

New European Union Frontier Countries: Economic Situation and Investment Climate

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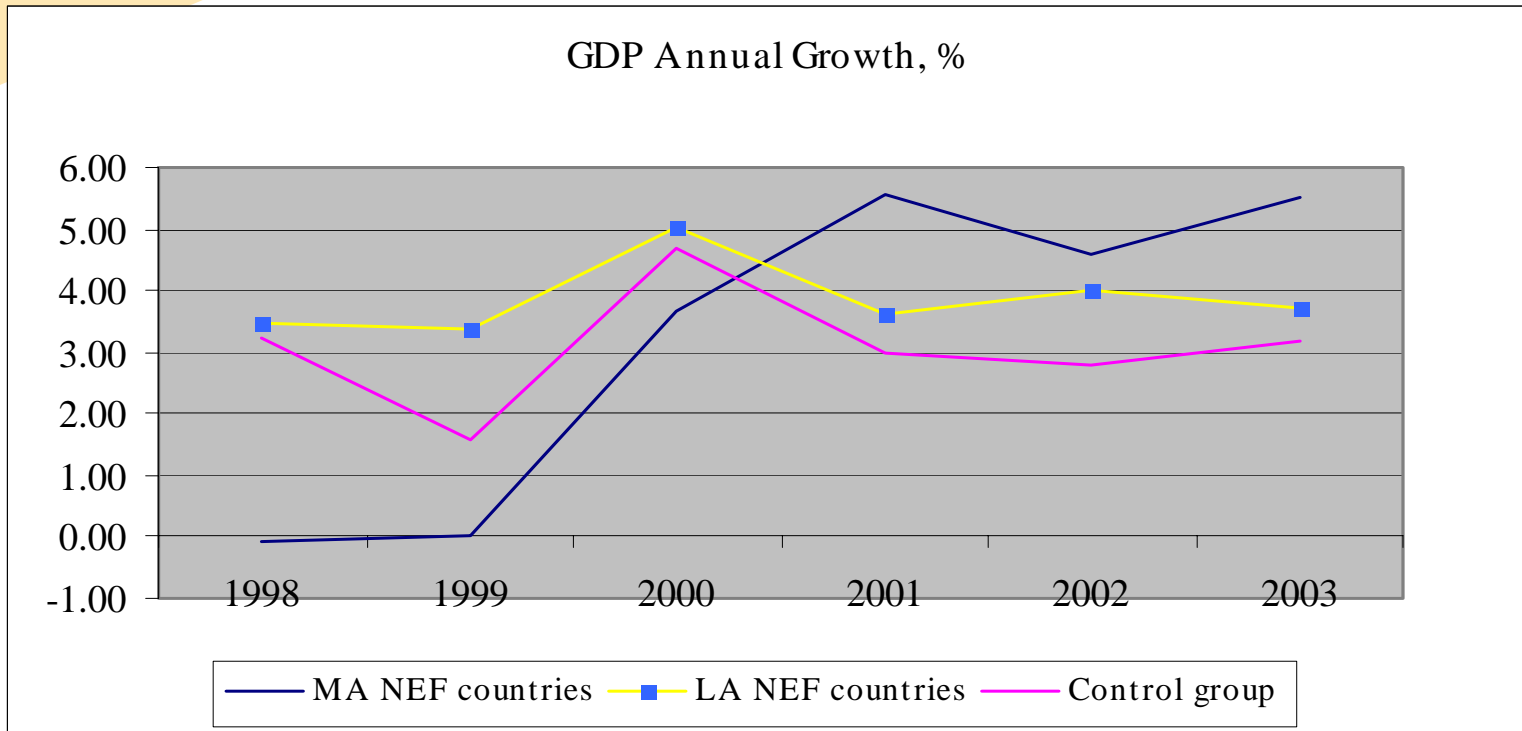
October, 2004

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

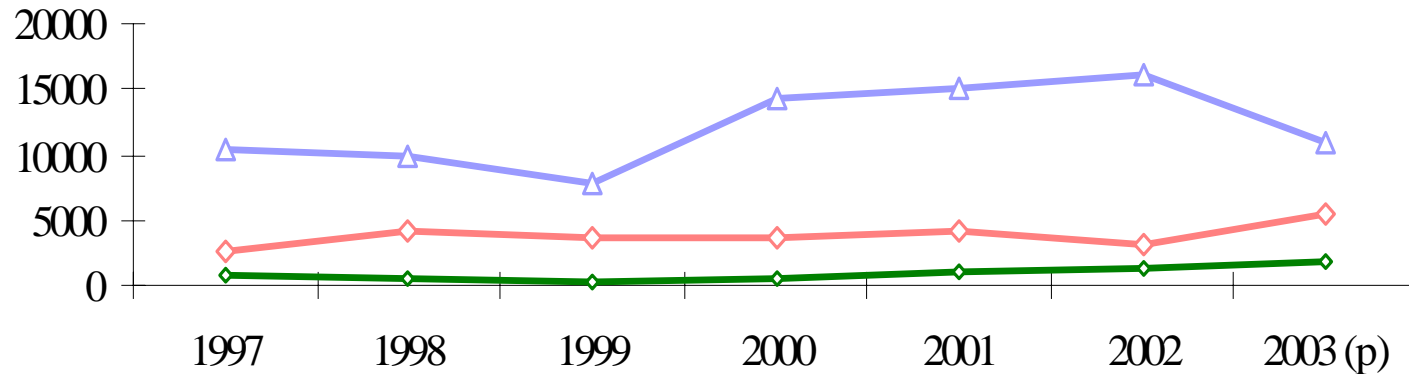
- sustainable economic growth and macroeconomic stability
- an improving business environment and investment climate
- a highly skilled, well educated labor force of significant size
- a low cost region at a strategic crossroads
- good access to the major markets of the European Union
- large domestic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

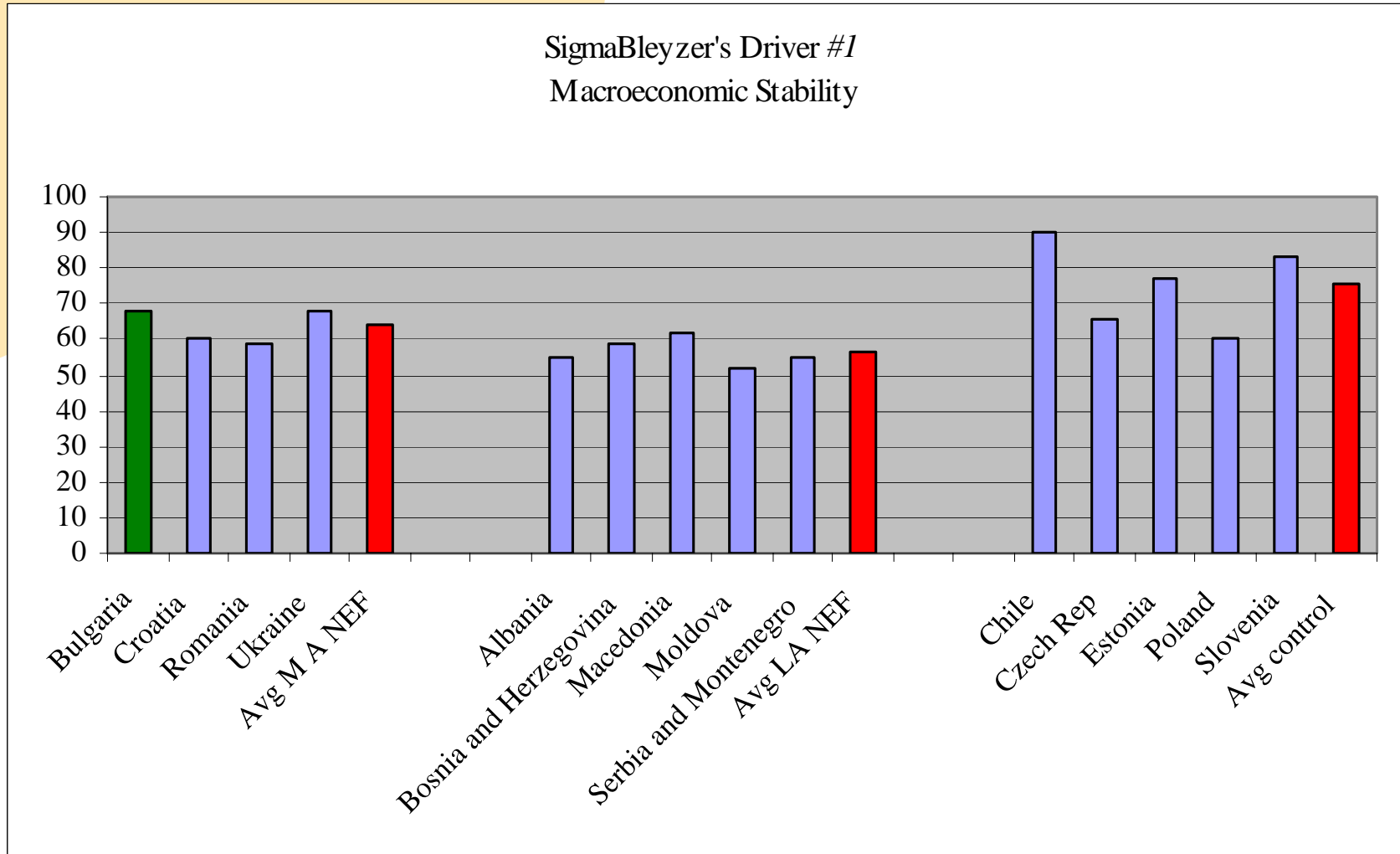
FDI flows have been uneven across individual countries

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

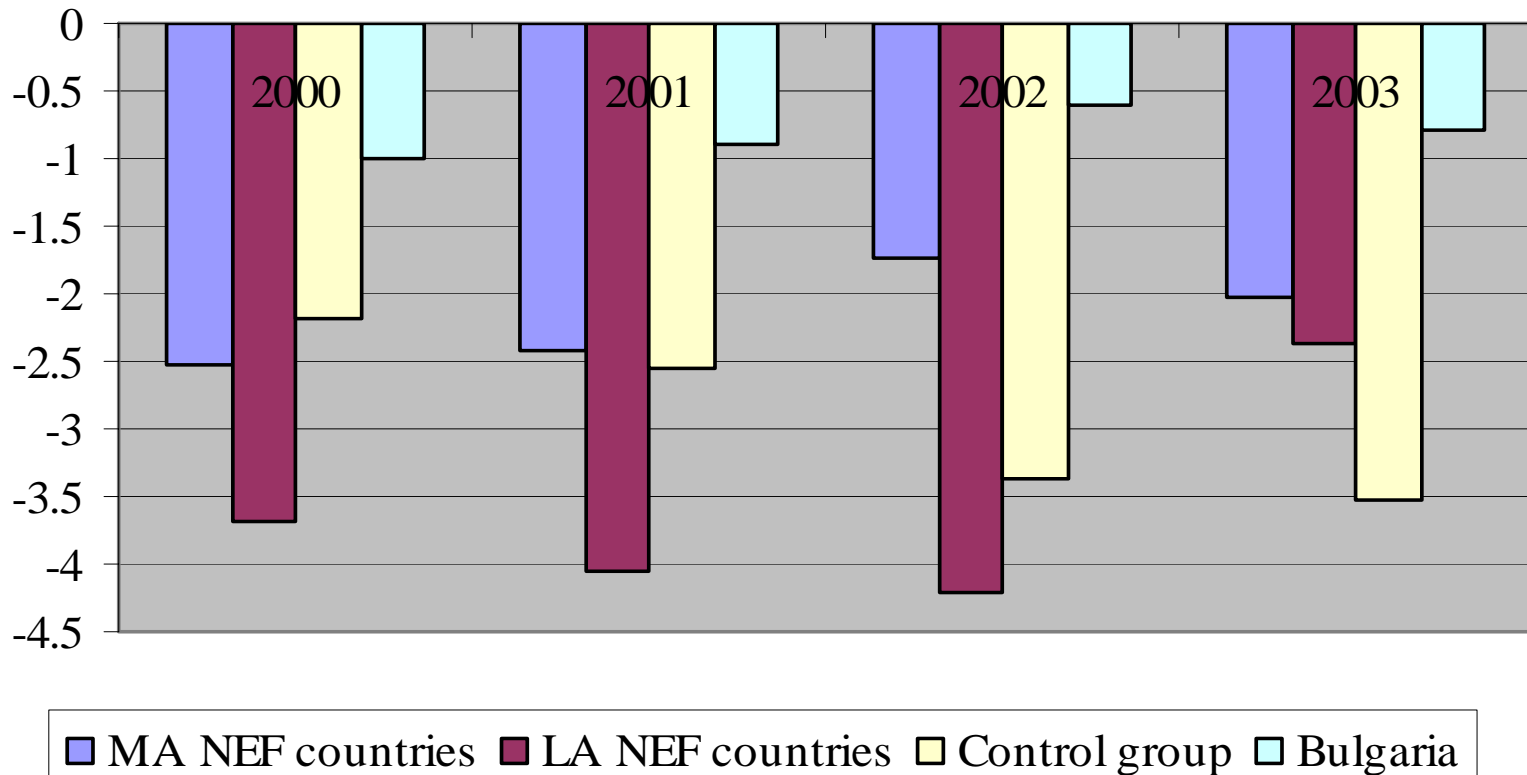
- (i) Macroeconomic stability***
- (ii) Business liberalization and de-regulation policies***
- (iii) Stable and predictable legal environment***
- (iv) Corporate and public governance***
- (v) Foreign trade liberalization and international capital movements***
- (vi) Healthy financial sector***
- (vii)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

Driver 1: Macroeconomic Stability



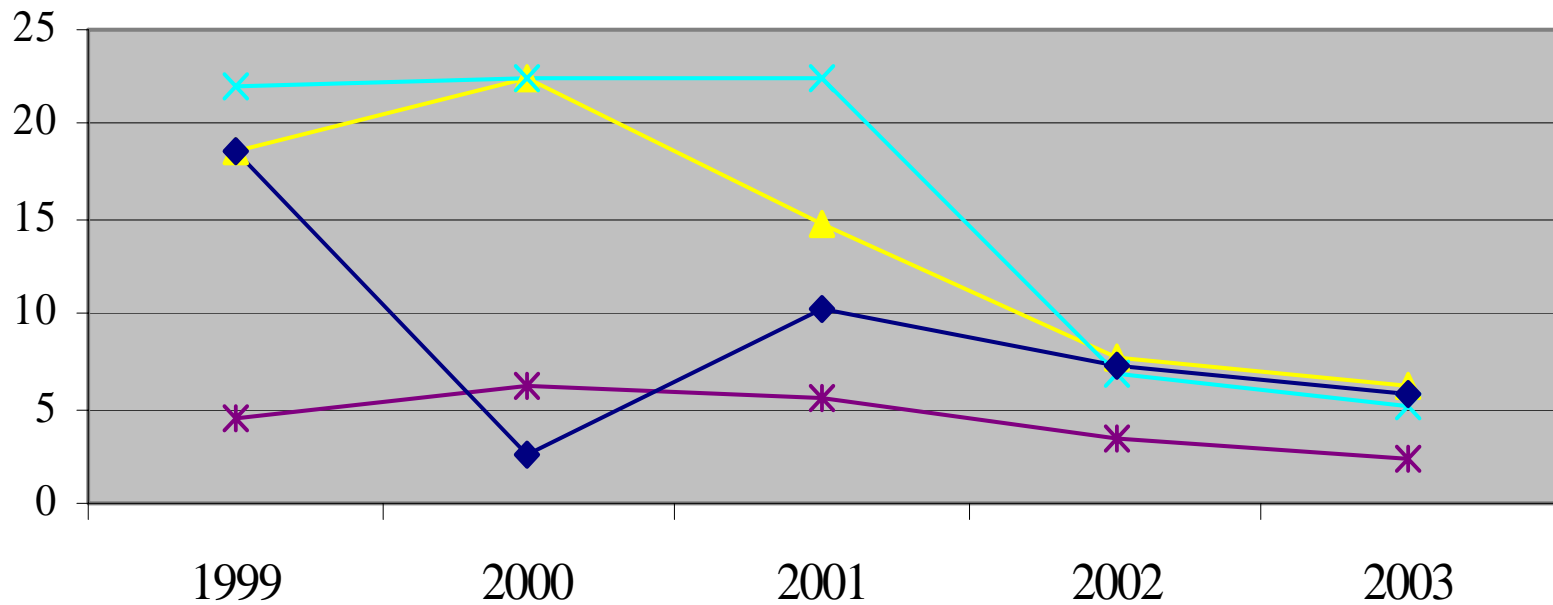
Fiscal policies

Figure Average Fiscal Balances, %



Monetary Policies (1)

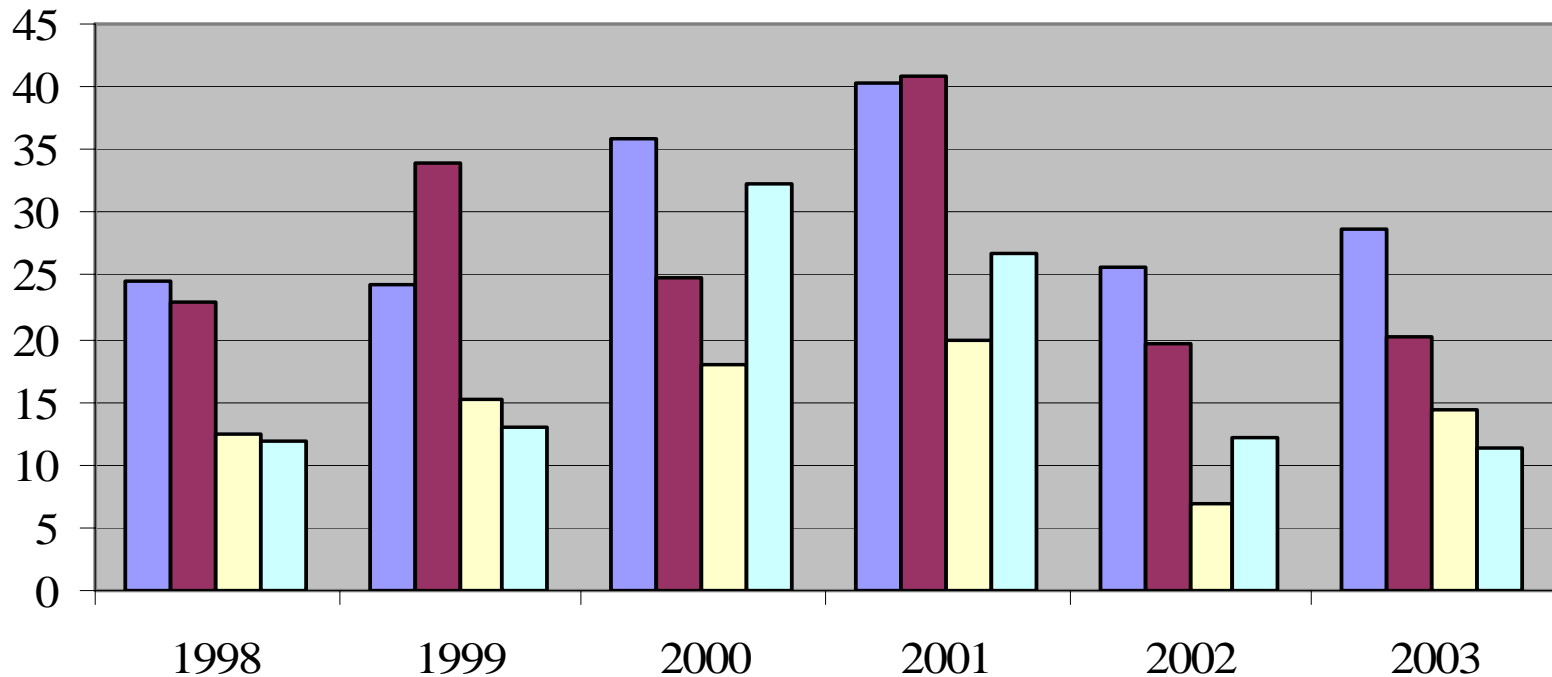
Consumer Price Inflation, annual average



—▲— MA NEF countries —×— LA NEF countries —*— Control group —◆— Bulgaria

Monetary Policies (2)

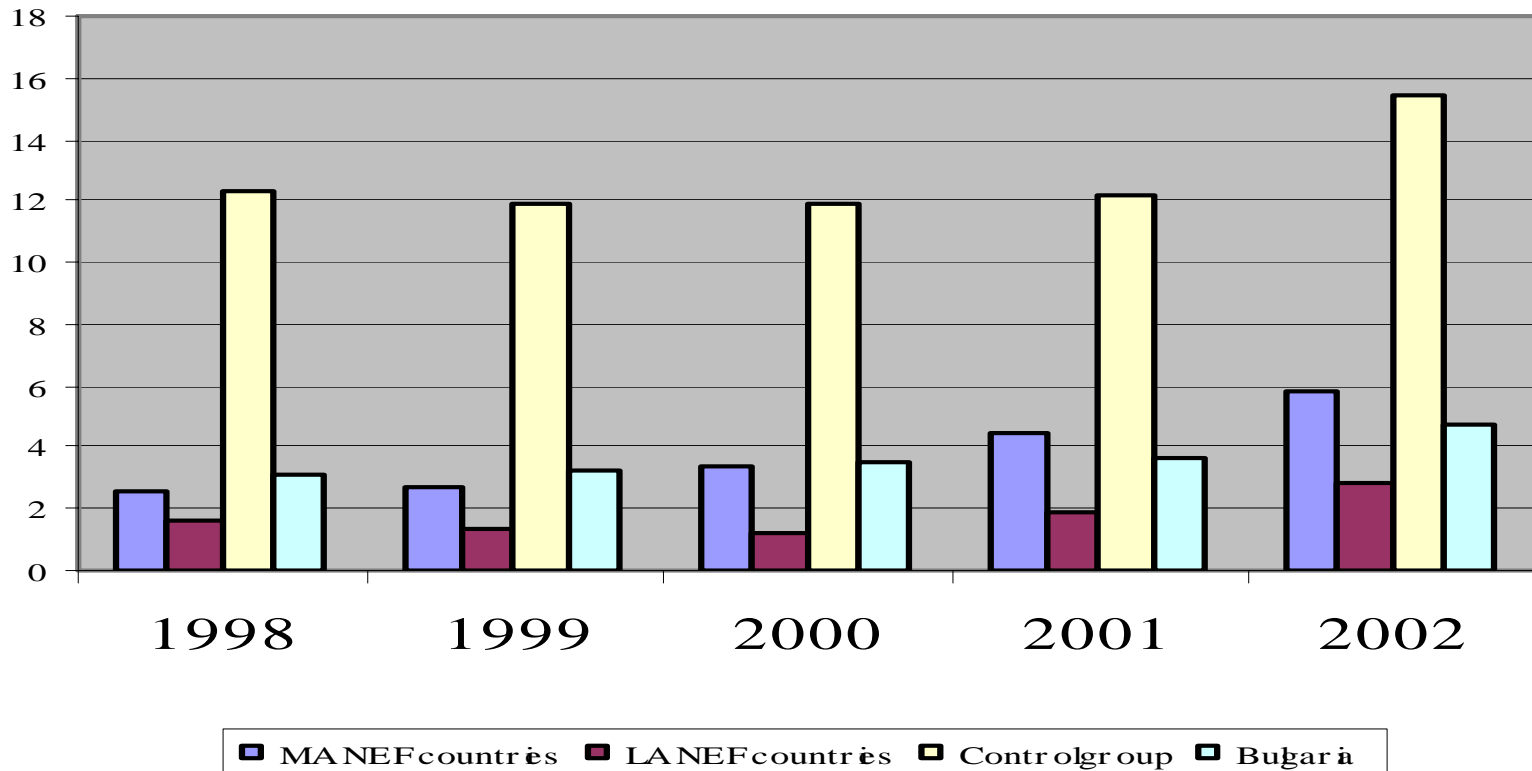
Growth in Money Supply,% yoy



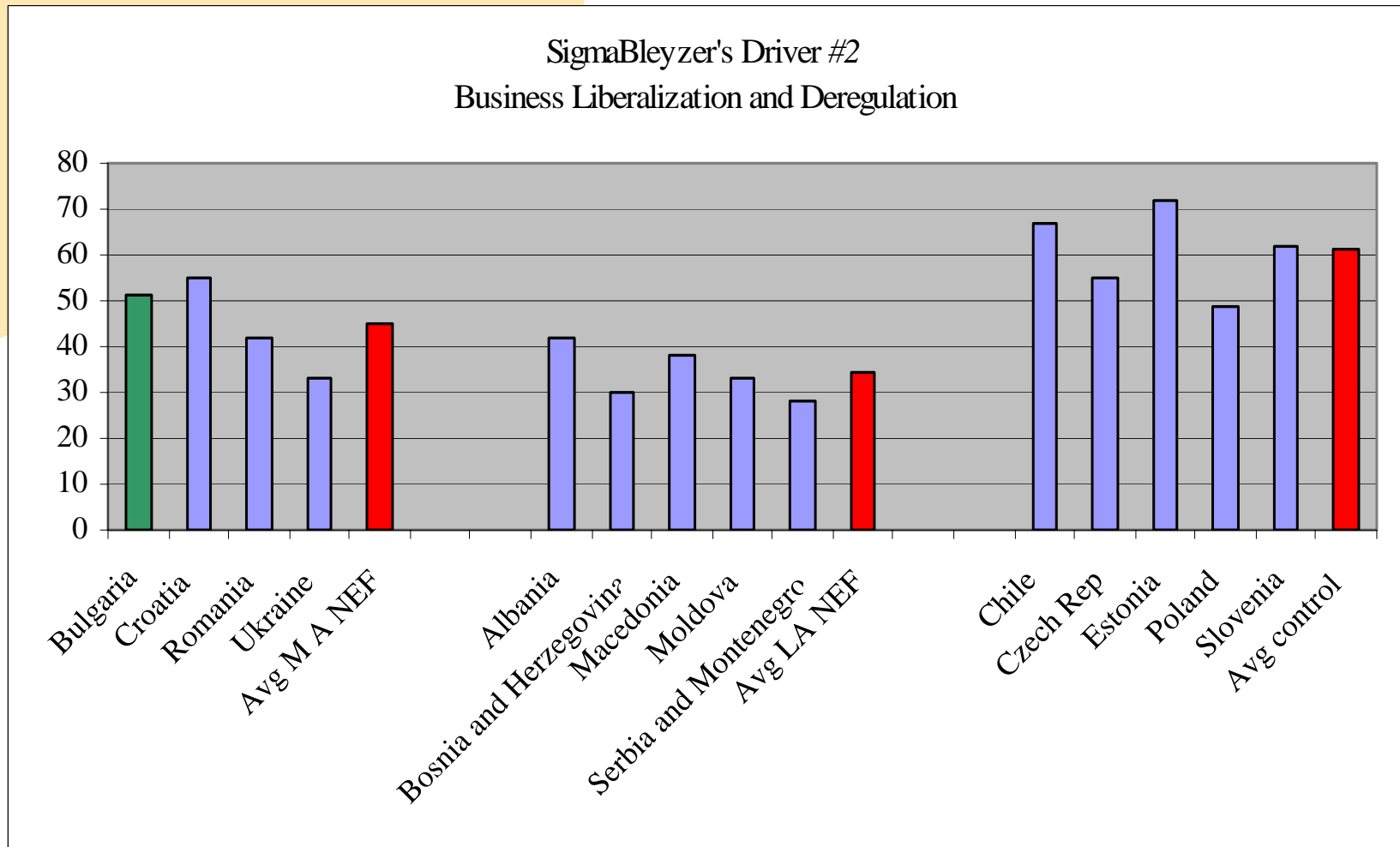
■ MA NEF countries ■ LA NEF countries ■ Control group ■ Bulgaria

Monetary Policies (3)

Average Gross International Reserves, USD
billion, eop

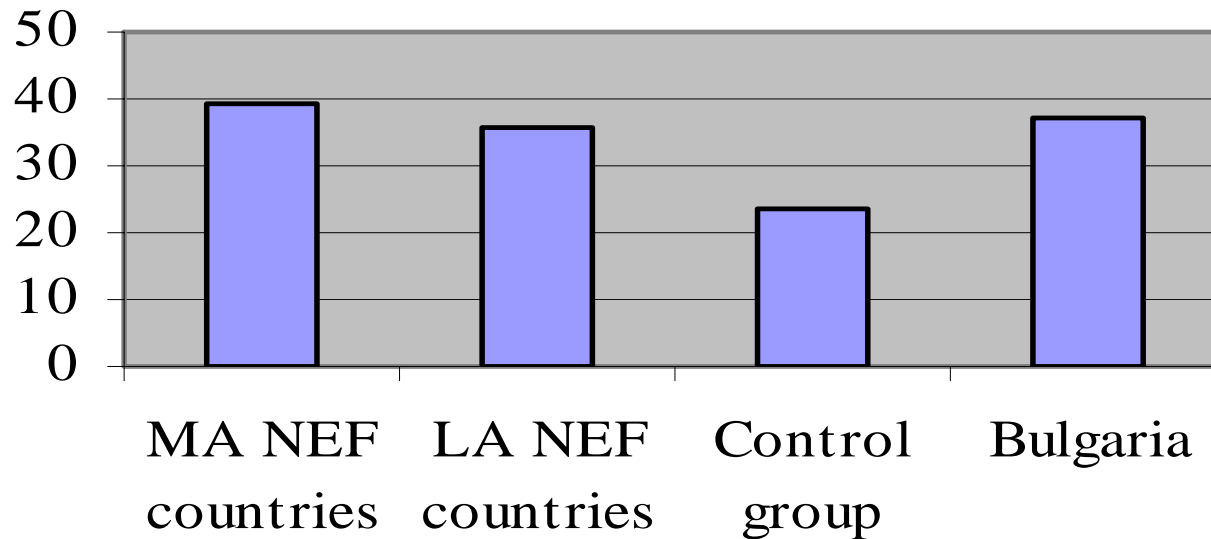


Driver 2: Liberalization and Deregulation of Business Activities



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

Informal Economy in 2003 (% to GDP)

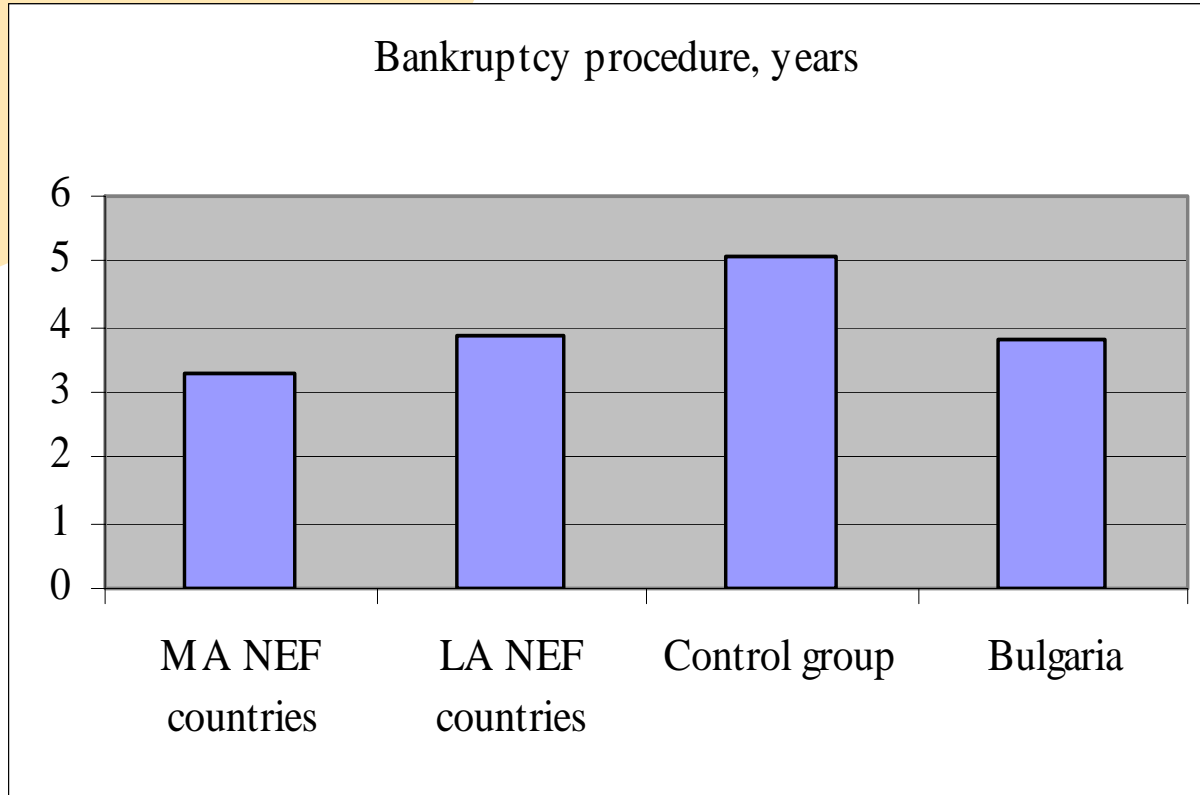


Barriers to entry the market

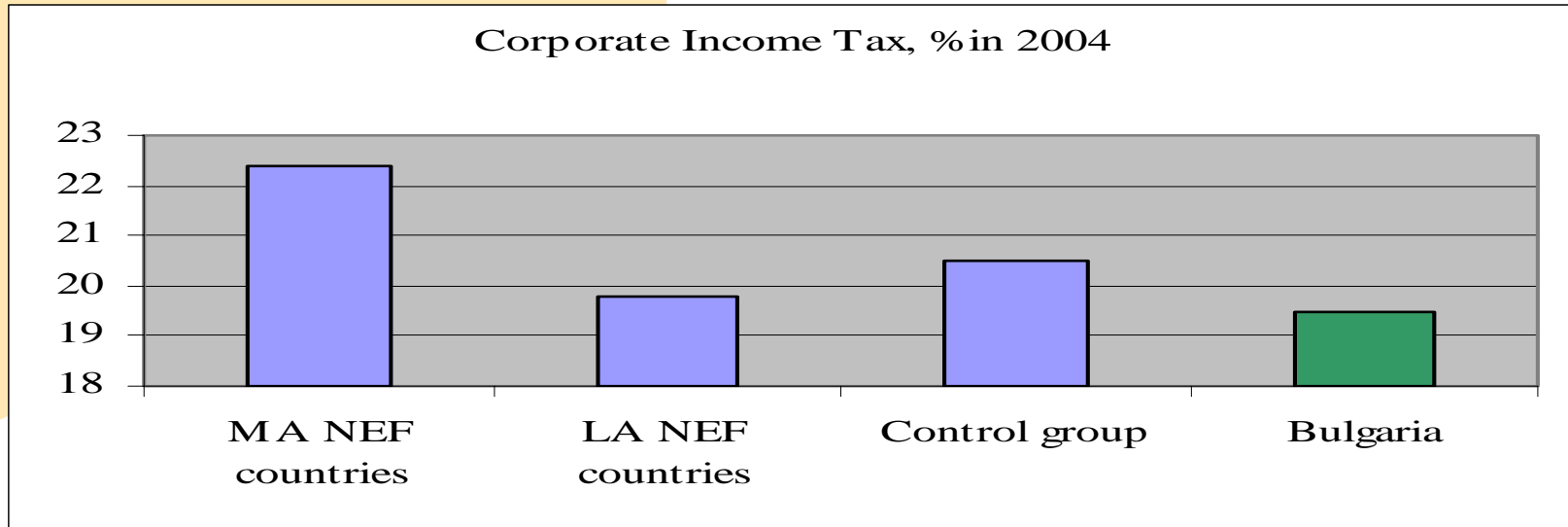
Duration of procedure to initiate business in 2003 (days)			
25-40	41-55	56 and more	
Romania, Chile, Bulgaria , Poland, Ukraine	Moldova, Serbia and Montenegro, Albania, Macedonia,	Bosnia and Herzegovina, Slovenia, Czech Republic	

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, Macedon ia, Ukraine

Barriers to exit the market

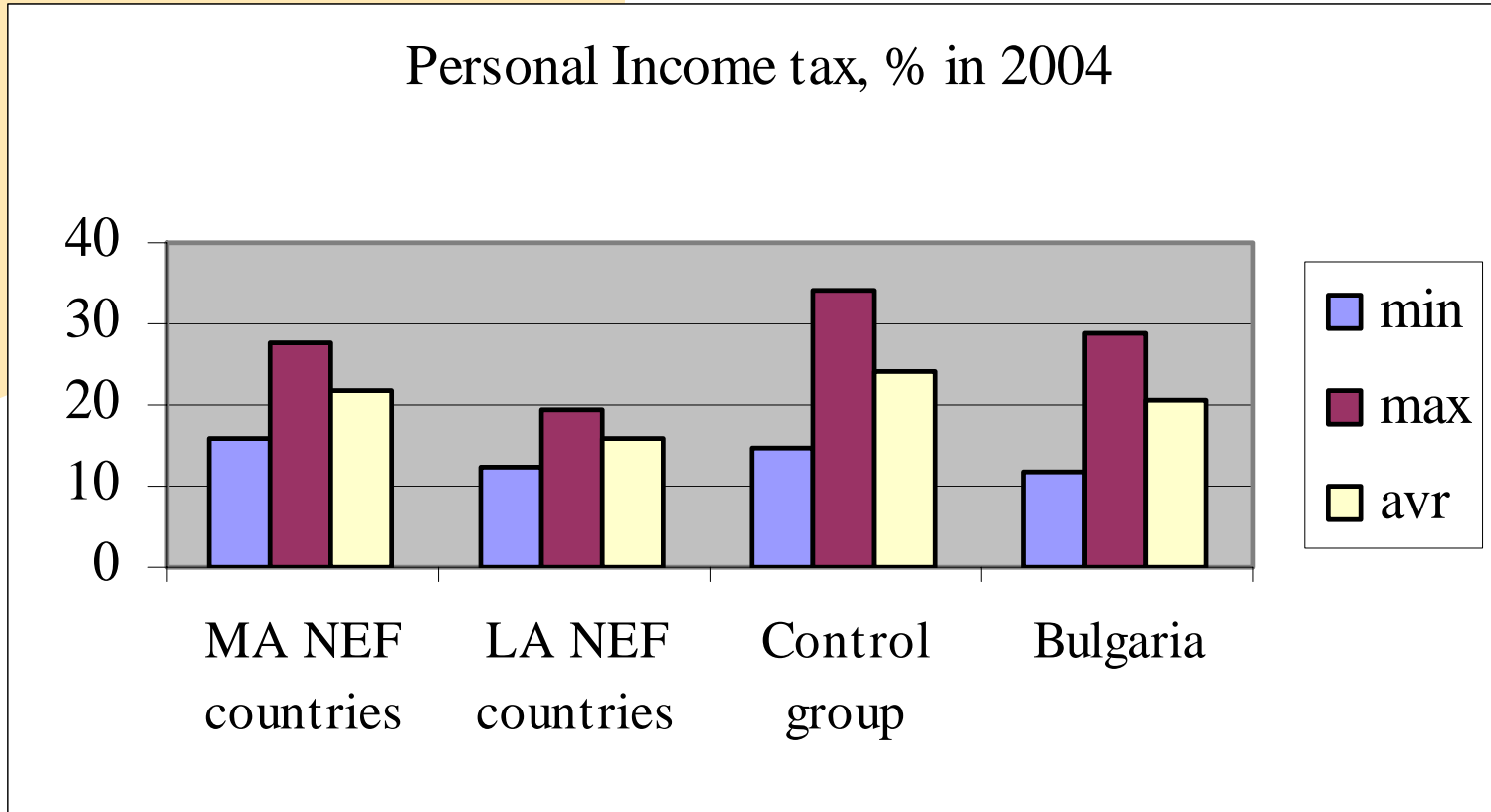


Taxes (1)

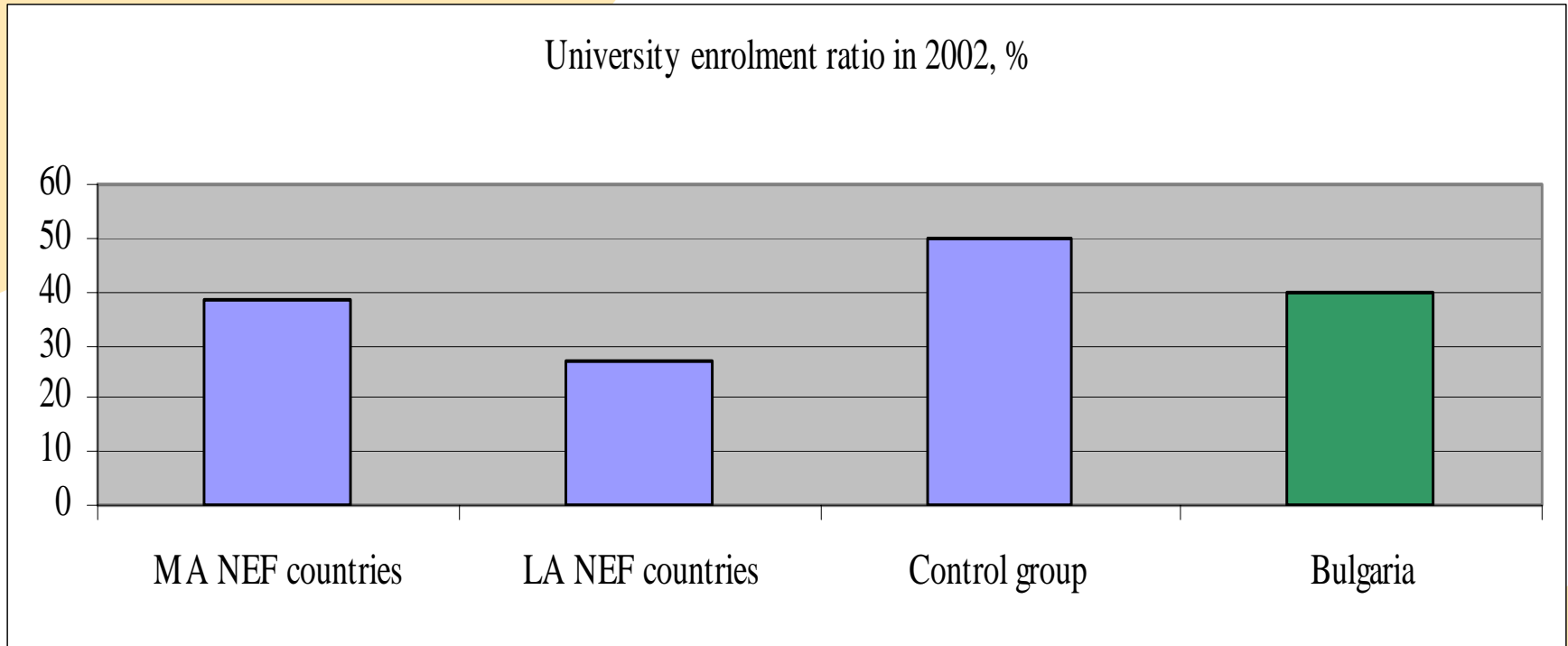


VAT standard rate, % in 2004				
17	18	19	20	22
Serbia and Montenegro	Macedonia	Romania, Slovakia, Chile	Ukraine, Bulgaria, Moldova, Albania, Bosnia and Herzegovina	Czech Republic, Croatia, Poland

Taxes (2)

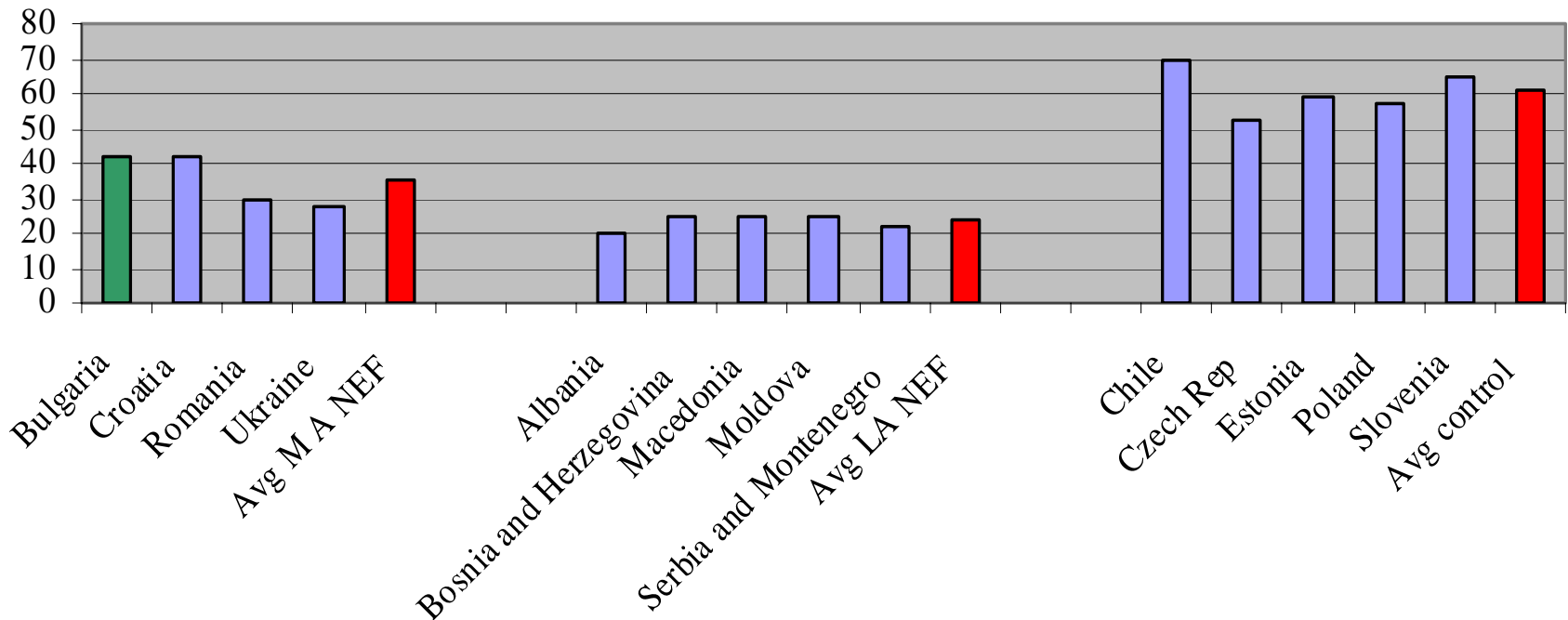


Businesses in *NEF* countries are able to benefit from their highly competitive labor forces



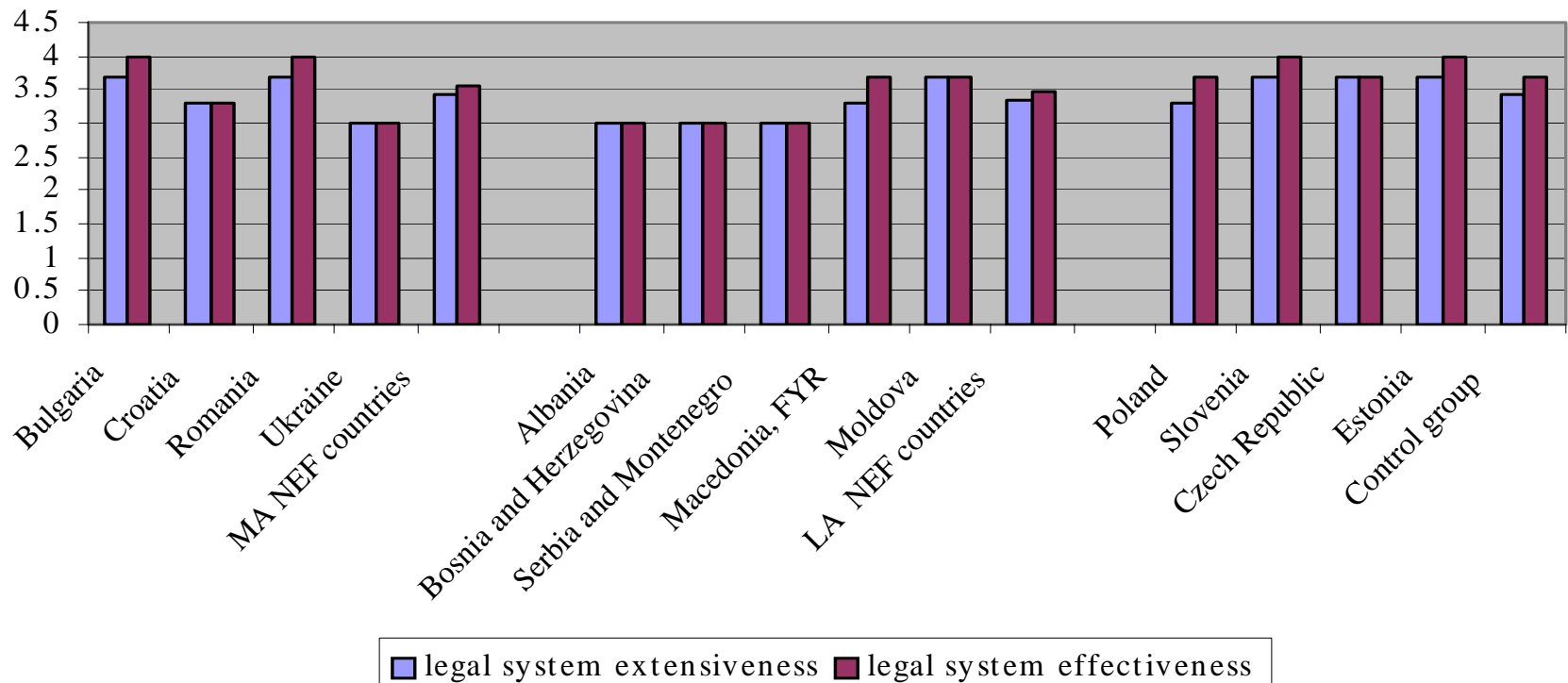
Driver 3: Stability and Predictability of the Legal Environment

SigmaBleyzer's Driver #3
Stability and Predictability of Legal Environment

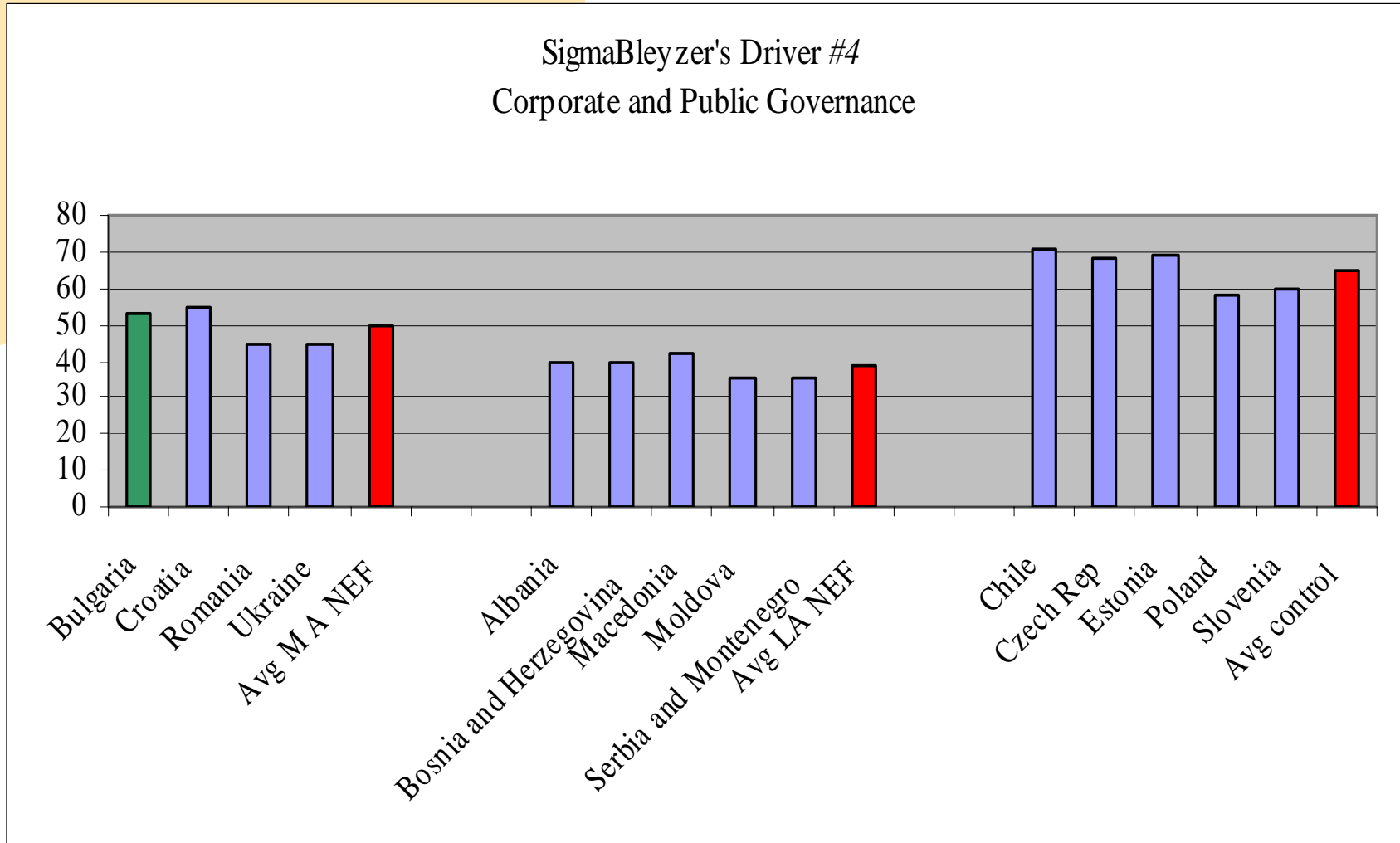


Respect for the rule of law, the establishment of a transparent legal framework and its enforcement remain among the key conditions for the creation of a business-friendly environment

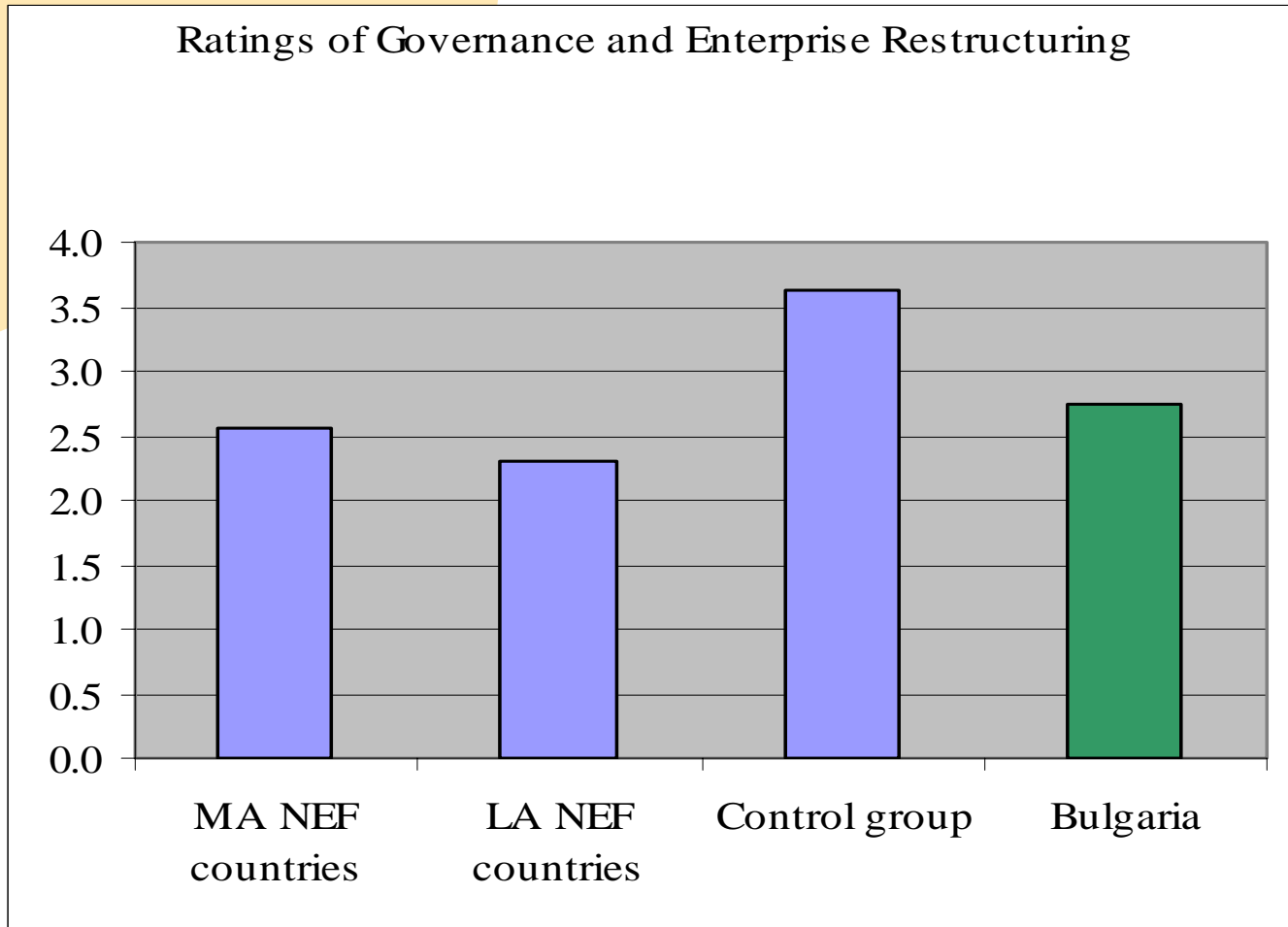
Legal System Reform Indicators in 2002



Driver 4: Corporate and Public Governance

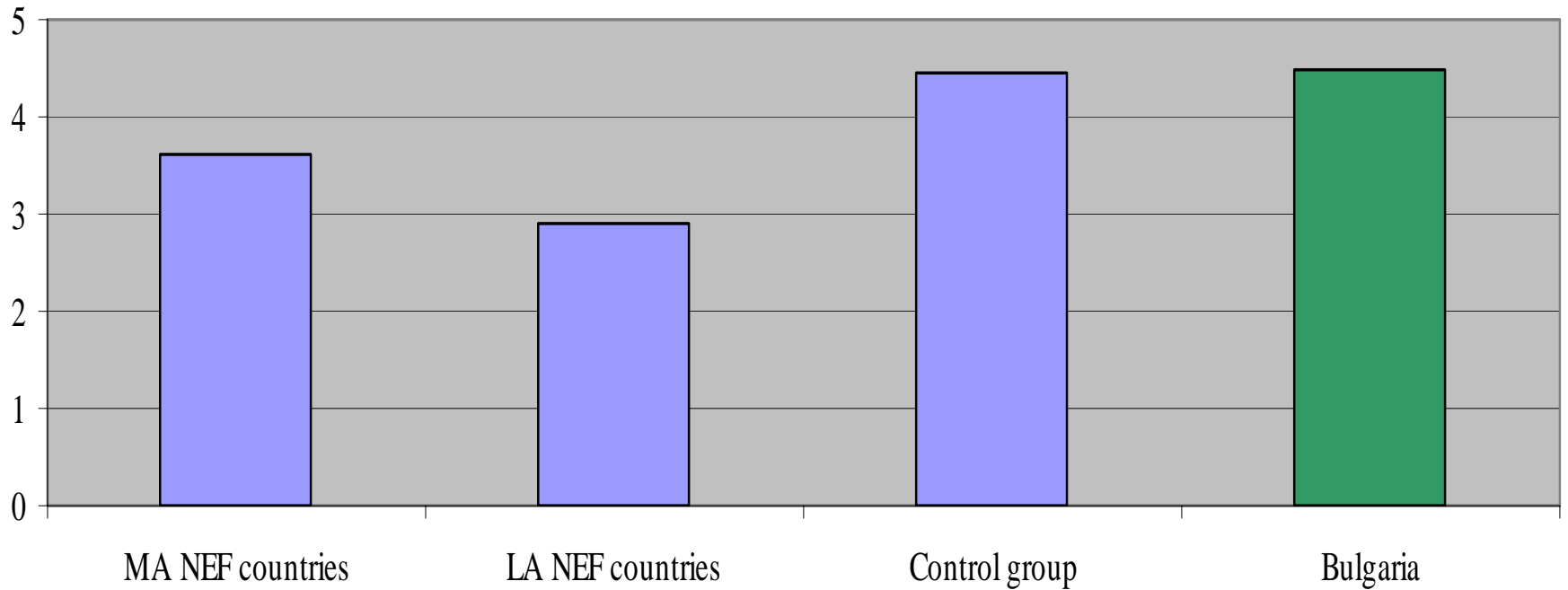


Corporate Governance



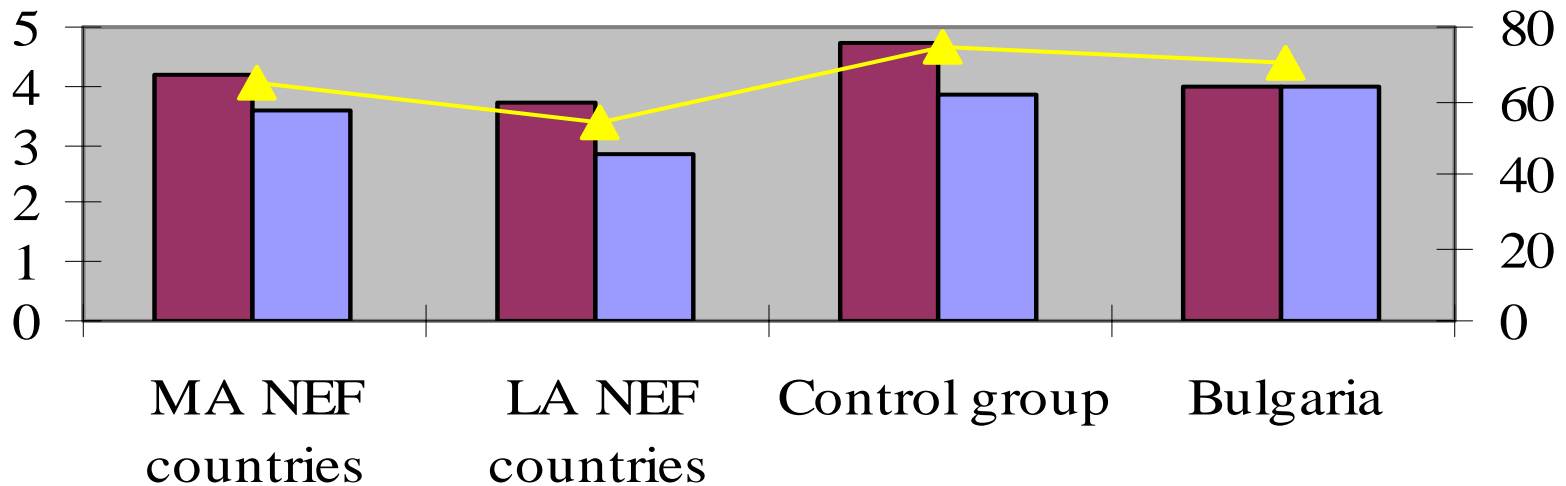
Public administration

Ratings of Quality of Public Administration



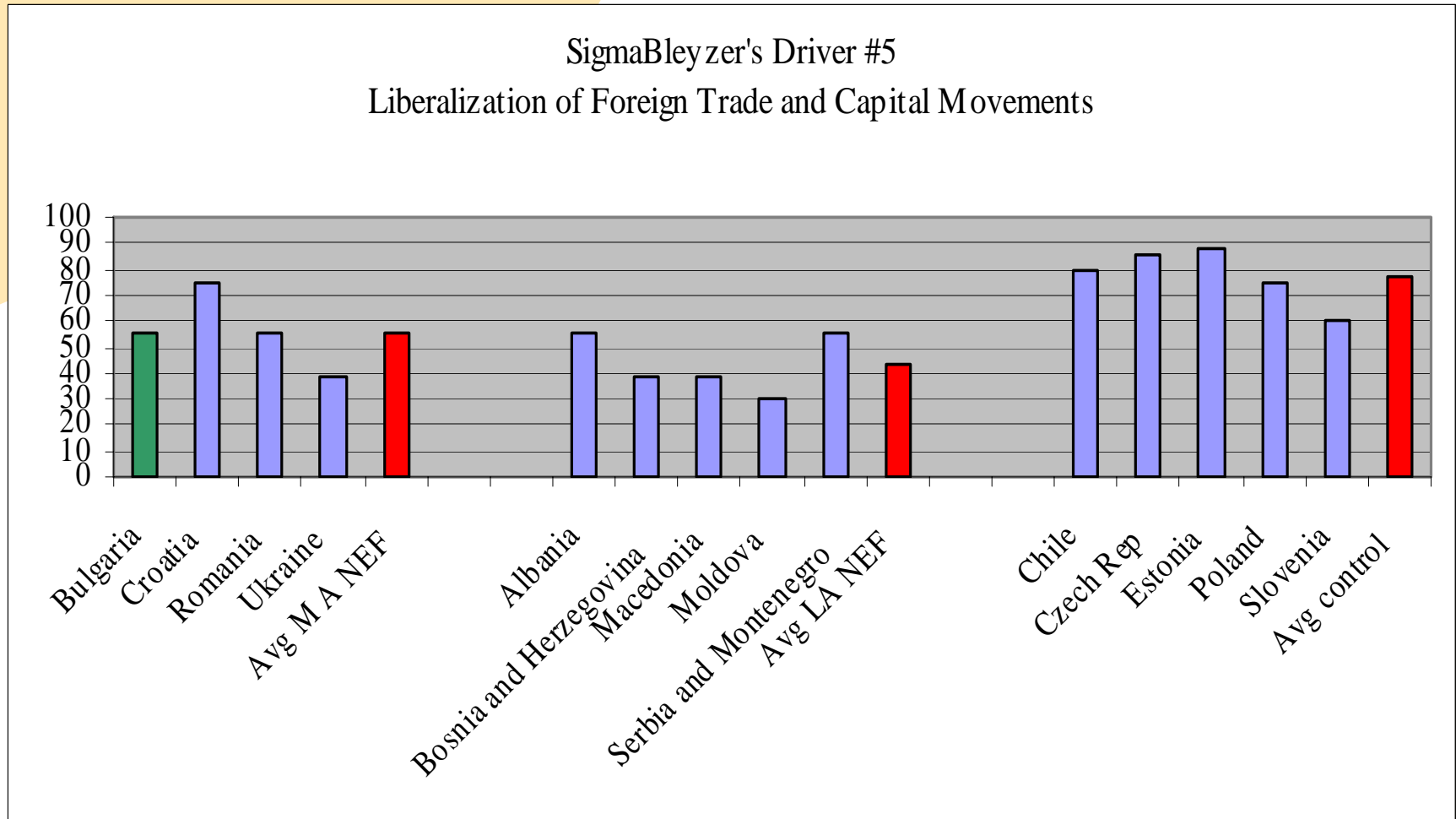
Privatization

Ratings of Small- and Large-Scale Privatization

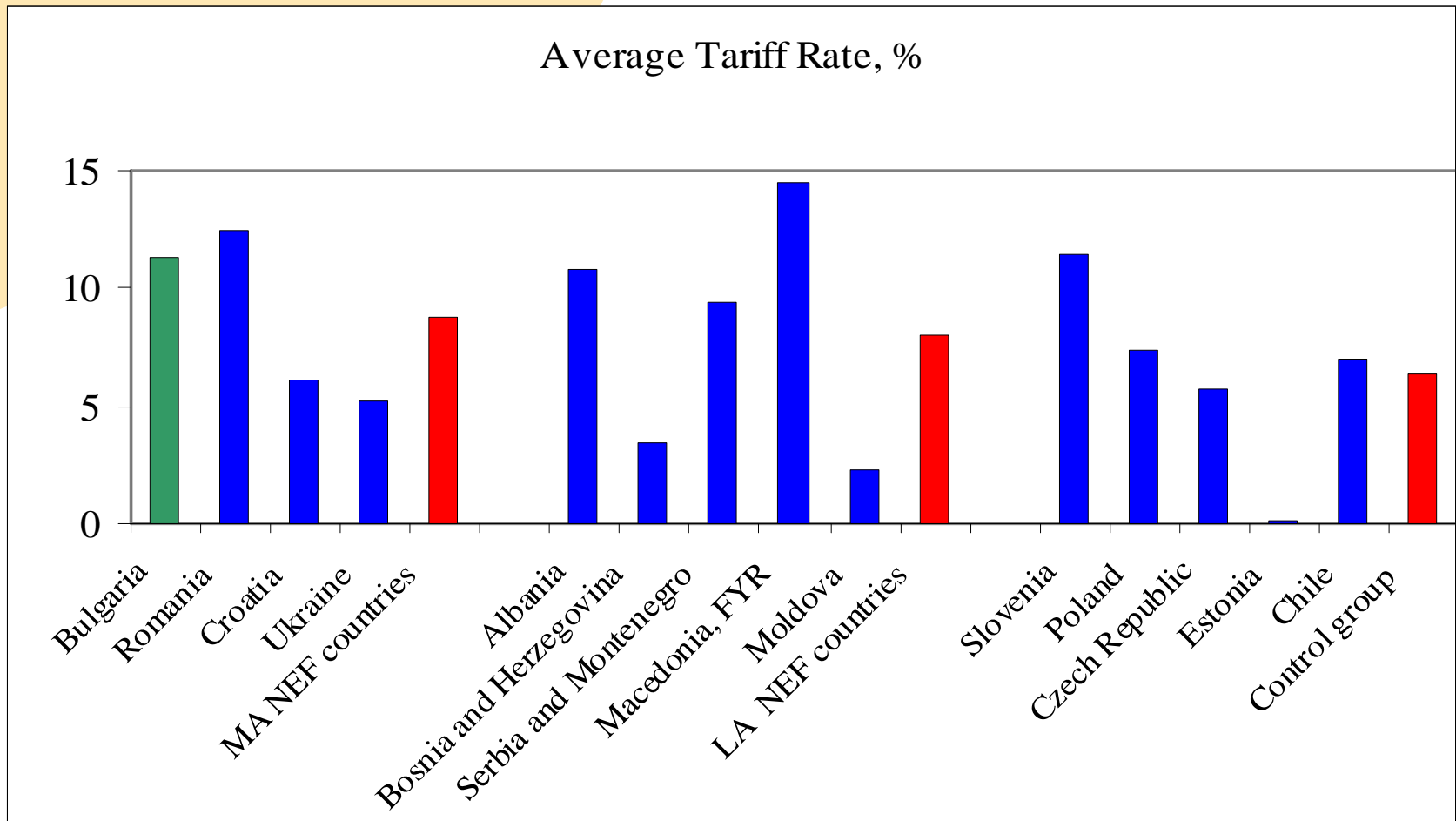


- Small-scale privatization (left scale)
- Large-scale privatization (left scale)
- Private Sector Share of GDP, % (right scale)

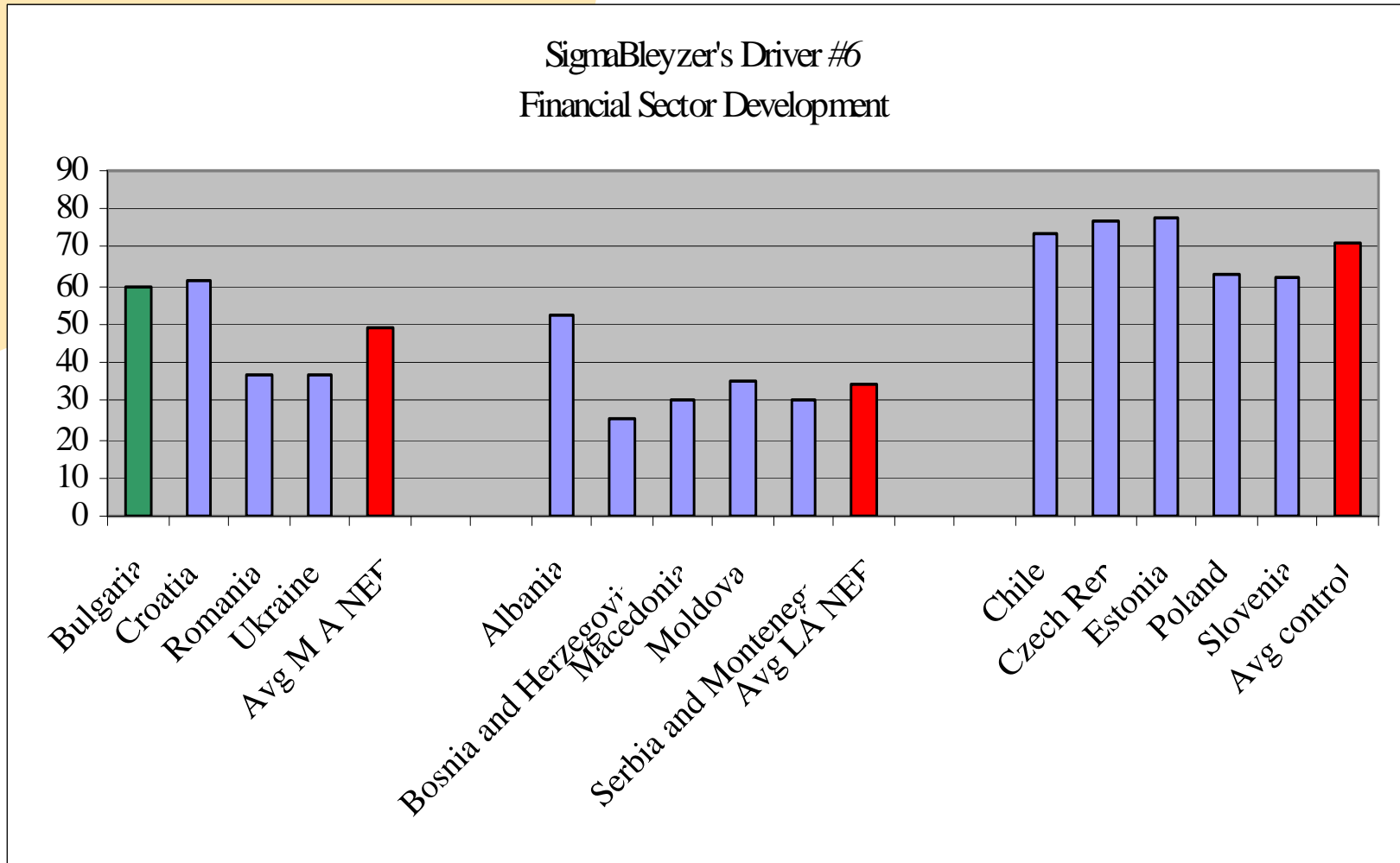
Driver 5: Liberalization of Foreign Trade and Capital Movements



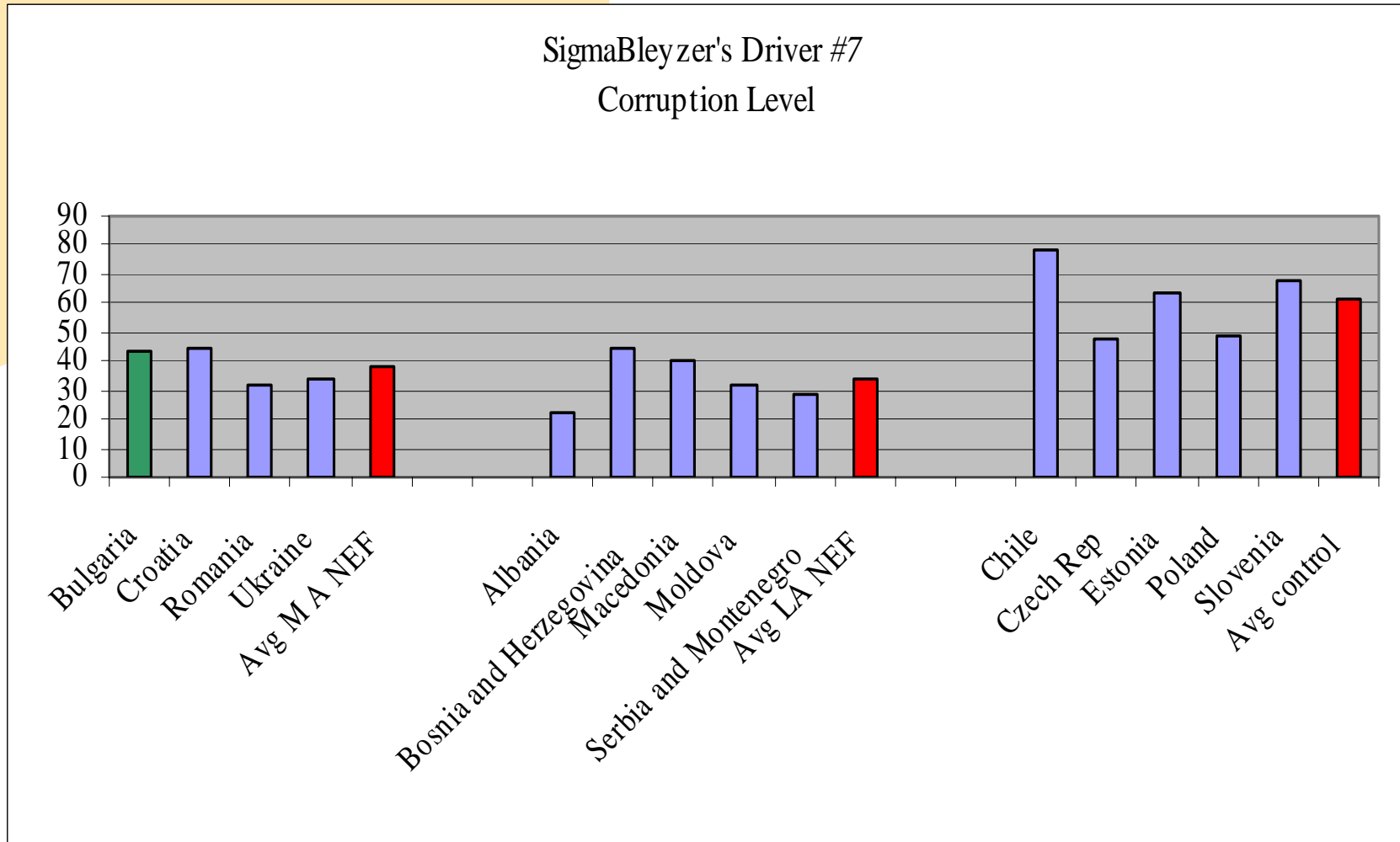
The average tariff rate for *NEF countries* is a relatively low but still higher than in the control group



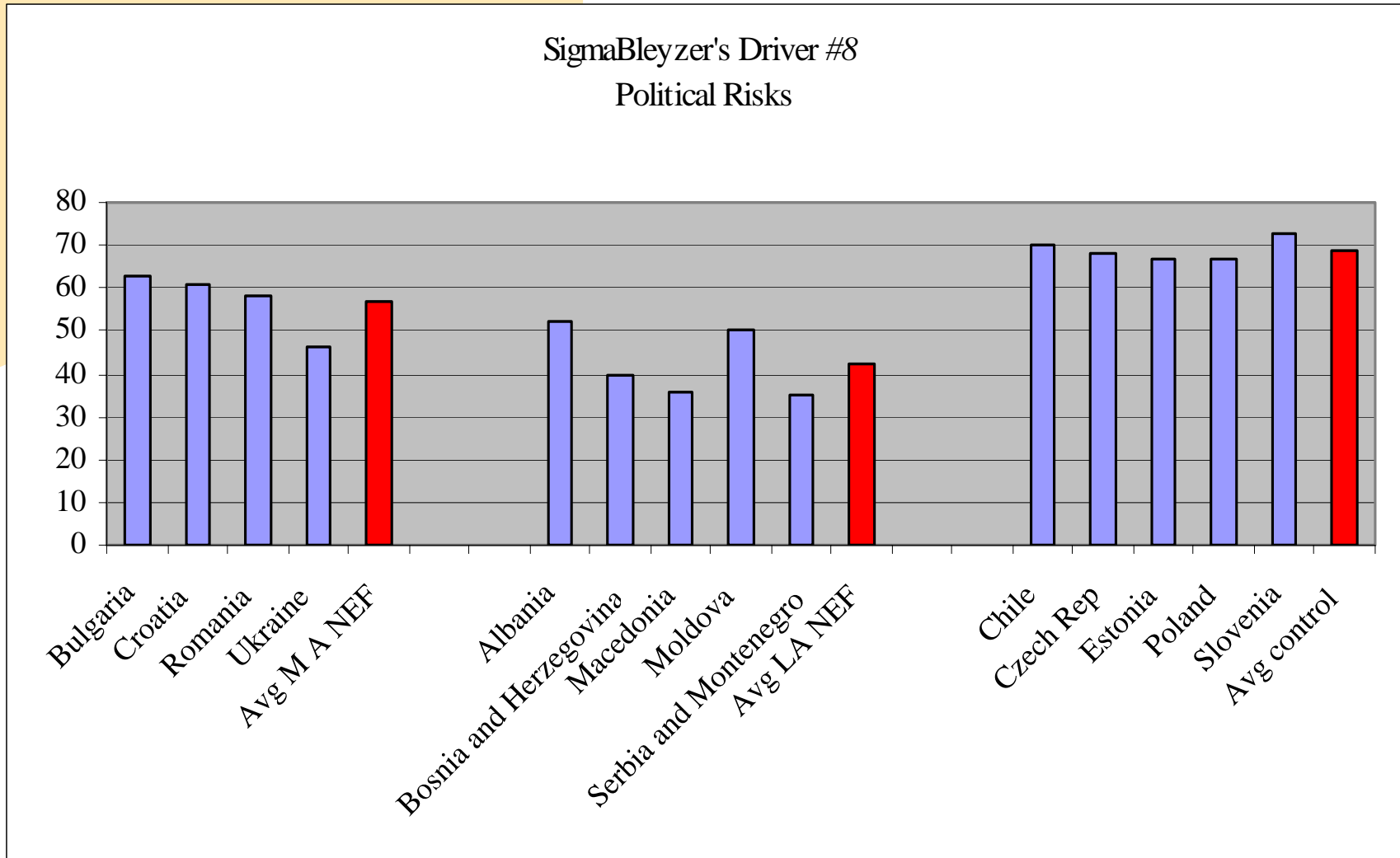
Driver 6: Financial Sector Development



Driver 7: Corruption level

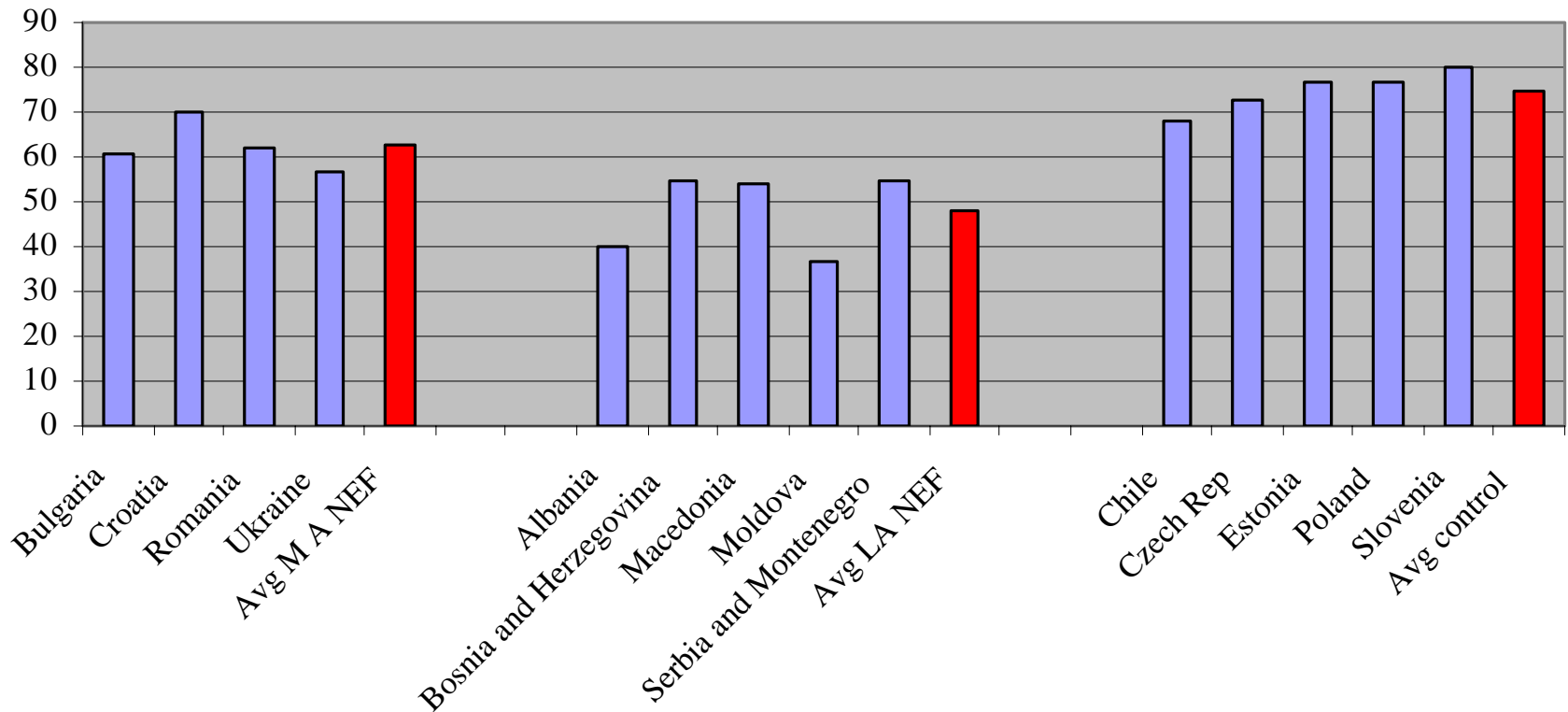


Driver 8: Political Risks

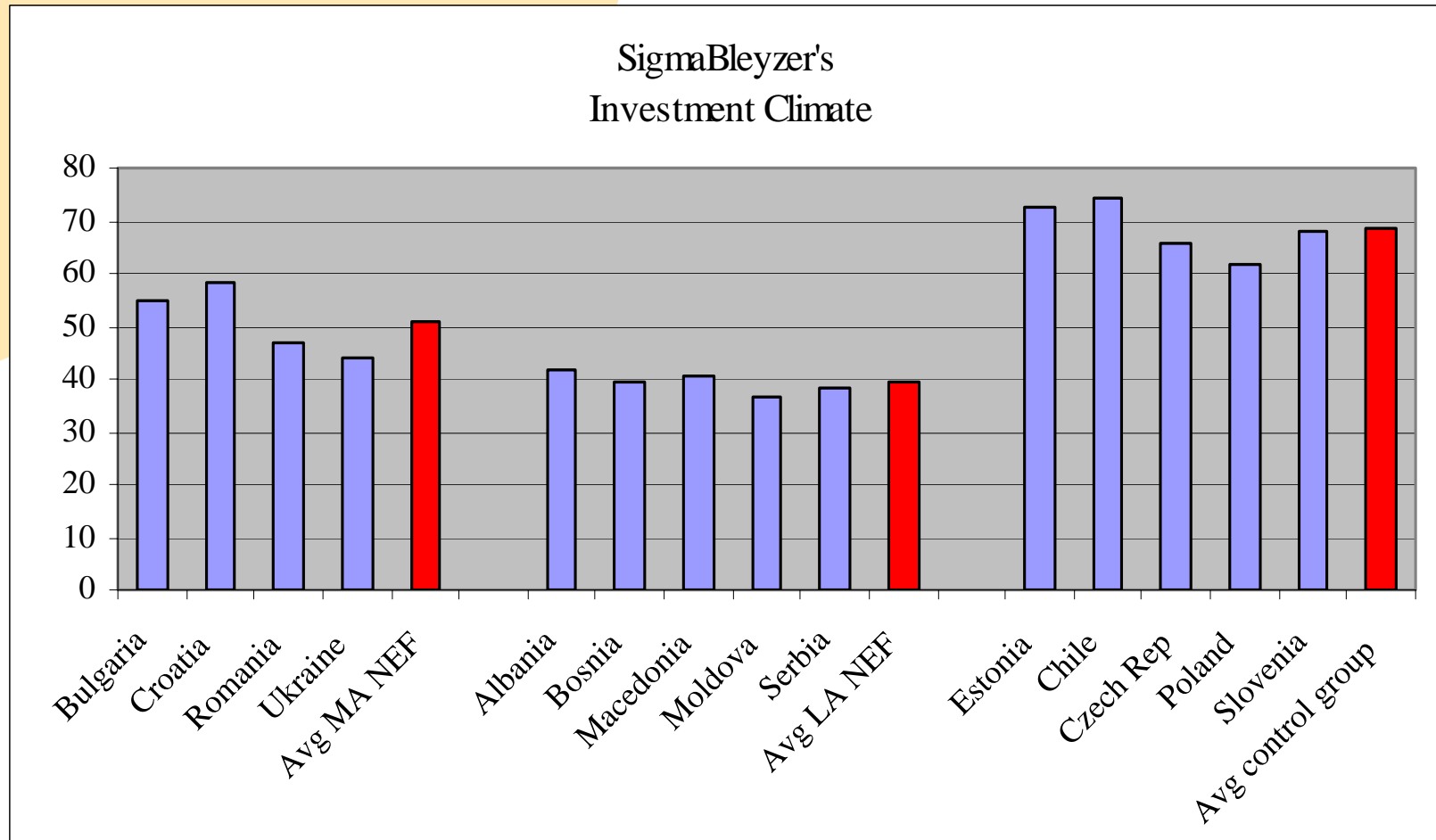


Driver 9: Country Promotion and Image

SigmaBleyzer's Driver #9
Country Promotion and Image

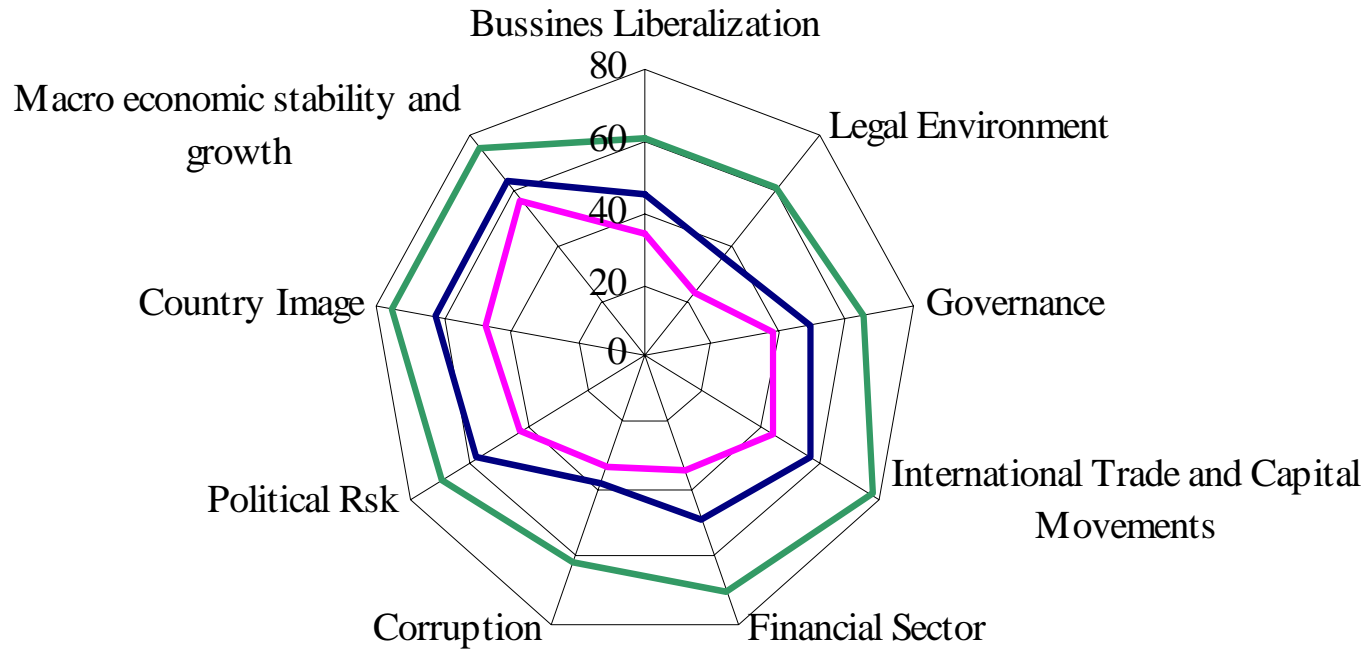


Conclusions (1)



Conclusions (2)

SigmaBleyzer's Nonagon Investment Climate



— MA NEF countries — LA NEF countries — Control group

Conclusions (3)

