

## **CEE region: Not catching up on Western Europe**

Economic balance, 20 years after Eastern Europe opened up

Vienna, November 25, 2009 – **Twenty years after the East opened up, there is still an economic gulf between it and the West. Nor will this change in the next ten years, as Roland Berger Strategy Consultants' current study "Twenty years of the CEE economic region – Assumptions for sustainable development" shows. Erste Group and the IDM discussed these hypotheses on the region's economic future at the CE Business Club Wednesday evening, with over a hundred top Austrian managers present.**

"Twenty years after the Iron Curtain came down, the financial gulf between Western and Eastern Europe is still as great as ever," says Vladimir Preveden, Managing Partner at Roland Berger's Zagreb office. Central and Eastern Europe may have been seen as a boom region since the year 2000; between 1989 and 1995; as they switched to the free market system, however, these economies shrank by 8% p.a. on average. By way of comparison, Austria grew at 2.4% p.a. over the same period. It was not until the mid-1990s that the CEE's economies settled down. The Polish economy was the first to get back to where it was in 1989, which it did in 1995, followed by Slovenia (1998) and Hungary (2000). Even today, Serbia and the Ukraine have only reached 70% of their GDP of 20 years ago.

It was from the dawn of the new millennium that the CEE region started succeeding. "In the last 10 years, it has been growing at an average of 5% p.a. – around twice as fast as Western Europe," says Ingrid Krenn-Ditz, head of Erste Group AG's EU Affairs department. The growth leaders were Russia (6.8% p.a.) and the Ukraine (6.2%), followed by Bulgaria (5.5%) and Rumania (5.4%). "Though it was these countries that collapsed the worst before," Krenn-Ditz says. Apart from Poland, whose GDP is now 177% of what it was in 1989, none of these countries have closed the gap on Western Europe to any great extent. Austria's GDP is now 158% of what it was then, ahead of the rest of the CEE region.

### **Income in Central Europe evenly distributed**

For people, too, the first ten years since the Iron Curtain came down meant a major loss of social security. Unemployment rose, from just about zero under communism to over 10% in 1995. By 2008, it had fallen to 8.4% on average, with Serbia way out in front, at 31%, dragging the statistics down. In terms of purchasing power, the most advanced communist countries had reached around two-thirds of the Austrian level by 1989. Now, twenty years later, the most successful reform states, Slovenia (73%) and the Czech Republic (63%), have just got back there. "On the other hand, we have to say that Austria's economy has out-performed Europe on average, and it was the opening up of the East that drove this growth," Preveden says.

Earnings have also improved a great deal in the last ten years. Income distribution is particularly pleasing. In terms of the GINI coefficient, that measures how income is distributed in an economy, Slovenia is world number two, behind Sweden, with the Czech Republic and Slovakia sixth and seventh. By way of comparison, Austria

comes ninth. Only in Russia (78th) are incomes distributed particularly unjustly; in Poland, too (47th), the earnings gap is relatively large.

**CEE as management region will cease to be so important**

Although the CEE region is doing well, it will still be as far behind Western Europe by 2020 as it is now. Differences in the region, on the other hand, will increase significantly. "The Central European countries are already fully-fledged free market economies, and Poland is getting there. These countries now need to position themselves as high-tech locations. Hungary, South Eastern Europe and the Ukraine, are also facing major structural and financial problems. That will hold economic growth back in the next ten years," the consultant says. Rumania and Bulgaria will still be attractive places to manufacture things in 2020, whereas Russia will be positioning itself mainly as an investor.

The differences in growth will ensure that the CEE will become less important as a management region. "Smaller countries are already becoming sub-regions, like South Eastern and Central Europe (SEE/CE). The CIS countries will form the CIS management region. Larger countries like Poland and Rumania will be considered increasingly in their own right in the future," Preveden says.

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