

# Sectoral Analyses



---

**For authors see last page**

## **Imprint**

**Published by** UniCredit Group/Bank Austria Creditanstalt Aktiengesellschaft

<http://www.unicreditgroup.eu>

<http://www.ba-ca.com>

**Edited by** CEE Research Department

E-mail: [cee.economic.research@ba-ca.com](mailto:cee.economic.research@ba-ca.com)

Bernhard Sinhuber, Tel. + 43 (0)50505-41964

**Produced by** BA-CA Public Relations Department ([pub@ba-ca.com](mailto:pub@ba-ca.com)),

tel. + 43 (0)50505-56141

**Printed by** Edelbacher

**Layout:** Horvath Grafik-Design

**Closing date:** December 2006

## **Disclaimer**

This document (the **“Document”**) has been prepared by UniCredito Italiano S.p.A. and its controlled companies<sup>1</sup> (collectively the **“UniCredit Group”**). The Document is for information purposes only and is not intended as (i) an offer, or solicitation of an offer, to sell or to buy any financial instrument and/or (ii) professional advice in relation to any investment decision. The Document is distributed by electronic and ordinary mail to professional investors and may not be redistributed, reproduced, disclosed or published in whole or in part. Information, opinions, estimates and forecasts contained herein have been obtained from or are based upon sources believed by the UniCredit Group to be reliable but no representation or warranty, express or implied, is made and no responsibility, liability and/or indemnification obligation shall be borne by the UniCredit Group vis-à-vis any recipient of the present Document and/or any third party as to the accuracy, completeness and/or correctness of any information contained in the Document. The UniCredit Group is involved in several businesses and transactions that may relate directly or indirectly to the content of the Document. Accordingly, the UniCredit Group may hold a position or act as market maker in any financial instrument mentioned in the Document. Information which is not reflected in the Document may therefore be available to persons connected with the UniCredit Group. The Document has been approved for distribution in the UK by the London branch of UniCredit Banca Mobiliare S.p.A., regulated by the FSA for the conduct of investment business in the UK. It has not been approved for distribution to or for the use of private customers, as defined by the rules of the FSA. The Document may not be distributed in the USA, Canada, Japan or Australia.

<sup>1</sup> Including Koc Financial Service A.S., a joint venture established pursuant to the laws of Turkey, in which UniCredito Italiano S.p.A. has a 50% shareholding. The definition of “control” is pursuant to Italian law.

# Contents

Regional Outlook 2007–2008 .....	4
<b>Bulgaria</b> .....	10
Sectoral Performance .....	10
Structural Indicators .....	13
<b>Croatia</b> .....	15
Sectoral Performance .....	15
Structural Indicators .....	19
<b>Czech Republic</b> .....	21
Sectoral Performance .....	21
Structural Indicators .....	24
<b>Hungary</b> .....	26
Sectoral Performance .....	26
Structural Indicators .....	30
<b>Poland</b> .....	31
Sectoral Performance .....	31
Structural Indicators .....	34
<b>Romania</b> .....	36
Sectoral Performance .....	36
Structural Indicators .....	40
<b>Slovakia</b> .....	42
Sectoral Performance .....	42
Structural Indicators .....	45
<b>Turkey</b> .....	47
Sectoral Performance .....	47
Structural Indicators .....	50
<b>Annex</b> .....	52
Bulgaria .....	52
Croatia .....	52
Czech Republic .....	54
Hungary .....	54
Poland .....	55
Romania .....	56
Slovakia .....	57
Turkey .....	58
<b>UniCredit Group CEE banking network</b> .....	60

# Regional Outlook 2007–2008

Table 1: Best and Worst Performers in CEE

	BEST	STABLE	WORST
<b>Agriculture, Hunting, Forestry, Fishing</b>		PL, CZ, SK, HR, BG, RM, TK	HU
<b>Mining &amp; Quarrying</b>		HR, BG, TK	PL, CZ, SK, HU, RM
<b>Manufacturing</b>			
Food products; beverages and tobacco		PL, CZ, SK, HR, BG, RM, TK	HU
Textiles and textile products		SK, BG	PL, CZ, HU, HR, RM, TK
Leather and leather products		CZ, BG	PL, SK, HU, HR, RM, TK
Wood and wood products	RM, TK	PL, CZ, SK, HR, BG	HU
Pulp, paper & paper products; publishing & printing	PL, HR	CZ, SK, HU, BG, RM, TK	
Coke, refined petroleum products & nuclear fuel		PL, CZ, SK, HU, HR, BG, RM, TK	
Chemicals, chemical products and man-made fibres		PL, CZ, SK, HU, HR, BG, RM, TK	
Rubber and plastic products	PL, CZ, SK, HU	HR, BG, RM, TK	
Other non-metallic mineral products	PL, HR, BG, RM, TK	CZ, SK, HU	
Basic metals and fabricated metal products	SK, BG	PL, CZ, HU, HR, RM, TK	
Machinery and equipment n.e.c.	PL, CZ, SK, HU, TK	HR, BG, RM	
Electrical and optical equipment	PL, CZ, SK, HU, HR, BG, RM, TK		
Transport equipment	PL, CZ, SK, HU, BG, RM, TK	HR	
Manufacturing n.e.c.	SK, HR, BG, RM, TK	PL, CZ, HU	
<b>Electricity, Gas &amp; Water</b>		PL, CZ, SK, HU, HR, BG, RM, TK	
<b>Construction</b>	PL, SK, HR, BG, RM, TK	CZ, HU	
<b>Wholesale &amp; Retail Trade, Restaurants &amp; Hotels</b>			
Wholesale & Retail Trade	BG, RM	PL, CZ, SK, HU, HR, TK	
Hotels & Restaurants	HR	PL, SK, HU, BG, RM, TK	CZ
<b>Transportation &amp; Communication</b>	HR	CZ, TK	
Transportation & Storage		PL, SK, HU, BG, RM	
Communication	BG, RM	PL, SK, HU	
<b>Finance, Insurance, Real Estate &amp; Bus. Services</b>	BG		
Financial Institutions & Insurance	PL, HU, HR, RM	CZ, SK, TK	
Real Estate, Dwellings & Business Services	CZ, HR, RM	PL, SK, HU, TK	
<b>Community, Social &amp; Personal Services</b>		PL, SK, HU, HR, RM, TK	CZ, BG

Note: BG = Bulgaria, CZ = Czech Republic, HR = Croatia, HU = Hungary, PL = Poland, RM = Romania, SK = Slovakia, TK = Turkey  
Source: UniCredit Group New Europe Research Network

In order to classify sectors as best, stable or worst in the CEE\* region, we take into account a number of factors, both structural and cyclical. Starting from current performance, financial results and ongoing transformations, through our forecasting model we consider expected developments at the domestic and global levels. We also consider the country's position in world production, evaluating short and long-term potential in each sector based on

\* CEE, in this text, includes the Czech Republic, Hungary, Poland, Slovakia, Bulgaria, Romania, Croatia and Turkey. These 8 countries are characterised by different levels of EU integration, with the Czech Republic, Hungary, Poland and Slovakia being members since May 2004, Bulgaria and Romania new members from January 2007 and Croatia and Turkey currently negotiating their way towards the Union.

specific features such as market structure and its possible development, occurred and expected FDI, international and domestic competitiveness, etc.

The sectoral trends recorded in the CEE region in 2006 largely again confirm the dynamics which have already taken shape over the last few years. Capital-intensive industries characterised by a higher contribution of value added and technology (i.e. electrical & optical equipment, transport equipment) continue to exhibit the best prospects. The same holds true for services where the knowledge-intensive high-tech services record the strongest growth.

Such developments are not surprising, given the investment-driven growth recorded in most of the countries in the region.

We assign a very positive outlook to the **Electrical & Optical Equipment** sector for the coming years. This sector is considered to be the best performing of all the analysed countries, with growth rates well above the average of the economy in each market. This is a technology-intensive sector, whose development and transformation have been strongly influenced by massive inflows of FDI. The sector is largely export oriented and highly competitive in international markets. In the most advanced industrial countries of the region (Poland, Hungary, Slovakia and the Czech Republic) the sector already represents a significant share of the economy's value added. In terms of sub-segments, these countries are gaining competitive advantages, particularly in electrical equipment and telecommunications equipment, with Poland and Slovakia becoming production centres in Europe for LCD screens. The Czech Republic is the only country at a regional level that is strengthening its specialisation in computer production, thanks to strong FDI. We expect strong competitiveness gains in Bulgaria, Romania and Croatia, thanks to fresh FDI inflows, especially in electrical and communications equipment. Still, some concerns remain regarding the potential shift of production of small parts of automobiles (i.e. cables) to Asian countries with lower labour costs.

**Transport Equipment** is one of the fastest developing sectors in the region as well. This is particularly true in Central Europe, where an automotive cluster is increasingly discernible, with Fiat already located in Poland, VW in Poland and Slovakia, Audi in Hungary, Skoda in the Czech Republic and more recently KIA and PSA Peugeot Citroën investing in Slovakia and Toyota-PSA and Hyundai in the Czech Republic. The outlook for this industry also remain bright for the future, as the production capacity of the newly established plants has not yet been fully utilised and/or new investments are being carried out. Despite strong domestic demand, the sector definitely remains export oriented throughout the region. This creates a risk of being influenced by global downturns in auto demand, suggesting at least the relevance of strategies diversifying production models. We rank the sector as best in all the countries, even in Bulgaria where new specialisation in the production of car spare parts is being developed. The only exception is Croatia, where transport equipment basically means shipbuilding. This sub branch, which still needs privatisation and restructuring, accounts for 80% of the sector's value added in the country and is ranked as stable.

**Construction** is another major driver of economic growth in CEE. With the exception of the Czech Republic and Hungary, the sector records very strong growth (in terms of output and value added), far above the economy average, with good prospects for the future too. The implementation of infrastructure projects, supported by the availability of EU funds following EU accession in May 2004, is the main driver of the sector's growth in Poland and in Slovakia. In the Czech Republic and Hungary, by contrast, some weaknesses in state finance and the consequent need for tighter spending are endangering the full exploitation of EU funding to develop infrastructure facilities (road networks, motorways, etc.) – limiting the sector's outlook to stable. All over Central Europe, the construction of shopping centres or residential construction is already at an advanced stage, especially around larger towns. This is not the case in the remaining countries – Bulgaria, Romania, Croatia and Turkey. In those countries, the construction of housing, offices, trade complexes and recreational facilities, together with infrastructure projects co-financed by the government (and since 2007 by the EU Cohesion and Structural Funds as well for Romania and Bulgaria) are among the main drivers of the sector's growth.

The good performance (current and expected) of the above-mentioned sectors – Electrical & Optical Equipment, Transport Equipment and Construction – is likely to positively influence a number of other branches – like Rubber & Plastic Products and Other non-metallic mineral products. We rank **Rubber & Plastic Products** among the best performing sectors in Central Europe. By contrast, we rank it as stable in the other countries due to its relatively small size and dependency on import price volatility, despite showing good prospects in conjunction with the packaging branch. **Other non-metallic mineral products** is ranked as best in Poland, Bulgaria, Romania, Croatia and Turkey, mainly thanks to its ties to the construction industry. In Turkey, in particular, given the country's abundance of natural resources, it is one of the most important manufacturing sectors, being very competitive in international markets. The stable outlook for the sector in Hungary and in the Czech Republic is due to the more cautious view we have on construction activity. In Slovakia and in the Czech Republic some weaknesses in the glass production branch, which is struggling against competition from cheaper imported products from Eastern Asia, also play a role. Despite being strongly tied to the performance of capital-intensive industries like Electrical & Optical Equipment, Transport Eq. and Construction, the outlook for **Basic Metals & Fabricated Metal Products** is limited to stable, due to the widespread need for modernisation

and restructuring. The sector's performance is also strongly dependent on worldwide growth (i.e. volatility in metal prices, world – and especially Chinese – demand). We awarded a positive outlook for this sector only in Slovakia and Bulgaria – in the first case, due to the strong acceleration of the automotive industry, while in the second, due to the expected enhancement of production capacity determined by the implementation of new investments.

As it profits from the positive investment cycle scenario, **Machinery & Equipment** is a promising sector almost everywhere. Still, we consider it as a best sector only in Central Europe and in Turkey, countries with a long tradition in the sector, where a substantial shift towards higher engineering products has already occurred. In Croatia, Bulgaria and Romania, by contrast, machinery and equipment still needs further modernisation and restructuring. Being export oriented and providing not only industrial machinery but also household appliances (refrigerators, cooking equipment, etc.), the sector will continue to benefit in the coming years from European private demand which is still expected to be strong.

We recognise a stable outlook for the mid-high or mid-low technology sectors, like **Chemicals (including Pharmaceuticals)** or **Coke, Refined Petroleum Products**, with a more optimistic view for the pharmaceuticals and cosmetics branches. Among low technology – labour-intensive – industries, there is a distinction between Wood production, Pulp & Paper, Publishing & Printing, Manufacturing n.e.c. (furniture for the most part, recycling, etc.) on the one side and Textiles and Leather production on the other. We keep a very positive view on **Manufacturing n.e.c.**, driven by the production of furniture. This is especially true in countries where housing or office construction activities are strong. In addition to furniture production, the fast developing branch of recycling can also play a role. We generally forecast a stable pattern of growth for **Wood & Wood Products** and **Pulp & Paper, Publishing & Printing**, with some exceptions. The Wood industry, for example, is ranked as best in Romania and Turkey, where it benefits from tight links with booming construction and furniture sectors, apart from increasing investment activity. The same sector is ranked as worst in Hungary, where it suffers from declining domestic demand, strong import growth and rising wood prices. We classify the Pulp & Paper, Publishing & Printing sector as best in Poland and Croatia, where it has already managed to attract significant FDI, and today is internationally competitive and promising, particularly where the manufacture of paper – basically packaging products and containers – is concerned.

We keep a negative outlook for the other labour-intensive industries, such as **Textile & Textile Products** and **Leather & Leather Products**, despite some temporary relief recorded in 2006. With a long tradition in the region, these sectors suffer today because of the tough competition from low-cost Far Eastern countries. Foreign companies operating in the region directly or based on outward processing strategies are indeed increasingly searching for lower cost production locations. Given the generally negative outlook, we do recognise a few exceptions. In Bulgaria we continue to see some potential in the short to medium term, at least until the large foreign investors who recently arrived repay the cost of their new plants. A recent strong recovery in textiles in Slovakia and in leather in the Czech Republic supports a stable, rather than a negative view. Still, in the long term, the only chance for these sectors to maintain competitiveness in the region is to focus and develop high-quality products or increase the relevance of technical products such as technical fabrics (protection, fireproof, medical, etc.) or garments for the automotive industry.

Production in the **Food, Beverages & Tobacco** sector deserves a special mention among the manufacturing sectors. This is a low-technology, labour-intensive industry, prevalent all over the CEE region (particularly in Croatia and Romania). We generally rank the sector as stable, though some differences do exist among the countries, depending to a certain extent on the stage of EU integration. The need to comply with EU sanitary and health requirements and increasing competitive pressures represent a significant immediate challenge in Bulgaria and Romania (given EU accession in January 2007), whilst representing a medium to long-term challenge in Croatia and Turkey. Small enterprises in particular suffer or could suffer from higher costs in meeting EU standards, with the concomitant risk of being squeezed out of the market. Transitional restrictions, like those adopted by the EU with respect to Romania and Bulgaria, limiting the exports of some categories of food and agriculture, exert additional pressure. Still, the experience of Poland, Slovakia, the Czech Republic and Hungary following the May 2004 accession to the EU single market, suggests potential gains. Some subsections of Food & Beverage in those countries started to profit from higher export opportunities, even though some small producers had to cope with the higher competition. However, the sector is ranked as worst in Hungary, where, since EU entry, its competitiveness on international markets has weakened with increases in the imports of foreign products, declining domestic consumption and expected market consolidation.

**Agriculture, Hunting, Forestry & Fishing** shares a similar pattern of development, generally being ranked as stable. In Poland, the Czech Republic and Slovakia, after an initial phase of restructuring following accession to the EU, the scope for additional growth remains based on EU subsidies, which will improve farmers' creditworthiness, on market consolidation and on possible new FDI (also to exploit bio-energy potential). We rank the sector as worst in Hungary, as it suffers from increasing imports and a rearrangement of the system of subsidies under the CAP (Common Agricultural Policy) after EU accession. The sector plays a significant role in Bulgaria, Romania, Croatia and Turkey, with a share in national value added around or higher than 10%. Restructuring and innovation are necessary to enhance efficiency and productivity, with EU accession and convergence representing an important driver for change. Compliance with EU sanitary standards as well as the distribution of subsidies under the CAP represent significant challenges, but also great opportunities, that Romania and Bulgaria have to face in the coming years.

A rather poor performance characterises the **Mining & Quarrying (M&Q)** sector – which is considered worst in Central Europe and in Romania, whilst stable in Bulgaria, Croatia and Turkey. The internal composition of the sector in each country determines the expected trends, with M&Q of energy producing materials and M&Q of non-energy producing materials generally showing radically different dynamics. M&Q of non-energy producing materials shows good prospects overall (particularly when the excavation of sand and gravel is considered), thanks to its strong ties with the construction industry. The energy producing share of the market, by contrast, is still in need of renovation and restructuring (i.e. in the coal industry) and is not attractive for FDI, apart from a few selected sub-segments like gas extraction in Croatia.

It should be noted that the CEE region is generally dependent on imports of energy materials, thus also being vulnerable to energy price volatility. This situation influences the outlook for the supply of **Electricity, Gas & Water**. The utilities sector is ranked as stable in all the countries, but its long-term outlook may be even brighter once investments to build other generation capacities are carried out. This is a strongly regulated sector, whose current development and future prospects are tied to ongoing reform and transformation policies, including privatisation and FDI inflows.

Finally, services deserve a special mention, given the increasingly relevant role they are playing in the value added of the CEE economy. Differences prevail across countries, with Bulgaria, Romania, Croatia and Turkey – starting from a lower base – showing the greatest potential. This is the case, for example, of **Transportation & Communication**, which is characterised overall by steady growth and ranked as best in Croatia, Bulgaria and Romania, thanks primarily to its technologically more advanced segment (communication). Particularly buoyant development is associated with Internet providers and mobile telephony services. By contrast, we forecast more moderate growth in transportation services, even though in the long term this sub-sector should benefit from the realisation of infrastructures, like motorways, railways, etc. We highlight some potential in logistic services, especially in areas where industrial centres are being developed. In Turkey, we envisage some growth potential associated with the construction of new crude oil and natural gas pipelines connecting Eastern Europe, Asia and the Middle East with Western European countries.

Thanks to the EU catching-up process, in terms of increasing personal income and improving living standards, consumer demand is set to remain high throughout the region, with major benefits for the **Wholesale & Retail Trade** sector. This is especially true in Romania and Bulgaria, where we rank the sector as best, given that the markets are not yet completely saturated. All over the region, the sector is dominated by international players, which are mainly present in large stores and supermarkets. We generally forecast a stable outlook for **Hotels & Restaurants**, which on the one side benefits from increasing numbers of both foreign and national tourists, while on the other hand, in some cases, it is a mature sector or requires investment to upgrade hotel capacities and improve the quality of services. The best prospects are highlighted only in Croatia. We classify the sector as worst in the Czech Republic, since with the exception of the region of Prague, domestic companies, largely in need of restructuring and modernisation, still dominate the market.

Finally, positive prospects are assigned to **Financial, Insurance, Real Estate & Business Services**, with a particularly promising outlook assigned to Insurance and Pension Funds. We expect expansion in computer-related activities, research & development and other business service activities, in parallel with the development of the economy and the increasing requests for such services, which should prompt the region to specialise further in knowledge-intensive high-tech sectors.

Table 2: Real Value Added<sup>1)</sup>, yoy growth in % – forecasts 2007–2008

	EU 15 <sup>2)</sup>			Poland			Czech Rep.		
	2006e	2007f	2008f	2006e	2007f	2008f	2006e	2007f	2008f
Agriculture, Hunting, Forestry, Fishing	0.3	0.7	0.8	-3.4	1.8	1.2	2.1	2.0	2.0
Mining & Quarrying	0.5	0.6	0.8	0.0	2.0	2.4	0.5	0.5	-0.3
<b>Manufacturing</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>13.0</b>	<b>9.3</b>	<b>6.0</b>	<b>10.0</b>	<b>5.0</b>	<b>5.5</b>
Food products; beverages and tobacco	2.3	2.0	1.9	6.0	6.6	5.4	1.8	2.0	2.0
Textiles and textile products	-3.8	-2.4	-2.4	7.0	4.0	2.9	-1.5	1.0	1.5
Leather and leather products	-5.0	-3.3	-3.2	3.0	0.8	0.2	9.0	5.0	3.0
Wood and wood products	1.8	1.8	1.9	9.0	7.5	5.6	11.0	4.5	3.5
Pulp, paper & paper products; publishing & printing	1.7	2.2	2.3	8.8	7.7	5.0	0.9	4.0	3.0
Coke, refined petroleum products & nuclear fuel	1.9	2.3	2.3	13.5	8.5	6.0	3.5	2.5	2.4
Chemicals, chemical products and man-made fibres	2.9	3.0	3.0	9.0	8.0	5.8	1.0	3.2	3.0
Rubber and plastic products	2.0	2.1	2.3	13.5	11.5	8.8	13.0	9.6	9.2
Other non-metallic mineral products	1.6	1.8	2.0	19.0	13.0	7.0	2.9	3.4	2.3
Basic metals and fabricated metal products	1.0	1.4	1.7	15.7	7.5	6.0	10.0	4.0	5.0
Machinery and equipment n.e.c.	2.5	2.2	2.3	13.0	8.5	6.5	17.0	13.5	12.0
Electrical and optical equipment	3.9	3.4	3.5	30.0	20.0	12.0	17.5	10.0	9.0
Transport equipment	2.8	1.4	1.1	16.0	12.0	6.8	26.0	4.0	7.0
Manufacturing n.e.c.	1.6	1.7	1.8	10.0	7.6	6.0	7.0	5.0	4.0
<b>Electricity, Gas &amp; Water</b>	<b>2.1</b>	<b>1.9</b>	<b>2.1</b>	<b>3.0</b>	<b>3.5</b>	<b>3.0</b>	<b>3.5</b>	<b>2.5</b>	<b>2.2</b>
<b>Construction</b>	<b>0.6</b>	<b>1.2</b>	<b>1.7</b>	<b>16.5</b>	<b>12.5</b>	<b>7.0</b>	<b>0.0</b>	<b>3.5</b>	<b>0.5</b>
<b>Wholesale &amp; Retail Trade, Hotels &amp; Restaurants</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>4.0</b>	<b>4.4</b>	<b>3.9</b>	<b>6.3</b>	<b>3.2</b>	<b>4.3</b>
Wholesale & Retail Trade	1.6	1.9	2.1	4.0	4.4	3.9	7.0	3.4	4.7
Hotels & Restaurants	1.9	2.0	2.2	4.4	4.5	3.3	0.2	0.9	0.9
<b>Transportation &amp; Communication</b>	<b>2.9</b>	<b>2.7</b>	<b>2.9</b>	<b>2.3</b>	<b>3.9</b>	<b>3.8</b>	<b>3.0</b>	<b>4.0</b>	<b>3.8</b>
Transportation & Storage	2.7	2.3	2.4	2.0	3.8	3.6	2.1	3.0	2.1
Communication	3.1	3.1	3.5	3.0	4.0	4.2	3.7	4.9	5.1
<b>Finance, Insurance, Real Estate &amp; Business Services</b>	<b>2.6</b>	<b>2.2</b>	<b>2.4</b>	<b>8.0</b>	<b>7.1</b>	<b>5.7</b>	<b>6.3</b>	<b>5.2</b>	<b>6.5</b>
Financial Institutions	2.8	2.2	2.3	8.3	6.6	5.3	4.3	4.0	3.9
Insurance	2.2	2.3	2.4						
Real Estate, Dwellings & Business Services	2.6	2.2	2.4	8.0	7.2	5.8	6.7	5.5	7.0
<b>Community, Social &amp; Personal Services</b>	<b>1.8</b>	<b>1.7</b>	<b>1.9</b>	<b>0.3</b>	<b>1.3</b>	<b>2.9</b>	<b>-0.2</b>	<b>-0.5</b>	<b>-1.5</b>

1) Growth for industries is in terms of the Industrial Production Index in Croatia, Czech Republic, Poland, Romania and Turkey

2) EU 15 is defined as EU15 – Luxembourg + Norway and Switzerland.

Sources: Bulbank – Economic Research Section, Zagrebačka Banka – Macroeconomic Research, Zivnostenska Banka – Corporate Banking, HVB Bank Czech Republic – Economic Research, HVB Bank Hungary – Economics Department, Pekao SA – Macroeconomic Research Office, UniCredit Romania – Economic Research, UniBanka – Macroeconomics & Market Analyses, Yapi Kredi Bankasi – Strategic Planning and Research, UniCredit Group – CEE Economic Research, Global Insight.

Slovakia			Hungary			Bulgaria			Romania			Croatia			Turkey		
2006e	2007f	2008f	2006e	2007f	2008f	2006e	2007f	2008f	2006e	2007f	2008f	2006e	2007f	2008f	2006e	2007f	2008f
4.7	3.7	2.3	-2.0	-4.0	-5.0	1.0	2.5	3.0	1.0	1.8	2.0	3.0	3.0	3.0	1.1	2.6	3.6
-11.6	4.3	3.4	25.2	1.0	1.2	15.0	0.0	3.0	4.5	3.0	2.0	9.0	6.0	3.0	12.1	6.2	5.5
10.5	11.0	9.5	7.5	5.3	5.8	7.2	7.3	7.4	7.1	5.2	5.4	4.0	4.4	4.6	5.5	5.8	6.5
2.2	4.6	4.9	3.9	-0.5	2.5	-5.0	2.6	3.5	9.0	4.0	5.8	4.4	3.5	3.0	8.9	7.2	7.3
8.2	5.9	4.8	-5.7	-4.9	0.0	8.0	7.9	6.0	-7.8	1.2	2.5	-9.0	-8.0	-5.0	-1.0	0.5	1.8
-2.6	2.5	1.8	28.4	2.2	2.5	6.0	4.5	2.5	0.7	1.0	2.9	26.0	2.5	2.0	15.0	1.0	1.7
5.3	8.0	7.5	1.0	-2.9	2.0	18.0	7.0	5.0	8.0	8.2	8.3	5.3	4.0	4.0	13.3	7.7	7.5
8.5	8.3	8.0	3.2	3.0	4.0	-5.0	7.0	5.8	4.0	3.8	4.0	5.6	6.0	6.0	4.1	5.2	6.1
11.3	6.1	4.9	1.3	2.9	3.5	4.5	4.0	6.0	2.3	4.0	4.6	-16.0	2.0	2.5	0.2	2.0	4.0
2.4	4.2	3.7	3.0	3.8	4.5	8.0	3.0	2.0	15.0	6.4	6.3	-10.4	2.0	4.5	9.9	6.0	6.9
10.0	11.1	9.0	10.8	9.3	8.8	13.0	8.0	6.3	-1.6	2.2	3.2	-2.0	5.0	6.0	-9.4	7.0	7.5
6.0	8.7	7.6	9.2	6.4	6.0	20.0	15.0	10.0	5.8	6.4	7.4	10.0	7.0	6.0	8.3	7.1	7.0
19.6	11.0	9.5	10.4	3.4	5.0	15.0	8.0	18.0	7.3	6.1	5.9	6.0	6.5	6.0	6.7	6.7	6.9
23.0	15.0	10.0	5.5	10.9	7.0	4.5	12.0	8.0	2.0	4.5	5.5	35.0	10.0	7.0	9.5	10.7	12.2
14.9	15.1	17.6	11.4	12.7	9.8	6.5	12.0	9.5	2.9	6.0	6.5	5.8	7.0	8.0	11.0	11.5	13.9
22.2	31.1	18.4	16.1	4.0	6.0	24.0	14.0	10.0	14.9	9.0	7.0	0.0	3.0	3.5	9.7	10.2	10.8
10.6	12.7	10.5	7.7	4.5	5.0	10.0	10.0	9.0	18.0	10.0	8.0	10.0	11.0	10.5	15.5	8.4	9.3
1.8	3.9	-1.7	3.8	2.9	3.3	8.0	1.0	4.0	6.7	6.0	5.5	1.6	0.5	1.0	8.0	7.4	7.7
14.0	9.3	7.5	0.5	4.0	2.0	13.0	12.0	9.5	17.0	12.0	13.0	8.0	6.3	6.2	12.9	8.9	7.6
6.7	5.3	5.0	2.5	1.5	2.0	8.2	8.2	6.7	12.4	8.3	6.2	3.3	3.4	3.3	5.8	6.2	6.5
6.8	5.4	4.5	3.1	1.6	2.0	9.0	8.5	7.0	14.0	9.0	6.4	3.0	3.3	3.1	6.4	6.4	6.6
4.0	4.5	5.0	-2.0	1.1	2.3	5.5	7.0	5.5	5.5	5.0	5.0	4.5	4.0	4.0	2.6	4.5	5.6
4.7	4.7	4.9	1.6	3.8	3.4	4.3	7.5	6.5	8.3	6.8	6.1	7.0	6.0	5.8	3.6	5.3	6.8
4.0	4.0	4.5	0.8	5.3	3.5	1.0	6.0	5.0	7.9	6.0	5.0	3.5	3.8	3.9	3.5	5.5	6.6
8.5	8.0	6.8	2.3	2.4	3.2	7.9	9.0	8.0	9.1	8.5	8.4	9.8	7.7	7.2	3.8	5.2	7.0
6.2	6.3	5.5	4.1	3.2	3.9	7.4	7.6	6.9	7.7	7.0	6.5	7.0	6.0	5.5	4.3	4.9	6.2
4.7	6.1	5.4	11.5	5.0	6.0	12.0	11.0	11.0	8.7	8.0	7.5	-	-	-	-0.3	1.4	3.4
7.2	11.5	5.7	11.1	4.0	5.5	-	-	-	7.7	7.4	7.3	-	-	-	1.8	2.6	4.5
6.8	6.1	5.5	2.2	2.8	3.3	6.0	6.5	5.5	7.6	6.9	6.4	-	-	-	5.4	5.8	6.8
2.5	2.8	2.4	1.4	-0.8	1.1	0.7	1.5	1.5	6.5	6.3	6.0	1.6	1.5	1.5	3.9	4.8	5.7

# Bulgaria

## Economic framework

Favourable external conditions and solid growth of domestic demand will keep the pace of economic expansion strong in 2007–2008. In addition, GDP growth will be positively affected by the country's accession to the EU. Stringent monitoring by the EU Commission in the first three years after accession and the prospect of sanctions for the country will continue to exert pressure on local politics to press ahead with the reforms which are still needed. Thus, even unpopular measures which come at a high social cost and are needed to reduce the remaining structural rigidities in the economy have a good chance of being passed. In addition to the good traditions in some labour-intensive sectors, such as textiles and food & beverages (still very important sectors, competitive on international markets), high-tech and high-value-added industries (such as the production of white goods, electrical equipment and transport equipment) are expected to increase their contribution to GDP growth. Good opportunities are also afoot in the field of services and utilities, where an increasing amount of FDI has been channelled to serve local market needs.

## Best performers

The manufacturing of **Other non-metallic mineral products** is one of the fastest growing sectors of the economy in terms of gross value added. With restructuring and privatisation complete, almost all branches of the sector are characterised by a plethora of foreign investors and a high concentration of production activities. The sector reports superior productivity performance, in combination with strong fixed capital formation rates and the rising importance of export sales. Many international investors in the sector are increasingly focusing on Bulgaria as their preferred production location, serving the needs of a broader region including Central and South European countries. In the coming years the sector will continue to benefit from the rapid expansion in the vertically integrated construction industry. The fastest growing components of the industry will be cement, tiles and ceramics manufacturing. The outlook for the sector will be positively affected by a sustainable trend of production capacity increases, which will also increase the significance of manufacturing more sophisticated products, such as automobile windows and specialised ceramics.

Table 1.1: Best performers and worst performers

BEST	STABLE	WORST
Other non-metallic mineral products	Agriculture, hunting, forestry & fishing	Community, social and personal services
Basic metals and fabricated metal products	Mining and Quarrying	
Electrical and optical equipment	Food, Beverages & Tobacco	
Transport equipment	Textiles and apparel	
Manufacturing n.e.c.	Leather and leather products	
Construction (selective)	Wood and wood products	
Wholesale and retail trade	Pulp, paper and paper products	
Communication	Coke and refined petroleum products	
Finance, Insurance, Real estate & Business services (selective)	Chemicals, chemical products	
	Rubber and plastic products	
	Machinery and equipment	
	Electricity, gas and water	
	Hotels & Restaurants	
	Transportation	

The manufacturing of **Basic metals and fabricated metal products** continues to exhibit very positive prospects in the short to medium term. The sector is liberalised, dominated by strategic investors, and benefits from the supply of locally excavated copper, lead and zinc ores. Financial performance also has improved substantially in the last couple of years. The sector has benefited from the global shift of labour and input-intensive industries producing intermediary goods from industrialised countries to developing markets. Upon EU entry and the adoption of the Common External Tariff, internal demand will shift increasingly to locally produced iron and steel components, since imports from Ukraine and other non-EU countries will become much more expensive (due to the introduction of heavy protective customs duties). Over the forecast period we expect average GVA growth in the sector to remain far above the average for the economy, mostly on the back of production capacity increases in non-ferrous manufacturing and to a lesser extent due to an ongoing shift toward preferring higher VA output in the steel sector. Demand-side prospects look favourable, both locally and globally, while the risks for a sharp reduction in commodity prices have recently decreased. Looking further into the future, the liberalisation of the state railways (whose prices are heavily subsidised at the moment) and the end of the grace period for introducing EU environmental protection standards will burden costs and erode competitiveness.

In the last couple of years the **Construction sector** has reported a solid improvement in its fundamentals and now presents a favourable outlook. Although demand for new residential, office and retail property is likely to lose some momentum, growth in construction activities should remain in double digits. The long period of underinvestment in real estate in the 1990s will keep demand high for renovation (rehabilitation, upgrade, energy efficiency improvement, etc.). Access to EU structural and cohesion funds will have a favourable impact on investments in new infrastructure projects. On the supply side, sustained access to low cost inputs (raw materials and labour) will preserve competitive positions for the sector in the foreseeable future.

**Electrical and optical equipment** and **Transport Equipment** are clearly among the main beneficiaries of the re-industrialisation process currently underway in the Bulgarian economy. In 2006 the fundamentals of both sectors continued to improve, especially as regards productivity and financial performance. Looking ahead, the outlook is also promising. The strongest output growth is likely to be associated with electrical equipment man-

ufacturing which will also be matched by the production of parts for the automotive industry, where a couple of medium-sized investment projects are already in the pipeline.

**Manufacturing n.e.c (mainly furniture and recycling)** is a fast growing medium-sized industry, which benefits from locally supplied inputs and a sound tradition, especially as regards the production of some categories of furniture.

**Wholesale and retail trade** report one of the fastest expansion rates among service sectors. Although in the long term output growth can be expected to converge on the average of the economy, it will take quite some time before these trends start to materialise in Bulgaria. The proliferation of modern retail formats, higher disposable incomes and a growing appetite for consumption are the key drivers behind the positive developments in the retail trade segment. Product categories considered as "growth engines" are motor vehicles, health & beauty products, various categories of household electrical appliances and furniture. Wholesale trade is experiencing a period of more moderate growth compared to retail, thanks to the optimisation of delivery channels to retailers and the removal of redundant intermediaries.

**Telecommunications** is a high value-added, technology-driven sector, which has demonstrated one of the fastest real GVA growth rates since the start of transition. In the years ahead, legal harmonisation with the EU will remove the obstacles that still impede competition in the sector (keeping phone numbers when operator is changed, real "last mile" access to the network of former monopoly BTC). Advances in consolidation among cable operators will increasingly provide the scope needed for the competitive delivery of "triple services" (TV, voice and internet).

Although the exceptional growth of the banking sector is set to lose some momentum, short to medium-term prospects for **Finance, Insurance, Real estate & Business services** remain favourable. In the forecasting period, non-bank financial intermediaries will strengthen their performance, with growth being especially strong in life insurance, consumer finance and the fund management business. Business services such as IT, outsourcing and media-related services (including PR & advertising) are also likely to go through a period of exceptionally strong output growth. Still, the outlook for business services as a whole remains close to the average, as the growth momentum apart from a few bright spots appears to be limited and only short-lived.

### Worst performers

The unreformed education system, health care and the pay-as-you-go pension system continue to represent a serious risk for the Bulgarian fiscal position. **Community, social & personal services** exhibit one of the poorest productivity rates in the economy, mostly coming from broadly-based inefficiencies and large overcapacities in the state-run health care and education sectors. Optimising and restructuring the pension system should be a key priority. Reforms need to be aimed at increasing the share of private sector activities, whilst reducing the size of the contribution rate, which is still one of the highest in the CEE countries and impedes efforts to reduce taxation on labour.

### FDI and privatisations

In 2006 FDI in the economy is going to exceed 10% of GDP for the fourth consecutive year. The prospects are also promising for 2007, when the already strong sentiments of the international financial community will be positively affected by Bulgaria's entry into the EU. Greenfield and expansion-related investment continues to represent the bulk of FDI, a trend confirmed by partial data from the current year. At the start of the transition process, traditional, labour-intensive sectors of manufacturing were especially successful in attracting FDI. Gradually the emphasis shifted toward the service sectors of Finance and Insurance, Communications, and Wholesale and Retail trade in particular, and some industries producing intermediary goods like Metals and Other non-metallic mineral products. More recently, investments in Real estate & Business services have also gained momentum, reaching almost one quarter of total FDI channelled into the economy on the eve of EU accession.

The second half of 2006 witnessed important developments in the long-delayed restructuring of the Transportation & storage sector. After a year of legal wrangling, the German-Bulgarian company *Fraport Twin Star Airport Management* was granted a 35-year concession to operate the two Black Sea airports in Varna and Burgas. Furthermore, the much delayed privatisation of *Bulgaria Air* was finally completed, with the former national flag carrier falling into the hands of *Balkan Hemus Group*. In the water transportation branch, the privatisation of the *Bulgarian River Shipping fleet (Ruse)* and *Bulgarian Maritime fleet (Varna)* are both on the agenda of the privatisation authority.

In 2007 and 2008 we expect the allocation of FDI between industry and services to change only marginally. In manufacturing, large capacity expansion projects are already underway in **Basic**

**metals** (especially non-ferrous metals) and **Other non-metallic mineral products** – in response to rising demand in the fast growing construction industry. A major expansion of capacities is also anticipated in sectors producing capital goods and especially for the manufacturing of white goods and spare parts for the automotive industry. Interest will also be strong in Construction and the Wholesale & retail trade, where it would appear investment activities have yet to peak. The most important sector in terms of new FDI channelled into the economy seems to be **Electricity gas and water supply**. Projects already in the pipeline include a new nuclear power plant on the Belene site, a new 670 MW coal-fired electricity generation utility on the site of Maritza East 1, the Burgas-Alexandroupoulos crude oil pipeline, the possible building of a wind power park on the Black Sea coast and the launch of construction on a highway pipeline to transfer natural gas from Central Asia via Turkey to Central and Western Europe.

### EU convergence

The more than fourfold increase in the size of EU grants will add to demand in the short run, whilst also enhancing the economy in the long run, provided that money is channelled to projects boosting competitiveness and the supply-side capacity of the economy. Upon EU accession, Bulgaria's advantages as a low-cost destination will become more transparent internationally, thus creating additional stimulus for foreign capital inflows.

The adoption of the Common External tariff will complete the process of trade liberalisation, removing the heavy protective customs duties applied to exports of Bulgarian foods and agricultural products to the EU. However, since the EU has decided to maintain restrictions on exports of milk, meat and animal products in the first year of EU membership, given the concerns relating to the safety of foods, trade liberalisation will only impact on export performance from 2008, when most of the bans are expected to be lifted. The agricultural sector will benefit from the substantial package of financial aid from the EU budget, even though administrative capacities for allocating EU grants are still to be verified. The one-off increase in farmers' incomes, associated with the introduction of the Common Agricultural Policy, is likely to be very unevenly distributed. Likewise, the short-term outlook for the food and beverages sector is hampered by the anticipated closure of companies that fail to comply with EU standards (the most vulnerable being the milk, bread and meat branches).

Table 2.1: Bulgaria – Structural Indicators (2005)

	MARKET STRUCTURE			SECTORIAL DETAILS							
	Number of enterprises	No. of employees	Top 5 comp. turnover/sect. turn-over 2004 %	Number of SMEs	Share in total VA %	Exp. propensity %	Imp./AC %	Share in total FDI %	FDI attractiveness %	Capital intensity 2004 %	Energy intensity 2004 Kg.Oil/BGN 1000
<b>TOTAL</b>	1,200,007	2,189,750		1,194,117	100.0	28.7	38.4	100.0	100.0	30.0	307.0
Agricultural, Hunting, Forestry & Fishing	105,637	68,062	6.7	105,471	9.3	11.7	4.9	0.6	6.2	10.5	76.1
Mining & Quarrying	686	29,082		626	1.6	13.0	82.3	0.9	59.7	29.7	485.3
M&Q of energy producing materials	132	15,514	76.0	112	0.6	0.1	91.1	0.0	0.3		566.2
M&Q excluding energy producing materials	554	13,568	63.7	514	0.9	18.9	59.5	0.9	99.2		399.8
<b>Manufacturing</b>	<b>92,097</b>	<b>622,757</b>		<b>90,750</b>	<b>18.7</b>	<b>57.8</b>	<b>64.4</b>	<b>26.5</b>	<b>141.7</b>	<b>34.8</b>	<b>588.9</b>
Food, Beverages and Tobacco	23,360	108,627	15.0	22,997	3.1	20.8	20.7	3.6	115.3		260.0
Textiles and textile products	16,754	177,155	17.5	16,561	2.8	130.8	142.9	3.0	109.2		85.5
Leather and leather products	1,319	20,510	34.1	1,298	0.3	173.2	197.8	0.1	28.0		455.7
Wood and wood products	7,440	18,180	38.4	7,410	0.4	41.7	36.6	0.7	188.6		450.6
Pulp, paper & pap. prod.; publishing & print	5,995	25,003	30.6	5,913	0.9	17.7	35.5	1.0	114.6		680.4
Coke, refined petroleum prod & nuclear fuel	48	5,714	99.6	44				7.0			
Chemicals, chemical prod. & man-made fibres	1,801	24,310	38.3	1,725	1.4	76.8	84.9	2.4	174.4		1,224.1
Rubber and plastic products	3,848	20,232	23.4	3,785	0.6	30.7	59.8	0.5	93.8		370.7
Other non-metallic mineral products	2,663	25,943	40.5	2,590	1.1	21.8	31.7	3.2	301.4		1,705.9
Basic metals and fabricated metal products	9,823	56,344	69.9	9,704	2.2	80.3	72.2	2.1	93.2		1,096.3
Machinery and equipment n.e.c.	3,929	65,676	26.6	3,797	2.0	52.8	72.9	1.2	63.0		153.5
Electrical and optical equipment	5,129	32,508	21.4	5,015	1.2	80.3	91.2	1.3	106.6		17.1
Transport equipment	1,774	13,150	40.3	1,743	0.5	115.8	102.4	0.3	50.2		69.6
Manufacturing n.e.c.	8,214	29,405	15.0	8,168				0.1			
<b>Electricity, Gas &amp; Water</b>	<b>884</b>	<b>57,536</b>	<b>57.9</b>	<b>808</b>	<b>4.5</b>	<b>11.0</b>		<b>0.6</b>	<b>13.7</b>	<b>61.2</b>	<b>491.8</b>
<b>Construction</b>	<b>39,438</b>	<b>133,116</b>	<b>8.9</b>	<b>38,929</b>	<b>5.6</b>			<b>3.9</b>	<b>69.2</b>	<b>45.7</b>	<b>31.8</b>
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	<b>614, 516</b>	<b>412,112</b>		<b>611,744</b>	<b>10.7</b>			<b>17.2</b>	<b>161.2</b>	<b>68.0</b>	
Wholesale & Retail Trade	537,776	326,883	17.2	535,109	8.2			15.5	189.2	59.3	
Hotels & Restaurants	76,740	85,229	10.4	76,635	2.5			1.7	69.5	98.7	
<b>Transport, Storage &amp; Communication</b>	<b>100,717</b>	<b>155,945</b>		<b>100,345</b>	<b>13.7</b>			<b>15.2</b>	<b>110.6</b>	<b>38.5</b>	<b>524.1</b>
Transport & Storage	99,168	112,545	21.8	98,839	7.3			2.0	27.8		1,012.8
Communication	1,549	43,400	83.1	1,506	6.4			13.2	204.8		
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>	<b>117,992</b>	<b>158,563</b>		<b>117,548</b>	<b>20.1</b>	<b>0.04</b>	<b>0.1</b>	<b>33.0</b>	<b>164.1</b>	<b>13.6</b>	
Financial institutions	5,055	33,387	25.6	5,006	—	4.7		—	—	12.6	
Insurance	7,655		51.9	7,619							
Real Estate & Business Services	105,282	125,176	20.6	104,923	15.5	0.1	0.1	10.9	70.8	13.8	
<b>Community, Social &amp; Personal Services</b>	<b>128,040</b>	<b>552,577</b>	<b>13.3</b>	<b>127,896</b>	<b>15.7</b>	<b>0.3</b>	<b>0.2</b>	<b>2.0</b>	<b>12.5</b>	<b>12.7</b>	<b>533.3</b>

Sources: National Statistical Institute, BNB, COFACE, Bulbank – Economic Research Section  
See ANNEX for explanations of the indicators

Table 2.2: Bulgaria – Structural Indicators (2005) (continued)

	COMPETITIVENESS			CONSTRAINTS				
	RCA %	Labour productivity (yearly, BGN)	Avg. Wage (yearly, BGN)	Wage adjusted labour productivity	Total indebtedness (2004) %	Bank indebtedness (2004) %	Loans from banks to total debt (2004) %	Loans concentration (2004) %
<b>TOTALS</b>	100.0	16,451	3,834	4.29	59.7	11.0	18.4	100.0
<b>Agricultural, Hunting, Forestry &amp; Fishing</b>	392.8		2,878		59.6	8.9	15.0	2.4
<b>Mining &amp; Quarrying</b>	5.0	19,470	6,281	3.10	53.2	5.9	11.1	1.0
M&Q of energy producing materials	0.0	14,582	6,484	2.25	50.8	7.3	14.3	0.6
M&Q excluding energy producing materials	24.6	25,060	6,049	4.14	55.6	4.5	8.1	0.4
<b>Manufacturing</b>	117.2	10,840	3,491	3.11	60.5	11.6	19.1	29.0
Food, Beverages, and Tobacco	155.4	10,374	3,580	2.90	67.8	19.3	28.5	11.5
Textiles and textile products	197.2	5,654	2,468	2.29	63.3	9.2	14.5	2.2
Leather and leather products	181.1	4,636	2,191	2.12	71.3	9.2	12.9	0.2
Wood and wood products	191.7	7,313	2,783	2.63	58.6	15.9	27.1	0.8
Pulp, paper & pap. prod.; publishing & print	60.5	12,818	3,855	3.33	55.1	13.0	23.5	1.4
Coke, refined petroleum prod & nuclear fuel	257.6	113,476	10,773	10.53				
Chemicals, chemical prod. & man-made fibres	91.1	20,019	5,247	3.82	38.5	6.1	15.8	1.3
Rubber and plastic products	46.2	10,238	2,932	3.49	62.8	14.2	22.6	1.0
Other non-metallic mineral products	92.8	14,696	4,248	3.46	48.4	8.2	16.8	1.3
Basic metals and fabricated metal products	243.2	14,257	4,555	3.13		13.4		5.5
Machinery and equipment n.e.c.	64.4	10,786	4,064	2.65	52.6	6.1	11.6	1.5
Electrical and optical equipment	60.8	13,571	3,685	3.68	59.7	9.5	15.9	1.0
Transport equipment	26.6	13,763	4,897	2.81	54.3	13.2	24.4	0.7
Manufacturing n.e.c.	176.7	7,350	2,735	2.69	65.3	10.5	16.1	0.5
<b>Electricity, Gas &amp; Water</b>		28,267	6,780	4.17	32.7	10.2	31.2	11.6
<b>Construction</b>		15,216	3,243	4.69	73.1	6.6	9.0	3.2
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>		9,338	2,660	3.51	74.0	12.3	16.7	31.0
Wholesale & Retail Trade		9,023	2,709	3.33	75.8	11.4	15.1	24.7
Hotels & Restaurants		10,545	2,469	4.27	63.0	18.0	28.5	6.2
<b>Transport, Storage &amp; Communication</b>		31,755	4,849	6.55	50.7	12.4	24.4	15.0
Transport & Storage		23,400	4,663	5.02	59.2	8.8	14.9	5.2
Communication		53,421	5,409	9.88	42.7	15.7	36.8	9.8
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>		45,721	4,751	9.62				
Financial Institutions		50,365	9,389	5.49				
Insurance			7,212					
Real Estate & Business Services	57.6	44,482	3,601	12.35	59.6	9.4	15.8	6.6
<b>Community, Social &amp; Personal Services</b>	261.8	10,248	4,344	2.36	42.6	1.9	4.5	0.2

Sources: National Statistical Institute, BNB, COFACE, Bulbank – Economic Research Unit  
See ANNEX for explanations of the indicators

# Croatia

## Economic framework

The Croatian economy is exhibiting a stable pattern of growth. Economic performance is driven by private consumption – speeding up in 2007 – and investments – slightly slowing down but still remaining one of the most dynamic contributors to GDP growth, thanks to the implementation of public infrastructure projects. Exports, although decelerating, continue to be relevant, highlighting the competitiveness of the country at the international level. Moreover, inflation is low and the exchange rate is stable. This macroeconomic stability and the EU convergence process support strong interest from foreign investors. FDIs amounted to about 5% on average over the last 5 years. Croatia is a preferred destination for some higher quality/ value added types of productions. Moreover, the country is fast developing in services activities, with many FDIs inflows in those fields entering the countries through acquisitions/privatisations. Croatia is also strengthening its position as a “bridge” to address other markets of the ex-Yugoslavia.

## Best performers

**Paper industry, publishing and printing** has been the most dynamic sector of the manufacturing industry in the last decade. Since 1995 production has almost tripled, and in the last five years alone it has increased by more than 80%. A significant rise was also recorded in employment and exports in the last three years alone (13.6% and 20.4% respectively). In the past, publishing & printing was considered a much more dynamic part of the sector, mostly due to significant foreign direct investment, but the pulp, paper & paper products industry, which is much more export oriented, has been expanding at quite high growth rates recently and also attracting foreign investment. The pulp, paper & paper products industry has huge potential for further strong growth in the years to come thanks to its rich raw material base, favourable location and very good access to the main markets. That has already been confirmed by very good production and export performance in the first three quarters of the current year. As for now, profitability of the sector is not fully in

Table 1.1: Best performers and worst performers

BEST	STABLE	WORST
Pulp & Paper Pr, Publish. & Print	Agriculture, Hunt., Forest., Fishing	Textiles & Textile Products
Other Non-metal Mineral Products	Mining & Quarrying	Leather & Leather Products
Electrical & Optical Equipment	Food, Beverages & Tobacco	
Manufacturing n.e.c. (Furniture)	Wood & Wood Products	
Construction	Coke & Ref. Petroleum Products	
Hotels & Restaurants	Chemicals & Chemical Products	
Transport & Communication	Rubber & Plastic Products	
Finance, Insurance	Basic Metals & Fabric. Metal Products	
Real Estate & Business Services	Machinery & Equipment	
	Transport Equipment	
	Electricity, Gas & Water	
	Wholesale & Retail Trade	
	Community, Social & Pers. Services	

line with the very good achievements in production and export, but we are confident that it will significantly improve in the near future as the trend of above-average growth in production and exports is expected to continue.

Production of **other non-metallic mineral products** has achieved an impressive rise of 75.7% in the past ten-year period, triggered primarily by considerable domestic demand generated by a huge expansion of investment and construction activity. Lately, foreign demand has become more significant, as is clearly reflected in the high export growth rates of 18.8% last year and 9.5% in the first eight months this year. The attractiveness of the sector for FDI has already been confirmed by significant foreign investment in the production of concrete, bricks and tiles, production of other construction materials and in the production of glass and glass packaging. By the end of last year, this sector drew a significant 4.8% of all FDIs in the Croatian economy. In the next several years, production and exports are expected to continue to grow at above-average rates and to maintain relatively high levels of productivity and profitability.

Production of **electrical and optical equipment** has joined the group of the fastest-growing sectors of manufacturing industry just recently, as it has recorded a 22.5% growth of production in the last three years. Production of electrical machinery and appliances, which accounts for a major portion of the sector, is also the one with the fastest growth (with a growth rate of 35.2% in the last three years), while the manufacture of communications equipment as the second most significant segment of the sector has been growing at a significantly slower pace (11.4%). Production of medical, precision and optical instruments has enjoyed very fast growth in the past three-year period (34.6%), while faster growth in the production of office appliances began only last year after sizeable investments in production facilities were launched. The development of this sector is largely determined by foreign demand, and it refers especially to the production of electrical machinery and appliances, and communications equipment. FDIs attracted so far are relatively modest, except for the investments by Ericsson in Zagreb Ericsson Nikola Tesla, but the potential is much bigger considering the competitive, comparatively well-educated manpower, and in particular top-ranking engineers. In the years to come, we expect the growth trend in production to continue at a faster rate than the economy average, led primarily by export demand and accompanied by improved productivity and profitability, especially in the production of electrical machinery and appliances, and office appliances.

**Manufacturing n.e.c. (manufacture of furniture and recycling)** is rapidly changing its structure (especially in the past year or two), with the once dominant traditional production of furniture giving way to the rapidly expanding segment of recycling. This is the consequence of significant new capacities being recently put into place along with brand new establishments for the recycling of waste raw material, spurred by the harmonisation of the Croatian regulations on collection and management of waste raw material with the applicable EU standards. While this segment has bright prospects, the revival of the manufacture of furniture should not be overlooked. The process should continue through an export-oriented cluster for furniture manufacture and design, which is envisaged to unite the now scattered small and medium-sized manufacturers in creating a distinctive and competitive Croatian furniture design and to ensure more efficient and profitable use of the rich potential of raw materials and manpower existing in this traditional branch of Croatian industry. Certain signs of revival in furniture manufacture and exports have already been observed in the last few years, and it is encouraging that a 4.5% growth in production and an 18.5% growth in exports have been recorded this year. At the same time, output growth in recycling exceeds 20%. In the next several years, solid output growth – probably at two-digit rates – is expected in the entire sector, accompanied by a corresponding increase in productivity and profitability.

The **construction industry**, after several consecutive years marked by extensive growth, stagnated in 2004 and at the beginning of 2005 due to the completion or reduction of work on a series of large-scale public infrastructure projects (construction of roads and bridges, reconstruction of residential and business properties destroyed during the war). Still, a growing trend of activity was re-established in mid-2005 thanks, on the one hand, to new infrastructure projects launched (construction and reconstruction of motorways continued, along with the reconstruction of ports, modernisation of railways) and, on the other hand, to a significantly higher level of private investment encouraged by the improved availability of credit and more favourable credit terms (especially for the construction of residential and business properties). Therefore, the construction industry (measured in terms of working hours spent on the construction site) experienced a rise of 11% in the first eight months of this year compared to the same period last year. The continued expansion of investment and lending activity (especially in the area of housing construction) is supporting the upward trend of the sector. Considering the number of building permits issued and the

Government's announcement that major public investment in infrastructure facilities will continue, the growing trend in construction activity is expected to continue also in the next few years, accompanied by increased profitability of the sector.

The **hotels and restaurants** sector has achieved much better financial results in the past years as a consequence of sizeable investments in the reconstruction and modernisation of accommodation facilities, as well as the introduction of a series of entertainment, sports and recreational facilities, as a result of which average service standards have significantly increased. Accordingly, the rates charged and average revenues per accommodation unit and per guest have risen. Those investments have partly been funded from increased FDIs (mainly through the privatisation of major hotels and hotel chains), but they are also a result of stronger investment by the local population along the Adriatic coast in small family hotels offering higher service standards. On the other hand, a number of large hotel companies owned by local groups have undergone in-depth restructuring processes accompanied by intensive investment aimed at upgrading service quality. In this way, the goals of Croatia's tourism policy are slowly beginning to be realised: better financial performance should primarily be a result of improved service quality and of a prolonged period of the peak tourist season, rather than just a mere increase in the number of visitors and overnight stays. According to preliminary data available, this year's tourist season has outperformed the last year's excellent season by several percentage points, so revenues are estimated to be 5% higher as well. The sector is expected to see a similar trend in the years to come.

**Transportation and communication** has been one of the fastest growing and most profitable economic sectors over the past few years, thanks primarily to the technologically advanced telecommunications industry, which has attracted significant amounts of FDI (Deutsche Telekom, Telekom Austria) and offered numerous new services. Over time, a competitive environment has started to emerge in the areas of fixed telephony and Internet services following similar developments in mobile telephony a few years earlier (now further intensified after the third service provider entered the local market at the end of last year). Last year and in the first part of this year, the traditional transport industries also performed better (in particular railways, road and air transport), which is to some extent a result of notable Government subsidies and investment in the transport infrastructure (completion of large sections of motorways, reconstruction of railways,

harbours and ferry ports). In the next few years, major investments in the transport infrastructure will continue, the priorities being the completion of the motorway network along with the modernisation and upgrading of capacities of the most important seaports (Rijeka, Zadar, Ploče) in co-operation with the EBRD and the World Bank. Furthermore, the construction of a high-speed rail route from the Hungarian border to Rijeka is planned.

**Financial intermediation, insurance, real estate & business services** is a highly profitable and fast growing economic sector, which is largely attributable to the fact that it is still at an early stage of development. Therefore, the growth rates measured in the sector are still much higher than the average growth for the economy as a whole. The sector has attracted the bulk of FDI, and this is particularly true of the banking industry. In the years to come, the trend of fast growth is expected to continue at rates higher than the average growth rates in the economy. Particularly fast growth is foreseen in the capital market, mutual and pension funds, as well as real estate business.

### **Worst performers**

**Textiles and textile products** have been among the worst performers in the Croatian economy for many years. The levels of output, employment and exports have been declining relatively fast over the years, so the sector is slowly declining despite sporadic FDIs (Benetton, Calzedonia). The main reason for that is to be found in strong competition from the Far East and South East Europe, where unit labour costs are incomparably lower. A further reason for the deterioration of a number of companies in the sector is the poor management quality and, in connection with that, insufficient investment, innovation, design and marketing activities. For manufacturers in this sector, the only way out of such a situation would be to channel investments into developing products with higher value added in order to be competitive in foreign markets despite relatively high labour costs. However, since such examples are rare, it is realistic to expect a further gradual contraction of the sector in the future years.

**Leather and leather products** is a sector which for many years followed the trends of the textile industry and started to disappear gradually (in particular the shoe industry), with the levels of output, employment and exports rapidly decreasing over the years. However, the negative trend was reversed in mid-2005, and the sector has enjoyed fifteen consecutive months of rapid production growth. In the first nine months of this year, produc-

tion was 27.4% higher than in the comparable period of last year. Also, exports in 2006 to August were 14% above the last year's corresponding figure. To a great extent, such a sudden turnaround can be attributed to a single major greenfield investment by the Austrian Boxmark in the Varaždin-based plant for leather processing and manufacturing of leather car seats. Due to the last year's very low base, the transaction has resulted in a seemingly dramatic growth in the sector. However, this is probably just a one-off effect which is not likely to have any major positive impact on the development of the sector as a whole. It remains to be seen how this improved output and export performance will reflect upon the entire sector's financial indicators at the end of the year. We have therefore decided to keep the sector among the worst performers. Should the sector see any major progress next year, it will be listed among the stable sectors.

### **FDI and privatisations**

Total foreign direct investment inflows to Croatia reached EUR 11.4 billion by the end of 2005, although a certain slowdown was recorded in the last two years (inflows were only EUR 1 billion in 2004 and EUR 1.4 billion in 2005 after EUR 1.8 billion in 2003). In the current year, however, the trend is very positive – inflows have reached EUR 1.1 billion in the first half, and are likely to be much higher in the second half, primarily due to the successful privatisation of PLIVA (pharmaceutical company) and INA (oil and gas company). In the next year some further important privatisations are expected. The biggest will probably be the privatisation of an additional share of HT (the biggest Croatian telecom company) and some companies in the metal

industry (ŽELJEZARA SPLIT, TLM ŠIBENIK, VALJAONICA CIJEVI SISAK), and there is also the possibility that the largest insurance company in the country (CROATIA OSIGURANJE) may be privatised. So far the largest FDI inflows were oriented towards financial intermediation (primarily banking industry), communication, manufacture of other non-metallic mineral products, chemicals and oil & gas industry, but we expect new interest from potential partners, bearing in mind the importance of the recently opened accession negotiations between the EU and Croatia. Hotels & restaurants, the paper industry, manufacturing n.e.c. (furniture and recycling), manufacture of rubber and plastic products, agriculture & fishing, and electricity, gas & water supply are among the most promising sectors in this respect.

### **EU convergence**

In the process of Croatia's convergence to full EU membership, sectors which have been most protected from international competition in the past are likely to be also the most affected by the introduction of new trade and subsidy policies. Among them the manufacture of transport equipment (shipbuilding), agriculture and the food industry, manufacture of metal products and some segments of transport (railways, air transport) are the most important ones. The food industry will be additionally affected by demand for high quality and health standards. Sectors which have been exposed to severe market competition for a long time are likely to benefit from this process through the further integration into the EU market and infrastructure availability (e.g. electricity supply), attraction of new FDI and transfer of know-how. The adjustments to meet EU ecology standards will place high requirements on almost all the sectors of the economy.

Table 2.1: Croatia – Structural Indicators (2005)

	MARKET STRUCTURE				SECTORIAL DETAILS							
	Number of enterprises	Number of employees	Number of SMEs	SME VA in sect. VA %	Share in total VA %	Exp. propensity %	Imp/AC %	Share in total FDI %	FDI attractiveness %	Stock of FDI/tot. liabilities %	Capital intensity %	Energy intensity %
<b>TOTALS</b>	71,803	813,762	70,729	36.7	100.0	15.1	20.9	100.0	100.0	17.2	46.8	10.0
Agricultural. Hunting. Forestry & Fishing	1,639	32,107	1,611	24.7	3.0	8.9	23.5	0.3	13.2	1.4	25.9	10.6
Mining & Quarrying	206	6,930	196	14.6	1.5	36.3	82.7	4.0	378.5	72.4	46.3	10.4
M&Q of energy producing materials	17	3,914	12	n.m.	1.2	54.7	89.6	4.0	472.5	111.7	44.9	3.3
M&Q excluding energy producing materials	189	3,016	184	76.1	0.3	4.5	30.3	0.1	34.8	3.9	51.6	36.5
<b>Manufacturing</b>	<b>9,885</b>	<b>248,283</b>	<b>9,551</b>	<b>26.8</b>	<b>27.5</b>	<b>33.4</b>	<b>55.1</b>	<b>31.2</b>	<b>160.1</b>	<b>24.6</b>	<b>31.4</b>	<b>12.0</b>
Food, Beverages and Tobacco	1,134	46,471	1,061	13.6	6.7	16.3	23.2	2.4	50.2	9.1	26.9	9.7
Textiles and textile products	722	28,441	695	43.7	1.4	59.2	85.6	0.7	70.2	11.8	13.5	9.0
Leather and leather products	136	7,186	129	36.8	0.4	78.5	81.7	0.2	64.6	8.1	30.6	4.7
Wood and wood products	696	11,166	689	76.1	0.6	43.3	59.8	0.3	74.8	8.2	29.8	15.5
Pulp, paper & pap. prod; publishing & print	1,714	17,747	1,690	44.2	1.9	13.0	31.9	1.0	76.5	12.6	24.3	10.5
Coke, refined petroleum prod & nuclear fuel	10	10,821	6	0.1	3.0	29.0	20.2	5.9	272.4	47.6	86.9	6.6
Chemicals, chemical prod. & man-made fibres	252	11,626	231	3.6	2.4	52.8	68.9	12.7	755.6	164.3	17.5	24.2
Rubber and plastic products	570	6,933	560	70.5	0.6	27.7	60.5	0.3	58.8	6.6	31.7	12.4
Other non-metallic mineral products	464	13,833	434	25.0	2.0	28.1	29.0	4.8	330.7	54.5	31.6	33.1
Basic metals and fabricated metal products	1,510	27,608	1,480	63.0	2.1	34.6	67.7	0.3	22.0	2.8	25.8	12.7
Machinery and equipment n.e.c.	534	11,710	514	62.9	0.8	37.6	91.7	0.3	60.3	5.6	28.2	8.7
Electrical and optical equipment	1,065	18,475	1,027	28.2	2.7	34.8	64.3	2.5	130.5	31.7	17.3	3.8
Transport equipment	381	23,052	361	20.3	1.8	71.5	97.0	n.m.	n.m.	n.m.	23.2	7.2
Manufacturing n.e.c.	697	13,214	674	41.2	0.9	37.1	64.8	0.3	48.1	7.1	32.0	10.7
<b>Electricity, Gas &amp; Water</b>	<b>177</b>	<b>28,026</b>	<b>154</b>	<b>14.7</b>	<b>5.1</b>	<b>4.5</b>	<b>7.7</b>	<b>0.9</b>	<b>24.5</b>	<b>1.5</b>	<b>69.3</b>	<b>30.4</b>
<b>Construction</b>	<b>7,048</b>	<b>87,422</b>	<b>6,954</b>	<b>52.1</b>	<b>8.3</b>	<b>2.9</b>	<b>2.9</b>	<b>0.9</b>	<b>15.4</b>	<b>1.3</b>	<b>78.8</b>	<b>11.0</b>
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	<b>29,943</b>	<b>218,720</b>	<b>29,532</b>	<b>51.3</b>	<b>23.7</b>	<b>5.9</b>	<b>5.9</b>	<b>12.0</b>	<b>71.2</b>	<b>7.1</b>	<b>38.5</b>	<b>6.9</b>
Wholesale & Retail Trade	26,683	180,919	26,312	52.0	20.1	4.5	8.6	8.6	60.2	6.0	36.6	6.5
Hotels & Restaurants	3,260	37,801	3,220	47.3	3.6	34.2	34.2	3.4	132.6	13.6	49.2	8.8
<b>Transport, Storage &amp; Communication</b>	<b>3,897</b>	<b>80,852</b>	<b>3,836</b>	<b>13.0</b>	<b>15.6</b>	<b>27.7</b>	<b>27.7</b>	<b>17.2</b>	<b>155.4</b>	<b>41.7</b>	<b>57.3</b>	<b>10.5</b>
Transport & Storage	3,765	59,214	3,709	24.0	8.5	39.8	39.8	0.5	8.3	1.5	77.1	18.2
Communication	132	21,638	127	n.m.	7.0	9.8	16.7	16.7	333.6	247.2	33.3	1.2
<b>Financial Institutions, Insurance</b>	<b>15,528</b>	<b>74,335</b>	<b>15,440</b>	<b>60.5</b>	<b>11.8</b>	<b>8.7</b>	<b>0.6</b>	<b>3.6</b>	<b>43.3</b>	<b>4.5</b>	<b>65.1</b>	<b>2.7</b>
Financial Institutions	706	7,923	687	21.3	3.0	2.9	0.3	0.3	14.8	1.4	77.5	0.8
Insurance	14	90	14	100.0	0.0	67.2	0.7	3.3	52.8	5.7	60.9	6.8
Real Estate & Business Services	14,808	66,322	14,739	73.5	8.9	9.8	0.7	3.3	52.8	5.7	60.9	3.3
<b>Community, Social &amp; Personal Services</b>	<b>3,480</b>	<b>37,087</b>	<b>3,455</b>	<b>57.4</b>	<b>3.4</b>	<b>4.2</b>	<b>1.9</b>	<b>0.8</b>	<b>33.8</b>	<b>8.4</b>	<b>26.0</b>	<b>6.2</b>

Sources: FINA (Financial Agency), CBS (Croatian Bureau of Statistics), CNB (Croatian National Bank), Zagrebačka banka Research

Note: Data for financial institutions and insurance sector do not cover banking and insurance industry. However, in calculating the indicator Share in total FDI, data on FDI in banking and insurance are included in total FDI – n.m. = not meaningful data. – See ANNEX for further explanations of the indicators

Table 2.2: Croatia – Structural Indicators (2005) (continued)

	RCA %	Labour productivity (yearly, HRK)	COMPETITIVENESS Avg. personnel costs (yearly, HRK)	Wage adjus. labour productivity	CONSTRAINTS Total indebtedness %	Bank indebtedness %
<b>TOTALS</b>	<b>100.0</b>	<b>152,004</b>	<b>76,490</b>	<b>1.99</b>	<b>41.7</b>	<b>28.1</b>
<b>Agricultural, Hunting, Forestry &amp; Fishing</b>	<b>73.3</b>	<b>117,249</b>	<b>68,530</b>	<b>1.71</b>	<b>54.7</b>	<b>30.4</b>
<b>Mining &amp; Quarrying</b>	<b>26.0</b>	<b>268,437</b>	<b>93,487</b>	<b>2.87</b>	<b>20.7</b>	<b>8.7</b>
M&Q of energy producing materials	21.8	373,172	113,427	3.29	12.5	4.7
M&Q excluding energy producing materials	120.2	132,518	67,610	1.96	34.9	15.6
<b>Manufacturing</b>	<b>110.4</b>	<b>136,902</b>	<b>75,244</b>	<b>1.82</b>	<b>39.9</b>	<b>23.5</b>
Food, Beverages and Tobacco	148.7	179,414	83,988	2.14	42.5	21.9
Textiles and textile products	165.1	59,476	44,748	1.33	37.5	24.9
Leather and leather products	157.5	62,852	40,624	1.55	33.3	12.0
Wood and wood products	261.2	70,032	46,367	1.51	49.3	31.7
Pulp, paper & pap. prod; publishing & print	84.5	134,638	87,506	1.54	41.6	26.8
Coke, refined petroleum prod & nuclear fuel	294.4	346,231	123,915	2.79	14.0	7.6
Chemicals, chemical prod & man-made fibres	91.3	251,626	108,477	2.32	40.7	25.5
Rubber and plastic products	47.2	115,785	63,464	1.82	49.0	36.7
Other non-metallic mineral products	177.3	182,663	82,097	2.22	38.2	25.5
Basic metals and fabricated metal products	73.4	92,911	62,794	1.48	42.1	25.8
Machinery and equipment n.e.c.	65.9	84,352	70,275	1.20	36.0	19.3
Electrical and optical equipment	87.2	180,860	98,379	1.84	28.2	13.2
Transport equipment	108.3	98,845	80,658	1.23	55.7	33.0
Manufacturing n.e.c.	137.6	88,084	55,419	1.59	41.8	27.6
<b>Electricity, Gas &amp; Water</b>	<b>93.8</b>	<b>224,286</b>	<b>90,955</b>	<b>2.47</b>	<b>17.0</b>	<b>15.6</b>
<b>Construction</b>	<b>117,827</b>	<b>117,827</b>	<b>64,948</b>	<b>1.81</b>	<b>46.1</b>	<b>33.8</b>
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	<b>134,109</b>	<b>134,109</b>	<b>67,876</b>	<b>1.98</b>	<b>40.5</b>	<b>25.4</b>
Wholesale & Retail Trade		137,625	68,506	2.01	35.7	20.8
Hotels & Restaurants		117,286	64,860	1.81	68.1	52.0
<b>Transport, Storage &amp; Communication</b>	<b>238,426</b>	<b>238,426</b>	<b>101,783</b>	<b>2.34</b>	<b>45.5</b>	<b>35.5</b>
Transport & Storage		178,337	93,364	1.91	51.7	40.1
Communication		402,863	124,821	3.23	13.8	12.2
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>	<b>39.6</b>	<b>196,977</b>	<b>86,848</b>	<b>2.27</b>	<b>57.0</b>	<b>41.7</b>
Financial Institutions		460,679	108,330	4.25	69.4	55.7
Insurance		n.m.	n.m.	n.m.	16.1	1.9
Real Estate & Business Services		165,661	84,185	1.97	52.2	36.4
<b>Community, Social &amp; Personal Services</b>	<b>58.1</b>	<b>114,363</b>	<b>79,729</b>	<b>1.43</b>	<b>41.3</b>	<b>30.2</b>

Sources: FINA (Financial Agency), CBS (Croatian Bureau of Statistics), CNB (Croatian National Bank), Zagrebačka banka Research

Note: Data for financial institutions and insurance sector do not cover banking and insurance industry.

n.m. = not meaningful data. – See ANNEX for further explanations of the indicators

# Czech Republic

## Economic framework

Real GDP growth in 2005 and H1 2006 was driven by the strong performance of net exports and investments, and was also reflected in the excellent results of Czech industry and business services. The major positive impulse externally came from the full exploitation of the benefits related to EU accession in 2004. By removing customs duties and other administrative barriers, EU entry led to fast growth in foreign trade, impacting positively on the trade balance. The country also benefited and continues to benefit from a large volume of foreign direct investment, predominantly absorbed by sectors producing technologically advanced products. Foreign investors, attracted by a stable and relatively favourable business environment combined with sound government incentives for business development, have become the main drivers of production growth, whilst creating potential for future export expansion.

In addition to solid export and investment performance, household demand has gained momentum in recent quarters, injecting extra impetus into sectoral growth. Low interest rates and

increasing disposable income have moreover proved to be behind the rapid growth of the residential real estate market.

The performance of some sectors is going to be enhanced by the financial aid from the EU in the coming years. For the years 2007–2013, the country is entitled to receive EUR 26.7 bn from EU cohesion and structural funds, i.e. some EUR 3.8 bn per year, which will be more than four times the average annual allocation specified for the period 2004–2006. This substantial increase in available funds will naturally boost the need for co-financing from domestic public funds. From this perspective, the country achieved success by enforcing the hike of maximum rate of co-financing from European sources to 85% from an original 75%. Even though this somewhat eases the burden for public budgets, it will be necessary, in order to reach full utilisation of European money, to carry out reforms aimed at reducing mandatory and quasi-mandatory expenditures and also to identify possibilities for achieving savings in the area of non-mandatory expenses. In addition, the government will have to reduce redundant formalities required from applicants to avoid the similar situation typical

Table 1.1: Best performers and worst performers

BEST	STABLE	WORST
Transport equipment	Agriculture, Hunt., Forest., Fishing	Mining & Quarrying
Rubber & plastic products	Food, beverages & tobacco	Textiles, textile products
Machinery & equipment	Leather & leather products	Hotels & Restaurants
Electrical & optical equipment	Wood & wood products	Community, Social & Personal Services
Real Estate & Business Services	Pulp, paper; publishing, printing	
	Coke, refined petroleum products	
	Chemical products	
	Other non-metallic mineral products	
	Basic Metals, Fabr. Metal products	
	Manufacturing n.e.c.	
	Electricity, Gas & Water	
	Construction	
	Wholesale & Retail Trade	
	Transportation & Communication	
	Finance & insurance	

for current allocation: up to September 2006 the country used only 23.5% of a total EUR 1.584 bn available from structural funds for the years 2004–2006.

For EU funds allocation in 2007–2013 the country set up seven sector operational programmes which will receive 83.2% of the total EUR 26.7 bn: transport 20.8%, environment 19.4%, business and innovation 11.4%, human resources and employment 9.7%, research and development for innovation 7.8%, integrated operational programme 7.3% and education for competitiveness 6.8%. In general, the bulk of the funds will be allocated to projects increasing the competitiveness of SMEs, supporting education of employees, and encouraging research and innovation. Though a large part of the aid will also be allocated to the area of transport infrastructure, which may boost the growth of construction, this latter sector is also expected to suffer more than others from possible state expenditure adjustments.

### Best performers

Within Czech manufacturing, the **manufacture of transport equipment** is one of the most competitive sectors, recording the strongest growth both in 2005 and 2006. In 2005, the launch of production in the new TPCA (Toyota-Peugeot-Citroën) assembly plant pushed sector results to new heights. Transport equipment production greatly outperformed the manufacturing average (growth of 23.1% yoy vs. 7.5% yoy), while the sector also recorded a huge increase in terms of sales. 2006 saw a pick up in production, as expected, with the TPCA plant approaching its annual capacity and Skoda's new Roomster production line doing the same. We forecast 26% growth for the whole of 2006 (given a 22.8% yoy figure in the first nine months of the year), with a positive outlook for the future. Despite the physiological slowdown expected in 2007 caused by the base effect, the growth potential remains high. The sector still looks attractive for foreign investors, as Hyundai's intention to construct a car-manufacturing plant in the country shows. This assembly plant should have an annual production capacity of about 300,000 cars and is expected to start operations no sooner than the end of 2008. Producers of components and parts for automobiles will also benefit from such developments, which further enhance the country's specialisation in motor vehicle production. So far, roughly 13% of manufacturing value added and 18% of manufacturing exports come from this sector (as of 2005).

The manufacture of **Electrical & Optical Equipment** has been one of the fastest developing branches in Czech industry over the last

decade. The development of computer production has been particularly encouraging. The country is becoming one of the largest producers of computers in Europe, with many foreign players establishing production bases there. As a consequence, the sector is export oriented and competitive on the international markets, with good prospects for the future. Production has been declining for radio, TV and communications equipment, mainly due to decreasing demand for classical TV (CRT) displays. Overall, we forecast industrial production growth for the sector of 17.5% yoy in 2006 and around 10% per annum in 2007 and 2008.

Linked closely to investments in engineering, **Machinery & Equipment** recorded strong growth in 2005, enjoying the favourable domestic and international phases of the investment cycle. We forecast double-digit growth for industrial production both in 2006 and 2007–2008, which makes the sector one of the best performers in the entire economy. Following the entry of many foreign investors the sector strengthened its export focus, leading to an improvement in the foreign trade surplus. Being export oriented but also addressing the needs of the internal market, growth in the sector will profit equally from sustained domestic demand in the Czech Republic and in the eurozone.

Thanks to its close relations with the automotive sector, the electrical industry, packaging materials and also with construction, the **Rubber & Plastic** industry has registered considerable expansion during the last five years, while its position within manufacturing has significantly strengthened. In 2005 the sector posted its fifth successive double-digit annual growth rate, and thus together with other engineering branches (automotive, electrical equipment, machinery) constitutes one of the driving forces of Czech industry. Revenues more than doubled over the same period, even surpassing the combined chemical and pharmaceutical industry. The sector is very attractive for FDI, with technological specialisation representing an important opportunity as the country continues to strengthen. We foresee growth in terms of industrial production of 13% yoy in 2006 and over 9% in 2007 and 2008.

The successes of **Real Estate & Business Services** are directly related to the strong presence of FDI in the country. The increasing specialisation of the Czech Republic in mid to high-tech industries is attracting a lot of international players who seek a production base in the heart of Europe. These foreign players have created a strong demand for high quality business services, thus

giving a strong boost to the development of the sector. Both domestic and foreign companies are trying to profit from such demand growth. By distinguishing among sub-sectors, we expect further investments, particularly in R&D and IT services, while the real estate segment also offers some potential. Overall, we forecast real growth for the sector (in terms of value added) of over 6% on average for 2006–2008.

### **Worst performers**

Among the manufacturing industries, labour intensive and low value added branches like **Textile & Textile products** and **Leather & Leather products** are suffering the most from the increasing competition of cheaper Far Eastern products. We maintain our negative outlook for both these industries in the long term. Both are going to lose or see reduced their comparative advantage on the international markets unless a shift is effected towards textile and leather production for specific technical needs (like for automotive or medical purposes). In the short term, however, there is still growth potential for the leather industry, especially in luggage and handbag production, with an expected growth rate (in terms of industrial production) of 9% for 2006 and on average around 4% in the next two years. Taking this into consideration, we have classified leather and leather products as stable.

Under services, we prefer to adopt a more cautious stance for the **Hotels & Restaurants** sector. This business has suffered a lot since the VAT increase at the beginning of 2005. As a consequence, revenues have declined and many small local businesses have been struggling to survive. Apart from the region of Prague, where foreign-owned hotels are prevalent, the other regions are dominated by domestic companies, many of which are in need of restructuring and modernisation. **Community, Social & Personal services** also have a negative outlook. The sector posted its second successive decline (in terms of real VA) in 2005. For this and the coming years we still foresee negative growth, as the lack of public funds to improve the efficiency and productivity of the sector will impact on its performance.

### **FDI and privatisations**

Gross Foreign Direct Investment (FDI) inflows into the Czech economy more than doubled in 2005 on a yoy basis, recording the best results since 2002 (CZK 263 bn or EUR 8.8 bn), with FDI relative to GDP amounting to 8.8%. This record was mainly achieved thanks to the proceeds generated from the privatisation of the former telecommunications monopoly Cesky Telecom and the chemical group Unipetrol. In H1 2006, inflows totalled around CZK 62.5 bn (or EUR 2.2 bn). Aside from the large privatisations, the core of FDI in 2006 consists mainly of reinvested profits.

A large amount of FDI has flowed into the manufacturing industries in recent years. Foreign ownership is encouraging companies to expand rapidly and change products, whilst also improving productivity by modernising, adopting clearer business strategies, operating well-developed distribution networks and consequently generating positive spillover effects at the level of the entire economy. This is an important phenomenon for the long-term economic development of the Czech Republic, which, in this way, is exploiting its favourable geo-strategic location.

The highest shares of FDI came from Germany, the Netherlands and Austria. As far as manufacturing is concerned all of the engineering branches are highly attractive: transport equipment and basic metals & fabricated metal products recorded the highest stock of FDI. Strong FDI into manufacturing in many cases resulted in a rapid improvement of the financial situation (profitability) of the companies operating in some of these sectors. Apart from manufacturing, the most attractive sectors within the Czech economy have been financial institutions, transport & communications as well as wholesale & retail trade.

In the coming years, we expect FDI inflows to stabilise at around 5% of GDP, with reinvested profits gradually becoming the most important component. There are still some companies to be privatised (CEZ, CSA, etc.), but we can hardly expect to see the level of proceeds the country enjoyed earlier in the decade.

Table 2.1: Czech Republic – Structural Indicators (2005)

	MARKET STRUCTURE			SECTORIAL DETAILS							
	No. of enterprises	No. of employees	No. of SMEs	SME VA in sect. VA %	Share in total VA %	Exp. propensity %	Imp./AC %	Share in total FDI %	FDI Attractiveness %	Capital intensity %	Energy intensity (G/CZK min)
<b>TOTALS</b>	23,690	2,399,332	18,337	22.3	100.0	44.8	44.3	100.0	100.0	30.9	426
<b>Agricultural, Hunting, Forestry &amp; Fishing</b>	1,694	115,982	1,403	51.4	2.9	25.4	31.3	0.2	5.7	18.3	204
<b>Mining &amp; Quarrying</b>	97	44,117	65	7.4	1.5	25.7	72.0	1.1	76.4	25.4	2,491
M&Q of energy producing materials	24	38,092	9	1.2	1.3	26.6	73.6			27.0	3,027
M&Q excluding energy producing materials	73	6,025	56	34.7	0.2	21.5	62.4			19.4	461
<b>Manufacturing</b>	8,313	1,038,760	6,012	14.8	25.9	75.1	73.4	36.1	139.4	22.9	377
Food, Beverages and Tobacco	1,072	110,058	795	19.4	3.3	22.1	27.4	3.8	115.2	27.3	440
Textiles and textile products	651	66,064	504	21.8	0.9	137.0	139.1	0.8	91.8	10.5	305
Leather and leather products	111	8,446	83	40.1	0.1	198.5	132.8	0.0	6.8	7.2	78
Wood and wood products	403	26,377	337	30.3	1.0	60.7	43.1		124.5	17.3	160
Pulp, paper & pap. prod.; publishing & print	439	40,603	340	23.8	1.4	56.6	58.1	2.9		22.0	395
Coke, refined petroleum prod & nuclear fuel	5	2,957	1	0.5	0.0	25.9	43.3	0.5	n.m.	41.3	2,850
Chemicals, chemical prod & man-made fibres	214	38,032	143	12.2	1.5	78.9	86.8	2.5	171.7	17.9	1,460
Rubber and plastic products	603	67,804	448	23.1	1.6	59.1	61.0	2.7	162.1	21.5	158
Other non-metallic mineral products	406	65,593	254	14.7	1.9	52.3	36.1	3.4	177.9	22.3	771
Basic metals and fabricated metal products	1,483	161,587	1,117	17.7	4.2	65.6	64.4	5.4	128.9	28.9	621
Machinery and equipment n.e.c.	1,080	132,700	739	21.3	2.6	116.7	122.7	2.1	81.4	21.1	166
Electrical and optical equipment	884	145,604	585	9.5	3.0	117.5	118.9	4.7	158.9	13.6	68
Transport equipment	358	119,754	187	4.5	3.3	75.5	65.2	6.8	205.2	37.6	135
Manufacturing n.e.c.	604	53,181	479	28.7	1.1	84.3	76.0	0.3	32.2	18.8	129
<b>Electricity, Gas &amp; Water</b>	278	56,788	169	4.7	4.2	5.4	1.5	5.8	136.0	58.7	7,547
<b>Construction</b>	2,647	161,743	2,367	37.5	6.6			1.7	26.0	15.7	95
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	4,611	316,312	4,098	49.7	14.4			12.4	86.1	21.9	41
Wholesale & Retail Trade	3,840	272,884	3,403	51.0	12.4			11.7	94.1	21.4	38
Hotels & Restaurants	771	43,428	695	44.6	2.0			0.7	35.4	26.6	61
<b>Transport, Storage &amp; Communication</b>	1,156	334,890	923	23.1	10.3			12.8	124.4	55.8	181
Transport & Storage		269,834			7.3						
Communication		65,056			3.0						
<b>Financial Institutions, Insurance</b>	996	62,676			3.3			15.7	473.3	18.1	27
Financial Institutions	948	47,160									
Insurance	48	15,516									
<b>Real Estate &amp; Business Services</b>	2,680	176,407	2,281	58.9	13.8	0.5	0.6	12.4	89.8	51.1	37
<b>Community, Social &amp; Personal Services</b>	1,218	91,657	1,019	43.5	17.0	4.1	3.3	1.8	10.5	28.5	109

Sources: Czech Statistical Office, Czech National Bank, Ministry of Industry and Trade, Zivnostenska Banka – Corporate Banking  
Note: For Communities, Social & Personal Services, the public sector is excluded when calculating the number of enterprises and employees.  
n.m. = not meaningful data. See ANNEX for explanations of the indicators.

Table 2.2: Czech Republic – Structural Indicators (2005) (continued)

	COMPETITIVENESS			CONSTRAINTS		
	RCA %	Labour productivity (yearly, CZK)	Avg. personnel costs (yearly, CZK)	Wage adjus. labour productivity	Total indebtedness %	Bank indebtedness %
<b>TOTALS</b>	100.0	851,338	244,605	3.48	46.4	19.3
Agricultural, Hunting, Forestry & Fishing	73.3	650,226	175,340	3.71	21.2	10.7
Mining & Quarrying	13.2	898,480	274,769	3.27	36.0	11.8
M&Q of energy producing materials	12.8	878,681	278,549	3.15		
M&Q excluding energy producing materials	16.1	1,034,145	248,784	4.16		
<b>Manufacturing</b>	<b>106.9</b>	<b>665,857</b>	<b>220,084</b>	<b>3.03</b>	<b>51.4</b>	<b>20.3</b>
Food, Beverages and Tobacco	73.8	805,392	211,653	3.81	47.5	15.2
Textiles and textile products	101.7	353,184	150,519	2.35	46.7	18.8
Leather and leather products	48.7	341,185	144,778	2.36	74.7	30.1
Wood and wood products	199.0	956,958	180,877	5.29	54.5	29.8
Pulp, paper & pap. prod; publishing & print	92.1	893,581	249,424	3.58	44.8	21.2
Coke, refined petroleum prod & nuclear fuel	44.8	422,049	334,688	1.26	49.8	20.7
Chemicals, chemical prod & man-made fibres	55.7	1,013,283	267,665	3.79	43.0	18.8
Rubber and plastic products	90.2	650,785	218,070	2.98	44.1	13.6
Other non-metallic mineral products	190.2	783,224	230,491	3.40	43.6	20.5
Basic metals and fabricated metal products	102.9	690,130	224,161	3.08	47.9	18.2
Machinery and equipment n.e.c.	126.0	538,335	227,535	2.37	55.3	18.8
Electrical and optical equipment	104.4	546,007	216,169	2.53	59.7	22.9
Transport equipment	160.4	740,123	256,076	2.89	59.7	24.3
Manufacturing n.e.c.	165.5	540,113	181,684	2.97	60.8	30.4
<b>Electricity, Gas &amp; Water</b>	<b>380.8</b>	<b>1,980,684</b>	<b>310,105</b>	<b>6.39</b>	<b>35.8</b>	<b>17.6</b>
<b>Construction</b>	<b>1,099,165</b>	<b>1,099,165</b>	<b>231,949</b>	<b>4.74</b>	<b>64.8</b>	<b>14.0</b>
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	<b>1,177,478</b>	<b>1,177,478</b>	<b>232,716</b>	<b>5.06</b>	<b>65.5</b>	<b>25.0</b>
Wholesale & Retail Trade	1,195,200	1,195,200	243,096	4.92	65.2	21.7
Hotels & Restaurants	1,076,344	1,076,344	173,484	6.20	68.2	55.7
<b>Transport, Storage &amp; Communication</b>	<b>1,098,911</b>	<b>1,098,911</b>	<b>261,554</b>	<b>4.20</b>	<b>32.0</b>	<b>16.9</b>
Transport & Storage						
Communication						
<b>Financial Institutions, Insurance</b>	<b>1,406,934</b>	<b>1,406,934</b>	<b>470,091</b>	<b>2.99</b>		
Financial Institutions						
Insurance						
<b>Real Estate &amp; Business Services</b>	<b>78.1</b>	<b>1,835,837</b>	<b>291,639</b>	<b>6.29</b>	<b>58.5</b>	<b>29.7</b>
<b>Community, Social &amp; Personal Services</b>	<b>121.8</b>	<b>519,039</b>	<b>252,276</b>	<b>2.06</b>	<b>44.3</b>	<b>22.8</b>

Sources: Czech Statistical Office, Czech National Bank, Ministry of Industry and Trade, Zivnostenska Banka – Corporate Banking  
See ANNEX for explanations of the indicators

# Hungary

## Economic framework

As the otherwise healthy Hungarian economy has been gradually succumbing to the trap of the central budget deficit and accumulating debts, intervention from the Government in the form of a radical austerity and stabilisation package was inevitable. Following relatively stable growth in 2006, a slowdown in economic activities is expected for the coming years. The fiscal austerity package will affect domestic demand and consumption in particular, influencing primarily the sectors which are generally oriented to the domestic market. The construction industry will be most affected by cuts in state spending, while retail trade, despite still being a well performing sector, will slow on the basis of declining growth in real wages. The manufacture of electrical machinery and motor vehicles should be affected to a lesser degree. Most of the corporate revenues in these industries comes from export sales, as the industries are particularly export oriented and competitive on the international markets.

Growth in some sectors, however, should be stimulated by the availability of EU structural funds, though efficiency in using these funds is still to be evaluated. Hungary is entitled to receive EUR 22.4 bn in development funds between 2007 and 2013 –

calculated at 2004 prices – based on the EU's cohesion policy, which will be supplemented by domestic co-financing and private capital. Out of the EUR 22.4 bn, the seven operative programmes for sectoral development will receive a share of 73.6%: Economic Development 9.8%, Transport 25%, Social Renewal 13.6%, Social Infrastructure 7.8%, Environment and Energy 15.3%, State Reform 0.6% and Electronic Public Administration 1.4%. Economic Development mainly focuses on promoting the establishment of an innovative, knowledge-based economy through assisting R&D activity (4.3%), improving capacities to generate income (3.7%), especially at SMEs, and developing business infrastructure (1.8%). Other programmes, however, concentrate on streamlining and updating infrastructure, which affect high-tech businesses to a large extent, but also traditionally labour-intensive sectors like construction.

## Best performers

**Electrical & Optical Equipment** is one of the fastest developing sectors in the country, characterised by increasing innovation, widespread mechanisation and constant improvement in labour productivity. The sector is a preferred target for foreign investments. It is quite competitive in the international arena, with a

Table 1.1: Best performers and worst performers

BEST	STABLE	WORST
Rubber & Plastic Products	Pulp, paper & paper pr.; Publish. & Printing	Agriculture, Hunt., Forest. & Fish.
Machinery & Equipment	Coke, Ref.Petroleum Pr. & Nuclear fuel	Mining & Quarrying
Electrical & Optical Equipment	Chemicals & Chemical Products	Food, Beverages & Tobacco
Transport Equipment	Other Non-metallic Mineral Products	Textiles & Textile Products
Financial Institutions, Insurance	Basic Metals & Fabricated Metal Products	Leather & Leather Products
	Manufacturing n.e.c.	Wood & Wood Products
	Electricity, Gas & Water	
	Construction	
	Wholesale & Retail Trade	
	Hotels & Restaurants	
	Transportation & Storage	
	Communication	
	Real Estate & Business Services	
	Community, Social & Personal Services	

significant share of total revenues coming from exported goods. The sector comprises four major branches, where the largest and most dynamic is the manufacturing of telecommunications appliances. A kind of manufacturing cluster has been formed around a couple of leading world producers running Hungarian facilities, which involves major global suppliers of these firms, and to a lesser extent, a few Hungarian contractors as well. The manufacturing of electronic appliances has come to a standstill over the past four years because the largest manufacturer in the sector shifted its production structure from manufacturing electrical machinery to telecommunications appliances. Some revival, however, has been visible in 2006. There are two other branches of more minor importance – manufacturing of computers and medical, precision & optical instruments. Overall, we forecast very positive growth for the sector in the medium to long term, amidst rising global demand for home entertainment and telecommunications appliances.

Hungary has long-standing expertise in the manufacturing of **transport vehicles**, engines and spare parts. Some of the first FDI the country absorbed in the early 1990s flowed into this industry. Newcomers from the West, bringing more efficient production methods and combining them with the major expertise and creativity of local employees, gradually implemented higher value-added production. The good performance of this industry is mostly due to this huge foreign capital penetration (84% – the highest throughout the entire economy). Owing to the rapid introduction of modern corporate management and quality assurance systems, productivity in this industry has reached the Western European average. The output of Transport equipment manufacturing is now more than 30 times higher in terms of volume than in the early 1990s. It accounts for almost 20% of total Hungarian merchandise exports, contributing greatly to improving the foreign trade balance, and is responsible for 15% of the entire manufacturing production. Beside the two car manufacturers, Suzuki and Audi, several world-leading car component producers also do business in Hungary.

With 90% of the output being exported, the future of the Hungarian vehicle industry largely depends on how the region can measure up to the investors' requirements compared with the Far East. Hungary – as well as the entire CEE region – is considered very attractive among multinational world brand producers, from several perspectives, and outperforms other areas importing FDI. The coming years may be less explosive than the mid-late 1990s, yet prosperous years still await the Hungarian pas-

senger car and spare-part manufacturers, even though car sales are ailing on a global scale. Firms in key positions are determined to expand in the future as well, in spite of the adverse effects of the austerity package, with AUDI the only possible exception. Following the announcement of the additional 4% tax burden that the austerity measures impose on the corporate sector, AUDI announced that it may halt previously approved investment plans for the coming years in Hungary. If AUDI keeps its promise the move would be extremely bad for the sector. However, the outcome of this power-game between AUDI and the Government is not yet clear.

The manufacture of **Rubber and Plastic** accounts for 1% of the national GDP (as of 2005). Rubber constitutes 22% of sector output, while the rest relates to the segment of plastic products. Both industries have a long tradition in Hungary and number among the rare fields of the economy whose performance was not affected by the transition. Since 2000 rubber production has increased by 67%, mainly due to growth in rubber products other than tyres, though tyre production is also up by 57%. Plastic products have undergone an almost identical development, with plastic materials for construction and plastic for engineering products in particular being the most dynamic branches. The two segments have different structures. Rubber production is quite consolidated. Michelin-owned Taurus accounts for over 45% of revenues and a further 43% is derived from only twelve companies that are also fully under the control of foreign investors. On the contrary, the manufacture of plastic is rather fragmented (plastic producers totalled 2,700 in 2005), with the share of the largest firm not even reaching 15% in the entire production of the plastic industry. International competitiveness in both segments has improved dramatically in recent years, with Hungary becoming a net exporter of tyres, other rubber products, plastic packaging materials and plastic building materials. The presence of foreign investors has definitely helped to achieve this result. For the coming years the outlook for the sector as a whole is still bright. Foreign investment activity is expected to remain strong. In particular, Michelin, Bridgestone and other multinational producers are determined to carry on expanding. In 2005 Michelin enlarged the capacity of its plant, which now produces 800,000 tyres a year. In 2008 a huge investment by Bridgestone is going to be launched with an annual output capacity of 2.9 million tyres, as the Japanese firm intends to supply the European market from this site. At the same time, Hancock will launch its tyre production in the country by June 2007, with the aim of reaching full capacity of 10 million tyres by 2010.

**Machinery & Equipment** is another fast developing sector in Hungary. In Q3 2006 the volume of output exceeded that of Q1 1999 by 135%. The most dynamic expansion took place in machine tools (+408%), pumps and compressors (+400%), engines and turbines except for aircraft, and vehicles and cycle engines (+375%). The largest sub-sectors of Machinery & Equipment are the manufacturing of electric domestic appliances (26.9% share in production), agricultural machinery other than tractors (8.8%), pumps and compressors (8%), non-domestic cooling and ventilation equipment (7.7%), general purpose machinery (6.5%), machine tools (5.3%) and special-purpose machinery for industrial use.

The sector has increasingly become export oriented, with the export share in total revenues currently amounting to more than 50% in all of the branches. The country is now a net exporter of several types of machinery, such as engines, turbines, lifting and handling equipment, non-domestic cooling and ventilation equipment, agricultural and forestry machinery other than tractors, machine-tools, machines for metallurgy, food processing and the textile and apparel industry. In relevant trading, where there was either a surplus or a deficit, either the amount of the surplus has grown or the amount of the deficit has declined. The main reason for this achievement, as in many other successful industries, is the FDI inflow from large multinational corporations (i.e. Electrolux and Bosch), which decided to use the country as a production base. Their activities in the country are expected to continue in the coming years too, assuring further prosperous growth in the sector.

Despite accelerated progress in recent years, the Hungarian **financial sector** still has substantial growth potential. Congestion and heavy competition in the corporate market segment have forced financial institutions to turn towards private individuals. But more attention is being paid to SMEs and local governments, especially because of the EU co-financed development programmes. As corporate clients generally favour financial institutions represented locally, commercial banks have embarked upon extremely fast branch network development programmes. Along with the growing number of branch units, employment has started to pick up sharply, leading to a consistent increase in gross value added. Though growing at lower rates with respect to previous years, financial services are expected to remain among the most thriving segments of the economy for quite a long time to come.

### Worst performers

Agriculture and viticulture have traditionally played an important role in the Hungarian economy. Unfortunately, the outlook is not bright. The sector fared poorly during the transition, which resulted in the shrinking of previous Soviet-bloc markets and a consequent lack of funds for Hungarian farmers to meet the needs of modern agribusiness investment. Then the sector suffered from repeated shocks, including the Russian financial crisis in 1998, and successive droughts and floods since the late 1990s. EU accession in May 2004 also had a negative impact on the sector, not only because it removed Hungary's final customs protection measures hindering farming imports from the EU, but also because the EU's common agricultural policy (CAP) has fundamentally rearranged the system of subsidies. Moreover, the sector is not efficient and farm productivity remains well below EU levels. FDI has been low too, due to some restrictions on foreign ownership implemented during the transition process. With regard to the future, we prefer to keep a negative view on **Agriculture, Hunting, Forestry & Fishing**, despite the relatively good output performances so far in 2006. The persistent oversupply of grain – considering that around 80% of European maize inventories are derived from Hungarian producers – will cause 2/3 of maize producers in Hungary to lose access to intervention funds, putting Hungarian agriculture in trouble. Moreover, heavy restrictions on the sale of farmland to foreigners – in order to restrict the illegal sale of farmland – are expected to remain in place for some years (up to 2011), delaying the possibility of achieving higher FDI.

**Food, Beverages & Tobacco industry**, once the jewel of the Hungarian economy, turned out to be its weakest link by the middle of the first decade in the 21st century. This decline was also influenced by repeated shocks in agriculture, as food processing uses huge quantities of raw material supplies from domestic sources. Upon EU accession the sector had to face the challenging EU quality and health standard requirements. Many Hungarian producers have lost competitiveness on foreign markets since EU accession, while imports of foreign products to the country have been increasing. Due to competition pressures many firms once prosperous went bankrupt during 2005 and early 2006. Foreign interest (in terms of share in capital) has also declined during the past five years. Meat processing, grain mill and dairy production were the segments which suffered the most from this development, while beverages (excluding beer) and bakery products still maintain some rate of growth. Looking forward, the

outlook is still gloomy. Declining domestic consumption also plays a role in this scenario and the consolidation of the market can be expected to continue for at least three to four years.

The **mining industry** in Hungary is of minor relevance. With the exception of bauxite, the country is not endowed with significant mineral resources. Therefore, foreign investors have always neglected the sector and in this regard no particular change is likely to happen in the future. Mining output experienced significant declines during the early 1990s and did not show any positive growth until 1997. Developments since 1999 have been entirely attributable to increased production of sand and gravel, materials used in the construction industry. Over the years, technology has improved in this segment along with the dust emission parameters. Owing to the booming performance of construction and to the strong demand from ceramic manufacturers, 25% or more of such minerals has been exploited. The excavation of sand, gravel and clay in fact benefits from the large state motorway building projects and the vibrant business activity of real estate developers. As such areas have peaked now, temporarily there may be some decline in the output of these materials.

The **manufacture of wood and wood products** is of little relevance in the Hungarian economy. Its share in GDP is only 0.2%, with the main contribution in the sector's output coming from construction-related carpentry (36%) as well as the manufacturing of wooden boards (31%) and saw milling (15%). The manufacturing of processed wood used for furniture (basically wooden panels and boards) reported strong development in recent years, mainly because of successful expansion in exports. But construction-related carpentry and joinery is currently going through a deep recession with declining domestic demand and a strong surge in imports. Wooden building products can barely compete with alternative building materials that are increasingly gaining ground, especially those made of plastic. However, major factors to be considered among the deteriorating business conditions of the whole sector are the sharply rising wood prices due to the shortage of wood and the increasing cost of energy. The industry is dominated by small and medium-sized enterprises, which can barely cope with the high energy and raw material prices, as well as stagnating domestic demand. Only a couple of firms generate revenues over HUF 2 billion and are competitive on the international markets by running advanced technology processing with high efficiency. On average, however, the sector has performed poorly in recent years and no reversal in this trend is expected in the near future.

The manufacture of **Textiles** and **Leather** is now only a shadow of what it used to be at the beginning of the transition process. The rise in the minimum wage about six years ago greatly contributed to the collapse of these once thriving industries. As the business is highly labour intensive and the means of automation rather limited, it is very hard to improve productivity in these sectors beyond a certain level. Thus domestic firms were unable to withstand the rush of Far-Eastern imports. The only segments where production currently exceeds 1999 levels are the manufacturing of technician, knitted and crocheted fabrics, and outerwear. Some revival in leather luggage and handbags has been recorded since Q2 2004. However, the outlook is not bright for either sector as no serious change in their trends is likely to happen. Hungarian producers cannot compete with cheaper Asian labour cost products, although in the field of quality fabrics, premium brand outerwear and items where special attributes count for more than the selling price (delicate underwear, bra, panties, etc.), the largest companies applying advanced technology and know-how may sustain profitable operations. Nevertheless, the manufacturing of these sophisticated products cannot compensate for the declining production in the traditional manufacturing of textile and leather.

### **FDI and privatisations**

In the early 1990s and before 2000, privatisation represented the main driver of FDI into the country. Hungary was the first of the CEE countries to speed up its privatisation process. Between 1991 and 1994 almost one third of FDI arrived through privatisations, but the peak was reached in 1995 when the overwhelming portion of the energy sector went on sale. Between 1998 and 2002 privatisation came to a standstill. The only transactions of particular interest over the past three years were the sale of Postabank in 2003, Dunaferri in 2004, and Budapest Airport and Antenna Hungária in 2005. The only state-owned interests of relevant importance and still awaiting privatisation are now MALÉV (passenger air transport), FHB Zrt. (financial services), Hollóházi Porcelán (manufacture of porcelain) and Tisza Cipő (manufacture of footwear). A great part of FDI also entered the country through greenfield operations in a wide range of manufacturing sectors, trading and financial services, telecommunications and logistics. The main investment flows – as of 2004 – arrived from Germany (29.2%), the Netherlands (17.7%), Austria (11.4%), France (4.7%) and the USA (4.5%).

Table 2.1: Hungary – Structural Indicators (2005)

	MARKET STRUCTURE		SECTORIAL SPECIFICITY AND COMPETITIVENESS							RCA %
	Number of enterprises	Number of employees	Share in total VA %	Share in total FDI 2004 %	FDI attractiveness 2004 %	Exp. propensity %	Share in total exports %	Share in total imports %		
<b>TOTALS</b>	1,208,780	2,786,400	100.0	100.0	100.0	22.5	100.0	100.0	100.0	100.0
<b>Agricultural, Hunting, Forestry &amp; Fishing</b>	55,227	98,200	4.3	0.4	9.2	8.7	1.9	1.0	1.0	190.0
<b>Mining &amp; Quarrying</b>	682	5,200	0.2	0.1	65.3	5.0	0.2	6.8	2.9	2.9
<b>Manufacturing</b>	85,127	700,300	22.2	44.2	199.6	53.5	82.0	79.3	103.4	103.4
Food, Beverages and Tobacco	8,814	113,400	3.1	5.2	156.7	19.8	3.8	3.1	124.8	124.8
Textiles and textile products	9,885	62,250	0.5	0.8	127.8	62.3	2.7	2.7	100.4	100.4
Leather and leather products	1,158	12,750	0.1	0.1	113.6	67.3	0.7	0.9	75.2	75.2
Wood and wood products	6,840	24,047	0.2	0.5	166.6	38.5	0.7	0.7	95.3	95.3
Pulp, paper & pap. prod; publishing & print	11,363	37,454	0.9	1.5	147.6	14.0	1.2	2.1	54.1	54.1
Coke, refined petroleum prod. & nuclear fuel	12	6,720	2.9	1.5	55.7	20.5	1.9	2.0	94.3	94.3
Chemicals, chemical prod. & man-made fibres	988	31,257	2.1	5.7	275.1	52.0	6.4	7.9	81.8	81.8
Rubber and plastic products	3,010	37,524	1.0	1.6	167.8	47.7	2.6	3.3	79.2	79.2
Other non-metallic mineral products	3,291	25,300	0.9	1.7	179.7	18.4	1.1	1.4	76.8	76.8
Basic metals and fabricated metal products	12,851	74,300	2.1	2.9	131.6	48.2	4.8	6.8	70.1	70.1
Machinery and equipment n.e.c.	8,172	59,856	1.1	2.8	262.3	51.6	7.4	8.2	90.3	90.3
Electrical and optical equipment	8,883	139,415	4.3	8.8	210.8	82.5	31.6	26.8	117.9	117.9
Transport equipment	1,072	50,129	2.6	10.9	448.0	87.6	15.6	12.0	129.6	129.6
Manufacturing n.e.c.	8,788	25,900	0.3	0.2	80.1	34.7	1.7	1.5	112.6	112.6
<b>Electricity, Gas &amp; Water</b>	878	57,100	2.9	4.0	129.4	0.8	0.2	0.6	35.5	35.5
<b>Construction</b>	96,249	133,000	4.8	0.9	17.5	1.7	0.2	0.1	148.3	148.3
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	293,339	424,600	12.5	10.9	84.6	9.0	6.7	4.3	156.6	156.6
Wholesale & Retail Trade	218,443	341,900	10.9	10.1	90.4	9.2	0.9	0.4	233.2	233.2
Hotels & Restaurants	74,896	82,700	1.6	0.8	46.9	1.6	5.8	3.9	148.7	148.7
<b>Transport, Storage &amp; Communication</b>	47,190	222,200	7.6	9.9	124.9	14.3	3.2	1.7	191.5	191.5
Transport & Storage	n/a	133,320	3.8	-	-	19.8	2.7	1.2	227.7	227.7
Communication	n/a	88,880	3.8	-	-	4.8	0.5	0.5	101.7	101.7
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>	482,958	269,800	22.0	27.4	131.3	6.1	4.0	5.8	69.5	69.5
Financial institutions, insurance	35,117	57,000	4.6	10.5	268.2	1.0	0.2	0.6	38.3	38.3
Real Estate & Business Services	447,841	212,800	17.5	16.8	99.5	7.8	3.8	5.2	73.1	73.1
<b>Community, Social &amp; Personal Services</b>	147,130	876,000	23.5	2.3	9.9	2.8	1.5	0.3	476.7	476.7

Sources: CSO Yearbook, CSO Monthly Bulletin, Tax Bureau Nace II, CSO, NBH, HVB Hungary – Economics Department  
See ANNEX for further explanations of the indicators

# Poland

## Economic framework

Macroeconomic developments are strongly supportive for a number of Polish sectors. The economy is still profiting from EU accession. Despite the gradual appreciation of the zloty, exports remain very strong, which shows the still very high competitiveness of the economy. The prospect of utilising EU structural funds is prompting both local governments and the business sector to increase investments. At the same time, low interest rates and increasing household income are supporting a housing boom. The result of all those factors is an acceleration in domestic demand to 6.1% in Q3 2006, with 5.5% consumption growth and 19.8% fixed asset investment growth. Still, inflationary pressures remain moderate, while interest rates, although increasing, will remain historically low in 2007. Overall, we expect the strong pattern of growth of the Polish economy to continue in the coming years, with the real economy benefiting from the strong internal demand and the still dynamic European demand.

Good macroeconomic performance, high competitiveness and the intrinsic potential of the largest market in Central and Eastern Europe are attracting FDI, which has gradually expanded from

less technologically advanced sectors, like wood or pulp production, through machinery and transport equipment to the most advanced sectors, like business services and electrical and optical equipment – in which Poland is emerging as an important production centre for some goods, i.e. LCD screens and monitors.

## Best performers

**Construction** will remain one of the leading sectors of the Polish economy in the coming years. Output is accelerating and growth of around 16% is expected for the whole of 2006, despite utilisation of EU structural funds which remains low on a cash basis. There has also been a significant improvement in profitability. The poor condition of a considerable part of Polish residential buildings and non-residential facilities, as well as the enhancement of the road network, bridges and railroads (supported by significant increases in EU fund utilisation) will result in higher demand for the sector next year. Low interest rates, which will boost the mortgage loan market, and an acceleration of investment will prompt higher demand for construction output. In the years to come we forecast significant real VA growth and a further increase in profitability.

Table 1.1: Best performers and worst performers

BEST	STABLE	WORST
Pulp, paper; publishing & print	Agriculture, Hunt., Forest., Fishing	Mining & Quarrying
Rubber and plastic products	Food, beverages & tobacco	Textiles and textile products
Other non-metallic mineral products	Wood and wood products	Leather and leather products
Machinery and equipment n.e.c.	Coke, refined petroleum	
Electrical and optical equipment	Chemicals & chemical products	
Transport equipment	Basic metals & fabr. metal products	
Construction	Manufacturing n.e.c.	
Financial Institutions, Insurance	Electricity, gas and water	
	Wholesale & Retail Trade	
	Hotels & Restaurants	
	Transportation & Communication	
	Real Estate & Business Services	
	Community, Social & Personal Services	

**Transport equipment** is also recording strong growth. In recent years, Poland has managed to specialise in this sector, which is now definitely internationally competitive and export-oriented. On top of good export performance, the sector is profiting from rising internal demand, thanks to the recovery of investments and the gradual decline in massive second-hand car imports. High labour productivity makes this sector very attractive for foreign investors – the sector accounts for 6.5% of total FDI in the country. The biggest companies – Fiat, Volkswagen and Opel – are planning to expand production because of the very good results achieved to date, especially in terms of the comparative quality of produced cars. In addition, truck, bus and aircraft producers are reportedly also planning to expand their activities. We forecast 16% growth in the sector in 2006. In the coming years, despite some deceleration, growth in the sector will remain strong and above the average of the economy.

**Electrical and Optical Equipment** is technologically one of the most advanced sectors in Poland, with high labour productivity. The sector is expected to record extremely high growth in 2006 of 30%, while net profitability (measured as net profit to total revenues) is around 5%. Looking at the sub-sectors, the Manufacture of radio, television, communications equipment & apparatus and the Manufacture of electric motors and instruments for industrial process control appear to be the most dynamic. Overall, the sector is very attractive for FDI. Investors come from both Western Europe and Far Eastern countries (like Japan) and their interest on the market will most probably make Poland the European centre of liquid crystal TV and monitor production. Industrial production in the sector has recently been much higher than the manufacturing average and we expect a very strong performance in 2007 and 2008 as well: 20% and 12% respectively.

The positive performance of **Other Non Metallic Mineral Products** is to a large extent attributable to its close links with fast growing sectors, namely Construction, Transport Eq., Electrical & Optic. This industry targets the internal market as a supplier for the above-mentioned sectors. On top of that, it is also internationally competitive, especially when the former Soviet markets are considered. The sector has been able to attract significant FDI too, mainly in cement production. In 2006 high growth of 19% is materialising in the sector due to very strong domestic demand resulting from the domestic housing boom. Net profitability is also high, reaching 7.3% – well above the average in the economy. Although slowing down, we still expect strong growth in the coming years, boosted primarily by the continuing housing boom and accelerating infrastructure investments.

**Rubber and Plastic products** mainly target the internal market, both households (i.e. manufacture of plastic products like plates, packing goods, etc.) and the corporate sector (as a supplier for sectors like construction, automobiles, electrical & optical equip. and food processing for packaging). The dominating branch is tyre production. This is a competitive industry, which has been able to attract significant FDI (2.6% of total FDI). Net profitability was 5.3% in 2005, well above the average in the whole manufacturing sector. We expect high growth rates (above 10%) in terms of industrial production for 2006 and 2007, with only a slight deceleration in 2008. This positive performance is likely to be boosted by demand for mass-produced goods (motor vehicles, electronic goods, articles needed by households).

**Machinery and equipment** has grown fast in recent years, especially in 2005 when the growth of VA, at current prices, reached 9.5%. This was a result of rapid export growth and increasing domestic demand due to a recovery of investments. Net profitability is relatively stable, at over 4%. Machinery and equipment is one of the traditional Polish industries. It has attracted considerable amounts of FDI in recent years and labour productivity is higher than the economy average. Still, in the context of restructuring economic activities in a large and differentiated number of sectors, internal production is unable to satisfy domestic demand, which is covered, to a large extent, by imports. We still believe there are further opportunities for the sector in exploiting domestic market potential by supplying machinery for industrial use in the context of accelerating investment demand.

**Pulp, Paper & Paper Products; Publishing & Printing** still constitute a developing sector with strong potential. The sector is very attractive for FDI (4% of total FDI) and both paper production and newspaper publishing in particular are mostly in foreign hands. The largest companies are: ENSO Poland – Ostrołęka, MONDI Packaging Paper – Świecie, where almost 70% of their income comes from exports. As a consequence of strong FDI and investment, labour productivity is high and the industry is quite competitive. The most important firm in the local market is Agora – the publisher of the biggest Polish newspaper Gazeta Wyborcza. Overall, we expect the sector to maintain its high growth and profitability. We forecast industrial production growth of around 9% yoy in 2006, with some slight deceleration in the period 2007–2008. With strong domestic demand and consumption, sector growth will mostly be spurred by further acceleration in inward-oriented production activities.

**Financial Intermediation** in Poland has achieved high income and profit growth in recent years. In 2005 net profit grew by 29% yoy and an increase of around 20% is expected for 2006. The housing boom boosted banking sector growth while the increase in household income supports higher demand for insurance products. But this sector is still somewhat underdeveloped compared to Western European countries, indicating high growth potential in the coming years. The high share of foreign capital in the sector ensures financial stability and improvements in efficiency. Non-bank financial institutions and products (insurance, financial investments, pensions), in particular, are expected to grow faster than banking.

### Worst performers

Despite a somewhat positive performance in 2004–2006 due to rising world coal prices, **Mining and Quarrying** remains one of the worst performing sectors in Poland. Even assuming a further increase in energy prices, the relatively low wage-adjusted labour productivity, low international competitiveness and low FDI mean that the sector is still in need of further restructuring and modernisation. The only exception is metal mining (in particular copper and silver), which displays some positive prospects. Overall, we forecast a growth rate for the whole sector in terms of VA (constant prices) of around 2% yoy for the years 2007 and 2008.

**Textile and textile products** and **Leather and Leather Products** face a negative outlook for the coming years. Thanks to an acceleration of domestic consumption, some improvement in output and profitability has been observed in 2006; however, competitiveness in both sectors – strongly determined by labour costs – is still low. Poland is indeed relatively expensive compared to both Eastern Asia and other lower-income Eastern European countries (i.e. Romania), thus foreign investors interested in absolute low levels of labour costs tend to bypass the country. Still, our macroeconomic scenario with strong domestic consumption supports the view of some acceleration in sector growth in 2007 and 2008. Still, this will remain well below the average in the industrial sector.

### FDI

In 2005, foreign direct investment in Poland totalled USD 7,724 mn\*. This was USD 5,149 mn lower than in 2004 (USD 12,873 mn – down by 40%).

#### Foreign direct investment flows in 2004 – 2005 in USD mn

Year	Shares	Components of FDI inflows		Total
		Reinvested profits	Other capital	
2004	7,463	6,340	–930	12,874
2005	2,341	3,898	1,485	7,724

Source: NBP, PAIIZ

The sum of USD 7,724 mn includes resources from the capital of direct investment enterprises amounting to USD 6,239 mn, including reinvested profits totalling USD 3,898 mn, whereas the positive balance of inter-company loans was USD 1,485 mn. In 2005, however, as in the previous year, reinvested profits were the main FDI component with a share in total FDI exceeding 50% (while it was 49.3% in 2004). The much lower share purchase in 2005 than in 2004 was caused by single significant transactions. Data relative to 2006 shows some improvements in total FDI inflow for Q1–Q3 2006, during which net FDI inflow was 7.5% higher than a year previously, while some acceleration in FDI inflow can be expected in 2007. New FDI projects are still strong in the transport equipment sector (Toyota, EUR 145 million; the Spanish Grupo Antolin, a car component manufacturer, about EUR 25 million; Volkswagen, EUR 40 million; MAN Nutzfahrzeuge, EUR 90–100 million), the chemical industry (Colgate, EUR 40 million; the American-British investor Gates, around EUR 8 million), the mineral products industry (Austrian Baumit, Ceramica Marconi, Sanitec, in total around EUR 75 million). The highest increase is observed in the electrical and optical equipment sector with LG Philips (LCD investment of EUR 429 million) and other investments planned by Toshiba and Sharp. Also in the business services sector, one can observe increasing interest from foreign investors: in 2006 a Microsoft Innovation Center was opened in Poznań, KPIT Cummins Infosystems Ltd launched its European near-shore operations in Wrocław, while Accenture has opened a new delivery centre in Warsaw. Shell and Carlsberg are planning to open their financial and accounting centres in Poland in 2007. The German company Hochtief AG has invested EUR 200 million in skyscraper Rondo 1 in Warsaw.

\*) Preliminary information concerning the inflow of foreign direct investment to Poland in 2005 was prepared based on reporting data provided by commercial banks to the National Bank of Poland [NBP], on reports provided by enterprises and on our own estimates. The data on the flow of FDI, its structure and liabilities related to foreign investments are announced by the NBP, whereas PAIIZ publishes information about the presence of investors in Poland.

Table 2.1: Poland – Structural Indicators (2005)

	MARKET STRUCTURE				SECTORIAL DETAILS					
	No. of enterprises	No. of employed persons (000)	No. of employees (000)	Share of SMEs in sect. turnover %	Share in Total VA %	Exp. propensity %	Imp./AC %	Share in Total FDI %	FDI attractiveness %	
<b>TOTALS</b>	3,615,621	12,893	7,385	3,582,586	40.4	100.0	39.0	42.1	100.0	100.0
<b>Agricultural, Hunting, Forestry &amp; Fishing</b>	88,762	2,144	85	87,835		4.6	7.8	11.4	0.5	9.8
<b>Mining &amp; Quarrying</b>	2,209	185	185	2,073	2.5	2.5	20.0	55.9	0.1	4.3
M&Q of energy producing materials	248	150	150	221	2.3	1.9	26.3	64.5		
M&Q except energy producing materials	1,961	35	35	1,852	3.0	0.7	6.1	24.4		
<b>Manufacturing</b>	377,712	2,574	2,038	368,084	15.2	18.5	48.9	50.2	36.6	198.0
Food, Beverages, and Tobacco	33,759	472	393	31,811	15.9	3.1	19.6	13.6	6.0	193.5
Textiles and textile products	52,657	265	202	51,352	27.6	0.9	58.5	63.3	0.4	50.2
Leather and leather products	11,364	39	28	11,163	38.9	0.1	31.5	45.3		
Wood and wood products	40,997	144	93	40,515	28.6	0.8	42.5	21.3		
Pulp, paper & pap. prod; publishing & print	34,366	145	98	33,831	26.6	1.5	24.6	27.0	3.9	262.0
Coke, refined petroleum prod & nuclear fuel	190	16	15	167	2.6	0.5	27.4	34.0	0.1	18.6
Chemicals, chemical prod & man-made fibres	4,500	104	96	4,184	7.2	1.4	40.7	62.7	3.4	239.4
Rubber and plastic products	15,609	145	116	15,040	23.7	1.2	42.1	45.0	2.6	222.4
Other non-metallic mineral products	21,712	140	112	21,209	18.0	1.3	30.0	24.1		
Basic metals and fabricated metal products	54,656	314	245	53,447	19.1	2.2	61.4	61.8	3.2	145.7
Machinery and equipment n.e.c.	22,722	194	167	21,929	17.0	1.4	77.5	83.9	1.8	131.8
Electrical and optical equipment	31,249	184	149	30,652	14.9	1.4	72.6	79.8	1.1	81.2
Transport equipment	8,816	182	166	8,388	4.0	1.8	92.4	89.0	6.5	363.1
Manufacturing n.e.c.	45,115	230	158	44,396	20.3	1.0	72.6	43.2		
<b>Electricity, Gas &amp; Water</b>	3,666	218	218	3,044	4.3	3.7	2.6	0.4	3.4	92.0
<b>Construction</b>	358,018	602	324	355,800	48.5	6.1			1.8	29.2
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	1,300,124	2,250	945	1,296,120	56.3	20.2			19.0	94.0
Wholesale & Retail Trade	1,185,282	2,031	853	1,181,585	56.1	19.0			18.5	97.2
Hotels & Restaurants	114,842	220	92	114,535	65.7	1.2			0.5	43.8
<b>Transport, Storage &amp; Communication</b>	261,520	707	497	260,561	35.8	7.2			7.9	109.4
Transport & Storage	255,718	544	346	254,815	48.9	4.2			2.0	47.6
Communication	5,802	163	152	5,746	8.1	3.1			5.9	192.9
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>	713,143	1,230	765	709,934		17.8			30.4	170.5
Financial Institutions	16,122	183	182	15,823		2.3			16.1	687.9
Insurance	816	82	30	781		1.2			3.6	309.4
Activities auxiliary to financial intermediation	112,428	17	11	112,378		0.6			0.6	90.8
Real Estate & Business Services	583,777	948	542	580,952	58.9	13.7			10.0	73.5
<b>Community, Social &amp; Personal Services</b>	510,467	2,984	2,328	499,135	53.1	19.3			0.4	2.0

Sources: CONCISE STATISTICAL YEARBOOK of the Republic of Poland 2005; table 288; CONCISE STATISTICAL YEARBOOK of the Republic of Poland 2006  
CENTRAL STATISTICAL OFFICE, Polish Information & Foreign Investment Agency. Calculated by Macroeconomic Research Office – Bank Pekao SA  
See ANNEX for explanations of the indicators

Table 2.2: Poland – Structural Indicators (2005) (continued)

	RCA %	COMPETITIVENESS			CONSTRAINTS	
		Labour productivity (PLN)	Avg. personnel costs (monthly, PLN)	Wage adjus. labour productivity	Total indebtedness %	Bank indebtedness %
<b>TOTALS</b>	100.0	66,987	2,380	2.35	40.6	10.4
<b>Agricultural, Hunting, Forestry &amp; Fishing</b>	74.8	18,701	2,341	0.67		
<b>Mining &amp; Quarrying</b>	22.4	119,032	4,347	2.28	27.8	1.7
M&Q of energy producing materials	22.3	108,473	4,296	2.10	28.1	0.9
M&Q except energy producing materials	23.0	164,286	4,566	3.00	27.2	3.0
<b>Manufacturing</b>	107.9	62,041	2,112	2.45	42.9	12.2
Food, Beverages, and Tobacco	176.3	56,592	1,939	2.43	47.2	17.2
Textiles and textile products	93.0	27,693	1,331	1.73	44.9	12.2
Leather and leather products	63.1	28,718	1,321	1.81	50.4	10.7
Wood and wood products	311.1	46,417	1,472	2.63	40.1	18.8
Pulp, paper & pap. prod; publishing & print	100.2	89,889	2,732	2.74	41.0	11.6
Coke, refined petroleum prod & nuclear fuel	83.1	270,685	4,579	4.93	25.0	6.7
Chemicals, chemical prod. & man-made fibres	46.5	117,356	3,298	2.96	30.3	10.3
Rubber and plastic products	101.2	69,846	2,107	2.76	42.2	13.7
Other non-metallic mineral products	154.0	77,906	2,177	2.98	40.2	13.2
Basic metals and fabricated metal products	111.8	60,694	2,162	2.34	41.2	9.7
Machinery and equipment n.e.c.	74.9	60,410	2,423	2.08	45.4	9.0
Electrical and optical equipment	76.3	65,415	2,453	2.22	52.7	10.5
Transport equipment	169.9	85,327	2,570	2.77	53.8	10.3
Manufacturing n.e.c.	395.3	39,173	1,589	2.05	49.8	15.6
<b>Electricity, Gas &amp; Water</b>	840.4	146,485	3,285	3.72	24.9	9.6
<b>Construction</b>		86,925	1,909	3.79	54.1	7.7
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>		77,590	1,885	3.43	55.8	12.2
Wholesale & Retail Trade		80,784	1,926	3.50	56.5	11.8
Hotels & Restaurants		48,061	1,505	2.66	39.9	20.3
<b>Transport, Storage &amp; Communication</b>		88,286	2,593	2.84	47.6	6.2
Transport & Storage		65,886	2,353	2.33	54.7	8.2
Communication		163,305	3,398	4.00	41.0	4.4
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>		125,076	2,918	3.57		
Financial Institutions		110,601	3,965	2.32		
Insurance		123,735	5,092	2.02		
Activities auxiliary to financial intermediation		324,850	4,657	5.81		
Real Estate & Business Services		124,468	2,497	4.15	26.5	10.7
<b>Community, Social &amp; Personal Services</b>		55,899	2,502	1.86	48.3	9.2

Sources: CONCISE STATISTICAL YEARBOOK of the Republic of Poland 2005; table 288; CONCISE STATISTICAL YEARBOOK of the Republic of Poland 2006; CENTRAL STATISTICAL OFFICE, Polish Information & Foreign Investment Agency. Calculated by Macroeconomic Research Office – Bank Pekao SA  
See ANNEX for explanations of the indicators

# Romania

## Economic framework

Since the beginning of the 21st century, Romania has achieved significant macroeconomic stabilisation with a strong rebound in economic activity and annual average growth of 5.1%. The favourable outlook is set to continue – we currently project real GDP growth of 7.4% for 2006 and we expect it to stay above 5% in the coming years. Robust private consumption spending (albeit slowing) and accelerating investments will continue to be the country's main engine of growth. In 2006 conditions for investments improved significantly compared to the previous year, with institutional progress made in the fields of building permits, labour regulation and cross-border trading\*. The favourable business environment is also assured by the low rate of corporate tax (16%), improving infrastructure and relatively high labour productivity adjusted for labour costs. Encouraging prospects are expected in the medium term on the back of EU accession and sustained inflows of FDI, which play a significant role in deepening industrial integration and influencing the trade structure. In 2007–2013, Romania is expected to receive some EUR 31 bn of structural funds. Though there are some concerns regarding the efficiency of using these funds, they do represent an incentive for both local governments and the business sector to further increase investments.

\* World Bank – “Doing business” (2007)

## Best performers

The **wood & wood products** industry is one of the most promising sectors in the country, as Romania continues to benefit from the widespread availability of this natural resource, covering slightly over ¼ of its geographical territory. Exports are the main driver of the sector's growth, with logs, saw-milling products and consequently timber, wood chips and fibreboards being the main products offered to foreign markets. Export propensity is one of the highest in the manufacturing sector, while FDI inflows have been low so far, as forest exploitation remains a state business and private companies are only offered restricted and limited concessions to cut wood. A new legal framework, however, is currently under discussion, aiming to bring an institutional and more flexible market structure alongside increased transparency regarding prices and volumes for acquisition of timber. International groups dominate the saw-milling segment and an improvement in FDI inflows is expected in the coming years. New projects concerning wood processing are already in the pipeline, such as the ones of Holzindustrie Schweighofer and Fritz Egger (Austrian companies). Taking into account the potential of the sector in attracting new FDI and developing higher value-added production, as well as its tight links with the booming construction industry, the sector is expected to grow in the coming years, driven both by external and domestic demand.

Table 1.1: Best performers and worst performers

BEST	STABLE	WORST
Wood & Wood Products	Agriculture, Hunting, Forest. & Fishing	Mining & Quarrying
Manufacturing n.e.c.	Food, Beverages & Tobacco	Textiles & Textile Products
Construction	Pulp, paper & paper prod.; Publish. & Printing	Leather & Leather Products
Other Non-metallic Mineral Prod.	Coke, Ref. Petroleum Prod. & Nuclear fuel	
Electrical & Optical Equipment	Chemicals & Chemical Products	
Transport Equipment	Rubber & Plastic Products	
Communication	Basic Metals & Fabricated Metal Products	
Wholesale & Retail Trade	Machinery & Equipment	
Financial Inst., Insurance, Real Estate & Business Services	Electricity, Gas & Water	
	Hotels & Restaurants	
	Transportation & Storage	
	Community, Social & Personal Serv.	

Benefiting from major natural resources of wood, the **furniture manufacturing industry** – the main component of **Manufacturing n.e.c.** – shows promising prospects for the coming years as well. The industry is extremely export oriented. Romania is an important production base for large international players, who are present either directly or indirectly in this relatively low-cost country, very close to the target market of the large wealthy eurozone. However, market potential is also increasing domestically. International companies like IKEA Group/Sweden or Groupe Parissot/France are further expanding their presence in the country, not only by establishing production bases but also by developing large retail stores. In the domestic market, these players compete with other large-scale, integrated fully-private local companies or groups (like Elvila, Silvarom, or Mobexpert). However, with still more than 3,000 SMEs operating in the market we also foresee continued concentration in the sector, accompanied by some inevitable bankruptcies after EU accession. In order to remain competitive in the long run, a gradual shift to higher value-added production as well as a focus on design improvements and marketing strategy implementation is a must for the industry. Still, compared to other very low-cost countries in the Far East, Romania will continue to benefit from its proximity to the eurozone market. The whole Manufacturing n.e.c. sector will be one of the best performers in the economy, taking into account the positive development of the waste recycling segment as well. As Romania is putting everything in place to comply with EU directives, there is much market potential in this field too.

Retail outlets set up by large multinational companies, demand for corporate offices, increasing demand for accommodation offering high living standards as well as large infrastructure projects (roads, motorways and utilities) initiated by the state have driven the **Construction** sector upwards in recent years. We forecast strong growth for the foreseeable future: starting with 2007, the Romanian state has an ambitious long-term programme for road rehabilitation and motorway construction, co-financed partly by the EU. Moreover, investment plans announced for the retail segment (malls, outlet networks and dwellings), corporate demand for logistic centres and offices are contributing to solid growth for the industry (over 10% in terms of real Value Added both in 2007 and 2008).

Boosted by the positive performance of the Construction industry, manufacturing of **Other non metallic Mineral Products** has recorded strong growth in recent years. The sector has been among the main targets of international groups since the mid

1990s as Romania benefits from both natural resources and output capacities. Starting with HeidelbergCement (Germany, cement-concrete), Wienerberger (Austria, bricks), Lasselsberger (Austria, ceramic tiles), Carmeuse (France, lime) or Saint-Gobain (France, glass), foreign companies entered the market by acquiring existing companies or by developing greenfield projects. The strong development of the construction industry expected in the coming years will continue to have a positive spillover effect on this sector too. Just like the construction industry, there is a risk of a shortage in raw mineral materials in the long run, but officials are already considering concessions for new quarries. The lack of a qualified labour force may create some difficulties if it is not properly addressed.

**Electrical & Optical Equipment** is one of the growing sectors in Romania. The industry recovered at a slow pace during the 1990s but accelerated between 2003 and 2005 in terms of both output and exports (mainly to EU markets), thanks also to the entry of new and competitive foreign investors, especially in the fields of electrical equipment, measurement & checking instruments and telecommunications equipment. A few local entrepreneurs still assemble PCs (by importing IT) and are competitive on the internal market. In the coming years we foresee continued growth in the sector, but especially where the involvement of foreign capital is greater, supported by ongoing investment in research activities and high-tech product development.

Certain traditions in the country and the cheap labour force are still the main factors of strength in the **Transport equipment** sector. However, some branches, like motor vehicles and shipping, are performing very well, while others (aircraft and railways) are characterised by disappointing results. Automobiles is the most important segment. Aside from Renault (which entered the market by acquiring the local brand Dacia), worldwide companies making spare parts for the automotive industry invested in Romania mainly through greenfield projects. Being export oriented, the car industry's results in terms of revenues have been quite astonishing in recent years. Looking at the other segments, shipyards have benefited lately from the good management practices introduced by foreign owners (Akker Brattvaag – Norway, Damen Shipyard Group – Netherlands, Daewoo International Co. – South Korea). Additionally, the booming of China and other Asian economies has increased the demand for industrial goods to be delivered by shipping, while new international safety transportation rules have increased orders for new vessels. In terms of railways, only Astra Vagoane Arad (railway wagons, Trinity Rail Group

USA) can be considered a successful privatisation story in the railway industry. Together with the aircraft industry, the railway sector still needs to be modernised and restructured.

Under services, **Communication** offers a huge growth potential in the country based on the large population, increasing personal income and living standards. The sector is partially privatised. Both the Romanian State and private (foreign and local) companies are jointly active in the Communications sector, particularly in the case of Posta Romana (postal services), Radiocomunicatii Bucharest (broadband market) and Romtelecom Bucharest (main fixed-line telephone company), where the State owns the majority stake (49% in Romtelecom) and privatisation is still to be completed. The mobile phone communications market is already shared between international groups such as Vodafone Group UK, France Telecom and Cosmote Greece, but it still offers huge potential in terms of penetration and development both in rural areas and smaller towns. This is also true for the CATV (CableTV) and internet businesses, which have low territorial coverage. Currently, the Romanian state is offering the last two 3G mobile licences, while the situation surrounding the issue of interconnection tariffs is still unclear. The fixed-line telephony market represents an investment opportunity as only CATV/internet companies provide such a service – other than Romtelecom, which, however, operates as a monopoly.

Increasing average net salaries and the development of credit consumption facilities support the performance of the **Wholesale and Retail trade** business as a whole. Focusing on retail trade, FMCG (fast moving consumer goods) retailers in the form of discounters, discounter-hypermarkets, supermarkets or penny concepts are to be established mainly in the countryside, while commercial malls are expected to be developed in the larger cities. European players like Lidl & Schwarz/Germany, REWE Zentral AG/Germany, Auchan/France, Tengelmann/Germany, Real/Germany, and Spar/the Netherlands, are already competing strongly for a share in the retail consumer market. On the other hand, players already present like Delhaize Louis Groupe/Belgium and Hyparlo/France are planning to develop their existing networks further. Even large “do-it-yourself” stores (BauMax/Austria, Mr. Bricolage/France) are aiming for a foothold in the country.

**Financial Institutions, Insurance, Real Estate & Business Services** as a whole show very good prospects for the coming years. As far as the **banking market** is concerned, the privatisa-

tion process is close to completion (88% already in foreign hands) and a second wave of consolidation is expected after Romania enters the EU in 2007. We predict healthy growth in the medium term as retail consumption will be the main driver of the banking system, with high potential in the countryside where banks are not as prevalent. Dominated by the commercial banks, the **leasing market** potential lies in re-balancing the market structure as vehicle leasing accounts for around 80%, with equipment and real estate leasing covering the remainder. We forecast a positive outlook for the **insurance and pension funds market** too, as in 2007 insurance will become compulsory for all residential properties, while 2008 will witness the launch of the private pension system. Because of weak capital market capitalisation and poor alternatives in investment products, the **investment funds market** will maintain the same pace of growth envisaged so far, without any major changes.

### Worst performers

Despite Ministry of Economy and Commerce efforts to increase coal output steadily to compensate for increasing natural gas imports in order to face the more demanding internal consumption of energy resources, the prospects for the **mining of energy materials** are not good. The poor energetic intensity of Romanian coal, the huge investments needed to improve the economic efficiency of the coal mines and historical financial debts make this segment particularly onerous for public finance. According to the WB-Romanian State common programme, inefficient pits and mines have been closed since 1998, while for viable coal and metal exploitation the Romanian State is inviting potential investors to enter the market through economic and financial partnerships with the State. The situation regarding petroleum and natural gas extraction is slightly different. Privatisation in these segments is well underway, with the aim of building more competitive markets. The **Mining and quarrying of building materials** is also in better shape as concessions have been given by the Romanian State to private investors, either local or foreign, while their economic and financial efficiency is more or less directly linked with the boom in the construction sector. On the whole, however, Mining & Quarrying has a negative outlook, due to its low profitability overall and the absence of competitiveness on the international markets.

Despite a long tradition, the wide range of products and the highly skilled labour force, the **textile sector** in Romania is going through a tough period having to face increasing competition from Asian textiles. On the whole, the sector is still competitive

on international markets, but its main weakness comes from the fact that it is structured very much on a contract-work system (with foreign companies outsourcing part of the production process to local enterprises), especially in the garments segment. Consequently, imports consist mainly of raw-intermediate materials like yarns and fibres, while exports are mainly final products like garments and fabrics. For the same reason, the level of FDI also looks very low. With Far Eastern countries becoming increasingly attractive for international players willing to have a production base abroad, the industry is expected to suffer from this development. The sector is confronted with utility price increases, labour migrating to better paid markets and high investments needed for environmental protection under EU industry standards. Unless the Romanian textile sector is able to recover by developing its own industry for fibres and yarns (and thus reduce dependence on imports) we prefer a negative outlook in the medium to long term.

**Leather & leather products** very much resemble the textile industry. Local consumers prefer cheaper footwear and leather products imported from Asian countries. Well-known foreign groups are present in Romania, but they often produce goods through contract-work systems – especially footwear – and for export to Western markets. Again, raw material – leather – is imported almost in its entirety as Romania has no tanning industry. Facing tough competition and a more demanding clientele in terms of quality and the range of products, the leather sector also has to meet EU criteria for an environmentally healthy industry.

### **FDI and privatisations**

The privatisation process, combined with lower corporate taxation (16% since 2005), tight monetary policy, decreasing inflation (from 54.8% in 1999 to 8.6% in 2005) and backed by real business opportunities through either natural resources and/or the skilled and low-cost labour force, has attracted much FDI to the country, peaking to date in 2004 and especially in 2005.

Privatisation was the main tool used to restructure and increase the efficiency of the Romanian economy. State assets were sold, particularly in sectors like metallurgy, construction materials, banking services or public utilities.

FDI entered Romania in 2005, firstly through privatisations in public utilities distribution such as natural gas – D.G.N. Distrigaz Sud SA Bucuresti (Gaz de France), E.ON Gaz Romania SA Tg-Mures (E.ON Ruhrgas AG, Germany) – and electricity retail – Electrica Oltenia SA Craiova (ČEZ a.s., Praha), E.ON Moldova SA Bacau (E.ON Energie AG, Germany). Then, companies like A&D Pharma Holdings SA Nederlanden (Sograno B.V. Nederlanden, Pharmaceuticals), Kaufland Romania SCS (Lidl & Schwarz, Germany, Hypermarket), and UPC Romania SA Bucuresti (Metro-Goldwyn-Mayer Inc. USA, TV cable system) bought up large interests in shareholders' capital. Foreign greenfield investments amounted to EUR 1.42 bn, with the main targeted sectors being telecom (22.6%), wood/cellulose/paper (13.3%), and services (12.1%). Even important projects like the ones from Graells & Llonch, Spain (Industrial park), Renault France (Automotive), Egger Austria (Wood processing), and Schweighofer Austria (Wood processing) – to be completed in the next few years – have been recorded.

The privatisation process has yet to be concluded and privatisations are still to be completed in public utilities distribution (gas, oil and electricity), salt and gas exploration, public transportation, banking services and pharmaceuticals. FDI in 2006 is expected to reach a record level of around EUR 8.0 bn according to the Romanian Agency for Foreign Investments (R.A.F.I.). This seems to be an accurate estimate as EUR 4.9 bn was already invested in the first 8 months of the year (according to R.A.F.I.).

### **EU convergence**

EU entry in 2007 will have a significant impact on Romania's economic sectors. While construction is expected to benefit from EU structural funds, and financial services will enjoy the larger market potential, more traditional sectors may suffer because of increasing competition. Some agricultural firms, for example, as well as SMEs operating in the food industry, may struggle to survive in attempting to comply with EU sanitary and health standards. Indeed, transitional measures on export bans regarding certain food products of animal origin are going to cause trouble for both the Food industry and Agriculture, though the long-term prospects of both these industries remain positive. Wage structures and high EU environmental standards will be a burden for the leather and textile industries.

Table 2.1: Romania – Structural Indicators (2004)

	MARKET STRUCTURE				SECTORIAL DETAILS							
	No. of enterprises	No. of employees	Top 5 turn-over/total sect. turn-over %	Number of SMEs	SME VA in sect. VA – %	Share in Total VA %	Exp. propensity %	Imp./AC %	Share in total FDI (2005) %	FDI attractiveness %	Stock of FDI/tot. liabilities %	Capital intensity (2003) %
<b>TOTALS</b>	410,495	4,169,583		408,469	46.1	100.0	35.2	46.3	100.0	100.0	12.6	24.1
<b>Agricultural, Hunting, Forestry &amp; Fishing</b>	11,794	140,253	23.6	11,745	51.9	14.3	16.2	23.1	–	–	–	0.2
<b>Mining &amp; Quarrying</b>	616	144,497		584	3.2	1.7	1.4	49.3	7.3	105.3	20.8	–
M&Q of energy producing materials	113	117,022	93.5	98	1.2	1.1	0.0	47.2	–	–	–	–
M&Q excluding energy producing materials	503	27,475	38.3	486	24.1	0.6	19.4	66.5	–	–	–	–
<b>Manufacturing</b>	55,305	1,669,145		54,080	36.2	23.7	54.2	64.2	37.3	134.8	22.5	52.3
Food, Beverages and Tobacco	10,917	203,578	14.5	10,792	38.5	7.1	4.0	17.7	6.5	167.9	22.1	–
Textiles and textile products	8,174	405,490	9.7	7,820	42.1	2.3	155.9	205.2	2.6	55.5	17.3	–
Leather and leather products	2,057	109,880	12.3	1,970	52.9	0.6	187.1	329.8	–	–	–	–
Wood and wood products	7,280	89,444	15.8	7,240	67.1	1.1	58.4	31.5	2.8	119.9	18.2	–
Pulp, paper & pap. prod.; publishing & print	4,790	50,392	14.4	4,769	68.6	0.9	11.8	35.7	–	–	–	–
Coke, refined petroleum prod. & nuclear fuel	23	8,671	94.6	15	6.0	1.0	57.5	42.8	4.1	74.5	7.5	–
Chemicals, chemical prod. & man-made fibres	1,221	55,722	47.2	1,180	34.9	1.1	40.4	75.0	–	–	–	–
Rubber and plastic products	2,237	44,001	28.3	2,213	48.4	0.8	35.0	64.2	–	–	–	–
Other non-metallic mineral products	2,360	70,761	26.6	2,292	27.9	1.1	16.1	28.6	3.2	173.9	37.3	–
Basic metals and fabricated metal products	5,729	163,311	46.7	5,638	23.6	2.1	57.4	52.7	8.2	236.5	41.8	26.3
Machinery and equipment n.e.c.	1,469	124,647	24.7	1,348	24.9	1.2	75.5	89.6	1.6	83.1	13.1	396.9
Electrical and optical equipment	2,423	90,324	19.1	2,353	30.7	1.3	113.3	113.8	1.8	124.8	26.4	179.8
Transport equipment	947	125,919	42.1	856	13.3	2.0	47.0	64.7	5.1	194.1	27.2	228.2
Manufacturing n.e.c.	5,678	127,005	11.0	5,594	59.4	1.3	44.6	34.0	1.4	75.8	14.5	26.0
<b>Electricity, Gas &amp; Water</b>	478	162,842	43.0	364	4.2	2.8	1.0	1.0	4.2	–	–	–
<b>Construction</b>	25,389	376,938	5.8	25,199	87.3	6.7	–	–	0.8	20.2	1.1	165.9
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	208,436	898,889		208,290	81.8	12.0	–	–	15.2	82.8	9.7	–
Wholesale & Retail Trade	191,196	797,608	5.8	191,077	83.0	10.2	–	–	15.0	88.4	10.3	–
Hotels & Restaurants	17,240	101,281	10.9	17,213	67.9	1.8	–	–	0.2	14.3	1.8	–
<b>Transport, Storage &amp; Communication</b>	25,119	350,700		25,015	22.1	11.1	–	–	12.2	79.4	12.5	–
Transport & Storage	22,705	268,589	24.0	22,620	35.4	7.7	–	–	1.3	13.8	1.7	–
Communication	2,414	82,111	76.4	2,395	6.4	3.4	–	–	10.9	156.5	35.6	–
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>	65,402	324,276		65,269	84.2	13.2	–	–	22.2	176.7	27.2	7.2
Financial Institutions	2,579	14,055	31.0	2,577	93.8	–	–	–	–	–	–	–
Insurance	1,603	1,821	25.5	1,603	100.0	2.1	–	–	14.5	637.6	80.6	–
Real Estate & Business Services	61,220	308,400	5.2	61,089	82.0	11.1	0.0	0.1	7.7	72.1	11.6	8.5
<b>Community, Social &amp; Personal Services</b>	17,956	102,043	28.8	17,923	62.6	14.4	0.9	3.7	–	–	–	–

Note: FDI relative to wood & wood products include also the one relative to the furniture industry.  
Sources: National Institute of Statistics, National Bank of Romania, Unicredit Romania – Research  
See ANNEX for explanations of the indicators

Table 2.2: Romania – Structural Indicators (2004) (continued)

	RCA (2005) %	COMPETITIVENESS			CONSTRAINTS	
		Labour productivity (yearly, RON)	Avg. personnel costs (yearly, RON)	Wage adjus. labour productivity	Total indebtedness %	Bank indebtedness (excluding SMEs) %
<b>TOTALS</b>	100.0	22,379	11,162	2.00	69.8	10.8
Agricultural, Hunting, Forestry & Fishing	127.7	14,266	8,574	1.66	88.2	10.7
Mining & Quarrying	1.8	49,960	22,553	2.22	45.9	2.0
M&Q of energy producing materials	0.0	56,392	23,864	2.36	43.6	2.0
M&Q excluding energy producing materials	15.4	22,564	16,972	1.33	76.6	2.6
<b>Manufacturing</b>	<b>115.1</b>	<b>18,964</b>	<b>10,644</b>	<b>1.78</b>	<b>68.0</b>	<b>12.2</b>
Food, Beverages and Tobacco	26.6	20,126	9,601	2.10	72.1	19.3
Textiles and textile products	191.9	11,070	7,894	1.40	69.0	14.1
Leather and leather products	206.2	10,362	7,620	1.36	66.8	5.8
Wood and wood products	411.7	14,127	6,578	2.15	82.7	38.7
Pulp, paper & pap. prod; publishing & print	29.3	26,971	11,884	2.27	67.2	12.4
Coke, refined petroleum prod. & nuclear fuel	610.2	35,328	26,580	1.33	107.7	4.6
Chemicals, chemical prod. & man-made fibres	60.4	31,324	16,238	1.93	73.2	15.1
Rubber and plastic products	51.5	26,595	10,740	2.48	63.0	27.4
Other non-metallic mineral products	55.0	30,395	11,885	2.56	44.9	7.2
Basic metals and fabricated metal products	163.7	31,816	14,233	2.24	53.1	7.1
Machinery and equipment n.e.c.	71.2	16,421	13,605	1.21	73.1	7.5
Electrical and optical equipment	78.1	23,889	13,461	1.77	61.9	8.4
Transport equipment	79.3	21,832	14,915	1.46	62.7	9.2
Manufacturing n.e.c.	288.8	14,042	8,058	1.74	70.3	10.9
<b>Electricity, Gas &amp; Water</b>	<b>286.7</b>	<b>35,756</b>	<b>17,979</b>	<b>1.99</b>	<b>44.7</b>	<b>8.6</b>
<b>Construction</b>	<b>-</b>	<b>13,515</b>	<b>9,786</b>	<b>1.38</b>	<b>94.3</b>	<b>9.4</b>
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	<b>-</b>	<b>18,463</b>	<b>8,004</b>	<b>2.31</b>	<b>79.9</b>	<b>12.1</b>
Wholesale & Retail Trade	-	19,231	8,115	2.37	80.7	10.4
Hotels & Restaurants	-	12,419	7,135	1.74	68.4	31.9
<b>Transport, Storage &amp; Communication</b>	<b>-</b>	<b>39,225</b>	<b>16,349</b>	<b>2.40</b>	<b>69.6</b>	<b>12.5</b>
Transport & Storage	-	27,683	13,689	2.02	82.2	12.5
Communication	-	76,980	25,051	3.07	42.6	12.5
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>	<b>-</b>	<b>27,701</b>	<b>11,309</b>	<b>2.45</b>	<b>70.2</b>	<b>31.3</b>
Financial Institutions	-	118,457	16,274	7.28	81.1	52.0
Insurance	-	13,686	2,978	4.59	52.6	-
Real Estate & Business Services	25.0	23,647	11,132	2.12	67.1	14.4
<b>Community, Social &amp; Personal Services</b>	<b>50.4</b>	<b>21,432</b>	<b>10,784</b>	<b>1.99</b>	<b>72.2</b>	<b>9.5</b>

Sources: National Institute of Statistics, UniCredit Romania – Research  
See ANNEX for explanations of the indicators

# Slovakia

## Economic framework

The recovery of economic growth in 2006/07 is mainly driven by the supply-side shock of launching new FDI-based operations. The strong appreciation of the Slovak koruna accompanying this trend should not harm the export performance of the leading industries significantly, as these are global companies and immune to foreign exchange risks. Monetary conditions are expected to stay balanced – with the koruna strengthening and some interest rate relaxation – which should represent a favourable mix for investment activities in the country. After net exports, investing activity will therefore play the largest role in contributing to GDP growth. Inflation should diminish continuously at the same time, towards 2% in late 2007 and early 2008. The key policy target – adoption of the euro planned for 2009 – is by itself expected to be favourable for the production industries due to the related disinflation, decreases in interest rates and to fiscal tightening. These factors should at least partially offset the extra costs that mainly SMEs are expected to be confronted with in relation to the introduction of the euro. The stable (though not yet fully business-friendly) political environment, controlled labour cost growth and spillover effects from the already existing FDI are cre-

ating good preconditions for further investment inflows, which will also gradually target more sophisticated service sectors.

## Best performers

The **manufacture of motor vehicles** shows the brightest prospects, not only inside the **Transport Equipment** industry but throughout the Slovak economy as a whole. Indeed, country growth is expected to be driven mainly by the automotive sector (and corresponding suppliers) in the coming years.

The launch of a new kind of car production by Volkswagen Slovakia (still the most significant player in the automotive cluster) caused a temporary decline in sectoral production in 2004 and especially 2005. Turnover fell by 6.3%, employment by 5.6% and exports by 16.0% over the two years. Despite this, nominal VA recorded growth both in 2004 and 2005 (3.6% and 5.8% respectively), reflecting the greater focus on off-road production (while previously production was mainly concentrated on the small cars segment). The Bratislava plant is thus now, within the VW group, a main producer of off-road cars (beside the VW Touareg their production range also includes the Audi Q7 and partially the Porsche Cayenne).

Table 1.1: Best performers and worst performers

BEST	STABLE	WORST
Transport equipment	Agriculture, Hunting, Forestry & Fishing	Mining & Quarrying
Electrical & optical equipment	Food, Beverages & Tobacco	Leather & leather products
Machinery and equipment n.e.c.	Textiles and textiles products	
Basic metals and fabric. metal products	Wood and wood products	
Rubber and plastic products	Pulp, paper & pap. prod.; publ. & print.	
Construction	Coke, refined petroleum products	
Manufacturing n.e.c.	Chemicals and chemical products	
	Other non-metallic mineral products	
	Electricity, Gas & Water	
	Wholesale & Retail trade	
	Hotels & Restaurants	
	Transport & Storage	
	Communication	
	Real estate & Business services	

The launch of production in the PSA plants (since May 2006) and KIA (projected for December 2006) together with the enlargement of production in existing VW plants, are creating very good prospects for the car production segment, including related suppliers. An increasing number of new car plants is being opened in 2006 and 2007, as planned, bringing the production of cars to about 900,000 in 2009 (compared to about 200,000 at present).

With 88% of Slovak production in the automotive sector being exported, this means the country's performance is dependent on international (and European) demand for cars. Though we forecast some deceleration in European growth in the years to come, European demand should remain lively, thus supporting growth of the Slovak economy. Moreover, the diversification of production – from small cars (PSA and partially VW) to the medium-size segment (KIA) and the high-end segment represented by off-roads (VW and KIA) – should at least partially minimise any potential global car demand shocks in the short term. Other segments inside the Transport Equipment industry do not present such optimistic scenarios. While shipbuilding is represented by the traditional SLKB in Komarno and is relatively stable, the railway wagon production represented by Tatravagonka Poprad, ZOS Trnava and ZOS Vrutky is struggling with several problems (even if it remains a dominant European producer of railway cargo wagon chassis).

The manufacture of **electrical & optical equipment** is the second driver of the Slovak economy. The sector benefits from both the automotive boom and from consumer electronics production, mostly through the two strong players of Samsung and Sony. Slovakia is a strategic country for both these companies. While Samsung opened a new plant there to produce LCD panels as well as establishing a logistics centre for the whole of Europe, Sony has announced an enlargement of its activity in the country (it is going to invest in a new, bigger plant in Nitra, while closing the old one in Trnava). Driven both by cars and consumer electronics the sector recorded almost 25% growth in terms of VA, at current prices, from 2003 to 2005, while turnover grew by 77% and employment by 9.5% in the same period. This sector occupied first place in the country's exports for a while (in Q4 2005 and Q1 2006), almost doubling the volume of exports as compared to 2003, but benefiting also from the temporary slowdown of car exports (due to the above-mentioned production changes). Very good performance is expected in the coming years too, even if there are doubts regarding the competitiveness of the segment in relation to small automotive parts (e.g.

cable production) because of the potential shift of production to countries with lower labour costs.

**Machinery, Basic Metals and Rubber & Plastic** also number among the fast growing sectors in the economy, based on the very positive development of the automotive industry, but also the good prospects in the non-automotive sub-segment, such as the production of machinery for other business/investment activities in the country or the production of components for household appliances.

Backed by a peak in the economic cycle, the **construction sector** is clearly undergoing a boom phase, driven by both corporate investments and residential building. These are both expected to remain strong in the future, boosting construction activities for some years to come. Public construction is also expected to grow, particularly thanks to motorway construction backed by EU funding – 28.2% (€ 3.2 bn) of EU funds in the period 2007–2013 is planned to be used in infrastructure (mainly motorway and railway construction). Such a boom will impact positively on the construction materials sub-segment too (other non-metallic mineral products), as well as quarrying. Residential and corporate building projects can also be drivers for furniture production, the most relevant segment inside **Manufacturing n.e.c.** Sufficient wood resources, foreign capital imports as well as a sound tradition in production further strengthen the good prospects for this sector in the coming years. Among the other segments in the Manufacturing n.e.c., recycling is expected to generate above-average growth, driven by pressures for ecological production.

### **Worst performers**

**Mining and quarrying** have been in recession over the last few years – mainly in terms of industrial production. Problems mostly concern the mining of energy materials (especially coal mining), while the quarrying of stone, as mentioned, is benefiting from the construction boom and still promises relatively good prospects. Despite the production and employment decline, the sector was able to increase nominal VA as well as turnover last year, benefiting from increasing global commodity prices. This favourable price development also had a positive impact on profitability, though almost 44% of companies recorded a loss in 2005. Such bad financial results increased the number of non-performing loans in the sector. The prospects for the sector as a whole, driven by the sub-segment of energy materials, remain negative and growth is expected to fall short of the average for the economy.

The Leather and Textile industries are under hard competitive pressure, having to face up to an Asian threat. Although the still relatively cheap workforce makes both sectors more competitive vis-à-vis other EU members, a gradual shift of production towards Eastern countries, with lower labour costs, is likely. While the textile industry has so far proved to be highly sensitive to pressures coming from Asia, most recently the automotive boom is bringing a more optimistic outlook for the sector. Technical textiles (driven by the automotive sector) should compensate (at least partially) for the expected decline in the clothing industry. This prompted us to change our outlook for textiles from Worst to Stable, even if a selective approach is still needed in the sub-segment of clothing (which still has a negative outlook). On the other hand, the **leather industry**, which generally showed a better performance in the past, benefiting from the inflow of foreign capital, is now suffering more. Further foreign investments in shoe production are not expected and, taking into account the persistent import pressure from Asia, the outlook of the sector remains negative.

### FDI and privatisations

Privatisations have been taking place in several sectors over recent years, with international buyers playing a dominant role. There is no company controlled by local capital among the TOP 10 (even if the state still enjoys a capital majority in some companies, e.g. SPP, foreign investors dominate top management), while there are only 10 companies in the TOP 50 (ranked by turnover) controlled by domestic forces.

However, political changes after the 2006 elections will most likely stop any further privatisations. The new government decided not to privatise strategic companies (generally in the power industry and transportation). The planned privatisations of cargo railway transportation as well as of the heating plants or the remaining shares in power distribution companies were can-

celled. At the same time, as the Antitrust office failed to approve the concentration of the airports in Vienna and Bratislava, the new government cancelled the privatisation of Bratislava's airport. Kosice's airport was sold to Vienna's airport instead, as planned.

New foreign direct investment is still expected, mainly in the automotive cluster (smaller supplier companies). Slovakia remains attractive for investors in electrical equipment too (e.g. further expansion of Sony and Samsung). However, higher investments are expected in some services sectors as well – in telecommunications (the 3rd mobile operator will start to provide services from 2007), in business services (still focused mainly on Bratislava, only partially on Košice) and in leisure and tourism services. The water utilities currently owned by the municipalities (and some of them already in foreign hands) could be attractive for foreign investors as well. Nevertheless, the inflow of FDI should gradually slow down in the coming years.

So far, most investments have been directed at the Western and North-Western parts of the country. Future investment inflow – also in other areas of the country – is conditional on the development of infrastructure facilities, in particular an increase in motorway and railway density. Motorway density was 6.5 km/1000 km<sup>2</sup> in 2004 and Slovakia thus occupied second place among the V4 countries. EU funds (Structural as well as Cohesion) or public-private partnerships (PPP) could help to speed up the building of motorways (however, the new government has temporarily stopped new PPP projects). For railways, the modernisation of all four international corridors (IV – Kúty-Bratislava-Štúrovo, V – Bratislava-Žilina-Čierna to Tisou, VI – Čadca-Žilina, IX – Plaveč-Prešov-Košice-Čaňa) is underway, concentrating mainly on part of corridor IV Bratislava – Nové Mesto to Váhom (also supported by the EU's Cohesion fund).

Table 2.1: Slovakia – Structural Indicators (2005)

	MARKET STRUCTURE				SECTORIAL DETAILS					
	Number of enterprises	No. of enterprises in loss/No. of enterprises <sup>1)</sup> %	Number of employees	Top 5 comp turnover/sect. turnover <sup>1)</sup> %	Share in total VA %	Export propensity %	Import AC %	Share in total FDI %	FDI attractiveness %	Stock of FDI/ (tot. liabilities) %
<b>TOTALS</b>	83,710	21.8	2,083,971	n.a.	100.0	31.4	34.0	100.0	100.0	17.5
Agricultural, Hunting, Forestry & Fishing	4,091	18.6	76,426	16.9	3.8	31.7	15.0	0.4	11.3	1.5
Mining & Quarrying	127	44.1	9,088	58.6	0.5	48.6	96.0	0.6	120.9	35.1
<b>Manufacturing</b>	11,152	18.1	512,972	n.a.	20.5	71.9	76.1	40.7	198.7	29.3
Food, Beverages, and Tobacco	1,323	32.7	43,690	18.1	2.0	28.2	39.7	4.5	225.2	37.3
Textiles and textile products	813	23.0	50,364	10.3	0.7	92.9	122.4	0.4	59.3	11.9
Leather and leather products	235	26.3	15,242	55.5	0.4	114.9	111.7	0.3	71.7	15.6
Wood and wood products	1,317	15.4	39,141	11.2	0.7	27.9	32.0	0.5	64.4	9.6
Pulp, paper & pap. prod; publishing & print	1,111	22.1	22,764	36.1	1.3	52.7	46.6	1.3	106.4	11.2
Coke, refined petroleum prod & nuclear fuel	6	50.0	3,369	100.0	1.3	69.6	29.5	5.8	440.4	31.8
Chemicals, chemical prod & man-made fibres	226	33.7	12,351	58.5	0.7	133.3	115.4	2.1	315.4	25.1
Rubber and plastic products	631	28.5	21,207	40.5	1.1	71.0	79.1	1.7	155.9	24.1
Other non-metallic mineral products	491	18.3	26,623	24.2	1.2	40.0	37.2	1.6	138.1	15.3
Basic metals and fabricated metal products	1,945	12.3	99,191	50.1	4.4	62.9	76.5	10.4	239.0	86.7
Machinery and equipment n.e.c.	894	16.2	46,893	30.5	1.8	100.2	100.5	3.0	170.6	37.6
Electrical and optical equipment	1,155	14.4	76,935	35.2	2.2	92.4	99.0	3.0	135.7	30.6
Transport equipment	202	31.4	30,049	79.6	2.1	90.1	85.3	5.1	243.3	20.0
Manufacturing n.e.c.	803	22.8	25,154	54.8	0.7	52.2	56.1	0.9	133.4	18.6
<b>Electricity, Gas &amp; Water</b>	236	29.3	37,701	77.6	5.0	3.0	3.3	9.2	183.0	9.6
<b>Construction</b>	6,225	11.6	142,626	16.5	6.0	1.9	2.5	0.7	11.4	3.7
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	35,007	27.1	450,006	n.a.	15.9	0.1	0.9	12.9	81.2	10.9
Wholesale & Retail Trade	32,261	26.4	395,469	6.2	15.0	0.1	0.9	12.4	82.8	11.1
Hotels & Restaurants	2,746	32.3	54,537	6.7	0.9	100.0	100.0	0.5	54.4	7.4
<b>Transport, Storage &amp; Communication</b>	3,243	22.6	142,162	n.a.	11.1	29.1	12.9	9.2	82.7	16.5
Transport & Storage	3,082	22.5	107,394	31.3	n.a.	43.3	n.a.	1.8	n.a.	5.7
Communication	161	25.6	34,768	90.7	n.a.	5.2	n.a.	7.4	n.a.	30.0
<b>Finance, Insurance, Bus. Services &amp; Real Estate</b>	19,788	20.8	198,844	n.a.	20.6	6.5	4.6	25.6	124.3	28.5
Financial institutions <sup>2)</sup>	643	20.3	34,952	n.a.	5.8	n.a.	9.4	18.0	371.5	97.5
Insurance <sup>2)</sup>	2)	2)	2)	2)	2)	n.a.	2)	3.7	2)	2)
Real Estate & Business Services	19,145	20.8	163,892	5.8%	14.7	3.6	3.0	3.8	26.1	5.4
<b>Community, Social &amp; Personal Services</b>	3,841	22.5	514,146	n.a.	16.6	73.1	9.6	0.7	4.5	3.3

Sources: Statistical Office, DataCentrum, UniBanka

1) preliminary / 2) Financial Institutions + Insurance = Financial Intermediation

Table 2.2: Slovakia – Structural Indicators (2005) (continued)

	COMPETITIVENESS			CONSTRAINTS			
	RCA %	Labour productivity (yearly, ths. SKK)	Avg. personnel costs (monthly, SKK)	Wage adjus. labour productivity	Capacity utilisation %	Total indebtedness <sup>1)</sup> %	Bank indebtedness <sup>2)</sup> %
<b>TOTALS</b>	100.0	619	17,274	2.99	1.90	54.7	13.3
Agricultural, Hunting, Forestry & Fishing	102.6	651	13,163	4.12	2.49	30.1	6.8
Mining & Quarrying	5.6	764	18,923	3.36	17.86	50.2	9.8
<b>Manufacturing</b>	113.3	527	17,604	2.50	3.34	53.6	13.0
Food, Beverages, and Tobacco	67.5	602	15,529	3.23	6.03	64.5	19.9
Textiles and textile products	93.3	195	10,529	1.55	4.70	60.4	10.0
Leather and leather products	137.4	308	11,754	2.18	-7.42	65.0	6.7
Wood and wood products	205.9	252	12,854	1.63	0.93	61.9	21.4
Pulp, paper & pap. prod; publishing & print	151.0	725	20,346	2.97	2.45	46.8	17.7
Coke, refined petroleum prod & nuclear fuel	251.1	5,137	60,864	7.03	14.56	20.3	0.0
Chemicals, chemical prod & man-made fibres	65.8	727	21,684	2.79	9.90	39.2	6.5
Rubber and plastic products	93.2	665	18,935	2.93	4.53	51.9	17.3
Other non-metallic mineral products	145.3	589	18,295	2.68	3.38	65.5	17.4
Basic metals and fabricated metal products	150.6	579	20,211	2.39	-0.21	69.4	16.0
Machinery and equipment n.e.c.	95.8	494	19,159	2.15	1.76	63.5	9.6
Electrical and optical equipment	91.8	383	17,032	1.87	15.84	65.0	6.2
Transport equipment	138.7	924	24,221	3.18	-13.19	53.2	15.7
Manufacturing n.e.c.	143.7	372	14,843	2.09	-4.77	72.6	21.1
<b>Electricity, Gas &amp; Water</b>	104.8	1,753	26,009	5.62	-7.76	39.9	10.7
<b>Construction</b>	67.7	557	13,867	3.35	1.40	61.3	5.8
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	23.1	466	17,006	2.28	8.94	62.1	9.0
Wholesale & Retail Trade	23.1	499	17,525	2.37	9.01	62.1	8.6
Hotels & Restaurants	200.0	223	13,280	1.40	5.95	62.4	16.3
<b>Transport, Storage &amp; Communication</b>	143.2	1,029	18,340	4.67	2.43	48.1	14.1
Transport & Storage	141.8	n.a.	16,966	n.a.	n.a.	61.6	22.2
Communication	165.6	n.a.	22,585	n.a.	n.a.	31.1	4.0
<b>Finance, Insurance, Bus. Services &amp; Real Estate</b>	53.1	1,365	24,033	4.73	-3.24	72.8	24.2
Financial institutions <sup>2)</sup>	45.5	2,206	34,950	5.26	-23.05	105.8	64.1
Insurance <sup>2)</sup>	2)	2)	2)	2)	2)	2)	2)
Real Estate & Business Services	61.5	1,185	21,550	4.58	0.33	64.2	13.8
<b>Community, Social &amp; Personal Services</b>	98.7	427	15,327	2.32	3.12	57.2	18.5

Sources: Statistical Office, DataCentrum, UniBanka

1) preliminary / 2) Financial institutions + Insurance = Financial Intermediation

# Turkey

## Economic framework

After decades of instability, Turkey has been enjoying a prolonged period of high growth in the aftermath of the 2001 crisis. Although there has been some moderation in the economy in the second half of 2006, with a slowdown in domestic demand and consumption, Turkey is expected to continue growing above 5% in 2006 and 2007. Exports remained strong in 2006, which supported industrial production. Construction and related sectors, electrical and electronic equipment, machinery and equipment and the transport equipment sectors are the leading sectors in the Turkish economy, whereas textile-related industries continue to be fragile.

## Best performers

**Construction** is one of the key sectors in Turkey, being one of the main beneficiaries of private and public investment. As a result of economic reforms, Turkey has established a large and strong construction industry in a relatively short period of time, with the very good performance recorded in 2004 and 2005 representing a clear turning point. The Turkish construction sector is an engine of growth and a major source of employment, even

though it shows high seasonal fluctuations, with an increase in activity during the spring-summer period. The development of the construction industry has contributed to creating large and diversified production in the building materials industry and dynamic contracting and engineering services. The sector's prospects are very promising, based on a growing economy, rapid urban expansion and booming real estate. Still, the sector remains vulnerable to sudden economic cycle reversals. Furthermore, the new mortgage system, to be launched in 2007, will support the sector's development in the coming years. We forecast the sector's growth at over 12% in 2006, surpassing 7% in the coming years.

**Wood and wood products** look like being among the best performing sectors in the coming years. It is highly dependent on the activities of the building and furniture industry, and thus it strongly benefited from the recovery in those industries starting in 2005. Despite some deceleration in the second half of the year, 2006 was generally a positive year for the industry, which should be able to record growth of 13.3%. We believe that the wood products industry will be among the best sectors in 2007

Table 1.1: Best performers and worst performers

BEST	STABLE	WORST
Wood and wood products	Agriculture, Hunt., Forest., Fish.	Textiles & Textile Products
Other non-metallic mineral products	Mining & Quarrying	Leather & Leather Products
Machinery and Equipment n.e.c.	Food, Beverages & Tobacco	
Electrical and optical equipment	Pulp, Paper, Publish., Printing	
Transport Equipment	Coke, Refin. Petrol. Products	
Manufacturing n.e.c., furniture	Chemicals, Chemical Products	
Construction	Rubber and Plastic Products	
	Basic Metals & Fabr. Metal Products	
	Electricity, Gas & Water	
	Wholesale & Retail Trade,	
	Hotels & Restaurants	
	Transportation & Communication	
	Financial Institutions	
	Real Estate & Bus. Services	

and 2008 as well, with production growth higher than 7.5%, again thanks to the positive influence of strong construction activities. Dynamic construction will positively influence the **Other Non-Metallic Mineral products** sector too. We expect Other Non-Metallic Minerals, cement, natural stones and glass to record growth in terms of industrial production of around 8.3% in 2006 and 7%–7.1% in 2007–2008.

**Machinery and equipment** is one of Turkey's most well-established and dynamic sectors. Turkish household appliance producers have achieved clear success on the world markets with their own designs and technology. The industrial development of the country creates an opportunity for further development, even though the competition from cheaper imported machinery from abroad seems to be increasingly tough. The sector is expected to continue growing by more than 9% in 2006, and is envisaged to reach growth rates of over 10% in the period 2007–2008.

**Electrical and optical equipment** is a very important sector within the manufacturing industry. The sector is a mature industry and has reached a significant level of technical expertise. The Turkish electrical machinery sector gave itself a facelift in the 1990s by diversifying its products and adopting recent technologies in product design and in production processes. Turkey produces almost every kind of electrical equipment. The consumer electronics industry is well developed and mainly export oriented. The sector is expected to be one of the best sectors of manufacturing, profiting from a huge domestic market for durable goods and increasing penetration in world markets. We forecast yearly growth rates above 10% for the 2006–2008 period.

**Transport equipment** is a huge and fast growing sector. The automotive industry is the most significant sub-sector. More than 15 companies manufacture various types of vehicles such as passenger cars, buses, trucks, pick-ups, mini and midi-buses and trailers. Furthermore, Turkey has a strong components sector, and in recent years it has even developed a highly competitive components industry, providing products compatible with international standards for well-known brands. A considerable increase both in the production and exports of the sector has been recorded in the last few years. On the other hand, motor vehicle imports have risen continuously, especially after the Customs Union with the EU. The Turkish automotive industry increasingly exhibits characteristics of an industry focusing on exports and Turkey is becoming a production centre for global markets. The sector's outlook is positive, since domestic demand is expected

to increase, while exports will be promoted by the rising competitiveness and investments in the industry. We forecast sector growth at around 10% in the 2006–2008 period.

**Manufacturing n.e.c. and furniture** production will be among the best performing sectors in the Turkish economy in the coming years. This marks a substantial turnaround compared to the most recent performance, as in the past the sector has been hit by increasing competition from abroad and changes in the distribution of furniture, especially in Europe, with a recovery in production starting only in 2005. We forecast rather encouraging growth in the years to come. Production will increase parallel to the rising trend in construction and the increasing demand for housing and office furniture. We forecast that industrial production growth will be above 15.5% in 2006, and around 8–9% in 2007 and 2008. Since Turkey has a long tradition in the textile industry, Turkish furniture manufacturers can take advantage of a wide range of colourful new fabric collections for upholstery. Turkish furniture factories use the latest technologies, thus being able to produce good, export-quality products that are widely accepted in international markets.

### **Worst performers**

**The textile and clothing industry** is the largest and one of the oldest industries in Turkey. However, with the evolution of the market and the removal of quotas after 2005, the industry faced fierce competition from low-wage countries, particularly China. Furthermore, with the revaluation of the Turkish lira vis-à-vis the major currencies in recent years, the sector has begun to lose its competitiveness in international markets. In the mid to long term we expect all the sub-sectors of the textiles and clothing industry to continue suffering from increasing competition from abroad, while the global decline in prices will again hit exporters. The sector's need for restructuring and improvements in management and marketing skills still remains a major problem to be solved. We expect sector production to decline in 2006. The sector will remain one of the worst performing in the Turkish economy, despite slightly positive growth rates in 2007 and 2008. Similar arguments explain developments in the **Leather industry**, which is struggling with increasing international competition from low labour cost countries. The sector recorded a very poor performance in 2005, so as a consequence of the base effect, growth in 2006 will most probably be high, though this will only be a temporary revival.

## FDI and Privatisations

Following the historically high FDI performance in 2005, with total inflows amounting to USD 8.6 billion (2.4% of GDP), 2006 represents another record year, with FDI in the first nine months totalling USD 12.4 billion. According to the figures released by the Turkish Central Bank, total FDI stock amounted to USD 63.3 billion by the end of 2005. Privatisation played a major role on the FDI front in 2005 and 2006. In 2005, the state-owned telecom operator Turk Telecom was sold to the Lebanese Oger Telecom for USD 6.55 billion. Another major privatisation was the sale of the state-owned oil refinery Tupras, whose 51% stake was sold for USD 4.1 billion. The buyer consortium consisted of the Turkish Koc Group and Dutch Shell Group, with the latter having only a minor share in the partnership. Both the Telecom and Tüpraş privatisations resulted in considerable capital inflows. Still in 2005, the Turkish Armed Forces Assistance Fund (OYAK) obtained a controlling stake in steelmaker Erdemir, after withdrawing from a deal with the European steel giant Arcelor to buy the stake jointly. OYAK paid USD 2.96 billion for the deal. OYAK made the winning bid of USD 2.77 billion for a 46% stake tendered last year. It then bought another 3% stake from the state investment bank TKB (Türkiye Kalkınma Bankası) for USD 190.2 million.

In May 2006, the Privatisation Administration signed an agreement to sell a majority stake in the insurance group Basak to the French insurer Groupama. Efes, Tarabya and Ankara Hotels of Emekli Sandigi were also privatised at the beginning of 2006. Some real estate and mines of TEKEL, real estate of Sumer Holding, TEDAŞ and KBI were privatised during the year as well. The Privatisation Administration issued a new offering for 25% of Turkish Airlines with a sale volume of USD 208 million in May 2006. Now Turkish Airlines' free float has risen to 53.57%.

The non-privatisation part of the FDI flows was relevant as well, consisting mainly of deals in the banking sector. The only exception was the sale of Telsim, a mobile phone operator, for

USD 4.55 billion to Vodafone by the Savings Deposit Insurance Fund. As far as the banking sector is concerned, the most important deals in 2005 were BNP's acquisition of a stake in TEB, the Unicredito-Koc partnership acquiring Yapi Kredi Bank (54.7% of total shares), General Electric's acquisition of 25.5% of Garanti Bank, the sale of a 46% stake of Finansbank to the National Bank of Greece and the sale of 75% of Denizbank to the Belgian Dexia Bank. Furthermore, Citigroup agreed with Akbank to buy a 20% stake in the bank in mid-October 2006. Citigroup announced that it had agreed to pay USD 3.1 billion for the stake in Akbank, owned by the local conglomerate Sabanci Holding.

In the future, banking will definitely be the first candidate to receive FDI. There are only a few private banks to be sold or to form partnerships with, yet the privatisation of state-owned banks will be a major item on the agenda. The sale of two major state banks, Ziraat bankasi and Halk Bank, to private investors is expected in the near future. Real estate projects will be another major driver of FDI inflows. Foreign companies are mainly interested in property development projects on the Aegean and Mediterranean coasts of Turkey. According to the tourism minister, Turkey wants to sell at least 1 million houses to foreigners.

Aside from the above-mentioned Halk Bank, the privatisation programme for 2007 also includes Turkish Airlines, Petkim – the state-owned petrochemical company – and Tekel's tobacco division. Furthermore, the privatisation of the electricity distribution company TEDAŞ (Turkish Electricity Distribution Inc.) through the block sale of operating rights is planned to be completed before the end of 2006. In addition, the Privatisation Administration is to start privatising power distribution grids in 20 regions. These investments will aim to reduce leakages and loss. Preparations are already finished for six of these regions, including the European and Asian sides of Istanbul. The first auctions are expected to be held in December.

Table 2.1: Turkey – Structural Indicators (2004)

	MARKET STRUCTURE				SECTORIAL DETAILS					
	No. of enterprises	No. of employees	Number of SMEs	Share of SME turnover in sect. turn-over %	Share in total VA (2005) %	Exp. propensity %	Import exposure (2005) %	Share in total FDI (2002–2005) %	FDI attractiveness %	Energy intensity (2003) %
<b>TOTALS</b>	6,667	1,162,039	6,225	50.3	100.0	22.9	100.0	100.0	100.0	2.3
<b>Agricultural, Hunting, Forestry &amp; Fishing</b>	68	3,561	68	100.0	10.7	12.8	11.1	0.1	0.1	0.8
<b>Mining &amp; Quarrying</b>	137	27,907	128	50.6	1.5	22.9	233.6	1.2	81.3	2.3
M&Q of energy producing materials	35	17,779	28	18.2	0.9	0.1				1.9
M&Q except energy producing materials	102	10,128	100	86.5	0.6	31.2				2.8
<b>Manufacturing</b>	3,398	715,888	2,130	42.3	21.8	28.6	92.1	13.0	59.7	6.8
Food, Beverages and Tobacco	552	90,595	519	48.9	2.6	16.9	17.8	3.2	124.2	3.7
Textiles and textile products	905	253,733	705	45.6	3.5	42.1	33.2	2.0	56.0	8.4
Leather and leather products	71	6,540	71	100.0	0.2	23.9	57.6			
Wood and wood products	71	5,991	71	100.0	0.1	9.4	137.4			
Pulp, paper & pap. prod.; publishing & print	132	18,082	122	79.9	0.7	12.2	71.4			2.7
Coke, refined petroleum prod & nuclear fuel					3.2		36.9			
Chemicals, chemical prod & man-made fibres	216	43,628	195	45.8	2.3	12.6	165.1	2.1	90.4	4.0
Rubber and plastic products	195	24,049	188	61.7	0.7	29.2	61.6			6.4
Other non-metallic mineral products	224	41,422	210	65.0	1.5	22.8	14.4			10.5
Basic metals and fabricated metal products	298	46,334	277	50.9	2.7	47.5	108.8			12.0
Machinery and equipment n.e.c.	248	46,971	229	20.8	1.3	30.9	207.4	0.5	34.6	
Electrical and optical equipment	151	30,244	136	48.8	1.1	33.9	271.1	0.2	19.1	1.3
Transport equipment	207	81,207	174	12.9	1.6	45.5	190.7	2.3	145.6	
Manufacturing n.e.c.	120	22,164	111	59.5	0.3	21.3	101.5	0.1	16.7	
<b>Electricity, Gas &amp; Water</b>	40	8,970	35	55.6	3.3	2.9	0.1	2.1	62.4	
<b>Construction</b>	701	70,707	674	63.8	4.6	14.6		1.3	27.8	0.1
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>	1,691	140,881	1,644	68.2	21.4	20.3		3.2	15.0	1.3
Wholesale & Retail Trade	1,471	110,170	1,441	72.5	17.7	20.4		3.0	16.9	
Hotels & Restaurants	220	30,711	203	64.0	3.8	14.0		0.2	5.5	
<b>Transport, Storage &amp; Communication</b>	307	32,913	297	38.5	15.4	23.2		36.2	234.8	0.2
Transport & Storage										
Communication										
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>					4.6			39.4	856.7	
Financial Institutions										
Insurance										
Real Estate & Business Services	145	11,744	140	88.2	5.8	2.9		0.2	3.1	
<b>Community, Social &amp; Personal Services</b>	153	18,286	145	67.6	10.9	0.3		3.4	30.9	3.8

Sources: CBRT, SIS, Undersecretary of Turkish Treasury, TEDC, Yapi Kredi Strategic Planning and Research Dept. See ANNEX for explanations of the indicators

Table 2.2: Turkey – Structural Indicators (2004) (continued)

	COMPETITIVENESS				CONSTRAINTS		
	RCA (2005) %	Labour productivity (yearly, YTL)	Avg. personnel costs (yearly, YTL)	Wage adjus. labour productivity	Capacity utilisation (2005) %	Total indebtedness %	Bank indebtedness %
<b>TOTALS</b>	100.0	19,068	6,042	3.16	49.2	49.2	14.7
Agricultural, Hunting, Forestry & Fishing	195.0	6,068	2,376	2.55	46.4	46.4	24.0
Mining & Quarrying	7.9	49,754	6,343	7.84	56.3	56.3	16.2
M&Q of energy producing materials	0.3				65.9	65.9	14.6
M&Q except energy producing materials	304.4				44.1	44.1	18.4
<b>Manufacturing</b>	<b>115.6</b>	<b>23,049</b>	<b>7,401</b>	<b>3.11</b>	<b>80.3</b>	<b>47.3</b>	<b>16.4</b>
Food, Beverages, and Tobacco	313.2				71.0	47.3	19.0
Textiles and textile products	549.1				80.8	49.2	21.3 %
Leather and leather products	70.1				66.4	53.0	17.9
Wood and wood products	67.6				83.9	53.3	24.0
Pulp, paper & pap. prod; publishing & print	43.8				84.7	38.8	13.6
Coke, refined petroleum prod & nuclear fuel	73.6				90.4		
Chemicals, chemical prod. & man-made fibres	25.8				75.1	44.7	14.0
Rubber and plastic products	184.9				80.9	44.3	16.1
Other non-metallic mineral products	425.7				82.3	30.1	8.0
Basic metals and fabricated metal products	97.9				82.2	47.8	20.3
Machinery and equipment n.e.c.	63.6				75.9	51.0	15.3
Electrical and optical equipment	61.4				76.5	66.0	16.0
Transport equipment	133.3				83.6	49.9	16.7
Manufacturing n.e.c.	261.5				85.4	53.1	23.6
<b>Electricity, Gas &amp; Water</b>		<b>174,112</b>	<b>13,584</b>	<b>12.82</b>		<b>43.2</b>	<b>28.6</b>
<b>Construction</b>		<b>14,933</b>	<b>5,903</b>	<b>2.53</b>		<b>72.1</b>	<b>6.5</b>
<b>Wholesale &amp; Retail Trade, Rest. &amp; Hotels</b>		<b>21,229</b>	<b>6,860</b>	<b>3.09</b>		<b>47.3</b>	<b>15.4</b>
Wholesale & Retail Trade						64.4	15.3
Hotels & Restaurants						30.2	16.4
<b>Transport, Storage &amp; Communication</b>		<b>56,372</b>	<b>7,800</b>	<b>7.23</b>		<b>60.2</b>	<b>27.1</b>
Transport & Storage							
Communication							
<b>Finance, Insur., Bus. Serv. &amp; Real Estate</b>							
Financial institutions							
Insurance		69,836	2,926	23.87			
Real Estate & Business Services						19.2	9.3
<b>Community, Social &amp; Personal Services</b>		<b>12,858</b>	<b>9,748</b>	<b>1.32</b>		<b>55.8</b>	<b>12.2</b>

Sources: CBRT, SİS, Undersecretary of Turkish Treasury, TEDC, Yapi Kredi Strategic Planning and Research Dept. See ANNEX for explanations of the indicators

# Annex

## Methodology Notes

### Bulgaria

#### Structural Indicators

**Number of enterprises:** total number of companies registered in Bulstrad, *Source: Coface Intercredit Bulgaria Ltd.*

**Number of employees:** number of employees – average for the year, *Source: National Statistical Institute (NSI).*

**Top 5 companies' turnover/tot. sect. turnover:** *Source: Coface Intercredit Bulgaria Ltd.*

**Number of SMEs:** number of companies with yearly turnover up to BGN 2,000,000, *Source: Coface Intercredit Bulgaria Ltd.*

**Share in VA:** Relative share of each sectors in Total Gross Value Added for the whole economy (in current prices), *Source: National Statistical Institute.*

**Export propensity:** Export Propensity = Exports/Gross Output, *Source: National Statistical Institute.*

**Import/apparent consumption:** Apparent Consumption = Gross Output + Imports – Exports, *Source: National Statistical Institute.*

**Share in total FDI:** Foreign Direct Investment (stock), *Source: Bulgarian National Bank, National Statistical Institute.*

**FDI attractiveness:** FDI Attractiveness = Share in FDI (stock)/Share in VA, *Source: Bulgarian National Bank, National Statistical Institute.*

**Capital intensity:** Capital Intensity = Expenditure for Acquisition and Tangible Fixed Assets/GVA, *Source: National Statistical Institute.*

**Energy intensity:** Energy Intensity = Gross Consumption of Energy/VA, in kgOE/BGN1000 – kilograms of oil equivalent per BGN 1000 value added. *Source: National Statistical Institute.*

**RCA:** RCA = Share in Total Exports/Share in Total Imports, *Source: National Statistical Institute.*

**Labour productivity:** Labour Productivity = GVA/Number of Employees, *Source: National Statistical Institute.*

**Average wage:** Average wage per employee, *Source: National Statistical Institute.*

**Wage adjusted labour productivity:** Wage adjusted Labour Productivity = Labour Productivity/Average wage per employee, *Source: National Statistical Institute.*

**Total indebtedness:** Total Indebtedness = Total Debt/Total Liabilities, *Source: National Statistical Institute.*

**Bank indebtedness:** Bank Indebtedness = Short-term and Long-term Bank loans/Total Liabilities, *Source: National Statistical Institute.*

**Loans from banks to total debt:** Short-term and Long-term Bank loans/Total Debt, *Source: National Statistical Institute.*

**Loan concentration:** Bank loans extended to the particular sector/Total bank loans in the economy, *Source: National Statistical Institute.*

### Croatia

**Legend:** n.m. = not meaningful data (index or rate); one or both values in quotient negative (especially GOS and GOS/VA)  
– = data does not exist

Generally, FINA data from financial statements of entrepreneurs do not cover state entities (public administration, defence, public education and health care systems) and producers which are not registered as companies (i.e. are not liable for profit tax – craftsmen, individual farmers and fishermen, etc.). FINA data also do not cover the banking and insurance industries sectors. Totals for the economy and some sectors are consequently distorted downward.

#### Structural Indicators

**Number of enterprises:** Number of entities which actually presented and submitted financial statements for the year 2005 to FINA (Financial Agency). All legal and natural persons which are

liable to profit tax, are by law obliged to submit their financial statements. *Source: FINA*

**Number of employees:** Average number of employees on the basis of working hours in enterprises which presented financial statements for the year 2005. *Source: FINA*

**Number of SMEs:** SMEs are defined as companies up to 250 employees, total assets up to HRK 30 mn, and total revenue up to HRK 60 mn. *Source: FINA*

**Value added:** VA = Gross Value Added, calculated by Zagrebačka banka Research from FINA data.  $VA = \text{Turnover} - \text{Total costs} + \text{Depreciation} + \text{Financial costs} + \text{Labour costs}$ . *Source: FINA*

**Share of SMEs VA in sector VA:** Zagrebačka banka Research calculations based on FINA data. *Source: FINA*

**Share in total VA:** VA of specific sector divided by total VA added (Zagrebačka banka Research based on FINA data). *Source: FINA*

**Export propensity:** Calculated by Zagrebačka banka Research based on FINA data.  $\text{Export propensity} = \frac{\text{Exports revenues (revenues from merchandise and services sold abroad)}}{\text{Total revenues from merchandise and services (sold domestically and abroad)}}$ . *Source: FINA*

**Import/apparent consumption:** Indicator calculated by Zagrebačka banka Research based on FINA and CBS data.  $\text{Apparent Consumption} = \text{Revenues from merchandise and services} + \text{Imports} - \text{Exports}$ . *Sources: FINA (revenues) and CBS (Central Bureau of Statistics) (imports and exports)*

**Share in total FDI:** Foreign Direct Investment (stock as of 31st December 2005, cumulated from the beginning of 1993). For the sector Financial intermediation FDI inflows to the banking and insurance industries are excluded because those sectors are not the subject of this analysis (they are not covered by FINA data). *Source: CNB (Croatian National Bank)*

**FDI attractiveness:** Calculated by Zagrebačka banka Research based on FINA and CNB data. FDI inflows to the banking and insurance industries are excluded.  $\text{FDI attractiveness} = \frac{\text{Share in FDI (stock)}}{\text{Share in VA}}$ . *Sources: FINA, CNB*

**Stock of FDI/total liabilities:** Calculated by Zagrebačka banka Research based on CNB and FINA data. FDI data for the banking and insurance industries are excluded. *Sources: CNB (FDI) and FINA (Total Liabilities)*.

**Capital intensity:** Calculated by Zagrebačka banka Research based on FINA data.  $\text{Capital Intensity} = \frac{\text{Gross Fixed Capital Formation}}{\text{VA}}$ . *Source: FINA*

**Energy intensity:** Calculated by Zagrebačka banka Research based on FINA data.  $\text{Energy Intensity} = \frac{\text{Energy costs}}{\text{VA}}$ . *Source: FINA*

**RCA:** Calculated by Zagrebačka banka Research based on CBS data.  $\text{RCA} = \frac{\text{Share in Total Exports}}{\text{Share in Total Imports}}$ . *Source: CBS*

**Labour productivity:** Calculated by Zagrebačka banka Research based on FINA data.  $\text{Labour Productivity} = \frac{\text{VA}}{\text{Number of Employees (in HRK per employee \& year)}}$ . *Source: FINA*

**Average personnel costs:** Calculated by Zagrebačka banka Research based on FINA data.  $\text{Average Personnel Costs} = \frac{\text{Total Personnel (Labour) Costs (net wages + contributions from/on wages for pensions, social and health care + other personnel costs)}}{\text{Number of Employees (in HRK per employee \& year)}}$ . *Source: FINA*

**Wage adjusted labour productivity:** Calculated by Zagrebačka banka Research based on FINA data.  $\text{Wage Adjusted Labour Productivity} = \frac{\text{Labour Productivity}}{\text{Average Personnel (Labour) Costs}}$ . *Source: FINA*

**Total indebtedness:** Calculated by Zagrebačka banka Research based on FINA data.  $\text{Total Indebtedness} = \frac{\text{Total Debt}}{\text{Total Liabilities}}$ . *Source: FINA*

**Bank indebtedness:** Calculated by Zagrebačka banka Research based on FINA data.  $\text{Bank Indebtedness} = \frac{\text{Bank Debt}}{\text{Total Liabilities}}$ . *Source: FINA*

## Czech Republic Structural Indicators

**Number of enterprises:** companies with 20+ employees. *Source: Czech Statistical office (CSO) – Macroeconomy*

**Number of employees:** companies with 20+ employees. *Source: CSO – Macroeconomy*

**Number of SMEs:** companies with 20–99 employees. *Source: CSO – Macroeconomy*

**Share of SMEs VA in sector VA:** It was replaced by Turnover. *Source: CSO – Macroeconomy*

**Share in total VA:** Share of sector VA out of total VA. VA = Gross Value Added (at current prices). *Source: CSO – Macroeconomy*

**Export propensity:** Exports/Revenues from merchandise, own products and services. Note: the indicator is distorted upward: exports refer to the total sector, while revenues apply only to companies with 20 and more employees. *Source: CSO*

**Import/apparent consumption:** Apparent Consumption = Revenues from merchandise, own products and services + Imports – Exports. Note: the indicator is distorted upward: exports and imports refer to the total sector, while revenues apply only to companies with 20 and more employees. *Source: CSO*

**Share in total FDI:** Share of sector FDI out of total FDI. Foreign Direct Investment (stock). *Source: Czech National Bank*

**FDI attractiveness:** Share in FDI (stock)/Share in VA. *Source: Czech National Bank, CSO – Macroeconomy*

**Capital intensity:** Gross Fixed Capital Formation out of VA. *Source: CSO*

**Energy intensity:** Energy Consumption out of VA. *Source: CSO*

**RCA:** Share in Total Exports/Share in Total Imports. *Source: CSO*

**Labour productivity:** VA/number of employees (in CZK per employee & year), for companies with 20 + employees (non-financial companies), 1 + employees (financial & government institutions). *Source: CSO – Labour & Social statistics*

**Average personnel costs:** in CZK per employee & year, for companies with 20 + employees (non-financial companies), 1 + employees (financial & government institutions). *Source: CSO – Labour & Social Statistics*

**Wage adjusted labour productivity:** Labour Productivity/Average personnel costs, for companies with 20 + employees (non-financial companies), 1 + employees (financial & government institutions). *Source: CSO – Labour & Social Statistics*

**Total indebtedness:** Total Debt/Total Liabilities, for companies with 100 & more employees. *Source: CSO, Ministry of Industry and Trade*

**Bank indebtedness:** (bank loans, obligations & bills, other liabilities)/Total Liabilities, for companies with 100 & more employees. *Source: CSO, Ministry of Industry and Trade*

## Hungary Structural Indicators

**Number of enterprises:** units which according to official registrations legally exist at the date of the survey and have a tax number, including units under bankruptcy, liquidation and dissolution proceedings. *Source: CSO (Central Statistical Office)*

**Number of employees:** full-time employees, working for a salary or income at companies or private enterprises, institutions as employees, working members of co-operatives, working members of companies, sole proprietors and unpaid family members, seasonal workers and day-workers and employed pensioners. Persons on child-care leave are not included in the coverage of persons employed, in compliance with international recommendations. *Source: CSO*

**Share in total VA:** VA of a particular sector divided by total VA of all the sectors. Distribution in Manufacturing and Transportation & Communication is based on corporate figures. *Source: Tax and Financial Control Administration, CSO*

**Share in total FDI:** Foreign Direct Investment (stock as of 31st December 2004, cumulated from the beginning of 1990). *Source: NBH (National Bank of Hungary)*

**FDI attractiveness:** Share in total FDI divided by share in total VA. *Source: CSO, NBH*

**Export propensity:** Corporate export revenues divided by total corporate sales revenues. *Source: Tax and Financial Control Administration*

**Share of total exports:** Exports of a particular sector divided by total exports. *Source: CSO, NBH*

**Share of total imports:** Imports of a particular sector divided by total imports. *Source: CSO, NBH*

**RCA:** Revealed Comparative Advantage = share of total exports divided by share of total imports. *Source: CSO, NBH*

## Poland Structural Indicators

**Number of enterprises:** Number of entities recorded in the REGON register. *Source: CONCISE STATISTICAL YEARBOOK of the Republic of Poland 2006 table 295 and Information – “Change structure enterprises of the national economy of 2005” – table 2*

**Number of employed persons as of 31 Dec. 2005** – Population and Housing Census of 2005: CONCISE STATISTICAL YEARBOOK of the Republic of Poland 2006.

**Number of employees Jan.–Dec. 2005** – Average paid employment – “CENTRAL STATISTICAL OFFICE Information” Employment, wages and salaries in national economy Jan.–Dec. 2005 – table 35 (excluding economic entities employing up to 9 persons)

**Number of SMEs:** CENTRAL STATISTICAL OFFICE Warsaw Financial result of non-financial enterprises. The data refer to enterprises with up to 49 employees.

**Share of SMEs turnover in sector turnover:** Turnover is defined as revenues from the sale of products, goods and materials sector (2005) calculated by BANK PEKAO SA Research based on data from the CENTRAL STATIS. OFFICE.

**Value added:** VA = Gross Value Added. The data refer to all enterprises. *Source: for sectors – CSO communiqué of September 29, 2006; for sub-sectors – calculated by BANK PEKAO SA – Research.*

**Export propensity:**  $\text{Export propensity} = \frac{\text{Export revenues}}{\text{Total turnover}}$ . Calculated by BANK PEKAO SA – Research based on CSO data.

- **Exports:** CENTRAL STATISTICAL OFFICE Information and statistical papers “FOREIGN TRADE JANUARY–DECEMBER of 2005” – table 5C; 6C;
- **Turnover:** Revenues from total activities CENTRAL STATISTICAL OFFICE Warsaw. Financial results of non-financial enterprises.

**Apparent consumption:**  $\text{AC} = \text{Gross Output} + \text{Imports} - \text{Exports}$ . Calculated by BANK PEKAO SA Research based on CSO data.

- **Exports and Imports:** CENTRAL STATISTICAL OFFICE Information and statistical papers. “FOREIGN TRADE JANUARY–DECEMBER of 2005” – table 5C; 6C;
- **Gross Output:** is equal to the sum of the gross output of products (goods and services) of all the ownership sectors or institutional sectors, or to the sum of the gross output of products of all the sections or divisions. Calculated by Macroeconomic Research Office. – Estimated Gross Output in the table is presented based on the adopted estimated structure and estimated interrelation between Gross Output and VA in sectors.

**FDI:** Foreign Direct Investment. *Source: the National Bank of Poland “Foreign Direct Investment at the end of 2005”, October 2006.*

**FDI attractiveness:** Calculated by BANK PEKAO SA – Research based on the National Bank of Poland and CSO data.  $\text{FDI Attractiveness} = \frac{\text{Share in FDI (stock)}}{\text{Share in VA}}$ .

**RCA:** Calculated by BANK PEKAO SA Research based on CSO data.  $\text{RCA} = \frac{\text{Share in Total Exports}}{\text{Share in Total Imports}}$ .

**Labour productivity:** Calculated by BANK PEKAO SA Research based on CSO data.  $\text{Labour Productivity} = \frac{\text{VA}}{\text{Number of Employees}}$ . Employees are defined as Number of employed persons as of 31 Dec. 2005.

**Average monthly gross personnel costs** – Average monthly gross wage and salary – “CENTRAL STATISTICAL OFFICE Information” Employment, wages and salaries in the national economy Jan.–Dec. 2005 – table 35

**Wage adjusted labour productivity:** Calculated by BANK PEKAO SA Research based on CSO data.  $\text{Wage Adjusted Labour Productivity} = \frac{\text{Labour Productivity}}{\text{Average Personnel Cost (yearly)}}$

**Total indebtedness:** Calculated by BANK PEKAO SA – Research based on CSO data. Total Indebtedness = Total Debt/Total Liabilities.

**Bank indebtedness:** Calculated by BANK PEKAO SA – Research based on CSO data. Bank Indebtedness = Bank Debt/Total Liabilities (Total bank credits and loans/Total Liabilities).

## Romania Abbreviations

**NIS:** National Institute of Statistics of Romania

**NCA:** National Customs Authority

**NTRO:** National Trade Registry Office

**MPF:** Ministry of Public Finance of Romania

**NBR:** National Bank of Romania

## Sources

**NIS – Structural Survey:** Represents a statistical method conducted by the National Institute of Statistics that covers all economic sectors. Micro indicators are calculated on the basis of a national survey of enterprises relevant to the entire national economy. The enterprises are classified for each economic sector according to NACE, Rev. 1.

**NIS – National Accounts:** It converts the results of the official statistical surveys into national accounts based on the methodological principles of ESA 95 (European System of Accounts). It uses data from MPF (public budget execution, balance sheets, and tax on revenue statements of individuals) and from NBR (balance of payments document).

**NIS – Foreign Trade Division:** It covers, in cooperation with the National Customs Authority (NCA), import and export figures in EUR terms, based on enterprises' customs statements and national inquiry standard forms.

## Structural Indicators

**Number of enterprises:** Total number of enterprises. Classified according to NACE, Rev. 1, for each economic sector. *Source: NIS – Structural Survey 2004*

**Number of employees:** Total number of employees in enterprises. *Source: NIS – Structural Survey 2004*

**Top 5 companies' turnover/total sect. turnover:** Top 5 Companies Turnover/Total Sectors Turnover. UniCredit Romania calculation. Both, Top 5 Companies' Turnover and Total sectors' turnover are in current prices LC (local currency). *Source: NIS – Structural Survey 2004*

**Number of SMEs:** Total number of SMEs, defined as enterprises with less than 250 employees. *Source: NIS – Structural Survey 2004*

**Share of SMEs VA in Sector VA:** SME Gross Value Added (current prices LC)/Sector Gross Value Added (current prices LC). UniCredit Romania calculation. *Source: NIS – Structural Survey 2004*

**Share in total VA:** Sector Gross Value Added (current prices LC)/Total Gross Value Added (current prices LC). UniCredit Romania calculation. *Source: NIS – Structural Survey 2004*

**Export propensity:** Export/Turnover, UniCredit Romania calculation. Export figure in EUR, and provided by NIS – Foreign Trade Division (primarily sourced by NCA). Turnover in current prices LC, and sourced by NIS – Structural Survey 2004.

**Import/apparent consumption:** Import/Apparent Consumption. UniCredit Romania calculation. Apparent Consumption is defined as "Yearly Output + Import – Export". Export and Import in EUR, provided by NIS – Foreign Trade Division (primarily sourced by NCA). Yearly Output in current prices LC, and sourced by NIS – Structural Survey 2004.

**Share in total FDI:** Sector FDI/Total FDI. UniCredit Romania calculation. Sector and total FDI provided by NBR in EUR.

**FDI attractiveness:** Share in Total FDI/Share in Total VA. UniCredit Romania calculation. *Source: FDI from NBR in EUR and VA from NIS – Structural Survey 2004.*

**Stock of FDI out of total liabilities:** Stock of FDI/Total Liabilities. UniCredit Romania calculation. Stock of FDI is provided by NBR in EUR. Total liabilities are in current prices LC, and provided by NIS – Structural Survey 2004.

**Capital intensity:** Gross Fixed Capital Formation/Total sector VA. UniCredit Romania calculation. *Source: NIS – National Accounts.*

**RCA:** Revealed Comparative Advantage computed as Share in Total Exports/Share in Total Imports. UniCredit Romania calculation.

tion. Exports and Imports in EUR, provided by NIS – Foreign Trade Division (primarily sourced by NCA).

**Labour productivity:** Gross Value Added/Number of employees. UniCredit Romania calculation. Gross Value Added, in current prices LC, and Number of employees sourced by NIS – Structural Survey 2004.

**Average personnel costs:** Total expenses with the personnel/Number of employees. UniCredit Romania calculation. Total expenses with the personnel, in current prices LC, and Number of employees sourced by NIS – Structural Survey 2004.

**Wage adjusted labour productivity:** Labour Productivity/Average Personnel Costs. UniCredit Romania calculation. *Source: NIS – Structural Survey 2004.*

**Total indebtedness:** Total Debt (current prices LC)/Total Liabilities (current prices LC). UniCredit Romania calculation. *Source: NIS – Structural Survey 2004*

**Bank indebtedness:** Bank Indebtedness (current prices LC)/Total Liabilities (current prices LC). UniCredit Romania calculation. *Source: NIS – Structural Survey 2004.*

## Slovakia

### Structural Indicators

**Number of enterprises:** Based on the statistical official register of organisations including only active entities – yearly average. *Source: Statistical Office*

**Number of enterprises in loss/Number of enterprises:** Number of entities which turned in losses based on their financial statements divided by the number of entities which submitted financial statements (UniBanka calculation). *Source: DataCentrum*

**Number of employees:** Employees are defined as persons who work on the basis of a formal or informal contract for another resident unit for financial or natural wages. A balancing method is used, i. e. supply of labour force is balanced with demand, by comparing and harmonising the data from the survey of enterprises with data from the labour force sample survey in households, in order to meet the definitions according to ILO and ESA 95. Data are calculated according to national definitions.

*Source: Statistical Office*

**Top 5 turnover/Sector turnover:** based on data from financial statements (UniBanka calculation). *Source: DataCentrum*

**Number of SMEs:** Number of entities with a turnover of less than SKK 40 mn. based on financial statements for 2004. *Source: DataCentrum*

**SMEs turnover/Sector turnover:** based on data from financial statements (UniBanka calculation). *Source: DataCentrum*

**VA:** Gross value added net of FISIM. *Source: Statistical Office*

**Share in VA:** VA of specific sectors divided by total VA added (UniBanka calculation). *Source: Statistical Office*

**Exports and Imports:** in commodity structure (not in sector structure) and FOB type. *Source: Statistical Office*

**Export propensity:** Exports divided by the turnover for each sector (UniBanka calculation). *Source: Statistical Office*

**Apparent consumption (AC):** Gross production – Export + Import for each sector (UniBanka calculation). *Source: Statistical Office*

**Share in total FDI:** FDI of specific sectors divided by total FDI (UniBanka calculation). *Source: Statistical Office*

**FDI attractiveness:** Share in FDI (stock as of December 31st, 2005) over share in VA (UniBanka calculation). *Source: NBS, Statistical Office*

**Stock of FDI/total liabilities:** Stock of FDI (from NBS) divided by total liabilities (from financial statements) (UniBanka calculation). *Source: NBS, DataCentrum*

**RCA:** Relative competitive advantage – Share in exports divided by the share in imports (UniBanka calculation). *Source: Statistical Office*

**Labour productivity:** VA divided by the number of employees (UniBanka calculation). *Source: Statistical Office*

**Average personnel costs:** monthly in thousand SKK per employee. *Source: Statistical Office*

**Wage adjusted labour productivity:** Labour productivity divided by average personnel wages (UniBanka calculation).

*Source: Statistical Office*

**Capacity utilisation:** as % over/below potential production (UniBanka calculation)

- **for industry:** average of seasonally adjusted gross production divided by the trend of seasonally adjusted gross production and seasonally adjusted IPI divided by the trend of seasonally adjusted IPI
- **for other sectors:** seasonally adjusted gross production divided by the trend of seasonally adjusted gross production.

*Source: Statistical Office, UniBanka*

**Total indebtedness** – Total debt divided by the total liabilities based on financial statements. *Source: DataCentrum*

**Bank indebtedness** – Total bank debt divided by the total liabilities based on financial statements. *Source: DataCentrum*

## Turkey

### Abbreviations

**CBRT:** Central Bank of the Republic of Turkey

**TURKSTAT:** Turkish Statistical Institute

**Treasury:** Prime Ministry Undersecretary of Treasury

**TEDC:** Electricity Distribution and Consumption Statistics of Turkey

### Indicators Database – general information

**CBRT – Sectorial Accounts:** CBRT – Sectorial Accounts Data cover financial accounts of a sample of selected companies (6,667 in 2004) and are representative of the total economy performance. The enterprises are grouped according to NACE (Nomenclature Générale des Activités Economique dans les Communautés Européennes), Rev.1. **CBRT data do not include the banking sector.**

**TURKSTAT:** The data provided by TURKSTAT cover the total economy.

**Treasury – Undersecretary of Treasury – Foreign Direct Investment Accounts:** as of January 2006, the sectorial distribution of foreign corporations covers 11,804 companies operating in Turkey. Released by the General Directorate of Foreign Investment.

## Structural Indicators

**Number of enterprises:** Number of entities which submit their financial statements to the CBRT. *Source: Sectorial Accounts of Central Bank of the Republic of Turkey (CBRT).*

**Number of employees:** Number of employees in enterprises which present their financial statements to the CBRT.

*Source: Sectorial Accounts of CBRT.*

**Number of SMEs:** Companies up to 500 employees.

*Source: Sectorial Accounts of CBRT.*

**Share of SMEs turnover in sector turnover:** SMEs net turnover out of total enterprises' net turnover (Yapi Kredi Strategic Planning and Research Dept. calculation). *Source: Sectorial Accounts of CBRT.*

**Share in total VA:** Value added (current prices) of specific sector divided by total VA (current prices). For manufacturing subsectors, VA has been recalculated according to the share of each subsector in industrial production (Yapi Kredi Strategic Planning and Research Dept. calculation). *Source: Turkish Statistical Institute (TURKSTAT).*

**Export propensity:** Export Sales/Gross Sales (Yapi Kredi Strategic Planning and Research Dept). *Source: Sectorial Accounts of CBRT.*

**Import exposure:** Import/Apparent Consumption (AC).  $AC = \text{Gross Value Added} + \text{Imports} - \text{Exports}$  (Yapi Kredi Strategic Planning and Research Dept). *Source: Turkish Statistical Institute (TURKSTAT),*

**Share in total FDI:** Foreign capital of a specific sector divided by total foreign capital. Derived from the Sectorial Distribution of foreign corporations operating in Turkey – Foreign Direct Investment Accounts (Yapi Kredi Strategic Planning and Research Dept calculation). *Source: Undersecretary of Treasury.* (Note: the Community, Social & Personal Services sector includes the following subsections: Private Education, Health Services, Cinema & Entertainment Facilities, Other Personal Services, Other Social Services, Other Services).

**FDI attractiveness:** Share in Total FDI/Share in Total VA (Yapi Kredi Strategic Planning and Research Dept). *Source: Turkish Statistical Institute (TURKSTAT), Undersecretary of Treasury.*

**Energy intensity:** Consumption of electricity (106 kWh – source: *TEDC*) multiplied by the unitary price and divided by the sector VA (current prices), provided by TURKSTAT (Yapi Kredi Strategic Planning and Research Dept. calculation).

**RCA:** Share in Total Exports/Share in Total Imports. Exports and imports are calculated in USD thousands (Yapi Kredi Strategic Planning and Research Dept.). Source: *TURKSTAT*.

**Labour productivity:** Value Added (current prices)/number of employees (Yapi Kredi Strategic Planning and Research Dept. calculation). Source: *TURKSTAT*.

**Average personnel costs:** Earnings/Number of Employees (Yapi Kredi Strategic Planning and Research Dept. calculation). Source: *TURKSTAT*.

**Wage adjusted labour productivity:** Labour Productivity/Average Personnel Costs (Yapi Kredi Strategic Planning and Research Dept. calculation).

**Capacity utilisation:** Capacity utilisation, (Yapi Kredi Strategic Planning and Research Dept. calculation). Source: *TURKSTAT*.

**Total indebtedness:** Total Debt (Short Term + Long Term)/Total Liabilities (Yapi Kredi Strategic Planning and Research Dept. calculation). Source: *Sectorial Accounts of CBRT*.

**Bank indebtedness:** Bank Debt (Short Term + Long Term)/Total Liabilities (Yapi Kredi Strategic Planning and Research Dept. calculation). Source: *Sectorial Accounts of CBRT*.

# UniCredit Group CEE banking network

## The Baltics

### HVB Bank Tallinn

Liivalaia Street 13/15, EST-10118 Tallinn  
Phone: +372 668 8300  
www.hvb.ee

### HVB Bank Vilnius

Vilniaus Gatve 35/3, LT-01119 Vilnius  
Phone: +370 5 2745 300  
www.hvb.lt

### HVB Bank Latvia

Elizabetes Iela 63, LV-1050 Riga  
Phone: +371 708 5500  
www.hvb.lv

## Bosnia and Herzegovina

### UniCredit Zagrebačka banka

Kardinala Stepinca b.b.,  
BH-88000 Mostar  
Phone: +387 36 312112  
E-Mail: unizaba@unizaba.ba  
www.zaba.ba

### HVB Central Profit Banka

Zelenih Beretki 24, BH-71000 Sarajevo  
Phone: +387 33 533 688  
E-Mail: info@hvb-cpb.ba  
www.hvb-cpb.ba

### Nova Banjalucka Banka

Marije Bursac 7, BH-78000 Banja Luka  
Phone: +387 51 243344  
E-Mail: info@novablbanka.com  
www.novablbanka.com

## Bulgaria

### Bulbank

Sveta Nedelya Sq. 7, BG-1000 Sofia  
Phone: +359 2 923 2111  
www.bulbank.bg

### HVB Bank Biochim

Ivan Vazov Street 1, BG-1026 Sofia  
Phone: +359 2 926 9210  
E-Mail: info@biochim.com  
www.biochim.com

### Hebros Bank

Tzar Boris III Obedinitel  
Blvd. 37, BG-4018 Plovdiv  
Phone: +359 32 90 57 73

## Croatia

### Zagrebačka banka

Paromlinska 2, HR-10000 Zagreb  
Phone: +385 1 6305 250  
www.zaba.hr

## Czech Republic

### Živnostenská banka

Na Prikope 858/20, CZ-113 80 Prague 1,  
Phone: +420 2 2412 1111  
E-Mail: info@zivnobanka.cz  
www1.zivnobanka.cz

### HVB Bank Czech Republic

Nám. Republiky 3a, CZ-110 00 Prague 1,  
Phone: +420 221 112 111  
www.hvb.cz

## Hungary

### HVB Bank Hungary

Szabadsag tér 5-6, H-1054 Budapest,  
Phone: +36 1 269 0812  
E-Mail: info@hu.hvb-cee.com  
www.hvb.hu

## Macedonia

### BA-CA Representative Office

Dimitrie Cupovski 4-2/6,  
MK-1000 Skopje  
Phone: +389 2 3215 130

## Poland

### Bank Pekao

ul. Grzybowska 53/57,  
PL-00-950 Warsaw  
Phone: +48 42 6838 232  
www.pekao.com.pl

### Bank BPH

Al. Pokoju 1, PL-31-548 Cracow,  
Phone: +48 12 618 68 88  
E-Mail: bank@bph.pl  
www.bph.pl

## Romania

### UniCredit Romania

Ghetarilor Street 23-25,  
RO-014106 Bucharest 1,  
Phone: +40 21 200 2000  
E-Mail: office@unicredit.ro  
www.unicredit.ro

### HVB Tiriac Bank

Charles de Gaulle Sq. 15,  
RO-011857 Bucharest 1,  
Phone: +40 21 203 2222  
E-Mail: contact@ro.hvb-cee.com  
www.hvb.ro

## Russia

### International Moscow Bank

Prechistskaya emb. 9,  
RF-19034 Moscow  
Phone: +7 095 258 7200  
E-Mail: imbank@imbank.ru  
www.imb.ru

### Yapi Kredi Moscow

Goncharnaya emb. 2,  
RF-115172 Moscow  
Phone: +7 495 234 9889  
E-Mail: yap@online.ru  
www.ykb.ru

## Serbia

### HVB Bank Serbia and Montenegro

Rajiceva 27-29, 11000 Belgrade  
Phone: +381 11 3204 500  
E-Mail: office@yu.hvb-cee.com  
www.hvb.co.yu

## Slovakia

### UniBanka

Šancova 1/A, SK-813 33 Bratislava,  
Phone: +42 12 4950 2112  
www.unibanka.sk

### HVB Bank Slovakia

Plynarenska 7A, SK-814 16 Bratislava,  
Phone: +42 12 5969 1111  
E-Mail: info@sk.hvb-cee.com  
www.hvb-bank.sk

## Slovenia

### Bank Austria Creditanstalt Ljubljana

Šmartinska 140, SI-1000 Ljubljana,  
Phone: +386 1 5876 600  
E-Mail: info@si.bacai.com  
www.ba-ca.si

## Turkey

### Yapi Kredi

Yapi Kredi Plaza D Blok, Levent,  
TR-34354 Istanbul,  
Phone: +90 212 339 70 00  
www.yapikredi.tr

## Ukraine

### HVB Bank Ukraine

Yaroslaviv Val 14A, UA-01034 Kyiv  
Phone: +380 44 230 3300  
E-Mail: hvb-kiev@ua.hvb-cee.com  
www.hvb.com.ua

### UniCredit Bank

14, D. Galitskogo St., UA-43016 Lutsk,  
Phone: +380 332 776210  
www.unicredit.com.ua

This is a product of the New Europe Research Network. The New Europe Research Network involves all the research offices of the Group dealing with the CEE region, with the aim of providing a common view of economic developments at the level of individual countries and the regional level

### **Debora Revoltella**

UniCredit Group, CEE Chief Economist  
Network Coordinator  
Neweuroperesearch@unicreditgroup.eu

### **UniCredit Group, CEE Economic Research**

**Carmelina Carluzzo – Matteo Ferrazzi – Sandor Gardo –  
Hans Holzhaecker – Fabio Mucci – Lisa Perrin – Gerd Stiglitz**

### **Bulbank Planning and Control Division, Economic Research Section**

**Kristofor Pavlov**, Chief Economist  
**Elena Georgieva – Neli Todorova**

### **Zagrebačka banka – Macroeconomic Research**

**Zarko Miljenovic**, Chief Economist  
**Nenad Golac**

### **Živnostenská Banka**

**Patrik Rozumbersky**, Chief Economist  
**Ales Podoubsky**, Market Analyst

### **HVB Bank Czech Republic – Economic Research**

**Pavel Sobisek**, Chief Economist  
**Vaclav Verner**

### **Bank Pekao SA – Macroeconomic Research Office**

**Andrzej Bratkowski**, Chief Economist  
**Teresa Szkudlajska – Waldemar Wywrocky**

### **UniCredit Romania**

**Rozalia Pal**, Senior Economist  
**Tiberiu Nita**, Senior Relationship Manager

### **UniBanka – Macroeconomics & Market Analyses**

**Viliam Patoprsty**, Chief Analyst  
**Lubomir Korsnak**

### **Yapi Kredi Bankası**

**Cevdet Akcay**, Chief Economist  
**Ahmet Cimenoglu**, Head, Strategic Planning and Research  
**Suzi Apalaci – Veyis Fertekligil – Yelda Yucel**

### **International Moscow Bank – Treasury**

**Alexander Morozov**, General Manager  
**Sergei Kondrashov – Valery Inyushin – Sergei Alenkin**

### **HVB Bank Hungary – Economics Department**

**Marta Szegő Biróne**, Chief Economist  
**Tibor Nagy**

## **The authors of this issue**

**Carmelina Carluzzo, Debora Revoltella** (Regional Outlook)

**Elena Georgieva, Dimitar Mitav, Kristofor Pavlov, Neli Todorova** (Bulgaria); **Nenad Golac, Zarko Miljenovic** (Croatia), **Ales Podoubsky, Patrik Rozumbersky, Pavel Sobisek, Vaclav Verner** (Czech Republic); **Tibor Nagy** (Hungary); **Andrzej Bratkowski, Teresa Szkudlajska, Waldemar Wywrocky** (Poland); **Tiberiu Nita, Rozalia Pal** (Romania); **Lubomir Korsnak, Viliam Patoprsty** (Slovakia); **Veyis Fertekligil, Ozan Gokler** (Turkey)

# Your Leading Banking Partner in Central and Eastern Europe

Bank Austria  
Creditanstalt

Bank BPH

BANK PEKAO SA

Bulbank  
UniCredit Group

HEBROS BANK

HVB Bank

HVB Bank Biochim

HVB Central Profit Banka

HVB Tiriac Bank

HypoVereinsbank

INTERNATIONAL  
MOSCOW BANK

Nova  
Banjalučka  
Banka

UniBanka  
UniCredito Italiano Group

UniCredit Bank

UniCredit Romania

UniCredit  
Zagrebačka banka

YapıKredi

Zagrebačka banka  
UniCredit Group

Živnostenská Banka  
UniCredit Group

---

UniCredit Group