

4.4. FDI MONITOR²¹: INFLOWS DOWN BY ALMOST A QUARTER IN 2017

by Gabor Hunya

- › FDI inflows into CESEE fell by around 22% in 2017, mainly on account of Russia and a number of EU-CEE countries, despite strong economic growth across much of the region (Table 10). However, this is not necessarily odd: the historical correlation between FDI and growth in CESEE is quite low. Small economies are more dependent on FDI than large ones in terms of both inflows and stocks relative to GDP (Figures 29 and 30).
- › Half-year 2018 figures indicate that inflows may again decline this year, except in Albania, Belarus, Bulgaria, Croatia, Lithuania, Macedonia, Poland, Romania and Serbia.
- › One major reason for the 2017 drop in FDI in EU-CEE was disinvestment – capital withdrawals by foreign investors – particularly in the Czech Republic, Hungary and Poland. Here, national capital (often with government support) took over from foreigners in banking, utilities and communications.
- › Nevertheless, greenfield investment (capital in new projects) increased for the third year in a row, with a particular boom recorded in Poland. This suggests that foreign investors are so far undeterred by political developments there.
- › A big constraint on future FDI in the region, however, will be labour shortages. Foreign firms will increasingly struggle to find qualified staff, and will have to pay higher wages to those that they do find. Nevertheless, this will be preferable to moving production further east, where business conditions, infrastructure and labour quality are generally worse. Moreover, foreign firms have sunk costs in EU-CEE, and value the proximity to home markets, such as Germany.
- › We find that the role of tax havens such as the Netherlands and Luxembourg in FDI is significantly overstated in the data. Countries such as Germany and the US are more important sources. Austria is the third-biggest source of FDI in CESEE, and the income that Austrian firms earn in the region far outweighs the state's contribution to the EU budget.
- › A high share of manufacturing in FDI stocks defines the countries of the Central European manufacturing hub (Figure 31). This has expanded to Romania, Serbia and Macedonia in recent years.

Table 10 / FDI inflows in CESEE over time

EUR million

	2010	2011	2012	2013	2014	2015	2016	2017
EU-CEE	23,278	25,179	30,022	13,286	26,354	25,447	36,946	31,044
WB	3,473	5,675	2,806	3,577	3,487	4,450	4,171	4,890
TR	6,861	11,576	10,341	10,212	9,875	16,225	12,054	9,639
BY, KZ, MD, UA	14,790	18,242	18,212	13,017	8,313	7,876	11,569	7,709
RU	23,875	26,476	23,483	40,196	22,037	10,664	33,568	23,102
CESEE-23 ¹⁾	72,276	87,149	84,865	80,288	70,066	64,662	98,308	76,383

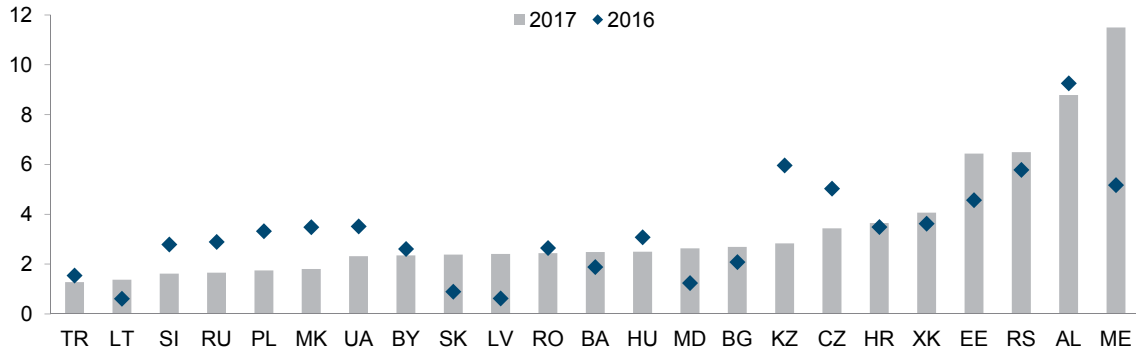
¹⁾ The 22 CESEE countries covered in this report plus Moldova.

Note: Data are based on Direct Investment Statistics, excluding special purpose entities (SPEs).

Source: wiiw FDI Database.

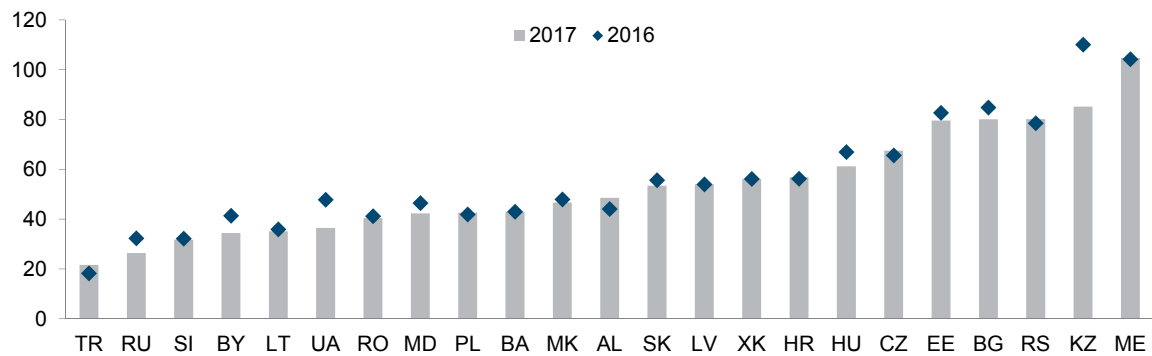
²¹ This is an updated summary of the *wiiw FDI Report 2018*: <https://wiiw.ac.at/declines-due-to-disinvestment-p-4548.html>

Figure 29 / FDI inflow, as a percentage of GDP



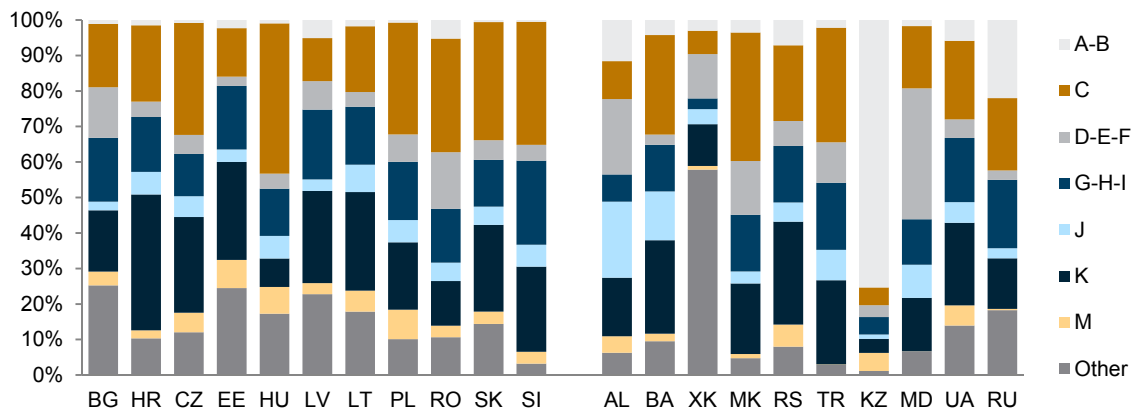
Source: wiiw FDI Database.

Figure 30 / FDI inward stock, as a percentage of GDP



Source: wiiw FDI Database.

Figure 31 / Inward FDI stock by economic activities, last available year



Note: NACE Rev. 2 activities: A-B Agriculture+Mining, C Manufacturing, D-E-F Electricity+Water+Construction, G-H-I Trade+Transport+Accommodation, J Info-communication, K Finance, M Professional.

Source: wiiw FDI Database.