



MINISTRY FOR NATIONAL ECONOMY  
COMPETITIVENESS DEPARTMENT

Overview  
of foreign direct investments in Hungary

31 March 2014

Summary

- The stock of foreign direct investment (FDI) in Hungary amounted to EUR 80.6 billion at the end of 2013, which is the highest in percent of GDP and the second highest in per-capita terms in the Central European region.
- 77.2% of FDI stock in Hungary originates from the European Union and 24.7% from Germany.
- The net inflow of FDI to Hungary amounted to EUR 2,316 million in 2013.
- In 2014 FDI inflow is expected to be around EUR 2.5-3 billion, *without one-off, large scale transactions resulting even in FDI outflow (e.g. capital in transit); acquisition of companies (e.g. in energy sector) by state-owned companies*, however our experiences suggest that amount of other capital is hard to predict in a well-grounded way. In the medium term an average of EUR 3-3.5 billion of total FDI inflow annually is expected, which amount can significantly be influenced by one-off, large scale transactions.

Economic indicators

	31 March	Period
FDI stock <sup>1, 2</sup>	80,639	2013
FDI inflow <sup>2</sup>	2,316	2013
FDI inflow <sup>2</sup>	10,851	2012
Global FDI inflow <sup>3</sup>	1461	2013
Global FDI inflow <sup>3</sup>	1,317	2012

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

Detailed overview

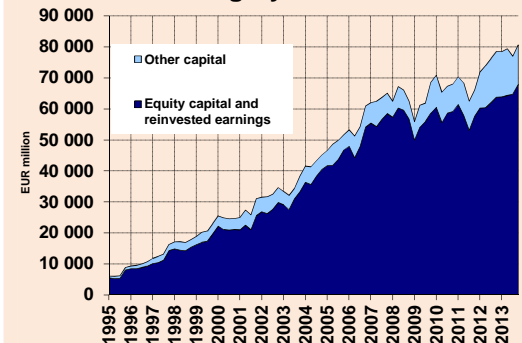
FDI has played a vital role in the successful restructuring of the Hungarian economy since 1990. It has facilitated productivity growth, technological modernisation, the creation of an export capacity indispensable for a healthy growth potential and the creation of new jobs; furthermore, non-debt generating 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 80.6 billion at the end of 2013. Of this, EUR 67.8 billion took the form of equity capital and re-invested earnings and EUR 12.8 billion that of other capital. (The growth of the stock of FDI is mostly due to the inflow of capital in transit and restructuring of asset portfolios. The National Bank of Hungary registered an inflow of EUR 11.8 billion during 2008-2013 connected to these items.) In percent of GDP the Hungarian FDI stock is the highest (82.2%) in the Central European region (Czech Republic: 66%, Slovakia (59.4% at the end of September 2013), Poland: 47%, Romania: 43.1%, Slovenia: 31.3%). In per-capita terms (EUR 8,163) the Hungarian value is – behind the Czech Republic (EUR 9,383) – the second highest in the Central European region. Slovakia (EUR 7,715 at the end of June) has almost reached Hungary in recent years but Slovenia (EUR 5,281), Poland (EUR 4,646) and Romania (EUR 2,831) are still way behind.

The single biggest FDI contributor in Hungary has been Germany (stock of EUR 19.4 billion or 24.7%). (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 10.7 billion or 13.6%), the Netherlands (EUR 9.7 billion or 12.4%), Austria (EUR 9.1 billion or 11.6%), France (EUR 3.3 billion or 4.2%) and the USA (EUR 2 billion or 2.6%). Altogether 76.4% of all FDI stock in Hungary originates from the EU.

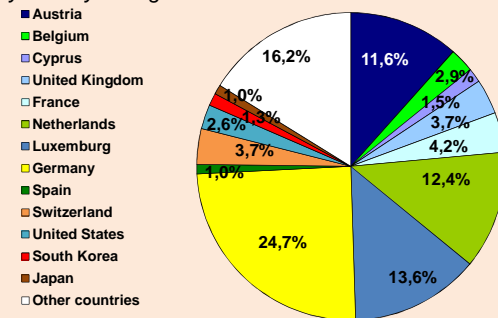
71.6% of all FDI stock was attracted by services (EUR 56.2 billion at end-2012); the leading sectors here include activities of head offices (EUR 25.3 billion or 32.3%), wholesale and retail trade (EUR 9 billion or 11.5%), real estate activities (EUR 5 billion or 6.3%), banking sector (EUR 4.7 billion or 6%), telecommunication (EUR 3.3 billion or 4.2%), other business support services (EUR 2.8 billion or 3.5%) and transportation and storage (EUR 1.8 billion or 2.3%). Manufacturing accounts for 20.1% (EUR 15.8 billion), especially: transport equipment (EUR 2.6 billion or 3.2%), computer, electronic and optical product (EUR 2.3 billion or 2.9%), pharmaceutical products (EUR 2 billion or 2.6%), food products (EUR 1.9 billion or 2.4%) and other non-metallic mineral products (EUR 1.4 billion or 1.7%). The stock and share of manufacturing

FDI stock in Hungary



Breakdown of FDI stock (at end-2012)

By country of origin



By industry

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 2003-2012 the annual average of FDI inflow was **EUR 4.2 billion**. In 2013 the FDI inflow amounted to **EUR 2,613 million**, which is EUR 8.5 billion less than a year before. The considerable decrease is a consequence of the fact that high inflows were registered in 2012 in form of restructuring of assets (EUR 3 billion) and capital in transit (EUR 3.9 billion) and the banking sector attracted record high amount (EUR 1.7 billion) of FDI, while in 2013 capital in transit resulted in an inflow of only EUR 533 million and the acquisition of E.ON's Hungarian gas business by state-owned MVM resulted in an outflow of EUR 865 million.

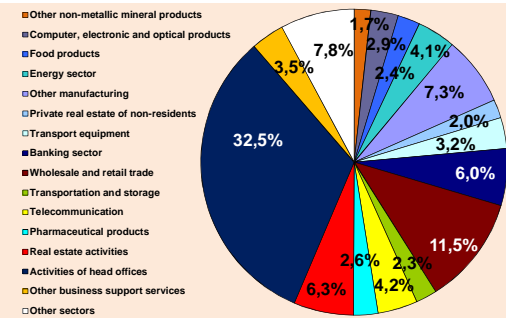
Within the total inflow in 2013, **equity capital amounted to EUR 2702 million** (which is EUR 1.3 billion less than a year before). The considerable decrease is a consequence of the fact that high inflows were registered in 2012 in form of restructuring of asset portfolios (EUR 1.6 billion), while in 2013 there was an outflow of EUR 1.1 billion in this form of equity capital and the acquisition of E.ON's Hungarian gas business by state-owned MVM resulted in an outflow of EUR 365 million. **Reinvested earnings amounted to EUR 1212 million** (which is EUR 239 million less than a year before, due to the increasing amount of dividends). The balance of **other capital amounted to EUR -1597 million**, which is EUR 7 billion less favourable than a year before. The considerable decrease is partly a consequence of the fact that high inflows were registered in 2012 in form of restructuring of assets (EUR 1.4 billion) and capital in transit (EUR 2.3 billion), while in 2013 in form of restructuring of assets only EUR 1.1 billion flew in and capital in transit resulted in an outflow of EUR 1.1 billion and the acquisition of E.ON's Hungarian gas business by state-owned MVM resulted in an outflow of EUR 500 million.

Having regard to the growing importance of capital in transit and restructuring of assets, **the National Bank of Hungary published adjusted FDI data (back to 2008) as well, which exclude capital in transit and restructuring of assets.** (In recent years the National Bank of Hungary has observed unusually large same quarter FDI inflows and outflows in the non-SPE (non special purpose entities) corporate sector as well. This phenomenon is defined as **capital in transit**. Similar to capital flows through special purpose entities, these capital investments do not affect the Hungarian economy either. The **restructuring of multinational companies' asset portfolios (financial restructuring)**, which may also sharply increase the FDI inflow and outflow data of a given period without any foreign funds entering the country in net terms, is also relevant in terms of the discussed phenomenon.) Adjusted FDI inflow amounted to EUR 1.8 billion in 2013 that is less than the average of 2008-2012 (EUR 2.2 billion). Inflow to banking sector amounted to EUR 916 million in 2013. (Note that parent-bank lending is registered in balance of payments statistics not as FDI but as other investment.)

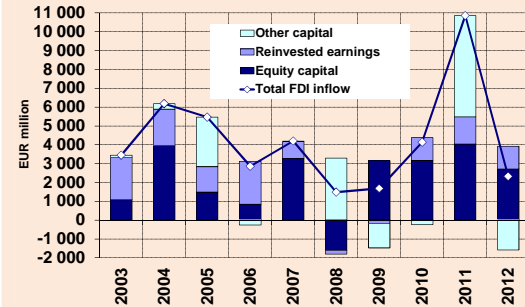
**Net direct investment** (foreign direct investment in Hungary minus Hungarian direct investment abroad) **amounted to EUR 615 million in 2013**, which has been the least favourable since 2009. It should be noted that the negative amount is attributable mostly to the acquisition of E.ON's Hungarian gas business by state-owned MVM and to the lower inflow to the banking sector. Adjusted net direct investment amounted to EUR 615 million, which has also been the least favourable since 2009.

**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 but reinvested earnings were still negative. In 2011-2012 income on equity grew further and the amount of dividends decreased: **reinvested earnings improved to EUR 1,218 million (in 2011) and EUR 1,451 million (in 2012), and the reinvestment rate reached 30.8%, which have been the highest amount and rate since 2007.** According to estimates of the National Bank of Hungary, **reinvested earnings decreased to EUR 1,212 million in 2013**, due to the growth of dividends exceeding that of income on equity.

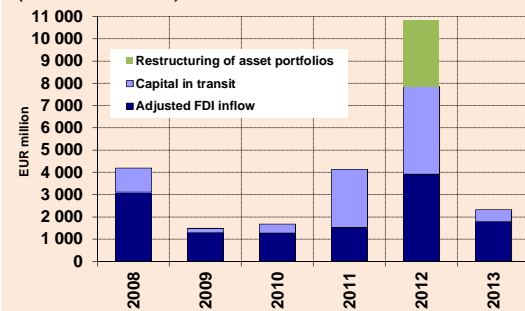
**The importance of income on debt (the other component of direct investment income) continuously increased until 2012.** However, income debit (interest payable to parent company by the subsidiary) decreased to EUR 864 million in 2013, which is EUR 579 million less than a year before and reached 3% of net liabilities stock of other capital at end-2013. Income credit (interest payable to subsidiary company by the



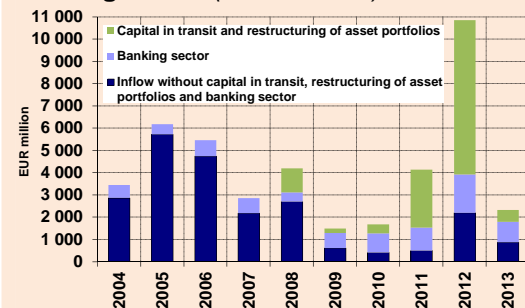
**FDI inflow to Hungary (Annual data!)**



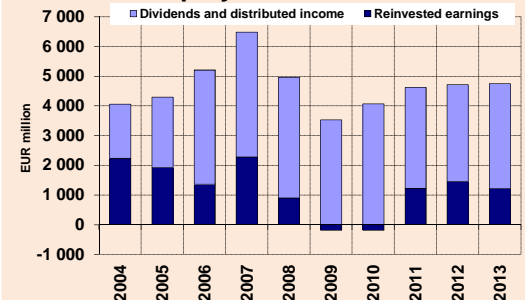
**Adjusted FDI inflow to Hungary (Annual data!)**



**FDI inflow without capital in transit, restructuring of asset portfolios and banking sector (Annual data!)**



**Income on equity**



parent) amounted to EUR 241 million in 2013, which is EUR 109 million less than a year before. **Net debit (debit minus credit) amounted to EUR 623 million, which is EUR 470 million less than a year before and has been the lowest amount since 2007.** Net debit of income on debt was still way behind (estimated) debit of income on equity (EUR 4747 million) in 2013 and reached only 13.1% of that (while the average of 2009-2012 was 25.1%).

**The highest FDI inflow in form of equity capital and other capital came from Ireland (EUR 2,2 billion) to Hungary in 2013.** (Break-down of inflow of FDI in form of reinvested earnings by country of origin and by industry is not available for 2013.) The second biggest investor was Switzerland (EUR 707 million), the third was the group of Central American countries (EUR 647 million, probably due to the capital in transit). Italy (EUR 308 million), Ukraine (EUR 161 million) the United Kingdom (EUR 134 million), Denmark (EUR 109 million) and Germany (EUR 104 million) have also to be mentioned. However, the balance of inflow was negative in case of Luxembourg (EUR -794 million), France (EUR -622 million), the Netherlands (EUR -477 million) and the USA (EUR -599 million).

The balance of inflow in form of equity capital and other capital to manufacturing was EUR 1765 million in 2013, while balance of inflow was negative in case of services (EUR -447 million). Within manufacturing, pharmaceutical products attracted EUR 607 million, transport equipment EUR 530 million, machinery and equipment EUR 337 million, rubber and plastic products EUR 221 million, basic metals and fabricated metal products EUR 177 million. Within services, banking sector attracted EUR 834 million, real estate activities EUR 136 million, activities of head offices EUR 269 million (probably due to the capital in transit). The balance of other business support services was EUR -614 million, that of transportation and storage was EUR -749 million (probably mostly due to the acquisition of E.ON's Hungarian gas storage company by state-owned MVM), that of wholesale and retail trade was EUR -272 million and that of legal and accounting activities was EUR -144 million. The balance of energy sector was EUR -276 million (probably mostly due to the acquisition of E.ON's Hungarian gas trade company by state-owned MVM).

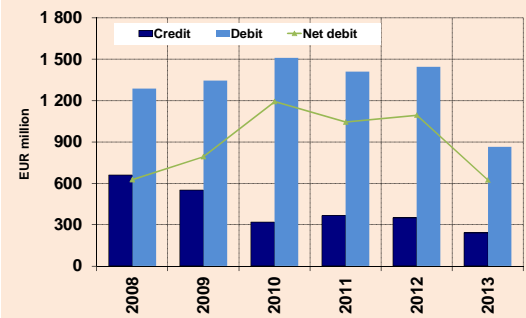
According to the estimates of UNCTAD, global FDI flows increased by 10.9%, to USD 1461 billion in 2013 compared to 2012. Cross-border mergers and acquisitions (M&As) rose by 5% in 2013, to USD 323 billion. UNCTAD forecasts that FDI flows will rise gradually in 2014 and 2015, to USD 1.6 trillion and USD 1.8 trillion respectively.

According to the data of Eurostat, FDI flows from extra-EU28 countries to the EU28 dropped by 64%, to EUR 83 billion in the first three quarters of 2013 compared to the same period of 2012.

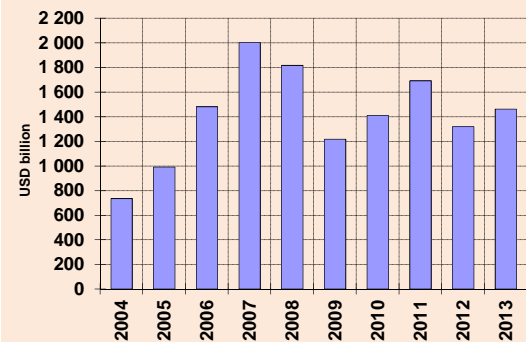
The FDI inflow to the Visegrad Countries and Romania in 2013 reached only 18% of the inflow in 2012. Inflow to Czech Republic (EUR 3783 million) decreased by 39%, to Slovakia (EUR 445 million) by 80% and to Hungary (EUR 2316 million) by 79%. Balance of inflow to Poland amounted to EUR -4754 million (mainly due to special purpose entities). However, the inflow to Romania (EUR 2725 million) increased by 27%. The FDI inflow in per-capita terms and in percent of GDP was the highest in the Czech Republic (EUR 360 per-capita and 2.5% of GDP) and the second highest in Hungary (EUR 234 and 2.4%) in 2013.

In 2014 FDI inflow is expected to be around EUR 2.5-3 billion, *without one-off, large scale transactions resulting even in FDI outflow (e.g. capital in transit); acquisition of companies (e.g. in energy sector) by state-owned companies*, however our experiences suggest that amount of other capital is hard to predict in a well-grounded way. In the medium term an average of EUR 3-3.5 billion of total FDI inflow annually is expected, which amount can significantly be influenced by one-off, large scale transactions.

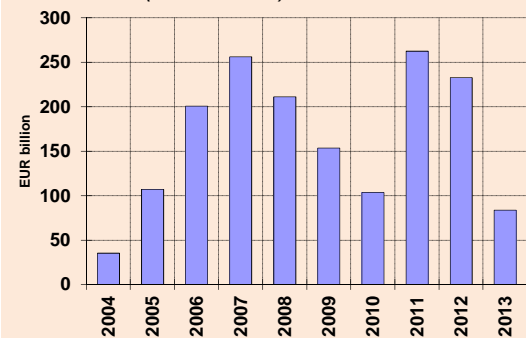
## Income on debt



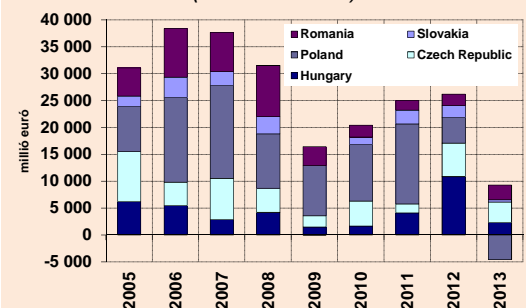
## Global FDI flows



## FDI flows to the EU28 from extra-EU28 countries (Q1-3 data!)



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



Data source: MNB, UNCTAD, national banks, Eurostat

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