New European Union Frontier Countries: Economic Situation and Investment Climate

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<table>
<thead>
<tr>
<th>New European Union frontier countries (NEF countries)</th>
<th>Control Group of Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Advanced New European Frontier Countries (MA NEF countries)</td>
<td>Less Advanced New European Frontier Countries (LA NEF countries)</td>
</tr>
<tr>
<td>Bulgaria, Croatia, Romania, and Ukraine</td>
<td>Albania, Bosnia and Herzegovina, Macedonia, Moldova, Serbia and Montenegro</td>
</tr>
</tbody>
</table>
MA NEF Countries’ Strengths

• sustainable economic growth and macroeconomic stability
• an improving business environment and investment climate
• a highly skilled, well educated labor force of significant size
• a low cost region at a strategic crossroads
• good access to the major markets of the European Union
• large domestic markets
**MA NEF countries** demonstrated significant economic improvements over the last three years. While growth of international production did not exceed 3% in 2003 and will very likely reach only 4% in 2004, economic growth within the group of **MA NEF countries** is significantly higher.

![GDP Annual Growth Chart](chart.png)
MA NEF countries are among the world’s most favored destinations for FDI

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

- MA NEF countries
- LA NEF countries
- Control group
**FDI flows have been uneven across individual countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>5.9</td>
<td>2.9</td>
<td>8.8</td>
</tr>
<tr>
<td>Croatia</td>
<td>7.2</td>
<td>4</td>
<td>5.9</td>
</tr>
<tr>
<td>Romania</td>
<td>3</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>MA NEF countries average</strong></td>
<td>4.5</td>
<td>2.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Albania</td>
<td>5</td>
<td>4.5</td>
<td>3</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>2.7</td>
<td>6.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>12.8</td>
<td>2.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Moldova</td>
<td>6.3</td>
<td>7.2</td>
<td>5.6</td>
</tr>
<tr>
<td>Serbia and Montenegro</td>
<td>1.4</td>
<td>3.6</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>LA NEF countries average</strong></td>
<td>5.7</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>9.6</td>
<td>12</td>
<td>6.3</td>
</tr>
<tr>
<td>Estonia</td>
<td>9.8</td>
<td>2.9</td>
<td>13.5</td>
</tr>
<tr>
<td>Poland</td>
<td>3.2</td>
<td>2.1</td>
<td>2</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2</td>
<td>8.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Chile</td>
<td>4.6</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Control group average</strong></td>
<td>5.4</td>
<td>4.2</td>
<td>4.2</td>
</tr>
</tbody>
</table>
Determinants of the Investment Climate

(i) Macroeconomic stability
(ii) Business liberalization and de-regulation policies
(iii) Stable and predictable legal environment
(iv) Corporate and public governance
(v) Foreign trade liberalization and international capital movements
(vi) Healthy financial sector
(vii) Level of corruption
(viii) Political uncertainties
(ix) Country’s promotion and image
Driver 1: Macroeconomic Stability
Fiscal policies

Figure Average Fiscal Balances, %

-4.5 -4 -3.5 -3 -2.5 -2 -1.5 -1 -0.5 0

2000 2001 2002 2003

MA NEF countries LA NEF countries Control group Bulgaria
Monetary Policies (1)

Consumer Price Inflation, annual average

- **MA NEF countries**
- **LA NEF countries**
- **Control group**
- **Bulgaria**

Graph showing the consumer price inflation from 1999 to 2003 for different groups.
Monetary Policies (2)

Growth in Money Supply, % yoy

MA NEF countries  LA NEF countries  Control group  Bulgaria
Monetary Policies (3)

Average Gross International Reserves, USD billion, eop

- **MA NEF countries**
- **LANE F countries**
- **Control group**
- **Bulgaria**
Driver 2: Liberalization and Deregulation of Business Activities
A country’s efforts in making the shadow economy part of the formal economy can provide additional stimulus for economic growth.
# Barriers to entry the market

## Duration of procedure to initiate business in 2003 (days)

<table>
<thead>
<tr>
<th></th>
<th>25-40</th>
<th>41-55</th>
<th>56 and more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania, Chile, Bulgaria, Poland, Ukraine</td>
<td>Moldova, Serbia and Montenegro, Albania, Macedonia,</td>
<td>Bosnia and Herzegovina, Slovenia, Czech Republic</td>
<td></td>
</tr>
</tbody>
</table>

## Number of procedures to initiate business in 2003

<table>
<thead>
<tr>
<th></th>
<th>10 or less</th>
<th>11</th>
<th>12</th>
<th>13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria, Chile, Czech Republic, Estonia, Romania, Slovenia, Serbia and Montenegro</td>
<td>Albania, Moldova</td>
<td>Bosnia and Herzegovina, Poland</td>
<td>Croatia, Macedonia, Ukraine</td>
<td></td>
</tr>
</tbody>
</table>
Barriers to exit the market

Bankruptcy procedure, years

MA NEF countries
LA NEF countries
Control group
Bulgaria
### Taxes (1)

#### Corporate Income Tax, % in 2004

- **MA NEF countries**: 23%
- **LA NEF countries**: 20%
- **Control group**: 19%
- **Bulgaria**: 18%

#### VAT standard rate, % in 2004

<table>
<thead>
<tr>
<th>Year</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Serbia, Montenegro, Macedonia</td>
</tr>
<tr>
<td>18</td>
<td>Romania, Slovakia, Chile</td>
</tr>
<tr>
<td>19</td>
<td>Ukraine, Bulgaria, Moldova, Albania, Bosnia and Herzegovina</td>
</tr>
<tr>
<td>20</td>
<td>Czech Republic, Croatia, Poland</td>
</tr>
<tr>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>
Taxes (2)

Personal Income tax, % in 2004

- MA NEF countries
- LA NEF countries
- Control group
- Bulgaria

Legend:
- min
- max
- avg
Businesses in **NEF countries** are able to benefit from their highly competitive labor forces

University enrolment ratio in 2002, %

- MA NEF countries
- LA NEF countries
- Control group
- Bulgaria
Driver 3: Stability and Predictability of the Legal Environment

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

Bulgaria
Croatia
Romania
Ukraine
Avg M A NEF
Albania
Bosnia and Herzegovina
Macedonia
Moldova
Serbia and Montenegro
Avg LA NEF
Chile
Czech Rep
Estonia
Poland
Slovenia
Avg control
Respect for the rule of law, the establishment of a transparent legal framework and its enforcement remain among the key conditions for the creation of a business-friendly environment.

Legal System Reform Indicators in 2002

- Legal system extensiveness
- Legal system effectiveness

Countries included: Bulgaria, Croatia, Romania, Ukraine, MANEF countries, Albania, Bosnia and Herzegovina, Serbia and Montenegro, Macedonia, FYR, Moldova, LA NEF countries, Poland, Slovenia, Czech Republic, Estonia, Control group.

The bar chart illustrates the legal system reform indicators for these countries in 2002, comparing legal system extensiveness against legal system effectiveness.
Driver 4: Corporate and Public Governance

SigmaBleyzer's Driver #4
Corporate and Public Governance
Corporate Governance

Ratings of Governance and Enterprise Restructuring

- MA NEF countries
- LA NEF countries
- Control group
- Bulgaria
Public administration

Ratings of Quality of Public Administration

- MA NEF countries
- LA NEF countries
- Control group
- Bulgaria
Privatization

Ratings of Small- and Large-Scale Privatization

MA NEF countries
LA NEF countries
Control group
Bulgaria

- Small-scale privatization (left scale)
- Large-scale privatization (left scale)
- Private Sector Share of GDP, % (right scale)
Driver 5: Liberalization of Foreign Trade and Capital Movements

SigmaBleyzer's Driver #5
Liberalization of Foreign Trade and Capital Movements

- Bulgaria
- Croatia
- Romania
- Ukraine
- Avg M.A.NEF
- Albania
- Bosnia and Herzegovina
- Macedonia
- Moldova
- Serbia and Montenegro
- Avg LA.NEF
- Avg Control
- Chile
- Czech Rep
- Estonia
- Poland
- Slovenia
- Avg control
The average tariff rate for NEF countries is a relatively low but still higher than in the control group.
Driver 6: Financial Sector Development

SigmaBleyzer's Driver #6
Financial Sector Development

- Bulgaria
- Croatia
- Romania
- Ukraine (Avg MA NEF)
- Albania
- Bosnia and Herzegovina
- Serbia and Montenegro
- Avg LA NEF

- Chile
- Czech Rep
- Estonia
- Poland
- Slovenia
- Avg control
Driver 7: Corruption level

SigmaBleyzer's Driver #7
Corruption Level

<table>
<thead>
<tr>
<th>Country</th>
<th>Avg MA NEF</th>
<th>Avg LA NEF</th>
<th>Avg control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>40</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td>50</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>60</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Ukraine</td>
<td>70</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Albania</td>
<td>35</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>45</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Macedonia</td>
<td>55</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Moldova</td>
<td>65</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Serbia and Montenegro</td>
<td>75</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Avg MA NEF</td>
<td>50</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Avg LA NEF</td>
<td>60</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Avg control</td>
<td>70</td>
<td>60</td>
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</tr>
<tr>
<td>Chile</td>
<td>20</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Czech Rep</td>
<td>30</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>40</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>50</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Slovenia</td>
<td>60</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Avg control</td>
<td>70</td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>
Driver 8: Political Risks

SigmaBleyzer's Driver #8
Political Risks
Driver 9: Country Promotion and Image

SigmaBleyzer's Driver #9
Country Promotion and Image
Conclusions (1)

SigmaBleyzer's Investment Climate

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Bar chart showing investment climate for various countries.

- Bulgaria, Croatia, Romania, Ukraine, Avg MA NEF, Albania, Bosnia, Macedonia, Moldova, Serbia, Avg LA NEF, Estonia, Chile, Czech Rep, Poland, Slovenia, Avg control group.
Conclusions (2)

SigmaBleyzer's Nonagon
Investment Climate

- Business Liberalization
- Legal Environment
- Governance
- International Trade and Capital Movements
- Financial Sector
- Corruption
- Country Image
- Macroeconomic stability and growth

MA NEF countries
LA NEF countries
Control group
Conclusions (3)

SigmaBleyzer's Nonagon
Bulgaria

- Business Liberalization
- Legal Environment
- Governance
- International Trade and Capital Movements
- Financial Sector
- Corruption
- Political Risk
- Country Image
- Macro economic stability and growth

Bulgaria: Best in class

Legend:
- Blue: Bulgaria
- Purple: Best in class
- Green: Average