

## PRESS RELEASE

### Opportunities for Acquisition and Outsourcing

#### wiiw Database on Foreign Direct Investment in Central, East and Southeast Europe 2005

The Central, East and Southeast European countries received a record EUR 34.8 billion FDI in 2004, an upswing shared by all sub-regions. Increasing FDI in the **new EU members** as opposed to a falling trend in the 'old' EU indicates a shift in the location preference of investors. The leading FDI targets in terms of FDI inflow per capita were, as in the previous years, Estonia, the Czech Republic and Hungary (see attached table). These are also the countries with the highest FDI stock: over the past 15 years they have received double the amount of FDI per capita than the rest of the region. In these more mature host countries, FDI is growing more by way of **reinvested profits** than owing to new projects.

In **Southeast Europe**, FDI increased by 18% in 2004 and reached EUR 8.8 billion. The main targets were the EU candidate countries Bulgaria and Romania. Romania alone attracted more FDI than the five Western Balkan countries together. An improving business climate and large privatization projects have supported the catch-up process. In the automotive and consumer goods sectors Romania is establishing itself as a cheap alternative to the NMS.

The **Western Balkans** countries received relatively small amounts of FDI. Increasing but still meagre inflows were booked by Albania, Bosnia and Herzegovina, and Macedonia, significant declines hit Croatia and Serbia. These developments correspond to the occurrence of privatization deals. Export-oriented manufacturing FDI is still rare. The region has some disadvantages compared to Romania and Bulgaria due to relatively higher wages and a less attractive investment environment.

The **cost advantages** of the new EU member states vs. the old ones are marked and lasting, which indicates that they will attract further investments. EU accession has lowered transaction costs and the move towards the currency union makes the economic environment more and more stable. Fiscal incentives are not really needed to attract investments, but they are used by some governments in the competition among the NMS themselves.

Examples for direct relocation of production lines from West to East are rare, but capacity expansions in the European automotive industry or in household appliances production take place mostly in the NMS. Still, the domestic market-oriented services, including retail trade, financial services and real estate development, account for the majority of FDI. As a novelty in 2004 also export-oriented services appeared. Some important European service centres were transferred to

the NMS, such as DHL to the Czech Republic and Avis to Hungary. Accounting services, the software industry and call centres provide further examples of offshoring.

Investors in the NMS have increased their earnings in recent years. **High profit rates** stimulate further investments. About half of the earnings are transferred back home. This indicates the price the Central and East European countries pay for the imported capital. In the capital exporting countries, on the other hand, repatriated earnings may generate additional demand and jobs.

**In 2005 no increase in FDI inflows** can be expected in the region as a whole (see attached table). The economic slowdown of the European economies will go hand in hand with declining investment activity. Only countries which initiate larger privatization projects, such as the Czech Republic, Slovakia or Albania, will be exceptions. The shift of production to the NMS and transferring earnings from there is a slow process.

A more detailed analysis is included in the new **wiiw Database on FDI**. This database covers about 2500 time series and is available in print and PDF as well as on CD-ROM. The main source of data are the respective countries' National Banks. FDI flows are taken from the balance of payments, stocks from the international investment position statistics. Austrian FDI is covered in the way the receiving countries report it.

**wiiw Database on Foreign Direct Investment in Central, East and Southeast Europe:  
Opportunities for Acquisition and Outsourcing**

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	FDI inflow, EUR million						Per capita	Per capita
	2000	2001	2002	2003	2004	forecast 2005	inflow EUR 2004	stock EUR 2004
Czech Republic	5404	6296	9012	1863	3596	3900	352	4052
Hungary	2998	4391	3185	1909	3365	3200	333	4381
Poland	10334	6372	4371	3660	4892	4500	128	1310
Slovakia	2089	1768	4397	636	904	1800	168	2043
Slovenia	149	412	1750	299	422	300	211	2757
<b>New Member States-5</b>	<b>20974</b>	<b>19240</b>	<b>22716</b>	<b>8366</b>	<b>13178</b>	<i>13700</i>	<b>200</b>	<b>2310</b>
Estonia	425	603	307	797	742	800	550	5187
Latvia	447	147	269	267	522	600	226	1430
Lithuania	412	499	772	160	623	600	181	1369
<b>New Member States-8</b>	<b>22258</b>	<b>20488</b>	<b>24063</b>	<b>9590</b>	<b>15065</b>	<i>15700</i>	<b>206</b>	<b>2291</b>
Albania	155	232	151	158	275	400	86	416
Bosnia and Herzegovina	159	133	282	338	400	400	104	397
Bulgaria	1103	903	980	1851	2114	1800	272	773
Croatia	1142	1503	1195	1788	921	1000	208	2150
Macedonia	189	493	83	84	122	100	60	581
Romania	1147	1294	1212	1946	4098	3500	189	608
Serbia	55	186	502	1197	775	800	103	475
Montenegro	.	11	89	39	50	.	80	302
<b>Southeast Europe</b>	<b>3950</b>	<b>4754</b>	<b>4494</b>	<b>7400</b>	<b>8756</b>	<i>8000</i>	<b>171</b>	<b>715</b>
Belarus	129	107	262	152	136	100	14	155
Moldova	137	114	140	63	122	100	34	184
Russia	2933	3069	3660	7042	9388	9000	65	558
Ukraine	644	884	734	1260	1380	1500	29	159
<b>European CIS</b>	<b>3843</b>	<b>4174</b>	<b>4796</b>	<b>8517</b>	<b>11026</b>	<i>10700</i>	54	439
<b>Whole region</b>	<b>30051</b>	<b>29416</b>	<b>33353</b>	<b>25506</b>	<b>34846</b>	<b>34400</b>	106	894