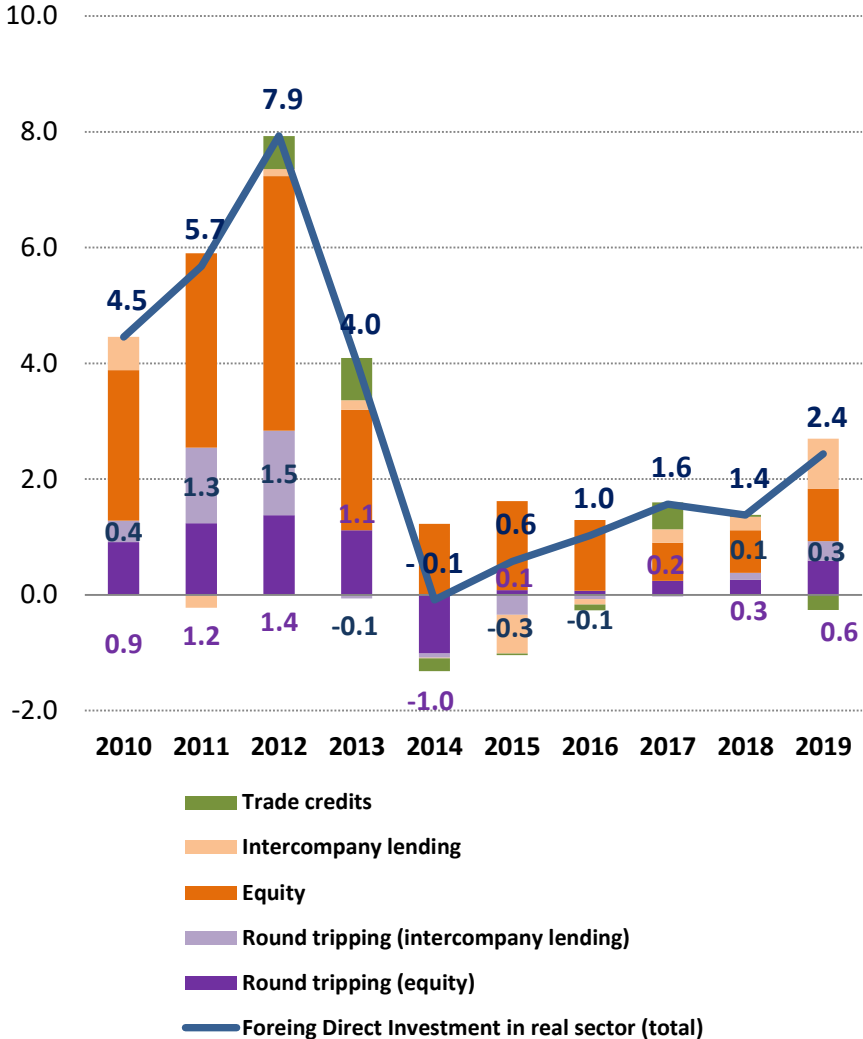
* Without reinvestment of earnings

The largest volume of *round tripping* transactions were observed in real sector (in average 27% of FDI inflow)

FDI in banking sector, billion USD

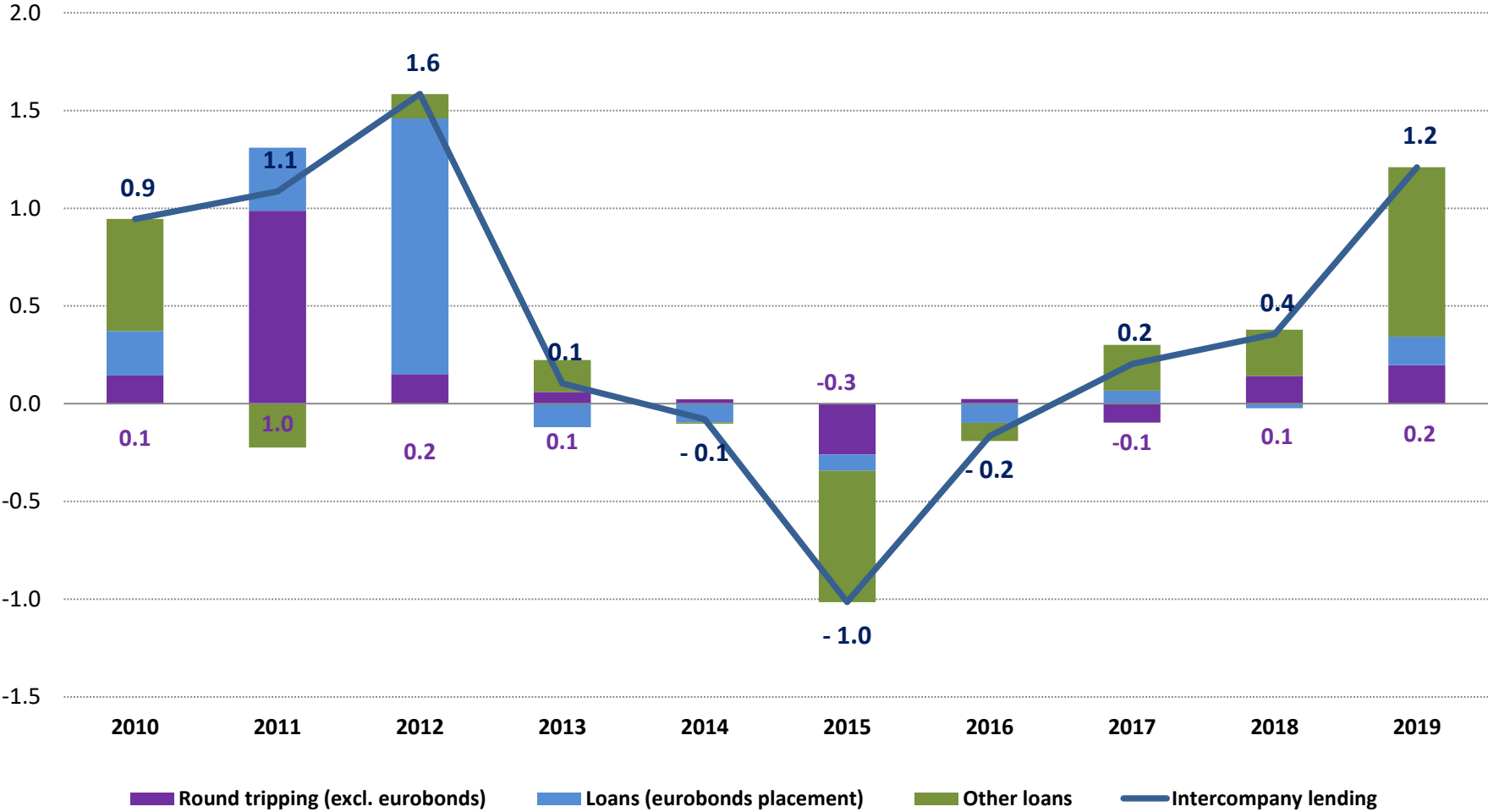


FDI in real sector, billion USD



In 2010-2012 net inflow on loans from direct investors was mainly due to *round tripping* transactions*

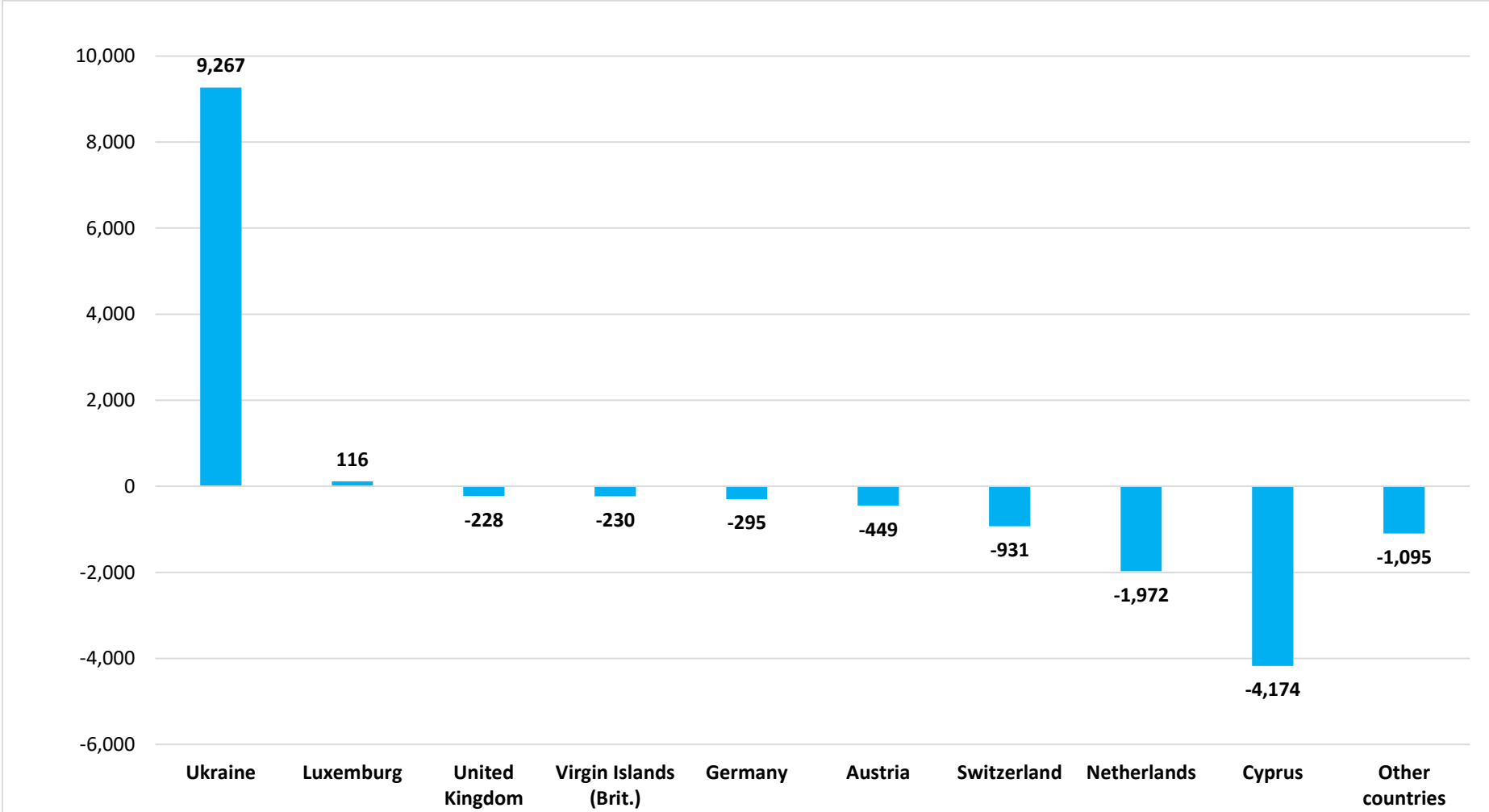
Intercompany lending, other sectors, billion USD



* Include loans financed through Eurobond placement

Round tripping transactions were routed mainly through Cyprus, Netherlands, Switzerland and Austria

Redistribution of FDI inflow for 2010-2019 by ultimate investing countries (vs immediate investment countries), million USD





Appendix

Estimates of *round tripping* transactions for 2010-2019

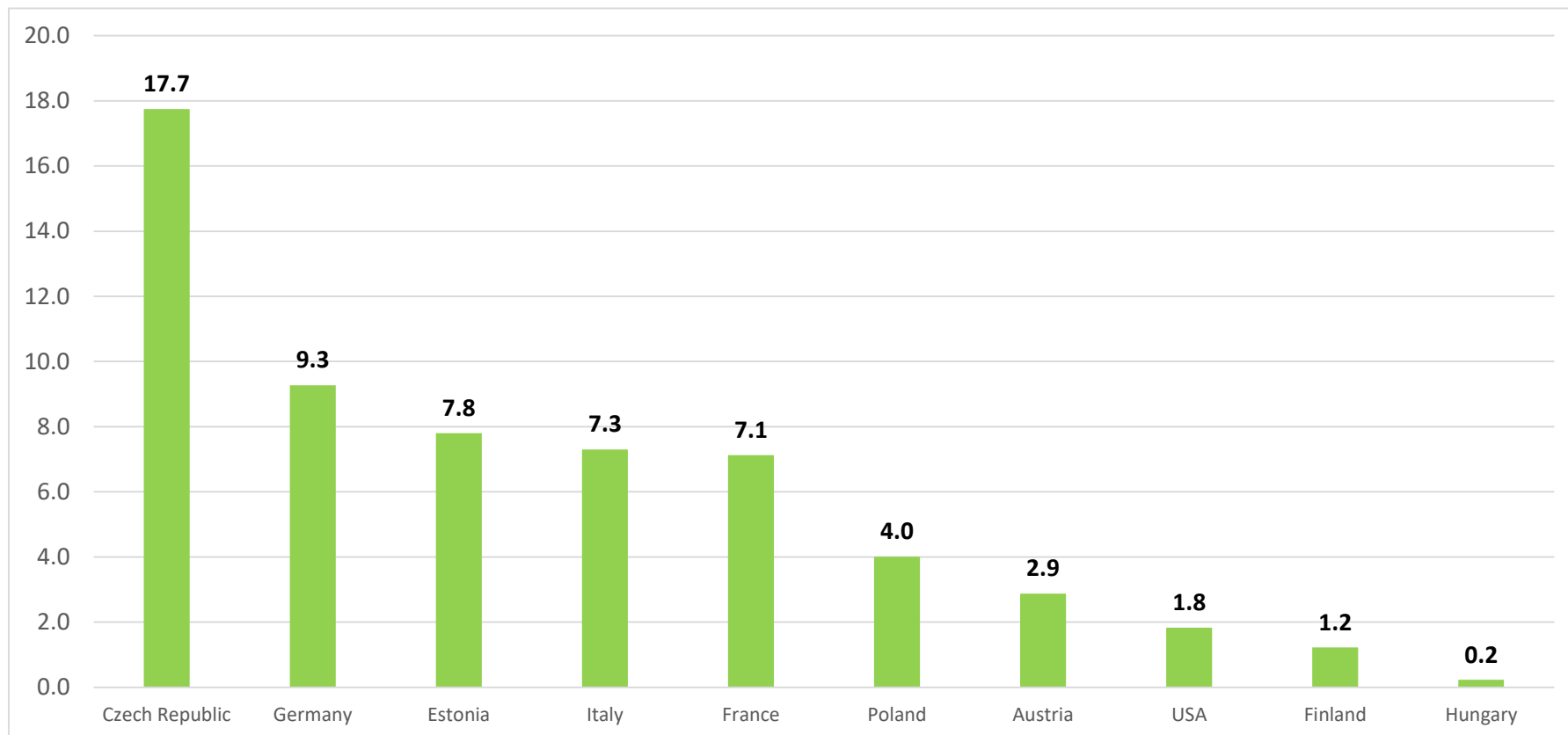
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
FOREIGN DIRECT INVESTMENT in UKRAINE (without reinvestment of earnings) (1.+2.) \$ mln	6 495	7 207	8 401	4 499	410	2 961	3 284	2 202	1 858	2 610
banks	2 039	1 529	475	469	499	2 384	2 257	635	477	173
other sectors	4 456	5 678	7 926	4 030	-89	577	1 027	1 567	1 381	1 381
Round tripping, \$ mln	1 296	3 429	2 908	1 055	-1 038	-162	134	270	419	956
banks	13	883	71	0	49	99	139	54	40	26
other sectors	1 283	2 546	2 837	1 055	-1 087	-261	-5	216	379	930
<i>Round tripping, % of total value</i>	20,0	47,6	34,6	23,5	–	–	4,1	12,3	22,6	36,6
<i>banks</i>	0,6	57,8	14,9	0,0	9,8	4,1	6,2	8,5	8,4	15,0
<i>other sectors</i>	28,8	44,8	35,8	26,2	–	–	–	13,8	27,4	38,2

Estimates of *round tripping* transactions for 2010-2019 by instruments

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Equity other than reinvestment of earnings	5 550	6 121	6 248	3 668	712	4 003	3 550	1 535	1 472	1 659
banks	2 039	1 529	475	469	499	2 384	2 257	635	477	173
other sectors	3 511	4 592	5 773	3 199	213	1 619	1 293	900	995	1 486
Round tripping, \$ mln	924	2 119	1 448	1 116	-965	181	208	299	300	614
banks	13	883	71	0	49	99	139	54	40	26
other sectors	911	1 236	1 377	1 116	-1 014	82	69	245	260	588
<i>Round tripping, % of total value</i>	16,6	34,6	23,2	30,4	–	4,5	5,9	19,5	20,4	37
<i>banks</i>	<i>0,6</i>	<i>57,8</i>	<i>14,9</i>	<i>0,0</i>	<i>9,8</i>	<i>4,1</i>	<i>6,2</i>	<i>8,5</i>	<i>8,4</i>	<i>15,0</i>
<i>other sectors</i>	<i>25,9</i>	<i>26,9</i>	<i>23,9</i>	<i>34,9</i>	<i>–</i>	<i>5,1</i>	<i>5,3</i>	<i>27,2</i>	<i>26,1</i>	<i>39,6</i>
2. Debt instruments	945	1 086	2 153	831	-302	-1 042	-266	667	386	951
<i>of which Intercompany lending</i>	945	1 086	1 585	103	-80	-1 015	-167	204	356	1 210
Round tripping*, \$ mln	372	1 310	1 460	-61	-73	-343	-74	-29	119	342
<i>Round tripping, % of total value</i>	39,4	–	92,1	–	91,1	33,8	44,4	–	33,4	28,3

* Include loans financed through Eurobond placement

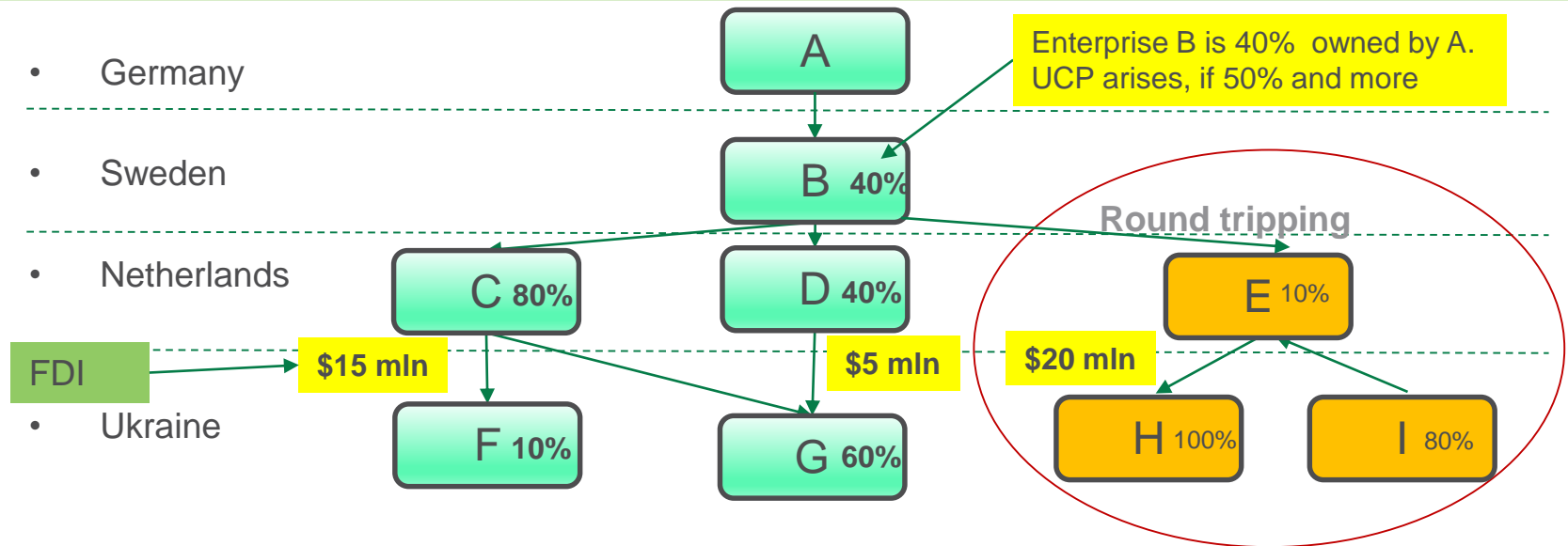
Share of *round-tripping* in inward FDI stocks in selected countries, %



Source: OECD FDI statistics database, FDI inward positions by partner countries (ultimate investor or ultimate host):

Germany, France, Estonia and Hungary – available data as of the end of Y2017;
Czech Republic, Italy, Poland, Austria, USA, Finland – as of the end of Y2018

An illustration of the reallocation of FDI positions to the ultimate investing country*



According to the standard presentation by country (on an immediate investor basis Ukraine would show \$40 mln (15+5+20) of inward FDI positions from Netherlands. According to the supplemental presentation of inward positions by UIC (Ultimate investing country) :

\$15 mln investment from C into F would be relocated to Sweden, as enterprise B is the ultimate investor in enterprise F (as the UCP of enterprise C);

\$5 mln investment from D into G would remain allocated to Netherlands as enterprise D is the ultimate investor in enterprise G (no enterprise exerts control over enterprise D, so enterprise D is its own UCP);

\$20 mln investment from E into H would be reallocated to Ukraine as enterprise I is the ultimate investor in enterprise H (as the UCP of enterprise E). It is **Round tripping**.

! Redistribution of investments by country UCP does not lead to a change in the total amount of FDI.



* OECD benchmark definition of foreign direct investment: fourth edition – OECD 2008, Annex 10