

How does Slovakia score?

Countries in southeast Europe feature strongly in this year's PricewaterhouseCoopers EM20 Index, a ranking of attractive emerging markets based on the firm's innovative country risk and reward model. The index, which was launched last year, shows once again, that while the countries like Brazil, Russia, India and China continue to offer interesting opportunities, there are other locations that offer attractive alternatives for companies looking to invest in emerging markets.

The PricewaterhouseCoopers EM20 Index provides a risk-adjusted measure of the relative value created per dollar invested in businesses in key emerging markets. It considers "greenfield" investments in both a stylized manufacturing company that is 50% export orientated, and a stylized services business that provides 90% of its services to the domestic market where it is located. There are separate rankings for the manufacturing and services sectors. The two key factors differentiating the index from other similar country ranking exercises are:

- The index and rankings incorporate both the risk and the return associated with an investment in a particular country, and
- The results are based on discounted cash flow analysis used in actual business investment appraisals to combine the influence of various factors, such as initial income levels, economic growth, tax, transport costs and country risk premia, rather than the more judgmental weighting and scoring system used in most other country rankings.

The EM20 Index not only considers initial cost of each investment, but also analyses the stream of profits it is expected

to generate and the relative risk associated with the investment, as reflected in bond market data and political risk ratings for the country concerned. As a result, it represents the relative attractiveness of business investment opportunities in each country as measured by the present value of the cash flows generated by each US dollar of investment. These present values are then translated on to a 0-100 scale to derive the index values.

Slovakia's rise in the Services Index also reflects the country's relative political and economic stability and its GDP per capita growth. Since joining the EU and adoption of Euro currency, its country risk premium has fallen significantly.

An adjustment to our methodology

Country risk is a crucial determinant when assessing the relative attractiveness of a particular country to inward investors. In our previous editions

of our EM20 Index, the risk and reward model that underpins the index contained country risk premia based primarily on sovereign debt data. This was a reasonable approach in the past, but financial market operations have been significantly disrupted since September 2008.

We have adjusted our methodology for calculating country risk premia. Using econometric analysis and World Bank data, our country risk estimation model now places a greater weight on the fundamentals behind country risk, such as political stability, regulatory effectiveness and the rule of law, while also considering the government bond market data. That's why we believe that the result-adjusted country risk premia present a more accurate picture of the risk profiles of the countries in the EM20 Index.

It should be stressed that the results are based on highly stylised businesses and, necessarily, make a range of simplifying assumptions. The rankings are not intended as a substitute for much more detailed case-by-case analysis of real business opportunities. The rankings also apply only to direct investment, but not to investment in equity markets or other financial assets.

For manufacturing companies seeking to invest in emerging markets, low production costs are a key requirement. Other facts then come into play, including the location's country risk premium, its distance from key export markets and the local corporation tax rate. For businesses in the services sector, relatively high GDP per capita levels are a significant factor. Typical service businesses represented in the model would be banks, insurers, media, telecoms and IT-related operators.

The EM20 Index 2009 Interim Update reflects the fact that, while the current financial and economic crisis is affecting virally all emerging markets, some are being impacted more than others. The highly-ranked countries in both manufacturing and the services indices feature the tried and tested investment destinations that still represent potentially attractive long-term investment opportunities. Less well-placed countries are countries without



significant domestic markets or those not anchored within large trade and currency blocs.

Rising star

The most visible advances in the Services Index have been made by Slovakia. It dramatically improved its ranking between 2004 and 2008, rising from 16th to first place. Slovakia's rise in the Services Index also reflects the country's relative political and economic stability and its GDP per capita growth. Since joining the EU and adoption of Euro currency, its country risk premium has fallen significantly.

Slovakia has made significant advances in the Manufacturing Index as well. The higher ranking is largely attributable to its country risk premia remaining relatively low in an environment of significant upward revisions of risk.

The Slovak economy continued to grow in the fourth quarter of 2008. This was driven in part by strong performance in consumer spending. However, the volume

of retail sales dropped in January 2009. In addition to this, Slovakia's consumer confidence fell to its lowest level since August 1999 increasing the likelihood that consumer spending will weaken in the coming months. Exports contracted are expected to continue to fall as a result of weak demand from the EU, in particular Germany and the Czech Republic, which are the main markets for Slovak exports. With a slowdown anticipated in consumer spending, industrial output and exports, the Slovak government is likely to increase spending in an effort to stimulate the economy. However, the extent of this stimulus response will be limited by the EU framework which states that the government's budget deficit cannot exceed 3% of GDP. However, considering the above factors, Slovakia may likely sustain the ranking in the Services Index for the next period.



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MANUFACTURING					
2009			2008		
Rank	Country	Index	Rank	Country	Index
1	Chile	95	1	Egypt	95
2	Bulgaria	92	2	Bulgaria	93
3	Malaysia	86	3	Serbia	88
4	China	84	4	India	86
5	Poland	83	5	Vietnam	85
6	India	80	6	Peru	85
7	Slovakia	80	7	Romania	85
8	Egypt	77	8	Ukraine	84
9	Thailand	77	9	Chile	83
10	Turkey	74	10	Turkey	83
11	Romania	74	11	Thailand	82
12	Brazil	73	12	Brazil	82
13	Mexico	73	13	Malaysia	81
14	South Africa	72	14	China	81
15	Peru	68	15	Poland	81
16	Philippines	64	16	Philippines	80
17	Kazakhstan	64	17	Indonesia	80
18	Vietnam	64	18	Russia	79
19	Colombia	63	19	South Africa	78
20	Serbia	57	20	Mexico	78

SERVICES					
2009			2008		
Rank	Country	Index	Rank	Country	Index
1	Slovakia	95	1	Poland	95
2	Chile	92	2	Chile	95
3	Poland	88	3	Russia	93
4	Bulgaria	83	4	Romania	93
5	Malaysia	81	5	Bulgaria	93
6	Romania	79	6	Slovakia	91
7	China	77	7	Serbia	89
8	Mexico	76	8	Brazil	87
9	Brazil	75	9	Malaysia	87
10	Turkey	74	10	Turkey	87
11	Thailand	74	11	Mexico	86
12	South Africa	74	12	Kazakhstan	86
13	India	71	13	South Africa	84
14	Egypt	71	14	Egypt	84
15	Kazakhstan	71	15	Thailand	83
16	Russia	70	16	China	83
17	Peru	69	17	Ukraine	83
18	Serbia	67	18	Iran	83
19	Colombia	67	19	Peru	82
20	Philippines	66	20	India	80