PRESS RELEASE **24 June 2025**

Foreign direct investment in Eastern Europe shrinks by a quarter

- *Direct investment inflows are at a five-year low*
- *German investors are losing interest, while Austrian ones are being very cautious*
- *Most new investment announced again comes from China*
- *Foreign direct investment is contributing less and less to the region's growth*

International investors are increasingly shying away from investing in Central, East and Southeast Europe. That is the conclusion of a new report by the Vienna Institute for International Economic Studies (wiiw) on foreign direct investment (FDI) made and announced in the region.

Compared to 2023, FDI in Central, East and Southeast Europe last year fell by around a quarter – from around EUR 100bn to just over EUR 75bn. The EU member states of the region performed similarly poorly, witnessing a decline of 24%. The trend was particularly blatant in Poland (-48%), but Romania also appears to be losing its appeal to foreign investors (-15%). *'The crisis in German industry and the uncertainty surrounding Donald Trump's second term as US president clearly had a major impact on the region last year,'* says Olga Pindyuk, economist at wiiw and author of the report. Ukraine also followed the negative trend with a decline of around 26%, although the situation there is, of course, rather different, given Russia's war of aggression against the country.

Nevertheless, there are some positive exceptions. Czechia (+7.9%), Croatia (+38.7%), Hungary (+5.1%), Lithuania (+28.8%) and Slovakia (around ten times more than in the previous year) all recorded growth, though that was partly due to individual large-scale projects that distort the statistics somewhat. Such examples include investments by Chinese companies in the production of electric cars and batteries in Slovakia and Hungary. The six countries of the Western Balkans (+17.4%) – led by Serbia and North Macedonia – and Turkey (+5.5%) also attracted more FDI in 2024. However, this does not alter the overall negative trend.

Current data on foreign greenfield investments announced indicate that the situation has deteriorated further this year. Both the number of new projects announced (26% lower than in Q1 2024) and the amount of capital committed (down 55% on Q1 2024) reached a new five-year low in the first quarter of 2025. *'This suggests that foreign investors currently have even less confidence in the region than they did at the beginning of the Covid crisis or the Russian invasion of Ukraine,'* says Pindyuk.

In general, so far this year the negative trend has extended to most of the countries of Central, East and Southeast Europe. The only positive developments have been in Albania, Kosovo, Ukraine, Latvia and Romania, where more new investment projects were announced in Q1 2025 than in the same period of 2024. Capital commitments in Kosovo, Poland, Slovenia, Romania and Ukraine were also higher year on year.

Interest from German investors wanes, Austrian investors cautious

German and Austrian companies, traditionally among the largest investors in the region, are putting the brakes on new investment. Between Q2 2024 and Q1 2025, investment commitments from Germany, in particular, were almost 50% down on the previous corresponding period (Q2 2023 to Q1 2024): just EUR 5.4bn, as against EUR 10.6bn. The number of projects announced fell by 21% – from 257 to 203.

Investors from Austria made capital commitments of around EUR 1.4bn during this period – only slightly more than in the previous corresponding period (EUR 1.3bn). The number of projects in the region announced by Austria fell from 49 to 34. *'The region remains important for Austria and will continue to attract investment from there. However, given the country's weak economy and the huge global economic uncertainties – such as Donald Trump's policies – Austria's investors are acting extremely cautiously,'* says Pindyuk.

Most new investment announced again comes from China

Even though its newly committed investments have almost halved – as is the case with investment from Germany – China remains Central, East and Southeast Europe's largest investor in new projects, with a committed investment volume of around EUR 11.2bn. However, Chinese direct investment accounts for only a little over 1% of total FDI stocks in the region, whereas around 70% of direct investment stocks still originate from EU countries, according to the wiiw FDI database. *'The sharp decline in Chinese capital commitments for new investments shows that in Eastern Europe even China's trees do not reach the sky,'* quips Olga Pindyuk.

In terms of newly announced projects, Poland has become the most important investment destination for China in the region, attracting a total of 12 out of 65 Chinese greenfield projects in the last four quarters – twice as many as in the previous four quarters. This puts it on a par with Turkey, which also attracted 12 new projects from China. Together, these two countries account for around a third (37%) of all Chinese projects in the region. However, the situation is rather different when it comes to Chinese capital commitments: the lion's share of those goes to Turkey (34%) and Kazakhstan (26%), with Poland accounting for only 3%.

The 'extended workbench' growth model is becoming obsolete

From an economic perspective, FDI is becoming less important to economic growth in Central, East and Southeast Europe, especially in the EU member states of Central Europe. Compared to 2019, as a share of GDP existing direct investment declined in many countries of the region. The share of new direct investment over this period was even lower in many places when measured against economic output.

'This points to structural change in the region, especially in those countries known for large direct investments in the manufacturing sector, and particularly in the automotive industry,'

says Pindyuk. *'The Eastern European growth model, which has largely been based on attracting foreign direct investment, could therefore become obsolete in the medium term.'*

wiiw has repeatedly pointed this out in the course of several studies. The focus on production and manufacturing – i.e. the 'extended workbench' model for Western corporations – is unlikely to be adequate to secure or increase prosperity in the region over the long term. wiiw therefore recommends that these countries should invest more in education, research and development, and should pursue a well-thought-out, tailor-made industrial policy.

The new FDI report is available on request and is free of charge for wiiw members.

About the Vienna Institute for International Economic Studies (wiiw)

Founded in 1972, the Vienna Institute for International Economic Studies (wiiw) is an economic think tank that produces economic analyses and forecasts on 23 countries in Central, East and Southeast Europe. In addition, wiiw conducts research in the areas of European integration, macroeconomics, international economics, industrial studies, labour markets and regional development. www.wiiw.ac.at

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