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Financial crisis opens up opportunities for IT outsourcing in Central and Eastern Europe

Source: IT outsourcing in Central and Eastern Europe 2009
Countries' attractiveness and development forecasts

January 2009

 **PMR**
PUBLICATIONS

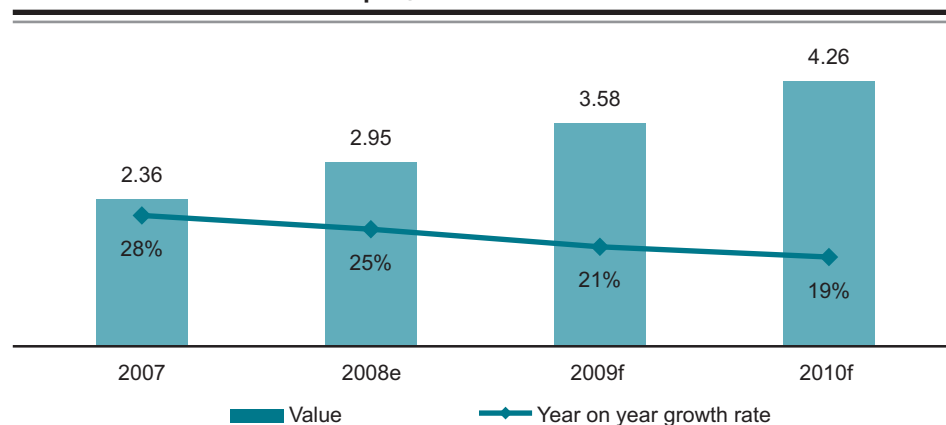
The global financial crisis will emphasise the importance of IT outsourcing as a tool to cut IT expenditure in 2009 and 2010. Central and Eastern Europe (CEE) is no exception in this respect.

Over the last several months, the macroeconomic forecasts for Central and Eastern Europe have been radically revised. The global economic slowdown will translate into lower GDP growth in the region, which will affect the IT market too.

Well aware of these developments, more and more enterprises revise their investment budgets in CEE. This is definitely not a collapse, but companies do look out for savings, also on IT services. Thus, they hold back new projects or choose to implement only the basic functionalities. As a result, IT companies record lower revenues and expect a potentially lower growth rate than forecast a year ago.

On the other hand, businesses, especially large corporations, spend majority of their IT budgets on maintenance and update of the existing IT systems, which in many cases are of key importance for their operations. Moreover, some IT projects are long-term investments, thus their abandoning could lead to extra costs and might threaten the competitive position in the long run. Thus, while not being able to completely stop using IT systems support, companies forced to cut costs will opt for outsourcing certain tasks and projects.

Value (€ bn) and growth rate (%) of the IT outsourcing market in Central and Eastern Europe*, 2007-2010



* Eight Central and Eastern European countries were taken into account: Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Ukraine.
e – estimate
f – forecast

Source: Report "IT outsourcing in Central and Eastern Europe 2009. Countries' attractiveness and development forecasts", PMR Publications, a division of PMR, 2009

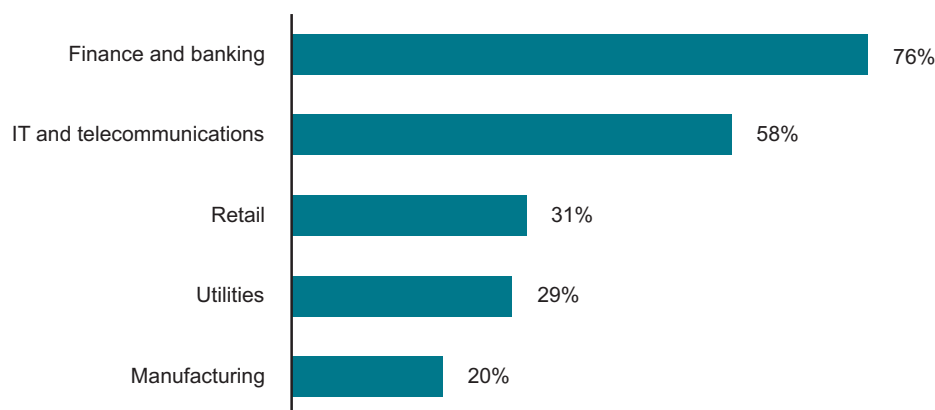
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The IT outsourcing market in CEE was estimated to be worth almost €3bn in 2008, up by approx. 25% year on year. About 40% of all revenues are generated on the Russian market, followed by Ukraine and Poland.

PMR envisages that over the next two years the value of the IT outsourcing market will be on the wane. However, its average annual growth rate of 20% will almost double the expected growth rate for the entire IT market. One could even conclude that IT outsourcing will be developing in spite of, or even thanks to the crisis.

Industries driving IT outsourcing market in Central and Eastern Europe in 2008-2010*



* Based on research carried out by PMR in the fourth quarter of 2008 among the 120 IT firms and associations in Central and Eastern Europe. The graph presents the percentage of respondents quoting a given sector as representing a very good perspectives for IT outsourcing providers. Multiple answers were allowed. Source: Report "IT outsourcing in Central and Eastern Europe 2009. Countries' attractiveness and development forecasts", PMR Publications, a division of PMR, 2009

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In the fourth quarter of 2008, PMR conducted in-depth interviews with representatives of the largest IT companies in the region. The respondents pointed to banks, financial institutions, telecoms and IT providers as players that may have the greatest impact on the development of the IT outsourcing market in 2008-2010. Retail, industrial and utility companies (power, heat, gas, water and sewage management) may also show increased demand for IT outsourcing services. IT providers also believe that, as regards utilities, EU funds will play a role and may help soften the impact of the economic crisis.

The article is based on the report entitled „IT outsourcing in Central and Eastern Europe 2009. Countries' attractiveness and development forecasts", which was published by PMR Publications in January 2009.

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