

Ladies and Gentlemen,

It is a great pleasure for me to be here with you today, representing the Federation of Greek Industries. I would like to share some thoughts from first-hand experience about the opportunities and risks in doing business in the South-eastern Europe region from the point of view of the private business sector.

It has not been a long time since prevailing nationalism led to the destructive wars of the nineties in South-eastern Europe. Ever since, the landscape has been changing rapidly in the area:

- Romania and Bulgaria will be fully fledged members in the UE from January 1st 2007
- Croatia and Turkey are candidate EU members
- FYROM has an EU applicant status

The relatively recent enlargement of the European Union has included countries mainly from Central Europe and the former Soviet Union, consolidating EU presence in this very crucial geographical part of Europe. Now the time has come for a further consolidation to the South-east, to what is known as the soft underbelly of Europe and for that reason even more important.

The region has made significant progress towards further integration with European Union. Political stability and further progress with structural reforms have underpinned strong economic growth records. According to the INF World Economic Outlook, the broader region's growth

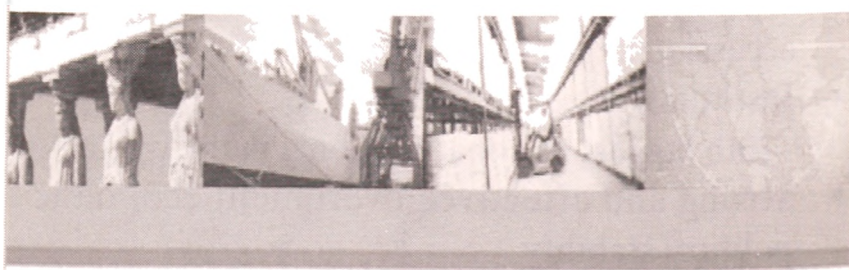


European
Investment
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South-East Europe – A Region on the Move

rates in the last three years have outpaced those of the Euro area. South-eastern Europe is already one of the fastest growing regions of the continent.

South-eastern Europe countries are recipients of significant capital inflows in the form of Foreign Direct Investments. Future EU structural Funds and development funds are also in the pipeline, South-eastern Europe area has a big growth potential. Comparing the average GDP per capita (based on PPP) of the South-eastern Europe countries to the one of the EU, the growth potential of the region is obvious.

The European Investment Bank can play a significant role in financing this growth. EIB has a unique comparative advantage: the backing of the EU. This gives EIB the highest possible credit rating and the ability to finance projects which otherwise would not find sources of funding.

Yet, during the period from 2001 until October 2006, EIB has oriented only 2.1 % of the total loans to the specific area (which is 4.8 billion out of 231.5 billion €), while the lending operations to the Mediterranean countries amounted to 4.7%. Moreover, a new European Commission proposal envisages increasing the share of external lending funds earmarked for Asia and Latin America. It seems there is a debate on the distribution of the EIB loans to the different regions.

I strongly believe that the area of the South-eastern Europe should be favoured. The estimated future lending of 7-12 billion € for the period 2007-2012 may not be adequate. Developing efficient infrastructure networks is the key to the region's economic integration in the European framework. EIB has to make sure that it commits the necessary resources to support infrastructure projects in the region. This is not obvious looking at the recent record of EIB funding.

The private sector seems to be much more active. Many companies from Austria, Germany, Italy, Greece, Slovenia, etc. have already invested quite a lot to these countries. Greece is playing a very important role. Greek companies have invested more than 10 billion € in the wider region (including Turkey) creating over 200.000 new employment opportunities. Greece is the primary foreign investor in countries such as Albania, FYROM, and Serbia, and ranks 2nd in Romania and Bulgaria.

But still doing business today in the South-eastern Europe does not only entail huge opportunities, but also threats and challenges. Risks of macroeconomic nature still exist, but they seem to be less of a concern today than in the recent past. Macroeconomic risks seem to have given their place to risks of microeconomic nature.

Evidence from the business surveys of the World Bank «Doing Business» database shows that the business environment has improved. More specifically:

- South-eastern Europe countries are enjoying relatively lower corporate tax rates compared to older EU members. Some of them like Romania and Sarbia have introduced the flat tax in both corporate and personal taxation. Entrepreneurs who wish to do business in South-eastern Europe have to deal with crime, red tape and cumbersome unpredictable regulations.
- Registering property rights and enforcing a contract can be time consuming and more expensive than in more developed countries.
- Moreover, regulations concerning investros' protection and setting up new ventures can be proved cumbersome.

In order to foster a business climate more conducive to investment, trade and employment, South-eastern Europe countries need to accelerate structural reforms. They need to restructure the legal sectors and public administration to promote rule of law and put them into a trajectory of sustainable development.

However, based on our experience, EIB has also to make some steps to ease a little the rigid terms it requires in order to finance a project. For example:

- EIB is often fully guaranteed during the construction and initial operating periods of the project, which adds to the complexity of the deal.
- The required time periods for appraisal are too long (twice or triple the time any other bank needs).
- EIB requires its own separately documented finance contract even though many of the terms are common to all banks.

The aim should be for EIB to be treated as much as possible like any other bank. This would accelerate the procedures and it would eliminate the need for extra sets of legal counsel and other advisers.

Yet, the participation of EIB in a project's funding scheme, especially in the countries we talk about, is vital for three reasons:

- First, it lays special political weight to the specific project,
- Second, it assures the support of the local authorities,
- And third, it «educates» the local authorities and governments introducing them the way an EU institution works.

From the regional co-ordination point of view, the steps that will further accelerate regional integration and move South-eastern Europe into the next stage of development include:

- First, the creation of Free Trade Zone that will include all countries in the region. It will replace the complex bilateral agreements between countries. The agreement cannot be successful unless it is compatible with European standards. Harmonizing all rules and regulations regarding setting of disputes, economic transactions and intellectual property protection will skyrocket trade and spur growth in the region.
- Second, the major transport corridors under construction linking the whole region: to that end, Corridor X which connects Thessaloniki, Skopja and Belgrade to Central and Eastern Europe, and Corridor VII which links Thessaloniki, Sofia, and Bucharest, will facilitate the free movement of people and goods and promote intraregional trade and investment.
- Third, South-eastern Europe is a geopolitically significant transit region in the crossroads between Asia and Europe. The oil pipelines of Albania-FYROM-Bulgaria, Constanta-Trieste as well as Burgas-Alexandroupoli that will bring the Caspian oil to Europe are going through the region. In addition the gas pipelines which will interconnect Turkey with Greece and Greece with Italy connecting the European grid to alternative sources from Russia, Azerbaijan, Turkmenistan, Iran, and Iraq, are under development.
- Fourth, the creation of a single energy market. This past October, the Energy Charter was signed by the EU-25 members and the countries in the region. Based on that World Bank has estimated that 21 billion € will be poured into energy investments in the region.

Summarising,

Romania's and Bulgaria's forthcoming EU membership is a milestone in the South-eastern Europe history. It will further strengthen and promote Europe's common project. Three countries (Bulgaria, Romania and Greece) of the region will participate in the decision making of the EU Institutions creating a direct connection of the furthestmost part of Europe to the south (namely Greece) to the mainland of the EU (closed borders). This sends a very important message for the stability and regional co-operation to the rest of the countries in the region.

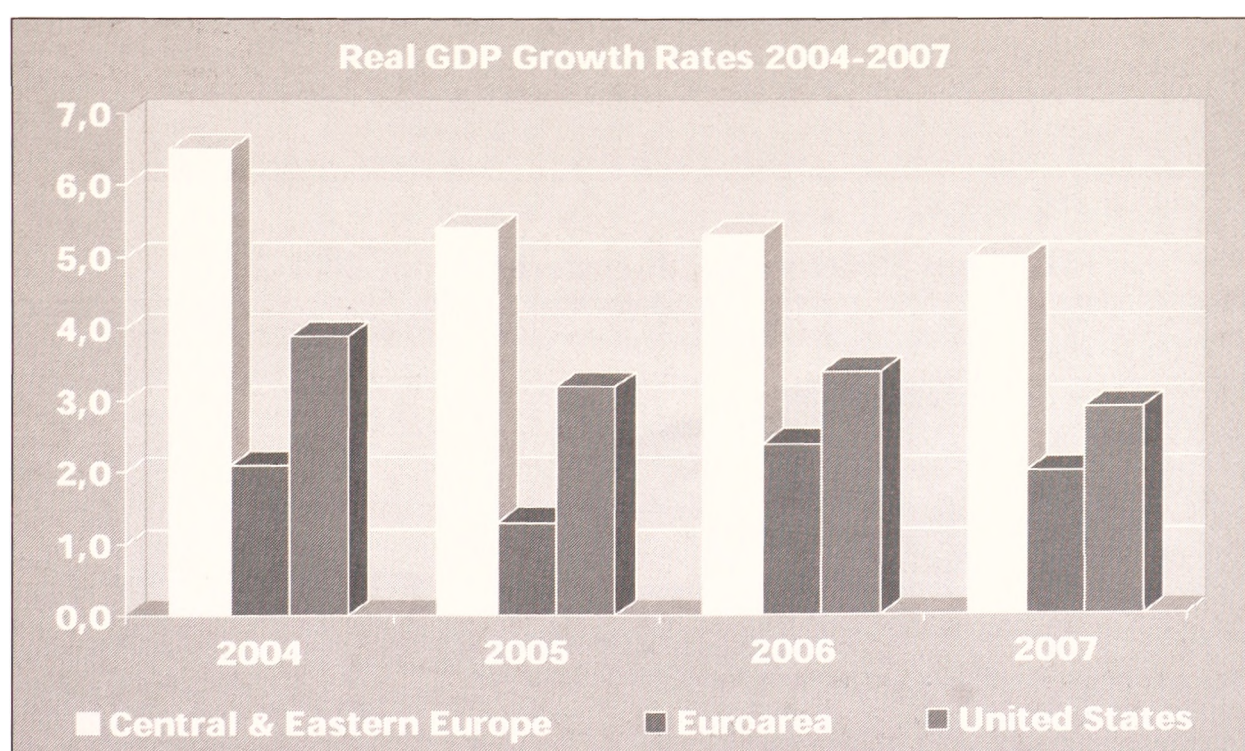
The history of South-eastern Europe has always been one of turbulence; the future can be different. Stability and prosperity can reign in the region. Entrepreneurs were the first ones to take the risks and invest after the transition of the countries to market economies. So, we all agree that South-eastern Europe is a region on the move. How fast this move is going to be depends a lot on the commitment of each one of us in this room and the organisations we represent. Let's consider it as a common challenge to establish a solid and progressive status for the first time in recent history in one of the most delicate and promising regions of the European Continent.

Thank you.

South-eastern Europe: The new landscape

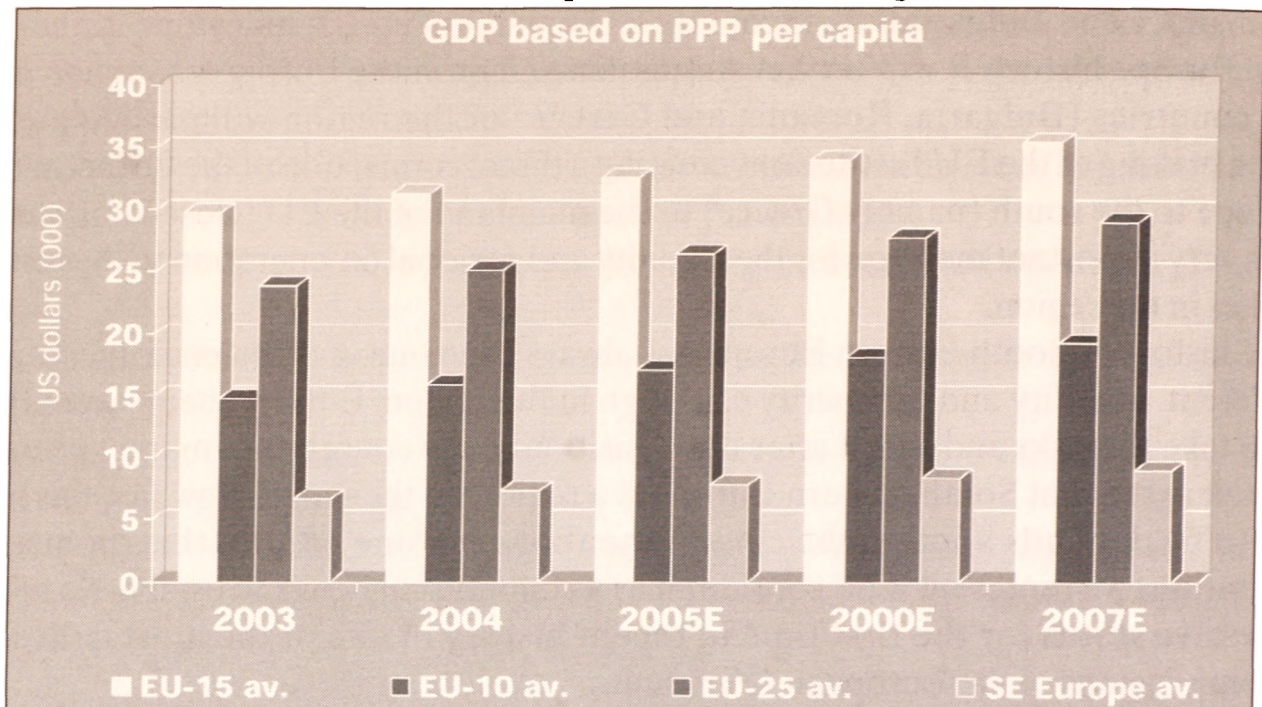
- Southeastern Europe turbulence history: From the nationalist escalation in the 90s to the current stabilized status-quo in the region
- Bulgaria and Romania are NATO members and will be fully-fledged EU members from January 1st, 2007
- Croatia and Turkey are candidate EU members. FYROM has an EU applicant status. Montenegro declares its independence

South-eastern Europe: Robust Growth Record...



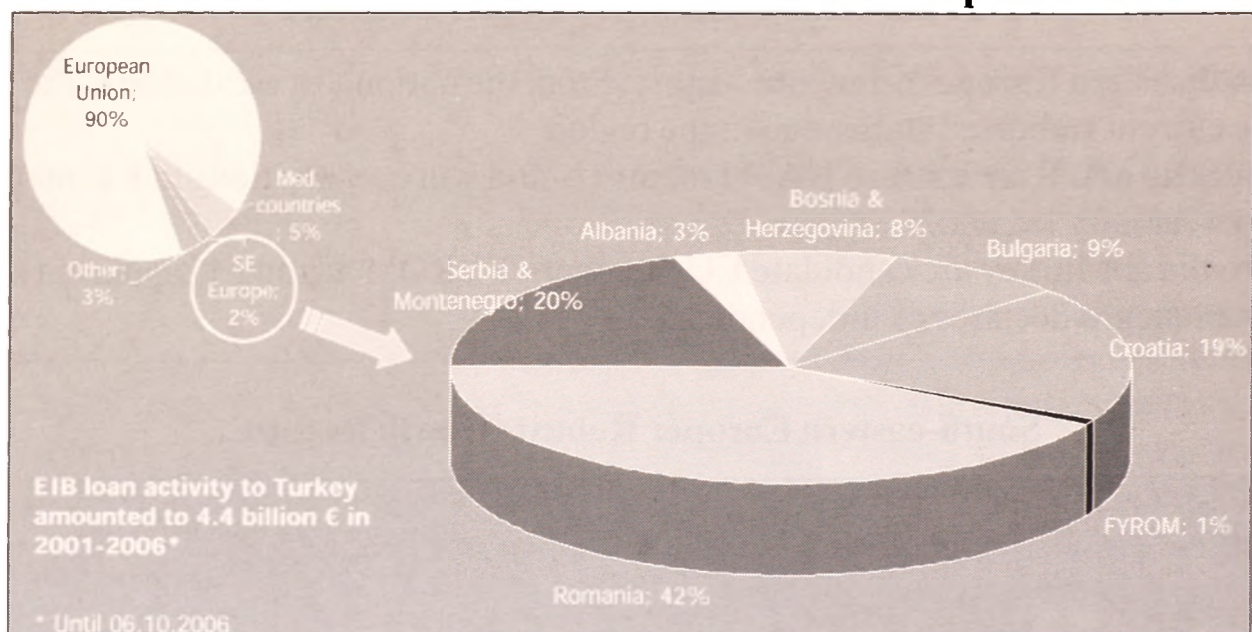
Source: IMF World Economic Outlook

South-eastern Europe: Robust Growth potential



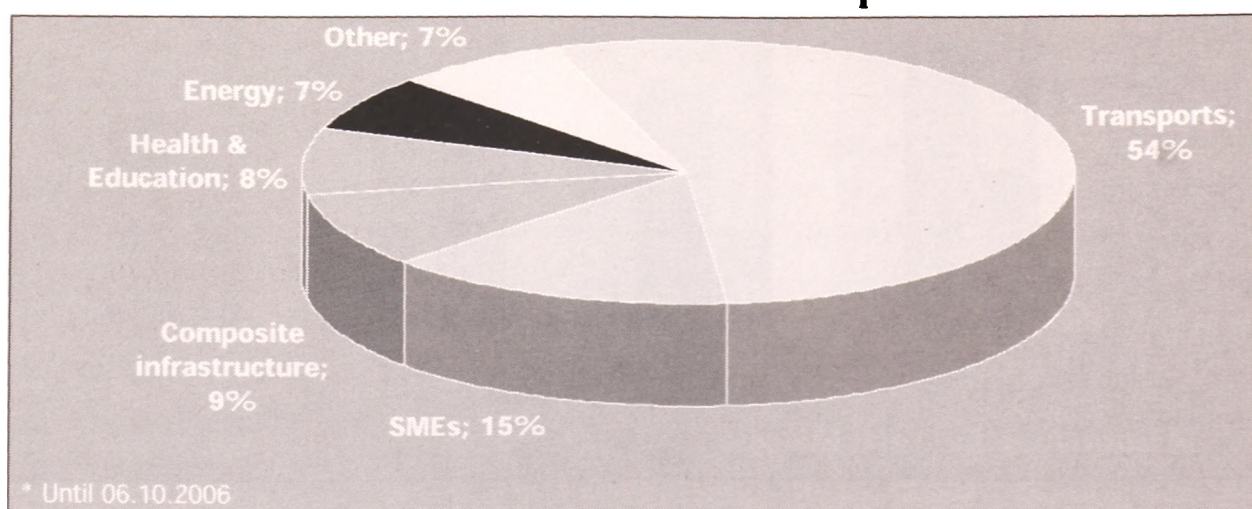
Source: IMF World Economic Outlook

EIB Loans Destination Structure South-eastern Europe 2001-2006*



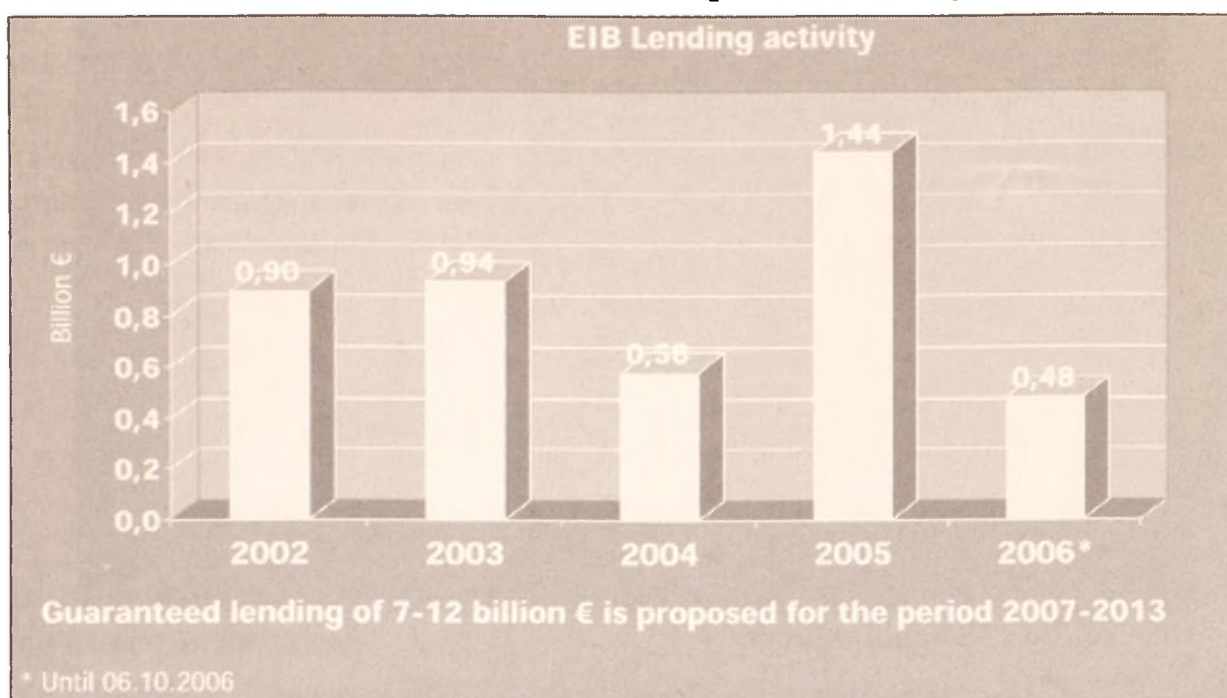
Source: EIB web site

EIB Loans Structure South-eastern Europe 2001-2006*



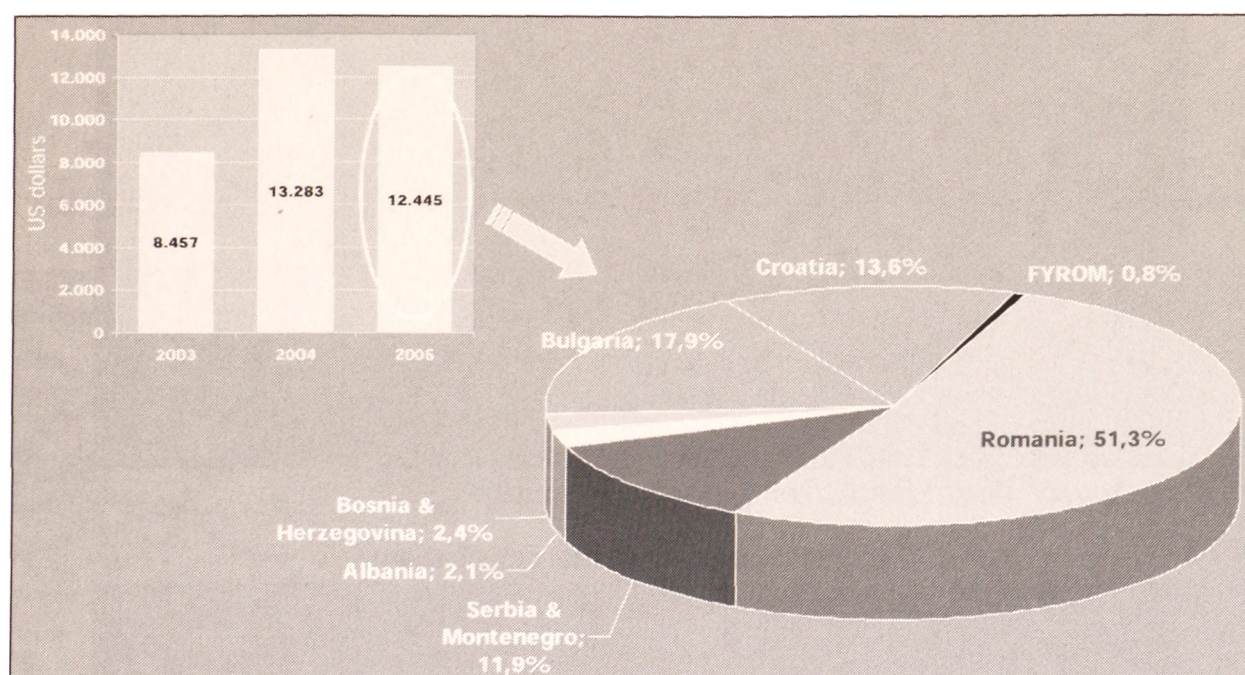
Source: EIB web site

EIB: Focus on South-eastern Europe is not there yet...2001



Source: EIB web site

FDI inflows to South-eastern Europe countries*



Source: UNCTAD, World Investment Report 2006

Doing Business in the South-eastern Europe region

- **Macro risks:**
Macro risks seem to be less of a concern then in the recent past
- **Micro risks:**
Entrepreneurs who wish to do business in Southeastern Europe region must deal with crime, red tape, and cumbersome unpredictable regulations

Opportunities: Low Taxation

	Corporate Tax Rate	Personal Income Tax
Albania	22%	0-30%
Bosnia & Herzegovina-BH	30%	5% wages, 30-50% other
Bosnia & Herzegovina-RS	10%	10% wages, 10-25% other
Bulgaria	15%	0-24%
Croatia	20%	15%-45%
FYROM	15%	15%, 18%
Romania	16%	16%
Serbia	10%	10%
Turkey	20%	15-35%
Greece	29%	0-40%

Source: National sources

Challenges: registering property rights

	Procedures to Register Property	Time to register property (days)	Time to enforce a contract (days)
Albania	7	47	390
Bosnia & Herzegovina	7	331	595
Bulgaria	9	19	440
Croatia	5	399	561
FYROM	6	98	385
Romania	8	150	335
Serbia	6	111	635
Turkey	8	9	420
Greece	12	23	730
OECD	4.7	31.8	351
USA	2	21	300

Source: World Bank, Doing Business web site

Threats: cumbersome regulations

	Time to resolve insolvency (years)	Time to start a business (days)	Investor Protection Index (Max:10-Min:0)
Albania	4.0	39	2.7
Bosnia & Herzegovina	3.3	54	5.0
Bulgaria	3.3	32	6.0
Croatia	3.1	45	3.0
FYROM	3.7	18	5.0
Romania	4.6	11	6.0
Serbia & Montenegro	2.7	18	5.3
Turkey	5.9	9	5.3
Greece	2.0	38	3.0
OECD	1.4	16.6	6.0
USA	1.5	5	8.3

Source: World Bank, Doing Business web site

South-eastern Europe: The road ahead

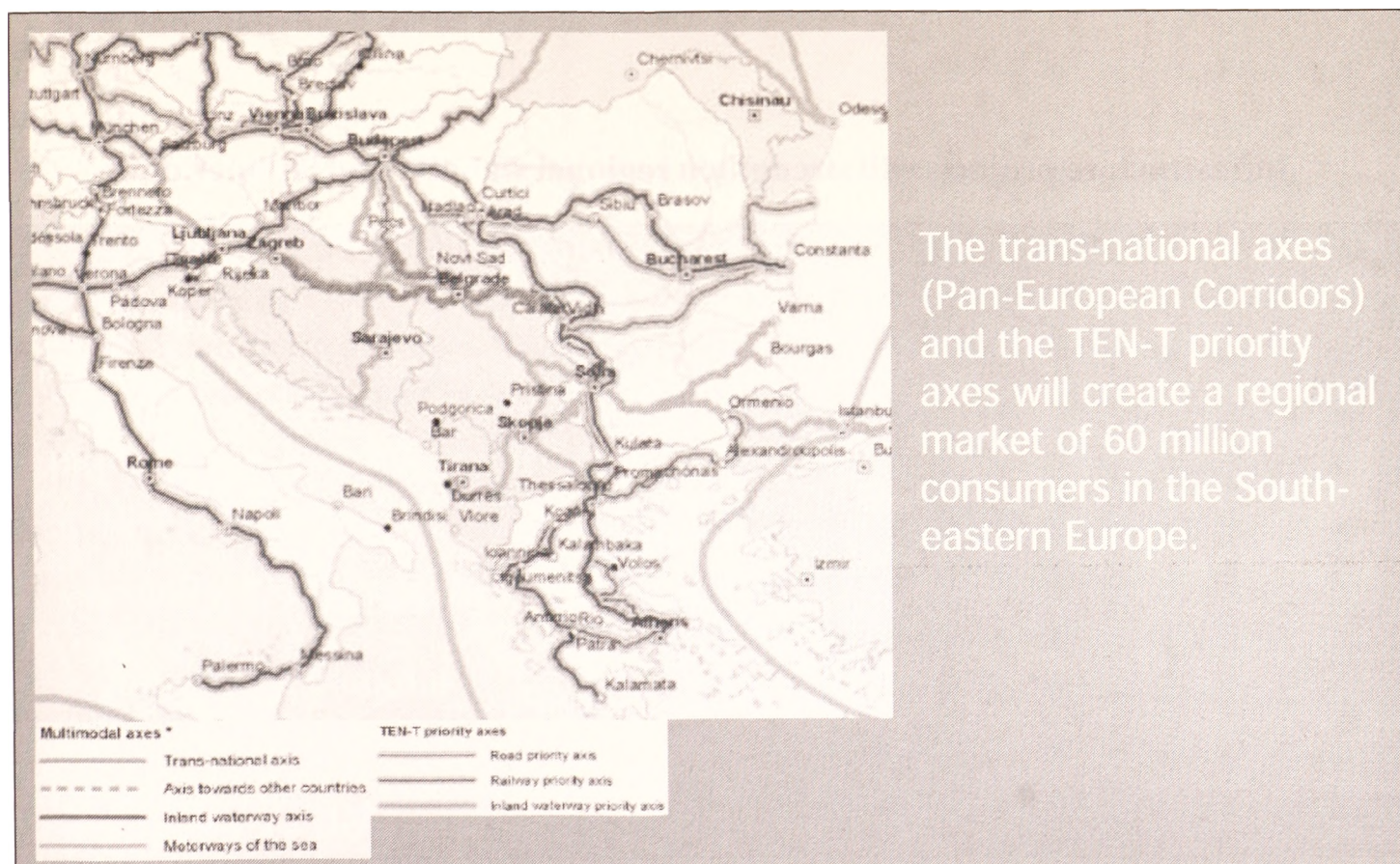
Southeastern Europe Free Trade Area

- From «spaghetti bowl» - 31 bilateral trade agreements
- Towards a single, simplified trade pact for countries in South-eastern Europe to promote trade and investment

South-eastern Europe: How to foster a business climate

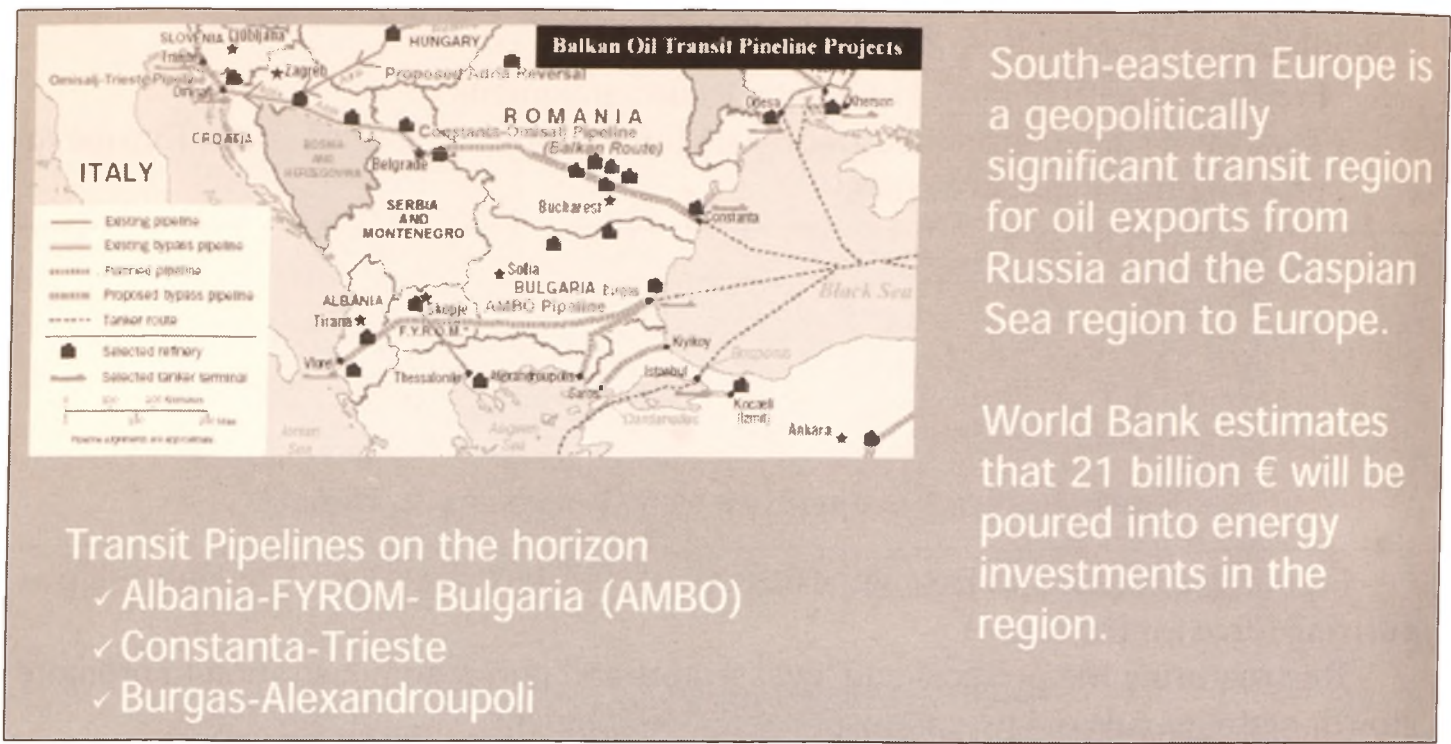
- Fostering Political and Economic Structural Reforms-potential EU membership as a driving force for the region
- Restructuring the political and legal sectors and public administration to promote growth, stability, rule of law. and sustainable development

Infrastructure projects will strengthen regional stability and co-operation



Source: EC, *The Trans-European Transport Networks, Final report of the High Level Group*

Infrastructure projects will strengthen regional stability and co-operation



Source: Energy Information Administration

Infrastructure projects will strengthen regional stability and co-operation



Source: Edison