

*Foreign Direct Investments and
Business Climate in the SEE
Countries in Comparison with the
NMS-8 Countries*

***Veronika Czakó and Péter Bilek
ICEG European Center***

Bruxelles, 18 November 2005

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Intro

- SEE Countries: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Romania, Serbia és Montenegro
- NMS8: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia
- Foreign Direct Investments: last 10 years, stock and flow figures
- Business Climate: Tax regimes, Labour market, „Synthetic Indexes”

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

About the region

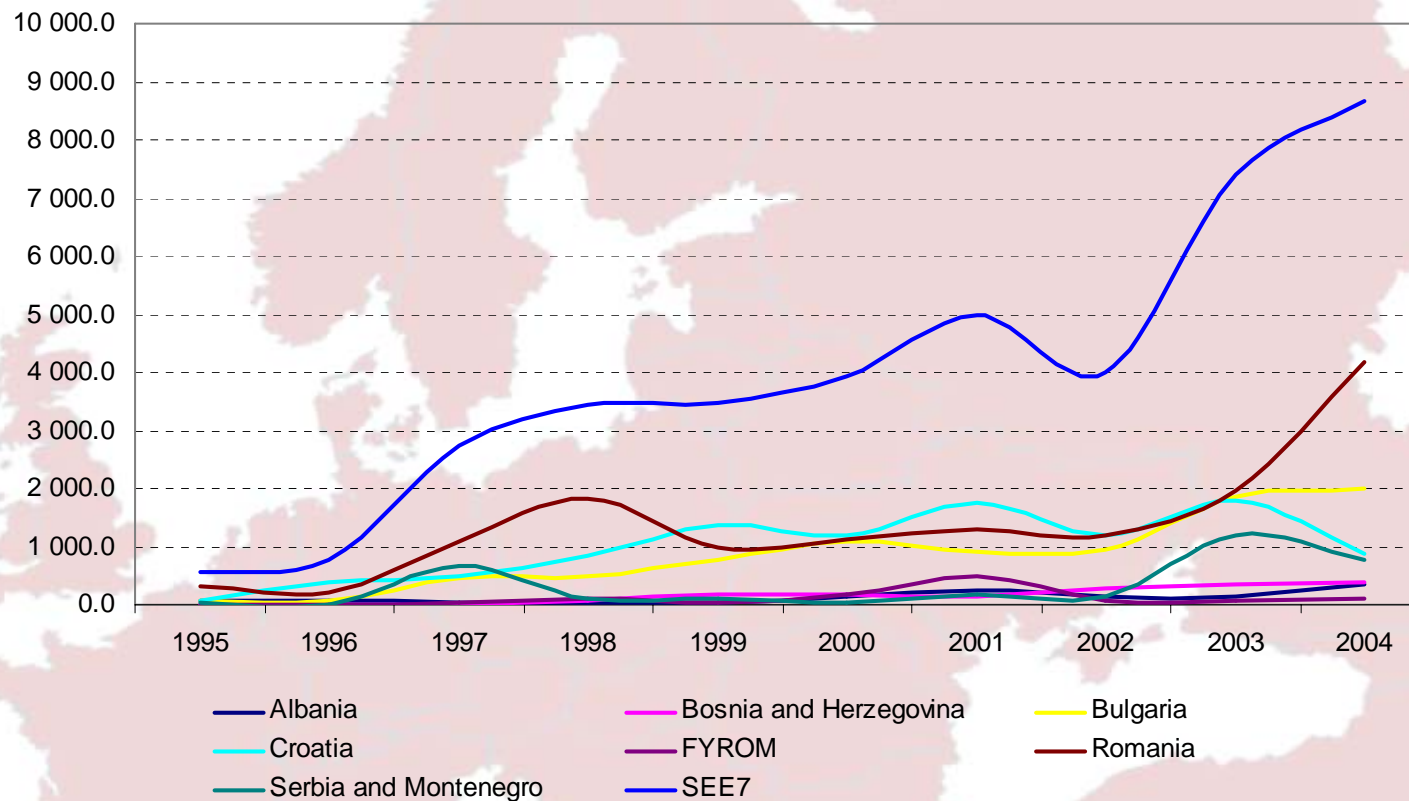
- Wars in the Western Balkans
- Recession lasted longer
- Reforms started later
- Foreign investors avoided the region

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

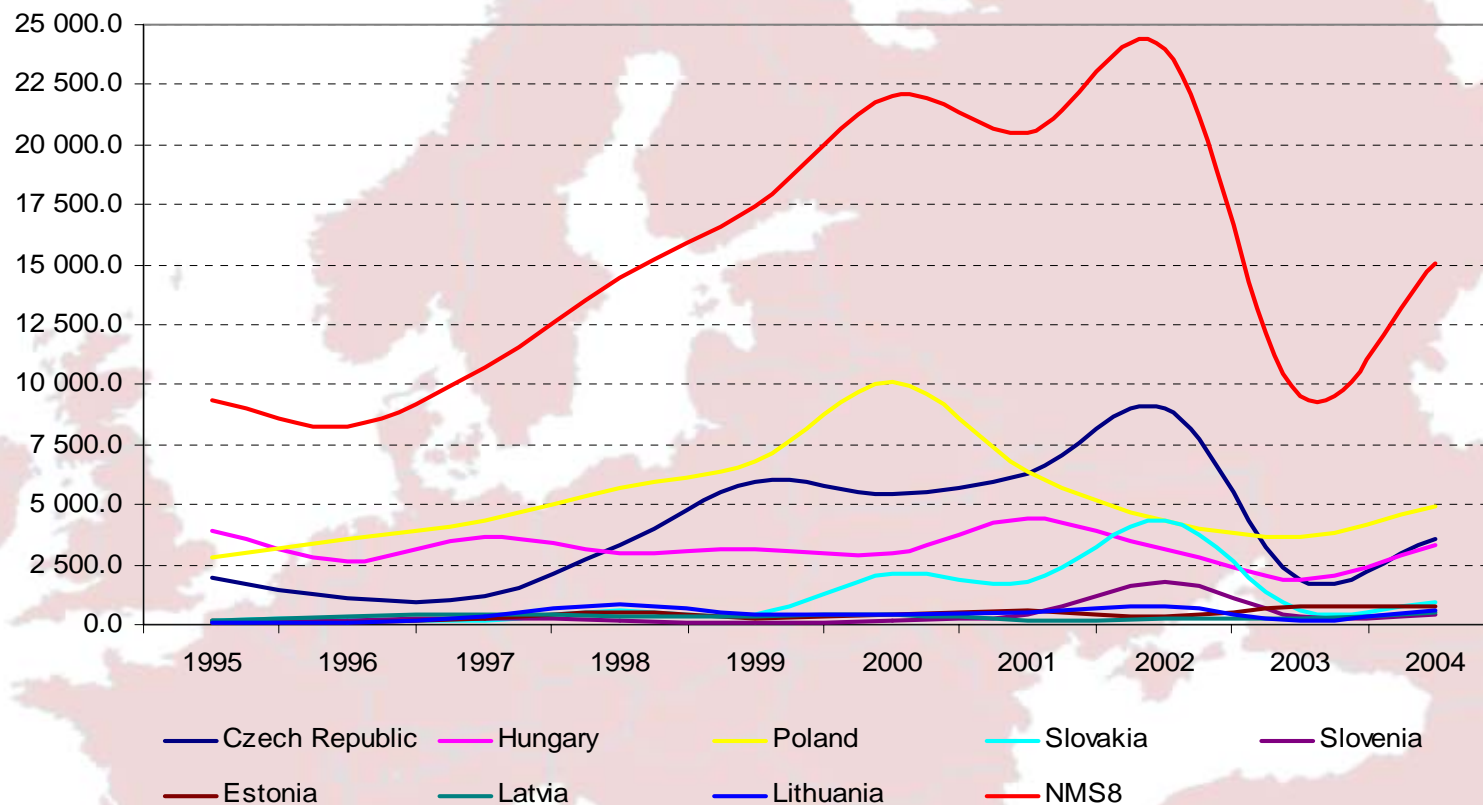
Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Evolution of FDI in SEE (flow)



ICEG European Center
6/B Dayka G. Street, Budapest, H-1118
Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Evolution of FDI in NMS8 (flow)



ICEG European Center
6/B Dayka G. Street, Budapest, H-1118
Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

FDI (flow)

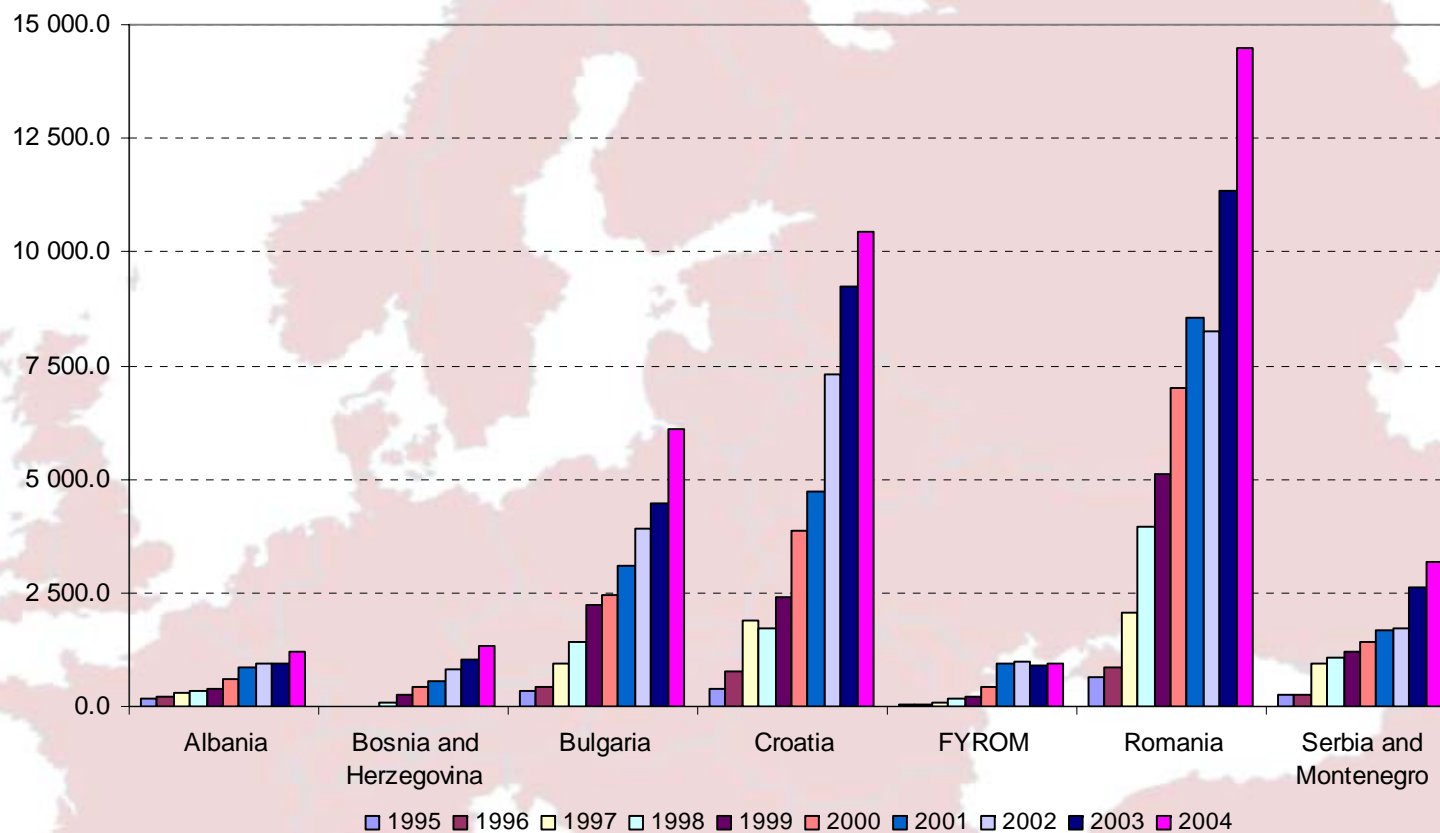
- SEE
 - dynamism increased in the new decade
 - 2003-2004: EUR 16 billion
 - Main targets: BUL, CRO, ROM, SCG ~ 90%)
 - Mainly privatisation, partly green-field investments
- NMS
 - Peak in 2002 – EUR 24 billion; decline in 2003
 - Main targets: CZE, HUN, POL
 - Privatisation is almost completed, mainly green-field investments

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Evolution of FDI stock in SEE



ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Evolution of FDI stock in SEE 2.

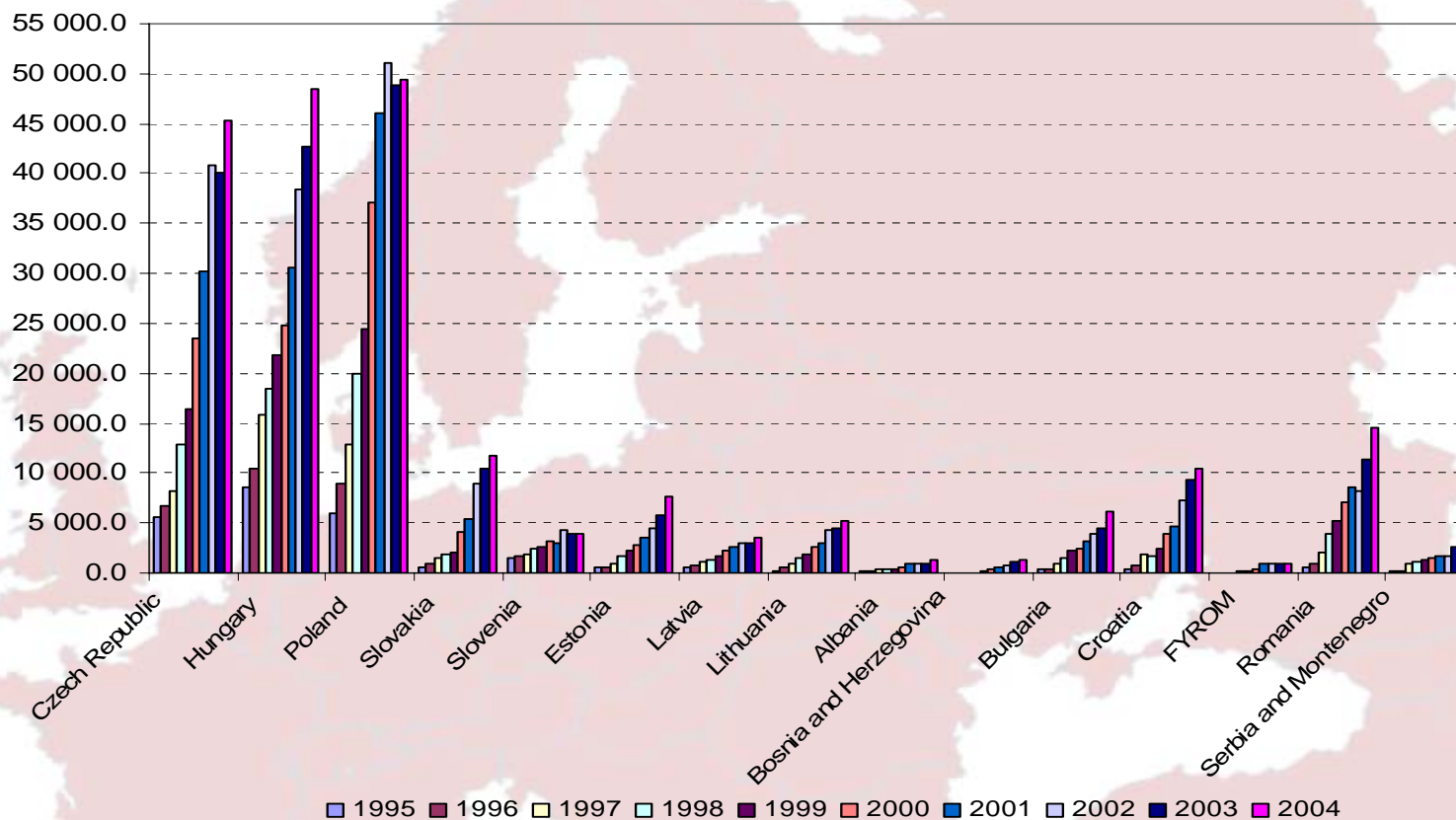
- Romania and Croatia – more than EUR 10 billion
- Bulgaria – EUR 6 billion
- SCG – EUR 3 billion
- Albania, BiH, FYROM – EUR 1-1.3 billion
- Dynamic growth since 2000
- But: large gap between SEE and NMS8

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Evolution of FDI stock – SEE and NMS

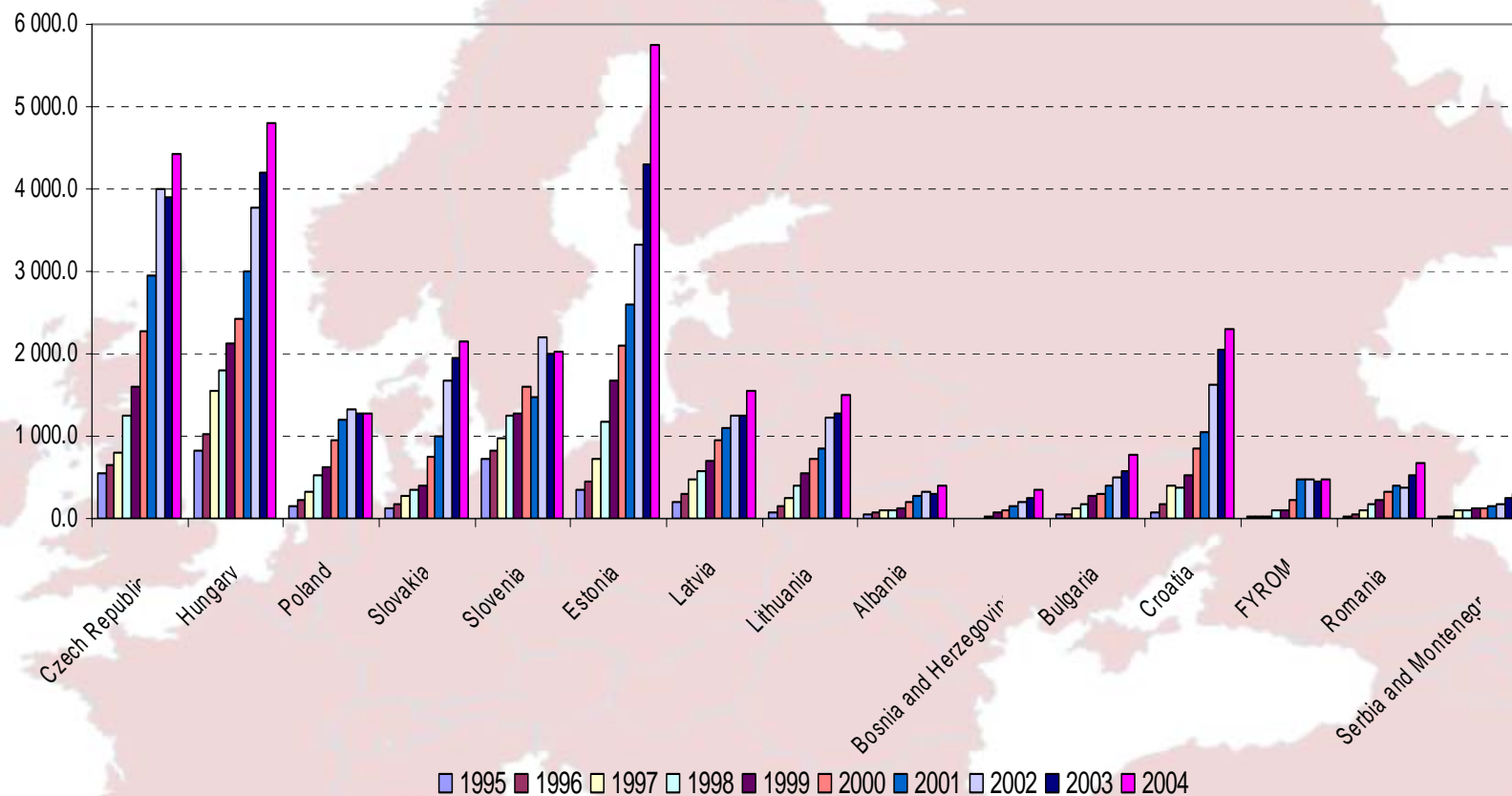


ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Evolution of FDI (stock/capita)



ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Top5 Investors

	ALB		BIH		BUL		CRO		MKD		ROM	
1	ITA	47.9	CRO	15.5	GRE	13.3	AUT	25.7	NED	31.6	NED	15.5
2	GRE	34.2	SLO	13.6	AUT	11.8	GER	20.7	SUI	13.6	AUT	12.2
3	MKD	2.2	AUT	13.4	NED	9.0	USA	14.7	BUL	9.3	FRA	11.1
4	USA	2.0	KUW	9.9	GER	8.7	HUN	6.0	GBR	6.8	GER	8.0
5	TUR	2.0	GER	9.2	BEL&LUX	8.4	LUX	5.9	SLO	6.1	USA	6.5

- Largest investors: Austria, Germany, Greece, Italy and the Netherlands

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Business Climate

- Business Climate – based on two factors
- Taxes – CPT, dividends, interest, VAT
- Labour Market – average wages, minimum wages, employment, unemployment
- „Synthetic” Indices – Doing Business (World Bank), Competitiveness Index (WEF)

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Taxes

- Ability to attract FDI, improvement of business environment – tax rate reduction, flat tax
- Lower average tax rate than in the rest of Europe
- Special feature: 9 tax systems in 7 countries

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Taxes 2.

	Corporate income tax (%)	Tax on dividends (%)	Interest income (%)	Standard VAT rate (%)
Albania	25	10	10	20
Bosnia-Herzegovina				
<i>Republika Srpska (RS)</i>	10	-	-	17
<i>Federation (FBiH)</i>	30	-	-	17
Bulgaria	15	7	15	20
Croatia	20	15	15	22
FYR of Macedonia	15	0	0	18
Romania	16	15	15/5	19
Serbia & Montenegro				
<i>Serbia</i>	10	20	20	18
<i>Montenegro</i>	20	15	5	17

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Taxes 3.

- Corporate income tax usually under 20% – in the case of two states, under 10%
- Interest income and dividends fall under tax in most cases
- Standard VAT rate between 17 and 22% – VAT is already introduced in all countries in the region
- Tax competition is present in the region

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Labour market - wages

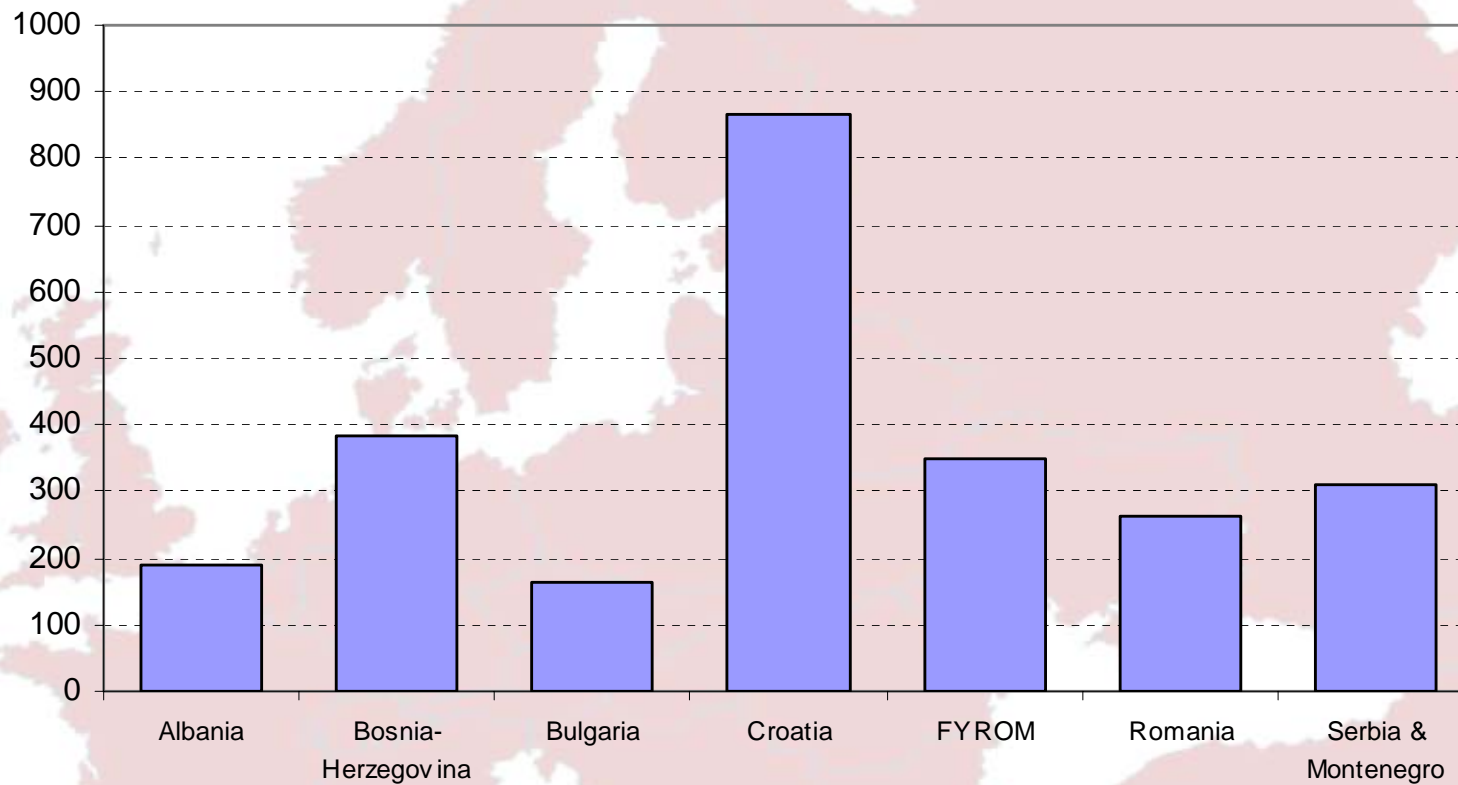
- Wages are on average lower than in the Visegrad countries (V-4)
- The region far from homogenous in this respect – large differences in wage
- The highest: in Croatia, the lowest: in Albania and Bulgaria

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Labour market – wages 2.

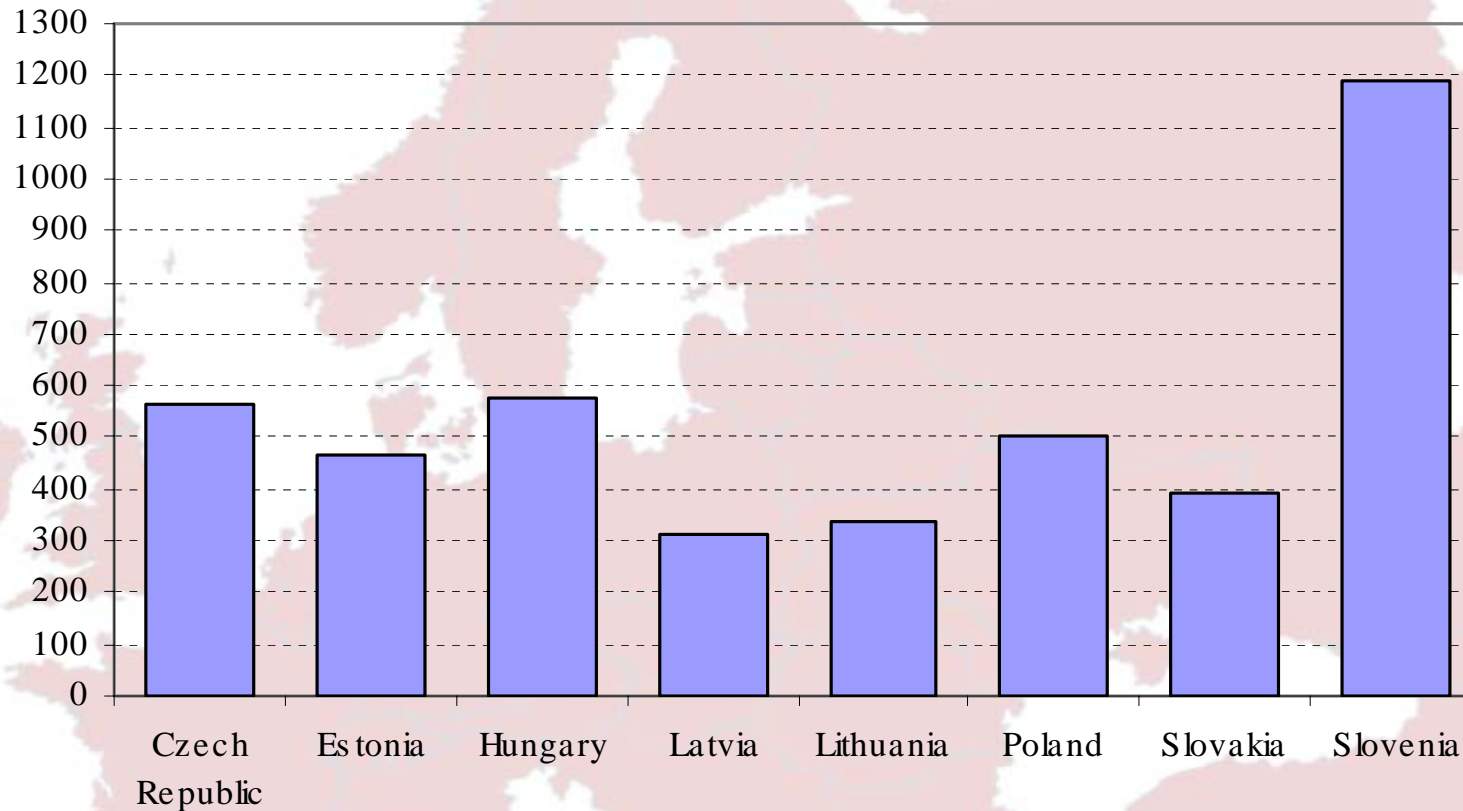


ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Labour market – wages 3.



ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Labour market – minimum wages

SEE	
Albania	86
Bulgaria	77
Croatia	285
Romania	91
Serbia	73

NMS-8	
Czech Rep.	238
Estonia	172
Hungary	232
Latvia	121
Lithuania	159
Poland	208
Slovakia	163
Slovenia	514

- Minimum wages around EUR 80 (except Croatia) – Hungarian level the same 7 years ago.

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Labour market - employment

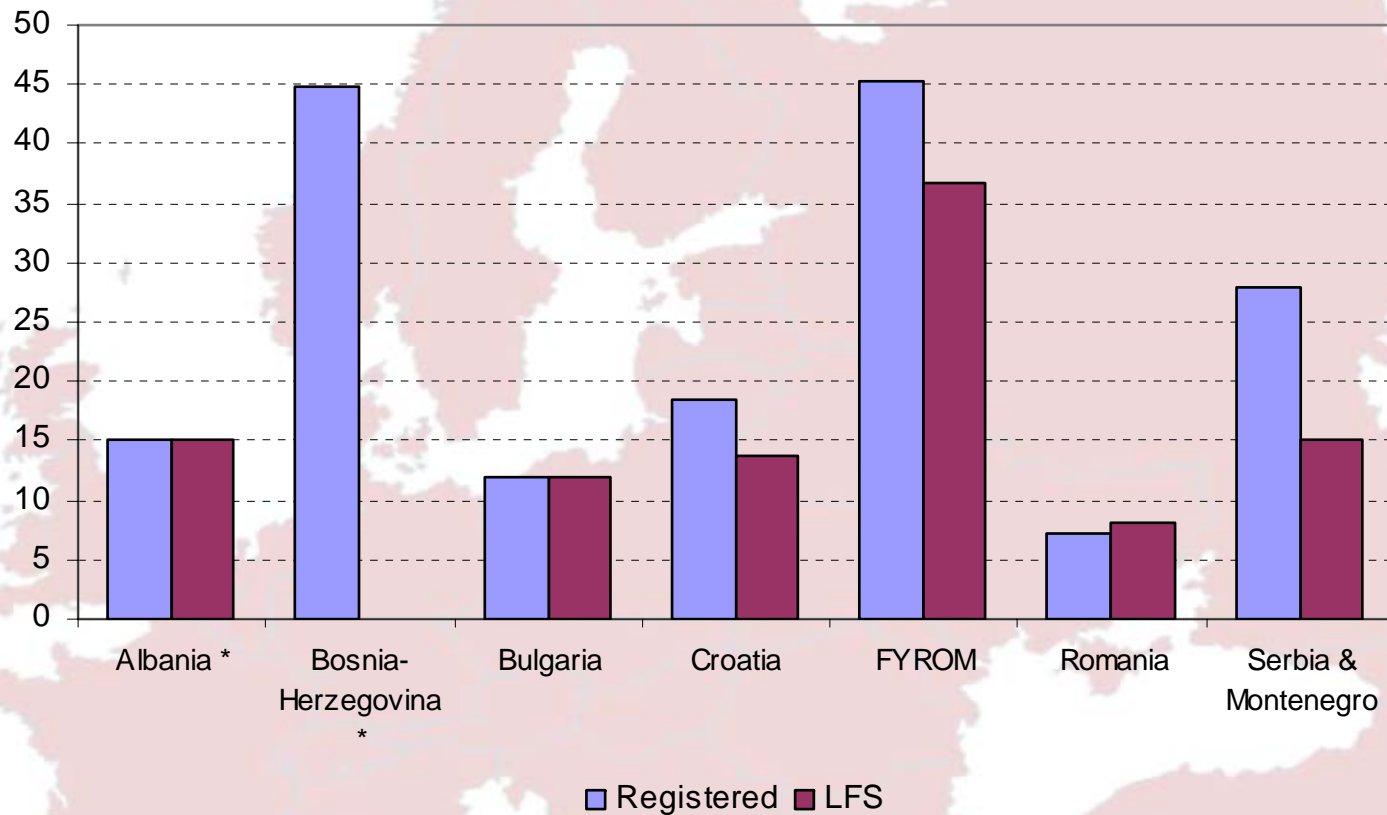
- Differing across SEE countries
- The employment rate is heterogeneous, some places under 20% (BiH, Mac.), some places around 60% (Bul., Rom.); the rest between 40 and 50%
- High level of agricultural activity
- Tourism: important in the case of Bulgaria and Croatia
- High unemployment rate

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Labour market - unemployment



ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Indexes

- *Doing Business* – quality of business environment
- *GCI* – country competitiveness
- SEE countries towards the end of the list...
- ... but gradually improving
- SEE could become direct competitors of NMS-8 in medium/long term.

WB DB		GCI	WB DB		GCI
SEE			NMS-8		
Albania	117	100	Czech Republic	41	38
Bosnia-Herzegovina	87	95	Estonia	16	20
Bulgaria	62	58	Hungary	52	39
Croatia	118	62	Latvia	26	44
FYR Macedonia	81	85	Lithuania	15	43
Romania	78	67	Poland	54	51
Serbia & Montenegro	92	80	Slovakia	37	41
			Slovenia	63	32

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Thank you for your attention!

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu