

EU-15 Foreign Direct Investment in the new Member States continues to increase

This paper presents data for Foreign Direct Investment (FDI) from EU-15 Member States to the new Member States¹ and for FDI from the new Member States to the rest of the world. In 2005, the EU-15 invested EUR 32 bn in the new Member States. This represented 17% of the EU-15 FDI outward flows, an increase of 5 percentage points from 2004. On the other hand, one third of the FDI flows from the new Member States were directed towards EU-15, with most investment being made in neighbouring countries.

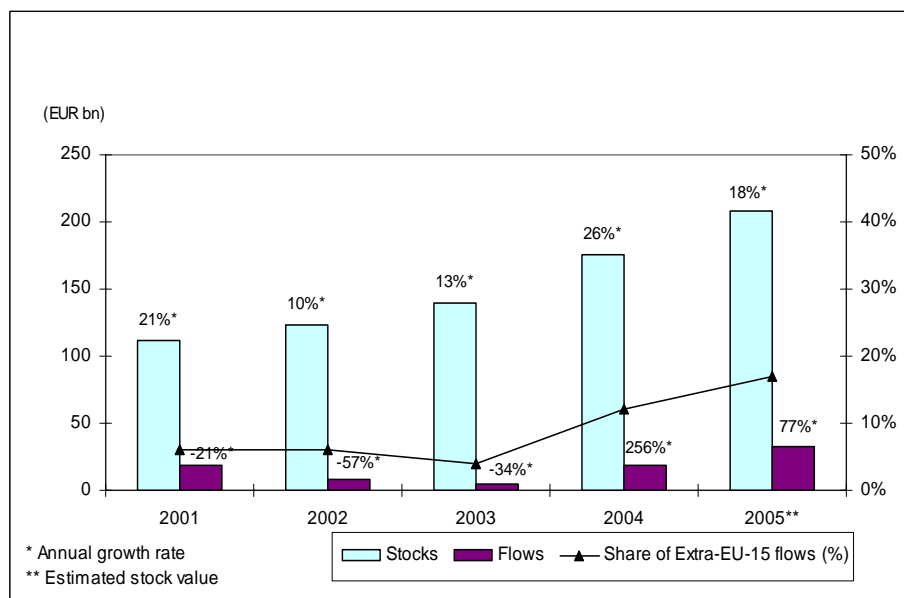
Share of the new Member States in EU-15 FDI outflows is growing

The upward trend in EU-15 investment flows to the new Member States was maintained in 2005. After falling to EUR 5.1 bn in 2003, investment flows increased from EUR 18.3 bn in 2004 to a record level of EUR 32.4 bn in 2005. In fact, in the last two years, the EU-15 FDI outflows directed to the new Member States grew more rapidly than the total extra-EU-15 outflows, increasing by 256% and 77% in 2004 and 2005 respectively, while the growth rates of total EU FDI flows abroad for the same years were 9% and 30%.

The share of the 12 new Member States in the EU-15 outward FDI flows has been increasing significantly after falling to its lowest level in 2003. In 2005, 17% of all extra EU-15 investment flows were directed towards the new Member States. The growth of EU-15 flows was mainly due to recovery of investments in the Czech Republic and steady growth in investments in the other new Member States.

EU-15 outward FDI stocks held in the 12 new Member States also increased, reaching EUR 175.4 bn at the end of 2004. This represented 8% of all extra-EU-15 stocks. The trend is expected to continue, with end-2005 stocks estimated at EUR 207.8 bn.

Figure 1: EU-15 outward FDI flows and stocks in the new Member States



Statistics in focus

ECONOMY AND FINANCE

106/2007

Balance of payments

Authors

Anne FOLTETE
Arja KÄRKKÄINEN

Contents

Share of the new Member States in EU-15 FDI outflows is growing 1

Hungary was the main destination for EU-15 FDI outflows to the new Member States 2

Spain and Germany were the largest investors in the new Member States in 2005 2

Poland had the largest share of EU-15 FDI stocks at the end of 2004 2

New Member States invest mainly in neighbouring countries 3

Services increased their share of EU-15 FDI stocks held in the new Member States 3



¹ Bulgaria, Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Romania, Slovenia, Slovakia (NMS-12)

Hungary was the main destination for EU-15 FDI outflows to the new Member States

For the third consecutive year, the major destination for EU-15 FDI outflows to the new Member States in 2005 was Hungary, which recorded a rise from EUR 7.6 bn in 2004 to EUR 11 bn in 2005. This country alone attracted one third of the total outflows directed to the new Member States.

Investment flows to the Czech Republic ranked second (14% of the total), having recovered after three successive years of disinvestment and reaching EUR 4.6 bn in 2005. As in 2003 and 2004, Romania was the third most important destination (12%) at EUR 3.9 bn.

Conversely, there was a substantial decrease in investment flows to Poland: after a peak of EUR 6 bn in 2004 they fell back to EUR 2.6 bn in 2005, placing this country in fourth position.

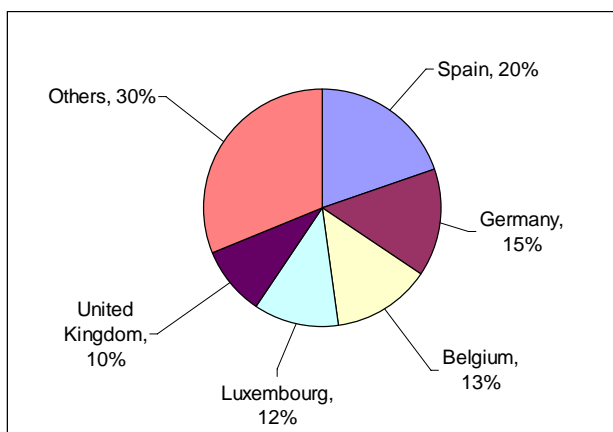
EU-15 investment flows in Estonia (+ EUR 2 bn as compared to 2004), Cyprus (+ EUR 1.9 bn) and Bulgaria (+EUR 1.8 bn) recorded a significant rise.

Table 1: EU-15 FDI outflows to the new Member States 2003-2005 (in million EUR)

	2003	2004	2005	
Extra-EU-15	137 949	149 884	194 820	
NMS	5 147	18 324	32 426	
<i>Share of extra-EU-15</i>	4%	12%	17%	<i>ranking 2005</i>
Bulgaria	340	146	1 961	8
Czech Republic	-2 377	-2 080	4 597	2
Estonia	102	115	2 092	7
Cyprus	-469	694	2 550	5
Latvia	-177	216	-33	11
Lithuania	207	156	-141	12
Hungary	4 212	7 568	11 025	1
Malta	688	1 479	2 167	6
Poland	1 663	6 081	2 639	4
Romania	815	2 968	3 877	3
Slovenia	646	189	507	10
Slovakia	-503	792	1 185	9

Spain and Germany were the largest investors in the new Member States in 2005

Figure 2: Main EU-15 investors in the NMS-12 FDI flows in 2005



In 2005, Spain was the largest investor in the new Member States, accounting for 20% of the total EU-15 investment flows in these countries. The Czech Republic and Hungary attracted the bulk of Spain's investments in the new Member States.

Germany (15%) was the second largest investor, with flows directed mainly towards Hungary, Romania and Malta. The main destination of FDI flows from Belgium was Hungary.

Luxembourg's relatively large share (12%) is largely due to the importance of its special purpose entities (mainly financial holding companies); its main investment destinations were Cyprus and Malta.

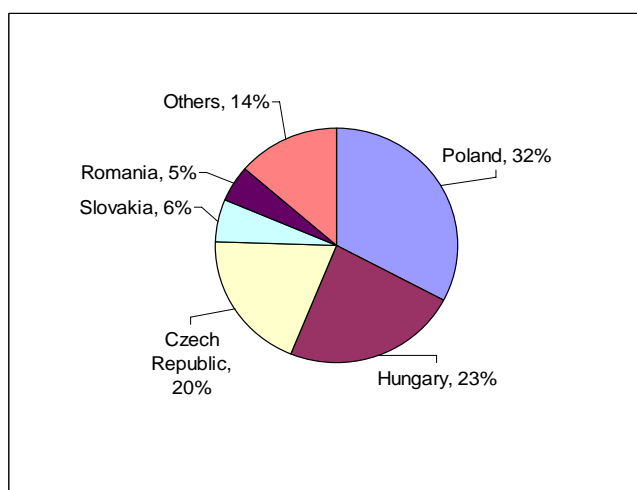
Poland had the largest share of EU-15 FDI stocks at the end of 2004

At the end of 2004, EU-15 stocks held in the new Member States were 26% higher than for 2003, reaching EUR 175.4 bn.

Poland, Hungary and the Czech Republic were the three economies that attracted three quarters of the foreign direct investment from EU-15. The value of FDI stocks held in Poland was EUR 57.5 bn, in Hungary EUR 40.7 bn and in the Czech Republic EUR 34.5 bn.

At the end of 2004, Germany was the main holder of FDI stocks in the new Member States (with 21% of the EU-15 total, followed by France (14%) and Austria (10%).

Figure 3: EU-15 outward FDI stocks in the new Member States by destination (%-share at end-2004)



New Member States invest mainly in neighbouring countries

The investment flows from the 12 new Member States are still very low compared to those of EU-15, representing only 1% of the total outward FDI for EU-27². The new Member States invested mainly in neighbouring countries.

One third of investment flows from the new Member States in 2005 were directed towards EU-15, with the

Netherlands being the main partner, while 14% was invested within the 12 countries themselves.

For investments outside the EU, the main destination for the new Member States' FDI was Switzerland (20% of total FDI flows at EUR 1.3 bn). Other European (non-EU, non-EFTA) countries came next, namely Croatia (7%) and Serbia and Montenegro (6%). Finally, investments by the new Member States in the USA and in Asia were 1% and 3% respectively.

Table 2: New Member States' FDI outflows in 2005 (in million EUR)

	TOTAL WORLD	of which		EXTRA-EU		of which								
		INTRA-EU	of which		% of total World	% of total World	Switzerland	Croatia	Russia	Ukraine	Serbia and Montenegro	USA	Asia	
			% of total World	EU-15										NMS12
NMS12	6 442	3 074	48%	2 203	871*	3 362*	52%	1 303*	452*	:	:	:	60	181
of which														
Bulgaria	249	:		218	:	:	-2	:	10	2	16	2	1	
Czech Rep.	688	327	48%	114	213	361	52%	6	0	0	9	0	5	4
Estonia	494	328	66%	48	280	166	34%	:	0	106	28	0	-1	0
Cyprus	387	244	63%	168	76	145	37%	0	0	7	12	-11	4	118
Latvia	103	38	37%	4	34	64	62%	37	0	1	0	0	3	0
Lithuania	-278	-150	54%	-12	-138	-127	46%	0	-2	-35	-57	0	0	0
Hungary	1 419	817	58%	775	42	601	42%	10	321	2	9	165	9	14
Malta	-19	:		21	:	:		:	:	:	:	:	0	2
Poland	2 467	882	36%	539	343	1 583	64%	1 232	2	101	105	0	45	18
Romania	31	11	35%	10	1	20	65%	0	0	0	1	0	0	17
Slovenia	775	309	40%	297	12	466	60%	3	128	5	8	226	-22	6
Slovakia	126	84	67%	21	63	43	34%	17	3	9	-4	0	15	1

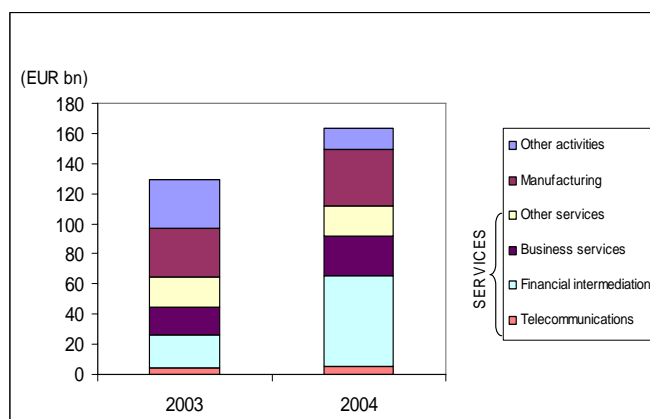
* estimated

: missing or confidential

Services increased their share of EU-15 FDI stocks held in the new Member States

In 2004, there was a marked shift in the distribution of EU-15 FDI stocks among the main economic activities³ in the 10 new Member States towards services (as yet, no detailed breakdown of activities is available for Bulgaria and Romania). Service activities increased their share from 50% in 2003 to 69% at the end of 2004. In absolute terms the growth was even more significant, from EUR 64.2 bn (end-2003) to EUR 112.0 bn (end-2004). The share of manufacturing fell slightly from 26% to 23%, while in absolute terms the value of stocks increased from EUR 33.1 bn to EUR 37.8 bn. The growing importance of the services sector was mainly due to growth in the value of stocks in financial intermediation, which increased from EUR 21.7 bn at the end of 2003 to EUR 61.0 bn at the end of 2004. FDI stocks in business services rose from EUR 18.0 bn to EUR 25.5 bn.

Figure 4: EU-15 FDI stocks held in NMS-10 by main activity



² The partner considered is the world, equal to intra- and extra-EU

³ Service activities consist of: Trade, Hotels and Restaurants, Transport, Telecommunication, Financial intermediation, Business services, Real estate services, Other services not elsewhere classified.

Financial intermediation includes Monetary intermediation, Other financial intermediation, insurance and pension funding (except compulsory social security) and Activities auxiliary to financial intermediation.

Other activities include Agriculture & fishing, Mining & quarrying, Electricity, gas and water, Construction and Not allocated.

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

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 equity capital 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 positions 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 positions in the reporting economy while FDI positions abroad are classified according to the activity of the non-resident enterprise.

This article is based on detailed data that were published in Eurostat database in February 2007. Series for FDI contain data for 1992-2005 with detail by partner country and kind of investment (equity capital, loans and reinvested earnings). Data by economic activity and by main partner are available for the period 1992-2004, but from 2001 only for EU-25. Data for income cover 1995-2005 and data for FDI stocks cover end 1994 to end 2005.

Further information:

Data: [EUROSTAT Website/Home page/Economy and finance/Data](#)



Economy and finance



Balance of payments - International transactions



Balance of payments statistics



International trade in services, geographical breakdown



European Union direct investments

Journalists can contact the media support service:

Bech Building Office A4/125
L - 2920 Luxembourg

Tel. (352) 4301 33408
Fax (352) 4301 35349

E-mail: eurostat-mediasupport@ec.europa.eu

European Statistical Data Support:

Eurostat set up with the members of the 'European statistical system' a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

Contact details for this support network can be found on our Internet site: <http://ec.europa.eu/eurostat/>

A list of worldwide sales outlets is available at the:

Office for Official Publications of the European Communities.

2, rue Mercier
L - 2985 Luxembourg

URL: <http://publications.europa.eu>
E-mail: info@publications.europa.eu