PRESS RELEASE **NOT TO BE RELEASED BEFORE 11 JUNE 2015, 12:30 p.m.**

wiiw FDI Report Central, East and Southeast Europe: Recovery in the NMS, decline in the CIS

FDI inflows to Central, East and Southeast Europe (CESEE) as a whole declined in 2014 with significantly diverging trends in the three sub-regions: increase in the New EU Member States, stagnation in Southeast Europe and decline in the major post-Soviet countries. Austria could, on the whole, maintain its CESEE market share. In 2015, the CESEE region is exposed to two main factors that drive FDI into opposing directions. One is the stabilization of economic growth in the NMS which is expected to spur FDI. The other is the Ukraine–Russia conflict which depresses economic growth and increases investment risk in the affected countries leading to capital flight.

In 2014 global FDI experienced a modest decline while both inflows and outflows continued to shift to emerging economies. A turning point may have been reached in Europe; economic growth was resumed and cross-border investments invigorated in the second half of last year.

FDI took off in the New EU Member States (NMS) – thus the deleveraging which suppressed FDI inflows has come to an end. There has been diminishing greenfield investment activity, however. Consequently, FDI has flown mainly into existing subsidiaries, strengthening established capacities.

FDI inflows are still meagre in relation to gross fixed capital formation, about half of the before-crisis level. Economic recovery is based on other growth drivers including private consumption and EU transfers. However, an acceleration of economic growth may not be sustainable without a recovery of private investments, both foreign and domestic.

Government policies for attracting FDI have focused on the re-orientation of FDI to higher value-added activities in manufacturing and services. The Central European manufacturing hub (including large parts of the Czech Republic, Hungary, Poland, Romania and Slovakia) has expanded and new ventures targeted ICT services. Simultaneously, the support of domestic SMEs and national champions has received more attention and public funding compared to earlier years. However, fiscal support to new investment projects in more developed regions has been curtailed by the new EU-wide state aid ceilings.

The CIS countries as well as Latvia and Lithuania received much less foreign investment in the wake of the Ukraine crisis. Russia is the only country among the CESEE which has negative FDI net, meaning that outflows outpace inflows by a wide margin: inflows declined to less than one third, whereas outflows only to two thirds in 2014; consequently the capital flight in the form of FDI amounted to EUR 26.7 billion.

A-1060 Wien, Rahlgasse 3 ZVR-Zahl
T: (+43-1) 533 66 10, F: (+43-1) 533 66 10-50, wiiw@wiiw.ac.at, www.wiiw.ac.at 329995655

In Ukraine FDI has dried up and may not recover before political and economic stabilization is reached. But structural reforms including competition policy and regional decentralization may increase FDI in the future. Following the devaluation of the local currency the country is now a cheap alternative for component manufacturing and IT service sourcing.

Austria is the third most important investor in the NMS and SEE behind the Netherlands (which is a location of international headquarters) and Germany. FDI outflows from Austria were in line with the global decline in the past eight years. Meanwhile a redirection from CESEE to Asian and American destinations took place; the share of CESEE fell from about two thirds to one third of the outflows.

China – one of the largest global investors with outflows doubling since 2008 to some EUR 100 million – has recently started to also build positions in CESEE beyond Kazakhstan and Russia. In 2014 the region hosted 11% of Chinese outward greenfield capital flows after only 6% in 2008. However, the combined share of China and Hong Kong in the FDI stock is still marginal in the NMS and SEE (about 0.1%); it is close to 1% in Russia and Belarus and more than 3% in Kazakhstan.

The stabilization of economic growth in the EU and most prominently in the NMS is expected to attract growing amounts of foreign investment in the latter region in 2015. Even if first quarter data do not support this expectation yet we believe FDI activity to gather momentum. A recovery of private investment activity in the more developed EU members would mean that more cross-border investments will target the NMS. FDI in Russia is bound to plummet again except from China which has announced several large manufacturing projects.

RECOVERY IN THE NMS, DECLINE IN THE CIS
by Gábor Hunya. Database and layout by Monika Schwarzhappel
wiiw FDI Report, Central, East and Southeast Europe, June 2015
141 pages including 103 Tables and 13 Figures

Available in hard copy (EUR 70) or PDF (EUR 65) from wiiw's website, www.wiiw.ac.at.
Orders can also be sent by fax to +431 533 66 10-50 or by e-mail to koehrl@wiiw.ac.at.

wiiw, 11 June 2015

Gábor Hunya (concept and analysis), tel. (+43 1) 533 66 10-22 hunya@wiiw.ac.at
Monika Schwarzhappel (database and layout), tel. (+43 1) 533 66 10-16 schwarzhappel@wiiw.ac.at

Foreign Direct Investment in 2014

	Inflow EUR mn	Inflow growth in %	FDI net EUR mn	Inflow as % of GFCF	Inward stock as % of GDP	Inward stock of AT share in % 1)
Bulgaria	1,289	-11	1,127	15	91	15
Croatia 2)	2,876	558	1,180	36	58	35
Czech Republic	4,455	61	4,854	11	65	14
Estonia	741	78	563	15	81	2
Hungary	3,022	31	479	14	78	11
Latvia	355	-48	458	6	50	2
Lithuania	164	-54	191	2	33	1
Poland	10,483	40	6,350	13	41	4
Romania	2,438	-10	2,379	7	41	19
Slovakia	361	-19	454	2	58	16
Slovenia	1,179	.	1,186	16	28	34
New Member States-11	**27,362**	**44**	**19,220**	**12**	**43**	**12**
Albania	878	-7	801	34	50	10
Bosnia and Herzegovina	419	96	422	17	43	24
Kosovo	151	-46	124	12	53	4
Macedonia	262	4	278	13	50	12
Montenegro	375	11	354	55	117	3
Serbia	1,505	-3	1,236	27	74	17
Turkey	9,432	1	4,127	8	23	6
Southeast Europe-7	**13,021**	**1**	**7,343**	**10**	**27**	**8**
Belarus	1,422	-16	1,396	8	25	4
Kazakhstan	7,196	-6	4,469	22	65	2
Moldova	156	-12	125	11	50	.
Russia	15,770	-70	-26,698	5	22	2
Ukraine	641	-81	226	5	53	6
Selected CIS-5	**25,186**	**-61**	**-20,482**	**7**	**27**	**2**
Total region-23	**65,569**	**-32**	**6,081**	**9**	**32**	**7**

GFCF: Gross fixed capital formation. AT: Austria.

1) Data 2013 in case of Slovakia 2012. - 2) Overstated inflow due to capital in transit.

Sources: wiiw Databases incorporating national and Eurostat statistics, May 2015.