

wiiw Database on | 2012 Foreign Direct Investment in Central, East and Southeast Europe

Introduction

Foreign Direct Investment (FDI) is an indispensable way of financing economic growth and a source of technology transfer in economies that are catching up. The annual *wiiw Database on FDI* provides an up-to-date presentation and analysis of FDI flows and stocks in Central, East and Southeast Europe (CESEE) and keeps track of the most important features. Two countries have been added to the database this year: Turkey and Kazakhstan; thus all countries covered by the monitoring and forecasting activity of wiiw are included.

We have included the most recent updates and backward revisions of data published up to mid-May 2012.

The 2012 database contains more than 6800 time series – some 1,400 more than in the past. This is mainly because of the addition of Kazakhstan and Turkey, but there are also some new time series based on NACE Rev. 2.

The *wiiw Database on FDI 2012* is available in printed format and PDF, as well as on CD-ROM. The CD-ROM 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 2012* in printed format includes additionally an analysis of the recent developments and prospects for FDI in the region and other FDI related reference parameters not available on the CD-ROM.

The *wiiw Database on FDI 2012* is the joint product 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, the wiiw statisticians Alexandra Bykova, Beate Muck, Renate Prasch, Hana Rusková, Barbara Swierczek and Galina Vasaros 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, 2003–11
- FDI total inward/outward stock in EUR, 2003–11
- FDI per capita (flow, stock) and other selected reference parameters on FDI, 2003–11
- FDI inflow/outflow by form in EUR, 2003–11
- FDI income (inflow and outflow) in EUR, 2003–11
- FDI inward/outward stock data by activity (NACE Rev. 1 or NACE Rev. 2 at 1- and 2-letter code, respectively), 2007–10 or 2008–11
- FDI inward/outward stock data by country, 2007–10 or 2008–11

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 or NACE Rev. 2, 2-digit code in manufacturing) for FDI inward/outward stock
- FDI inflow/outflow by activity (NACE Rev. 1 A–Q, DA–DN, 15–37 or 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, whatever 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 International Monetary Fund (IMF) definition and methodological guidelines on FDI (recently Russia, too, started providing FDI data based on international standards). 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% of the target firm's equity capital; that share can be as much as 100%. 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 that generated the income. Foreign investment incomes fall into two categories: profits on equity investment and interest accrued on loans made by the parent company to its foreign affiliate. As dividends and interest earnings are taxed differently, direct investors may choose between equity and loans 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 immediate country of origin; the host country is the target country of investment. These data are available on the basis of surveys of companies reporting FDI stocks, published by the central banks with usually 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 Russia until 2010). In the event of missing stock data, we cumulate available flow data (Montenegro, Serbia). 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 the footnotes. |

Data for the breakdown by economic activity are in a transition period from NACE Rev. 1 to NACE Rev. 2. For the purposes of analysis and comparison across countries, we provide both classifications at the 1-character level for the whole economy and at the 2-character 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 are summed up in 'other not elsewhere classified industries'.

The CD-ROM also includes a more detailed breakdown for the manufacturing industries (2-digit 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. 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 may change, often without any special commentary. For example, in 2007 the Bank of Slovenia started to include in 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 had been the case previously; this caused a jump in FDI flows.

Host and home country statistics These usually differ in terms of 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, for example Austrian FDI in the region, in the way the individual CESEE countries report it.

Countries covered The database covers 22 Central, East and Southeast European countries, grouped as follows:

- the new EU Member States of 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, Serbia and Turkey;

- Selected Commonwealth of Independent States (CIS) members: Belarus, Kazakhstan, Moldova, Russia and Ukraine.

All 22 countries are covered in the overview tables (Tables I); however, only 20 countries (excluding Belarus and Moldova) provide information on FDI by activity and by country (Tables II). The 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 | FDI data for the latest year are generally estimated by national banks on the basis of financial 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. |
| Time coverage | The wiiw FDI 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 refer to the CD-ROM. |
| FDI flow data | For flow data, the wiiw FDI Database relies 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. |
| FDI stock data | FDI stock data are contained in the international investment position provided by the central banks. They rely on surveys of companies, which also reveal the investing country and the main economic activity of the host company. These data are usually available with a one-year delay. For the latest year, 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 euro that is strengthening at the expense of the national currency may 'devalue' past stocks, while a weak year-end euro may result in a jump in FDI stocks that is larger than the annual inflow. If stock data were not yet available for 2010, they have been estimated by wiiw, based on inflows and three-quarters stock data. |

Special purpose entities (SPEs) Rather than being a target of direct investment, special purpose entities (SPEs) channel funds (the direction and size of which are controlled by their parent companies). Nevertheless, their activity is, by definition, included in FDI statistics. Net flows on various financial instruments are close to zero. The most significant amounts are recorded in Hungary, while some data are available for Poland. For analytical reasons, the Hungarian National Bank (MNB) continues to publish balance of payments and international investment statistics both with and without SPEs (www.mnb.hu). For both Hungary and Poland the wiiw Database contains data on FDI without SPEs in Tables I/1–9 and provides the data including SPEs in footnotes. In all other tables for Poland, data for which the breakdowns by form, activity, etc. are available, include SPEs. Other countries do not distinguish SPEs in their statistical surveys, which may thus include some SPEs.