

PRESS RELEASE

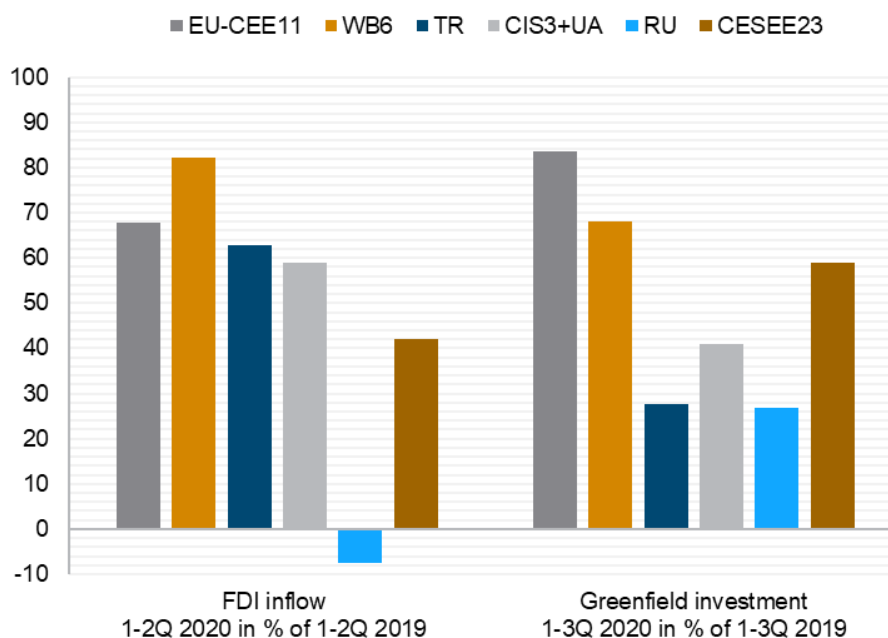
21 December 2020

Eastern Europe: Foreign Investments Hit by COVID-19 Pandemic

In the first half of 2020, FDI inflows to Eastern Europe declined by 58% - more sharply than globally, but less so than in the developed economies. FDI inflows should return to pre-Covid levels in about two years, and EU-CEE and parts of the Western Balkans could benefit from near-shoring of production by major Western multinationals. However, the takeover of domestic oriented sectors by national capital and economic nationalism may reduce foreign investment in Eastern Europe. Over the long run technological change—especially in the automotive industry—will change the structure of value chains and may see Western investors return investments from Eastern Europe to their home markets. These are the main conclusions of the new wiiw FDI Report for Eastern Europe.

In the first half of 2020, FDI inflows to Eastern Europe declined by 58%, against the same period of 2019. This drop in FDI inflows to the 23 observed economies of Central, East and Southeast Europe (CESEE) is more dramatic than the global plunge in FDI (49%), but smaller than the setback faced by the developed economies (75%).

Graph: Change in the FDI inflow and greenfield FDI commitments in CESEE main regions, in %



Source: Respective National Banks and fDI Markets database.

East European country groups have been unevenly affected: the decline has amounted to 35% in the eastern EU member states (EU-CEE), only 8% in the Western Balkans, and about 40% in both the Commonwealth of Independent States (CIS) as well as in Ukraine and Turkey. Russia recorded negative FDI inflows in the first half of 2020, following unusually high amounts the year before. In EU-CEE, FDI had already started to decline in 2019, putting an end to a three-year growth period.

The capital pledged in greenfield investment projects in CESEE fell by 23% – less than the global decline of 34% and also less than the plunge in FDI inflows in the first half of 2020. Low commitments in greenfield investments continued also in the third quarter and amounted to 41% lower in the first three quarters of 2020 than in the previous year. However, the bulk of the decline in capital commitments in CESEE can be attributed to Russia and Kazakhstan as a response to low international oil prices.

EU-CEE suffered less than average: the number of greenfield investment projects dropped by only 21% and the investment value by 16% in the first three quarters. Despite the COVID-19 related recession, the Czech Republic, Latvia, Poland and Slovenia all received higher amounts of investment commitment than a year earlier indicating the steady commitment of investors especially in the real estate sector.

Manufacturing was more vulnerable to the recession than other sectors – in terms of both FDI flows and greenfield investments. Participation in global value chains has suffered from demand and supply shocks, and from disruptions of production, trade and supply networks. This may yet provide an impulse to shorten value chains, relocate and ‘back-shore’ cross-border production in the future, which may also depress FDI.

Most prominently, the automotive industry has been under pressure to reduce the burden on the climate and to introduce profound technological changes, even while suffering a drop in demand during the COVID-19 crisis. The automotive industry accounted for 20% of manufacturing production in the EU27 in 2018, but 38% in Slovakia, 28% in the Czech Republic, 26% in Hungary and 23% in Romania (less in the rest of EU-CEE). The main current challenges to the automotive industry include the rise of electric cars, CO2 fleet emission targets, autonomous and connected driving.

We face both short- and longer-term economic and political processes that are shaping FDI both globally and in CESEE. Post-COVID-19 recovery may see FDI return to close to the previous levels along the business cycle in about two years. Technological change will modify the structure of value chains and may result in a slow process of back-shoring. More immediately, politically motivated disintegration and regionalisation of the global economy may result in the decline of FDI and in re-shoring. CESEE – and especially EU-CEE and the Western Balkans – deeply integrated as it is in European value chains, may restructure together with the investing economies, and maintain its position. The takeover of domestic oriented sectors by national capital and economic nationalism may reduce exposure to foreign investors.

Background information

The wiiw FDI Report is an annual publication based on the freshly updated online [wiiw FDI Database](#). Half-year 2020 preliminary data have been added this time to track the impact of the COVID 19 pandemic in Central, East and Southeast Europe (CESEE), comprising [23 countries](#) of the region. It contains datasets from 1990 onwards (as far as data availability allows) and includes more than 18,900 time series. Account has been taken of the most recent updates and backward revisions of data published up to end October 2020. The FDI Report is the joint product of several wiiw experts who

collaborated under the leadership of [Gábor Hunya](#). The wiiw FDI Database is maintained and updated by the wiiw statistical department.

For media representatives, the wiiw FDI Report 2020 as well as underlying raw data is available free of charges upon request.

wiiw FDI Report 2020

[Foreign Investments Hit by COVID-19 Pandemic. FDI in Central, East and Southeast Europe](#)

by Amat Adarov and Gábor Hunya, December 2020.

Link: <https://wiiw.ac.at/p-5540.html>

Contact

Gabor Hunya, wiiw Senior Research Associate and Lead Author (hunya@wiiw.ac.at)

Veronika Janyrova, wiiw Press Contact (Tel: +43 660/3194058, janyrova@wiiw.ac.at)