

### 3 Record high of Russian FDI in Austria in the first half of 2022 bears little significance for real economy<sup>6</sup>

In this section, we discuss FDI flows between Austria and Russia up until summer 2022. This allows us to show first effects of Russia's war against Ukraine, which started in February 2022.

On the surface, Russia appears to be Austria's second-most important direct investor – after Germany and before Switzerland, the USA and Italy. If we look at Russian FDI stocks in Austria over time, we see that they increased strongly between 2011 and 2015. In 2017, they posted a record high but decreased slightly in the following years. Figures slumped in the pandemic year 2020 – an outlier due to the economic situation. Afterwards, capital flows into Austria rose again, and Russian FDI reached a new record high in mid-2022.

At first sight, Russian FDI in Austria seems to play an important role. However, some characteristics of Russian FDI put this into perspective: (1) A high share of Russian FDI in Austria is made up of pass-through funds, i.e. funds which shortly after being transferred to Austria leave the country again as outward FDI. (2) Russian FDI in Austria is low in profit in the aggregate. (3) Russian FDI is distributed between a few subsidiaries and therefore highly concentrated. (4) Given the small number of these subsidiaries, the invested capital only creates a very small number of jobs.

Most likely, the high share of pass-through funds is primarily related to the fact that some Russian companies manage their international activities in Austria. For example, the Russian oil and gas company Lukoil has its headquarters for international business in Vienna and, until recently, the Russian Sberbank maintained its European headquarters in the Austrian capital as well. The first strong rise in Russian FDI in Austria coincided with Russia's annexation of Crimea and the ensuing sanctions against Russia. Owing to the sanctions, it became more difficult for Russia to do international business directly, which may have encouraged Russian companies to establish more or larger headquarters in Western Europe. In light of the attack on Ukraine in February 2022 and renewed, more comprehensive sanctions, pass-through funds may have gained an even greater role in Russian FDI, as suggested by the marked increase in Russian FDI capital in Austria in the first half of 2022.

By contrast, Russia is no longer an important target country for Austrian FDI, even though returns generated in Russia in the past were well above the average. As of June 30, 2022, only 1.9% of all outward Austrian FDI was attributable to Russia. Between 2008 and 2013, around 5% of Austrian FDI went to Russia. However, since 2014, the year of Crimea's annexation, Austrian FDI in Russia has been declining continuously both in absolute and relative terms. In the first half of 2022, this decline accelerated further. According to preliminary data, Austrian FDI stocks in Russia dropped by EUR 1.7 billion in the first half of 2022 compared to 2021. In the same period, about 5% of Austrian companies operating in Russia withdrew from the market. The imposed sanctions, the elevated risks connected to doing business in Russia and the economic weakness, which will persist at least in the medium term, might impact Austrian business activities in Russia further.

<sup>6</sup> Oesterreichische Nationalbank, External Statistics, Financial Accounts and Monetary and Financial Statistics Division, [kujtim.avdiu@oenb.at](mailto:kujtim.avdiu@oenb.at); Central, Eastern and Southeastern Europe Section, [josef.schreiner@oenb.at](mailto:josef.schreiner@oenb.at); Business Cycle Analysis Section, [klaus.vondra@oenb.at](mailto:klaus.vondra@oenb.at).