

CHART OF THE WEEK

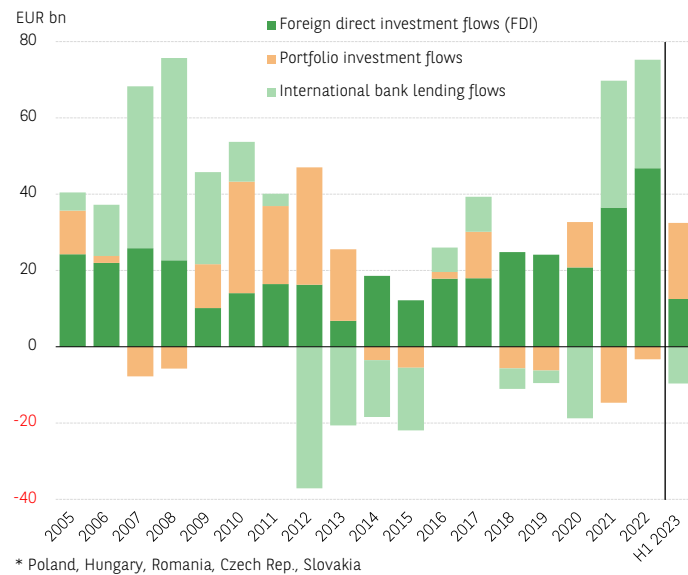
CHART OF THE WEEK

18 October 2023

RESILIENCE OF CAPITAL FLOWS IN CENTRAL EUROPE

Cynthia Kalasopatan Antoine

Central Europe*: net capital flows



* Poland, Hungary, Romania, Czech Rep., Slovakia

Source: National Central banks, BNP Paribas

In Central Europe, capital flows (foreign direct investments, portfolio flows and bank lending flows) have resisted rather well despite geopolitical uncertainties. Similarly, they do not seem to be affected, for the time being, by the weakening of economic activity in the region. In H1 2023, they reached EUR 22.9 billion, an amount worth more than a full year track record during the pre-Covid period. Portfolio flows accounted for the largest share, most likely supported by the very favourable yield differential of government bonds vis-à-vis Germany.

One important fact to note is that in 2021 and 2022, capital flows reached EUR 55.1 billion and EUR 72 billion respectively, levels close to the records observed in 2007/2008. Poland, Romania and, to a lesser extent, Hungary received almost all of these flows, mainly through foreign direct investment (FDI) flows. The boost in FDI flows can be explained by the combined effect of several factors. There is probably a catch-up effect from postponed investment projects during the Covid-19 pandemic. But near-shoring activities, that is, the process of reorganising production activities in the euro zone, - as a result of the recent supply shocks are also supporting FDI flows. More specifically in 2022, plant closures in Russia and Belarus, linked to EU sanctions, redirected part of production activity to neighbouring countries.

In the short and medium term, Central Europe remains an attractive region for FDI. To be sure, geographical proximity with the EU and the associated advantages in terms of delivery times and transport costs are a couple of the arguments that are often put forward. Competitive wages compared to the Euro zone, as well as a skilled workforce, are still significant assets. In addition, FDI regulations are considered to be among the least binding according to an index calculated by the OECD for 69 countries, which takes numerous criteria amongst which restrictions on capital participation, profit repatriation and land ownership.

cynthia.kalasopatanantoine@bnpparibas.com

ECONOMIC RESEARCH



BNP PARIBAS

The bank
for a changing
world

ECOCONJONCTURE

Structural or thematic topics.

ECOEMERGING

Analyses and forecasts for a selection of emerging economies.

ECOPERSPECTIVES

Analyses and forecasts with a focus on developed countries.

ECOFLASH

Data releases, major economic events.

ECOWEEK

Recent economic and policy developments, data comments, economic calendar, forecasts.

ECOCHARTS

Easy-to-read monthly overview of inflation dynamics in the main developed economies.

ECOPULSE

Monthly barometer of key economic indicators of the main OECD countries.

MACROWAVES

Our economic podcast.

HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the **Economic Research website**

&

FOLLOW US ON LINKEDIN
see the **Economic Research linkedin page**

OR TWITTER
see the **Economic Research Twitter page**



The information and opinions contained in this document have been obtained from, or are based on, public sources believed to be reliable, but there is no guarantee of the accuracy, completeness or fitness for any particular purpose of such information and such information may not have been independently verified by BNPP or by any person. None of BNPP, any of its subsidiary undertakings or affiliates or its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy and completeness of the information or any opinions based thereon and contained in this document and it should not be relied upon as such. This document does not constitute research, as defined under MIFID II, or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on, in connection with any contract or investment decision. Information and opinions contained in this document are published for the information of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient, are subject to change without notice. In providing this document, BNPP does not offer investment, financial, legal, tax or any other type of advice to, nor has any fiduciary duties towards, recipients. Any reference to past performance is not indicative of future performance, which may be better or worse than prior results. Any hypothetical, past performance simulations are the result of estimates made by BNPP, as of a given moment, on the basis of parameters, market conditions, and historical data selected by BNPP, and should not be used as guidance, in any way, of future performance. To the fullest extent permitted by law, no BNPP group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this document even when advised of the possibility of such losses. All estimates and opinions included in this document are made as of the date of this document. Unless otherwise indicated in this document there is no intention to update this document. BNPP may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this document or derivatives thereon. Prices, yields and other similar information included in this document are included for information purposes however numerous factors will affect market pricing at any particular time, such information may be subject to rapid change and there is no certainty that transactions could be executed at any specified price. BNPP may have a financial interest in any issuer or person mentioned in this document, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa. BNPP, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this document. BNPP may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this document. BNPP may be a party to an agreement with any person relating to the production of this document. BNPP may to the extent permitted by law, have acted upon or used the information contained herein or in the document, or the analysis on which it was based, before the document was published. BNPP may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this document. Any person mentioned in this document may have been provided with relevant sections of this document prior to its publication in order to verify its factual accuracy.

This document was produced by a BNPP group company. This document is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNPP. By accepting or accessing this document you agree to this.

BNP Paribas is a société anonyme incorporated in France, licensed and supervised as a credit institution by the European Central Bank (ECB) and as an investment services provider by the Autorité de contrôle prudentiel et de résolution (ACPR) and Autorité des marchés financiers (AMF), and having its registered office at 16, boulevard des Italiens, 75009 Paris, France.

Some or all of the information contained in this document may already have been published on <https://globalmarkets.bnpparibas.com>.

For country-specific disclaimers (United States, Canada, United Kingdom, Germany, Belgium, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland, Brazil, Turkey, Israel, Bahrain, South Africa, Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, Vietnam) please type the following URL to access the applicable legal notices: https://globalmarkets.bnpparibas.com/gm/home/Markets_360_Country_Specific_Notices.pdf
© BNP Paribas (2023). All rights reserved.

Published by BNP PARIBAS Economic Research

Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com

Head of publication : Jean Lemierre / Chief editor: William De Vijlder



BNP PARIBAS

The bank
for a changing
world