
PRESS RELEASE

FDI in Central, East and Southeast Europe: Mostly Robust Despite Global Downturn; Shift into Services

Foreign direct investment (FDI) inflows to Central, East and Southeast Europe (CESEE) declined in 2018. However, this was mainly on account of Russia, with inflows to the rest of the region either flat or increasing on the year. We expect lower inflows in 2019 throughout CESEE, on account of declining global investment appetite and weaker business sentiment. Austrian FDI in the region has declined, but continues to earn relatively high profits. These are the main conclusions of wiiv's 2019 FDI Report.

Global FDI flows declined in 2018, reflecting faltering economic growth and policies in the US, China and to some extent in Russia to discourage outward FDI. In the US, a significant cut to the corporate tax rate, and temporary incentives to repatriate accumulated overseas earnings, prompted American parent firms to withdraw funds from foreign affiliates. In Europe, Ireland and Switzerland in particular experienced strong disinvestments (negative FDI inflows) as a result of these repatriations. Similar to the US, Austrian outward FDI also turned negative due to asset restructuring by multinational investors.

FDI inflows to the new EU Member States (EU-CEE11) were largely unchanged from the previous year, despite strong economic growth. By contrast, inflows into the Western Balkans rose by 28%, thanks in particular to rising investor interest in Serbia and North Macedonia. Turkey received a bit more FDI than in 2017, but the overall amount is still very low relative to the size of the economy.

Inflows declined in the CIS, especially in Russia, where they halved compared with 2017. Russia is becoming more and more inward looking, due to the exchange of sanctions with the West and (related) import-substitution policies. Efforts to stimulate the return of capital from abroad do not seem to be working: FDI outflows were three times greater than inflows in 2018.

Services account for the bulk of FDI in most countries in CESEE. In particular, producer-related business activities such as information and communication technology (ICT), business process outsourcing and shared service centres expanded across the region. These are not capital intensive, and thus are barely reflected in FDI data. However, the increasing share of services in announced greenfield FDI projects, and of commercial services in total exports, both point to a growing importance for foreign investors in these sectors.

Germany and the US are the most important ultimate sources of FDI in CESEE. Tax havens – in particular the Netherlands, Cyprus and Luxembourg – are among the largest immediate investors, but not among the important ultimate investing countries for CESEE. This confirms that these countries serve mainly as intermediaries and headquarters of holdings.

The share of CESEE in Austrian FDI is shrinking, in favour of Asia and the US. However, the profitability of Austrian FDI in CESEE is above average: the region accounts for 28% of the total stock of outward Austrian FDI, but 36% of the income earned.

Several trends shaping the future of FDI are given special attention in this study. First, we find that the link between FDI inflows and GDP growth has become less strong since the 2008 global financial crisis. Second, FDI inflows and participation in global value chains are strongly and positively correlated. Third, we highlight several CESEE countries attracting FDI at a level above that which would be consistent with their macroeconomic fundamentals, particularly Montenegro and Bulgaria. By contrast, Belarus and Moldova could attract more FDI if business conditions improve.

Finally, we note that business sentiment has a significant impact on greenfield investment decisions. Given that economic confidence across EU-CEE11 countries appears to be declining, we expect lower FDI inflows in 2019, which could lead to lower GDP growth. This is owing to faltering global and European economic activity. Tax reform in the US will likely continue to have a particularly important negative impact on global FDI flows.

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Table 1 / FDI inflow in CESEE, EUR million

	2012	2013	2014	2015	2016	2017	2018
EU-CEE11	30,022	13,273	26,342	25,387	37,070	35,810	35,244
WB6	2,806	3,577	3,487	4,450	4,171	4,894	6,240
Turkey	10,341	10,212	10,039	17,372	12,603	10,220	10,994
CIS3+UA	18,210	13,024	8,372	8,055	11,864	7,716	6,670
Russia	23,483	40,196	22,037	10,664	33,568	22,990	11,311
CESEE23	84,863	80,282	70,277	65,927	99,275	81,630	70,459

Source: wiiw FDI Database.

Table 2 / Austrian FDI stock in CESEE

	2012	2017	2012	2017	2012	2017
	EUR million		as % of the FDI stock of the host country		Ranking	
BG Bulgaria	5,535	4,049	14.8	9.5	2	2
CZ Czech Republic	13,321	13,454	12.9	10.3	3	4
EE Estonia	214	317	1.5	1.6	14	15
HR Croatia	7,095	5,604	31.6	20.1	1	1
HU Hungary	9,118	8,180	11.6	10.8	4	3
LT Lithuania	84	167	0.7	1.1	21	18
LV Latvia	186	196	1.8	1.3	16	15
PL Poland	6,070	8,470	3.4	4.3	10	7
RO Romania	10,920	9,575	18.5	12.6	2	3
SI Slovenia	3,266	3,504	35.3	25.6	1	1
SK Slovakia	6,858	6,080	16.4	13.1	2	2
EU-CEE11	62,666	59,595	11.0	9.0	.	.
AL Albania	387	447	11.9	6.9	4	7
BA Bosnia and Herzegovina	1,401	1,345	24.4	19.6	1	1
ME Montenegro	97	135	2.7	3.0	11	10
MK North Macedonia	397	637	10.8	13.6	3	1
RS Serbia ¹⁾	2,589		17.4	13.9	1	2
XK Kosovo	113	212	4.5	6.0	6	5
WB6	4,983	2,776	14.8	12.3	.	.
TR Turkey	13,759	3,791	9.9	2.5	2	14
BY Belarus	358	518	3.3	3.1	4	3
MD Moldova	22	69	0.8	2.5	17	9
KZ Kazakhstan	1,346	103	1.7	0.1	7	25
UA Ukraine	2,581	1,371	6.2	4.1	5	6
CIS3+UA	4,306	2,061	3.2	1.1	.	.
RU Russia	7,371	4,670	1.9	1.3	11	13
CESEE23	93,086	72,892	7.4	5.4	.	.

1) 2012: Cumulated inflows. 2017: year 2015.

Source: wiiw FDI Database.

Table 3 / Number of greenfield FDI projects and value of pledged investment capital

	Number of projects			Pledged investment capital, EUR million		
	2016	2017	2018	2016	2017	2018
EU-CEE11	781	871	912	22,977	27,618	32,473
WB6	113	111	147	3,410	2,976	8,144
Turkey	150	217	210	7,726	7,858	13,806
CIS3+UA	63	87	144	37,171	7,322	9,400
Russia	200	201	271	11,317	13,229	15,048
CESEE23	1,307	1,487	1,684	82,600	59,003	78,871

Source: fdimarkets.com.