

wiiw FDI Report 2018

FDI in Central, East and Southeast Europe: Declines due to Disinvestment

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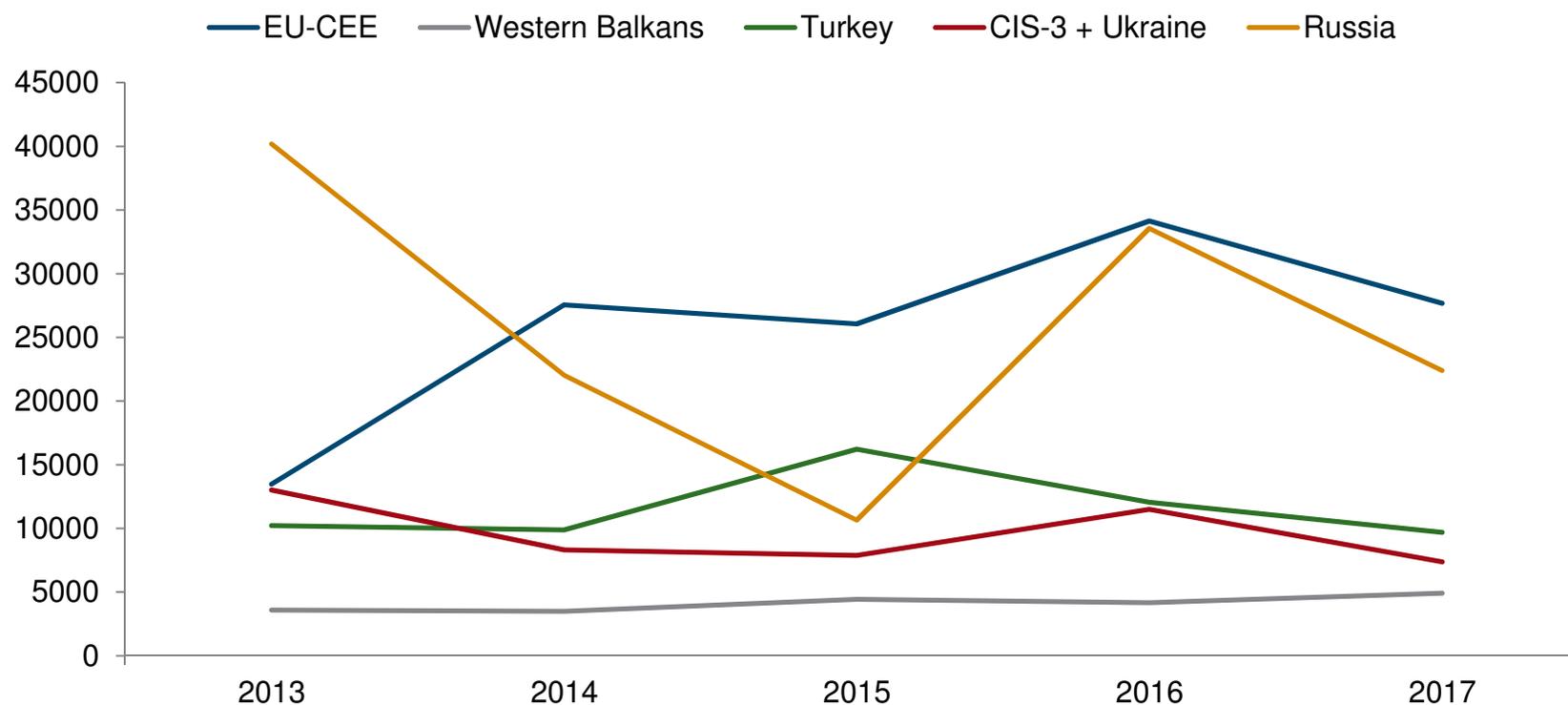
Main FDI trends in 2017

- FDI inflow in CESEE declined from the 2016 high to the average of 2011-2015
 - Balance of payments statistics, directional principle against revised 2016 data
- Improved macro-economic environment: Economic growth stabilised or improved in CESEE and in its main investors
- Main cause of FDI decline in some EU-CEE: corporate restructuring, disinvestment
- FDI stock by investing countries: increasing role of the Netherlands, but not as ultimate investing country
- FDI stock by activities: manufacturing or finance – export or domestic market orientation?
- Austria keeps rank 3 as investor in EU-CEE and rank 2 as immediate investor in WB
- Lower Austrian FDI stocks but higher FDI-related income
- FDI prospects good in EU-CEE and WB but limited by labour shortage, government policies and external environment

Declining FDI inflows in CESEE, except in the WB

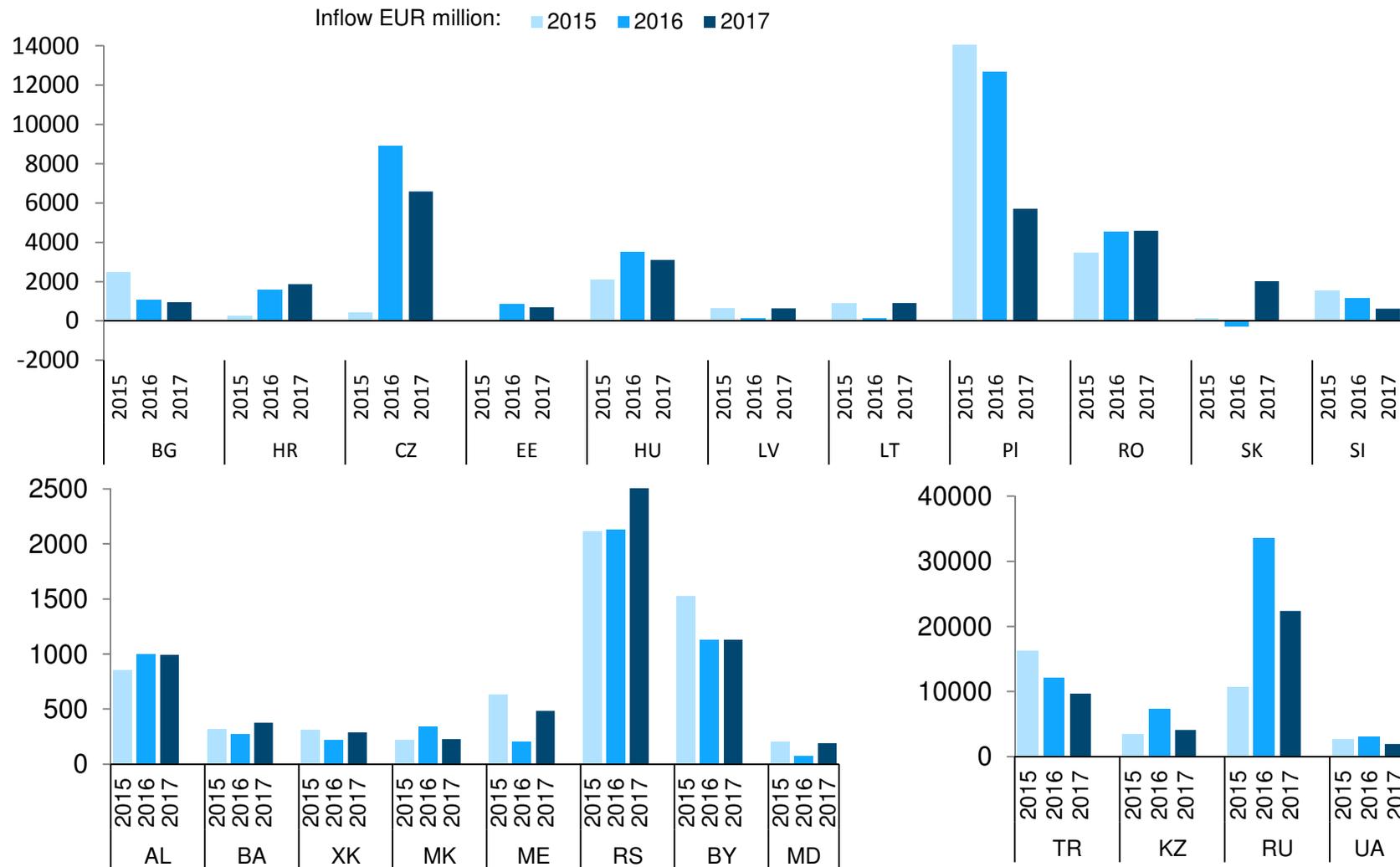
FDI inflows in 2017 down by 25% against the peak-year 2016:

EU-CEE -20%, Western Balkans +18%, Turkey -20%, CIS-3 and Ukraine -36%, Russia -33%



EU-CEE: European Union - Central and Eastern Europe. CIS-3: Belarus, Kazakhstan, Moldova.
Source: wiiw FDI Database.

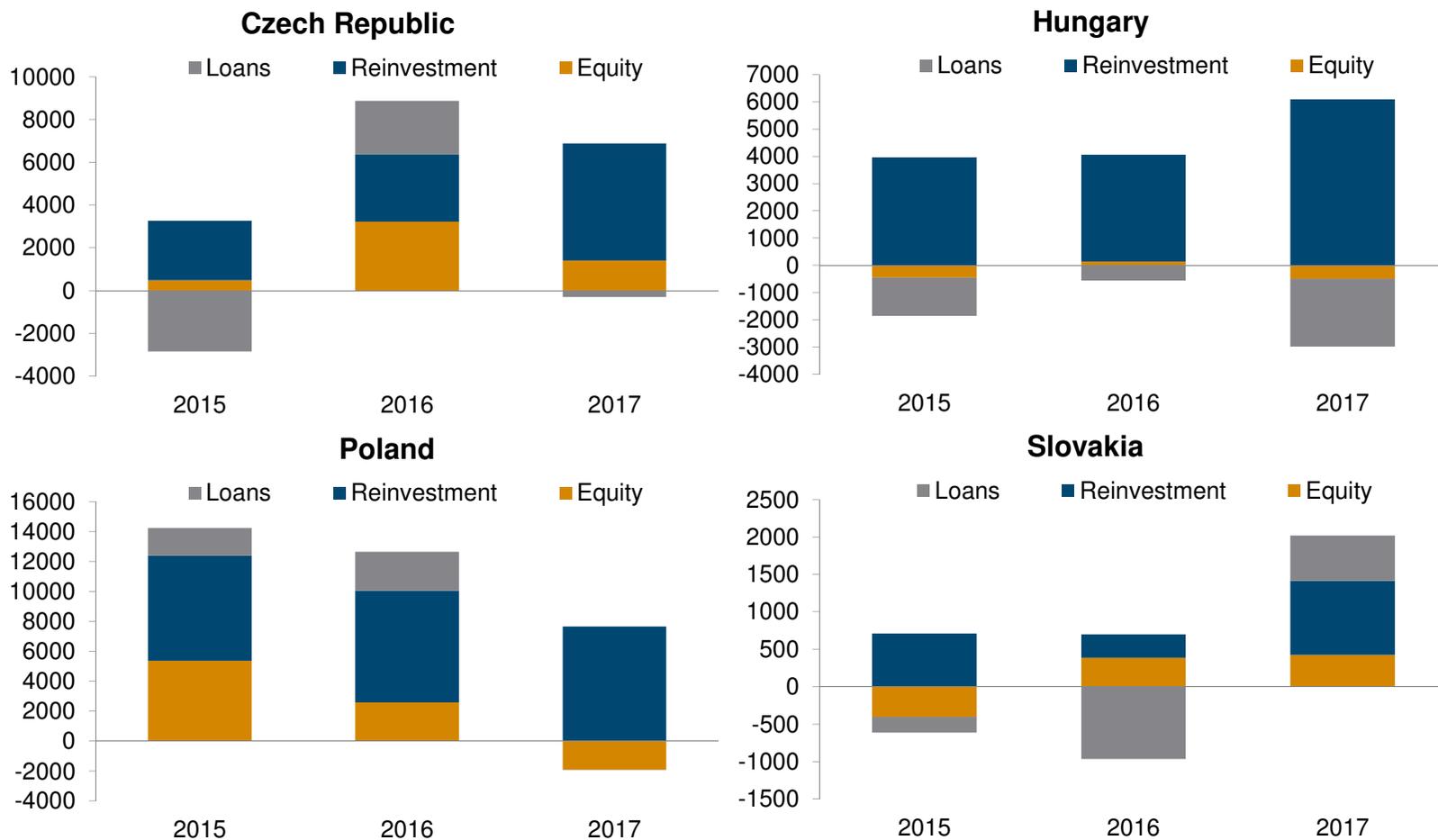
FDI inflow in CESEE countries in EUR million



Note: RS: FDI inflow in 2017 is EUR 2544 million. Source: wiiw FDI Database.

Disinvestment reduces FDI inflows – capital restructuring efforts of investors meet economic nationalism

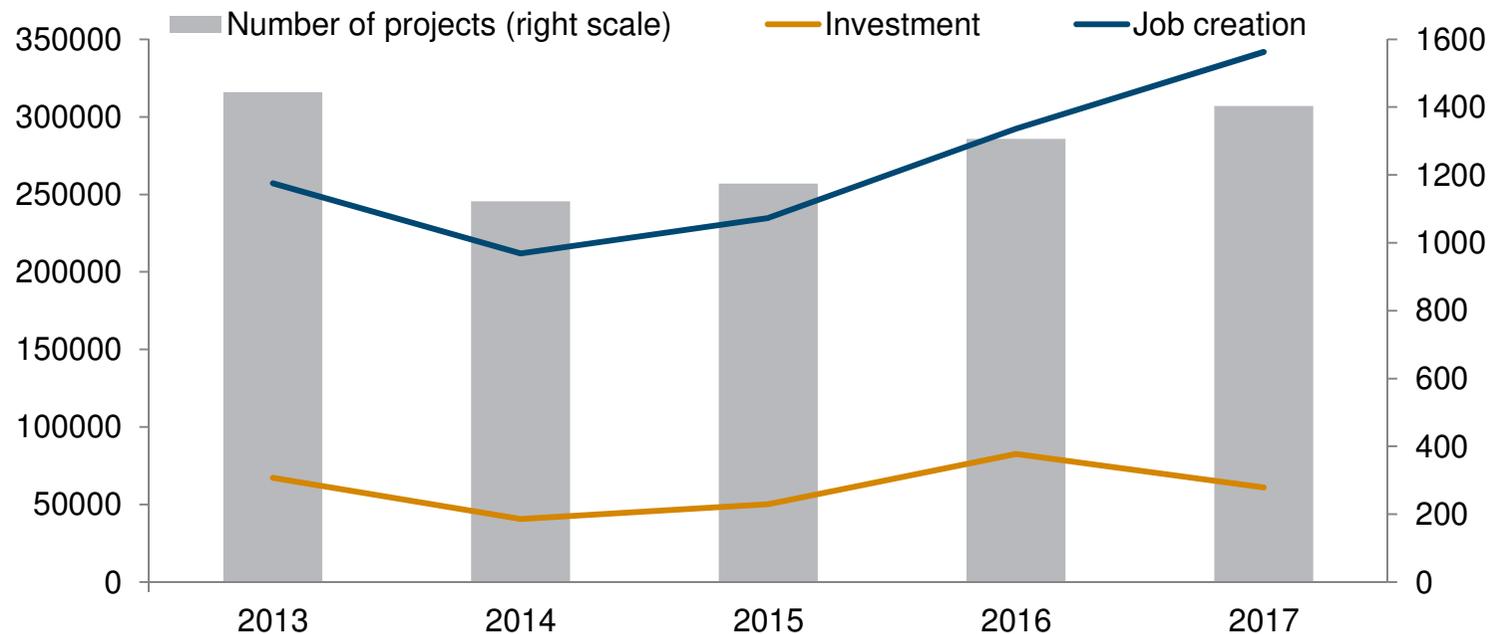
FDI inflow in the Czech Republic, Hungary, Poland and Slovakia by components, EUR mn



Source: wiiw FDI Database

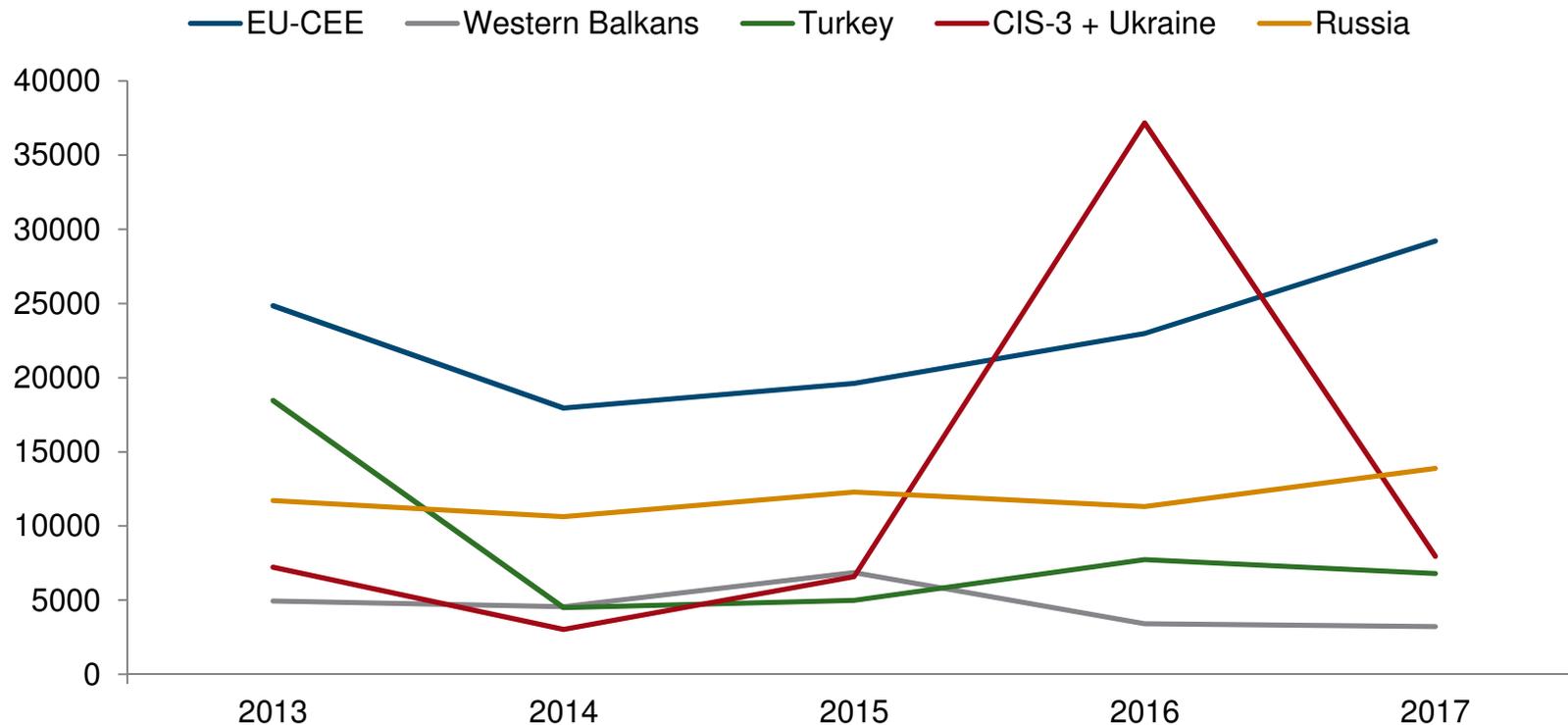
More greenfield projects but lower capital investment in CESEE

Greenfield FDI projects 2013-2017: number of projects, announced capital investment in EUR million and number of jobs to be created



Capital investment in greenfield projects down in Kazakhstan and Turkey, up in Poland, Romania and Russia

Capital investment pledged in greenfield FDI projects 2013-2017 in EUR million

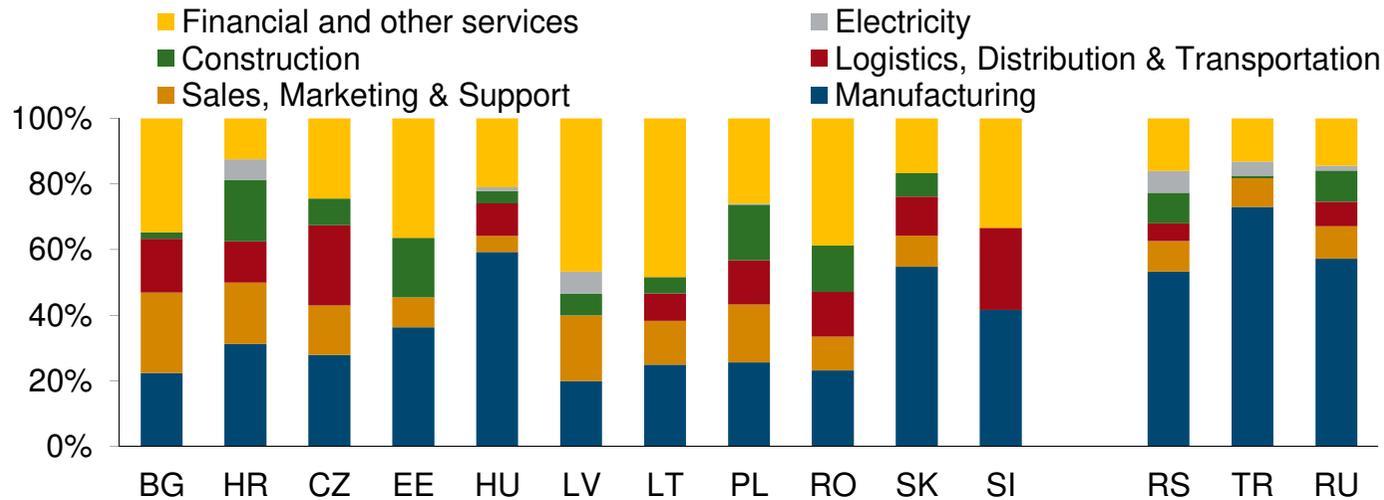


EU-CEE: European Union - Central and Eastern Europa. CIS-3: Belarus, Kazakhstan, Moldova.

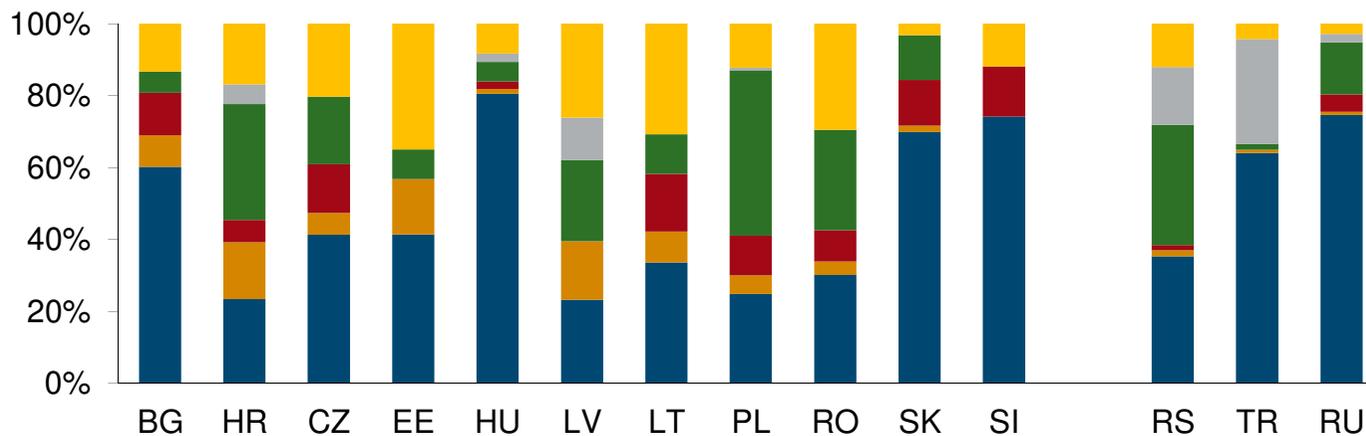
Source: <http://www.fdimarkets.com>.

Differences in specialisation in manufacturing or services

Share of main activities in the number of greenfield projects, 2017



Share of main activities in the capital investments in greenfield projects, in %, 2017

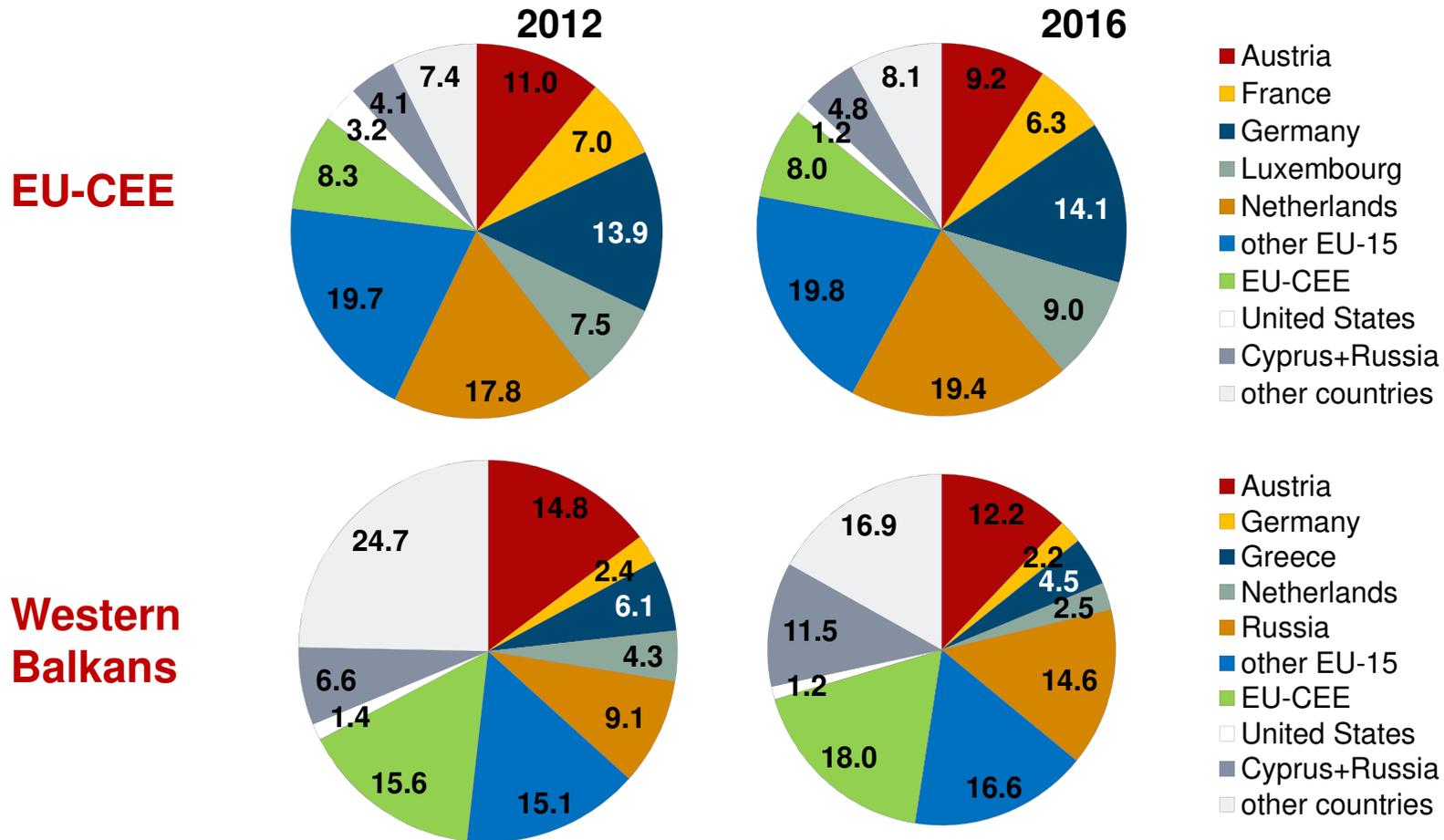


Remark: Excluding mining and recycling.

Source: <http://www.fdimarkets.com>.

Rank 1 for the Netherlands on account of tax optimisation;
rank 3 for Austria with about 9.5% of the stocks

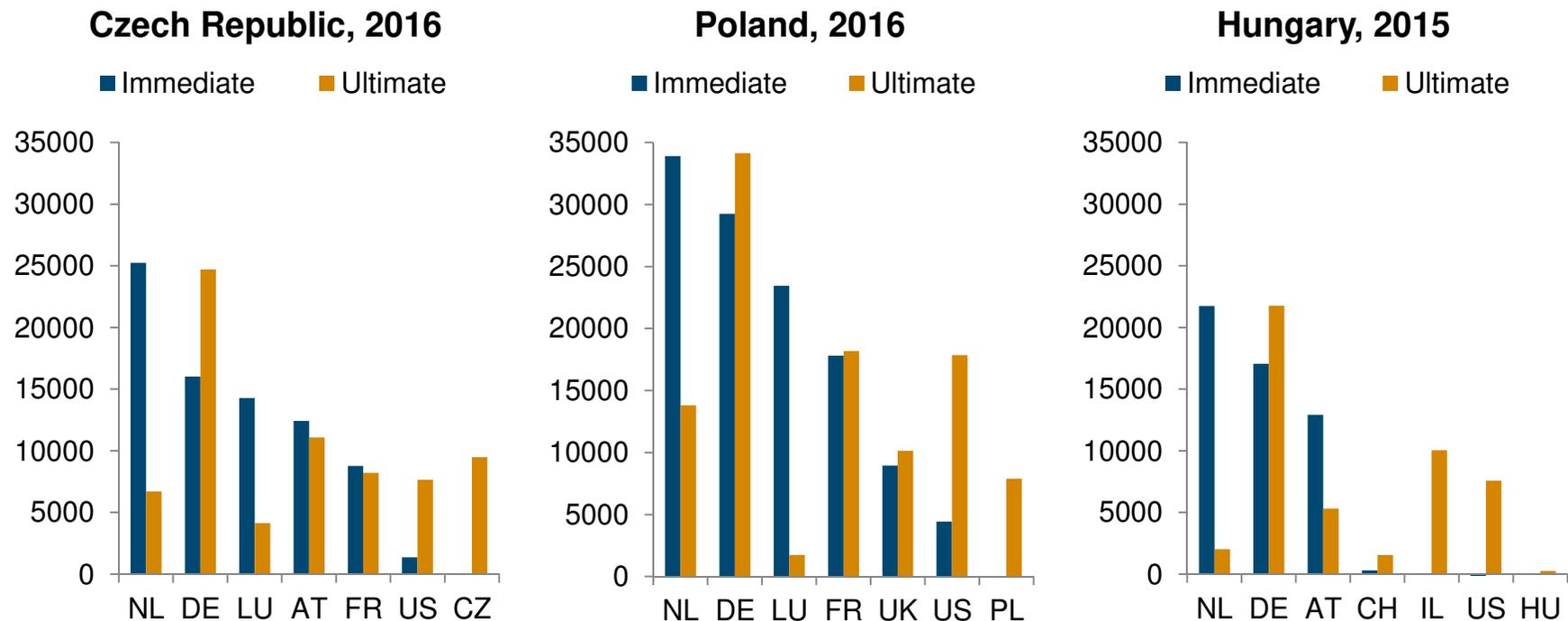
Inward FDI stock in EU-CEE and Western Balkans by major home countries, in %



Source: wiiw FDI Database.

Germany largest ultimate investor, also USA important; NL and AT transit countries; round-tripping capital in CZ and PL

FDI stock by main immediate and ultimate investors, in the Czech Republic, Poland and Hungary, EUR million



Source: OECD.

Austrian FDI in CESEE

- Austrian inflows from the world EUR 8.5 billion, outflows to the world EUR 9.7 billion in 2017 following negative flows in both directions in 2016 (OeNB data):
 - 2016: UniCredit disinvestment in AT; related AT investments in CESEE turned Italian
 - 2017: Lukoil invested EUR 6.2 million in AT, but with the aim to invest abroad
- 3rd in the EU-CEE, after the Netherlands and Germany (9.2% of the inward stock in 2016) and 2nd in the Western Balkans (11%), low in the rest (host country data).
- AT share in the EU-CEE and WB stock declined, but FDI income held up.
- Austrian direct investors enjoy above-average profitability in the EU-CEE.
 - Share in the Austrian outward stock 25.5%, in global FDI income 33% (OeNB data).
- FDI income from EU-CEE 1.2% of GDP; net contribution to EU budget 0.8% of GDP –
 - EU payments improve the infrastructure and the business environment in the EU-CEE and help companies to earn profits on their investments there.

Outlook for 2018

- Economic growth in CESEE somewhat slower than in 2017.
- Expanding domestic and foreign markets attract investors to EU-CEE and WB.
- No risk reduction for investors in MD, RU and UA, thus FDI will hardly increase.
- Sanctions on Russian oligarchs hit hard, triggering declines in relations with the US and Europe. But
 - import substituting investments are vivid and
 - Chinese interest high.
- The scope for foreign takeovers is limited in the EU-CEE where foreign affiliates produce 40-50% of the business sector GDP,
- and where government support benefits only export-oriented investments with high-technology content; the domestic sector is preferred in market-seeking activities
- Strained labour market situation hinders further FDI projects, unless alternatives are exploited:
 - automation (started but not dominant),
 - moving further to the east (Ukraine not attractive),
 - moving Ukrainian labour to the west (massive),
 - more investment in labour-abundant Western Balkans (expected).

WIIW FDI REPORT 2018: FDI in Central, East and Southeast Europe: Declines due to Disinvestment

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Country codes

AL	Albania	MK	Macedonia
BA	Bosnia and Herzegovina	PL	Poland
BG	Bulgaria	RO	Romania
CZ	Czech Republic	RS	Serbia
EE	Estonia	RU	Russia
HR	Croatia	SI	Slovenia
HU	Hungary	SK	Slovakia
KZ	Kazakhstan	TR	Turkey
LT	Lithuania	UA	Ukraine
LV	Latvia	XK	Kosovo
ME	Montenegro		
CESEE	Central, East and Southeast Europe		
CIS	Commonwealth of Independent States		
EU-CEE	European Union – Central and Eastern Europe		
WB	Western Balkans		