

BPCC CEO newsletter

issue no. 5, January 2009



What will Poland's economy be doing in 2009?

by **Michael Dembinski**, Head of Policy, BPCC
and **Martin Oxley**, CEO, BPCC



As the world faces its worst financial crisis in living memory, investors everywhere are looking for safe havens in choppy waters. What will things be like in Poland? Will Poland continue to be a safe and profitable place in which to invest?

The consensus of economists forecast that Poland's economy will grow by somewhere between 2% and 3% this year – slower than in past years, where 5% to 7% growth has been achieved – but nevertheless a cracking performance by the standards of western Europe, where economies will shrink.

Surely it can't be that good? Well, there are areas that are facing difficulties. Poland's banks, three-quarters of which are foreign owned, are dramatically reigning back their lending. There's precious few new loans being made now, though this situation (globally) will improve once the banks have had their balance sheets and accounts for 2008 audited towards the end of Q1. Only then, with a truer picture of their structure of their loan portfolios emerging, will they be able to lend to one another with any degree of trust.

This will be good news to Poland's beleaguered property development sector. Over-supply in the luxury segment (a bubble in its own right, regardless of what was happening abroad) coupled with general difficulties in obtaining loans to finance construction, means that the sector has virtually ground to a halt, especially in high-end residential.

Poland's automotive sector – dependent to a great extent on export sales – has been hard hit too. The entire supply chain is hurting. But there are bright spots. Domestic car sales however, are up (first 11 months of 2008 saw a 9% rise compared to the same period in 2007). Fiat, Poland's biggest car producer, saw an increase in production due to huge demand for its new 500 model. The Polish used car market also had a boom year in 2008, with more than 1.1 million used cars coming in mainly from Germany.

There are signs that a sharp slowdown is coming, albeit several months after it hit

the USA and western Europe. November's industrial production figures were significantly worse than analysts expected. Overall, output fell by 8.9% compared to November 2007 (seasonally adjusted, the fall was 4.2%). Some sectors were hit more than others – metal manufacturing (35%), chemicals (25%) and automotive (18%). But construction was up (5.5%). Industrial production accounts for a quarter of Poland's GDP.

One reason Polish consumers have been feeling far more confident than western European consumers is that, right up to November, unemployment had been falling. The number of registered unemployed people in Poland's largest cities is tiny – in Poznań, for instance, only 1.6% of the population is registered as jobless – a mere 5,000 people in a city of 600,000. While London's unemployment rate is 7%, Warsaw's is less than 2%.

Compared to other countries in the CEE region, Poland was in sound macroeconomic shape as the world plunged into financial turmoil; this impetus may well be sufficient to carry it over the gulf that's opening up before the world's economies. Along with Czech Republic, Poland is forecast by the OECD as its least affected members. Indeed, those who remember the last slowdown in Poland (2001-02) can gain some comfort from the OECD's forecast that this slowdown will be significantly more mild than past Polish economic troughs.

While there has been strong growth in Polish consumer credit and mortgage lending, the level is still very modest by western standards. In 2007, the UK's combined mortgage debt per capita was €28,760, when in Poland it was a mere €940 – thirty times less. And note that Poland has an even higher owner-occupancy rate (75%) than the UK (70%). These contrasting figures from the European Mortgage Federation show that Poland has not been living beyond its means – Poland's GDP per capita is \$11,000 compared to \$46,000 (four times smaller). And between 60% and 70% of Poland's SME sector is believed to be financed entirely out of its own cash.

BPCC RECOMMENDS

12 February, Warsaw
British Polish Renewable Energy Forum
Radisson SAS Hotel, ul. Grzybowska 24

Poland is one of Europe's laggards when it comes to renewable energy. Pressure from the European Commission, multinational organisations and NGOs will increase as Poland – dependent to an increasingly unacceptable degree on coal – struggles to meet EU targets for renewable energy. For UK industry experts, analysts and investors, this get-together with Poland's top renewable energy people will offer strategic insights into the direction and pace of transformation in this sector, as well as the opportunity to make direct top-level contacts with key decision makers. The programme is designed to offer delegates from both countries the chance to exchange experiences face-to-face. Simultaneous translation in both directions will be available.

Contact:

(+48 22) 320 01 08;

(+48 22) 320 01 19

Although average earnings in Poland grew strongly in 2008 (another reason why consumers feel confident), they are still way below UK wage rates. In many Polish provinces, average annual salaries are a little over £7,000. Even in Mazowsze, where Warsaw earnings have pushed up the average, it is just under £11,000.

Those export-dependent manufacturers that have already had to lay off staff found that their former employees were quickly soaked up by other employers, especially in cities like Wroclaw and Krakow.

Where's the upside? The shift to outsourcing services and business processes to Poland will continue apace, though maybe not to overheated local markets such as Krakow. Those global companies that already have shared service centres or call centres in Poland are growing them, as they trim costs further from more expensive locations in western Europe.

Over the past quarter, the BPCC has seen an increasing number of inquiries from UK companies eager to either trade with or invest in Poland. British CEOs, seeking a market that offers growth and stability at the same time, should take a good, close look at Poland. A pound that's competitive against the euro (the pound lost over 20% in value to the euro in 2008) means that British exporters can compete effectively in Poland against German, French and Italian manufacturers. And Poland's consumer spending is forecast to remain strong in 2009, even though capital investment

will not grow by much, if at all. Britain's trade performance (in sterling, anyway) with Poland was robust – with exports in the first ten months of 2008 growing at 19% compared to the same period in 2007.

One key reason why Poland will stay afloat economically in coming years will be EU structural and cohesion funds – all €68 billion – which are to be spent by 2015/16 on infrastructure (€28 billion), human resources (€13 billion), innovation (€9 billion), environmental protection, regional development and modernisation of agriculture. This money will change the way Poland looks and functions.

Poland above all needs infrastructure – roads, railways, ports, airports, power stations, water treatment plants, public buildings, and it needs them desperately. The impending Euro2012 football finals will concentrate the minds of Poland's government centrally and regionally; Poland needs six stadiums, 300 new hotels, 800km of roads, five airport terminals, refurbishment of railways, road infrastructure in six cities, plus new buses, trams and trains. Poland's public sector is well poised to be a major investment platform – British companies have not yet exploited the new opportunities emerging in this area.

In the light of a global slowdown, UK companies still focused on growth, must investigate Poland as a trade and investment opportunity in 2009. ■



Where to locate your business in Poland?

by Piotr Mikulski, Information Manager, BPCC

In December last year, the BPCC was invited to take part in a meeting at the Ministry of Regional Development where a presentation was given on the attractiveness of investment in Polish provinces and subregions. Prepared for the Ministry by the Gdańsk Institute for Market Economics, the report is centred around three major types of foreign investors (manufacturers, service providers and the advanced technology sector) and discusses ten factors influencing the ability to attract FDI.

Investment attractiveness is understood as the ability to attract FDI by offering locational advantages. The report takes into consideration transport accessibility which influences logistics, supply of raw materials and components as well as public transport which is also essential for effective business. The geographical location is also taken into account in regards to the distance from the Polish border with Germany (its biggest trade partner), from Warsaw and from other major Polish cities, airports and ports. Investors would probably also consider local labour market (labour costs, volume and quality), market

size, level of economic development in the province, economic and social infrastructure (Special Economic Zones, number of companies, R&D institutions, trade fairs and exhibitions, conditions of living, culture etc). Investors should also bear in mind the environment which might influence their activities twofold: some areas of significant environmental value might limit accessibility of particular province for the investors. Polluted areas, on the other hand, increase the costs of business activities. Other factors considered by the report are public safety and promotional activities.

Not surprisingly, top Polish provinces for foreign investors are Śląskie (the unquestionable leader since 2005), Mazowieckie, Dolnośląskie and Wielkopolskie. Eastern Poland (Podlaskie, Lubelskie, Podkarpackie and Warmińsko-Mazurskie) receives the lowest attractiveness rating overall.

The report has been produced annually for the past four years so there is now firm ground from which to draw some strong conclusions. In general, there have been no

20 April, Warsaw BPCC Annual Conference Hyatt Hotel, ul. Belwederska 23

While the UK and western Europe will struggle through recession next year, the BPCC is seeing increased interest in Poland from UK companies seeking a growth market inside the EU. Poland's economy will be kept relatively buoyant by €67 billion of EU structural and cohesion funds, which have been earmarked for Poland's development. The strong zloty and weak pound mean that Polish consumers can afford products and services from UK companies that might have been too expensive in the days when the zloty was weak and average earnings in Poland were low. Polish companies are increasingly investing in labour-saving technology as they move up the value-added ladder; energy and environmental protection are also important areas for foreign investment. More and more acquisitions of Polish companies by private equity funds are taking place, while investment in infrastructure projects is also proceeding apace.

The BPCC's 6th Annual Conference will be the place where corporate leaders can get together to discuss business prospects, learn about the latest trends and macro-economic tendencies, and see where the smart money will be investing.

At the BPCC we are proud of the achievements of our members and, to recognise this, we welcome the opportunity to present awards for a number of categories. You can nominate your own company or another member company for any category:

- Best in Corporate Social Responsibility
- Entrepreneurial Business of the Year
- Best Hotel of the Year
- British-Polish Exporter of the Year
- Best Project using EU Funds

Click here to vote:
www.bpcc.org.pl/6conference

Contact:
(+48 22) 320 01 08

no significant changes to the attractiveness rankings of Polish provinces over the last four years, however, the top provinces, have been receiving slightly lower scores year on year. In recent years Pomorskie was the most successful in improving its attractiveness and its rating has gone up by over 23%. On the other hand, Małopolskie went down by a similar percentage. The authors of the report noted 60% correlation between the attractiveness rating and the actual inflow of FDI as well as GDP per capita of the Polish regions.

For manufacturing, South Poland generally proved to be most attractive as the region has a long tradition in industry output, a well-developed production sector, a specialised labour market and good transport infrastructure. With the exceptions of Poznań, Łódź and the Kujawsko-Pomorskie province, this is not the case across other parts of Poland. The top five destinations for manufacturing are subregions of Katowice, Rybnik, Łódź, Poznań and Tarnobrzeg.

The largest Polish cities (especially Łódź, Warsaw, Katowice, Kraków and Poznań) are considered to be the best locations for business process outsourcing (BPO), due to the high number of well-qualified staff (especially graduates), large market and the economic development of the region (labour effectiveness, other foreign investors in the region and high share of service providers in local GDP). The larger cities are also the best destinations for investors in advanced technology as they provide sufficient R&D infrastructure, specialised labour and the social conditions encourage creativity.

The report showed that the provinces which scored highest overall have all been very active in advertising the investment potential of the region and funding promotional activities aimed at potential investors. At the same time, the least attractive provinces were shown not to have made an effort in promoting their unique character, clean environments or high levels of security. The Polish Information and Foreign Investment Agency (PAIIZ) might be of help in this field as it plans to scrutinise what the biggest advantages of different regions are and to help promote these advantages to potential investors in 2009.

According to PAIIZ, greenfield investment will not continue to come to Poland in the same volume we have seen over the last couple of years. What now boosts

FDI to Poland is BPO and other modern services. Moreover, foreign investors no longer locate their businesses only in Special Economic Zones which provide tax incentives and other benefits, but are starting to use EU funds more actively. According to PAIIZ research, what is now taken into consideration when analysing the ideal location for investment is accessibility to ports and highways. Analysis has shown that standards of service provided by civil servants and their command of English also has a direct influence on potential investors' decisions on where to locate their business activities in Poland.

How will the global financial crisis effect Polish provinces? Some of the biggest global automotive companies are having problems and this will most probably effect Śląskie which is the biggest area of car producers in Poland. The global crisis will be a good occasion for analysing investment inflow to Poland and creating a more selective policy towards investors on a regional level. Polish provinces, especially those currently rated most attractive, should ensure they have a variety of investors. By not putting all their eggs in one basket, a global recession in one sector will not be detrimental to the whole province. Outflow of foreign investment from Poland was also addressed and the discussion questioned whether this has truly started. According to PAIIZ, the biggest competitors for Poland at the moment are Romania and Bulgaria. Ukraine, due to serious economic breakdown poses no risk and the Baltic tigers, which until recently have been attractive for investors, have now been struck by deep recession. According to the Polish minister of finance, Jan Vincent Rostowski, who spoke at a recent BPCC Business Breakfast, Poland, together with Czech Republic and Slovakia, now forms a triangle of fairly attractive countries for foreign investors, especially when compared with "old" UE or Eastern Europe. These are three countries with relatively high GDP growth, stability and property rights.

Providing information services, market reports and partner search, the BPCC believes it might assist potential investors considering Poland as a destination of their business activities. We can advise on where to locate new investments, the necessary steps to set up a branch office in Poland and more. Should you have these or any similar questions please email: info@bpcc.org.pl.

OTHER EVENTS

15 January, Katowice 'Investment Potential of Katowice and Upper Silesian Metropolis'

Altus Building, ul. Uniwersytecka 13
Investment Potential of Katowice and the Upper Silesian Metropolis

BPCC, Katowice City Council and Upper Silesia Metropolis Union in co-operation with Start People, Accea and Tri Granit Development

We have the honour of inviting you to participate in this important conference focused on growing the investment potential of the City of Katowice and the Upper Silesian Metropolis. The conference will also look at further development prospects and increasing international co-operation, in particular with the United Kingdom.

Contact: konferencja@um.katowice.pl
(+48 32) 253 74 23

5 February, Warsaw THE FUTURE OF HR. The directions set by the best leaders.

Marriott Hotel, Al. Jerozolimskie 65
On behalf of a BPCC Member, BIGRAM S.A., we would like to invite you to the 27th Seminar in the AUTHORITIES series of events.

The following issues will be tackled during the seminar:

- Challenges lying ahead of the HR industry due to market changes
- Value creation and the role of HR employees in the process
- Actions that HR employees should take in order to achieve success
- Innovative solutions, functioning of HR departments and of HR professionals
- New trends in leadership and building of leadership brand in relation to diverse approaches to leadership
- Five basic attitudes of an effective leader
- Methods of reconciling leadership behaviour with the expectations of clients and investors

Contact:
(+48 22) 646 94 94

BPCC PATRONS:

TESCO

PRICEWATERHOUSECOOPERS

HSBC

gsk
GlaxoSmithKline

CUSHMAN & WAKEFIELD

BAE SYSTEMS

A4e
Polska

Imperial Tobacco

C'M'S Cameron McKenna

1010
PROVIDENT

HAYS

BAKER TILLY
SMOCZYŃSKI I PARTNERZY

Contact:

BPCC CEO Newsletter
online publication of the
British Polish Chamber of Commerce
1 Hammersmith Grove, London W6 0NB
Tel: +44 (0) 203 008 4600

Details and sponsorship opportunities:
Natalia Koperniak
natalia.koperniak@bpcc.org.pl
Tel: (+48 22) 320 01 10