

wiiw FDI Report 2015

Introduction

The *wiiw FDI Report* is based on the recent update of the *online wiiw FDI Database*. It provides a presentation and analysis of FDI flows and stocks in Central, East and Southeast Europe (CESEE) and keeps track of their most important features.

This issue of the *wiiw FDI Report* is the first to apply the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). Also, the *wiiw FDI Database* has been adapted to the new methodology. Following international practice, FDI data are primarily presented on the basis of the directional principle. FDI flow data based on the asset/liability principle are also included for comparison and in relationship to other balance of payments positions. Deviations from the international standards are marked if a country has not applied the new standards or does not provide data based on the directional principle.

This report starts with methodological guidelines, which are crucial for understanding the meaning of the data and which also help in accurately assessing them. It highlights the essential differences between BPM5 and BPM6. We then provide an analysis of the recent developments in, and the prospects for, FDI in the CESEE region. The aim is to explain the rather hectic changes in recent years in terms of both FDI inflow and attractiveness to greenfield projects. The outlook for 2015 FDI inflows is based on the trends in overall economic development and on first-quarter 2015 statistics (where available). The analytical part is followed by Tables I (FDI flow and stock data according to the respective countries' central banks) and Tables II (FDI data by economic activity and by investing country, based on information from the central banks or statistical offices). Account has been taken of the most recent updates and backward revisions of data published up to mid-May 2015.

The publication *wiiw FDI Report 2015* is available in printed format and as a PDF. The data can be accessed online from the *wiiw FDI Database* on the wiiw website, <http://data.wiiw.ac.at/fdi-database.html>. This database contains the whole FDI dataset, with about 8,050 time series. A user-friendly and convenient query tool allows users to download longer and additional time series and to save queries.

The *wiiw FDI Report 2015* and the *wiiw FDI Database* are the joint products of several wiiw specialists: Gábor Hunya developed the concept and prepared the analysis, and Monika Schwarzhappel developed the database and the layout. Under her guidance, wiiw statisticians Alexandra Bykova, Simona Jokubauskaite, Nadya Heger, Beate Muck, Renate Prasch and Galina Vasaros took care of the data compilation. wiiw country analysts and Amat Adarov provided valuable input. The online database query tool has been developed by wiiw software specialists Goran Paunovic and Johannes Pöschl with the help of the wiiw statistical department.

wiiw FDI Report and wiiw FDI Database – data coverage

CONTENT

The *wiiw FDI Report* is available in printed format and in PDF. It includes:

› Tables I:

- FDI total inflow/outflow, asset/liability and directional principle in EUR, 2006–14
- FDI total inward/outward stock, directional principle, in EUR, 2006–14
- FDI per capita (flow, stock) and other selected reference parameters on FDI, 2006–14
- FDI inflow/outflow by components, directional principle, in EUR, 2006–14
- FDI income debit and credit, asset/liability principle in EUR, 2006–14

› Tables II:

- FDI inward/outward stock data by activity (NACE Rev. 2 or NACE Rev. 1 at the 1 and 2-letter code, respectively), 2010–13 or 2011–14
- FDI inward/outward stock data by partner, 2010–13 or 2011–14.

The online *wiiw FDI Database* contains the full set of FDI data. Time series start from 1990 onwards, as far as available. The database covers:

- › FDI inflow and outflow by components
- › FDI inward and outward stock by components
- › FDI inflow and outflow by partner country
- › FDI inward and outward stock by partner country
- › FDI inflow and outflow by activity
- › FDI inward and outward stock by activity.

The activity breakdown is given by NACE Rev. 2 or NACE Rev. 1 at the 1 and 2 letter code and the 2-digit manufacturing code. For Russia and Romania, the classification previously used in Eastern Europe is provided as well (termed 'other classification' in the database).

Users interested in complete time series from 1990 onwards should refer to the online *wiiw FDI Database* at <http://data.wiiw.ac.at/fdi-database.html>

COUNTRIES COVERED

The database covers 23 Central, East and Southeast European countries, grouped as follows:

- › the new EU Member States of Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, comprising the NMS-11;
- › Southeast Europe (SEE-7), including Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, Serbia and Turkey; and
- › selected Commonwealth of Independent States (CIS-5) members: Belarus, Kazakhstan, Moldova, Russia and Ukraine.

All 23 countries are covered in the overview tables (Tables I); however, Tables 19 and 21 do not include Moldova for lack of data. The available data are added up, in order to arrive at regional totals irrespective of country differences concerning coverage by components of FDI.

CURRENCY

The main dataset is in euro, whatever the currency used by the source. Unless published by the source, we converted flow data using the annual average exchange rate and stock data using the end-of-year exchange rate.

DISTRIBUTION OF FDI BY HOST/HOME COUNTRY AND BY ECONOMIC ACTIVITY

The home country is the investor's immediate country of origin; the host country is the target country of investment. These data are available on the basis of company surveys reporting FDI stocks and published by the central banks, usually with a 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 is still the case for Russia). In the event of missing stock data, we cumulate available flow data (for Montenegro until 2009, for Serbia until 2007). 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, as is indicated in the footnotes.

The data for the breakdown by economic activity fall within a transition period from NACE Rev. 1 to NACE Rev. 2. Most of the countries already report according to NACE Rev. 2. For the purposes of analysis and comparison across countries, we provide classifications at both NACE Rev. 2 and NACE Rev. 1 using the 1- and 2-letter code for the whole economy and using the 2-digit manufacturing industry level. 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 are summed up in 'other not elsewhere classified industries'.

Tables I/18 to I/21 disregard differences in coverage and should therefore be treated as indicative only.

SOURCE OF DATA

The *wiiw FDI Database* and the *wiiw FDI Report* rely on the FDI statistics, balance of payments statistics and international investment position statistics of reporting countries' national banks (a detailed list is given at the end of this file).

REVISION OF DATA

FDI data for the latest year are reported by the central banks on the basis of asset/liability flows. Annual surveys of direct investment enterprises provide the final data for flows and stocks. Revisions of data are published for the previous 2–3 years before they become final. The *wiiw FDI Database* includes all published revisions up to mid-May of the current year.

Methodological explanations

BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION MANUAL EDITION 6 (BPM6) – THE MAJOR NEW FEATURES

CONCEPT AND COVERAGE

based on <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>

BPM6 updates the fifth edition of the Balance of Payments Manual (BPM5). Also the corresponding “OECD Benchmark Definition of Foreign Direct Investment, 4th edition 2008” replaces the 3rd edition. In BPM6, direct investment is presented on an assets and liabilities (A/L) basis, instead of the directional principle (DP) used in BPM5. This increases both the net acquisition of financial assets and the net incurrence of liabilities. Netting out assets and liabilities results in the same amount as netting inflows and outflows in the (new) directional principle (FDI net is the same). The directional principle under BPM6 is used for FDI analysis (see below).

The concepts of direct investor and direct investment enterprise remain broadly unchanged compared with BPM5. Under ‘Direct investor in direct investment enterprises’, the reporting economy of the direct investor records the assets of the direct investor. The reporting economy of the direct investment enterprises records the (mirror) liabilities of the direct investment enterprises. In the standard components, direct investment is classified according to the relationship between the investor and the entity receiving the investment as equity (including reinvested earnings) and debt instruments.

In BPM6 the separate category of ‘Investment in fellow enterprises’ is included. Fellow enterprises are those entities under the control or influence of the same immediate or indirect investor, but which do not control or influence each other (i.e. they are not themselves in a direct investment relationship). Financing between fellow enterprises is reclassified in BPM6 from other investment to direct investment.

The concept of pass-through funds is introduced. Data compilers in economies that have large values of pass-through funds are encouraged to consider the compilation of supplementary data on funds in transit, based on national definitions (see Table 2 for the single such practice in the CESEE).

BPM6 prescribes market prices for the valuation of international accounts. However, market prices are not readily available for many assets/liabilities (not traded frequently), including for unlisted and other equity. For these assets and liabilities, BPM6 suggests the estimation of fair values that, in effect, approximate market prices. For EU member states the application of the “Own Funds at Book Value” derived from the balance sheet of the direct investment enterprise is recommended by EUROSTAT in case a market price (listing on a stock exchange) is not available.

DIRECTIONAL PRINCIPLE – THE MAIN PRESENTATION FORM TO SUPPORT FDI ANALYSIS

based on <http://www.oenb.at/en/Statistics/Reporting/New-Balance-of-Payments-Manual-in-2014.html>

The directional principle, in which outward direct investments of the reporting country abroad and inward direct investments of non-residents in the reporting country are recorded on a net basis, still serves for more detailed analyses. In the new 'extended' directional principle, loans between fellow enterprises are treated according to the location of the headquarters (residents vs. non-residents).

The main difference between the two presentational styles (A/L and DP) stems from the treatment of 'reverse investments', i.e. receivables of a foreign subsidiary vis-à-vis the parent (in the reporting country). According to the assets/liabilities concept, these receivables are added to the payables of the reporting country, whereas according to the directional principle, they are subtracted from active direct investments.

In order to enhance the analytical value of FDI data, Special Purpose Entities (SPEs), i.e. entities owned by foreigners without economic activity, most of whose assets consist of foreign equity holdings, have to be recorded separately. Two countries in the *wiiw FDI Report* publish flow and stock data excluding SPEs, namely Hungary and Poland.

The main international institutions publishing data on FDI (Eurostat, OECD, UNCTAD) follow the directional principle. For countries which do not supply such data, the asset/liability data are used and the *wiiw FDI Report* follows this practice. It is expected that, in time, more and more countries will supply data according to both principles.

The table below taken from the IMF's BPM6¹ summarises the major components of FDI and the difference between the asset/liability and the directional principle.

¹ <https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>, Chapter 6, page 109.

DERIVATION OF DATA UNDER THE DIRECTIONAL PRINCIPLE

The standard components for direct investment positions and transactions are shown in the table below. They may be rearranged to support different kinds of presentation and analysis.

Components of Direct Investment (Asset/Liability Presentation)

Assets	Liabilities
Of direct investors in direct investment enterprises	Of direct investment enterprises to direct investor
A1 Equity	L1 Equity
A2 Debt instruments	L2 Debt instruments
Of direct investment enterprises in direct investor— Reverse investment	Of direct investor to direct investment enterprises— Reverse investment
A3 Equity	L3 Equity
A4 Debt instruments	L4 Debt instruments
Of resident fellow enterprises in fellow enterprises abroad	Of resident fellow enterprises to fellow enterprises abroad
A5 Equity	L5 Equity
A5.1 Equity (if ultimate controlling parent is resident ¹)	L5.1 Equity (if ultimate controlling parent is nonresident ²)
A5.2 Equity (if ultimate controlling parent is nonresident ²)	L5.2 Equity (if ultimate controlling parent is resident ¹)
A6 Debt instruments	L6 Debt instruments
L6.1 Debt instruments (if ultimate controlling parent is resident ¹)	A6.1 Debt instruments (if ultimate controlling parent is nonresident ²)
L6.2 Debt instruments (if ultimate controlling parent is nonresident ²)	A6.2 Debt instruments (if ultimate controlling parent is resident ¹)

¹That is, resident in the compiling economy.

²That is, not resident in the compiling economy.

Asset/liability presentation

Direct investment assets:

Equity: $A1 + A3 + A5$;

Debt instruments: $A2 + A4 + A6$

Direct investment liabilities:

Equity: $L1 + L3 + L5$;

Debt instruments: $L2 + L4 + L6$

Directional principle presentations

In principle:

Direct investment abroad (outward direct investment):

Equity: $A1 - L3 + A5.1 - L5.2$;

Debt instruments: $A2 - L4 + A6.1 - L6.2$

Direct investment in the reporting economy (inward direct investment):

Equity: $L1 - A3 + L5.1 - A5.2$;

Debt instruments: $L2 - A4 + L6.1 - A6.2$

Acceptable practical alternative:

Direct investment abroad:

Equity: $A1 - L3 + A5$;

Debt instruments: $A2 - L4 + A6$

Direct investment in the reporting economy:

Equity: $L1 - A3 + L5$;

Debt instruments: $L2 - A4 + L6$

Leaving aside fellow enterprises, the simplified presentation of the components by the two principles looks as follows:

Asset/liability principle

Assets = FDI outward assets + (reverse) assets of inward investment

Liabilities = FDI inward liabilities + (reverse) liabilities of outward investment

Directional principle

FDI outflow = FDI outward assets – (reverse) liabilities of outward investment

FDI inflow = FDI inward liabilities – (reverse) assets of inward

ABBREVIATIONS

AL	Albania
BY	Belarus
BA	Bosnia and Herzegovina
BG	Bulgaria
CZ	Czech Republic
EE	Estonia
HR	Croatia
HU	Hungary
KZ	Kazakhstan
XK	Kosovo
LT	Lithuania
LV	Latvia
MD	Moldova
ME	Montenegro
MK	Macedonia
PL	Poland
RO	Romania
RS	Serbia
RU	Russia
SI	Slovenia
SK	Slovakia
TR	Turkey
UA	Ukraine
CESEE	Central, East and Southeast Europe
CIS	Commonwealth of Independent States
EU	European Union
NMS	new EU Member States
SEE	Southeast Europe
WBC	Western Balkan countries
A/L	asset / liability principle
BOP	Balance of Payments
BPM5	Balance of Payments Manual Fifth Edition
BPM6	Balance of Payments and International Investment Position Manual Sixth Edition
CaT	Capital in Transit
DP	directional principle
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ER	exchange rate
ESA 2010	European system of accounts (version 2010)
EUR	euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation

IIP	International Investment Position
IMF	International Monetary Fund
NACE	Nomenclature statistique des activités économiques dans la Communauté européenne (Statistical classification of economic activities in the European Community)
NACE Rev. 1	first revision of the original NACE (1970)
NACE Rev. 2	revised classification, introduced in 2008
NB	National Bank
OECD	Organisation for Economic Co-operation and Development
SNA	System of National Accounts
SPE	Special Purpose Entity
wiiw	The Vienna Institute for International Economic Studies
.	not available (in tables)
bn	billion
mn	million

SOURCES USED

Albania:	Bank of Albania (www.bankofalbania.org)
Belarus:	National Bank of Belarus (www.nbrb.by)
Bosnia and Herzegovina:	Central Bank of Bosnia and Herzegovina (www.cbbh.ba)
Bulgaria:	National Bank of Bulgaria (www.bnb.bg)
Czech Republic:	Czech National Bank (www.cnb.cz)
Croatia:	Croatian National Bank (www.hnb.hr)
Estonia:	National Bank of Estonia (www.eestipank.info)
Hungary:	National Bank of Hungary (www.mnb.hu)
Kazakhstan	National Bank of Kazakhstan (http://www.nationalbank.kz)
Kosovo	Central Bank of Kosovo (http://www.bqk-kos.org)
Latvia:	Bank of Latvia (www.bank.lv)
Lithuania:	Bank of Lithuania (www.lb.lt)
Macedonia:	National Bank of Macedonia (www.nbrm.gov.mk)
Moldova:	National Bank of Moldova (www.bnm.md)
Montenegro:	Central Bank of Montenegro (www.cb-cg.org)
Poland:	National Bank of Poland (www.nbp.pl)
Romania:	National Bank of Romania (www.bnro.ro) National Trade Register Office (www.onrc.ro)
Russia:	Central Bank of Russia (www.cbr.ru) Federal State Statistics Service (www.gks.ru)
Serbia:	National Bank of Serbia (www.nbs.rs)
Slovakia:	National Bank of Slovakia (www.nbs.sk)
Slovenia:	Bank of Slovenia (www.bsi.si)
Turkey	Central Bank of Turkey (http://www.tcmb.gov.tr)
Ukraine:	National Bank of Ukraine (www.bank.gov.ua) State Statistics Committee of Ukraine (www.ukrstat.gov.ua)