

**PRESS RELEASE      NOT TO BE RELEASED BEFORE 05-06-2007, 12.00 a.m.****wiiw Database on Foreign Direct Investment in Central, East and Southeast Europe, 2007: Shift to the East**

The Vienna Institute for International Economic Studies (wiiw) presents the latest update of its database on foreign direct investment (FDI) in 20 Central, East and Southeast European countries. The data rely on statistics of the balance of payments and international investment position as published by the respective National Banks.

The regional distribution of FDI inflows changed quite significantly in 2006: the share of the NMS-8 (the new member states which had joined the EU in 2004) in total inflows to the region was 36% (after 50% in 2005); Southeast Europe registered a share of 27%; and the European CIS 36% – the latter two shares being remarkably larger than in the previous year. **The shift of new FDI to the East and the Southeast reflects the emergence of new investment opportunities rather than a declining interest in the NMS-8.**

The FDI inflow into the **NMS-8 was marginally lower** in 2006 than in the preceding years – declines in some of the countries were compensated by increases in others (Table 1). The decline of FDI in three NMS – the Czech Republic, Hungary and Estonia – was to be foreseen knowing that the 2005 peak was to a large extent driven by privatization. In another three countries – Poland, Latvia and Lithuania – the FDI inflow reached an all-time high; it also surged in Slovakia.

**An important effect of export-oriented FDI is its positive impact on the host countries' trade balances: since 2000 the trade balances of the Czech Republic, Hungary and Slovakia, more recently also of Poland, vs. the EU-15 have been recording surpluses.** Trade-surplus-generating FDI can be interpreted as production relocation in a broad sense. For new capacity requirements the location search mostly ends in favour of the NMS. Services relocations are frequently reported by companies but hardly covered by FDI statistics.

FDI is booming in **Bulgaria and Romania, with inflows reaching historical peaks** in 2006. This is partially due to privatization, but also to new investment projects in financial services, trade and real estate. EU membership is a stability anchor for foreign investors attracted by improving business conditions and soaring consumption. FDI contributes to the expansion of productive capacities, to efficiency improvements and also to a decline in unemployment; the foreign trade deficits of these countries, however, are still on the rise.

**Southeast European countries** in the Western Balkans **received two times more** FDI in 2006 than the year before. This is a result of increasing economic growth and progress of transformation, as well as a support to both of these processes. Large privatization projects attracted especially large amounts of FDI to Croatia, Montenegro and Serbia while Albania and Bosnia-Herzegovina are lagging behind.

The European CIS region's high 2006 FDI inflow was solely due to **Russia** where **FDI more than doubled** to EUR 23 billion according to the balance of payments statistics, although there are grounds to believe that this figure is overstated. The Federal State Statistics Service reported only EUR 11 billion, the same amount as in 2005. Even this lower inflow figure may to a considerable extent be the result of round-tripping, i.e. Russian national capital arriving from abroad.

The world-wide trend of **FDI in 2007** is one of **further expansion**. Optimism is justified as concerns the Central, East and Southeast European region as well. But ups and downs in privatization-related FDI may cause fluctuations. Almost certainly, Bulgaria and Romania as well as some of the Southeast European countries are not going to reach the previous year's level while Poland may strengthen its position. If for Russia the 2006 balance of payments figure is taken as valid, further increases seem likely. No significant change can be expected for the development of relocations: four NMS, the Czech Republic, Hungary, Poland and Slovakia, will continue to receive the bulk of the export-oriented FDI while Romania can increasingly benefit from it as well. The other countries do not seem to become major targets of such investments.

**Outward FDI flows of the CEECs increased to almost EUR 24 billion in 2006, 41% more than in the previous year.** Most of it came from the NMS-5, Estonia and Russia. The relationship between inward and outward FDI is becoming more balanced along with the advance of economic development: The outward FDI flow from the NMS-5 constituted 4% of the inward FDI flow in 2002, 13% in 2004 and 32% in 2006. Slovenia has been a net capital exporting country already in the past two years.

Austria's National Bank reported a sharp decrease of Austrian FDI flows into the CEECs, from EUR 8.1 billion in 2005 to EUR 3.3 billion in 2006. The setback was the result of selling Austrian assets to other investors in Poland, Croatia and Russia. **Austria is still investor number three in the NMS-10 with 10% of the total FDI stock** based on end-2005 data of the host countries (Table 2). It follows the Netherlands and Germany with quite a distance. In Southeast Europe Austria is the leading investor with more than a quarter of the total FDI stock in the region (Table 3). This position seems to be unrivalled as Germany and the Netherlands follow with a considerable gap.

**Conclusions** from country case-studies support the view that Austria's strength in FDI is highly concentrated **in very few activities**. In most countries banks, retail and construction companies dominate. Manufacturing is under-represented with about 10% of the Austrian FDI in CEECs, much less than from other investing countries. A wide range of Austrian companies has invested in the neighbouring countries only, while the horizon of new opportunities shifts further east. Austrian investors **profit from rising** from their investments in the CEECs and they reinvest a higher share of it than other investors.

Table 1

**Overview of FDI in Central, East and Southeast Europe**

	FDI inflow, EUR million							Per capita		
	2000	2001	2002	2003	2004	2005	2006	2007	forecast inflow EUR	Per capita stock EUR
Czech Republic	5404	6296	9012	1863	4007	9374	4752	5000	463	5719
Hungary	2998	4391	3185	1888	3633	6099	4874	4000	484	6170
Poland	10334	6372	4371	4067	10292	7703	11093	12000	291	2361
Slovakia	2089	1768	4397	1914	2441	1694	3324	3000	617	3338
Slovenia	149	412	1722	271	665	445	303	400	151	3133
<i>New Member States-5</i>	<i>20974</i>	<i>19240</i>	<i>22687</i>	<i>10002</i>	<i>21039</i>	<i>25315</i>	<i>24346</i>	<i>24400</i>	<i>370</i>	<i>3571</i>
Estonia	425	603	307	822	776	2349	1282	1300	954	9232
Latvia	447	147	269	270	513	582	1303	1300	569	2515
Lithuania	412	499	772	160	623	826	1426	1300	420	2462
<i>New Member States-8</i>	<i>22256</i>	<i>20489</i>	<i>24035</i>	<i>13796</i>	<i>22950</i>	<i>29072</i>	<i>28357</i>	<i>28300</i>	<i>389</i>	<i>3590</i>
Bulgaria	1103	903	980	1851	2736	3103	4104	4000	533	2047
Romania	1147	1294	1212	1946	5183	5213	9082	7000	421	1432
<b>New Member States-10</b>	<b>24508</b>	<b>22685</b>	<b>26226</b>	<b>15051</b>	<b>30869</b>	<b>37387</b>	<b>41544</b>	<b>39300</b>	<b>407</b>	<b>3019</b>
Albania	155	232	143	158	278	224	259	300	82	603
Bosnia and Herzegovina	159	133	282	338	534	421	338	400	88	676
Croatia	1138	1502	1197	1785	990	1425	2838	2500	639	4577
Macedonia	189	493	83	84	126	80	279	200	137	1028
Serbia	55	184	504	1204	777	1265	3504	3500	471	1119
Montenegro	.	5	76	44	53	393	644	600	1031	1943
<b>Southeast Europe</b>	<b>1696</b>	<b>2549</b>	<b>2285</b>	<b>3612</b>	<b>2759</b>	<b>3808</b>	<b>7862</b>	<b>7500</b>	<b>365</b>	<b>1693</b>
Belarus	129	107	262	152	132	245	282	300	29	214
Moldova	138	115	89	65	120	160	177	200	45	250
Russia	2933	3069	3660	7041	12422	10258	23047	25000	162	1160
Ukraine	644	884	734	1260	1380	6263	4148	5000	89	370
<b>European CIS</b>	<b>3844</b>	<b>4175</b>	<b>4745</b>	<b>8518</b>	<b>14053</b>	<b>16926</b>	<b>27654</b>	<b>30500</b>	<b>136</b>	<b>914</b>
<b>Central and Eastern Europe</b>	<b>30048</b>	<b>29409</b>	<b>33255</b>	<b>27180</b>	<b>47682</b>	<b>58121</b>	<b>77060</b>	<b>77300</b>	<b>236</b>	<b>1625</b>

Source: wiiw Database on FDI 2007 and wiiw forecast.

Table 2

**Austrian FDI stock in NMS-10**

as of end-2005

	<b>CZ</b>	<b>HU</b>	<b>PL</b>	<b>SK</b>	<b>SI</b>	<b>EE</b>	<b>LV</b>	<b>LT</b>	<b>BG</b>	<b>RO</b>	<b>NMS-10</b>
EUR million	5704.9	5183.6	3786.3	1702.6	1725.7	115.3	54.6	150.0	3268.5	3379.0	25070.4
% of Austrian	22.8	20.7	15.1	6.8	6.9	0.5	0.2	0.6	13.0	13.5	100.0
% in country	11.1	11.1	5.0	15.3	28.9	1.1	1.3	2.2	33.8	15.4	10.3

CZ: Czech Republic, HU: Hungary, PL: Poland, SK: Slovakia, SI: Slovenia, BG: Bulgaria, EE: Estonia, LV: Latvia, LT: Lithuania, RO: Romania, NMS: New Member States

Source: wiiw Database on FDI 2007

Table 3

**Austrian FDI stock in SEE-6**

as of end-2005

	<b>AL</b>	<b>BA</b>	<b>HR</b>	<b>MK</b>	<b>ME</b>	<b>CS</b>	<b>SEE-6</b>
EUR million	6.9	783.7	4015.5	57.7	79.3	400.1	5343.3
% of Austrian	0.1	14.7	75.1	1.1	1.5	7.5	100.0
% in country	2.3	34.8	32.7	3.3	13.9	12.4	26.6

AL: Albania, BA: Bosnia and Herzegovina, HR: Croatia, MK: Macedonia, ME: Montenegro, RS: Serbia, SEE: Southeast Europe.

Source: wiiw Database on FDI 2007

**wiiw Database on Foreign Direct Investment in Central, East and Southeast Europe: Shift to the East**

by Gábor Hunya (concept and analysis) and Monika Schwarzhappel (database and layout)

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