



MINISTRY FOR NATIONAL ECONOMY  
COMPETITIVENESS DEPARTMENT

Overview  
of foreign direct investments in Hungary

23 December 2013

Summary

- The stock of foreign direct investment (FDI) in Hungary amounted to EUR 76.4 billion at the end of September 2013, 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 -1713 million in the first three quarters of 2013. The negative balance is mainly attributable to the FDI outflow due the acquisition of E.ON's Hungarian gas business by state-owned MVM and capital in transit.
- In 2013 FDI inflow is expected to be around EUR 2.5 billion, *without one-off, large scale transactions resulting in FDI outflow (acquisition of E.ON's Hungarian gas business by state-owned MVM (EUR 865 million); capital in transit (EUR 1147 million))*, however our experiences suggest that amount of other capital is hard to predict in a well-grounded way. Taking into account the outflow due to the acquisition of E.ON's Hungarian gas business by state-owned MVM and capital in transit, net inflow of FDI to Hungary could even be negative in 2013. 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 one-off, large scale transactions.

Economic indicators

	23 Dec.	Period
FDI stock <sup>1, 2</sup>	76,356	Q3 2013
FDI inflow <sup>2</sup>	-1,713	Q1-3 2013
FDI inflow <sup>2</sup>	10,690	2012
Global FDI inflow <sup>3</sup>	745	Q1-2 2013
Global FDI inflow <sup>3</sup>	1,310	2012

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

Detailed overview

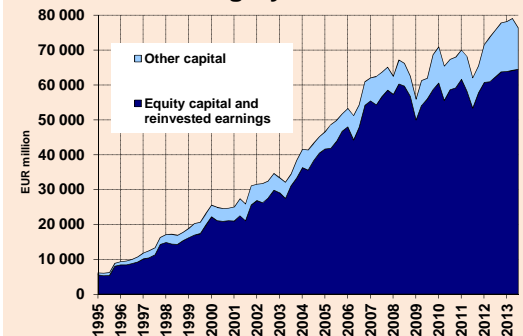
FDI has played a vital role in the successful restructuring of the Hungarian economy since 1990. It has facilitated productivity growth, technological modernisation, the creation of an export capacity indispensable for a healthy growth potential and the creation of new jobs; furthermore, non-debt generating 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 76.4 billion at the end of September 2013. Of this, EUR 64.5 billion took the form of equity capital and re-invested earnings and EUR 11.9 billion that of other capital. In percent of GDP this value is the highest (78.6%) in the Central European region (Czech Republic: 69.3%, Slovakia (58.3% at the end of June), Poland: 46.2%, Romania: 43.6%, Slovenia: 31.1%). In per-capita terms (EUR 7,708) this value is – behind the Czech Republic (EUR 9,901) – the second highest in the Central European region, tied for Slovakia (EUR 7,715 at the end of June). 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 19.3 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.

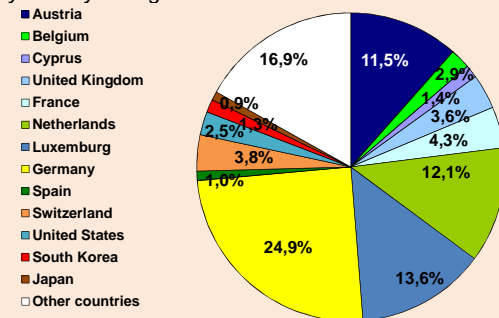
71.3% of all FDI stock was attracted by services (EUR 55.5 billion at end-2012); the leading sectors here include activities of head offices (EUR 25.3 billion or 32.5%), wholesale and retail trade (EUR 8.6 billion or 11%), real estate activities (EUR 4.9 billion or 6.4%), banking sector (EUR 4.7 billion 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

FDI stock in Hungary



Breakdown of FDI stock (at end-2012)

By country of origin



**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%).

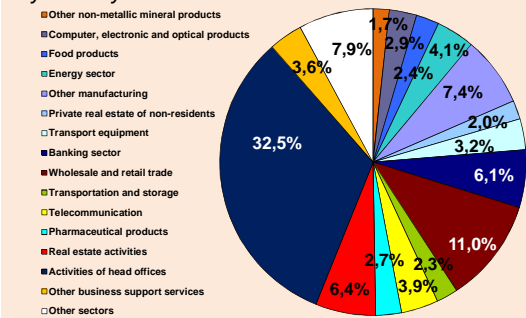
According to the data of 2003-2012 the annual average of FDI inflow was **EUR 4.2 billion**. Having regard to the growing importance of capital in transit and restructuring of assets, **the National Bank of Hungary published adjusted FDI data (back to 2008) as well, which exclude capital in transit and 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 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.)

**In the first three quarters of 2013 the FDI inflow amounted to EUR -1713 million**, which is EUR 8.4 billion less favourable than a year before. The considerable decrease is a consequence of the fact that high inflows were registered in Q1-3 2012 in form of restructuring of assets (EUR 3 billion) and capital in transit (EUR 1.8 billion), while in Q3 2013 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 865 million. Within the non-debt creating inflow, **equity capital amounted to EUR 711 million** (which is EUR 1293 million less than a year before). The considerable decrease is a consequence of the fact that high inflows were registered in Q1-3 2012 in form of restructuring of assets (EUR 1 billion) and capital in transit (EUR 1 billion), while there were no such equity capital transactions in Q1-3 2013 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 -227 million** (which is EUR 235 million less favourable than a year before, due to the increasing amount of dividends). The balance of reinvested earnings is usually negative in Hungary even in the first three quarters of the year, because dividends are mostly declared in the first half of the year. The balance of (debt creating) **other capital amounted to EUR -2197 million**, which is EUR 6.8 billion less favourable than a year before. The considerable decrease is partly a consequence of the fact that high inflows were registered in Q1-3 2012 in form of restructuring of assets (EUR 2 billion) and capital in transit (EUR 835 million), while in Q3 2013 capital in transit resulted in an outflow of EU 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.

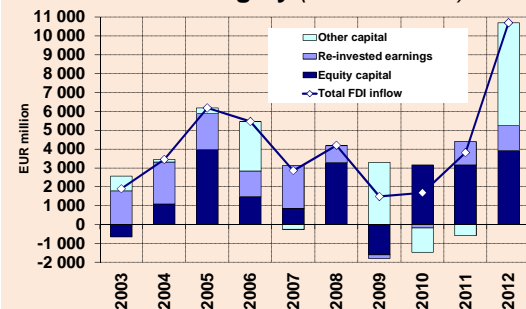
**Net direct investment** (foreign direct investment in Hungary minus Hungarian direct investment abroad) **amounted to EUR -1118 million in the first three quarters of 2013**, which is the least favourable ever. It should be noted that the negative amount is attributable mostly to the acquisition of E.ON's Hungarian gas business by state-owned MVM. Adjusted net direct investment amounted to EUR -1635 million, which is also the least favourable ever.

**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.** According to our estimates, **reinvested earnings could exceed EUR 1000 million in 2013** (if there were no unusual dividend declarations in the last quarter

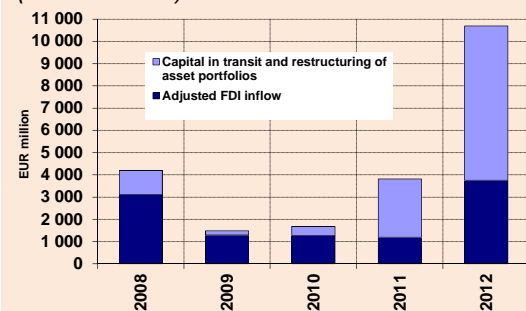
#### By industry



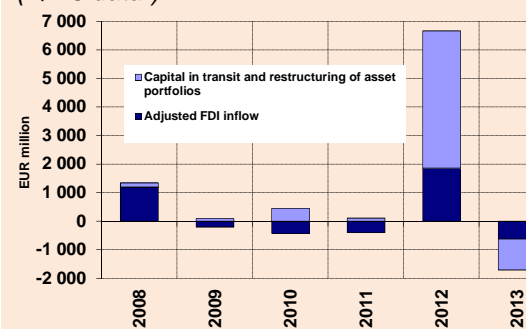
#### FDI inflow to Hungary (Annual data!)



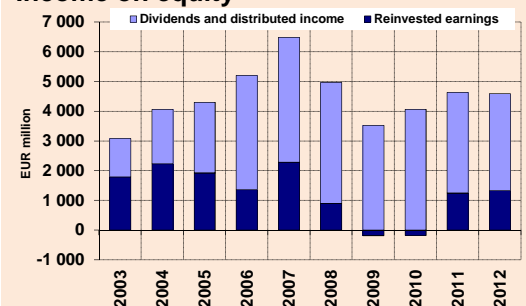
#### Adjusted FDI inflow to Hungary (Annual data!)



#### Adjusted FDI inflow to Hungary (Q1-3 data!)



#### Income on equity



by enterprises with different fiscal year).

**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 three quarters of 2013, net debit of income on debt amounted to EUR 557 million.

**The highest FDI inflow in form of equity capital and other capital came from Ireland (EUR 1,897 million) to Hungary in the first three quarters of 2013.** (Breakdown of inflow of FDI in form of reinvested earnings by country of origin and by industry is not available for the first three quarters of 2013.) The second biggest investor was Switzerland (EUR 573 million), the third was the Italy (EUR 241 million), the fourth was Croatia (EUR 42 million), the fifth were South Korea and Cyprus (EUR 40-40 million). However, the balance of inflow was negative in case of the group of Central American countries (EUR -863 million, probably due to the capital in transit), Germany (EUR -645 million, due to the acquisition of E.ON's Hungarian gas business by state-owned MVM), France (EUR -615 million), the Netherlands (EUR -584 million) and the USA (EUR -577 million).

The balance of inflow in form of equity capital and other capital to manufacturing was EUR 513 million in the first three quarters of 2013, while balance of inflow was negative in case of services (EUR -1765 million). Within manufacturing, machinery and equipment attracted EUR 251 million, pharmaceutical products EUR 199 million, rubber and plastic products EUR 102 million. Within services, banking sector attracted EUR 335 million, wholesale and retail trade EUR 59 million and real estate activities EUR 96 million. The balance of activities of head offices was EUR -1030 million (probably due to the capital in transit), that of other business support services was EUR -506 million, that of transportation and storage was EUR 735 million and that of legal and accounting activities was EUR -112 million.

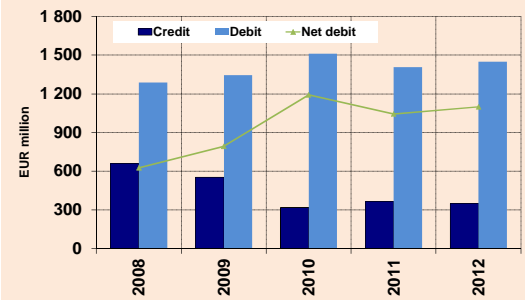
According to the data of UNCTAD published in October 2013, global FDI flows increased by 3.8%, to USD 745 billion in the first half of 2013 compared to the same period of 2012, due to the 83.8% increase (to USD 179 billion) of mergers and acquisitions. UNCTAD estimated in October that FDI would remain in 2013 close to the 2012 level. UNCTAD forecasted that global FDI flows were poised to increase in 2014.

According to the data of Eurostat, FDI flows from extra-EU27 countries to the EU27 dropped by 31.8%, to EUR 98 billion in the first half of 2013 compared to the same period of 2012.

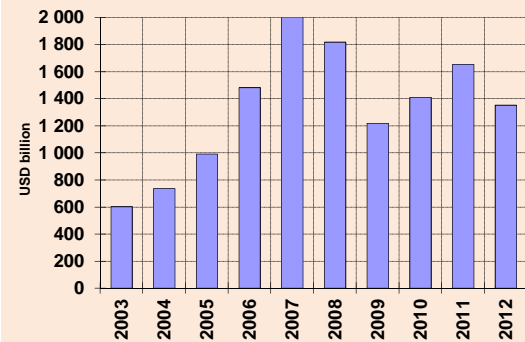
The FDI inflow to the Visegrad Countries and Romania in the first three quarters of 2013 reached only 11% of the inflow in the same period of 2012. Inflow to Czech Republic (EUR 3099 million) decreased by 46%, to Slovakia (EUR 262 million) by 75%, to Romania (EUR 1277 million) by 23%. Balance of inflow to Poland amounted to EUR -1051 million (due to special purpose entities), and to Hungary EUR -1713 million.

**In 2013 FDI inflow is expected to be around EUR 2.5 billion, without one-off, large scale transactions resulting in FDI outflow (acquisition of E.ON's Hungarian gas business by state-owned MVM (EUR 865 million); capital in transit (EUR 1147 million)),** however our experiences suggest that amount of other capital is hard to predict in a well-grounded way. Taking into account the outflow due to the acquisition of E.ON's Hungarian gas business by state-owned MVM and capital in transit, net inflow of FDI to Hungary could even be negative in 2013. 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 one-off, large scale transactions.

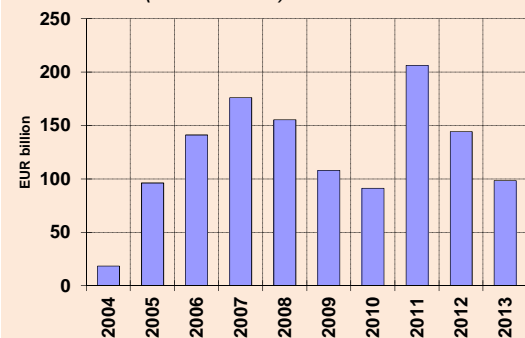
### Income on debt



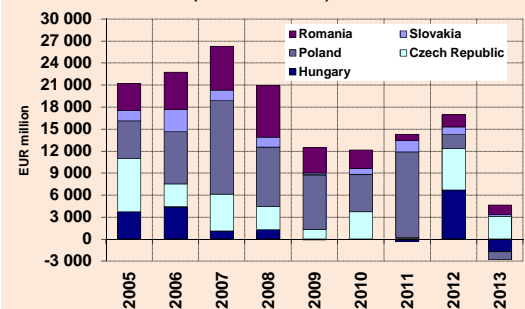
### Global FDI flows



### FDI flows to the EU27 from extra-EU27 countries (Q1-3 data!)



### FDI flows to the Visegrad Countries and Romania (Q1-3 data!)



Data source: MNB, UNCTAD, national banks, Eurostat

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