

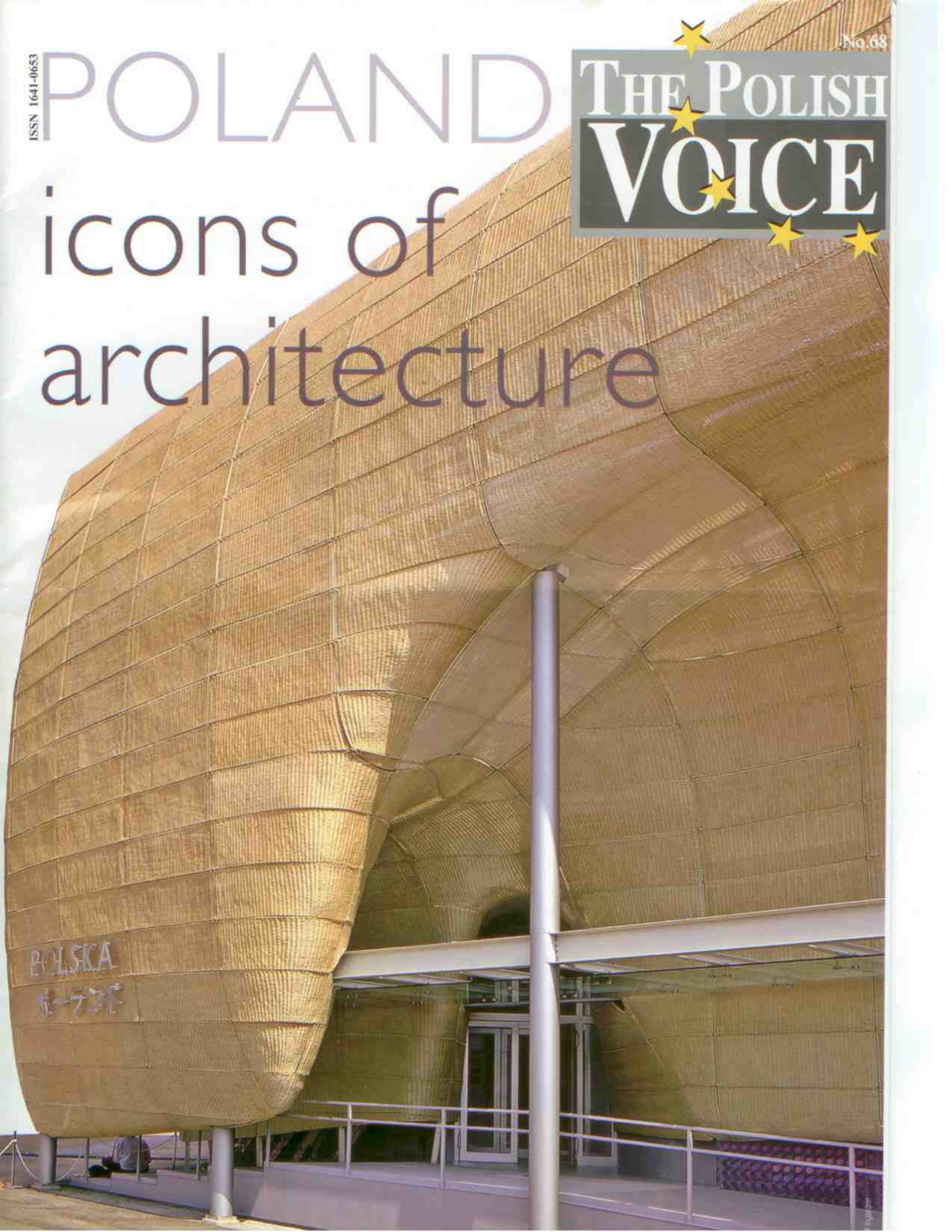
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POLAND

THE POLISH VOICE

icons of architecture



POLSKA
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Optimistic Forecasts

Poland has every chance of enjoying fast and sustained economic growth, according to projections by international financial institutions. According to long-term forecasts, the prospects of the Polish economy are promising.

International Monetary Fund analyses show that Poland has a favorable situation in terms of economic growth. "Poland is at a strong moment of the business cycle, benefiting from the implications of EU accession. That's why we have revised our projections upward for GDP growth in Poland in 2006 and 2007," said IMF mission chief in Poland, Susan Schadler. The new GDP growth projections offered by IMF economists are more optimistic than those suggested earlier. Instead of 4 percent, GDP is expected to grow by 4.8 percent this year (the Polish government's projection is 5 percent). Next year GDP is expected to grow by 4.5 percent. The IMF's revision of its earlier GDP projections results from growing investment, rising employment, higher pay and labor productivity as well as stronger exports, the IMF experts say. Schadler has noted the positive implications of a strong zloty, low inflation and a low current-account deficit.

Other international institutions agree with the positive assessments of the IMF. The Organization for Economic Cooperation and Development (OECD) has recently revised its 2006 GDP growth forecast for Poland to 4.4 percent, followed by 4.6 percent in 2007, against the 3.7 percent and 4.3 percent respectively projected in the fall.

New Investments in Economic Zones

Indesit, the Italian household appliances manufacturer, will open a third plant in Poland in Radomsko, located in the Łódź Special Economic Zone (ŁSSE). The company will invest at least 80 million euros and create 1,200 new jobs.

Indesit has operated in Łódź since 1999 and for two years in the ŁSSE. The company has already opened plants to manufacture free-standing stoves and refrigerators. The new factory will likely manufacture popular built-in appliances. Bora, a partner company of Indesit that produces metal parts used in the automotive and household appliance industries, has also decided to invest in Radomsko. The company will employ 60 people.

In the Starachowice Special Economic Zone (SSES), investors will create 1,000 jobs. One of them is MAN, the German group that has already invested 150 million euros in Poland. The truck factory in Niepolomice, a project worth 90-100 million euros, is expected to create 650 new

jobs. MAN will expand its production in Starachowice, where the company now manufactures buses.

Apart from the German group, around 10 small and medium-sized companies want to invest in the SSES. The planned projects, worth approximately zł.315 million, will help to create at least 960 jobs. In the first quarter of this year, 210 new jobs were created in the zone and the value of the new investments reached 12.2 million euros.

Poland Attractive to Investors

Poland is the fifth most attractive country for international corporations decentralizing their operations, according to a ranking prepared by the British research center Economist Intelligence Unit.

According to EIU analysts, Poland, which was placed behind India, China, the Czech Republic and Singapore in the ranking, is attractive to investors in terms of operating costs, availability of qualified labor force, and investment climate. The ranking was based on nine criteria including tax systems, labor market regulations, qualifications of staff and infrastructure.

The EIU evaluates technical and language qualifications of staff in Poland very highly. The report states that many international corporations manage to attract qualified Polish-language managers with experience working abroad to Poland. The EIU suggests that companies considering offshoring to Poland should take a look at the regions where initial labor costs may be up to 30 percent lower than in Warsaw or Cracow, but where many qualified workers are still available.

Poles will be employed by Microsoft, for example, which recently launched a Microsoft Innovation Center in Poznań in cooperation with the Poznań Supercomputer-Network Center and Poznań University of Technology. Its goal is to support innovative solutions and technologies in IT safety and outsourcing services. The center's technological partner, Intel, will provide the most advanced hardware.

The Microsoft Innovation Center in Poznań will provide advisory services for colleges, local governments, healthcare institutions and small and medium-sized enterprises for implementing new technologies, IT safety and creating specialist applications. Moreover, the center will offer to host applications for colleges, with the possibility of accessing them remotely for teaching.

More large investment projects can be expected soon, and not only in service centers. Prime Minister Kazimierz Marcinkiewicz declared during a recent meeting with investors that there would be simplifications in the administrative procedures for investors. "In the next few months our efforts will be intensified to amend Polish law in order to improve the conditions for business operations in Poland," he said.



Orlen Buys Mazeikiu

PKN Orlen, Poland's largest petrochemical company, has clinched a deal with Russia's Yukos to take control of Lithuania's Mazeikiu Nafta refinery. This marks the largest Polish investment abroad to date, and will lead to the emergence of the largest fuel corporation in Central and Eastern Europe.

After 10 months of intensive negotiations with the Lithuanian government and Yukos International UK BV, the acquisition of Mazeikiu Nafta (MN) has finally been realized. The eventual purchase of a controlling stake in Mazeikiu Nafta comes hot on the heels of a few other important agreements between PKN, on the one hand, and Yukos International and the Lithuanian government, on the other. The first step was a May 26 agreement with Yukos for the Orlen purchase of a 53.7-percent stake in Mazeikiu Nafta for almost \$1.5 billion. At the same time, a package of agreements was signed and submitted to the Lithuanian government including an agreement regarding the purchase of a 30.7-percent stake in Mazeikiu Nafta for \$852 million.

PKN Orlen executives say that to finance the transaction, the Polish fuel corporation will use both its own funds and credit. Loans will be refinanced with funds raised from bond issues on both the Polish and European markets.

"This will be largest foreign investment by a Polish company ever, resulting in the emergence of the largest corporation in Central Europe in terms of the volume of oil petroleum processed and the amount of revenue," said Igor Chalupiec (pictured), president of PKN Orlen.

As a result of this transaction, Orlen will become an unquestioned leader in Central and Eastern Europe, with operations covering markets from Poland, the Czech Republic and Germany to the Baltic states—Lithuania, Latvia and Estonia.



PROMOTION AND INNOVATION

Increasing worldwide competition for foreign direct investment forces countries to intensify their marketing activities in order to increase the level of FDI inflow. To strengthen our position in the global economy, it is necessary to intensify activities involving investment marketing and to improve our country's attractiveness to

investors. At the same time, it is also necessary to increase Poland's share of the international division of labor, primarily in trade.

This is why the catalogue of current tools—such as supplementary funding to help entrepreneurs take part in trade fairs, exhibitions and economic missions abroad; support for export consortiums; supplementary funding for promotional events in Poland and abroad; the implementation of sector promotion programs; running the Academy of Foreign Trade to improve entrepreneurs' knowledge and qualifications regarding foreign trade exchange and helping entrepreneurs obtain certificates enabling them to sell their products on foreign markets—needs to be expanded to include new instruments. These will be set out in the Strategy for Promoting the Polish Economy currently being drafted at the Ministry of the Economy. The document will define the vision, main objectives and areas of intervention in which the government, along with regional and local authorities, business organizations and other public institutions, should focus their activities when promoting the Polish economy. It will specify the areas in which support from domestic public funds and EU funds will be focused in order to increase Poland's importance in the international economy. The scope of the strategy covers the promotion of sales in the European market, the promotion of exports, foreign investment, tourism and the promotion of Polish participation in international cooperative initiatives.

One of the essential activities that will be analyzed in the Strategy for Promoting the Polish Economy will be the completion of the changes to the institutional system promoting economic development in Poland. On April 11, the Council of Ministers approved the draft Law on the Polish Agency of Trade and Investment. This agency will deal with promoting the Polish economy abroad, developing sales on the European market, as well as developing export sales, supporting the flow of foreign investment into Poland, and Polish investment in other countries.

The Polish Agency of Trade and Investment will be responsible to the minister of the economy. It will be able to grant public aid to entrepreneurs from domestic and EU funds for projects increasing companies' international competitiveness, for innovative investments and for the creation of new jobs. The agency will also be able to establish foreign offices.

In February, on the basis of an agreement between the Ministry of the Economy and the Ministry of Foreign Affairs, some of the Economic and Commercial Sections of Polish embassies/consulates were shut down, while some of the sections in over 40 of Poland's most important diplomatic missions were transformed, as of May 1, 2006, into Trade and Investment Promotion Sections, under the minister of the economy. In the future, they will operate as the foreign offices of the Polish Agency of Trade and Investment. They will evaluate the presence of Polish companies in a given market, analyze the competitiveness of Polish goods and services, as well as local buyers' and consumers' opinions of Polish goods. The offices will also facilitate contacts between business partners and provide information on the possibilities of financial support for promotional projects in a given country's market.

Looking from today's perspective at Poland's economic development up until 2013, it is clear that previous sources of economic growth (low labor costs, cheap raw materials, an advantageous geographical location and EU accession) are losing their importance. We need to seek new ways of gaining a competitive edge. The development trends of highly industrialized countries show that lasting development can only be guaranteed by establishing and maintaining a competitive edge based on knowledge and innovation. Innovation is the key to economic growth and

productivity, especially now, at a time of intense technological change and global competition. Poland has no alternative but to join the process of building a global knowledge-based economy.

The answers to these challenges are provided by the state's innovation policy presented in the Strategy for Increasing the Innovativeness of the Economy for 2007-2013. The measures outlined in this document aim to increase the economy's innovativeness by making several things happen: by ensuring that there are personnel for a modern economy; by focusing research to meet the economy's needs; by mobilizing private capital to create and develop innovative companies; by increasing the use of intellectual property in the economy; and, finally, by strengthening the National Innovation System. This requires the increased cohesiveness of previously dispersed activities that support innovation. The strategy will be implemented between 2007-2013 by the Innovative Economy and Human Capital Operational Programs, as well as through regional programs co-financed by structural funds.

The Innovative Economy Program will provide support for a variety of activities: R&D by entrepreneurs; the creation and development of innovative companies; and the strengthening of business networks and institutions that offer companies services linked to innovative activities. Innovation at the national and international level—described as medium and high innovativeness—will be promoted and supported. Low innovativeness will be supported at the regional level, through the Regional Operational Programs. The program also provides for a number of measures related to building a system of high-risk capital funds, especially for start-up capital that is essential for increasing the possibilities of financing the operations of innovative companies. Plans also provide for the implementation of a special priority: the promotion of the Polish economy. The draft version of the Innovative Economy Program was discussed by the Council of Ministers in May, and public consultations regarding this document will begin shortly.

I would also like to mention another of the Ministry of the Economy's priorities that is inseparably linked to the previous issues. This is the national-level implementation of the Lisbon Strategy. The Minister of the Economy is the coordinator of the Lisbon process in Poland, and is also responsible for coordinating the implementation of the National Reform Program. This role involves generating synergy between all the policies and activities at the national level so as to increase the effectiveness of the decisions made and accelerate the achievement of the goals laid out by the Lisbon Strategy. In particular, this means ensuring coordination between activities undertaken regarding economic, employment and cohesion policies.

One of the conditions necessary for reaching our goals is regulatory reform—a series of measures that will simplify existing regulations, eliminate unnecessary regulations and create modern procedures for evaluating the effects of new regulations. This kind of regulatory reform is a part of the National Reform Program and the Lisbon Strategy, forming one of the four pillars of change aiming to turn the EU into a highly competitive and attractive economic zone.

The Inter-Ministry Team for Modern Economic Regulations was established in February 2006 to focus on initiating, planning and monitoring progress on regulation reform in close cooperation with the appropriate ministries and organizations, taking into account remarks and opinions of those who might be affected by a given reform.

Building a modern knowledge-based economy free of administrative and legal barriers remains a great challenge. Globalization is perceived as a threat, but it is also a great opportunity. It is the role of the government and public administration to create the necessary general economic conditions and support any activities that will enable us to take advantage of globalization. The economic promotion of Poland and its regions is therefore an essential element of economic policy.

Minister of the Economy Grzegorz Woźniak at the conference "The Role and Involvement of Public Institutions in the Economic Promotion of Poland and Its Regions" (excerpts)