

## Foreign direct investment flows still influenced by the crisis

**EU Foreign Direct Investment (FDI) is still affected by the global financial and economic crisis. In 2010, EU outward flows decreased for the third consecutive year, down 62 % compared with 2009. At the same time, EU inward flows decreased by 75 %. Compared with the record peaks reached in 2007, outward flows have decreased five-fold and inward flows eight-fold.**

**This publication gives an overview of EU FDI statistics for year-end stocks, annual flows and income. The analysis mainly covers 2007 to 2009, but in the case of flows provisional data for 2010 are included, based on annualised quarterly figures.**

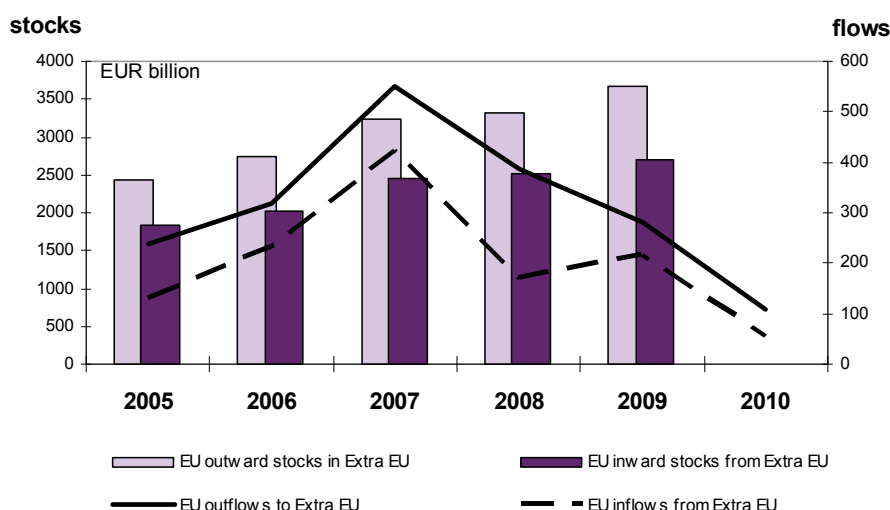
In 2008, total FDI outflows dropped by 30%, mainly due to the sharp decline in equity capital and reinvested earnings. A similar trend was observed in 2009, where all types of FDI flows contributed to the negative change.

Following the sharp decrease of 60% in 2008, EU FDI inflows recovered in 2009 (26%) thanks to the growth in equity capital and reinvested earnings.

The return from EU outward investments continued to decline in 2009, while the return from inward investments remained relatively stable.

The provisional figures for 2010 show a sharp drop in EU FDI, both outward and inward, confirming the continuous impact of the global economic turmoil. FDI flows channelled through Special Purpose Entities (SPE) have played a very significant role in the results for 2010.

**Figure 1: EU FDI flows and stocks 2005-2010**



2010 data provisional

Source: Eurostat (online data code : [bop\\_fdi\\_main](#))

Table 1: EU-27 outward and inward flows in 2007-2010 (EUR billion)

	Outward FDI flows					Inward FDI flows				
	2007	2008	2009	2010p	Share (%) in 2009	2007	2008	2009	2010p	Share (%) in 2009
Extra EU-27	550.7	387.3	280.6	106.7	100.0%	423.8	170.7	215.7	54.2	100.0%
Europe (non-EU, including EFTA), of which:	85.2	65.3	38.8	:	13.8%	20.7	29.0	16.8	:	7.8%
Switzerland	39.6	25.2	43.9	-7.4	15.6%	29.6	8.4	24.7	6.2	11.5%
Russia	18.2	27.3	0.7	-0.4	0.2%	10.5	0.5	2.7	-0.4	1.3%
Croatia	2.5	2.2	2.5	:	0.9%	0.0	-0.1	-0.1	:	0.0%
Turkey	15.7	6.5	4.2	:	1.5%	0.6	-0.3	1.2	:	0.5%
Ukraine	5.3	7.3	3.0	:	1.1%	0.4	0.5	0.0	:	0.0%
Africa: of which	17.0	24.1	21.0	:	7.5%	3.9	7.2	0.9	:	0.4%
Egypt	1.5	10.6	2.1	:	0.8%	-0.5	0.8	0.1	:	0.1%
South Africa	5.1	3.0	5.9	:	2.1%	1.9	2.5	1.0	:	0.5%
North America; of which	204.4	154.9	78.3	:	27.9%	201.3	57.7	108.8	:	50.4%
Canada	30.6	6.7	-0.9	-4.1	-0.3%	6.3	13.3	11.5	27.7	5.3%
United States	173.8	148.2	79.2	11.9	28.2%	195.0	44.4	97.3	28.5	45.1%
Central America; of which	108.5	0.0	61.0	:	21.7%	78.2	-15.3	30.7	:	14.2%
Mexico	5.8	5.6	4.0	:	1.4%	0.4	0.7	2.7	:	1.2%
South America; of which	19.2	19.1	9.4	:	3.3%	27.9	12.0	0.8	:	0.3%
Argentina	2.4	4.1	0.8	:	0.3%	-0.2	-0.3	0.4	:	0.2%
Brazil	14.9	9.1	8.8	6.2	3.1%	24.7	10.0	0.4	3.8	0.2%
Asia; of which	55.0	72.9	28.1	:	10.0%	39.9	72.5	18.2	:	8.4%
Gulf Arabian Countries	4.7	19.5	3.9	:	1.4%	2.7	51.2	10.6	:	4.9%
China (excluding Hong Kong)	7.2	5.2	5.8	4.9	2.1%	0.8	-0.2	0.3	0.9	0.1%
Hong Kong	7.2	5.6	2.0	3.0	0.7%	5.9	2.7	1.3	11.3	0.6%
Japan	10.2	2.5	-0.2	-4.1	-0.1%	18.6	2.8	-0.8	1.5	-0.4%
India	4.6	3.7	3.4	3.0	1.2%	1.2	3.6	0.9	0.6	0.4%
Singapore	8.7	21.7	1.7	:	0.6%	10.6	2.2	2.8	:	1.3%
Oceania; of which	10.2	18.5	-1.6	:	-0.6%	7.1	-0.4	5.8	:	2.7%
Australia	9.6	17.3	-2.7	:	-1.0%	7.1	-0.3	5.8	:	2.7%
Offshore financial centers	158.4	39.4	89.5	21.1	31.9%	105.8	16.8	46.1	-3.9	21.4%

2007-2009 annual FDI data. Preliminary figures for 2010 are based on annualised quarterly data.

The sum of continents does not always equal total extra-EU because of not allocated flows.

Source: Eurostat (online data code : [bop\\_fdi\\_main](#))

## FDI outflows still in decline but inflows show signs of modest recovery in 2009

EU FDI flows to and from main economic partners has been considerably affected by the global economic and financial crisis. In 2009, inward flows grew moderately (by 26%), while outward flows shrank by 28%. The decline in EU outflows was mostly because investment to the United States fell sharply — from EUR 148.2 billion in 2008 to EUR 79.2 billion in 2009. Meanwhile, US investment in the EU made a strong recovery, rising to EUR 97.3 billion, which is more than twice the 2008 figure (EUR 44.4 billion). Provisional figures for 2010 show a significant decrease in both flows.

Outward FDI into Canada dropped to disinvestment in 2009 and 2010. Incoming FDI from Canada, after decreasing by 14% in 2009, seems to have recovered in 2010, rising to EUR 27.7 billion.

EU investment flows to emerging economies such as China have been less affected, with a moderate growth of 11% in 2009 compared with the previous year. The preliminary results for 2010 also show a rebound in inward investment from Asian countries, such as China (EUR 0.9 billion) and Hong Kong (EUR 11.3 billion). EU outward flows to Brazil have been decreasing since 2007, but at a slower pace than with other

main partners. Inward flows grew significantly in 2010 compared with 2009.

In Russia, EU outward investment dropped significantly in 2009 and even recorded disinvestment in 2010. Similarly, inward investments from Russia fell from the peak reached in 2007 (EUR 10.5 billion).

In the African region, EU investments in Egypt fell from EUR 10.6 billion in 2008, to EUR 2.1 billion in 2009. However, South Africa recorded a growth of 96%, due to investments by Special Purpose Entities (SPEs)<sup>1</sup> based in Luxembourg.

Despite being affected by the crisis, the offshore financial centres play an important role in EU investments. In 2009, outward and inward flows significantly increased (by 127% and 174%, respectively). However, the provisional figures for 2010 show a deep drop and even disinvestment in the inward side.

<sup>1</sup> Special Purpose Entities are mainly financial holding companies, foreign-owned, and principally engaged in cross-border financial transactions, with little or no activity in the Member State of residence.

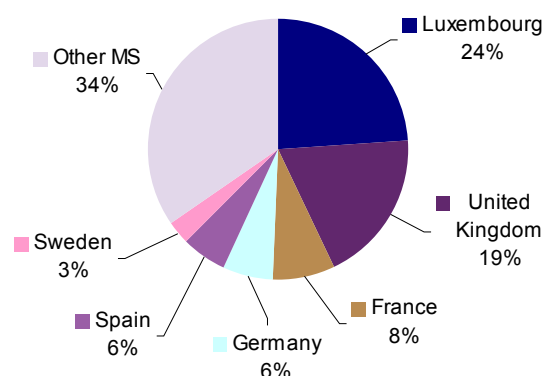
## EU's main sources of outgoing FDI

FDI flows can oscillate considerably from one year to another, influenced mainly by large mergers and acquisitions. Luxembourg has a large share (24%) of EU FDI outward flows because Special Purpose Entities (SPEs)<sup>1</sup> handle about 85% of that country's total direct investment. SPEs also play an important role in other EU Member States, especially the Netherlands, Austria and Hungary, but the data given here for these countries exclude SPEs.

Given investments of this nature, Luxembourg showed an FDI growth rate of 42% in 2009 compared with 2008, becoming the leading EU investor in non-EU countries. Switzerland, the United States, Bermuda and the Bahamas were the four top destinations for FDI from Luxembourg, showing the importance of the financial sector.

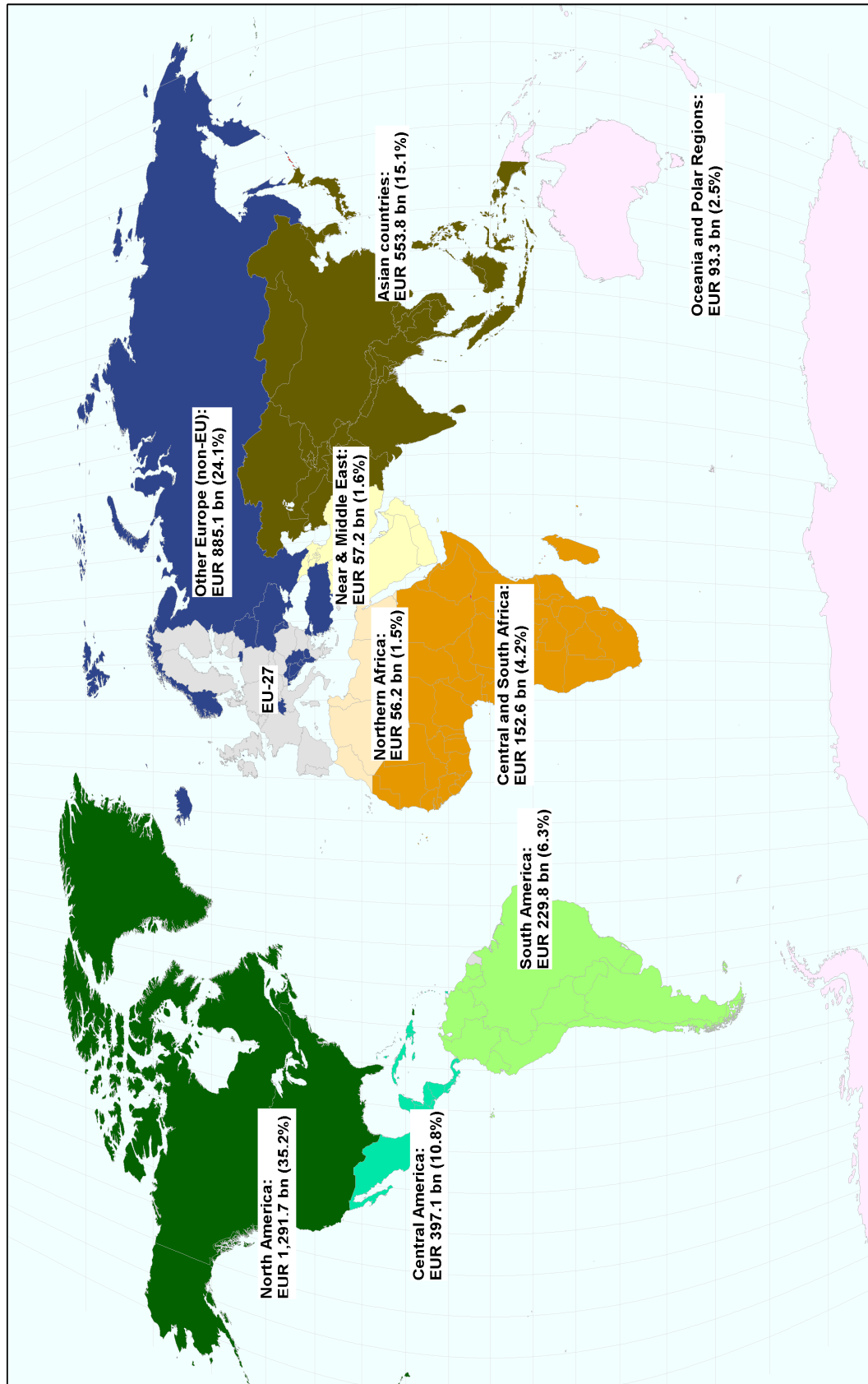
The United Kingdom recorded a sharp drop in its investment in non-EU countries, which almost halved in 2009. There was also a tendency to invest less in traditional partners like the United States, Canada or Australia and more in other economies such as the United Arab Emirates and Japan.

**Figure 2: Share in EU FDI outward flows to extra-EU, 2007-2009**



Source: Eurostat (online data code : [bop\\_fdi\\_main](#))

Map 1: EU-27 FDI outward stocks at the end of 2009 (EUR billion, % share in total extra-EU)



Source: Eurostat (online data code : [bop\\_fdi\\_pos](#))

## FDI stocks grew slowly but were more stable in 2009

EU outward and inward stocks (or positions) grew gradually in 2009: outward stocks grew by 10% and inward stocks by 7%. In 2008, both inward and outward stocks had increased by only 3%.

### North America continues to hold the biggest share of non-EU countries' stocks

At the end of 2009, North America had the biggest share (35%) of non-EU stocks. The United States accounted for about 31% (EUR 1134.0 billion) of total EU outward stocks, and the growth rate (5%) was the same as in 2008. The services sector represented 70% of the EU stocks held in the United States, and most of those came from financial intermediation (39%) and from real estate and other business activities (22%). Manufacturing was also an important sector, accounting for 22% of total EU stocks in the United States, and the main activity here was manufacturing of chemicals and chemical products. At the end of 2009, the main holder of EU FDI stocks in the US continued to be the United Kingdom, accounting for one quarter of them.

Switzerland was the second most important destination for EU FDI in 2009, accounting for 14% of total stocks, and the main activity was financial intermediation. Canada was the third destination, with a 4% share.

EU stocks in Russia grew by 24% in 2007-2009. Financial intermediation and manufacturing were the main activities, and FDI stocks in these sectors were maintained

In Asia, the main destinations for EU stocks were Singapore, Hong Kong and Japan, with China's holdings continuing to grow in 2009 (11% up on the 2008 figure). Malaysia, India and Indonesia recorded the fastest growth (82%, 56% and 22%, respectively).

In Africa, the main destinations for EU stocks were South Africa (EUR 77 billion), Nigeria (EUR 30.3 billion) and Egypt (EUR 26.4 billion). EU positions in South Africa grew by 40% and this country became one of the EU's top ten FDI partners.

### The United States still the major FDI stock holder in the EU

In 2009, the United States provided 39% of all inward investment in the EU. Its share was worth EUR 1044.1 billion at the end of that year. The US thus consolidates its position as the major EU stock investor, investing mostly in the services sector — which accounted for 79% of all inward investment at the end of 2008.

Switzerland was the second biggest EU stock holder, with EUR 347.9 billion — 10% more than in 2008. Other countries with significant shares of EU inward stocks were Japan, Canada and Brazil. Japan and Canada invested 10% and 11% more, respectively, in 2009 compared with the previous year. Brazil's investment had also risen 7% by the end of 2009 — though this is modest growth compared with the period 2006-2008, when Brazil tripled its stocks in the EU.

**Table 2: The EU's TOP 10 FDI partners in 2009**

(EUR billion) reporter : EU-27	OUTWARD				INWARD			
	2007	2008	2009	Growth rate 2007-2009	2007	2008	2009	Growth rate 2007-2009
Extra EU-27	3231.6	3319.8	3665.6	13%	2447.9	2522.3	2707.2	11%
United States of America	1027.1	1089.5	1134.0	10%	1027.2	1014.6	1044.1	2%
Switzerland	458.0	462.9	503.3	10%	323.6	315.7	347.9	8%
Canada	142.6	142.7	157.5	10%	103.0	108.1	119.5	16%
Brazil	107.7	108.5	132.2	23%	41.2	52.5	56.3	37%
Singapore	66.7	89.2	95.8	44%	45.0	39.3	50.2	11%
Hong Kong	89.3	89.3	92.9	4%	17.2	25.5	26.8	56%
Russia	71.5	83.2	88.8	24%	24.7	26.4	27.5	11%
Japan	74.8	78.4	84.0	12%	122.3	122.6	135.3	11%
Australia	69.9	70.3	82.8	19%	25.7	21.2	30.2	17%
South Africa	55.1	55.1	77.0	40%	6.0	6.8	6.2	4%

Source: Eurostat (online data code : [bop\\_fdi\\_pos](#))

## Manufacturing contributed less in 2008

**Table 3: Extra EU FDI stocks (end-2008) by economic activity, EUR billion**

reporter : EU-27	Outward	Inward
<b>Total</b>	<b>3319.8</b>	<b>2522.3</b>
Agriculture, hunting and fishing	1.0	1.4
Mining and quarrying	187.1	40.0
Manufacturing	645.0	330.3
-Food products	70.6	53.3
-Textiles and wood activities	29.3	33.2
-Petroleum, chemical, rubber, plastic products	262.9	124.5
-Metal and mechanical products	125.7	46.1
-Machinery, computers, RTV, communication	20.4	14.1
-Vehicles and other transport equipment	60.4	22.9
Electricity, gas and water	57.2	18.2
Construction	16.0	13.4
Services	2374.7	2088.4
-Trade and repairs	126.9	139.0
-Hotels and restaurants	11.6	13.4
-Transport and communication	122.0	41.8
-Financial Intermediation	1550.9	1356.9
-Real estate and business services	535.9	514.3
-Other services	27.4	23.0
Other sectors	38.6	30.7

Source: Eurostat (online data code : [bop\\_fdi\\_pos](#))

The activity structure of EU-27 FDI stocks has not changed substantially. Services provide by far the largest contribution both to outward (72%) and to inward (83%) stocks, and the share in 2008 was slightly greater than in 2007. Almost two thirds of services stocks were held in the financial intermediation sector.

After the slowdown in 2007, EU-27 manufacturing stocks abroad declined in 2008 (-3%), but this was the only negative development among all industry sectors. It was largely due to reduced investment in the production of chemicals and chemical products.

The largest sectoral growth in EU-27 inward stocks was in air transport and in construction. The overall decline in foreign stocks held in manufacturing was compensated by the steady growth (5%) in services, particularly due to an 8% increase in the financial intermediation sector.

At the end of 2008, the EU had a positive FDI balance vis-à-vis the rest of the world in all major sectors except agriculture.

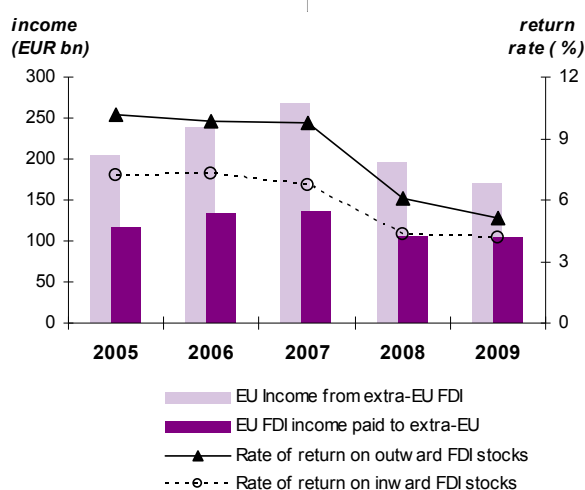
## EU net income continued to fall in 2009

The financial crisis has had a persistent negative impact on the EU's FDI income. Although slowing down, the decline continued in 2009, bringing the rates of return<sup>2</sup> below even the record low levels reached in 2004.

The EU's investment income dropped by 13%, while the income it paid to non-EU countries remained relatively unchanged at EUR 104.0 billion. The resulting net income from the rest of the world amounted to EUR 65.3 billion — 27% less than in 2008. The EU's FDI income balance in 2009 was only 0.55% of its GDP, compared with 0.72% in 2008.

<sup>2</sup> The FDI rate of return is measured here as (FDI income in year t) / (FDI stocks at the end of year t-1)

**Figure 3: EU FDI income and rates of return 2005-2009**



Source: Eurostat (online data codes : [bop\\_fdi\\_main](#), [bop\\_fdi\\_pos](#))



## METHODOLOGICAL NOTES

Foreign Direct Investment statistics in the EU are collected in accordance with [Regulation \(EC\) No 184/2005](#) of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment.

The methodological framework used is that of the OECD Benchmark Definition of Foreign Direct Investment, Third Edition, a detailed operational definition fully consistent with the IMF Balance of Payments Manual, Fifth Edition (BPM5).

**Foreign Direct Investment (FDI)** is the category of international investment made by an entity resident in one economy (*direct investor*) to acquire a lasting interest in an enterprise operating in another economy (*direct investment enterprise*). The lasting interest is deemed to exist if the direct investor acquires at least 10% of the voting power of the direct investment enterprise.

**FDI flows, stocks and income.** Through outward FDI flows, an investor country builds up FDI assets abroad (outward FDI stocks). Correspondingly, inward FDI flows cumulate into liabilities towards foreign investors (inward FDI stocks). However changes in FDI stocks differ from FDI flows because of the impact of revaluation (changes in prices and, for outward stocks, exchange rates) and other adjustments such as catastrophic losses, cancellation of loans, reclassification of existing assets or liabilities. FDI flows are components of the financial account of the Balance of Payments, while FDI assets and liabilities are components of the International Investment Position. Finally, FDI

income consists of the income accruing to the direct investor from its affiliates abroad. Income earned from outward FDI is recorded among credits in the current account of the Balance of Payments, while income paid to foreign owners of inward FDI stocks is recorded among debits.

FDI flows and stocks are recorded according to the immediate host/investing country criterion. The economic activity for both flows abroad and flows in the reporting economy are classified according to the economic activity of the resident enterprise. The same applies to FDI stocks in the reporting economy while FDI stocks abroad are classified according to the activity of the non-resident enterprise.

### Data availability

This article is based on FDI data that were published in Eurostat's database as at the end of May 2011, where the series cover 1992-2009 broken down by partner, activity and type of investment (equity capital, loans and reinvested earnings). The less detailed FDI figures for 2010 are provisional results based on annualised quarterly Balance of Payments data.

EU aggregates include Special Purpose Entities (SPEs), which are a particular class of enterprises (often empty shells or holding companies) not included in all countries' national statistics. Consequently, the EU aggregates are not simply the sum of national figures.

## Further information

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Eurostat Website: <http://ec.europa.eu/eurostat>

Data on 'Balance of payment statistics'

[http://epp.eurostat.ec.europa.eu/portal/page/portal/balance\\_of\\_payments/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database)

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[http://epp.eurostat.ec.europa.eu/portal/page/portal/balance\\_of\\_payments/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/introduction)

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