

FDI inflow in transition countries expected to decline

The new WIIW-WIFO data compilation of foreign direct investment (FDI) in Central and Eastern Europe and the former Soviet Union has just come out, featuring data for 2001 and estimating FDI developments in 2002. Special attention is given to Austrian direct investments in the region.

The worldwide decline of FDI in 2001 passed without any major direct impact on the transition countries: the drop of international mergers and acquisitions caused a setback of FDI flows among the advanced countries only. But due to the stagnation of the leading economies and the loss in market value of a number of transnational corporations, investment plans for 2002 were scaled back. This affected also direct investments in Eastern European countries where we expect less FDI in 2002 than in the previous year.

In the Central European transition countries the FDI inflow in the first three months of 2002 was just about one half of the previous year's level. Export-oriented investments were delayed because of the downturn of the European business cycle and privatization-related investments occurred less frequently due to missing offers. For **Poland**, a country with home-made economic stagnation, the prospects are bleak for the rest of the year as well. But in the **Czech Republic**, energy sector privatization may give a boost. As to **Hungary**, the record FDI of 2001 will certainly not be achieved, however, USD 1.5-2 billion reinvested profits are not covered by statistics.

The main exceptions to the declining trend are represented by Slovakia and Slovenia. A major increase of FDI will be booked in **Slovakia**, which sold 49% of the gas transit transport company in March for USD 2.7 billion. Together with the expected electricity sector privatization the annual inflow may double compared to the previous year. **Slovenia** had a record level of FDI inflow in 2001 which will most likely be surpassed in 2002. The privatization of the banking sector has finally started and also companies privatized earlier to dispersed owners and funds attract new foreign capital.

Romania and **Bulgaria** pursue a slow privatization policy which can attract only modest FDI for some years. They also feature a growing economy and low wages attracting investors to the labour-intensive light industries. The countries of the western Balkans have gained more stability but their transformation to market economies is still incomplete and investors rarely take the risk to come to these countries. The exception is **Croatia**, with its

more advanced economy and progress in privatization. Investors are less interested in the least developed countries of the region, **Albania** and **Bosnia & Herzegovina**. The start of economic transformation in **Serbia** awoke the interest of investors and the sale of cement companies early this year mark the outset of privatization-related FDI.

In the former Soviet Union, **Russia** is the main target of investments but restrictions of foreign penetration survive and local market circumstances are often deterrent. In the first months of 2002, the FDI inflow was lower than a year earlier and the general slowdown of the Russian economy makes forecasts more moderate. As to the Asian CIS countries, only the extracting sectors of **Kazakhstan** and **Azerbaijan** attract investments.

Recent developments have not changed the basic features of per capita FDI in Central and Eastern Europe. The Czech Republic, Estonia and Hungary report the highest per capita stocks, followed by the Slovak Republic, Croatia, Slovenia and Poland. These are the countries with intensive corporate integration with the European Union.

For the rest of the countries in the region the amount of FDI is meagre. However, foreign companies may acquire great economic importance even if the invested amount is small. For instance, the amount of FDI in Romanian manufacturing (USD 2 billion) does not suggest that 38% of the sales and 44% of the exports is produced by foreign affiliates. In the case of Bulgaria only about USD 800 million has been invested into the banking sector, but by this amount foreign affiliates acquired 70% of the banking assets. To achieve a similar rate of control in the Slovak Republic USD 1.2 billion was necessary, in the Czech Republic more than USD 4 billion.

Austrian direct investments in Eastern Europe expanded strongly already in 2000, mainly in the neighbouring countries. At USD 2.1 billion (EUR 2.4 billion), new investment more than doubled as compared with 1999 and this remarkable performance was repeated in 2001. The great importance of the transition countries for the Austrian economy is illustrated by the fact that of the total Austrian new direct investment abroad, nearly 40% were allocated to Central and East European countries in 2000, and that this figure went up to fully 80% in 2001. According to the latest available data, total Austrian FDI again increased noticeably in 2002: in the first four months of the current year, EUR 1.8 billion was invested abroad – nearly three times as much as in the same period in 2001. Regional statistics are not yet available, but CEE investments contributed considerably to this high figure without any doubt.

WIIW-WIFO Database on Foreign Direct Investment in Central and East European Countries and the Former Soviet Union – with Special Attention to Austrian FDI Activities. 13th edition, July 2002, 49 pp. including 44 Tables, EUR 47.00.

The publication is available in hard copy or in electronic format (PDF) from wiiw's website, www.wiiw.at. For ordering by fax or e-mail, please contact Ms Ursula Köhrl, fax +431 5336610-50, e-mail koehrl@wsr.ac.at.

FDI in Eastern Europe

	Inflow USD million		2002 <i>forecast</i>	Inflow per capita	Stock USD million		Stock per capita
	2000	2001		2001 <i>USD</i>	2000	2001	2001 <i>USD</i>
Czech Republic	4,986	4,916	3,500	478	21,644	26,764	2604
Slovak Republic	2,075	1,475	3,500	274	4,504	6,000 ¹⁾	1115
Hungary	1,649	2,443	1,000	240	19,804	23,562	2311
Poland	9,342	8,000 ¹⁾	6,000	207	33,603	39,000 ¹⁾	1010
Slovenia	176	442	600	222	2,809	3,400 ¹⁾	1709
Central Europe	18,228	17,276	14,600	260	82,364	98,726	1485
Albania	143	200 ¹⁾	200	58	568	800 ¹⁾	233
Bulgaria	1,002	689	600	86	3,309	3,997	504
Romania	1,040	1,137	1,000	51	6,561	7,698	343
Croatia	1,126	1,502	1,100	343	5,202	6,703	1530
Macedonia	176	442	500	217	381	824	403
Bosnia & Herzegovina	150	130	200	35	340	470	125
Yugoslavia	25	165	500	20	990	1,155	139
South Eastern Europe	3,662	4,265	4,100	79	17,351	21,647	377
Former USSR	7,420	7,927	7,450	.	49,807	57,237	.
European former USSR	4,716	4,727	4,450	.	32,719	37,237	.
Baltic states	1,174	1,189	1,200	.	7,060	8,037	.
Estonia	387	542	400	398	2,645	3,155	2318
Latvia	408	201	400	85	2,081	2,216	942
Lithuania	379	446	400	128	2,334	2,666	765
European CIS	3,542	3,538	3,250	.	25,659	29,200	.
Russia	2,714	2,540	2,500	18	20,195	22,735	157
Ukraine	595	769	500	16	3,774	4,543	93
Belarus	90	80 ¹⁾	100	.	1,236	1,320 ¹⁾	.
Moldova	143	149	150	41	454	602	343
Asian CIS	2,704	3,200 ¹⁾	3,000	.	17,088	20,000 ¹⁾	.
EU-associated countries (10)	21,444	20,291	17,400	195	99,294	118,458	1138
Eastern Europe	29,310	29,468	26,150	.	149,522	177,610	.

¹⁾ *estimated*