Press Release

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Southeast Europe is the rising star for foreign direct investment, according to the latest PricewaterhouseCoopers LLP emerging markets index. Slovakia ranked 6th place in the Services Index

Countries in the southeast region of 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 BRIC countries (Brazil, Russia, India and China) continue to offer interesting opportunities, there are other locations - nearer to home - that offer attractive alternatives for UK companies looking to invest in emerging markets.

While Egypt tops the PricewaterhouseCoopers EM20 manufacturing Index this year, Bulgaria and Serbia are ranked second and third, with Romania in seventh place. Those three countries make up a 'golden triangle', as they also feature in the top ten of the services Index which is headed by Poland. The PricewaterhouseCoopers EM20 Index report notes that while there are still downsides to these markets in terms of infrastructure and governance issues, south east Europe deserves to be given serious attention as a region with considerable potential.

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 clear leaders in the Services Index are Poland and Chile, followed closely by Russia. South East European countries also have a strong presence, with Romania, Bulgaria and Serbia ranked fourth, fifth and seventh respectively. Slovakia comes in the midst of them, in sixth place.

Rising stars – Services Index
Two countries just outside the top five in the Services Index, Slovakia and Serbia, are clear rising stars. Slovakia dramatically improved its ranking between 2004 and 2008, rising from 16th to sixth. This reflects its strong growth in GDP per capita and improved political and economic stability noted previously. Since joining the EU, its country risk premium has fallen significantly.

Ian Coleman, UK head of emerging markets, PricewaterhouseCoopers LLP, commented:

"The impact of political risk is also evident across central and south east European member states of the European Union. Slovakia, which joined the EU in 2004, has enjoyed political and economic stability which has made it a rising star of the services index, sixth place in 2008 up from 16th in 2004. The trend is also reflected in the experience of Romania and Bulgaria, which joined the EU in 2007."

Notes to Editor:

1. See attached full report.

2. **Methodology**

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 stylised manufacturing company that is 50% export orientated, and a stylised 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 as used in actual business investment appraisals to combine the influence of different 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 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 shown in the table.

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, and not to investment in equity markets or other financial assets. The analysis has been provided for general guidance only on matters of interest, and does not constitute professional advice.

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