

wiiw FDI Report 2019

FDI in Central, East and Southeast Europe

Foreign Investments Mostly Robust Despite Global Downturn; Shift into Services

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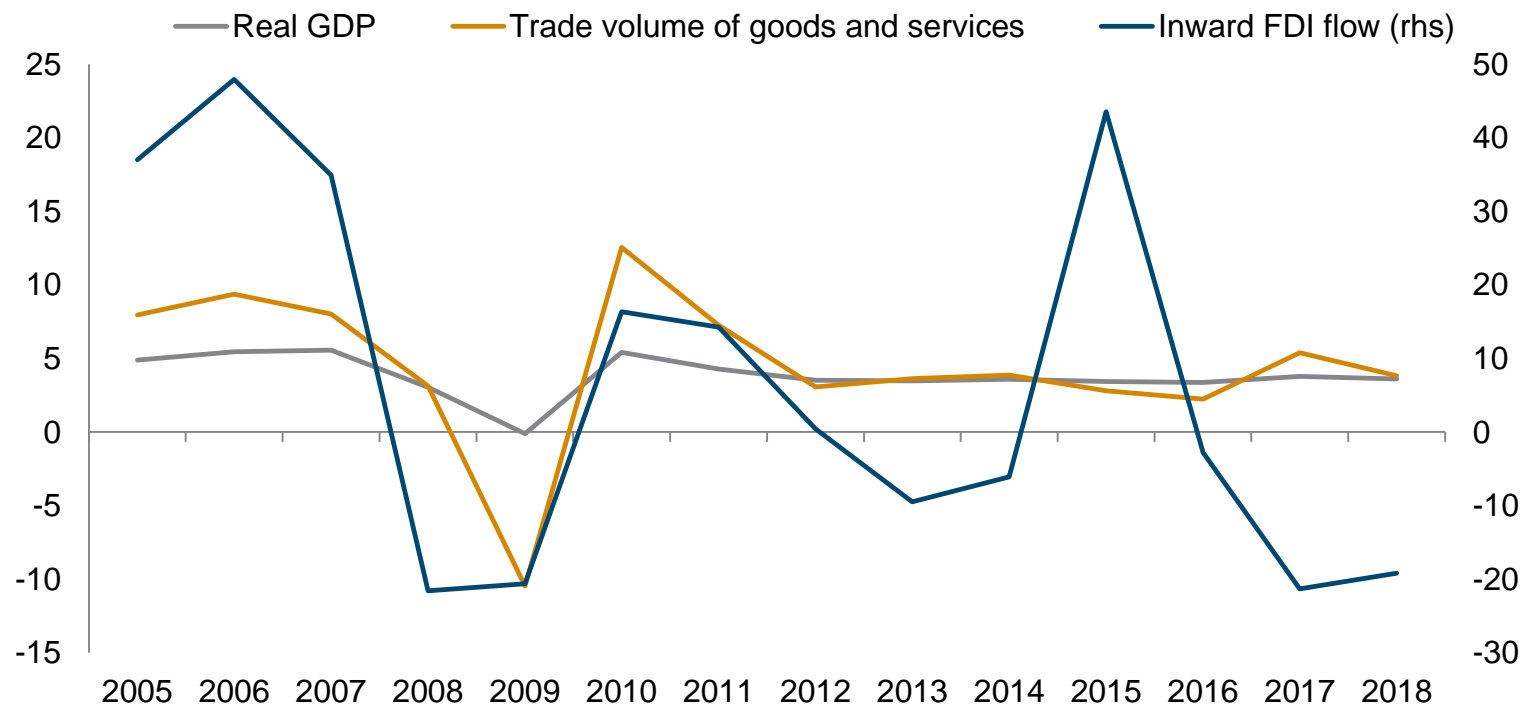
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Outline

- Global FDI decline
- FDI down in CESEE too, but mainly due to Russia
- FDI stock by activities: manufacturing or services – country specialisation and shifts
- FDI stock by investing countries: increasing role of the Netherlands, but not as ultimate investing country
- Austria slips to rank 4 in EU-CEE and keeps rank 2 in WB
- FDI prospects turn less favourable in EU-CEE and WB (external environment, growth slowdown, labour shortage)

Global trade, FDI inflows and economic growth dynamics, annual change in per cent, 2005-2018

Global GDP: 3.5-3.8% p.a., FDI inflow 2018 estimated at USD 1.3 bn, lowest since 2009 (negative in IE and CH, declines in DE and GB due to US disinvestments)

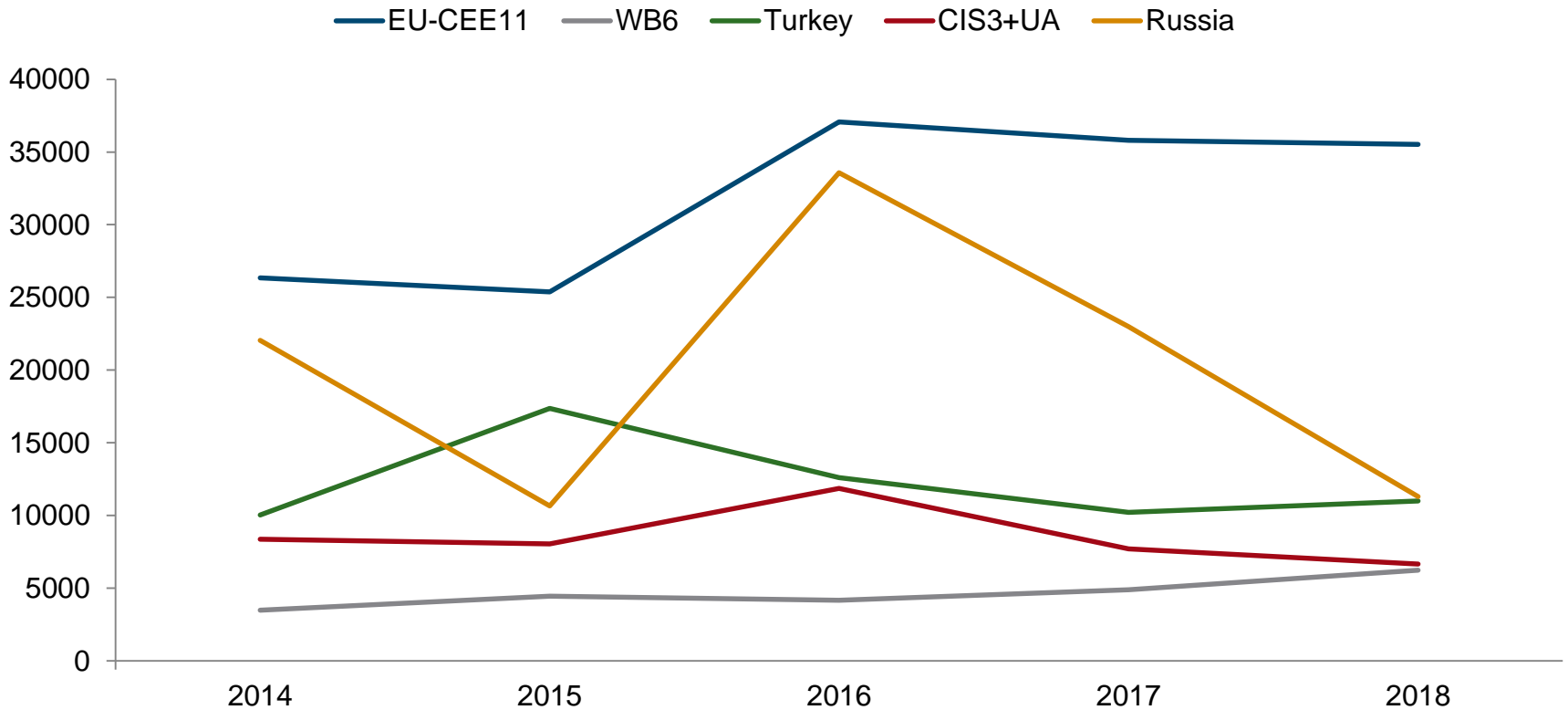


Note: FDI flows are on the right scale. 2018: OECD estimate.

Sources: IMF World Economic Outlook, UNCTAD, OECD.

FDI inflows in CESEE regions, EUR million, 2014-2018

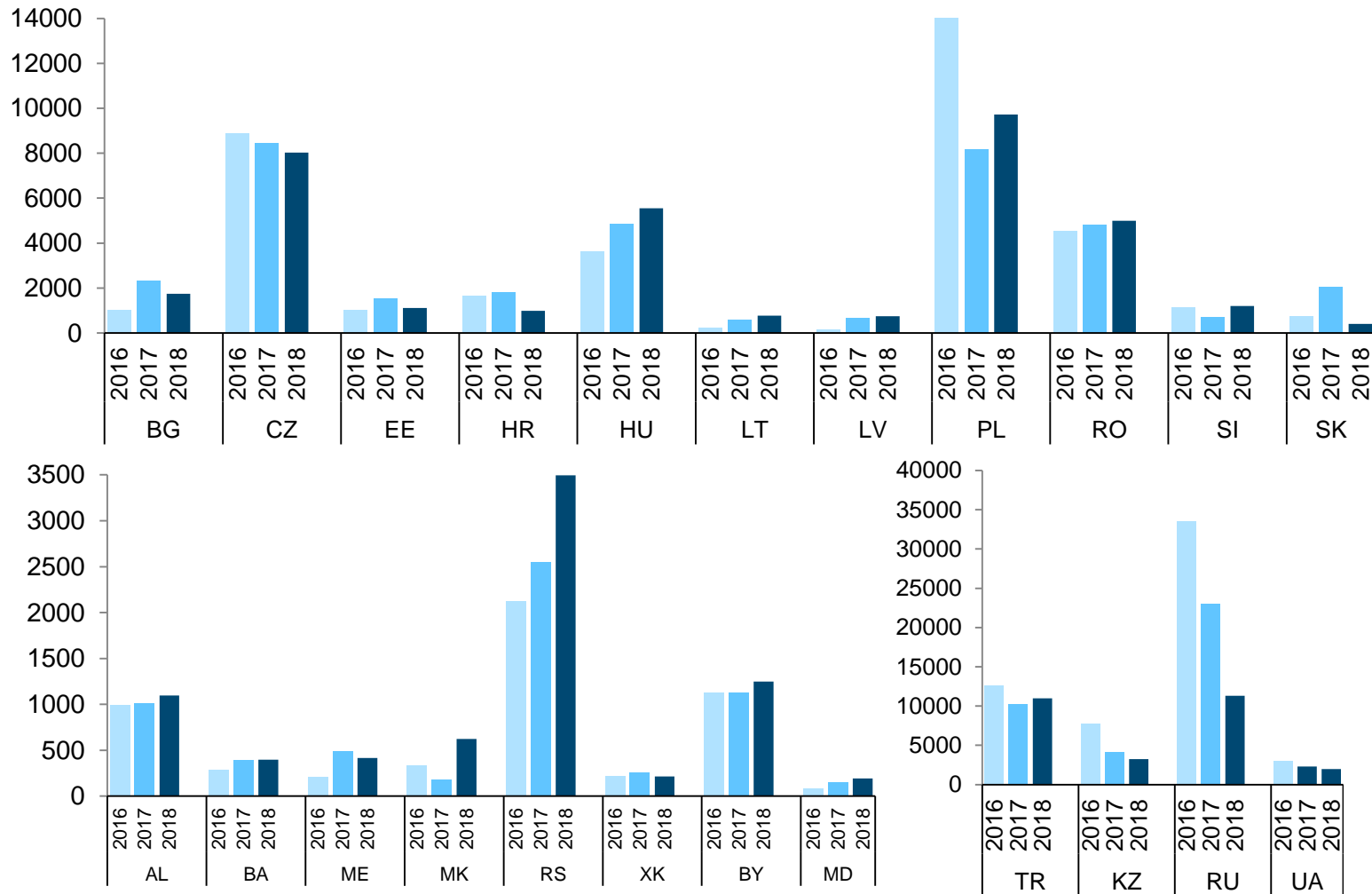
2018: Steady inflows in EU-CEE11 (2.6% of GDP) and Turkey, upsurge in WB6 (6.6% of GDP), decline in CIS3 and Russia



EU-CEE11: Central and East European EU members. CIS3: Belarus, Kazakhstan, Moldova.

Source: wiiw FDI Database.

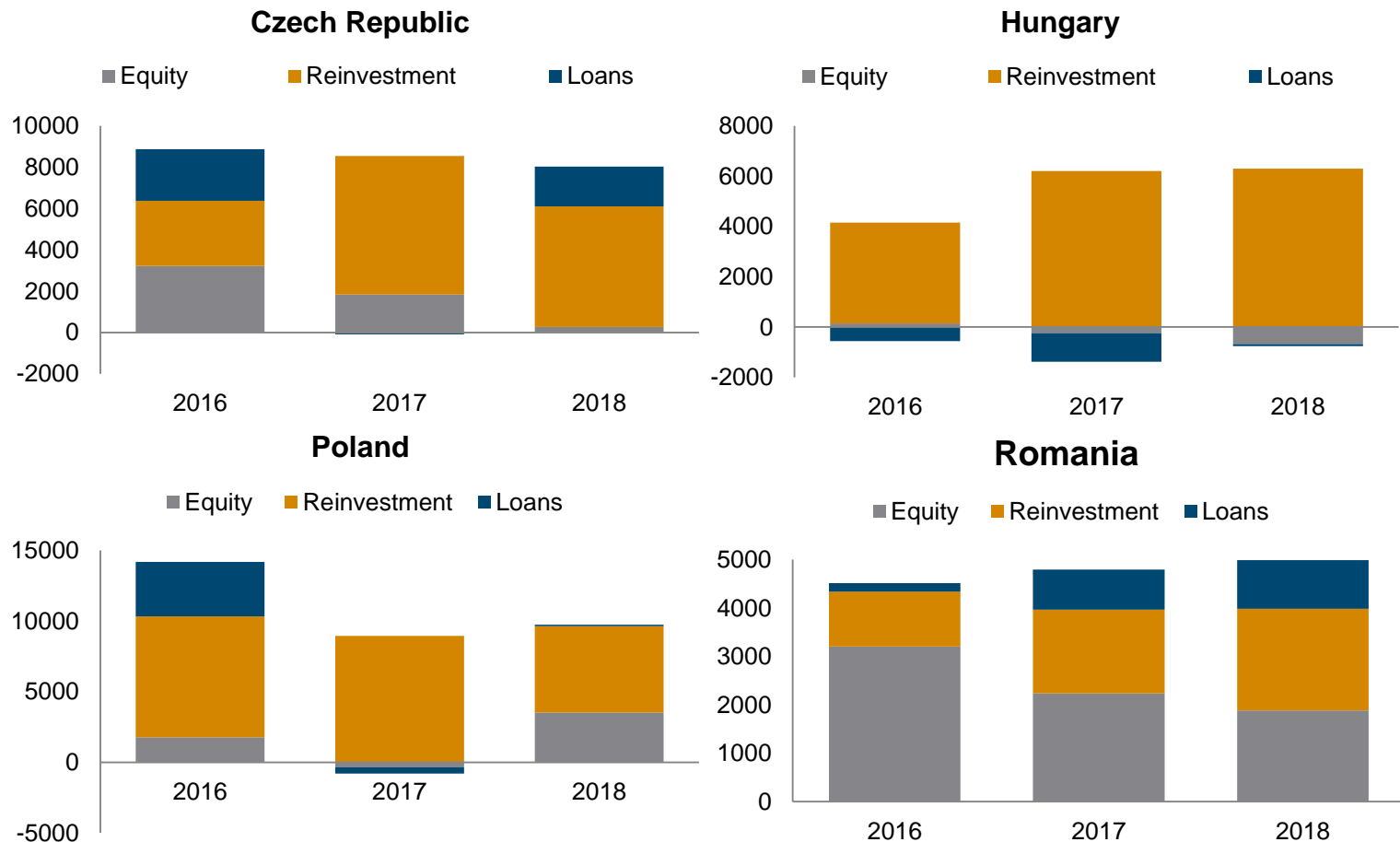
FDI inflow in CESEE by countries, EUR million, 2016-2018



Source: wiiw FDI Database.

FDI increasingly financed by income earned in host country

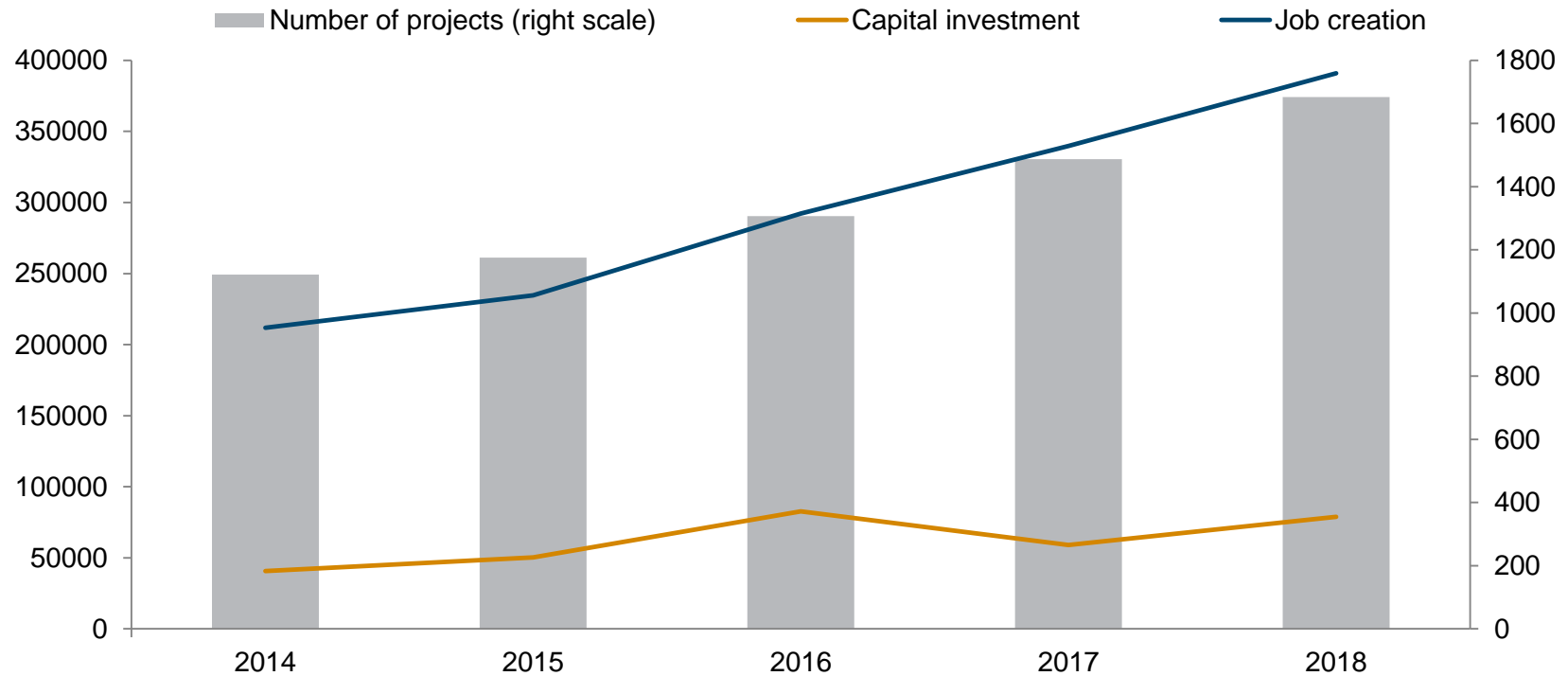
FDI inflow in the Czech Republic, Hungary, Poland and Romania by components, EUR million, 2016-2018



Source: wiiw FDI Database.

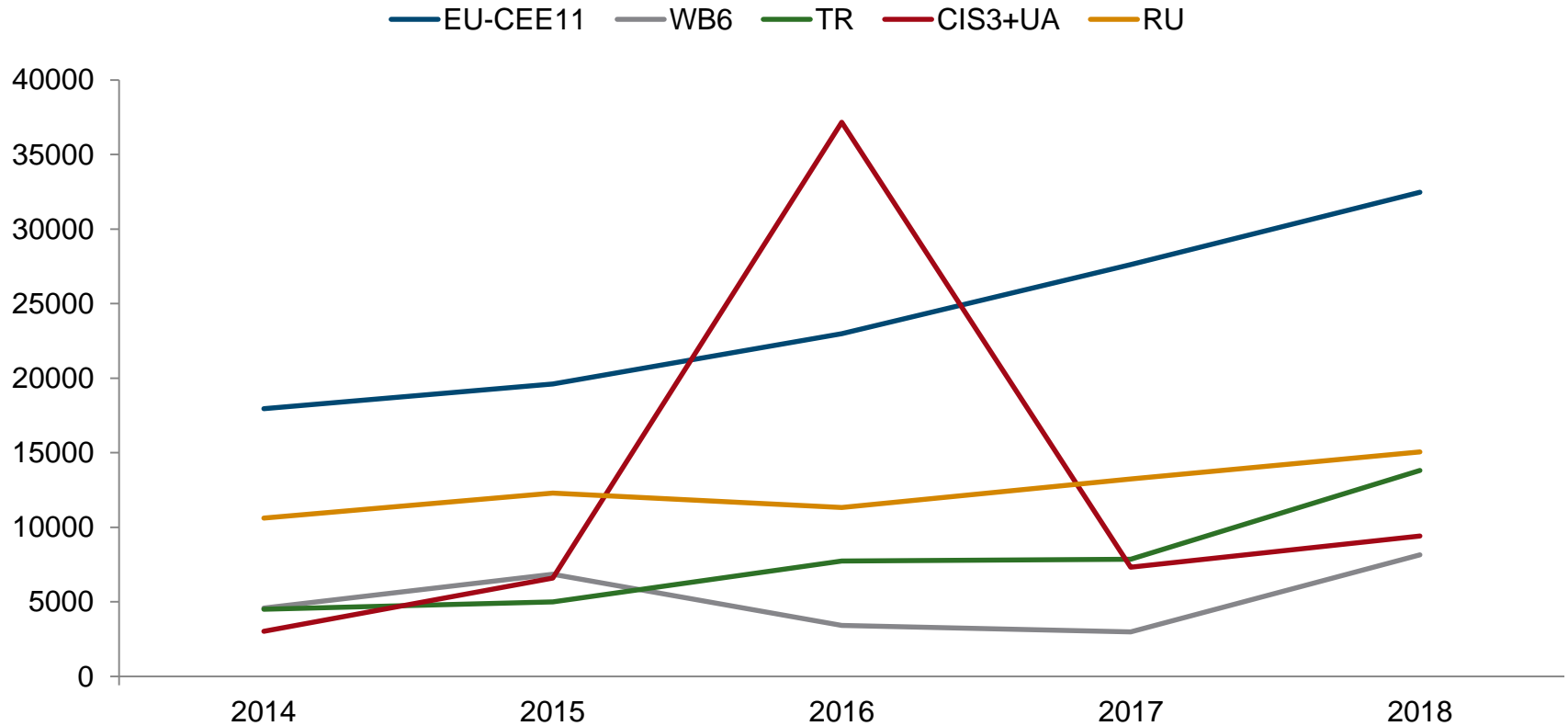
More greenfield projects, increasing demand for labour

Announced greenfield FDI projects 2014-2018: number of projects, announced capital investment in EUR million and number of jobs to be created



Investors optimistic: Capital investment in announced greenfield projects up in all regions, especially RS, TR and RU, low in KZ

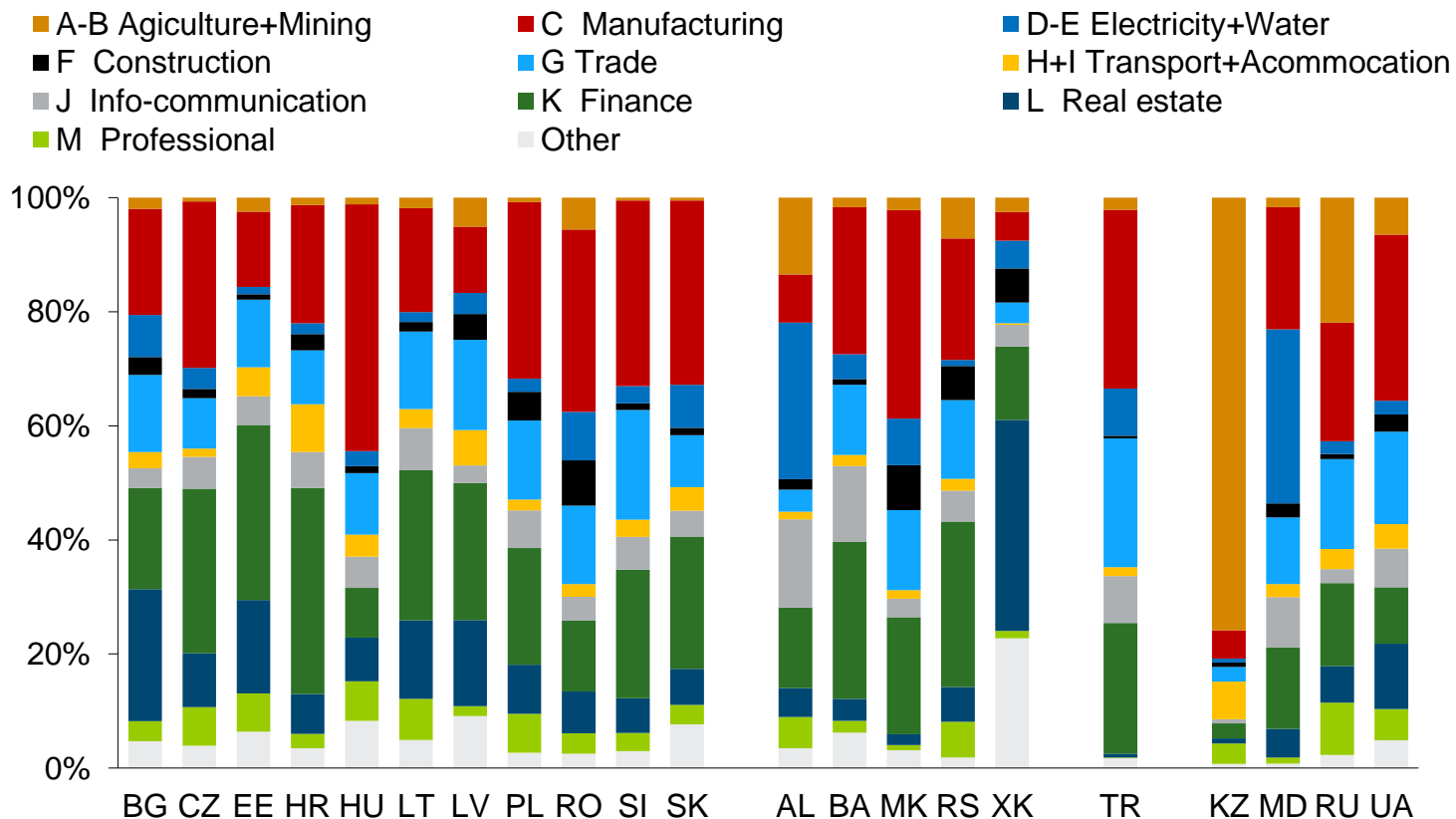
Capital investment pledged in greenfield FDI projects 2014–2018, in EUR million



Differences in specialisation: manufacturing or services

Manufacturers (above 25%): CZ, HU, PL, RO, SI, SK, MK, TR, UA

Composition of FDI stocks by economic activity, 2018, in %

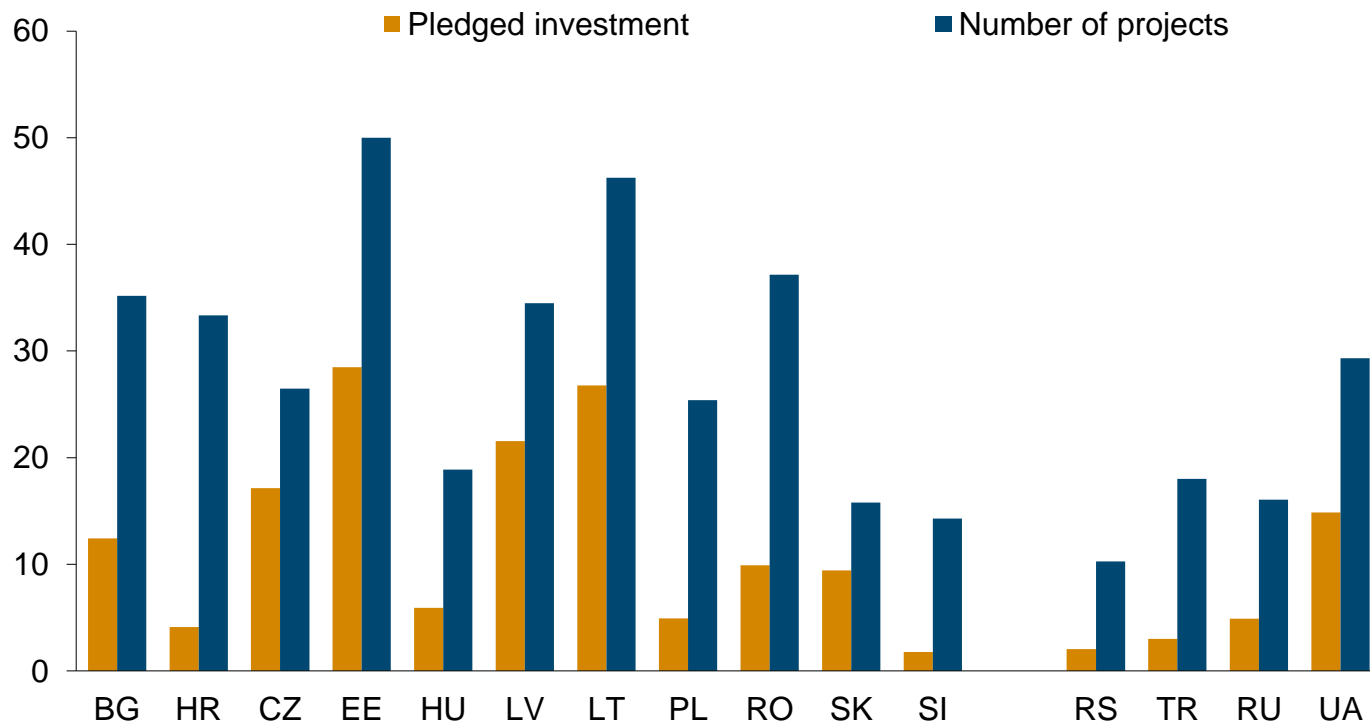


Remark: NACE Rev. 2. RS data refer to 2015, SK data refer to 2016, CZ, HU, PL, RO, SI, BA, MK, TR, MD, RU data refer to 2017.

Source: wiiw FDI Database.

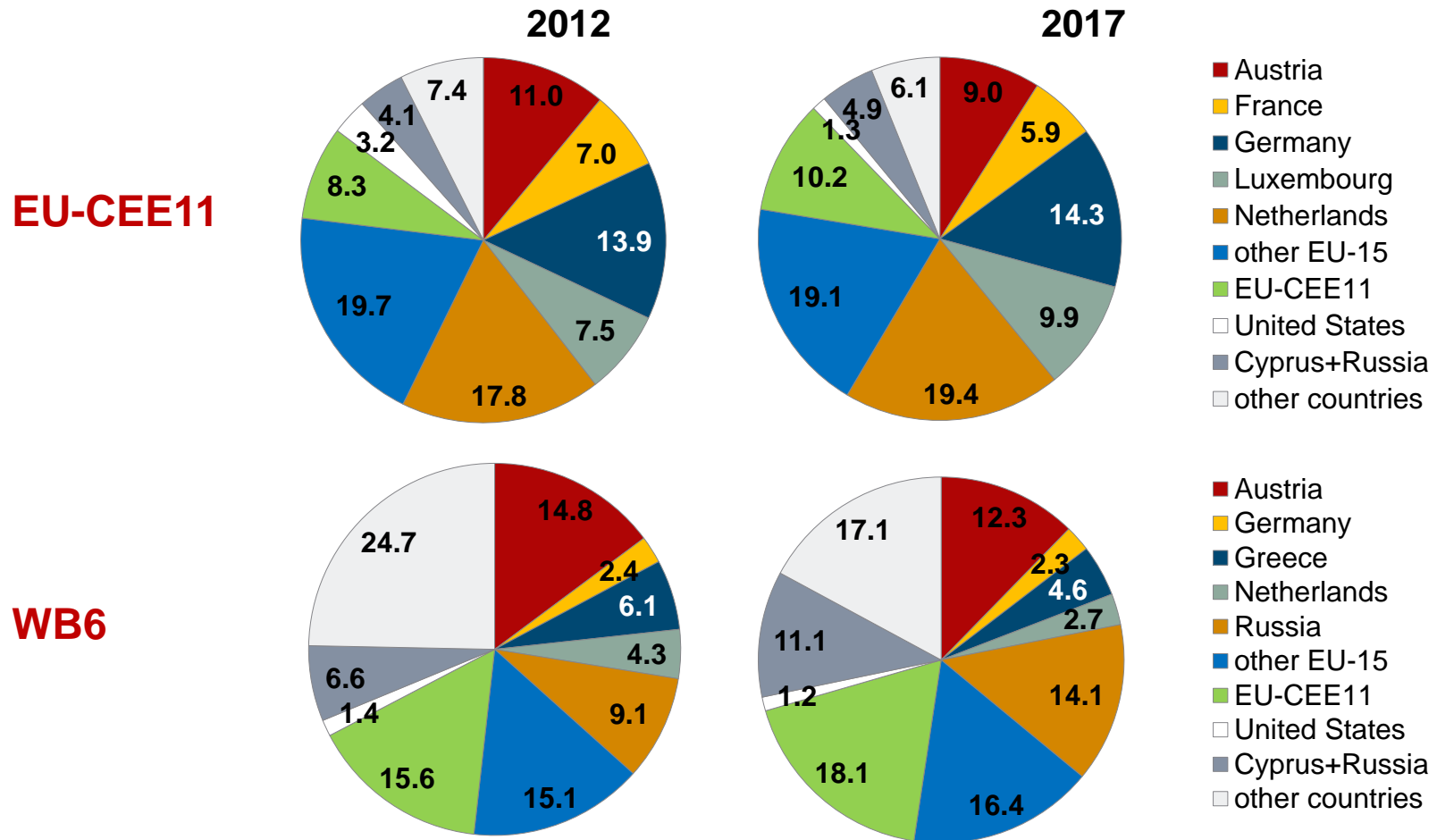
Greenfield projects in business service activities: low capital intensity

Share of producer related business services in the number and capital investment of greenfield projects, 2018, in %



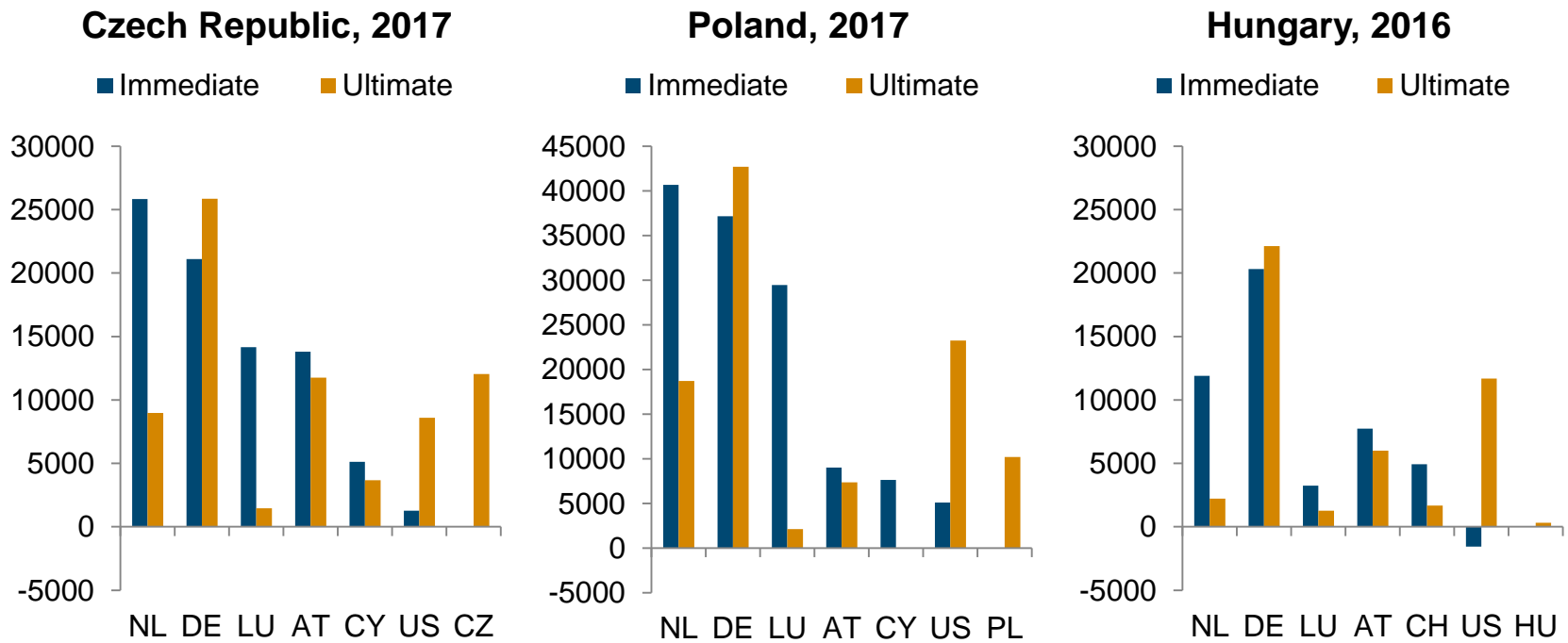
Rank 1 for the Netherlands on account of tax optimisation; AT down, EU-CEE11 up

Inward FDI stock in EU-CEE and Western Balkans by immediate home countries, in %



Germany largest ultimate investor, also USA important; NL and LU transit countries; round-tripping capital in CZ and PL

FDI stock by main immediate and ultimate investors, in the Czech Republic, Poland and Hungary, EUR million



Austrian FDI in CESEE

- Austrian inflows from the world EUR 6.5 billion, outflows to the world EUR -0.6 billion in 2018 (following high flows in both directions in 2017 OeNB data)
 - disinvestments mainly in CH and NL (restructuring of headquarters)
 - positive outflows to CESEE
- AT share in the EU-CEE and WB stock declined (host country data):
 - 4th in the EU-CEE, after the Netherlands, Luxembourg and Germany (9%; 3rd in 2016)
 - 2nd in the Western Balkans (12%),
 - low in the rest
- High profitability: CESEE share in the Austrian outward stock 28%, in global FDI income 36% (OeNB data)

Questions and answers

- What are the causes of the global FDI downturn in 2018?
 - Slowdown of GDP growth since mid-year, globalisation stuck, US protectionism
- How could most of the CESEE countries maintain high inflows?
 - Dynamic economic growth; embeddedness in value chains
- Which are the ultimate and immediate investing countries in CESEE, respectively?
 - Germany and the US; and the Netherlands, and Luxembourg, respectively
- Is there a shift of FDI into services?
 - Seen in the number of greenfield investment projects but less in the structure of FDI flows
- Does Austria lose positions as a direct investor in CESEE?
 - Yes, high investor presence in neighbouring countries
 - Austrian outward FDI moves offshore and to Asia

Outlook for 2019 and beyond

- General slowdown of global economic growth and trade – also FDI (volatile M&A)
- Trade wars discourage FDI of US, RU and CN multinationals
- Still attractive economic growth in some CESEE, but slowdown expected
- RU economy slowing down; Large FDI project acquisition of 10% in Novatek's Arctic LNG-2 project by France's Total
- EU-CEE: Challenges of labour shortage and automatisisation
- Structural upgrading: competition for FDI with higher skilled jobs in ICT, R&D
- Government policies are pro-FDI, but selective (regaining national control over banks and utilities)
- Western Balkans catching up based on available workforce, but small in size

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Country codes

AL	Albania	KZ	Kazakhstan	RS	Serbia
BY	Belarus	LT	Lithuania	RU	Russia
BA	Bosnia and Herzegovina	LV	Latvia	SI	Slovenia
BG	Bulgaria	MD	Moldova	SK	Slovakia
CZ	Czech Republic	ME	Montenegro	TR	Turkey
EE	Estonia	MK	North Macedonia	UA	Ukraine
HR	Croatia	PL	Poland	XK	Kosovo
HU	Hungary	RO	Romania		

CESEE23 Central, East and Southeast Europe

CIS3+UA Commonwealth of Independent States-3 and Ukraine

EU-CEE11 Central and Eastern European EU members

WB6 Western Balkans
