BEYOND THE CURTAIN

What is it like to do business in central and eastern Europe 25 years after the fall of communism? Iwona Tokc-Wilde sums up the opportunities and challenges for foreign investors

When the Berlin Wall fell 25 years ago, few UK companies would have ventured beyond the newly-opened Iron Curtain. Today, however, there is a real opportunity to work with and export to the fast-growing former Soviet satellites in central and eastern Europe (CEE) and Russia itself.

Bar the latter, all these countries are now members of the EU. Most have experienced a swift recovery from the financial crisis or, like Poland, remained virtually untouched by it. Their economies are at different stages of development, but all offer long-term growth prospects. There are supply chain opportunities in strategically important industries and EU-funded infrastructure projects worth €226bn (£178bn) in 2014-2020.

Cost pressures in western Europe, especially in the automotive and services sectors, promote outsourcing and near-shoring to the CEE region, too. At the same time, average wages in these countries are a very competitive 50-75% below the western European average.

Recognising that British business remains significantly under-represented in the region, the UKTI is running the Emerging Europe campaign, aiming at a 10-fold increase in companies exporting to the region and 50 UK-led innovation and technology partnerships by 2020. The campaign aims to persuade SMEs that doing business in CEE is much easier than in other parts of the world. Yet these countries still face some major political, economic and regulatory challenges, while Russia is flexing its muscles again, too.

ICAEW's work and events in CEE, such as the Accountancy Profession Strategic Forum held in Warsaw last May, focus on supporting the region's national accountancy bodies and, indirectly, help create a setting in which all businesses can operate in confidence. "The capacity and the evolution of the professional bodies, and the way in which they serve their national economies, is critical to the overall business environment," says Martin Manuzi, ICAEW regional director for Europe.

THE BALTICS

In the World Bank's *Doing Business 2014* report, Estonia, Latvia and Lithuania rank 22nd, 24th and 17th respectively. It is easier to do business in Lithuania than in Germany (ranked 21st).

Currency: Euro in Estonia and Latvia, litas in Lithuania. There is a high probability Lithuania will join the eurozone in 2015.

GDP per capita: €13,800 (Estonia), €11,548 (Latvia), €11,650 (Lithuania).

Workforce: The Baltic states have developed high-potential, specialised clusters of economic activity. Today, many companies provide innovative products and services in sectors such as biotechnology and health, environmental technologies, mechanical engineering, aeronautics and space technologies, agro-industry as well as logistics.

Challenges: SEB's *Eastern European Outlook* report predicts all three economies will be squeezed by the fallout from the Russia/Ukraine crisis and slower Russian growth.

BULGARIA

A ranking of 42 in *Bloomberg's Best Countries for Business 2014* had Bulgaria batting with the big players in the top 50 countries worldwide. In 2013, it had one of the lowest budget deficits in the EU (0.8%). In the last decade, Nestlé has invested over BGN146m (€74.55m) in the country.

Currency: Bulgarian lev (BGN). The euro is not likely to be adopted for several years.

POLAND: The only economy in the EU to dodge recession. The business climate is still improving rapidly, but red tape has been identified as a problem

GDP per capita: €5,486.
Workforce: The minimum wage is €174. According to Eurostat, almost half of the population live below the poverty line.
Challenges: The health of Bulgaria's banks came into the spotlight in June, when the country's central bank took over Corporate Commercial Bank, Bulgaria's fourth-largest lender, following runs on deposits at this and another lender. The European Commission extended a credit line of £1.4bn to help the banks, which Bulgarian authorities believe had been victims of a plot against the country's banking system.

CROATIA

"Events in Ukraine mean that some investors who would typically invest in Ukraine or Russia are now turning their focus on Croatia and other countries in the region," says Mayank Gupta, banking and finance partner at Mayer Brown International. Croatia represents the shortest and the fastest route between western Europe and Asia. It has the highest internet penetration in south-east Europe. The country recently introduced a new form of limited liability company with a lower minimum capital requirement and simplified incorporation procedures.
Currency: Croatian kuna. Croatia is cautious about adopting the euro.
GDP per capita: €10,163
Workforce: The unemployment rate in Croatia hovers around 18%.
Challenges: "The Croatian government is putting a lot of effort into regaining credibility with investors, which has been lost over the last 15 years," says Gregor Famira, partner at CMS Reich-Rohrwig Hainz Vienna office, which also covers Zagreb. "Corruption hasn't disappeared, but it's now at a lower level than ever before."

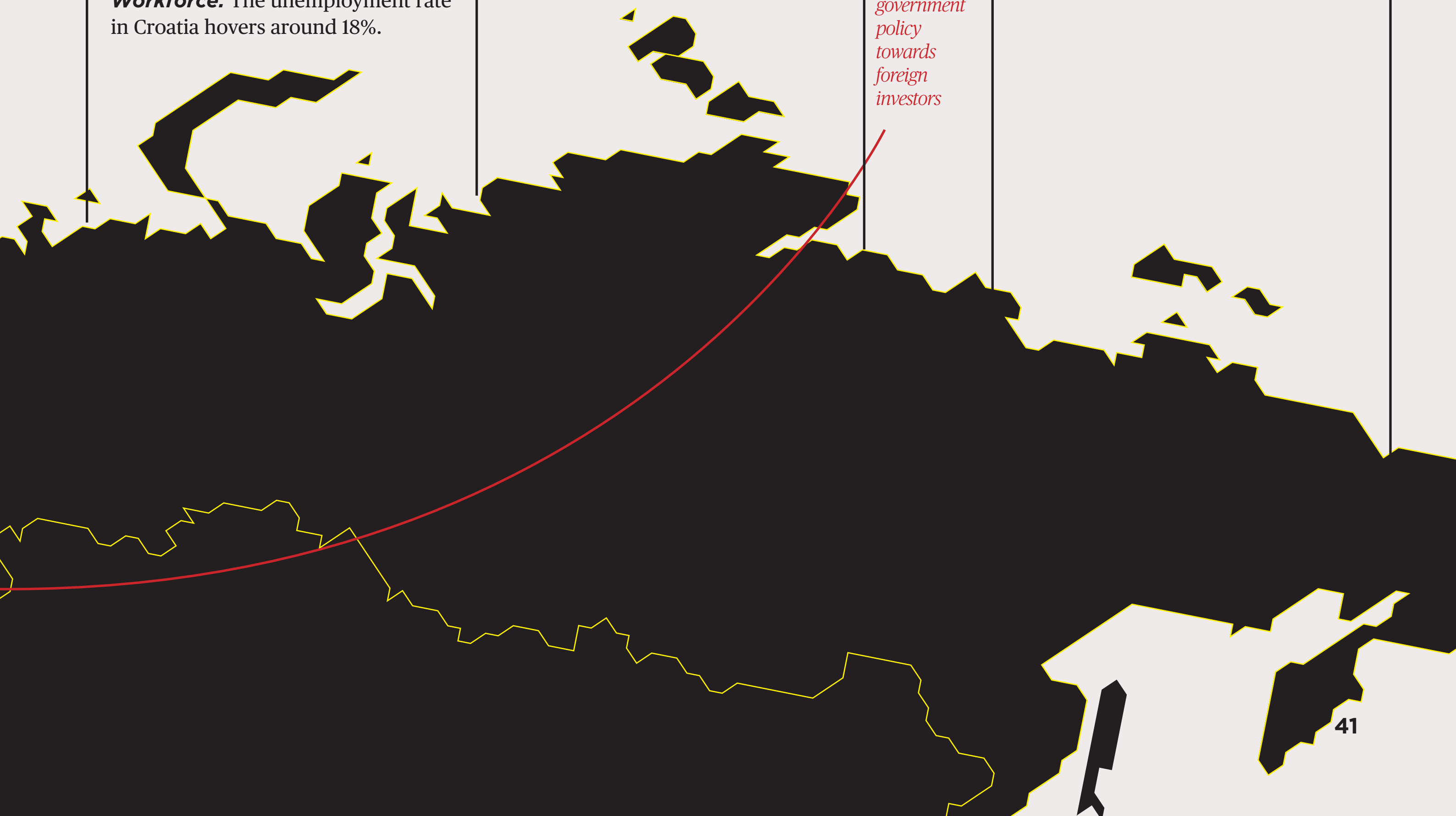
CZECH REPUBLIC

"The Czech Republic has emerged as one of the most stable and business-friendly of the post-communist states in central eastern Europe, its geographical location at the heart of Europe is a huge strategic advantage," says Petr Kolář, senior adviser at Squire Patton Boggs' office in Prague. The Czech Republic hosts the manufacturing subsidiaries of nearly 1,200 foreign companies, including ABB, Continental, Daewoo, Danone, Ford, Nestlé, Phillip Morris, Procter & Gamble, Renault, Siemens and Volkswagen.
Currency: Czech koruna. After being regarded with suspicion for 10 years, euro adoption is now on the Czech government's agenda.
GDP per capita: €14,206.
Workforce: Czechs are highly educated, with relevant business and technology skills. About one third of students study economics, finance or IT, according to CzechInvest.
Challenges: "Corruption is perceived as an important obstacle for business, together with an unstable and inefficient public administration," says Professor Christopher Bovis from Hull University Business School.

HUNGARY

It's getting harder to do business in Hungary. It ranks 40th out of 82 countries worldwide, and eighth out of 16 in eastern Europe, according to the Economist Intelligence Unit's Business Environment Index, compared to 35th and fifth in 2013. Hungary's high taxes and increased concerns over the government's policy towards foreign investors are the biggest barriers to business. "The country's budgetary strategy still relies on extensive taxation of a few selected sectors," says Professor Bovis.
Currency: Hungarian forint.
GDP per capita: €9,898.
Workforce: Hungarians need to improve the skills of their labour force, says Professor Bovis. "At present, however, training opportunities in the country are not sufficient," he adds.
Challenges: UK companies can encounter bureaucracy, corruption, language difficulties - especially with smaller companies and outside Budapest - and legal barriers at public procurement.

HUNGARY: There are concerns over government policy towards foreign investors



POLAND

The EU's largest eastern economy and, according to Bloomberg, the best country to do business with in eastern Europe because of its expanding consumer market and improving infrastructure. The only economy in the EU to dodge recession. Of the €226bn EU funds allocated to CEE in 2014-2020, the highest budget (€82.5bn) has been allocated here. Aided by EU funds, Poland has spent more than $80bn (€61.76bn) to revamp roads and bridges in the last six years.
Currency: Polish zloty. Like several other CEE countries, Poland is in no rush to join the euro.
GDP per capita: €10,113.
Workforce: Trade unions occupy a special place in Polish hearts because of the role Solidarity played during the upheaval of the 1980s. Today, however, only 12% of employees belong to a trade union.
Challenges: According to UKTI, the business climate in Poland is improving rapidly but there are still some problems surrounding red tape and tax transparency, and the Polish judicial system can work at a snail's pace. "We quickly realised we needed a native Polish speaker to act as Power of Attorney to agree real estate terms and trading agreements," says Kelly Ruston, PR and communications director at Lightbox, and former head of European communications for Claire's Accessories during the chain's expansion into eastern Europe in 2010-2012.

ROMANIA

"The bad news is the cost of doing business in Romania is high - at number 73, Romania's lagging behind most of its EU partners in the World Bank's Cost of Doing Business ranking," says Marcus Svedberg, chief economist at East Capital. "The good news is the costs are decreasing and the potential rewards are very high." Romania has made paying taxes easier and less costly by reducing the payment frequency for company tax from quarterly to twice-yearly and by reducing the vehicle tax rate. Enforcing contracts is now easier, too.
Currency: Romanian leu
GDP per capita: €7,121.
Workforce: According to Eurostat, 40% of Romanians live below the poverty line. The minimum wage is €191.
Challenges: "Romania scores really badly on dealing with construction permits," says Svedberg.

"Poland has spent more than €60bn to revamp roads and bridges in the last six years"

RUSSIA

The IMF expects Russia to grow by only 0.2% this year and warns the country is effectively already in recession. The successive rounds of Ukraine-related sanctions are starting to bite. Foreign banks are reluctant to lend to Russian companies, rising interest rates make debt more expensive, and grocery prices are on the up after Putin's retaliatory ban on western food imports. "However, we're unlikely to see a financial crisis in Russia in the short to mid-term as Russia has enough reserves to support its financial system for some time," says Oleg Nikityuk, investment advisor at Oracle Capital Group. Russia should overtake Germany as Europe's largest automotive market in 2015, according to UKTI.
Currency: Russian ruble.
GDP per capita: €14,949.
Workforce: Russia's workforce is shrinking. Because of the current demographics, the Federal Migration Service estimates the country will lose 10 million workers (out of approximately 70 million) by 2025.
Challenges: Other than the sanctions, "pay close attention to the ever-changing Russian tax", says Eugene Goland, president of DataArt, which has 1,000 employees in Moscow.

SLOVENIA: There are 20 big British businesses already operating in Slovenia

SLOVAKIA

Companies looking to export internationally might think twice about expanding into Slovakia. The bureaucracy is dense. However, with few exceptions, foreign companies establishing Slovakia-based subsidiaries generally encounter no special requirements on directors and shareholders. And Slovakia has grown to become one of the leading car producers in the world, thanks to VW, Peugeot Citroën and Kia Motors.
Currency: Euro.
GDP per capita: €13,333
Workforce: Of the four Visegrad Group countries (Slovakia, the Czech Republic, Hungary and Poland), Slovakia boast the highest labour productivity, according to a report from Baker Tilly Slovakia.
Challenges: According to TMF Group, obtaining a construction permit can take 286 days, getting a new business connected to the electricity grid 158 days, and enforcing contracts 545 days.

SLOVENIA

The Slovenian economy is still in recession, although 0.7% growth is forecast for 2015. There are approximately 20 big British businesses already operating in Slovenia including Unilever, AstraZeneca, Shell and Castrol.
Currency: Euro.
GDP per capita: €17,140.
Workforce: Average gross monthly wage in Slovenia is about €1,500.
Challenges: Public administration reforms have transformed the old bureaucratic system into a people-friendly service. "Nevertheless, certain bottlenecks still exist," says Gregor Famira, partner at CMS Reich-Rohrwig Hainz Vienna office, which also covers Ljubljana. It is a price-sensitive market, too, where UK products and services need to be competitive with those from neighbouring Italy and Austria. "The high tax load on labour means much of companies' gross income is eroded by taxes and social contributions," says Famira.