Central & Eastern Europe

Commercial Update

A publication of the U.S. Department of Commerce, International Trade Administration, Central and Eastern Europe Business Information Center (CEEBIC), in cooperation with the U.S. Agency for International Development

July 2003

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The Euro in Central and Eastern Europe

With EU enlargement set for May 2004, eight countries of Central and Eastern Europe are already looking ahead to the next stage of integration: entry into the Economic and Monetary Union (EMU) and related adoption of the euro. However, while accession may be imminent, candidate countries are unlikely to be ready to adopt the euro before 2008. Upon entering the European Union, countries must join the EMU with "derogation" status, meaning that they have a grace period before they must fulfill all EMU criteria. The candidate members will not adopt the euro for at least two years after joining the European Union.

The EMU originated in 1989 as a plan for a single market. It harmonizes economic and monetary policies among EU member states. The euro currency was created in 1999. Euro bills and coins went into circulation in January 2002, after which member states' national currencies were removed from circulation. The so-called euro zone or area currently includes all EU member states except Denmark, Sweden, and the United Kingdom. These three countries opted out of joining the euro zone; candidate countries slated for entry in 2004 cannot opt out.

While the Central and Eastern European candidate countries have had to meet economic criteria (e.g., creating market economies) as part of the stringent requirements to join the European Union, additional EMU prerequisites need to be met to adopt the euro. These include:

- Inflation rates within 1.5 percent of rates in the euro zone;
- Long-term interest rates within 2 percent of those in the euro zone;
- Exchange rate fluctuations within the permissible range of the exchange rate mechanism for two years prior to adopting the euro;
- Budget deficits that do not exceed 3 percent of GDP, and overall public debt not higher than 60 percent of GDP.

Progress of Accession Candidates

Czech Republic

The largest obstacle facing the Czech Republic remains the stability of its currency, the Czech crown. To this end, the Czech National Bank and the Czech government adopted a new strategy in 2002 aimed at stemming the appreciation of the crown. However, the currency remains slightly overvalued. Additionally, the 2001 budget deficit was at 3.8 percent of GDP, a little higher than the EMU benchmark.

Estonia

In its most recent review, the European Commission highlighted the need for further amendments to the Estonian Central Bank to ensure independence of the members of its supervisory board. Additionally, inflation in Estonia has been consistently higher than the EMU compliance rate.

Hungary

Recent changes in the exchange rate mechanism and legislation regarding the National Bank of Hungary (NBH) have brought the NBH into full compliance and stabilized the exchange rate. However, inflation continues at nearly 10 percent, and the government ran a budget deficit of 5.4 percent of GDP in 2001.

Latvia

Inflation, the budget deficit, and the exchange rate have all remained well within EMU requirements. Latvia has continually sought to bring interest rates into compliance, lowering the reserve rate from 8 percent to 5 percent between 1997 and 2001. However, further amendments to the laws on the central bank are needed to restrict the privileged access of the public sector to financial institutions.

(Continued on page 6—Euro)

USDA Trade and Investment Mission to Bulgaria

On Sept. 7–13, 2003, the Foreign Agricultural Service of the U.S. Department of Agriculture (USDA) will conduct a trade and investment mission to Bulgaria. The program is funded by a grant from the U.S. Agency for International Development. The USDA will pay all in-country costs (interpreting, hotel, per diem, miscellaneous charges, and in-country travel). The purpose of the mission is to promote U.S.-Bulgarian agribusiness cooperation, trade, and investment, particularly in the following sectors: seed, livestock genetics, biotechnology, food processing, meat and dairy, beverages, agricultural equipment, and feed and grain.

The USDA and U.S. Commercial Service in Sofia will provide support to U.S. companies during the mission through the introduction to Bulgarian companies interested in doing business with the United States; through presentations by key Bulgarian ministries on agribusiness conditions, programs, and partnerships; and through an overview of the economy, regulatory environment, banking sector, privatization process, investment climate, and U.S. government programs that promote trade and investment. The USDA and Commercial Service will also arrange site visits, ground transportation, interpreting, and food and lodging. U.S. participants' costs will be limited to travel to and from Sofia.

Areas of Interest

Bulgarian agriculture offers substantial opportunities to manufacture a variety of processed foods. Value-added food processing has seen a considerable amount of foreign investment in dairy, confectionery, bakery, and other enterprises. Industry experts believe that Bulgarian companies that produce high-quality wines may be attractive candidates for U.S. companies interested in upgrading their production for export. As Bulgaria is aiming to become a member of the European Union in 2007, the country is required to modify its agricultural policies in several areas: sanitary and phytosanitary measures, market and price supports, animal welfare, and rural development. While U.S. products in Bulgaria currently face higher tariffs than EU products, U.S. exports will experience a general reduction in tariffs once Bulgaria becomes an EU member. Bulgarian farmers are interested in obtaining high-quality products and agricultural inputs. For additional information on the Bulgarian agribusiness sector, visit *www.mac.doc.gov/ceebic/countryr/bulgaria/market.htm*.

Bulgaria's tariffs on imported goods range between 5 and 40 percent for industrial products and 5 and 70 percent for agricultural products. Since 1998, average Bulgarian import tariffs have been significantly reduced at the beginning of each year. Average levels for industrial and agricultural goods are 10 and 22 percent, respectively. However, tariffs in areas of concern to U.S. exporters—including poultry legs, other agricultural goods, and distilled spirits—are still relatively high. Import duties are ad valorem for agricultural products; some products such as meat have minimum import duties in euros per metric ton.

Space in the trade and investment mission is limited and will be offered on a first-come, first-served basis. To register, or for more information, contact:

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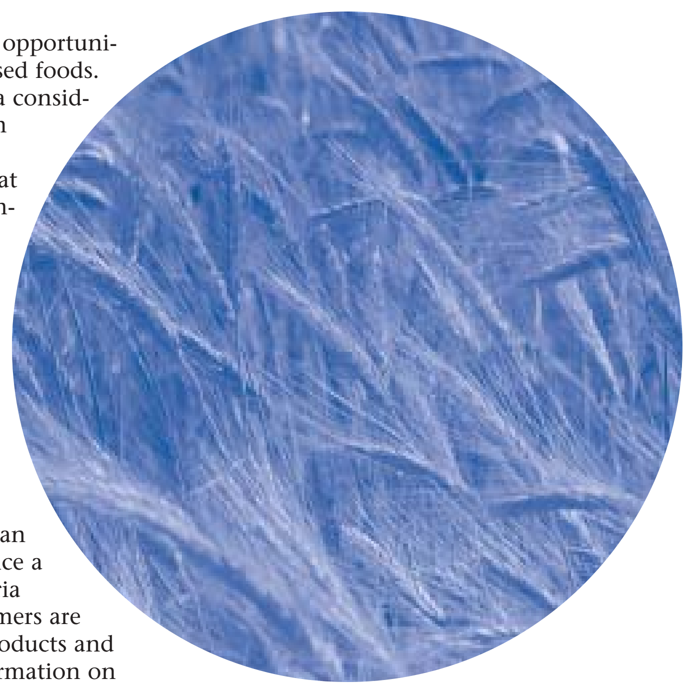
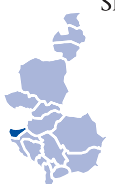


Around the Region

Czech Republic: Changes in Telecommunications

Czech Telecom, the largest fixed-line operator in the Czech Republic, has negotiated to buy out the 49-percent stake in mobile operator Eurotel from the Atlantic West consortium, bringing its ownership of Eurotel (the country's largest mobile operator) to 100 percent. This move is predicted to raise the value of Czech Telecom's privatization, set to take place in 2005. Source: *Prague Business Journal*.

Slovenia: Excise Duties on Gas and Diesel



Slovenia recently increased excise duties on diesel fuel and unleaded gas, while reducing the excise duty on heating oil. These changes aim to narrow the budget gap that resulted from lowered excise duties in the past months. The increase in excise duties led to slightly higher prices of 95-octane unleaded gas and diesel fuel. Source: *Slovenia Business Weekly*.

Romania: Loan to Improve Energy Services

The European Bank for Reconstruction and Development is lending 11 million euros to help set up the Romanian Industrial Energy Efficiency Company. The loan will be used to finance investments in select domestic industrial companies, with the goal of producing cheaper, more efficient, and more environmentally friendly electricity and heat with less risk. The savings will be used to defray operating and financial costs. This new company is one of Romania's first energy service companies to develop and finance energy efficiency investments. The Romanian-American Enterprise Fund is the main owner of the company. Source: *Enlargement Weekly*.

Bulgaria: Foreign Investment Agency on U.S. Tour

Mr. Pavel Ezekiev, director of the Bulgarian Foreign Investment Agency, met this spring with U.S. companies in New York and Washington, D.C. as part of a campaign to promote U.S. investment in Bulgaria. Mr. Ezekiev met with U.S. businesspeople primarily in the IT sector, which is flourishing in Bulgaria and offers several opportunities. The agency anticipates returning to the United States later this year to meet with U.S. companies in other cities and inform them of investment opportunities and the latest commercial developments in Bulgaria.

FYR Macedonia: Phone Numbers to Change

Fixed telephone numbers will change in June from a six-digit number to a seven-digit number. The process will begin in Skopje and will gradually be implemented throughout the country. Existing phone numbers beginning with four, five, six, and seven will begin with two; phone numbers beginning with one and two will begin with three; phone numbers beginning with 33, 34, and 35 will begin with 20; and phone numbers beginning with 36, 37, and 38 will begin with 30. Mobile telephone numbers will not change.

Hungary: Mobile Subscriptions Soar

The number of mobile subscribers in Hungary rose from 7.06 million at the end of March to 7.131 million at the end of April. Mobile penetration is now at 70.4 percent. The market shares of mobile providers Westel, Pannon, and Vodafone shifted only marginally. Source: *www.europemedia.net*.

Central and Eastern Europe Commercial Opportunities

Czech Republic: Auto-Repair Equipment Supplier Sought

A Czech automotive importer and distributor specializing in garage equipment seeks a U.S. producer of equipment for auto repair shops. This is a great opportunity for U.S. suppliers to penetrate this up-and-coming market sector.

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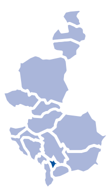
Kosovo: Printing House Seeks Paper Supplier



Comel, a printing house and distributor of stationery and office products in Kosovo, is looking for a U.S. supplier of paper. Comel is the exclusive distributor in Kosovo for BIC (France), Staedtler (Germany), and Esselte Leitz (Germany). The company's sales in 2002 totaled $1.5 million. Comel wishes to establish an ongoing supplier relationship for 80 gram-weight, A4 photocopy paper. The company would like to import approximately 20 to 30 tons monthly.

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Poland: Logistics and Distribution Center at Port of Gdynia

The proposed facility will be located near other companies that provide complementary services, such as loading, unloading, and handling of containers as well as forwarding and warehousing. Container yards and a parking lot for trucks are also to be located there.

The new logistics distribution center is to be built on a 30-hectare piece of land. The Port of Gdynia Authority S.A. owns the land, and it may be leased to prospective investors for 20 years with the option for extension. This land has the following facilities and installations: external access connections, internal access roads (which need upgrading), energy and power connections, water and sewer systems, telecommunications networks, and rail links. The estimated cost of the investment is 25 million euros for the first phase of the project. The cost for the construction of buildings to roads and storage yards is estimated to be 25 to 75 percent of total costs. This assumption also includes the construction of buildings such as warehouses and workshops. The first phase of the project is to be completed between 2004 and 2006. The Port of Gdynia will contribute 5 million euros to the project.

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Upcoming Events

July

7/7
First Lithuanian-American Business Forum

Vilnius, Lithuania

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7/14-7/19
Business Development Mission to Bulgaria and Romania

Sofia, Bulgaria; Bucharest, Romania

Led by Deputy Secretary of Commerce Samuel W. Bodman, Assistant Secretary and Director General of the U.S. Commercial Service Maria Cino, and Assistant Secretary for Market Access and Compliance William H. Lash III.

Sectors: automotive parts and services, building products, IT, telecommunications, defense, energy, medical products, pollution control equipment/services, and tourism infrastructure.

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August

8/27-8/29
World Information Technology Forum

Vilnius, Lithuania

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September

9/7-9/13
USDA Bulgaria Trade and Investment Mission

Sofia, Bulgaria

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9/24-9/27
Baltmedica

Vilnius, Lithuania

Medical equipment, pharmaceuticals, stomatology, and optics.

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For a more complete list of events, go to CEEBICnet: *www.export.gov/ceebic*.
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Euro—*from page 1*

Lithuania

While there is still work to be done on economic harmonization, Lithuania has demonstrated strong compliance with EMU criteria. The budget deficit in 2001 was just 2.8 percent of GDP, and inflation has consistently been the lowest in Central and Eastern Europe. However, legislative amendments are needed to safeguard against conflicts of interest related to board members of the central bank.

Poland

Inflation in Poland has consistently been above EMU guidelines, though there appears to be a recent downward trend. The appreciation of the zloty has made for tight monetary conditions, leading to high interest rates. While the central bank is currently in full compliance with EMU directives, there continues to be debate about altering its structure—potentially in ways not compliant with EMU requirements.

Slovakia

The exchange rate in Slovakia has remained relatively stable since shortly after the Slovak crown was floated on the open market in 1998. The National Bank of Slovakia is almost fully independent, and legislation in this area is EMU compliant. However, inflation of 6.4 percent and a budget deficit of 7 percent of GDP continue to hinder Slovakia's alignment with EMU standards.

Slovenia

Though Slovenia has succeeded in complying with most EMU benchmarks, high inflation continues to trouble the economy. With a rate of 7.8 percent in 2002, inflation remains the main obstacle to full compliance.

EU Accession Extras

Accession Referenda

Of the eight Central and East European countries that plan to join the European Union in May 2004, six have held referenda so far. The citizens of Slovenia, Hungary, Lithuania, Slovakia, Poland, and the Czech Republic have all voted "yes" to EU membership. Estonia and Latvia will hold referenda in September. Of the two other 2004 accession candidates, Malta voted in March to join the union; Cyprus is the only candidate not holding a referendum.

Prices Lower than EU Average

Overall price values in the 10 accession candidates are, on average, 50 percent below the EU average. Individual country averages (compared with the European Union) are as follows: Slovenia 66 percent; Poland 55 percent; Latvia 54 percent; Lithuania 46 percent; Estonia, the Czech Republic, and Hungary 46 percent; and Slovakia 41 percent. The European Commission predicts that price convergence will occur as incomes rise after accession. Source: *Enlargement Weekly*.

Euro Entry Levels Change

Pedro Solbes, the EU monetary affairs commissioner, recently announced that the currencies of applicant countries must remain within a +/-2.25 percent exchange rate band for two years before adopting the euro. This is a much tighter band than the current +/-15 percent. The new level will limit governments' leeway in fiscal and exchange rate policies. Source: RFE/RL.

Romania and Bulgaria Continue Accession Negotiations

Romania has finished 19 of the 31 chapters of its negotiations with the European Union after provisionally closing chapters on the free movement of goods and taxation. Bulgaria has closed 24 of its chapters after completing the transportation chapter. Both countries plan to finish talks with the union by the middle of 2004. Source: *Novinite*.

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Central and Eastern Europe Commercial Update is produced by the Central and Eastern Europe Business Information Center (CEEBIC). For more information or to subscribe, contact CEEBIC by phone at (202) 482-2645, fax (202) 482-3898, or e-mail *ceebic@ita.doc.gov.*

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