

Press release

Roland Berger: CEE must redefine itself. Study sets out future scenario for Central and Eastern Europe

- **Central and Eastern Europe (CEE) will remain a growth region, even though growth rates will not return to their previous highs. But success demands an economic realignment of the region.**
- **The focus of growth will shift away from today's most important industries, especially the chemical and automotive sectors as well as those dependent on raw materials.**
- **Energy and IT are set to boom in the next ten years. CEE's geographical location gives it a potentially strong role as the link between Western Europe and Russia.**
- **Another factor in the region's favor is its cultural affinity with the West and a relatively well-educated population.**
- **Its weaknesses include excessive bureaucracy, corruption and poor infrastructure – problems that will not go away in the medium term.**

Vienna, December 1, 2010 –**These findings emerge from a study by Roland Berger Strategy Consultants entitled "CEE in 2020 – Trends and perspectives for the next decade". The analysis is based on a survey of more than 320 managers across Central and Eastern Europe.**

"CEE as a single management region will no longer exist in this form," says the study's author Dr. Vladimir Preveden, Partner at the Vienna Office and Roland Berger's Managing Partner for Southeastern Europe. The reason lies in the differing trajectories of economic development in the various countries. Whereas the Central European states will emerge by 2020 as largely innovation-driven economies, the countries of Southern and Eastern Europe will still have to compete with the BRIC economies. "The region will become more heterogeneous. This is why corporations have already begun to break the CEE down into subregions," explains Preveden. And three out of five of the managers surveyed agree that the trend toward differentiation is likely to intensify over the next decade.

Substantial growth in sales, but few new jobs

CEE as a whole is going through fundamental changes. It lost its role as an engine of global growth in the economic crisis, and the business leaders surveyed do not expect the region to regain this position. "The task for the next few years is to establish CEE as a European growth region. We forecast growth rates of around 2%

above the West European level," says Preveden. The respondents agree that sales will grow significantly, but they are more cautious when it comes to jobs. As Preveden elaborates, "While additional jobs are expected for Ukraine, Romania and Poland, the managers based in Croatia and the Czech Republic are forecasting only a stagnant labor market. Austrian managers even fear a slight drop in employment opportunities in their country."

Regional advantages: geographical position and education

The geographical location and cultural affinity with Western Europe are seen as big plus points by CEE executives. "Interestingly, managers in every country in CEE regard their geographical position as an important local advantage. Indeed, CEE can position itself as the bridge not only between Western Europe and Russia but also between Western Europe and Turkey and Asian growth economies to the east. But this requires the right strategy," explains Preveden. The importance of Russia, in particular, will grow over the next decade, above all in the raw material industries.

Demographic trend underestimated

CEE managers also see the education system as an important advantage in attracting business. Yet this is largely a legacy from earlier times and now threatens to erode. The latest PISA study puts the participating CEE countries in mid-table positions, and their university performance fails to make the higher rankings. Generally speaking, we can identify human resources as a potentially limiting factor over the next ten years. As the consultant notes, "Population will decline in all the CEE countries, while the brain drain to Western Europe and North America will continue. But too few managers and politicians are listening to the alarm bells."

The labor force is also set to face some drastic changes in the immediate future. "It's no longer sufficient to find people with the right technical qualifications. Companies increasingly need to look at soft skills, foreign language proficiency, staff development and their employees' ability to handle complexity. Most of the companies surveyed already use English as a working language, while Russian is still gaining in importance," says Preveden. German has proved very important and will remain so, particularly in Central Europe. Moreover, demand is bound to increase for people with an entrepreneurial approach and problem-solving expertise.

Weak institutions and shoddy infrastructure

Bureaucracy, corruption and an underdeveloped legal and tax framework will continue to be core problems for CEE as a business location. "Even though most of these economies have now become EU members," Preveden observes, "the public institutions in every

country across the region have a lot of catching up to do." Shoddy infrastructure is also a particularly serious disadvantage.

Energy: the big issue for the future

The problems of dwindling raw materials and dependency on fossil fuels will stay at the top of the agenda for the coming decade. In second place comes the need to sort out public finances, followed by concerns about the impact of technological progress. Decision-makers across the region seem less worried about climate change, only raising the issue in connection with the role of the energy sector as the growth leader. Energy is followed by IT & telecom along with pharmaceuticals and healthcare. The managers therefore identify developments in the energy field (energy efficiency and renewables) and IT (solutions development) as key growth drivers. Services can also be expected to boom in the region's more mature economies. Less optimism is attached to the raw-material-intensive, chemical and automotive sectors, which are forecast to remain stagnant or decline. "But precisely these industries are the most important in the region today," notes the Preveden, "so we urgently need to realign and redefine the region as we move forward."

About Roland Berger Strategy Consultants

Roland Berger Strategy Consultants, founded in 1967, is one of the world's leading strategy consultancies. With 39 offices in 27 countries, the company has successful operations in all major international markets. In 2009, it generated EUR 616 million in revenues with approximately 2,000 employees worldwide. The strategy consultancy is an independent partnership exclusively owned by about 180 Partners.

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