

4.4. FDI MONITOR: INFLOWS TO EU-CEE STAGNATE, CATCH-UP IN THE WESTERN BALKANS, DECLINE IN RUSSIA

by Gábor Hunya

- › Total global FDI inflows fell by 13% in 2018 against the previous year,¹⁹ mainly due to repatriation of accumulated US overseas earnings (negative inflows in Ireland, Switzerland, and a few other countries). This had no visible effect on FDI in CESEE.
- › FDI inflows into CESEE fell by around 17% in 2017 (revised data²⁰), and by another 13% in 2018. The decline was mainly on account of Russia, where inflows halved in 2018 (Table 4.6). Russia is becoming more and more inward looking, due to the exchange of sanctions with the West and (related) import-substitution policies.
- › EU-CEE received about the same amount of FDI in 2018 as in the previous two years. Investments throughout the region were stimulated by robust growth of demand for goods and services, both internally and externally, and also by labour shortages necessitating labour-saving investments. But the main difference compared with 2017 was that inflows in Poland recovered (Figure 4.5).
- › FDI inflows were on the whole stable in the other main manufacturing hubs beyond Poland, namely the Czech Republic, Hungary and Romania while they declined in Slovakia. Most of the investments were financed by reinvested earnings in existing foreign subsidiaries, increasing labour productivity. Production sites were closed down only in exceptional cases, mainly in labour-intensive clothing, shoemaking and automotive component production.
- › The automotive industry in EU-CEE is not affected by the slowdown in Western Europe yet, as investors initiate technological change to cope with new challenges. Volkswagen and Peugeot have, for example, started assembling e-cars in Slovakia, while four large battery producing factories are under construction or in preparation in Hungary alone.
- › The Western Balkans received 28% more FDI in 2018, continuing the upward trend for the third consecutive year. Serbia and North Macedonia have been the main hosts of new projects in industry and export-oriented services. FDI inflows into Turkey recovered in 2018, but the recent postponement of a new VW investment project on account of political instability signals investor perceptions of heightened risks related to political developments.
- › Small open economies in EU-CEE and the Western Balkans have been the top receivers of FDI in per capita terms, with Estonia receiving the most even if less than in the previous year (Figure 4.5). Some CIS countries and other large economies such as Russia and Ukraine have generally attracted the least investment relative to their size. As of 2018, the stock of inward FDI in relation to GDP was highest in Montenegro, Kazakhstan and Estonia. The largest increases compared with 2010 took place in Kazakhstan, Serbia and Albania (Figure 4.6), while Turkey and Belarus continued having the lowest exposure to FDI.

¹⁹ In nominal USD terms; UNCTAD World Investment Report 2019.

²⁰ 2017 and 2018 data have been revised compared with the *wiiw FDI Report 2019* published in June

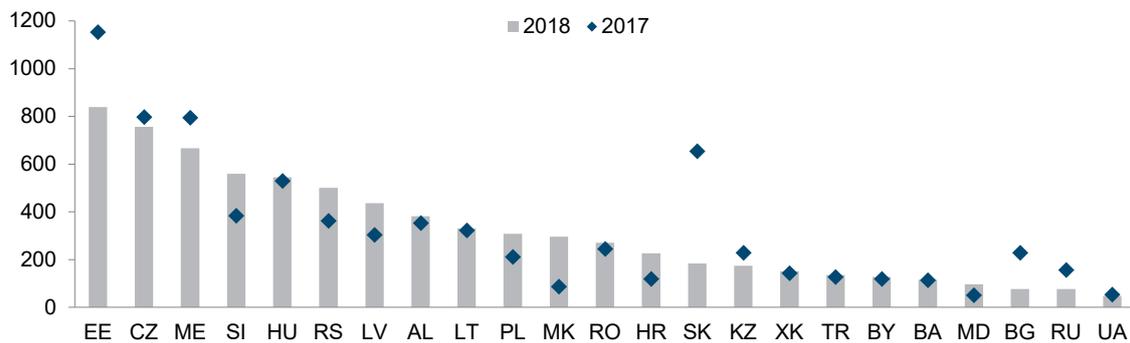
- › The future may bring less investment into EU-CEE as a consequence of the German slowdown and possible US duties on car imports. The Western Balkans may get some more projects in mining and energy. Future FDI in the CIS is less dependent on global developments, and more on policy measures to make these markets more attractive for foreign investors.

Table 4.6 / FDI inflow

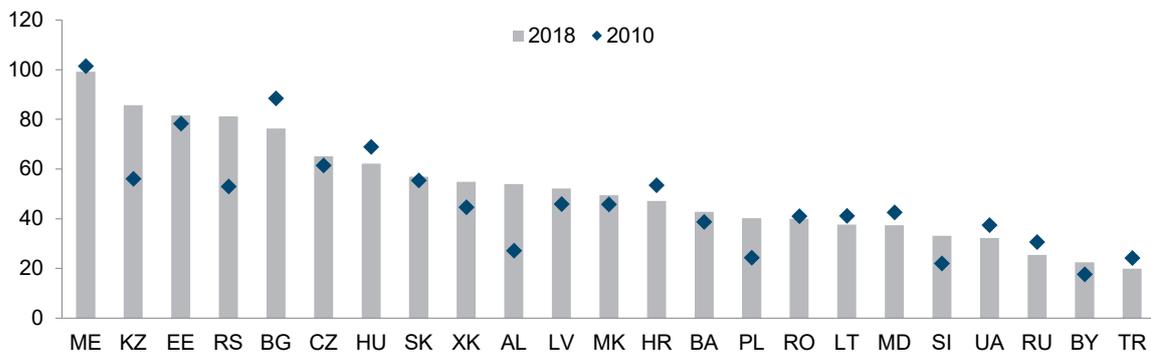
EUR mn

	2010	2011	2012	2013	2014	2015	2016	2017	2018
EU-CEE11	23,564	25,603	30,255	13,447	26,428	25,412	37,509	37,384	36,943
WB6	3,473	5,675	2,806	3,577	3,487	4,450	4,198	4,896	6,289
TR	6,861	11,576	10,341	10,212	10,039	17,372	12,603	10,220	11,009
CIS3+UA	14,790	18,250	18,210	13,024	8,374	8,063	11,858	7,710	6,644
RU	23,875	26,476	23,483	40,196	22,037	10,664	33,568	22,990	11,222
CESEE23	72,563	87,580	85,095	80,456	70,365	65,960	99,737	83,200	72,107

Note: Data are based on Direct Investment Statistics (directional principle) excluding Special Purpose Entities (SPEs).
Source: wiiw FDI Database incorporating national bank statistics.

Figure 4.5 / FDI inflow per capita, 2017 and 2018, EUR

Note: Data are based on Direct Investment Statistics (directional principle) excluding Special Purpose Entities (SPEs).
Source: wiiw FDI Database incorporating national bank statistics.

Figure 4.6 / FDI inward stock in % of GDP, 2010 and 2018

Note: Data are based on Direct Investment Statistics (directional principle) excluding Special Purpose Entities (SPEs).
Source: wiiw FDI Database incorporating national bank statistics.