



MINISTRY FOR NATIONAL ECONOMY  
COMPETITIVENESS DEPARTMENT

Overview  
of foreign direct investments in Hungary

30 September 2013

Summary

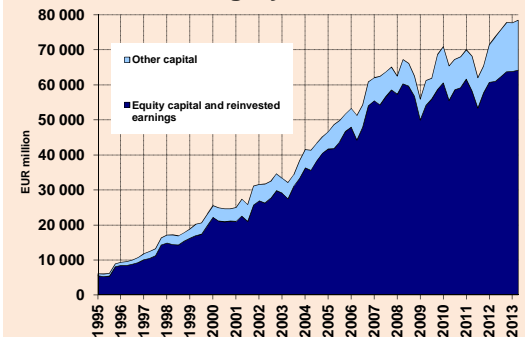
- The stock of foreign direct investment (FDI) in Hungary amounts to EUR 78 billion, which is the highest in percent of GDP and the second highest in per-capita terms in the Central European region.
- 76.4% of FDI stock in Hungary originates from the European Union and 24.9% from Germany.
- The net inflow of FDI to Hungary amounted to EUR -25 million in the first half of 2013.
- In 2013 FDI inflow is expected to be around EUR 2.5-3 billion, without one-off, large scale transactions (e.g. acquisition of E.ON's Hungarian gas business by state-owned MVM; capital in transit). In the medium term an average of EUR 3.5 billion of total FDI inflow annually is expected, which amount can significantly be influenced by large scale transactions.

Economic indicators

	30 Sept.	Period
FDI stock <sup>1, 2</sup>	78 401	Q2 2013
FDI inflow <sup>2</sup>	-25	Q1-2 2013
FDI inflow <sup>2</sup>	10 690	2012
Global FDI inflow <sup>3</sup>	1351	2012

1 At the end of period  
2 Net, EUR million  
3 USD billion

FDI stock in Hungary



Detailed overview

FDI has played a vital role in the successful restructuring of the Hungarian economy since 1990. It has facilitated productivity growth, technological modernisation, the creation of an export capacity indispensable for a healthy growth potential and the creation of new jobs; furthermore, non-debt generating FDI is a key factor in improving the country's external balances. According to the UNCTAD FDI Contribution Index, in 2011 the host economy with the largest contribution by FDI was Hungary. The Index aims to measure the development impact of FDI in the host economy. It looks at the contribution of foreign affiliates to GDP (value added), employment, wages and salaries, exports, R&D expenditures, capital formation and tax payments, as a share of the host-country total.

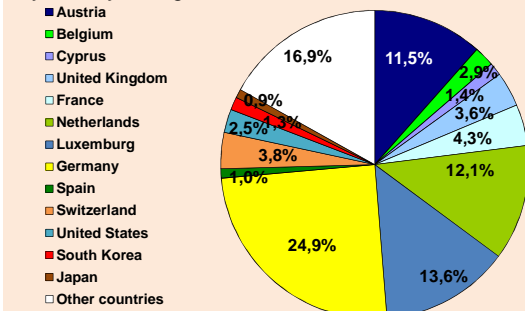
The stock of FDI in Hungary amounted to EUR 78.4 billion at the end of June 2013. Of this, EUR 64.1 billion took the form of equity capital and re-invested earnings and EUR 14.3 billion that of other capital. In percent of GDP this value is the highest (81.5%) in the Central European region (Czech Republic: 68.7%, Slovakia (58.8% at the end of March), Romania: 44.2%, Poland: 43.5%, Slovenia: 31.1%). In per-capita terms (EUR 7,914) this value is – behind the Czech Republic (EUR 9,814) – the second highest in the Central European region, tied for Slovakia (EUR 7,801 at the end of March). Slovenia (EUR 5,280), Poland (EUR 4,378) and Romania (EUR 2,804) are still way behind.

The single biggest FDI contributor in Hungary has been Germany (stock of EUR 19.3 billion or 24.9%). (Note that the break-down of stock of FDI by country of origin and by industry is only available for end-2012.) Other major investors include Luxembourg (EUR 10.6 billion or 13.6%), the Netherlands (EUR 9.4 billion or 12.1%), Austria (EUR 9 billion or 11.5%), France (EUR 3.4 billion or 4.3%) and the USA (EUR 1.9 billion or 4.7%). Altogether 76.4% of all FDI stock in Hungary originates from the EU.

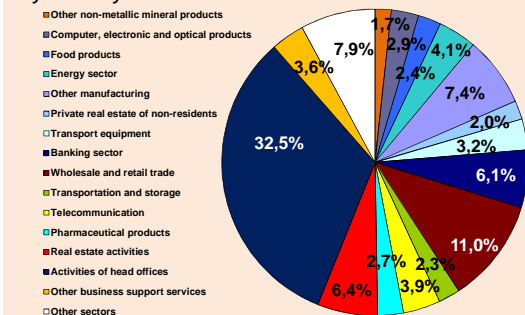
71.3% of all FDI stock was attracted by services (EUR 55.5 billion at end-2012); the leading sectors here include activities of head offices (EUR 25.3 billion or 32.5%), wholesale and retail trade (EUR 8.6 billion or 11%), real estate activities (EUR 4.9 billion or 6.4%), banking sector (EUR 4.7 billion or 6.1%), telecommunication (EUR 3.1 billion or 3.9%), other business support services (EUR 2.8 billion or 3.6%) and transportation and storage (EUR 1.8 billion or 2.3%). Manufacturing accounts for

Breakdown of FDI stock (at end-2012)

By country of origin



By industry



**20.4%** (EUR 15.8 billion), especially: **transport equipment** (EUR 2.5 billion or 3.2%), **computer, electronic and optical product** (EUR 2.3 billion or 2.9), pharmaceutical products (EUR 2.1 billion or 2.7%), food products (EUR 1.9 billion or 2.4%) and other non-metallic mineral products (EUR 1.3 billion or 1.7%). The stock and share of manufacturing increased compared to end-2011, while that of services decreased. The stock of FDI in the **energy sector** amounted to EUR 3.2 billion (4.1%) and the stock of **private real estate of non-residents** amounted to EUR 1.5 billion (2%).

According to the data of 2002-2011 the annual average of FDI inflow was **EUR 3.4 billion**. In 2012 the net FDI inflow amounted to **EUR 10,690 million**, which is EUR 6.9 billion more than a year before and the highest amount ever. The record inflow is due to inflows of EUR 3.9 billion in form of capital in transit and EUR 3 billion in form of restructuring of multinational companies' asset portfolios, which transactions are also registered as Hungarian direct investment abroad. That's why **the National Bank of Hungary published adjusted FDI data (back to 2008) as well, which exclude capital in transit and restructuring of assets**. Adjusted FDI inflow amounted to EUR 3.8 billion in 2012 that exceeds the average of 2008-2011 (EUR 1.7 billion). Inflow to banking sector amounted to EUR 1.7 billion in 2012. (Note that parent-bank lending is registered in balance of payments statistics not as FDI but as other investment.)

**Net direct investment** (foreign direct investment in Hungary minus Hungarian direct investment abroad) **has been the highest in 2012 (EUR 2,044 million) since 2008**. Adjusted net direct investment has been the highest in 2012 (EUR 2,418 million) since 2008 as well, of which EUR 1.5 billion flow to banking sector.

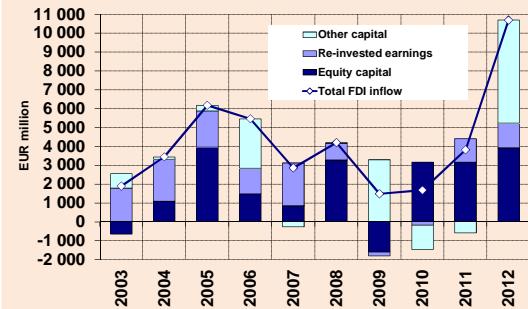
In the first half of 2013 the FDI inflow amounted to **EUR -25 million**, which is EUR 5.2 billion less favourable than a year before. The decrease is due to the capital in transit and restructuring of assets in 2012, while this year such transactions were not registered. Within the non-debt creating inflow, **equity capital amounted to EUR 868 million** (which is EUR 1030 million less than a year before, due to capital in transit last year), while **reinvested earnings amounted to EUR -1,336 million** (which is EUR 305 million less favourable than a year before, due to the increasing amount of dividends). The balance of reinvested earnings is usually negative in Hungary in the first half of the year, because dividends are mostly declared in this period. The balance of (debt creating) **other capital amounted to EUR 443 million**, which is EUR 3.9 billion less favourable than a year before, mostly due to restructuring of assets last year.

**The importance of re-invested earnings has been steadily increasing** since 1995, which is a logical consequence of the continuous increase since 1990 of the stock of FDI in Hungary. In 2012 income on equity stood at 7.2% of the non-debt creating FDI stock (0.8 percentage points lower than in the previous year and the average of 2007-2011). In the period 1995-2000 reinvested earnings accounted for 24% of all FDI inflow, while in the period 2001-2008 their share reached 43.9%. Nevertheless, according to the trend prevailing since 2004 foreign investors repatriate a higher proportion of their profits than earlier, which caused the formerly high re-investment ratio to gradually decrease below 50%. In 2009-2010 reinvested earnings were negative because the amount of dividends declared exceeded that of income on equity. After the decrease of income on equity in 2008-2009, it increased again in 2010-2011. In 2011-2012 income on equity exceeded the amount of dividends declared, and **reinvested earnings improved to EUR 1,241 million (in 2011) and EUR 1,323 million (in 2012), and the reinvestment rate reached 29.8%, which have been the highest amount and rate since 2007**.

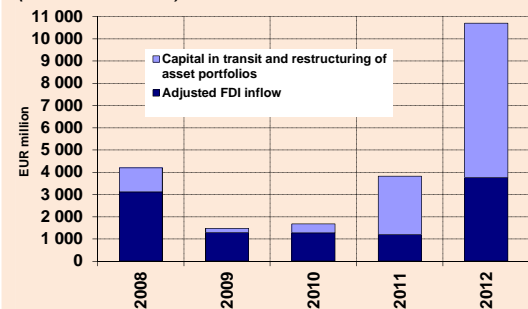
**The importance of income on debt (the other component of direct investment income) has been increasing** in recent years. Income debit (interest payable to parent company by the subsidiary) amounted to EUR 1448 million in 2012, which is EUR 41 million higher than a year before and reached 5.1% of net liabilities stock of other capital at end-2012. Income credit (interest payable to subsidiary company by the parent) amounted to EUR 349 million in 2012, which is EUR 16 million less than a year before. **Net debit (debit minus credit) amounted to EUR 1098 million, which is EUR 55 million higher than a year before**. Net debit of income on debt was still way behind debit of income on equity (EUR 4579 million) in 2012. In the first half of 2013, Net debit of income on debt amounted to EUR 357 million.

**The highest FDI inflow in form of equity capital and other capital came from Ireland (EUR 1,872 million) to Hungary in the first half of 2013**. (Break-down of inflow of FDI in form of reinvested earnings by country of origin and by industry is not available for the first half of 2013.) The second biggest investor was Switzerland (EUR 626 million), the third was the UK (EUR 414 million), the fourth was the group of Central American countries (EUR 283 million) and the fifth was Italy (EUR 169 million). However, the balance of inflow from France was EUR -669 million, from the Netherlands EUR -495 million, from Germany EUR -336 million and from the USA

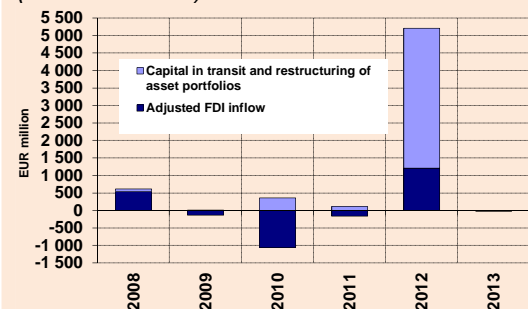
**FDI inflow to Hungary (Annual data!)**



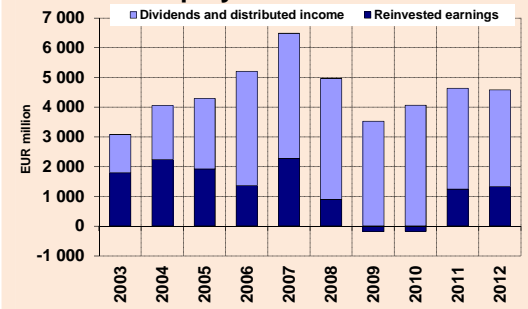
**Adjusted FDI inflow to Hungary (Annual data!)**



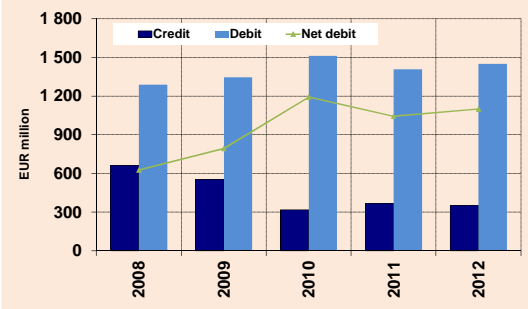
**Adjusted FDI inflow to Hungary (First half data!)**



**Income on equity**



**Income on debt**



EUR -168 million.

The balance of inflow in form of equity capital and other capital to manufacturing was EUR 856 million in the first half of 2013, while services attracted EUR 569 million. Within manufacturing, machinery and equipment attracted EUR 473 million, pharmaceutical products EUR 326 million, rubber and plastic products EUR 99 million. Within services, banking sector attracted EUR 381 million, wholesale and retail trade EUR 209 million, activities of head offices EUR 163 million and real estate activities EUR 109 million. The balance of other business support services was EUR -509 million and that of legal and accounting activities was EUR -115 million.

**Net direct investment** (foreign direct investment in Hungary minus Hungarian direct investment abroad) amounted to EUR -412 million in the first half of 2013, which is EUR 383 million less favourable than a year before. Adjusted net direct investment amounted to EUR -412 million as well, which is EUR 758 million less favourable than a year before.

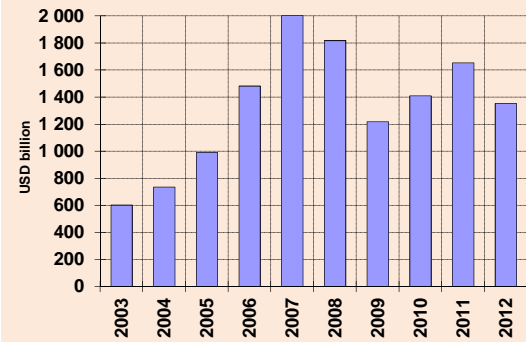
According to the data of UNCTAD, global FDI flows dropped by 18.2%, to USD 1,351 billion (which is lower than the pre-crisis average of 2005-2007) in 2012 compared to 2011, mainly due to the 45% decrease (to USD 308 billion) of mergers and acquisitions. UNCTAD forecasts FDI in 2013 to remain close to the 2012 level, with an upper range of USD 1.45 trillion. As macroeconomic conditions improve and investors regain confidence in the medium term, TNCs may convert their record levels of cash holdings into new investments. FDI flows may then reach the level of USD 1.6 trillion in 2014 and USD 1.8 trillion in 2015. However, significant risks to this growth scenario remain.

According to the data of Eurostat, FDI flows to the EU dropped by 47.9%, to EUR 345 billion in 2012 compared to 2011, mainly due to the decrease of FDI flows within the EU (from EUR 410 billion to 187 billion).

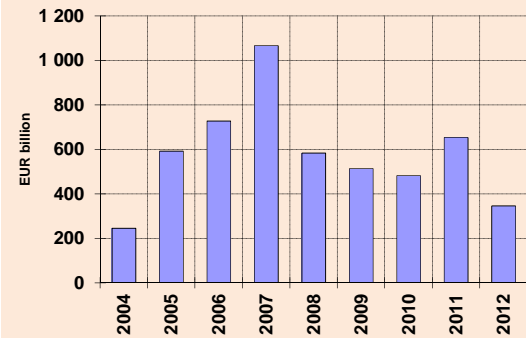
The FDI inflow to the Visegrad Countries and Romania in the first half of 2012 reached only 5% of the inflow in the same period of 2012. Inflow to Czech Republic (EUR 3041 million) decreased by 15%, while Romania (EUR 895 million) registered an increase of 19%. Balance of inflow to Poland amounted to EUR -2708 million (due to special purpose entities), to Slovakia EUR -702 million and to Hungary EUR -25 million.

In 2013 FDI inflow is expected to be around EUR 2.5-3 billion, without one-off, large scale transactions (e.g. acquisition of E.ON's Hungarian gas business by state-owned MVM; capital in transit). In the medium term an average of EUR 3.5 billion of total FDI inflow annually is expected, which amount can significantly be influenced by large scale transactions.

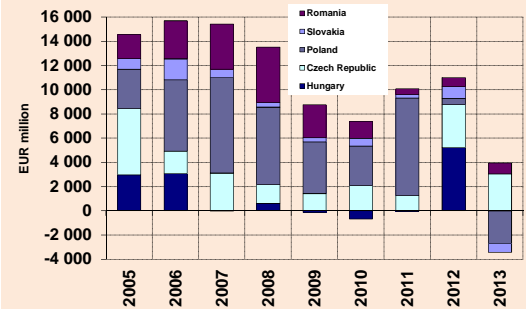
## Global FDI flows



## FDI flows to the EU



## FDI flows to the Visegrad Countries and Romania (First half data!)



Data source: MNB, UNCTAD, national banks, Eurostat

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