POLAND 30 Years after Solidarity

FINANCIAL TIMES SPECIAL REPORT | Friday June 25 2010

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Jan Cienski on the varied global celebrations of the birth of Fryderyk

Chopin 200 years ago

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Taking small steps to play catch-up

Radical reforms have given way to cautious plodding towards a better society, reports **Jan Cienski**

hirty years ago, anyone standing on Warsaw's Marchlewski street (named after a Bolshevik hero), would have seen dirty grey apartment buildings, the occasional horse-drawn wagon clopping by, and drab people, weighed down by a back-breaking 60 per cent increase in the price of meat.

The labour unrest unleashed by that price rise triggered a chain reaction of strikes that led to the creation of the Solidarity labour union in 1980, an event that shook Polish communism to its core and ended with the 1989 Round Table talks that saw the communists hand over power, setting off economic and political reforms that have transformed Poland.

Today, someone standing on the same street, now named after Pope John Paul II, would scarcely recognise the place. The boulevard is packed with jostling modern cars, the pavement thronged with well-dressed people and lined with gleaming skyscrapers – a new Deloitte office, a Westin hotel, an international office centre.

But just visible beyond the curved glass roof of a new shopping centre is the hulk of Warsaw's main train station, stained and decrepit, with the sour odour of kebabs and urine mixing in the foetid passages leading to the trains – a sign of the distance Poland still has to travel as it tries to catch up with western European living standards.

That is the challenge facing Donald Tusk and his coalition government, led by his centrist Civic Platform party, as Poland tries to shake off the aftereffects of the global economic crisis while embarking on a further set of economic and social reforms aimed at continuing the country's transformation, all without upsetting his party's political dominance.

The party has one enormous asset, frequently mentioned by the government. It was the only European Union country not to fall into recession last year, growing by 1.7 per cent, and growth this year will be among the EU's fastest, about 3 per cent.

"Crisis, what crisis?" says Krzysztof Olszewski, who saw his Solaris bus company increase sales last year, and predicts even higher sales this year.

Poland's strong performance last year was largely the result of fortuitous tax cuts and a large and resilient domestic market, but the ruling party is hoping the economy's lustre will help in the campaign of Bronislaw Komorowski, the speaker of parliament and Civic Platform's candidate for president.

Mr Komorowski faces off against Jaroslaw Kaczynski, the leader of the right-wing opposition Law and Justice party, in a second round vote on July 4. Voting in the first round last Sunday produced a much narrower lead than expected for Mr Komorowski.

The early election was made necessary by the untimely death of Presi-

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for social acceptance for change".

Mr Boni's "small steps" include

completing the overhaul of pensions,

ending a separate retirement scheme

for farmers, and increasing research

spending to allow Poland to move

from depending on cheap labour to

competing in knowledge-based indus-

Old and new side-by-side: aerial view of Warsaw's Golden Terraces (Zlote Tarasy) and Palace of Culture and Science

dent Lech Kaczynski, Jaroslaw's twin brother, in the April 10 crash of a government jet. Mr Kaczynski was a foe of the current government, and vetoed some crucial legislation, but also acted as a convenient excuse to avoid politically costly reforms. That defence disappears if, as is likely, Mr Komorowski becomes the next president

"When we win, there will be no excuses," says Grzegorz Schetyna, Civic Platform's parliamentary chief.

After the election, the government's main challenge will be putting a budget together that reduces the

Inside this issue

Economy Cool heads and good luck helped the country become the sole EU member to avoid recession last year, writes **Neil Buckley Page 2**

Privatisation The government hopes to sell almost all the 800-plus companies it still owns, writes **Jan Cienski Page 3**

Media Adam Easton profiles ITI Group, which began selling video cassettes and snack foods Page 4

Who's Who Jan Cienski profiles five leading players in the dramatic events of 1980, including Lech Walesa (below) Page 4



dent Lech Kaczynski, Jaroslaw's twin deficit from this year's level of close brother, in the April 10 crash of a to 7 per cent of gross domestic prod-

"I think that now is a good moment to slow the growth in expenditure," says Marek Belka, the new central bank governor.

However, Poland's budget cuts are fairly unambitious. "Poland has opted for a relatively back-loaded adjustment path with not much happening this year and the next," says Thomas Laursen, the World Bank's manager for Poland and the Baltics.

In a world where a country's debt and deficit have become key performance markers, it is vitally important for an emerging economy such as Poland to show not only that it is growing, but that it has its fiscal policy under control.

"We need now to focus on frugality," says Jan Krzysztof Bielecki, a former prime minister and the head of a panel of Mr Tusk's economic advisers. "The most important thing is to be prudent and stable."

Prudent and stable has become something of a Polish characteristic, a remarkable change from the cavalry flair and risk-taking that used to be encoded in the national DNA. Restraint was a hallmark of the Solidarity labour union, which did not set off an armed uprising against the communists, and was apparent in the careful transition to democracy that involved no bloodshed and little retribution.

Although Jaroslaw Kaczynski's two years in power from 2005-2007 were marked by radicalism, Civic Platform has made a virtue of carefully plodding towards a better society. Michal Boni, Mr Tusk's chief adviser, who has come up with a plan spelling out what steps should be taken to create a modern Poland by 2030, recoils at the idea of big reforms, noting the "need

approach can work over time. One example is the country's perennial problems with building highways. After 20 years of underwhelming results, there should be visible progress in the next year, partly because of pressure to get roads built before Poland co-hosts the 2012 European football championships. Any improvement will help Civic Platform in the 2011 parliamentary elections.

The government has also worked patiently to raise the country's inter-

cal reformers, the incremental

The government has also worked patiently to raise the country's international profile. Mr Tusk and his foreign minister, Radoslaw Sikorski, have managed to reset relations with neighbours and make Warsaw a serious player in the European Union, after Jaroslaw Kaczynski strained relations with Brussels, Berlin and Moscow.

As Poland has seen that its core interests lie within the EU, the bloom has come off the relationship with the US. Although a US Patriot missile battery is rotating through Poland, Mr Komorowski has called on the government to come up with a strategy for withdrawing the Polish contingent from Afghanistan, where 18 of the country's soldiers have died.

Three decades after the strikes that helped create Solidarity, Poland is at least four times wealthier, based on GDP at purchasing power parity per capita, and an entrenched democracy. Despite the death of the president, many senior officials and the commanders of all branches of the armed forces in the April crash, government institutions never once broke down.

Building institutions and a market economy still has a long way to go, as any businessman caught up in red tape can attest, but Poland has found its place in the EU, and that place is much closer to the sober countries of northern Europe than the troubled nations of the south.

"We may have Mediterranean hearts, but we have northern European minds," says Mr Boni, who instead of the open-necked shirts he used to favour was dressed in a dark blue suit and a conservative red tie.

Gone is the earlier bravado over ing off state assets this year, the counjoining the euro as quickly as possitry's 20 biggest strategic companies will remain under state control, even Although the government remains committed to joining eventuif they are partially floated on the ally, it is not setting a firm date Warsaw Stock Exchange. (although entry by 2015 is possible), The government's goal is to turn some of those companies into well-run and there is an appreciation for the and depoliticised giants that will be buffer that a floating currency proable to compete on a European or vided last year. Jacek Rostowski, finance minister, even a global scale. Although it may not appeal to raditold a radio interviewer that Poland

move in.'



should still join, but added: "Maybe

it's better that we are in our own little

house and, in a few years when the

eurozone has been renovated, we'll

The government's caution extends

Although the treasury ministry

intends to raise 25bn zlotys from sell-

its privatisation programme.

HIGH LEVEL
DEMOCRACY MEETING

Krakow, 2-4 July 2010

1 0 T H A N N I V E R S A R Y COMMUNITY of DEMOCRACIES

Solidarity for Democracy





The year 2010 marks the 10th anniversary of the Community of Democracies. On this occasion a High Level Democracy Meeting (HLDM) will be held in Krakow, Poland on 2-4 July. The meeting is shaping up to be one of the most prominent gatherings of democracy decision-makers this year worldwide. Over one hundred Foreign Ministers of the Community of Democracies participating and observer countries joined by hundreds of democratic activitists, representatives of non-governmental and international organizations and the media have been invited to Krakow.

The Participants will aim to identify the most effective solutions and approaches to promoting democracy. The roles of women, democracy activists, economy and technologies in deepening democracy worldwide will be discussed during the thematic panel discussions.

The Community of Democracies is an intergovernmental coalition of over 100 participating states with the aim of promoting democracy and strengthening democratic institutions all over the world. It was inaugurated in 2000 in Warsaw by Prof. Bronisław Geremek, the then Polish Foreign Minister, and Madeleine Albright, the US Secretary of State.

COMMUNITY-DEMOCRACIES.ORG/Krakow2010







Poland: 30 Years After Solidarity

Cool heads and good luck help avert crisis

Economy

Neil Buckley explains how the country was the sole EU member to avoid recession last year

t is a proud boast: Poland was the only European Union member to escape recession and report positive growth last year. Yet with uncertainties over the strength of its recovery because of the eurozone crisis, and a sharp increase in the budget deficit last year, there is little time for self-congratulation.

Poland avoided an economic contraction through luck and some good decisions. Among the latter was that cutting some taxes and social security costs shortly before the crisis, giving a timely boost to the economy.

The country also accelerated use of EU funds in 2007-08, partly in preparation for co-hosting the Euro 2012 football championships with Ukraine.

Its government and citizens, say many observers, deserve credit, too, for cool-headedness. The Civic Platform-led government of Donald Tusk insisted that Poland was not heading started to hit it for catastrophe - even while investors panicked over the broader outlook for central and eastern Europe – and ordinary Poles kept their nerve.

"There can be such a thing as a self-fulfilling prophecy," notes Jan Winiecki, a member of Poland's monetary policy council. "People didn't buy the idea that we were facing a catastrophe, and so they didn't change their spending patterns so much."

Poland's large domestic market, compared with neighbours such as the Czech Republic and Slovakia, helped it withstand the slump in its main EU export markets.

adviser at PwC in Poland, notes, too, that Polish companies and consumers had not gorged on foreign currency borrowing as Hungary or the Baltic republics had, fuelling gaping current bership is not an immediate problem. domestic demand it's hard to say that

"Our neighbours hit the wall," he says. "We were also running in the direction of the wall, but fortunately we were still far away when our neighbours started to hit it.

neither within the eurozone - like Slovakia or Slovenia – nor had pegged its currency to the euro – like the Baltics and Bulgaria - meant a sharply depreciating zloty helped preserve competi-

"The currency depreciated enough to help deal with the problem in the real economy, but not to such a degree that it would create problems in the banking industry," Orlowski says

Yet Stanislaw Gomulka, a former deputy finance minister and professor at the London School of Economics, cautions that Poland's achievement in maintaining growth should not be

'We were running in the direction of the wall, but fortunately we were still far away when our neighbours

over-emphasised. The fall from its previous trend rate was as big as that of many other European countries.

"In advanced western countries, the standard rate of growth is 1-2 per cent [a year]. Then there are the emerging countries . . . where the standard rate is something like 5 per cent. Poland belongs to that category," he says.

The consequences of the sharp fall in growth must now be faced. On top of the earlier tax cuts, lower growth hit tax receipts even as spending continued to rise. As a result, the budget Witold Orlowski, chief economic deficit ballooned to 7.1 per cent of output last year, from 1.9 per cent in ile, affecting Polish exports. 2007 and 3.7 per cent in 2008.

The fact this figure is well above Talk of joining the euro by 2012 has

was growing rapidly in Poland by been shelved. With Poland having experienced the benefits of an independent monetary policy and observing the eurozone's escalating debt problems, membership is on the back burner and unlikely before 2015.

Poland's deficit is also below those Finally, the fact that Poland was of the worst western European offenders. But it is at a level at which, without action to tackle it, markets could become jittery.

Having Bronislaw Komorowski of Civic Platform as president could assist the government in fiscal consolidation, ending the gridlock created when the late president Lech Kaczynski in 2008 vetoed reforms of pensions and healthcare.

But, notes Mr Gomulka, the government faces parliamentary elections in late 2011 so is "unlikely to produce any fiscal initiatives for next year". A fiscal plan sent to Brussels sees the deficit remaining close to 7 per cent this year, with the bulk of consolidation put off until 2012.

Senior officials stress the government's budgetary caution. "We have to resolve a difficult dilemma - how to harmonise the need to stabilise public finances with the need to grow," says Michal Boni, the prime minister's chief adviser.

Officials also point to rules that have been introduced limiting the rise in discretionary spending, about a quarter of the budget, to 1 per cent.

Yet the government will face significant reform challenges, notably of pensions and of the state-financed social security system for farmers. The eurozone's woes, moreover, mean this could be played out against a background of economic growth slower than official forecasts of 3 per cent this year and 4.5 per cent in 2011.

Marek Belka, Poland's new central bank governor, says only a "real pessimist" would foresee a double-dip recession, but suggests western Europe's recovery could be very frag-

"We are seeing a recovery, but like the rest of Europe we are being carethe 3 per cent ceiling for euro mem- ful. Until there is more of a revival in





Poland unemployment rate

GDP growth in 2009 Latvia Lithuania Estonia Hungary

Companies flock to the Lodz special economic zone

Investment

Neil Buckley charts the revival of Poland's third-largest city

The approach to the head office of Lodz's special economic zone seems inauspicious. To one side stands the hulk of a 19thcentury red-brick textile mill, the glass smashed in its window frames, paint peeling in clumps from the ceilings within. It is a relic of the long-gone days when the strength of the city's textile industry meant it was known as the Manchester of Poland.

Yet beyond are modern, lowlevel industrial units, loading goods on to articulated trucks. Nearby, another red-brick mill that has been converted into

regeneration.

That revival has not been reversed - though it has been slowed a little - by the global economic crisis.

The textile industry, which used to serve the Soviet bloc, went downhill rapidly after the communist collapse, sending local unemployment rocketing towards 30 per cent by the mid-1990s. Today, only a few specialist textile makers remain.

A big factor in the regeneration of the city - Poland's thirdlargest - and its surrounding region has been the fact that Lodz hosts one of Poland's 14 special economic zones, created

These are designed to attract investment by offering incentives such as tax breaks,

luxury apartments, and a textile depending on the size of the brand names in its economic investment permits to investors, Fujitsu, the Japanese compu- fields in the town of Aleksanwarehouse reborn as a modern company and the investment. zone includes Dell, Indesit, and now host 130 companies. ter and IT services company, drow Lodzki, ABB, the Swissoffice building are signs of The team running the zone Bosch-Siemens, Procter & Gam- Mr Cieslak says the zone began looking for a site in Lodz Swedish engineering group,

> also helps investors negotiate the bureaucracy, as well as finding sites and ensuring necessary services and infrastructure are provided.

Other factors have helped, too. Lodz is close to Poland's geographical centre, and at the junction of north-south and east-west highways being completed across the country. It also has eight universities with 145,000 students, and recognised strengths in language teaching and some technical subjects.

> As a result, Lodz has been able to diversify, attracting companies such as household electronics manufacturers, beauty products makers, logistics and packaging companies, and busi-

ness process outsourcing. The roll-call of international

ble, Fujitsu, and ABB. "We made an effort to attract brand companies, whose names something about them-

'The pressures being put on organisations to cut costs was one of the reasons we were created'

selves, which can function as a kind of promotion for the region itself," says Marek Cieslak, president of the board of Lodz's special economic zone.

The main zone near Lodz and its 42 "sub-zones" dotted across the Lodz region have issued 160

issued 20 permits last year, the same number as in 2008, despite the global financial crisis. The only difference is that the investments were generally smaller, and companies more cautious about the number of jobs they declared that they

intended to create. There was also a shift from big, international companies towards medium-sized and domestic businesses.

But in some ways, Lodz even benefited from the European recession, as companies sought to reduce costs in more expen-

sive countries. Dell, the US computer manufacturer, announced in January

from Limerick, in Ireland, to its

plant in Lodz.

2009 it was shifting production

in 2008 for a services centre that would handle calls for technical assistance from its IT clients all over Europe, such as Germany's Allianz. It had considered locations such as the Czech Republic, Hungary and Slovakia, and eventually started services in March 2009, in the teeth of the downturn Matt Howes, service opera-

tions manager, says the crisis was in a sense good news for the centre. "The pressures being put on organisations to cut costs was one of the reasons we were created," he says. "It just added to the incentive to bring work

Other companies have seized the downturn as an opportunity to invest. A half-hour's drive north-west of Lodz, in green opened a state-of-the-art factory manufacturing low-voltage motors last July. It is already close to launching a factory alongside it making power elec-Lodz's location - less than 24

hours by truck from ABB's central warehouse in Menden, western Germany - was one of the factors that gave it an edge over other central European countries, says Artur Rdzanek, managing director of the plant. He adds that the company never thought twice about going ahead.

"This was the perfect time for investment," he says. "We were investing money when everything was cheaper. Now we are ready to ramp up production when demand comes back.

Explore Poland's investment opportunities oland's GDF 1.7% which makes Poland the only EU country to report positive economic growth.



Ministry of Treasury of the Republic of Poland

The Privatisation Plan for 2010-2011 covers:

- over 600 companies (small and large)
- over 40 sectors
- key sectors: power, chemical, finance









Parity plea yet to be answered

Women

Winning a place at the top in business or politics has long been a struggle, writes Jan Cienski

Irena Eris is the head of a large Polish company, which makes her something of a rarity in a country where few women reach the top of the corporate ladder.

Mrs Eris herself started

the cosmetics company that bears her name in 1983, and has built it into a large and successful private business. "In my case, being a woman made no difference," she says. "I wanted

to own my own company

and I simply did it."

But there are not many other women in senior corporate positions. Only three of the 60 largest companies listed on the Warsaw Stock Exchange, are headed by women, two of them banks, where women have generally done better than in

other areas. Of the 273 senior managers of the top 60 companies, only 16 are women, accord-

under-represented in politics, making up about a fifth of parliamentary deputies, far below the levels of countries,

slightly better than other post-communist new European Union members.

Of the 19 members of the cabinet, only five are women, and they tend to be in portfolios such as health and education, not the most powerful ministries such as finance and foreign affairs.

communism, women's status was theoretically higher, although men still dominated the most important posts. In the 1950s, the communists came up with the iconic image of the woman tractor driver - young, blonde, and ploughing her way to a more egalitarian future, but in the end communism gave women the appearance of equality without the substance.

A big fuss used to be made over women's day on March 8, when all women given carnations, that something besmirches the reputation of the red blooms in an otherwise flower-mad country.



over a woman that helped bring down communism. In 1980, the workers at the Lenin Shipyard in Gdansk went on strike to reinstate Anna Walentynowicz, who had been fired for trade

union activism. Despite that, Polish men have had difficulty finding a place for women at the

top table. Although Polish women were granted the vote as as the country regained independence in 1918, the traditional view of women, enhanced by the country's Roman Catholicism, placed them at the heart of the family home, where they were supposed to raise children, while men went off to fight Poland's oppressors.

Something of that view When survives today. Bronislaw Komorowski, the presidential candidate of the ruling Civic Platform party and acting head of state, showed up at a women's congress in mid-June, he strode up and chivalrously kissed the hand of Henryka Bochniarz, the nononsense head of the Polish employer's confederation and president of Boeing for central and eastern Europe.

Hand-kissing has gone out of fashion in Poland, but is still practised both by Mr Komorowski and his chief rival, Jaroslaw Kac-

That delicacy towards her company.

Ironically, it was a fight women also appears in the economy, where women's retirement age is five years lower than men's - something the current government plans to change.

While Mr Komorowski explained to the hundreds of delegates that he was "just a guy" who had to women, they protect chanted at him "Parity! Par-

This reflected the call for the law to be changed to ensure that women make up from 35 per cent to 50 per cent of the names on the electoral lists put together by political parties, a law Mr Komorowski promised to sign if elected

"Parity is as important for us today as labour unions were in 1980," savs Magdalena Sroda, a philosopher and feminist who was one of the leaders of the women's congress.

Although they do not have the best corporate jobs, women have done better at the bottom end of the business world - they head about a quarter of the country's small and medium sized enterprises, and a third of the self-employed are women, a level higher than in much of western Europe.

"I encourage women to start their own companies," says Mrs Eris, adding that women make up 50 per cent of the management team at



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State keen as mustard to cut role in business

Privatisation

Jan Cienski explains why Parczew and many other companies are to be sold by the government

here is something unusual about the Parczew mustard and vinegar factory and it has nothing to do with its line of tasty condiments – rather, the small company's ownership structure is an anomaly; Parczew is the last food company still owned by the Polish state.

Not for long, though. The company is being put up for sale by the state treasury, which is hoping to get rid of almost all the more than 800 companies it still owns, retaining significant stakes in only about 20 large, strategic companies.

The prospect of change is terrifying Parczew's 46 workers. "I'm afraid I'll lose my job," says a middle-aged woman cleaning out a ketchup bottling line. "We are managing, and we shouldn't change what works."

Stanislaw Jarosz, a manager brought in to turn round the company after it almost went bankrupt at the beginning of the decade, is proud of the fact that no employee has ever been

The treasury has been content not to interfere as long as Parc-

Polish town of the same name, does not make a loss. A new owner may not be so forgiving.

It is a worry shared by many other workers in state-owned companies, but the government has decided to risk the wrath of labour unions and is pushing ahead with one of the most ambitious privatisation programmes since the end of communism in 1989.

One reason is a desire to move companies ranging from tiny Parczew to large enterprises such as Energa, a power generator, into the private sector. About 20 per cent of Poland's economy remains under state control, and the government's goal is to push that closer to the 10 per cent that is the norm in developed countries.

However, the economic crisis has also exposed the risk of having too much of the economy in foreign hands, and has blunted the government's privatising zeal. Strategic companies where the government has a significant - and often controlling stake such as PKO BP, the country's largest bank, and PKN Orlen, the leading oil company, are not heading for complete privatisation.

Instead, groups that remain under state control will be depoliticised and run along market lines, with the goal of turning them into companies with European and even global potential, says Adam Jasser, an economic adviser to Donald Tusk, the prime minister.

Another government goal is to zew, located in the small eastern raise about 25bn zlotys (€6bn,

asset sales, vital if public debt is to be kept below 55 per cent of gross domestic product, a level at which the law triggers austerity measures.

This year is crucial for such big projects," says Aleksander Grad, the treasury minister. So far this year, the treasury has raised 7.5bn zlotys. "The role of the state in the economy will fall significantly."

While Parczew will not make much a dent in the debt, some of the crown jewels of Poland's state capitalism will

remain under state control will be depoliticised and run along market lines

Companies that

At the beginning of the year, the treasury sold a 10 per cent stake in KGHM, the copper miner, worth 2bn zlotys and in May, the government, together with Eureko, the Dutch insurer, sold a 30 per cent stake in PZU, central Europe's largest insurance company in an 8bn zlotys IPO, the largest in Europe since December 2007.

The treasury is now focused on the privatisation of much of the chemical and electricity industry.

Hopes of selling chemical plants have so far been frustrated, in part because of the poor condition of some compa-

\$7.4bn, £5bn) this year from nies, and in part because the price demanded by the government has been too high. The privatisation of the electricity sector seems to be doing better.

The treasury plans to sell 52 per cent of Tauron, the country's second largest generator, in an initial public offering at the end of June worth 5.2bn

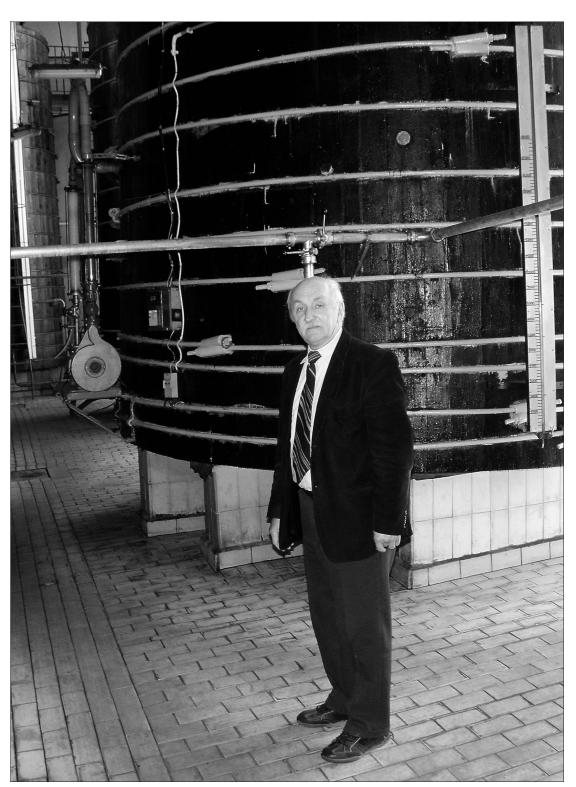
Last year, PGE, the country's largest utility, sold a 15 per cent stake on the Warsaw Stock Exchange (WSE) for 6bn zlotys, the largest IPO in Europe in 2009. The government hopes to sell an additional 10 per cent of PGE this year, but only if the share price returns to the 23 zlotys of last year's IPO.

The arrival of so many large companies is proving to be a boon to the WSE, adding liquidity and intensifying interest from both foreign and domestic

These successful IPOs show that there is high demand," says Ludwik Sobolewski, president of the stock exchange

Mr Sobolewski will soon get to experience the thrill of an IPO firsthand. The treasury plans to sell the exchange, currently 98 per cent state-owned, by the end of this year. There, the goal is less to make money than to ensure the future of the WSE, currently central Europe's largest exchange.

Turnround manager: Stanislaw Jarosz is proud that no employee at the Parczew Vinegar and Mustard factory has ever been



Lending picks up in line with economy

Banking

Institutions remain cautious, but cash is easier to find, writes Jan Cienski

Pawel Gierynski saw a potentially lucrative but risky opportunity for his investment fund, helping in a management buy-out of the Polish affiliate of Gmac, the finance arm of troubled General Motors.

So his Abris Capital Partners started to hunt for banks willing to lend the money to make the deal happen.

"I went to every bank in Poland. Generally, there was a lot of interest, but a lack of faith that we would be able to close the transaction," says Mr Gierynski, a

partner in the firm. In the end, Abris decided to finance 534m zlotys of the 700m zlotys transaction not through banks but through a debt placement using the Warsaw Stock Exchange's new Catalyst trading platform for corporate and government bonds.

The transaction shows the continued risk-aversion of the banking sector, which has become much more conservative in the wake of the global economic crisis.

Polish banks scrambled to build up their balance sheets, setting off a war for deposits, and reined in their lending.

The result has been a strong improvement in the sector's capital adequacy

Contributors

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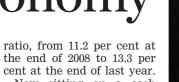
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Now sitting on a cash pile, banks are starting to lend again, cautiously. Real estate developers, which had found it almost impossible to obtain funds last year, are now able to do so, albeit on tougher conditions than before the crisis.

Krzysztof Pietraszkiewicz. head of the Polish Bank Association, expects lending to increase by 8-10 per cent this year.

'The banking sector is reviving. Banks are becoming more and more active," says Janusz Dedo, president of the Polish affiliate of

Despite the crisis, Polish banks managed to turn a profit last year, reporting a

'There were difficulties but no bank had a serious problem and none reported a loss

gain of 8.7bn zlotys, a fall of 36 per cent from 2008, but still decent in the light of the enormous losses seen by banks in western Europe and the US.

"There were difficulties, but no bank had a serious problem, and none reported a loss," says Mr Dedo.

A key to banks' results was the overall performance of Poland's economy, which with growth in 2009 of 1.7 per cent was the only European Union country not to fall into recession.

However, banks have still seen their number of problem loans grow from 4.5 per cent of their portfolio at the end of 2008 to 7.6 per cent at the end of last year.

Riskier credit card loans are in worse shape, with non-performing loans of more than 12 per cent.

Polish banks have traditionally been more conservative than their counterparts in more developed countries, and did not dabble much in exotic financial instruments that ruined many larger institutions.

The Financial Supervision Authority, the banking regulator, has also brought in several recommendations designed to restrict foreign currency lending, which makes up more than 60 per cent of outstanding mort-



eign currency borrowing is still popular, with euros now competing with loans denominated francs.

The overall outlook for Polish banks is fairly positive, with Mr Pietraszkiewicz expecting profits to rise by 20-25 per cent in

The economy is again expected to expand by more than 3 per cent this year, one of the fastest rates in the EU, and the long-term growth rate will be faster than the wealthier economies of western Europe for a generation.

The level of assets to GDP for the banking sector is 85 per cent, much less than in Europe, while western mortgage debt to GDP is 17.5 per cent, again far below the level in old EU countries.

"The level of debt is not very high at all," says Iwona Kozera, banking analyst at Ernst & Young, the consultancy

While Polish banks are performing well, the wider crisis has had an impact on the sector, as some corporate parents have been forced to sell their profitable Polish operations.

Germany's WestLB sold (pending regulatory approval) its Polish subsidiary to Abris and IDMSA, a brokerage, as part of an effort to restructure in order to qualify for EU aid.

The profitable Bank Zachodni WBK, the country's fifth largest and a subsidiary of Ireland's troubled AIB, is being put up for sale, with a long line of banking groups interested in taking it over.

However, the government appears to want the bank to stay in Polish hands, a reaction to the perceived risk during the crisis of having an overwhelmingly foreign banking sector.

Stanislaw Kluza, the head of the Financial Supervision Authority, said in a newspaper interview: "In Poland, 70 per cent of the banking system belongs to foreigners, compared with an EU average of 27 per cent."

"In times of crisis, however, such a structure of the market involves a certain level of risk, especially Despite the concerns of with possibility of a withthe banking regulator, for- drawal of capital."



central & eastern europe development





Ladies and Gentlemen,

In many countries, the international economic crisis has tested the responsibility of economic policies. The test was exceptionally painful to the European Union. It was a trial which made the member states once again define their notions of integration, partnership and responsibility.

Poland, as one of the ten newest EU members, showed that, in this difficult time, it was able to successfully face the economic challenges. Poland turned out to be a country which is able to solve its problems efficiently rather than letting them pile up.

Not only have the countries of the new "10" brought to the EU their potential and respect for the common rules and regulations, but also a respect for the law and a declaration of solidarity in good times and bad times as well. This is a region with a population exceeding 100 million people. We are talking about the heart of Europe which attracts billions of foreign investments every year. It is a region of well-educated citizens, as well as increasingly competitive and innovative enterprises which are becoming the leaders of their markets. A region with huge growth

Because of our attitude and achievements, the international financial world should no longer perceive us as a mere "investment basket", or label us with an unclear definition of an "emerging market". The post-communist ascent cannot be the only characteristic of the region. We deserve to be evaluated, not only on the basis of our aspirations, but most of all on our real and measurable achievements; and of these achievements, there are many.

With all this in mind, I would like to propose the launch of a new think-tank for ideas and initiatives which will promote the achievements of our region. The raison d'être of the initiative will be the further support of transformation, the free market and privatization, as well as an improvement in innovation and competitive advantage. In a special letter, I have invited to cooperation the most important entrepreneurs representing the "10". We all share a mutual interest and a common cause. We all have a common past, but the time has come to consciously plan our mutual future.

My ambition is to prepare an annual and comprehensive report that will show the achievements of our region. I would like the publication of the report to be accompanied by serious discussions and presentations dedicated to the representatives of the largest world investment funds, corporations and entrepreneurs. In this way, we may show the world how much we have achieved together, how fast we have made up for lost time and what our unique values are. Our determination in reforming our economies and our competitive strengths deserves to be noticed.

In accordance with the old and proven marketing rule, "stand out or die", let us send a message to the world that from now on we are CEED, a family of dynamic Central and East European economies, where the "D" means "Development", that is, sustainable growth, an obligation to work hard and the ability to turn words into action.

Welcome to CEED! Jan Kulczyk

Should you wish to have any further information, please contact the CEED office at office@ceedevelopment.eu

www.kulczykinvestments.com

Poland: 30 Years After Solidarity

Big names from past -where are they now?

Who's Who

Jan Cienski profiles five leading players in the events of 1980

Lech Walesa

Thirty years ago, Lech Walesa was a 36-year-old electrician who had been fired from the Lenin shipyard in Gdansk because of his involvement in labour agitation. When shipyard workers went on strike in August 1980, Mr Walesa quickly joined, and with his charisma and simple peasant's way of speaking, he became the leader of the new union movement. Mr Walesa was interned when martial law was declared on December 13 1981. He was awarded the Nobel peace prize in 1983 and ended up leading Solidarity in 1989 round-table negotiations that ended the Party's monopoly on power. Although

he is credited with being one of the main figures in freeing Poland from communism, his 1990-1995 presidency is widely seen as a disappointment. His authoritarian streak ended up splitting the Solidarity movement allowed the post-

communi

sts a swift return to power. Since his 1995 election defeat, the former president has become an international speaker and enthusiastic advocate of innovative technologies. Mixed with occasional threats to return to public life (although polls give him very little support), he spends much of his time defending his reputation from attacks by right-wingers. They accuse Mr Walesa of being a secret police stooge who sold out the country by striking a deal in 1989 with the communists under which Poland's former rulers escaped

Andrzej Gwiazda

prosecution.

One of the founders of noncommunist labour unions in 1978, and Lech Walesa's deputy in 1980, the luxuriously bearded Andrzej Gwiazda had always been a prickly nonconformist. He spent the 1970s battling the communist authorities, and much of the

1980s under internment. He fiercely opposed Mr Walesa's decision to open negotiations with the communists, and took no part in the roundtable talks of 1989. He did not make a career in either business or in

politics, returning to work in ship con-





the crane operator whose

dismissal sparked the 1980

strike and who died in the

government airliner, Mr

April 10 crash of the Polish

Gwiazda has been one of Mr

Walesa's fiercest critics. He

sees 1989 as a betrayal, and

Long a marginal figure, he

was given Poland's highest

the former president, in 2006.

Henryka Krzywonos

A tram driver, Henryka

breaking the back of Polish

communism. She started a

sympathy strike of Gdansk

transport workers in 1980,

tram is going no further."

telling her passengers: "This

When shipyard workers under

Lech Walesa were considering

ending their sit-in following

also feels the 1980 strike was

er with Anna Walentynowicz, successful negotiations with the authorities, she persuaded them not to forget about less powerful workers also on strike. "If you abandon us, we will be lost," she said. "They will leave the shipyard alone, but small plants will be crushed like bugs. Don't stop the strike." The shipyard provoked by the secret police. workers decided to stay out until all labour demands were met, leading to the creation of the national Solidarity union, decoration by Lech Kaczynski, where she became one of the leaders. Mrs Krzywonos never went into politics, instead

Krzywonos was one of the troubled children in Gdansk. pivotal figures in creating **Tadeusz Fiszbach** Solidarity and eventually

Tadeusz Fiszbach, the communist first secretary in Gdansk region, was one of the government negotiators with striking workers in 1980. Workers quickly concluded that the bald apparatchik sympathised with their aims. He was viewed with suspicion

running a foster home for

and following his opposition to the declaration of martial law in 1981, was shuffled off to Helsinki as trade attaché. In 1989, he ran for parliament, and was one of the few communists to gain the support of Solidarity leaders. He advocated the dissolution of the Communist Party and the return of its property to the state - a stance that did not endear him to comrades. When the Party officially became a social democratic party, Mr Fiszbach left with 40 MPs to start a party free from the communist past. His attempt failed, and he turned down an offer from Mr Walesa to run for president in 1990. Since then he has been an ambassador and a university lecturer on diplomacy.

Bogdan Borusewicz

Bogdan Borusewicz is one of the most senior members of Solidarity still active in



Pole position: (clockwise from top left): Bogdan Borusewicz, Andrzej Gwiazda, Henryka Krzywonos, Tadeusz Fiszbach; (below left): former president

epa, Corbis, eyevine, Getty

president was a communist collaborator.

Chopin strikes chord

Poland is one of Europe's most music-loving nations, yet it has produced only one truly outstanding composer, Fryderyk Chopin. His genius was of such a high calibre, however, that he has become the country's international calling card, and the Polish government has embarked this year on a global campaign to celebrate Chopin on the 200th anniversary of his birth, writes Jan Cienski.

"I see this year as an opportunity not just to promote Chopin . . . but to promote Poland - how to manage this event for Poland's benefit," says Waldemar Dabrowski, the head of the Chopin 2010 committee and a former culture minister.

"Thirty years ago, Solidarity showed that something was happening here - that was when the battle for central Europe began. This is the first time since then that such a strong signal to the rest of the world has come out of Poland."

The government has spent about \$100m on refurbishing sites associated with Chopin and creating a multimedia museum dedicated to the composer in a palace in central

Zelazowa Wola, the manor house 50km from Warsaw where Chopin was born, has been spruced up with a new concert hall and a restaurant controversial for some purists who objected to the daring modern design - aimed at the thousands of people a day who make the pilgrimage to

"It used to make sense to go to Zelazowa Wola for only half an hour, because there were no toilets, no restaurants and nothing to do there," says Mr Dabrowski.

The celebration has been truly international, a mark of Chopin's global appeal, and many of the 40 committees dedicated to promoting Chopin sprang up without any Polish intervention.

Events have ranged from an inaugural concert in Warsaw in January by Chinese pianist Lang Lang, to piping the composer's music on to the floor of the New York Stock Exchange. Asia, where Chopin is enormously popular, has been inundated with concerts.

In Warsaw recently, musicians played all 22 hours of music written by the composer in the Chopin Open, which attracted more than 25,000 people to the Polish capital – a city Chopin called home before moving to France in 1831, following the defeat of an uprising against Poland's Russian occupiers.

"This Chopin year is important because it will focus attention on our whole culture, and we do have something to be proud of," said Ania Klewinska, attending the Chopin open with her son and husband, who said the performance had piqued his son's interest in classical music.

The more than 2,000 events around the anniversary continue in August with a Chopin and his Europe festival, followed by a Chopin contest in October

The year ends with a recital of the composer's favourite operas on New Year's Eve in Warsaw.

Additional reporting by Iwona Sarjusz-Wolska

Fryderyk Chopin lived in Warsaw before moving to France in 1831



politics. A historian, Mr Borusewicz was arrested in the 1960s for distributing anticommunist leaflets. He then went on to become one of the key organisers of free labour unions on the Baltic coast, and was one of the main planners of the 1980 shipyard strike. He spent much of the 1980s underground, resisting capture by the communists after martial law. In democratic Poland, Mr Borusewicz became a politician, and is currently the speaker of the senate. He has been an active defender of Lech Walesa against accusations that the former

Private universities face lesson in harsh facts of life

Higher education

Jan Cienski says the system faces a crisis as student numbers fall

University education has been one of democratic Poland's biggest successes training a generation of people who had been left out under communism and giving them the skills to compete in a market economy.

Over the past two decades, hundreds of institutions have sprung up to meet pent-up demand for education, which has given the country one of the largest non-public university systems in the world. Almost one third of students attend private universities - much more than in other European countries.

"We are radically different," says University of Warsaw. "There is no comparison with any other university system. It is very unusual.

But now Poland's atypical system – of many professors – is running into

trouble. This may have implications for the country's attempt to shift from being an economy dependent on cheap labour to one based on knowledge and technology, as it strives to catch up with western European liv-

ing standards. The problem is that most private universities, as well as many public ones, have very low standards, and focus on teaching easy subjects such as marketing and social studies, which give students a diploma but not much technical knowledge usable in an advanced economy.

"There is a not a good match between the university system and the needs of business," says Thomas Laursen of the World Bank.

Added to that, the university system is bracing itself for a demographic crunch, as falling birth rates over the past two decades lead to rapidly falling numbers of new students. Because most older people Stefan Jackowski, a professor at the already have diplomas, there are few pools from which to draw new students, and remaining students are more demanding.

"People used to come for a piece of the result of the entrepreneurial drive paper, but now we're seeing students demanding much higher standards,"

says Jan Szafraniec, rector of the Bogdan Janski Higher School, a private university that teaches management, politics and sociology.

Michal Debski, a high school student trying to decide where to attend university, says: "When people see degrees from some of the private schools, they just laugh."

The result is going to be a crisis in higher education.

'We will have a big reduction in the number of young people going to university," says Bohdan Wyznikiewicz, deputy director of the Gdansk Institute of Market Economics, which has prepared a report on the state of Poland's post-secondary education system for the ministry of higher education, together with Ernst &

Young, the consultancy. "Everything indicates the weaker schools will have to band together or disappear. The number of such schools has already peaked, he says.' The study found a litany of problems. In addition to more than half of students taking undemanding subjects, many universities rely on parttime professors who do little more than lecture and then run on to their next job. Two-thirds of Polish professors have more than one teaching job. There is also a significant imbalance in research and development

spending – 25 public universities receive 84 per cent of funding, while the remaining 106 public and 325 private universities get the rest. Research tends to be parochial; con-

is rarely published in international journals. Although university is theoretically free, about 60 per cent of students pay for their studies. Even the country's two best public universities, the Jagiellonian in Kra-

cerned with purely Polish issues, and

kow and the University of Warsaw. are in the fourth centile in the ranking of world universities produced by

Shanghai Jiao Tong University. That is not to say that all of Poland's higher education is woeful. The larger public universities have

excellent medical schools, and areas

such as computer science and mathematics are at a very high level. Some private universities have also

managed to break out of mediocrity. Kozminski University, a business school, is Poland's highest-ranking private university - ranked 42nd in the Financial Times' 2009 European Business Schools listing.

The goal is to drag the rest of the education system to the same standard of international competitiveness, vital if Poland is to continue attracting high levels of foreign investment, and to produce its own European or world-scale companies.

Despite the opposition from many university rectors, Barbara Kudrycka, the higher education minister, has decided to push ahead with creating a group of elite universities, and of charging students who want to study a second area of specialisation.

The National Depository for Securities

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Profile ITI builds media empire on video cassettes and snack foods

The ITI Group has been a roaring success story of Poland's transition from communism to a democratic free market economy. It started out selling video cassettes with a sideline in snack foods and developed into the country's leading media company.

It is the region's biggest media group, encompassing TVN, Poland's leading private broadcaster, Multikino, the country's second largest cinema chain, and Legia Warsaw, its most recognised football club.

ITI was created in 1984 under the communist state-sanctioned Polonia scheme, which had been set up to attract foreign capital. Its founders, Mariusz Walter, a former state TV editor, and Jan Weichert, a businessman, started out in a flat piled high with video cassettes on Warsaw's eastern river bank

They had an eclectic entrepreneurial approach. Apart from videos and potato crisps, they sold electronic goods, advertising and baking products.

Along with the third partner, Bruno Valsangiacomo, they began to focus on media and entertainment, creating the TVN channel in 1997, which shaped the fledgling democracy's free media.

When Mr Wejchert died last year, Leszek Balcerowicz, the architect of Poland's economic transition, described him as a man who "co-developed free media, made contributions to culture . . . and also acted in favour of

civic society in Poland". Markus Tellenbach, TVN's chief executive, says risk-taking and innovation are "in the DNA of the company'

TVN has countered the challenge of fragmentation, he says, by creating early its own thematic channels, such as Poland's first 24-hour news channel, TVN24. in 2001.

TVN now has a higher urban peaktime audience share than either the public broadcaster, TVP, or privatelyowned rival, Polsat. The keys to that success. Mr Tellenbach says, are locally-produced shows and Polish



TVN's Markus Tellenbach: 'Poles are extremely savvy and price sensitive, but they are willing to spend money on new technology'

versions of popular formats such as Strictly Come Dancing.

Poland's ability to avoid recession last year lessened the effects of the industry-wide advertising crisis. Advertising revenues, which fell off a cliff last year, have already returned to

TVN's innovation has been rewarded by Polish consumers keen to catch up with their western European

counterparts. Mr Tellenbach says: "The Poles are extremely savvy and price-sensitive, but they are willing to spend money on

new technology. This market is racing towards high definition."

In a country with 13.8m households, 1.5m flat screen HD television sets were sold in the past year.

TVN has expanded its core business, investing in Onet.pl, the country's leading online portal, and launching its own digital satellite platform, N, in 2006.

Satellite television's market share

has almost doubled in the last three years, helped in part by the fact there are only four main free TV channels in Poland. Competition is cut-throat with four

big satellite providers. N expects to be free cash flow positive in 2011 and has attracted more than 1m customers. "We will be the fastest growing. We

are the ones that drive innovation and I believe that consolidation will occur down the road," says Mr Tellenbach. Innovations include a premium HD subscription package that you can

switch off when you go away on Mr Tellenbach says his next focus is keeping up with mobile and online technological change.

"The television set is not going to be replaced because to have a big screen and HD is a unique experience, but it is no longer the single [focus of] attention," he says.

"Whatever the consumer embraces we want to be there with our products.

Adam Easton

Polish capital market___





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