

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD  
WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS**

**DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)**

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**BACKGROUND PAPER ISSUE 4**

**MERGERS AND ACQUISITIONS (M&As)**

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**Issues paper (DITEG) # 4 : Direct Investment :**  
**Transactions associated with Mergers and Acquisitions**

Movements in Tunisia's external accounts have increasingly reflected the impact of opening the Tunisian economy through a continued process of trade and exchange liberalization.

Tunisia's external policy over the last 10 years has been characterized by promoting exports and attracting foreign direct investment.

Measures and incentives were adopted to give impetus to exports as part of the national strategy to strengthen the economy's competitiveness in order to face the new context of trade globalisation and increased international competition. This new context will be intensified since trade protection has been removed and tariffs dismantled (establishment of a free trade zone with EU).

For FDI, the government has softened investment regulations for most sectors, offered fiscal incentives to investment, made the dinar convertible for current account transactions and guaranteed foreign investor's right to repatriate capital investments made in accordance with law.

Consequently, external account equilibrium has been ensured despite unfavorable international conditions over the last years and especially FDI has increased subsequently starting from the 1990's in particular after the signing up of the Association Agreement with the EU in 1995.

Since 1998, the privatization program has boosted FDI to high levels (cf figures in Appendix 1).

In effect direct investment inflows have been very influenced since this date by acquisitions of public enterprises by non-resident investors.

## **I – Current international standards for the statistical treatment of issue**

The IMF's balance of payments manual and the OECD benchmark definition of Foreign Direct Investment do not provide separate treatment of flows associated with merger and acquisition activity from other direct investment flows. Well the nature of this kind of transactions is quite different from other direct investment transactions.

## **II – Concerns/shortcomings of the current treatment**

First acquisitions transactions do not provide new financing for the firm as other investments.

However those transactions are included in the BOP and in the IIP of Tunisia because they are associated with changes in ownership of assets between residents (Public Sector) and non-residents (Private foreign investor). For the SNA breakdown between sectors is also observed with the decrease of Public Sector's stock investment and increase of foreign investment liabilities.

Secondly, while the original transactions in the host country (Tunisia) are considered as direct investment inflows and the firm as a branch which belongs to foreign direct investor, the financing of the acquisition, usually a big transaction, may give rise to some changes in the BOP of the investor's country recording the transactions in the heading portfolio or other investment instead of direct investment outflows. This change will introduce an asymmetry between BOP's statistics compiled in the two countries having FDI relationship under this kind of operations.

Third, analysis of FDI activity including acquisitions becomes less consistent because of the importance of such operations in the whole figures of FDI and their unsteadiness.

The fluctuations observed from one year to another are mainly due to those acquisitions and we often need for better analysis to have amounts of FDI including or excluding privatization proceeds.

Considering different possibilities of treatments and compilation done for such transactions, some other topics could be concerned such as FCS (Fully consolidated system) in the case of intermediation between investor and the direct investment company and the possibility that those transactions could not be covered. As a result gaps may occur between FDI statistics of different countries.

### **III - Possible alternative treatment**

In order to improve compilation of such operations and to have better analysis in the BOP and IIP, of both FDI inflows and outflows, it would be useful to extend FDI statistics to classification by category of FDI introducing specific standard direct investment presentation for «mergers and acquisitions».

Definitions and descriptions of those operations should be also developed to ensure more uniformity and treatment of FDI statistics across countries.

For some countries such as Tunisia, it is possible nowadays to detect and compile this kind of transactions because of the few number of operations, but when the number of acquisitions rises it will be better to separate those operations from other investment. It should be noted, however, that the recording of those operations in BOP as FDI inward takes into account the real price of the acquisitions negotiated between the two parties.

APPENDIX 1

**Foreign direct investment data 1994-2003**  
(Millions of dollars and number)

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
- FDI inward flows (Direct investment in the reporting economy)	535,9	322,6	279,6	365,3	668,1	367,9	778,8	486,4	821,3	583,9
- FDI outward flows (Direct investment abroad)	7,7	3,4	2,4	9,2	1,8	2,5	1,7	0,3	0,5	1,4
- FDI inward stock	9 918	10 967	11 181	10 629	12 237	11 432	11 545	11 667	14 061	16 567
- FDI outward stock	31	30	29	32	34	33	33	32	37	44
- Number of foreign affiliates located in economy	1 426	1 520	1 604	1 841	1 995	2 105	2 230	2 339	2 503	2 616
- Number of employees of foreign affiliates located in economy	132 355	143 031	153 268	166 315	178 745	189 903	204 555	215 299	222 905	232 064

**Exchange rates, 1994-2003**  
(National currency per United States dollar)

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Period average <sup>a</sup>	1,0116	0,9458	0,9734	1,1059	1,1387	1,1862	1,3707	1,4387	1,4217	1,2885
End-of-period <sup>b</sup>	0,9912	0,9508	0,9985	1,1475	1,1010	1,2525	1,3853	1,4683	1,3341	1,2083

<sup>a</sup> used for the conversion of FDI flows.

<sup>b</sup> used for the conversion of FDI stocks.

**Inwards Flows of Foreign Direct Investment by Beneficiary Sector (Liabilities)**

in Millions Dollars

Description	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
ENERGY	488,2	259,5	171,2	246,0	177,4	163,9	235,8	227,4	300,8	245,3
TOURISM AND REAL ESTATE	16,8	29,7	49,7	20,9	21,6	31,3	30,3	70,3	15,4	14,6
MANUFACTURING INDUSTRIES	13,8	25,6	50,8	77,7	460,1	166,5	501,8	174,4	179,7	219,5
OTHERS	17,2	7,8	7,9	20,8	9,0	6,1	10,9	14,3	325,4	104,5
<b>TOTAL FDI</b>	<b>535,9</b>	<b>322,6</b>	<b>279,6</b>	<b>365,3</b>	<b>668,1</b>	<b>367,9</b>	<b>778,8</b>	<b>486,4</b>	<b>821,3</b>	<b>583,9</b>
<b>M &amp; A</b>	-	-	-	-	359,2(1)	-	340,0(2)	44,5(3)	-	-
<b>FDI Excluding M&amp;A</b>	<b>535,9</b>	<b>322,6</b>	<b>279,6</b>	<b>365,3</b>	<b>308,9</b>	<b>367,9</b>	<b>438,8</b>	<b>441,9</b>	<b>821,3</b>	<b>583,9</b>

(1) Privatisation of two cement companies ( USD 359,2 )

(2) Privatisation of two cement companies ( TND 264 ) and a chemical company (USD 76 )

(3) The acquisition by non residents of a touristic unit ( USD 44,5 )

