CPAG

STUDY · 2021–2024

FOREIGN AND DOMESTIC FIRMS

Globalisation and convergence in Central and Eastern Europe



Host countries: Romania Bulgaria Czechia Hungary Poland

Origin countries of investors: Germany France Italy Netherlands Austria

Romania's convergence has so far been wage-led. To continue, it must become productivity-led.

Romania in numbers

2022–24 AVERAGES UNLESS STATED OTHERWISE

PRODUCTIVITY

1.9×

value added per employed of foreign firms relative to domestic firms

Labour cost per employed: 2.2×

SHARE OF THE ECONOMY, 2024

40.9%

of value added is produced by foreign firms

3.0% of enterprises and 27.5% of persons employed

GROWTH 2021–2024, PER EMPLOYED

Domestic firms

+54% labour cost

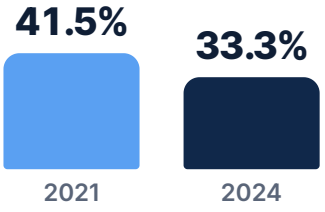
+39% value added

Foreign firms

+45% labour cost

+28% value added

FOREIGN FIRMS' SHARE OF INVESTMENT



Investment / value added, 2024: 26% for foreign firms, 37% for domestic firms

51%

of manufacturing employment is in foreign firms (2024); 71–88% in motor vehicles, electronics, electrical equipment and machinery

35%

productivity of foreign firms in Romania relative to foreign-controlled firms in the West, matched sector by sector

West = Germany, France, Italy, the Netherlands, Austria

only 3%

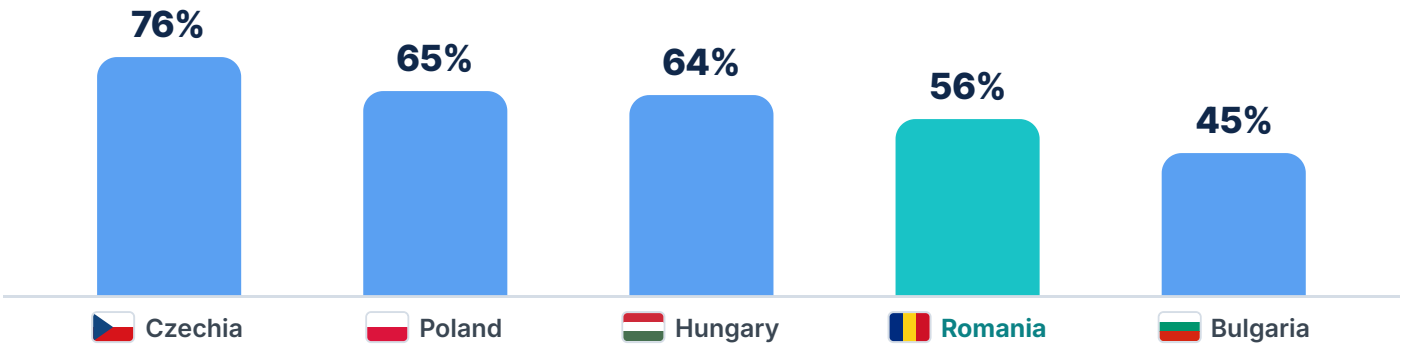
labour cost advantage per unit of value added relative to the West (0.58 vs 0.60)

Romania in the region

Affiliates reach only part of home productivity

Affiliates of investors from Germany, France, Italy, the Netherlands and Austria, compared sector by sector with domestic firms in the origin countries, 2022–24 average

Home country = 100%



How many times more productive foreign firms are than domestic firms

Value added per employed, foreign / domestic firms, 2022–24 average

Czechia	Poland	Hungary	Romania	Bulgaria
1.87×	1.53×	2.30×	1.88×	2.13×

Romania's productivity gaps

Value added per employed, 2022–24 averages; comparisons 02 and 03 are matched sector by sector. West = Germany, France, Italy, the Netherlands and Austria.

01	53%	The productivity of domestic firms is **half** that of foreign firms.
02	35%	The productivity of foreign firms in Romania is **one third** of that of foreign-controlled firms in the West.
03	56%	The productivity of affiliates of Western firms in Romania is **just over half** that of domestic firms in their origin countries.

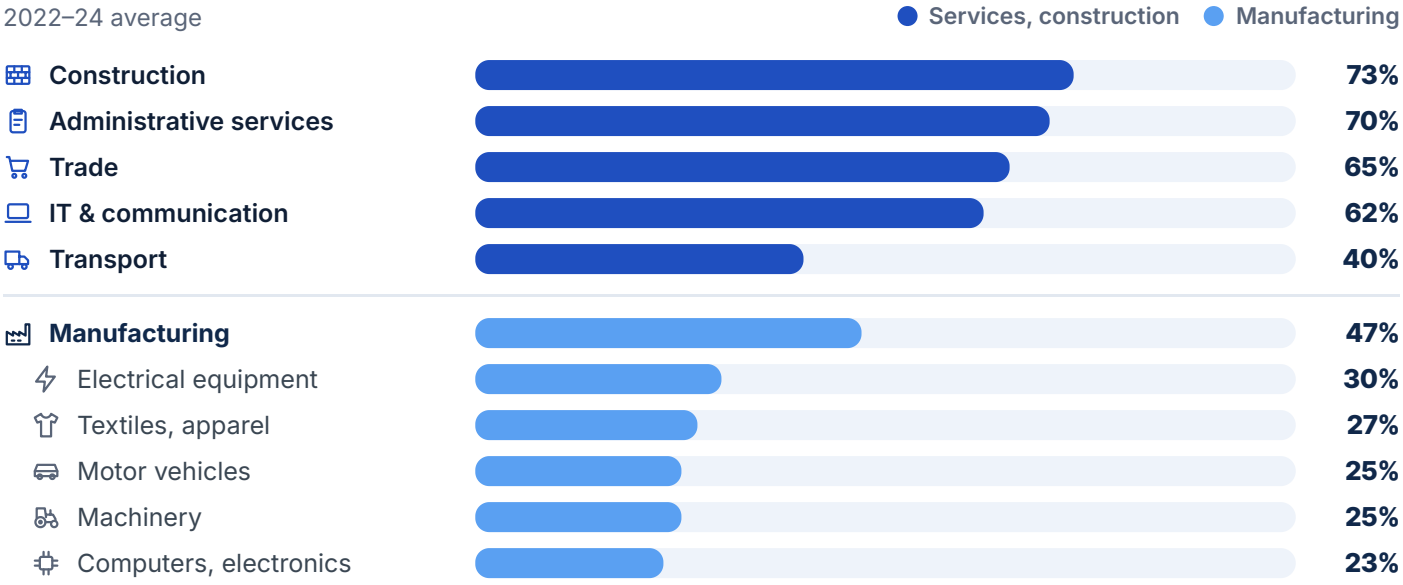
Romania has lost almost all of its labour cost advantage

How much lower labour cost per unit of value added is for foreign firms in each country than for foreign-controlled firms in the West (matched sector by sector)



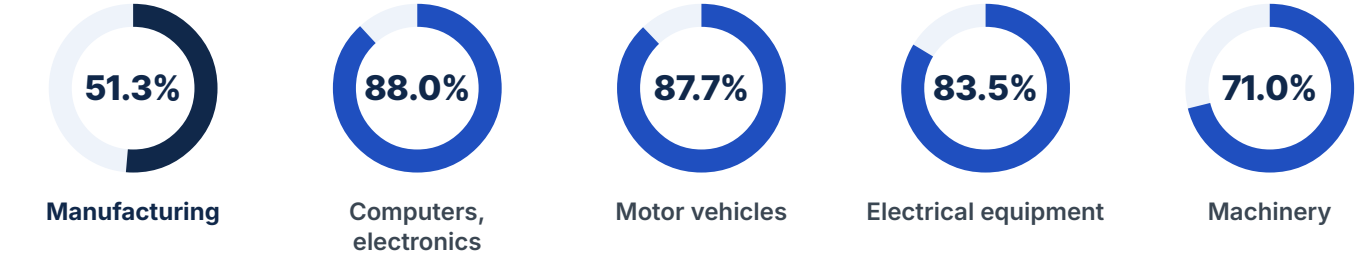
Services come much closer to home levels; manufacturing lags far behind

Productivity of affiliates in Romania, % of the home-country level, 2022–24 average



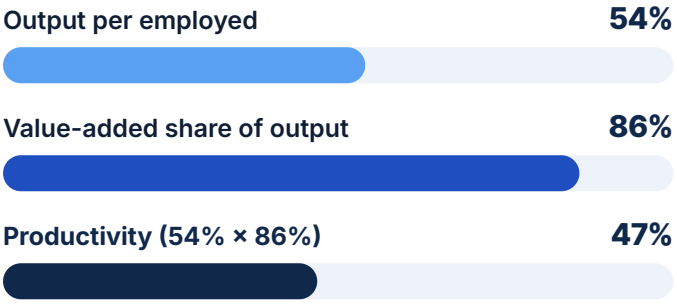
Manufacturing, dominated by foreign firms

Foreign share of employment, Romania, 2024



Where the manufacturing gap comes from

Manufacturing affiliates in Romania, % of the home-country level, 2022–24 average



Romanian manufacturing vs Czechia, Hungary and Poland

Value added per employed in manufacturing, thousand euro, 2024



The gap lies mainly in output per employed rather than in the value-added share of output. The priorities are capital intensity, process technology and product complexity.

Conclusions

Further findings of the study

01 No sign of systematic profit extraction

In Romania, at the aggregate level, foreign firms' share of gross operating surplus in value added is below that of domestic firms.

02 Unit labour cost rose the most in the region

Labour cost per unit of value added rose by 0.05 for domestic and 0.07 for foreign firms in 2021–2024, the largest increase of the five host countries.

03 Foreign firms behave differently than in the West

In the West, too, foreign firms are 1.6 times as productive as domestic firms, but they invest and distribute value added in the same way. In Central and Eastern Europe they allocate a larger share of value added to labour cost; in Bulgaria, Czechia and Romania they invest relatively less than domestic firms, in Hungary and Poland more.

04 Domestic firms remain the weak link

Romanian domestic manufacturers reach 21% of the productivity of their Western counterparts, the lowest in the group.

CPAG recommendations

Reaching the potential for economic convergence requires simultaneous progress in both segments of the economy: upgrading the activity of foreign affiliates and raising the productivity of domestic firms, which account for almost three quarters of employment.

01 **Upgrading foreign manufacturing:** reaching 90% of the average productivity of foreign manufacturing firms in Czechia, Hungary and Poland would add about 6.7 billion euro, roughly 4% of value added.

02 **Higher productivity in domestic firms:** a 10% gain would be worth about 9 billion euro.

03 **Wage growth in step with productivity growth.**

04 **Investment in high value-added activities,** with systematic monitoring of their impact on productivity gaps.

About the study

HOST COUNTRIES	Romania · Bulgaria · Czechia · Hungary · Poland
ORIGIN COUNTRIES	Germany · France · Italy · Netherlands · Austria
DATA	Foreign Affiliates Statistics (FATS), 2021–2024, nominal values in euro, by sector and type of control.
CAVEATS	The results are descriptive and show associations, not causal effects. In Romania, Austrian affiliates are an outlier, most likely one large energy and refining group; some results are also shown excluding Austria.

11 SECTORS ANALYSED IN DETAIL

Manufacturing (11 branches) · electricity and gas · construction · trade · transport · IT and communication · financial and insurance activities · real estate · professional services · administrative services · arts and recreation

The full CPAG analysis covers each sector and each country in detail. Further data are available on request at:

office@cpag.ro

Source: CPAG, "Globalisation and convergence in CEE 2021–2024". Whole economy excluding agriculture and public administration. Foreign firms = firms controlled by investors from another EU country or from outside the EU.