

AHK INVESTMENT CLIMATE SURVEY CENTRAL & EASTERN EUROPE

Results of the 13th Investment Climate Survey
of the German AHK chamber network
in 15 countries of Central & Eastern Europe

Participating Organisations



Deutsch-Ungarische
Industrie- und Handelskammer
Német-Magyar
Ipari és Kereskedelmi Kamara



Deutsch-Bulgarische
Industrie- und Handelskammer
Германо-Българска
индустриално-търговска камара



Deutsch-Kroatische
Industrie- und Handelskammer
Njemačko-hrvatska industrijska
i trgovinska komora



Delegation der Deutschen Wirtschaft
in Bosnien und Herzegowina
Predstavništvo njemačke privrede
u Bosni i Hercegovini



Deutsch-Polnische
Industrie- und Handelskammer
Polsko-Niemiecka Izba
Przemysłowo-Handlowa



Deutsch-Slowenische
Industrie- und Handelskammer
Slovensko-nemška
gospodarska zbornica



Deutsch-Baltische Handelskammer
in Estland, Lettland, Litauen



Deutsch-Tschechische
Industrie- und Handelskammer
Česko-německá
obchodní a průmyslová komora



Deutsch-Serbische
Wirtschaftskammer
Nemačko-srpska
privredna komora



Deutsch-Slowakische
Industrie- und Handelskammer
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Delegation der Deutschen
Wirtschaft in Mazedonien
Делегација на германското
стопанство во Македонија



Deutsch-Rumänische
Industrie- und Handelskammer
Camera de Comerț și Industrie
Româno-Germană



Kosovarisch-Deutsche Wirtschaftsvereinigung
Olla Ekonomike Gjermano-Kosovare



Deutsche Industrie- und
Handelsvereinigung in Albanien

Imprint

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of Industry and Commerce
Budapest 2018

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Editorial deadline: May 23, 2018
Timestamp of print: 16.04.2018 13:32:00

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German
Chambers of Commerce
Worldwide Network

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Budapest
May 2018

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PREFACE

The economies of Central and Eastern Europe have gone and are still going through fundamental changes in their structure and their international integration since the early 1990s. As a part of these changes, they intensified their economic ties with the Western European economies to a significant degree. Germany is the or one of the most important economic partners for all of them. On the other hand, however, the region today plays a highly important role for the German economy as well – as a key sourcing and export market, but also as an attractive region for investments.

German bilateral Chambers across the region play an important role in promoting and supporting these business activities. In 2006, they launched a joint survey of German investors in their countries in order to ascertain their views on the economic situation, as well as on the investment climate in the respective countries.

In 2018, this joint survey was conducted for the 13th time. The aim of the survey is to provide insight into individual markets as well as to facilitate cross-region comparisons. This should help the Chambers in identifying the practical needs of companies when making well-founded business decisions and political decision makers in order to improve the overall business climate for domestic and foreign companies alike.

I. Executive Summary

About the AHK Investment Climate CEE

1. The German bilateral Chambers of Industry and Commerce (AHK) in Central and Eastern Europe (CEE) conducted their first coordinated Investment Climate survey in 2006. In 2018, the joint survey was conducted for the 13th time.
2. In 15 countries of the region a total of 1,698 managers of mainly German companies responded to the questions.

Macroeconomic background

3. Growth rates of the economies of the region reached – with only few exceptions – between about 3 and 7 per cent in 2017, thus outpacing those of Western European countries by far. For 2018, economic growth is expected to remain strong.

Assessment of the Economic situation and outlook

4. Thanks to the robust growth environment in most countries, the evaluation of the **national economy, their own industry and their own business** improved as well as the outlook for 2018 also improved in nearly all countries, compared to the previous survey. On a regional level, the current situation and the outlook of the national economy was rated at the best level since the pre-crisis-year of 2007, the same applies to the own company's situation
5. Based on the strong domestic and foreign demand, in most countries companies plan to increase their investment expenditures and employment. On a regional level, every second company intends to invest or employ more than in the previous year.

Satisfaction with business environment

6. On a regional level, the 2018 survey showed only minor changes in the satisfaction with the local business environment.
7. Regarding **labour market** conditions, recent trends of less favourable assessments continued in this year's survey. In our 2018 survey, it was mainly the availability of skilled staff and the perceived productivity that showed poorer results, compared to those of the previous year.
8. In the fields of taxation, legal security, predictability, corruption, transparency of public procurement and bureaucracy, satisfaction continued to stay at clearly inadequate levels, with corruption remaining the most severe problem.

Commitment to current location

9. Regarding the commitment to their current location, the overall commitment rate again exceeds 80 per cent, i.e. four out of five investors feel that they have chosen the right location. However, the CEE average showed a minor downward correction this year.

Attractiveness ranking

10. In 2018, the CEE-wide ranking regarding the attractiveness as an investment location was again led by the Czech Republic, while Poland defended its second place. Slovakia and Estonia swapped places on ranks 3 and 4. However, it is important to note that in many cases the nominal ratings differ only marginally.

I. Macroeconomic background

1. Economic growth

The majority of the economies in Central and Eastern Europe showed strong growth over the past few years. The Eastern European states which joined the EU between 2004 and 2013 increased their GDP by 47 per cent between 2004 and 2017, i.e. exactly three times as fast as the 15 “old” member states. For the next two years, the European Commission and other institutions forecast that, on average, growth in CEE will continue to exceed Western growth rates significantly.

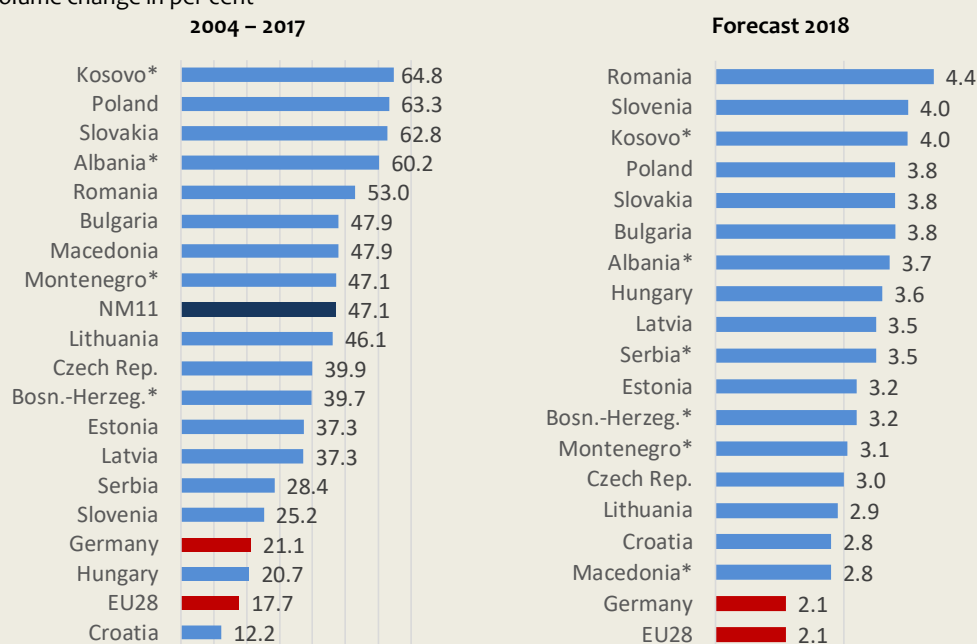
Growth patterns in individual countries differ to a certain extent; however, in most cases demand is mainly driven fast rising exports, with Germany being a key trading partner for most countries, and by strong investments, which at least in the EU member states are heavily linked to massive net inflows of funding from the European Union.

Basic macroeconomic indicators								
	Population	Unempl. rate	Gross Domestic Product (GDP)				Current account balance	Budget deficit
	mln	annual average, per cent	EUR bn	volume change (per cent)			per cent of GDP	per cent of GDP
	2017	2017	2017	2015	2016	2017	2017	2017
Bulgaria	7.1	6.2	50	3.6	3.9	3.6	3.0	0.9
Czech Rep.	10.6	2.9	192	5.3	2.6	4.4	0.5	1.6
Estonia	1.3	5.8	23	1.7	2.1	4.9	2.9	-0.3
Croatia	4.2	11.1	49	2.3	3.2	2.8	3.6	0.8
Hungary	9.8	4.2	123	3.4	2.2	4.0	2.9	-2.0
Latvia	2.0	8.7	27	3.0	2.2	4.5	-0.9	-0.5
Lithuania	2.8	7.1	42	2.0	2.3	3.8	-1.5	0.5
Poland	38.0	4.9	466	3.8	3.0	4.6	0.7	-1.7
Romania	19.6	4.9	188	4.0	4.8	6.9	-3.5	-2.9
Slovenia	2.1	6.6	43	2.3	3.1	5.0	6.7	0.0
Slovakia	5.4	8.1	85	3.9	3.3	3.4	0.5	-1.0
Albania	2.9	13.9	12	2.2	3.4	3.9	-7.2	-1.4
Bosn.-Herzeg.	3.5	20.5	16	3.1	3.2	2.7	-5.2	1.9
Kosovo	1.9	30.2	6	4.1	4.1	4.1	-8.7	-1.2
Macedonia	2.1	22.5	10	3.9	2.9	0.0	-1.3	-2.7
Montenegro	0.6	16.0	4	3.4	2.9	4.2	-18.9	-7.1
Serbia	7.0	14.6	37	0.8	2.8	1.8	-4.6	1.2
Germany	82.5	3.8	3 263	1.7	1.9	2.2	8.0	1.3
EU28	511.5	7.6	15 326	2.3	2.0	2.4	2.2	-1.0

Sources: Eurostat, for Western Balkans (partly): IMF (WEO April 2018) and WIIW (March 2018)

Gross domestic product (GDP) 2004-2017

Volume change in per cent



Source: Eurostat (May 16, 2018), * IMF (WEO April 2018)

2. Economic relations CEE – Germany

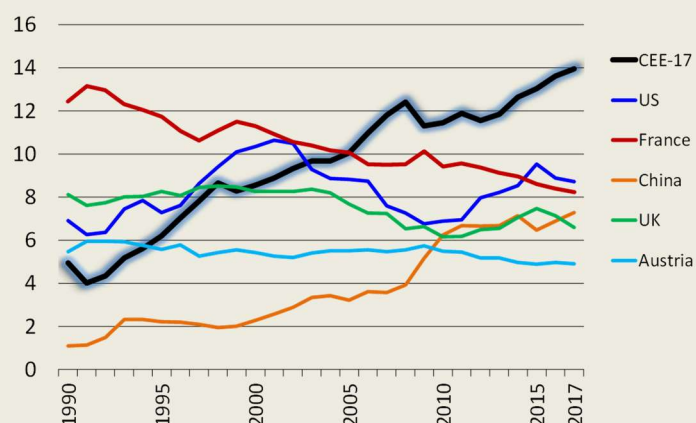
For most countries in the CEE region, Germany is the most important trade and investment partner. Vice versa, the region today plays an extremely important role for the German economy as a sourcing and export market and as an investment location for thousands of companies.

The total trade volume – exports + imports – between Germany and the region reached about 352 billion Euros in 2017. Moreover, the trade flows are fairly balanced, Germany accrued a marginal trade surplus of just 5 billion, while some countries such as the Czech Republic, Hungary and Slovakia even produce surpluses with Germany.

At the end of 2016, the total stock of German FDI in the CEE-17 countries amounted to more than 106 billion euros, which is significantly more than the capital invested in China or Latin-America. The five largest CEE economies (PL, CZ, RO, HU, SK) so far attracted more than 20 per cent of all German outward FDI in the global automotive industry.

Share of CEE and selected countries in German exports 1990 – 2016

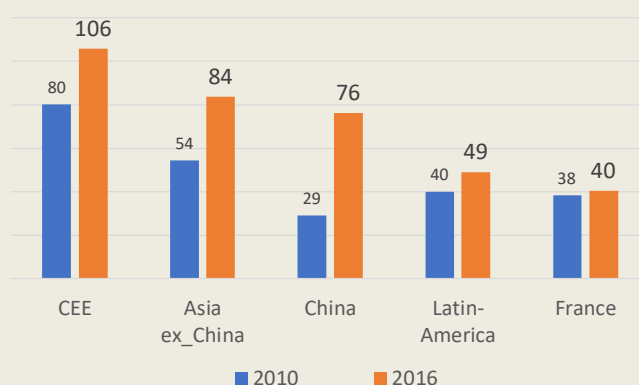
share in total German exports in per cent



Source: destatis (May 06, 2018), DUIHK calculations

German outward FDI* in selected regions 2010 - 2016

Stock in EUR bn



* FDI: foreign direct investment, net balance of assets and liabilities. Latin-America: Central and South America
Source: Bundesbank (May 02, 2018)

German outward FDI* in CEE countries – 2016

Stock in EUR bln

	World total	CEE Big-5	Poland	Romania	Slovakia	Czech R.	Hungary
All sectors	1 113.8	92.8	29.3	9.0	7.4	29.0	18.1
Manufacturing sector	400.1	42.6	11.4	4.1	3.7	13.3	10.0
Automotive industry	106.0	20.2	2.9	1.5	1.9	7.1	6.8
Chemical industry	81.9	1.5	0.6	0.3	0.0	0.3	0.3
Mfg. of electrical equipm.	27.0	1.9	0.4	0.5	0.3	0.4	0.4
Mfg. of machinery/equipm.	39.0	2.5	0.8	0.2	0.3	0.7	0.5
Electricity supply	39.4	6.7	1.0	0.8	0.0	2.8	2.1
Wholesale and retail trade	98.8	13.8	5.0	2.4	1.1	3.4	1.8
Information, communication	60.0	7.1	2.9	0.1	1.1	1.2	1.7
Finances	311.1	12.3	5.3	0.3	0.8	5.3	0.6
Real estate activities	31.4	4.5	2.0	0.7	0.4	1.0	0.4

* FDI: foreign direct investment, net balance of assets and liabilities, stock at the end of the year
Source: Bundesbank (May 02, 2018)

II. Business activity and expectations

1. Assessment of the macroeconomic situation

The favourable macroeconomic environment described above is reflected in the overall positive opinion of survey respondents regarding the current economic situation and on the near-term outlook. On a regional level, the current situation of the national economies and the outlook for the current year was again rated better than in the preceding survey, and this applies to nearly all individual countries as well.

Above average improvements were recorded in Hungary, Lithuania and Poland in particular. A quite substantial drop occurred in Croatia and Romania. The latter seems especially surprising, given that the GDP growth rate was one of the highest in Europe last year (nearly 7 per cent), and is expected to be again very strong in 2018 (above 4 per cent). Possibly, this forecasted slowdown is already being perceived as negative.

Still, regarding the economy as a whole, the assessment in individual countries varies vastly. In the Czech Republic, 73 per cent of the companies stated that the economy was in good shape, a negligible two per cent said the situation was bad. At the other end, in Macedonia and Bosnia-Herzegovina, about 50 per cent believe the national economy's situation to be poor, and just 5 and 7 per cent, respectively see it positively.

2. Assessment of the own business

As in previous surveys, in nearly all countries their **own industry/sector and their own company** is being seen as in better shape than the surrounding economy. In several countries, we have received the most favourable results (measured as the balance of positive and negative answers) since the last “pre-crisis”-year 2008, regarding both the current situation and the 2018 outlook.

However, compared to the results of last year's survey, improvements were less pronounced than regarding the economy as a whole.

To a large extent, the favourable outlook derives from **strong revenue expectations**: for both total sales and export sales, companies reported the highest post-crisis optimism.

Regarding their own company and their industry outlook, the variance between countries is significantly lower than regarding the economy as a whole, i.e. companies seem to be quite confident about their own competitiveness, regardless of the surrounding economy.

3. Employment and investment intentions

Unsurprisingly, good sales prospects provide good reasons to expand their capacities, and hence to hire more employees and/or boost investment outlays.

On a regional level, **nearly half of the respondents (48 per cent) intend to recruit more staff**, just 6 per cent declared they would reduce their head-count. Bosnia-Herzegovina tops the ranking, with 72 per cent of the companies signalling rising employment. The most significant improvement could be seen in Estonia.

The **propensity to invest** shows a similar pattern: 47 per cent of respondents (regional level) plan to invest more and just 9 per cent would cut back capital expenditures. Again, Bosnia-Herzegovina tops the ranking. A bit surprisingly, Poland ranks at the bottom of the list, but even there, those who intend to expand investments (37 per cent) constitute a clear majority, since just 11 per cent anticipate lower investment expenditures.

Change in the evaluation of the economic situation 2018 vs 2017

measured as the change in the balance of positive and negative answers.

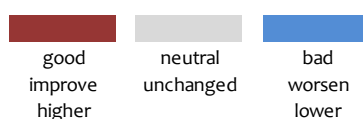
How to read: For Estonia, the share of positive answers regarding the current situation of the national economy was 37% in 2017, and 51% in 2018. The share of negative answers was 3% and 2%, respectively. Hence, the balance was +34 percentage points in 2017, and +49 in 2018. The change in the balance was +15 (improvement)

Changes of >=20 percentage points are highlighted.

	national economy		own industry		own company		sales revenues	export revenues	employment	investments
	situation	outlook	situation	outlook	situation	outlook	outlook	outlook	outlook	outlook
CEE	9	9	11	3	-1	2	3	3	6	10
AL	5	15	10	12	-8	17	11	-9	1	20
BA	13	16	7	0	5	8	11	6	19	19
BG	14	21	9	7	11	5	-1	-6	0	3
CZ	10	2	15	2	1	13	9	11	6	11
EE	15	1	10	8	-9	-8	-4	-8	30	26
HR	-6	-33	-2	-12	-15	-9	-7	8	7	-5
HU	27	13	22	16	7	9	9	3	10	11
LT	25	20	23	2	20	4	6	1	-6	-3
LV	4	11	11	1	5	-11	-19	-12	0	9
MK	-2	47	-10	3	-23	2	12	17	-11	14
PL	24	24	18	4	7	-9	14	2	0	8
RO	-34	-19	-2	-1	2	7	8	11	4	18
RS	0	11	6	11	-8	6	-8	5	14	8
SI	17	-1	35	0	-11	-2	4	23	9	15
SK	23	9	9	-8	-1	-1	-2	-6	4	2

Detailed survey results

Key to infographics in this chapter:



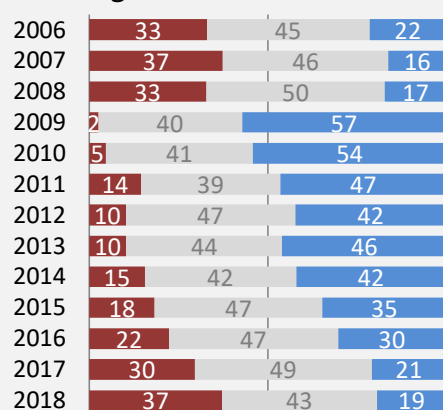
Unless stated otherwise, numbers in infographics refer to the share of the respective answers as a per cent.

Figures in brackets (e.g. → 2.1) refer to the numbering of the questions in the statistical annex.

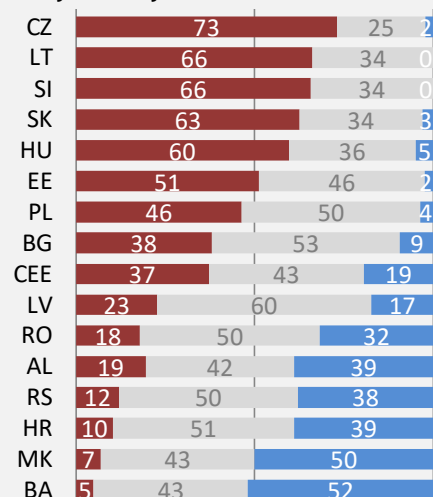
Please see Annex "Methodological notes" for further information.

National economy – situation (→ 1.1)

CEE average

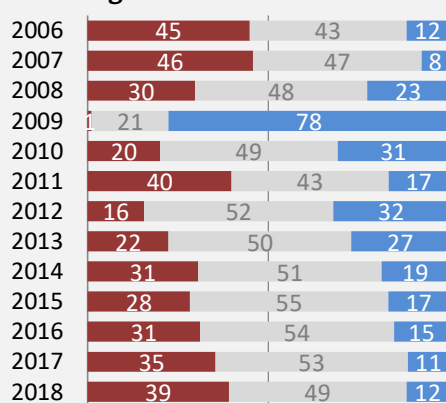


2018 by country

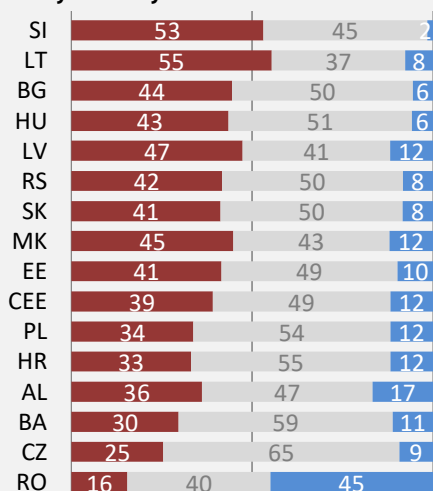


National economy – outlook (→ 1.2)

CEE average

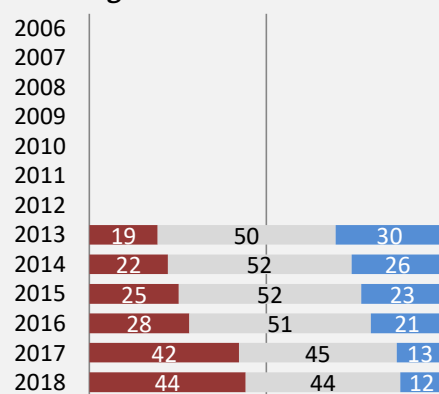


2018 by country

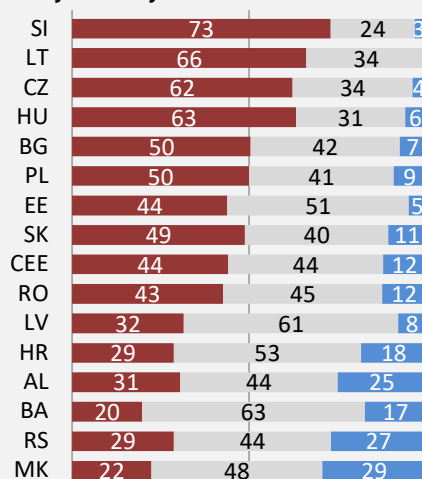


Own industry – current situation (→ 1.3)

CEE average

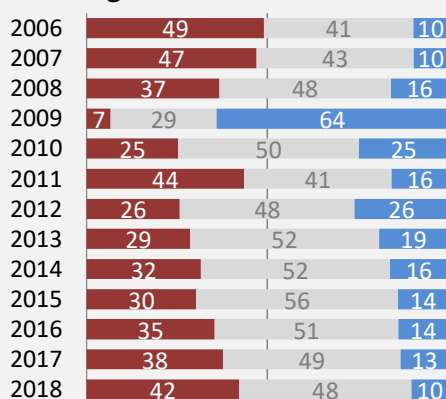


2018 by country

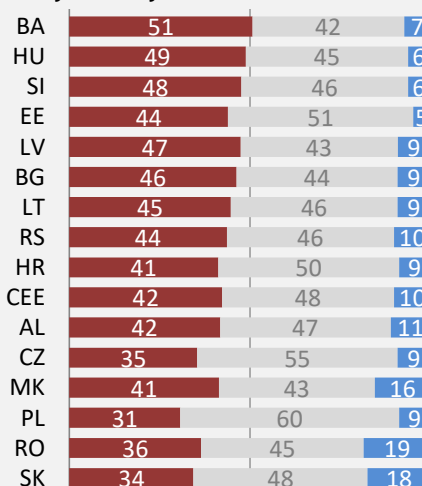


Own industry – outlook (→ 1.4)

CEE average

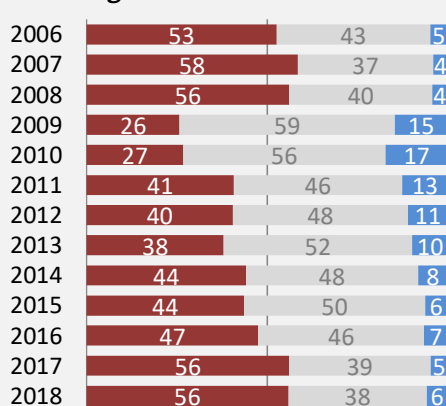


2018 by country

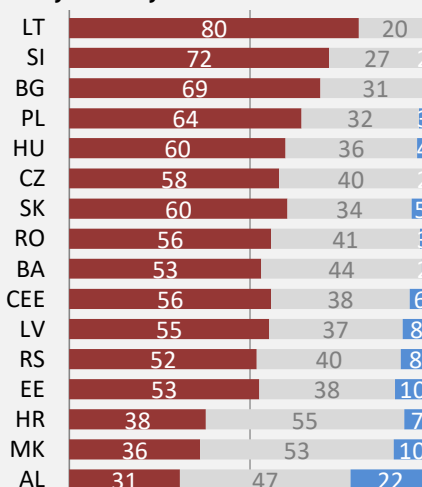


Own company – situation (→ 1.5)

CEE average

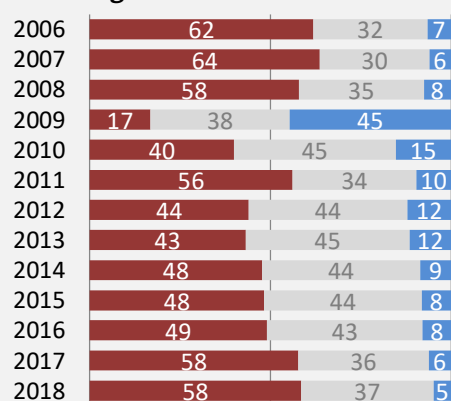


2018 by country

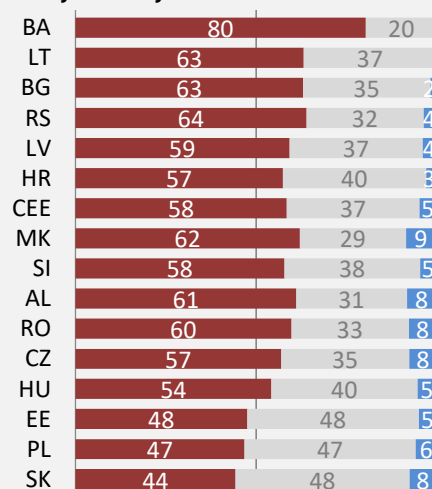


Own company – outlook (→ 1.6)

CEE average

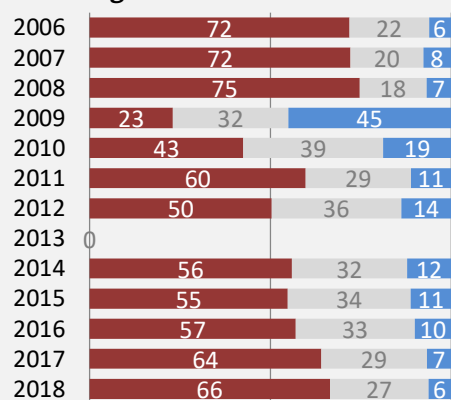


2018 by country

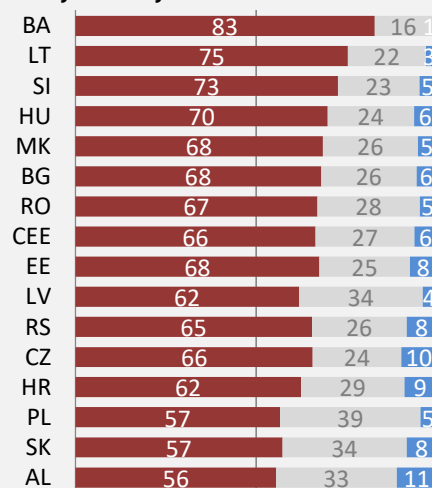


Total sales revenues – outlook (→ 1.7)

CEE average

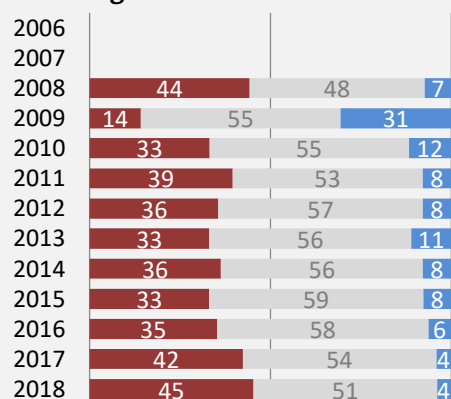


2018 by country

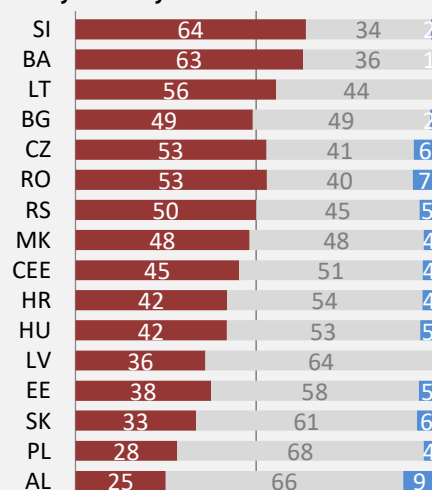


Export revenues – outlook (→ 1.8)

CEE average

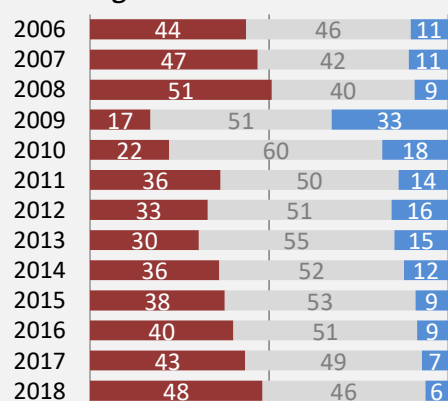


2018 by country

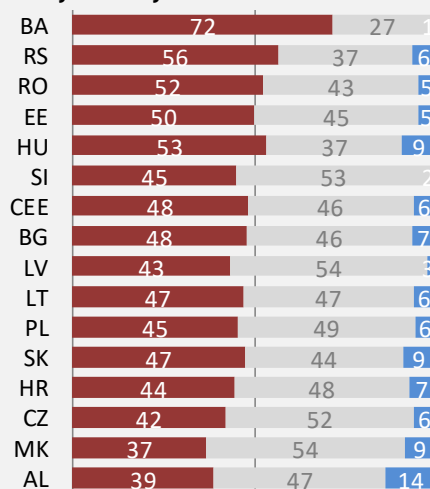


Employment intentions (→ 1.9)

CEE average

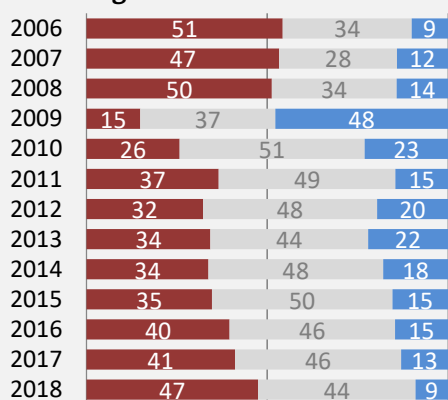


2018 by country

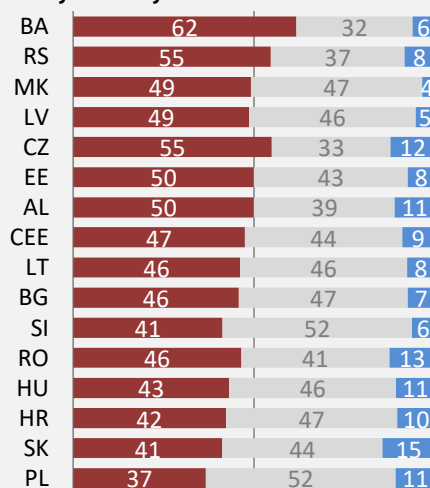


Investment intentions (→ 1.10)

CEE average



2018 by country



III. Business environment

The business environment is crucial not only for the efficiency of daily operations and the short-term profitability of a business, but also as a key determinant of long-term investment-strategies.

On a regional level, the 2018 survey showed only minor changes in the satisfaction with the local business environment.

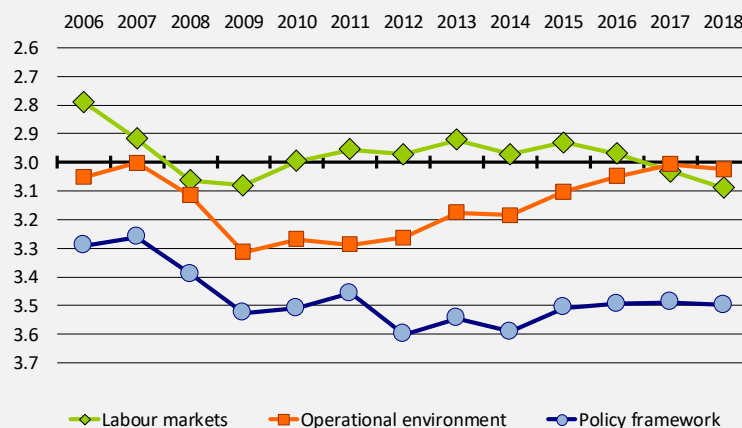
In our analyses it proved useful to group the individual constituents of the business environment – we used to examine 21 different ones – into **three categories**:

- » **Labour market factors**
This category looks at qualification levels and education systems, productivity and motivation of employees, availability of skilled work force, labour costs or the labour code.
- » **Factors related to the policy framework**
This group includes public administration, taxes, legal security, predictability, transparency of public procurement and corruption, as well as the availability of (EU-funded) subsidies.
- » **Operational environment**
These are factors which have an impact on daily operations, such as public infrastructure, local suppliers, payment behaviour and the research & development environment.

Satisfaction with main categories of the business environment

CEE average

1 = very satisfied ... 5 very dissatisfied



1. Labour markets

In the past, labour market conditions regularly received the best ratings, the operational environment was ranked second, while the policy framework received the lowest approval.

Starting around 2014, conditions on the labour markets started to receive less favourable assessments than before. **This trend continued in this year's survey.**

This is remarkable, because so far, the attractiveness of the CEE region as investment location was to a large extent attributed to the overall favourable conditions in its labour markets, as investors praised the attractive mix of qualification levels, costs and productivity.

In our 2018 survey, it was mainly the availability of skilled staff and the perceived productivity that showed poorer results, compared to the previous year. By country, Macedonia, Estonia and Croatia showed an above average decline in labour market satisfaction, while managers in Poland and Albania perceived improvements on most issues.

Change 2017/2018 in the assessment of labour market factors

Change in average ratings by country

How to read:

A change in a specific rating (on a scale from 1=best to 5=worst) from 2.88 in 2017 to 3.01 in 2018 is expressed as -13 points (=deterioration), a change from 2.28 to 2.05 is expressed as +13 points (improvement)

Changes of >=20 points are highlighted.

	Labour costs	Productivity	Qualification levels	Academic education	Vocational training	Flexibility of labour law	Availability of skilled staff
CEE	-8	-11	-8	-4	-1	0	-10
AL	-11	18	7	17	16	41	7
BA	20	3	-4	-8	12	-5	-6
BG	-3	-20	-3	9	22	-3	-3
CZ	-15	-11	5	10	3	0	-1
EE	-32	-33	-29	-33	2	-1	-35
HR	-11	-9	-21	-19	-30	-27	-26
HU	-4	-3	-7	-11	-15	1	-1
LT	18	1	7	-2	-26	15	3
LV	-12	-23	-21	2	7	-3	7
MK	-21	-31	-37	-35	-41	-32	-44
PL	-13	3	10	12	21	14	-15
RO	-15	-15	1	3	-2	-20	-15
RS	-21	-23	-4	-2	9	17	0
SI	5	-6	-6	-3	7	8	-21
SK	-11	-9	-13	5	0	-5	2

Availability of skilled staff

Starting from 2011, the availability of skilled staff has been constantly deteriorating across the region, **this trend was confirmed in the 2018 survey**. At a regional level, every second manager said he was dissatisfied with the situation – in 2011 it was just one in four.

The most serious shortages are sensed in the Czech Republic (81 % dissatisfied), Hungary (73 %) and Slovakia (62 %), but even in the “best performers”, Serbia and Albania, the proportion of the dissatisfied respondents (33 and 43 per cent, respectively) is higher than that of those satisfied (27 / 23).

Labour costs

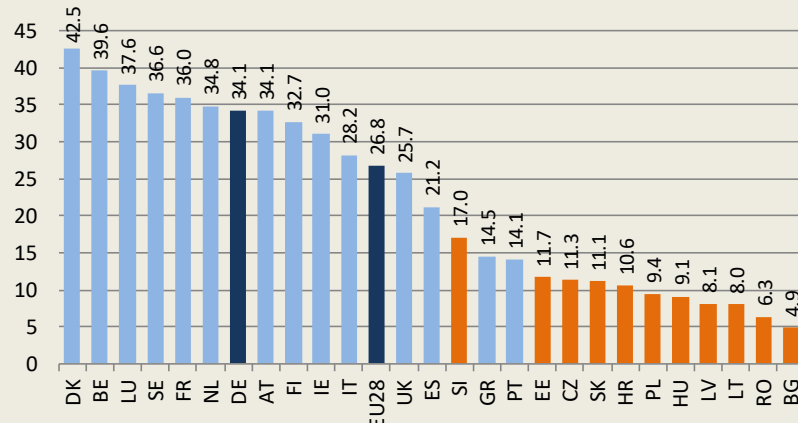
Companies usually do not judge the adequacy of “labour costs” simply on nominal wage levels, but consider the balance of nominal costs, quality/qualifications and productivity.

In our AHK surveys the satisfaction with labour costs showed a favourable balance of positive and negative opinions since the first survey in 2006. In recent years, we noticed a gradual, but **modest decline, this trend continued in 2018**. However, the overall balance is still positive on a regional level.

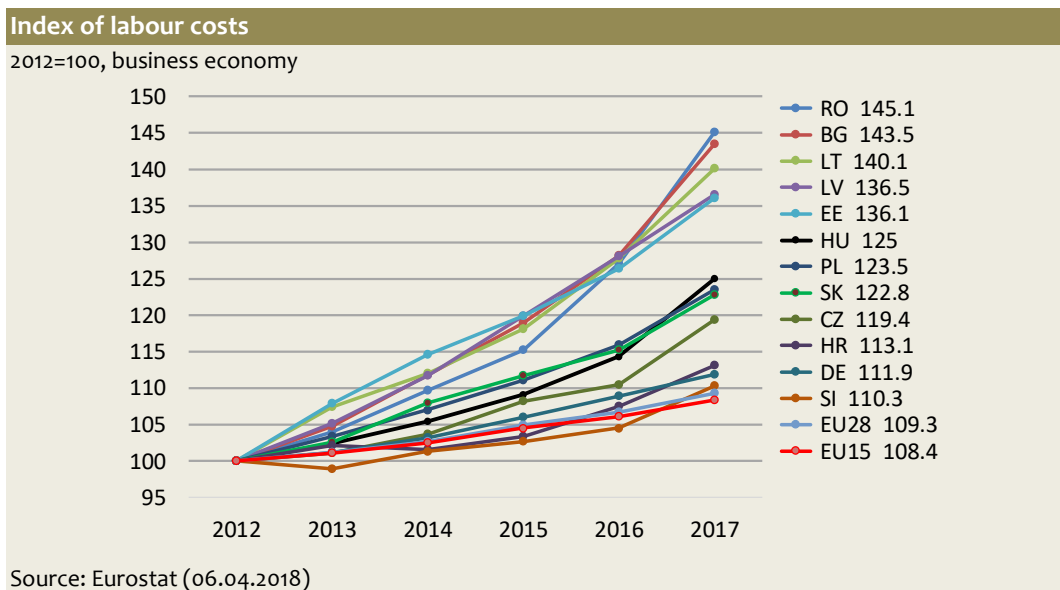
Unsurprisingly, there is a correlation between the level of local labour costs and the view of employers on labour costs: Slovenia and Estonia are relatively “expensive” in terms of labour costs – and rank at the bottom of the satisfaction scale, while in countries with relatively low wage levels such as Albania, Bulgaria, Romania, Latvia and Lithuania employers are clearly more satisfied.

Hourly labour costs 2017

EUR/hour, business economy



Source: Eurostat (11.04.2018)



Qualification levels, education

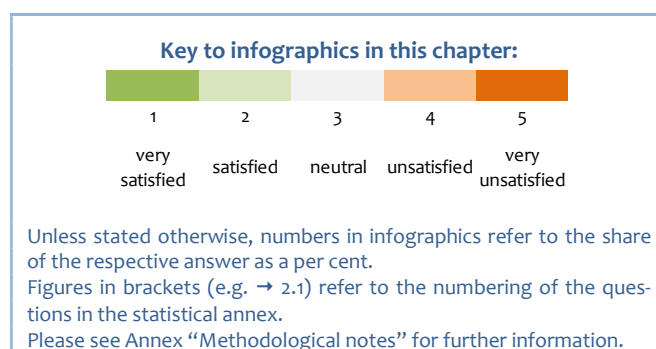
The “quality” aspects of labour markets – qualification levels, higher education and vocational training – received somewhat poorer ratings this year in most countries, compared to the 2017 survey. Nonetheless, qualification levels and higher education are still seen as broadly adequate on a regional level, as well as in most individual countries (even if there are sometimes significant differences).

The **vocational training systems** still fails to meet the needs of companies in most countries. Some respectable progress was perceived this year e.g. in Poland and Bulgaria, but only from a quite weak base point.

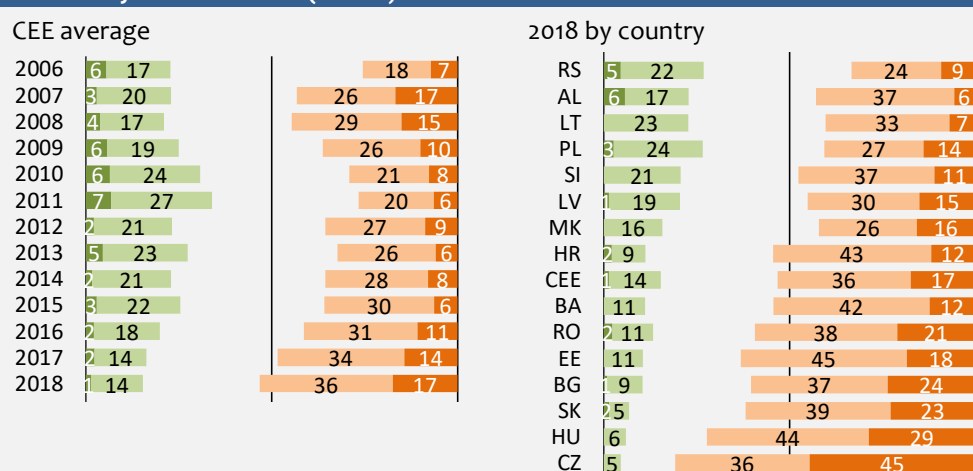
When evaluating the satisfaction with training and education issues, one should **keep in mind two aspects:**

- » The labour shortage reduces the chances of securing well skilled people on the market at reasonable costs.
- » Expectations of employers towards the skills of their – existing and new – employees are rising fast, e.g. regarding specific qualifications, language skills and IT literacy. Education systems apparently struggle across the region to keep pace with these expectations, which may cause additional disappointment.

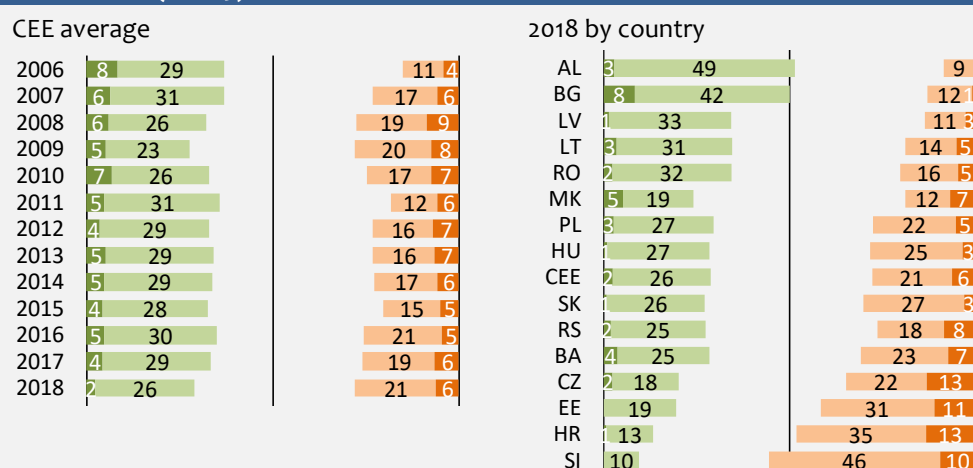
Detailed survey results



Availability of skilled staff (→ 2.21)

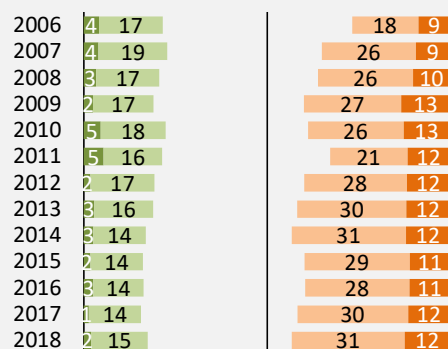


Labour costs (→ 2.15)

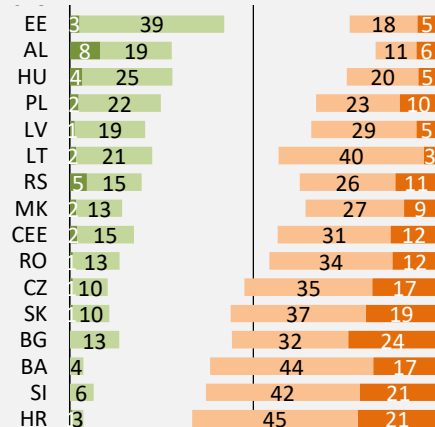


Flexibility of the labour law (→ 2.20)

CEE average

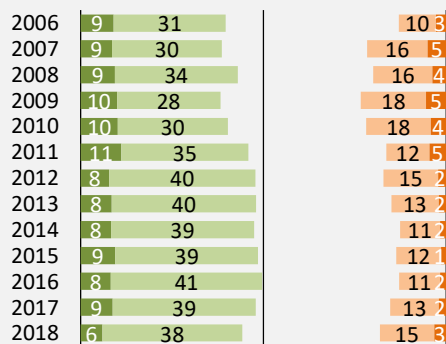


2018 by country

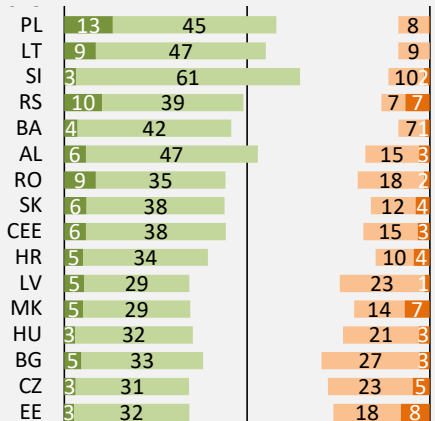


Productivity and motivation of employees (→ 2.16)

CEE average

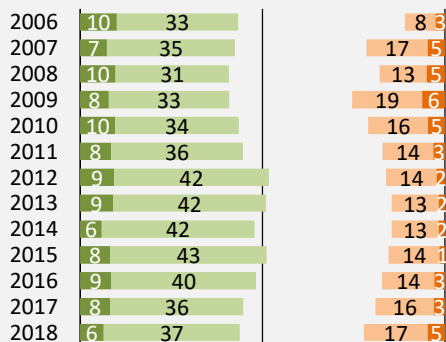


2018 by country

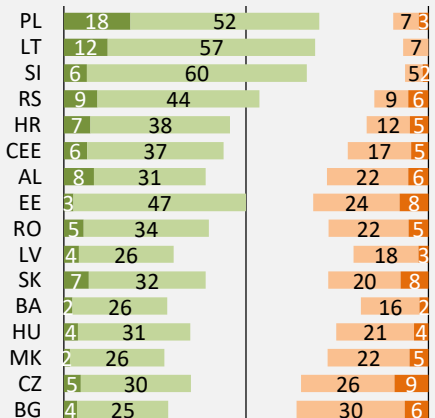


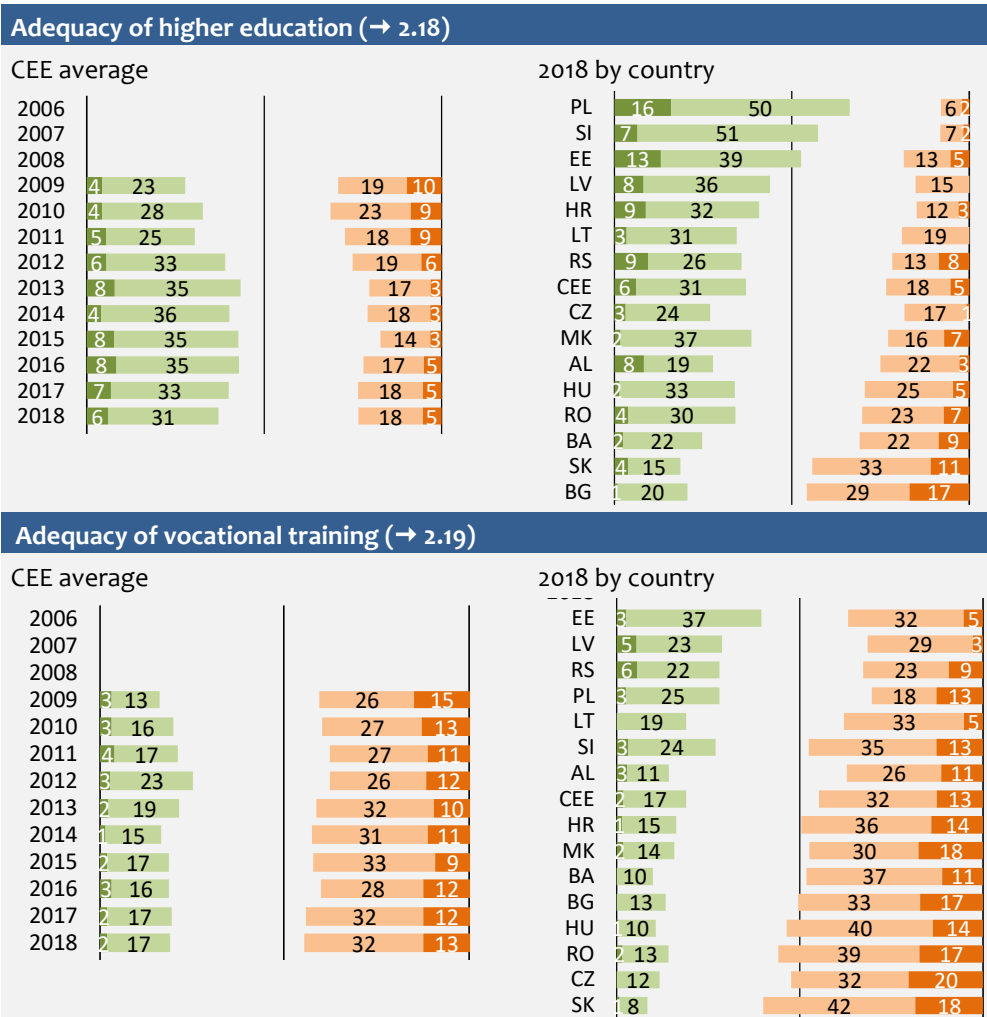
Qualification of employees (→ 2.17)

CEE average



2018 by country





2. Policy framework

On an aggregate level, the average rating for the policy environment hovered at the – not too bright – level of the 2017 survey.

In the fields of taxation, legal security, predictability, corruption, transparency of public procurement and bureaucracy, satisfaction continued to stay at clearly inadequate levels, with corruption remaining the most severe problem.

By country, in Bosnia-Herzegovina, Hungary, Lithuania and Slovakia, the situation has improved in several areas, while in Estonia, Croatia and Romania, managers voiced some more concerns than in the previous survey.

Change 2017/2018 in the assessment of policy environment factors

Change in average ratings by country

How to read:

A change in a specific rating (on a scale from 1=best to 5=worst) from 2.88 in 2017 to 3.01 in 2018 is expressed as -13 points (=deterioration), a change from 2.28 to 2.05 is expressed as +13 points (improvement)

Changes of >=20 points are highlighted.

	Public admin- is- tration	Tax bur- den	Tax admin- istration	Legal securi- ty	Public pro- curement	Predictabil- ity	Corrup- tion	Politi- cal/ social stability
CEE	1	-5	-7	-7	1	4	1	3
AL	-6	-13	-17	15	10	0	7	11
BA	16	22	17	8	27	34	29	39
BG	14	2	2	5	3	23	25	43
CZ	18	8	3	17	23	3	22	-47
EE	5	-14	-36	-47	-39	-24	-41	-29
HR	-28	-21	-27	-49	-26	-22	-39	-45
HU	10	28	20	-4	-1	30	5	17
LT	17	-7	17	10	42	0	21	17
LV	-4	-20	-32	-18	-10	8	-14	-10
MK	-24	-25	-27	-7	-6	-6	-14	42
PL	6	-2	-1	4	0	20	10	4
RO	-38	-11	-45	-51	-33	-44	-23	-47
RS	11	-8	12	-6	-7	1	-1	20
SI	13	-20	3	7	25	24	26	16
SK	4	2	-1	9	8	10	-2	20

Tax burden and tax systems

Tax still remains below expectations, both in terms of the size of tax burdens as well as regarding tax authorities. On a regional level, every second respondent is not happy, and there are only 2 or 3 countries where the group of satisfied managers is larger than that of the dissatisfied. In most countries, tax authorities are seen as an even more severe problem than tax burdens themselves.

In Hungary and Bosnia-Herzegovina, taxation received a much more favourable rating than last year. In Hungary, the share of the “satisfied” exceeds that of the “unsatisfied” for the first time ever. This should not surprise, because the corporate tax rate was lowered to 9 per cent in 2017 – the lowest rate in the EU –, while employers’ taxes on labour have been cut from 27 per cent in 2016 to now 19.5 per cent, and further reductions have been promised.

Legal environment, fair play

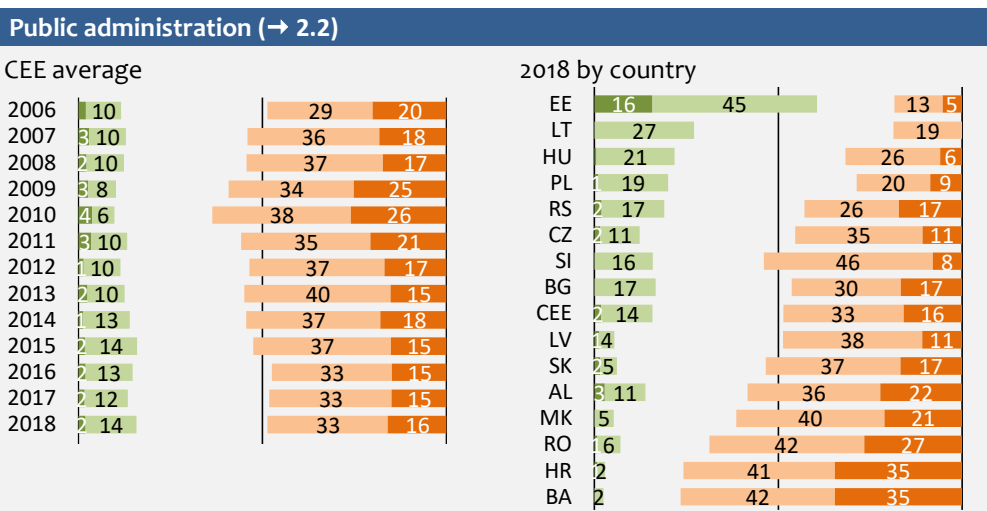
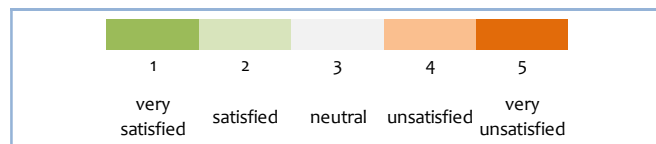
On the regional level, only marginal improvements could be measured in this year’s survey in the fields of legal security, predictability, corruption, transparency of public procurement and bureaucracy. In other words: satisfaction stayed at clearly inadequate levels.

In most of these areas, half of the respondents experiences deficiencies, with corruption remaining the most severe problem: on average, more than 60 per cent of the companies are dissatisfied, at the bottom of the ranking, this proportion hits 80 per cent.

Incidentally, the corruption ranking in our actual survey is fairly similar to the ranking of the latest *Transparency International (TI) Corruption Perception Index (CPI 2017)*, with a few exceptions. While Slovakia and Croatia ranked noticeably better in the TI-analysis than in the perception according to the AHK-survey, Serbia and Macedonia received a much more favourable evaluation locally than in the TI-ranking.

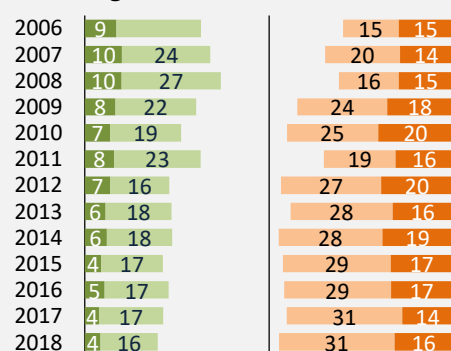


Detailed survey results

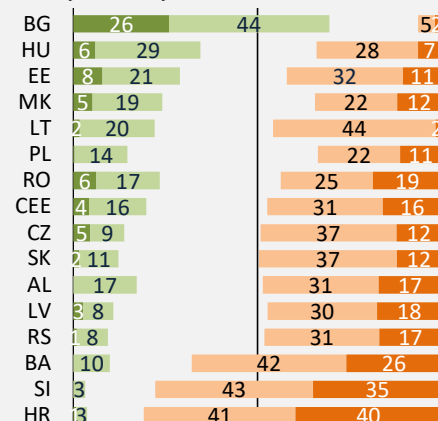


Tax burden (→ 2.3)

CEE average

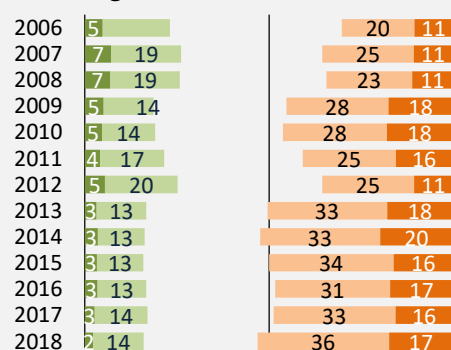


2018 by country

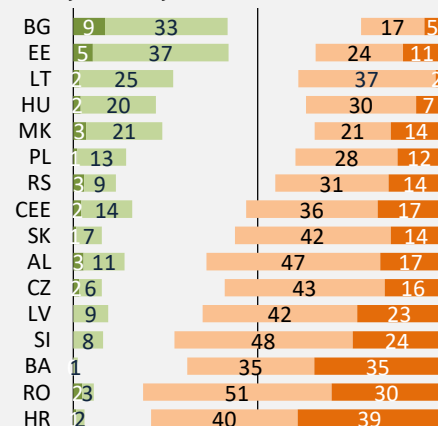


Tax authorities, tax system (→ 2.4)

CEE average

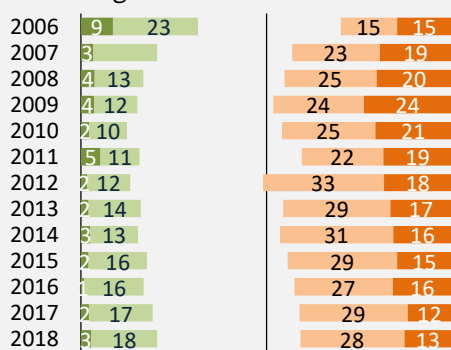


2018 by country

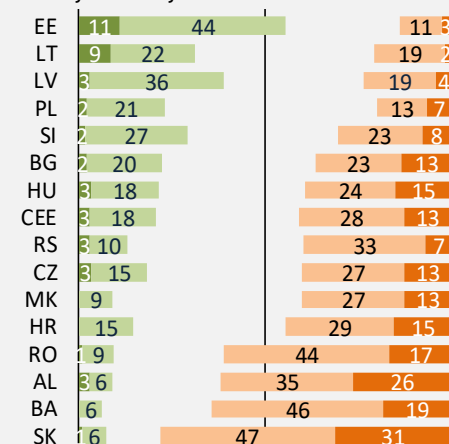


Access to state or EU funding (→ 2.5)

CEE average

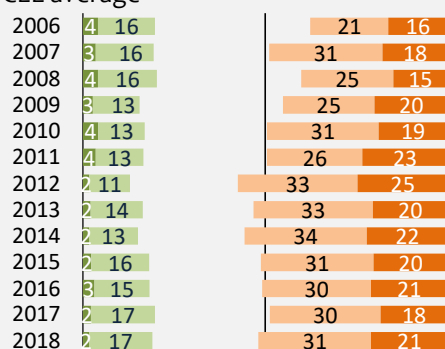


2018 by country

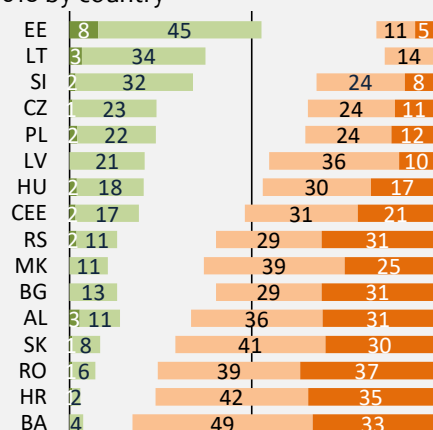


Legal security (→ 2.6)

CEE average

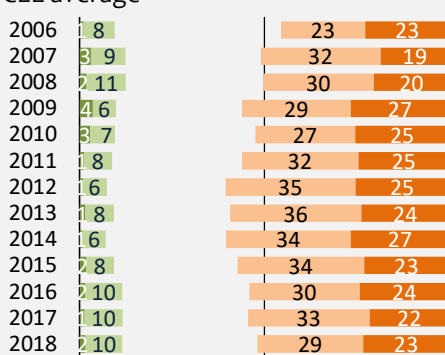


2018 by country

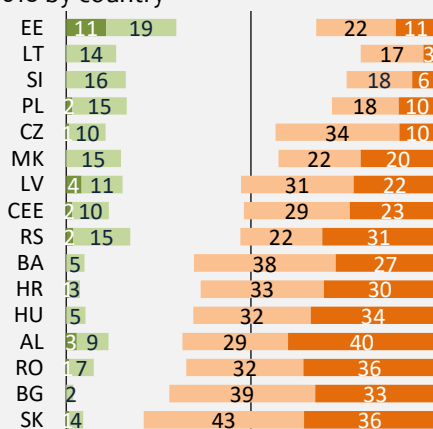


Transparency of public procurement (→ 2.7)

CEE average

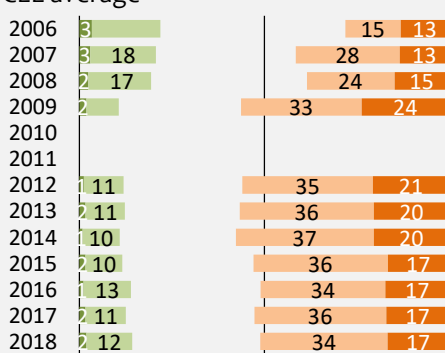


2018 by country

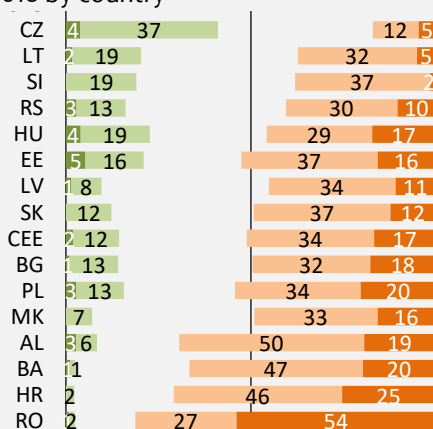


Predictability of economic policies (→ 2.8)

CEE average

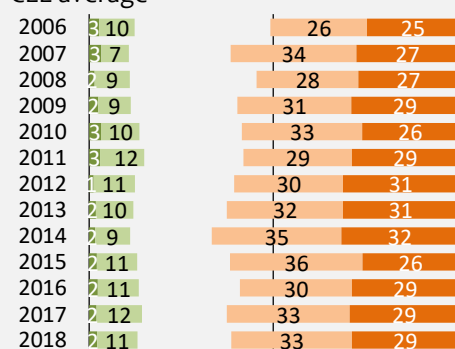


2018 by country

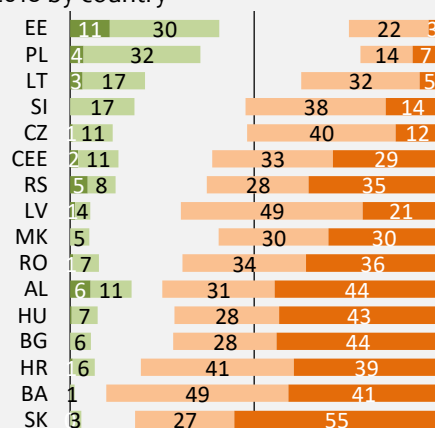


Fight against corruption and crime (→ 2.9)

CEE average

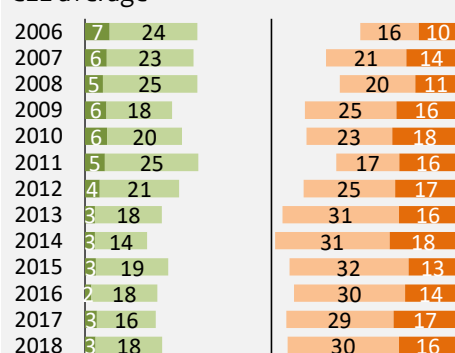


2018 by country

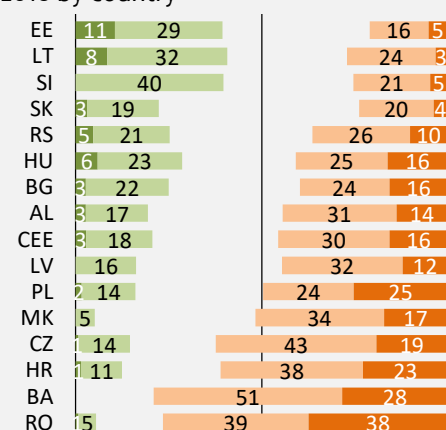


Political and social stability (→ 2.10)

CEE average



2018 by country



3. Operational environment

The operational environment, i.e. those factors that are prerequisites for efficient operations, traditionally received positive ratings in our surveys. This year, we recorded only marginal changes on a regional level.

In the 2018 survey, conditions for R&D were rated somewhat more critically in some countries, while payment discipline improved further across the region.

Change 2017/2018 in the assessment of the operational environment

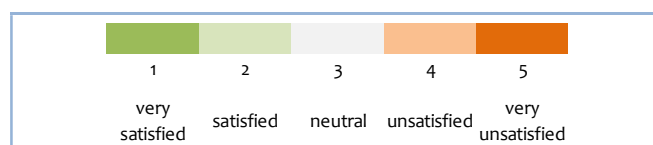
Change in average ratings by country

How to read:

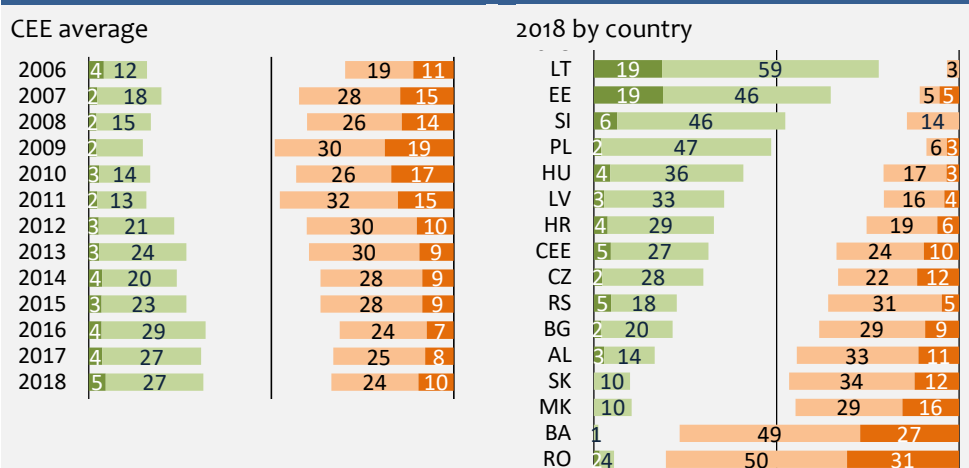
A change in a specific rating (on a scale from 1=best to 5=worst) from 2.88 in 2017 to 3.01 in 2018 is expressed as -13 points (=deterioration), a change from 2.28 to 2.05 is expressed as +13 points (improvement)
Changes of >=20 points are highlighted.

	Infrastructure	R+D environment	Local suppliers	Payment behaviour
CEE	-1	-5	-6	5
AL	21	17	8	-6
BA	2	23	17	9
BG	5	-1	6	7
CZ	4	4	-2	20
EE	9	-5	-32	-23
HR	-19	-37	-18	-9
HU	2	11	-6	5
LT	4	-20	-19	26
LV	-10	-20	-12	2
MK	-2	-27	-18	-4
PL	4	-6	-9	8
RO	-33	-23	-2	-2
RS	17	-5	-14	2
SI	0	17	13	22
SK	-15	-6	-1	20

Detailed survey results

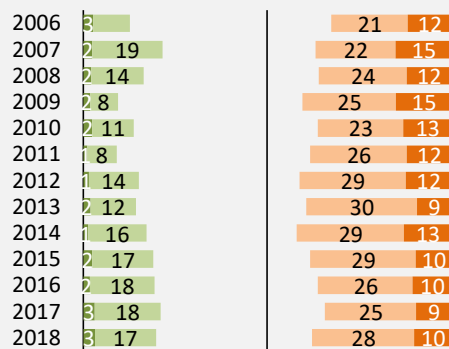


Infrastructure (→ 2.11)

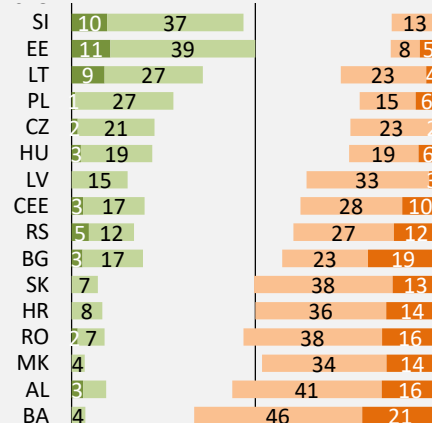


R&D environment (→ 2.12)

CEE average

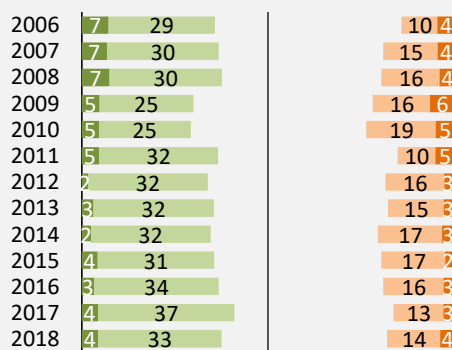


2018 by country

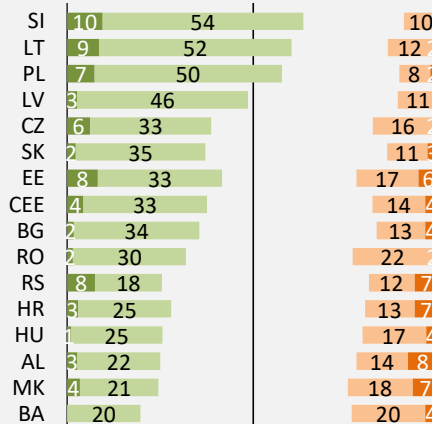


Quality and availability of local suppliers (→ 2.13)

CEE average

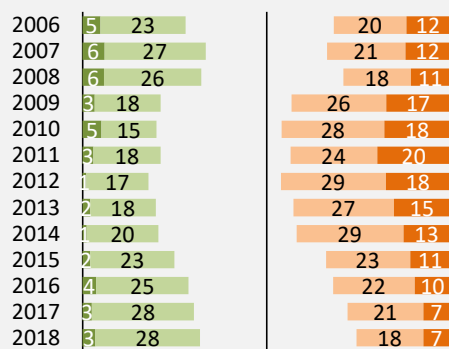


2018 by country

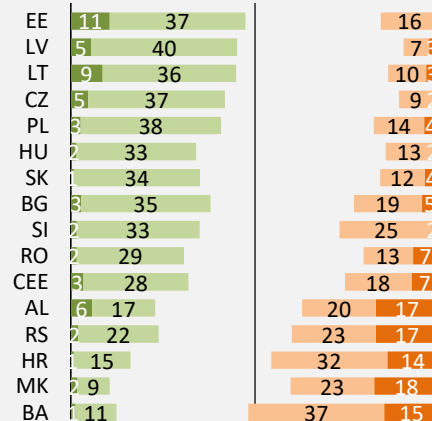


Payment behaviour (→ 2.14)

CEE average



2018 by country



4. Europe and Euro

The Central and Eastern European countries are closely integrated into the European economy. The EU member states among them carry out two thirds, some even more than 80 per cent of their foreign trade within the EU, and European companies are the most important investors as well.

EU-membership seen overwhelmingly positively

In the 2018 survey, we recorded another slight improvement in the already very positive attitude towards the EU: 70 per cent of the respondents were satisfied and just 11 per cent voiced objections.

This positive stance can primarily be attributed to three advantages of the EU:

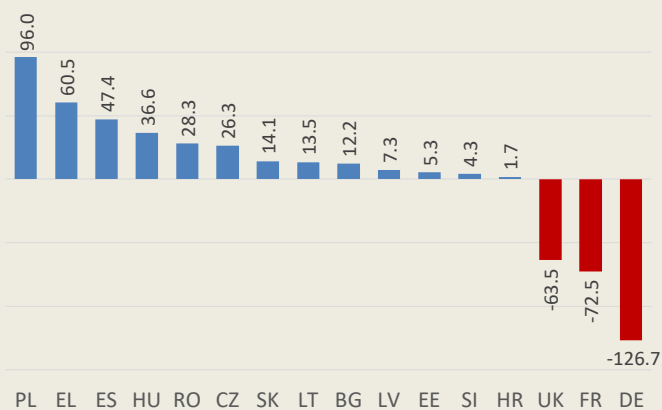
- » unlimited access to the single European market with 500 million consumers
- » substantial net transfers from the EU
- » additional legal security due to the » *acquis communautaire*«.

Support for the Euro on the rise again

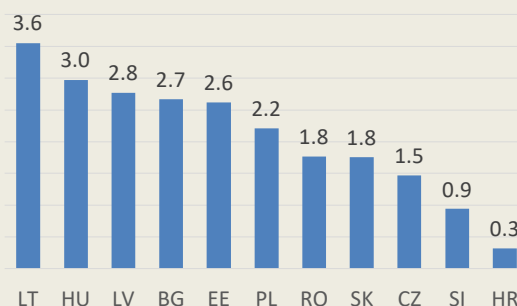
Following the all-time low in 2016, the wish to join the Eurozone picked up again in 2017, and also in 2018: In this year's survey, support rose to 52 per cent, opponents accounted for 31 per cent. Hungary stands out with 58 per cent support.

Net transfers of the European Union 2004–2016 *

in EUR bln



in per cent of gross national income (average in period)

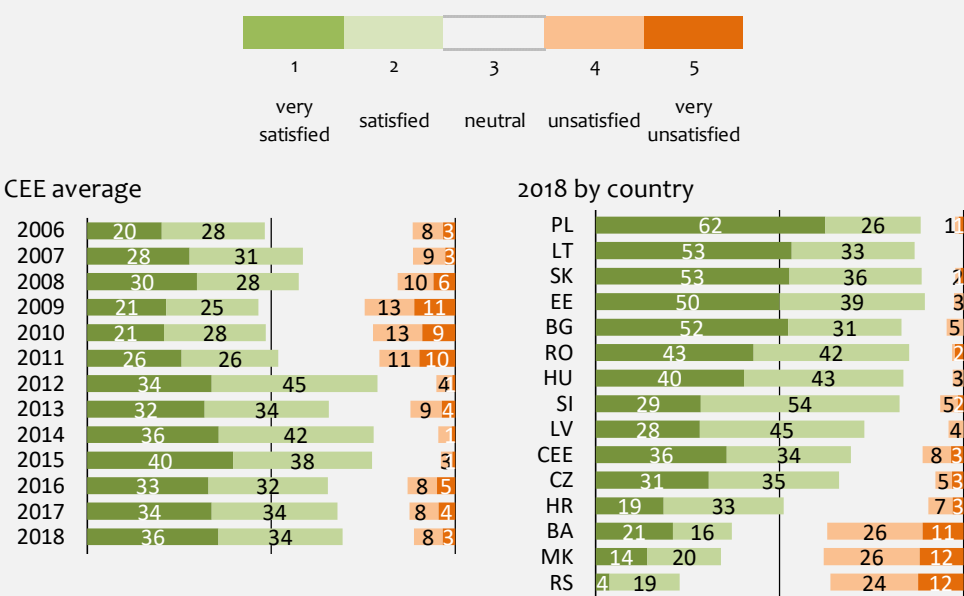


* Operating budgetary balance.

Source: European Commission, Financial Report 2016 (27.02.2018)

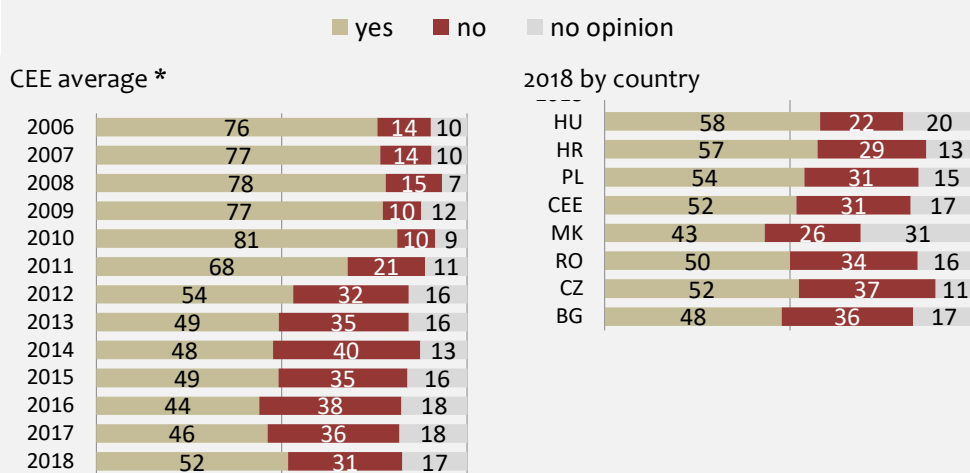
Detailed survey results

Membership in the European Union (→ 2.1) *



* in Serbia, the question was: How satisfied you are with the EU integration process? In Bosnia-Herzegovina and Macedonia the question referred to the "future membership"

Do you support the adoption of the Euro in your country (→ 3) *



* changing composition of the sample, due to the adoption of the Euro in Slovenia, the Baltic States and Slovakia.

IV. Investment alternatives

1. Commitment to current location

Since it often proves difficult to derive a final conclusion from a variety of questions on the economic situation and the business environment, we used to pose the question:

“Would you today choose [your country] as an investment location again?”

The answers can serve as an indicator for the “balance” of all pros and cons regarding the respective country.

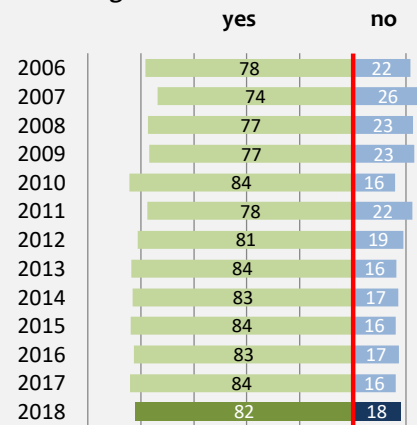
In this year’s survey, the CEE average showed a minor downward correction, however, the overall commitment rate still exceeds 80 per cent. This means, that four out of five investors feel that they have chosen the right location.

Even negative answers do not necessarily mean that those companies which today would prefer a different location, are about to leave the current country. Changing market conditions or customer needs may have changed business preferences, but of course, the local business environment also plays an important role.

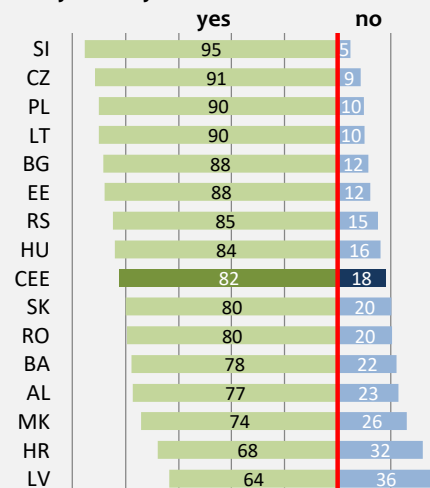
Would you today choose [your country] as investment location again? (→ 4)

Share in per cent

CEE average



2018 by country



2. Country attractiveness

All results presented above reflect the view of local players on their own business environment. However, it is worthwhile to compare this internal view to the external evaluation of a specific country.

Unsurprisingly in most survey countries (in 10 out of 15), local managers rated their present location as the most attractive in the region. Croatia was a noticeable exception: It was ranked #11 by local managers, but #8 from the respondents in the other 14 survey countries.

In 2018, the CEE-wide ranking was again led by the **Czech Republic as the most attractive investment site**, while Poland defended its second place, whereas Slovakia and Estonia swapped places on ranks 3 and 4.

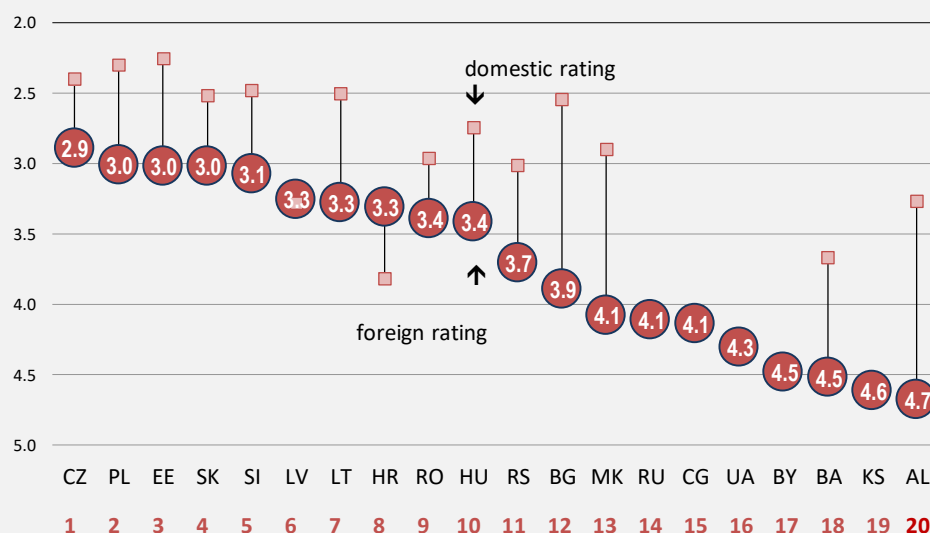
However, it is important to note that in many cases the **ratings differ only marginally**: Poland, Estonia and Slovakia received nominally nearly identical ratings, the same applies to Latvia/Lithuania/Croatia and Romania/Hungary. This suggests that business conditions in the region are fairly similar, which also means that for a particular investment decision even minor advantages or disadvantages may tip the scales in favour of one or another potential location.

How attractive are the listed countries as investment location (→ 5)

(see also methodological note in the Annex)

Rating values 2018

1 = very attractive 6 = not attractive



How attractive are the listed countries as investment location (→ 5)

(see also methodological note in the Annex)

Historical rankings 2006-2018

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Czech Rep.	1	1	1	1	1	1	1	2	2	2	1	1	1
Poland	8	9	4	4	2	2	2	1	1	1	2	2	2
Estonia	4	4	6	6	8	5	4	3	3	3	4	4	3
Slovakia	3	3	3	2	4	4	3	4	4	4	3	3	4
Slovenia	2	2	2	3	3	3	5	5	5	5	5	5	5
Latvia	7	5	7	11	13	9	8	7	6	6	6	6	6
Lithuania	6	6	8	10	10	6	9	8	7	7	7	8	7
Croatia	9	7	11	5	5	7	6	6	8	8	8	7	8
Romania	12	10	9	8	9	11	10	11	11	10	10	10	9
Hungary	5	8	5	9	7	10	13	10	9	9	9	9	10
Serbia	14	14	14	13	11	12	11	12	12	11	11	11	11
Bulgaria	11	11	12	12	12	13	12	14	14	12	12	12	12
Macedonia	::	16	15	16	16	16	16	15	13	13	13	14	13
Russia	13	12	10	7	6	8	7	9	10	15	15	13	14
Montenegro	::	15	16	15	15	15	14	16	15	14	14	15	15
Ukraine	10	13	13	14	14	14	15	13	17	20	18	16	16
Belarus	::	::	::	::	18	18	18	19	19	17	17	17	17
Bosn.-Herzeg.	::	17	17	17	17	17	17	17	16	16	16	18	18
Kosovo	::	::	::	::	::	20	20	18	18	19	20	19	19
Albania	::	18	18	18	19	19	19	20	20	18	19	20	20

:: the given country was not on the list of countries to be rated.

Annex

About the survey

General

- » The German bilateral Chambers of Industry and Commerce in Central and Eastern Europe conducted the first coordinated Investment Climate survey in 2006. In 2018, the joint survey was conducted for the 13th time.
- » In most of the involved countries, a separate, “national” evaluation of the results has been published. The database for the national and the current international evaluation is identical.

Survey period:

- » February 1 – March 10, 2018

Type of survey:

- » The survey is based on a uniform questionnaire, which was answered online. The evaluation was performed anonymously.

Country coverage:

- » The survey was carried out in the following CEE countries:
 - 11 Eastern European EU accession countries 2004+2007+2013 (»NM-11«)
 - 4 countries of the Western BalkansThe survey was not carried out in Montenegro.
In Kosovo, the survey was carried out, but due to the insufficient size of the sample, results have not been considered.
- » Therefore, all survey results presented refer to **15 survey countries**.

Acronyms and abbreviations

Eastern EU-Member states (NM-11)		Other countries in South-East Europe (SOE-6)	
BG	Bulgaria	AL	Albania
CZ	Czech Republic	BA	Bosnia-Herzegovina
EE	Estonia	KS*	Kosovo
HR	Croatia	ME	Montenegro
HU	Hungary	MK	Macedonia
LT	Lithuania	RS*	Serbia
LV	Latvia		
PL	Poland	EU28	European Union – current composition
RO	Romania		
SI	Slovenia	EU15	European Union before 2004 enlargement
SK	Slovakia		

Other country acronyms refer to the COMMISSION REGULATION (EU) No 1106/2012 of 27 November 2012

* Acronym used here differs from the EC regulation.

Participating organisations

Please note:

- » The bilateral German Chambers or representations listed below were the co-ordinators of the surveys in the respective country. However, in several countries bilateral chambers of other nations also participated in the survey. To learn more, please refer to the websites of the respective German chambers or delegations.

AL – Albania

see Macedonia

EE – Estonia

German-Baltic Chambers of Commerce and Industry in Estonia, Lithuania and Latvia

<http://baltikum.ahk.de>

BA – Bosnia-Herzegovina

German Delegation

<http://bosnien.ahk.de>

BG – Bulgaria

German-Bulgarian Chamber of Industry and Commerce

<http://bulgarien.ahk.de>

CZ – Czech Republic

German-Czech Chamber of Industry and Commerce

<http://tschechien.ahk.de>

HR – Croatia

German-Croatian Chamber of Industry and Commerce

<http://kroatien.ahk.de>

HU – Hungary

German-Hungarian Chamber of Industry and Commerce

<http://ungarn.ahk.de>

KS – Kosovo

see Macedonia

LT – Lithuania

see Estonia

LV – Latvia

see Estonia

MK – Macedonia

Delegation of German Industry and Commerce in Macedonia

<http://mazedonien.ahk.de>

PL – Poland

German-Polish Chamber of Industry and Commerce

<http://polen.ahk.de>

RO – Romania

German-Romanian Chamber of Industry and Commerce

<http://rumaenien.ahk.de>

RS – Serbia

German-Serbian Chamber of Commerce

<http://serbien.ahk.de>

SK – Slovakia

German-Slovakian Chamber of Industry and Commerce

<http://slowakei.ahk.de>

SI – Slovenia

German-Slovenian Chamber of Industry and Commerce

<http://slowenien.ahk.de>

Sample (survey participants)

In the 2018 AHK Investment Climate Survey 1,698 managers in 16 countries responded to the questions

Number of participants by country

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Albania	::	::	::	14	7	12	26	33	39	33	40	45	36
Bosn.-Herceg.	61	43	40	65	57	59	49	46	39	50	57	73	81
Bulgaria	33	63	62	57	72	68	84	108	99	107	107	102	108
Czech Rep.	104	123	118	121	125	71	148	177	141	138	196	138	131
Estonia	23	13	18	36	28	32	33	35	34	28	30	62	41
Croatia	68	45	56	43	50	61	80	82	105	116	80	126	137
Hungary	206	177	179	143	182	144	199	365	194	209	227	230	205
Kosovo*	::	::	::	::	::	16	6	31	27	20	17	20	20
Lithuania	44	34	21	29	24	26	35	31	47	57	50	51	65
Latvia	43	65	43	53	50	39	48	37	38	45	34	56	76
Macedonia	34	54	43	36	35	27	46	51	42	34	59	71	58
Poland	165	84	56	173	99	80	186	151	142	116	351	369	307
Romania	55	66	49	53	42	60	49	153	123	126	105	120	130
Serbia	34	67	34	18	59	72	78	66	97	102	71	66	108
Slovenia	25	::	::	32	30	26	44	70	71	76	33	49	64
Slovakia	83	94	95	70	114	163	212	187	196	167	166	176	131
CEE total	978	928	814	943	974	956	1323	1623	1434	1424	1623	1754	1 698

* Kosovo results not considered due to insufficient size of the sample

Composition of the sample (CEE average)

	By sector			By number of employees				By share of exports in sales revenues		
	Industry	Trade	Services	1-9	10-49	50-249	250+	0-20%	20-60%	60-100%
2011	33	23	44	24	32	28	16	55	19	26
2012	34	24	42	30	30	23	16	55	20	25
2013	38	22	40	28	32	24	16	54	20	26
2014	37	21	42	24	34	26	16	53	20	27
2015	38	17	45	24	35	25	16	51	22	28
2016	37	20	43	24	33	26	17	53	18	29
2017	37	20	43	22	31	27	20	52	19	30
2018	41	19	40	20	33	27	19	48	20	33

Notes:

- » "Industry" includes manufacturing industry, construction and utilities
- » The "trade" sector is predominantly composed of foreign and wholesale trade companies, rather than of retailers.

Questionnaire

Please note:

- » The questions shown below are the “core questions”, which were used in all participating countries. However, in several countries, additional “national” questions were included. For details, please refer to the national evaluations.

1. Business sentiment

- 1.1. How do you rate the current economic situation in [your country]?
options: *good / satisfactory / bad*
- 1.2. How do you rate the outlook of [your country's] economy this year compared to the previous year?
options: *better / unchanged / worse*
- 1.3. How do you rate the current situation of your industry?
options: *good / satisfactory / bad*
- 1.4. How will the business situation of your industry develop this year compared to the previous year?
options: *better / unchanged / worse*
- 1.5. How do you rate the current business situation of your company?
options: *good / satisfactory / bad*
- 1.6. How will the business situation of your company develop this year compared to the previous year?
options: *better / unchanged / worse*
- 1.7. How will your total sales revenues develop this year compared to the previous year?
options: *rise / unchanged / increase*
- 1.8. How will your export revenue develop this year compared to the previous year?
options: *rise / unchanged / increase*
- 1.9. How will the number of employees in your company develop this year compared to the previous year?
options: *rise / unchanged / increase*
- 1.10. How will your capital expenditure develop this year compared to the previous year?
options: *rise / unchanged / increase*
- 1.11. By how much will your average payroll costs rise this year (per employee, taking into account tax reductions)?

2. How satisfied are you with the following business conditions?

options: 1 (*very satisfied*) / 2 / 3 / 4 / 5 (*very dissatisfied*)

[Policy environment]

- 2.1. Membership in the European Union
- 2.2. Public administration
- 2.3. Tax burden
- 2.4. Tax authorities, tax system
- 2.5. Access to state or EU funding
- 2.6. Legal security
- 2.7. Transparency of public procurement
- 2.8. Predictability of economic policies
- 2.9. Fight against corruption and crime

2.10. Political and social stability

[Operational environment]

2.11. Infrastructure (e.g. transport, telecommunications, energy)

2.12. R&D environment

2.13. Quality and availability of local suppliers

2.14. Payment behaviour

[Labour markets]

2.15. Labour costs

2.16. Productivity and motivation of employees

2.17. Qualification of employees

2.18. Adequacy of higher education

2.19. Adequacy of vocational training

2.20. Legal flexibility of employment

2.21. Availability of skilled staff

3. Should [your country] join the Eurozone?

options: yes / no / no opinion

4. Would you today again choose [your country] as preferred location for your investment?

options: yes / no

4.b. If NOT: Which country would you choose?

5. How do you rate the attractiveness of the listed countries as investment location?

options: 1 (very attractive) / 2 / 3 / 4 / 5 / 6 (not attractive)

Albania	Bosnia-Herzegovina	Bulgaria
Belorussia	Montenegro	China
Czech Republic	Estonia	Croatia
Hungary	Kosovo	Lithuania
Latvia	Macedonia	Poland
Romania	Serbia	Russia
Slovenia	Slovakia	Ukraine

Company demographics

Main area of operations

options: Manufacturing / Utilities (energy, gas, water supply, waste disposal) / Construction / Retail and wholesale trade / Services

Number of employees

options: 1-9 / 10 - 49 / 50 - 249 / 250 or more

Share of export sales in total revenues

options: 0-20 / 20-40 / 40-60 / 60-80 / 80-100%

Methodological notes

Definitions

- » «*Central and Eastern Europe*» or «*CEE*» in general refers to the 11 new Eastern European EU member states plus the 6 countries of the Western Balkans.
Survey results in the present publication refer to the countries mentioned above, but excluding Montenegro and Kosovo.
- » «*EU-28*» refers to members of the European Union in its current (2018) composition.
- » «*EU-15*» refers to the 15 members of the European Union before the 2004 enlargement.

Data:

- » Unless stated otherwise, data in texts and charts refer to the share of the respective answer as a per cent of the total number of answers received for that particular question.
- » The sum of percentage shares may differ from 100 due to rounding differences.

Averages

- » Unless stated otherwise, averages refer to the arithmetical mean.
- » «*Regional average*» or «*CEE average*» refers to the average of the 15 survey countries.

Chapter II “Business activity and expectations”

- » Country rankings are based on the balance of positive and negative answers in the individual countries.

Chapter III “Business environment”

- » The 21 factors of the business environment could be rated as “satisfaction with the current situation” on a scale from 1 = very satisfied to 5 = very dissatisfied.
- » In the text, the phrase «*satisfied*» usually refers to the sum of the answer-options 1+2 (very satisfied + satisfied), the phrase «*dissatisfied*» refers to the answer-options 4+5 (unsatisfied + very dissatisfied),
- » Country rankings are based on the average ratings (1-5) for the respective indicator in the individual countries.

Chapter IV.2. “Country attractiveness”

- » The attractiveness of 20 listed countries as an investment location could be rated on a scale from 1 = very attractive to 6 = not attractive.
- » The average rating for each rated country was calculated as the average of the ratings for the particular country as given in all of the 15 survey countries – but excluding the domestic rating on their own country.



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As a part of a network that comprises 130 German foreign-trade chambers and covers 90 countries around the world, DUIHK offers professional support for companies of both countries to ensure the success of their business operations abroad.



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We pursue close co-operation with Hungarian and German business and official organisations, but also perform representation on behalf of the Free States of Bavaria and Saxony here in Hungary, as well as on behalf of the German National Tourist Board.

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2018

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