

# Decreased FDI flows for the EU25 in 2004

Outflows to extra-EU were 5% lower than in 2003. Inflows from extra-EU fell by 57%, intra-EU flows down 37%

*This short article presents data for Foreign Direct Investment (FDI) flows of the EU25 (EU15 before 2001), detailed by main partner country or zone<sup>1</sup>.*

*In 2004, EU25 FDI in extra-EU25 countries (outflows) were EUR 126 billion, 5% less than in 2003 (EUR 133 billion). In 2004 Japan was the most important country of destination, while FDI to the United States and Switzerland recorded negative values (disinvestment).*

*FDI inflows from extra-EU fell to EUR 54 billion compared to EUR 125 billion in 2003 (-57%). Switzerland was the most important investor country, followed by the United States.*

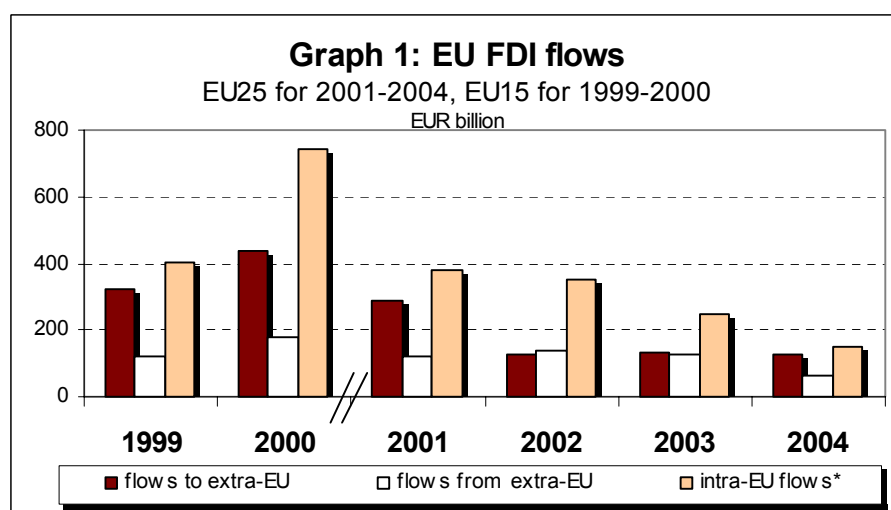
*In 2004, at EUR 157 billion, intra-EU25 flows dropped by 37% compared to the year before (EUR 250 billion). However, FDI between EU15 and the 10 new Member States rose in comparison to 2003.*

## EU FDI flows decreased since 2001

EU FDI flows have decreased strongly since 2001. Outward FDI, after falling 34% in 2001 (from EUR 436 billion in 2000 to EUR 286 billion) and 55% in 2002 (from EUR 286 billion to EUR 128 billion), remained relatively stable around EUR 130 billion between 2002 and 2004. Inward FDI lost one third in 2001 (from EUR 180 billion to EUR 120 billion) and recorded their highest annual decrease in 2004 when they fell to EUR 54 billion compared to EUR 125 billion in 2003 (-57%).

In 2002, at EUR 140 billion, inward FDI flows recorded their second highest value of the period covered here. 2002 was also the only year in which inflows were higher than outflows (EUR 140 billion compared to EUR 128 billion). In all other years of the period shown in graph 1, the EU was a net investor abroad.

Intra-EU25 FDI flows fell by 37% in 2004 compared to 2003. 2004 was the fourth consecutive year in which intra-EU FDI flows decreased.



\*Intra-EU data are the average of outward and inward data as supplied by Member States.

<sup>1</sup> Data for inward and outward FDI flows of the EU25 are now available for 2001-2004. The data presented here were published in August 2005. 2004 data are preliminary estimates subject to revisions. Before reference year 2001 only series for the EU15 as reporter are available. For accessing the complete FDI data base, the reader is referred to the addresses and information given on page 4.

## Statistics in focus

### ECONOMY AND FINANCE

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#### Balance of payments

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## In 2004 the EU25 was a net investor abroad by EUR 72 billion

In 2004, the EU25 was a net investor abroad. The difference between outward investment and inward investment was EUR 72 billion, which compares to EUR 7 billion in 2003.

In 2004, the EU15 Member States accounted for 99% of outward FDI to extra-EU countries, and for 94% of inward FDI from extra-EU countries. In 2004 inflows from extra-EU25 countries to new Member States grew from EUR 2.6 billion to 3.4 billion, while inflows from extra-EU25 countries to EU15 dropped from EUR 122.5 billion to 50.7 billion.

EU FDI flows to the United States, that represented 36% of extra-EU FDI outflows in 2003, recorded a

negative value (disinvestment) in 2004, at -16.2 EUR billion. At EUR 18.9 billion, Japan was the most important country of destination.

Concerning inward flows, Switzerland was the most important investor country in the EU (EUR 16.9 billion), followed by the United States (EUR 12.5 billion). More detailed data by partner countries for 2004 will be published at end-2005.

In 2004, intra-EU25 investment was EUR 156.5 billion, of which EUR 10.6 billion went from the EU15 Member States to the new 10 Member States. This represented 7% of total intra-EU25 FDI, compared to 3% recorded in 2003.

### Table 1: EU25 FDI flows

EUR billion				
	2001	2002	2003	2004
<b>Outward flows to extra-EU25</b>	<b>286.4</b>	<b>127.7</b>	<b>132.5</b>	<b>126.3</b>
from EU15 Member States	285.5	127.5	131.0	125.0
from New 10 Member States	0.9	0.2	1.5	1.3
<i>of which, to:</i>				
<b>United States</b>	139.2	-8.9	47.9	-16.2
<b>Switzerland</b>	7.6	27.5	12.5	-3.5
<b>Japan</b>	-9.4	10.2	3.7	18.9
<b>Canada</b>	7.2	0.8	5.5	2.6
<b>Inward flows from extra-EU25</b>	<b>120.1</b>	<b>139.8</b>	<b>125.2</b>	<b>54.1</b>
to EU15 Member States	116.3	136.6	122.5	50.7
to New 10 Member States	3.7	3.2	2.6	3.4
<i>of which, from:</i>				
<b>United States</b>	61.1	52.1	50.2	12.5
<b>Switzerland</b>	7.4	7.6	21.0	16.9
<b>Japan</b>	8.3	8.8	2.2	-4.0
<b>Canada</b>	7.3	2.5	11.9	-9.3
<b>Net outward flows</b> (outward minus inward)	<b>166.3</b>	<b>-12.0</b>	<b>7.3</b>	<b>72.2</b>
EU15 Members	169.2	-9.1	8.5	74.3
10 New Members	-2.9	-3.0	-1.1	-2.2
<i>of which, to:</i>				
<b>United States</b>	78.0	-61.0	-2.3	-28.6
<b>Switzerland</b>	0.1	19.9	-8.5	-20.4
<b>Japan</b>	-17.7	1.4	1.5	22.9
<b>Canada</b>	0.0	-1.6	-6.4	11.9
<b>Intra-EU25 flows</b> (*)	<b>381.6</b>	<b>348.4</b>	<b>250.3</b>	<b>156.5</b>
From EU15 to New 10 Members	18.8	13.0	7.0	10.6
From 10 New Members to EU15	1.0	1.1	0.8	3.4
Between EU15 Members	361.4	333.5	241.9	141.7
Between 10 New Members	0.4	0.9	0.7	0.8

(\*) Intra-EU data are the average between outward and inward data as supplied by Member States.

NB: minus sign stands for disinvestment.

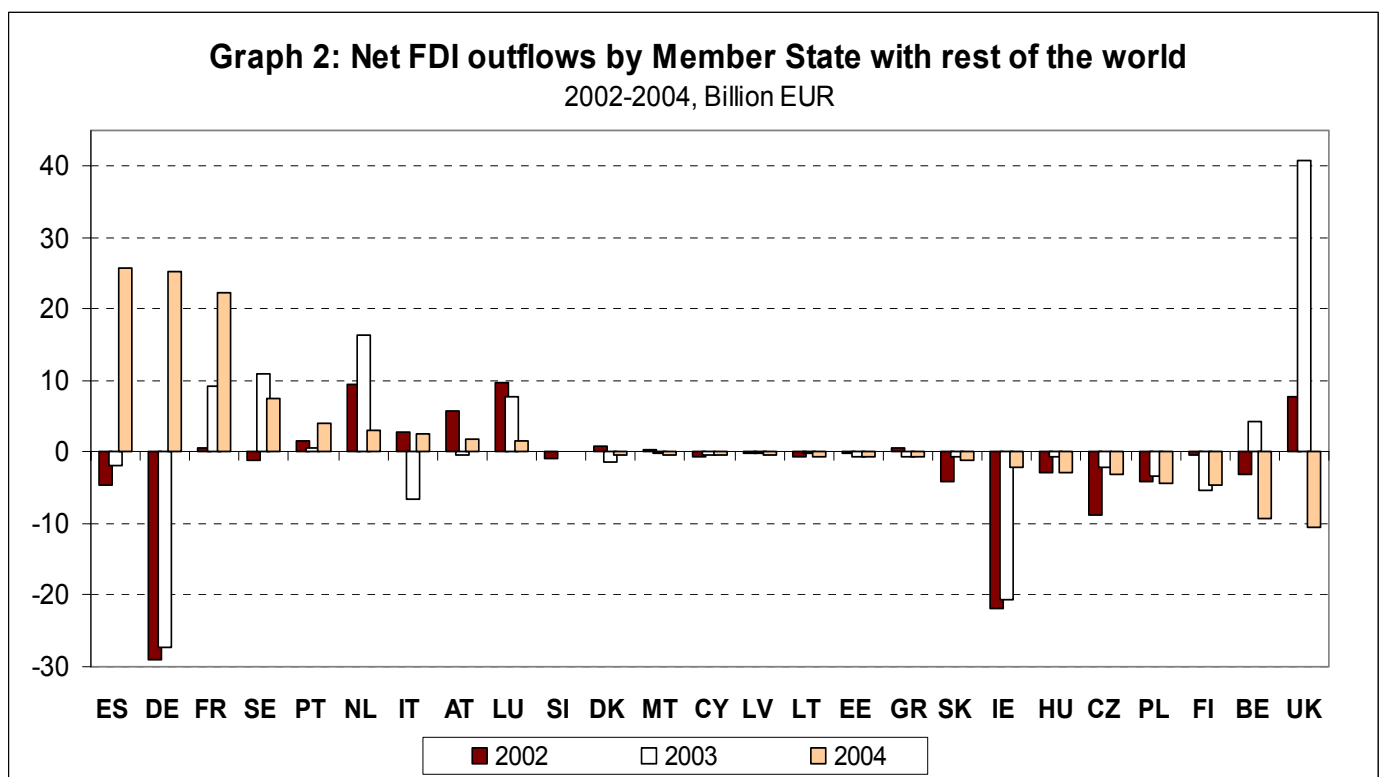
**In 2004 Spain was the largest net investor, the United Kingdom the largest net recipient of FDI**

Graph 2 shows data by Member State for total net FDI flows, that is to say the difference between outward FDI flows and inward FDI flows. Member States having positive values are *net investors* in the rest of the world, while a negative value indicates that the Member State is a *net recipient* of FDI funds. Data in graph 2 are in decreasing order referring to 2004 flows.

Spain was the largest net investor in 2004 (EUR 26 billion), followed by Germany (EUR 25 billion) and France (EUR 22 billion). On the other hand, the United Kingdom, which at EUR 41 billion was the main net investor in 2003, became the largest net recipient of FDI in 2004 (EUR 10 billion). Belgium and Finland followed with EUR 9 billion and 5 billion of net inflows.

The 10 new Member States were always net recipients of FDI funds in all the three years considered, with the exception of small net investment abroad by Slovenia in 2003 and by Malta in 2002.

The absolute values used in graph 2 are influenced by the size of the economy. If the size-effect is removed, by for instance dividing net FDI flows by GDP, Luxembourg's net outflows (EUR 2 billion) were the highest at 6% of GDP in 2004, compared to 3% of GDP for Spain and 1% for Germany. For the group of the 10 new Member States, net inflows in relation to GDP were 4.9% in 2002, 1.9% in 2003 and 2.9% in 2004. The EU15 had net inflows of 0.2% of GDP in 2002 and net outflows of 0.3% and 0.7% in 2003 and 2004, respectively.



➤ **ESSENTIAL INFORMATION – METHODOLOGICAL NOTES**

**Foreign Direct Investment (FDI)** is the category of international investment 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, 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. Income paid to foreign owners of inward FDI stocks is recorded among debits in the current account of the Balance of Payments.

## ***Further information:***

### **Databases**

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