

CENSUS OF FOREIGN CAPITAL IN BRAZIL – 2012 RESULTS

Introduction and methodology

The Census of Foreign Capital in Brazil (Census) has been carried out since 1996 by the Brazilian Central Bank in compliance with Law no. 4,131/1962. Its major purpose is to measure the stock of Foreign Direct Investments (FDI) in the country on December 31 of each base-year, i.e. the fiscal year before the survey's reference year.

Together with foreign assets statistics compiled through the Brazilian Capital Abroad (CBE) research, the results obtained through the Census allow the calculation of the International Investment Position (IIP), which, associated with the balance of payments, compose of the key statistics concerning the Brazilian foreign sector. All the aforementioned statistics are mandatory for countries participating in the Special Data Dissemination System (SDDS), an initiative of the International Monetary Fund (IMF) aimed to enhance the disclosure and transparency of economic data. Furthermore, data collected through Census allows the country to participate in the Coordinated Direct Investment Survey (CDIS), which is carried out annually by the IMF with the purpose of measuring global FDI stocks and their distribution by investing and recipient countries.

Collection of information and compilation of results regarding FDI stocks in the Census 2013, base-year 2012, followed the guidelines of the IMF Balance of Payments and International Investment Position Manual 6th edition (BPM6) and the Organization for Economic Co-operation and Development (OECD) Benchmark Definition of Foreign Direct Investment 4th edition (BD4). According to BPM6, direct investment arises when a non-resident investor owns equity that entitles it to 10% or more of the voting power in direct investment enterprises' deliberative sessions and managers' elections. The credit relationship between a direct investor and a direct investment company is classified as FDI stock under the modality of intercompany loan. Credit operations between enterprises both controlled by a single investor, the so-called fellow enterprises, are also classified as FDI stock under the modality of intercompany loan.

In the period between 1996 and 2006, the Census was carried out every five years, and compulsory declaration included: (i) companies recipient of foreign credits and (ii) companies recipient of direct or indirect foreign investments, with direct or indirect non-resident participation in the company's equity capital of at least 10% of shares or quotas representing voting power, or, at least, 20% of total paid-in capital.

As of 2011, the Census was split into two surveys: the Quinquennial Census and the Annual Census, the latter targeted to large enterprises. Chief methodology updating comprises the (i) adoption of market value as a criterion for the valuation of direct investment enterprises, because it is a more reliable indicator of an enterprise's value in the case of eventual sale. This is the reason why the market value is the preferential criterion adopted in foreign accounts methodological guidelines. In the event that market value cannot be measured, it is replaced by the enterprise's net worth; and (ii) the identification of both immediate and ultimate investors. Finally, enterprises headquartered in Brazil were allowed to respond the Census by consolidating information on their controlled companies also operating in the country. This procedure helped to rationalize the survey, thus reducing the cost of compliance and the number of respondents.

In the Census 2013, base-year 2012, mandatory declaration included: (i) companies headquartered in Brazil, recipient of short-term trade credits (with terms up to 360 days) granted by non-residents, with outstanding value, on 12.31.2012, equal or exceeding US\$10 million; and (ii) enterprises – including investment funds – with direct non-resident participation in the equity capital, in any amount, where the net worth equals or exceeds US\$100 million.

Results

Drawn from a sample, the Census 2013 base-year 2012 registered 2,398 respondents. The declared stock of FDI - equity capital amounted to US\$534 billion. By expanding the collected sample, the total stock of FDI - equity capital was increased by US\$83.4 billion, totaling US\$617.4 billion, equivalent to 27.5% of GDP. Data directly collected through the survey accounted for 86% of the FDI - equity capital, and the remainder 14% were obtained through the expansion process. Since the stock of FDI - intercompany loans reached US\$119.9 billion, the total FDI stock in December 2012 added up US\$737.3 billion, 6.4% up from the December 2011 position.

The variation between the stock of FDI - equity capital in 2011 and 2012 is explained by three factors: (i) net FDI - equity capital inflows; (ii) price changes of direct investment enterprises, and (iii) exchange rate changes. FDI - equity capital net inflows, as registered in the balance of payments, totaled US\$52.7 billion in 2012. The estimated price changes of direct investment enterprises, calculated only for those enterprises that declared their market value on both surveys, added up US\$16.6 billion. In 2012, the nominal exchange rate depreciation, calculated in terms of end-of-period R\$/US\$ exchange rates, closed at 8.9%, thus reducing the stock of FDI - equity capital, measured at current US dollar, by US\$50.5 billion. Other factors explain the stock increase by US\$8 billion.

The valuation of enterprises at market value added up US\$237.5 billion, 38.5% of total declared FDI - equity capital, of which US\$151.6 billion referred to enterprises listed on a stock exchange, and US\$39 billion to investment funds. For those companies that declared both their market value and net worth, the valuation according to market value corresponded to an increase of US\$89.9 billion in the stock of FDI - equity capital compared to the valuation according to net worth.

The stock of FDI - equity capital was distributed by country of non-resident investors according to the criteria of immediate investor and ultimate investor. The distinction between immediate investor and ultimate investor aims to minimize distortions caused by tax havens and financial centers. The criterion of ultimate investor takes into account the investor country on the basis of the control chain underlying the economic group.

In 2012, according to the criterion of immediate investor, the Netherlands were the major investor country in Brazil under the FDI - equity capital modality, with a stock of US\$183.4 billion, or 29.7% of the total. Dutch investments were concentrated on the manufacturing industry, US\$128.2 billion, and financial activities, insurance and related services, US\$18.6 billion. As immediate investor, the United States responded for US\$97.8 billion, or 15.8% of total stocks, mostly on financial activities, insurance and related services, extractive and manufacturing industries, with respective stocks of US\$35.8 billion, US\$21.4 billion and US\$11.5 billion. Spain was the third largest immediate investor in 2012, with US\$74.6 billion, 12.1% of the total, highlighting investments on information and communications, manufacturing industries, and financial activities, insurance and related services, totaling, respectively, US\$20.2 billion, US\$15.5 billion and US\$12.9 billion.

According to the criterion of ultimate investor, the stock of FDI - equity capital of the Netherlands totaled US\$13.3 billion. Luxembourg and Cayman Islands, with a jointly stock of US\$45.8 billion according to the criterion of immediate investor, added up US\$19.9 billion according to the criterion of ultimate investor.

According to the criterion of ultimate investor, the United States was the main FDI - equity capital investor, totaling US\$125.4 billion, or 20.3% of the total stock. U.S. investments were predominant on the manufacturing industry and financial activities, insurance and related services, totaling US\$48.1 billion and US\$41.1 billion, respectively. As ultimate investor, Spain was responsible for a FDI - equity capital stock of US\$71.3 billion, or 11.5% of the total, with emphasis on financial activities, insurance and related services, information and communication, and extractive industries, with respective stocks of US\$24.7 billion, US\$20.3 billion, and US\$10.9 billion. The third most important ultimate investor in 2012 was Belgium, with US\$70.7 billion, or 11.4% of the total, with emphasis on the manufacturing industry, US\$70.2 billion.

Statistics concerning the allocation of FDI total stocks by economic sectors were compiled according to the activity importance for the direct investment company's sales or profitability. Each enterprise or holding in Brazil is allowed to declare up to five economic activity sectors. The stock of FDI - equity capital in 2012 was mostly allocated in the sector of financial services and auxiliary activities, totaling US\$88.3 billion, 14.3% of the total, followed by the sector of beverages, US\$79 billion, 12.8%, and telecommunications, US\$48.7 billion, 7.9%. The remaining economic activity sectors are responsible, individually, by 6% or less of the total FDI stock.