

# wiiw Database on | 2009 Foreign Direct Investment in Central, East and Southeast Europe

## Introduction

The annual presentation and analysis of FDI flows and stocks in the former transition countries comes in its fifth edition. The publication starts with methodological guidelines that are indispensable for understanding the meaning of the data and help in their correct assessment. Then we present an analysis of recent developments and prospects of FDI. It tackles all major issues brought forward by the latest statistics: FDI inflow and outflow, inward and outward stock, and changes in FDI by home country and by economic activity as well as FDI-related earnings. As a special topic we provide more detailed information on the balance of payments impacts of FDI. That analysis is followed by Tables I (total flow and stock data according to the respective countries' national banks) and Tables II (FDI data by economic activity and by investing country based on information from the national banks or from statistical offices). We included the most recent updates and backward revisions of data published by the national banks until mid of May 2009.

The database contains 3800 time series. Improvements of data availability and data revisions for past years have been incorporated. The *wiiw Database on FDI 2009* is available in printed format and PDF as well as on CD-ROM. The latter version contains longer 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 2009* 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 Boriana Assenova, Nadya Heger, 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**

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, 2000-2008
- FDI total inward/outward stock in EUR, 2000-2008
- FDI per capita (flow, stock) and selected other reference parameters on FDI, 2000-2008
- FDI inflow/outflow by form in EUR, 2000-2008
- FDI income (inflow and outflow) in EUR, 2000-2008
- FDI inward/outward stock data by activity (NACE rev. 1 A-Q, DA-DN), 2004-2007 or 2005-2008
- FDI inward/outward stock data by country, 2004-2007 or 2005-2008

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 15-37)
- FDI inflow/outflow by activity (NACE rev. 1 A-Q, DA-DN, 15-37) 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.* The new EU member states (NMS) as well as the candidate countries now follow the IMF definition and methodological guidelines, but deviations were frequent in the past. Their data cover all three forms of FDI (equity investment, reinvested profits, other investment – see below). Some Western Balkan countries still fail to report all forms of FDI. 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.

*Foreign direct investment.* According to the IMF Balance of Payments Manual, Revision 5, capital investment abroad is regarded as foreign direct investment 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 more and more 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 mother 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 national banks usually with one year delay. In the absence of national bank data, we rely on 'registration data' obtained from the statistical offices (this was done in the case of Albania, until 2006 Romania, 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.

We use the NACE rev. 1 classification for the breakdown by economic activities at the 1-digit level for the whole economy and at the 2-digit level for the manufacturing industry. The CD-ROM also includes a more detailed breakdown for the manufacturing industries NACE 15-37, where available. In addition, the CD-ROM contains data on inflows by activity, again where available, but in many cases only for some forms of FDI. The overview Tables I/13 to I/16 disregard differences in coverage and should therefore be treated as indicative only.

#### *Forms of FDI*

- Equity investment in cash and kind
- Reinvested earnings
- Other investment, 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 increases permanently, often without special note to the user. For example, in 2007, the Bank of Slovenia began to count into 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 before, which caused a jump in FDI flows.

*Host and home country statistics.* These usually differ concerning 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* only relies on host-country statistics and covers, e.g., Austrian FDI in the region in the way the individual CEECs report it.

*Regions.* The database covers twenty Central, East and Southeast European countries, grouped as follows:

- the new EU member states in Central Europe (NMS-5: the Czech Republic, Hungary, Poland, Slovakia, Slovenia), together with Bulgaria, Romania and the Baltic states (Estonia, Latvia, Lithuania) 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) while only eighteen countries provide information on FDI by activity and by country (Tables II). Available data are added up 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 national 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 2008 data with *revised* 2007 data, the latter being much higher than those published in the 2008 edition of the *wiiw Database on FDI*. As future revisions will bring upward adjustments, the currently published FDI figures for 2008 are most probably underestimated. 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 eight 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.* We rely first of all on the national banks of the FDI host countries. According to international standards, the balance of payments published by the national banks contains the information on FDI inflows and outflows. Both these figures are in net terms, investment minus disinvestment.

*Source of stock data.* FDI stock data are contained in the international investment position provided by the national 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 2008 the national 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 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 2008, they have been estimated by wiiw, based on inflows and three-quarters stock data.

*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 (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. 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 compile the balance of payments and international investment statistics excluding SPEs as readily interpretable in economic terms ([www.mnb.hu](http://www.mnb.hu)).