wiiw
www.wiiw.ac.at

Wiener Institut für Internationale Wirtschaftsvergleiche

The Vienna Institute for International Economic Studies

Rahlgasse 3, A-1060 Vienna, Austria, Tel. (+43-1) 533 66 10, Fax (+43-1) 533 66 10-50, E-mail: wiiw@wiiw.ac.at

PRESS RELEASE NOT TO BE RELEASED BEFORE 08-06-2010, 12:00 a.m.

FDI in the CEECs hit hard by the global crisis

The Vienna Institute for International Economic Studies (wiiw) presents an analysis of foreign direct investment (FDI) in 20 Central, East and Southeast European countries based on the latest update of its database.

After a year of stagnation, overall FDI inflows to the CEECs halved in 2009, to about the 2005 level. The setback was most serious in the New EU Member States (NMS), less significant in Southeast Europe and the CIS. In the two latter regions the 2009 inflows were similar to those reached in 2005, thus some achievements of the economic upswing period could be consolidated. Inflows to the NMS were nearly as low as in 2003 when the drop was related to the 'dotcom' crisis.

All NMS were seriously hit by the FDI decline in 2009. Two of them – Slovakia and Slovenia – booked negative FDI inflows, implying that accumulated capital reserves were repatriated. In some countries the setback was more than 50%, such as in the Czech Republic, Hungary, Latvia and Lithuania. Less hit were Poland, which showed the strongest economic performance overall, and Estonia, which consolidated its economic position. The recent FDI decline in the NMS ought to be seen in the context of the very high FDI intensity attained in these countries. The foreign sector is important, often dominant in several sectors of the NMS economies. It contributes essentially to the overall economic growth performance in general and participates particularly in the severe declines in several countries of the region in 2009.

Importantly, equity investments were positive throughout the region in 2009 and comprised a much higher share of FDI than earlier. The resilience of equity FDI means that new projects and restructuring investments were not stopped even under the impact of the crisis. As for the individual countries, in the Czech Republic, Estonia and Latvia equity investments declined in 2008, but recovered slightly in 2009. Continuous high equity inflows of EUR 2 billion or more to Bulgaria, Hungary, Poland and Romania prove that these countries maintained their attractiveness for new investments. In most NMS reinvested earnings fell strongly as investors' incomes declined. In two countries most severely hit by the crisis, Latvia and Lithuania, reinvested earnings turned negative as did the overall FDI-related income. The main form of FDI flows responsible for the overall decline was 'other capital' which comprises mainly loans of the parent company to the subsidiary. Under the pressure of the financial crisis such credits dried out especially in the financial sector. In some cases it was the subsidiaries which credited the parent: 'other capital' inflows became negative in the Czech Republic, Estonia, Hungary, Slovakia and Slovenia.

Southeast European countries are still at a lower level of development and most of them attracted relatively less FDI than did the NMS, particularly in the export-oriented sectors. In some of these countries privatization is still going on: this boosted FDI in Albania and Montenegro and mitigated the decline in Serbia. Inflows to Croatia fell to less than half of the previous year's level but continued to be the second highest in the region.

In all four European CIS countries investigated in the study, FDI declined in 2009 – less so in Belarus, which is in a delayed transformation process, and most severely in Moldova, where the inflow of FDI almost stopped completely. Inflows to Russia dropped by nearly half as compared to the previous year, in line with the severe GDP decline. The consumption boom that had fuelled domestic market-oriented FDI including real estate development in the past few years came to a halt and investors postponed projects. In Ukraine the FDI inflow fell to less than half of the previous year's level as a result of the economic crisis and political uncertainties.

FDI outflows from the CEECs were more resilient to the crisis than the inflows to these countries. They fell by only one quarter, thus the net FDI position became more balanced: in 2009, overall outward FDI of the NMS accounted for 31% of the inward FDI, after a share of only 22% in 2008. Outflows were higher than in the previous year in the case of Estonia, Poland and Slovakia. FDI by Hungarian and Slovenian firms abroad fell somewhat but still much less than inflows, and outflows were higher than inflows, thus the net FDI of these two countries turned negative.

In 2009 the current account turned positive in four NMS and ran significantly smaller deficits in the others. Thus even the lower amounts of net FDI financed a larger part of the deficit than earlier. This was particularly advantageous for countries where the current account was in deficit and external financing constrained such as in Bulgaria and Romania. In Southeast Europe the role of FDI is more restricted in financing the continuously high current account deficits.

In six out of ten NMS more FDI-related income is taken out of the country than the amount of new FDI inflow. Still, the negative effects of the repatriation of FDI-related income can be balanced by other positions in the balance of payments. A positive foreign trade balance became the rule under the pressure of the crisis.

Forecasting the amount of FDI inflows for 2010 is not really feasible in the present circumstances. We nevertheless make an attempt based on global trends and the results in the first quarter of 2010. Thus, we expect FDI inflows to modestly increase in the region as a whole. Two countries indicate a strong revival of FDI – Poland and Russia, where economic growth will be strongest in 2010. These (the largest) countries as well as the Czech Republic, Hungary, Slovakia and Ukraine are expected to contribute to the revival of FDI. Other countries, including Romania and Bulgaria among the NMS and the other Southeast European countries, may receive lower inflows.

wiiw Database on Foreign Direct Investment in Central, East and Southeast Europe, 2010:
FDI in the CEECs Hit Hard by the Global Crisis//
by Gábor Hunya (concept and analysis) and Monika Schwarzhappel (database and layout)
107 pages including 86 Tables
wiiw, Vienna, May 2010

Available in hard copy (EUR 70) or PDF (EUR 65) or on CD-ROM (EUR 145; includes hard copy) from wiiw's website, www.wiiw.ac.at.
Orders can also be sent to fax +431 533 66 10-50 or to e-mail koehrl@wiiw.ac.at.

wiiw, 8 June 2010

Dr. Gábor Hunya (concept and analysis): Tel. (+43 1) 533 66 10-22, e-mail: hunya@wiiw.ac.at
Mag. Monika Schwarzhappel (database and layout): Tel. (+43 1) 533 66 10-16,
e-mail: schwarzhappel@wiiw.ac.at

Table 1

Overview of FDI in Central, East and Southeast Europe

	FDI inflow, EUR million							Per capita inflow EUR	Per capita stock EUR
							wiiw forecast		
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2009**	**2009**
Bulgaria	2736	3152	6222	9052	6697	3213	1500	423	4670
Czech Republic	4007	9374	4355	7634	4415	1965	3000	187	8049
Estonia	771	2307	1432	1998	1317	1204	1300	898	8407
Hungary	3633	6172	5609	3956	4752	1021	1500	102	6410
Latvia	513	568	1326	1698	863	52	100	23	3628
Lithuania	623	826	1448	1473	1223	190	400	57	2895
Poland	10237	7112	12711	15902	9601	8251	11000	216	3323
Romania	5183	5213	9061	7250	9496	4556	3500	212	2408
Slovakia	2441	1952	3733	2382	2323	-36	1000	-7	6300
Slovenia	665	473	513	1106	1313	-48	0	-24	5400
NMS-10	**30809**	**37148**	**46410**	**52451**	**42001**	**20367**	**23300**	**199**	**4300**
Albania	278	213	259	481	675	698	400	219	800
Bosnia and Herzegovina	567	493	611	1517	726	361	300	94	1500
Croatia	950	1468	2765	3670	4192	1875	1000	423	5729
Macedonia	261	77	345	506	400	181	200	88	1500
Montenegro	53	384	493	673	625	944	500	1498	5233
Serbia	772	1268	3392	2513	2018	1410	1000	193	2000
Southeast Europe	**2880**	**3903**	**7864**	**9360**	**8636**	**5469**	**3400**	**255**	**2500**
Belarus	132	245	282	1304	1471	1337	800	141	620
Moldova	118	153	186	394	481	62	100	17	510
Russia	12422	10336	23675	40237	51490	27852	35000	196	1200
Ukraine	1380	6263	4467	7220	7457	3453	4000	75	789
European CIS	**14052**	**16997**	**28610**	**49155**	**60899**	**32704**	**39900**	**163**	**1100**
Total region	**47741**	**58048**	**82884**	**110966**	**111536**	**58540**	**66600**	**180**	**2200**

Source: wiiw Database on FDI incorporating national bank statistics.