2 Global trends in foreign direct investment[2]

2.1 Regional trends in 2020

In 2020, global FDI inflows2 contracted by 35% to USD 963.1 billion due to the COVID-19 pandemic, dropping below the USD 1 trillion mark for the first time since 2005. This represents the second largest slump in the history of FDI statistics since 2001, the year of the September 11 terrorist attacks, exceeding the one observed during the financial and economic crisis of 2008 by around 13 percentage points.

The pandemic and related containment measures led MNEs to reassess existing investment projects, which slowed the momentum of FDI inflows. Foreign investors exerted great caution in light of fears of another recession, uncertainty about the outcome of the US elections and Brexit. This likewise stalled M&A deals.[3] As a result, FDI inflows declined massively in almost all regions of the world.

On the other hand, financial markets recovered relatively quickly from the price losses of March 2020, even outperforming pre-pandemic levels. This was due to numerous policy measures meant to cushion the economic impact of COVID-19, such as the Federal Reserve System cutting US key interest rates and the ECB expanding bond purchase volumes to more than EUR 1 trillion under its pandemic emergency purchase programme (PEPP). This caused FDI stocks to display solid growth of 14.2%, bringing them to USD 41.7 trillion – even though FDI inflows recorded unprecedented decreases in 2020.

2.2 Preliminary data for 2021 and 2022

According to preliminary data of the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows increased by 64.2% to USD 1.58 trillion in 2021, thus reaching pre-pandemic levels after the pandemic-induced slump in 2020. Due to favorable financing conditions and major infrastructure packages in response to the COVID-19 crisis, international project financing increased swiftly and transnational M&As gained momentum, despite supply and commodity shortages.[4] From a global perspective, corporate profits in particular climbed well above pre-pandemic levels. Global economic growth recovered relatively quickly, and financial markets reached record highs at the end of 2021. This was due to the development and approval of COVID-19 vaccines, the introduction of several infrastructure and economic stimulus packages and the continuation of the low interest rate policy of important central banks despite unexpectedly high inflation. Accordingly, global FDI stocks went up by 8.9% to USD 45.4 trillion at the end of 2021, amounting to 47.2% of global GDP.

Following the strong upswing in 2021, FDI flows will likely decrease again or stagnate at best in 2022, according to preliminary UNCTAD data and estimates, due to the war in Ukraine. The sentiment of foreign investors has changed dramatically amid Russia's invasion of Ukraine and the ensuing food, energy and financial crisis.[5] Moreover, soaring inflation, rising interest rates and the fear of an impending recession weigh heavily on financial markets, which is affecting FDI stocks.

[2] *Oesterreichische Nationalbank, External Statistics, Financial Accounts and Monetary and Financial Statistics Division, kujtim.avdiu@oenb.at.*

[3] *UNCTAD. 2021. World Investment Report 2021. https://unctad.org/system/files/official-document/wir2021_en.pdf.*

[4] *UNCTAD. 2022. World Investment Report 2022. https://unctad.org/system/files/official-document/wir2022_en.pdf.*

[5] *UNCTAD. 2022. Global FDI Downshifts in Q2 2022. Project announcements indicate slowdown in new investments. Investment Trends Monitor No. 42. https://unctad.org/system/files/official-document/diaeiainf2022d4_en.pdf.*