Ministry
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Report on the
Kosciuszko Foundation
Economic Conference 2013

# The Polish Phenomenon

## What's Next for Europe's New Powerhouse?

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FOREWORD

# Shedding Light on the Polish Phenomenon

ALEX STOROZYNSKI
President and
Executive Director,
The Kosciuszko Foundation

THERE'S AN OLD JOKE ABOUT HOW MANY POLES IT TOOK TO SCREW IN A LIGHT BULB. BUT AFTER A POLISH ELECTRICIAN NAMED LECH WALESA PULLED THE PLUG ON COMMUNISM AND HELPED BRING DOWN THE SOVIET UNION, THAT JOKE LOST ITS LUSTER. THESE DAYS THE LIGHT BULBS ARE MADE IN POLAND, AND OVER THE PAST TWO DECADES, THE COUNTRY'S ECONOMY HAS GROWN AT A RECORD PACE COMPARED TO ITS NEIGHBORS.

September 2013 marked the 20th anniversary of Russia's withdrawal of the Soviet army from Poland. Since then, Poland has gone from Communist basket case to what German magazine *Der Spiegel* dubbed last year as: "The Miracle Next Door: Poland Emerges as a Central European Powerhouse."

Poland is the only European Union economy to avoid recession since the global financial crisis hit in 2008. Polish workers used to travel abroad to where the factories were. These days, factories move to where the Polish workers are. This summer, Fabrizio Pedroni closed his factory in Italy when his employees went on vacation, packed up his electric component machinery and shipped it to Poland, where workers rank higher on the World Economic Forum's global pay and productivity table.

In August, Arvato, which supplies financial and consulting services to Google and Microsoft, moved 140 jobs from Ireland to Poland. Dell Computer moved its factory from Ireland to Poland in 2009, while Esplex, a subsidiary of PC manufacturer Acer, closed logistics centers in France and England and moved those jobs to Poland. Cadbury Schweppes, the tea giant Twinings and Electrolux have all moved jobs to Poland. Last year Credit Suisse moved IT jobs to Poland.

Despite these moves, Poland's unemployment rate remains at 14%, and in September, workers took to the streets to protest and demand more jobs and higher pay, blaming the government for not doing enough to spur the economy. But this protest has more in common with the Occupy Wall Street movement than the deadly riots in Greece, or even the 1980s, when Poland's Solidarity trade union shut down the government altogether.

These days, the frustration of Polish workers is expressed in a more orderly fashion. Poland has become a stable country, where the democratic government and economy are pulled back and forth by debate and market forces rather than through riots and revolution. That's why Standard & Poor's rating services last month affirmed Poland's ratings as "Continued Economic Strength; Outlook Stable."

On September 27, President of the National Bank of Poland Marek Belka spoke at an economic conference at the Kosciuszko Foundation to give an update on Poland's economy.

Why hold this discussion at the Kosciuszko Foundation? Well, in 1925 a Harvard economist from Poland named Szczepan Mierzwa started this foundation with the help of American bankers, industrialists and professors to fund scholarships for Poles. Since then, the foundation has awarded millions of dollars in scholarships to Poles and Polish Americans who have changed the world.

One of them, Leszek Balcerowicz, received a scholarship to do his MBA at St. John's University. He went back to Poland and developed the nation's shock therapy, which took Poland from being a Soviet Communist economy to an Economic Tiger. Not a bad investment for the Kosciuszko Foundation, and not a bad investment for Poland.

That Poland has gone from being the front line between NATO and the Warsaw Pact to being an island of stability in the center of Europe is a phenomenon indeed.

—ALEX STOROZYNSKI

**DOUGLAS L. PETERSON**
**President,**
**Standard & Poor's Ratings Services**

— M O D E R A T O R —

On July 11, 2013, Doug Peterson, currently President of Standard & Poor's Ratings Services, was elected President and Chief Executive Officer of McGraw Hill Financial, effective November 1, 2013.

Previously, Mr. Peterson was the Chief Operating Officer of Citibank, N.A., Citigroup's principal banking entity, which operates in over 100 countries. Mr. Peterson was with Citigroup for 26 years, during which time he transformed businesses and drove performance in investment banking, brokerage, asset management, private equity and retail banking. Until the beginning of 2010, he was the CEO of Citigroup, Japan, where he oversaw the entire franchise, managing over 15,000 employees and successfully repositioning the business. He had previously been the Chief Auditor of Citigroup from 2001 to 2004 after he led the enterprise-wide project to integrate the Internal Audit teams after the merger of Citicorp and Travelers.

He currently serves on the Board of Directors of McGraw Hill Financial, the Federal Deposit Insurance Corporation's Systemic Resolution Advisory Committee and the Institute of International Finance's Market Monitoring Group.



# Riding Out the Storm:

## *How the Finance and Banking Sector in Poland Navigated the Recession and the Path Ahead*

WELCOME ALL TO THE POLISH PHENOMENON. FOR THE CONVERSATION ABOUT HOW THE FINANCE AND BANKING SECTOR IN POLAND NAVIGATED THE RECESSION, WE HAVE EXPERTS FROM THE BANKING MARKET, FROM THE CAPITAL MARKETS, FROM THE PUBLIC SECTOR LOOKING AT THE STRUCTURE OF FINANCIAL MARKETS, AS WELL AS FROM THE PUBLIC SECTOR LOOKING AT PRIVATIZATIONS AND GOVERNMENT FINANCE. SO WE HAVE A VERY BROAD SET OF EXPERTISE IN THIS PANEL FROM THE FINANCIAL SECTOR.

There is a Polish phenomenon of a growing, dynamic country that did not go through any recession when the rest of the Eurozone countries went through recession over the last five or six years. The lowest growth point in Poland was just 1% growth. The fundamentals are there for above-average growth in the future as well, as Poland has a broad and varied talent base, with a move towards analytics, towards manufacturing and traditional agriculture, with windows into both the West and the East.

We just heard that LOT Polish Airlines is starting to open up a hub that is moving people to the Middle East, into Asia. We know that the company that I work for, Standard & Poor's, has an office of 40 people who include Ph.D.s in mathematics, economics, data analytics and physics, providing research and outsourcing for global financial institutions from Poland. That wasn't a situation where we took jobs from another place. Our operations in Poland were part of our expansion plan, to open an office and take advantage of the high quality of the talent and the people in the Polish market.

One of the most important changes taking place in global markets and in Poland is a shift from banks providing capital for corporates and other institutions to moving to debt markets and equity markets, and this is one of those trends that we believe will take place in Poland. As we go through the discussion of the Polish finance and banking sector, we have to mention that, in addition to great opportunities, there are also challenges.

Poland's banking market has a very large Swiss franc mortgage market, and we know in the past what happens when domestic markets go into cross-border financing, especially in the SME and the retail market. We know that the banking market in Poland is dominated by foreign banks, and many of the foreign banks are capital constrained, and we need to understand what will be the impact of having a financial sector that has such a large foreign base, very similar to the financial system of Mexico.

We know that Poland, having developed a very strong export market in the region—both towards the Central and Eastern European countries as well as to the German-led growth—has a very large dependency on the growth of other markets. How is that going to impact the financial markets?

—DOUGLAS L. PETERSON

PANELISTS

DOUGLAS L. PETERSON

PAWEŁ GRANIEWSKI

DOMINIK RADZIWIŁŁ

PAWEŁ TAMBORSKI

MICHAŁ H. MROŻEK

"There is a Polish phenomenon of a growing, dynamic country that did not go through any recession when the rest of the Eurozone countries went through recession over the last five or six years."

**PAWEŁ GRANIEWSKI**
**Vice President,**
**Management Board of the**
**Warsaw Stock Exchange**

Paweł Graniewski has served as a Member of the Supervisory Board of the Warsaw Stock Exchange since 2011. Previously, he was Managing Director, Head of Investment Banking, Poland at Citi Handlowy, a Polish branch of Citibank. From 1999 through 2009, he represented Morgan Stanley in Poland as Senior Adviser.

Mr. Graniewski has also served as Member of the Supervisory Board of DOM Pension Fund; President of Daiwa Europe Polska, a Polish branch of Daiwa Securities; President of the Management Board of Investment Fund Services Company Ltd., a mutual fund administrator and transfer agent; and General Legal Counsel for the Mass Privatization Programme at the Polish Ministry of the State Treasury (1993-95).

In 1992, he began his investment banking career in the UK as Assistant Director in the UK investment bank Barclays de Zoete Wedd in London and Warsaw. In 1990-1992, he was Visiting Attorney at the New York-based law firm Willkie Farr & Gallagher.

THE WARSAW STOCK EXCHANGE WAS ESTABLISHED ORIGINALLY IN 1817, AND IT WAS ACTIVE UNTIL 1939. HOWEVER, UNTIL ITS REBIRTH IN 1991, IT HAS NEVER PLAYED A SIGNIFICANT ROLE IN POLAND'S ECONOMY. THE SITUATION CHANGED IN 1991, AFTER POLAND'S ECONOMIC TRANSFORMATION BEGAN. WHEN THE WARSAW STOCK EXCHANGE WAS REESTABLISHED, ITS HEADQUARTERS WAS PLACED IN THE FORMER HEADQUARTERS OF THE POLISH COMMUNIST PARTY BUILDING, AND THE FIRST TRADING FLOOR WAS SITUATED IN THE FORMER COMMUNIST PARTY CENTRAL COMMITTEE MEETING ROOM.

It is also worth mentioning that among brokers present during the first trading session, wearing red suspenders, was one of our panelists, Paweł Tamborski, who is now undersecretary in the Ministry of the Treasury. He is not the only person among the panelists who has a capital markets background. Beata Stelmach, undersecretary in the Ministry of Foreign Affairs, spent many years in the Polish capital markets, including as a high-level official in the Polish equivalent of the Securities and Exchange Commission. So as you see, the Polish capital markets are not only fueling economic growth but also providing governments with top-level and top-quality civil servants.

We are proud of what the Polish capital markets have achieved in the past 22 years, building from scratch the stock exchange, which is the seventh largest in Europe, in terms of market capitalization. In Central and Eastern Europe, it is actually the largest stock exchange, with 47% of the capitalization of the CEE capital markets.

The subject of our panel is how Poland has survived the most recent financial crisis, and I'm pleased to say that it is difficult to see that the capital markets have been affected by the crisis. In the years 2006 to 2012, Polish market capitalization grew by 19%. Over the same period, all other EU countries' stock exchanges' capitalization dropped by 20%. In terms of the Warsaw Stock Exchange trading volumes over the same period, i.e., 2006 to 2012, the growth was 12%. Over the same period [trading volumes in] stock exchanges in EU countries dropped by 43%.

This strength was due to a couple of factors. First of all, it was the constant effort of the governments to sponsor, promote and execute privatizations through capital markets. These privatization-related IPOs were absolutely critical to build the strength of the Warsaw Stock Exchange. Second, we have also succeeded in attracting Polish individuals to capital markets. The so-called mass privatization program, conducted between 1993 and 1996, resulted in over 1.5 million individual investment accounts through the state Treasury's program, which encouraged the population's active participation in privatization-related IPOs.

Last but not least, we are focusing not just on equity markets but also on the debt market. In 2010, we established Catalyst, a trading platform for non-Treasury bonds, predominantly municipals and corporates. After three years they have reached a level of almost $20 billion in capitalization. Local investors, predominantly small and midsize companies, are paying attention to liquidity and looking to finance themselves through the debt market. Almost 70% of Poland's GDP is being generated by small and medium-size companies. There are a number of companies that are growing not at just 5% or 7% a year, but we have a group of approximately 60 to 70 companies growing by 30% a year, so we need to provide them with opportunities to finance their growth, not only with equity but also through the debt market.

**—PAWEŁ GRANIEWSKI**

MICHAŁ H. MROŻEK
**Managing Director, Citibank**

In March 2011, Michał Mrożek joined the Citibank, N.A., management team in New York, where in his capacity as Governance Officer he coordinates projects in the areas of strategic planning and governance, international franchise management and lending. He has served as a Managing Director in the global Citigroup organization since 2004, and as Deputy CEO of Citibank Handlowy's Management Board since 2006.

Previously, following the acquisition by Citibank of Bank Handlowy in Poland, Mr. Mrożek was appointed Head of Strategic Planning & Corporate Development of the new Citibank Handlowy, working on post-acquisition integration of the Polish bank into Citi. Before that, he worked at Citibank India, and at Citibank (Poland) S.A. as Deputy Director of Corporate Banking.

In 1995, he joined Bank Handlowy, the largest Polish corporate bank at the time, where he coordinated launching the bank's first corporate client coverage model. In 1991, he joined the Washington-based management consulting group Price Waterhouse, where he was assigned to the Polish Ministry of Privatization managing privatization projects.

POLAND ESCAPED A FULL-SCALE BANKING CRISIS AND, AS A RESULT, A SEVERE RECESSION IN 2009, THANKS IN LARGE MEASURE TO TIMELY ACTIONS UNDERTAKEN BY ALL OF THE KEY PLAYERS IN THE POLISH FINANCIAL MARKETS, INCLUDING THE MULTILATERAL FINANCIAL INSTITUTIONS. THE POLISH BANKING SECTOR CAN NOW LEVERAGE THE RESULTS OF THOSE INITIATIVES UNDERTAKEN TO SUCCESSFULLY NAVIGATE THE EYE THE GLOBAL FINANCIAL STORM, WHICH ERUPTED ALMOST EXACTLY FIVE YEARS AGO. THE POLISH BANKS ARE WELL POSITIONED FOR THE ROAD AHEAD, HAVING DEMONSTRATED THE KEY SUCCESS FACTORS IN TIMES OF BOTH CRISIS AND OPPORTUNITY—SUSTAINED CREDIBILITY WITH ALL STAKEHOLDERS IN THE FINANCIAL MARKETS DURING TIMES OF HEIGHTENED UNCERTAINTY, AS WELL AS CARE AND CREATIVITY IN THEIR STRATEGIC PLANNING FOR THE FUTURE.

Vigorous policies launched to support the unstable financial markets by the Central Bank and regulators strengthened structural stability and assisted in maintaining leverage at relatively low levels. It is also important to note the vital role played by the IMF flexible credit line extended to Poland in the spring of 2009, which contributed significantly to stabilizing external investors' sentiment, which had been heavily impacted by developments in the fall of the previous year. For their part, Polish corporations and consumers seem to have correctly anticipated the coming storm, starting to cut back on spending as early as the second half of 2007. Finally, thanks to timely restructuring programs undertaken on the initiative of respective banks' management teams, Polish banks remained profitable in 2008-09, despite a sharp slowdown in the economy, enabling them to bolster capital and manage a variety of emerging risks.

The world that has emerged since the crisis of 2008-09 is undoubtedly different—from the regulatory environment to the compensation structures, from the ease of raising capital to the (considerably higher) cost of doing banking business today. As we look into the future, banks around the world will need to look beyond the immediate, short-term macroeconomic and regulatory headwinds in their strategic planning. Institutions that anticipate mid-term scenarios and work on their fundamentals will be best positioned to take advantage of the expected economic recovery worldwide. Against the backdrop of what remains a challenging external environment, the Polish banking sector is well positioned to mitigate these headwinds, including the continuously evolving regulatory framework. In the case of the Polish market, the often difficult regulatory dialogue has been strengthening over a number of years, with a focus on capital adequacy, the appropriateness of product offerings, as well as transparency and symmetry in terms of access to information by banks' clients. I think an important catalyst for this positive trend in regulatory dialogue has been, if you like, a degree of self-regulation that many of the Polish banks imposed on themselves as part of prudent corporate governance, for example, constraining foreign currency denominated mortgage loans long before any regulatory guideline was issued in that respect.

“Financial analysts following the CEE region see the largest (double-digit) growth potential in Poland and Russia, which together represent approximately 60% of the CEE banking sector.”

As the global economy gradually emerges from a period of sluggish growth and protracted recession in certain developed markets, the banking sector in Central and Eastern Europe (CEE), and in Poland in particular, continues to outperform its Western European counterparts in terms of growth and profit. Financial analysts following the CEE region see the largest growth potential in Poland and Russia, which together represent approximately 60% of the CEE banking sector. This reflects both the absolute size of these two markets, as well as their expected sustainable nominal double-digit annual loan growth rates.

And so, based on historical performance in times of global expansion as well as crisis, I believe that we can make the statement that Polish banks are better positioned to deal with current global trends than many of their counterparts, both in emerging as well as developed markets. Some of these global trends include growing disintermediation of banks with borrowers, uncertainty around the evolution of the regulatory framework, transparency and customer financial protection, and cross-border consolidation.

In our analysis of the Polish banking sector, we should not neglect to identify and monitor the soft spots of the sector, such as the fact that it remains highly concentrated, with many of the large banks foreign-owned, leaving the system vulnerable in theory to sudden capital outflows, disruptions in the FX swaps markets and market events outside of Poland. In addition, new banking regulations in Europe will undoubtedly bring new challenges for the banks, including those in Poland. That stated, in analyzing the sector we need to keep in mind the solid performance track record of Polish banks, both foreign and locally owned, during the crisis as well as the regulatory framework already in place, which some countries are only now in the process of implementing. Being ahead of global banking sector reform has provided a handsome “dividend” for the Polish banking sector, which now needs to be effectively reinvested to support its future growth.

—MICHAŁ H. MROŻEK

**DOMINIK RADZIWIŁŁ**
**Alternative Executive Director, International Monetary Fund**

Dominik Radziwiłł spent over 16 years working for various financial institutions. He worked in London, New York and Warsaw for, among others, Bankers Trust, BNP Dresdner Bank and the investment arm of Dresdner Bank, Dresdner Kleinwort, for which he covered the Central European region advising clients on debt issuance and hedging policies. More recently he was the CEO of BOT GiE, the biggest power generating company in Poland, which he successfully merged with PSE, creating PGE, the largest Polish utility.

In 2009, Mr. Radziwiłł was appointed Undersecretary of State at the Ministry of Finance, in charge of debt management and foreign exchange policy, industry, infrastructure, agriculture and environment.

Since August 2012, he has been Alternative Executive Director at the IMF for Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan and Turkmenistan.

THE TOPIC I WOULD LIKE TO RAISE TODAY IS THE ROLE OF THE PUBLIC AUTHORITIES IN THE CREATION OF A VERY STABLE AND DEVELOPED FINANCIAL MARKET IN POLAND. IT'S A KIND OF TOPIC THAT PROBABLY IN POLAND WOULDN'T BE VERY POPULAR, IN THE SENSE THAT POLES ARE PRETTY CRITICAL ABOUT THEIR GOVERNMENT. BUT IN THE AREAS OF FINANCIAL MARKETS AND THE BANKING SECTOR, THIS INPUT BY THE PUBLIC AUTHORITIES HAS BEEN VERY CONSTRUCTIVE.

I will be brief, but I will go pretty far back in time. In the 1990s, when Polish authorities allowed foreign investors to take majority stakes in the Polish banks, they made sure that the origins of the investors were very broad. Obviously, most of them come from Europe, but the split among banks from various countries that have been involved in the privatization of the Polish banking sector is very broad. This has limited concentration. Allowing foreign banks into the Polish market resulted in fast modernization, with the most up-to-date methods and management systems being installed by Western acquirers. Thanks to that, the current Polish banking system is really very, very up to speed.

When the investors were coming, Polish authorities offered them the legal structure of being subsidiaries, which means that all the banks that are operating in Poland are basically supervised by Polish authorities, or by the Polish Financial Supervision Authority (FSA) [or KNF in Polish]. That was very, very helpful in the times of crisis in 2008-2009, and obviously going forward.

That was the basis of the strength of the Polish banking sector. And on the other side, Poland kept under its control the largest Polish financial institutions, which was very helpful in the times of crisis. When all the foreign investors were implementing their policies and copied each other, Poland could implement counter-cyclical policies within the banking sector.

In terms of current supervision, the impact of the actions of the Polish FSA have been very positive. It's proactive supervision. The FSA has been issuing policy statements to the banks by which they convince the banks not to pay out dividends in times of crisis, building buffers for difficult times to come. Thanks to this, during all these difficult times, the Polish banking sector has gone through without any major bankruptcy so far. So that was a proactive and very well managed supervision. Also in this context of the public authorities, it is not only the Polish FSA but also the Central Bank, the Ministry of Finance and the Bank Guarantee Fund that have been positive partners for the banking sector.

Going forward, recently there has been a lot of movement within this area of banking supervision with the idea of the creation of a Banking Union and the Single Supervisory Mechanism proposed by the European Commission. What's then the role of Poland?

The Polish government has chosen to participate in the discussions. But it has not yet taken the decision about opting in or out of the system. However, it looks as if for now opting out would probably be, for some time, a better option. First, because we don't yet know what the whole system will finally look like. It has not yet been approved by most of the countries. And second, because of the potential risks that Poland could run by opting in, in the sense that it would mean transferring the supervisory powers to the European Central Bank but without transferring the corresponding responsibility for the stability of the national banking system, and also without access of the Polish institutions to the common fiscal safety net and the ECB liquidity tools.

So while Poland is currently in discussions, it seems that as for now the Polish banking system will remain independent and obviously cooperating but not being included into the Banking Union.

**—DOMINIK RADZIWIŁŁ**

**PAWEŁ TAMBORSKI**
**Undersecretary of State, Ministry of the Treasury of Poland**

In 1991-1993, Paweł Tamborski was a broker at Brokerage House of Bank Staropolski S.A. In 1993 and 1994, he worked at the Central Brokerage Office of WBK S.A., acting as the Head of Stock Exchange Transactions, as well as the Deputy Director. In 1994-1999, he was employed at CAIB Securities S.A. as the Director, Head of New Issues Department, and in 1999-2007, he served as a Member of the Board, Director General, responsible for investment banking at UniCredit CAIB Poland S.A. (formerly CAIB Financial Advisers).

In 2008-2010, Mr. Tamborski worked as the Managing Director at UniCredit CAIB Securities UK Ltd. in London, where he co-headed the capital markets team and was responsible for bank operations in Central and Eastern Europe. From November 2010 to January 2012, he served as the Head of Investment Banking at Wood & Company.

Since January 2012, Mr. Tamborski has served as Undersecretary of State at the Ministry of the Treasury.

THE TREASURY MINISTRY IS RESPONSIBLE FOR THREE KEY AREAS: PRIVATIZATION, OWNERSHIP SUPERVISION OVER ASSETS THAT ARE STILL UNDER THE CONTROL OF THE STATE, AND SPECIAL PROJECTS. PRIVATIZATION ALREADY HAS 22 YEARS OF HISTORY. IT WAS PROBABLY THE MOST IMPORTANT ELEMENT OF THE POLISH TRANSFORMATION. IN THE EARLY 1990S, STATE-RELATED COMPANIES WERE RESPONSIBLE FOR MORE THAN 80% OF POLISH GDP. TODAY THEY ACCOUNT FOR LESS THAN 20%. THIS IS PARTLY, OF COURSE, DUE TO PRIVATIZATION BUT ALSO PARTLY BECAUSE OF THE DEVELOPMENT OF THE PRIVATE SECTOR.

After 22 years of changing the ownership structure of the Polish economy, we are slowly but surely getting to the moment where we are talking about the end of privatization. There are more than 200 companies on the list to be privatized under the government's 2012-2013 Privatization Plan. These are usually smallish companies, which remained from the previous programs. However, we still have some large companies to be privatized, or rather semi-privatized, being listed already on the Warsaw Stock Exchange, in which the state continues to hold a significant stake and would probably like to keep it.

This brings me to another area of the ministry's activities, which involves ownership supervision over assets that are still under state control. These days we are approaching the moment when we know and understand what types of assets should stay under the control of the state. We are talking about the core infrastructure, related to energy: the power grid or gas system, but also some of our financial institutions, which are among the largest in Central and Eastern Europe, including the social security benefits insurance company or the largest commercial bank. Our focus these days is on adding quality as an owner or part owner of these institutions, transforming the ministry more towards becoming an asset management organization of sorts. We are aiming to develop and support these companies as "national champions," or companies large enough to be able to compete in Europe or even globally. Our preferred structure is to have these companies listed on the Warsaw Stock Exchange, so they are subject to the corporate governance and transparency related to publicly listed companies.

Privatization, or taking previously state-owned companies public via the stock market, was and still is a very important factor for the development of Polish capital markets. Our dream is to create from Warsaw capital markets the hub for Central and Eastern Europe, and we are actually well advanced on this path. And here, the Polish state has contributed a lot by conducting the privatization of large companies mainly through Polish capital markets. Having an active capital market is also one of the reasons that Poland in the last few years weathered the recent crisis relatively well.

Another area that is very important for our ministry is special projects. At the end of the privatization process, it's beneficial to think about changing the philosophy of the privatization process, taking it to the next level. We decided to use the proceeds to finance the development of Polish infrastructure. So these days, the Treasury Ministry is involved in putting together Polish Investments, a state program aimed at supporting the development of Polish infrastructure. This program is based on two main pillars. The first one is BGK, a state-owned bank responsible for providing the debt financing, which is returning to its original roots. Established in 1924, the bank was created to finance development of the Polish infrastructure at that time. For example, it financed the development of Gdynia, the Polish port. The program also includes the equity part: Polish Development Investments (PIR), a special purpose fund, will invest in projects as well as attract private investors to join in financing the development of Polish infrastructure.

**—PAWEŁ TAMBORSKI**

# Riding Out the Storm:

## *How the Finance and Banking Sector in Poland Navigated the Recession and the Path Ahead*

"How do you ensure that this phenomenon, this growth and opportunity, moves forward?"

### The Competitiveness of Poland

**Douglas Peterson:** Some 20 years ago Michael Porter wrote an iconic book, *The Competitive Advantage of Nations*. I would like to hear some thoughts about the competitiveness of Poland. Thinking within the Michael Porter framework, what is Poland's differentiation? How do you ensure that this phenomenon, this growth and opportunity, moves forward?

**Dominik Radziwiłł:** Poland has requested a flexible credit line, which is an unconditional instrument that the International Monetary Fund created for the best-managed countries in the world, and Poland is one of three countries that qualified for it. This means that the assessment from the IMF is that the Polish economy is really strong and well managed.

The IMF is focusing a lot on emerging markets these days, because this is where most of the opportunities in the global economy are right now. There are a lot of analyses going on, and in all of them the Polish situation has been shown as outstanding. Obviously, there are challenges ahead, and that's also shown in IMF's reports. Poland needs to put in place a new model of growth, which would include more research, development and technological science. So challenges are ahead, but so far the achievements have been very, very positive.

**Paweł Tamborski:** At my previous job I used to be an investment banker, and I visited Romania to sell our services. For all my life I thought that we Poles are pessimistic. When you ask a Pole, "How are you today?" you never will get the answer, "I'm fine." What you will usually hear in response is, "The weather is not good" or "My wife is ugly." But being in Bucharest, I realized that we Poles are not as pessimistic as I thought.

In fact, I think we are truly opportunistic and have an entrepreneurial spirit. I think that's what differentiates us as a nation, vis-à-vis other countries in the region.

### Attractiveness of Polish Industry and its Sectors

**Audience member:** You commented a little bit about Poland's potential for growth in R&D. Poland has done very well with generating strong FDI flows over the last two decades, mainly to benefit its manufacturing base, but as the economy develops and wages rise, do you see any particular sectors that are bright stars for future development?

**Paweł Graniewski:** Let me start with a comment from the Warsaw Stock Exchange perspective. Although almost 40% of the trading volume is being generated by foreign investors, it looks like they are not sector specific. What they are looking for is liquidity of a particular stock.

However, I would say that those sectors that are definitely attractive for investors are first of all banking, then the food industry, not just Polish companies but also Ukrainian companies listed on the WSE. Among the attractive sectors on NewConnect, which is a trading platform for small and midsize companies, are high-tech and biotechnology issues. And last but definitely not least, the energy sector.

**Michał Mrożek:** What differentiates the Polish market from some of the other markets in the region is that, while there are some strong, significant sectors with some large corporate players, both domestic and international, there is also a very robust SME sector. And that provides for a healthy set of pistons for the economy to continue growing.

What's interesting to see is that the SMEs have been able to effectively diversify from an overdependence on the EU and specifically on Germany. We often hear that the Polish economy is all about exports to Germany. To a significant extent that is true, but you have also had a development of other markets, as well as the entrepreneurial spirit that was already referred to here. That has taken Polish companies far and wide across the world.

“Back in 1989-90, some of the factors that were looked at as creating problems for Poland’s development were the environmental degradation and transportation. To what extent has that been corrected…?”

A key success factor for the SMEs will be available access to capital, both in terms of debt and equity. We heard about the stock exchange opening up to the SMEs. I hope that will be effective, because to be honest that’s still a bit of an outstanding question, that the healthy Polish banking sector will provide the support required for SMEs in that expansion as well.

## The Banking Sector

**Peterson:** Let me ask a question on the banking sector. One of the points referred to earlier was the prevalence of foreign currency denominated mortgages and foreign currency denominated loans, as well as a large financial sector that is owned by and funded, in many cases, by offshore financial institutions. How do you see the growth of the domestic banking market, domestic deposit market, domestic capital markets—and is there a risk in having such a large part of the financial sector dominated by foreign players, as well as this foreign currency mortgage overhang?

**Mrożek:** Let me start, since I work for one of the largest investors in the financial sector in Poland. The answer to your question is the regulatory framework within which the investments were made in Poland. And that is the focus and emphasis on investment through the creation of subsidiaries as opposed to branches of international banks, which allowed for strong, robust local regulatory oversight. That is something that is only now being discovered by some other jurisdictions and financial markets, and being followed up on many, many years later. So in that sense, I think the Polish sector has that competitive advantage in terms of having set up the framework that provides for a significant degree of transparency in terms of, for example, liquidity and capital management by international financial institutions.

That’s very much at the center of today’s discussion in terms of global financial governance and regulatory oversight. As a result, whether they were foreign held or whether they were locally held, the Polish banks behaved responsibly and constructively at the time of the financial crisis.

**Radziwiłł:** As of the end of last year, foreign-denominated mortgages (mostly Swiss francs) accounted for 22% of the total loan portfolio of Polish banks, and more than half of their mortgage portfolio, so it is a pretty large portion. However, due to the above discussed cooperation between the banks and their supervisor, the production has substantially decreased, and the share has substantially decreased within the last few years. Obviously, these loans will continue as part of the system, because they are pretty long term.

What was interesting is that we have seen a very substantial shift in this sector, in the sense that the foreign owners withdrew a little bit in providing funding to their local subsidiaries in Poland, and the Polish banks had to help to manage the situation, which was pretty well managed. In the first place, they increased the funding with domestic deposits, and second, most of the foreign-currency exposure is currently being managed through FX swaps. So although it is still a danger in the system, it is pretty well managed.

## Infrastructure

**Audience member:** Back in 1989-90, some of the factors that were looked at as creating problems for Poland’s development were the environmental degradation and transportation. To what extent has that been corrected, and how much financing has there been from the banking sector and from other sectors for overcoming these problems?

**Tamborski:** Talking especially about transportation, Poland is this one large construction site. We were able to absorb almost €70 billion of funds from the European Union, with a big chunk of this capital deployed to finance the development of Polish infrastructure. We are still talking about development of the Polish highway system these days, the Polish rail system and also other elements of Polish infrastructure. There is still lots to be done for Poland to catch up with Europe.

To some extent, we are well advanced. And to some extent the Euro Cup, which took place last year in Poland, added a deadline and discipline.

**Peterson:** I would have to follow up on that with a financial angle. Infrastructure is one of those types of investments that often requires government support. It also is one of the ways that capital markets get developed, as you see insurance companies taking longer-term positions to finance roads, ports, airports, rail systems, etc. How do you see those types of institutional investors developing in Poland, as well as their role in the infrastructure financing area?

**Tamborski:** I already presented the concept of Polish Development Investments. The concept was presented by our prime minister 12 months ago exactly. It entails using state money to support the development of Polish infrastructure, and to use this capital to attract private capital—private investors to come to Poland and be involved in financing large, usually long-term infrastructure projects.

So we are here to help, to support, to attract and to take care also of some risks related to these type of projects, which will usually, to be very honest with you, be generated by the administration. So this is from the government perspective.

## Innovation and the Road Ahead

**Audience member:** Taking Poland to another level as an innovative economy would also involve investing in startups and ideas. These kinds of early-stage companies often get financing from venture capitalists or angel investors. Are such types of financing developing in Poland as well?

**Radziwiłł:** If the Polish economy is supposed to grow, and hopefully that's the case, the model should change, and therefore, the government should pay more attention to these areas. To answer your question, these kinds of areas of financing are currently growing, but their share is obviously small even in comparison to other European countries.

**Tamborski:** On the government side, there are at least three or four initiatives that are structured to support early-stage situations. We have the National Capital Fund, which is the central venture capital/private equity fund in Poland. The NCF provides VC funds with financial support for their investments in SMEs of innovative character. The BGK Bank is the 100% shareholder of the fund.

We have special funds, special organizations to support the second stage, production phase ventures. And phase number three is, again, the Polish Development Investments fund, with its potential for funding of new projects in our country.

**Audience member:** Getting back to the first question about R&D. Currently the percentage of the Polish GDP spent on R&D is not very high. Minister Tamborski mentioned that the scope of the Treasury Ministry may be changing, and talked about the concept of creating national champions.

Can you comment about this, and whether this hoped-for focus on R&D is going to shift the thinking about R&D as an expense to seeing it more as an investment base?

**Radziwiłł:** The concept of national champions is more of a reaction to what's going on in the capital markets these days. So we would like actually to support the process of development of the large corporations in our country. In the first years of privatization, the privatization was mainly about selling assets to strategic investors. So these days these companies located in Poland are often just subsidiaries of large foreign corporations.

The idea of national champions is about the creation of large companies in Poland, with headquarters in Poland. It's thinking strategically about creating workplaces.

We are very aware of the importance of R&D. Moving the economy from just basic development to a higher level of development is something that we realize is the challenge, and we have to deal with this.

Another challenge in front of us is the demographics, and the projected population decrease. I have three daughters, so I am more or less okay, but this is something which we have to think about.

**Peterson:** With that, I would like to thank the panelists. I'd like to thank all of you for a very interactive discussion. I've been attending many conferences the last couple of years, and it's fantastic to be at one at which there is so much optimism, where we're talking about growth, we're talking about development of markets and national champions.

KEYNOTE SPEAKER

# Marek Belka

## President, National Bank of Poland

Associated with the Polish Academy of Sciences since 1986, Marek Belka was a research fellow at Columbia and Chicago Universities (1978-79, 1985-86) and at the London School of Economics (1990). He received the title of Professor of Economics in 1994. Professor Belka has published over 100 scientific papers dedicated primarily to the theory of money and anti-inflation policy in developing countries.

From 1994 to 1996, Professor Belka was Vice Chairman of the Council of Socio-Economic Strategy at the Council of Ministers, and then economic adviser to the President of the Republic of Poland. He served as Deputy Prime Minister – Minister of Finance twice (1997 and 2001-02), and from May 2004 to October 2005, Professor Belka served as Prime Minister of Poland.

Professor Belka has also held numerous top-ranking positions within the international community, including Chairman of the Council for International Coordination for Iraq and as Director of Economic Policy in the Coalition Provisional Authority (2003-04) where he was responsible for currency reform, the development of a new banking system and supervision of the Iraqi economy.

In 2010, Professor Belka became President of the National Bank of Poland. In 2011, he was elected for a three-year term to the Steering Committee of the European Systemic Risk Board. Since November 2011 he has also chaired the World Bank/IMF Development Committee.

"When we compare ourselves with European powerhouses, our share in world exports of goods and services has risen fastest."

# The Polish Economy and the Global Financial Crisis

## *Strengths and Challenges*

I will try to do a little bit of smart propaganda about Poland, in the sense that I'll put small qualifications to the wonderful story of Poland of the last years. I hope also to provoke some questions and maybe on occasion even contest some of the opinions that are widely held about Poland.

In the last two decades, Poland experienced rapid economic convergence to the European Union. In the last few years, converging to slow-moving Europe may not have been an extremely ambitious task. However, let's not forget that Europe, especially the core of the European Union, has usually been one of the most dynamic and most developed parts of the global economy—though not anymore maybe—which also developed among the highest standards of quality of life in the world. I would even say that the standard of living in Europe is probably higher than in America. I hope that this is something that will provoke you to contest me…

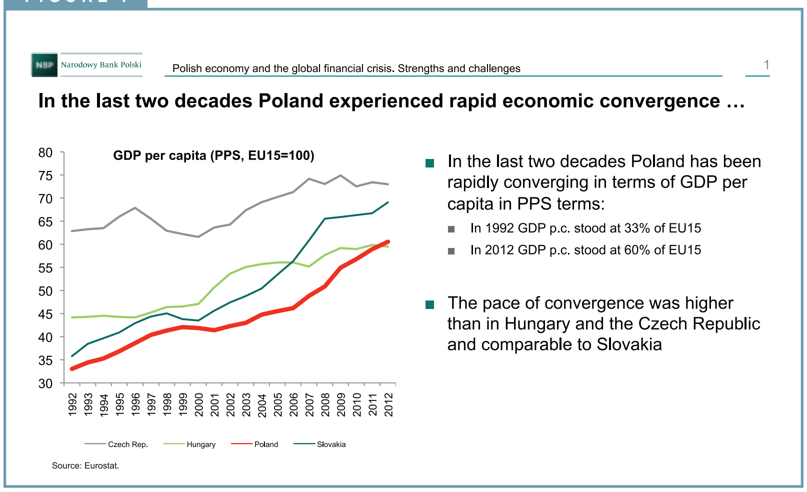
### Performance During the Crisis

In 1992, Polish GDP per capita stood at 33% of the EU 15. Now it's 60% (Fig. 1). Some purchasing power parity numbers point to closer to 70%. What is important is that the pace of convergence was higher than, say, in Hungary and the Czech Republic, the other passengers on the transition train. We Poles normally forget that we entered the transition period as a destabilized, disorganized and poor country. When Western Europeans looked at the region, they could have hoped Czechoslovakia or Hungary of that time would be eligible pretty soon to join the European Union, not Poland. Poland was treated more like Ukraine or the others in that category.

When we compare ourselves with European powerhouses, our share in world exports of goods and services has risen fastest. What is important is that we have not surfed the wave of exporting to the high-growth regions or the most dynamically growing segments, such as some commodities like oil or gas. Our most important export markets are slow-growing economies. Our most important exports in terms of exporting items are not among the highest-growing segments of the export universe. We are carving out higher shares of export markets in an environment that is not naturally conducive to growing exports, which is good for us. We are fighting against the odds, in a sense.

We have succeeded in attracting foreign capital (Fig. 2). In absolute numbers, of course, the inward FDI position is quite impressive compared with the Czech Republic, Hungary and Slovakia. Of course, if you compare those absolute numbers with the size of the economies, we are behind. The Czech Republic is about one-fourth of the Polish economy. What is much more important in my opinion is where the inward FDI stock went to, and here we are very happy that the FDI inflow was quite diversified in terms of the destination.

FIGURE 1




Kosciuszko Foundation Project Coordinator Ewa Zadworna with NBP President Marek Belka

FIGURE 2

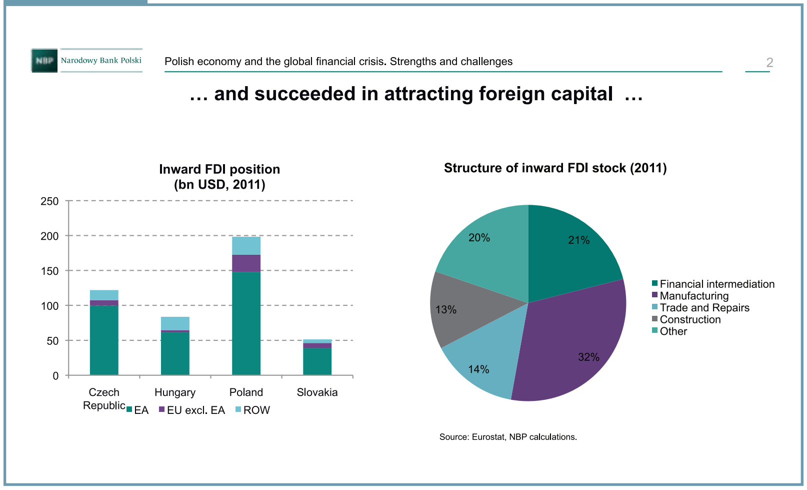
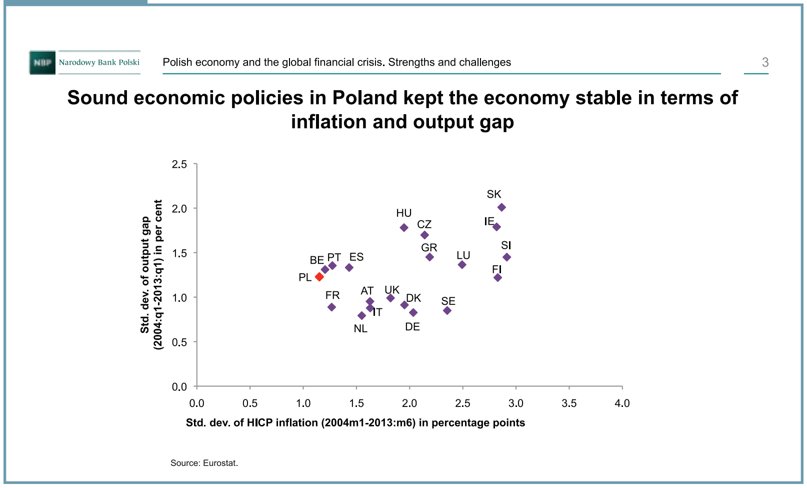



FIGURE 3




## Factors Behind the Resilience of the Polish Economy to the Crisis

Poland is the only EU country with positive GDP growth throughout the crisis. Most European countries have not yet reached their level of GDP from 2007, and we are some 15% to 18% over it. This explains the successful convergence, but, of course, we would rather converge to Germany than to Greece. As a matter of fact, the last crisis really redefined what an advanced country is, what a high-income country is. Greece is producing world-class economists and industrialists, and exporting them, and yet it was not able to build up a state organization that would support the economy. If there are any free-market anarchists here, just look at Greece and what it brings about.

Why has Poland been such a resilient economy? Balanced economic growth, floating exchange rate, stable current account balance, flexible labor market, well-capitalized banking sector and public investments.

What is a good macroeconomic policy? It's the one that minimizes the standard deviation of inflation and output gap. It keeps the economy on the same good track, low inflation, moderate but stable growth. The higher the standard deviation of—however measured—inflation and output gap, the more unstable the economies, the more prone to losses of wealth in concurrent crises. Poland is in the right place here (Fig. 3). It has one of the lowest, if not the lowest, standard deviation of inflation, which shows how well the monetary policy of the Central Bank was pursued. This is not immodesty on my part, because I arrived only three years ago.

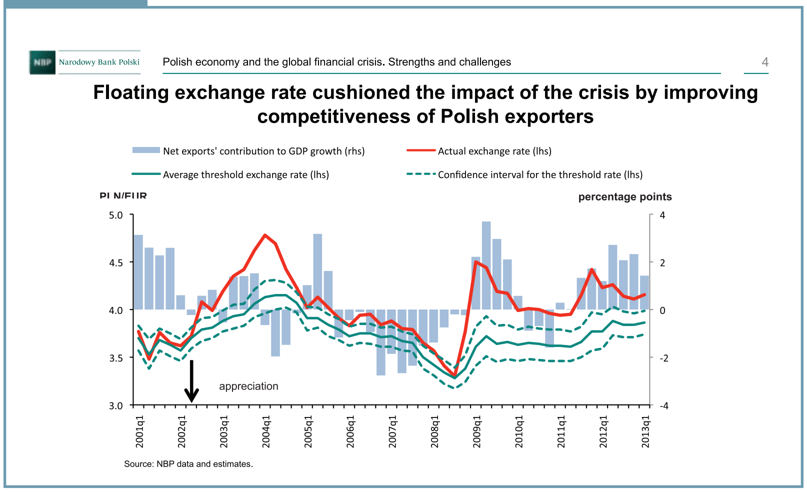
The floating exchange rate cushioned the impact of the crisis by improving the competitiveness of Polish exporters (Fig. 4). There is a lot of short-term volatility, but long-term stability. Basically, if you look at the 4-to-1 exchange rate, at four zloty to one euro, it was the same in 2001. When the crisis hit in 2008, 2009, the zloty weakened from a very strong position, which protected exporters from the zloty-denominated losses. So the exporters had no pressure to shed labor, because they were protected by a weaker currency.

## LABOR MARKET WOES

In terms of its approach to labor markets, America is on the wrong side of the equation. The fervent reaction of the American government from the very beginning of the crisis, with all kinds of stimuli, was to avoid higher unemployment. The reason is that the system is completely unprepared for high unemployment. The U.S. does not have unemployment benefits to speak of, neither does Poland. The implicit labor contract is that you can lose your job, but it is relatively easy if you are active enough to find another job. This is very good if the situation is decent. All over America there are pockets of unemployment, but there are pockets of high economic activity. If everything goes down, you have a problem. American politics will always try to prevent such a situation. That is why your Federal Reserve has a dual mandate, because the specter in America is of high, massive unemployment.

But then, what is again a tribute to the monetary policy of the Polish Central Bank is that when the zloty weakened precipitously, you know what the people did? Something completely different from what they would have done 20 years earlier. Twenty years earlier the people would have rushed to the bank and started to dollarize their savings. In 2009 what they did, they started selling whatever dollar-denominated or euro-denominated assets they had, because it was a golden opportunity to realize capital gains. Thus helping the zloty to regain strength. This is one of the good things in staying outside of the euro.

FIGURE 4




The bad thing of staying outside of the Eurozone is, of course, that you are exposed to the volatility of the currency. Your businesses have to suffer, have to hedge, but it's too expensive to hedge. As a central financing authority, the finance minister has to pay higher yields on sovereign bonds because of the exchange-rate risk. If we look now at the zloty-denominated 10-year bonds, we have to pay something close to what Italy pays. With euro-denominated or dollar-denominated bonds, we would have to pay something close to France or even less. The difference is fully explained by the exchange-rate volatility. So this is the cost of not being in the Eurozone.

We have a small banking business in Poland, which is great, especially when it comes to times of crisis. The overall size of the banking industry in Poland is about 80% of GDP, in Britain it is 450% of GDP, and in most European countries it is 350%. What is also important is that banks in Poland are very well capitalized.

Sixty percent of the banking sector in Poland consists of banks owned by international financial groups. All European EU 15 countries have national banking sectors with 90%, 80% of their banks domestically owned. It is only the transition countries that exposed their banks to international competition. Without it, we would have banks underdeveloped technologically in all respects, probably prone to bankruptcies. But there is also a price to pay for the foreign-dominated banking sector. Number one, most of them come from Europe, which means that some of them may be in trouble, which exposes us to unstable behavior. It is good in times of crisis not to rely on the risk-taking strategies from Amsterdam or Frankfurt, or New York. It's better to have sound and cool decision making and competence in Warsaw.

Poland has been a structural importer of capital. As a matter of fact, foreign ownership of banks helps, and it helps growth also, but what we managed to do is to keep the size of the current account under control. It was extremely stable and very well financed, mainly by FDI inflow and the inflow of European funds. In fact, the recent slowdown produced the current account surplus for two consecutive quarters. We may be surprised due to all the estimates that, for all of 2013, our current account deficit may be close to zero.



**"Workers on short-term contracts are not going to invest in themselves, or new housing. The long-run consequence of a dual labor market may be higher long-term unemployment rates."**

Poland has a very flexible labor market, with less than 10% of firms covered by automatic wage indexation (Fig. 5). Polish wages are very flexible. It is hard if you are a wage taker, but it's better than to be thrown out on the street. Now we are crawling out of the stagnation, so to speak, but even in this situation there was basically very little labor shedding, very little, if any. The wage growth rate, however, decelerated almost to zero in real terms.

What is not commendable is the percentage of people employed on short-term contracts in Poland. It could be perceived as economically beneficial for the short term, as it's safe to hire them because it's also safe to fire them. Labor market flexibility usually means hardship for the people. Remember it, all of you who work on Wall Street and in the analytical think tanks. When you nurture this kind of dual labor market, as is the case in Poland or Spain, the long-term consequence of this is not very beneficial. Workers on short-term contracts are not going to invest in themselves, or new housing. The long-run consequence of a dual labor market may be higher long-term unemployment rates. I would prefer to have a Swedish labor market, which provides for easy firing, easy hiring, but not because of short-term contracting.

## How to Avoid the Middle-Income Trap

Is Poland a middle-income country? It depends. According to the World Bank rankings, we are a high-income country, especially based on purchasing power parity calculations. But we are not an advanced country, meaning that our competitiveness is based on cost rather than on innovation.

So how can Poland graduate to the class of advanced countries? We have a well-qualified labor force, diversified structural exports and very decent macroeconomic policies that have basically kept the Polish economy clean of major imbalances.

What are the weaknesses? First, the aging society, by far the most important thing. The increasing old age dependency ratio is the nemesis of all Europe, but Poland is very much in the leading group.

Also, we suffer from low R&D expenditures. The problem is that people in Poland interpret this as a need to increase the state budget for R&D. I am not unequivocally against that, but I have doubts whether it will suffice, whether there is enough suction from industry, from Polish business for innovation. If Polish businesses do not need those expenditures, those inventions, then Polish inventors will have problems in marketing them, and not so infrequently those guys from the Polish universities migrate to remote places in the middle of nowhere like California.

Thankfully, we see the structure of our exports improving. Sixty percent of our exports are either mid-tech or high-tech, not low-tech or labor intensive anymore (Fig. 6). Fifty percent or more of our exports are parts of international value chains, and we are climbing laboriously the ladders of those chains. In terms of the unit value of exports, we started at 35% of the EU average. We are now close to 85%, although this is falling recently.

Transport infrastructure is still a challenge. However, in recent years Poland has been by far the biggest spender on infrastructure in the whole universe of OECD countries, so we are catching up quite fast.

## Summing Up

We have done well in the last 25 years, and I think that it's mostly due to three factors:

- **Political and geopolitical strategy of our country.** As early as 1991 we have openly declared we want to integrate with the European Union. This was a massive change in the approach of Polish politics. It was about political know-how. It took 20 years, and now we are reaping the benefits of those massive structural changes.
- **Location.** Poland has suffered from its location between Russia and Germany for ages. But in times of peace, it's the best location. It's very easy for Polish businesses to go either west or east. If anything, it is probably too easy for them, because they have no immediate incentive to go further away.
- **Solid policies.** Macroeconomic policy was good, even if we are now in the wake of all the discussions about pension reforms and the complications with this. We are not overleveraged. If you add up public and private debt in Poland, it's among the lowest in Europe. We have inflation under control and a stable currency.

FIGURE 5

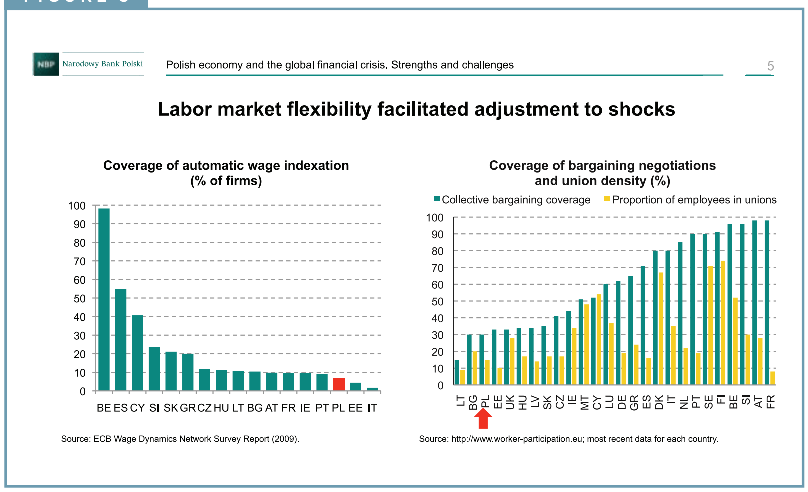
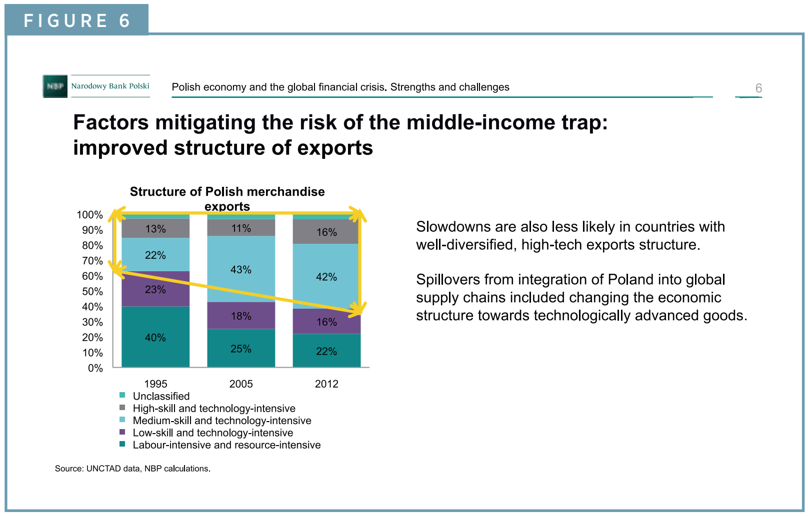



FIGURE 6



# Discussion

**Audience member:** One theme that has particularly resonated with me is innovation. There are some kernels of shift, but what is it going to take for innovation to actually appear in Poland and to be strong enough to push the country beyond that middle-income trap?

**Marek Belka:** First we need to introduce a culture that promotes risk-taking, and this is both in the law and in bureaucracy. Public servants are quite instrumental in this, because they either issue a license quickly or not. Maybe some public rules should be relaxed. I don't mean corruption. On the contrary. I think we are obsessed about corruption. There is corruption everywhere. Can I quote you some cases from your country? In Poland public servants and other people are not allowed to commit mistakes. You have to have the right to commit mistakes, otherwise you will not take risks. The law does not allow you to commit mistakes. The procedures in institutions don't allow you to make mistakes, because if you make a mistake, oh my God, prosecutors should come in. That's nonsense. That is the biggest obstacle to innovation.

**Audience member:** The portfolio component of foreign direct investment is the window that can potentially introduce instability. The composition of that portfolio investment, equity, fixed income, does that matter? How do we compare to other countries?

**Belka:** Portfolio capital basically flows in to be invested in debt instruments. In the case of Poland, debt instruments means basically public debt instruments because private debt instruments are rare, but if they exist they are extremely attractive. So probably this is one of the unused opportunities for the Polish economy, to develop corporate debt. Let's stick to the public debt. About 40% of Treasury papers are in the hands of what we call nonresidents. That share went up from 25% very recently. In the last two years, most of the incremental public debt was financed by foreigners.

Why? Well, because it was attractive. According to Bloomberg, Polish debt has delivered the best risk-adjusted return since the collapse of Lehman Brothers Holdings. One of the reasons these bonds were so attractive was obviously the interest rate differential between Poland and the rest of the advanced world.

This is one of the reasons that we decided to lower benchmark interest rates, with the basic rate of the National Bank of Poland down to 250 basis points, which is very low by Polish standards. We think that it basically made further investment in Polish Treasury papers, for speculative reasons at least, ineffective. Speculative meaning short-term. When we cut the interest rates in May, we said, this is the last reduction of interest rates for months, at least until the end of the year, and it may go on for a few more months. Why? To send a strong signal to portfolio investors, if you wish to invest in Polish Treasury bonds for the sake of short-term investment, forget about it.

We really wanted some portfolio capital outflow to happen, and it did, though not on a dramatic scale at all. We think that we should first entice retail borrowers in Poland to invest in bonds. If the country continues to be perceived as a safe bet, we shouldn't be worried about a massive outflow of portfolio capital. Portfolio capital is great as long as it is not exceeding a certain size, a certain scale.

**Audience member:** In your presentation you also made a reference to the current structure of the banking sector and that it does sometimes, to some extent, result in potentially risky or adverse behavior by some of the players in the banking sector. Are there any changes that you see necessary at this stage in the Polish banking sector? I'm thinking of the recent discussion on domiciliation.

**Belka:** I have called for an opportunistic domestication of Polish banks. If there is a foreign bank that goes belly up, or if it makes a sudden decision to sell its Polish subsidiary, then we should at least be open to the possibility of this bank being bought out by Polish capital, even if this would entail a certain support from the state.

The world is so unstable that the very fact that your bank is in the hands of a bank with a great name from a country that doesn't have such a great name anymore is not a source of stability. I venture to say that Poland is more stable than most European countries, but before I say this I want to sing the praises of foreign investors in the Polish banking sector, and this is sincere. No foreign bank has ever dropped business in

Poland. They have behaved on many occasions more responsibly than Polish-owned banks. We should be proud of those banks.

As a matter of fact, many Polish banks behaved quite erratically by, for example, engaging in those infamous Swiss franc denominated mortgage loans. And there are some spectacular cases of foreign banks who never did it because they wanted to build value and not quarterly profits, something very rare in the banking sector in the world these days.

So I am starting my tirade from this premise, just to prevent anybody from thinking that I am against foreign investment banking. But let's be realistic. Foreign banks are in many cases in big trouble. So should we just stand by and watch as the main Polish assets are changing hands between this bank and that? No serious country would allow this, and we are a serious country.

**Audience member:** What are the reasons and consequences for Poland's demographic challenges?

**Belka:** This is the main challenge for Poland, demographics. We are a shrinking nation, and there are many factors involved in this. The fertility rate is low, lower than the average in Europe. As a matter of fact, France is in a relatively good situation because they maintain high fertility rates. Not Germany, not Italy, not Poland. Of course, the situation is absolutely dramatic in countries like Russia and Ukraine, but we have nothing that should make us complacent on this. The second thing is emigration. There were waves of emigration from Poland, one during the 1980s with martial law or around martial law, and then a second wave in the first decade of the 21st century, so quite recently.

This is a different sort of emigration. If you immigrate to the U.S., you basically stay there. If you immigrate to Europe, there is a chance that you can either shuttle or even come back. We should do everything to entice people to come back to Poland, but it's easier said than done. All those youngsters that have settled down in London, they become infatuated by London. From London it costs you 150 zloty to take a Ryan Air flight to visit Poland.

**Audience member:** Talking about Polish demographics: Is there any thought given to attracting immigration from other countries, other nationals to Poland? That's what made America strong.

**Belka:** This is absolutely right. In fact, there are hundreds of thousands of Ukrainians, Russians and other people that are culturally very close to Poland, working in Poland. But we do very little to make them consider staying. One exception is the recent outreach of Polish universities to the east. There are really tens of thousands of youngsters from those countries studying in Poland, and they choose Poland when they finish their studies very frequently.

This is something we should do, but let's remember that this is the same depletion that other countries are imposing on us. We deplete others, and Americans or the Brits deplete us. This is a big loss for the country.

## Risk-Taking, European Style

In contrast to America, it is difficult to go bankrupt in Europe. If you go bankrupt, you are lost in infamy for the rest of your life. You have no second chance. The creditors will haunt you throughout your whole life. And then they will haunt your children. In Europe, there is sanctity of contracts.

Not in America. In America there are ways for bankruptcy to protect you from the creditors if you are not a fraudster. You have to have a good legal system to tell the difference between unlucky and fraudulent businessmen. In Poland every bankrupt person is basically a criminal.

That is why to prevent bankruptcy you commit mistakes, you lose opportunities. This is not only in Poland. It's in most of Europe. If we don't change it, we'll leave this potential unused.

MATTHEW KAMINSKI
Member of the Editorial Board,
*The Wall Street Journal*

—MODERATOR—

Matthew Kaminski is a member of *The Wall Street Journal*'s editorial board in New York, a post he took up in July 2008. He was previously the editorial page editor of *The Wall Street Journal*'s European edition, based in Paris, and a roving foreign correspondent. He appears regularly as a panelist on Fox News's *Journal Editorial Report*, and he has written for the *Financial Times*, the *New Republic*, the *New York Times* and other publications.

# The Land of Opportunity—an Investor Perspective

I JUST REALIZED TALKING ABOUT POLAND IN SUCH POSITIVE TERMS IS A BIT HARD TO DIGEST FOR A POLE. IT'S ALMOST AGAINST THE NATIONAL CHARACTER, THE WORDS OPTIMISM AND DYNAMISM AND POSITIVE FUTURE.

Poland has been this sort of miracle, now going for 20 years. It's the only European economy that has not contracted in 20 years. It even grew by a fifth over the last five years of the Eurozone crisis. Warsaw is a booming, and in some ways even attractive, city now, and a financial center for the region. That's not what people would have assumed 20 years ago, thinking first maybe about Prague or Budapest.

For me, Warsaw is always symbolized by my favorite bar, which is called Regeneracja, Regeneration. So it's really there, for me, the symbol of what this city has become, but also what Poland has become, the improvement to human capital and all these young people doing great things.

Yet there's always a Slavic cloud on the horizon. Poland is the fastest runner in a pretty slow race in Europe these days. The economy has bounced back since the business cycle turned last year, but it's only going to grow 1.5% probably, at the high end. Even at its height it was growing at 6.8%. Not exactly tigerish levels.

The other Central European countries are richer in per capita terms. The Baltic countries had grown a lot faster in the boom years before the crisis and are now bouncing back. There are fiscal problems, obviously, and unemployment is still too high. There are problems of red tape, and earlier this month, in a move that certainly was quite noticed here, if not as much in Poland, the authorities moved the government obligations from the private sector pension fund back into the government, which allows the government to lower its public debt as a share of GDP.

So I think it's going to be interesting to really try in this panel—from a business and investor perspective—to figure out the reality from the hype of where Poland is today. I want to start with Beata Stelmach, who really has been there since the birth of this Polish miracle. She was first involved with the Polish capital markets and served on the Polish Securities and Exchange Commission in the Enforcement Department. And since 2011, she's been the undersecretary of state at the Ministry of Foreign Affairs.

So the first question is: Is it going that well, and what is the government going to do to ensure that it keeps going well?

—MATTHEW KAMINSKI


## PANELISTS

MATTHEW KAMINSKI

PAUL FOGO

ROBERT SNELL

BEATA STELMACH

ROGER M. WIDMANN

GRZEGORZ INGLOT

"The first question is: Is it going that well, and what is the government going to do to ensure that it keeps going well?"

**BEATA STELMACH**
**Undersecretary of State, Ministry of Foreign Affairs of Poland**

In 1991, just after the economic transformation in Poland had started, Beata Stelmach became involved in efforts to create the Polish capital market and was employed in the Enforcement Department of the Polish Securities and Exchange Commission. She was then appointed Secretariat Director of the SEC, while simultaneously holding the position of Commission Spokesperson. Her responsibilities included cooperation in the framework of the International Organization of Securities Commissions (IOSCO). She also participated in negotiations on Poland's accession to the OECD and the EU.

As a consultant to the World Bank, she took part in programs aimed at enhancing the capital markets in Ukraine and Russia. In 1999, she helped bring Pekao/Alliance PTE S.A., a newly created pension fund, to the Polish market.

As a member of the Management Board of Intrum Justitia Association of Investment Funds, Ms. Stelmach managed one of the first securitization funds on the Polish market. In 2008-11, she was Partner and Vice President at MCI Management S.A., a PE/VC management company listed on the Warsaw Stock Exchange. In 2011, she was appointed Undersecretary of State for Global Economic Policy, Promotion and Culture at the Ministry of Foreign Affairs.

She is a graduate of the Faculty of Finance and Statistics at SGPiS (now Warsaw School of Economics), as well as Calgary University (MBA) and INSEAD (MBA).

I HAVE BEEN WITH THE GOVERNMENT FOR ONLY TWO AND A HALF YEARS, WHICH GIVES ME THE OPPORTUNITY TO LOOK AT THE ECONOMY FROM BOTH THE BUSINESS AND PUBLIC SECTOR PERSPECTIVES. AND BECAUSE I REALLY LOVE FIGURES, BECAUSE THEY SPEAK FOR THEMSELVES, LET ME BRING SOME INFORMATION FROM EXTERNAL REPORTS TO ILLUSTRATE POLAND'S CURRENT ECONOMIC SITUATION.

The latest global competitiveness report of the World Economic Forum shows that Poland is in the 42nd position out of 150 countries, and only Estonia, from our region, is ahead of Poland. So we are the 42nd worldwide, however, the second most competitive in our region.

The report also underlines why Poland attracts foreign investment. First of all, the big internal market. We are 40 million people, who are very skilled, educated and qualified. Thanks to the safe and transparent financial banking sector, we avoided the crisis in Poland. Let me emphasize once again, Poland is the only European Union country that avoided recession. And cumulatively, our GDP for the last five, six years has grown by almost 25 percent.

Another report by PricewaterhouseCoopers emphasizes that we have a stable economic and political situation, and a competitive workforce based not just on costs but also on the very high quality of our human capital.

A.T. Kearney's Global Services Location Index shows that Poland takes the 24th position worldwide, a huge increase from being in the 38th position in 2009. Offshoring is a huge opportunity for Poland, but at the same time it is a very dangerous situation. Today 50 of the top Fortune 500 companies have placed their operations in Poland, thanks to our competitive advantages I mentioned before.

But offshoring means that companies look for good locations based on cost efficiencies. Long term, we have to invest in R&D. Otherwise we will lose our competitive advantage as other locations in Asia or Africa become more competitive or cheaper. Without investing in innovation, we can't stay competitive.

We have started reforms that will make Poland more competitive. This includes introducing so-called deregulation or de-bureaucracy reform aimed at making doing business easier. And again we have some figures to show that these reforms are working. In the 2013 World Bank's rankings on Doing Business, Poland has moved up by 19 positions in just one year, from 74th to 55th.

Bureaucracy is a problem in the whole European Union. In Poland, because of all those reforms implemented over almost 25 years, we sometimes overregulated the markets in different areas. So we are trying to deregulate, to make the business environment easier.

We have to keep the pace to keep attracting foreign capital. On the flip side, for our companies sometimes the internal market becomes too small. More and more often Polish companies search for external markets, also those very far away geographically. That's why our exports are a real driving force for GDP growth. Last year, exports rose by 4%, but it was double-digit growth for some of the new markets in Africa, Latin America or Asia.

Economic diplomacy is something very important for us. Just a couple of days ago, I was assisting one of the companies in negotiating their biggest contract in Ethiopia. Their income from that contract will be 50% of their annual income.

**—BEATA STELMACH**

**PAUL FOGO, ESQ.**
**Miller Canfield and**
**American Chamber of Commerce in Poland**

Paul Fogo is a licensed American attorney with extensive experience in Central and Eastern Europe. Working out of Warsaw, Poland, Mr. Fogo represents foreign-based investors in all aspects of establishing their operations in Poland, including the creation of joint-venture companies, the negotiation of technology licensing agreements, the purchase and development of commercial property and the drafting of share purchase agreements. In addition, Mr. Fogo has served as lead counsel on the restructuring of a privately held real estate trust consisting of more than 20 commercial real property development projects spread across Poland, Slovakia, Ukraine and the Czech Republic, which included the renegotiating of an equal number of loans with more than six lenders.

Mr. Fogo serves on the Boards of the American and Canadian Chambers of Commerce in Poland, and is a legal columnist for the *Warsaw Business Journal*. While finishing his law degree, he studied Polish commercial law at Jagiellonian University in Kraków. Prior to entering law school, Mr. Fogo worked for 10 years as a real estate agent in Washington, D.C.

I'M ON THE BOARD OF DIRECTORS OF THE AMERICAN CHAMBER OF COMMERCE IN POLAND. I'M THE TREASURER. THERE ARE OVER 700 U.S. COMPANIES INVESTED IN POLAND, APPROXIMATELY HALF OF THEM BELONG TO THE U.S. CHAMBER OF COMMERCE. DURING THE PAST 20 YEARS, APPROXIMATELY 22 BILLION U.S. DOLLARS IN DIRECT FOREIGN INVESTMENT HAS BEEN MADE INTO POLAND BY U.S. INVESTORS.

As other people have already said, Poland is the only country in the European Union that has always had positive growth during the past five years. In 2009, when the crisis was at its worst, Poland was the only country that had positive growth.

Are American companies exposed to any particular difficulties in doing business, more so than other investors in Poland? Not really. For the most part, American investors are treated just as Polish investors. And with that said, I would like to add that Poland is an excellent gateway to the European Union. There are many American companies that use Poland as their base, and from Poland they invest in other parts of the European Union.

In the United States, if a foreign company wants to buy an airline or buy a bank, the U.S. government is really going to investigate the ownership of that foreign entity, find out who the real owners are. The European Union works just a little differently. If you're a U.S. investor and you set up a company in Poland, you're Polish for the purposes of investing in France or other EU countries, and you are able to access EU money, EU funding, EU grants on an equal basis with a domestic investor.

Currently, the U.S. government and the EU are negotiating the Transatlantic Trade and Investment Partnership, and if passed, that will further reduce any barriers at the EU level and the U.S. level. Right now the U.S. has bilateral trade agreements with most of the EU countries, but if this new agreement is passed at the EU level, that will further investments.

Why else Poland? What are the opportunities for U.S. investors? Generally, energy and industry are very attractive sectors. I hope Poland is going to develop its nuclear power potential. They have been working on that for a couple of years. The goal is that 15% of all electricity will be generated by nuclear power by 2030. Shale gas development, renewables and strategic petroleum reserves are all opportunities for U.S. investors. In terms of shale gas, I'd say the jury is still out on just how much shale gas Poland has, if they have enough to make it commercially viable, but U.S. investors are there.

The EU in general has this program called 20-20-20, and what that means is that by the year 2020, we're supposed to reduce our greenhouse gas emissions by 20%, increase the use of renewable energy resources by 20%, and generally reduce our overall consumption of energy by 20%. So that's a great opportunity for high-tech U.S. investors to come in, in particular with smart grid technology, wind farms.

Now we'll come to some of the challenges, and that's financing for renewable energy projects in Poland. It's difficult for windmill farm developers to get financing. It is still a challenge to connect your windmill farm to the local grid.

Another opportunity for U.S. investors is high-tech aviation. In eastern Poland, near a town called Rzeszow, there is a cluster of aviation businesses. Right now there are over 87 companies, in what we refer to as Aviation Alley, which has become a hub for all aviation. Pratt & Whitney, BorgWarner, Sikorsky Helicopter, Bell Helicopter, they are all there, and the synergies of having them all there together has put Poland on the map in Europe as being the leader in aviation development.

In Poland we have 14 Special Economic Zones, where local communities have set aside geographic areas that provide special grants or exemptions to taxes for foreign and domestic investors who are willing to make greenfield investments.

One last comment: In the United States, corporate income tax is progressive, and the highest rate is 39%. In Poland it's a flat tax at 19%.

—PAUL FOGO

ROGER M. WIDMANN
Director of the Board,
Standard Motor Products

Roger Widmann has been an active member of the U.S. financial community as a lawyer, venture capitalist and investment banker since 1964, when he began his career as an SEC trial attorney.

Mr. Widmann is Chairman of Cedar Realty Trust, a real estate investment trust, and a Director of New York-based Standard Motor Products, a manufacturer of automobile replacement parts. He is also the Chairman of Keystone National Group, a private equity fund of both major and micro venture funds.

Previously, Mr. Widmann was a Principal of the investment banking firm of Tanner & Co.; Senior Managing Director of Chemical Banking Corporation (now JPMorgan Chase Corporation), where his responsibilities included projects ranging from South America to Eastern Europe and the Middle East; and founder and CEO of First Reserve Corporation, the largest independent energy investing firm in the U.S., with over $20 billion under management. Before that, he was a Senior Vice President with Donaldson, Lufkin & Jenrette, responsible for the firm's domestic and international investment banking business.

IT IS REALLY A VERY GOOD STORY BOTH FOR POLAND AND FOR STANDARD MOTOR. STANDARD MOTOR WAS FOUNDED BY TWO IMMIGRANT FAMILIES, ONE OF WHICH ACTUALLY CAME FROM POLAND. SO IT'S A NICE HISTORICAL TURNING OF THE WHEEL TO COME BACK TO SOME SERIOUS EXTENT TO POLAND.

The Polish business that we now operate began in 1970 as a state-owned company, to manufacture TV sets for the entire Eastern Bloc, which it continued to do for a long time. It also had within it a little research facility and a laboratory, which became much more important than anybody ever realized it would.

One of the parts of a TV set happens to be a copper-wound coil that increases the voltage inside the TV. Well, not surprisingly, that kind of coil, a similar one, is what is used in an automobile motor to increase the starting voltage. So 2,500 employees were making the TV sets and 170 made the coils. And then in 1989 the Wall came down and Eastern Europeans were able to buy Sony, Panasonic or any other TV sets they wanted. That was really the end of the Eastern Bloc TV manufacturing business.

The company staggered. People lost their jobs. There was nothing to do. The little coil part of the business continued because they were able to get an order to supply these coils to Fiat Poland. In 1994, that little kernel of a company was privatized, the government owned 40% and 60% of it was privately held. They finally started to deliver these coils to Fiat Italy and then to Standard Motor.

Standard Motor makes automobile aftermarket parts. These are the parts that are not made by Chrysler, Ford, GM, Toyota—these are the parts that have to fight to get a seat at that table, and the only way you can succeed in that business is if you make your part better and longer-lasting than the original equipment part, and if you sell it for less. So it's not easy.

In 2006, Standard Motor, liking these products made in Bialystok, decided to buy 100% of the shares of this quasi-public-private company. They started to make switches and sensors as well as the coils, and they got contracts with other companies.

We were blessed with a very terrific CEO in Poland, and now we produce almost all the coils that Standard Motor Products sells to others there. We closed down a coil line in Greenville, South Carolina, and just transferred the operation to Poland this year. Next week will be one of our board meetings, and it will be held in Bialystok, Poland, where our plant is.

We now employ some 300 people in the auto parts business in Poland, including 30 engineers. We export our products all over the world. We have an operating factory space of 60,000 square feet. Sixty percent of the sales are to the aftermarket, our basic business, but importantly, 40% of our sales are to the original equipment manufacturers. You can't do that unless the stuff is really good.

Why Poland, for us, for Standard Motor? First of all, Bialystok is a university town and we get very highly qualified engineers at relatively low cost on a world scale. Second is the general level of education and the fact that English is commonly spoken. And third, our people in this plant, and I know it's true of Poland in general, have a really good entrepreneurial instinct; they understand the game of business, and they're making it work for all of us.

—ROGER M. WIDMANN

**ROBERT SNELL**
**Managing Director and Global Head of Emerging Markets Multinationals, Citigroup**

Robert Snell joined Citibank's client coverage group in Dallas, Texas, in 1989. He now serves as Global Head of Emerging Markets Multinationals at Citigroup, Inc.

Mr. Snell previously served as Representative Director & Deputy President, Head of Corporate Banking Division of Citibank Japan Ltd. Before assuming that position, he served as the Corporate Bank Division Head of Citibank Japan branches since December 2004, where he was responsible for managing all of Citibank's corporate banking businesses in Japan.

Prior to his assignments in Japan, Mr. Snell led the North American relationship management team within the Corporate and Investment Bank, based in New York, focused on Consumer, Retail and Healthcare companies.

UNTIL THREE WEEKS AGO, I WAS IN LONDON FOR FIVE YEARS, AND PRIOR TO THAT I SPENT FOUR YEARS IN JAPAN. MY ROLE NOW IS TO BE RESPONSIBLE FOR THE STRATEGY AND EXECUTION OF CITI'S CORPORATE CLIENT FOCUS ON COMPANIES BASED IN THE EMERGING MARKETS. IT'S A NEW ROLE. WE WANT TO BE BETTER PARTNERS TO COMPANIES BASED IN POLAND, DUBAI OR INDIA. WE HAVE A TEAM OF PEOPLE IN CITI HANDLOWY IN POLAND, WHICH IS A TERRIFIC BANK FOR CITIGROUP. I HAVE EVERY YEAR BEEN TO BETWEEN 30 AND 40 COUNTRIES TO GIVE ME SOME PERSPECTIVE ON MAKING SURE WE'RE SERVING OUR CLIENTS AS EFFECTIVELY AS POSSIBLE.

I spoke to three of our customers who do business in Poland, and asked two questions: What's good, what's great? And then the second question is, what's less good, what's less great? I asked multinational companies in Poland, an American company, a European company and a Chinese company, in three different industries.

And without exception, all of them were very optimistic and proud, not only of the past, but also optimistic about the future given the talent and entrepreneurial spirit in the marketplace, the size of the market, particularly in the context of the neighborhood. Poland has a very healthy, stable banking system that avoided the crisis. So all the points of feedback were consistent and quite optimistic about the future.

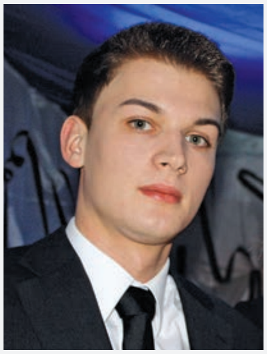
When I asked, what's wrong, what are your complaints, what is your angst, these companies, with headquarters in Germany or Atlanta, mentioned bureaucracy. They say it's not where it needs to be, but it's getting better. I said, look, I've been to Algeria, you want bureaucracy, go to Algeria, because Poland's not so bad, but that's an issue for them.

The other point, and it actually feels like it may be getting worse, is the ability to forecast the legal environment, the ability to understand what might happen in the future with respect to tax implications. They said, "That's a challenge for us, we are struggling to think about that. As we think about investing the next $100 million or euros or a billion yen into Poland, we pause and we stop." And that's something that the country should worry about. They're a little worried about birth rates, because over generations, demographics do matter a lot.

In my new role, being responsible for emerging market headquartered clients—and Poland might be more of an emerged market—what I see when I look at just Citi Handlowy as a proxy, the amount of business done in Poland with companies based in Asia is lower where it should be, relative to the Czech Republic, for example. Why isn't Korean, Chinese, Taiwanese or South African business bigger?

Where is growth in the world going to come from? It's going to come from high-growth emerging markets, so Poland as an emerging/emerged market needs to think in terms of economic diplomacy, and the strategy around connecting to these markets. It is not only about helping your company go into 50 markets, or another company going into Ethiopia, but how do you get, figuratively speaking, Ethiopia into Poland?

**—ROBERT SNELL**



**GRZEGORZ INGLOT**
**Advisor to the Supervisory Board, INGLOT Cosmetics**

Grzegorz Inglot has been associated with the family firm, INGLOT, since 2006, when he began working on the development and management of sales outlets in Poland. In 2009, his responsibilities expanded to the UK and the U.S., where he coordinated the opening of a flagship store in Times Square in New York.

Since 2010, he has served as an adviser to the board, as well as being responsible for INGLOT's competitive strategy and the development of franchise outlet chains throughout the globe. Since 2011, Mr. Inglot has held the position of Vice President for Operations of INGLOT's "3i" line of women's shoes and accessories, where he has been engaged in the development of retail chains and Internet sales in Poland. In 2013, he unveiled the 3i concept store, pioneering a channel of distribution for 3i's products.

Mr. Inglot received a bachelor's degree in Business Economics from the University of Warsaw. He is presently pursuing a master's degree in the same field.

I'M VERY PROUD TO GIVE A BRIEF INTRODUCTION ABOUT THE BACKGROUND AND THE GROWTH OF INGLOT COSMETICS [BEST KNOWN FOR ITS NAIL POLISH, WHICH IS BREATHABLE AND BASED ON AN INNOVATIVE TECHNOLOGY DEVISED BY THE LATE FOUNDER]. THE COMPANY WAS ESTABLISHED BY MY UNCLE IN 1983, AND IS LOCATED IN THE SOUTHEASTERN PART OF POLAND. WE HAVE OVER 2,000 EMPLOYEES ALL OVER THE WORLD AND 430 RETAIL LOCATIONS IN 51 COUNTRIES ON EVERY CONTINENT. NINETY-FIVE PERCENT OF OUR PRODUCTS ARE PRODUCED IN OUR OWN FACTORY IN THAT PART OF POLAND AND HEADQUARTERED IN MY HOMETOWN, PRZEMYSL.

We are planning to enter new markets. Let me give a few examples. By the end of 2013, we will open stores in the Philippines. In Europe, we are planning to enter Belarus and Norway. In the Middle East, it's going to be the Kingdom of Jordan and Iraq. We are also not forgetting about South America, so we are planning to open in Chile and Colombia. And also, the U.S. market is very important to us. We have over 30 stores right now in the U.S. We entered the market four years ago, and it has been eight years since we started our international expansion. Our key markets are South Africa, India and the United States. And of course, Poland, where we have the majority of our stores.

It's really important that we achieved this growth without any loans or outside investors. We also do not need any outsourcing.

A few words about why we are doing this in Poland. As was mentioned before, we have access to skilled labor. A lot of our employees have a higher education. Also, another advantage is the solid and stable legal system. Through our membership in the European Union, we also have easier access to foreign markets, mainly European.

And what about the region where we are located? It's 80 kilometers from Rzeszow—the center of Poland's Aviation Alley—and 10 kilometers from the border with Ukraine. According to the Central Statistical Office, although this is one of the poorest regions in Poland, people here live the longest, divorce rates are the lowest, and birthrates are very high.

And I think the last two facts are that the labor costs in our region are still about 30% lower than the Polish average. And last but definitely not the least, is people's commitment to their job. At our production facilities we have over 200 employees who have been with us more than 10 years, which means that they feel connected to our company

To sum up, I want to assure you that we are not going anywhere, we are going to stay in Poland, and I'm pretty sure that the company will remain Polish.

**—GRZEGORZ INGLOT**

# The Land of Opportunity— an Investor Perspective

"What are the top three things that business would want to see the current government do in its remaining time in office, or not do in its remaining time in office, or any government in Poland do?"

## The Role of Government

**Matt Kaminski:** What are the top three things that business would want to see the current government do in its remaining time in office, or not do in its remaining time in office, or any government in Poland do?

**Paul Fogo:** As was alluded to before, uncertainty about taxes and the pension reform going on in Poland affects all of us. The budget deficit is growing, although compared to the U.S., it is not so bad. There remains work to be done on transportation infrastructure.

American companies doing business in Poland do not have that much to complain about, and no more in Poland than they would probably complain about in the States. The Polish road system is improving; our tax system, compared to the States', in my opinion is okay.

Bureaucracy and obtaining permits, especially with energy, needs to be worked on. Energy costs are expected to go up 40% in the next 10 years, and there does not seem to be a cohesive plan at a government level on how to deal with it. Forty percent of Poland's power plants are more than 40 years old; 90% of Poland's electricity is based on coal-fired power plants. So whereas Poland has an abundance of coal to develop energy, its energy costs are still projected to increase 40%, because Poland needs to find a way to comply with EU regulations.

**Matt Kaminski:** There's a perception out here that once the economy started slowing down at the end of last year, the Tusk government either lost its reform mojo or panicked, such as with the decision earlier this month to transfer half of private pension fund assets to the state.

**Beata Stelmach:** The current government is the first in democratic Poland that has been elected to a second term, which shows a high confidence among the Polish people.

Next year we are going to have many anniversaries, the 25th anniversary after the first democratic elections in Poland, which led to the beginning of the reforms and building our market economy. Next year we are going to celebrate the 15th anniversary of our presence in NATO, and the tenth anniversary of entering the European Union. During one generation we changed from being a poor and gray communist country, somewhere far in the north, to the sixth economy in Europe and the 20th economy in the world.

All those changes happened because people agreed and committed to sacrifice—thanks to this commitment, and because we still have a stable political environment and situation. Look at our neighbors.

We are aware of all those challenges, and we love to be challenged, but our decisions are not election driven, because in fact most of the latest decisions are not very popular. We have been all—society, politicians, public opinion—committed to continue changes.

**Audience member:** High tech has been an incredible growth engine here in the U.S. as well as abroad, in Korea and Asia. What, if anything, is Poland doing to foster the high-tech sector?

**Beata Stelmach:** Many of the global high-tech companies decided to set up their centers in Poland, and a lot of them have transferred their operations from other countries to Poland.

There are different programs within the EU funds that support R&D and high tech and other types of innovation in Poland. These funds can be directed to the big IT companies, innovative companies or small companies. Seventy percent of our companies are SMEs. There are dedicated projects for startups to be supported by EU money, and there are a lot of efforts to boost all the sectors in terms of R&D and innovative solutions.

> "Are there any Polish companies emerging with breakthrough technologies, and how difficult would it be for an American-based venture capital fund to enter the market?"

**Audience member:** What are the speed and efficacy of these programs, both Polish and EU-based? Are there any Polish companies emerging with breakthrough technologies, and how difficult would it be for an American-based venture capital fund to enter the market?

**Beata Stelmach:** Just before entering the European Union, the German government prepared a special program attracting Polish IT engineers. The leading IT software house in Poland, which serves many institutions, was very afraid that many engineers would leave. None of them left. This company today is the biggest software house in Central and Eastern Europe, with a presence in 40 markets. This shows how scalable a business that was built in Poland can be. There is a huge possibility for Polish companies to expand and to become, maybe not global champions, but European champions.

## Free Trade Agreements

**Audience member:** I would like to refer to the remark made by Paul Fogo on the Transatlantic Trade and Investment Partnership. Could you please comment on the benefits and possible challenges of this process?

**Paul Fogo:** The benefits are mitigating and reducing the number of barriers that still remain. If something is approved for use in Europe, then it should be equally approved in the States, in particular pharmaceuticals. Or automobiles, as an example. Just because a car is approved to ride on the roads in Europe, it's got to go through a new process when it enters the States. So one of the goals of the TTIP is to eliminate the need to go through a separate approval process. Risks? The U.S. exports more to Europe than Europe exports to the U.S. I'm American. I live in Poland. At the end of the day, if this is adopted I think it's going to help European exporters more. Agriculture, of course, as Minister Stelmach mentioned.

**Grzegorz Inglot:** It's the same problem that we have. Basically every new cosmetic has to go through the long process of approval and getting the right license before it's ready to sell. Reducing the length of that process would be definitely the biggest benefit of that partnership.

**Audience member:** If I might just comment on that discussion, having worked in the U.S. government for 35 years on trade and investment with Central and Eastern Europe and with the European Union. Moving to remove the barriers in standards, regulations, acceptance of one another's verification processes, that will be worth billions of dollars for companies on both sides, and probably more for countries like Poland and others. But it involves the U.S. federal system, and we also have state regulations in the 50 states. It will be tremendously difficult to reach that agreement. But certainly, once it is achieved—take a look at the Free Trade Agreement with first Canada and then Mexico, as it gives you an idea of the scale of possibilities there.

**Audience member:** I came from Poland over 25 years ago and never did business there. I'm a businessman here. How would you compare bookkeeping, accounting and all the legal financial systems in Poland with America? Is there room for improvement?

**Paul Fogo:** Earlier I said I prefer Polish taxes over American taxes. Now I'm going to say the opposite. I prefer American accounting standards. They are more cumbersome in Poland. Every entrepreneur needs an accountant. You can't do your own taxes, even as an independent businessperson. The cost of doing business tends to be higher in Poland, as a percentage of your income. And just on a personal note, I would say 2% of my personal income I pay to an accountant just to deal with my taxes, whereas if I'm in the States, I can do them myself.

## Pros and Cons of Ties to Europe

**Audience member:** I am curious to hear about the business community's view of a potential adoption of the euro. How would that affect business in Poland?

**Roger Widmann:** I think that it would be more symbolic than anything else, because it represents the further integration of the Polish economy into the European economy, and accounting-wise it makes no difference to us. So I think that's the advantage and nothing particularly more than that.

**Robert Snell:** I agree. It would be very symbolic. It is very important because it evidences continued closeness to Europe. But it would, by definition, remove a potential competitive advantage for Polish-based manufacturing and services.

**Matt Kaminski:** And also presumably the government's ability to respond. But just following up on this, what do you see as the bigger risk factor for Poland, the fact that it's an emerging market with its own currency, and every time Ben Bernanke decides to keep any money here, money flees the Polish market—or being tied into a slow-growth, crises-ridden Eurozone?

**Robert Snell:** It depends on when you ask. It's a tough choice. If you asked the question two years ago, it would have been potentially an easier answer to say I'd rather hang my luck with Ben Bernanke, but a tough question.

**Beata Stelmach:** Our companies benefited from not being part of the Eurozone during the crisis, and because their exports were very competitive, they used that advantage beautifully. As far as the governmental commitment to enter the Eurozone, we have already committed. We are ready to enter the Eurozone, but first the Eurozone must grow out of its own problems. So we do not propose any particular day or year.

**Audience member:** Our compliance with the tax code is pretty high, 85%, 90%. Compliance with the tax code in Greece and Portugal and Spain is pretty poor. What is it like for the Poles?

**Matt Kaminski:** Are Poles Greeks, that's the question.

**Beata Stelmach:** In terms of paying taxes, I don't think that the shadow economy exists in numbers that we should talk about. Polish people are very obedient in terms of paying taxes, compared with other countries even in the European Union. This is not a problem for Poland.

**Matt Kaminski:** It's interesting to hear about companies in Bialystok or in Rzeszow which have done so well. How does one account for why these regions are attracting business, especially regions of eastern Poland that are traditionally quite poor? Is that the result of a policy or is that something that naturally happened?

**Robert Snell:** One of the things I heard from the three constituents that I spoke to is that they went out of their way to highlight the local authorities' focus on attracting their factory, their company, their call center. They were talking about different locations within Poland, but the strength of that local entrepreneurial spirit within the local government was quite distinctive in helping them make a decision..

**Beata Stelmach:** There is a competition among local authorities to attract businesses.

# The Kosciuszko Foundation

*The American Center of Polish Culture*

Tadeusz Kosciuszko

**Founded in 1925, the Kosciuszko Foundation promotes closer ties between Poland and the United States through educational, scientific and cultural exchanges. It awards up to $1 million annually in fellowships and grants to graduate students, scholars, scientists, professionals and artists, and promotes Polish culture in America. The Foundation has awarded scholarships and provided a forum to Poles who have changed history.**

1925

Kosciuszko Foundation Founded

In the 18th century, Tadeusz Kosciuszko said, "By nature, we are all equals—virtue, riches and knowledge constitute the only difference." Education is the key to success, and Kosciuszko dedicated his life to the liberation and education of the underprivileged. In the 20th century, another virtuous Pole followed his example and established the Kosciuszko Foundation.

Szczepan Mierzwa was born to a peasant family in Rakszawa, a Polish village occupied by Austria-Hungary, in 1892. When he was 12, he learned about Kosciuszko, a champion of peasants' rights who also "stuck his neck out when there was fighting in a big country called Ameryka."

At age 17, speaking no English, Mierzwa traveled in steerage on a German steamship to Ellis Island, where he became Stephen Mizwa. He headed to Massachusetts, working odd jobs and washing dishes while studying at night. He earned a scholarship to Amherst College, later completed a master's degree at Harvard, and eventually became an associate professor of economics at Drake University.

Mizwa met Dr. Henry Noble MacCraken, the president of Vassar College, and their discussions about setting up a cultural exchange program led to the creation of a scholarship fund that brought nine Polish students to study at top American universities and sent an American professor to Krakow. The fund's success inspired Mizwa to dedicate himself to creating an endowed foundation and to convince Dr. MacCraken to serve as its first president.

In 1925, The Kosciuszko Foundation, Inc., was incorporated in New York to raise funds to grant aid to deserving Polish students to study in America, and to American students who want to study in Poland; to encourage and aid the exchange of professors, scholars and lecturers

Stephen Mizwa in the 1950s

# 1959

English-Polish Dictionary Published

between Poland and the United States; and to cultivate closer intellectual and cultural ties between the two countries.

Initially, most of the money raised came from Americans, and Polonia was skeptical of Mizwa's efforts. But in 1927 Mizwa persuaded Maria Sklodowska Curie, the Polish Nobel Prize-winning chemist and physicist, to let him name a scholarship after her. With Madame Curie's support, the Foundation won notice and credibility.

During World War II, the exchange of scholars between Poland and the United States was cut off. Mizwa sent relief aid to Poland via back channels. With Poland under occupation, the Foundation promoted Polish culture and Polish issues in the United States.

After the war, Mizwa searched for a permanent home for the Foundation. He scored a great coup by acquiring the Van Alen mansion, built in 1917, for a fraction of its asking price, thanks to his persistence and the generosity of the seller, Margaret Patterson, who even donated to the Foundation in subsequent years to help pay off the mortgage.

This gave Polonia a headquarters in the most affluent and desirable neighborhood in New York. Mizwa had finally won Polonia's trust.

The Kosciuszko Foundation Chopin Piano Competition was established in 1949, in honor of the hundredth anniversary of the death of Frederic Chopin. Over the years, renowned musicians such as Van Cliburn, Ian Hobson and Murray Perahia have won the competition. Today the annual Chopin Competition continues to encourage gifted young pianists to further their studies and to perform the works of Polish composers.

Mizwa also raised money to purchase and acquire donations of paintings by Polish masters such as Matejko, Chelmonski, Malczewski, Kossak, Brandt, Styka and others. They fill the gallery on the second floor of the Kosciuszko Foundation, which is open to the public.

Van Cliburn and Mizwa

In 1955, Mizwa became the Foundation's second president when Dr. MacCraken stepped down. Cultural exchange was limited in the depths of the Cold War, yet Mizwa kept it alive through projects such as the "Books to Poland" campaign to restore university libraries.

In 1959, the Kosciuszko Foundation published its indispensible English-Polish dictionary, and in 1961 added a Polish-English volume. Over the past four decades, it has set the standard on both sides of the Atlantic and has been reprinted 13 times, most recently with CD-ROM and DVD versions.

In 1967, the Board of Trustees approved the notion of local KF chapters across America to help the Foundation coordinate its efforts to promote Polish culture. In 1970, after 45 years as the driving force behind the Foundation, Mizwa retired as president, quoting the Apostle Paul: "I have fought a good fight. I have finished my course. I have kept my faith." He died the following year.

During the 1970s, the Foundation sent more than 2,500 American students to Krakow and Lublin to study Polish language, history and culture. These Americans became ambassadors of freedom and democracy. The exchange of scholars from Poland to the United States also picked up.

Madame Curie

**In 1927, Kosciuszko Foundation founder Stephen Mizwa persuaded Maria Sklodowska Curie, the Polish Nobel Prize-winning chemist and physicist, to allow him to name a scholarship after her. With the support of Madame Curie, people began to take notice of Mizwa's American Center of Polish Culture.**

“Polish Dance” by Wladyslaw Teodor Benda, the Kosciuszko Foundation Collection

The collapse of Communism provided new opportunities for the Foundation, which established a Warsaw office and negotiated office space with the University of Warsaw. It created American and Polish Advisory Committees of professors and scholars to improve the selection process for scholarships and grants.

The Foundation also published a glossy catalog of its art collection, “The Polish Masters from the Kosciuszko Foundation Collection,” which is now in libraries and on coffee tables around the world.

In 2003, the Foundation initiated a successful fundraising campaign to establish a chair of Polish studies at Columbia University.

In 2008, Alex Storozynski, a Pulitzer Prize-winning journalist and author of the award-winning biography of Kosciuszko, *The Peasant Prince*, was elected president of the Foundation. He wrote a petition asking newspapers to stop using the historically erroneous phrase “Polish concentration camps.” The American media had long ignored pleas from Poland’s diplomatic corps and Polonia to avoid the phrase when discussing Auschwitz and other German camps in Nazi-occupied Poland.

The petition collected hundreds of thousands of signatures, forcing journalists to take notice. Newspapers such as the *New York Times*, *The Wall Street Journal* and the *San Francisco Chronicle* have changed their stylebooks as a result. The Foundation will continue to collect signatures until all media outlets stop using this phrase.

As the challenges facing Poland have changed with the times, the Foundation’s work has evolved to meet those challenges. Mizwa started the Foundation after Poland’s rebirth, but his mission took on new meaning during the years of Nazism, Communism and the Cold War. Today Poland is once again free and part of NATO and the European Union. Many Kosciuszko Foundation alumni have taken part in that transformation.

Just a few of the scholars who have received fellowships or grants from the Foundation include historian Prof. Norman Davies; Prof. Leszek Balcerowicz, Polish economist, former chairman of the National Bank of Poland, former deputy minister of Poland, who implemented economic shock theray in Poland in the 1990s; Andrew Nagorski, award-winning journalist for *Newsweek*, vice president and director of public policy at the East-West Institute; and Anda Rottenburg, art historian, critic, and president of the Foundation of Polish Art Institute since 1998.

Young Poles and Polish Americans are uniquely poised to change the world, not just through humanities and the arts, but through the sciences, technology and business as well. With scholarships, they can become the leaders of tomorrow. For the 21st century, the Kosciuszko Foundation will continue this mission.

Ministry
of Foreign Affairs
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The Kosciuszko Foundation
Incorporated 1925

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