NATIONAL BANK OF SLOVAKIA

FOREIGN DIRECT INVESTMENTS IN SLOVAKIA

Ing. Adela Hošková, PhD.

Institute of Monetary and Financial Studies of the NBS
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Foreign Direct Investment in Slovakia

Inflow of Investment Capital from Abroad

In comparison with the previous period, the first half of 1999 saw a slowdown in the inflow of foreign investment capital into the Slovak economy. During the first half of 1998, the volume of foreign direct investment (FDI) reached Sk 7,581.0 million, due primarily to two large investments in metal working and food processing. During the first half of 1999, the volume of FDI followed the trend from 1996 and 1997, and totalled US$ 1,757.31 million at 30 June 1999.

Tab.1 Survey of foreign direct investments (FDI) in Sk millions

Year	**Volume as at January 1**	**Net change**	**Increase in % with respect to exchange-rate differences**	**Exchange-rate differences**	**Volume as at December 12**
1994	15,179	8,580	-	246	24 ,005
1995	24,005	6,757	129.5	1,035	31 ,797
1996	33,092	10,304	141.1	467	43 ,863
1997x	48,876	6,208	126.9	-272	54 ,812
1998xx	54,812	14,296	125.5	1,880	70 ,988
1999xxx	70,988	4,578	-	1,348	76 ,914

Note: The table shows data revised in 1998 and 1999.
x - Change in methodology - inclusion of CZK among convertible currencies
xx - Change in methodology - inclusion of capital in Sk (from 1994 to 1996 only capital in foreign currency)
xxx - Volume as at 30 June 1999
Tab. 2 to 7 see in BIATEC Journal

In relative terms, the structure of foreign direct investments remained stable, only the share of investment in industrial production decreased somewhat in favour of wholesale and retail trade. The other items remained virtually unchanged.

In industrial production, the largest volume of foreign capital was invested in the processing of food and beverages, representing 12% in percentage terms, followed by metal working (9.3%), car industry (7.0%), chemical production (6.2%), and the manufacturing of metal-based products except machines, other non-metal goods, etc.

A large portion of foreign capital was again invested in banking and insurance (21.6%), where a moderate increase in absolute terms was attributable to the fact that the amount of permanently available funding contributed by foreign banks to their branch offices had increased slightly. The level of foreign direct investment in tourism, transport, warehousing, and telecommunications is unsatisfactory.

In the long-term, the structure of FDI by country is relatively stable. Most capital came from Germany, Austria, and until recently from the Czech Republic, which confirms the opinion that Slovakia is most often selected by investors from neighbouring countries having long-standing relations with us. This situation changed in 1998, when the USA, Holland, and Great Britain moved to leading places on the list of investors as a result of large investments in food industry and metal working.

In 1996 and 1997, the structure of FDI in Slovakia by region was stable in relative terms. In 1998, the structure changed somewhat in favour of the Presov and Kosice regions, due to a large investment in metal working, which improved the overall structure of FDI in Slovakia.

Outflow of Investment Capital from Slovakia

The outflow of capital from Slovakia shows changing dynamics. The first half of 1999 indicates that the volume of capital outflow is following a moderately downward trend.

The structure of capital export from Slovakia by destination remained basically unchanged. Most capital is exported to the Czech Republic, Hungary, and the Ukraine. In comparison with the previous year, a marked change was recorded in the 3rd place, which is now occupied by Great Britain.

The structure of capital export by sector underwent marked changes in 1999. In comparison with 1998, the volume of foreign direct investment in the banking sector fell significantly, by roughly Sk 2.2 billion; whilst the volume of direct investment increased in industrial production (by over 30%), and partially in wholesale trade, real estate, and services.

With regard to the structure of capital export in industrial production, the largest volumes were recorded in metal working and production (20.7%); the production of coke, oil products, and nuclear fuels (6.2%); gum and plastics goods, pharmaceuticals and chemicals (7.2%).

Effects of FDI on the Balance of Trade and Payments

The share of joint ventures and 100% foreign-owned organisations in the exports and imports of Slovakia has now been monitored for six years. Our calculations are based on data from the statistical reports DEV 1 - 12 of the NBS. When used in combination with the report called 'Detailed Survey of Foreign Assets of Companies', the data can be extracted from the total amount of assets and liabilities according to the identification numbers of organisations.

Tab. 7 shows an unexpected increase in the volume of assets and liabilities for the 1st half of the year in comparison with the previous year.

The mid-year data for 1995 - 1999 show no marked deviations from the average figures. In comparison with 1998, a positive trend was recorded in exports, which grew in volume by 27.3%. Although imports increased by only 11.8%, the difference between imports and exports is on the decrease in both joint ventures and companies 100% owned by foreign investors, which is a positive trend.

According to the currently applied method, a new element in the monitoring of assets and liabilities in joint ventures is the possibility to quantify the internal turnover between parent and affiliated companies (according to the original method, the import and export of materials for processing could not be extracted), which reached Sk 75,093 million in exports and Sk 72,468 million in imports over the 1st half of 1999. As a result, the share in total exports and imports in joint ventures has changed substantially, to 66% in both cases.

At the same time, this view has principally changed the significance of FDI in terms of foreign trade and its effect on the country's balance of trade and payments. The analysis indicates that the best performing domestic companies are those with foreign capital interests or 100% owned by foreign investors. This confirms the results of previous analyses, i.e. the highly positive effect of FDI on domestic companies in terms of overall effectiveness. In essence, all this means is that the larger companies have a dominant effect on the overall results. In terms of intra-company turnover, the above applies to companies in the car industry; and in terms of export, to joint ventures in the chemical and metal-working industries, and to some large trading companies. On the import side, such companies are in the car industry, food and chemical industries, and trade in general.

We get a more precise view of the effectiveness of joint ventures operating in Slovakia if we exclude commercial organisations from the total balance of assets and liabilities to obtain the import and export figures of joint ventures in the production sector in Slovakia, but which sell their products on the world market.

Exclusion of commercial organisations

In this section, we rely upon research conducted in 1998, when we first separated the volumes of imports and exports of joint ventures from the foreign-trade activities of commercial organisations in the following groups: OKEC No. 50 - trade in motor vehicles; No. 51 - wholesale trade; and No. 52 - retail trade. ***(Tab. 8 to 9 see in BIATEC Journal.)***

Generalisation of the results

As in 1998, when the final result was in favour of exports in production companies, we may say that commercial organisations made a significant contribution to the relatively high surplus of imports in the category 'joint ventures' during the 1st half of 1999. Furthermore, the import surcharge failed to produce the desired effect during the first half of the year and a leading joint venture - Slovenske lodenice,