

PRESS RELEASE

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wiiw FDI Report Central, East and Southeast Europe: Recovery amid stabilising economic growth

Foreign Direct Investment (FDI) inflow to Central, East and Southeast Europe (CESEE) took a strong upward turn in 2016, with an increase of 45% compared to the year 2015; also greenfield investments surged. These positive developments took place amid a decline in global FDI which was due to less foreign investment in China. The trend in CESEE is expected to continue due to robust economic growth in the region and a somewhat lower but still stable growth in the major investing countries. Austrian FDI has shifted away from CESEE and has been growing mainly in Asia.

The 2016 FDI recovery was 23% in the EU's Central and East European region (EU-CEE) and almost 150% in the Commonwealth of Independent States (CIS-4) and Ukraine; meanwhile the Western Balkans experienced a modest 7% decline, and Turkey booked a decline of 30% (Table 1). The 2016 changes were in just the opposite direction to 2015, when FDI in the Western Balkans and Turkey boomed, while it declined in the other two regions. Taking the average of several years, the overall trend is positive but still lower than the high FDI inflows of the pre-crisis years.

The 2016 surge of FDI in the EU-CEE region mainly benefited two counties, the Czech Republic (real estate investments) and Hungary (manufacturing sector investments). Both of them received amounts that were the second largest since 2008, surpassing the 2015 slump by a wide margin. Also Romania, Croatia and Estonia received higher amounts than the year before. (Data for Poland are not available.) Two countries reported negative FDI inflow values in 2016, Lithuania and Slovakia. This means that there were higher capital withdrawals than new gross FDI inflows, caused mainly by reverse investments in the form of debt instruments.

In the Western Balkans, Serbia remained the most important FDI target with inflows similar to the previous year. Albania received the second largest amount of FDI in the region, mainly in energy projects – more than before the financial crisis. In contrast, Bosnia and Herzegovina was less successful than in earlier years, probably on account of its increasingly segmented economic and regulatory environment. Macedonia received more FDI than the year before, despite mounting political uncertainty. Suppliers of the automotive industry and electronics make the country unique in the region, with its high share of FDI in manufacturing.

FDI in Russia took a sharp upward turn in 2016. The decline of the economy levelled out and more FDI was attracted by reduced import competition into sectors affected by the sanctions (mainly food production). But the main event was the sale of a 19.5% stake in the giant oil company Rosneft for EUR 10.2 billion (amounting to one third of the total inflow) to a Singapore investment vehicle, a joint venture between Qatar and the Swiss oil trading firm Glencore. FDI inflow into Ukraine

increased in 2016, primarily in bank recapitalisation and the privatisation of some companies. The elevated investment risk is reflected in the low FDI inflow compared with the size of the country.

A higher share of FDI in the CESEE countries than before originates in the Netherlands, Luxembourg and other low-tax countries. There are also more investments concentrated in holding companies for reasons of tax optimisation. Russian and other CIS or Ukrainian companies invest in their home country via Cyprus or the Netherlands to lower investment risks.

Austria remains the third most important investor in the EU-CEE in terms of inward FDI stock, after the Netherlands which hosts multinational holdings and Germany which integrates most of the international value chains in the region. Austria occupies prime position in Slovenia, Bosnia and Herzegovina and Croatia; it ranks second in Bulgaria, the Czech Republic, Romania, Slovakia, Macedonia and Serbia; and third in Hungary and Belarus (Table 2). The significance of Austrian FDI is much lower in farther-away countries, such as the Baltic states. Overall Austrian FDI outflow turned negative in 2016 and continued its shift away from the CESEE countries, mainly in favour of Asia and the Netherlands. The CESEE region held only 31% of Austrian outward FDI stock in 2016, much less than in the year before (36%) and back in 2012 (46%) – based on OeNB data.

The number of greenfield investment projects in CESEE was highest in the manufacturing and the business services sectors in 2016 (Table 3). Also the value of greenfield projects increased but only due to a huge oil exploration project in Kazakhstan. Austria is a stable but not very important greenfield investor in CESEE. It ranked ninth among the investors with 43 projects in 2016 (41 in 2015) and eighth in terms of the pledged capital investment with EUR 1.5 billion (EUR 1.3 billion in 2015).

Forecasts for FDI inflows in 2017 point upwards, as the international economic environment continues to improve, although plagued by uncertainties. Economic growth in most of CESEE is bound to be more robust than in the previous year. Both consumption and investments recover and attract foreign companies in the EU-CEE and the Western Balkans. These regions have maintained cost competitiveness, despite surging wages and occasional labour shortages, by benefiting from considerable productivity improvements. In the first quarter of 2017 the number of greenfield FDI projects increased in Hungary, Poland, Romania and Serbia, showing that the outsourcing of manufacturing and business services activities into the region continues.

Table 1 / FDI inflows in the main regions of CESEE, EUR million

	2010	2011	2012	2013	2014	2015	2016
EU-CEE	23,278	25,174	30,018	13,271	27,061	23,645	29,020
Western Balkans	3,473	5,675	2,806	3,568	3,503	4,406	4,098
Turkey	6,864	11,625	10,607	9,710	9,656	15,818	11,115
CIS-3 + Ukraine	14,790	18,208	18,174	13,031	8,206	7,974	12,318
Russia	23,875	26,476	23,483	40,196	22,037	10,664	34,012
CESEE total	72,279	87,159	85,089	79,777	70,464	62,507	90,564

EU-CEE: European Union – Central and Eastern Europe.

CESEE: Central, East and Southeast Europe.

CIS-3: Belarus, Kazakhstan, Moldova. Data exclude Special Purpose Entities (SPEs).

Source: wiiw FDI Database.

Table 2 / Austrian FDI stock in CESEE

	2012	2016	2012	2016	2012	2016
	EUR million		in % of host-country stock		Ranking in host country	
Bulgaria	5,535	4,131	14.8	10.3	2	2
Croatia	7,095	5,023	31.6	19.2	1	1
Czech Republic	13,321	14,400 ¹⁾	12.9	13.4 ¹⁾	3	2
Estonia	214	362	1.5	2.0	14	11
Hungary	9,118	12,890 ¹⁾	11.6	16.7 ¹⁾	4	3
Latvia	186	248	1.8	1.8	16	14
Lithuania	84	191	0.7	1.5	21	17
Poland	6,070	6,347 ¹⁾	3.4	3.8 ¹⁾	10	8
Romania	10,920	9,131 ¹⁾	18.5	14.2 ¹⁾	2	2
Slovakia	6,858	6,290 ¹⁾	16.4	15.7 ¹⁾	2	2
Slovenia	3,266	3,545 ¹⁾	35.3	30.7 ¹⁾	1	1
Albania	387	424	11.9	7.5	4	6
Bosnia and Herzegovina	1,401	1,272 ¹⁾	24.4	20.4 ¹⁾	1	1
Kosovo	.	186	.	5.4	6	5
Macedonia	397	525 ¹⁾	10.8	11.9 ¹⁾	3	2
Montenegro	97	121 ¹⁾	2.7	2.9 ¹⁾	11	9
Serbia	2,589	3,673 ¹⁾	17.4	13.9 ¹⁾	1	2
Turkey	13,759	8,377 ¹⁾	9.9	6.4 ¹⁾	2	4
Belarus	358	594 ¹⁾	3.3	3.6 ¹⁾	4	3
Moldova	22	36 ¹⁾	0.8	1.5 ¹⁾	17	11
Kazakhstan	1,346	109	1.7	0.1	7	24
Russia	7,371	4,341 ¹⁾	1.9	1.8 ¹⁾	11	14
Ukraine	2,581	1,716	6.2	4.0	5	7
CESEE total	92,973	83,935	7.4	7.1	.	.

1) 2015.

Source: wiiw FDI Database.

Table 3 / Number of greenfield FDI projects and value of pledged investment capital

	Number of projects			Pledged investment capital, EUR million		
	2014	2015	2016	2014	2015	2016
EU-CEE	667	658	781	17,958	19,614	22,800
Western Balkans	118	91	113	4,571	6,855	3,391
Turkey	110	157	150	4,493	4,983	7,713
CIS-3 + Ukraine	79	75	63	3,024	6,587	37,109
Russia	148	194	200	10,620	12,296	11,298
CESEE total	1,122	1,175	1,307	40,666	50,335	82,311

Source: www.fdimarkets.com.

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