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Positive, but mixed, outlook for the CEE telecoms market in 2005-2008

Information provided in this article is based on the report "**Russia and CEE Telecoms 2005-2008: Trends in Central and Eastern Europe**".

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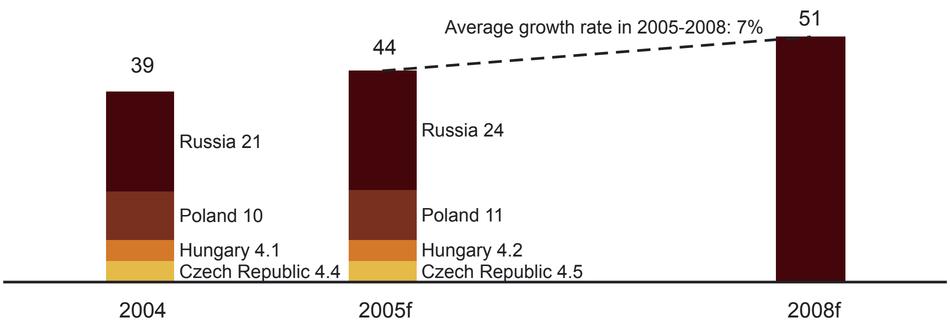
In the period 2005-2008, the telecoms market in the Central and Eastern European (CEE), region will enjoy stable annual growth rates of around 7%. The situation in the region is, however, far from homogenous, with individual markets often following quite different paths of development and varying in their growth prospects.

Value of the telecoms market in Central and Eastern Europe, € bn, 2004-2008 (forecast)



f – forecast
Source: PMR Publications, 2005
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The CEE telecoms market will expand by over €11 billion over the next four years, to some €51bn in 2008, the equivalent of an average annual growth rate (CAGR) of 7%. This will fall short of the rates recorded in the past (in 2002-2004 the CAGR was 12%), but will still outpace Western European telecom markets in terms of development. Nevertheless, the rate of growth will continue to differ considerably from one CEE country to another, with some developing more rapidly.

Russia has the largest telecommunications market in the region and is going to continue to augment its advantage over the other three CEE countries in the next few years. The Russian market will see by far the most dynamic development in the 2005-2008 period, with a CAGR close to 10%, while Poland, the Czech Republic and Hungary will grow at much lower average annual rates, below the 5% mark.

There will be several other factors, in addition to Russia's rapid growth, which will underpin the expansion of the telecoms market in the region in the next few years. These will be:

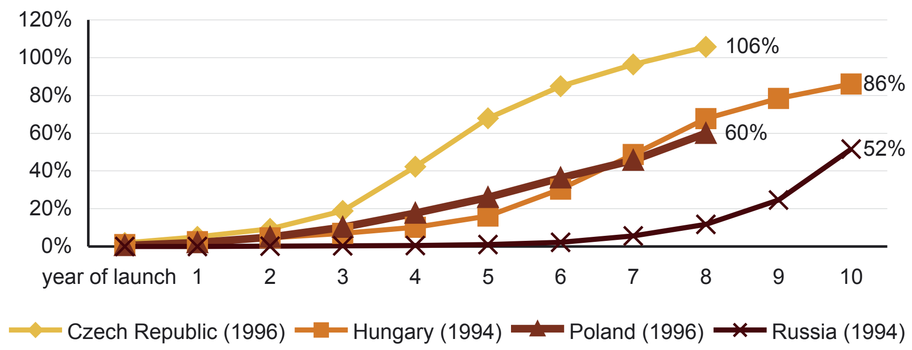
- Mobile telephony, which will develop rapidly in 2005 and 2006, primarily in Russia and Poland. However, the development of this market will later abate.
- Fixed-line telephony development, but, again, this will be a factor only because of the robust growth of this market in Russia.
- To some extent, the broadband internet access market. Broadband will be the most rapidly developing area of the CEE telecoms market; nevertheless, the share of the former as a proportion of the latter will remain insufficiently large for broadband to have a very positive impact on the overall market situation.

The development of broadband services in Central and Eastern Europe will be achieved mainly as a result of the expansion of DSL-based internet access – which will, in the next few years, be heavily promoted by incumbent operators in all CEE countries apart from those in Russia. Because of this, DSL will reinforce its position as the leading broadband technology in the region.

The main trends which will be seen on the CEE telecommunications market over the next four years, will be:

- In the fixed-line area: slight declines or stagnation of penetration and market value in Poland, Hungary and the Czech Republic; and, conversely, dynamic growth of penetration and market size in Russia; increasingly fierce competition and growing presence of VFLO (virtual fixed-line operators, i.e. operators who provide services based on carrier selection/preselection).

Mobile penetration development since launch of first GSM network in selected CEE countries



The latest mobile penetration levels presented in the graph are valid as of the end of 2004. The launch date is given in brackets.
Source: PMR Publications, 2005

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- On the mobile market: continuing growth, but growth rates will be decelerating, as, by 2008, all four CEE countries will approach saturation point, with penetration close to 100%. To some extent, the development of the mobile area will start to be fuelled by the growing popularity of value-added services such as multimedia content and mobile games, but in the period to 2008 revenues from such services will not suffice to effect a noticeable improvement in deteriorating mobile market growth figures.
- In the data transmission, line rental and ISP (DLISP) arena: broadband penetration will continue to grow, with DSL consolidating its position as the leading broadband technology in the region. There will, however, be marked differences between countries, with Russia following a different path of development in the next four years from those of the other three markets, with more widespread use of wireless technologies there.

In the last few years, the main engines of growth in the CEE region have been GSM cellular telephony and, to some degree, the Russian fixed-line market. This will continue in the very near future, but in the longer term, after 2008, new growth drivers are expected to emerge in the region. The new market areas which will, in the long run, start to mould the market situation are broadband internet access services and 3G mobile telephony. After 2008 the fixed-line market in the CEE region should also see positive growth rates again, not only in Russia, but also in the other three CEE countries.

The general outlook for the telecoms market in the CEE region can therefore be summarised as positive. However, the CEE region should not be treated as homogenous, as a number of differences remain between individual countries in the region. In particular, Russia often turns out to be different from the other three CEE markets, both in terms of the pace and directions of development of its telecommunications industry. These differences are expected to remain over the next four years.

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