

wiiw Database on | 2011 Foreign Direct Investment in Central, East and Southeast Europe

Introduction

FDI is an indispensable form of financing economic growth and a source of technology transfer in catching-up economies. The annual *wiiw Database on FDI* presentation and analysis of FDI flows and stocks in the former transition countries keeps track of the most important features of foreign investments in the region.

We included the most recent updates and backward revisions of data published by the central banks until mid of May 2011.

The database contains 5400 time series. Any improvements of data availability and data revisions for past years have been incorporated. The *wiiw Database on FDI 2011* is available in printed format and PDF as well as on CD-ROM. The latter version contains longer and additional time series and provides tables in HTML, CSV and MS Excel format. Detailed methodological guidelines enable the user to interpret the data correctly.

The *wiiw Database on FDI 2011* is the joint product of several wiiw specialists. Gábor Hunya developed the concept and prepared the analysis. Monika Schwarzhappel developed the database and the layout. Under her guidance, the wiiw statisticians Borianna Assenova, Beate Muck, Renate Prasch, Hana Rusková and Barbara Swierczek took care of the data compilation. Johannes Pöschl developed the CD-ROM software.

Methodological guidelines, definitions

Availability The *wiiw Database on Foreign Direct Investment* is available in printed format and PDF as well as on CD-ROM.

Content of the print and PDF versions:

- FDI total inflow/outflow in EUR, 2002-2010
- FDI total inward/outward stock in EUR, 2002-2010
- FDI per capita (flow, stock) and selected other reference parameters on FDI, 2002-2010
- FDI inflow/outflow by form in EUR, 2002-2010
- FDI income (inflow and outflow) in EUR, 2002-2010
- FDI inward/outward stock data by activity (NACE Rev. 1 / NACE Rev. 2 at 1- and 2-digit letter code respectively), 2006-2009 or 2007-2010
- FDI inward/outward stock data by country, 2006-2009 or 2007-2010

The CD-ROM version (tables in HTML, CSV and MS Excel format) of the database contains in addition:

- longer time series: from 1990 onwards (as far as available)
- a more detailed breakdown by industry (NACE Rev. 1 / NACE Rev. 2, 2-digit numeric code) for FDI inward/outward stock
- FDI inflow/outflow by activity (NACE Rev. 1 A-Q, DA-DN, 15-37 / NACE Rev. 2 A-U, CA-CM, 10-33) and by home/host country
- FDI stock by form

Currency The main data set is in euro, independently of the currency used by the source. If not published by the source, we converted flow data by the annual average exchange rate and stock data by the end-of-year exchange rate.

Data coverage Most of the countries in this database now follow the IMF definition and methodological guidelines on FDI. Deviations may occur when data do not cover all three forms of FDI (equity capital, reinvested earnings, other capital – see below). Information on data coverage is given in the ‘remarks’ following the individual tables. These remarks also call attention to the methodological changes over time, a basic problem in preparing time series.

Definition of foreign direct investment According to the IMF Balance of Payments Manual, Revision 5, foreign capital investment in a country is regarded as FDI if the share of a foreign investor makes up at least 10 per cent of the target firm’s equity capital; that

share can be as much as 100 per cent. The purpose of direct investment is to establish and maintain permanent equity relations with a foreign company and at the same time to exercise a noticeable influence on the management of that company. This latter condition is difficult to implement and it can be assumed that some portfolio investment of equity funds is registered as FDI.

**Foreign
direct
investment
income**

FDI-related incomes of non-residents are reported in the current account as outflows from the host country. Outward investors' earnings are booked as income inflows. The balance of payments statistics thus allocate FDI-related earnings according to the owner of the capital who generated the income. Foreign investment incomes fall under two categories: profits on equity investment and interest accrued on loans of the parent company to its foreign affiliate. As dividends and interest earnings are taxed differently, direct investors may choose between equity and loan as the form of FDI. In practice, the overwhelming part of FDI-related income is in the form of profits. FDI income outflows can either be reinvested in the host country or repatriated to the home country. Reinvested earnings add to the foreign direct investment inflow. When countries publish both detailed current account and capital account data, reinvested earnings can be deducted from the FDI income, which gives the amount of repatriated earnings.

**Distribution
of FDI by
host/home
country and
by economic
activity**

The home country is the investor's country of origin, the host country is the target country of investment. These data are available based on company surveys reporting FDI stocks published by the central banks usually with one year delay. In the absence of central bank data, we rely on 'registration data' obtained from the statistical offices (this was done in the case of Romania until 2006 and for Russia). The amount of FDI broken down by industry and investing country in Tables II may differ from the data in Tables I due to different coverage and source as indicated in footnotes.

Data for the breakdown by economic activities are in a transition period from NACE Rev. 1 to NACE Rev. 2. For analytical purposes and comparisons across countries we provide both classifications at the 1-digit level for the whole economy and at the 2-digit level for the manufacturing industry. The more detailed activity breakdown by NACE Rev. 2 may cause loss of information: some industries for which data were available under NACE Rev. 1 are confidential under the more detailed nomenclature and summed up in 'other not elsewhere classified industries'.

The CD-ROM also includes a more detailed breakdown for the manufacturing industries (2-digit numeric codes), where available. In addition, the CD-ROM contains data on flows by activity, again where available, but in many cases only for some forms of FDI. The overview Tables I/15 to I/18 disregard differences in coverage and should therefore be treated as indicative only.

Forms of FDI This report includes all three forms of FDI – as far as available:

- Equity capital in cash and kind
- Reinvested earnings
- Other capital, mainly loans from the parent company to the subsidiary

Remarks at the end of the tables provide information on the form of FDI included in the flow and stock data of the individual countries. The FDI forms covered by statistics are continuously increasing, often without special note to the user. For example, in 2007, the Bank of Slovenia started to include into the mutual liabilities among related firms also liabilities/credits among all the subsidiaries of the same parent company, and not only headquarters–subsidiary liabilities/credits as was the case before, which caused a jump in FDI flows.

Host and home country statistics These usually differ as concerns the amount of FDI flows and stocks. Registration of flows in time may differ and the same transaction may be booked for different years. The country of destination or origin may differ as well. The *wiiw Database on FDI* relies exclusively on host-country statistics and covers, e.g., Austrian FDI in the region in the way the individual CEECs report it.

Countries covered The database covers twenty Central, East and Southeast European countries, grouped as follows:

- the new EU member states Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, representing the NMS-10;
- Southeast Europe (SEE) including Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia;
- the European CIS (Commonwealth of Independent States) members Belarus, Moldova, Russia and Ukraine. Asian CIS countries are not included in the *wiiw Database on FDI*.

All twenty countries are covered in the overview tables (Tables I); however, only eighteen countries provide information on FDI by activity and by country (Tables II). Available data are added up in order to arrive at regional totals irrespective of country differences concerning coverage by form of FDI.

Revisions of data	When a more complete coverage of the various forms of inflows is achieved, the central banks adjust inflow and stock data, usually upwards. We make record of such adjustments in the database by replacing outdated figures. The growth rates of FDI in the analysis compare preliminary 2010 data with <i>revised</i> 2009 data, the latter often being significantly higher or lower than those published in the 2010 edition of the <i>wiiw Database on FDI</i> . Also the currently published figures for 2010 will most probably be subject to revision. Expected revisions render any forecast even more tentative.
Time coverage	The database covers all years from 1990 onwards for which data are available. The printed (and PDF) publication covers the past nine years in the overview tables (Tables I) and the past four years in the country tables (Tables II). Users interested in time series from 1990 onwards should rely on the CD-ROM.
Source of flow data	For flow data we rely first of all on the central banks of the FDI host countries. According to international standards, the balance of payments published by the central banks contains the information on FDI inflows and outflows. Both these figures are in net terms, investment minus disinvestment. Net FDI, also published in the financial account of the balance of payments, is the difference between inflow and outflow.
Source of stock data	FDI stock data are contained in the international investment position provided by the central banks. They rely on company surveys, which also reveal the investing country and the main economic activity of the host company. These data are usually available with one year delay. For 2009 the central banks may provide preliminary data by aggregating flows in the local currency and converting them to euro using the end-of-period exchange rate. A strengthening euro compared to the national currency may 'devalue' past stocks while a weak year-end euro may result in a jump in FDI stocks larger than the annual inflow. If stock data were not yet available for 2009, they have been estimated by wiiw, based on inflows and three-quarter stock data.

Special purpose entities (SPEs) Special purpose entities (SPEs) are channelling funds (the direction and size of which are controlled by their parents) rather than being a target of direct investment. Still their activity is by definition included in FDI statistics. Net flows on various financial instruments are close to zero taking a longer period. The most significant amounts are recorded in Hungary, some data are available for Poland as well while most of the other countries do not allow SPEs on their territory. In accordance with the international statistical recommendations from January 2006, the Hungarian National Bank (MNB) compiles the balance of payments and the international investment statistics including SPEs. Based on economic considerations, the MNB continues to publish the balance of payments and international investment statistics also excluding SPEs (www.mnb.hu). For both Hungary and Poland the wiiw Database contains data for FDI without SPEs in the main tables I/1-9 and provides the data including SPEs in footnotes. In all other tables for Poland, data include SPEs for which the breakdowns by form, activity etc. are available.