



National Bank  
of Ukraine

# Estimation of round tripping transactions for 2010-2020

National Bank of Ukraine  
Statistics and Reporting Department

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## Core points

### Purpose

The 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.

The 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 – Y2020.



An investor (company or individual) is considered to be the **ultimate control investor (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.

## Core points

### Results

- Volume of *round tripping* transactions (where UCP is resident) during 2010 – 2020 were estimated at \$9.5 billion, representing 23.5% of direct investment inflow\* (\$40.4 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 - 2019 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 – 36.6% .
- In 2020 volume of *round tripping* transactions estimated at \$0.2 billion or 50.8% of FDI net inflow (95.2% 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

- Data of 1PX, 2PX files «Bank/enterprise data on financial transactions with nonresident» for determining the FDI inflows in form of cash;
- Data on FDI loans obtained from nonresidents (file 4PX);
- Official web-sites of relevant enterprises on ownership structure;
- Information on relevant enterprises' ultimate controlling parent (UCP);
- the Ministry of Justice of Ukraine web-site: unified state register of legal entities, individual entrepreneurs and community groups;
- Enterprise`s annual reports, financial statements;
- NBU` information on the ownership structure of Ukrainian banks.

## 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

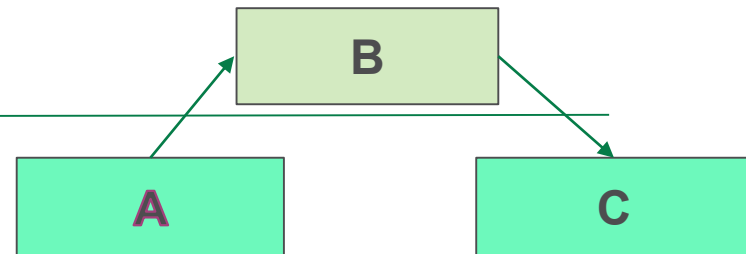
# Incentives for *round tripping*

## 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

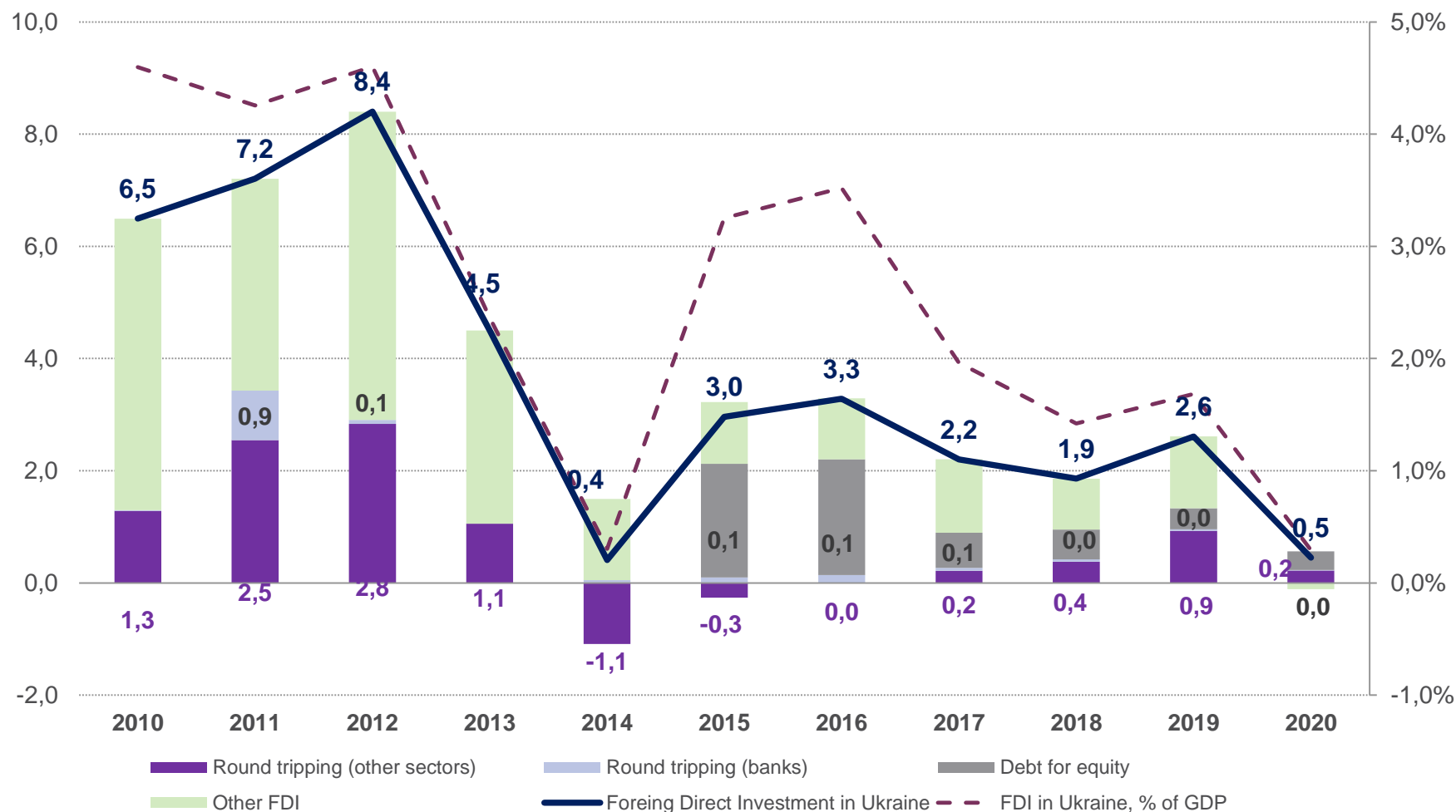


## Main incentives

- 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 2010-2020

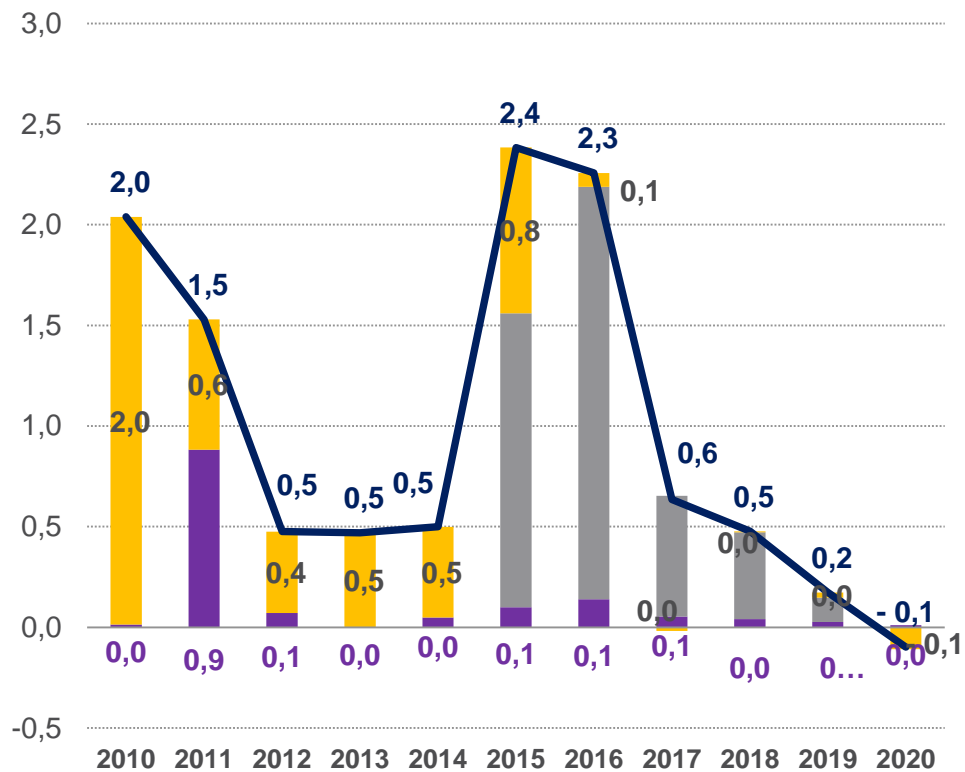
Foreign Direct investments in Ukraine\*, billion USD



\* Without reinvestment of earnings

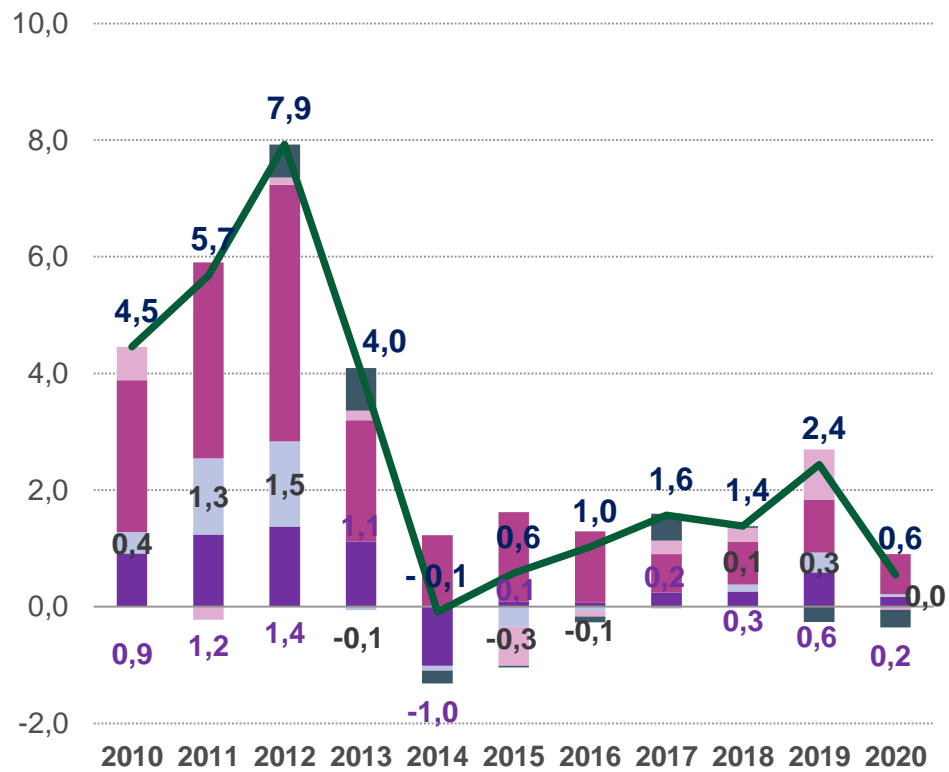
# The largest volume of *round tripping* transactions were observed in real sector ( in average 27% of FDI inflow)

FDI in banking sector, billion USD



- Other FDI
- Debt for equity
- Round tripping
- Foreign Direct Investment in banking sector (total)

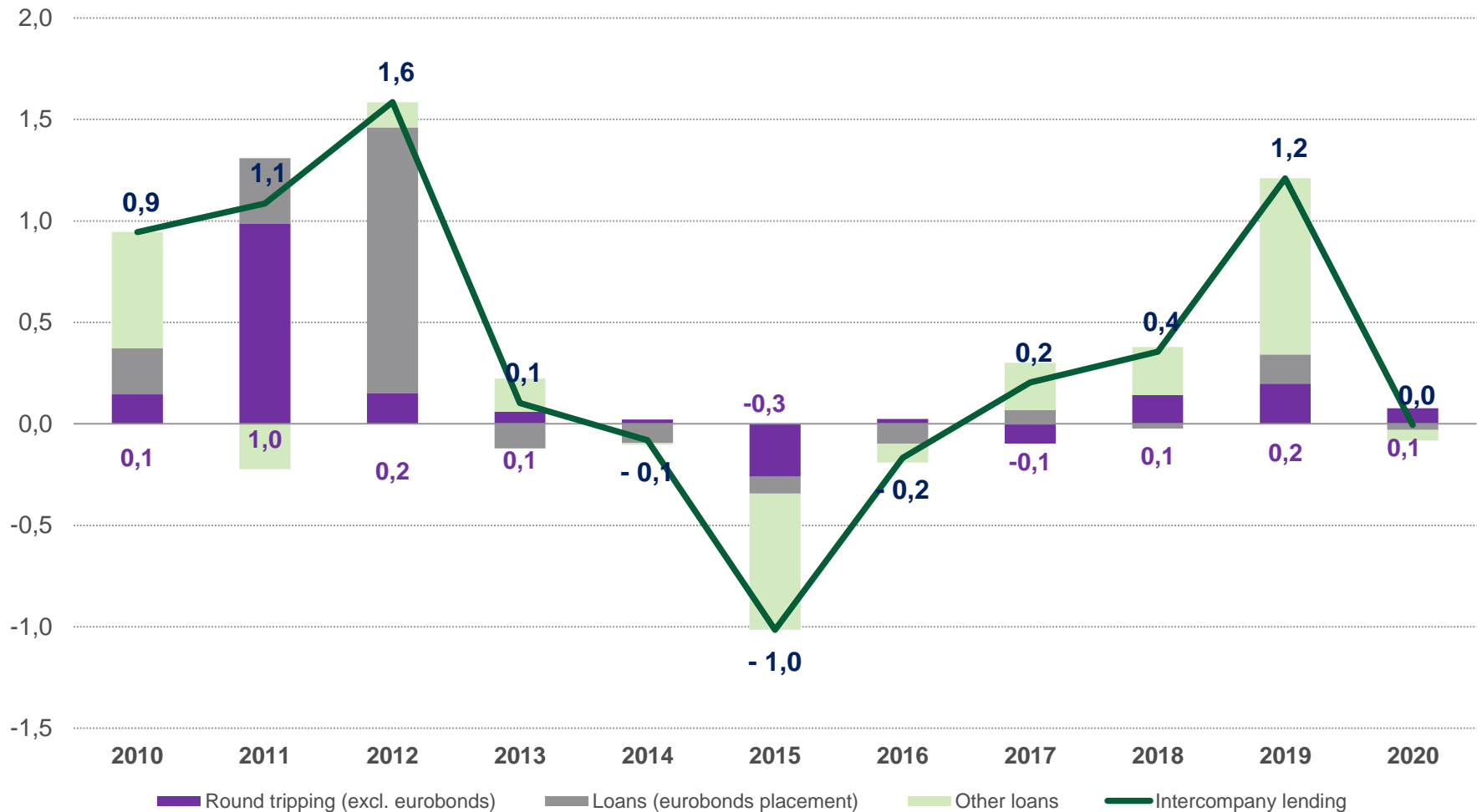
FDI in real sector, billion USD



- Trade credits
- Intercompany lending
- Equity
- Round tripping (intercompany lending)
- Round tripping (equity)
- Foreign Direct Investment in real sector (total)

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

Intercompany lending, other sectors, billion USD

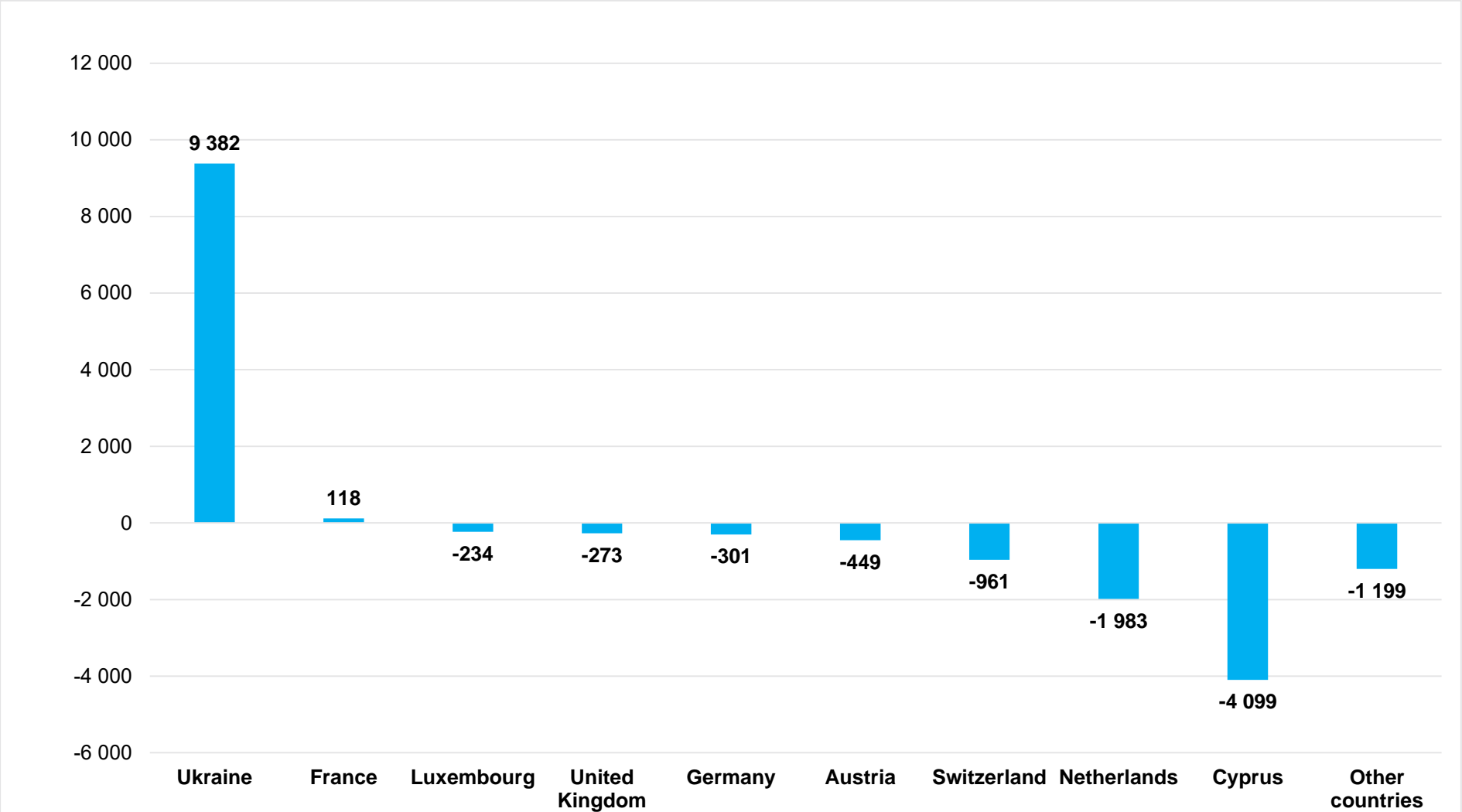


\* Include loans financed through Eurobond placement



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

Redistribution of FDI inflow for 2010-2020 by ultimate investing countries





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# *Appendix*

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## Estimates of *round tripping* transactions for 2010-2020

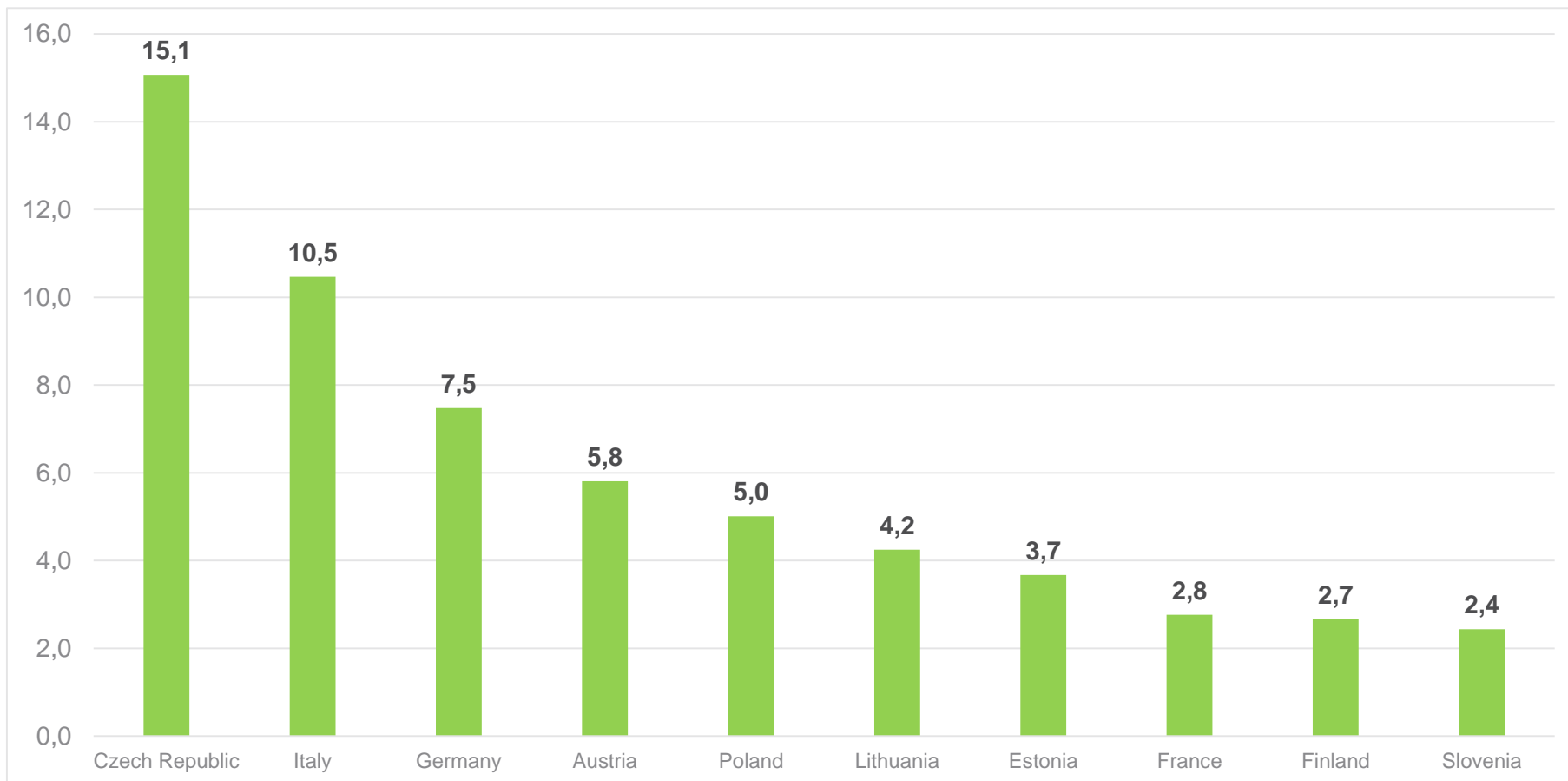
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>FOREIGN DIRECT INVESTMENT in UKRAINE (without reinvestment of earnings) (1.+2.) \$ mln</b>	6 495	7 207	8 401	4 499	410	2 961	3 284	2 202	1 858	2 610	453
banks	2 039	1 529	475	469	499	2 384	2 257	635	477	173	-98
other sectors	4 456	5 678	7 926	4 030	-89	577	1 027	1 567	1 381	1 381	551
<b>Round tripping, \$ mln</b>	1 296	3 429	2 908	1 055	-1 038	-162	134	270	419	956	230
banks	13	883	71	0	49	99	139	54	40	26	11
other sectors	1 283	2 546	2 837	1 055	-1 087	-261	-5	216	379	930	219
<b><i>Round tripping, % of total value</i></b>	20,0	47,6	34,6	23,5	–	–	4,1	12,3	22,6	36,6	50,8
<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	39,7

## Estimates of *round tripping* transactions for 2010-2020 by instruments

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>1. Equity other than reinvestment of earnings (without reinvestment of earnings)</b>	<b>5 550</b>	<b>6 121</b>	<b>6 248</b>	<b>3 668</b>	<b>712</b>	<b>4 003</b>	<b>3 550</b>	<b>1 535</b>	<b>1 472</b>	<b>1 659</b>	<b>760</b>
banks	2 039	1 529	475	469	499	2 384	2 257	635	477	173	-98
other sectors	3 511	4 592	5 773	3 199	213	1 619	1 293	900	995	1 486	858
<b>Round tripping, \$ mln</b>	<b>924</b>	<b>2 119</b>	<b>1 448</b>	<b>1 116</b>	<b>-965</b>	<b>181</b>	<b>208</b>	<b>299</b>	<b>300</b>	<b>614</b>	<b>183</b>
banks	13	883	71	0	49	99	139	54	40	26	11
other sectors	911	1 236	1 377	1 116	-1 014	82	69	245	260	588	172
<b><i>Round tripping, % of total value</i></b>	<b>16,6</b>	<b>34,6</b>	<b>23,2</b>	<b>30,4</b>	<b>–</b>	<b>4,5</b>	<b>5,9</b>	<b>19,5</b>	<b>20,4</b>	<b>37</b>	<b>24</b>
banks	0,6	57,8	14,9	0,0	9,8	4,1	6,2	8,5	8,4	15,0	-
other sectors	25,9	26,9	23,9	34,9	–	5,1	5,3	27,2	26,1	39,6	20
<b>2. Debt instruments</b>	<b>945</b>	<b>1 086</b>	<b>2 153</b>	<b>831</b>	<b>-302</b>	<b>-1 042</b>	<b>-266</b>	<b>667</b>	<b>386</b>	<b>951</b>	<b>-307</b>
<i>of which</i> Intercompany lending	945	1 086	1 585	103	-80	-1 015	-167	204	356	1 210	-6
<b>Round tripping*, \$ mln</b>	<b>372</b>	<b>1 310</b>	<b>1 460</b>	<b>-61</b>	<b>-73</b>	<b>-343</b>	<b>-74</b>	<b>-29</b>	<b>119</b>	<b>342</b>	<b>47</b>
<b><i>Round tripping, % of total value</i></b>	<b>39,4</b>	<b>–</b>	<b>92,1</b>	<b>–</b>	<b>91,1</b>	<b>33,8</b>	<b>44,4</b>	<b>–</b>	<b>33,4</b>	<b>28,3</b>	<b>-</b>

\* Include loans financed through Eurobond placement

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

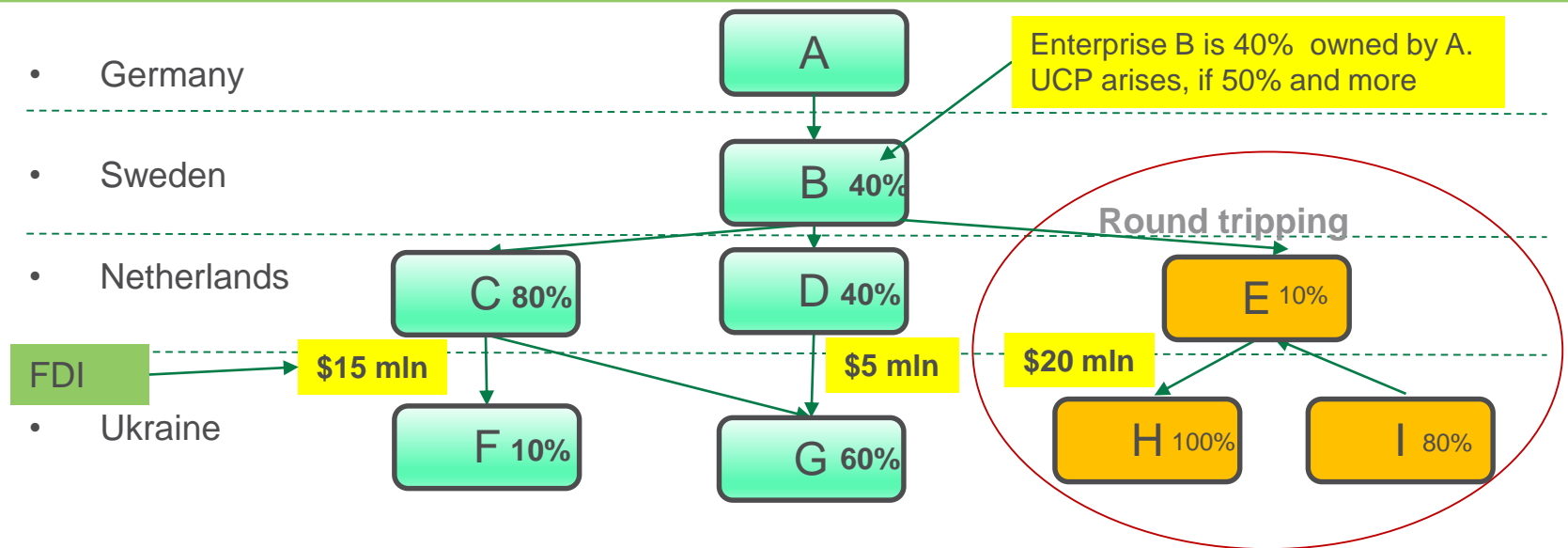


Source: OECD FDI statistics database, FDI inward positions by partner countries (ultimate investor or ultimate host):

Germany and France – available data as of the end of Y2018;

Czech Republic, Italy, Austria, Poland, Lithuania, Estonia, Finland and Slovenia – as of the end of Y2019.

# 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