Statistics in focus

ECONOMY AND FINANCE

THEME 2 – 3/2002

BALANCE OF PAYMENTS

Contents

Manuscript completed on: 21.01.2002
ISSN 1024-4298
Catalogue number: KS-NJ-02-003-EN-N

THE EVOLUTION OF FDI IN CANDIDATE COUNTRIES: DATA 1995-2000

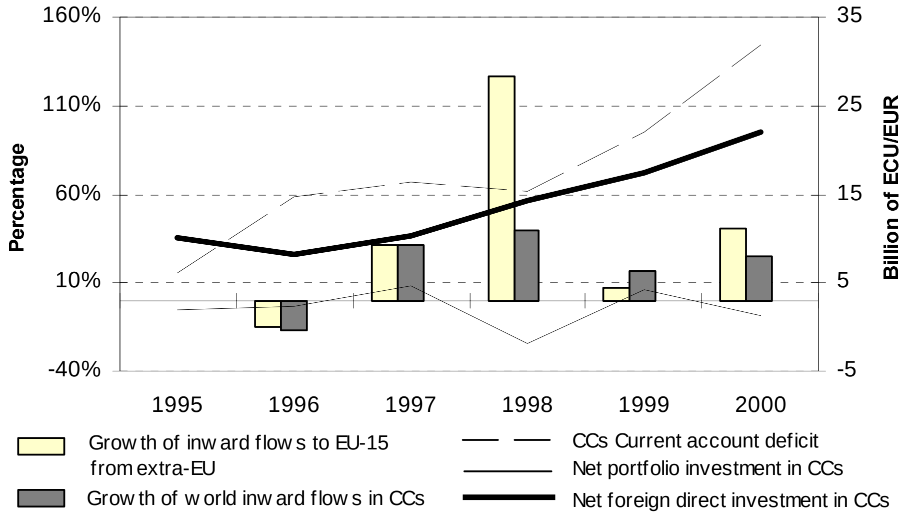
Irene Lovino, Paolo Passerini

The process of enlargement embraces thirteen Candidate Countries (CCs). FDI transactions in them experienced important growth since 1996. This article shows the main features of these developments and presents data on FDI broken down by country and by type of activity. While showing the important role of the EU-15 as an investor of FDI capital in Candidate Countries, it also contains references to equivalent variables for the EU-15 to give the reader an easy term of comparison. The map and the box on page 3 give some basic background information and a synthetic picture of the main variables considered in this issue.

2000 Net FDI flows in CCs reached EUR 22 Bn after three years of sustained growth

From 1996 onwards CCs have been increasingly involved in FDI transactions. The sum of inward and outward FDI flows soared from ECU 10.5 Bn in 1995 to EUR 23.7 Bn in 2000, being mainly composed of inward flows that on average accounted for more than 90% of the sum. In the graph below we consider the resulting net capital inflow, i.e. the difference between inward and outward flows.

Net FDI Flows, Current Account and Portfolio Investments in Candidate Countries



Growth rates values are presented in the left hand scale.
Net values are presented in the right hand scale.

Foreign Direct Investment (FDI) statistics give information on one of the major aspects of globalisation. FDI is a supplement or an alternative to cross border trade in goods and services. For Balance of Payments statistics, Eurostat maintains an FDI database that comprises harmonised and thus comparable data on inward and outward FDI flows, income and positions. It gives the geographical breakdown of FDI and it also provides users with detailed data by sector of activity.

The database, containing data for EU-15 aggregates and EU Member States, has been recently enriched with FDI statistics declared by Candidate Countries. The data presented here cover the period 1995-2000, but for this last year only partial information is available (See "Essential Information – Methodological Notes" on page 7).

The net capital inflow far outweighed other elements of the balance of payments financial account (e.g. portfolio investment) and played a major role in financing the current account deficits that characterised CCs over the period considered.

The growth of CCs inward flows can be compared (in the above graph) to that one of the FDI inflows to EU-15 from extra-EU countries. The growth rates for the EU and for CCs show a similar pattern with a drop in 1996 followed by four years of expansion. On the other hand, the EU-15 was the main investor of FDI capital in the group as a whole[1].

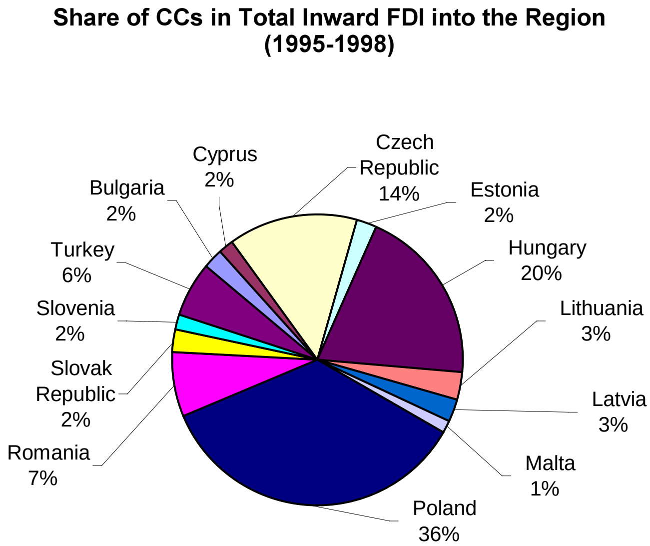
Poland, Czech Republic and Hungary, main FDI recipients: in 1999, 73% of inward flows aimed at them

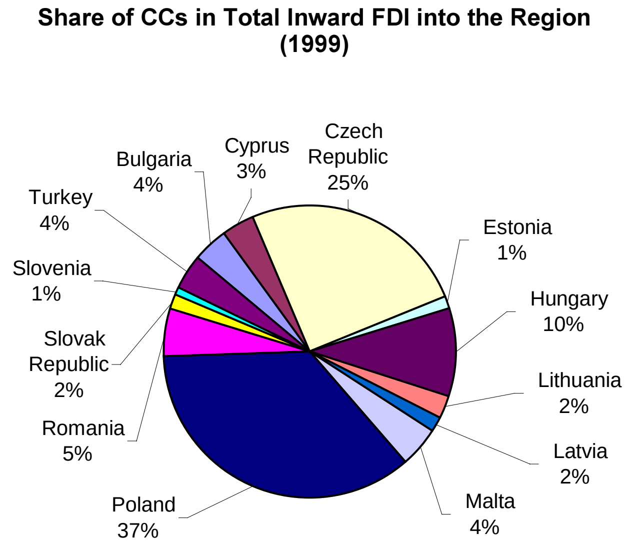
The FDI inflows to the CCs region are concentrated in Poland, Czech Republic and Hungary. However, their share has registered a reduction in the period considered (82% in 1995 and 73% in 1999, see the following graph and table on the last page). The reduction of the share of investment in Hungary has exceeded the increase for Czech Republic and Poland during the same period. Preliminary data show that this growing trend continued in 2000, with Poland in particular increasing FDI inflows (EUR 10 Bn in 2000, nearly twice the average of the corresponding values of the previous three years).

Hungary presents a reduction of FDI received from abroad not only as a share of the total aggregate for the region, but also in absolute terms. The ECU 3,7 billion received in 1995, the highest level in the region, was a peak of the time series representing twice the value of the following years (1,8 billion in 1999). This trend was driven, in particular, from the advancement of the privatisation process, nearly completed in 1999[2]. In order to neutralise the exceptional level of inflow in Hungary registered in 1995, the following graph compares the 1999 shares of the CCs with the previous four years average.

Apart from the already mentioned upsurge of FDI inflows in Poland and Czech Republic (in 2000, Czech Republic received EUR 5 billion of FDI inflows), the reduction of the share of Hungary is compensated by an increase of the relative weight of Malta, Bulgaria and Lithuania. The small share of these three countries in 1995 (inferior to 1 percentage point of the total) increased in the period as presented in the graph. The "Helsinki group"[3] countries altogether increased their share in total FDI inflows from 8 to 19 per cent, notwithstanding a small reduction registered from Slovak Republic.

Countries Share in Total FDI Flows to CCs



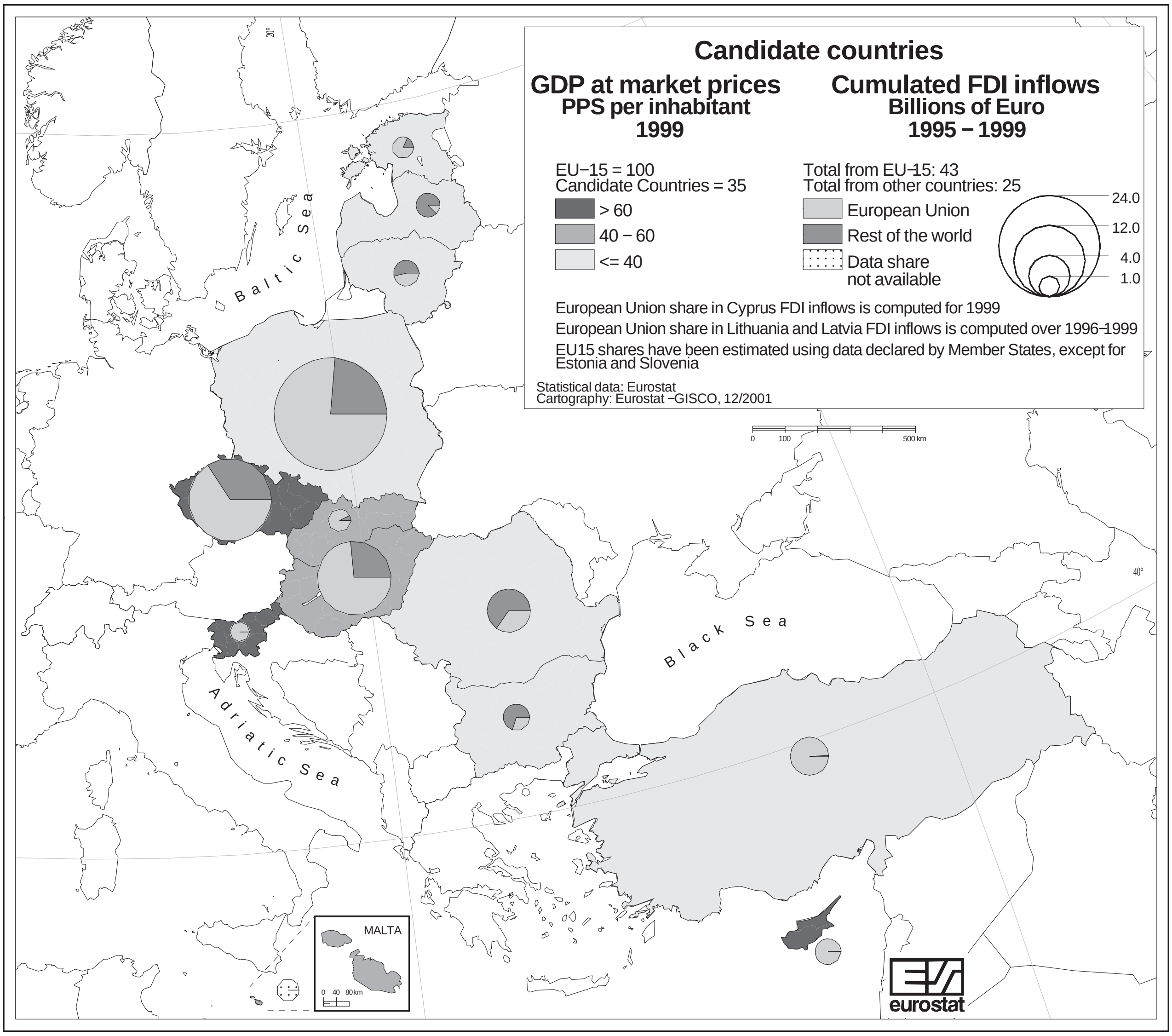


---

[1] *For an overview of the EU investments in CCs see Statistics in Focus, theme 2, n° 26/2000 "European Union FDI with Candidate Countries".*

[2] *See the analyses presented in the UNCTAD World Investment Report 2001.*

[3] *Two groups of CCs can be drawn considering the beginning of their official negotiations to join the European Union. On 31 March 1998, accession negotiations started with 6 applicant countries, referred to as "Luxembourg group": Hungary, Poland, Estonia, Czech Republic, Slovenia and Cyprus. Remaining countries (Turkey excluded) opened their negotiation process in December 1999 and are referred to as the "Helsinki group": Bulgaria, Latvia, Lithuania, Malta, Romania and Slovak Republic.*



The different colours used for countries areas represent the corresponding level of GDP per inhabitant in Purchasing Power Standard (PPS), in comparison with that of the European Union. The size of the pie's represents the absolute value of cumulated FDI inflows, while their composition gives the share EU-15/other countries. For example, the Czech Republic was above 60% of the EU per capita GDP in 1999. It had received FDI for 13 billion ECU/EUR between 1995 and 1999, 66 % of which had come from the EU-15.

CCs in Brief

With the term Candidate countries you refer to the thirteen countries involved in the process of EU enlargement: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, Slovenia and Turkey.

CCs altogether cover 1 872 990 sq. km, the smallest country being Malta with 320 sq. km and the biggest one being Turkey with 775 thousand sq. km. Their total population in 1999 amounted to 170 million of inhabitants: from 379 thousand inhabitants in Malta to 64 million of people in Turkey.

In 1999, the economic weight of CCs, expressed by PPS GDP per inhabitant, corresponded to a third of EU-15 one[4] . This weight, amounting on average to 35% of EU-15 one, hide big disparities. Bulgaria (23% of EU-15 PPS GDP per inhabitant), Lithuania (29%), Latvia (28%), Romania (27%) and Turkey (29%) were below that level. Cyprus (81%) and Slovenia (71%) lead the group[5], while Czech Republic (60%) was close to latter countries (this information is summarised in the above map).

---

[4] *One has to notice that this year was one of economic stagnation in the region, especially for Turkey which experienced an earthquake in August 1999.*

[5] *See Statistics in Focus, theme 2, n° 28/2001 “The GDP of the Candidate countries – Annual GDP, growth rates and main aggregates“.*

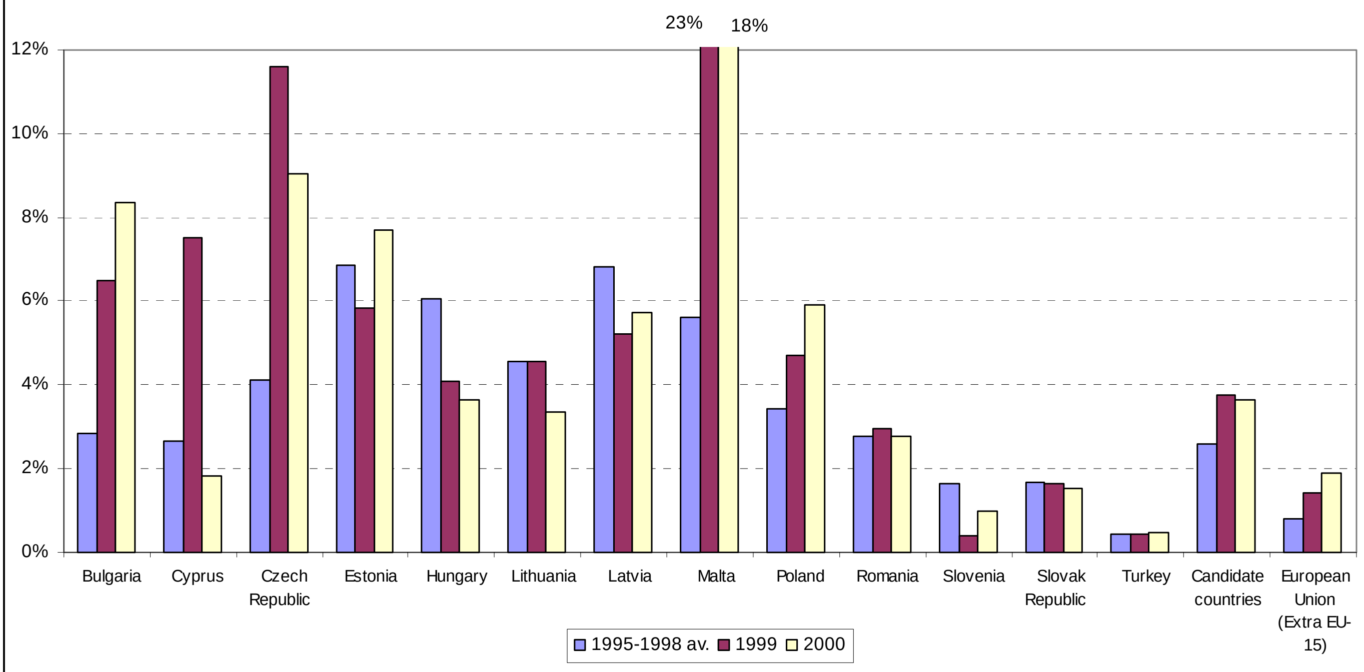
FDI is representing a growing share of CCs GDP: from 2.3% in 1995 to 3.7% in 2000

The weight of inward FDI in CCs economy, expressed as the percentage of FDI inflows on GDP, grew all through the period under consideration. From an average rate of 2.6% between 1995 and 1998, it reached 3.7% in 2000, a level closer to that of EU-15 countries. The graph below shows this trend, making also the comparison with the FDI investments received by the EU-15 from the extra-EU countries. This last flow progressed in the period considered from making up an average of 0.6% between 1995 and 1998 to that of 1.4% in 2000.

The graph illustrates also the ratio between FDI inflows and GDP for every CCs. From 1995 to 1998 on average, Estonia and Latvia had the highest ratio (6.8%). Hungary had a ratio of 6% while Czech Republic and Poland had a ratio of 4.1% and 3.4% respectively. While this weight is increasing in Poland, it is decreasing in Hungary. Thus by end 2000 Poland had a ratio close to 6% and Czech Republic 9%. Nevertheless, they were still above CCs average.

On average, between 1995 and 2000, inward FDI had most importance in the Maltese and Czech economies, representing respectively 15.4% and 8.3% of their GDP.

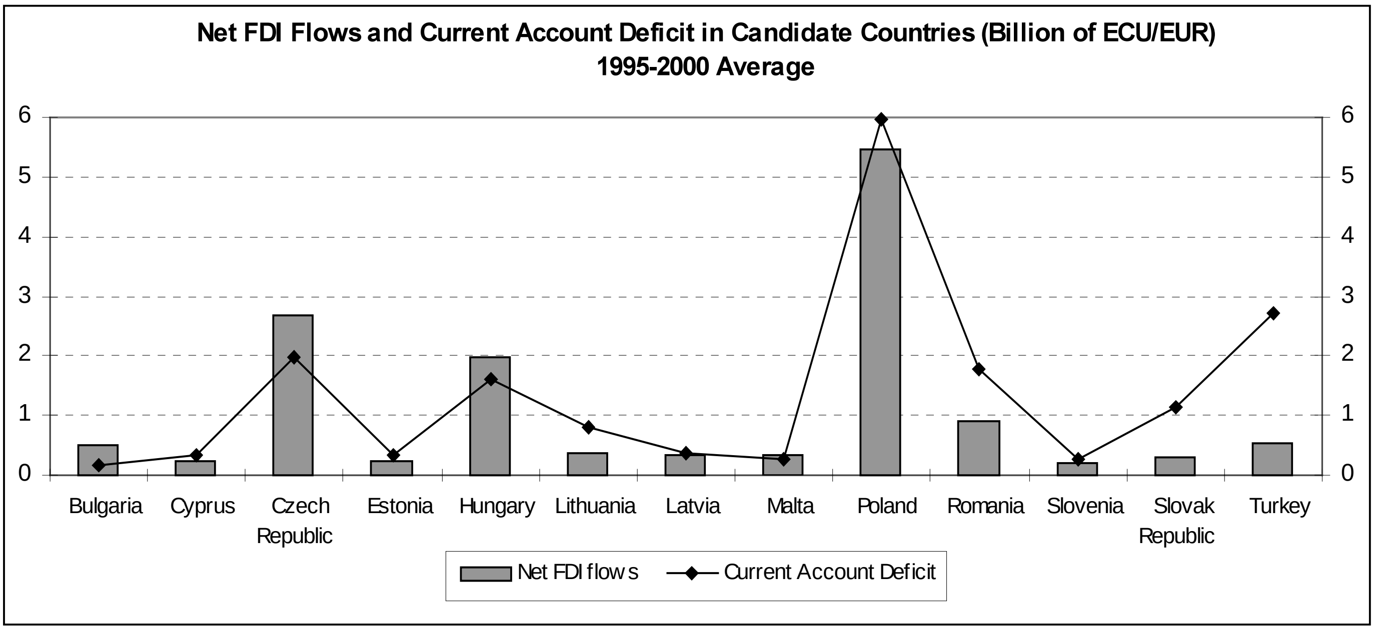
Inward FDI Flows as % of GDP at Market Prices



FDI inflows have financed current account deficits in most Candidate countries

A connection between net FDI flows and current account balance can be seen plotting together these two series (next graph), as highlighted in the first section. Half of the CCs depended mainly on FDI inflows to finance their current account deficit.

In particular, in four countries, Bulgaria, Czech Republic, Hungary and Malta, average net FDI inflows exceeded average current account deficit. In Estonia, Latvia, Poland, Cyprus, and Slovenia, average FDI inflows represented more than two-thirds of the current account deficit. In Lithuania, Romania, Turkey, and Slovak Republic average FDI inflows covered less than half of the average current account deficit.



Net FDI flows represented in general an important share of CCs financial account, also in relation to the weak development of financial markets in those countries.

From 1997 to 1999, Candidate countries[6] doubled altogether their FDI stocks

If until now only FDI flows have been considered, the rest of the article analyses the same phenomenon looking at stock data. In this way the recent development can be considered in the light of the pre-existent situation. In particular, the comparison between the CCs and the EU Member States has to take into account the very different starting point of the two groups of countries in terms of position of FDI. In the table below we present the net liabilities, i.e. the difference between the FDI stocks received from abroad and the corresponding assets invested abroad.

Foreign Direct Investment Net Liabilities in CCs

	FDI Net Liabilities			Variation of Stocks	Variation of Stocks (%)
	1997	1998	1999	1999-1997	(1999-1997) on 1997
Czech Republic	7.5	11.5	15.2	7.7	101
Lithuania	0.9	1.3	2.0	1.1	121
Latvia	0.9	1.0	1.4	0.5	57
Poland	12.6	18.2	24.5	11.9	95
Romania	2.1	3.8	5.4	3.2	149
Slovenia	1.8	1.9	2.0	0.2	14
Slovak Republic	1.5	1.8	2.4	0.9	60
Total	27.3	39.5	52.9	25.5	93.4

Data are in billion of ECU/EUR.

Considering the seven countries for which more data are available, aggregated FDI stocks doubled from ECU 27.3 Bn in 1997 to EUR 52.9 Bn in 1999. In the same period, inward FDI stocks grew by 38% in the EU-15.

Czech Republic and Poland made up half of their positions between 1997 and 1999. These two countries together held 75% of those seven countries total stocks in 1999. Lithuania and Romania more than doubled their FDI position between 1997 and 1999. The only country not to have built the main part of its stocks from 1997 to 1999 is Slovenia, for which the FDI stocks grew by just 14% of the 97 level during the period under consideration.

Low levels of FDI stocks in 1997 as well as the increased credibility brought by the opening of EU adhesion negotiations in March 1998 and December 1999 can explain this upsurge of stocks. However, with the highest FDI stocks in 1997, Czech Republic (ECU 7.6 Bn) and Poland (ECU 12.6 Bn) remained more attractive for foreign investors in absolute terms.

[6] *Due to data availability, only seven countries have been included in this paragraph: Czech Republic, Lithuania, Latvia, Poland, Romania, Slovenia and Slovak Republic.*

Towards which sectors foreign investors have been most attracted?

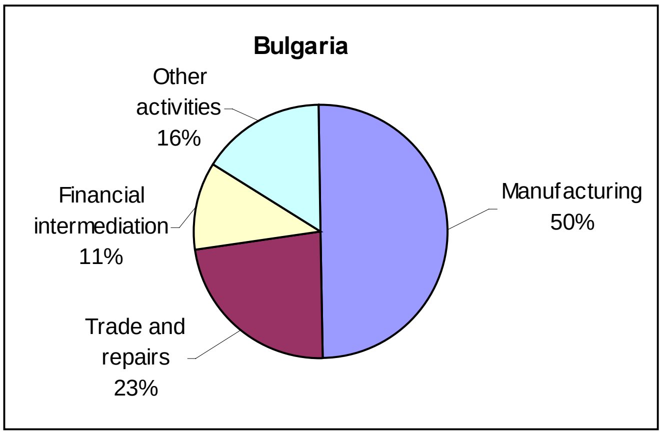
In 1998 a large part of FDI were invested in the manufacturing activities of the CCs. Other important sectors were trade and repairs and financial intermediation.

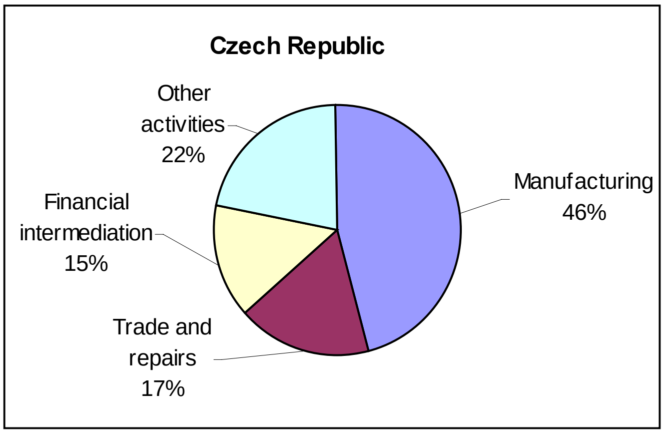
Baltic countries' stocks contained less manufacturing activities than other countries (nevertheless, still around a third of stocks). In Latvia, they represented only 16% of the stocks whereas transport storage and communication, as well as financial intermediation activities appeared to be more attractive. In Lithuania and Estonia, manufacturing is the most important sector for FDI, followed by trade and repairs activity.

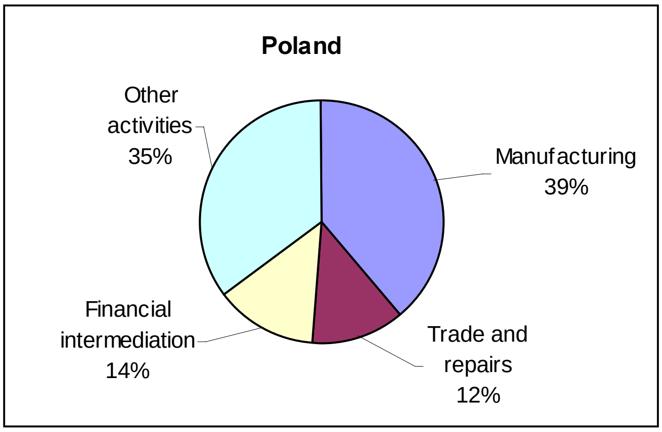
Czech Republic and Slovenia had close shapes of stocks activity breakdown. Manufacturing represented half of the stocks, while both trade and repairs and financial intermediation represented a third of the remaining stocks. Poland presents a similar distribution of FDI stocks, but the importance of not allocated stocks (20%) calls for caution. In fact, the 35% of FDI invested in Other activities shown in the graph below is mainly composed of not allocated stocks.

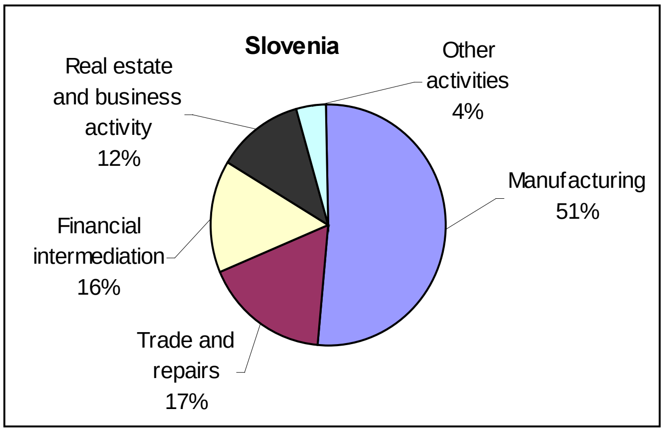
The same three activities also composed the main part of Bulgaria and Slovak Republic stocks.

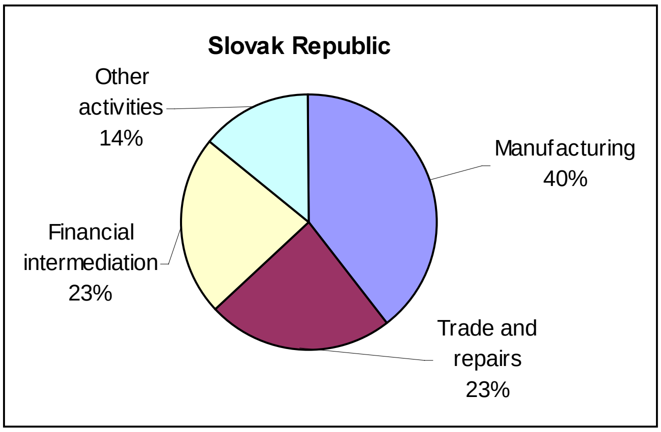
FDI Stocks broken down by Economic Activity, 1998 Data

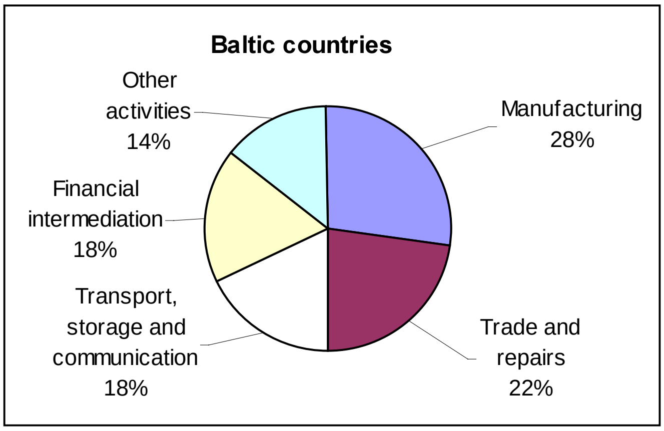












Inward FDI in CCs, 1995 – 1999
Million of ECU/EUR and Percentage of the GDP at Market Prices

	1995		1996		1997		1998		1999	
Bulgaria	69	*0.7%*	86	*1.1%*	445	*5.0%*	479	*4.4%*	756	*6.5%*
Cyprus(1)	66	*1.0%*	43	*0.6%*	433	*5.8%*	237	*2.9%*	642	*7.5%*
Czech Republic	1 960	*4.9%*	1 125	*2.5%*	1 148	*2.5%*	3 303	*6.5%*	5 932	*11.6%*
Estonia	154	*5.7%*	119	*3.5%*	235	*5.8%*	513	*11.0%*	284	*5.8%*
Hungary	3 675	*10.8%*	1 803	*5.1%*	1 928	*4.8%*	1 815	*4.3%*	1 849	*4.1%*
Lithuania	55	*1.2%*	120	*1.9%*	313	*3.7%*	826	*8.6%*	456	*4.6%*
Latvia	136	*4.0%*	301	*7.4%*	460	*9.3%*	318	*5.8%*	334	*5.2%*
Malta	101	*4.1%*	218	*8.3%*	71	*2.4%*	238	*7.6%*	770	*22.5%*
Poland	2 797	*2.9%*	3 542	*3.1%*	4 328	*3.4%*	5 678	*4.0%*	6 821	*4.7%*
Romania	320	*1.2%*	207	*0.7%*	1 071	*3.4%*	1 812	*4.9%*	977	*3.0%*
Slovenia	235	*1.6%*	210	*1.4%*	414	*2.6%*	178	*1.0%*	78	*0.4%*
Slovakia	181	*1.3%*	279	*1.8%*	154	*0.9%*	504	*2.7%*	306	*1.7%*
Turkey	677	*0.5%*	569	*0.4%*	710	*0.4%*	838	*0.5%*	735	*0.4%*
Total	10 426	*2.7%*	8 622	*2.0%*	11 711	*2.4%*	16 738	*3.2%*	19 941	*3.8%*

(1) *The data for 1995 and 1996 are drawn from a series different to that one used for the following years. It may contribute to the observable break in the time series.*

➢ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

Foreign direct investment (FDI) is the category of international investment, within the Balance of Payments Financial Account, that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. Formally defined, a direct investment enterprise is an unincorporated or incorporated enterprise in which a direct investor owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

FDI flows and positions

Through direct investment flows, an investor builds up a foreign direct investment position that features on the international investment position of the country. This FDI position (sometimes called FDI stock) differs from the accumulated flows because of revaluation (changes in prices or exchange rates, and other adjustments like rescheduling or cancellation of loans, debt forgiveness or debt-equity swaps).

New Cronos Data Base for BoP CCs

Eurostat publishes annual data about the position and the flows of FDI and the income related to these aggregates, beginning with the year 1997. However, the data are not available for every country with the required breakdown.

Further information:

- **Databases**

  New Cronos,
  Domain Theme2/bop/bopcc

To obtain information or to order publications, databases and special sets of data, please contact the **Data Shop** network:

BELGIQUE/BELGIË
Eurostat Data Shop
Bruxelles/Brussel
Planistat Belgique
Rue du Commerce 124
Handelsstraat 124
B-1000 BRUXELLES / BRUSSEL
Tel. (32-2) 234 67 50
Fax (32-2) 234 67 51
E-mail: datashop@planistat.be
URL: http://www.datashop.org/

DANMARK
DANMARKS STATISTIK
Bibliotek og Information
Eurostat Data Shop
Sejrøgade 11
DK-2100 KØBENHAVN Ø
Tlf. (45) 39 17 30 30
Fax (45) 39 17 30 03
E-mail: bib@dst.dk
Internet:: http://www.dst.dk/bibliotek

DEUTSCHLAND
STATISTISCHES BUNDESAMT
Eurostat Data Shop Berlin
Otto-Braun-Straße 70-72
(Eingang: Karl-Marx-Allee)
D-10178 BERLIN
Tel. (49) 1888 644 94 27/28
Fax (49) 1888-644 94 30
E-Mail: datashop@destatis.de
URL:http://www.eu-datashop.de/

ESPAÑA
INE Eurostat Data Shop
Paseo de la Castellana, 183
Oficina 011
Entrada por Estébanez Calderón
E-28046 MADRID
Tel. (34) 91 583 91 67
Fax (34) 91 579 71 20
E-mail: datashop.eurostat@ine.es
URL: http://www.datashop.org/

FRANCE
INSEE Info Service
Eurostat Data Shop
195, rue de Bercy
Tour Gamma A
F-75582 PARIS CEDEX 12
Tél. (33) 1 53 17 88 44
Fax (33) 1 53 17 88 22
E-mail: datashop@insee.fr

ITALIA – Roma
ISTAT
Centro di Informazione Statistica
Sede di Roma, Eurostat Data Shop
Via Cesare Balbo, 11a
I-00184 ROMA
Tel. (39) 06 46 73 31 02/06
Fax (39) 06 46 73 31 01/07
E-mail: dipdiff@istat.it

ITALIA – Milano
ISTAT
Ufficio Regionale per la Lombardia
Eurostat Data Shop
Via Fieno 3
I-20123 MILANO
Tel. (39) 02 80 61 32 460
Fax (39) 02 80 61 32 304
E-mail: mileuro@tin.it

LUXEMBOURG
Eurostat Data Shop Luxembourg
BP 453
L-2014 LUXEMBOURG
4, rue Alphonse Weicker
L-2721 LUXEMBOURG
Tél. (352) 43 35-2251
Fax (352) 43 35-22221
E-mail: dslux@eurostat.datashop.lu
URL: http://www.datashop.org/

NEDERLAND
STATISTICS NETHERLANDS
Eurostat Data Shop-Voorburg
Postbus 4000
2270 JM VOORBURG
Nederland
Tel. (31-70) 337 49 00
Fax (31-70) 337 59 84
E-mail: datashop@cbs.nl

NORGE
Statistics Norway
Library and Information Centre
Eurostat Data Shop
Kongens gate 6
Boks 8131 Dep.
N-0033 OSLO
Tel. (47) 21 09 46 42/43
Fax (47) 21 09 45 04
E-mail: Datashop@ssb.no

PORTUGAL
Eurostat Data Shop Lisboa
INE/Serviço de Difusão
Av. António José de Almeida, 2
P-1000-043 LISBOA
Tel. (351) 21 842 61 00
Fax (351) 21 842 63 64
E-mail: data.shop@ine.pt

SCHWEIZ/SUISSE/SVIZZERA
Statistisches Amt des Kantons
Zürich, Eurostat Data Shop
Bleicherweg 5
CH-8090 Zürich
Tel. (41-1) 225 12 12
Fax (41-1) 225 12 99
E-mail: datashop@statistik.zh.ch
Internet: http://www.statistik.zh.ch

SUOMI/FINLAND
STATISTICS FINLAND
Eurostat Data Shop Helsinki
Tilastokirjasto
PL 2B
FIN-00022 Tilastokeskus
Työpajakatu 13 B, 2.Kerros, Helsinki
P. (358-9) 17 34 22 21
[illegible]

SVERIGE
STATISTICS SWEDEN
Information service
Eurostat Data Shop
Karlavägen 100 - Box 24 300
S-104 51 STOCKHOLM
Tfn (46-8) 50 69 48 01
Fax (46-8) 50 69 48 99
E-post: infoservice@scb.se
Internet:http://www.scb.se/info/datashop/eudatashop.asp

UNITED KINGDOM
Eurostat Data Shop
Office for National Statistics
Room 1.015
Cardiff Road
Newport South Wales NP10 8XG
United Kingdom
Tel. (44-1633) 81 33 69
Fax (44-1633) 81 33 33
E-mail: eurostat.datashop@ons.gov.uk

UNITED STATES OF AMERICA
HAVER ANALYTICS
Eurostat Data Shop
60 East 42nd Street
Suite 3310
NEW YORK, NY 10165
USA
Tel. (1-212) 986 93 00
Fax (1-212) 986 69 81
E-mail: eurodata@haver.com

Media Support Eurostat (for professional journalists only):
Bech Building Office A3/48 • L-2920 Luxembourg • Tel. (352) 4301 33408 • Fax (352) 4301 32649 • e-mail: eurostat-mediasupport@cec.eu.int

---

For information on methodology
Irene Lovino, Eurostat/B5, L-2920 Luxembourg, Tel. (352) 4301 35134, Fax (352) 4301 33859, E-mail: irene.lovino@cec.eu.int
ORIGINAL: English. Nelly Ahouilihoua carried out the data processing and statistical analysis.

Please visit our web site at **www.europa.eu.int/comm/eurostat/** for further information!

A list of worldwide sales outlets is available at the **Office for Official Publications of the European Communities**.

2 rue Mercier – L-2985 Luxembourg
Tel. (352) 2929 42118 Fax (352) 2929 42709
Internet Address **http://eur-op.eu.int/fr/general/s-ad.htm**
e-mail: info-info-opoce@cec.eu.int

BELGIQUE/BELGIË – DANMARK – DEUTSCHLAND – GREECE/ELLADA – ESPAÑA – FRANCE – IRELAND – ITALIA – LUXEMBOURG – NEDERLAND – ÖSTERREICH PORTUGAL – SUOMI/FINLAND – SVERIGE – UNITED KINGDOM – ÍSLAND – NORGE – SCHWEIZ/SUISSE/SVIZZERA – BALGARIJA – CESKÁ REPUBLIKA – CYPRUS EESTI – HRVATSKA – MAGYARORSZÁG – MALTA – POLSKA – ROMÂNIA – RUSSIA – SLOVAKIA – SLOVENIA – TÜRKIYE – AUSTRALIA – CANADA – EGYPT – INDIA ISRAËL – JAPAN – MALAYSIA – PHILIPPINES – SOUTH KOREA – THAILAND – UNITED STATES OF AMERICA

Order form

I would like to subscribe to Statistics in focus (from 1.1.2002 to 31.12.2002):
(for the Data Shop and sales office addresses see above)

❒ **Formula 1**: All 9 themes (approximately 140 issues)

❒ Paper: EUR 360
Language required: ❒ DE ❒ EN ❒ FR

❒ **Formula 2:** One or more of the following seven themes:

❒ Theme 1 'General statistics'
❒ Paper: EUR 42

❒ Theme 2 'Economy and finance'
❒ Theme 3 'Population and social conditions'
❒ Theme 4 'Industry, trade and services
❒ Theme 5 'Agriculture and fisheries'
❒ Theme 6 'External trade'
❒ Theme 8 'Environment and energy
❒ Paper: EUR 84

Language required: ❒ DE ❒ EN ❒ FR

Statistics in focus can be downloaded (pdf file) free of charge from the Eurostat web site. You only need to register. For other solutions, contact your Data Shop.

❒ Please send me a free copy of 'Eurostat mini-guide' (catalogue containing a selection of Eurostat products and services)
Language required: ❒ DE ❒ EN ❒ FR

❒ I would like a free subscription to 'Statistical References', the information letter on Eurostat products and services
Language required: ❒ DE ❒ EN ❒ FR

❒ Mr ❒ Mrs ❒ Ms
(Please use block capitals)

Surname: ________________ Forename: ____________________
Company: ________________ Department: ____________________
Function: ____
Address: ____
Post code: ________________ Town: ______________________
Country: ____
Tel.: ____________________ Fax: ________________________
E-mail: ____

Payment on receipt of invoice, preferably by:
❒ Bank transfer
❒ Visa ❒ Eurocard
Card No: ________________________ Expires on: _____/_____
Please confirm your intra-Community VAT number:
If no number is entered, VAT will be automatically applied. Subsequent reimbursement will not be possible.

____