

PRESS RELEASE

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wiiw FDI Report Central, East and Southeast Europe: Hit by Deleveraging

FDI did not prove resilient to financial deleveraging in 2013. Inter-company loans and capital reserves were repatriated especially from the NMS resulting in low FDI inflow figures. In 2014 the region is exposed to two main factors that drive FDI into opposing directions. One is the acceleration of economic growth which spurs FDI. The other is the Ukraine–Russia conflict which depresses economic growth and increases investment risk in the affected countries.

In 2013 global FDI experienced a modest recovery. In Europe a turning point was reached in the last quarter when economic growth resumed or accelerated in most countries. Overall, the outward FDI flows of EU Member States increased by 6% for the year as a whole, but those of some of the main CESEE investors such as Germany and Austria declined.

FDI inflows into the three distinct groups of CESEE countries were markedly different in 2013: the NMS-11 registered a 65% decline, the SEE-7 a 2% increase and the five main CIS countries even a 26% increase (Table 1). Among the NMS, Romania in particular, and Bulgaria to some extent, could attract more FDI than in the previous year. Inflows to the Czech Republic and to Hungary dropped to average from very high levels. But the declines in Slovakia and Poland look really alarming and were the result of loans outflow and assets restructuring.

The intra-company loan component of FDI was highly negative in many countries as part of the general deleveraging. **A large part of FDI was made liquid and repatriated as it had not been invested in physical assets but kept on the accounts of the subsidiaries.** At the same time, greenfield investment activity fell just modestly in Poland and Hungary, while it even increased in the Czech Republic and in Slovakia.

Russia is a special case as the high amount of the FDI flowing in and out of the country has been essentially round-tripping Russian capital. Russia received much more FDI capital in 2013 than in the previous year, but outflows from Russia increased even more rapidly resulting in highly negative net FDI. Greenfield activity in the country has been meagre and declining already before the Ukraine conflict.

FDI inflows have declined more strongly than gross fixed capital formation in the NMS since the start of the financial crisis. The ratio of FDI to gross fixed capital formation was about 25% in 2005-2007, declining to 10% in 2009-2010 and, after some recovery, to 6% in 2013. In the SEE countries this indicator was mostly below 20% before the financial crisis and has been around 9% in later years. **The small and declining role of FDI in investments can provide only marginal, if any support to economic growth.**

Austria keeps its prime investor position, as of end-2012, in the FDI stock of Slovenia and Croatia; it is number two in Bulgaria and Slovakia, third in the Czech Republic and fourth in Hungary. In Southeast Europe, Austria ranks first in Bosnia and Herzegovina as well as in Serbia, second (after Greece) in Albania and also second (after the Netherlands) in Macedonia where Greece is a close third. Montenegro is a special case with Russia in the first place followed by Italy and Cyprus. FDI in Turkey has come first of all from the Netherlands while Austria and Germany occupy the second position, each with close to 9% of the FDI stock. **The share of Austrian FDI has declined in most NMS except Croatia and Romania as FDI flows shifted to more dynamic emerging markets in Asia and America.**

The forecast for the FDI flows depends of the economic development in general, with the CESEE region being exposed to two main factors driving FDI into opposing directions. One is **the acceleration of economic growth in the EU and most prominently in the majority of the NMS which attract growing amounts of foreign investment.** The other is **the Ukraine–Russia conflict which depresses economic growth and increases investment risk in the affected countries.**

In the first quarter of 2014 FDI dropped in Russia and it was sluggish in the Baltics and in Bulgaria, those NMS most intensively relying on Russia in terms of trade and FDI. In Poland, Romania, Slovakia and Slovenia FDI picked up, supported by recovering export markets. Also the number of greenfield FDI projects has increased in the first quarter of 2014, particularly so in the activities trade and manufacturing.

wiiw expects a rebound of FDI in the NMS with the exception of the Baltic states and Bulgaria. As to Southeast Europe, no major change is expected. Russian FDI will fall back to the level of 2010 and new foreign investment projects will suffer delays.

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by Gábor Hunya (concept and analysis) and Monika Schwarzhappel (database and layout)
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Foreign Direct Investment 2013 and forecast 2014

	Inflow	growth	FDI	Inflow	Inward	wiiw
	EUR mn	in %	net	per capita, EUR	stock	forecast
			EUR mn			inflow 2014
						EUR mn
Bulgaria	1092	2,1	957	150	5266	800
Croatia	437	-58,6	578	103	5529	600
Czech Republic	3760	-39,5	1278	358	9383	4000
Estonia	715	-39,4	447	544	11857	600
Hungary	2317	-78,7	615	234	8163	2500
Latvia	609	-29,5	349	302	5721	500
Lithuania	400	-26,6	324	135	4209	300
Poland	728	-92,6	-890	19	4687	7000
Romania	2725	27,4	2635	136	3070	3000
Slovakia	445	-79,8	763	82	7903	1300
Slovenia	-511	.	-555	-248	5363	1000
New Member States-11	12717	-64,5	6502	122	5533	21600
Albania	923	38,6	893	325	1309	800
Bosnia and Herzegovina	300	5,2	290	78	1563	300
Kosovo	259	13,0	241	142	1517	500
Macedonia	251	249,0	253	121	1929	200
Montenegro	337	-30,1	324	542	6290	300
Serbia	779	174,0	769	108	2956	600
Turkey	9692	-5,8	7347	127	1379	10000
Southeast Europe	12541	1,9	10116	133	1551	12700
Belarus	1693	48,9	1562	179	1285	1000
Kazakhstan	7700	-25,6	5865	452	5258	6000
Moldova	174	27,8	153	49	749	100
Russia	59667	51,6	-11777	416	2784	30000
Ukraine	2840	-53,4	2524	62	1223	1500
Selected CIS	72074	26,3	-1674	329	2557	38600
Total region	97332	-7,5	14944	233	3069	72900

Sources: wiiw Databases incorporating national and Eurostat statistics, May 2014.