

New European Union Frontier Countries: Economic Situation and Investment Climate

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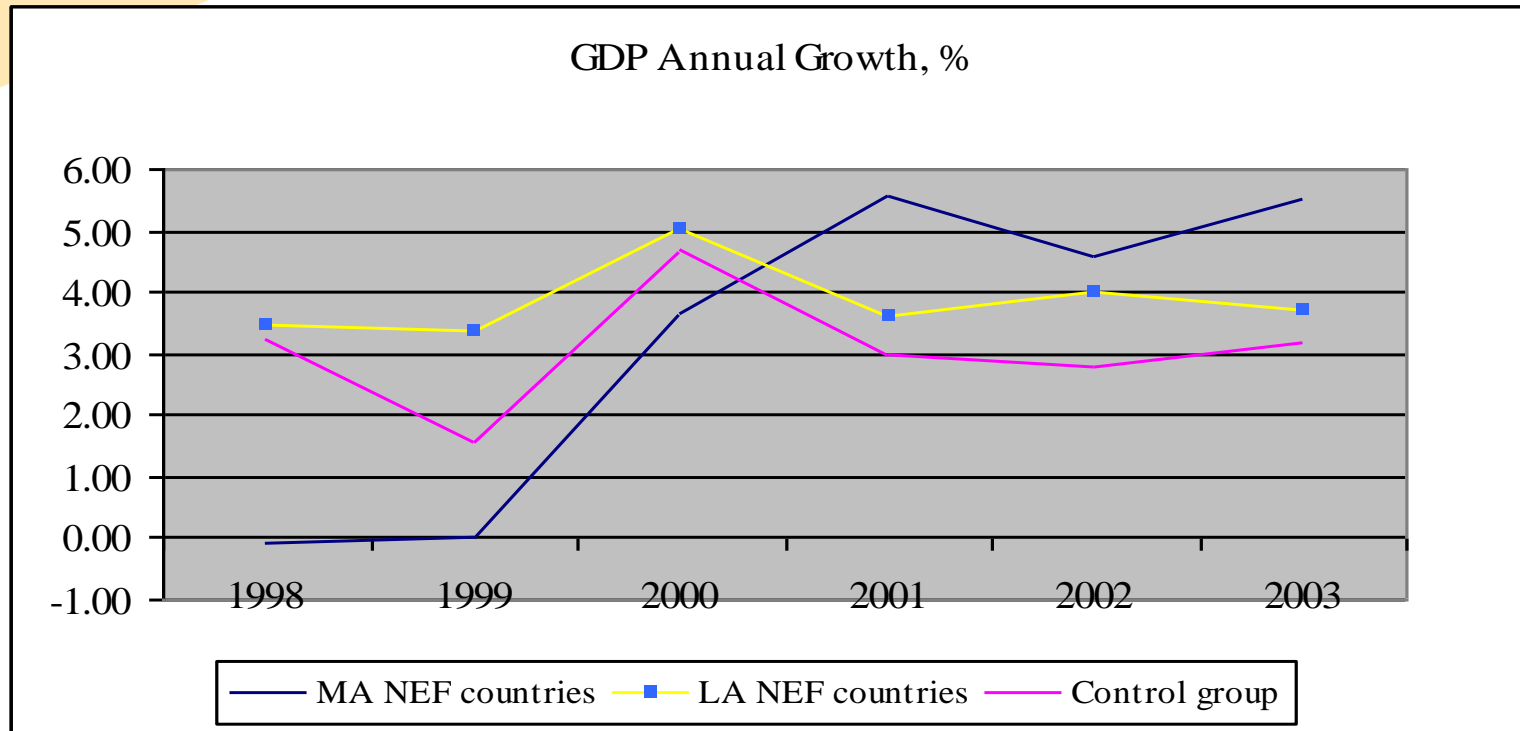
October, 2004

New European Union frontier countries		<i>Control Group of Countries</i>
<i>(NEF countries)</i>		
<i>More Advanced New European Frontier Countries (MA NEF countries)</i>	<i>Less Advanced New European Frontier Countries (LA NEF countries)</i>	Chile, Czech Republic, Estonia, Poland, Slovenia,
Bulgaria, Croatia, Romania, and Ukraine	Albania, Bosnia and Herzegovina, Macedonia, Moldova, Serbia and Montenegro	

MA NEF Countries' Strengths

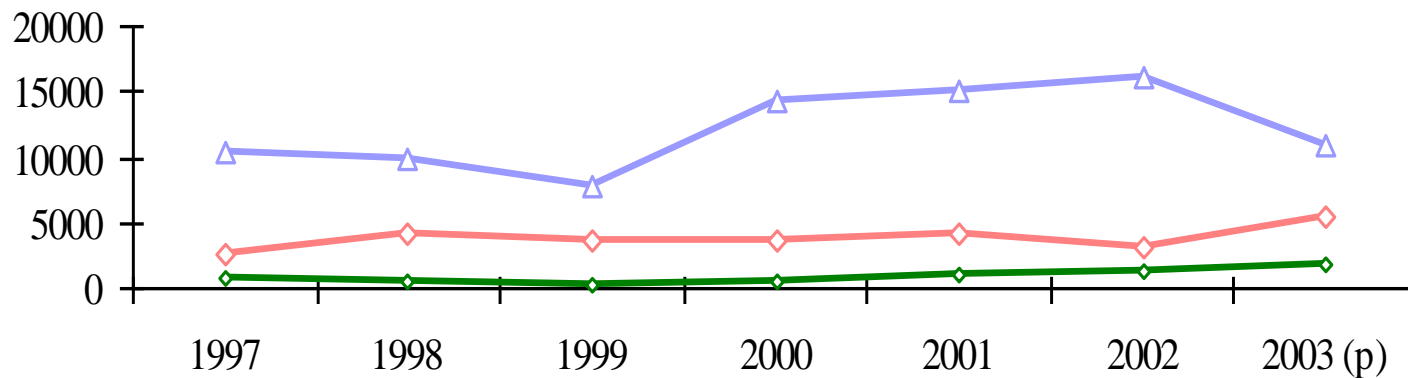
- sustainable economic growth and macroeconomic stability
- an improving business environment and investment climate
- a highly skilled, well educated labor force of significant size
- a low cost region at a strategic crossroads
- good access to the major markets of the European Union
- large domestic markets

MA NEF countries demonstrated significant economic improvements over the last three years. While growth of international production did not exceed 3% in 2003 and will very likely reach only 4% in 2004, economic growth within the group of **MA NEF countries** is significantly higher.



MA NEF countries are among the world's most favored destinations for FDI

Net FDI Inflows to Transition Countries by Group, 1997-2003, in million \$



◆ MA NEF countries ◆ LA NEF countries ▲ Control group

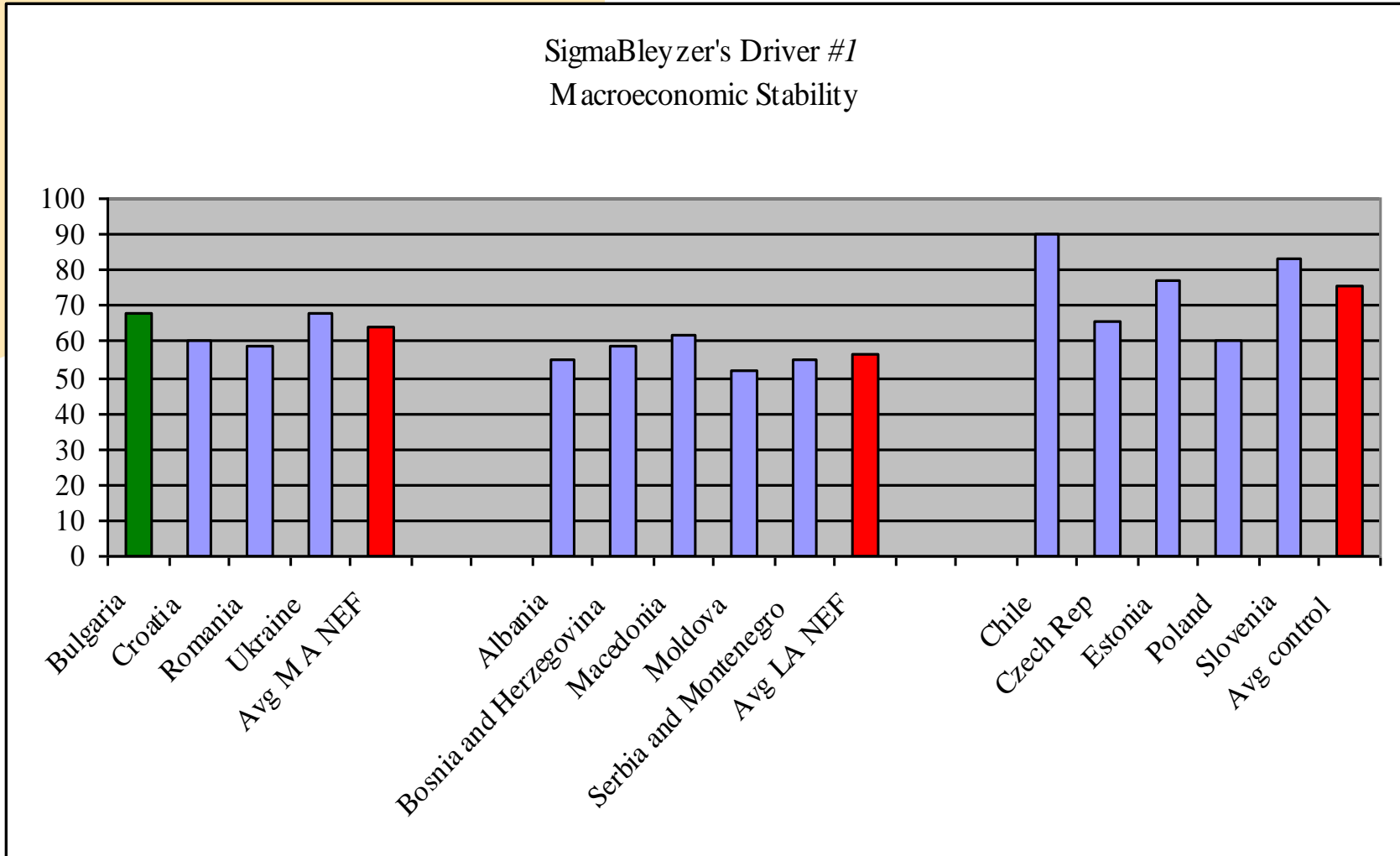
FDI flows have been uneven across individual countries

Net FDI inflows as % of GDP by country			
Country	2001	2002	2003
Bulgaria	5.9	2.9	8.8
Croatia	7.2	4	5.9
Romania	3	2.5	3.2
Ukraine	2	1.9	2.6
<i>MA NEF countries average</i>	<i>4.5</i>	<i>2.8</i>	<i>5.1</i>
Albania	5	4.5	3
Bosnia and Herzegovina	2.7	6.1	5.8
Macedonia, FYR	12.8	2.1	1.2
Moldova	6.3	7.2	5.6
Serbia and Montenegro	1.4	3.6	7.6
<i>LA NEF countries average</i>	<i>5.7</i>	<i>4.7</i>	<i>4.7</i>
Czech Republic	9.6	12	6.3
Estonia	9.8	2.9	13.5
Poland	3.2	2.1	2
Slovenia	2	8.3	0.8
Chile	4.6	1.8	1.8
<i>Control group average</i>	<i>5.4</i>	<i>4.2</i>	<i>4.2</i>

Determinants of the Investment Climate

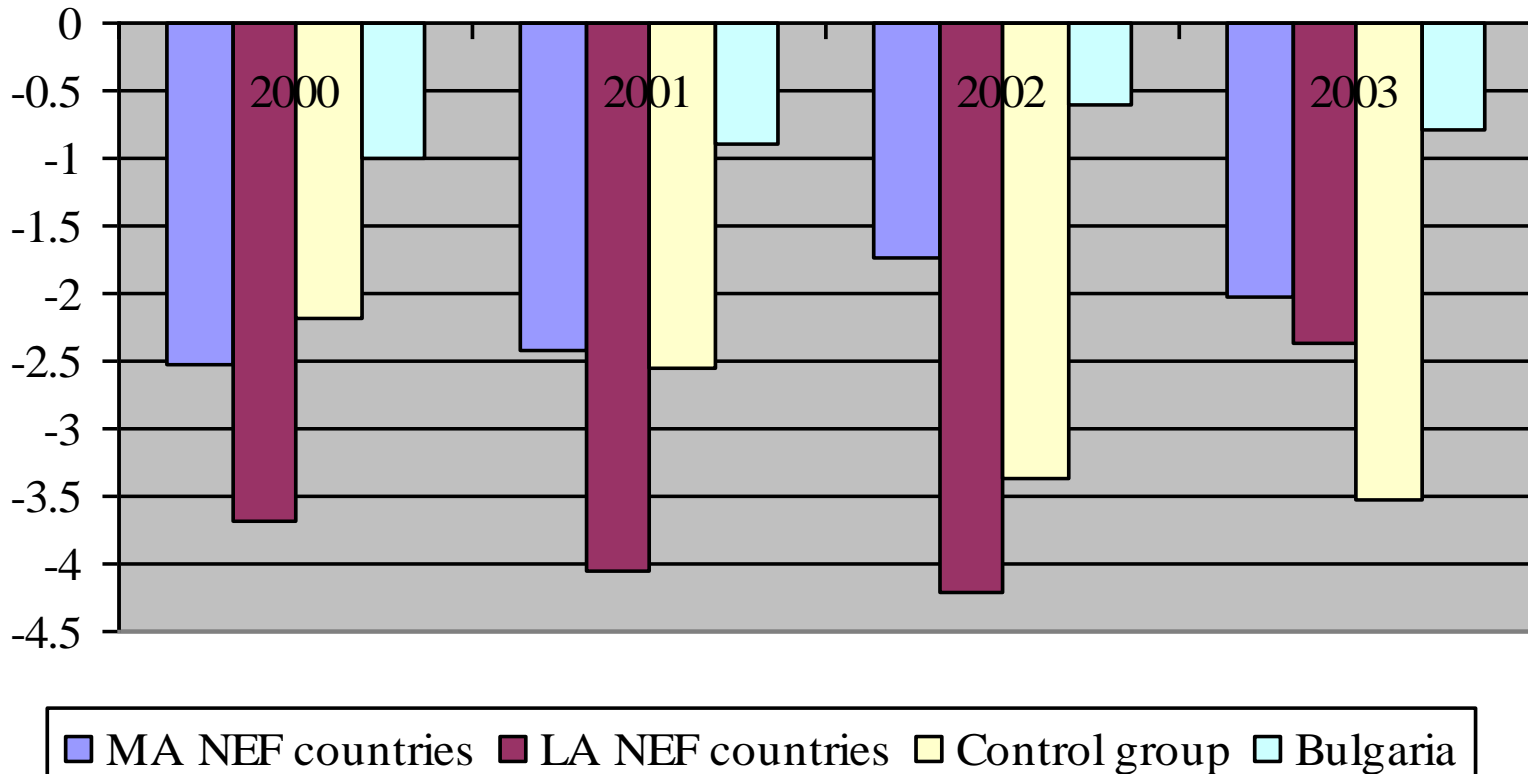
- (i) Macroeconomic stability***
- (ii) Business liberalization and de-regulation policies***
- (iii) Stable and predictable legal environment***
- (iv) Corporate and public governance***
- (v) Foreign trade liberalization and international capital movements***
- (vi) Healthy financial sector***
- (vii) Level of corruption***
- (viii) Political uncertainties***
- (ix) Country's promotion and image***

Driver 1: Macroeconomic Stability

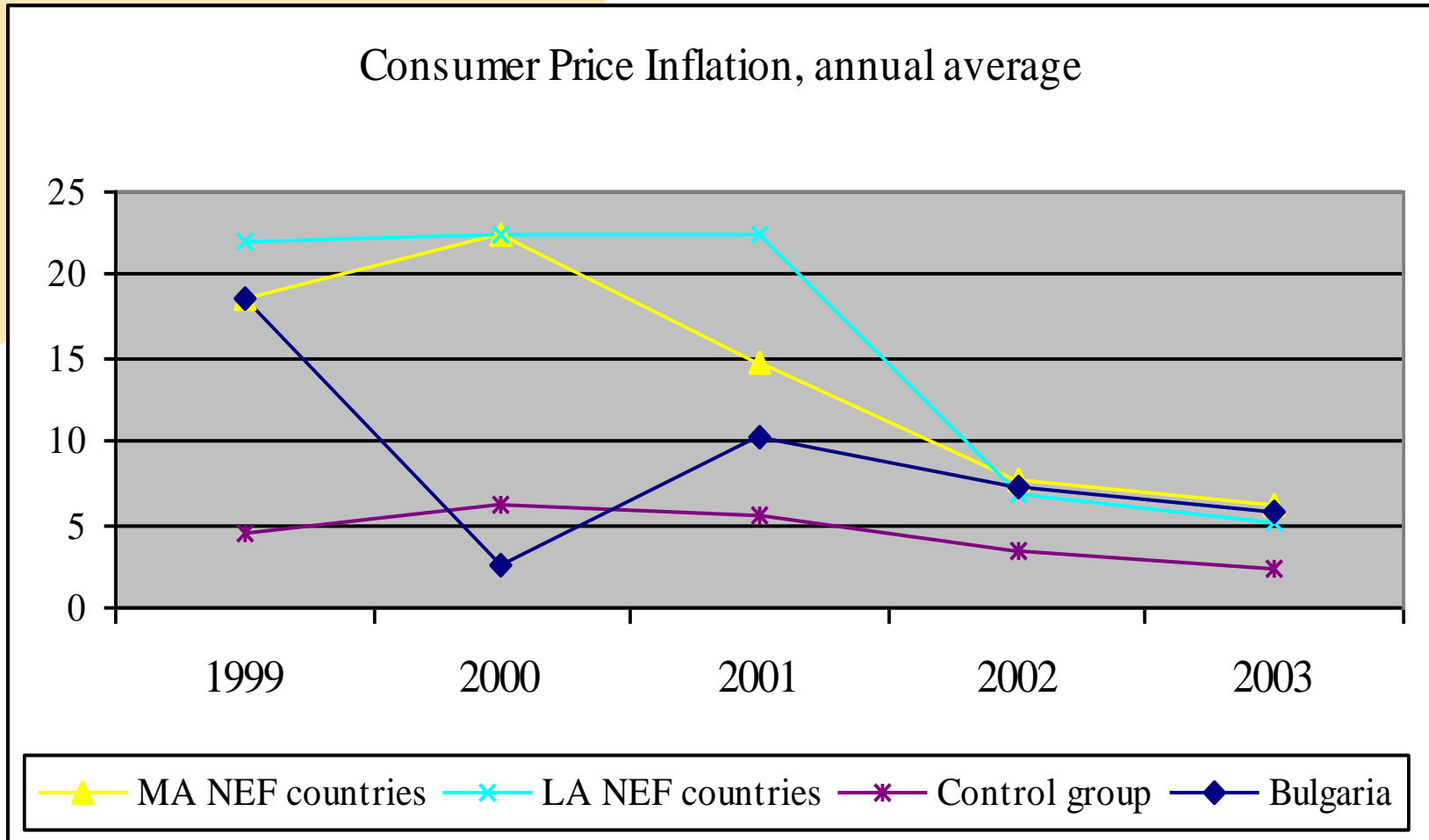


Fiscal policies

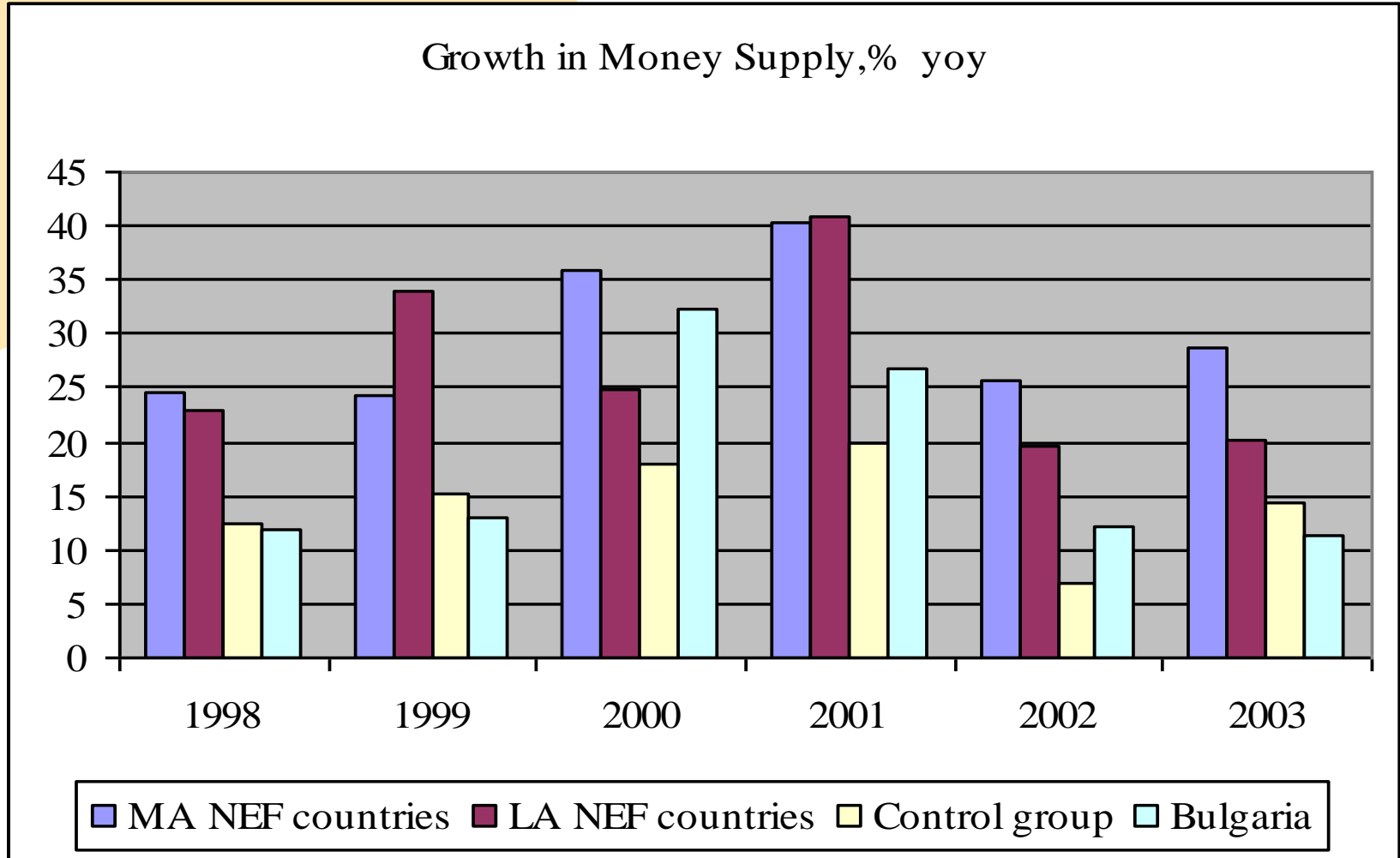
Figure Average Fiscal Balances, %



Monetary Policies (1)

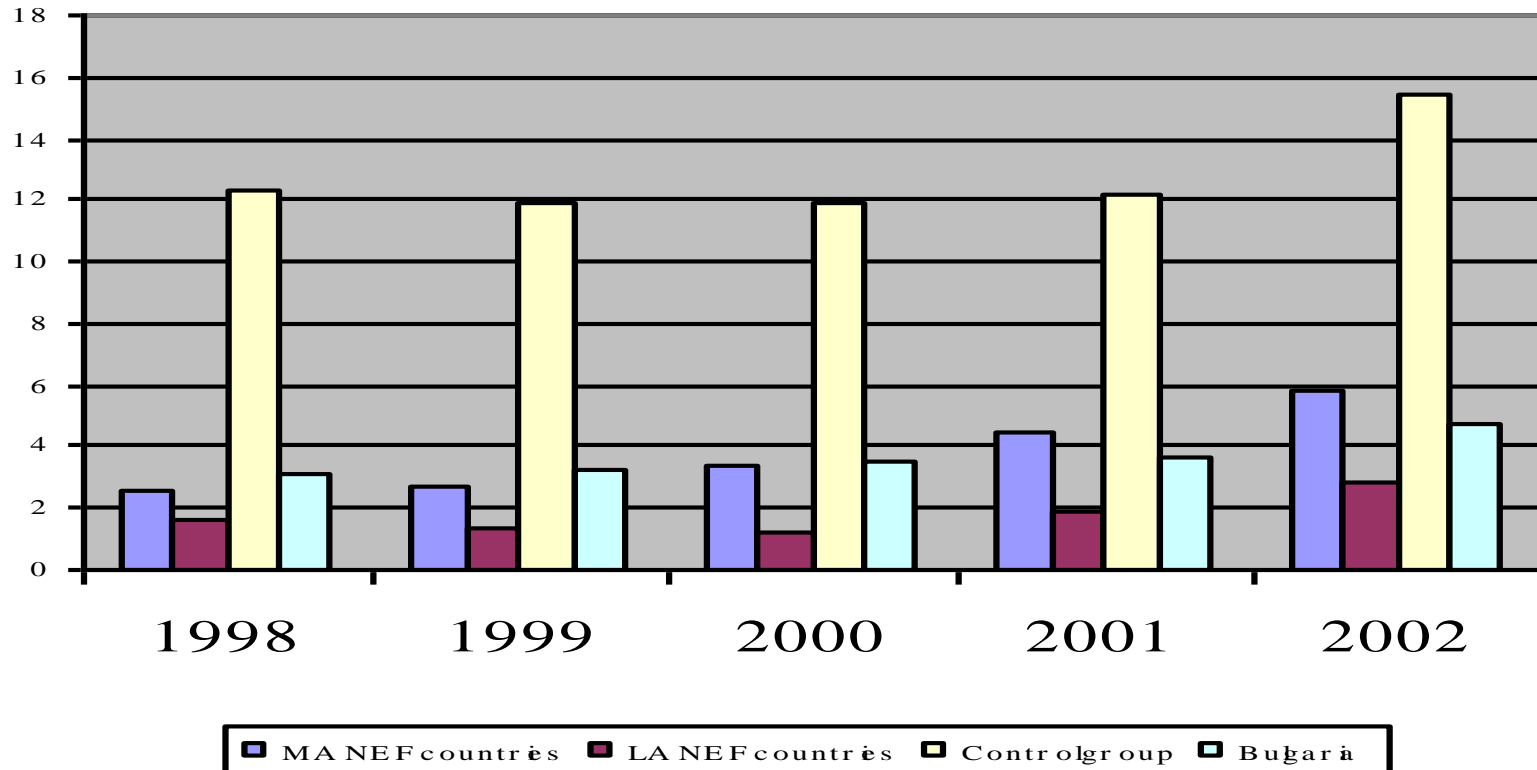


Monetary Policies (2)

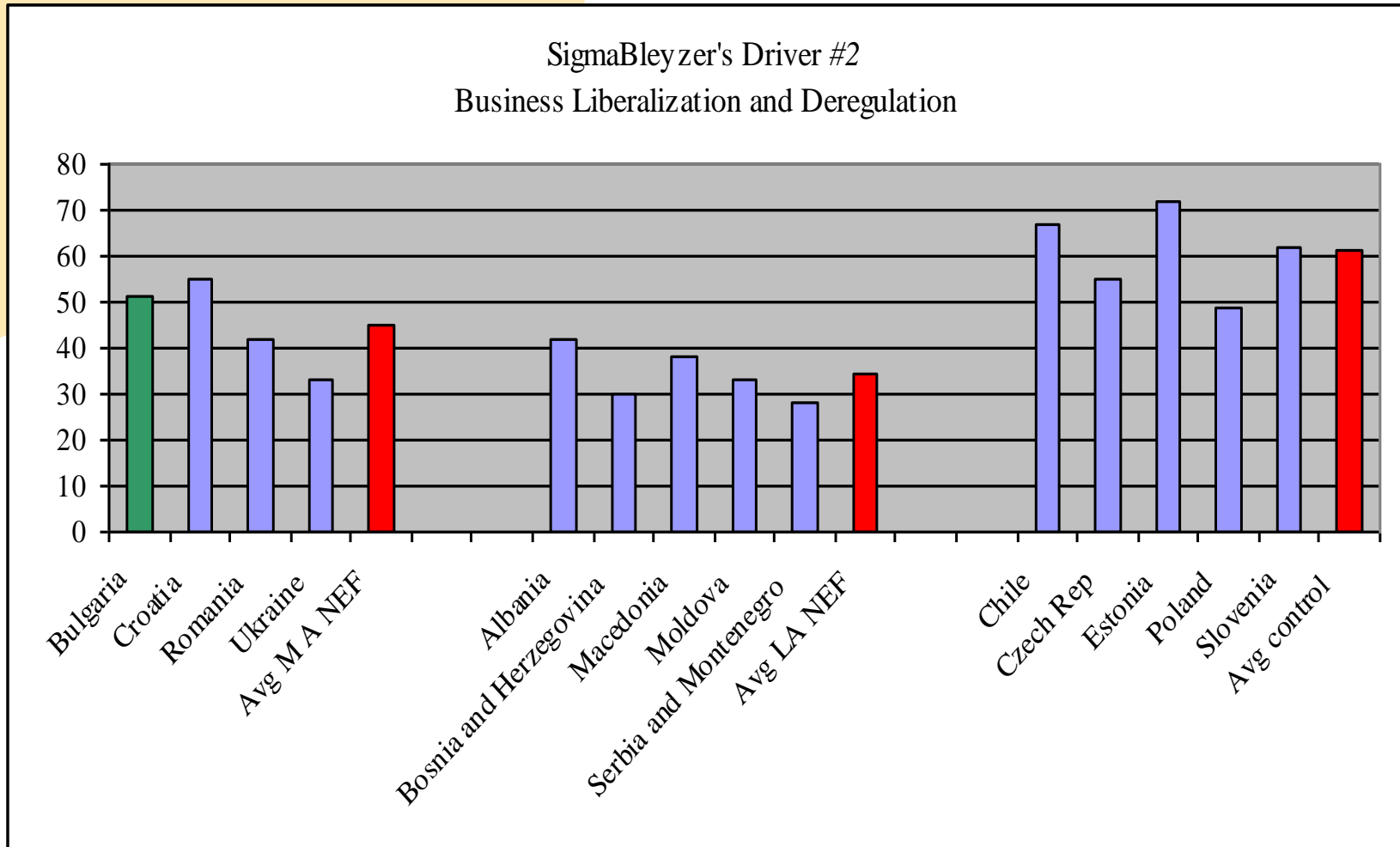


Monetary Policies (3)

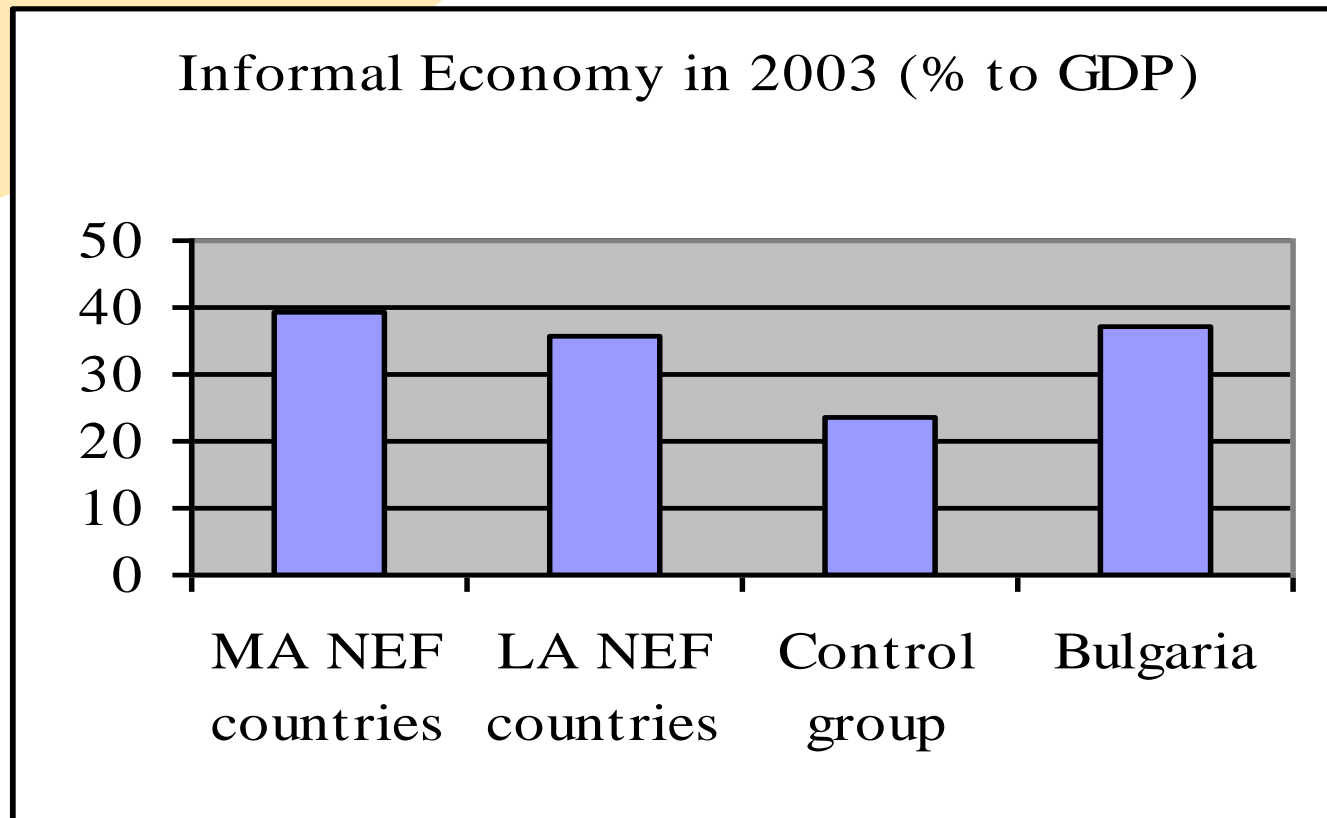
Average Gross International Reserves, USD
billion, eop



Driver 2: Liberalization and Deregulation of Business Activities



A country's efforts in making the shadow economy part of the formal economy can provide additional stimulus for economic growth

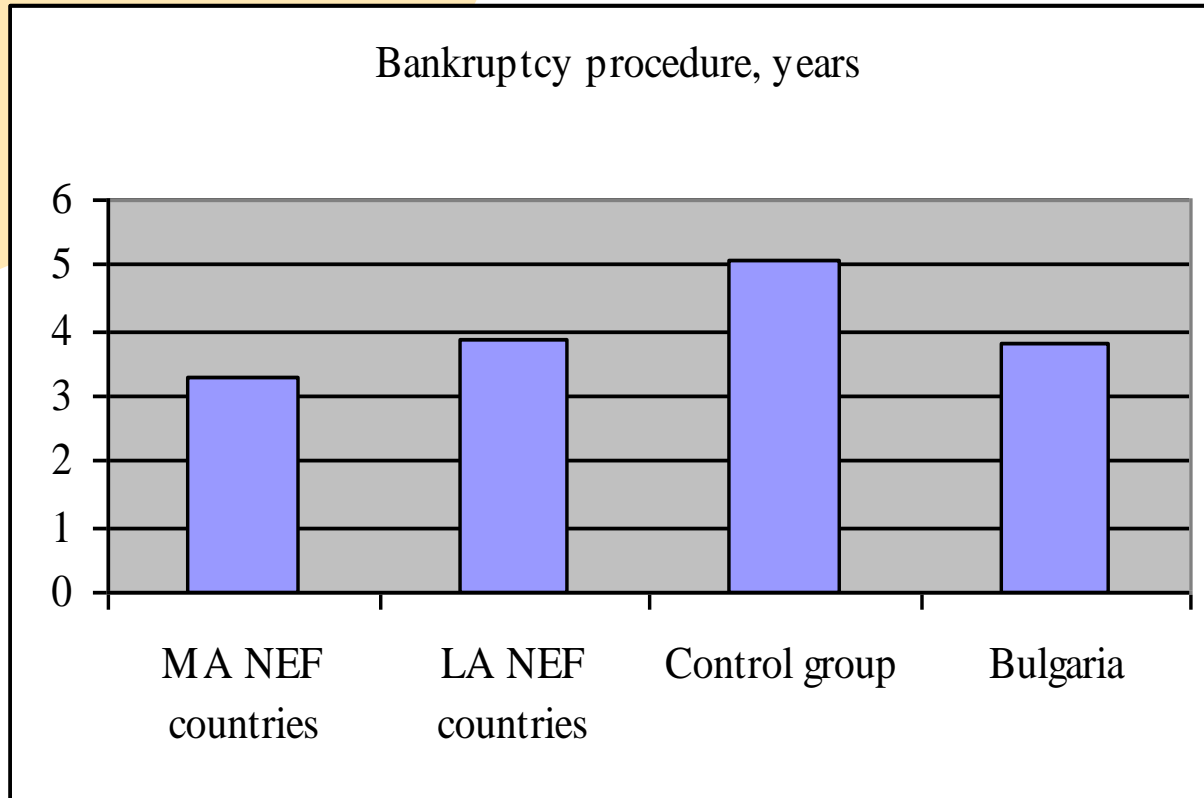


Barriers to entry the market

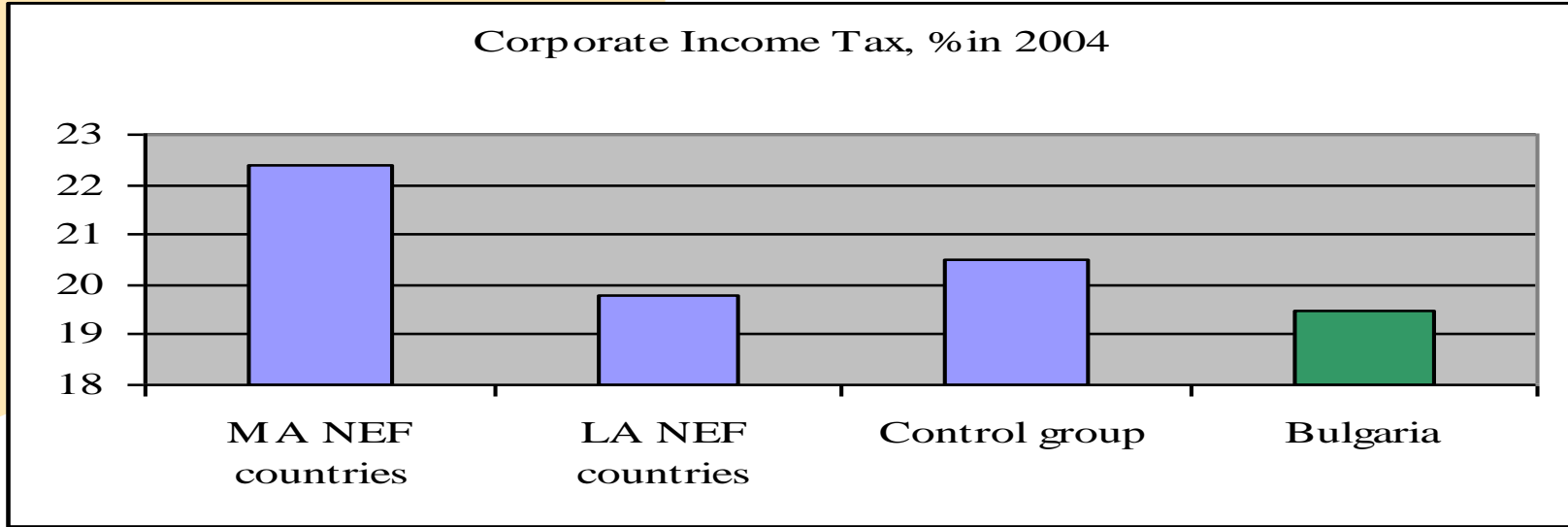
Duration of procedure to initiate business in 2003 (days)			
25-40	41-55	56 and more	
Romania, Chile, Bulgaria , Poland, Ukraine	Moldova, Serbia and Montenegro, Albania, Macedonia,	Bosnia and Herzegovina, Slovenia, Czech Republic	

Number of procedures to initiate business in 2003			
10 or less	11	12	13
Bulgaria , Chile, Czech Republic, Estonia, Romania, Slovenia, Serbia and Montenegro	Albania, Moldova	Bosnia and Herzegovina, Poland	Croatia, Macedonia, Ukraine

Barriers to exit the market

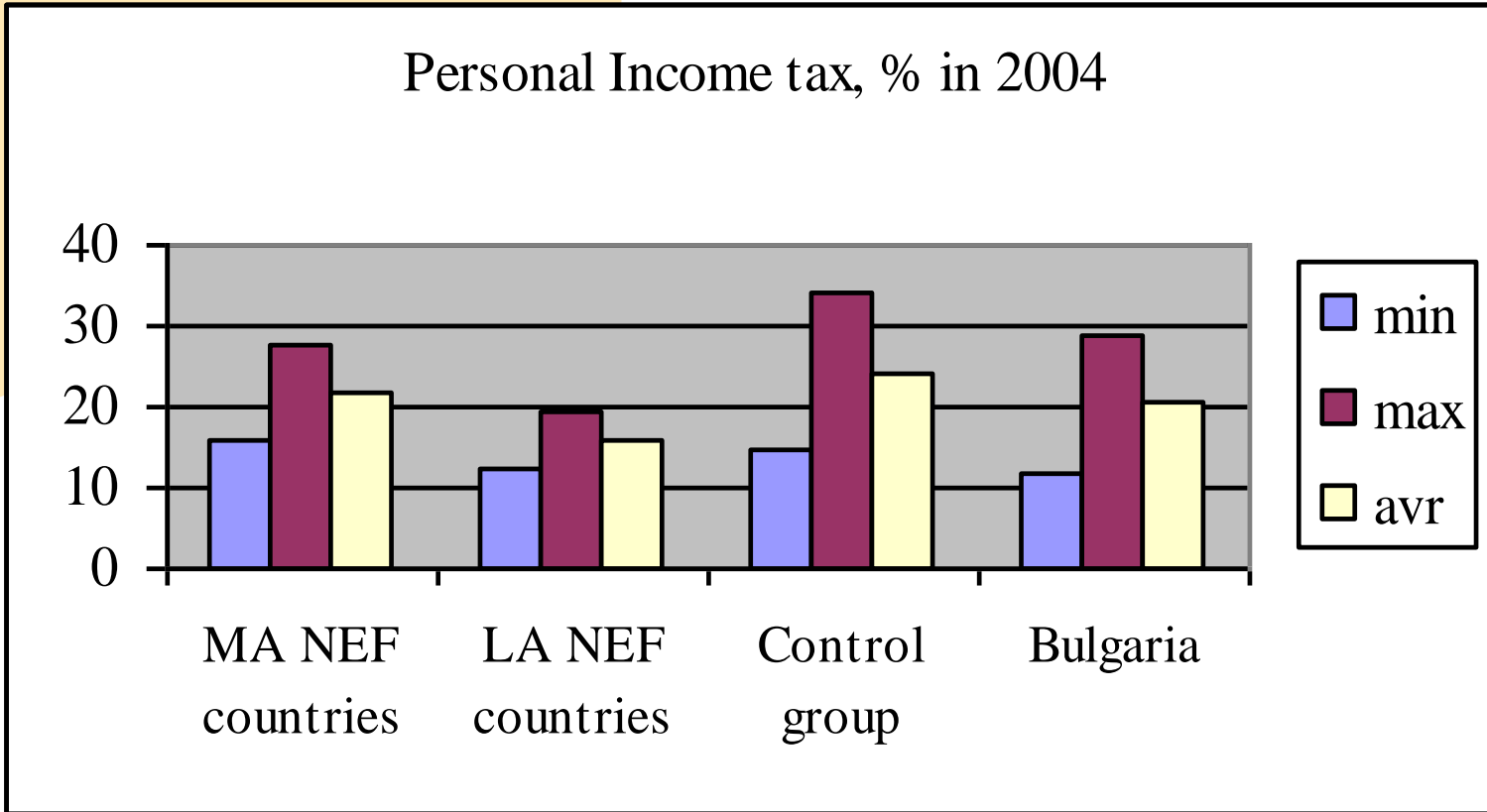


Taxes (1)

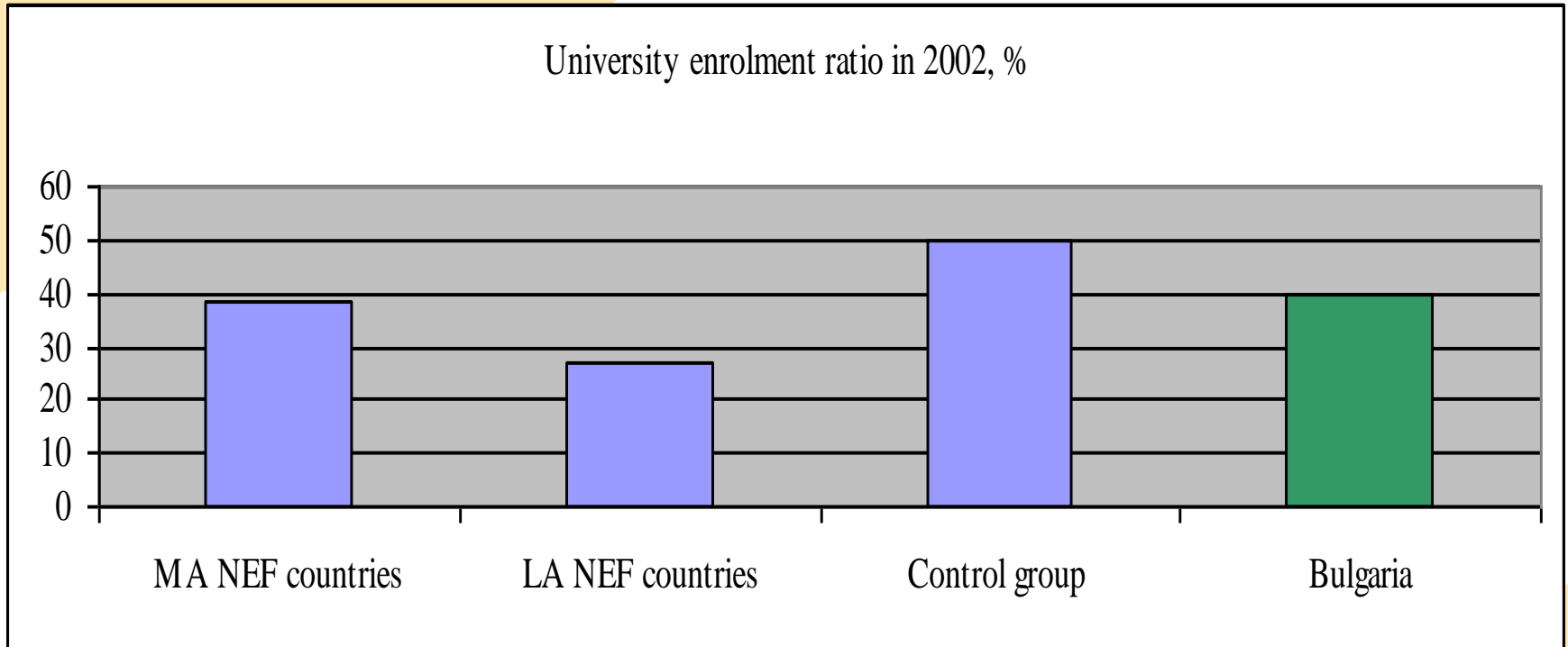


VAT standard rate, % in 2004				
17	18	19	20	22
Serbia and Montenegro	Macedonia	Romania, Slovakia, Chile	Ukraine, Bulgaria, Moldova, Albania, Bosnia and Herzegovina	Czech Republic, Croatia, Poland

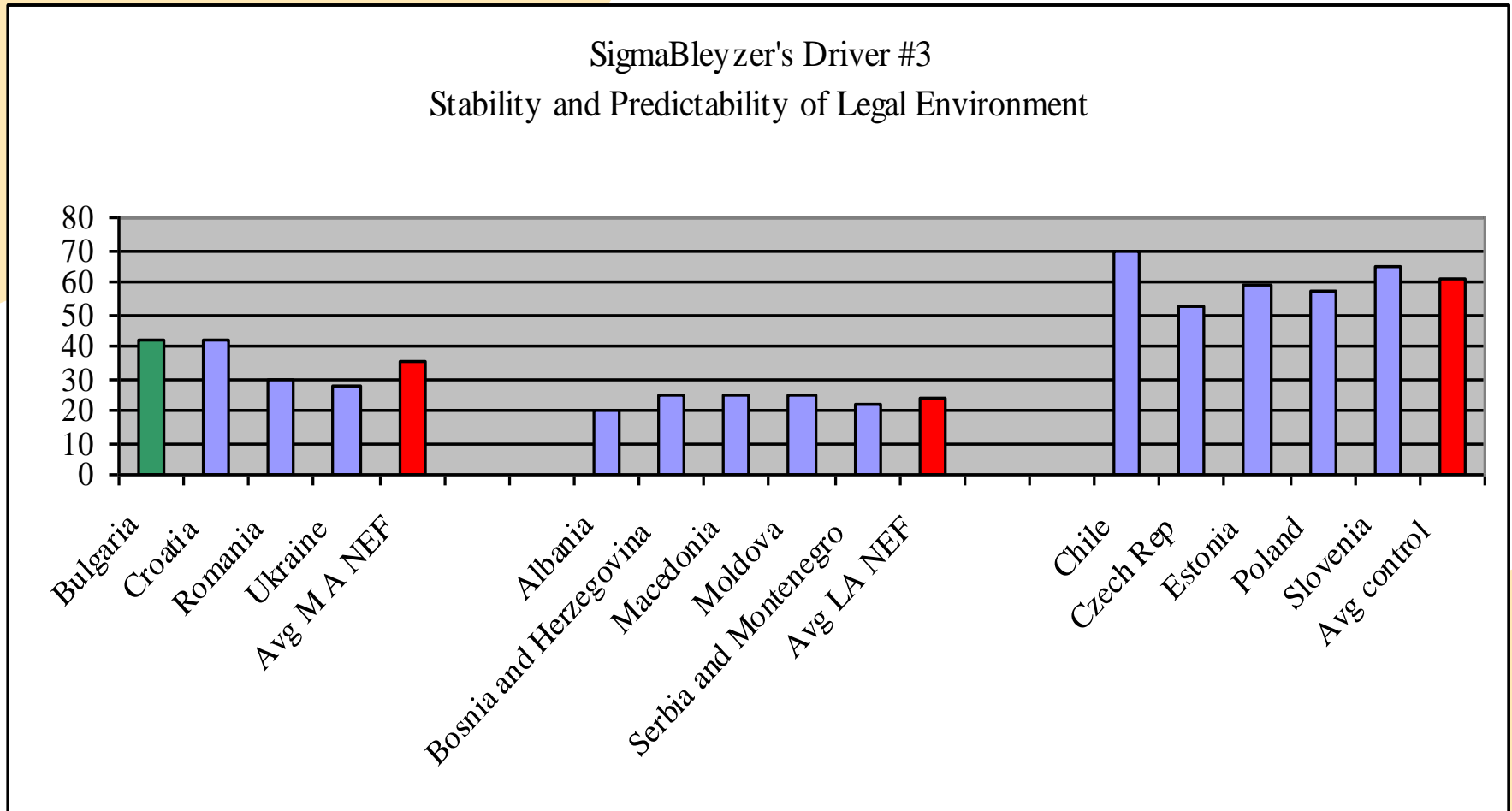
Taxes (2)



Businesses in *NEF* countries are able to benefit from their highly competitive labor forces

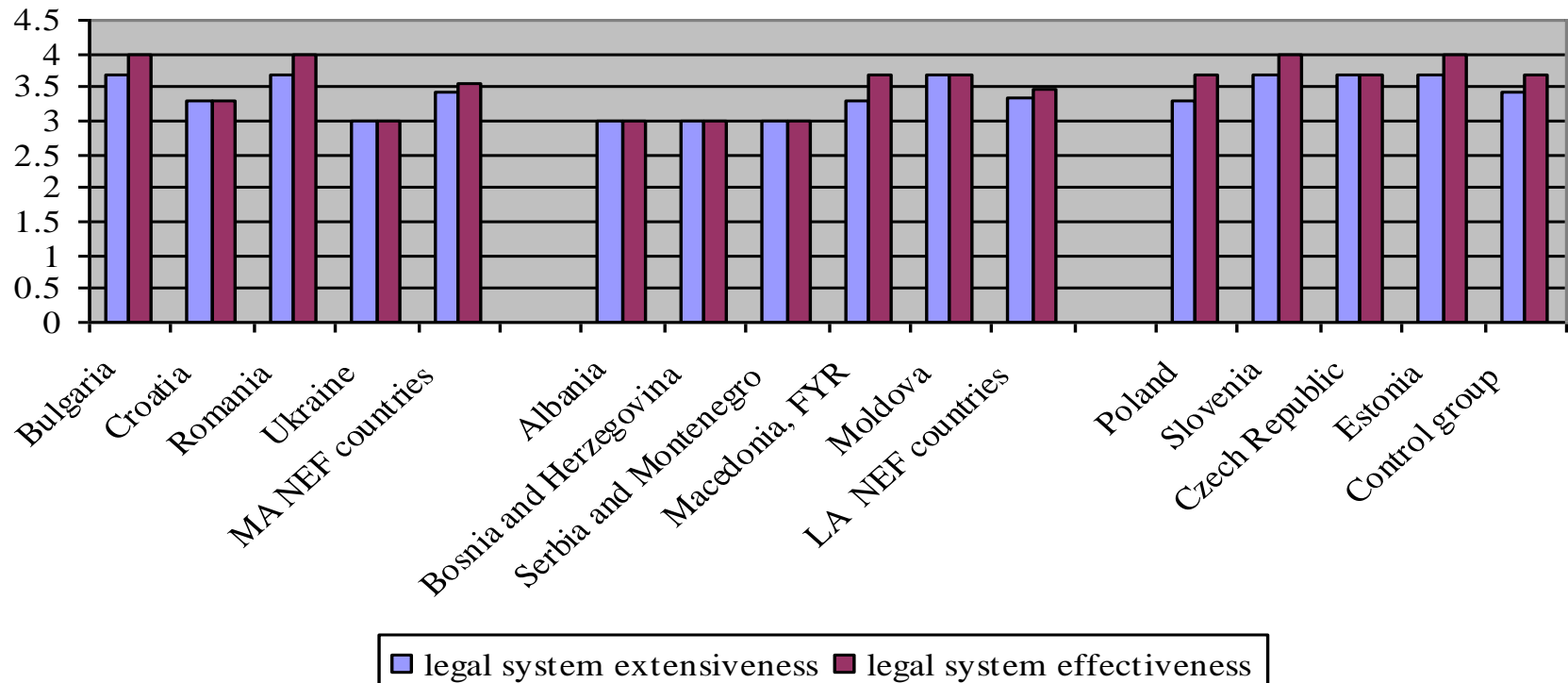


Driver 3: Stability and Predictability of the Legal Environment

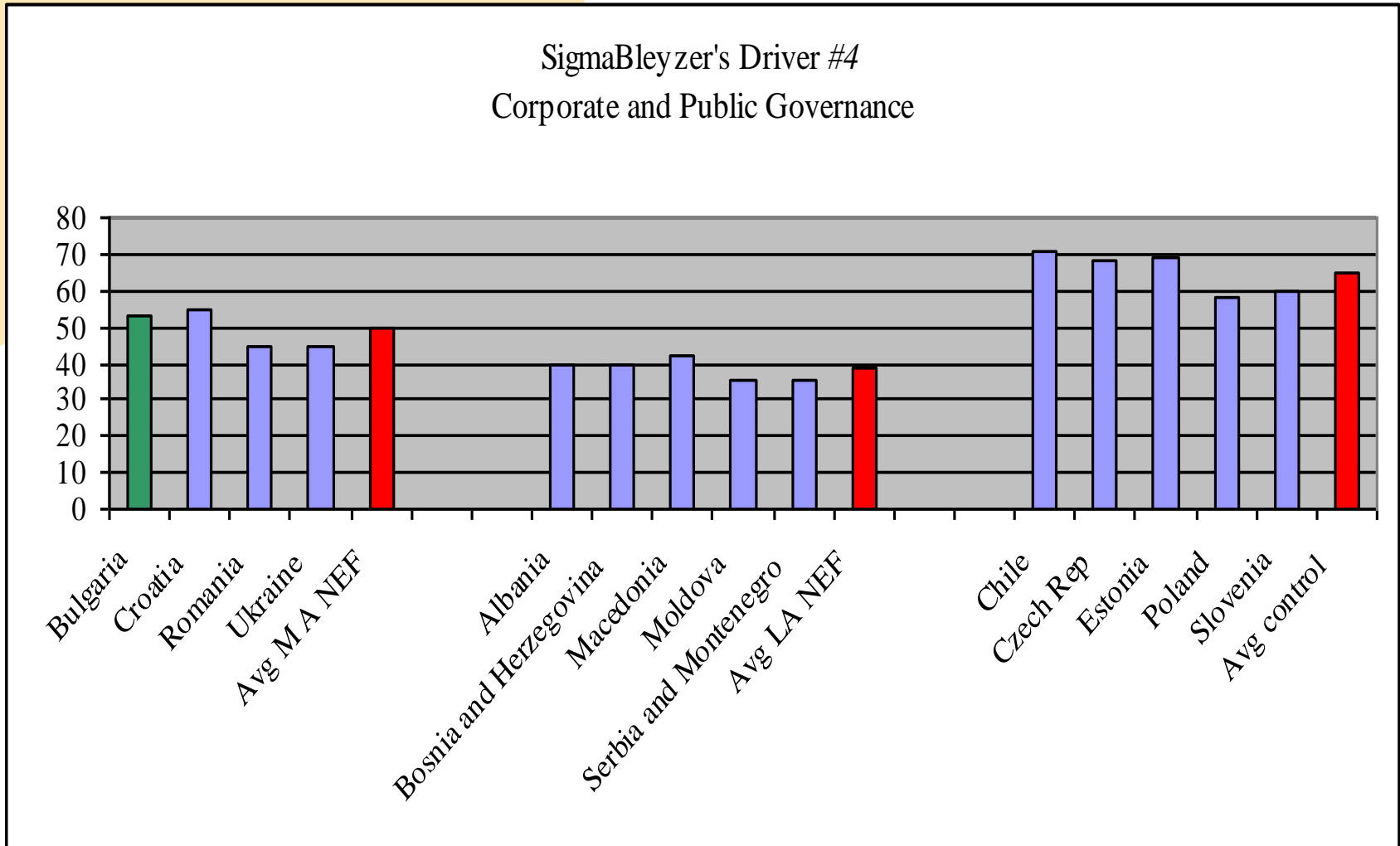


Respect for the rule of law, the establishment of a transparent legal framework and its enforcement remain among the key conditions for the creation of a business-friendly environment

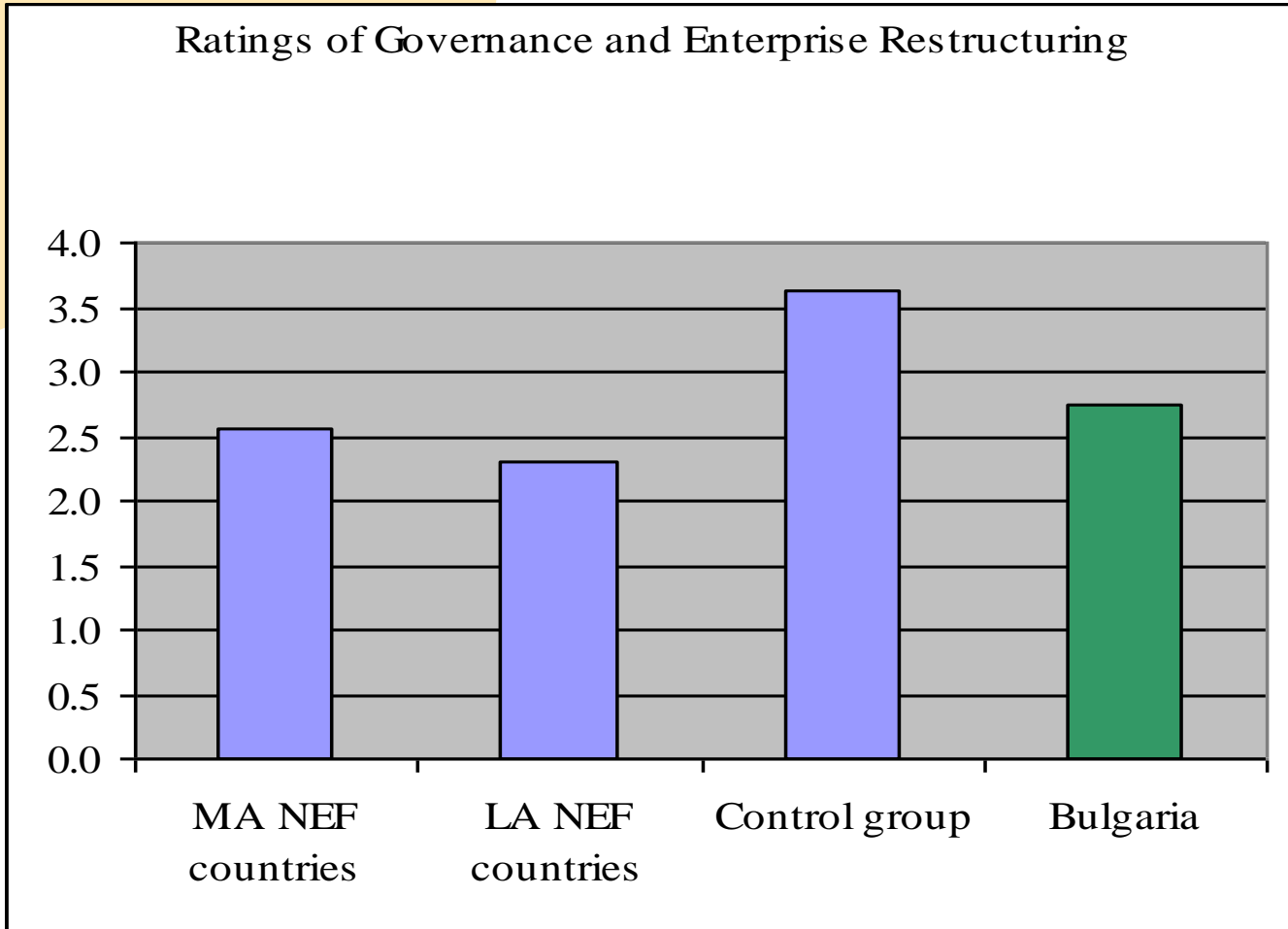
Legal System Reform Indicators in 2002



Driver 4: Corporate and Public Governance

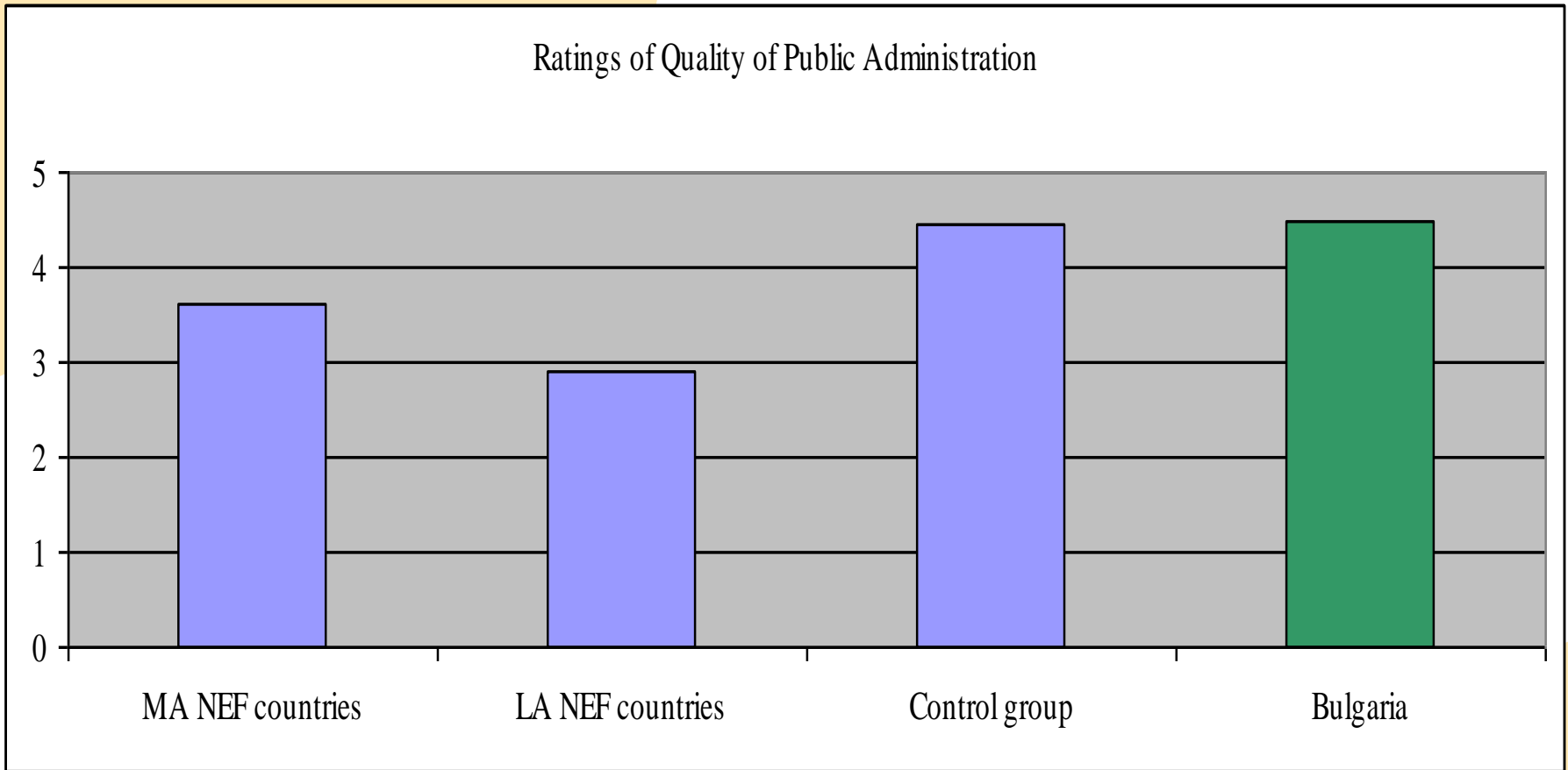


Corporate Governance



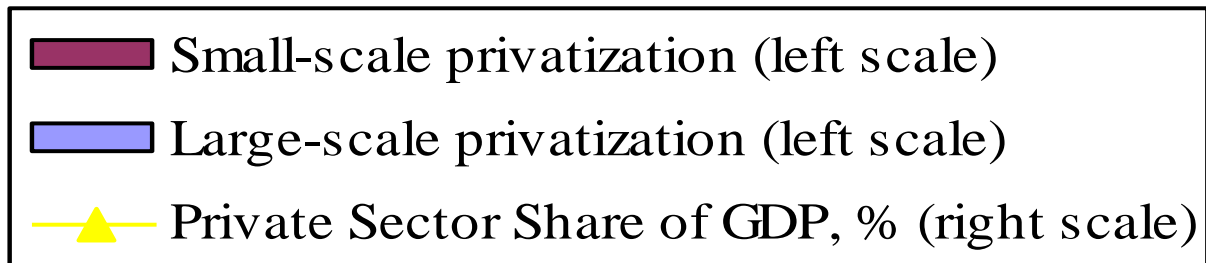
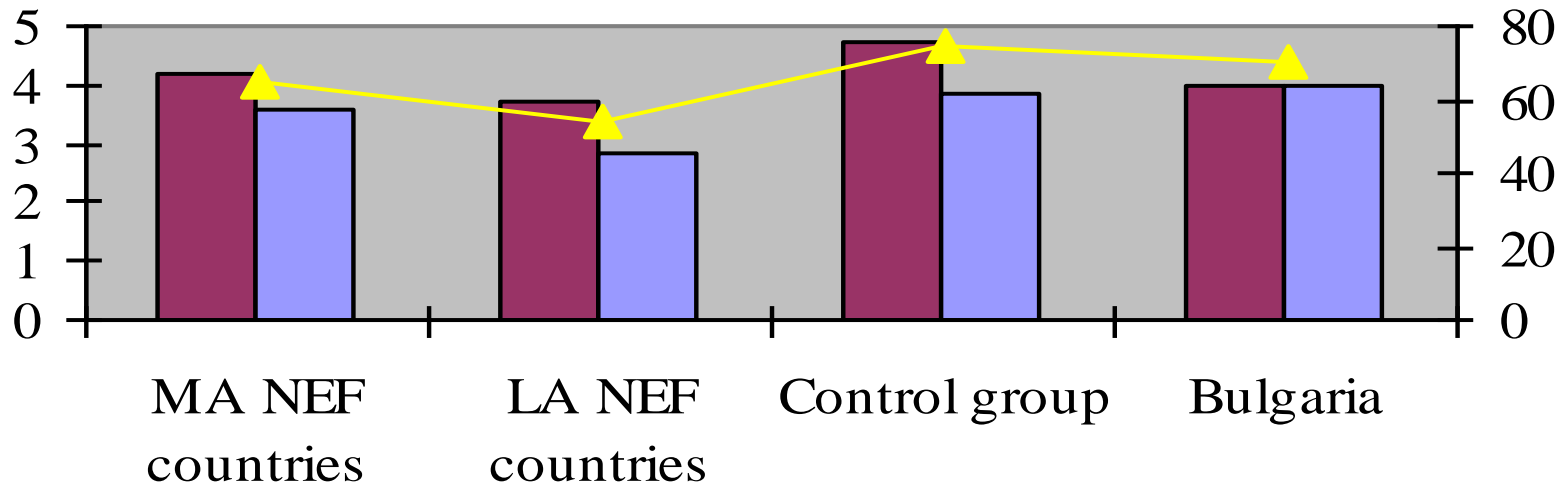
Public administration

Ratings of Quality of Public Administration

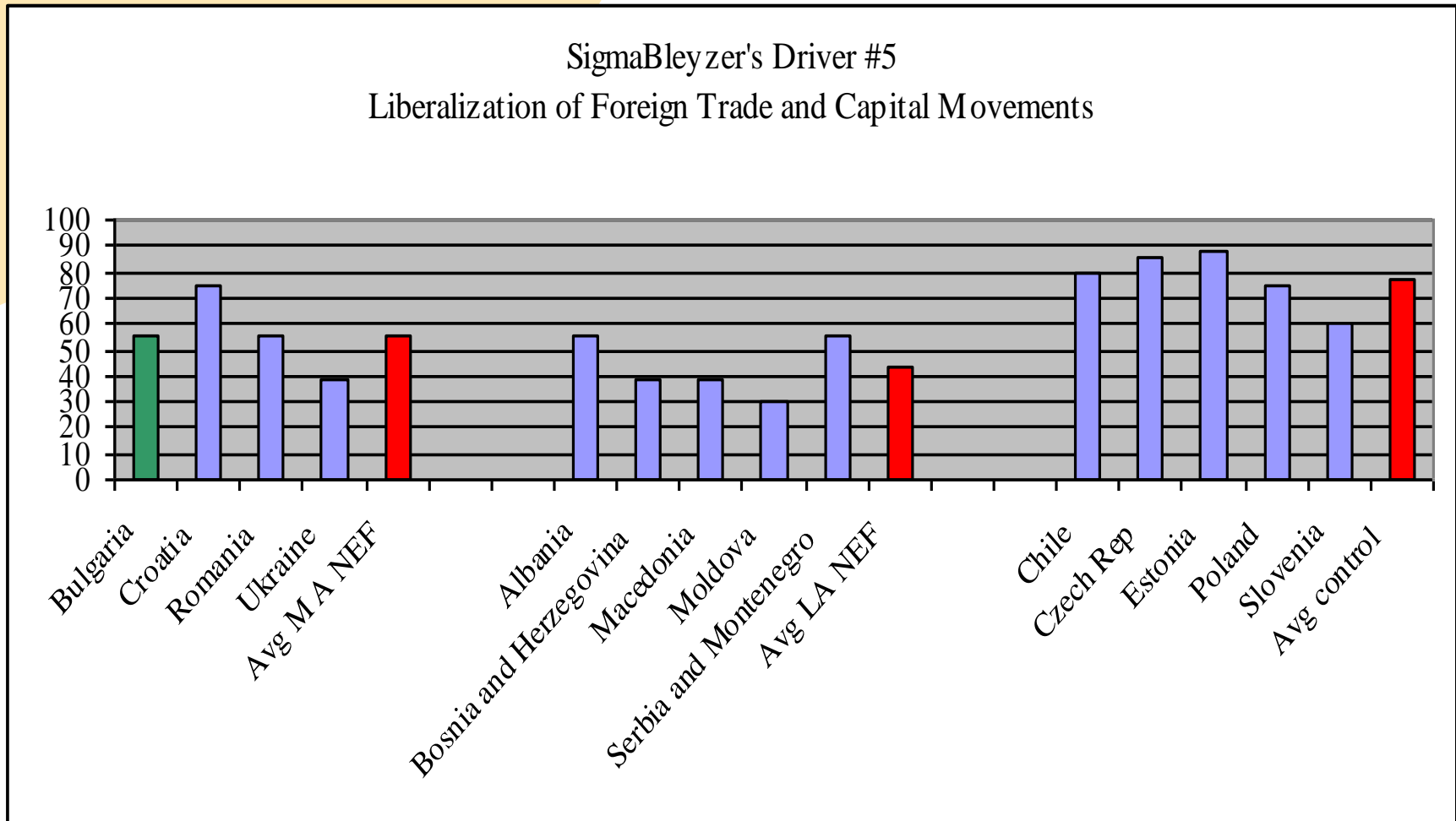


Privatization

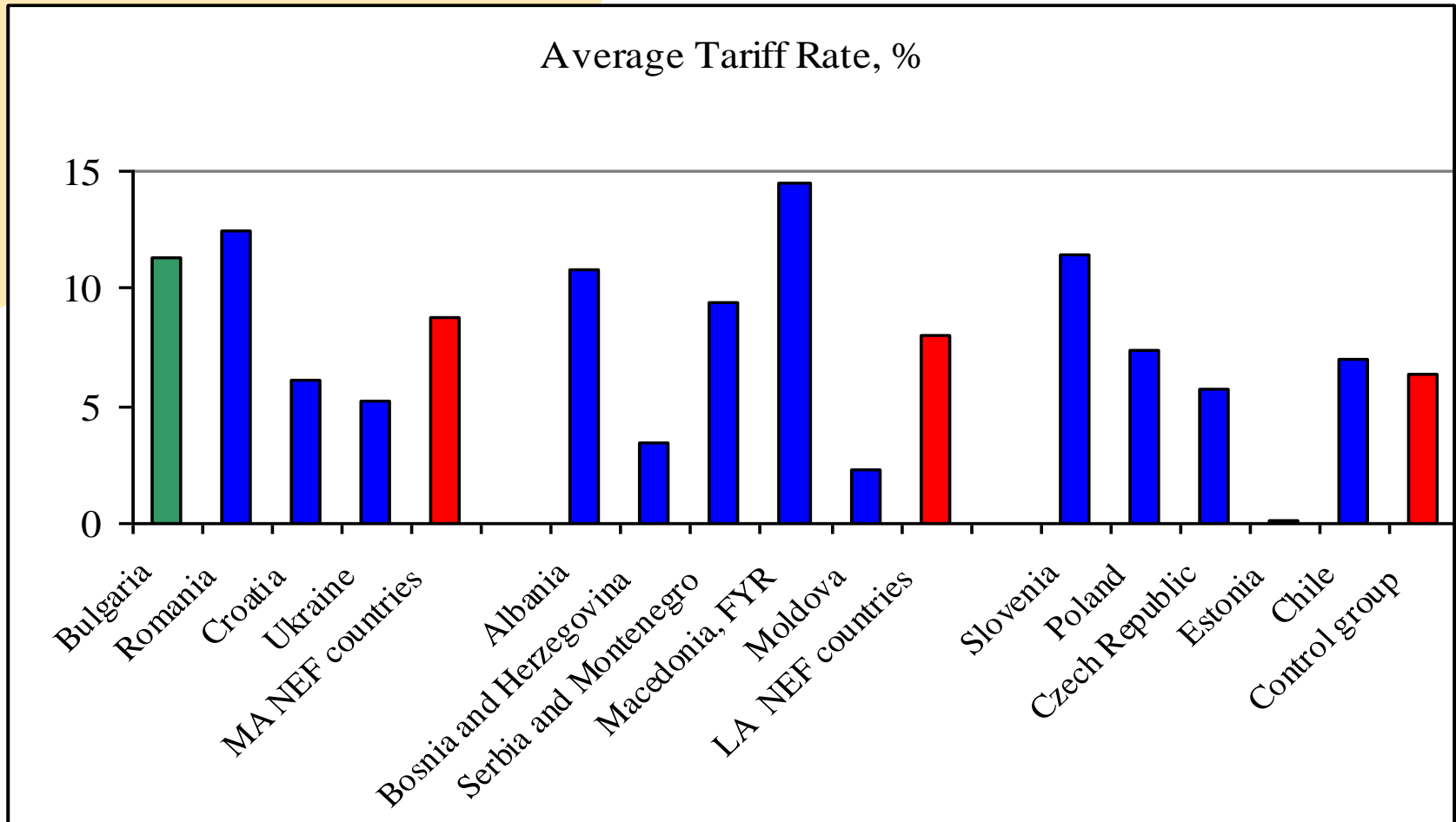
Ratings of Small- and Large-Scale Privatization



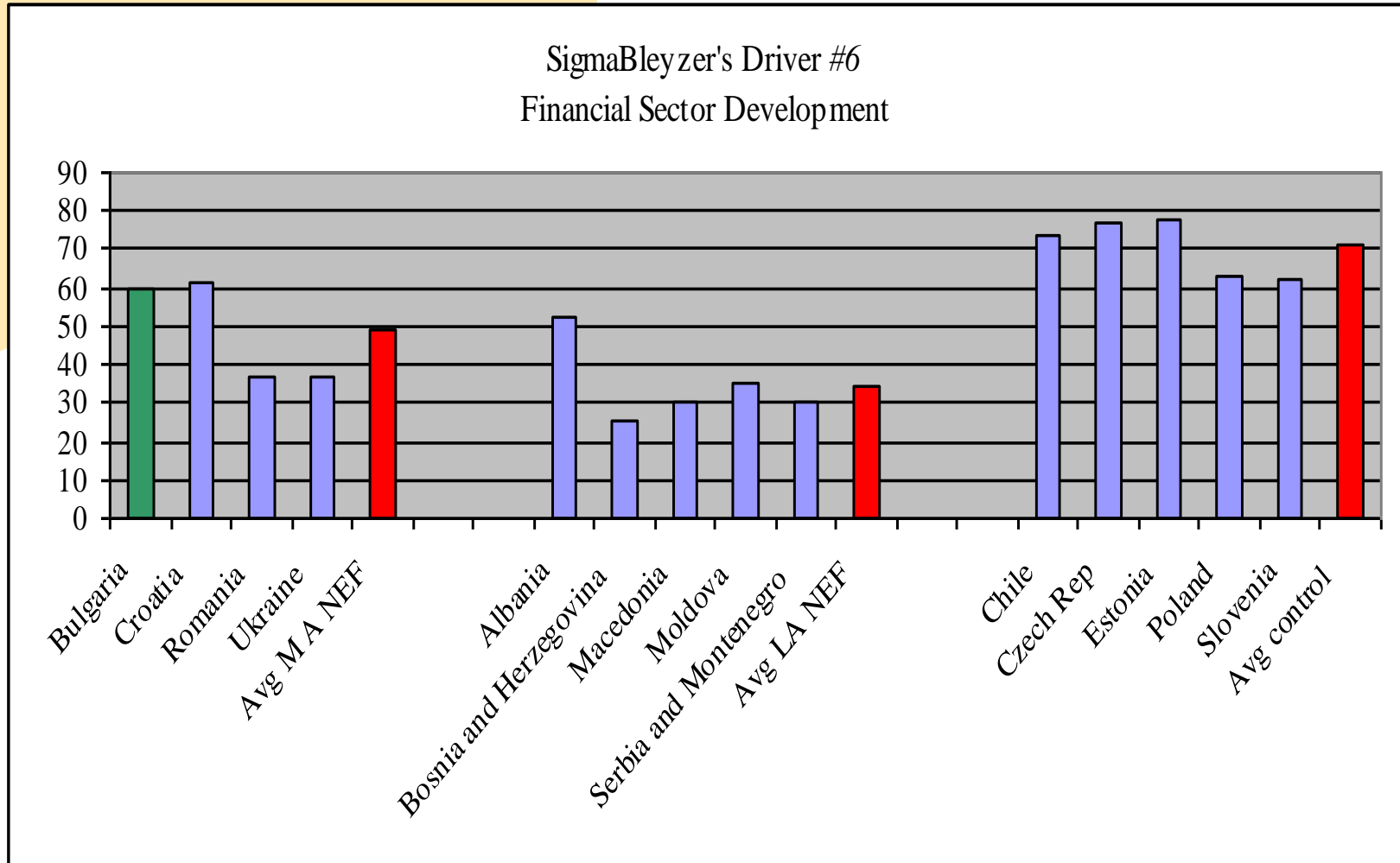
Driver 5: Liberalization of Foreign Trade and Capital Movements



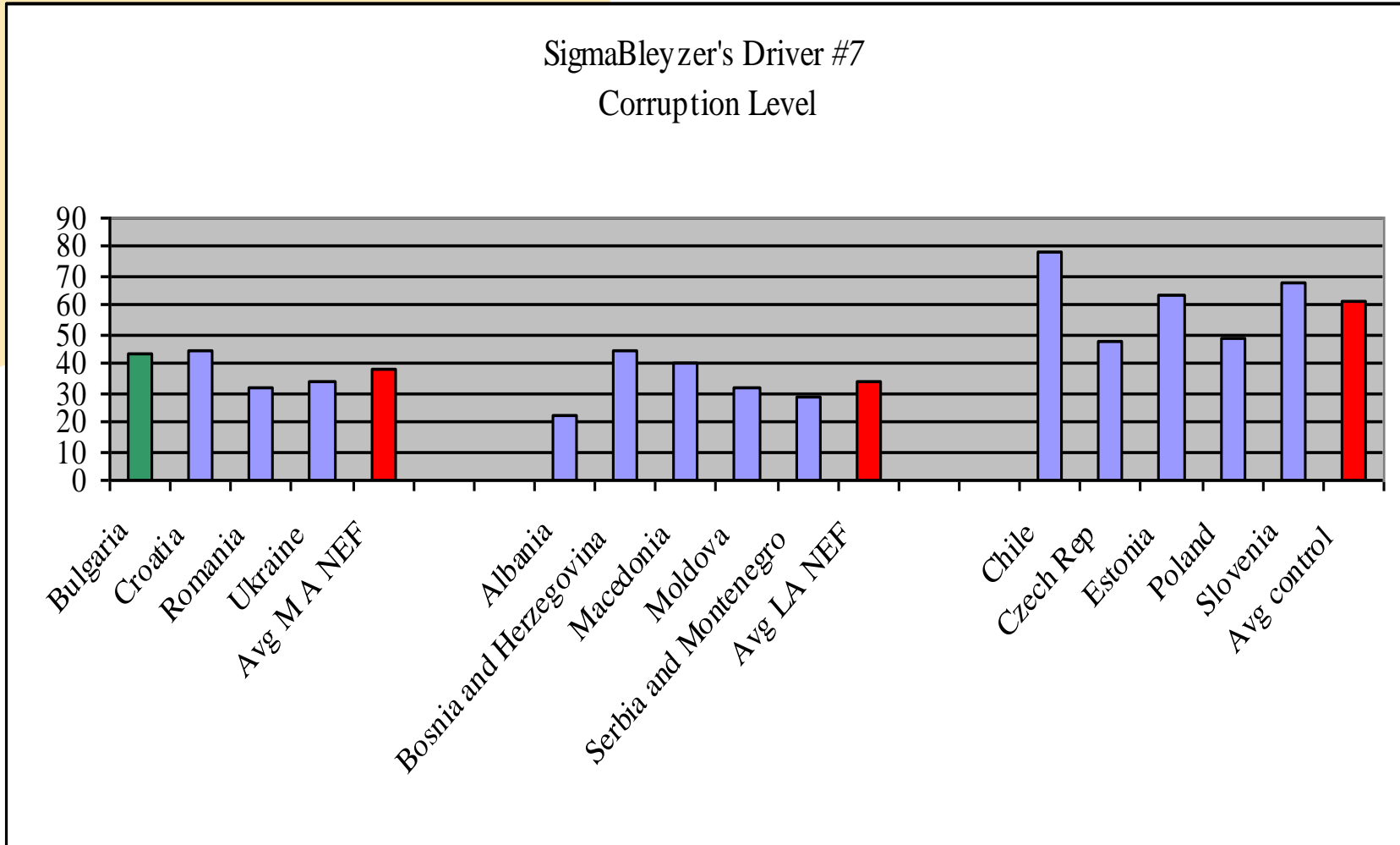
The average tariff rate for *NEF countries* is a relatively low but still higher than in the control group



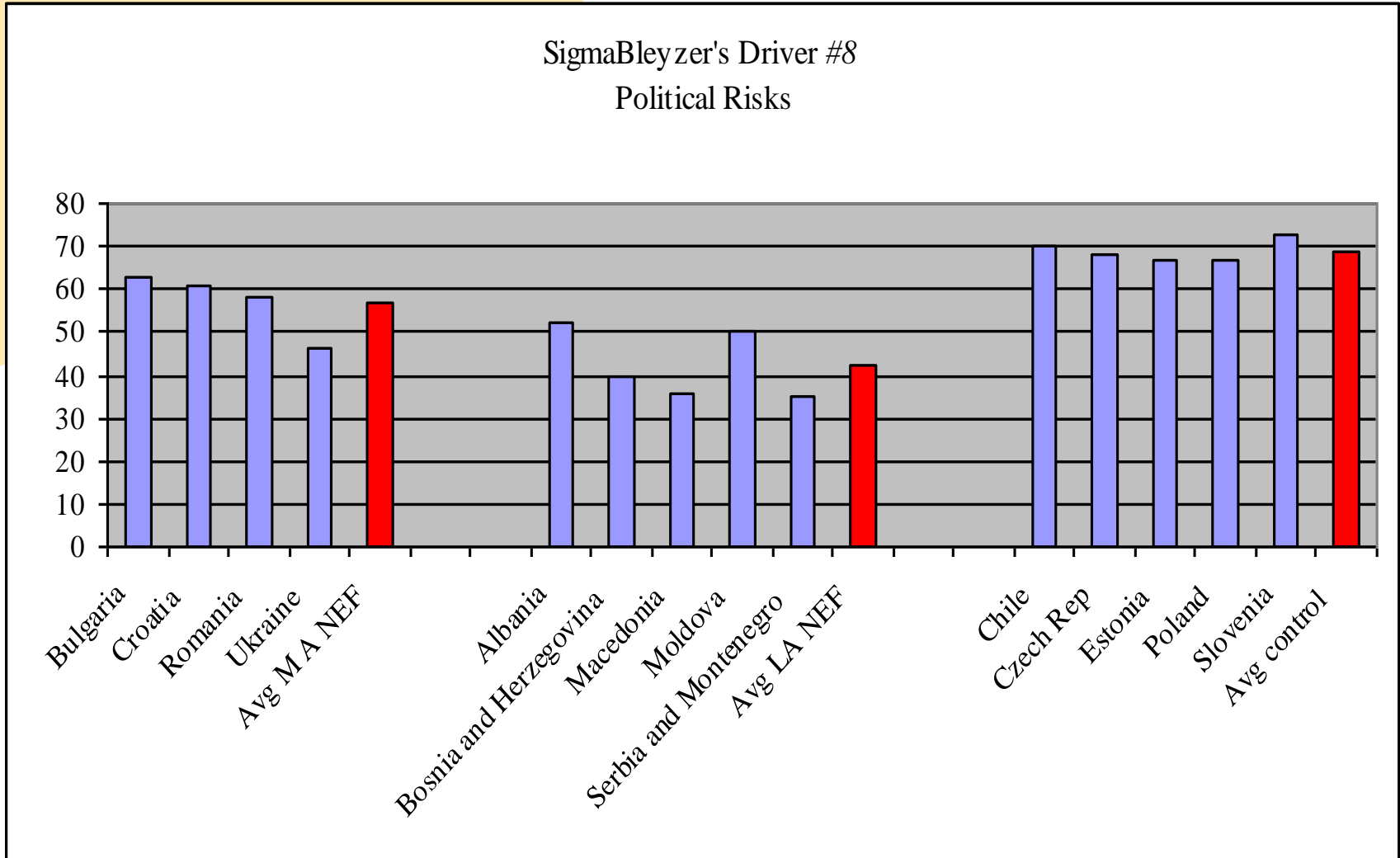
Driver 6: Financial Sector Development



Driver 7: Corruption level

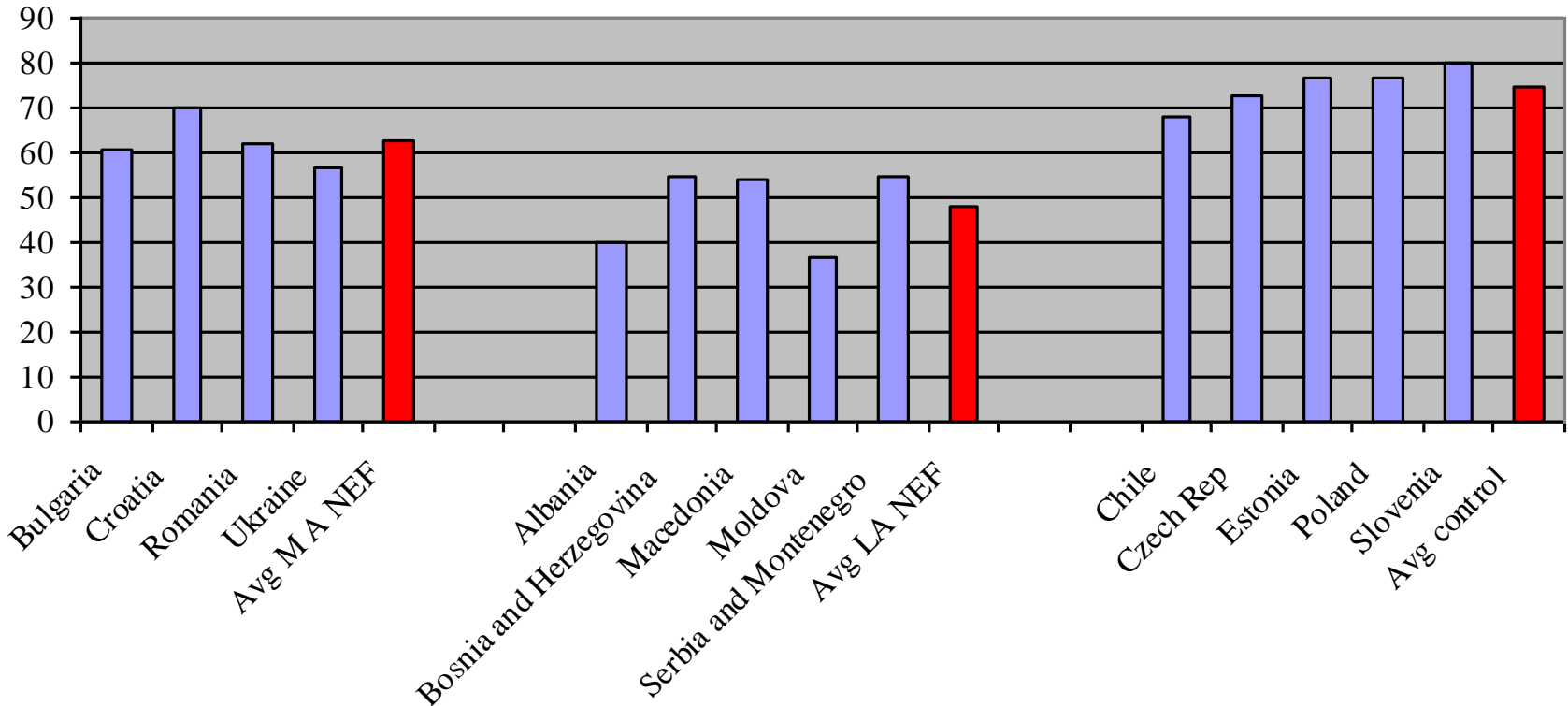


Driver 8: Political Risks

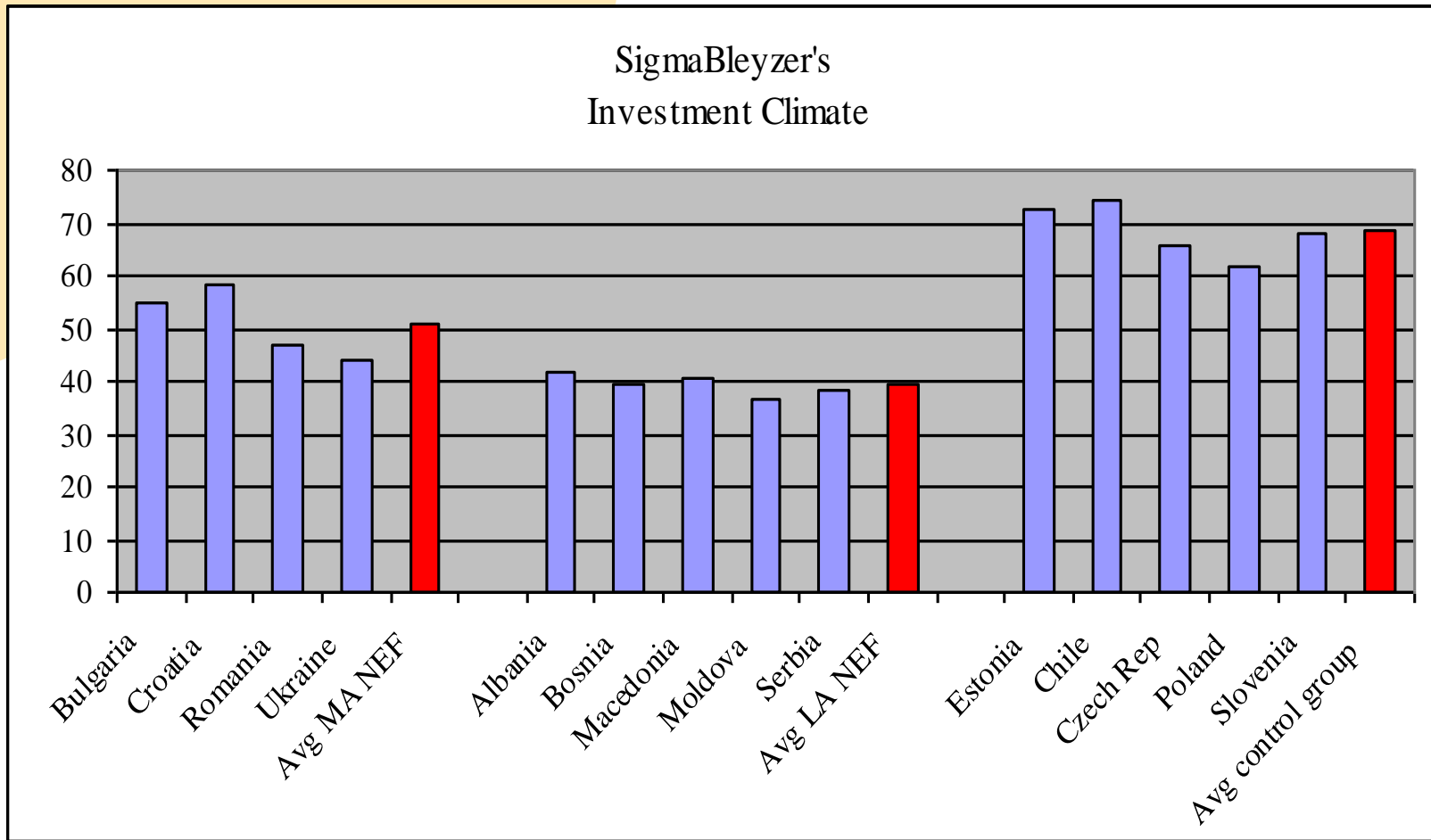


Driver 9: Country Promotion and Image

SigmaBleyzer's Driver #9
Country Promotion and Image

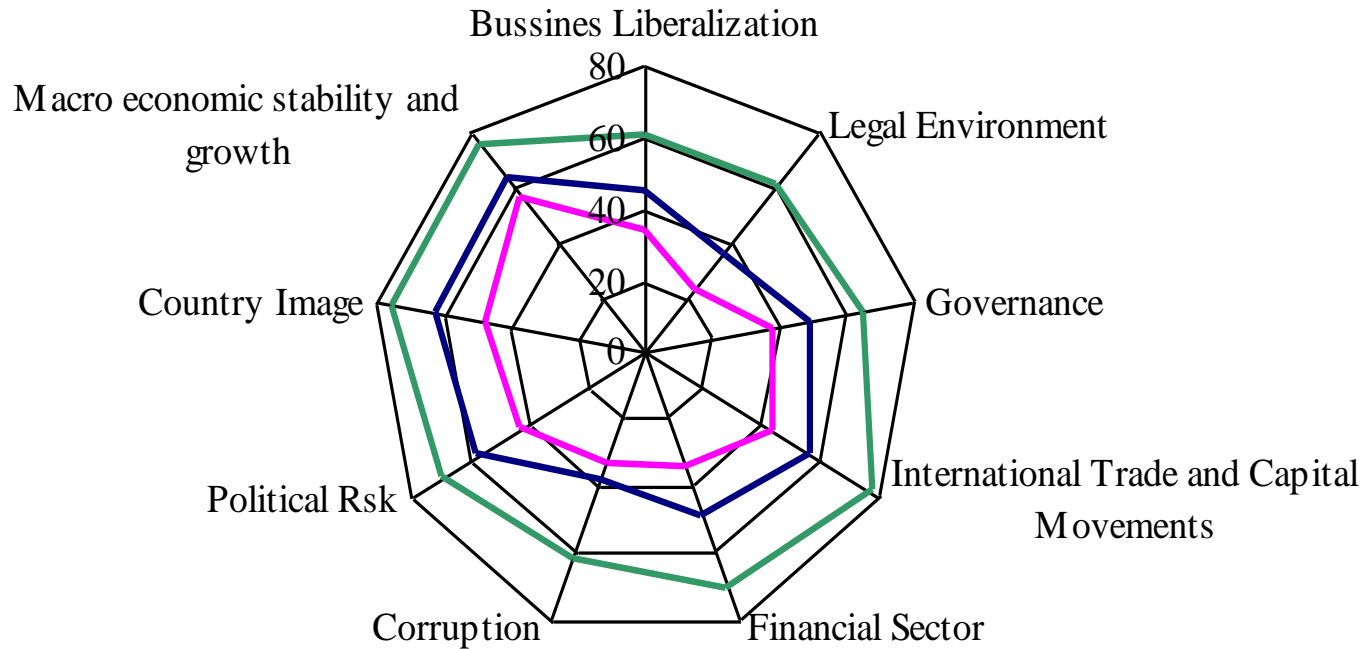


Conclusions (1)



Conclusions (2)

SigmaBleyzer's Nonagon Investment Climate



Conclusions (3)

