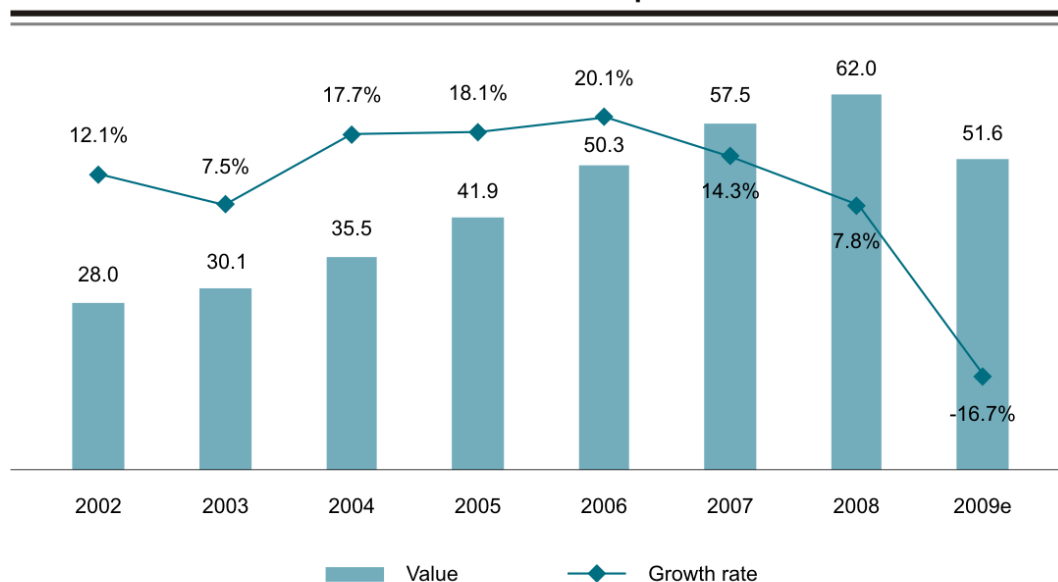


Telecoms market in Central and Eastern Europe: time for new strategies

The value of the telecoms markets in Central and Eastern European countries as measured in local currencies decreased but only slightly in 2009. However, due to financial crisis and those currencies weakening, in euro terms the market lost a sixth of its value. First signs of macroeconomic recovery have already been visible. Operators must decide now what services would grant them the highest margins in the coming years.

Value (€ bn) and growth rate (%) of the telecommunications services market in Central and Eastern Europe, 2002-2009



e – estimate

Note: Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Ukraine were included.

Source: PMR Report "Telecoms market in Central and Eastern Europe 2009. Development forecasts for 2010-2015"

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The cumulative value of the telecommunications services market in Central and Eastern Europe amounted to approx. €51.6bn in 2009, which means the market declined by 16.7% in euro terms. This negative dynamic was reported by the market for the first time ever. Growth rates measured in local currencies in particular countries were significantly better, and actually none of the markets dropped by more than 5% last year. The difference between those rates of change is connected with the global financial crisis and the weakening of local currencies against euro.

Key trends

The telecommunications markets in Central and Eastern European countries matured and evolved in recent years. Key trends visible in Western Europe, e.g. fixed-to-mobile substitution, development of mobile broadband can also be observed in the CEE region.

One of the major trends in the telecoms industry in the CEE region, which is expected to continue in the upcoming years, is the increasing popularity of bundled services. Although bundled packages are in CEE at much lower levels than in western markets, they are slated to grow at a fast pace in the CEE region over the next four years. A strong demand for bundled services is seen especially in Hungary and Romania.

Multi-play (usually double- and triple-play) services are usually sold by CaTV operators who recently have placed a strong pressure on traditional telecoms and have been dynamically increasing their IP telephony customer base. Another effect of the convergence is an increased interest of mobile operators in the fixed-line market (so-called "home zone services"), as well as the promotion of their mobile internet access services.

The mobile telephony market has already reached its peak in the CEE region. Last year proved that mobile operators in the CEE region were most often focused on taking advantage of the already existing customer base rather than on artificially inflating it. Mobile density levels at the end of 2009 were most often well above 110%, while the overall penetration in the CEE region, as measured by the combined number of SIM cards, hit 128%. Actually the only exception is Slovakia where the mobile penetration rate is one of the lowest in Europe. Presently to a great extent a decrease or increase in the number of SIM cards depends on the policy regarding the removal of inactive SIM cards adopted by the operators themselves.

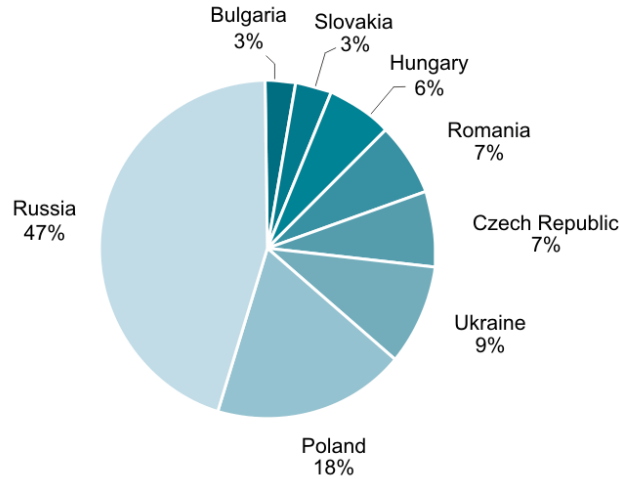
Due to further declines in prices, new offers and the UMTS network's expanding coverage, the number of wireless internet access modems shot up. Additionally, the number of users taking advantage of the wireless internet within their pay-monthly deals for voice services as well as within a pre-paid scheme is also on the rise.

Interestingly the MVNO market has been so far very slow in the entire CEE region except for Poland, where a number of players debuted, with various results, on the market. Still, in all the countries, except for Ukraine, the MVNO revenues account for a minuscule part of the telecommunications market value. MVNOs' results are not encouraging. The market saw first failures and go-outs from the business. However, relatively low investment costs starting at approx. €300,000 annually entice potential new entrants. The investment expenditure depends on the MVNO's services model as well as the intended spending on company's own infrastructure and software.

The telecoms branch is not an isolate island and also feels the effects of the economic crisis ravaging markets worldwide. However, it is worth remembering that regulations affecting the market, e.g., MTR cuts, play a much more important and straight role in lowering revenues of market players and thus decreasing overall market value than the crisis has done so far. On the other hand, it should be stressed, that in this case the market's declining tendency is actually an artificial procedure and should not be interpreted as a market stagnation, declining demand, etc. Furthermore, MTRs reduction stimulates the market, providing its players with greater possibilities to compete (still certainly it does not mean that the MTR reduction directly translates into lower retail prices).

Time for new strategies

Shares (%) of selected countries in the cumulative value (€ bn) of the telecommunications services market in Central and Eastern Europe, 2009



Source: PMR Report "Telecoms market in Central and Eastern Europe 2009. Development forecasts for 2010-2015"

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"All in all, the growth PMR forecasted only two years ago for the CEE telecoms sector cannot now continue. Although the telecoms industry is more resilient to effects of the economic downturn, the sector will stagnate in 2010. On the other hand, the most probable scenario for 2011-2013 is a gradual recovery" – summarised Pawel Olszynka, PMR analyst and one of the report's authors.

The crucial problem is now infrastructure investments, which would allow for broadband internet capacity comparable to that of Western European leaders (CEE countries lag behind most here). The financial crisis, though having relatively lighter impact on the telecoms branch, forced operators to significantly reduce or freeze expenditures on network deployment and upgrade. Still, first signs of macroeconomic recovery have already been visible and operators must decide now how their investment budgets will look like, what direction the telecoms market will go to and what services would grant them the highest margins in the coming years. In other words, a new post-crisis strategy must be ready as soon as possible.

This press release is based on information contained in the latest PMR report entitled "[Telecommunications market in Central and Eastern Europe 2009. Development forecasts for 2010-2015](#)".

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