

## FDI in Central, East and Southeast Europe

**Austrian Greenfield Investments in CESEE Defy the COVID-19 Crisis**

**Fragile Post-COVID FDI Bounce-back in CESEE**

**Are We Already Seeing Some Near-shoring to the Western Balkans?**





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## Are We Already Seeing Some Near-shoring to the Western Balkans?

GÁBOR HUNYA  
BRANIMIR JOVANOVIĆ

### Announcement

This Monthly Report issue is based on the freshly updated online wiiw FDI Database. The wiiw FDI Database can be accessed online at the wiiw website, <https://data.wiiw.ac.at/fdi-database.html> and contains updated and revised data on total FDI flows and stocks, as well as breakdowns by component, by partner and by economic activity. Half-year data have been added this time to track the impact of the COVID-19 pandemic in Central, East and Southeast Europe (CESEE).

Exclusively for **wiiw members**, wiiw offers an interactive visualisation tool **CESEE Visual Data Explorer**, with cross-country comparisons for selected FDI indicators and a newly added FDI section.



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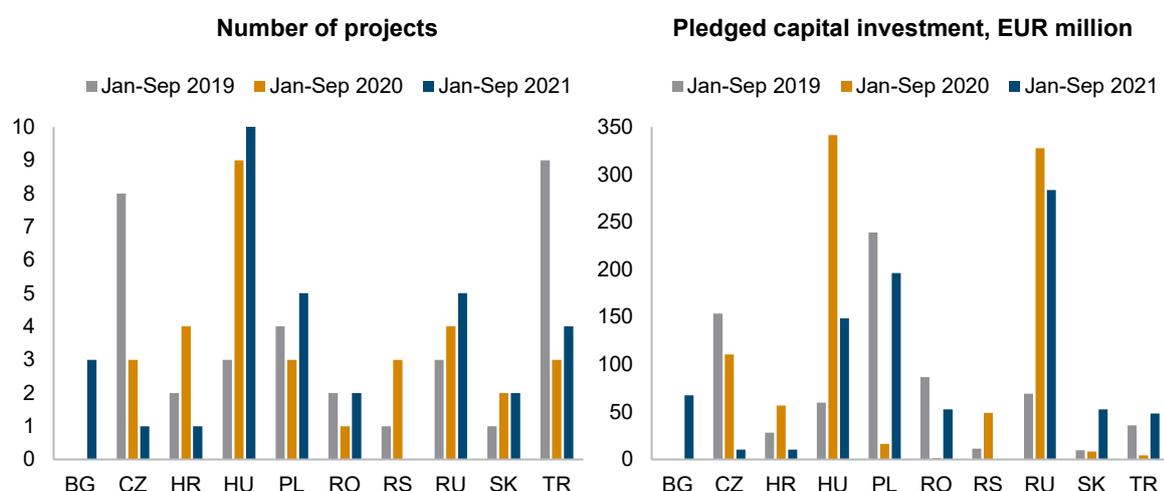
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# Chart of the Month: Austrian greenfield investments in CESEE defy the COVID-19 crisis

BY GÁBOR HUNYA

**Figure 1 / Greenfield investment commitments by Austria in selected CESEE countries**



Note: no data for Serbia in January-September 2021.

Source: fDi Markets.

In 2020, FDI inflows into CESEE<sup>1</sup> from Austria dropped by 21% year on year – less than total FDI inflows (from all sources), which fell by 34%. The contraction in Austrian inflows was biggest in Russia and Serbia; meanwhile, Austrian investment in Poland and Bulgaria actually increased. As a result, Austria's FDI stock in CESEE rose marginally, and the country's share in CESEE inward stocks increased to 5.7%, from 5.5% the previous year (Table 1). Despite growing investment stocks, Austria slipped in the rankings of the largest investors in Estonia, Latvia, Romania, Montenegro and Belarus. The country's position improved in Turkey, Moldova and Russia.

The development of Austrian greenfield investment commitments in CESEE defied the COVID-19 crisis. The number of projects announced did not change, remaining at 35 in the first three quarters of 2019, 2020 and 2021. The number increased in EU-CEE and Russia, but elsewhere it first fell and then rose again. Interestingly, the pledged investment capital developed in a counter-cyclical way. It was higher in Q1-Q3 2020 than in the same period of 2019; and lower in Q1-Q3 2021 than the previous year.

The most important destination for Austrian greenfield investment projects in CESEE in both 2020 and 2021 was Hungary (Figure 1), while large amounts were also pledged to Russia. In Q1-Q3 2021, the amount of investment pledged to Hungary declined from a high level, while a sharp increase was visible in Poland. Hungary seems more attractive to small Austrian projects, while Poland and Russia attract

<sup>1</sup> In all, 17 CESEE countries provided data.

larger investments. At the same time, Austrian investors in Q1-Q3 2021 were much less interested in Czechia and Croatia than in previous years. Still, it is fairly unlikely that such short-term fluctuations will jeopardise the leading position of Czechia, which has the highest stock of Austrian FDI in the CESEE region.

**Table 1 / Austrian FDI stock in CESEE countries**

	2019	2020	2019	2020	2019	2020
	EUR million		as % of the FDI stock of the host country		Austria's ranking in host country	
BG Bulgaria	4,271	4,597	9.3	9.5	2	2
CZ Czechia <sup>1)</sup>	16,141	16,141	10.6	10.6	4	4
EE Estonia	436	376	1.7	1.3	11	15
HR Croatia	6,343	6,362	19.8	20.3	1	1
HU Hungary	10,277	10,082	12.3	12.2	3	3
LT Lithuania	171	227	0.8	0.9	17	17
LV Latvia	246	262	1.5	1.6	13	14
PL Poland	8,287	8,569	4.0	4.2	6	6
RO Romania	11,109	10,858	12.6	12.0	2	3
SI Slovenia	3,991	4,246	24.7	25.6	1	1
SK Slovakia <sup>1)</sup>	7,085	7,085	13.1	13.1	3	3
<b>EU-CEE11</b>	<b>68,357</b>	<b>68,805</b>	<b>9.2</b>	<b>9.2</b>	.	.
AL Albania	550	598	6.9	7.0	6	6
BA Bosnia and Herzegovina	1,402	1,422	18.2	18.4	1	1
ME Montenegro	153	156	3.2	3.4	9	10
MK North Macedonia	772	816	13.5	13.9	1	1
RS Serbia <sup>2)</sup>	4,212	4,307	13.2	12.3	2	2
XK Kosovo	235	265	5.9	6.3	4	4
<b>WB6</b>	<b>7,324</b>	<b>7,563</b>	<b>11.8</b>	<b>11.5</b>	.	.
TR Turkey	2,989	4,506	2.2	2.5	13	12
BY Belarus	513	437	4.0	3.8	4	5
MD Moldova	97	148	2.5	4.4	11	8
KZ Kazakhstan	120	113	0.1	0.1	25	25
UA Ukraine	1,330	1,349	2.9	3.3	6	6
<b>CIS3+UA</b>	<b>2,060</b>	<b>2,048</b>	<b>1.0</b>	<b>1.1</b>	.	.
RU Russia	6,081	4,860	1.4	1.3	12	11
<b>CESEE23</b>	<b>86,811</b>	<b>87,782</b>	<b>5.5</b>	<b>5.7</b>	.	.

Notes: 1) Data for 2020 repeats 2019 data; 2) Cumulated inflows.

Source: wiiw FDI Database incorporating central bank statistics.

# Fragile post-COVID FDI bounce-back in CESEE

BY GÁBOR HUNYA

*Foreign direct investment (FDI) inflows and greenfield investment commitments have experienced a COVID-related boom-bust-boom cycle over the past two years. But the resurgence in greenfield investment commitments has been less robust than that in FDI inflows, and this recovery has not reached all CESEE regions. FDI in manufacturing has declined somewhat, while commitments to ICT investments in producer-related business services have been on the rise. Investor confidence is expected to remain volatile in the months to come, but large investments are needed in technological upgrading, greening and automation.*

Since the beginning of 2020, there have been huge quarter-to-quarter fluctuations in FDI in CESEE (and indeed worldwide), as investors react to the unusual economic impacts of the COVID-19 pandemic. Rapidly changing demand and supply conditions on the major markets have disrupted the expectations that underpin investment decisions. Numerous FDI projects have been put on ice or revised to match the prevailing conditions. Short-term financial flows between parent companies and subsidiaries have increased in both directions, often resulting in rapidly changing balances in net FDI inflows – one of the main indicators considered in this analysis. As overall economic performance improved in 2021, so the appetite of investors has returned – as indicated by the rising number of greenfield projects announced.

The world economy, including CESEE, was in post-COVID recovery mode in the first half of 2021. Global FDI flows bounced back strongly to USD 852bn – just 10% below the figure for the whole of 2020.<sup>1</sup> The recovery was especially strong in the developed European countries, where cross-border investment had almost come to a standstill in 2020. In this region, the Q1-Q2 2021 inflows surpassed even the annual total for 2019. The surge in outward investments from Western Europe also benefited CESEE destinations.

## UNEVEN FDI RECOVERY

FDI inflows into CESEE over the past two years have followed a COVID-related business cycle: starting from a historically high level in 2019, they slumped in the first half of 2020; a modest recovery in the second half of that year was followed by a big surge in the first half of 2021. Inflows fell by 40% in 2020 compared to the previous year, but in the first half of 2021 they rose to almost the same level as in the first half of 2019.<sup>2</sup> All in all, the amplitude of the boom-bust-boom FDI cycle in CESEE was similar to that witnessed globally; but the cycle was not as frenetic as in the developed EU.

<sup>1</sup> UNCTAD, 'Global Investment Trend Monitor', No. 39, 18 October 2021.

<sup>2</sup> In the absence of FDI inflow data based on the generally used directional principle, 2021 data were estimated for Czechia, Poland, Slovakia and Belarus based on asset/liability data published in the quarterly balance of payments. Final data will differ from the estimated or preliminary figures and may alter some of statements in this report.

Country groups in CESEE differed as to the timing of the lowest point in the FDI cycle. This came in the first half of 2020 in EU-CEE (except Slovakia), Turkey and Russia, but in the second half of the year in Slovakia,<sup>3</sup> the Western Balkans, CIS and Ukraine (Figure 1). Another difference is whether or not FDI inflows in the first half of 2021 recovered to the level of the first half of 2019. They did so in EU-CEE (but only thanks to Slovakia), the Western Balkans and the CIS and Ukraine. FDI inflows to Turkey showed little fluctuation, as that country's economic growth was robust (except for a temporary setback in Q2 2020), helped along as it was by an extremely expansionary policy mix. In contrast, the amplitude of the FDI cycle was large in Russia, where plummeting oil prices magnified the economic downturn and depressed investor sentiment in the first half of 2020, leading to negative net FDI inflows. The subsequent recovery was modest, and was the weakest of the CESEE regions: Q1-Q2 2021 inflows amounted to only two thirds of those in Q1-Q2 2019.

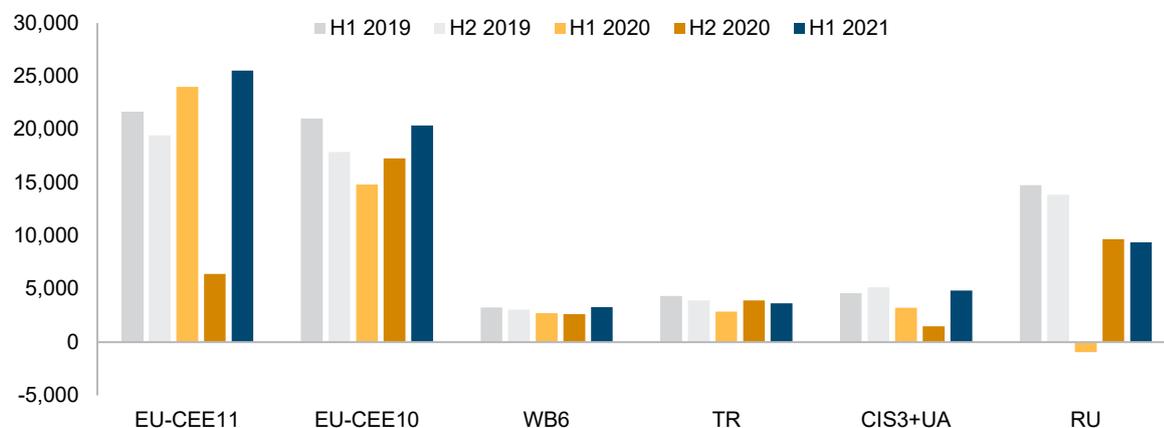
Within **EU-CEE**, economic growth and FDI inflows fluctuated less in larger and less open economies than in smaller economies, which are heavily dependent on international supply chains. Poland and Romania, the two largest countries, achieved relatively strong economic growth in the first half of 2021, following moderate declines the previous year. They reported a surge in FDI inflows in Q1-Q2 2021, with the amounts above the level for the first half of 2019 (Figure 2). Similarly strong increases were also recorded in Croatia and Slovenia – countries that have re-emerged from deep recessions triggered by, among other things, the slump in the tourism sector. Some other countries, such as Bulgaria and Czechia, experienced a recovery in FDI back in the second half of 2020, though this was followed by a decline later on. Modest economic growth and political uncertainty may have curtailed the appetite of investors in both countries in 2021. Estonia is rather different: it has received relatively large inflows over the past four quarters, compared to the previous period – something that may be attributed to the country's attractive IT sector. Finally, Hungary has been an outlier: since the peak of the second half of 2019, it has witnessed diminishing FDI inflows for three half-year periods in a row. There has been a major restructuring of foreign assets there over the past year, and equity reductions have not been fully compensated by intracompany loans.

As for the **Western Balkans**, foreign investment was slightly lower in 2020 than in the previous year, and the 2021 recovery brought it back to the level of the first half of 2019 (Figure 1). Overall, the ups and downs have been relatively small – except in Montenegro, whose economy is closely linked to tourism (Figure 3). The volume of FDI in very small catch-up economies like Albania and Kosovo does not depend much on international production chains; rather, good medium-term prospects can attract investment in the real estate and financial sectors. The largest and most diverse economy, Serbia, remains the main FDI target in the region – and also in CESEE as a whole, relative to its level of development. But inflows in the first half of 2021 did not reach the level of two years previously, despite continuous recovery. That country – together with Bosnia and Herzegovina and North Macedonia – has attracted value-chain-dependent manufacturing FDI, which explains the stronger boom-bust-boom cycle there, compared to other economies in the region.

In **the CIS and Ukraine**, there was a powerful downturn in FDI in the second half of 2020, followed by a recovery to above the level of two years previously. Ukraine was the main driver in shaping this trend.

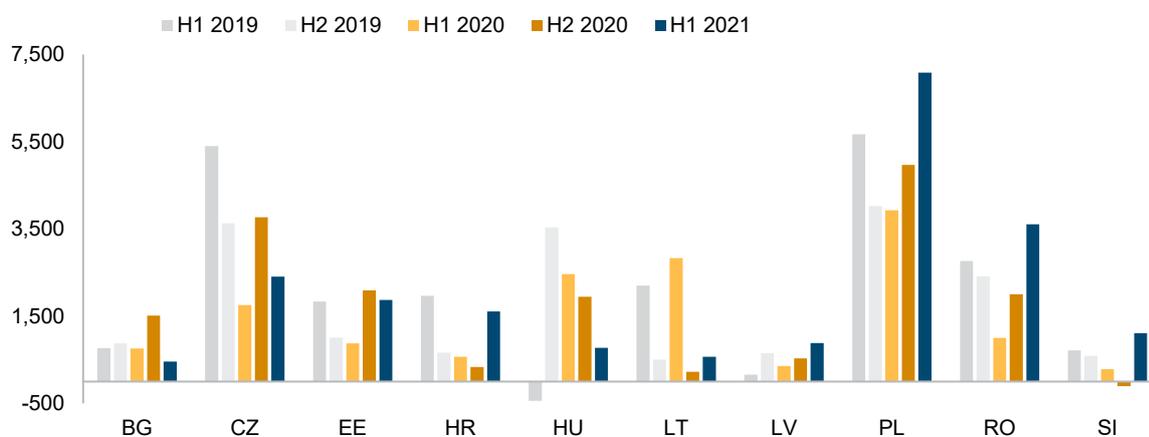
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<sup>3</sup> Short-term FDI flows can be volatile. This was the case in Slovakia, which reported large outflows in one quarter and similarly large inflows in another, which distorted the general picture for EU-CEE.

**Figure 1 / FDI inflows in the main regions of CESEE in 2019-2021, EUR million**

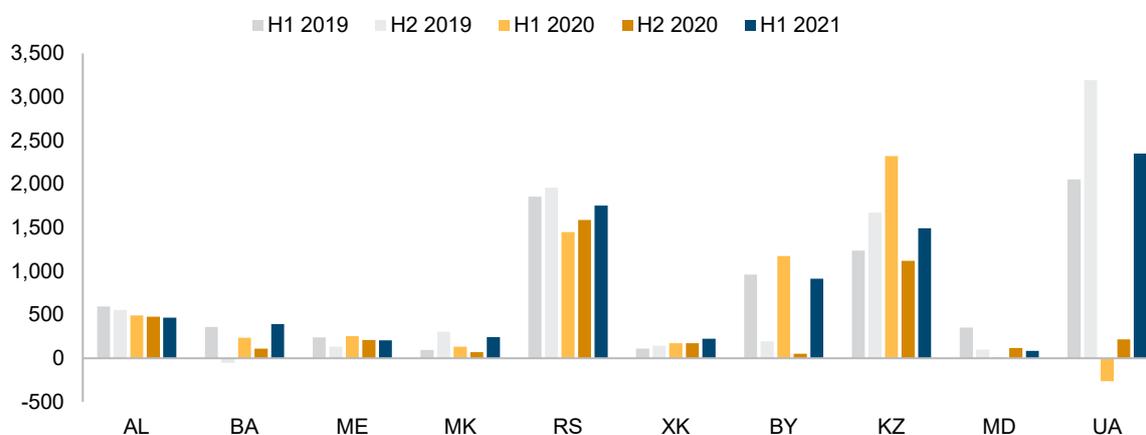
Note: CIS3 includes Belarus, Kazakhstan and Moldova. EU-CEE10 excludes Slovakia.

Source: wiiw FDI Database, based on Direct Investment statistics (BOP for Kosovo and Turkey) of the respective central banks; wiiw estimates for Czechia, Poland, Slovakia and Belarus; wiiw calculations.

**Figure 2 / FDI inflows in EU-CEE10 countries in 2019-2021, EUR million**

Note: EU-CEE10 excludes Slovakia.

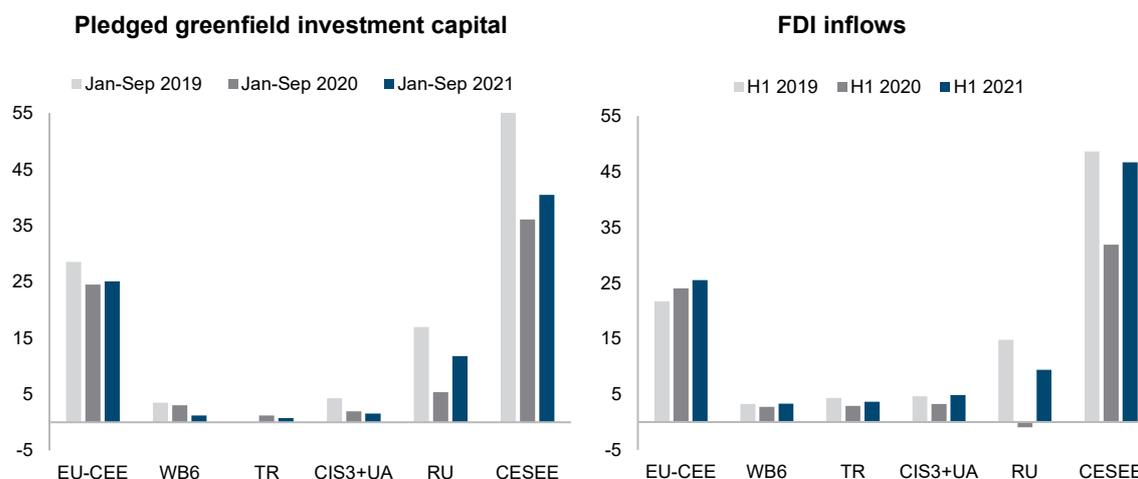
Source: wiiw FDI Database, based on Direct Investment statistics of the respective central banks; wiiw estimates for Czechia and Poland; wiiw calculations.

**Figure 3 / FDI inflows in non-EU CESEE countries in 2019-2021, EUR million**

Source: wiiw FDI Database, based on Direct Investment statistics (BOP for Kosovo) of the respective central banks; wiiw estimates for Belarus; wiiw calculations.

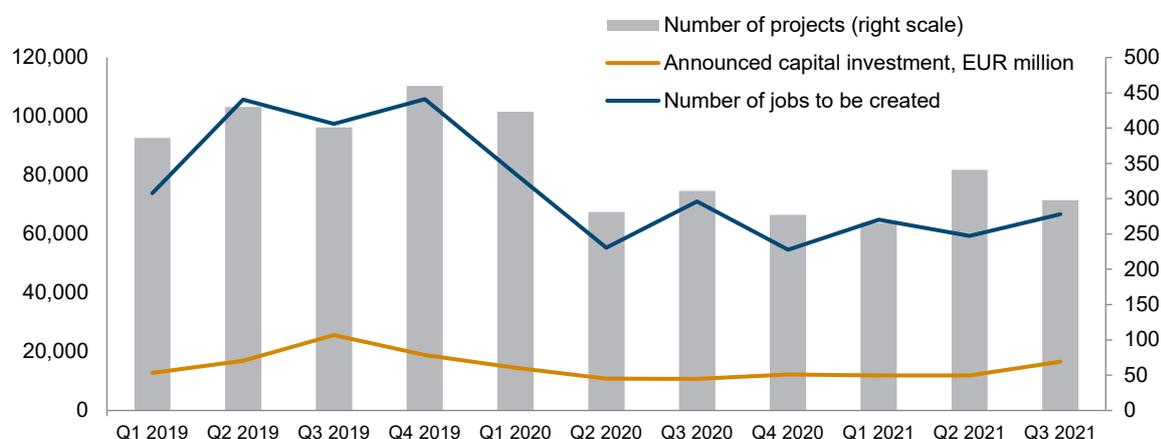
## MODEST RECOVERY IN GREENFIELD INVESTMENTS

Data on greenfield investment commitments for the first three quarters of 2019, 2020 and 2021 suggest that they followed a cycle similar to FDI inflows in the first two quarters of the same years (Figure 4). The setback in 2020 was mainly due to Russia. The similar recovery in the two indicators in 2021 suggests that not only have investors increased their actual investments abroad, but they have also pledged elevated amounts for the future. One important difference, however, is that the resurgence of greenfield investment commitments has been less robust than that of FDI inflows. Another difference is that the recovery in greenfield investment has not reached the Western Balkans, the CIS and Ukraine.

**Figure 4 / Pledged greenfield investment capital and FDI inflows, EUR billion**

Note: CIS3 includes Belarus, Kazakhstan and Moldova.

Source: fDi Markets for pledged greenfield investment capital; wiiw FDI Database for FDI inflow, based on Direct Investment statistics (BOP for Kosovo and Turkey) of the respective central banks; wiiw estimates for Czechia, Poland, Slovakia and Belarus; wiiw calculations.

**Figure 5 / Greenfield FDI projects in CESEE, Q1 2019-Q3 2021**

Source: fDi Markets.

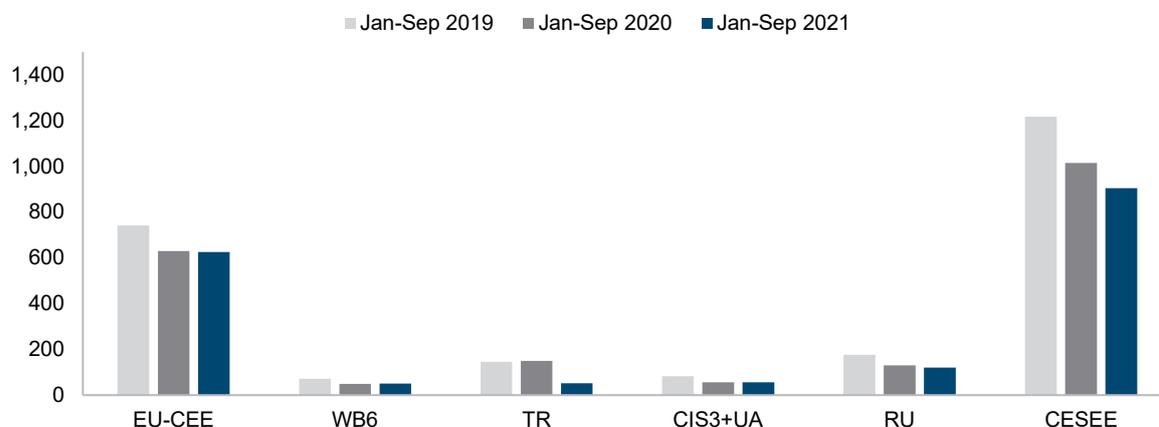
**Table 1 / Changes in greenfield FDI in CESEE through the business cycle**

	Q2 2019- Q1 2020	Q2 2020- Q1 2021	Change in %	Q2-Q3 2019	Q2-Q3 2020	Q2-Q3 2021	Change Q2-Q3 2019 to 2020 in %	Change Q2-Q3 2020 to 2021 in %
Number of projects	1,714	1,135	-33.8	831	592	639	-28.8	7.9
Capital investment, EUR million	75,949	45,645	-39.9	42,541	21,505	28,544	-49.4	32.7
Job creation	389,424	245,905	-36.9	203,175	126,348	126,105	-37.8	-0.2

Source: fDi Markets, wiiw calculations.

Quarterly data for greenfield FDI in CESEE reveal the details of the COVID-related cycle (Figure 5 and Table 1). Investor activity was buoyant in the 12 months between Q2 2019 and Q1 2020, but fell off in the next four quarters, between Q2 2020 and Q1 2021. This was followed by a modest recovery, confined to the second and third quarters of 2021. During the downturn in the investment cycle, the number of greenfield projects fell by a third, the pledged capital investment by 40% and the announced job creation by a similar figure (37%). The recovery in the middle of 2021 was very modest: the number of projects increased by only 8%, while the employment commitment stagnated. The attitude of investors thus remained cautious. However, the value of pledged capital jumped by a third (due solely to projects in Russia).

As was shown in Figure 4, pledged greenfield investment capital underwent a boom-bust-boom cycle. The same comparison over time reveals a diminishing number of projects: 1,217, 1,015 and 905, respectively. In the largest recipient countries of Poland, Turkey and Russia, investors announced fewer projects in Q1-Q3 2021 than before (Figure 6). However, investors' interest recovered in some other important destinations, such as Czechia, Hungary and Romania.

**Figure 6 / Number of greenfield projects announced, by country group**

Source: fDi Markets.

## FDI RETURNS TO MANUFACTURING, STAYS BUOYANT IN BUSINESS SERVICES

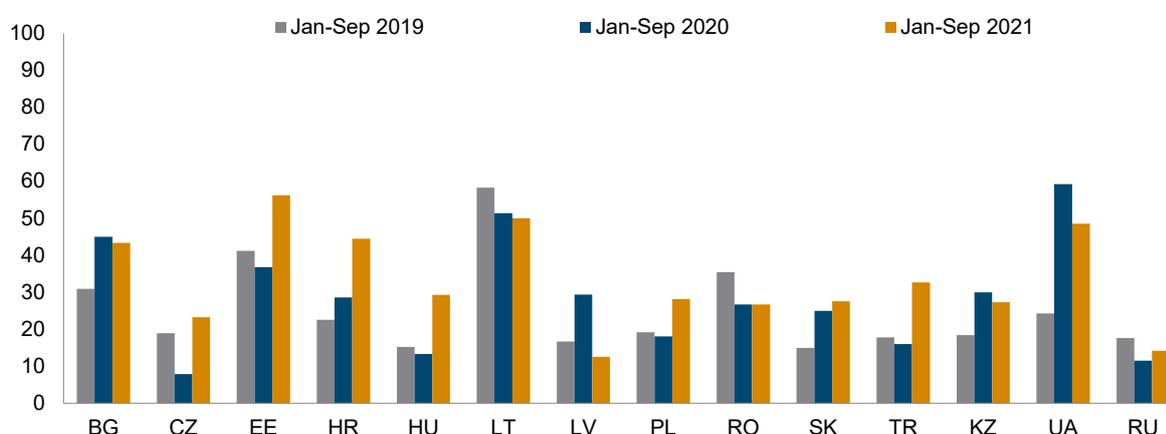
FDI inflows have undergone important structural changes under the impact of lockdowns and supply-chain disruptions. For the time being, FDI data by sector for 2020 are available for only 15 CESEE economies. Of those, 12 show a steep FDI decline in the manufacturing sector, including the main recipients of Czechia, Poland, Russia and Kazakhstan; Hungary reported a small decline. The accommodation and food services sector was also hit hard, while trade and financial services recorded more modest declines. A clear winner was the sector that includes IT services. But that sector's boom was confined to six countries: Bulgaria, Estonia, Hungary, Lithuania, Poland and Russia. In addition, the information and communication sector attracted growing FDI to Albania, Croatia and Ukraine. Professional, scientific and technical activities, plus information and communication, together make up the ICT sector, which became an engine of growth under the pandemic conditions.

In terms of the sectors involved, the change in greenfield investment was similar to the change in FDI inflows in 2020, although more recent data for Q1-Q3 2021 indicate some recovery in crisis-hit sectors.<sup>4</sup> In EU-CEE, the manufacturing sector (which was barely able to attract any greenfield projects in 2020) enjoyed an upward correction in 2021 that was very marked in terms of pledged capital investment, though smaller in terms of the number of projects. In the other CESEE regions, however, the manufacturing sector commitments did not recover (except in Turkey). The construction sector, which had previously been doing well, received smaller greenfield investments than before. Logistics emerged as a winner from the COVID-related restructuring in EU-CEE, the Western Balkans and Russia. But the most striking novelty was the increased commitment to ICT investments in terms of both the number of projects and the pledged capital. This refers mainly to EU-CEE and Ukraine. In this context, tracking the changes in the number of projects is important, because that indicator is not biased towards capital-intensive industries.

<sup>4</sup> We use activities rather than sectors, because this expresses more exactly what a subsidiary is doing. A manufacturing-sector company may have activities in ICT or R&D, for example.

Considering the relevant activities, we find an increased share of producer-related business services (Figure 7). The number of such projects and the capital commitment to them have both been rising over several years, and the pandemic provided an additional fillip. The main beneficiaries are Estonia, Latvia and Ukraine, which are particularly attractive to services investments, on account of their abundant skilled labour force or their innovative environment. The number of new projects in business services has remained high in Bulgaria and Lithuania, although a recovery of investment in other activities has resulted in a declining share for business services. The share of such services is rising from a lower base in Czechia, Hungary and Poland, which have traditionally specialised mainly in manufacturing.

**Figure 7 / Share of producer-related business services in the number of greenfield projects in larger destinations, in %**



Note: producer-related services include business services, customer contact centres, education and training, ICT and internet infrastructure, research and development.

Source: fDi Markets.

## CAUTIOUSLY POSITIVE OUTLOOK WITH MARKED DOWNWARD RISKS

Expectations with regard to FDI inflows into CESEE in the short term are cautiously positive, albeit with marked downward risks. Economic growth forecasts for the region for the next few years are generally positive, and this should serve to attract more foreign investment. But investor confidence remains volatile. Natural gas prices in Europe have surged, and supply chains have suffered on account of disruptions between continents. Most countries in CESEE have been hit by these problems (although oil and gas producers in the CIS are bound to benefit from high energy prices). Moreover, in Q4 2021, CESEE has become a pandemic hotspot, which has already triggered renewed lockdowns in some countries.

On the other hand, supply-chain restructuring in response to the current problems may benefit CESEE destinations through re-shoring and near-shoring. Some countries in the Western Balkans have already started to profit from this (see the article by B. Jovanović 'Are we already seeing some near-shoring to the Western Balkans?' in this report). In general, investment in technological upgrading, greening and automation will need a boost in the CESEE region. It will be a challenge for many host country governments to provide the necessary skilled labour, R&D and infrastructure for this – notwithstanding the expected large inflows of funds from the EU Recovery and Resilience Facility into EU-CEE countries.

# Are we already seeing some near-shoring to the Western Balkans?

BY BRANIMIR JOVANOVIĆ

*Inflows of foreign direct investment to the Western Balkans grew by 20% year on year in the first half of 2021, exceeding the level of two years ago. Most of this increase was investment that was postponed during the early stages of the pandemic, but part of it may also be attributable to post-pandemic near-shoring, especially in Bosnia and Herzegovina, Montenegro and Kosovo.*

## INTRODUCTION

One of the defining features of the world economy over recent decades was the process of globalisation of production. Multinational companies engaged in off-shoring, i.e. moving their production to low-cost countries, mainly in Asia, in an effort to minimise production costs. Additionally, production processes were organised in a just-in-time manner, so that inventories were kept to a minimum, again reducing costs.

Several factors contributed to this trend. Transportation costs saw a significant decline during those years, thanks to the emergence of the container ship. Global trade went through a process of liberalisation, due to the establishment of the World Trade Organization. But perhaps most important of all was that, with the Open Door Policy of Den Xiaoping, from 1978 China started to open up to the world economy.

The Global Financial Crisis of 2007-2008 slowed these trends. Global trade, investment and financial flows declined markedly due to the crisis; and although they picked up afterwards, they never quite reached the pre-crisis levels. One possible explanation for the change is that the benefits of the previous model had already been reaped, in the sense that labour costs in China and the rest of Asia had started rising and transportation costs had stopped falling. In addition, the world saw a return to protectionism, with rising geo-political tensions between China and the US. The Economist dubbed this process 'slowbalisation', and increasingly economists started talking about new trends, such as re-shoring and near-shoring.

The COVID-19 pandemic challenged things further. At the onset of the pandemic, global supply chains virtually disintegrated, due to the border closures, lockdowns and the spread of the coronavirus. Although the closures and the global lockdown did not last long, the problems in the supply chains persisted and many companies continued to face problems with these.

In our previous study 'Getting Stronger after COVID-19: Nearshoring Potential in the Western Balkans',<sup>1</sup> we tried to assess whether near-shoring was likely to increase after the pandemic; whether the Western Balkan economies could benefit from this; and what they should do in order to get the most out of these

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<sup>1</sup> Branimir Jovanović, Mahdi Ghodsi, Olga van Zijverden, Sophia, Kluge, Martin Gaber, Ravik Mima, Belma Hasić, Ognjenka Lalović, Muela Ibrahim, Antoaneta Manova Stavreska, Sanja Nikolova, Balša Čulafić, Jelena Vasić and Marko Mandić (2021), "Getting Stronger After COVID-19: Nearshoring Potential in the Western Balkans", wiiw Research Report 453, May 2021, available at: <https://wiiw.ac.at/getting-stronger-after-covid-19-nearshoring-potential-in-the-western-balkans-p-5814.html>

developments. Our conclusion was that the Western Balkans may indeed benefit from possible near-shoring trends in the coming period; but that if they were to make the most of these trends, they would have to address their weaknesses.

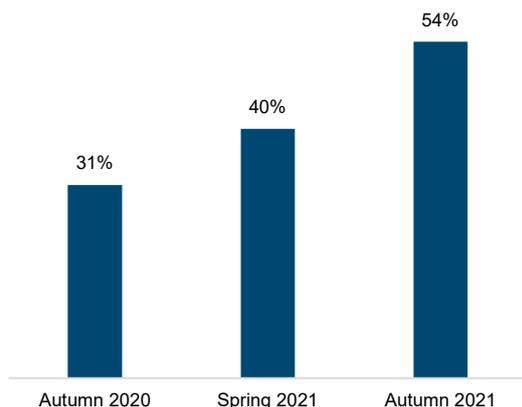
In this article, we want to provide an update to the situation, 6 months on. We want to assess whether things have changed in the global economy over the past half year, and whether the Western Balkan economies might already be benefiting from near-shoring trends.

## SUPPLY-CHAIN PROBLEMS CONTINUE AND EXAMPLES OF NEAR-SHORING ARE EMERGING

Back in spring 2021, when our near-shoring study was published, many European companies were facing major issues with their supply chains. According to the AHK World Business Outlook survey, which covers around 3,000 German companies with international operations, some 40% of those companies had problems with their supply chains. This was a 31% increase over the autumn 2020 figure.

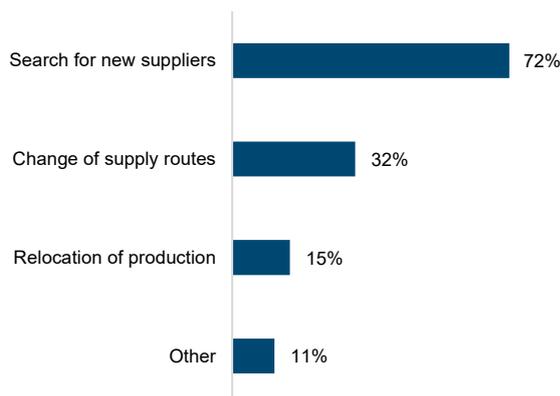
Now, in autumn 2021, the percentage of German companies that are facing problems with their supply chains has increased further, to 54% (Figure 1).<sup>2</sup> Of the companies with problems, 72% are looking for new suppliers, while 15% are thinking of relocating production (Figure 2). Thus, one may conclude that, far from easing over the past 6 months, supply-chain problems have actually intensified.

**Figure 1 / Percentage of German companies facing problems with their supply chains**



Source: AHK World Business Outlook surveys.

**Figure 2 / What sort of changes are companies affected by supply-chain problems considering (autumn 2021)?**



Source: AHK World Business Outlook surveys.

<sup>2</sup> 'AHK World Business Outlook: Fall 2021', available at: <https://www.dihk.de/resource/blob/60768/6e483cf4171fb06cf7d47516a48064e1/ahk-world-business-outlook-autumn-2021-data.pdf>

Perhaps not surprisingly, there have been some concrete instances of companies relocating their production from Asia to places closer to Western Europe. Probably the biggest company is the Swedish IKEA, which has decided to move part of its production from East Asia to Turkey, due to the shipping problems it is facing.<sup>3</sup> Italian Benetton has also decided to move production closer to home, increasing investment in Serbia, Croatia, Turkey, Tunisia and Egypt, while aiming to halve its production in Asia by the end of 2022. It cites two main reasons for the move: the high transport costs and the desire to have greater control over its production process.<sup>4</sup> Rubber clogs producer Crocs has said that it is relocating production from Vietnam to Bosnia and Herzegovina, China and Indonesia<sup>5</sup>, while Mango has stated that it is increasing production in countries such as Turkey, Morocco and Portugal.<sup>6</sup>

But cases of near-shoring and re-shoring were not unknown even prior to the pandemic. Nassimbeni et al. (2019) identified 253 such cases in Europe between 2014 and 2018.<sup>7</sup> De Backer et al. (2016) found that about 2% of all German manufacturing companies, and 4% of European companies, had been active in re-shoring or near-shoring between 2010 and 2012.<sup>8</sup> Perhaps a better way of assessing whether some near-shoring trends are emerging is to look at official foreign direct investment (FDI) data.

## STRONG FDI GROWTH IN THE WESTERN BALKANS IN 2021

In order to get a better idea of whether there are any indications of near-shoring to the Western Balkans, we take official FDI data for the six Western Balkan economies for the first half of 2021, and compare these to the dynamics from previous years.

The Western Balkan region emerged as the new top destination for FDI in CESEE in the years preceding the pandemic. In 2019, it attracted FDI to the tune of 6.2% of its GDP, which was more than any other CESEE region. Only the Baltic countries came close (with 5.8%), while the other parts of CESEE were below 3% of GDP (Figure 3).

The COVID-19 pandemic saw a decline in FDI inflows to the Western Balkan region, though they remained fairly strong. In nominal terms, FDI inflows in 2020 fell to EUR 5.4bn – 15% down on the EUR 6.3bn seen in 2019, but still a fairly high 5.4% of GDP. After this decline, the first half of 2021 saw a

<sup>3</sup> Ceyda Caglayan (2021), 'IKEA to shift more production to Turkey to shorten supply chain', Reuters, 6 October 2021, available at: <https://www.reuters.com/business/retail-consumer/ikea-shift-more-production-turkey-shorten-supply-chain-2021-10-06/>

<sup>4</sup> Elisa Anzolin and Silvia Aloisi (2021), 'How global supply chains are falling out of fashion', Reuters, 30 September 2021, available at: <https://www.reuters.com/business/retail-consumer/how-global-supply-chains-are-falling-out-fashion-2021-09-30/>

<sup>5</sup> Reuters (2021), "Footwear maker Crocs plans to outrun supply chain woes; shares jump", Reuters, October 21, 2021, available at: <https://www.reuters.com/business/retail-consumer/footwear-maker-crocs-plans-outrun-supply-chain-woes-shares-jump-2021-10-21/>

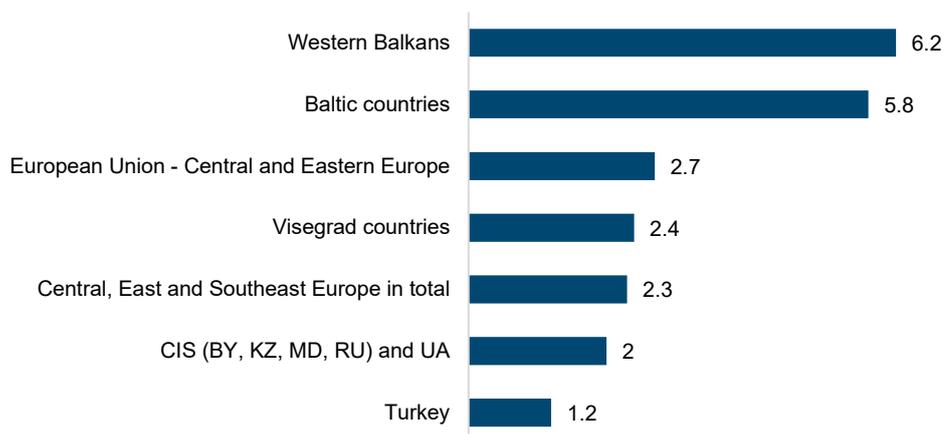
<sup>6</sup> Siddharth Cavale and Corina Pons (2021), 'Retailers lose love for Asia: Snarled supply chains force manufacturing exodus to Balkans, LatAm (Nov. 9)', Reuters, 14 November 2021, available at: <https://www.reuters.com/business/retail-consumer/retailers-lose-love-asia-snarled-supply-chains-force-manufacturing-exodus-2021-11-09/>

<sup>7</sup> Guido Nassimbeni, Marco Sartor, Li Wan, Alessandro Ancarani, Carmela Di Mauro, Francesco Mascali, Paolo Barbieri, Cristina Di Stefano, Luciano Fratocchi, Lelio Iapadre and Guido Orzes (2019), 'Reshoring in Europe: Overview 2015–2018', Eurofound, available at: <https://www.eurofound.europa.eu/publications/report/2019/reshoring-in-europe-overview-2015-2018>

<sup>8</sup> Koen De Backer, Carlo Menon, Isabelle Desnoyers-James and Laurent Moussié (2016), 'Reshoring: Myth or reality?', OECD, available at: [https://www.oecd-ilibrary.org/science-and-technology/reshoring-myth-or-reality\\_5jm56frbm38s-en](https://www.oecd-ilibrary.org/science-and-technology/reshoring-myth-or-reality_5jm56frbm38s-en)

strong rebound: FDI inflows reached EUR 3.3bn in the first six months of 2021 – 20% up on the level in the first half of 2020.

**Figure 3 / FDI inflows in 2019 (percentage of GDP)**



Source: wiiw CESEE Visual Data Explorer.

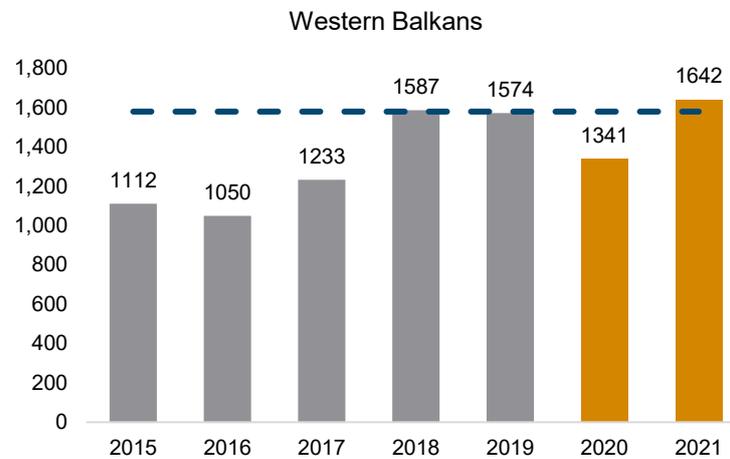
But how much of this strong growth is making up for the big decline since 2019, and how much is a sign of near-shoring to the region?

To assess this, we adopt a simple, but intuitive approach. We estimate hypothetical FDI levels for 2020 and 2021, as if the pandemic had not occurred, and compare these levels to the actual levels of FDI in 2020 and 2021. For simplicity's sake, to make the hypothetical estimates we take the average for the previous two years of 2018 and 2019.<sup>9</sup> If the actual increase in FDI in 2021 exceeds the decline in 2020, we consider that to be an indication of possible near-shoring.

Figure 4 presents this for the whole Western Balkan region. One can see that quarterly FDI inflows in the two years prior to the pandemic were stable, averaging EUR 1,581m. This leads us to conclude that, had there been no pandemic, FDI inflows in 2020 and 2021 would again have been somewhere close to that level.

Actual quarterly FDI in 2020 amounted on average to EUR 1,341m, which was EUR 240m short of the baseline estimate. Then, in the first two quarters of 2021, FDI inflows averaged EUR 1,642m, or EUR 61m above the pre-pandemic level. Thus, FDI inflows in the Western Balkans in 2021 have indeed been higher than they would have been without the pandemic, possibly suggesting a degree of near-shoring. However, the increase is smaller than the drop seen in 2020, and is thus probably mainly due to a resumption of the investment projects postponed in 2020, rather than to near-shoring trends.

<sup>9</sup> Results remain qualitatively the same if the estimates are done using linear trends.

**Figure 4 / Average quarterly FDI inflows in the whole Western Balkan region (EUR m)**

Notes: Data for 2021 refer to the first 6 months. The dashed line is the average for 2018-2019.  
Source: wiiw FDI database.

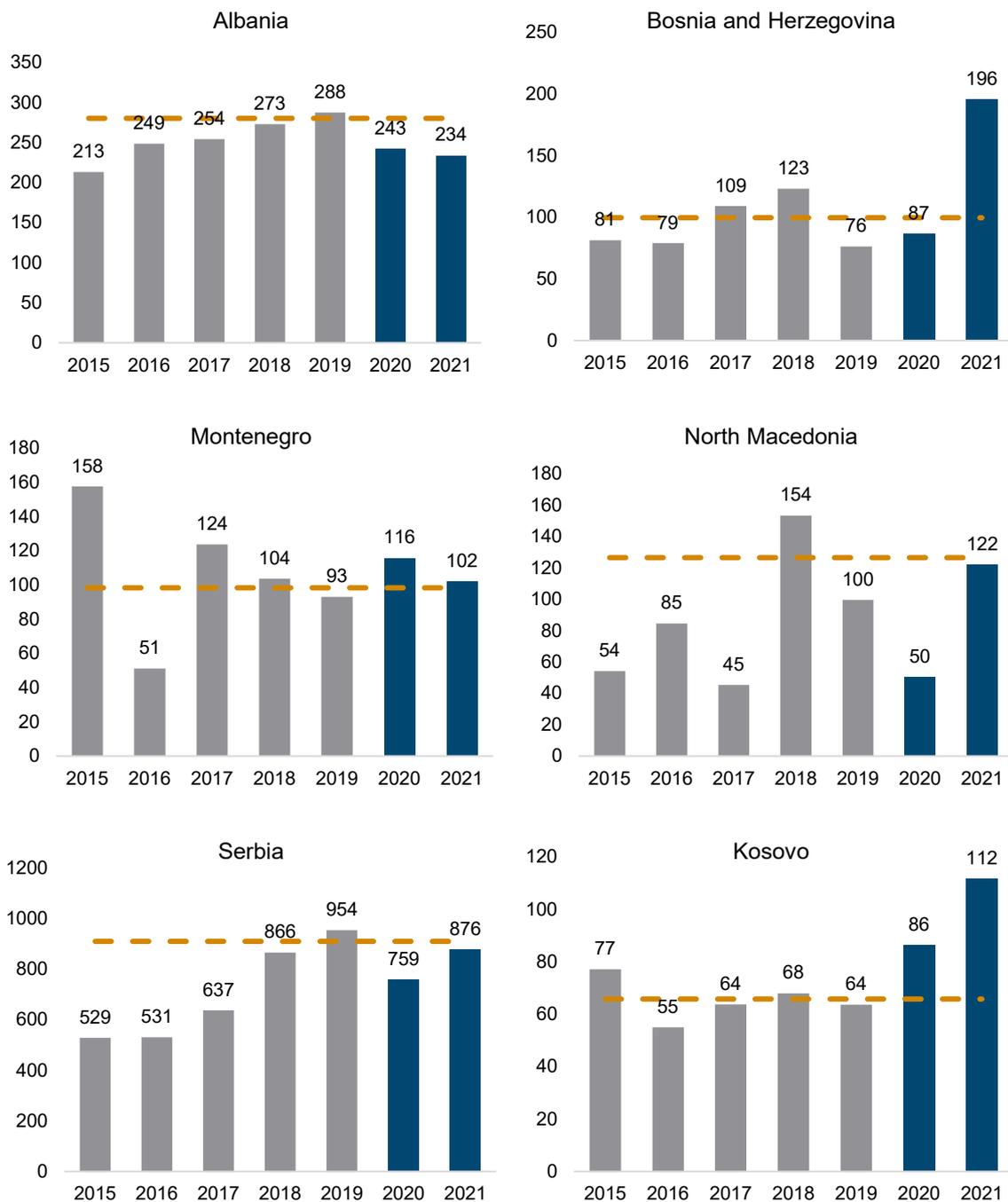
## INTERESTING DIFFERENCES BETWEEN INDIVIDUAL WESTERN BALKAN ECONOMIES

There are some interesting differences to be spotted when one looks at the individual Western Balkan economies (Figure 5). To begin with, Albania, which was performing very solidly prior to the pandemic in terms of attracting FDI, is now experiencing a clear slowdown in FDI. The situation is very similar in Serbia and North Macedonia, meaning that their FDI inflows in 2021 are still below the levels they might have expected to receive before the pandemic struck. Thus, there are no indications of possible near-shoring trends in those three countries.

Bosnia and Herzegovina is obviously different. FDI inflows there in 2020 were lower than the pre-pandemic expectation (by some EUR 13m per quarter, on average); but then, in 2021, they bounced back strongly to exceed the pre-pandemic expectation by EUR 96m per quarter. Thus, one might say that FDI in Bosnia and Herzegovina has recovered fully from the pandemic, and there might even be some indications of possible near-shoring trends there.

Montenegro and Kosovo are even more surprising, in that FDI there seems not to have been affected by the pandemic at all. FDI inflows in 2020 in both economies were markedly higher than might have been expected on the basis of previous years – some EUR 18m per quarter higher in Montenegro and EUR 20m in Kosovo. They were again above the pre-pandemic expectation in 2021 – by EUR 4m in Montenegro and EUR 46m in Kosovo (per quarter). Thus, the rise in FDI in these two economies may indeed be driven by near-shoring.

**Figure 5 / Average quarterly FDI inflows in the individual Western Balkan economies (EUR m)**



Notes: Data for 2021 refer to the first 6 months. The dashed line is the average for 2018-2019.  
Source: wiiw FDI database.

## CONCLUSION

A year and a half after the emergence of the COVID-19 pandemic, the problems surrounding global supply chains are even worse than a year ago. More than half of German companies with international operations are facing problems with their supply chains, and many of them are thinking about relocating their production. There have been specific instances of big multinational companies moving production to new places, implying that near-shoring trends might be stirring globally. Looking at official FDI data, one cannot yet conclude that near-shoring to the Western Balkans is taking place on a grand scale. The FDI inflows into the region in the first half of 2021 were indeed very strong, but that was mainly due to the resumption of investments postponed from 2020. Still, there are some indications of possible near-shoring trends in Bosnia and Herzegovina, Montenegro and Kosovo.

# Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **22 countries** of the CESEE region. The graphical form of presenting statistical data is intended to facilitate the **analysis of short-term macroeconomic developments**. The set of indicators captures trends in the real and monetary sectors of the economy, in the labour market, as well as in the financial and external sectors.

Baseline data and a variety of other monthly and quarterly statistics, **country-specific** definitions of indicators and **methodological information** on particular time series are **available in the wiiw Monthly Database** under: <https://data.wiiw.ac.at/monthly-database.html>. Users regularly interested in a certain set of indicators may create a personalised query which can then be quickly downloaded for updates each month.

## Conventional signs and abbreviations used

%	per cent
ER	exchange rate
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices (for new EU member states)
LFS	Labour Force Survey
NPISHs	Non-profit institutions serving households
p.a.	per annum
PPI	Producer Price Index
reg.	registered
y-o-y	year on year

The following national currencies are used:

ALL	Albanian lek	HRK	Croatian kuna	RON	Romanian leu
BAM	Bosnian convertible mark	HUF	Hungarian forint	RSD	Serbian dinar
BGN	Bulgarian lev	KZT	Kazakh tenge	RUB	Russian rouble
BYN	Belarusian rouble	MKD	Macedonian denar	TRY	Turkish lira
CZK	Czech koruna	PLN	Polish zloty	UAH	Ukrainian hryvnia

EUR euro – national currency for Montenegro, Kosovo and for the euro-area countries Estonia (from January 2011, euro-fixed before), Latvia (from January 2014, euro-fixed before), Lithuania (from January 2015, euro-fixed before), Slovakia (from January 2009, euro-fixed before) and Slovenia (from January 2007, euro-fixed before).

Sources of statistical data: Eurostat, National Statistical Offices, Central Banks and Public Employment Services; wiiw estimates.

### Online database access



**wiiw Annual Database**



**wiiw Monthly Database**



**wiiw FDI Database**

The wiiw databases are accessible via a simple web interface, with only one password needed to access all databases (and all wiiw publications).

You may access the databases here: <https://data.wiiw.ac.at>.

If you have not yet registered, you can do so here: <https://wiiw.ac.at/register.html>.

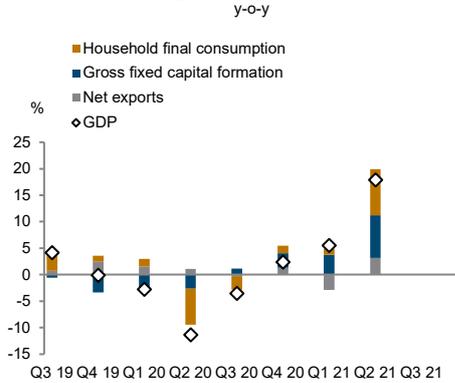
### Service package available

We offer an additional service package that allows you to access all databases – a wiiw Membership, at a price of € 2,300. Your usual package will, of course, remain available as well.

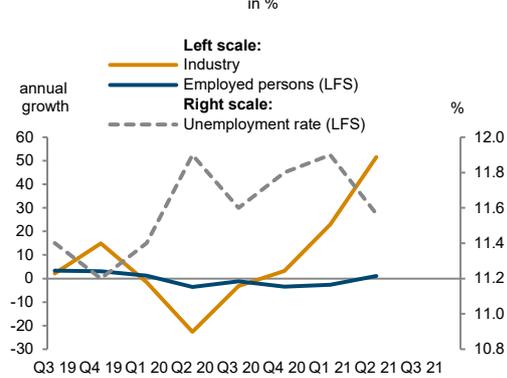
For more information on database access for Members and on Membership conditions, please contact Ms. Barbara Pill ([pill@wiiw.ac.at](mailto:pill@wiiw.ac.at)), phone: (+43-1) 533 66 10.

# Albania

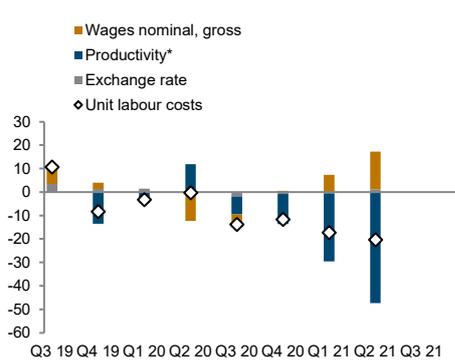
**Real GDP growth and contributions**



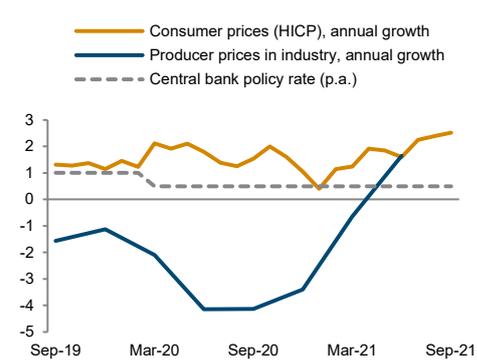
**Real sector development**



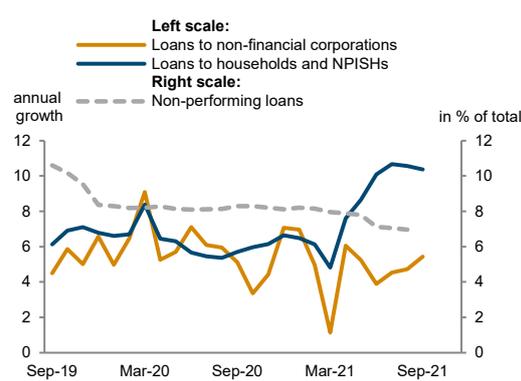
**Unit labour costs in industry**



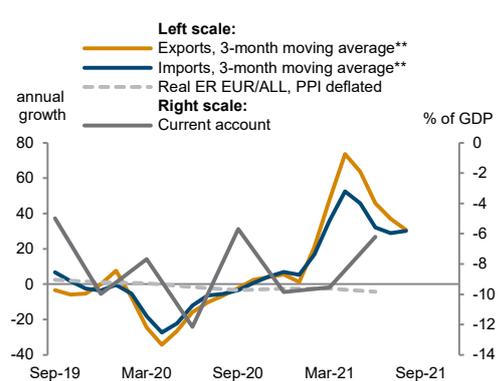
**Inflation and policy rate**



**Financial indicators**



**External sector development**



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

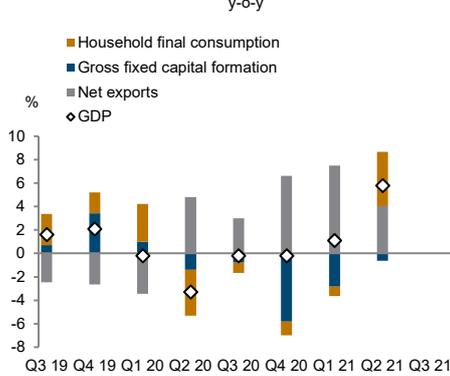
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

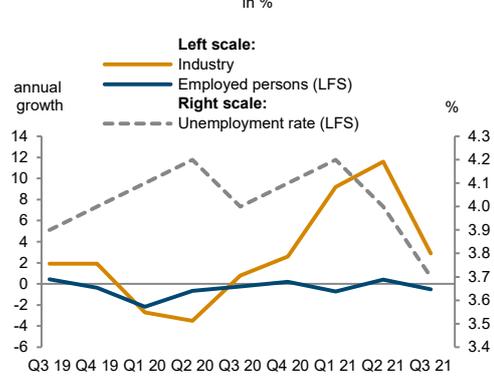
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# Belarus

**Real GDP growth and contributions**



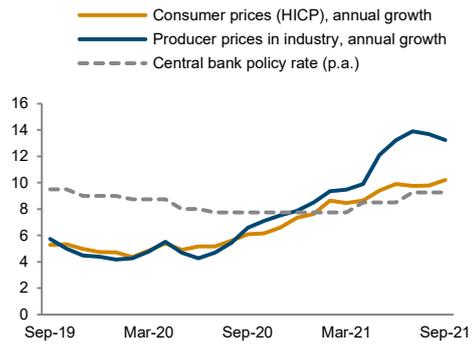
**Real sector development**



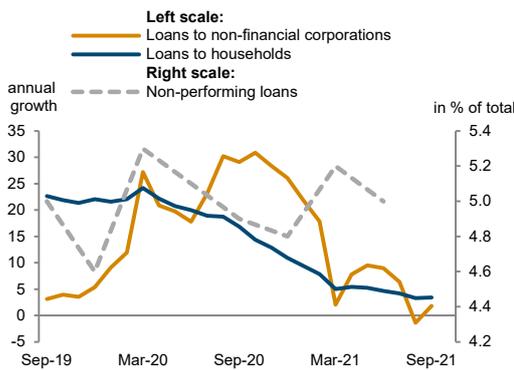
**Unit labour costs in industry**



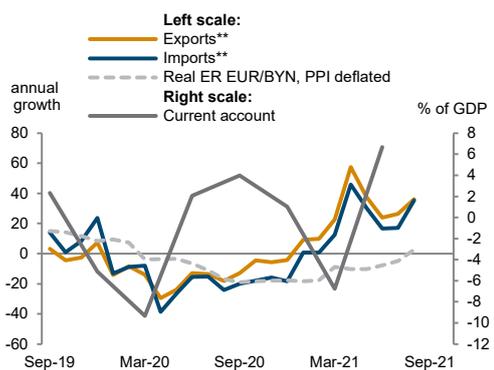
**Inflation and policy rate**



**Financial indicators**



**External sector development**

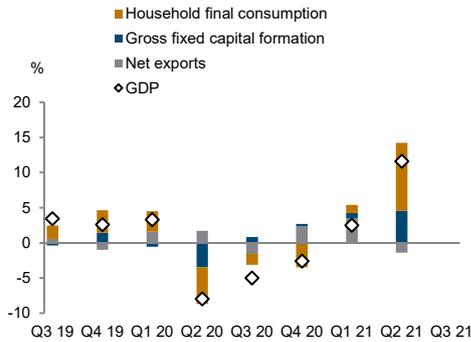


\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
 \*\*EUR based.

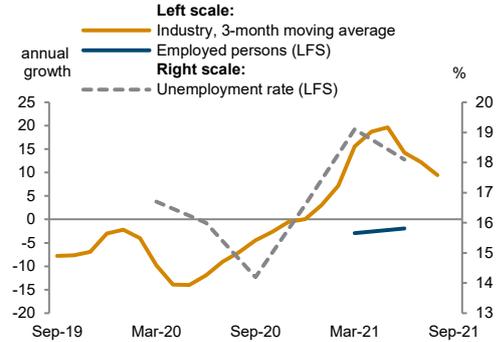
Source: wiiw Monthly Database incorporating Eurostat and national statistics.  
 Baseline data, country-specific definitions and methodological breaks in time series are available under:  
<https://data.wiiw.ac.at/monthly-database.html>

# Bosnia and Herzegovina

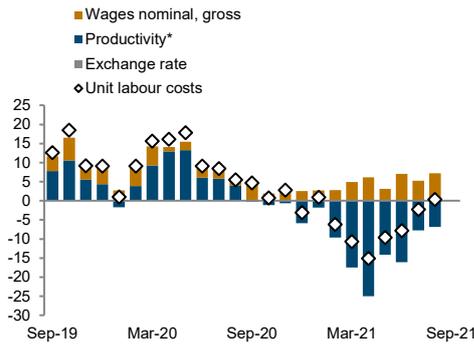
**Real GDP growth and contributions**  
y-o-y



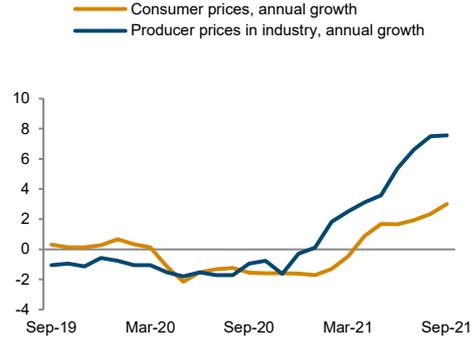
**Real sector development**  
in %



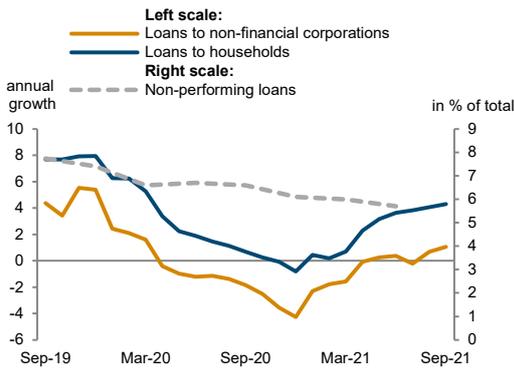
**Unit labour costs in industry**  
annual growth rate in %



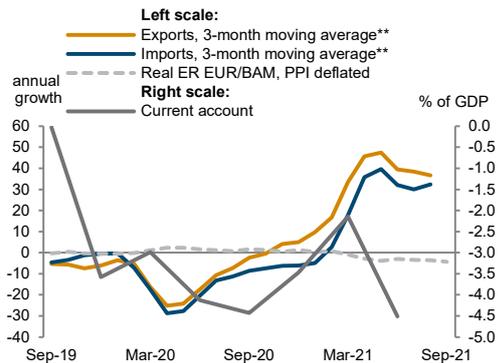
**Inflation**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

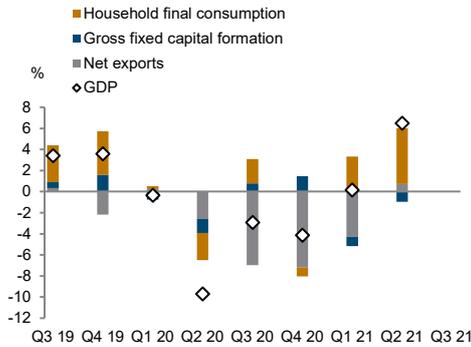
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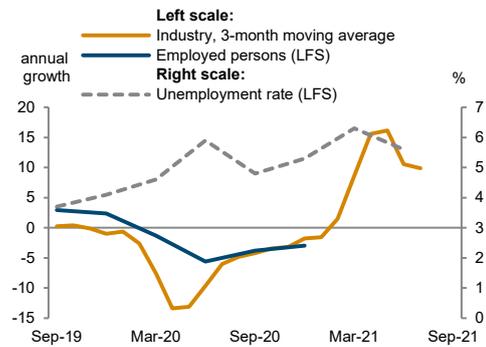
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# Bulgaria

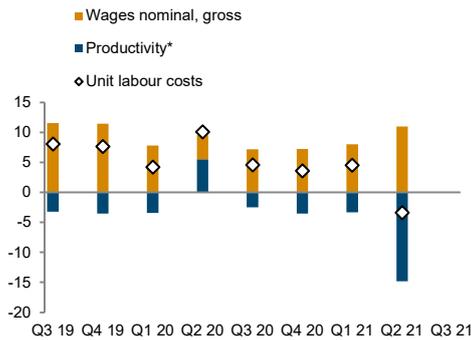
**Real GDP growth and contributions**  
y-o-y



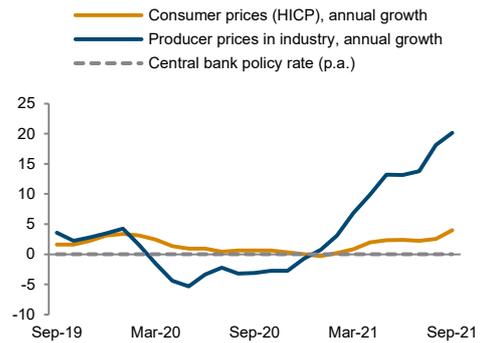
**Real sector development**  
in %



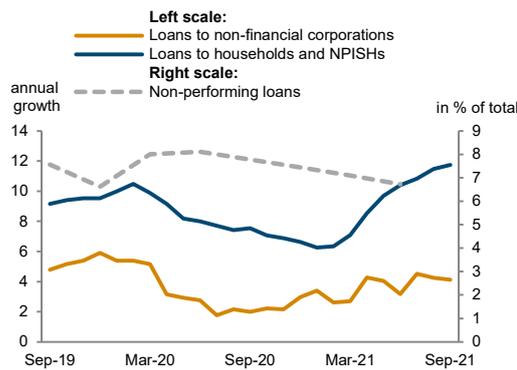
**Unit labour costs in industry**  
annual growth rate in %



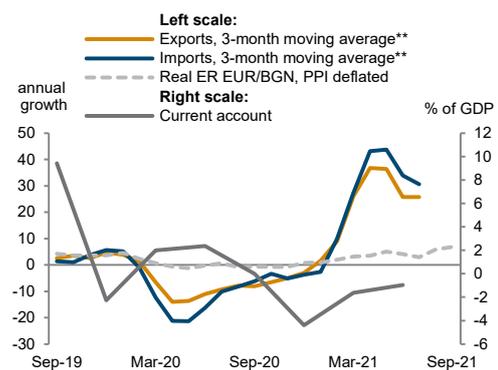
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %

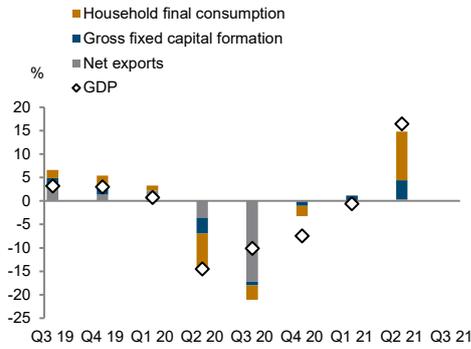


\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
\*\*EUR based.

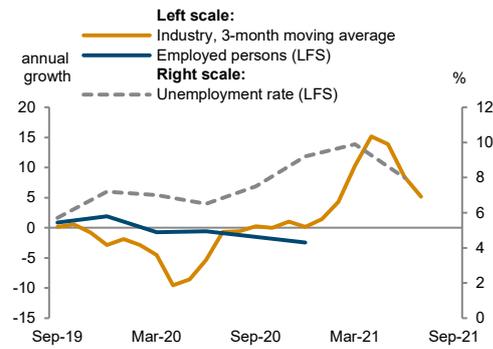
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# Croatia

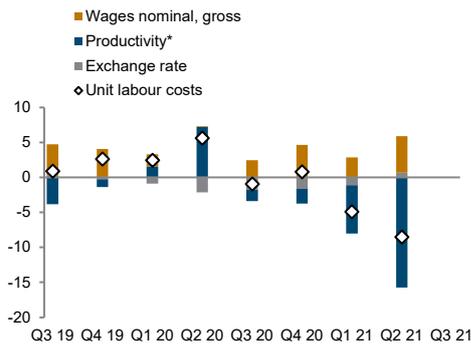
**Real GDP growth and contributions**  
y-o-y



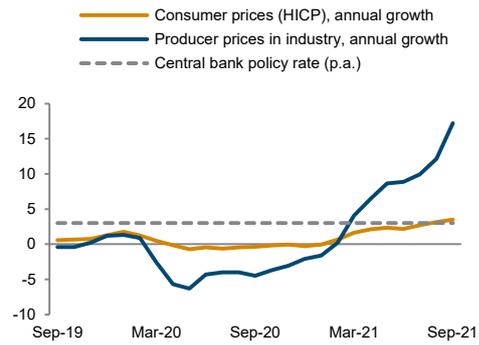
**Real sector development**  
in %



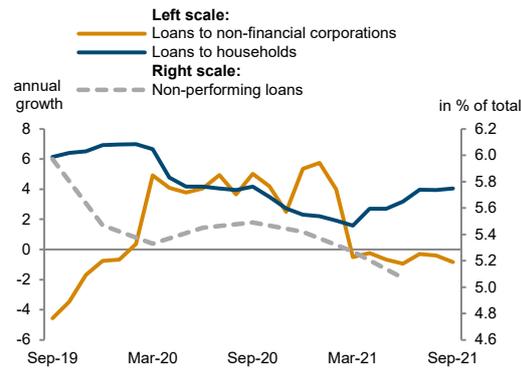
**Unit labour costs in industry**  
annual growth rate in %



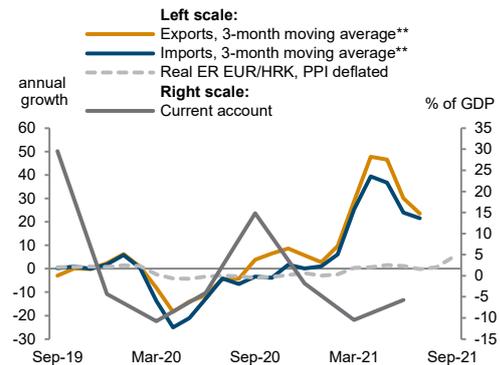
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
\*\*EUR based.

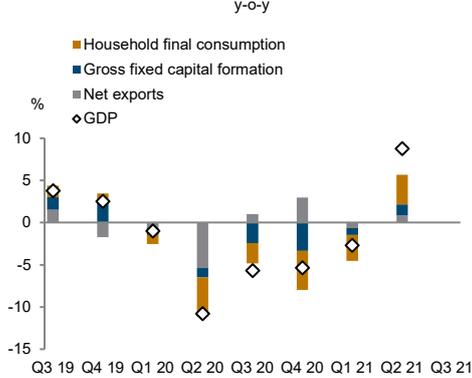
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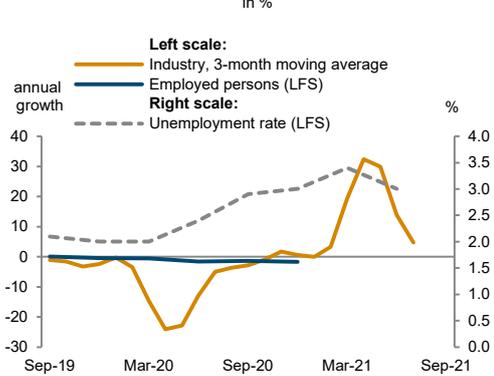
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# Czechia

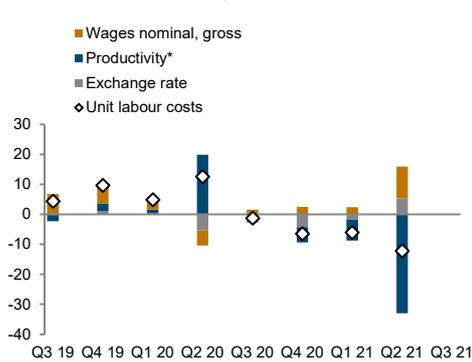
### Real GDP growth and contributions



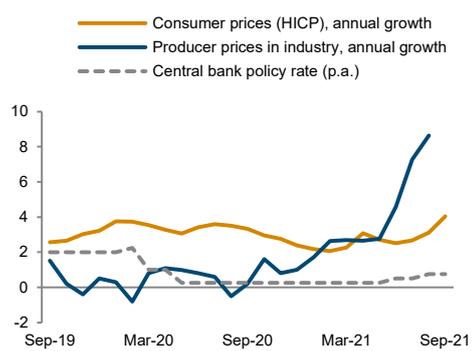
### Real sector development



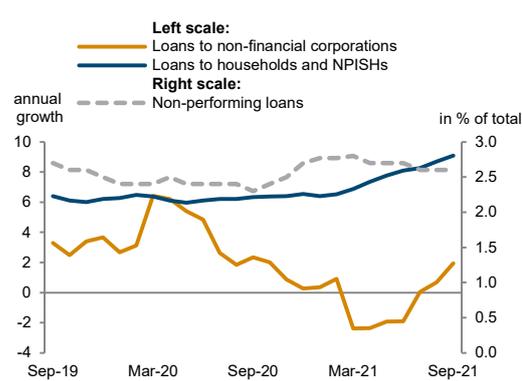
### Unit labour costs in industry



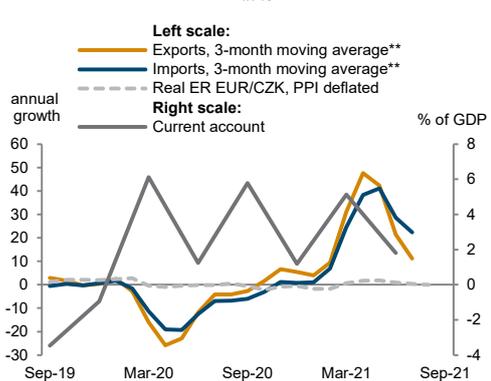
### Inflation and policy rate



### Financial indicators



### External sector development



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

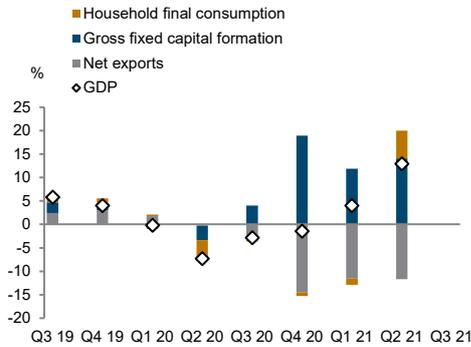
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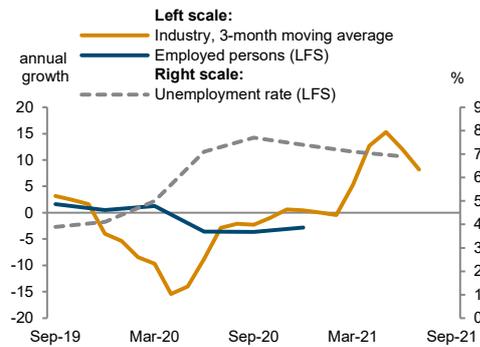
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# Estonia

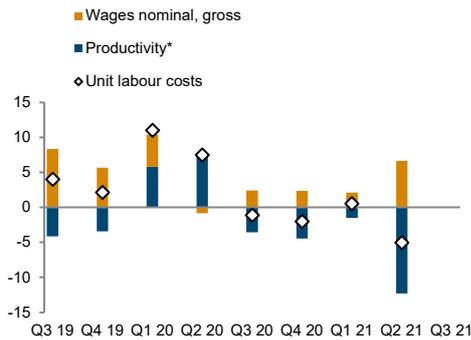
**Real GDP growth and contributions**  
y-o-y



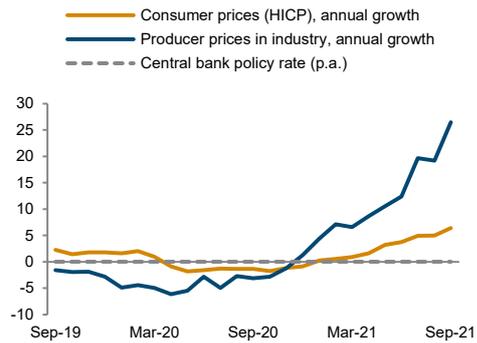
**Real sector development**  
in %



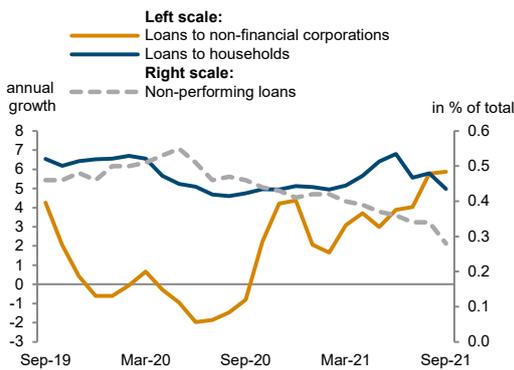
**Unit labour costs in industry**  
annual growth rate in %



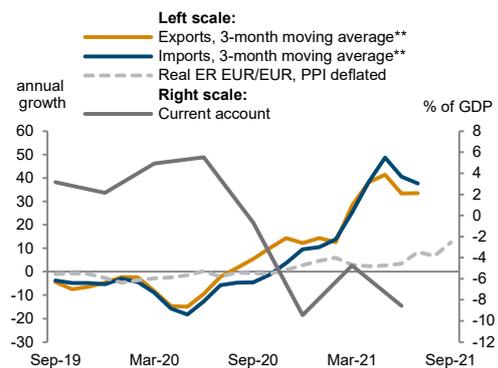
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

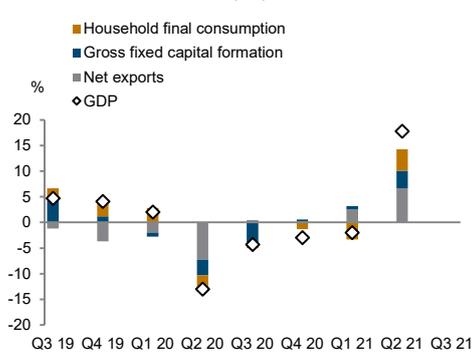
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

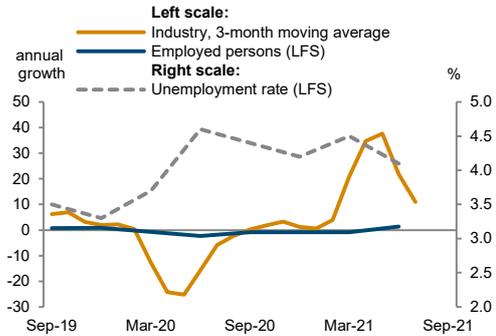
<https://data.wiiw.ac.at/monthly-database.html>

# Hungary

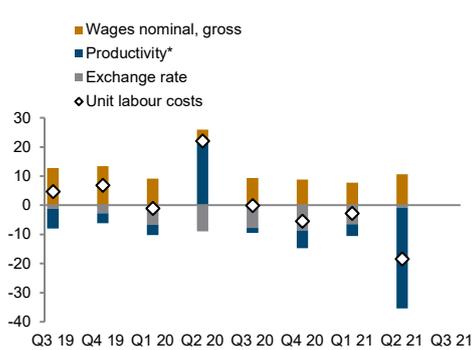
### Real GDP growth and contributions



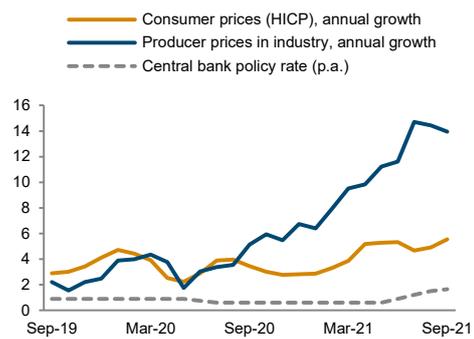
### Real sector development



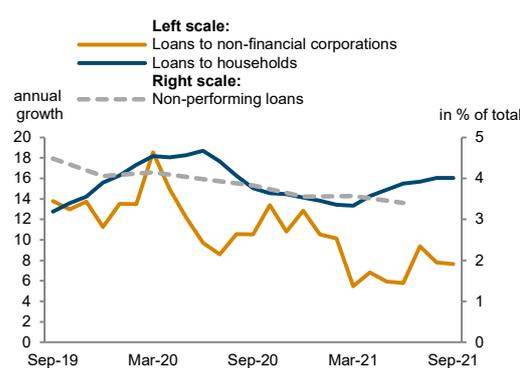
### Unit labour costs in industry



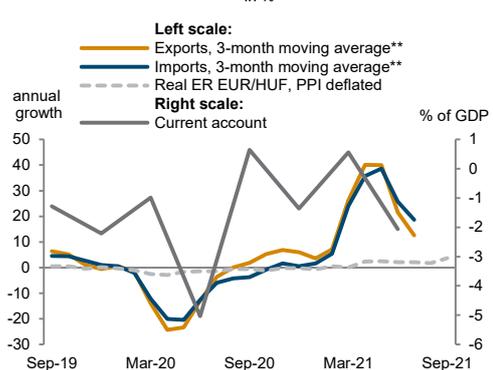
### Inflation and policy rate



### Financial indicators



### External sector development



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

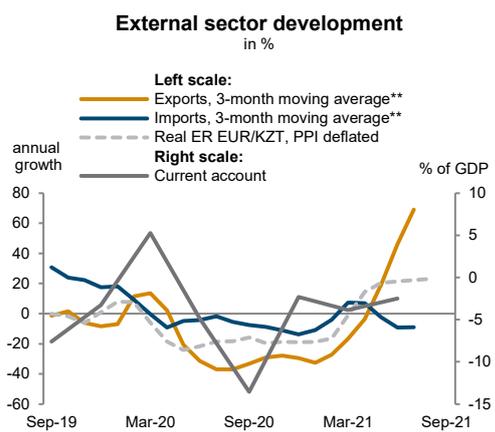
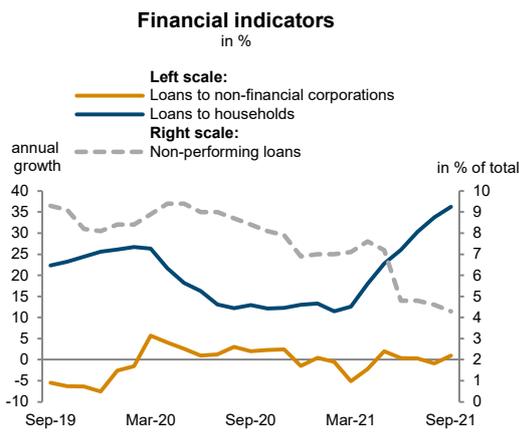
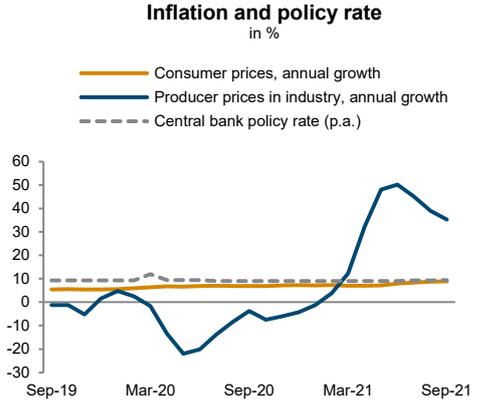
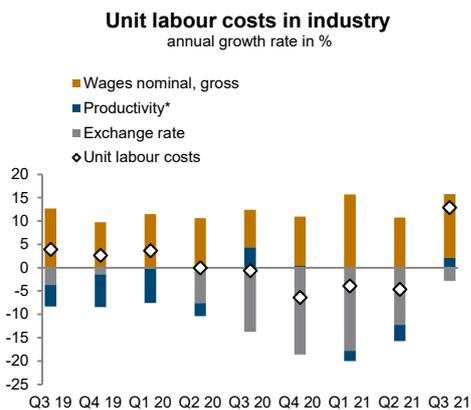
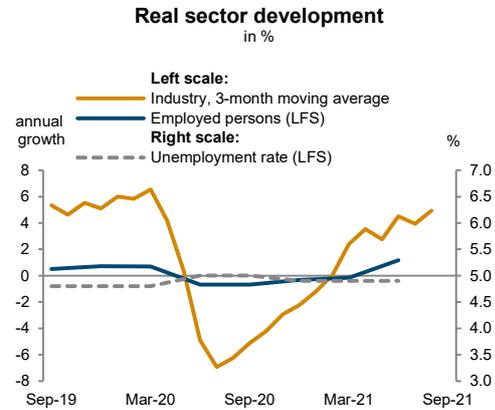
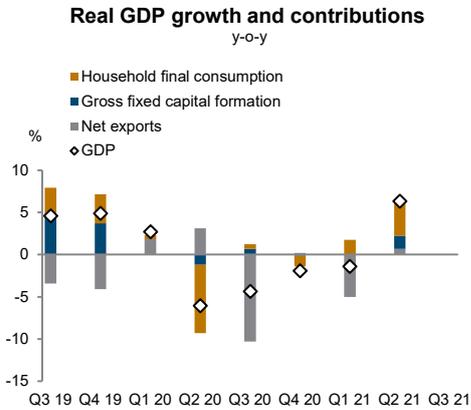
\*\*EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

<https://data.wiiw.ac.at/monthly-database.html>

# Kazakhstan

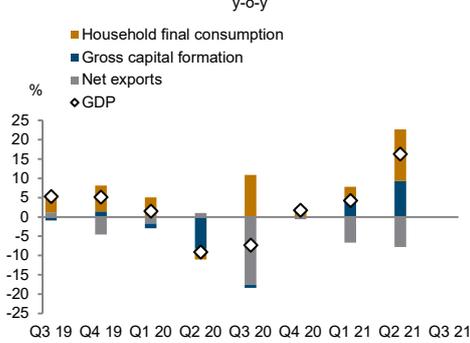


\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
 \*\*EUR based.

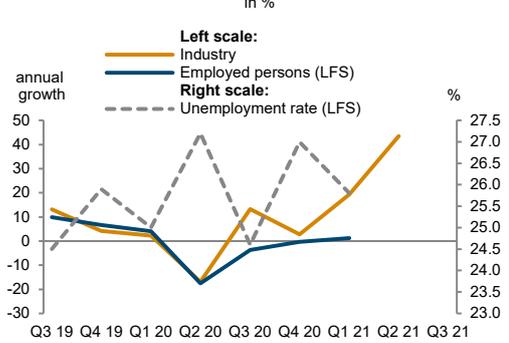
Source: wiiw Monthly Database incorporating Eurostat and national statistics.  
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# Kosovo

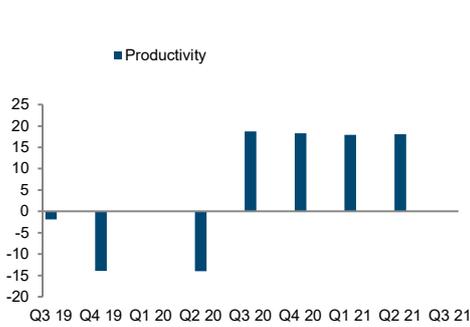
**Real GDP growth and contributions**



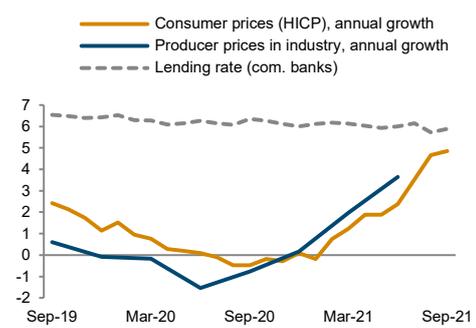
**Real sector development**



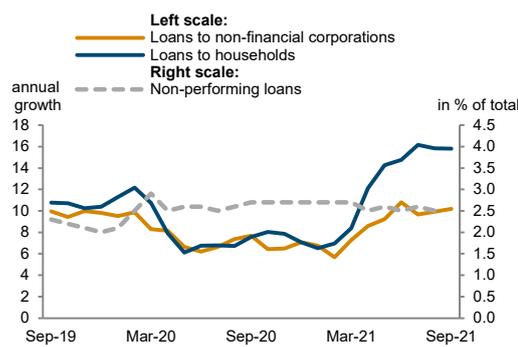
**Productivity in industry**



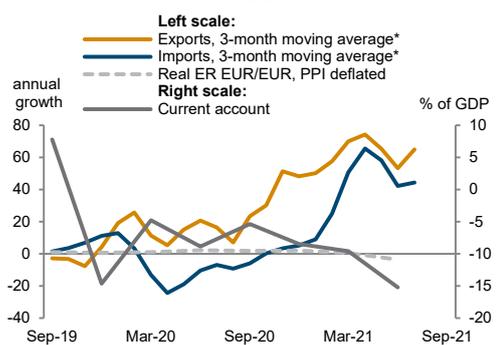
**Inflation and lending rate**



**Financial indicators**



**External sector development**



\*EUR based.

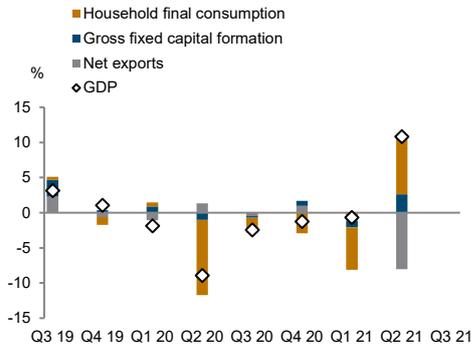
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

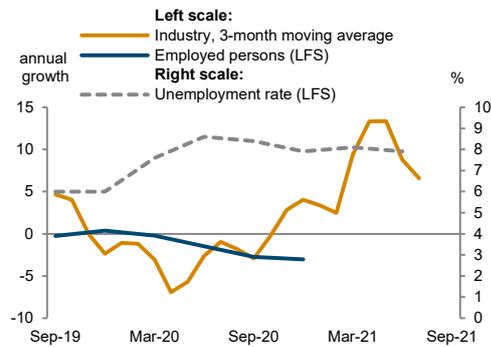
<https://data.wiiw.ac.at/monthly-database.html>

# Latvia

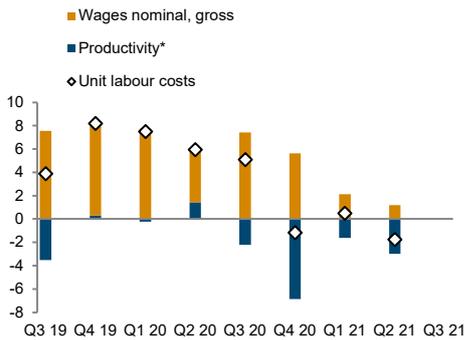
**Real GDP growth and contributions**  
y-o-y



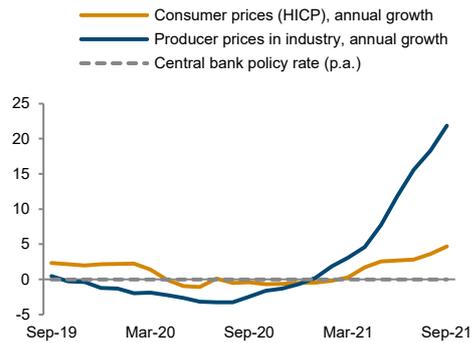
**Real sector development**  
in %



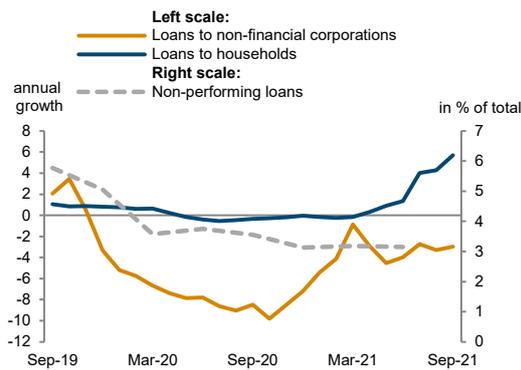
**Unit labour costs in industry**  
annual growth rate in %



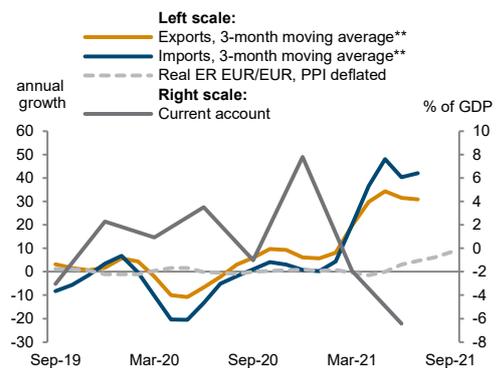
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
\*\*EUR based.

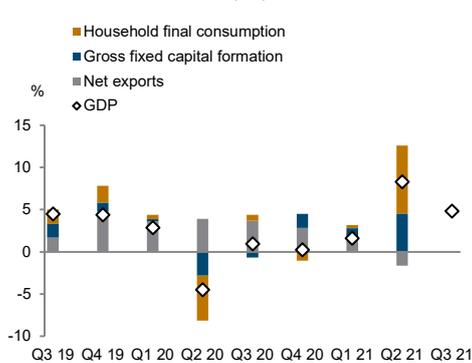
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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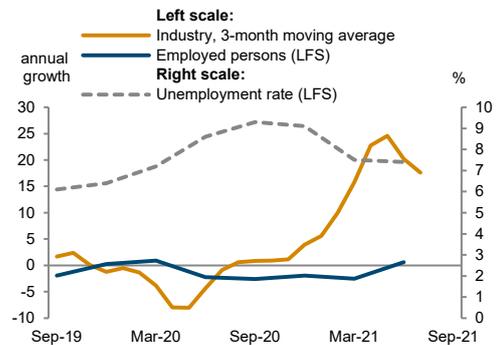
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# Lithuania

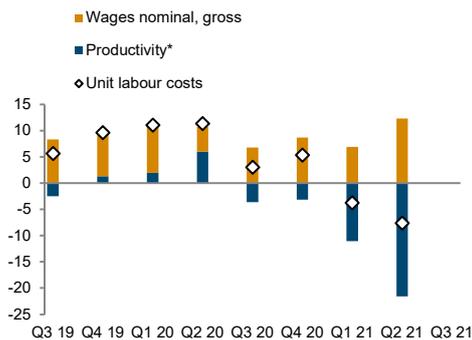
### Real GDP growth and contributions



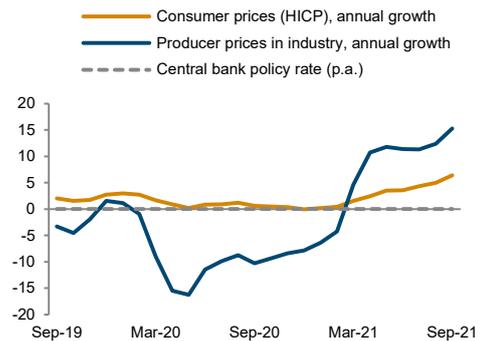
### Real sector development



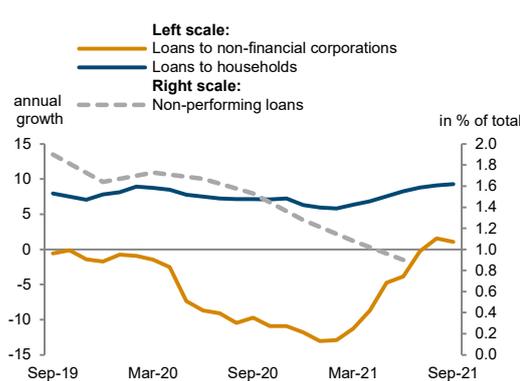
### Unit labour costs in industry



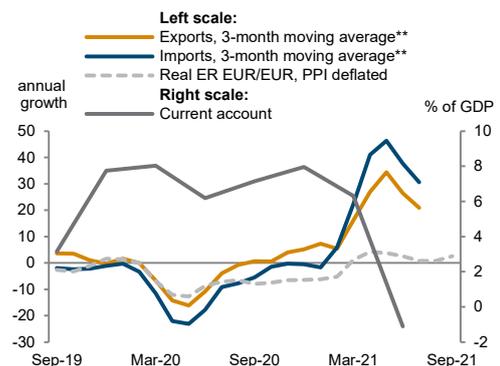
### Inflation and policy rate



### Financial indicators



### External sector development



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

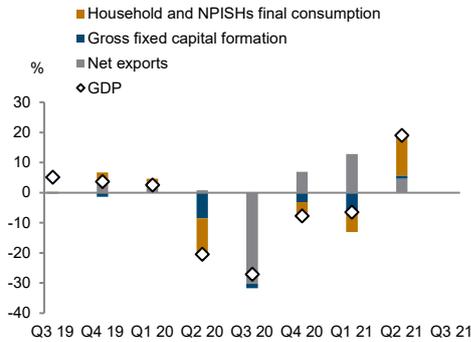
Source: wiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

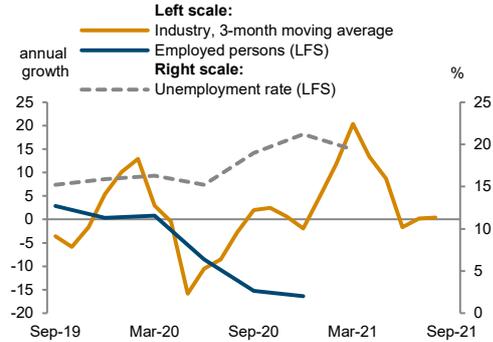
<https://data.wiw.ac.at/monthly-database.html>

# Montenegro

**Real GDP growth and contributions**  
y-o-y



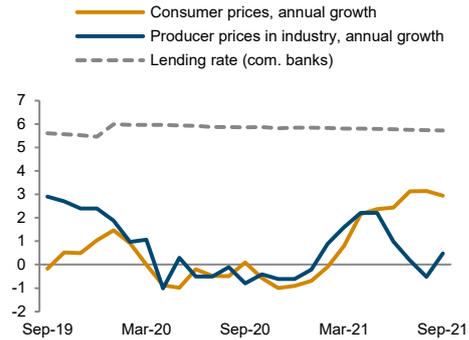
**Real sector development**  
in %



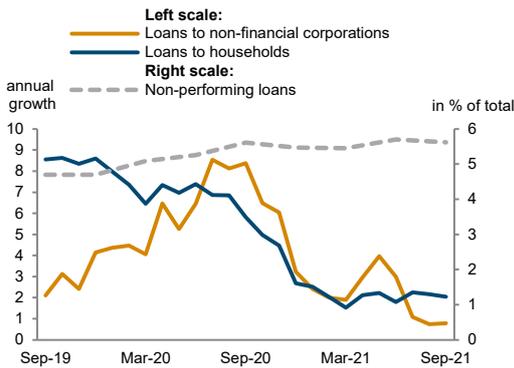
**Unit labour costs in industry**  
annual growth rate in %



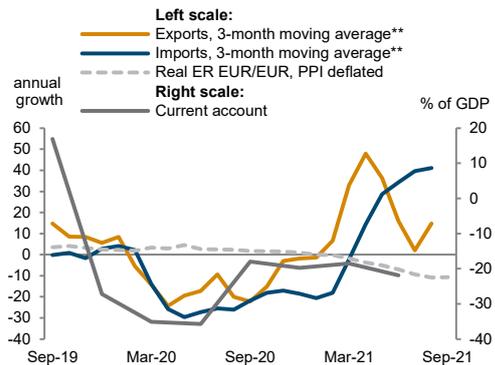
**Inflation and lending rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
\*\*EUR based.

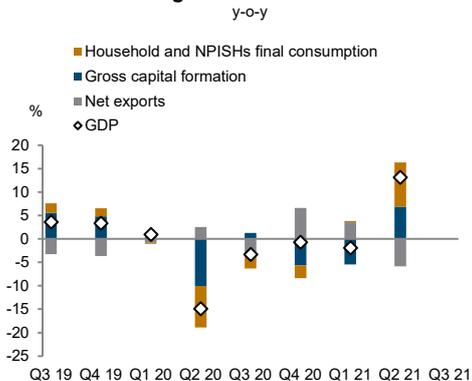
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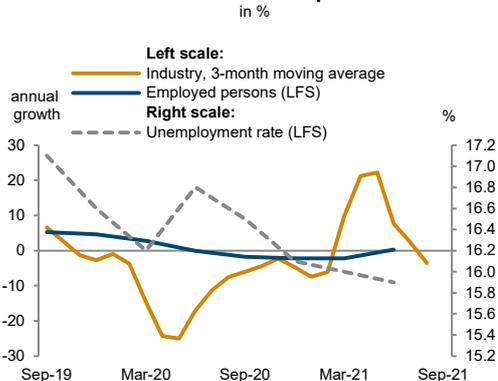
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# North Macedonia

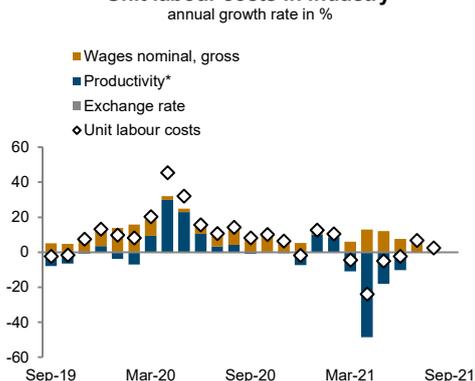
## Real GDP growth and contributions



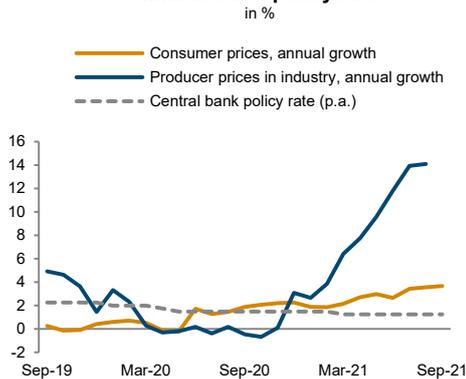
## Real sector development



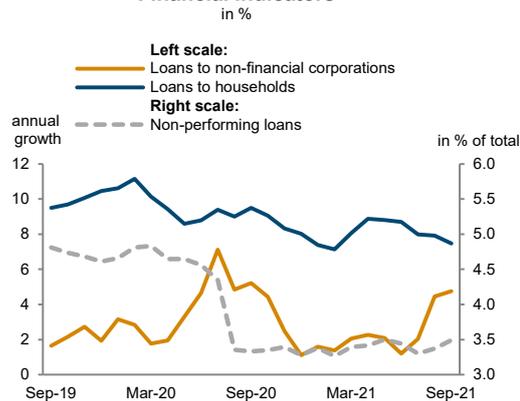
## Unit labour costs in industry



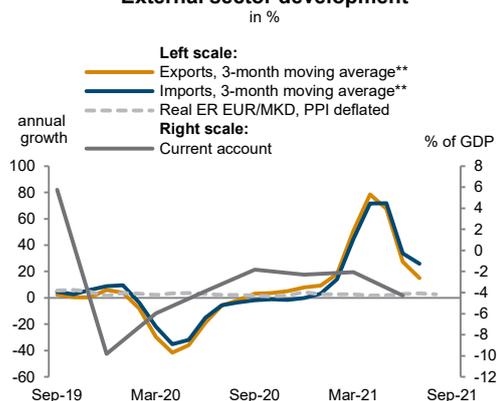
## Inflation and policy rate



## Financial indicators



## External sector development



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

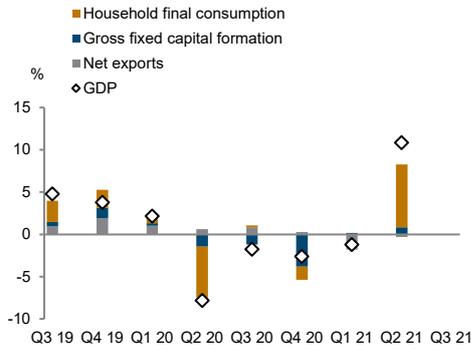
Source: wiw Monthly Database incorporating Eurostat and national statistics.

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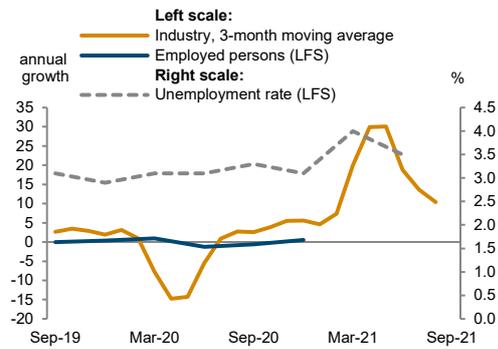
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# Poland

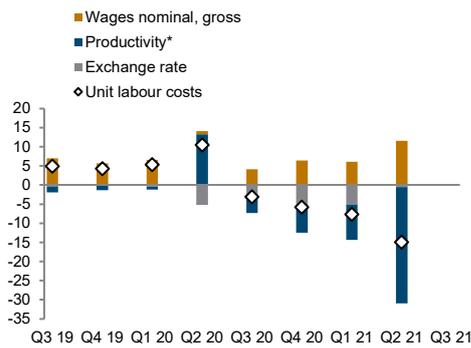
**Real GDP growth and contributions**  
y-o-y



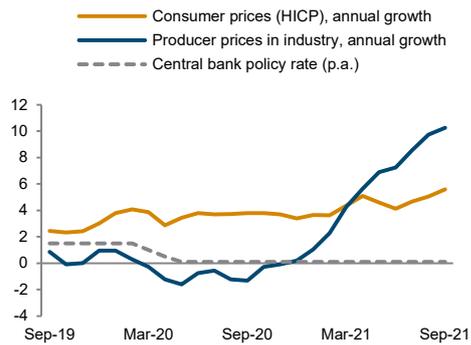
**Real sector development**  
in %



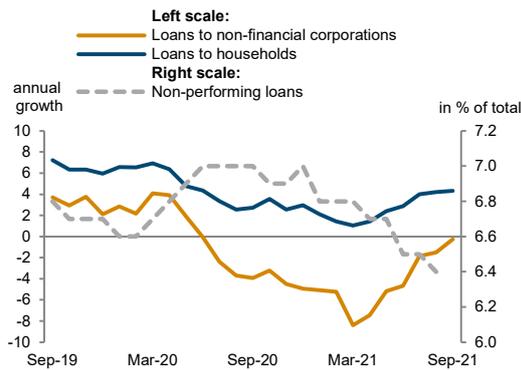
**Unit labour costs in industry**  
annual growth rate in %



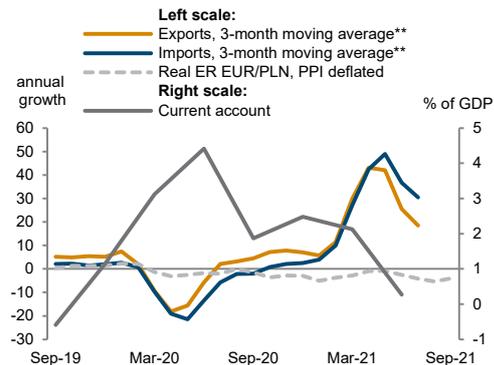
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

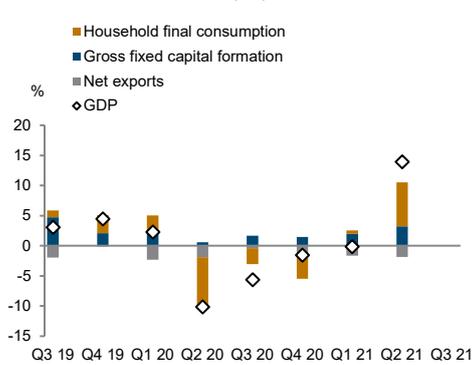
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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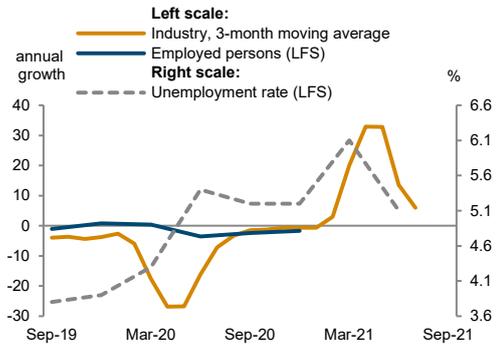
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# Romania

### Real GDP growth and contributions



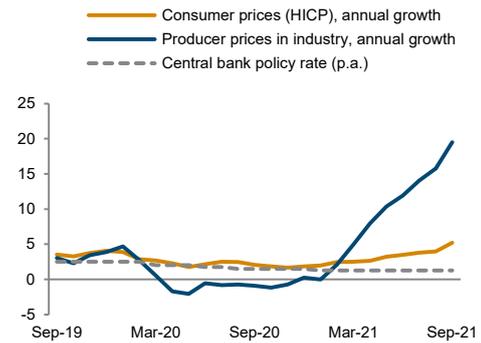
### Real sector development



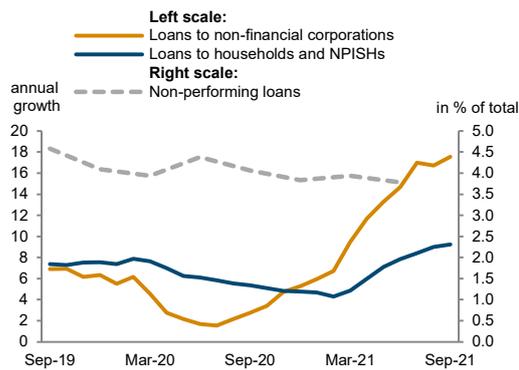
### Unit labour costs in industry



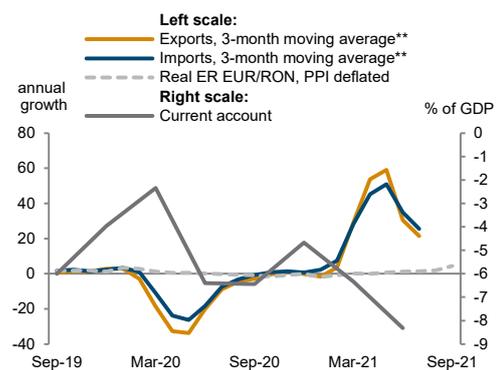
### Inflation and policy rate



### Financial indicators



### External sector development



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

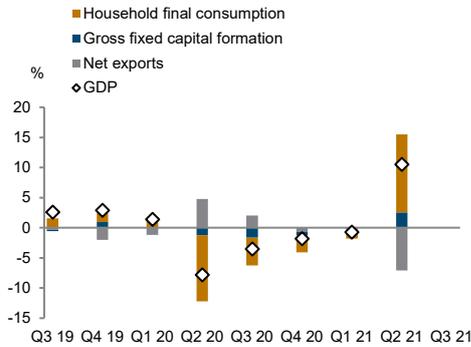
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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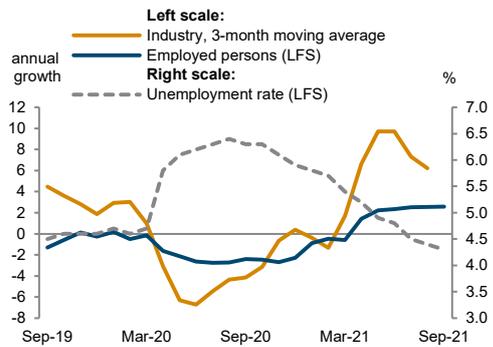
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# Russia

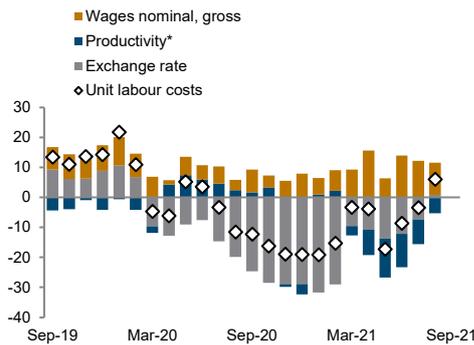
**Real GDP growth and contributions**  
y-o-y



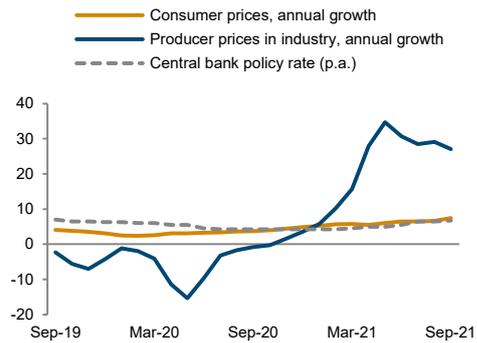
**Real sector development**  
in %



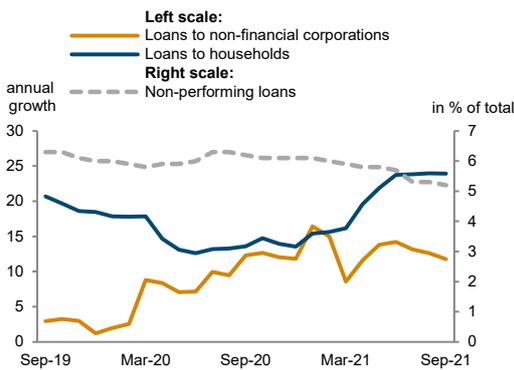
**Unit labour costs in industry**  
annual growth rate in %



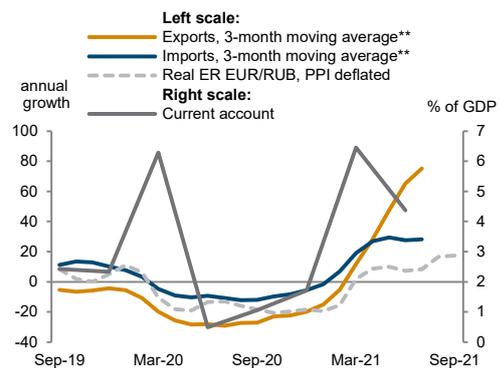
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
 \*\*EUR based.

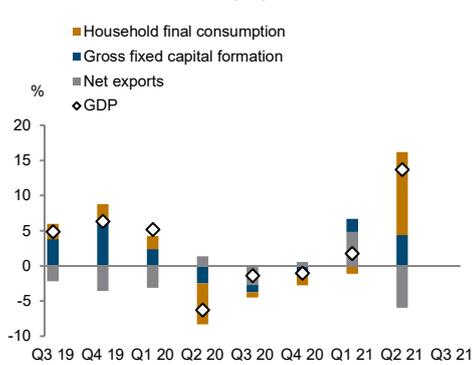
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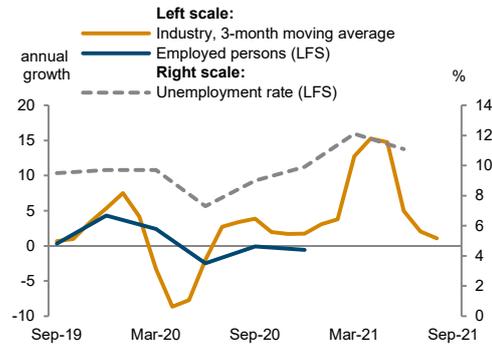
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## Serbia

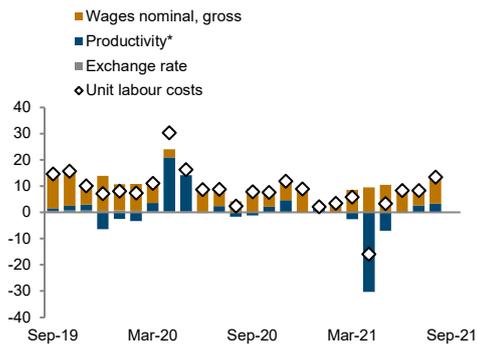
### Real GDP growth and contributions



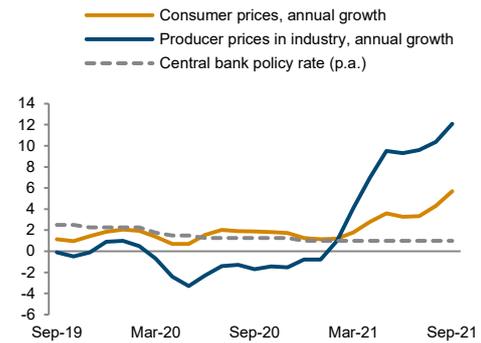
### Real sector development



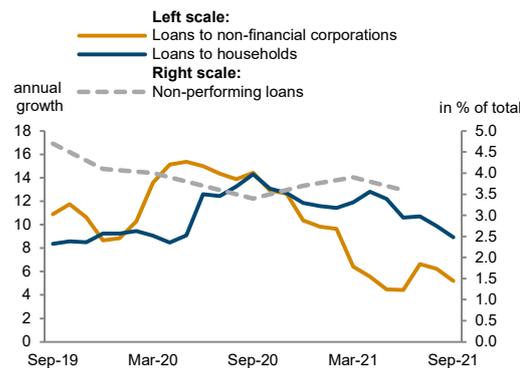
### Unit labour costs in industry



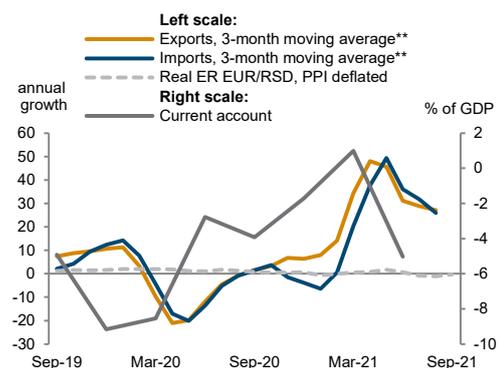
### Inflation and policy rate



### Financial indicators



### External sector development



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

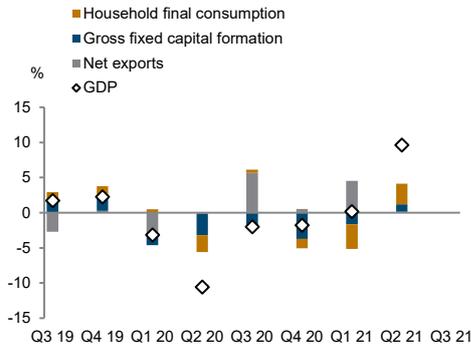
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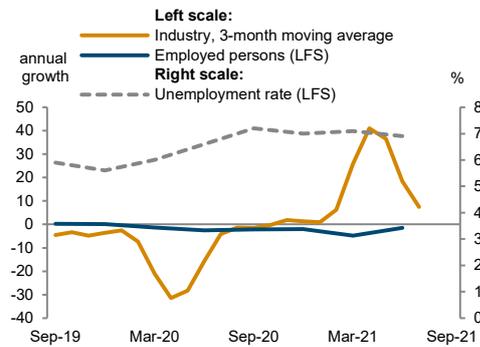
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# Slovakia

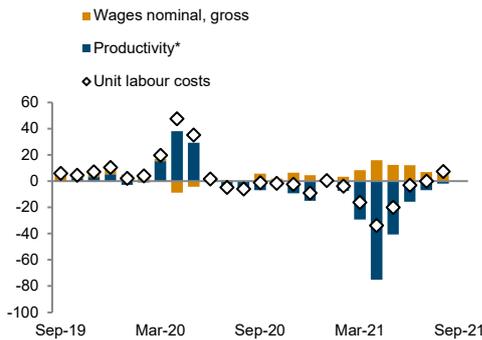
**Real GDP growth and contributions**  
y-o-y



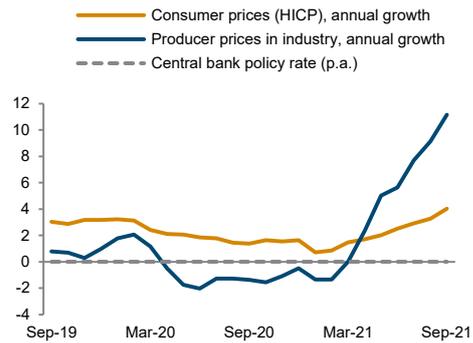
**Real sector development**  
in %



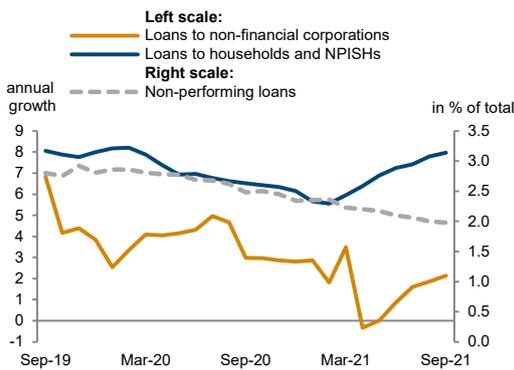
**Unit labour costs in industry**  
annual growth rate in %



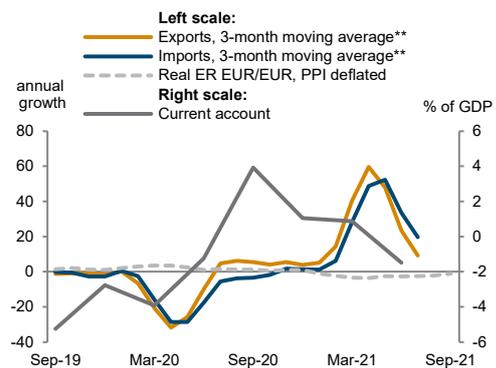
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
\*\*EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

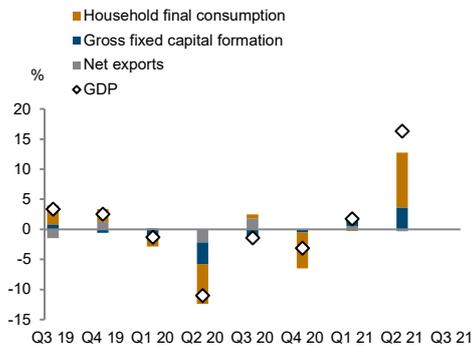
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# Slovenia

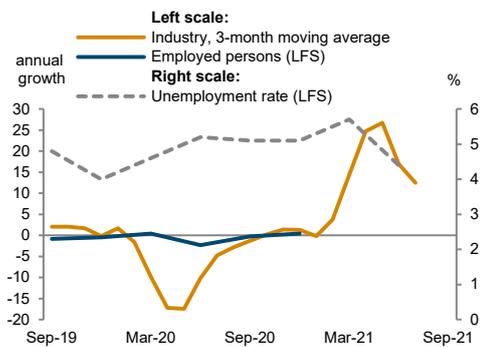
### Real GDP growth and contributions

y-o-y



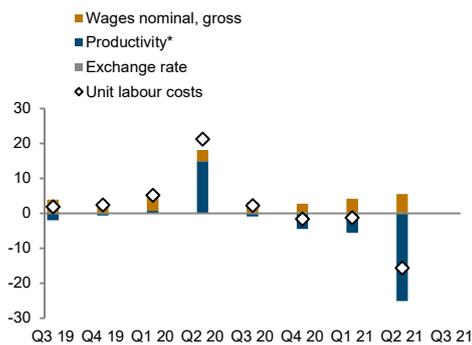
### Real sector development

in %



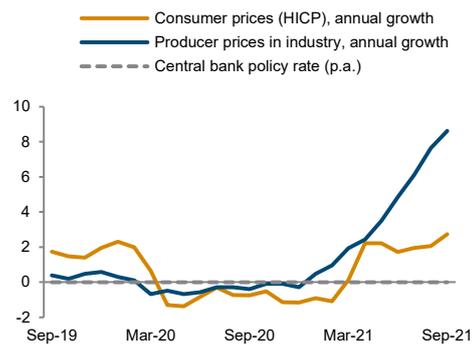
### Unit labour costs in industry

annual growth rate in %



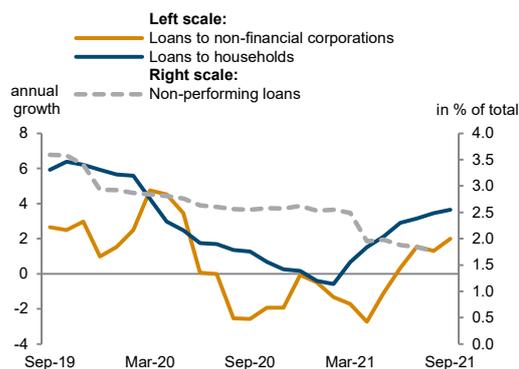
### Inflation and policy rate

in %



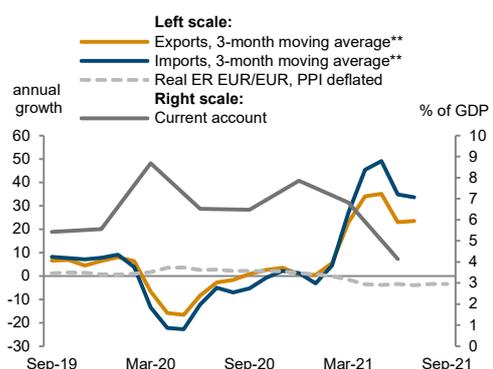
### Financial indicators

in %



### External sector development

in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

\*\*EUR based.

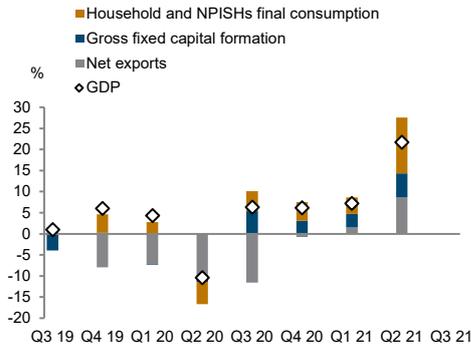
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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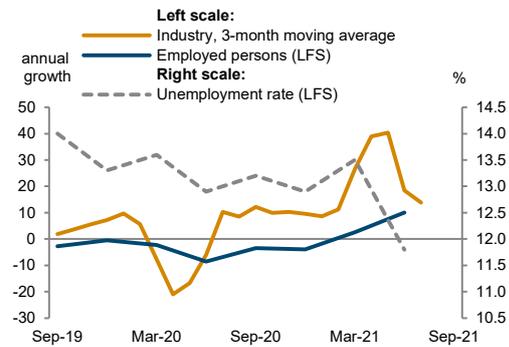
<https://data.wiiw.ac.at/monthly-database.html>

# Turkey

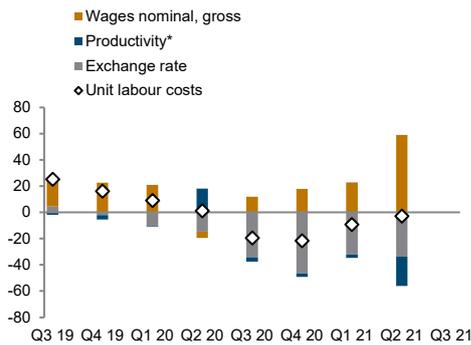
**Real GDP growth and contributions**  
y-o-y



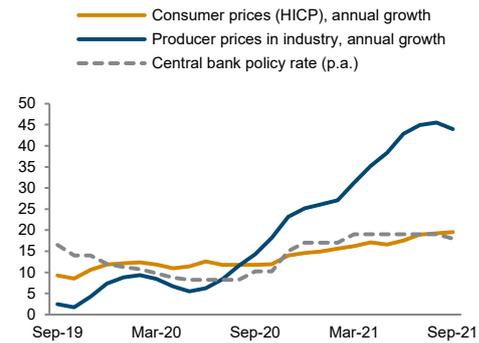
**Real sector development**  
in %



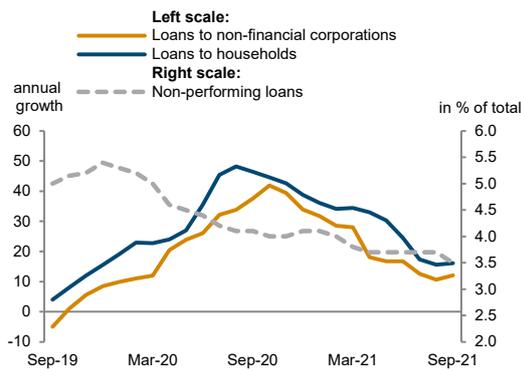
**Unit labour costs in industry**  
annual growth rate in %



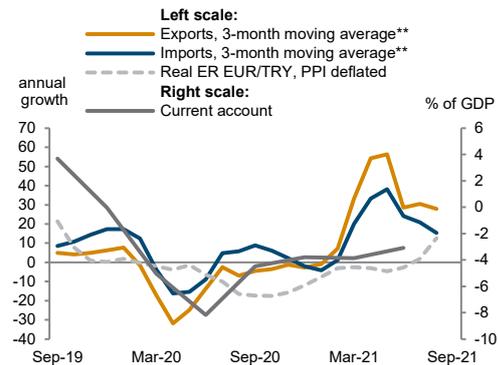
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
\*\*EUR based.

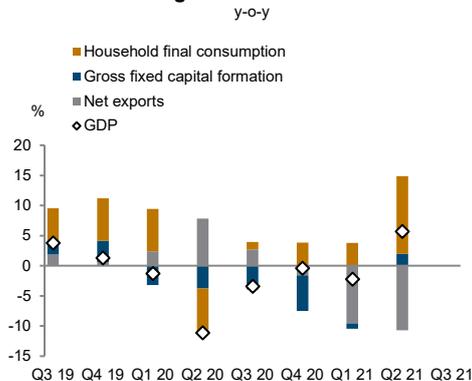
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

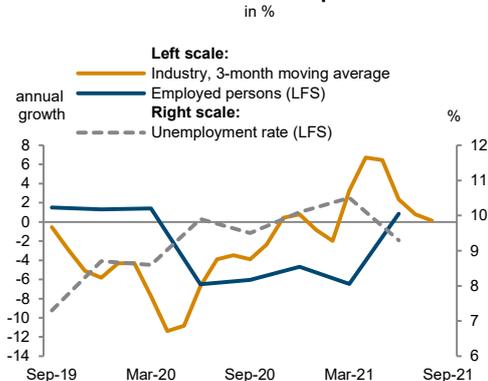
<https://data.wiiw.ac.at/monthly-database.html>

# Ukraine

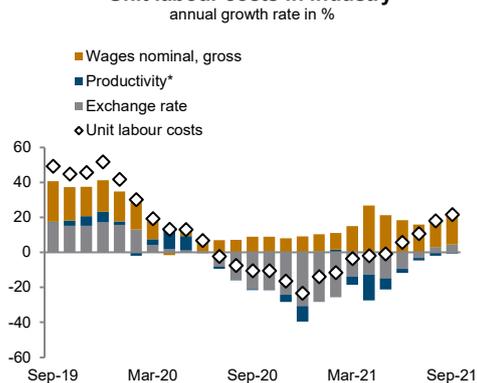
### Real GDP growth and contributions



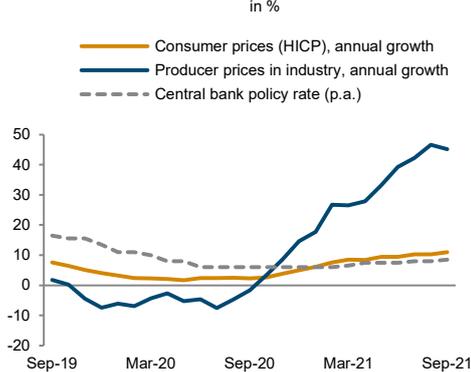
### Real sector development



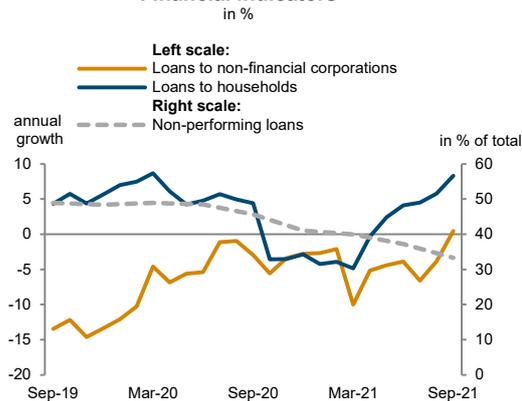
### Unit labour costs in industry



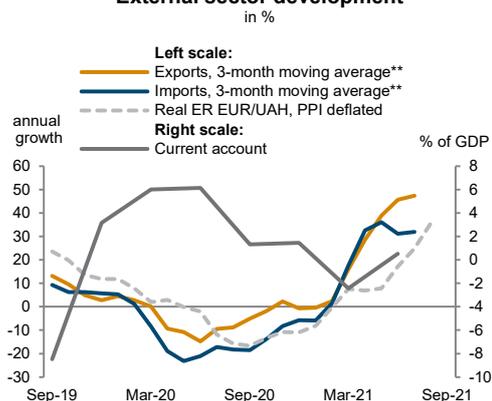
### Inflation and policy rate



### Financial indicators



### External sector development



\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

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