

Riga, 17 June 2010

Business Survey of the German Chambers of Commerce in Central and Eastern Europe:

## Central and Eastern Europe remains attractive for German companies

Central and Eastern Europe is one of the most important markets for the economic activities of German companies – in terms of both investment and trade. After being heavily affected by the economic crisis in the past year, the overall economic situation of the region has stabilized and even a slight upward trend is expected for 2010 by German companies active on site. Despite critical assessments of certain conditions for doing business, the vast majority of the German companies are committed to their business location and would repeat their engagement in the respective country. These are the main results of this year's annual survey conducted by the German Chambers of Commerce in 15 Central and Eastern European States, characterizing the current situation from the point of view of 974 German companies.

Central and Eastern Europe (CEE) is one of the most important regions for German foreign direct investment and trade activities. German foreign direct investments in the ten new EU member states amounted to 77 billion EUR by the end of 2008, thus constituting 8 pct of all German foreign direct investments. Taking also into account the investments in the countries of the Western Balkans and the former Soviet Union, the total German investments in Eastern Europe reach more than 102 billion EUR. Accounting for more than 11 pct of all German foreign direct investment, the overall investment in the region equals almost half of those of German companies in the USA, the main target country of German investment activities.

Besides being a favourite location for foreign direct investments, the region also plays an important role as a trading partner for German businesses. Both the export and the import volume with Central and Eastern Europe and with the countries of the Western Balkans and the former Soviet Union accounted for almost 16 pct of the total respective trade numbers for 2010. The exchange of goods between Germany and the region is thus almost as intensive as with the traditionally biggest trade partners France and the USA which together account for 17 pct of all German exports.

### Overall economic situation: Initial signs of recovery

Due to the intensive economic relations between Germany and CEE, the German companies on site naturally have to struggle with the negative consequences of the recent economic and financial crisis. The economic downturn and low domestic demand have affected the activities of the German companies and led to noticeable downturns in sales – with over 30 percent of the respondents reporting lower turnovers and profits in 2009. Future prospects, however, are optimistic – many respondents expect an improvement of their business situation in the upcoming years. Despite this positive outlook, German companies remain rather cautious and many still have restrained investment and employment plans that will unfold only limited positive effects on the labour and sales markets in the immediate future.

Irrespective of confident expectations regarding their own business activities, the activities of German companies are strongly influenced by the current difficult economic situation which is characterized by a high level of uncertainty. Central and Eastern Europe has been one of the regions most heavily affected by the economic and financial crisis. The economic growth has sharply decreased in almost all countries of the region in 2009 and the economic recovery will possibly take more time than in western countries. For 2010, 70 pct of the companies foresee stabilization or expect only a slight economic growth. But with the improved macroeconomic situation, the mood in almost every country in the region is now more positive than in 2009. The most optimistic German companies are found in Poland and Estonia.

"The survey indicates that German companies in Central and Eastern Europe now see the proverbial light at the end of the tunnel. Their expectations are definitely showing a clear upswing – even though the economic crisis has not yet been overcome", Maren Diale-Schellschmidt, CEO of the German-Baltic Chamber of Commerce in Estonia, Latvia, Lithuania (AHK), comments on the results. "Most countries in Central and Eastern Europe have



surpassed the bottom line of the economic recession and a stabilization of the economic situation in the region can be recognized. This upward trend is expected to continue in the course of the current year and will probably lead to a return to growth in 2011."

In order to further facilitate the recovery, the governments of the Baltic States are well advised to provide clear routes for their countries back to economic growth. However, the crisis management is not considered to be convincing as yet and only partly corresponds to the expectations of the German companies: Only every sixth respondent assesses the measures already taken to overcome the financial crisis and tackle the recession as satisfactory and target-oriented. The respondents stress an immediate need for policy action which should focus on supporting the export industry and stimulate investments activities. Bigger emphasis needs to also be put on providing a stable framework which offers reliable parameters for their entrepreneurial decisions.

### **German companies are committed to Central and Eastern Europe**

Despite existing critique with regard to the economic policy, the markets in CEE will continue to be a strong momentum for German companies: 84 percent of respondents would repeat their engagement in the chosen countries. The commitment of German investors to CEE is thus as high as never before. Factors of the business environment which are seen as especially favourable include the qualification, motivation and efficiency of the employees. In comparison to previous years, the availability of qualified persons has increased.

The confidence of German companies in their own location is equally high in almost all countries in Central and Eastern Europe. The most satisfied investors are to be found in Estonia. The Baltic country tops the ranking of important factors for doing business several times. Among other criteria, the tax system and administration, as well as political stability are especially highly appreciated by the respondents. German companies in Estonia are also showing the highest satisfaction with EU membership and strongly support the intended introduction of the Euro: 100 pct of the respondents are in favour of the common currency. In other countries the number of Euro-advocates among German companies is also as high as never before.

### **Czech Republic once again the most attractive business location**

The Czech Republic remains the most attractive business location for German companies. Among the 19 evaluated countries in the Central and Eastern European region, the Czech Republic turned up with the best results in the fifth consecutive year. The new number two in the overall ranking is Poland. Being the only country in Central and Eastern Europe that managed the crisis without negative growth figures, the country climbed two positions compared to last year and is now ahead of Slovenia and Slovakia which are following on the following ranks.

The Baltic States ended up in the same order as 2009 and still remain ranked in midfield with respect to their attractiveness as business locations – although they lost some ground compared to other countries. However, this is mainly due to the critical external assessments from German companies active in other Central and Eastern European countries. Respondents in Estonia, Latvia and Lithuania only consider a few other countries to be possible alternative locations for doing business.

At the lower end of the table, there had been no fundamental shifts or changes: Together with Belarus, which was evaluated for the first time, the non-EU members of the Western Balkans are still considered to be the least attractive business locations for German companies.

*The complete results of the survey are available in German and English at [www.ahk-balt.org](http://www.ahk-balt.org)*

### **More Information**

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The German-Baltic Chamber of Commerce in Estonia, Latvia and Lithuania is part of the global network of German Foreign Chambers of Commerce (AHKs) and the only international Chamber of Commerce in the region with about 360 member companies organised in the three Baltic States.

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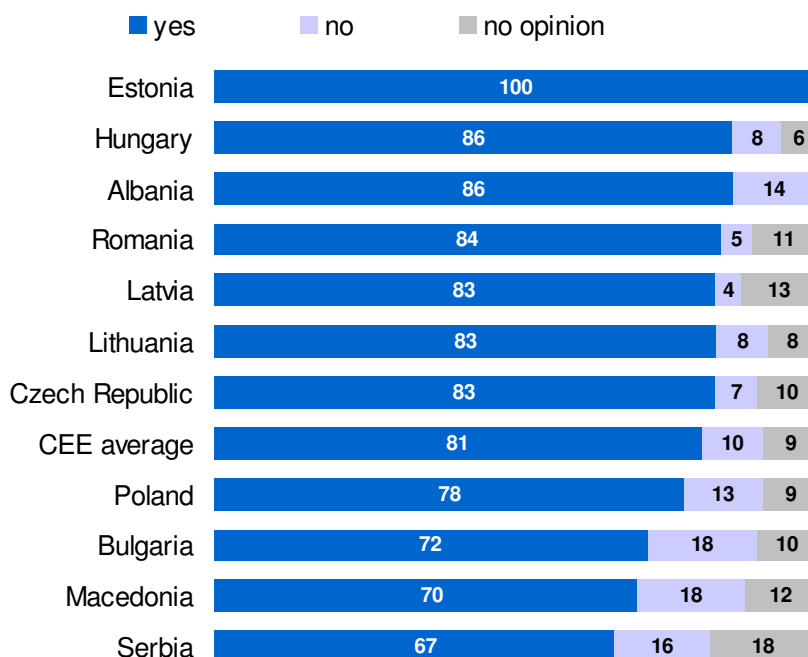
### Attractiveness scoreboard

Rank 2010	(Rank 2009)	Country	Score
1	(1)	Czech Republic	2,84
2	(4)	Poland	2,97
3	(3)	Slovenia	3,02
4	(2)	Slovakia	3,06
5	(5)	Croatia	3,27
6	(7)	Russia	3,37
7	(8)	Hungary	3,39
8	(6)	Estonia	3,45
9	(9)	Romania	3,61
10	(10)	Lithuania	3,66
11	(13)	Serbia	3,69
12	(12)	Bulgaria	3,71
13	(11)	Latvia	3,75
14	(13)	Ukraine	3,84
15	(16)	Montenegro	3,99
16	(15)	Macedonia	4,00
17	(17)	Bosnia-Herzegovina	4,18
18	:	Belarus	4,22
19	(18)	Albania	4,52
Benchmarks		China	2,86
		Germany	2,46

#### Evaluation chart

Attractiveness as investment location: 1= very high to 6 = very low

### Is the introduction of the Euro favorable for your country? (in %)



Would you repeat your engagement in the chosen country? (in %)

