



National Bank
of Ukraine

Estimation of round tripping transactions for 2010-2023

National Bank of Ukraine
Statistics and Reporting Department
2024



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 – Y2023.



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 – 2023 were estimated at \$10.9 billion, representing 24.3% of the FDI inflow in Ukraine* (\$44.9 billion).
- The biggest volume of *round tripping* transactions were registered during 2010 – 2013 on average at the level of 32.7% of the total volume of FDI, and 89% of such investments were directed to enterprises of the real sector.
- In 2014 – 2015 there was net outflow of funds from Ukraine due to *round tripping* transactions which is connected with political changes in the country, as well as the beginning of hostilities in the East.
- From 2016 to 2021, there was a gradual increase in the net inflow of funds under *round tripping* transactions from 3.8% in 2016 to 68.5% in 2021 of the FDI inflow.
- In 2022, net outflow of funds from these transactions (-0.6 billion US dollars) was associated with the beginning of the full-scale invasion of Russian troops into Ukraine in February 2022, which sharply complicated the economic situation in the country and critically reduced its investment attractiveness.
- In 2023, the main foreign investors in the corporate segment were companies that already had facilities in Ukraine at the time of the full-scale invasion of the Russian Federation. The net inflow of FDI in Ukraine in 2023 amounted to \$1.1 billion, and at the same time there was an increase in the volume of *round tripping* transactions to the level of \$0.4 billion (38.1% of FDI inflow to Ukraine in 2023).
- The largest volumes of *round tripping* transactions were routed through Cyprus, Netherlands, Switzerland and Austria.



* - excluding the 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

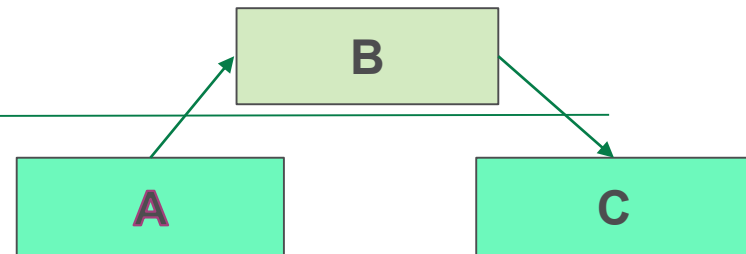
Incentives for *round tripping*

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

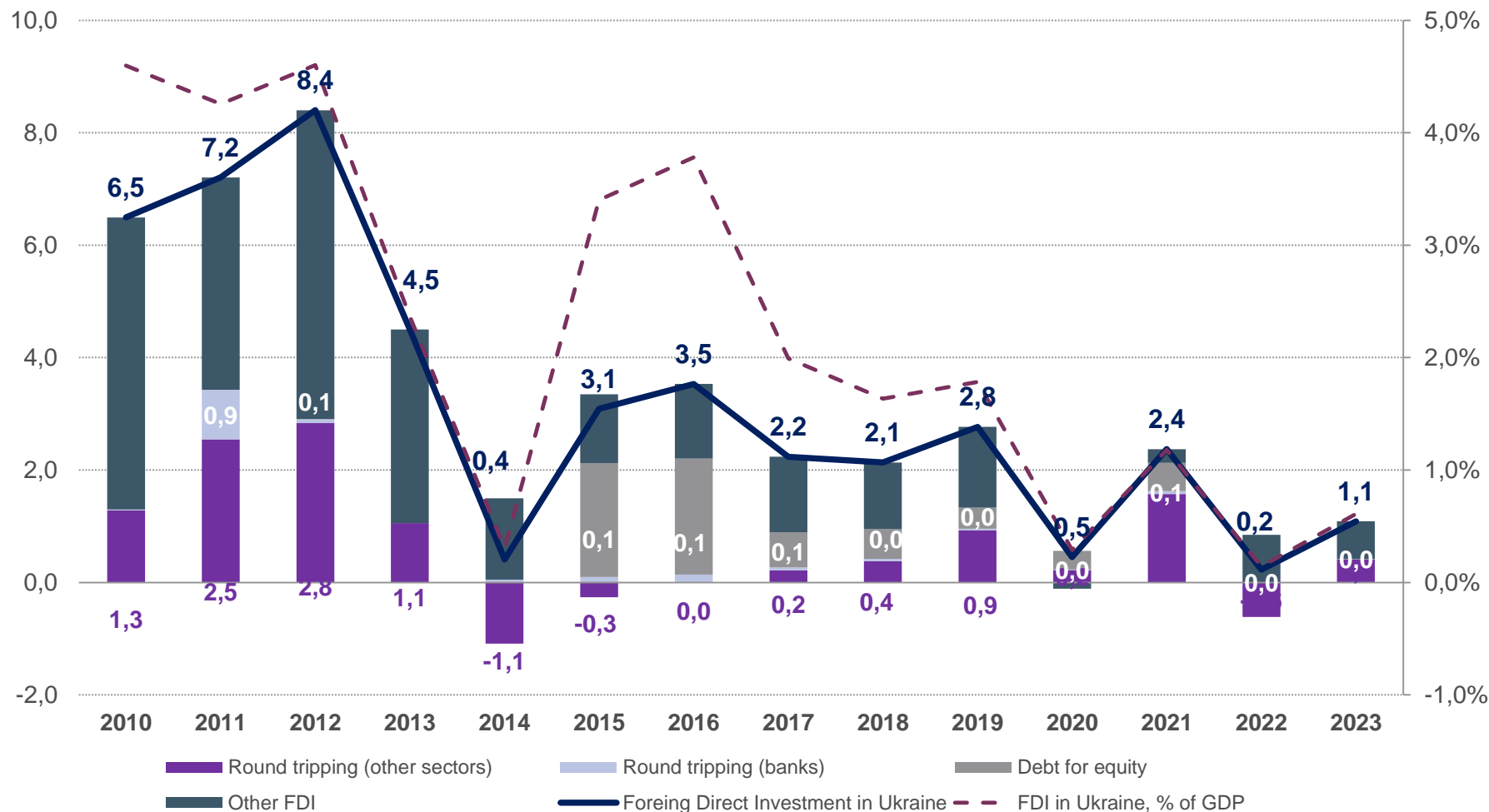


Main incentives

- 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 2010-2023

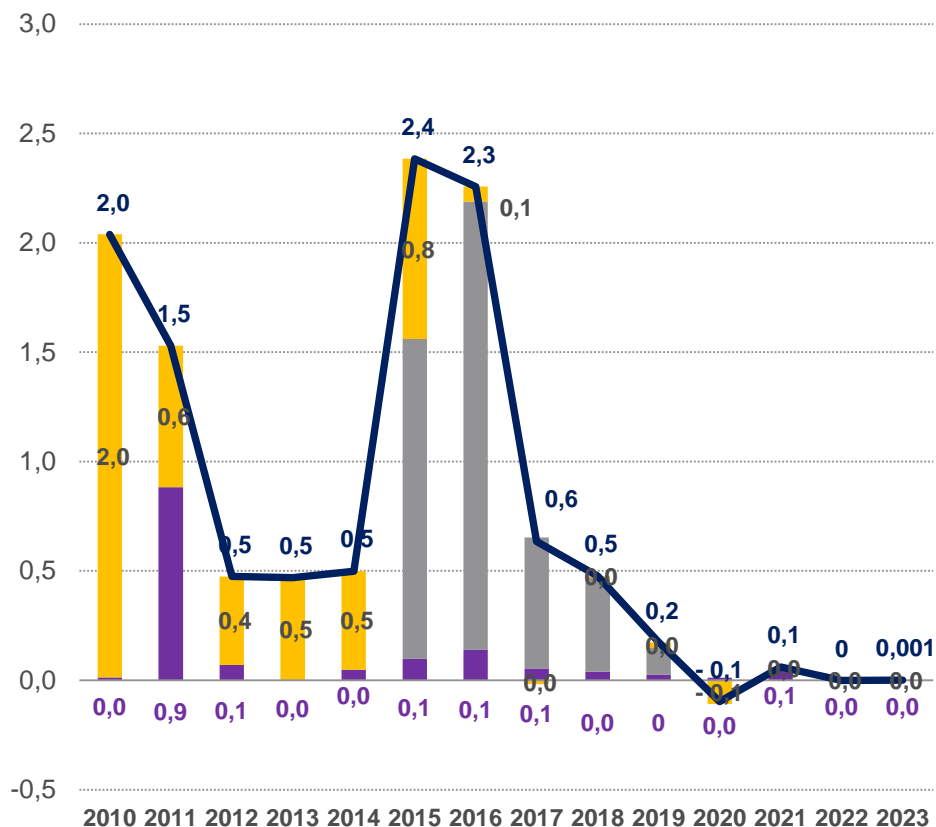
Foreign Direct Investments in Ukraine*, billion USD



* - excluding the reinvestment of earnings

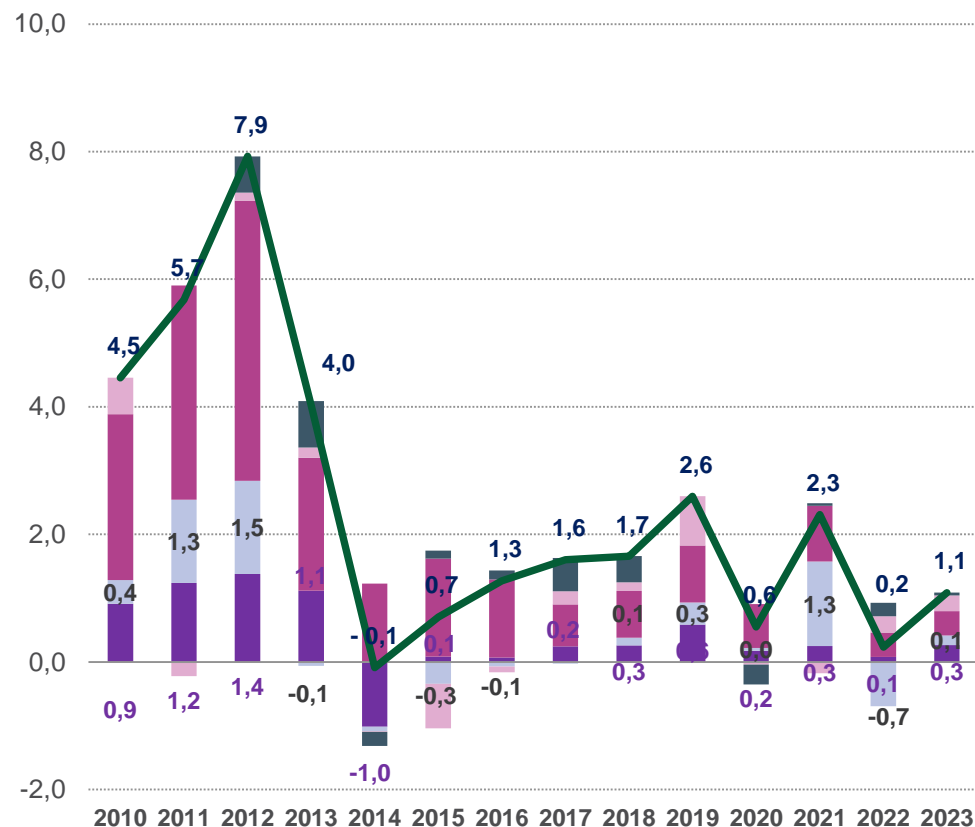
The largest volume of *round tripping* transactions were observed in real sector (in average 28% of FDI inflow)

FDI in banking sector, billion USD



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

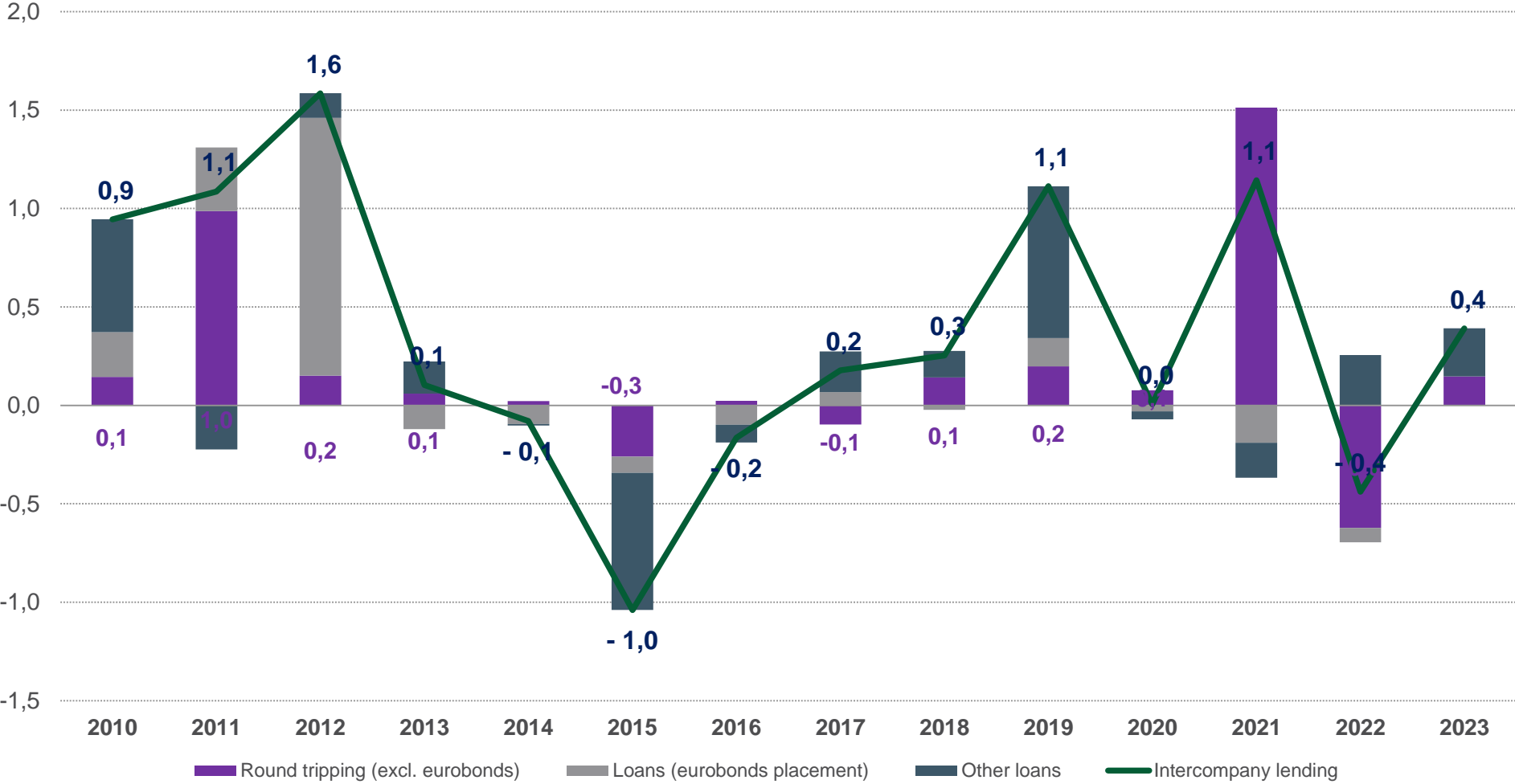
FDI in real sector, billion USD



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

In 2010-2012 and in 2019, 2021, 2023 net inflow on loans from direct investors was formed mainly due to *round tripping* transactions

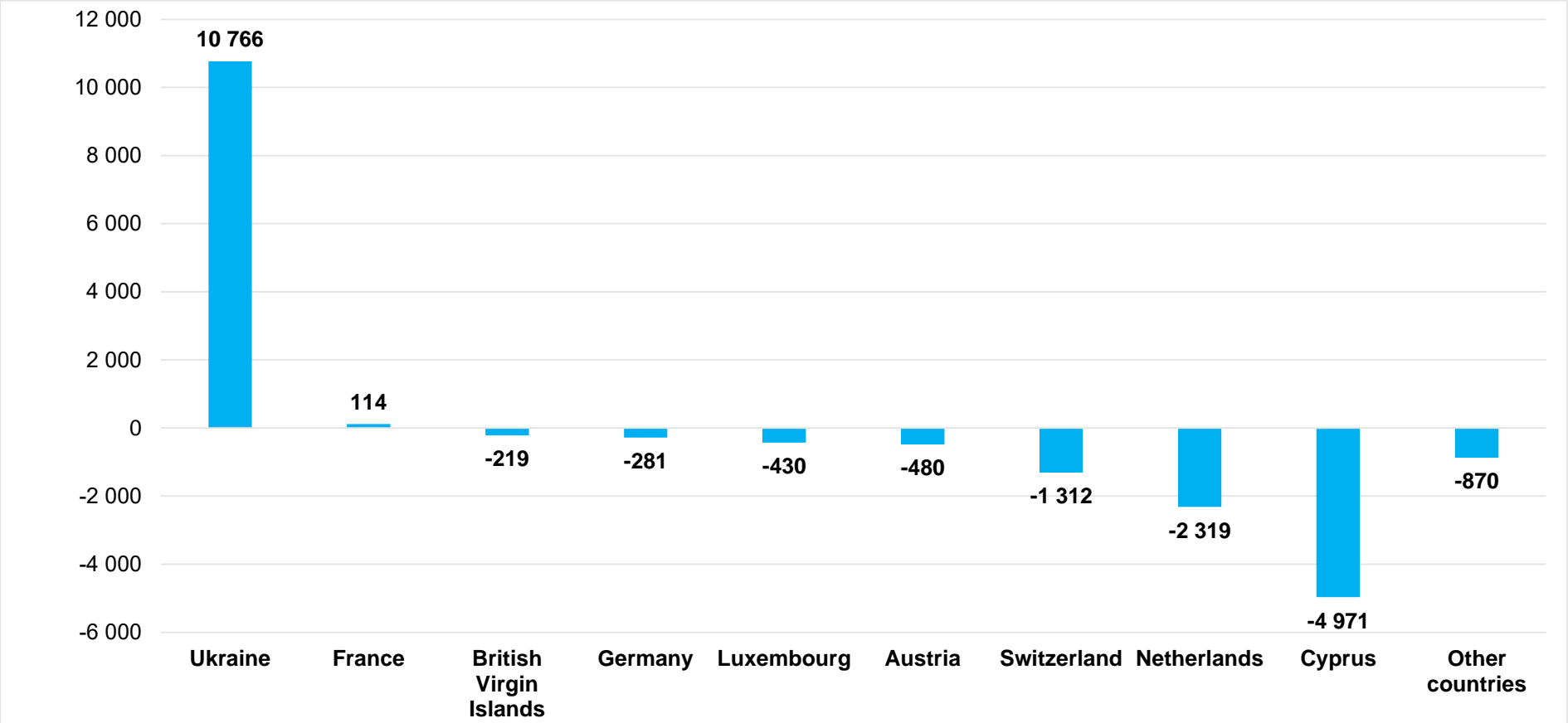
Intercompany lending, other sectors, billion USD



* - include loans financed through Eurobond placement

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

Redistribution of FDI inflow for 2010-2023 by ultimate investing countries (vs immediate investment countries), million USD





Appendix

Estimates of *round tripping* transactions

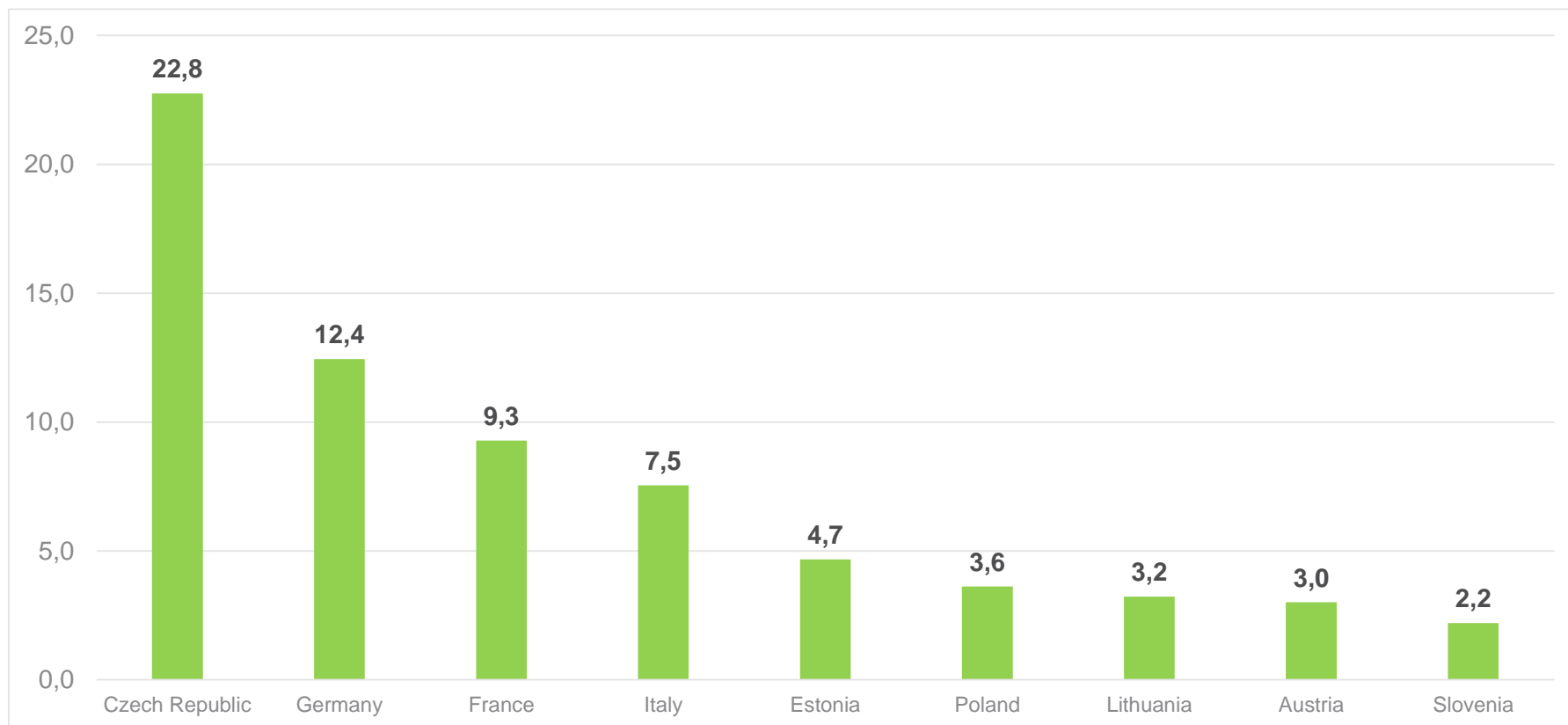
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
FOREIGN DIRECT INVESTMENT in UKRAINE (without reinvestment of earnings) (1.+2.) \$ mln	6 495	7 207	8 401	4 499	410	3 088	3 529	2 237	2 135	2 767	452	2 371	208	1 087
banks	2 039	1 529	475	469	499	2 384	2 257	635	477	173	-98	61	-1	1
other sectors	4 456	5 678	7 926	4 030	-89	704	1 272	1 602	1 658	2 594	550	2 310	209	1 086
Round tripping, \$ mln	1 296	3 429	2 908	1 055	-1 038	-162	134	270	419	956	230	1 623	-615	414
banks	13	883	71	0	49	99	139	54	40	26	11	50	0	1
other sectors	1 283	2 546	2 837	1 055	-1 087	-261	-5	216	379	930	219	1 573	-615	413
<i>Round tripping, % of total value</i>	20	48	35	23	-	-	3,8	12,1	19,6	34,6	50,9	68,5	-	38
<i>banks</i>	1	58	15	0	10	4	6	8	8	15	-11	82	0	100
<i>other sectors</i>	29	45	36	26	-	-	-	13	23	36	40	68	-	38

Estimates of *round tripping* transactions by instruments

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1. Equity other than reinvestment of earnings, \$ mln	5 550	6 121	6 248	3 668	712	4 003	3 550	1 535	1 472	1 659	760	1 186	439	651
banks	2 039	1 529	475	469	499	2 384	2 257	635	477	173	-98	61	-1	1
other sectors	3 511	4 592	5 773	3 199	213	1 619	1 293	900	995	1 486	858	1 125	440	650
Round tripping, \$ mln	924	2 119	1 448	1 116	-965	181	208	299	300	614	183	301	80	267
banks	13	883	71	0	49	99	139	54	40	26	11	50	0	1
other sectors	911	1 236	1 377	1 116	-1 014	82	69	245	260	588	172	251	80	266
Round tripping, % of total value	17	35	23	30	-	5	6	19	20	37	24	25	17	41
banks	1	58	15	0	10	4	6	8	8	15	-	82	0	100
other sectors	26	27	24	35	-	5	5	27	26	40	20	22	17	41
2. Debt instruments, \$ mln	945	1 086	2 153	831	-302	-915	-21	702	663	1 108	-308	1 185	-231	436
<i>of which</i> Intercompany lending	945	1 086	1 585	103	-80	-1 039	-164	178	254	1 113	6	1 144	-439	391
Round tripping*, \$ mln	372	1 310	1 460	-61	-73	-343	-74	-29	119	342	47	1 322	-	147
Round tripping, % of total value	39	1,2 times	92	-	91	33	45	-	47	31	7,8 times	1,2 times	1,6 times	38

* - include loans financed through Eurobond placement

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

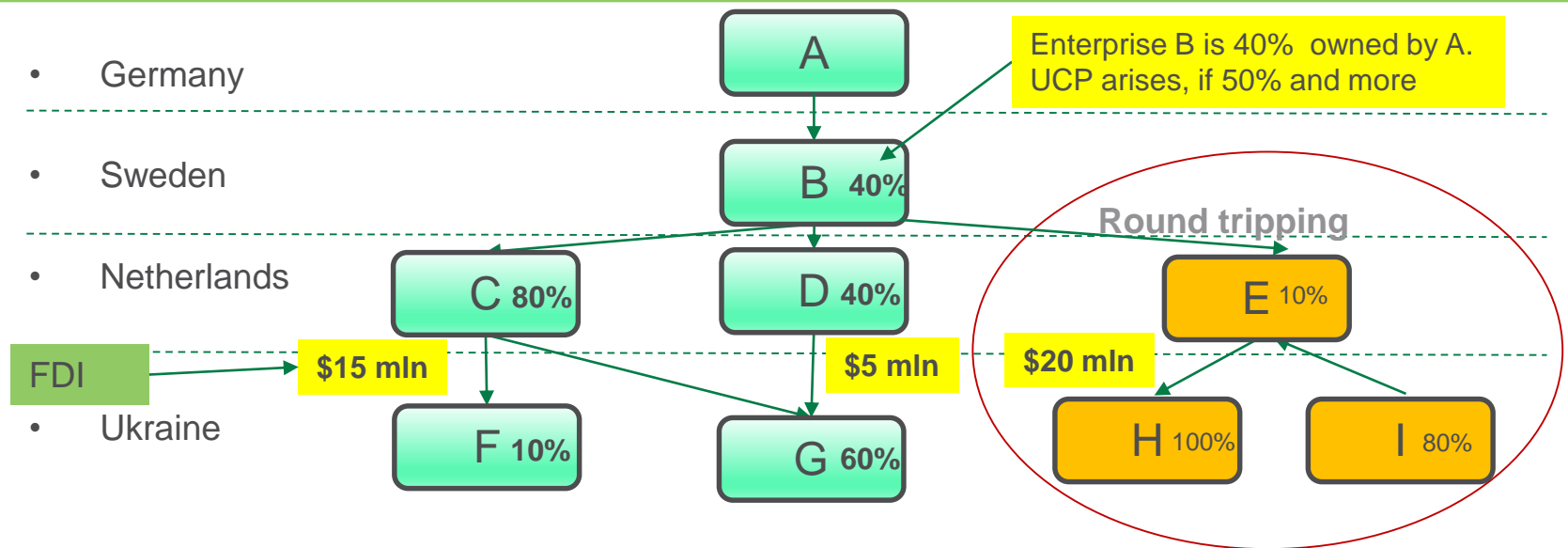


Source: OECD FDI statistics database, FDI inward positions by partner countries (ultimate investor or ultimate host):

Germany – available data as of the end of Y2021;

Czech Republic, France, Italy, Estonia, Poland, Lithuania, Austria and Slovenia – as of the end of Y2022.

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