

Foreign direct investment flows hit by the crisis

EU Foreign Direct Investment (FDI) flows have been severely affected by the global economic and financial crisis. They hit a record peak in 2007, but dropped sharply in 2008, for both inward and outward FDI flows (34 % for outflows, 52 % for inflows). While incoming FDI flows recovered slightly in 2009, EU investments abroad continued to decline (by 24 %).

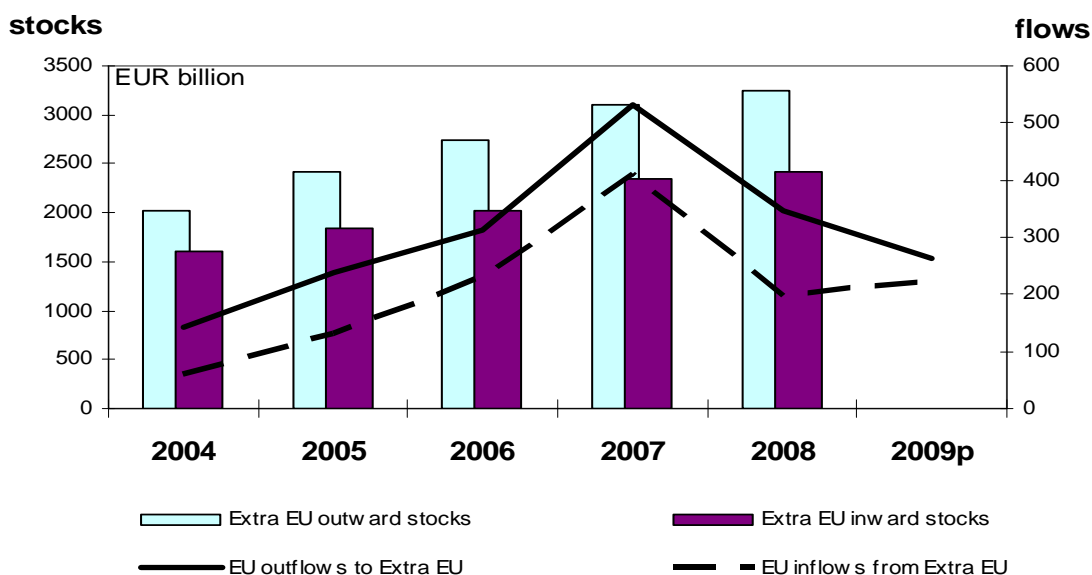
This publication gives an overview of EU FDI statistics for stocks at year-end, annual flows and income. The analysis mainly covers 2006 to 2008, but in the case of flows, provisional data for 2009 are included, based on annualised quarterly data.

In 2007, EU foreign direct investment flows to the countries outside the European Union had reached

the record level of EUR 530.7 bn, mainly as a result of major cross-border mergers and acquisitions and reinvestment of earnings. In 2008, the reinvested earnings paid to extra-EU investors dropped by 50 % and continued to decline in 2009. Equity capital — mainly mergers and acquisitions activity — showed a similar trend, dropping by one third in 2008 and continuing to go down, resulting in EUR 263.3 bn EU outward investments in total in 2009.

Income from investments abroad has also declined from the record level of 2007, meaning that the rate of return on EU outward stocks fell to its lowest level since 2004.

Figure 1: EU FDI flows and stocks 2004-2009



Source: Eurostat ([bop_fdi_main](#))

Table 1: EU-27 outward and inward FDI flows in 2006-2009 (EUR bn)

	Outward FDI flows					Inward FDI flows				
	2006	2007	2008	2009p	Share (%) in 2008	2006	2007	2008	2009p	Share (%) in 2008
Extra EU-27	313.0	530.7	347.7	263.3	100.0%	229.0	411.4	198.7	221.7	100.0%
Europe (non-EU, including EFTA), <i>of which:</i>	74.1	130.6	103.7	:	29.8%	66.4	64.0	45.8	:	23.0%
Switzerland	21.9	39.9	34.0	44.8	9.8%	24.8	29.5	10.6	31.7	5.4%
Russia	11.3	17.2	25.6	-1.0	7.4%	1.5	9.9	2.3	3.1	1.2%
Croatia	4.5	2.7	2.0	:	0.6%	0.0	0.0	-0.2	:	-0.1%
Turkey	12.3	15.4	6.3	:	1.8%	-0.3	0.6	-0.2	:	-0.1%
Ukraine	2.1	3.0	4.8	:	1.4%	-0.1	0.4	0.5	:	0.2%
Africa; <i>of which</i>	11.7	17.9	18.5	:	5.3%	1.8	4.8	6.0	:	3.0%
Egypt	2.8	2.0	9.8	:	2.8%	0.1	-0.1	3.4	:	1.7%
South Africa	5.1	5.1	2.7	:	0.8%	0.9	1.8	0.5	:	0.2%
North America; <i>of which</i>	135.8	198.7	129.3	:	37.2%	85.4	190.5	65.8	:	33.1%
Canada	31.0	29.8	7.8	2.8	2.3%	11.3	6.9	15.3	11.4	7.7%
United States	104.7	168.9	121.4	69.0	34.9%	74.1	183.5	50.5	96.8	25.4%
Central America; <i>of which</i>	38.5	101.5	2.1	:	0.6%	33.0	75.6	-13.6	:	-
Mexico	1.7	6.5	5.7	:	1.6%	0.3	0.4	0.9	:	0.5%
South America; <i>of which</i>	13.0	17.6	9.6	:	2.7%	2.3	27.0	13.4	:	6.7%
Argentina	3.4	2.4	4.4	:	1.3%	0.0	0.1	-0.3	:	-0.1%
Brazil	5.4	14.3	-1.1	6.9	-0.3%	1.5	24.7	10.7	2.8	5.4%
Asia; <i>of which</i>	28.5	53.9	70.1	:	20.2%	34.5	39.0	83.5	:	42.0%
Gulf Arabian Countries	2.3	4.6	18.9	:	5.4%	10.1	2.3	63.2	:	31.8%
China (excluding Hong Kong)	6.7	6.6	4.7	5.3	1.4%	2.2	0.8	-0.1	0.3	0.0%
Hong Kong	3.5	7.3	6.2	3.4	1.8%	-0.2	6.7	2.0	-0.2	1.0%
Japan	-1.6	10.3	5.9	0.1	1.7%	16.0	17.8	7.2	-2.3	3.6%
India	2.4	4.0	3.3	3.2	0.9%	0.5	1.0	3.7	0.4	1.9%
Singapore	9.5	8.5	15.2	:	4.4%	6.0	10.4	2.6	:	1.3%
Oceania; <i>of which</i>	7.2	9.1	14.2	:	4.1%	7.0	6.7	-1.3	:	-
Australia	6.7	8.6	12.8	:	3.7%	6.2	6.7	-0.9	:	-0.5%
Offshore financial centers	58.9	150.8	39.4	60.3	11.3%	74.2	106.5	19.6	39.8	9.9%

2006-2008 annual FDI data. Preliminary figures for 2009 are based on annualised quarterly data.

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

Source: Eurostat ([bop_fdi_main](#))

FDI flows with main partner United States plummeted in 2008

FDI flows between developed economies were the first to be affected by the financial crisis. The United States is by far the main partner of the European Union, and the drop in incoming FDI flows was significant in 2008. Investments declined to EUR 50.5 bn in 2008 from the record high of 2007, when the US alone placed EUR 183.5 bn worth of investment in the European Union. However, a significant recovery in inward flows from USA was already noted in 2009.

EU investment flows to the United States saw a more moderate annual decline in 2008 (from EUR 168.9 bn to EUR 121.4 bn), which continued in 2009 (to EUR 69.0 bn).

In 2006-2007, EU foreign direct investment to Canada was high, due to mergers and acquisitions, but EU outflows fell to EUR 7.8 bn in 2008 and to only EUR 2.8 bn in 2009.

Investments in many emerging economies still surged in 2008. The steady growth in EU

investment flows to Russia reached their peak in 2008 (EUR 25.6 bn), but 2009 saw a sharp downturn towards disinvestment.

EU investments to Africa still recorded growth in 2008, mainly due to EUR 9.8 bn outflows to Egypt by French companies.

Total EU investments to Asia continued to grow in 2008. For Japan, however, there was a drop of 43 % in 2008 from the previous year, and in 2009 EU investments to Japan were worth only EUR 0.1 bn.

EU foreign direct investment to China and India remained quite steady throughout the peak and the drop in total EU FDI outflows. The preliminary figures for 2009 show a slight recovery in outflows to China (from EUR 4.7 bn to EUR 5.3 bn).

In 2008, inflows from outside the EU were worth only half of what they had been a year before. The drop would have been even more significant without a major inflow from Gulf Arabian countries to Luxembourg.

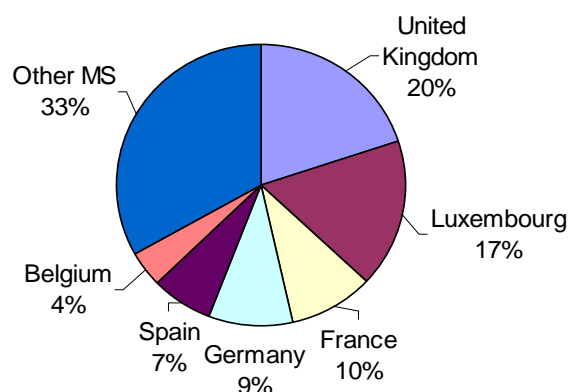
EU's main FDI player — the United Kingdom — invests in USA and Canada

Being influenced by particularly large mergers and acquisitions, FDI flows can fluctuate considerably from one year to another. The main players among EU Member States, however, remain largely the same. The average of outward flows in 2006-2008 shows that the United Kingdom was the main investor in countries outside the EU, followed by Luxembourg. Luxembourg's share can be explained by the activities of Special Purpose Entities (SPEs)¹. In some other EU Member States, especially the Netherlands and Hungary, SPEs likewise play an important role. However, the national data for these countries exclude SPEs here.

The main partners of the United Kingdom were USA and Canada, followed by Australia and Switzerland. After peaking in 2007, the UK recorded a drastic drop in outflows to all these partner countries, except Australia.

The fact that Luxembourg's main partners are the USA, Switzerland and Offshore financial centres shows how important the financial sector is in Luxembourg.

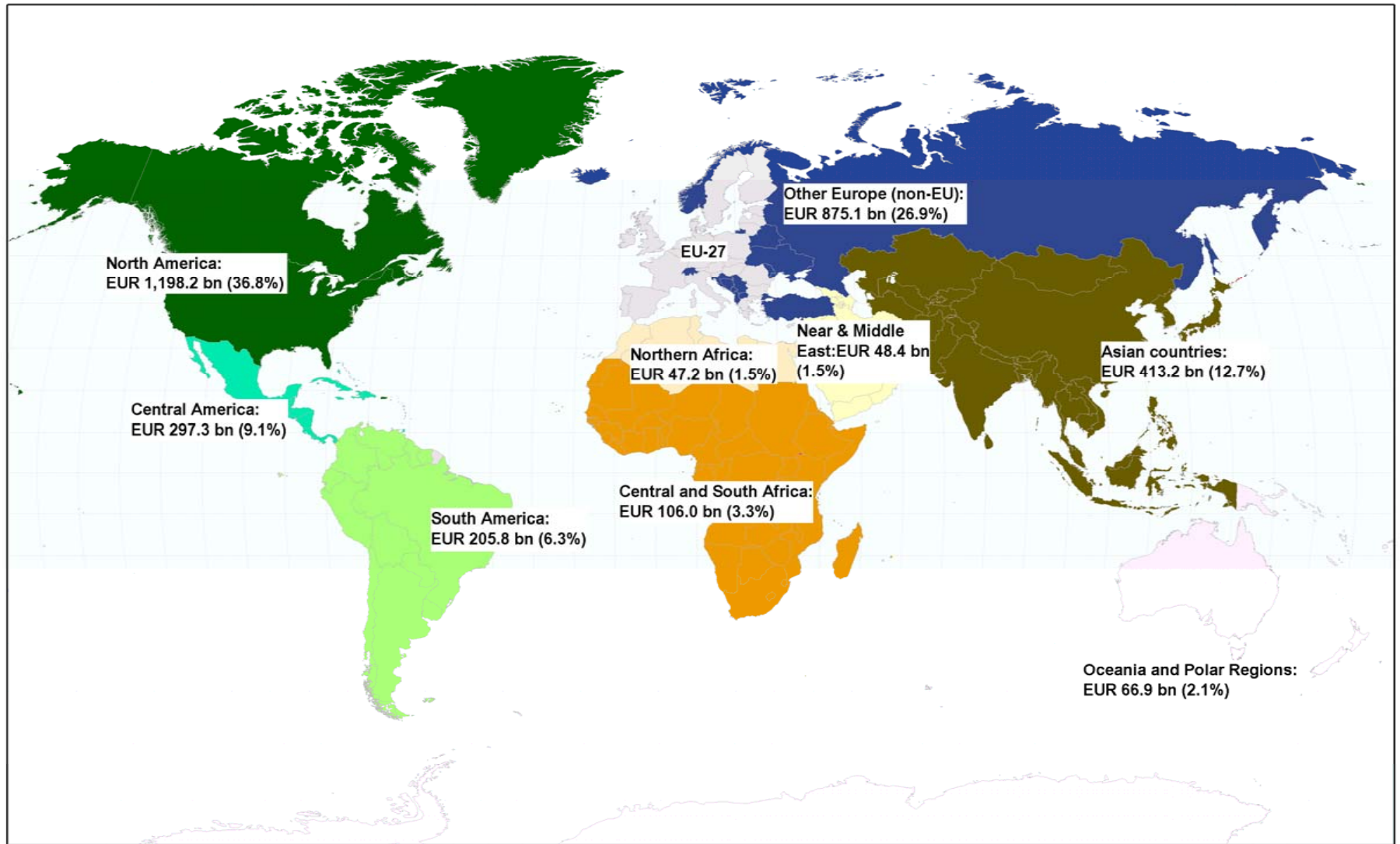
Figure 2: Share in EU FDI outward flows to extra-EU, 2006-2008



Source: Eurostat ([bop_fdi_main](#))

¹ 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.

Map 1: EU-27 FDI outward stocks as of end-2008 (EUR bn, % share in total extra-EU)



Source: Eurostat ([bop_fdi_pos](#))

The growth in FDI positions slowed down in 2008

The annual growth rate of both EU outward and inward positions (stocks) slowed down in 2008 compared to the previous three years. In 2007, annual growth in outward stocks was 13 % and in inward positions 16 %, whereas in 2008 they increased only by 5 % and 3 % respectively.

North America had the biggest share of extra-EU stocks

North America had by far the biggest share (37 %) of extra-EU stocks at the end of 2008. One third (EUR 1058.1 bn) of total EU outward positions were held in the USA, but annual growth slowed down, reflecting the financial crisis and the drop in EU investment flows. EU stocks held in the United States were mainly concentrated in the Service sector (69 % at end-2007), in particular in Financial intermediation and Business activities. In the Manufacturing sector the main activity was Manufacture of chemicals & chemical products. At the end of 2008, the United Kingdom was the main holder of FDI stocks in the US, with 24 % of the EU total (EUR 251.6 bn).

With 14 % of total extra-EU stocks, Switzerland was the second most important destination of EU stocks, Financial intermediation being the main activity sector.

EU stocks held in Russia have been growing significantly in recent years, up to EUR 92.0 bn at end-2008. The Service sector accounted for 55 % of

all EU stocks held in Russia, but there has been major investment in Extraction of petroleum and gas.

Among the Asian countries, the main destinations of EU positions were Singapore, Hong Kong and Japan. The fastest growth in the region was recorded for China and India, but still these countries were not in the top ten of main investment destinations, with 2008 levels at EUR 47.3 bn and EUR 19.4 bn respectively.

USA — the main FDI stock holder in the EU

The US had the major share of the EU inward positions (43 % and EUR 1046.2 bn at end-2008). The Service sector had been the major investment destination for the USA in the EU, covering 79 % of all inward investments at end-2007.

The stock held in the EU by Switzerland at end-2008 was EUR 306.2 bn, which was slightly less than at end-2007 (-2 %). The other developed countries with significant shares in EU-27 inward stock recorded no significant changes in 2008: Japan's stocks declined to EUR 116.9 bn at end-2008, and the stock held by Canada remained at EUR 105.1 bn.

Finally, Brazil almost tripled its stocks in the EU during 2006-2008.

Table 2: TOP 10 countries as extra EU-27 partners for FDI positions in 2008

(EUR billion) reporter : EU-27	OUTWARD				INWARD			
	2006	2007	2008	Growth rate 2006-2008	2006	2007	2008	Growth rate 2006-2008
<i>Extra EU-27</i>	2746.0	3108.2	3252.9	18%	2022.7	2346.1	2421.4	20%
United States of America	949.3	992.4	1058.1	11%	926.1	1041.5	1046.2	13%
Switzerland	364.6	404.6	453.7	24%	282.5	312.0	306.2	8%
Canada	114.1	141.3	139.9	23%	105.2	105.9	105.1	0%
Brazil	92.4	114.4	112.5	22%	14.6	36.2	42.1	188%
Russia	50.5	70.4	92.0	82%	14.6	23.6	28.4	95%
Hong Kong	86.1	88.8	88.9	3%	17.4	16.2	19.1	10%
Singapore	52.5	64.2	80.9	54%	26.8	41.1	41.0	53%
Japan	75.7	72.2	76.1	0%	97.9	120.8	116.9	19%
Norway	50.2	53.2	67.1	34%	55.6	77.9	89.0	60%
Australia	53.6	68.2	58.7	10%	18.8	25.2	20.7	10%

Source: Eurostat ([bop_fdi_pos](#))

Financial intermediation the main activity sector

Table 3: Extra EU-27 FDI stocks (end-2007) by economic activity, EUR bn

reporter : EU-27	Outward	Inward
Total	3108.2	2346.1
Agriculture, hunting and fishing	1.2	1.1
Mining and quarrying	162.9	48.9
Manufacturing	642.8	336.1
-Food products	72.0	51.2
-Textiles and wood activities	34.1	42.0
-Petroleum, chemical, rubber, plastic products	260.3	133.4
-Metal and mechanical products	107.8	40.5
-Machinery, computers, RTV, communication	21.1	14.1
-Vehicles and other transport equipment	71.9	23.1
Electricity, gas and water	53.6	16.2
Construction	14.4	9.2
Services	2176.8	1885.8
-Trade and repairs	124.3	143.2
-Hotels and restaurants	11.5	8.9
-Transports and communication	141.5	45.3
-Financial Intermediation	1387.8	1162.1
-Real estate and business services	481.5	503.6
-Other services	30.1	22.7
Other sectors	56.6	48.8

Source: Eurostat ([bop_fdi_pos](#))

The structure of EU-27 FDI stocks by activity did not change significantly from 2006. Services represented the biggest share (70 %) in total positions abroad, confirming the trend of recent years. More than half were concentrated in financial intermediation, which registered an annual increase of 18.6 %. Unlike other main sectors, EU FDI stocks growth abroad in manufacturing slowed down in 2007, providing an indication of the coming recession.

For inward positions, Services took the biggest part (80 %) in total activity, with financial intermediation again contributing the most. Foreign FDI stocks in EU-27 in transport and communication, and in machinery, computers and communication equipment, dropped significantly (by more than 20 %) from 2006 levels.

Among the presented sectors, the EU had a negative stock balance vis-à-vis the rest of the world in 2007 only in textile and wood activities, and in real estate and business services.

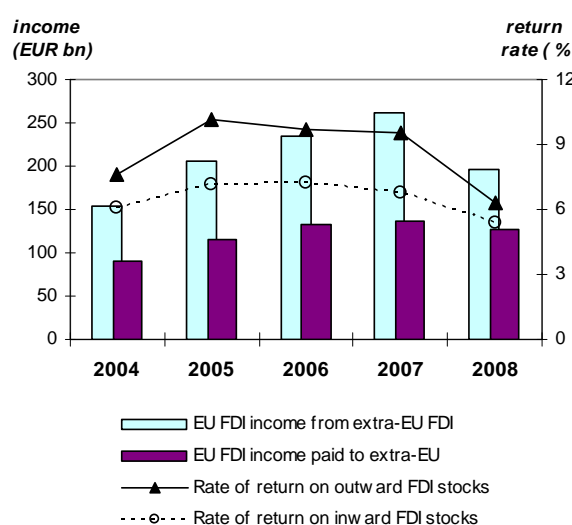
Sharp drop in EU net income in 2008

The financial crisis has also cut down the income from investments abroad. EU investment income dropped sharply in 2008 to EUR 195.9 bn from the record high of EUR 261.4 bn in 2007. In particular, income received from EU investments in the United States declined from EUR 70.5 bn in 2007 to EUR 36.7 bn in 2008.

EU income paid to extra-EU investors saw a moderate decline of 7 % in 2008, to EUR 126.3 bn.

The resulting net FDI income dropped by 44 % in 2008 to EUR 69.6 bn (EUR 124.9 bn in 2007). Income in 2008 represented 0.56 % of EU-27 GDP, while a year before it had been 1,01 % of GDP. This significant decline brought the rates of return¹ on both EU outward and inward stocks down to their lowest levels since 2004.

Figure 3: EU FDI income and rates of return 2004-2008



¹ The FDI rate of return is measured here as (FDI income of year t) / (stock of FDI at the end of year t-1)

METHODOLOGICAL NOTES

Foreign Direct Investment statistics in the EU are collected according to [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 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.

Data availability

This article is based on FDI data that were published in Eurostat's database as of end of May 2010, where the series cover 1992-2008 with detail by partner, activity and type of investment (equity capital, loans and reinvested earnings). In addition, the less detailed FDI for 2009 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. Therefore, the EU aggregates are not simply the addition of national figures.

Further information

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

Data on "Balance of payments – Foreign direct investments"

http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database

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