

# Monthly Report

## FDI in Central, East and Southeast Europe

Data Availability and Preliminary Results for 2022

FDI has been Holding up, but the Outlook is Getting Cloudier

What Lies behind the Strong FDI Inflows in the Western Balkans?

Deriving the Underlying FDI Trend in CESEE





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ALEXANDRA BYKOVA  
BRANIMIR JOVANOVIĆ  
OLGA PINDYUK  
NINA VUJANOVIĆ



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# Data availability and preliminary results for 2022

BY ALEXANDRA BYKOVA

*FDI inflows into CESEE countries, excluding Russia, grew by 10.8% last year. Performance was highly uneven across the countries of the region. Russia's isolation due to its war in Ukraine led to large-scale disinvestment of EUR 40bn, according to preliminary estimates. Preliminary FDI data for 2022 are available from the wiiw FDI Database as a first FDI data release this year. Data revisions and FDI data by partner and by economic activity will be released later, in autumn.*

Overall, foreign direct investment (FDI) inflows into Central, East and Southeast Europe (CESEE) in 2022 were at their lowest since 2005. The large-scale withdrawal of FDI from Russia in the wake of its war in Ukraine (estimated at EUR 40.6bn)<sup>1</sup> explains this weak performance. Leaving Russia aside, according to the recent spring update of the wiiw FDI Database the region attracted EUR 96.5bn in FDI in 2022 – 10.8% up on the previous year.<sup>2</sup>

This is the first of two releases of FDI data this year. The updates will allow members and data subscribers to receive data and accompanying analyses shortly after the figures are released by the national statistical data providers. For most of the countries, FDI statistics are now available in the database up until 2022 as preliminary data on total inflows, outflows, inward stock and outward stock (Tables 1-4), and as a breakdown by instrument (Table 5). Data on total FDI flows and stocks for Poland and Estonia (as well as total flows for Russia) have been estimated by wiiw. The spring update includes structural data for 2022 by partner and by activity for only a few countries; in our next release of FDI data (in November), we expect final FDI data for 2022 for all countries (including backward revisions).

The FDI data in Tables 1-5 and the database follow the *OECD Benchmark Definition of Foreign Direct Investment* (4th edition) and the International Monetary Fund's (IMF) *Balance of Payments and International Investment Position Manual* (BPM6). The data are recorded in current euros and are presented in accordance with the international standard of the directional principle. Any deviation from this international standard is marked and explained in the notes to the tables. The sources of the data are the respective countries' central banks. More information on the countries covered, the content, time series, methodology and sources can be found in the detailed description of the online wiiw FDI Database and earlier editions of the wiiw FDI Report.

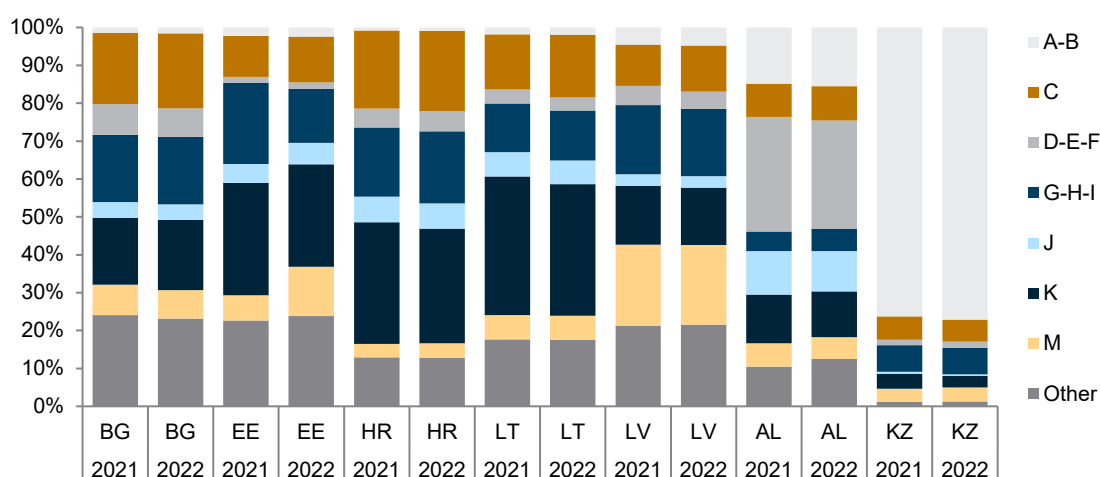
<sup>1</sup> Estimate is based on the value of FDI liabilities according to asset/liabilities principle, as the Central Bank of Russia stopped publication of data on FDI flows according to the directional principle in 2022.

<sup>2</sup> <https://data.wiiw.ac.at/fdi-database.html>

FDI inflows paint a heterogeneous picture for individual countries, which partly reflects investor uncertainty in view of the rising geopolitical risks. The largest annual decline in FDI inflows last year (of 87%) was observed in Ukraine (which managed to attract around EUR 800m, despite being hit hard by the war); this was followed by Latvia (49% down) and Lithuania (15.5% down). By contrast, after two years of disinvestment or low investment, Slovakia managed to attract EUR 2.7bn in FDI, while FDI inflows to Kazakhstan almost doubled – mostly on account of high reinvested earnings in the oil sector (amid favourable oil prices), but also thanks to investment in trade. Overall, the Western Balkan sub-region performed at above average, with a 27% annual increase in FDI inflows (Table 1).

FDI outflows from CESEE, even excluding Russia and Ukraine, declined by 38% year on year. Again, there is no common trend to be traced in the region. Whereas an increase in FDI outflows was observed in almost all Western Balkan countries (except Serbia), six EU-CEE countries posted higher outflows in 2022 than in 2021. The largest investor was Hungary, with EUR 3.5bn (Table 2) mainly due to reinvestment of profits and new equity investments.

**Figure 1 / Inward FDI stock, by economic activity, in 2021 and 2022, as a percentage of total**



Note: Data are based on Direct Investment Statistics (directional principle). NACE Rev. 2: A-B Agriculture + Mining, C Manufacturing, D-E-F Electricity + Water + Construction, G-H-I Trade + Transport + Accommodation, J Info-communication, K Finance, M Professional, scientific and technical activities.

Source: wiiw FDI Database, incorporating central bank statistics.

Data on the breakdown of inward FDI stocks by economic activity in 2022 are so far available for only seven CESEE countries (Figure 1). Despite the generally quite stable structure of the stocks, some annual shifts are worth mentioning. In all these countries except Kazakhstan, the share of manufacturing expanded – a tendency that was also discernible in some countries a year ago. The largest increase – of 2.1 percentage points (pp) – was observed in Lithuania. By contrast, the share of the banking sector in total FDI inward stocks declined in all countries except Bulgaria. The large structural changes observed for Estonia are likely due rather to revaluation or reclassification between trade and professional services. In Albania, the largest positive shift (of 2 pp) was visible in ‘other’ activities, on account of real estate FDI, which expanded from 8.1% of total inward stocks in 2021 to 9.9% in 2022. Amid favourable oil prices and high FDI in the mining sector, the share of this sector in Kazakhstan was 0.9 pp higher in 2022 than a year before.



**Table 1 / FDI inflow**

EUR million

	2015	2016	2017	2018	2019	2020	2021	2022
BG Bulgaria	1,998	940	1,606	968	1,639	2,974	1,600	2,379
CZ Czechia	419	8,873	8,454	9,330	9,030	8,261	7,651	9,369
EE Estonia <sup>1)</sup>	100	916	1,131	1,208	2,754	3,075	-715	280
HR Croatia	67	241	469	1,015	2,659	968	3,743	3,489
HU Hungary <sup>2)</sup>	2,298	3,880	5,136	5,566	3,220	4,773	5,612	7,346
LT Lithuania	951	273	904	827	2,699	3,080	2,366	2,000
LV Latvia	666	230	659	814	827	880	2,807	1,432
PL Poland <sup>1)</sup>	13,758	14,181	8,142	13,555	12,069	12,135	25,011	25,300
RO Romania	3,461	4,517	4,797	5,266	5,173	3,005	8,940	10,705
SI Slovenia	1,510	1,126	795	1,172	1,307	193	1,499	1,540
SK Slovakia	96	728	3,556	1,418	2,243	-2,104	50	2,759
<b>EU-CEE11</b>	<b>25,325</b>	<b>35,905</b>	<b>35,647</b>	<b>41,139</b>	<b>43,619</b>	<b>37,239</b>	<b>58,565</b>	<b>66,599</b>
AL Albania	852	994	1,017	1,092	1,151	970	1,043	1,362
BA Bosnia and Herzegovina	326	316	436	493	409	377	497	629
ME Montenegro	630	205	494	415	372	466	591	833
MK North Macedonia	217	338	182	614	399	201	471	754
RS Serbia	2,116	2,125	2,548	3,464	3,814	3,037	3,880	4,412
XK Kosovo	309	220	255	272	255	346	421	778
<b>WB6</b>	<b>4,450</b>	<b>4,198</b>	<b>4,933</b>	<b>6,349</b>	<b>6,399</b>	<b>5,397</b>	<b>6,902</b>	<b>8,767</b>
TR Turkey	17,362	12,499	9,905	10,542	8,530	6,741	11,267	12,435
BY Belarus	1,521	1,125	1,132	1,208	1,157	1,226	1,051	1,526
KZ Kazakhstan	3,659	7,694	4,172	3,304	2,933	3,214	2,821	5,809
MD Moldova	214	75	135	251	454	132	346	558
UA Ukraine <sup>3)</sup>	-298	3,662	3,304	4,004	5,371	-32	6,182	807
<b>CIS3+UA</b>	<b>5,095</b>	<b>12,556</b>	<b>8,743</b>	<b>8,767</b>	<b>9,916</b>	<b>4,540</b>	<b>10,400</b>	<b>8,700</b>
RU Russia <sup>1)</sup>	10,664	33,568	22,990	11,222	28,638	9,110	32,636	-40,630
<b>CESEE23</b>	<b>62,895</b>	<b>98,727</b>	<b>82,218</b>	<b>78,020</b>	<b>97,102</b>	<b>63,028</b>	<b>119,771</b>	<b>55,872</b>

Note: Data refer to BPM6 directional principle unless otherwise stated; data exclude Special Purpose Entities (SPEs).

Grey background: data are based on asset/liability principle (balance of payments - BOP).

1) wiiw estimate in 2022. - 2) Excluding capital in transit and restructuring of asset portfolios. - 3) Excluding the occupied territories of Crimea and Sevastopol.

Source: wiiw FDI Database based on Direct Investment statistics (BOP statistics for Kosovo and Turkey) of the respective central banks.

**Table 2 / FDI outflow**

EUR million

	2015	2016	2017	2018	2019	2020	2021	2022
BG Bulgaria	124	366	293	211	401	216	297	369
CZ Czechia	2,243	1,973	6,712	7,341	3,688	2,624	6,538	2,352
EE Estonia <sup>1)</sup>	250	382	224	-39	1,689	188	-494	700
HR Croatia	-126	-1,751	-642	172	-768	264	945	-259
HU Hungary <sup>2)</sup>	860	1,318	3,021	2,954	2,318	2,405	2,726	3,471
LT Lithuania	340	39	71	596	1,560	2,516	1,119	348
LV Latvia	63	145	126	175	-92	232	1,962	137
PL Poland <sup>1)</sup>	4,501	10,484	1,926	755	1,656	1,136	1,538	1,800
RO Romania	507	4	-86	321	324	46	119	1,078
SI Slovenia	241	262	300	238	545	454	1,102	319
SK Slovakia	5	86	1,173	272	39	305	329	411
<b>EU-CEE11</b>	<b>9,008</b>	<b>13,307</b>	<b>13,119</b>	<b>12,995</b>	<b>11,360</b>	<b>10,388</b>	<b>16,181</b>	<b>10,726</b>
AL Albania	34	58	23	70	114	77	53	155
BA Bosnia and Herzegovina	66	35	70	2	31	54	37	41
ME Montenegro	11	-167	10	92	67	-5	9	50
MK North Macedonia	14	22	2	10	35	47	83	84
RS Serbia	312	226	130	307	263	98	224	106
XK Kosovo	37	43	43	46	66	59	100	176
<b>WB6</b>	<b>474</b>	<b>216</b>	<b>278</b>	<b>528</b>	<b>577</b>	<b>331</b>	<b>506</b>	<b>611</b>
TR Turkey	4,593	2,835	2,393	3,052	2,655	2,840	5,454	4,680
BY Belarus	111	103	62	42	14	77	-61	165
KZ Kazakhstan	717	-4,731	808	-928	-2,340	-1,932	1,219	-1,719
MD Moldova	17	8	11	32	36	-2	24	48
UA Ukraine <sup>3)</sup>	-86	90	249	-107	752	19	-167	327
<b>CIS3+UA</b>	<b>760</b>	<b>-4,529</b>	<b>1,131</b>	<b>-962</b>	<b>-1,538</b>	<b>-1,838</b>	<b>1,014</b>	<b>-1,179</b>
RU Russia <sup>1)</sup>	24,362	24,336	30,253	30,389	19,664	5,932	54,117	-13,228
<b>CESEE23</b>	<b>39,196</b>	<b>36,165</b>	<b>47,173</b>	<b>46,003</b>	<b>32,717</b>	<b>17,653</b>	<b>77,273</b>	<b>1,610</b>

Note: Data refer to BPM6 directional principle unless otherwise stated; data exclude SPEs.

Grey background: data are based on asset/liability principle (BOP).

1) wiiw estimate in 2022. - 2) Excluding capital in transit and restructuring of asset portfolios. - 3) Excluding the occupied territories of Crimea and Sevastopol.

Source: wiiw FDI Database based on Direct Investment statistics (BOP for Kosovo and Turkey) of the respective central banks.

**Table 3 / Inward FDI stock**

EUR million

	2015	2016	2017	2018	2019	2020	2021	2022
BG Bulgaria	39,931	40,742	42,462	44,045	46,058	48,676	51,200	53,795
CZ Czechia	107,129	115,627	130,042	143,420	152,528	159,100	177,010	190,072
EE Estonia <sup>1)</sup>	16,944	18,114	19,447	21,237	24,400	27,755	29,727	31,800
HR Croatia	23,667	26,179	27,993	28,695	32,006	31,371	34,611	35,922
HU Hungary	78,957	78,093	77,240	80,450	83,882	83,172	92,494	97,854
LT Lithuania	14,739	15,342	16,361	16,959	20,691	23,968	27,110	29,736
LV Latvia	13,532	13,591	14,744	15,337	16,053	16,811	21,228	22,590
PL Poland <sup>1)</sup>	170,257	178,294	200,638	200,687	214,553	203,381	238,970	252,000
RO Romania	64,663	70,742	75,851	81,124	88,304	90,773	100,288	108,738
SI Slovenia	11,612	12,971	13,957	15,254	16,179	16,664	18,396	19,785
SK Slovakia	42,265	45,150	49,620	52,279	53,947	52,394	52,417	53,793
<b>EU-CEE11</b>	<b>583,697</b>	<b>614,844</b>	<b>668,355</b>	<b>699,487</b>	<b>748,602</b>	<b>754,065</b>	<b>843,450</b>	<b>896,085</b>
AL Albania	3,983	4,729	5,622	6,693	7,289	7,830	8,901	10,686
BA Bosnia and Herzegovina	6,577	6,773	7,132	7,539	7,844	7,875	8,322	8,741
ME Montenegro	4,483	4,337	4,493	4,676	4,820	4,742	4,732	5,326
MK North Macedonia	4,400	4,657	4,698	5,307	5,704	5,852	6,298	7,012
RS Serbia	26,704	28,811	31,509	35,192	39,012	42,556	46,109	50,181
XK Kosovo	3,254	3,405	3,519	3,692	3,969	4,229	4,648	5,408
<b>WB6</b>	<b>49,402</b>	<b>52,713</b>	<b>56,972</b>	<b>63,099</b>	<b>68,637</b>	<b>73,084</b>	<b>79,010</b>	<b>87,353</b>
TR Turkey	146,326	142,681	165,224	128,048	144,461	188,369	124,700	155,798
BY Belarus	16,440	17,835	10,747	11,378	12,892	11,167	12,956	14,446
KZ Kazakhstan	121,901	136,644	123,002	131,723	136,234	123,826	135,188	144,733
MD Moldova	2,626	2,790	3,009	3,558	4,206	3,837	4,222	4,607
UA Ukraine <sup>2)</sup>	42,110	45,639	40,024	37,754	48,597	42,397	57,997	47,991
<b>CIS3+UA</b>	<b>183,076</b>	<b>202,908</b>	<b>176,783</b>	<b>184,413</b>	<b>201,929</b>	<b>181,227</b>	<b>210,363</b>	<b>211,778</b>
RU Russia	240,264	374,465	368,937	356,790	440,278	365,825	439,811	352,478
<b>CESEE23</b>	<b>1,202,766</b>	<b>1,387,611</b>	<b>1,436,271</b>	<b>1,431,837</b>	<b>1,603,908</b>	<b>1,562,571</b>	<b>1,697,335</b>	<b>1,703,491</b>

Note: Data refer to BPM6 directional principle unless otherwise stated; data exclude SPEs.

Grey background: data are based on asset/liability principle (international investment position - IIP).

1) wiiw estimate in 2022. - 2) Excluding the occupied territories of Crimea and Sevastopol.

Source: wiiw FDI Database based on Direct Investment statistics (IIP for Kosovo and Turkey) of the respective central banks.

**Table 4 / Outward FDI stock**

EUR million

	2015	2016	2017	2018	2019	2020	2021	2022
BG Bulgaria	1,648	2,057	2,217	2,310	2,534	2,939	3,097	3,244
CZ Czechia	17,077	18,433	26,980	35,809	40,181	41,790	48,981	52,240
EE Estonia <sup>1)</sup>	5,150	5,480	6,030	6,385	8,413	8,349	10,718	11,200
HR Croatia	4,524	4,418	4,540	4,857	4,430	4,449	5,706	6,371
HU Hungary	32,530	23,625	24,445	25,257	28,972	29,369	35,020	39,122
LT Lithuania	3,371	3,523	3,610	4,223	6,301	8,628	10,138	10,580
LV Latvia	1,688	1,836	1,874	2,046	1,927	2,094	5,314	5,324
PL Poland <sup>1)</sup>	25,167	26,332	24,364	21,525	24,024	22,915	23,852	26,000
RO Romania	745	727	632	1,190	2,157	2,402	2,793	3,824
SI Slovenia	5,508	5,741	5,969	6,108	6,840	7,016	7,841	8,327
SK Slovakia	2,262	2,496	3,827	4,008	4,213	4,485	4,784	5,089
<b>EU-CEE11</b>	<b>99,671</b>	<b>94,669</b>	<b>104,489</b>	<b>113,718</b>	<b>129,992</b>	<b>134,436</b>	<b>158,243</b>	<b>171,321</b>
AL Albania	336	386	393	492	607	665	733	917
BA Bosnia and Herzegovina	348	408	481	540	538	592	618	661
ME Montenegro	.	60	63	75	100	83	123	202
MK North Macedonia	104	77	67	62	61	99	124	167
RS Serbia	2,643	2,869	2,999	3,323	3,624	3,706	3,997	4,192
XK Kosovo	212	261	305	348	415	477	579	753
<b>WB6</b>	.	<b>4,061</b>	<b>4,308</b>	<b>4,840</b>	<b>5,344</b>	<b>5,622</b>	<b>6,173</b>	<b>6,892</b>
TR Turkey	33,295	37,438	39,189	40,339	45,010	41,614	46,810	54,328
BY Belarus	643	739	1,328	1,234	1,288	1,153	1,244	1,404
KZ Kazakhstan	24,458	22,382	17,145	14,821	13,983	11,297	13,840	20,714
MD Moldova	183	200	186	227	267	243	287	356
UA Ukraine <sup>2)</sup>	531	518	623	474	1,563	738	-260	-814
<b>CIS3+UA</b>	<b>25,814</b>	<b>23,838</b>	<b>19,282</b>	<b>16,756</b>	<b>17,100</b>	<b>13,432</b>	<b>15,112</b>	<b>21,659</b>
RU Russia	265,269	325,924	325,087	303,018	363,644	310,504	331,046	293,156
<b>CESEE23</b>	.	<b>485,929</b>	<b>492,354</b>	<b>478,671</b>	<b>561,090</b>	<b>505,608</b>	<b>557,384</b>	<b>547,356</b>

Note: Data refer to BPM6 directional principle unless otherwise stated; data exclude SPEs.

Grey background: data are based on asset/liability principle (IIP).

1) wiiw estimate in 2022. - 2) Excluding occupied territories of Crimea and Sevastopol.

Source: wiiw FDI Database based on Direct Investment statistics (IIP for Kosovo and Turkey) of the respective central banks.

**Table 5 / FDI inflow by components**

EUR million

	2015	2016	2017	2018	2019	2020	2021	2022
<b>Bulgaria</b>								
FDI inflow, total	1,998	940	1,606	968	1,639	2,974	1,600	2,379
Equity other than reinvestment of earnings	1,586	255	-25	390	-157	498	-272	581
Reinvestment of earnings	939	1,091	861	1,214	1,159	1,221	2,474	1,333
Debt instruments	-526	-407	769	-637	637	1,255	-602	465
<b>Czechia</b>								
FDI inflow, total	419	8,873	8,454	9,330	9,030	8,261	7,651	9,369
Equity other than reinvestment of earnings	484	3,219	1,841	160	3,241	2,024	-260	891
Reinvestment of earnings	2,783	3,159	6,708	4,316	4,601	3,902	8,247	7,215
Debt instruments	-2,848	2,495	-95	4,855	1,188	2,335	-336	1,262
<b>Estonia <sup>1)</sup></b>								
FDI inflow, total	32	957	1,727	1,285	2,855	3,042	159	294
Equity other than reinvestment of earnings	-1,068	26	412	-171	1,593	2,234	4,995	334
Reinvestment of earnings	547	800	909	716	847	495	817	670
Debt instruments	553	131	406	739	415	313	-5,653	-710
<b>Croatia</b>								
FDI inflow, total	67	241	469	1,015	2,659	968	3,743	3,489
Equity other than reinvestment of earnings	1,962	691	602	754	908	705	1,502	973
Reinvestment of earnings	-982	-290	-633	944	755	360	1,660	1,544
Debt instruments	-913	-160	500	-682	996	-96	581	973
<b>Hungary <sup>2)</sup></b>								
FDI inflow, total	2,298	3,880	5,136	5,566	3,220	4,773	5,612	7,346
Equity other than reinvestment of earnings	-272	363	46	86	-566	-1,208	-5,364	620
Reinvestment of earnings	4,002	4,073	6,088	5,621	4,342	3,536	5,277	4,753
Debt instruments	-1,431	-556	-998	-142	-556	2,445	5,699	1,974
<b>Lithuania</b>								
FDI inflow, total	951	273	904	827	2,699	3,080	2,366	2,000
Equity other than reinvestment of earnings	262	452	113	177	308	2,315	162	360
Reinvestment of earnings	647	460	823	971	1,246	1,222	1,730	45
Debt instruments	42	-639	-33	-321	1,145	-457	475	1,594
<b>Latvia</b>								
FDI inflow, total	666	230	659	814	827	880	2,807	1,432
Equity other than reinvestment of earnings	303	-589	1,034	-284	382	464	1,651	-101
Reinvestment of earnings	432	482	186	342	407	390	1,013	1,185
Debt instruments	-69	337	-561	756	38	26	143	348
<b>Poland <sup>3)</sup></b>								
FDI inflow, total	13,758	14,181	8,142	13,555	12,069	12,135	25,011	25,300
Equity other than reinvestment of earnings	5,229	1,776	-938	4,197	2,575	3,784	4,283	5,600
Reinvestment of earnings	6,966	8,549	9,172	8,250	10,188	9,932	16,544	13,800
Debt instruments	1,563	3,855	-92	1,108	-695	-1,582	4,185	5,900
<b>Romania</b>								
FDI inflow, total	3,461	4,517	4,797	5,266	5,173	3,005	8,940	10,705
Equity other than reinvestment of earnings	3,085	3,203	2,235	2,973	2,238	983	2,165	657
Reinvestment of earnings	510	1,138	1,733	2,573	2,783	3,016	4,582	7,274
Debt instruments	-133	176	829	-280	152	-994	2,194	2,775
<b>Slovenia</b>								
FDI inflow, total	1,510	1,126	795	1,172	1,307	193	1,499	1,540
Equity other than reinvestment of earnings	1,344	956	581	555	1,196	338	248	724
Reinvestment of earnings	441	547	351	533	500	259	546	612
Debt instruments	-275	-377	-138	84	-390	-404	705	204
<b>Slovakia</b>								
FDI inflow, total	96	728	3,556	1,418	2,243	-2,104	50	2,759
Equity other than reinvestment of earnings	-404	840	567	504	626	102	73	-227
Reinvestment of earnings	709	843	660	-238	1,969	473	1,062	1,907
Debt instruments	-210	-955	2,328	1,153	-352	-2,679	-1,085	1,079

(Table 5 contd.)

Table 5 / contd.

	2015	2016	2017	2018	2019	2020	2021	2022
<b>Albania</b>								
FDI inflow, total	852	994	1,017	1,092	1,151	970	1,043	1,362
Equity other than reinvestment of earnings	730	904	808	852	721	595	580	607
Reinvestment of earnings	59	42	137	224	397	384	477	732
Debt instruments	63	49	72	16	33	-9	-14	23
<b>Bosnia and Herzegovina</b>								
FDI inflow, total	326	316	436	493	409	377	497	629
Equity other than reinvestment of earnings	159	151	170	276	97	80	822	123
Reinvestment of earnings	79	105	241	249	225	292	268	349
Debt instruments	87	61	25	-32	87	4	-594	156
<b>Montenegro</b>								
FDI inflow, total	630	205	494	415	372	466	591	833
Equity other than reinvestment of earnings	419	82	340	291	206	192	406	529
Reinvestment of earnings	.	.	.	.	.	.	.	.
Debt instruments	212	122	154	124	166	274	185	304
<b>North Macedonia</b>								
FDI inflow, total	217	338	182	614	399	201	471	754
Equity other than reinvestment of earnings	-82	118	75	183	221	99	162	307
Reinvestment of earnings	160	175	143	218	176	-1	83	-11
Debt instruments	139	45	-36	212	2	104	225	458
<b>Serbia</b>								
FDI inflow, total	2,116	2,125	2,548	3,464	3,814	3,037	3,880	4,412
Equity other than reinvestment of earnings	1,064	457	275	1,840	1,906	1,247	2,060	1,869
Reinvestment of earnings	835	913	1,194	1,148	1,177	380	707	1,021
Debt instruments	216	755	1,079	476	731	1,410	1,113	1,521
<b>Kosovo</b>								
FDI inflow, total	309	220	255	272	255	346	421	778
Equity other than reinvestment of earnings	139	88	174	169	277	256	424	571
Reinvestment of earnings	89	95	59	95	-39	66	-34	77
Debt instruments	81	37	23	9	16	24	31	130
<b>Turkey</b>								
FDI inflow, total	17,362	12,499	9,905	10,542	8,530	6,741	11,267	12,435
Equity other than reinvestment of earnings	14,072	9,378	8,752	9,988	8,846	6,811	10,494	11,263
Reinvestment of earnings	324	423	255	295	525	504	81	320
Debt instruments	2,965	2,699	898	259	-841	-573	692	852

(Table 5 contd.)

Table 5 / contd.

	2015	2016	2017	2018	2019	2020	2021	2022
<b>Belarus</b>								
FDI inflow, total	1,521	1,125	1,132	1,208	1,157	1,226	1,051	1,526
Equity other than reinvestment of earnings	263	345	353	497	393	256	306	453
Reinvestment of earnings	1,044	642	593	685	585	891	587	1,045
Debt instruments	214	138	186	26	179	79	158	29
<b>Kazakhstan</b>								
FDI inflow, total	3,659	7,694	4,172	3,304	2,933	3,214	2,821	5,809
Equity other than reinvestment of earnings	1,854	3,311	1,763	-3,424	-2,243	250	614	-3,328
Reinvestment of earnings	-69	4,860	3,325	5,669	8,045	4,369	8,184	9,454
Debt instruments	1,874	-477	-915	1,059	-2,869	-1,405	-5,977	-318
<b>Moldova</b>								
FDI inflow, total	214	75	135	251	454	132	346	558
Equity other than reinvestment of earnings	40	40	30	86	346	58	86	97
Reinvestment of earnings	111	82	29	58	46	94	211	445
Debt instruments	63	-47	76	107	63	-21	50	16
<b>Ukraine <sup>4)</sup></b>								
FDI inflow, total	-298	3,662	3,304	4,004	5,371	-32	6,182	807
Equity other than reinvestment of earnings	3,609	3,206	1,361	1,246	1,481	665	1,002	439
Reinvestment of earnings	-3,083	475	1,321	2,198	2,901	-427	4,180	588
Debt instruments	-825	-19	622	561	989	-270	1,001	-220
<b>Russia <sup>3)</sup></b>								
FDI inflow, total	10,664	33,568	22,990	11,222	28,638	9,110	32,636	-40,630
Equity other than reinvestment of earnings	-389	16,990	7,998	-5,494	9,746	8,004	1,118	.
Reinvestment of earnings	10,061	15,565	14,802	14,056	17,429	4,730	32,290	.
Debt instruments	992	1,012	191	2,661	1,463	-3,624	-772	.

Note: Data refer to BPM6 directional principle unless otherwise stated; data exclude SPEs.

Grey background: data are based on asset/liability principle (BOP).

1) Including SPEs. - 2) Excluding capital in transit and restructuring of asset portfolios. - 3) wiiw estimate in 2022. -

4) Excluding occupied territories of Crimea and Sevastopol.

Source: wiiw FDI Database based on Direct Investment statistics (BOP for Kosovo and Turkey) of the respective central banks.

## FDI has been holding up, but the outlook is getting cloudier

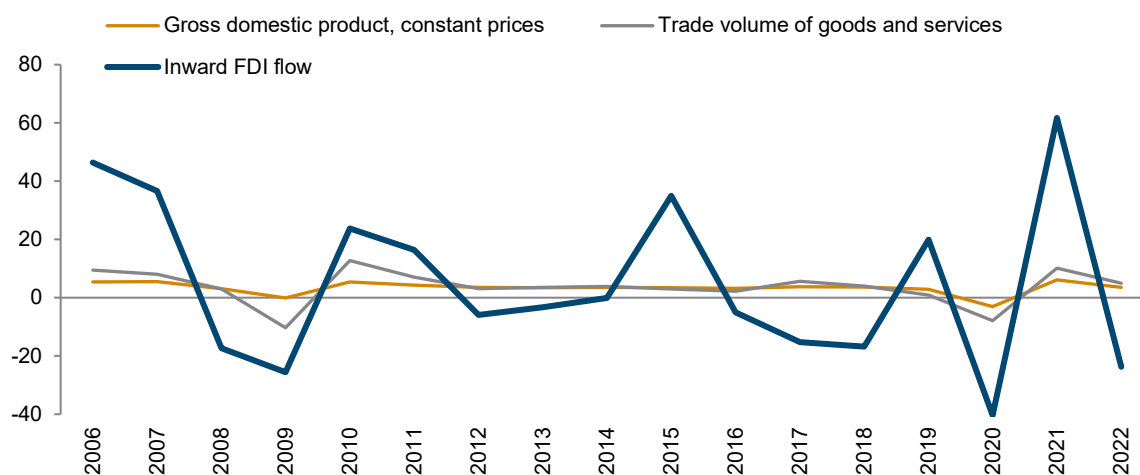
BY OLGA PINDYUK

*In contrast to the global trends, FDI inflows in CESEE increased in 2022, apart from in Russia and Ukraine. However, recent trends in greenfield investment and mergers and acquisitions signal a worsening of investment prospects. Southeast Europe is emerging as the most dynamic sub-region in terms of FDI attraction. Spurred by digitalisation and green transition developments, investors in the region have become increasingly interested in the renewable energy and electronic components sectors.*

### GLOBAL FDI DECLINED AFTER THE ONSET OF RUSSIA'S WAR IN UKRAINE

Global foreign direct investment (FDI) inflows experienced a sharp decline in 2022 – by 24% year on year<sup>1</sup> (see Figure 1), as investor sentiment was dampened by the effects of Russia's full-scale war in Ukraine, escalating tensions in US-China relations, rising interest rates and financial markets turmoil. Investment performed much less strongly than global trade or overall economic activity, in which positive growth rates were recorded last year. The negative effect of the crises on FDI is even more evident in the absolute value of global FDI inflows (in USD terms), which decreased to about USD 1.3trn – a similar level to 2009, when global investment nosedived in the aftermath of the global financial crisis.

**Figure 1 / Global trade, FDI inflows and economic growth, annual change in %, 2006-2022**



Sources: IMF, World Economic Outlook; OECD.

<sup>1</sup> Excluding withdrawals of capital by a telecommunication MNE operating in Luxembourg, global FDI flows declined by 5% in 2022 compared with the previous year. (<https://www.oecd.org/daf/inv/investment-policy/FDI-in-Figures-April-2023.pdf>)

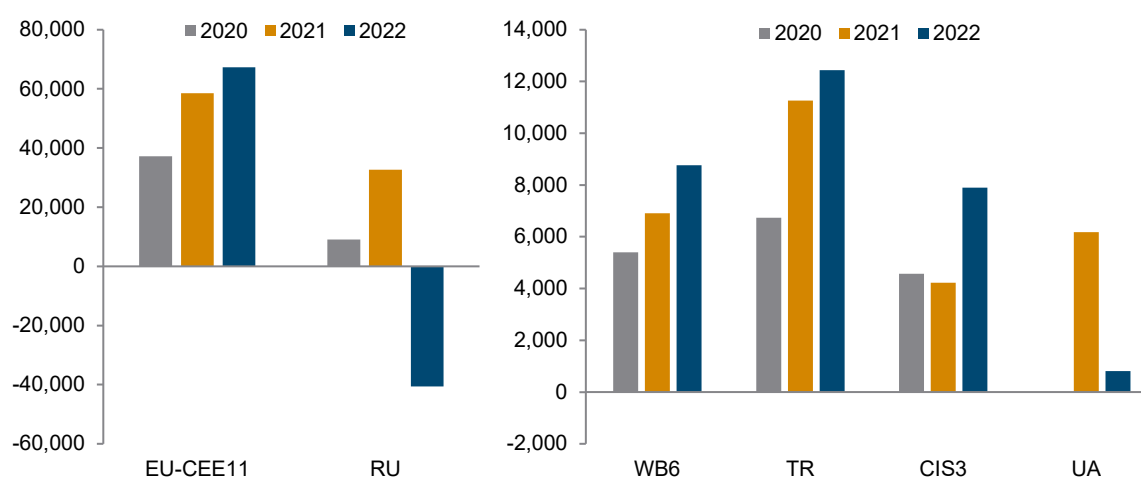


According to UNCTAD (2023), project finance and mergers and acquisitions (M&As) were especially affected by deteriorating financing conditions and growing uncertainty in financial markets. Cross-border M&A sales were 6% lower worldwide and more than 50% lower in the United States, the largest M&A market.

## FDI IN CESEE SHOWS RESILIENCE

Contrary to the global trends, FDI activity in the CESEE region was mostly on the rise, apart from in Ukraine and Russia (see Figure 2), possibly pointing to near-shoring and friend-shoring taking place there. The fastest growth was in the CIS sub-region, where the value of FDI inflows increased in 2022 by 87% compared with the previous year (in nominal EUR terms). The Western Balkans was second in terms of the growth rate of FDI inflows, at 27% year on year. The EU member states in the region showed a robust 15% year-on-year increase in FDI inflows. Turkey was also able to attract more FDI inflows in 2022 (+10% year on year), regardless of macroeconomic instability. Russia, predictably, experienced significant divestment by foreign companies, as most international firms operating in the country have halted or scaled back their activity.<sup>2</sup> In Ukraine, FDI inflows came almost to a standstill, as the risks of investment soared as a result of the war.

**Figure 2 / FDI inflows in the main regions of CESEE in 2020-2022, EUR m**



Note: CIS3 comprises Belarus, Kazakhstan and Moldova.

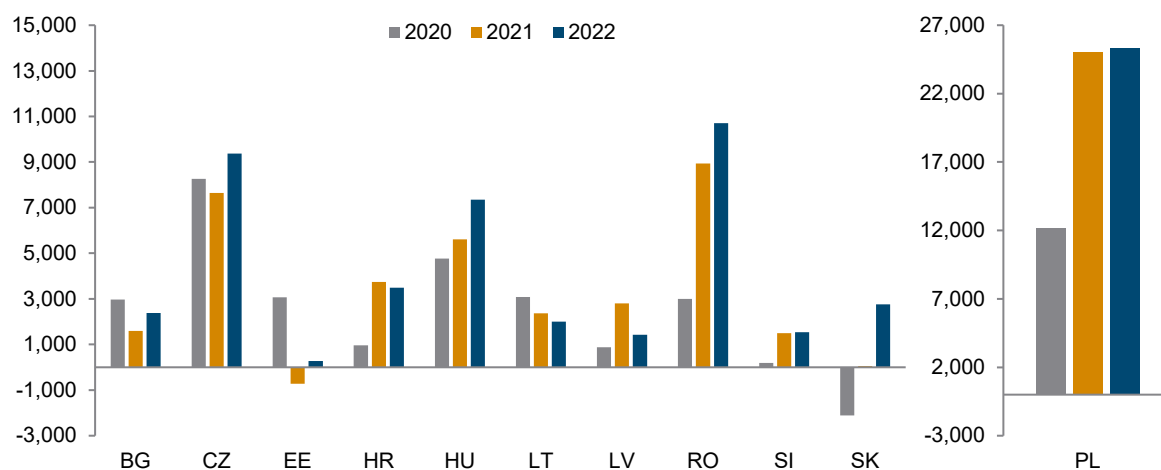
Source: wiiw FDI Database based on direct investment statistics of the respective central banks, wiiw calculations and some wiiw estimates for 2022.

Examining the performance of individual countries, it can be seen that, with the exceptions of Croatia, Latvia and Lithuania, all the countries in EU-CEE recorded positive year-on-year growth in FDI inflows in 2022 (Figure 3 and Figure 4). Romania's performance is particularly striking, as the country outpaced Czechia in terms of the value of FDI inflows and became the second-largest destination of FDI flows in the sub-region, after Poland.

<sup>2</sup> <https://leave-russia.org/>

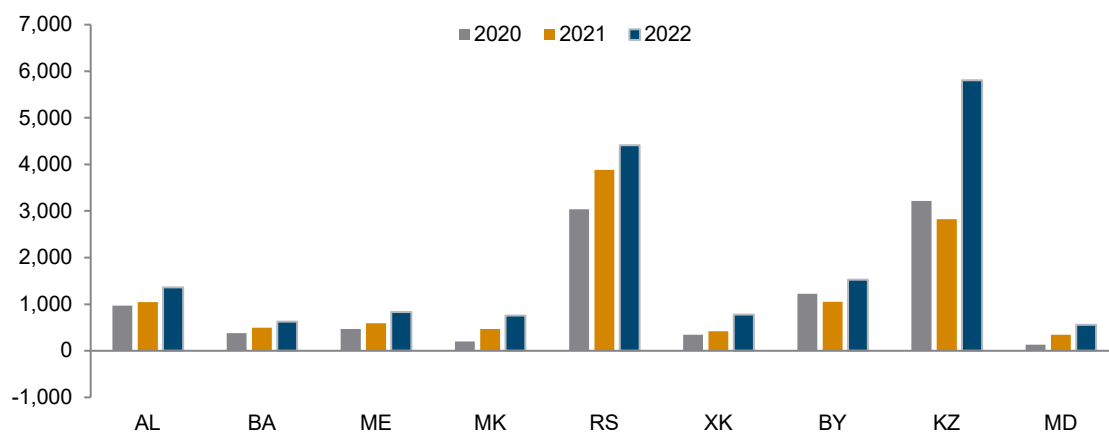
In the Western Balkans, Serbia continued to be the heavyweight in terms of FDI inflows, accounting for about 50% of FDI inflows in the sub-region that year. However, Serbia's share of the sub-region's FDI inflows has been decreasing as other countries have been accumulating FDI at a faster pace. Kosovo and North Macedonia increased their FDI inflows in 2022 by 85% and 60% respectively, compared with a 14% increase in Serbia.

**Figure 3 / FDI inflows in EU-CEE countries in 2020-2022, EUR m**



Source: wiiw FDI Database based on direct investment statistics of the respective central banks, wiiw calculations and some wiiw estimates for 2022.

**Figure 4 / FDI inflows in non-EU CESEE countries in 2020-2022, EUR m**



Note: excluding Turkey, Russia, and Ukraine (see Figure 2).

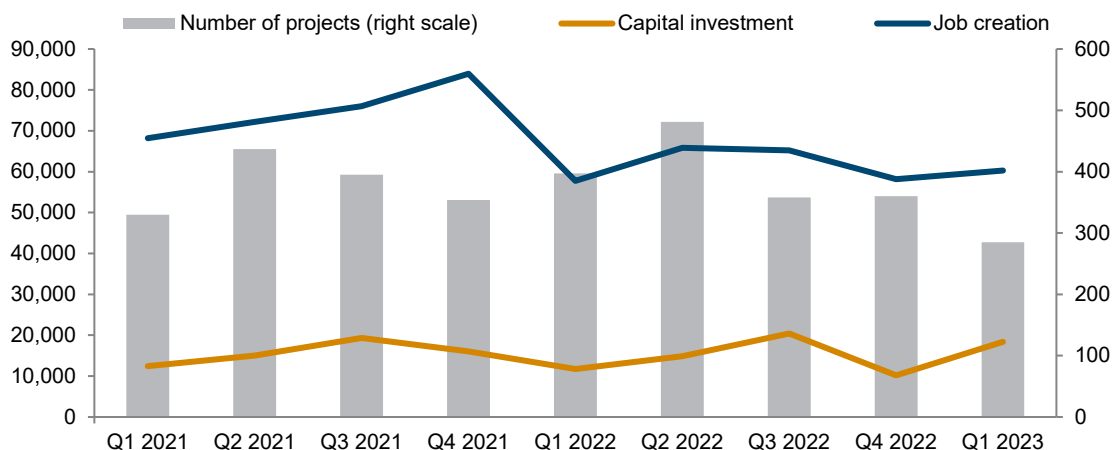
Source: wiiw FDI Database based on direct investment statistics (balance of payments for Kosovo) of the respective central banks, wiiw calculations and some wiiw estimates for 2022.

## GREENFIELD INVESTMENT TRENDS SUGGEST A MIXED OUTLOOK

Deceleration of greenfield investment in CESEE became evident in the second half of 2022 and became more significant in Q1 2023, when the number of announced greenfield FDI projects in the region decreased by 28% compared with the same period of 2022 (see Figure 5). This points to a weakening of investor confidence in the region's prospects.

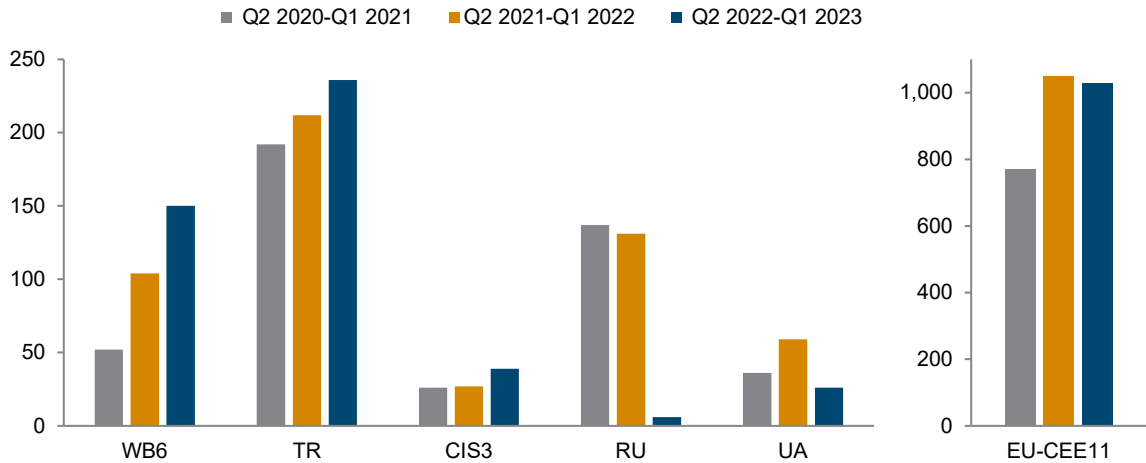
Interestingly, however, the *value* of investment projects in CESEE increased significantly in Q1 2023: pledged capital investment amounted to EUR 18.4bn, up from EUR 11.7bn during the same period of 2022. This development was driven by the sectoral distribution of the investment projects – primarily by an increase in the share of projects in the renewable energy sector and electronic components, which are more capital-intensive than projects in other sectors.

**Figure 5 / Greenfield FDI projects in CESEE: number of projects, announced capital investment in EUR m and number of jobs to be created, Q1 2021-Q1 2023**



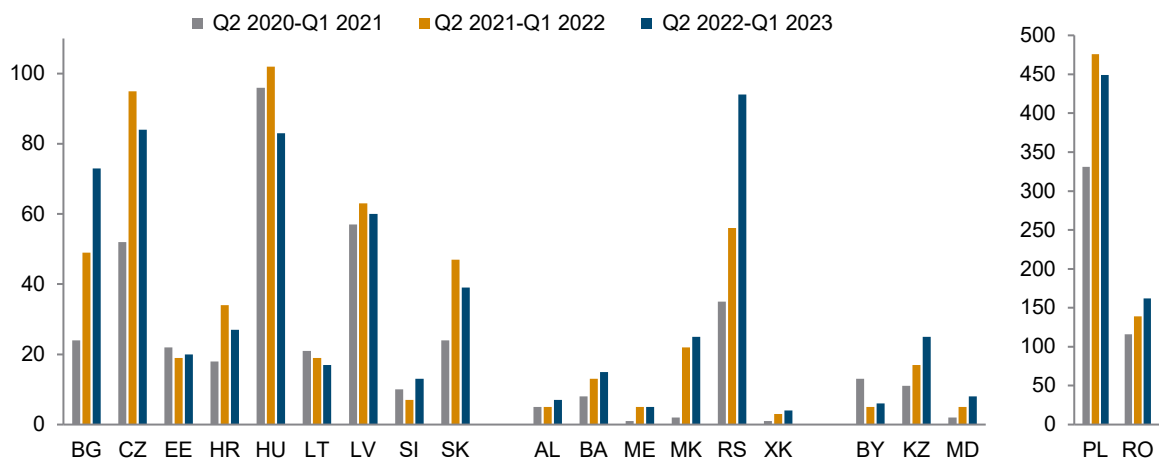
Source: fDi Markets.

Looking at the development of greenfield FDI in the CESEE sub-regions after the onset of Russia's full-scale invasion of Ukraine, different trends emerge. Although the Western Balkans, the CIS3 and Turkey recorded year-on-year increases in the number of greenfield projects announced during Q2 2022-Q1 2023, of 44%, 44% and 11% respectively, in EU-CEE there was a decrease in the number (see Figure 6). This could be interpreted as evidence of rising attractiveness of Southeast Europe and the CIS3 for investors looking for near-shoring locations. EU-CEE appears to be losing comparative advantages for investors against cheaper locations in the region, which feature more dynamic economies. Russia, predictably, was the worst performer in the region, having experienced a slump in the number of announced greenfield projects by 95% year on year.

**Figure 6 / Number of greenfield projects announced, by country group**

Source: fDi Markets.

Greenfield investment project announcements decreased in most EU-CEE countries: only Bulgaria, Estonia, Romania and Slovenia recorded positive growth (see Figure 7). In contrast, all countries in the Western Balkans and the CIS3 saw an increase in the number of greenfield project announcements, with the exception of Montenegro, where the number remained the same. These trends are likely to reflect expectations that Southeast Europe will see better economic performance than the Visegrád countries during the next few years (wiiw, 2023).

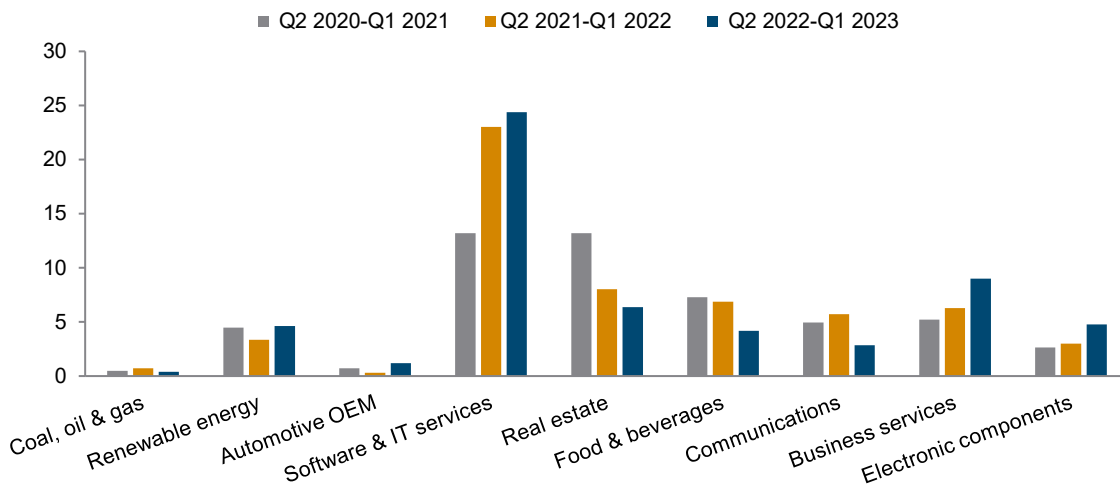
**Figure 7 / Number of announced greenfield projects by country**

Source: fDi Markets.

## SIGNIFICANT STRUCTURAL SHIFTS IN GREENFIELD INVESTMENT

Analysis of the sectors that are making greenfield investments in the region shows that greenfield FDI projects have undergone noticeable structural changes in the last four quarters (see Figure 8). In terms of the *number* of projects, companies from the **software and IT services** sector continue to account for the highest share of greenfield projects in CESEE, with their share further increasing in Q2 2022-Q1 2023. **Business services**, the second-largest sector, saw its share expand by 2.7 percentage points (pp) during that period. Investors from the **electronic components** and **renewable energy** sectors accounted for relatively small shares of the number of greenfield projects, but the acceleration of digital and green transition saw rapid growth in investment in these sectors, with their shares up by 1.8 pp and 1.3 pp year on year respectively.

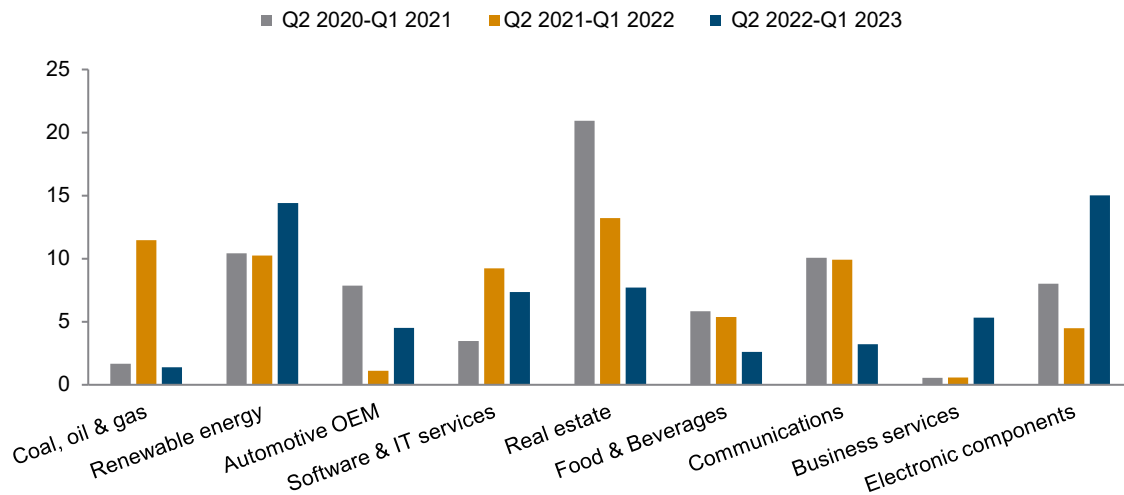
**Figure 8 / Share of main sectors of investing companies in the number of greenfield projects in CESEE, in %**



Source: fDi Markets.

The picture is quite different for the structure of *pledged capital* behind greenfield projects (see Figure 9) – **electronic components** and **renewable energy** accounted for the biggest shares during Q2 2022-Q1 2023, as they are about three times more capital-intensive than the average greenfield project in the region. These two sectors each experienced a rapid rise in the value of pledged capital, and their shares increased during this period by 10.5 pp and 4.1 pp year on year respectively. Projects in the **business services** sector became much more capital-intensive compared with Q2 2021-Q1 2022, as shown by a much faster increase in their share of pledged capital compared with their share of the number of projects (4.8 pp vs 2.7 pp).

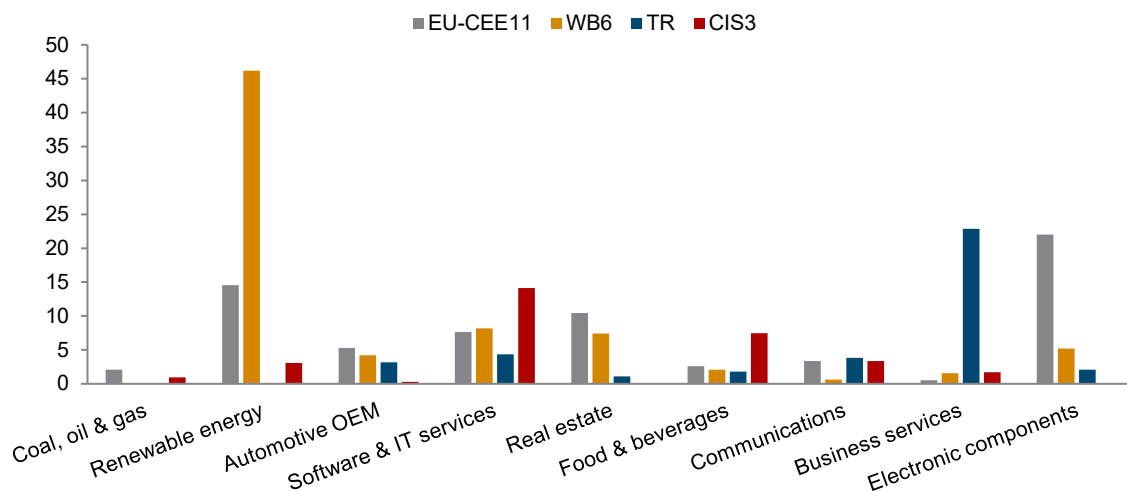
**Figure 9 / Share of main sectors of investing companies in the pledged capital of greenfield projects in CESEE, in %**



Source: fDi Markets.

Examination of the structure of pledged capital by sub-regions reveals that the Western Balkans had the highest share for the renewable energy sector in total pledged capital of greenfield projects during Q2 2022-Q1 2023, at 46% (see Figure 10), possibly signalling a specialisation of the sub-region in this type of project. EU-CEE had the highest share of projects from electronic components companies in total pledged capital (22%), while Turkey attracted a disproportionate share of capital from companies in the business services sector (23% of total capital pledged). The three CIS countries appear to specialise in software and IT services – they accounted for 14% of total pledged capital during Q2 2022-Q1 2023, a significantly higher share than any other sub-region.

**Figure 10 / Share of main sectors of investing companies in the pledged capital of greenfield projects, by country group, in %**

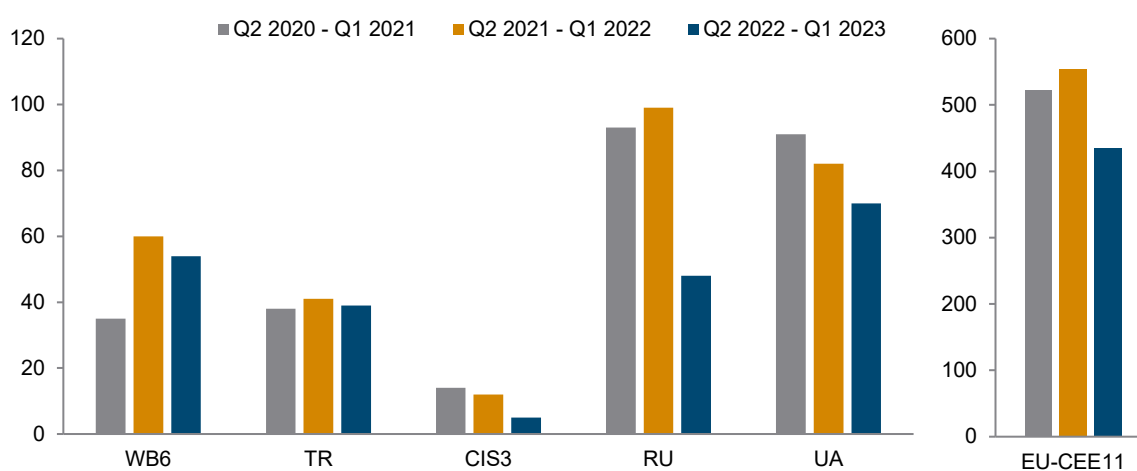


Source: fDi Markets.

## MERGERS AND ACQUISITIONS ARE ON A DOWNWARD TREND

Cross-border M&A activity slowed down across all the sub-regions during Q2 2022-Q1 2023, with fewer deals concluded, possibly in response to continued geopolitical challenges and a tighter financial environment. The sharpest declines were recorded in Russia and the CIS3 (52% and 58% year on year respectively), while Ukraine experienced a decline of only 15% in the number of M&A deals. In Ukraine, most of the deals were in the agricultural sector and electricity generation and distribution. For EU-CEE countries, the introduction of stricter investment screening mechanisms may also be a factor behind the decline in the number of M&A deals (OECD, 2022).

**Figure 11 / Number of M&A deals with destination in CESEE, by country group**



Sources: ORBIS; wiiw calculations.

## REFERENCES

OECD (2022), 'The Relationship between FDI Screening and Merger Control Reviews', OECD Competition Policy Roundtable Background Note.

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wiiw (2023), 'Sailing Through Rough Waters', wiiw Forecast Report, Spring 2023, The Vienna Institute for International Economic Studies, Vienna.

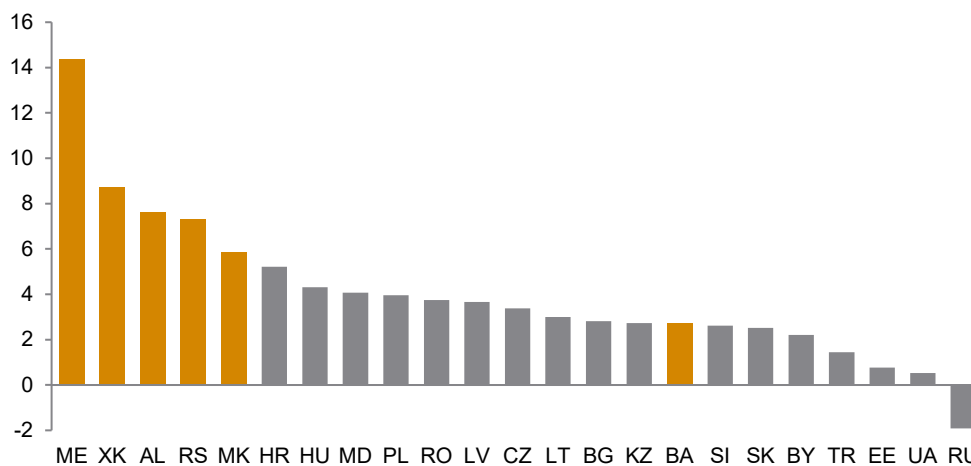
# What lies behind the strong FDI inflows in the Western Balkans?

BY BRANIMIR JOVANOVIĆ

*The six Western Balkan economies stood out as top performers in terms of FDI inflows within the Central, East and Southeast Europe region in 2022. However, a closer examination reveals a more nuanced picture regarding the composition and characteristics of investments, prompting questions about the overall advantages and long-term sustainability of the inflows. Although the region is projected to continue to attract substantial FDI in the near future, it is likely that the pace will decelerate from the remarkable performance witnessed in 2022.*

The six Western Balkan economies emerged as the leading performers in terms of FDI in 2022 in Central, East and Southeast Europe. Among the 23 countries from the region, they claimed the top five positions for FDI inflows as a percentage of GDP (Figure 1). Montenegro took the lead, with FDI inflows equivalent to 14.4% of its GDP, followed by Kosovo at 8.7%, Albania at 7.6%, Serbia at 7.3% and North Macedonia at 5.8%. Only Bosnia and Herzegovina lagged behind, in 16th position, with FDI inflows amounting to 2.7% of its GDP.

**Figure 1 / FDI inflows in the CESEE economies in 2022 (% of GDP)**

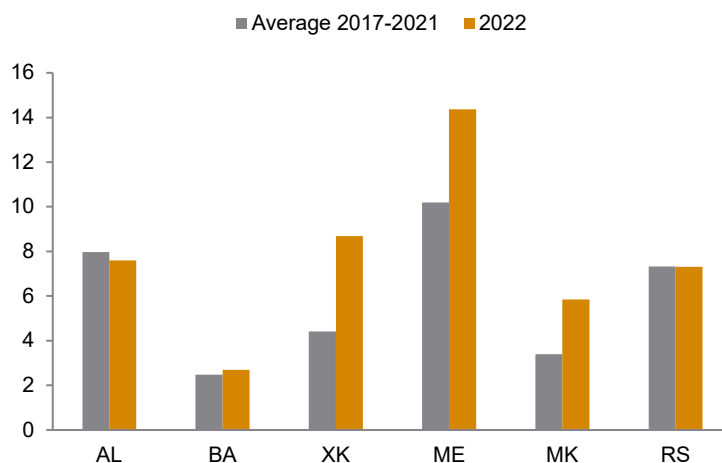


Source: wiiw FDI database.

The Western Balkan economies are known for being attractive destinations for FDI in recent years, but their performance in 2022 exceeded their usual achievements. All the countries experienced a significant increase in FDI inflows compared with the previous five years (as a share of GDP), except for Serbia, which maintained the same level, and Albania, which experienced a slight decline (Figure 2).



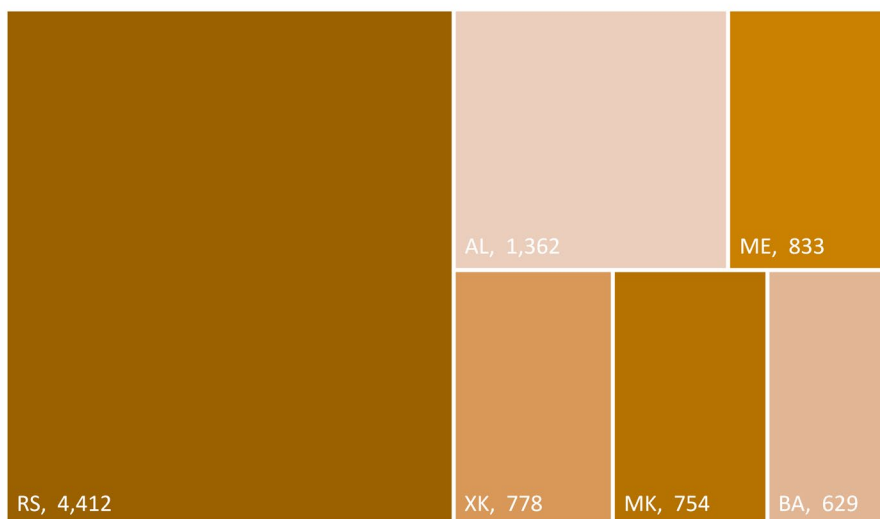
**Figure 2 / FDI inflows in the Western Balkans in 2017-2021 and 2022 (% of GDP)**



Source: wiiw FDI database.

In total, EUR 8.8bn in FDI entered the Western Balkans in 2022, a 27% increase from the year before. Half of the 2022 total went to Serbia (EUR 4.4bn), the biggest economy in the region, while Albania attracted EUR 1.4bn (16%). The other countries each received EUR 630m-830m, or 7-9% of the total inflows (Figure 3).

**Figure 3 / FDI inflows in the Western Balkans in 2022 (EUR m)**



Source: wiiw FDI database.

However, beneath these seemingly excellent results, there exists a more intricate landscape regarding the composition and nature of investments in the region. This complexity raises questions about the overall benefits and sustainability of the FDI inflows, which we examine in turn.

## SERBIA – CHINA EMERGING AS THE LARGEST INVESTOR

Serbia's EUR 4.4bn of FDI in 2022 represented a solid nominal increase of 14% compared with the previous year, but the structure and dynamics of the investments raise many doubts regarding the quality and stability of the inflows. The inflows accounted for 7.3% of the country's GDP, remaining at the same level as the previous year and the average of the previous five years. However, the majority of the FDI growth stemmed from intra-company loans, whereby foreign-owned firms in Serbia borrowed from their parent companies overseas. This may not be surprising, as cash management of existing firms is usually done by loans. It is also often cheaper for multinational companies to finance subsidiaries by intra-company loans than by bank credits. Nevertheless, this type of FDI can be highly unstable, prone to reversals and with limited economic effects (Jovanović and Hanzl-Weiss, 2022<sup>1</sup>). Although reinvested earnings showed growth, indicating expansion of production by foreign companies already operating in the country, FDI through equity capital fell by almost 10%, suggesting a decline in new investors coming to the country (Table 1).

**Table 1 / FDI in Serbia in 2021 and 2022, by components (EUR m)**

FDI components	2021	2022	Change 2022/2021
Total	3,880	4,412	531
Equity other than reinvestment of earnings	2060	1,869	-191
Reinvestment of earnings	707	1,021	314
Debt instruments	1,113	1,521	409

Source: wiiw FDI database.

Significant changes can be observed in the origin of FDI inflows in Serbia, with China emerging as the largest single investor in 2022. Chinese investments amounted to approximately EUR 1.4bn, representing around one-third of the total foreign investment. This marked a remarkable increase to more than three times the 2021 figure, almost surpassing the FDI originating from the EU. Part of the strong FDI inflows from China stemmed from new greenfield investment – the fDi Markets database reports five new Chinese investment projects in Serbia in 2022: Haitian International Holdings, Suzhou Yusei Machinery, Tristone Flowtech, Kuka Roboter and Yanfeng Automotive Interiors, all related to the manufacturing of automotive components or industrial equipment. But part of the FDI also relates to previous Chinese projects in Serbia, such as the investments in the Bor copper mine, the steel manufacturing conglomerate in Smederevo, Huawei's Innovations and Development Centre in Belgrade, and the Shandong Linglong tyre factory in Zrenjanin. Part of the FDI might also originate from the numerous infrastructure investment projects that Serbia is undertaking in partnership with China, such as the Belgrade Metro project, the solid waste disposal project for 65 municipalities and the bypass around Belgrade.

EU FDI in Serbia still exceeded Chinese FDI in 2022, but only marginally, after declining nominally by 18% from its 2021 level. Germany, the biggest EU investor in Serbia, came only fourth overall in 2022, experiencing a substantial decline of 30%. The United Kingdom emerged as the second-largest investor in Serbia in 2022, with a 9% increase, while Russia secured the third position, with an eightfold expansion. Austria claimed the fifth spot with a notable increase of 46% (Table 2). Noteworthy investors

<sup>1</sup> Jovanović, B. and D. Hanzl-Weiss (2022), 'Economic and Social Impacts of FDI in Central, East and Southeast Europe', wiiw Research Report No. 464, available at: <https://wiiw.ac.at/economic-and-social-impacts-of-fdi-in-central-east-and-southeast-europe-dlp-6407.pdf>

from previous years, such as the Netherlands and Switzerland, saw significant declines in 2022, with reductions exceeding 50%.

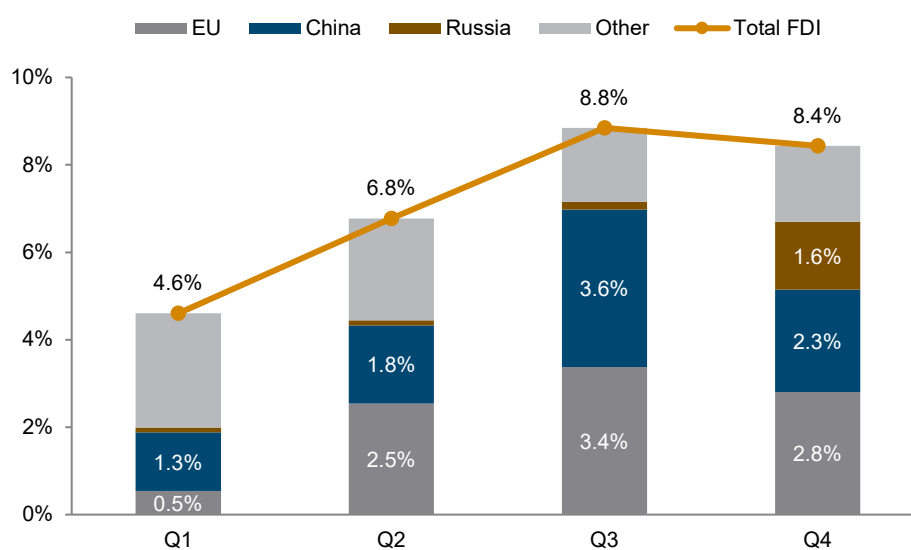
**Table 2 / FDI in Serbia in 2021 and 2022, by leading countries of origin (EUR m)**

Partner	2021	2022	Change 2022/2021
Total	3,886	4,416	530
EU27	1,762	1,452	-310
China	416	1,399	983
United Kingdom	333	363	30
Russia	40	320	280
Germany	409	286	-124
Austria	187	274	87

Note: FDI data by countries of origin differ slightly from the previous data, because they rely on asset and liabilities principle, not on the directional principle.

Source: wiiw FDI database.

**Figure 4 / FDI in Serbia in 2022, by quarters and countries of origin (% of GDP)**



Source: National Bank of Serbia.

There were significant disparities in the dynamics of FDI during the first and second halves of the year, which help to clarify the nature of Russian investment in Serbia. During the first half, FDI inflows were relatively weak, averaging 5.7% of GDP, which fell some way below previous benchmarks. FDI from the EU averaged 1.5% of GDP during this period, while Chinese FDI stood at 1.6%. However, in the second half of the year, FDI began to pour into the country, with inflows averaging 8.6% of GDP. In the third quarter, this surge was primarily driven by substantially stronger inflows of both EU and Chinese FDI, which doubled compared with the first half of the year. During the final quarter, a notable increase in Russian FDI was observed, with inflows amounting to 1.6% of GDP (Figure 4). As no major Russian investment announcements were made during the year, and not a single Russian investment project is recorded in the fDi Markets database, this influx is likely to be attributable to the arrival of numerous Russian refugees in Serbia following the September mobilisation in Russia. According to media reports

citing official data from the national register of companies, approximately 4,000 new firms were established by Russian citizens in Serbia in 2022, predominantly in the last quarter of the year (Blic, 2023<sup>2</sup>).

Most of the FDI in Serbia in 2022 was still in manufacturing, like the previous years, but the growth in FDI this time stemmed mainly from some other sectors. Foreign investment in construction increased by 75%, while real estate saw growth of almost 250% (Table 3). This surge can be attributed to the numerous construction projects under way in the country, including the public infrastructure schemes mentioned above, as well as residential development projects such as Belgrade Waterfront. The shift from manufacturing to property investment, however, indicates a decline in the overall quality of FDI inflows, as real estate investments typically yield fewer economic and social benefits than investments in manufacturing.

**Table 3 / FDI in Serbia in 2021 and 2022, by main activities (EUR m)**

Activity	2021	2022	Change 2022/2021
Total	3,886	4,416	530
Manufacturing	1,489	1,571	83
Construction	863	1,501	638
Wholesale, retail trade, repair of motor vehicles etc.	128	361	233
Real estate activities	140	342	202
Transportation and storage	500	149	-350

Note: FDI data by activities differ slightly from the previous data, because they rely on asset and liabilities principle, not on the directional principle.

Source: wiiw FDI database.

## ALBANIA – ROBUST INFLOWS, DRIVEN BY TOURISM AND ENERGY

Albania in 2022 attracted EUR 1.4bn of FDI, which was equivalent to 7.6% of its GDP. This represented a solid nominal increase of 31% from the 2021 level. The majority of the investment (54%) came from reinvested earnings of foreign companies already operating in the country, while equity investment contributed 44%. The increase in FDI was primarily driven by reinvestment of earnings, which accounted for approximately 80% of the total increase (Table 4). Thus the overall quality of the FDI inflows in Albania in 2022 was solid, as they were dominated by reinvested earnings and equity capital, which have been found to have more beneficial economic and social impacts (Jovanović and Hanzl-Weiss, 2022).

**Table 4 / FDI in Albania in 2021 and 2022, by components (EUR m)**

FDI components	2021	2022	Change 2022/2021
Total	1,043	1,362	319
Equity other than reinvestment of earnings	580	607	27
Reinvestment of earnings	477	732	255
Debt instruments	-14	23	37

Source: wiiw FDI database.

<sup>2</sup> Blic (2023), 'ŠTA NAM JE DONELO VIŠE OD 200.000 RUSA U Srbiji su osnovali 4.000 firmi, pogurali su i cenu kvadrata i zakupa: "Zemlje se takmiče da privuku ovu elitu, a vi ste u dobroj poziciji"', available at: <https://www.blic.rs/biznis/privreda-i-finansije/sta-nam-je-donelo-vise-od-200000-rusa-u-srbiji-su-osnovali-4000-firmi-pogurali-su-i/3dppdme>

The real estate sector accounted for the largest share of FDI inflows into Albania in 2022, comprising approximately 21% of the total (Table 5). This is unsurprising, considering Albania's status as a tourist destination. The mining sector ranked second, which is also unsurprising, given the country's abundance of minerals such as chromium and nickel, as well as its onshore oilfield. The energy sector secured the third spot, reflecting substantial investments in renewable energy. The finance and manufacturing sectors completed the top five sectors attracting FDI in 2022. Examining the sectors that drove the growth in FDI during the same period, the energy sector took the lead, contributing roughly one-third of the overall increase. Real estate and manufacturing followed. These three sectors collectively accounted for around 80% of the FDI growth in 2022.

**Table 5 / FDI in Albania in 2021 and 2022, by main activities (EUR m)**

Activity	2021	2022	Change 2022/2021
Total	1,032	1,372	340
Real estate activities	191	291	100
Mining and quarrying	248	269	21
Electricity, gas, steam, air conditioning supply	60	175	115
Financial and insurance activities	152	158	5
Manufacturing	97	145	48

Note: FDI data by activities differ slightly from the previous data, because they rely on asset and liabilities principle, not on the directional principle.

Source: wiiw FDI database.

## MONTENEGRO – EXCELLENT QUANTITY, QUESTIONABLE QUALITY

FDI inflows in Montenegro in 2022 reached 14.4% of GDP, the highest level of all the Western Balkan countries. In nominal terms, they amounted to EUR 833m, which represented an increase of 41% over the year before. Around two-thirds of the FDI came in as equity capital, while the rest was through intra-company loans (the Central Bank of Montenegro does not publish data on FDI arising from reinvested earnings). Despite their relatively small share, the intra-company loans still accounted for half of the growth in FDI in 2022. This calls into question the quality of the inflows, as intra-company loans are known to be easily reversible and have limited economic impacts (Table 6).

**Table 6 / FDI in Montenegro in 2021 and 2022, by components (EUR m)**

FDI components	2021	2022	Change 2022/2021
Total	591	833	242
Equity other than reinvestment of earnings	406	529	123
Debt instruments	185	304	119

Source: wiiw FDI database.

The leading foreign investor in Montenegro in 2022 was Russia, with EUR 100m, around 12% of the total FDI. Although it is difficult to determine the specific industries in which the investment was made, as the central bank does not publish data on FDI by economic activity, media reports suggest that most of it

went into the real estate sector (Despotović, 2022<sup>3</sup>). Historically, Montenegro has been a popular choice for affluent Russians seeking to purchase property. However, Russian investment during 2022 can also be attributed to the increasing number of Russians fleeing their country in response to the mobilisation from September. It is worth noting that, although still very high, Russian investment in Montenegro experienced a substantial decline in 2022, of about 40% compared with the previous year (Table 7); this can be attributed to the sanctions imposed by Montenegro on Russia.

EU investment in Montenegro increased by 27% in 2022, to reach EUR 217m, around a quarter of the total inflows. Despite the increase, the share of EU investment in 2022 was substantially lower than the stock of EU FDI in the country, which is around 40%. Germany emerged as the largest EU investor, contributing nearly half of the bloc's investments and accounting for the majority of its growth in 2022. Other notable investors in Montenegro in 2022 were the United Arab Emirates, Switzerland and Serbia, all of which saw a rise in their investment flows (Table 7).

**Table 7 / FDI in Montenegro in 2021 and 2022, by leading countries of origin (EUR m)**

Partner	2021	2022	Change 2022/2021
Total	591	833	242
EU27	172	217	46
Russia	168	100	-68
Germany	30	92	62
United Arab Emirates	32	88	56
Switzerland	67	80	13
Serbia	48	71	23

Source: wiiw FDI database.

## KOSOVO – STRONG INVESTMENT, BUT MOSTLY IN THE REAL ESTATE SECTOR

In 2022 Kosovo received EUR 778m in FDI, which marked an impressive nominal increase of 85% compared with the previous year. As a share of GDP, the inflows amounted to 8.7%. The majority of the inflows, approximately three-quarters, came in the form of equity capital, while reinvested earnings accounted for around 10% and debt instruments around 16% of the total. The growth in FDI was primarily driven by higher equity capital investment, which made up around 40% of the overall increase, while reinvested earnings and intra-company loans each contributed approximately 30% (Table 8).

**Table 8 / FDI in Kosovo in 2021 and 2022, by components (EUR m)**

FDI components	2021	2022	Change 2022/2021
Total	421	778	358
Equity other than reinvestment of earnings	424	571	148
Reinvestment of earnings	-34	77	111
Debt instruments	31	130	99

Source: wiiw FDI database.

<sup>3</sup> Despotović, B. (2022), 'Rusi za četiri mjeseca kupili nekretnine vrijedne 20 miliona', available at: <https://www.pobjeda.me/clanak/rusi-za-cetiri-mjeseca-kupili-nekretnine-vrijedne-20-miliona>

Nevertheless, the majority of the investment – around two-thirds – was concentrated in the real estate sector, which calls into question the overall value of the strong FDI inflows. This comes as no surprise, as Kosovo is well known for attracting substantial investment in real estate – nearly half of its total FDI stocks are allocated to this sector. The finance sector ranked second in terms of investment in 2022, while the mining and energy sectors also saw considerable FDI inflows, which can be attributed to the prevailing energy crisis. Collectively, the mining and energy sectors contributed around 40% of the overall FDI growth in 2022, roughly the same as the real estate sector. Interestingly, manufacturing was not among the top five sectors in terms of foreign investment. This also casts some doubt on the real value of the strong inflows, as Kosovo, a young and developing economy, needs investment in manufacturing in order to achieve sustainable growth and development (Table 9).

**Table 9 / FDI in Kosovo in 2021 and 2022, by main activities (EUR m)**

Description	2021	2022	Change 2022/2021
Total	421	778	358
Real estate activities	384	524	140
Financial and insurance activities	25	54	29
Mining and quarrying	1	52	51
Electricity, gas, steam and air conditioning supply	-39	45	84
Construction	17	27	10

Source: Central Bank of Kosovo.

## NORTH MACEDONIA – STRONG INFLOWS, BUT UNLIKELY TO LAST

FDI inflows in North Macedonia reached a record high of EUR 754m in 2022, marking a substantial increase of 60% from the previous year. This accounted for 5.8% of the country's GDP, the highest level since 2008. However, the impressive numbers are tempered by the composition of the inflows. More than 60% of the FDI inflows came in the form of debt instruments, with these accounting for 80% of the overall growth in FDI (Table 10). This indicates that a significant portion of the FDI and its growth can be attributed to foreign-owned companies in North Macedonia taking loans from their parent companies abroad. FDI inflows in the form of equity capital also experienced strong growth, but reinvested earnings were negative, suggesting that foreign-owned enterprises were paying dividends that were higher than their current incomes, or that they were operating at a loss (OECD, 2023<sup>4</sup>). These findings raise concerns about the economic and social impact of the strong investment inflows.

**Table 10 / FDI in North Macedonia in 2021 and 2022, by components (EUR m)**

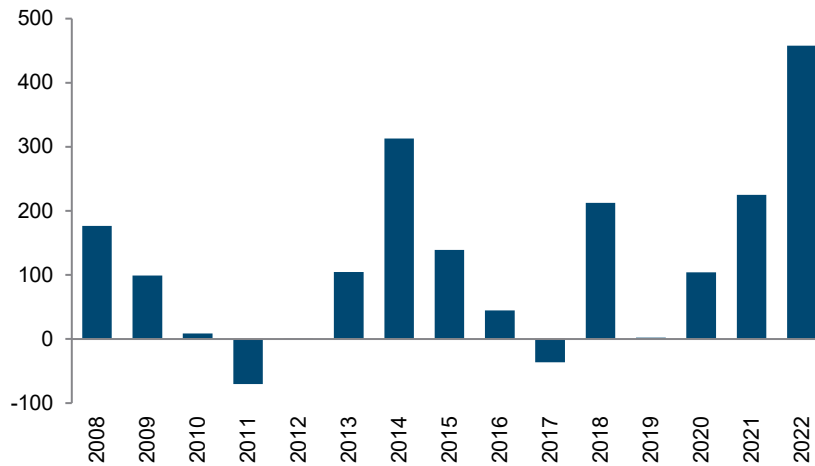
FDI components	2021	2022	Change 2022/2021
Total by components	471	754	283
Equity other than reinvestment of earnings	162	307	145
Reinvestment of earnings	83	-11	-94
Debt instruments	225	458	233

Source: wiiw FDI database.

<sup>4</sup> OECD (2023), 'FDI statistics and data – frequently asked questions', available at: <https://www.oecd.org/daf/inv/investment-policy/fdistatisticsanddata-frequentlyaskedquestions.htm>

Besides the limited economic and social impact, FDI that comes through intra-company loans is also known for its volatility and susceptibility to reversals. Figure 5 illustrates clearly that periods of high inflows from debt instruments are followed by declining or even negative inflows. This indicates that the robust FDI in North Macedonia in 2022 is unlikely to be sustained over the long term.

**Figure 5 / FDI inflows in North Macedonia in the form of debt instruments (EUR m)**



Source: wiiw FDI database.

The UK was the primary driver of FDI growth in North Macedonia in 2022. The UK has established itself as one of the country's major investors, primarily owing to Johnson Matthey, a leading global producer of car catalysers. The majority of the UK's FDI inflows were in the form of intra-company loans, which are thought to be linked to Johnson Matthey's activities. In contrast, EU FDI in North Macedonia experienced a decline of approximately 16% in 2022. However, it is noteworthy that German FDI demonstrated strong growth, increasing by 45%. Turkey emerged as the second-largest investor, contributing 16% of the total FDI inflows into the country in 2022 (Table 11).

**Table 11 / FDI in North Macedonia in 2021 and 2022, by leading countries of origin (EUR m)**

Country	2021	2022	Change 2022/2021
Total	471	754	283
EU27	450	379	-71
United Kingdom	-80	192	272
Turkey	54	123	69
Germany	75	109	34
Austria	101	87	-14
Greece	67	69	3

Source: National Bank of the Republic of North Macedonia.



## BOSNIA AND HERZEGOVINA – MINOR IMPROVEMENTS, BUT STILL WEAK

FDI inflows in Bosnia and Herzegovina in 2022 remained relatively low by regional standards, both in nominal terms and as a percentage of GDP, but they improved from their 2021 levels. In nominal terms, they amounted to EUR 629m, representing a 27% increase from the previous year. As a percentage of GDP, FDI accounted for 2.7% in 2022, up from 2.5% the year before. The majority of the inflows, 55%, came from the reinvestment of earnings by companies already operating in the country. Debt instruments contributed 25% to the inflows, while equity capital accounted for 20%. Equity capital recorded a big decline from its year-earlier level, while intra-company loans posted an increase, having been negative in 2021, and drove the increase in the FDI (Table 12).

**Table 12 / FDI in Bosnia and Herzegovina in 2021 and 2022, by components (EUR m)**

FDI components	2021	2022	Change 2022/2021
Total by components	497	629	132
Equity other than reinvestment of earnings	822	123	-699
Reinvestment of earnings	268	349	81
Debt instruments	-594	156	750

Source: wiiw FDI database.

Analysing the FDI data by activity reveals a relatively favourable structure. However, it is important to note that the available data covers only the first three quarters of 2022. During this period, the financial sector received the largest share of FDI, accounting for approximately 30% of total inflows. Wholesale and retail trade followed closely behind, attracting 25% of the investment, while the energy sector came in third, with 15% of the total inflows (Table 13).

**Table 13 / FDI in Bosnia and Herzegovina in 2021 and 2022, by main activities (EUR m)**

Activities	2021	Q1-Q3 2022
Total	497	430
Financial and insurance activities	19	131
Wholesale, retail trade, repair of motor vehicles etc.	131	108
Electricity, gas, steam, air conditioning supply	42	66
Manufacturing	191	29
Mining and quarrying	12	19

Source: Central Bank of Bosnia and Herzegovina.

## CONCLUSION

The six Western Balkan economies emerged as standout performers in terms of FDI inflows within the Central, East and Southeast Europe region in 2022. However, a closer examination reveals a more nuanced picture regarding the composition and characteristics of these investments.

In Montenegro, which boasted the highest FDI-to-GDP ratio in 2022, half of the FDI growth originated from intra-company loans, while the largest investor was Russia, probably because of property investments. Kosovo and Albania still predominantly receive FDI in the real estate sector. Serbia experienced FDI growth primarily driven by intra-company loans, with the construction and real estate

sectors expanding at the expense of manufacturing. Additionally, there was a shift in investors, with China and Russia gaining increased shares, in contrast to the EU. In North Macedonia, over 60% of the FDI inflows were in the form of debt instruments, which accounted for 80% of the overall FDI growth. Bosnia and Herzegovina witnessed a decline in equity capital compared to the previous year, while FDI growth was driven by intra-company loans. These observations raise concerns about the potential economic and social impacts of the FDI inflows, as well as their long-term sustainability.

# Deriving the underlying FDI trend in CESEE

BY NINA VUJANOVIĆ

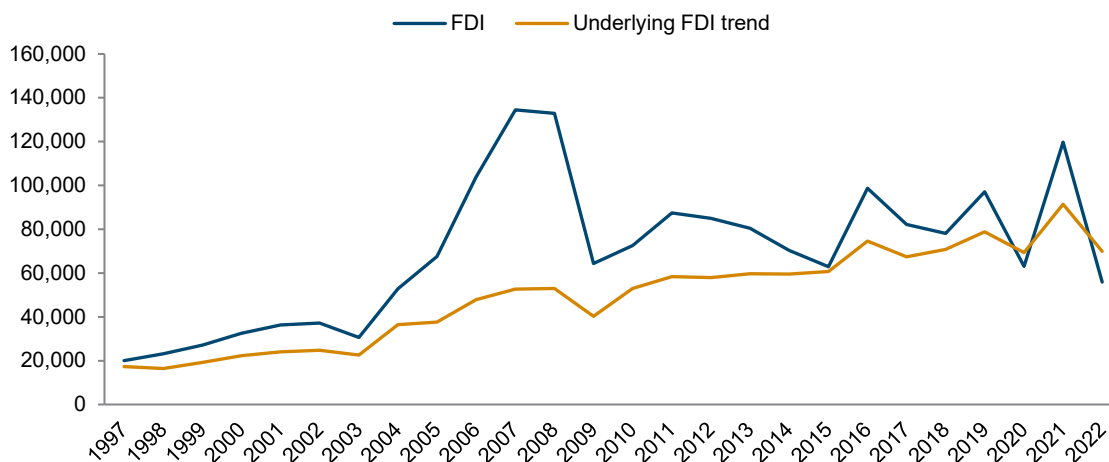
*FDI has been pivotal for the growth of CESEE economies. However, the patterns of FDI flows have been highly volatile. To allow policy makers to draw sound conclusions, we derive the underlying FDI trend for the CESEE region. The results show that, although the trend has consistently been upward since 1997, shocks caused by the global financial crisis, COVID-19 and the war in Ukraine have had a strong impact.*

## FDI FLOWS TEND TO BE HIGHLY VOLATILE

FDI inflows are an important driver of economic growth, especially in transition and developing economies, where the process of catching up with the technological frontier-countries depends largely on foreign capital (Vujanović et al., 2021a; 2022; Gorodnichenko et al., 2014; Javorcik and Spatareanu, 2011). It thus goes without saying that accurate data on FDI trends are pivotal to policy making in the CESEE region, as well as globally. However, the series of global FDI flows exhibits great volatility, particularly from 2000 onwards, mainly owing to FDI that (although large) is less growth enhancing. This is because the reported FDI flows encompass various foreign capital flows that are not equally driven by economic rationale and are not necessarily conducive to growth. As such, aggregated FDI flows often do not allow policy makers to draw sound conclusions about any trend.

This volatility is apparent for the CESEE countries, too (see Figure 1). The upswing in FDI inflows was particularly pronounced in the years prior to the global financial crisis of 2008, but volatility remained high in the period following the financial crisis, right up until 2022 and the end of the observation period. This is very much in line with the volatility of global FDI inflows (see UNCTAD, 2022).

**Figure 1 / FDI inflows and underlying FDI trend in CESEE, 1997-2022, in EUR million**



Source: wiiw FDI database, own calculations.

Due to the volatility of FDI inflows, UNCTAD (2019) introduced a new series, named the 'underlying FDI trend'. This new series revealed a less steep underlying trend in global FDI in the aftermath of the global financial crisis, which UNCTAD explained by changes in economic factors (crisis), business factors (digital technologies and digital FDI) and policy factors (e.g. tax policies).

Vujanović et al. (2021b) suggest that three of the components of the new series can create large swings in FDI inflows. The first refers to conduit FDI, which covers investments directed to offshore financial centres (OFCs). These locations attract investors who seek some financial benefits, rather than international production expansion and/or contribution alongside global value chains. For this reason, many OFCs are also excluded from empirical analysis of FDI (e.g. Ghodsi et al., 2023). The second component that distorts the trend refers to large one-off transactions that correlate with financial markets and take the form of mergers and acquisitions (M&A). The third type of flow that can cause large fluctuations in the FDI data is intra-company loans (ICLs), which are not always productive investments, but can serve to compensate for the financial shortfalls of a multinational's subsidiaries. The remaining – fourth – component of the FDI inflows series refers largely to greenfield investments and is considered to be a true driver of underlying FDI trend.

## FDI VOLATILITY IN CESEE LARGELY CAUSED BY M&AS AND INTRA-COMPANY LOANS

All three of the above-mentioned components are integral parts of FDI in CESEE economies. However, M&A and ICLs remain the most important factors that lead to fluctuation in the FDI series in the CESEE region. The value of realised M&A deals in CESEE totalled about EUR 553bn in the last decade,<sup>1</sup> of which 60% was accounted for by Russia, Czechia and Romania.<sup>2</sup> In addition, intra-company loans accounted for on average 15% of total FDI inflows into the CESEE region over the period 1997-2022. Hence, it is very important to derive the underlying FDI trend, free of volatility, for the CESEE economies.

To calculate the underlying FDI trend for the CESEE economies, we use the Kalman filter algorithm solution. The trend produced by the Kalman filter is shown to produce a similar trend to that derived by UNCTAD (2019) and Vujanović et al. (2021b).<sup>3</sup>

The produced trend, which is presented in Figure 1, has similar pattern to the trend produced by UNCTAD (2019, 2020) and Vujanović et al. (2021b), although for global FDI. The underlying FDI trend is quite stable at its core: investment projects have long gestation periods, and investors' choices are not easily reversed just because of changes on the financial markets. The trend is also upward throughout the entire period analysed, although it is interrupted by the financial crisis, which affected investment behaviour with a one-year lag – i.e. in 2009. The upward trend continued in the aftermath of the financial crisis, but was less steep – just as in the case of UNCTAD's underlying trend in global FDI. Average growth in the underlying

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<sup>1</sup> This information is based on the merger and acquisition data sourced from the Bureau Van Dijk's Orbis database.

<sup>2</sup> Russia accounted for 36.6%, Czechia 12.5% and Romania 10.7% of the total value of M&A deals in the CESEE economies during the period 2013-2022.

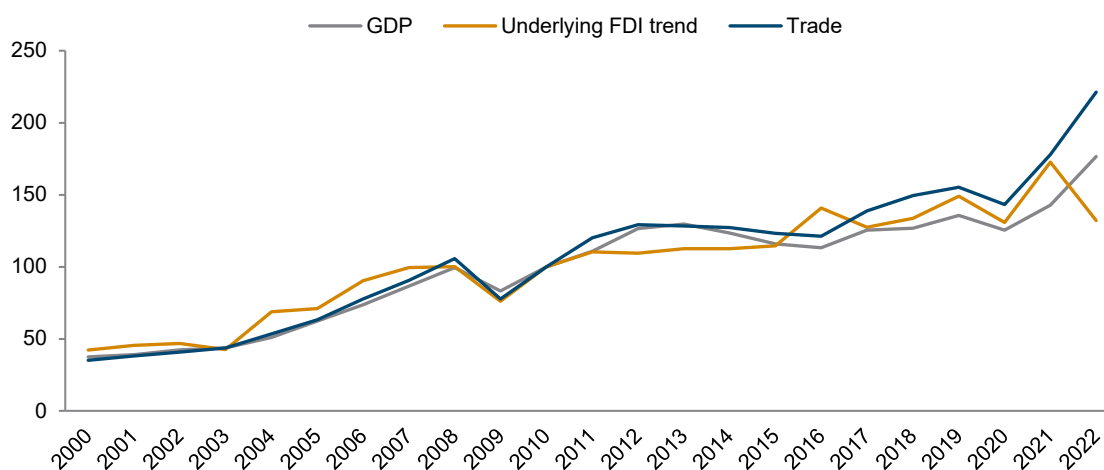
<sup>3</sup> In the original methodology presented in Vujanovic et al. (2021b), the underlying FDI trend is calculated as the sum of two parts: i) FDI inflows representing greenfield investments; and ii) smoothed values of FDI in the form of M&As and intra-company loans. The FDI inflows from OFC locations are excluded from the calculation of the underlying trend.

FDI trend before the crisis (1998-2007) stood at 13.2% per year, but this declined to 4.9% during the period between the global financial crisis and the COVID-19 pandemic (2009-2019).<sup>4</sup>

The COVID-19 pandemic and then the war in Ukraine (together with the energy crisis) led to a steep decline in the underlying trend in FDI in 2020 and 2022: according to the underlying FDI trend, FDI in the CESEE economies declined by 12.1% in 2020 (due to the pandemic) and by 23.5% in 2022 (due to the war in Ukraine). The decline due to the war in Ukraine was almost as detrimental to the underlying trend as the global financial crisis, when FDI in CESEE (according to the trend) declined by 24%.

The underlying FDI trend in CESEE closely follows the dynamics of GDP and trade in goods (see Figure 2). This further suggests that it is well suited to economic interpretation and is in line with economic rationale. However, what remains visible is that GDP and trade maintained their upward trajectory in 2022 (the year of the start of the war in Ukraine), while the underlying FDI trend appears to have been more sensitive to this shock, since it suffered a decline.

**Figure 2 / Underlying FDI trend, GDP and trade in CESEE, 2000-2022 (Index, 2010=100)**



Note: GDP is aggregate nominal GDP (expressed in EUR) for the 23 CESEE economies; Trade is the aggregate sum of exports and imports of goods (expressed in EUR) for the 23 CESEE economies.

Source: wiiw Annual Database, own calculations.

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<sup>4</sup> We purposely exclude the years of the global financial crisis (2008-2009) and COVID-19 (2020) to show the trend in the period free of macroeconomic shocks.

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# Forecasts of main economic indicators for Central, East and Southeast Europe for 2023-2025

Table 1 / Real GDP growth and revisions since April 2023

Region	2023	2024	2025
<b>EU-CEE</b>			
BG Bulgaria	1.7	2.2	2.7
CZ Czechia	0.2	2.4	2.7
EE Estonia	0.4	2.6	3.1
HR Croatia	2.5	2.9	3.1
HU Hungary	-0.5	1.5	1.7
LT Lithuania	0.9	2.6	2.5
LV Latvia	0.3	2.5	2.3
PL Poland	1.0	2.4	3.2
RO Romania	3.0	4.0	4.3
SI Slovenia	1.4	2.5	2.7
SK Slovakia	0.6	2.5	2.2
<b>Western Balkans</b>			
AL Albania	3.3	3.8	4.0
BA Bosnia and Herzegovina	1.7	1.9	2.5
ME Montenegro	2.9	3.2	3.0
MK North Macedonia	1.6	2.5	3.0
RS Serbia	1.5	2.6	3.0
XK Kosovo	3.6	3.9	4.1
<b>Turkey</b>			
TR Turkey	2.6	3.4	3.8
<b>CIS+UA</b>			
BY Belarus	1.5	▲ 2.0	▲ 2.5
KZ Kazakhstan	3.5	4.0	4.0
MD Moldova	2.5	▼ 4.0	4.0
RU Russia	0.5	▲ 1.0	1.5
UA Ukraine	1.6	3.4	5.0

Note: Cut-off date: 15 May 2023. Colour scale variation from the minimum (grey) to the maximum (gold). Arrow signifies direction of revisions since April 2023.

Source: wiiw.



**Table 2 / CPI growth and revisions since April 2023**

Region	2023	2024	2025
<b>EU-CEE</b>			
BG Bulgaria	10.0	7.0	5.0
CZ Czechia	10.4	4.0	3.0
EE Estonia	9.5	2.5	1.8
HR Croatia	6.5	4.0	3.0
HU Hungary	18.5	8.0	5.0
LT Lithuania	10.0	4.0	2.8
LV Latvia	11.0	4.0	3.2
PL Poland	12.5	6.0	4.0
RO Romania	9.0	6.0 ▲	4.0
SI Slovenia	6.4	3.2	2.4
SK Slovakia	10.2	5.0	3.0
<b>Western Balkans</b>			
AL Albania	4.0	3.0	2.5
BA Bosnia and Herzegovina	9.0	4.0	2.5
ME Montenegro	10.0	4.0	2.8
MK North Macedonia	9.0	4.0	3.0
RS Serbia	10.0	4.0	3.0
XK Kosovo	7.0	4.0	2.5
<b>Turkey</b>			
TR Turkey	47.7	38.2	30.0
<b>CIS+UA</b>			
BY Belarus	12.0	11.0	10.0
KZ Kazakhstan	14.0	9.0	6.0
MD Moldova	14.0	6.0	5.0
RU Russia	5.1 ▼	4.6	3.4
UA Ukraine	17.0	9.0	7.0

Note: Cut-off date: 15 May 2023. Colour scale variation from the minimum (gold) to the maximum (grey). Arrow signifies direction of revisions since April 2023.

Source: wiiw.

**Table 3 / Unemployment rate in % (LFS) and revisions since April 2023**

Region	2023	2024	2025
<b>EU-CEE</b>			
BG Bulgaria	4.3	4.2	4.2
CZ Czechia	2.7	2.6	2.6
EE Estonia	7.0	6.2	5.6
HR Croatia	6.8	6.7	6.6
HU Hungary	4.5	4.0	3.6
LT Lithuania	6.8	6.5	6.3
LV Latvia	7.2	6.8	6.6
PL Poland	3.4	3.6	3.8
RO Romania	5.6	5.4	5.2
SI Slovenia	4.0	3.9	3.9
SK Slovakia	6.3	6.2	6.0
<b>Western Balkans</b>			
AL Albania	10.5	10.0	9.5
BA Bosnia and Herzegovina	15.0	14.7	14.4
ME Montenegro	13.8	13.1	12.0
MK North Macedonia	14.0	13.0	12.0
RS Serbia	9.0	8.5	8.0
XK Kosovo	17.0	16.5	16.0
<b>Turkey</b>			
TR Turkey	10.0	9.5	9.0
<b>CIS+UA</b>			
BY Belarus	3.8	4.0	4.0
KZ Kazakhstan	4.8	4.8	4.8
MD Moldova	3.5	3.2	3.0
RU Russia	3.5	3.5	3.5
UA Ukraine	20.0	15.0	10.0

Note: Cut-off date: 15 May 2023. Colour scale variation from the minimum (gold) to the maximum (grey). Arrow signifies direction of revisions since April 2023.

Source: wiiw.

**Table 4 / Current account as % of GDP and revisions since April 2023**

Region	2023	2024	2025
<b>EU-CEE</b>			
BG Bulgaria	-0.5	-0.3	0.3
CZ Czechia	-2.8	-1.7	-0.5
EE Estonia	0.7	1.8	1.4
HR Croatia	-2.6	-2.1	-0.6
HU Hungary	-4.1	-2.8	-2.2
LT Lithuania	-4.9	-4.8	-4.7
LV Latvia	-4.1	-2.6	-1.6
PL Poland	-0.3	0.4	1.0
RO Romania	-7.0	-6.0	-6.0
SI Slovenia	0.8	0.8	0.7
SK Slovakia	-5.0	-3.1	-2.6
<b>Western Balkans</b>			
AL Albania	-5.9	-5.8	-5.8
BA Bosnia and Herzegovina	-4.0	-4.1	-4.3
ME Montenegro	-11.7	-10.7	-10.0
MK North Macedonia	-4.5	-4.5	-4.4
RS Serbia	-5.8	-4.9	-4.2
XK Kosovo	-9.7	-9.4	-9.3
<b>Turkey</b>			
TR Turkey	-4.0	-3.0	-2.5
<b>CIS+UA</b>			
BY Belarus	1.5	1.2	1.0
KZ Kazakhstan	-0.5	-1.0	-1.5
MD Moldova	-14.4	-12.2	-11.3
RU Russia	4.3	3.4	2.7
UA Ukraine	3.0	-1.4	-4.6

Note: Cut-off date: 15 May 2023. Colour scale variation from the minimum (grey) to the maximum (gold). Arrow signifies direction of revisions since April 2023.

Source: wiiw.

**Table 5 / Fiscal balance as % of GDP and revisions since April 2023**

Region	2023	2024	2025
<b>EU-CEE</b>			
BG Bulgaria	-5.0	-4.0	-3.0
CZ Czechia	-4.2	-2.5	-1.9
EE Estonia	-4.0	-3.3	-3.0
HR Croatia	-2.4	-2.0	-1.8
HU Hungary	-4.5	-4.0	-3.3
LT Lithuania	-5.0	-3.0	-2.0
LV Latvia	-4.5	-3.0	-2.0
PL Poland	-4.8	-4.0	-3.5
RO Romania	-5.0 ▲	-4.5	-3.5 ▲
SI Slovenia	-4.2	-2.6	-2.2
SK Slovakia	-6.0	-4.4	-4.5
<b>Western Balkans</b>			
AL Albania	-2.5	-2.5	-2.5
BA Bosnia and Herzegovina	0.5	1.0	1.0
ME Montenegro	-5.0	-4.8	-4.6
MK North Macedonia	-3.0	-2.5	-2.5
RS Serbia	-2.5	-2.0	-1.5
XK Kosovo	-0.5	-1.0	-1.0
<b>Turkey</b>			
TR Turkey	-4.0	-3.0	-3.0
<b>CIS+UA</b>			
BY Belarus	-3.0	-2.0	-1.0
KZ Kazakhstan	-2.7	-2.5	-2.0
MD Moldova	-4.0	-3.0	-1.0
RU Russia	-4.0	-3.5	-3.0
UA Ukraine	-27.0	-15.0	-10.0

Note: Cut-off date: 15 May 2023. Colour scale variation from the minimum (grey) to the maximum (gold). Arrow signifies direction of revisions since April 2023.

Source: wiiw.

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Monthly and quarterly statistics for Central, East and Southeast Europe are compiled by the statistics department: Alexandra Bykova (coordination), Beata Borosak, Nadja Heger, Beate Muck, Monika Schwarzhappel, Galina Vasaros and David Zenz.

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