

## wiiw FDI Report 2014

### Introduction

The *wiiw FDI Report* is based upon the *wiiw FDI Database*. It provides an up-to-date presentation and analysis of FDI flows and stocks in Central, East and Southeast Europe (CESEE) and keeps track of their most important features. The concept and terminology of FDI used in this database still relies for most of the countries on the IMF Balance of Payments Manual 5th Edition (BPM5). Five countries, Belarus, Bosnia and Herzegovina, Kazakhstan, Russia and Ukraine, have already switched to the Balance of Payments and International Investment Position Manual 6th Edition (BPM6) – the breaks in time series have been indicated. European Union countries will report according to BPM6 from 2014 onwards. This new methodology affects both the Balance of Payments (BOP) and International Investment Position (IIP) data. The *wiiw FDI Report* will switch to the new methodology when most countries under survey have done so.

This report starts with methodological guidelines which are crucial for understanding the meaning of the data and which also help in accurately assessing them. A new part highlights the essential differences between BPM5 and BPM6. In a subsequent text we provide an analysis of the recent developments of and the prospects for FDI in the CESEE region. The aim is to explain the rather hectic changes in recent years both in terms of methodology and FDI attractiveness. The forecasts for 2014 FDI inflows are based on the trends in overall economic development and on first-quarter 2014 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 from statistical offices). For the first time data on Kosovo have been included in Tables I. We have also taken account of the most recent updates and backward revisions of data published up to mid-May 2014.

The publication *wiiw FDI Report 2014* is available in printed format and as 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 more than 7950 time series – some 500 more than in the past. This is mainly because of the introduction of NACE Rev. 2 time series and the new data for Kosovo. A user-friendly and convenient query tool allows to download longer and additional time series and to save queries.

The *wiiw FDI Report 2014* and the *wiiw FDI Database* are the joint products of several wiiw specialists: Gábor Hunya developed the concept and prepared the analysis, Monika Schwarzhappel developed the database and the layout. Under her guidance, wiiw statisticians Alexandra Bykova, Beate Muck, Renate Prasch, Hana Rusková and Galina Vasaros took care of the data compilation. FDI flow forecasts were provided by wiiw country analysts. 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.

**Methodological guidelines and definitions**  
**(based on the IMF Balance of Payments Manual 5th Edition – BPM5)**

Countries covered	EU member states	Southeast Europe	European CIS
	Bulgaria	Albania	Belarus
	Croatia	Bosnia & Herzegovina	Kazakhstan
	Czech Republic	Kosovo - NEW	Moldova
	Estonia	Macedonia	Russia
	Hungary	Montenegro	Ukraine
	Latvia	Serbia	
	Lithuania	Turkey	
	Poland		
	Romania		
	Slovakia		
	Slovenia		

All 23 countries are covered in the overview tables (Tables I); however, only 20 countries (excluding Belarus, Kosovo 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 components of FDI.

**Availability** The *wiiw FDI Report* is available in printed format and PDF.

Content of the print and PDF versions:

Tables I:

- FDI total inflow/outflow in EUR, 2004–13
- FDI total inward/outward stock in EUR, 2004–13
- FDI per capita (flow, stock) and other selected reference parameters on FDI, 2004–13
- FDI inflow/outflow by components in EUR, 2004–13
- FDI income (inflow and outflow) in EUR, 2004–13

Tables II:

- FDI inward/outward stock data by activity (NACE Rev. 2 or NACE Rev. 1 at 1- and 2-letter code, respectively), 2009–12 or 2010–13
- FDI inward/outward stock data by partner, 2009–12 or 2010–13

The new 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 1- and 2-letter code and 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).

<b>Currency</b>	The main data set is in euro, whatever the currency used by the source. Unless published by the source, we converted flow data by the annual average exchange rate and stock data by the end-of-year exchange rate.
<b>Data coverage</b>	Most of the countries in this database follow the definitions of the Balance of Payments Manual 5th Edition (BPM5) of the International Monetary Fund (IMF) as well as the OECD Benchmark Definition of Foreign Direct Investment, 3rd Edition. Some of the countries already report according to the new methodology defined in the Balance of Payments International Investment Position Manual 6th Edition (BPM6) and OECD Benchmark Definition of Foreign Direct Investment, 4th edition. Some important changes are defined at the end of the Methodological Guidelines. Deviations from the standard definition 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 provided in the 'Remarks' following the individual tables. These remarks also call attention to the methodological changes over time, a basic problem in preparing consistent time series.
<b>Definition of foreign direct investment</b>	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.
<b>Foreign direct investment income</b>	As of the BPM5, 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 financial 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 company surveys reporting FDI stocks and published by the central banks with usually 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 (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 indicated in the footnotes.

Data for the breakdown by economic activity are in 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 both classifications at the NACE Rev. 2 and NACE Rev. 1 at 1- and 2-letter code for the whole economy and at 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/15 to I/18 disregard differences in coverage and should therefore be treated as indicative only.

**Components of FDI**

This report includes all three components 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

The FDI components 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 sizeable jump in FDI flows in that country.

<b>Host and home country statistics</b>	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 <i>wiiw FDI Database</i> relies exclusively on host-country statistics and covers, for example, Austrian FDI in the region in the way the individual CESEE countries report it.
<b>Revisions of data</b>	FDI data for the latest year are generally estimated by the central 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 <i>wiiw FDI Database</i> comprises all published revisions.
<b>Time coverage</b>	The <i>wiiw FDI Database</i> 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 complete time series from 1990 onwards should refer to the online <i>wiiw FDI Database</i> at <a href="http://data.wiiw.ac.at/fdi-database.html">http://data.wiiw.ac.at/fdi-database.html</a> .
<b>FDI flow data</b>	For flow data, the <i>wiiw FDI Database</i> 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.
<b>FDI stock data</b>	FDI stock data are contained in the international investment position provided by the respective 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 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. If the euro is strengthening against the national currency, this may 'devalue' past stocks, whereas a weak year-end euro may result in a jump in FDI stocks that is larger than the annual inflow. If stock data for 2013 were not yet available by the end of May 2014, they have been estimated by wiiw, based on inflows and three-quarter 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 of the various financial instruments are close to zero. The most significant amounts are recorded in Hungary, while some data are available for Poland as well. For analytical reasons, the Hungarian National Bank (MNB) continues to publish balance of payments and international investment statistics both with and without SPEs (see [www.mnb.hu](http://www.mnb.hu) for details). For both Hungary and Poland the *wiiw FDI Report* 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 the breakdown by components, activity, etc. include SPEs. Other countries do not distinguish SPEs in their statistical surveys.

## **Balance of Payments and International Investment Position Manual Edition 6 (BPM6) – the major changes**

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

### **Concept and coverage**

BPM6 updates the fifth edition of the Balance of Payments Manual (BPM5). In BPM6, direct investment is presented on an assets and liabilities basis, unlike on the directional principle as in BPM5. This increases both the net acquisition of financial assets and the net incurrence of liabilities. The amount of FDI net remains unchanged.

The concepts of direct investor and direct investment enterprise remain broadly unchanged compared with BPM5. In the standard components, direct investment is classified according to the relationship between the investor and the entity receiving the investment.

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.

Under 'Direct investment enterprises in direct investor' reverse investments are recorded. These were treated as outflow in the directional principle of BPM5.

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).

Insurance technical reserves are included in FDI (debt instruments), while all debt transactions between affiliated financial corporations (deposit-taking, investment funds and other financial intermediaries except insurance corporations and pension funds) are excluded from FDI transactions.

The concept of pass-through funds is introduced. It is encouraged that compilers in economies that have large values of pass-through funds consider the compilation of supplementary data on funds in transit, based on national definitions.

#### **Foreign direct investment valuation of unlisted and other equity**

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.

#### **Publication of data based on BPM6**

The ECB will start publishing euro area BOP, IIP and international reserves statistics in accordance with the new Guideline (and BPM6) in the last quarter of 2014. By that time, all euro area/EU countries will have introduced BPM6 and are expected to have also published data at the national level according to the new standards. (<https://www.ecb.europa.eu/stats/external/bpm6/html/index.en.html>)

#### **Five countries included in the wiiw FDI Report already report according to the BPM6 methodology**

Two of the countries, Bosnia and Herzegovina and Kazakhstan, report their BOP and IIP data according to the standard asset/liability principle while the FDI breakdown by activities, by partners and components as well as direct investment income are presented according to the directional principle. This means BOP and IIP data need not necessarily be identical with FDI data by partner or activities. BOP and IIP data of Belarus, Russia and Ukraine are presented according to the asset/liability principle also for all breakdowns.



## List of abbreviations

### Country codes (referring to ISO codes)

AL	Albania
BY	Belarus
BA	Bosnia and Herzegovina
BG	Bulgaria
HR	Croatia
CZ	Czech Republic
EE	Estonia
HU	Hungary
KZ	Kazakhstan
XK	Kosovo
LV	Latvia
LT	Lithuania
MK	Macedonia
MD	Moldova
ME	Montenegro
PL	Poland
RO	Romania
RU	Russia
RS	Serbia
SK	Slovakia
SI	Slovenia
TR	Turkey
UA	Ukraine

### Other abbreviations:

.	not available
EUR mn	euro million (10 <sup>6</sup> )
BOP	Balance of Payments
IIP	International Investment Position
EU-15	European Union (15 countries)
EU-28	European Union (28 countries)
NACE Rev.1	Nomenclature générale des activités économique dans les communautés européennes, Rev. 1
NACE Rev.2	Nomenclature générale des activités économique dans les communautés européennes, Rev. 2
SPEs	Special Purpose Entities

## Sources used

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