Cabin pressure
Intense local rivalry has been a huge challenge for Lot, the struggling flag carrier
Page 4

Sporting chance is reward for progress

Fever pitch: Polish fans cheer before the start of the drawn match against Greece last Friday, which opened Euro 2012 Reuters

Jan Cienski finds the nation making strides thanks to Euro 2012 and EU money but headwinds are rising

Rising countries have a habit of throwing coming-out parties for themselves in the form of big sporting events and Poland is getting its chance with the Uefa Euro 2012 football championship – an event that marks its arrival as a developed economy.

The tournament has served as a benchmark for the country's modernisation efforts over the past five years, and in most respects Poland has done well.

The challenge now is to continue that effort against rising headwinds both from the crisis in the eurozone, Poland's largest export market, and from Poland approaching the limits of using its cheap but highly skilled labour force to power growth.

"We can treat Euro 2012 as proof that we have achieved a leap in civilisation which brings us closer to the European average," said Donald Tusk, the Polish prime minister.

A good place to get a bearing on the changes is to look southeast from Warsaw's royal castle towards the new national stadium, a red-and-white confection designed to look like a traditional Polish wicker basket.

Five years ago when Uefa, the governing body of European football, granted Poland and Ukraine the right to host the tournament, the stadium was a communist-era ruin built on the rubble that had been prewar Warsaw – dumped on the right bank of the Vistula River after 1945.

It housed Europe's largest open-air market, a place where vegetables and cheap Chinese clothes were sold alongside smuggled vodka and cigarettes, illegal software and the occasional machine gun.

Since then, the modernisation plan put into action by three successive governments has largely come to fruit.

Poland's four host cities – Warsaw, Wroclaw, Poznan and Gdansk – all have new or refurbished stadiums that meet international standards.

However, direct investments in sports facilities (usually the shakiest when it comes to economic rationale) only made up less than 10 per cent of the more than 95bn zlotys ($27bn) in tournament-related spending.

The biggest impact has come in transport infrastructure, an area where Poland had long lagged and one that extracted both a human cost – Poland has the highest road death rate in the EU thanks to a lethal cocktail of aggressive drivers and terrible roads – and an economic one as investors spooked by poor roads, stinking train stations and crowded airports took their business elsewhere.

Although optimistic plans calling for the construction of more than 3,000km of highways had to be scaled back by two-thirds, the country finally has the rudiments of a modern highway system, albeit with some gaps that still need filling in.

Just a day before the tournament kick-off last week, the final sections of the A2 highway running from Warsaw to the German border were opened, for the first time linking the Polish capital to the rest of the continent with modern roads.

"They said it couldn't be done. Everyone was convinced that we wouldn't make it – but here we are," said a triumphant Jan Krzysztof Bielecki, a former Polish prime minister who raced down the new highway by motorbike hours after it opened.

Mr Bielecki, 61, headed Poland's government in 1991 when the newly independent country was a bankrupt basket case with no highways at all.

While many international sports tournaments end up with a lot of white elephants – witness the fate of some of Portugal's cash-strapped stadiums since it hosted the Euros in 2004 – the Polish investments have the chance to create a more positive impact, thanks in large part to the country's previous backwardness.

Marcin Herra, head of the government body responsible for preparing Poland for the tournament, estimates that Poland will see an overall boost to its economy of about 2 per cent of GDP by 2020 – largely derived from building airports, highways and train stations several years faster than would have been the case without the deadline of the tournament.

However, once the rush of hosting the Euro championships

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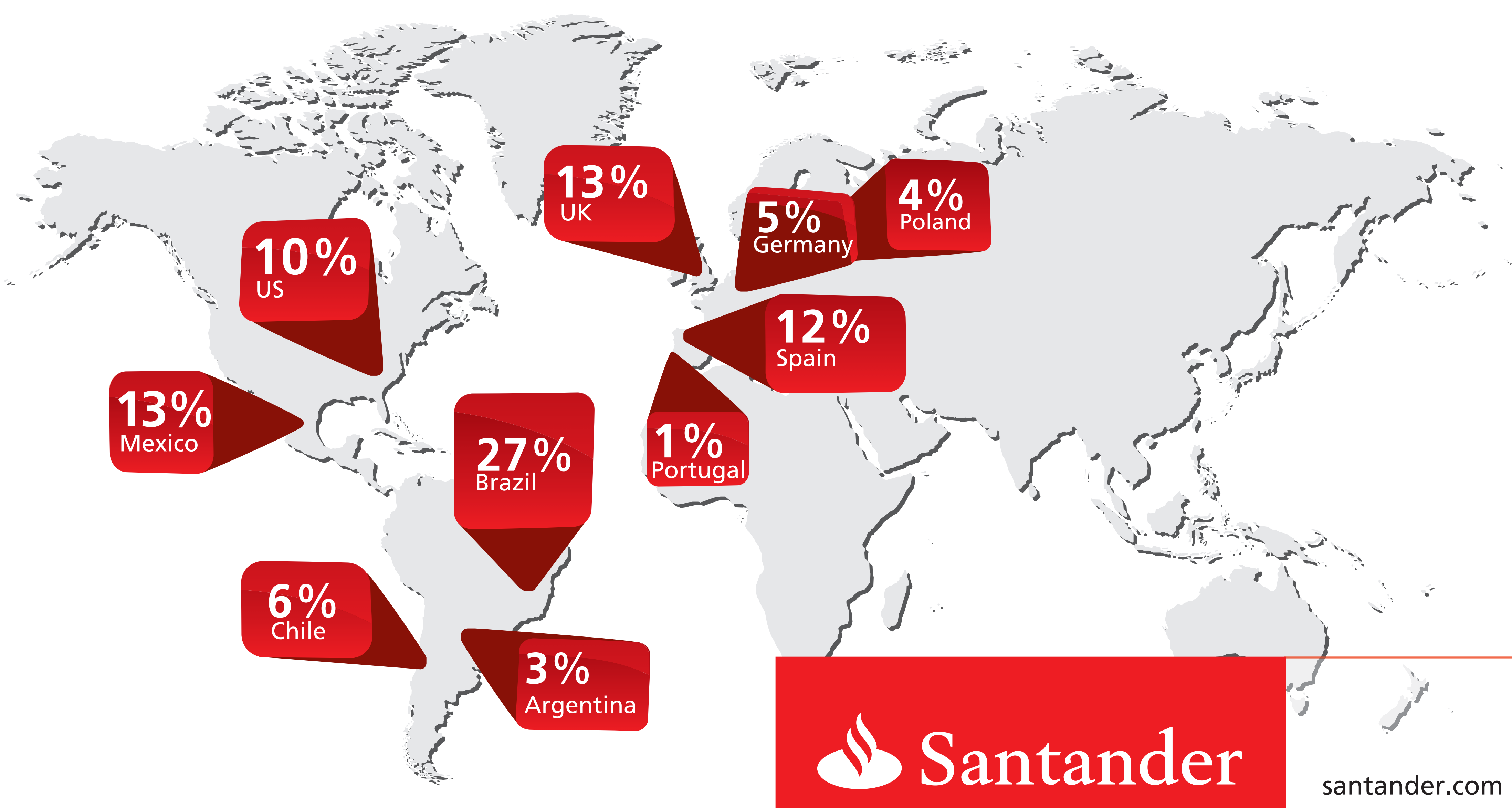
A DIVERSIFIED GLOBAL BANK

Banco Santander with a presence in 10 core markets

Geographical distribution of attributable 2012 Q1 profit:



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Poland

Nation avoided recession but risks persist

Economy

Neil Buckley explains why the outlook depends on the eurozone

Poland is known as the only EU member to have escaped recession during the global downturn of 2009. But that statistic no longer fully reflects its achievement. The country saw cumulative growth in 2008-11 of nearly 16 per cent – twice as much as its nearest EU competitor – while the EU economy as a whole shrank 0.5 per cent.

Not for nothing did Germany's Der Spiegel recently call Poland's economy the "miracle next door".

As senior Poles readily concede, good luck has helped, including tax cuts by a previous government, a huge inflow of EU funds – totalling €67.3bn in 2007-2013 – and exchange rate flexibility, since the country is outside the eurozone.

With exports accounting for only about 40 per cent of gross domestic product – half the proportion of neighbours such as the Czech Republic and Slovakia – its larger internal market also provided a cushion.

Ironically, moreover, a communist-era impulse helped maintain domestic demand as it fell sharply elsewhere.

"If there is a crisis, German households want to increase their savings," says Andrzej Raczko, a member of the management board of Poland's central bank and a former finance minister. "In Poland, households want to spend money if there is a crisis, because they fear it means there will not be anything in the shops."

Poland's banking sector, despite being largely foreign-owned, was also conservative, not venturing into the toxic derivatives that laid western banks low or too deeply into mortgage lending in foreign currencies – still a big problem in neighbouring Hungary.

But the Civic Platform-led government of Donald Tusk is also given credit for a sure-footed crisis response that helped reassure citizens.

The budget deficit did mushroom from 1.9 per cent of GDP in 2007 to 7.9 per cent in 2010 – prompting alarm from some economists, and threatening to push government debt above a legal limit of 55 per cent of GDP.

Continued robust growth of 4.3 per cent last year combined with restrictions on spending growth and some tax increases helped it beat its deficit-cutting target last year, reducing it to 5.1 per cent of GDP. The deficit is expected to be close to 3 per cent this year.

The outlook still depends heavily, however, on the eurozone – and whether Greece crashes out of the single currency.

Poland's government is, for now, holding to its forecast of 2.5 per cent growth this year, though a Greek exit could see that slow or even tip the economy into recession.

But officials, business leaders and many economists believe factors that helped Poland weather the 2008-09 crisis could again make it more resilient than most European economies.

The large proportion of foreign bank ownership could be a source of contagion should the eurozone problems trigger a west European banking crisis. But Jan Krzysztof Bielecki, former prime minister and now economic adviser to Mr Tusk, believes western banks will do everything possible to avoid having to sell or cut off funding to their highly profitable Polish subsidiaries.

"When you have a hen that lays golden eggs, you don't kill and eat the hen," he says.

Poland's banks themselves, moreover, have no exposure to Greek debt, while – unlike in Balkan countries further south – no Greek banks have big operations in Poland.

Dominik Radziwill, deputy finance minister, says a "disorderly" Greek exit from the eurozone would have a "substantially higher" impact on Poland. "If it is a controlled exit," he says, "this is relatively neutral for us."

Concerns over the potential impact, however, have put pressure on the zloty, whose liquidity tends to make it a proxy among investors for the wider region. That has combined with high energy prices to keep inflation at about 4 per cent – prompting a surprise quarter-point interest rate rise to 4.75 per cent by the central bank in May.

Zloty weakness also pushes up the value of the foreign-currency component of public debt,

> 'When you have a hen that lays golden eggs, you don't kill and eat the hen'
>
> **Jan Krzysztof Bielecki, Former prime minister**

increasing the risk of breaching the 55 per cent threshold, which would force the government to make further spending cuts.

Unemployment is proving sticky, too, at about 10 per cent on EU methodology, but 13 per cent by Polish measures, despite last year's strong economic growth. More Polish migrants returned home last year from abroad, says Ryszard Petru, economist at Demos Europa, a thinktank, than new jobs were created.

Mr Petru adds that growth will inevitably slow because of reduced domestic investment by wary Polish companies that are hoarding cash, and a smaller EU funds inflow in coming years.

But Poland, unlike most European peers, is still preoccupied more with longer-term than near-term challenges.

The model of being a low-cost manufacturing centre serving western Europe has proved a potent way of starting to catch up with the west. As the economy grows and wages rise, however, that model becomes unsustainable.

Poland risks, says Mr Raczko, falling into a trap similar to Portugal, Italy or Spain, if it allows labour costs to rise without finding new sources of growth and improving overall productivity.

Mr Radziwill warns this could happen quite swiftly; Poland's superior recent growth rate has already closed the gap with Europe's more advanced economies faster than expected.

"There is full consciousness in the government, and strategies are being worked out to prepare a new wave of growth," he says. Poland is looking at ways to support research and development through the tax system, he adds, and improve university education.

The government has pushed through an important pension reform that gradually raises the retirement age to 67 for women and men. However, some private-sector economists are urging it to undertake more ambitious reforms, for example of the labour market and education.

Janusz Jankowiak, chief economist of the Polish Business Roundtable, says while Poland's first round of EU funds helped pay for important infrastructure modernisation, those in coming years must be used particularly wisely.

"We have to use the second round of EU funds to make the economy more productive and competitive," he says. "Otherwise, we will be in the same situation as Spain a couple of years ago."

More than merely a facelift for the football

City Profile
Poznan

Hosting Euro 2012 brings many benefits, says **Neil Buckley**

Stary Rynek, Poznan's medieval market square, is a cosmopolitan bustle of markets and shops — Alamy

The curving carapace of Poznan's Stadion Miejski, or City Stadium, rises like a giant white tortoiseshell amid the suburban apartments of Poland's fifth-largest city.

Until just a few years ago, this was a roofless amphitheatre, open at one end, with earth banks on three sides topped by concrete seats. Today, it is a €180m, 43,528-seat stadium, its steep, three-tiered stands seeming to crowd right on to the turf. The biggest video display screens in Poland hang at either end from 7,000 tonnes of steel superstructure covered by a high-tech membrane.

Poznan is one of eight venues spread across Poland and Ukraine for the Euro 2012 championship. The international spotlight has not been trained so strongly on this spot since a local team, Lech Poznan, came within inches of knocking Barcelona out of the Uefa Cup Winners' Cup in 1988, losing on penalties.

The challenges the 550,000-strong Poznan has faced in getting ready for the tournament are typical of those of the host cities across the two countries – the first former communist states to stage it since the Iron Curtain fell two decades ago.

Poznan had already started redeveloping the old stadium, and had completed one stand before the award of the tournament to Poland in April 2007 forced it to throw out the plans in favour of much bigger stands on the other three sides.

After being starved of modern infrastructure investment under communism, Poznan has built a second airport terminal and new taxiway, which doubles previous capacity, and a new rail station and four new tram routes. It has built or modernised a dozen roads, including two city bypasses. The terminal is on the new highway linking Berlin to Warsaw, completed two days before the tournament opened.

> 'If we have passed this test, it might be a sign we mean business and can make projects happen'

All told, Zbigniew Talarczyk, deputy executive director of Euro 2012 in Poznan, says investment totalled 11.5bn zloty (€2.6bn).

"But not one of these projects was done just because they are going to play a few games of football in the city," he adds. "All the plans existed, but some were brought forward."

It has been a scramble, however. The city was covered in roadworks even days before the tournament opened; part of one bypass is not complete, though Mr Talarczyk says this will not affect the tournament. Overall, city officials express satisfaction that they completed 95 per cent of what was planned.

Mr Talarczyk says Uefa set exacting standards, and often sent experts for progress checks.

"If we have passed this test, it might be a sign for future investors that we mean business and we can make projects happen," he says.

Though hosting a modern sports event poses bigger challenges and requires more investment for an "emerging" economy such as Poland, it also brings perhaps more immediately tangible benefits.

The preparations mean that Poznan, like other host cities, now boasts infrastructure that it would not otherwise have had until the end of the decade.

Those improvements, plus hundreds of new hotel rooms, could be beneficial for the city. Since before the communist era Poznan has specialised in hosting exhibitions and trade fairs – it hosted UN climate change talks in December 2008.

It also has ambitions to boost tourism, based on its 1,000-year history and attractive mix of architecture, much of which has been given a facelift. The jewel is the medieval market square, Stary Rynek, which was completely rebuilt after being flattened by the advancing Russian army in the second world war, and is now a cosmopolitan bustle of restaurants and shops.

Poznan's success in exhibitions and tourism, in building a healthy network of small enterprises, and its location close to Germany mean that its unemployment rate is already low, at 3.6 per cent. Economic output per capita is about twice the national average, making it Poland's second most prosperous city after Warsaw.

Euro 2012, says Ryszard Grobelny, Poznan's mayor, will enable the city to trumpet those achievements to the world.

"It is a perfect opportunity for us to change the perception of Poland and of Poznan, especially for those who have never been to our city," he says. As well as enhancing the quality of life for residents, Mr Grobelny adds that the preparations have offered them a chance to increase the sense of community spirit and civic pride.

"One strategy we adopted was to give some added value to the tournament itself, to have projects which increased social bonds between residents," he says, citing a highly successful campaign linked to Euro 2012 to urge citizens to donate blood.

In the football world, however, Poznan has already acquired a particular notoriety. Fans of Manchester City, the English Premiership champions, liked the way that Poznan fans celebrated their team's goals when the two met in 2010 – doing a distinctive dance involving turning their backs to the field, holding scarves above their heads, and bouncing up and down. City fans have adopted the dance, calling it "doing a Poznan".

But about rumours that since Poznan's new ground was completed, fan celebrations have caused nearby apartment buildings to shake, Ryszard Dembinski, a senior city official involved in building it, floats another explanation.

"Since about half of the residents of those buildings are Lech fans, I suspect it was because when the team scored, they were all jumping up and down, too."

Construction Race to bottom claims big victim

Poland's ambitious highway construction programme was supposed to provide a lucrative bounty for local road construction companies: instead it has turned into a disaster, as yet another contractor declared bankruptcy this month due to problems resulting from its road work, writes **Jan Cienski.**

PBG, Poland's third-largest construction company, and two of its subsidiaries announced they were taking the step because of liquidity problems stemming from their road construction contracts, delays in getting paid for work on Warsaw's new National Stadium, and problems negotiating with banks on new financing.

PBG was one of a host of companies that rushed to take infrastructure contracts associated with the Euro 2012 football tournament, which kicked off last Friday at the Warsaw stadium.

However, in the race to win contracts, both the construction companies and the government seem to have left their calculators and their common sense at home. Companies were engaged in a race to the bottom due to the government's policy of choosing the cheapest bid – with neither side foreseeing the negative consequences.

The most spectacular failure was that of China's Covec construction company, which put in such a low bid for two sections of Poland's main east-west A2 highway that competitors protested to the European Commission. The protests were ignored but the Chinese ran into financial difficulty and were kicked off the site last year for failing to pay their subcontractors.

Then DSS, the company that took over the Covec contract, declared bankruptcy this year.

Both companies were hit by higher-than-expected prices for asphalt and other raw materials, and the scale of the task overwhelmed them.

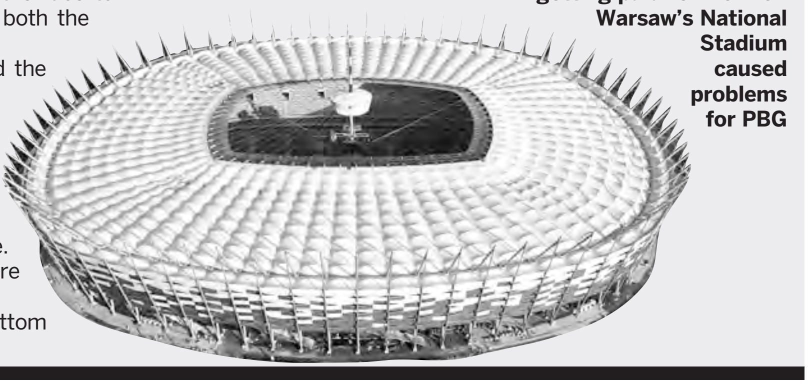
The government has even raced through legislation to help ensure subcontractors are paid if the lead contractors get into trouble.

Poland's construction companies have been pummelled on the Warsaw Stock Exchange – the WSE's construction sector index has lost more than 58 per cent of its value in the last year, the worst performance of any of its sectoral indices.

PBG was down 13.8 per cent at 14.63 zlotys on the WSE when the news was announced on June 4 and by the end of last week the stock was down to 6.62 zlotys; the stock is down more than 95 per cent over the past year.

This is an updated version of an article that originally appeared on FT.com's beyondbrics blog

Basket case: delays in getting paid for work on Warsaw's National Stadium caused problems for PBG



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Poles apart: Solidarity members gather at the presidential palace during a protest against government plans to raise the retirement age to 67 AFP/Getty

Tusk forces austerity through and hopes voters forget quickly

Politics

The ruling party has lost support over social changes, writes Jan Cienski

A popular theory in politics posits that if a government wants to force down some foul-tasting medicine, it is better to get the nastiness over as early as possible in the hope that voters will have forgotten by the time they head back to the polls.

That is the basic strategy for the second term of Donald Tusk's centrist Civic Platform party – and opinion poll rankings certainly bear out the negative impact of economic reforms introduced during the past few months, as the party dropped to its lowest level of support in five years.

Mr Tusk's first term in office, from 2007 to 2011, was often criticised for an aversion to unpopular reforms, concentrating instead on mitigating the consequences of the global economic crisis at the cost of sending the country's deficit and public debt soaring.

Winning power for an unprecedented second term last October, Mr Tusk was forced by increasingly sceptical rating agencies and international markets to promise wide-ranging reforms.

These include slashing the regulations protecting many professions, ending a lot of popular tax loopholes, and, most controversially, promising to raise gradually the retirement age from 60 for women and 65 for men to 67.

"Some projects have to be passed in conditions of a conflict of interests," Mr Tusk told reporters.

"Not every interest can be reconciled. I am trying not to make the situation in Poland worse, but when I am convinced about a certain project – as I am with pensions ... I am prepared to defend it with the awareness of what the price might be."

The political price was steep and quickly apparent.

The rightwing opposition Law and Justice party and the Solidarity labour union – heir to the union movement that helped end communism more than two decades ago – rallied thousands of protesters on to Warsaw's streets.

As parliament passed the retirement legislation, angry Solidarity activists barred the gates of the building, preventing MPs from leaving.

Just as retirement legislation was working its way through parliament, Jaroslaw Gowin, Mr Tusk's justice minister, was pushing his programme of deregulating up to 200 professions.

Mr Gowin told a conference in Wroclaw that the first reform efforts would create as many as 100,000 jobs.

"We are smashing the wall that millions of young Poles run into," he said.

But the steps have enraged regulated professions, particularly taxi drivers, who fear tough exams making it difficult to become a licensed cab driver will be scrapped, opening the door to greater price competition.

Thousands of drivers in their taxis blocked the streets of the capital in May, and almost every taxi in the country sports a sign on the rear window warning of the dire safety consequences of deregulating the industry.

> 'We are smashing the wall that millions of young Poles run into'
>
> **Jaroslaw Gowin, Justice minister**

The public discontent is reflected in opinion polls. Civic Platform has the support of slightly more than a quarter of the electorate, just a few points ahead of Law and Justice and far below the 39 per cent it won in the last parliamentary elections.

However, while Civic Platform has lost support, most of those disaffected voters seem to have shifted into the undecided column, as the rankings of the other parties have not shown much improvement.

"If the party's poll performance lasts more than six months it will be a trend," says Hanna Gronkiewicz-Waltz, Warsaw mayor and deputy chair of Civic Platform.

"But you can see that the levels of the other parties are stable – no one is taking over Civic Platform's electorate."

Law and Justice seems to have a ceiling of about 25 per cent support.

Its voters tend to live in smaller towns and villages, are older and more pious and respond well to the party's nationalism, its support for the conservative wing of the powerful Roman Catholic Church and to the party's obsession with the 2010 air crash near Smolensk in Russia that killed president Lech Kaczynski, the twin brother of party leader Jaroslaw Kaczynski.

The left is divided between the ex-communist Democratic Left Alliance and the new party of Janusz Palikot, a businessman who last year found himself in parliament at the head of a populist anticlerical movement.

The two parties each have about 10 per cent of the electorate, and are locked in a bitter struggle over the leadership of the left.

The limitations of the opposition are a boon for Mr Tusk, who has not yet stopped doling out the medicine for his voters.

Later this year parliament will tackle tax breaks popular with artists and journalists, attempt to end special pension privileges for uniformed services and miners (benefits that miners won by threatening to storm parliament in 2005), and a revamp of a separate medical and pension system for farmers, the mainstay of the Polish People's Party, Mr Tusk's junior coalition partners.

Mr Tusk's party hopes the reforms will be over quickly, giving Civic Platform time to rebound before elections for the European Parliament in 2013. National parliamentary elections are set for 2015.

Making friends with neighbours and old enemies

Foreign policy

The eurozone is important looking westwards but the east is still a priority, writes Jan Cienski

Over the past few centuries Poland has come to expect little good from across the German border, which is what makes the conversion of the country's ancient foe into a close ally especially striking.

More than two decades after the end of communism and eight years after Poland joined the EU, Berlin has become Warsaw's key ally.

The clearest sign of that was last year's speech in Germany by Radoslaw Sikorski, Poland's foreign minister, who called on Germany to take a much more active role in helping save the euro. "I will probably be the first Polish foreign minister in history to say so, but here it is: I fear German power less than I am beginning to fear German inactivity. You have become Europe's indispensable nation," said Mr Sikorski.

When Poland regained its independence after 1989 it looked to the US as the ultimate guarantor of its freedom thanks to Washington's lead in the anti-communist alliance, but over time that relationship has withered.

Germany is its largest trade partner, and Poland is more important for the German economy than Russia.

Hundreds of German firms have set up production and service centres in Poland, and Polish companies are tightly integrated into Germany's export-oriented economy.

"With Germany, our contacts are daily at all levels about all issues, not just about foreign policy but also about the domestic policy of both countries," Mr Sikorski tells the FT in a recent interview. "Whereas the relationship with the US is somewhat one-dimensional. Its most important dimension is foreign security."

The security element is also shrinking in importance after Washington's 2009 decision to scrap a missile defence programme that was to be partly based in Poland – an announcement embarrassingly made on September 17, the 60th anniversary of the Soviet Union's attack on Poland.

After being involved in military missions in both Iraq and Afghanistan, Poland is now much more oriented to building up its strength in Brussels and on immediate foreign policy concerns in its neighbourhood.

In the EU, Poland pushed hard to be part of the German-led fiscal pact, which puts pressure on countries to keep budget deficits and public debt levels under stricter control. Poland wanted to be in the pact to ensure it was not completely frozen out of the decision-making affecting the eurozone – a club it still aspires to join.

"In my opinion we have no choice but to adopt the euro – there is no question that the benefits outweigh the costs," says Andrzej Raczko, a former finance minister, now a senior official at Poland's central bank.

The political cost of not being in the euro was painfully apparent during Poland's EU presidency in the second half of last year, when Poland was left out of crucial decisions being made by the 17 members of the eurozone.

The eventual goal is for Poland to play a similar, albeit realistically smaller, position to Germany in the east that France plays in the west.

"I do think that in a union of 28, it is not enough for two partners, two pistons, to power the European engine," says Mr Sikorski. "Poland tries to be helpful in representing the interest of our region, which consists of 10 countries, and therefore I think it would be useful for France and Germany to hear Poland's views."

The other main direction of Poland's foreign policy is eastward, first to improving relations with Russia then to ensure former Soviet republics such as Ukraine and Belarus choose the west over Moscow.

Warsaw and Moscow have made an effort to overcome bitter issues from the past, such as the Soviet murder of 20,000 Polish officers in 1940, but ties were severely stressed after the 2010 air crash outside the Russian city of Smolensk that killed president Lech Kaczynski and other senior officials.

Senior members of the rightwing Law and Justice opposition party accused Russia of being involved, and the party's monthly marches have taken on an anti-Russian overtone.

'I fear German power less than I am beginning to fear German inactivity' – Radoslaw Sikorski

"Of course it is a brittle relationship because we are in the course of a reconciliation, and you only reconcile with former enemies," says Mr Sikorski.

However, trade contacts are up. Although imports of Russian oil and gas are three times larger than the €8.5bn in Polish exports, the economic dimension of the relationship is increasingly important.

But Polish diplomacy, together with efforts by Germany and the EU, failed to persuade Alexander Lukashenko, the dictatorial leader of Belarus, to hold free elections and to allow the political opposition to function. Belarus, faced with EU sanctions, has turned strongly towards Russia.

However, Poland is still hoping Ukraine, Poland's co-host in the Euro 2012 championship, will end up choosing Europe despite authoritarian wobbling on the part of its government.

"We have recent concerns over the treatment of the opposition," says Mr Sikorski. "They know we are watching the run-up to the October general election very closely. This, I believe, will be the real test of whether Ukraine chooses to approximate and eventually join the EU or whether it takes a different civilizational path."

High skills prompt one-way bet

Foreign Investor
Gtech

Jan Cienski finds Warsaw is the hub of the gaming systems company's European operation

When capitalism returned to Poland, one of the first things the new democratic government looked at doing was upgrading the national lottery, which is why, in 1990, it turned to Gtech, a US company that specialises in gaming systems.

Gtech, which is now owned by Italy's Lottomatica, started working in the primitive conditions of an almost bankrupt country, and within two years had built Poland's largest telecommunications infrastructure, linking shops and retail outlets around the country via radio or satellite connections.

Totalizator Sportowy, the local lottery monopoly, had so little money that Gtech invested its own funds to build the network and install computers.

Times were so uncertain the management worried the whole contract might come to a swift end in 1991, when communist diehards in the Soviet Union staged their failed coup against the head of state, Mikhail Gorbachev.

A couple of years later, as Gtech's newly formed Polish team worked to set up a lottery system in neighbouring Czechoslovakia, the latter country ended up splitting in two midway through the project.

Despite the turmoil, Gtech has stayed, and has turned its Polish office into the hub of its European operation, with highly specialised programmers who now design lottery systems for countries such as Israel, Turkey, Finland, Ukraine, and a host of others.

"The company quickly figured out that Polish workers were good – and also cheap," says Wojciech Wlodarczyk, the head of Gtech's Polish office.

The company now has more than 300 employees in Poland, taking advantage of the country's strong level of technical education – computer skills are a strong point in an economy that generally falls short on research and development – and low costs. Jaroslaw Dabrowski, regional director for technology, estimates qualified Polish workers still cost less than half their counterparts in western Europe or the US.

That is an equation that has pulled many other investors into Poland. The country is now one of the world's leading destinations for shared service centres – operations that often began as simple call centres, but which now often involve skills such as management, human resources, accounting and computer programming.

"We don't want to be seen as cannon fodder – we want to be seen as specialists," says Mr Wlodarczyk.

Another advantage for Poland, compared with other outsourcing centres such as India and the Philippines, is that Poles do not need visas to travel around the EU, they are in the same timezone as western Europe, and share legal, linguistic and cultural characteristics with their customers.

"Polish computer programmers are better than we require," says Mr Dabrowski, adding that his staff was originally mostly American, but is now almost completely local.

Gtech has made an art out of slashing costs, from small measures such as supplying porcelain instead of paper coffee cups to its workers, to locating its head office in a dismal building overlooking railway tracks running though central Warsaw.

"Our costs are very low and the quality of our people is very high, so we're in a comfortable position," says Mr Wlodarczyk. Those low costs prompt the company often to replace any staff who leave from its US or Belgian offices with new hires in Poland.

The relationship with Totalizator continues, and Gtech has recently completed work on the third iteration of the Polish lottery system.

In the process, it has become the largest customer of one of Poland's mobile telephone operators because of the huge amount of data that flows through the network.

Almost all the work for Totalizator was created and developed by Polish engineers, including much of the system architecture.

"The quality assurance standards that we use around the world were developed here," says Mr Dabrowski.

Turkey is among countries for which Gtech has designed lottery systems
Alamy

ADVERTISEMENT

Poland gains shared services lead despite global crisis

by Waldemar Pawlak*

The global economic crisis has had an unexpected effect in Poland – it has made the country even more attractive to service centre investors, who are setting up offices in Warsaw's suburbs, in Poland's secondary cities and even beginning to appear in tertiary cities

As the crisis forces companies to hunt for savings, they are turning to Poland, which boasts a cheaper but highly qualified workforce that is in the same time zone as western Europe, and shares languages, business values and culture with its clients. About two-thirds of the work done by Polish shared service centres is for clients in western Europe, which makes geographical and cultural proximity enormously important.

As a result, shared service investments are growing by double digit rates in Poland, and supplying tens of thousands of new jobs – the industry expects to soon cross the threshold of 100,000 jobs, which would make it one of Poland's most significant employers.

As of last year, Poland had 337 shared services centres. From 2009-2011 the sector has seen employment growth of 50%.

However, because of its size – Poland has almost 38m people – and the large number of large urban centres outside of Warsaw, there are few limits to future growth.

In the 1990s, Poland was mostly hosting simple call centres, but as foreign and domestic investors began arriving in greater numbers, lured in by the legal and economic stability caused by Poland coping well with the global crisis, they saw that Polish workers were easily qualified to move quickly up the value chain. Today shared service centres do work in financial services, IT services, consulting, health care, human resources, as well as advanced research and development, often taking advantage of Poland's strong reputation in computer sciences.

As the sector has grown, much of the increase now comes from existing centres, as investors see that their Polish operations are doing well and decide to expand.

The Hacket Group, an advisory company, ranks Poland third as a global service centre destination, behind only India and China.

Several Polish cities have made an enormous effort to attract shared service investments. Kraków is probably the best example, as employers move in to take advantage of strong universities and large numbers of fresh graduates. In a 2012 report prepared by Tholons, Kraków again took 11th place in the global list of attractive locations for business services outsourcing.

Other cities like Warsaw, Wrocław (where research and development is a particular strength), Poznań, Katowice, the Gdańsk area and Łódź also have significant shared services investments coupled with modern but relatively cheap office space. As the sector grows investors are also beginning to set up in cities like Rzeszów, Olsztyn, Bydgoszcz and Szczecin where there are fewer rivals looking to employ graduates from local universities.

Despite the economic turmoil caused by the ongoing crisis, Poland looks well placed to continue attracting growing numbers of shared services investors.

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Poland

Politicians back nuclear – but voters still wary

Atomic energy

Warsaw seeks ways to reduce reliance on Russian gas and carbon emissions, writes **Liam Nolan**

A collection of weed-riddled concrete buildings languish just outside the village of Zarnowiec near Poland's Baltic coast – a reminder of the country's unfinished nuclear energy programme of the 1980s.

The project, like its communist patrons, was brushed aside in 1989.

But nuclear is back in Poland as Warsaw hunts for ways of reducing its carbon dioxide emissions as part of its EU commitments – difficult to do in a country that relies on polluting coal for 90 per cent of its electricity. Poland also hopes to reduce its energy dependence on Russia, which supplies almost all of its oil and most of its natural gas.

And, despite the promise offered by the country's potentially large shale gas deposits, premier Donald Tusk and his government are hedging their bets by committing to build two nuclear power plants by 2035.

Zarnowiec is listed as one of three potential sites for the country's first plant, along with Choczewo in Pomerania, and Gaski on the Baltic coast.

'[Goverment must find] adventurous banks for a politically difficult project' Karolina Siedlik

Although it is controversial, the nuclear programme enjoys strong political support – in May 2011, the Polish parliament voted overwhelmingly in favour of building two plants, which when fully operational, will provide Poland with an extra 6GW of electricity.

Polska Grupa Energetyczna (PGE), the state-controlled energy group entrusted by the government with overseeing the development of the programme, plans to start building the first plant in early 2016 at a cost of 50bn zlotys.

The company says that the first plant's three reactors will be fully operational by 2025.

So, who will foot the bill?

Karolina Siedlik, head of energy practice with the Warsaw office of CMS Cameron McKenn, the law firm, says the government would need to find "some very adventurous banks willing to finance a politically difficult project". Equally, the large scale of the programme could force PGE to increase its equity, which in turn could see the group going direct to the markets specifically for the nuclear project.

PGE Energia Jadrowa, the subsidiary created to oversee the development of the nuclear energy programme, is receiving advice on potential funding structures from KPMG, the consultancy. One possibility is corporate finance lending based on PGE's balance sheet sturdiness.

A second option is the establishment of a special purpose vehicle, but banks may see this route as a riskier bet as they would have no recourse to PGE.

The capital intensity of the project will prove "a massive stretch on PGE", says Robert Maj, equity analyst at KBC Securities in Warsaw.

He points out that the cost of building two plants could equal 13.3bn zlotys per gigawatt, almost three times the planned cost of the coal-fired Opole generating plant – Poland's most expensive power plant to date.

The tender for the first nuclear plant's technology suppliers will be formally opened later this year.

The chance of new business, an increasing rarity in the industry, has attracted interest from the US-Japanese group GE Hitachi, France's Areva and Westinghouse, a unit of Japan's Toshiba.

However, there seems to be little Polish interest in Russian nuclear knowhow. Ms Siedlik says: "Politically, Russian [nuclear energy] technology will not fly in Poland."

Getting the money will not be the only challenge.

Despite broad party support, a 2011 ministry of economy survey revealed that only 38 per cent of Poles are in favour of nuclear energy. So convincing Poles that nuclear energy is necessary will be the government's next hurdle.

In March, the ministry of economy launched a three-year information campaign costing 18m zlotys, arguing in favour of the benefits and safety of nuclear generated energy.

The argument will be a difficult one to make as nuclear opponents – a broad collection of local residents, Polish environmental NGOs and Greenpeace – are also mounting their own public relations campaign.

In a sign of rising opposition, in February residents of the seaside town of Mielno – 10km from the proposed site at Gaski – rejected the location of the proposed plant in a locally organised ballot.

In addition, more than 50,000 German citizens have filed online petitions to the Polish ministry of economy since January, declaring their opposition to the programme.

Professor Jan Haverkamp, a Greenpeace energy analyst, says the environmental group and Choczewo residents will organise a week-long anti-nuclear workshop in July.

The government is due to decide on the location of the first nuclear plant in 2013. Some analysts believe its construction phase is more likely to commence between 2018 and 2020.

Public debate, protests and the resulting possibility of permit delays, are all likely to delay the government's and PGE's plans to lay the first "nuclear concrete" on schedule.

Breeze blocks: windmills near Kisielice in northern Poland – apart from biomass, wind is powering much of the growth in the renewable energy sector Getty

Green electricity sector will grow faster when it gets head of wind

Renewable energy

Biomass thrown into coal-fired boilers to reduce emissions is no sustainable solution, writes **Adam Easton**

At first glance, Poland's renewable energy sector appears to be doing quite well, and the government's target of producing 10.4 per cent of the country's final energy consumption from renewable energy by 2012 has already been exceeded.

But a closer look shows that this growth in green energy has largely been achieved using methods that are cheap and easy, but hardly sustainable.

Poland is the largest hard coal producer in the European Union and, together with brown coal, the dirty fossil fuel powers the production of more than 90 per cent of the country's electricity.

That means guaranteed high carbon emissions.

The cheapest way to reduce those is a process known as co-firing. More than half of Polish green electricity is produced by throwing biomass, often simply wood and straw, into the boilers of the country's coal-fired power plants. Co-firing biomass with coal in Polish power plants has more than tripled in the last five years.

Ironically, for one of the EU's larger farming countries, Poland has already exhausted its own sources of biomass and increasingly imports it.

Bogdan Gutkowski, president of the Polish Offshore Wind Energy Association, is withering in his assessment: "This is a trick, it's not renewable energy, it's coal energy. This is the big energy companies taking green certificates from the renewable energy sector." But, he adds: "In three to five years this will not be a problem, because co-firing destroys the boilers."

Apart from biomass, wind is powering much of the growth in the renewable energy sector.

The installed capacity of wind energy in Poland has grown 20-fold in the past six years as developers have taken advantage of good wind speeds, particularly in the north-west of the country.

"It's a country with wind. The energy prices and the incentive system are attractive and we believe it is an economy with strong growth. If I have to choose where to invest in Europe, Poland is my first choice," says Sigieri Diaz Pallavicini, chief executive of Greentech Energy Systems.

The Danish-based developer, majority owned by Italy's GWM Renewable Energy, has eight projects in the pipeline in Poland.

Despite its windy shores, Poland is still a less draughty place than Spain, where wind farms account for 60 per cent of energy output at times, but there is still growth potential.

> 'These are good projects, fully permitted, but banks are not willing to lend until they have clarity'

Although the growth of wind power is impressive, it still forms a small part of Poland's energy mix, accounting for just 1.7 per cent of the country's electricity production last year.

According to the Renewable Energy Institute (IEO), an independent think tank, Poland is utilising just 17 per cent of its potential renewable energy resources, with wind and solar a mere 0.2 per cent of potential.

The lack of regulatory clarity has also harmed development.

The Economy Ministry's announcement two years ago that it would change the support system for renewable energy has frozen the market as banks wait to see the new proposals.

After repeated delays the government is aiming to get the Renewable Energy Act into law in January next year, although most observers reckon it will actually pass in March or April.

For the first time since 2005, growth in the amount of wind capacity connected to the grid slowed last year and those were projects that were developed several years ago.

"The number of projects that are waiting is huge. These are good projects, fully permitted, but the banks are not willing to lend money until they have clarity and they will only do so if the developers take the risks," says Rafal Hajduk, a partner with Norton Rose, a law firm.

The latest draft of the law significantly reduces support for co-firing and raises it for microgeneration or small-scale projects, which also addresses another barrier to development, the weakness of the national grid.

The electricity grid is particularly under-developed in northern Poland, where most of the onshore and future offshore wind projects are.

Even if the government help is lavish, there is only so much spare capacity to connect large-scale renewable projects.

The answer, says Grzegorz Wisniewski, head of the IEO, is to promote microgeneration as has happened in the UK.

"We have only 1,500 installations in renewable energy and 70 per cent of those belong to the big utilities.

"We have no real independent renewable energy producers because small-scale technology was not developed properly," says Mr Wisniewski.

"This is an opportunity for us to increase the number of small producers."

If the law encourages the diversification of technology types, such as small-scale biomass, biogas and wind projects, new jobs may be created, adds Mr Wisniewski.

The potential for future growth is enormous.

The Polish renewable energy sector has generated around 25,000 jobs so far. European countries with a similar proportion of renewable energy in their final consumption have three or four times that.

Competitors manage to fly rings round national carrier

Cabin pressure: Lot has been struggling to improve results

Airlines

Intense local rivalry is putting pressure on Lot, writes **Kamil Tchorek**

When Poland joined the EU in 2004, it brought the liberty Poles had been waiting for since the fall of communism in 1989: the freedom to live abroad, and get there affordably.

An estimated 1m Poles emigrated to the UK and Ireland. Many have been commuting back to Poland ever since – for everything from good value dental care to better summer weather.

Thousands of others flit back and forth, working a few months aboard, then flying home. Europe's low-fare airlines – Ryanair, Budapest-headquartered Wizz Air, and others – have been the biggest beneficiaries of this migration.

The competition has proven to be an enormous challenge to Poland's loss-making flag carrier, Lot Polish Airlines, which last year carried 4.6m passengers and posted a loss of 145.5m zlotys.

At a time when other central European carriers such as Hungary's Malev have gone bankrupt, Lot is fighting for survival, and the competition is growing.

The latest battle centres on the lucrative Warsaw market, Poland's largest with 9.3m passengers served in 2011, a 7 per cent increase over 2010. Lot has long seen rivals such as Lufthansa siphoning well-heeled passengers from Warsaw to its own hubs.

Now it is likely to see a stronger challenge at the cheaper end of the market.

Ryanair pulled out of using Warsaw's Chopin airport in 2008 after a dispute over landing fees – Michael O'Leary, the airline's flamboyant chief executive, called it a "shocking airport".

Instead, the discount carrier put unpronounceable destinations on the map such as Bydgoszcz, Rzeszów and Wroclaw, its first Polish fleet base, tying secondary Polish cities directly to European destinations.

That approach contrasts with Lot's hub-and-spoke system based on Warsaw as its main airport for foreign flights. Lot now faces a renewed low-cost challenge, thanks in part to the infrastructure upgrades prompted by the Euro 2012 football championship.

The tournament provided the impetus for Warsaw's long-awaited low-cost airport at Modlin, a former air force base around 40km north-west of the city centre.

Ryanair begins flights from Modlin on July 16, launching eight new routes it hopes will carry about 700,000 passengers a year. Eleven more routes will be added in the autumn.

Wizz Air has also moved to Modlin, even though the old airport boasts a refurbished terminal and a new rail link some 20 minutes from the centre.

"Wizz Air is moving to Warsaw Modlin to get lower landing fees," says Przemyslaw Przybylski, spokesman for Warsaw Chopin.

"But that is fine, Warsaw Chopin helped establish Modlin exactly to cater for the low-cost airlines which were overcrowding our facilities, and we remain a shareholder in the new airport."

Lot also faces change. The treasury ministry, which owns 68 per cent of the carrier, is hoping to privatise it this year.

Plans to sell a 50 per cent stake to fast-growing Turkish Airlines fell through this month, largely over Turkish concerns that EU rules would prevent it from taking full control of Lot.

The treasury may end up privatising Lot through the Warsaw Stock Exchange, and there are also hopes that Air China may take an interest.

As privatisation nears, Lot has been struggling to improve its bottom line. The carrier's net loss has been declining while its passenger numbers have been rising at an annual rate of 9 per cent.

> 'People are feeling wealthier all the time and they are still unsatisfied with roads and railways'

The airline says its load factor (a measure of efficiency) was more than 76 per cent last year, in line with many competitors, and Lot predicts an operating profit of 52.5m zlotys for 2012, which would be its first profit since 2007.

In November, Lot will be the first European airline to receive Boeing's new B787 Dreamliner, one of the most fuel-efficient airliners in the sky.

It will serve Lot's routes between Poland and North America.

This suggests that, with Lot facing competition closer to home, it will steadily build its intercontinental network.

"Lot knows Europe is getting extremely competitive, but it could carve out a niche running long-haul flights," says Stephen Furlong, an airline analyst at Davy, an Irish brokerage.

"The arrival of the Dreamliner definitely makes that a possibility."

The rivalry close to home looks to be getting even fiercer.

OLT Express, a new Polish airline, began operating domestic routes in April. Aiming to compete with Lot's internal flights and Poland's slow intercity rail services, it has cheap prices and frequent flights.

"This is a big country, people are feeling wealthier all the time, and they are still unsatisfied with the roads and railways," says Jaroslaw Frankowski, OLT's managing director.

"Lot didn't believe me when I pitched them the idea two years ago that low-fare domestic flights make total sense in Poland. Now they're having to cut fares, and they don't have enough fleet to compete with us."

Poles build new cars but buy used ones

Motor industry

Neil Buckley finds that more home sales would further boost auto making

At the Opel car plant in Gliwice, in Poland's industrial heartland of Silesia, the country's manufacturing strength is on full display. In the body shop, welding robots perform balletic movements amid showers of sparks. Over on the general assembly line, workers fit engines and other equipment, turning each steel shell into a finished auto in four hours.

Gliwice's 3,000 employees received good news last month when Opel's US parent, General Motors, said it would produce the next generation of its best-selling Astra car here – largely as a result of Gliwice's cost competitiveness – and at Britain's Ellesmere Port in the UK. It will invest €300m in the two plants. GM's plant in Bochum, Germany, had been hoping to win the new Astra.

Among the 12 new EU members since 2004, Poland is now the second-biggest car producer, between the Czech Republic and Slovakia. Its automotive industry does not dominate the economy as much as it does its smaller neighbours, but still accounts for about 7 per cent of industrial output and a sixth of exports.

Poland has lost its native car industry, but it has attracted international carmakers including Opel, Italy's Fiat, and Volkswagen of Germany. It has also pulled in truckmakers including Volkswagen and Man of Germany, Sweden's Scania, and Ford trucks.

Perhaps surprisingly, however, more than 98 per cent of production from Opel's Gliwice plant, opened in the late 1990s, is exported – in line with Poland's car industry as a whole. With a population several times that of the Czech Republic or Slovakia, why is Poland's domestic new car market not much bigger?

Wojciech Drzewiecki, president of Samar, an auto industry research group, says many Poles prefer to buy used cars – often premium German brands such as BMW or Audi, and bigger models than the compacts that Poland produces.

They are encouraged by a system of value-added and excise taxes that the auto industry says is skewed against new car sales. The government fears that tax changes could lose revenues, though carmakers insist that any initial fall would be more than made up later by stimulating further new car sales.

Indeed, in 1999-2000, Poland was selling 600,000 new cars a year. Despite its economic growth, the figure this year is expected to be 270,000 – against used car sales of about 650,000.

Mr Drzewiecki suggests that Poland could attract more international automakers if it stimulated its new car market, thereby offering something that smaller neighbours cannot.

"Since 2000, we have not been able to attract any new production plants into Poland. The question is why? A big role was played by how political decisions influenced the development of the market," he says.

Wojciech Mieczkowski, Opel's sales director in Poland, agrees that the "current tax structure in Poland does not support purchases of new cars".

"[That] is discouraging for the potential investors who are more willing to invest in markets where they also sell," he adds, saying the auto sector has lobbied the government to replace existing excise taxes with an eco-tax based on carbon dioxide emissions.

"This, for sure, would give a boost to the car market in Poland by stimulating the purchase of newer or new cars," says Mr Mieczkowski.

The failure to attract new investment into auto-making helps explain a paradox: Poland's auto output is declining – cars and light truck production in January-April fell 20 per cent, year on year – despite its healthy, growing economy. In the neighbouring Czech Republic, car production is expected to hit a record high this year, even though its economy is in recession.

> Among the 12 new EU members since 2004, Poland is the second-biggest car producer

The argument that Poland could be doing better in attracting auto plants is reinforced by its success in drawing investment in component manufacturing, supplying not just the Polish industry but neighbouring countries.

Toyota, Volkswagen and Fiat produce engines in Poland, and components specialists such as Delphi and Visteon of the US and France's Valeo also have sizeable Polish operations.

Within sight of Opel's Gliwice plant, Nexteer Automotive – a steering systems maker formerly owned by General Motors and Delphi, and acquired by China's Pacific Century Motors in 2010 – is typical. Both its European plants are in Poland.

Nexteer is growing fast as it shifts from traditional hydraulic technology to high-tech and more fuel-efficient electrical power steering systems – which assist drivers by means of computer-linked electric motors.

Nexteer exported almost three-quarters of Polish production last year, and supplied customers including Fiat, PSA Peugeot Citroen and Opel, including to Germany and Spain.

"Poland is producing very good engineering graduates," says Ryszard Iskra, engineering manager. "Our employees here are on the same level as our employees in the US; and Poland is still very competitive on wages and salaries." German labour costs remain up to three times higher, he says, while Poland compares well on costs even with new EU members in central Europe.

That edge may yet help improve Poland's attractiveness for auto plants, too, even without tax changes. Skoda, Volkswagen's Czech subsidiary, was reported in April to have agreed with unions an average 5 per cent wage increase, after they pressed to reduce the disparity between German and Czech workers.

With Fiat, like Opel, rumoured to be planning to shift more car production to Poland, analysts suggest that in coming years the country could start to catch up with its neighbour.

Export drive: almost all the cars made at Opel's Gliwice plant go to foreign markets Reuters

Fracking Country 'has potential'

Poland – along with Romania, Ukraine, and to a lesser extent, Lithuania, Hungary and Bulgaria – has been highlighted in a recent report by KPMG on the "fantastic opportunities, lying beneath peoples' feet" from shale gas development in central and eastern Europe, writes **Kester Eddy.**

"Based on 2010 annual consumption rates, the estimated amount of shale gas in CEE, at 4.13tcm, has the potential to cover the region's gas demands for decades," the report by the professional services firm states.

Shale gas may have revolutionised the US market in the past 10 years, but there are a number of reasons why that will be harder in central and eastern Europe, says KPMG.

Among these are the difficulties of finding the finance, sorting out the mineral rights (unlike in the US, the underground resources are typically owned by the state in Europe) and meeting tighter environmental standards – extracting shale gas by the system known as "fracking", which uses water and chemicals to release the underground gas, raises concerns about pollution of water supplies.

But, there is "no doubt" that development of the shale gas industry is "inevitable" in CEE, says Steve Butler, director at KPMG in Hungary's energy and utilities advisory practice, and co-author of the report.

"There are proven reserves in several countries, and all, without exception, are desperate to diversify their energy supplies," he adds.

This – along with rising demand and dwindling domestic energy supplies across the region – is the crucial driver.

According to the study, Poland not only leads the pack in terms of development – it had awarded 111 concessions to 30 companies/consortiums for unconventional gas exploration by February this year – it also boasts one of the larger shale gas reserves, with an estimated 770bcm considered recoverable.

This compares with annual consumption of just 17bcm (2010), of which almost two-thirds was from imports. With demand expected to rise, especially from households, domestic shale gas production would be a welcome relief. Poland hopes initial test production of shale gas will begin in 2014, or 2015 at the latest.

As the study notes, CEE countries are all "heavily dependent on natural gas imports, making them vulnerable to supply and geopolitical risk. On average, 69 per cent of regional gas consumption was covered by imports in 2010, of which more than 90 per cent was supplied by Russia."

The risk of having the taps turned off in midwinter – as happened briefly in 2006-2009 on the Ukraine border – is just too great.

Exploiting domestic reserves also creates local jobs and helps the balance of payments.

In addition, as Marcin Rudnicki, partner at KPMG in Poland, stresses, the desire to raise living conditions to "something closer to those in western Europe" means a long-term increase in energy demand across the region.

For Mr Rudnicki, who believes the opportunities are "simply fantastic," the combination of demand side trends means "the decision to overcome the challenges and tap these deposits can only be a matter of when, not if".

If Poland can successfully prove its reserves yield affordable shale gas, others may be forced to follow.

This is an edited version of an article that originally appeared in the beyondbrics blog on FT.com

Debt collector took a polite approach and it paid off

Company Profile
Kruk

Agency's rational approach to clients who could not pay returned dividends, writes **Jan Cienski**

On the case: one of Kruk's collectors at work

The growing economic crisis should mean fat times for debt collection agencies, but Piotr Krupa, chief executive of Kruk, the Polish market leader, is not thrilled at the possibility of the Polish economy being dragged down by the problems in the eurozone.

"Like every businessman, I'm afraid of recession," says Mr Krupa, a 40-year-old who still has the look of a graduate student. "There is less bad debt during a boom, but a higher repayment rate, while in a recession or in a slowdown there is much more bad debt, but the repayment rate is a lot lower."

A sharp slowdown in the Polish economy would mark a change in operating environment for Mr Krupa, who built his company during Poland's long run of prosperity and the country's remarkable success in fending off the recessions that hit the rest of the EU starting in 2009.

His business career dates back to 1996, when he and a fellow law graduate hit on the idea of writing legal briefs for local law firms, and then started writing legal guides for workplaces hiring the handicapped, a popular tax dodge at the time.

Debt collection was a fluke. The pair, who had by this time acquired their first employee, were approached by a retailer selling white goods on instalment plans and having trouble getting clients to pay.

In the end, the retailer did not give them a contract, but the two thought the business had potential and in 1999 turned to a mobile operator to see if they could collect bad debts.

They received 532 problem clients and were told to do their best.

"We sent them a dry letter using very legal terminology, and after a couple of weeks we mailed the letters again, and then again, and then again," says Mr Krupa.

When they returned to the mobile operator, they were told more than 40 per cent of the customers had paid – a high success rate – and to expect an email with another list of problem clients. "When we opened our email, we saw there were 17,500 cases," says Mr Krupa.

Abandoning book publishing, Kruk bought printers and hired 30 people. Within two years, it had 200 employees and 12 clients.

Those clients were interested in Kruk buying the bad debts from them so they could get them off their books, but the company lacked the capital to do so, and their attempts at getting a bank loan to finance debt acquisition were rebuffed. Instead, they sent out a teaser note to private equity funds.

"The response was amazing," says Mr Krupa, whose nondescript office in suburban Wroclaw belies his company's success.

"We had funds from Iceland, New York, Ireland and London – some of them were offering us more than $1m for the company we had built."

> Instead of demanding full repayment, Kruk began schemes getting people to pay small sums they could afford regularly

Initially, the partners were delighted to think their company could be worth as much as $1m, but they ended up selling for more.

Warsaw-based Enterprise Investors, one of the oldest and largest private equity funds in the region, paid about $20m for a 70 per cent share of the company.

Kruk, which had not previously had a HR department and whose hiring had been a haphazard process aimed at quickly pulling in warm bodies into a fast-growing company, became much more formal.

The firm also changed its approach to debtors thanks to an extensive survey it conducted in 2006.

Mass marketing was very new in Poland and people ended up rushing into contracts for mobile phones, TVs and other expensive consumer goods they did not understand and could not really afford.

"We saw that about 80 per cent of problem loans were to people who really wanted to pay and felt bad about not being able to," he says.

Instead of demanding full repayment of past debts, Kruk began negotiating long-term schemes aimed at getting people to pay regularly small sums they could afford.

The company also blanketed the country with advertisements calling on people with financial trouble to take the initiative and contact Kruk to work out payment terms.

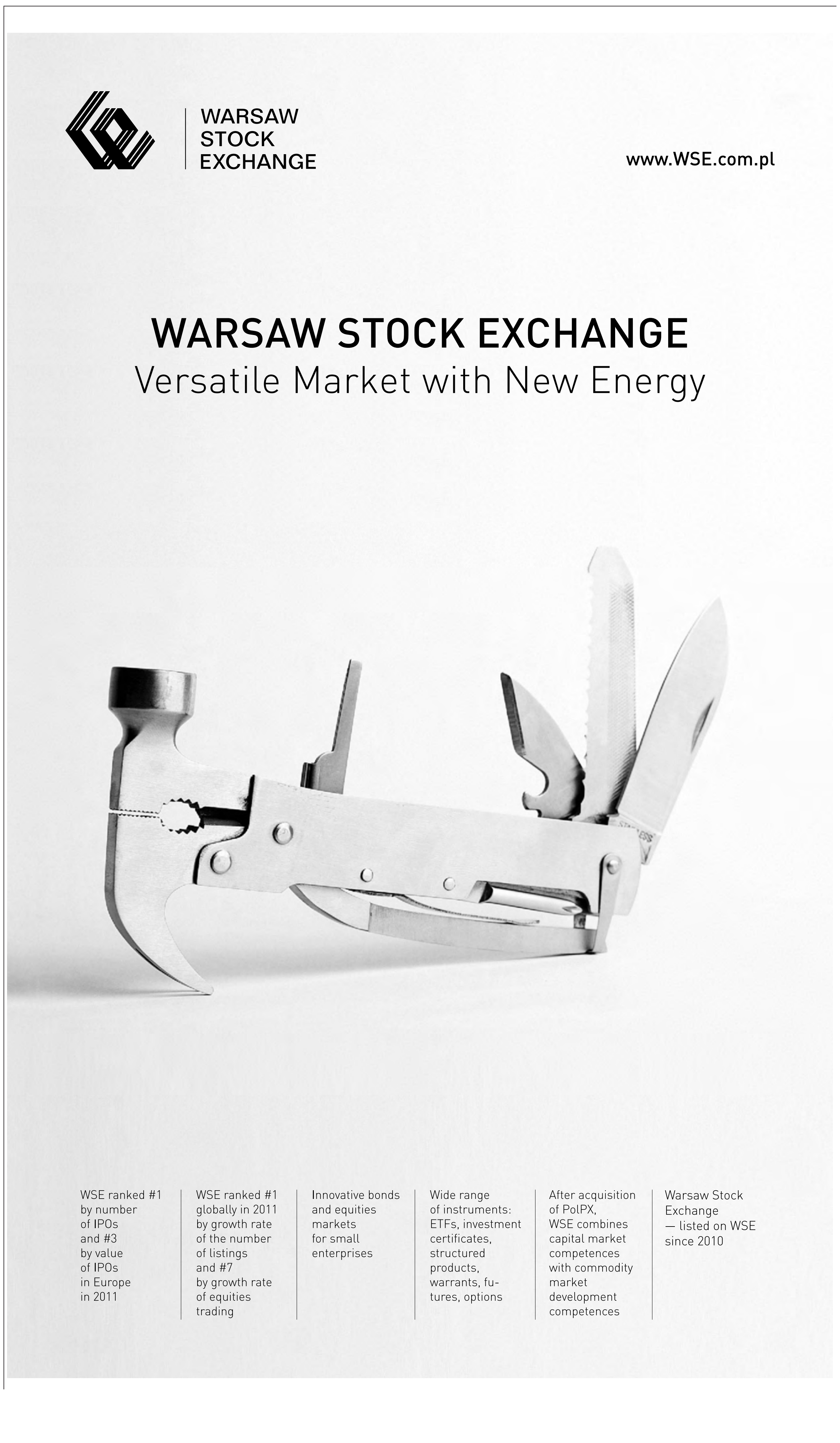
The company was even worked into the storyline of Poland's leading soap opera.

Business boomed, and Kruk now controls about a third of the Polish debt collection market and almost 80 per cent of the one in Romania: it is also expanding into the Czech Republic and Hungary.

In 2011, it was listed on the Warsaw Stock Exchange, selling 369m zlotys ($108m) in shares. Since the flotation, Kruk has been one of the WSE's better performing shares, gaining about 10 per cent in an otherwise lacklustre market.

Poland's non-performing loan rate is about 7 per cent, but the steadily expanding loan portfolio – which grew by 10 per cent last year – means the amount of bad debt is also rising, hitting 39bn zlotys last year. If Poland manages to keep its record of avoiding an outright recession, Kruk looks set to continue doing well.

"I have thousands or repayment agreements and people are making their payments. If people get into trouble, there will be problems with cash flow," says Mr Krupa.



Roads provide one route to boost the economy

Euro 2012

Development will provide long-term economic support, says Jan Cienski

Long after the fans have gone home and memories of the triumphs and defeats of the Euro 2012 football tournament have faded, the most profound impact of hosting the event will be the economic benefit of the highways slashing through Poland's flat, green countryside.

Although the four stadiums in Warsaw, Poznan, Wroclaw and Gdansk are receiving the lion's share of attention during the tournament, the government's focus was largely on building highways and airports.

Railways received short shrift, as anyone rattling along by train for nearly five hours on the 300km trip between Warsaw and Gdansk can attest.

Slawomir Nowak, the transport minister, spent frantic days before the June 8 kick-off pushing contractors to have the last sections of the A2 linking Warsaw with the German border drivable; completion will take place once the tournament is over.

The issue is of enormous political significance to the government. Premier Donald Tusk promised Poles he would speed up the country's anaemic road construction in his victorious 2007 election campaign, and staked his prestige on Warsaw at least being linked to the outside world by a highway as of this month.

Mr Nowak's pronouncements that "we are not just building roads for the fans of Euro 2012 but for Poles for years", were slightly self-serving as ambitious plans formulated in 2007, when Poland won the right to host the tournament, have not been realised. But he does have a point in that the new roads will provide a long-term economic boost.

In 2008, the government announced it planned to build 900km of highways and 2,100km of slightly lower grade expressways.

In the end, those plans had to be scaled back and even the more modest goals were not fully met – the main north-south highway has a gap in the middle, a highway running from Germany to Ukraine along Poland's southern border has uncompleted bits as it heads east, and the A2 still needs extra work.

> Infrastructure was built five years faster than it would have been without the tournament

However, these projects will be finished in the next few months, revolutionising transport in a country that has the highest per capita road death rate in the EU, and one where businesses have sometimes baulked at investing because of the time and expense of moving goods around the country.

"The poor infrastructure used to be the most important factor that was discouraging investments in Poland," notes Birgit Neissner, an analyst with Austria's Erste Bank, adding that before the tournament Poland had the fourth-lowest density of motorways in the EU.

Marcin Herra, the head of PL 2012, the government body responsible for preparing for Euro 2012 in Poland, estimates the country will see a GDP boost totalling 18bn-30bn zlotys ($5.1bn -$8.6bn) until 2020, largely because transport infrastructure was built about five years faster than would have happened without the spur of the tournament.

"Had it not been for Euro 2012 there would have probably been less determination – it helps to have a target date," says Hanna Gronkiewicz-Waltz, Warsaw's mayor.

Her city now has a renovated international airport, a rail link from the centre to the airport, a new discount airport built north of the city, as well as a partly completed ring road skirting the city.

In all, Poland spent more than 90bn zlotys – or more than 5 per cent of GDP – on projects associated with the tournament, about a third of which came from the EU.

Less than 10 per cent of that sum went directly for the tournament, mostly on building the four stadiums that have transformed the skylines of the country's largest cities.

Those are usually the most difficult investments to recoup, as shown by the financial trouble that some of Portugal's stadiums have run into since hosting the Euro finals eight years ago.

The direct impact of the tournament on the economy will be much smaller.

Mr Herra estimates the championships will generate about 600m zlotys in short-term revenues, largely from tourist visits, enough to cover the immediate costs of things such as building fan zones and providing security.

A larger impact could be in changing the perception of Poland – a country that does not have much of an international presence aside from being the home of vodka, tasty sausages and Lech Walesa.

Mr Herra is hoping for what he calls the "Barcelona effect", a halo that burnishes a country after hosting a big sports event.

"This is a once in a lifetime chance to exist in the world's media for three weeks," he says.

And that could produce an economic benefit, too.

Way to go: cars on the new section of the A2 motorway linking Warsaw with the German border EPA

Progress brings sporting chance

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by the end of this month, Poland will have to get back to grappling with serious economic and political challenges.

The first comes from an expected drop in investments after Euro 2012 as the government spends less energy on pushing through infrastructure projects.

That dovetails with the ending of the current 2007-2013 EU budget period that has pumped more than €67bn in structural funds into the Polish economy. This has been one of the factors that helped Poland become the only EU member to dodge a recession in 2009, and which has helped keep growth above the EU average since then.

The lull should prove to be only temporary.

Polish officials expect the next EU budget will be at least as generous to Poland as the current one, although it will be the last large injection as by 2020 the country will be too wealthy to extract much more in cohesion funds.

A huge need for more infrastructure spending – Mateusz Morawiecki

"There is still a huge need for more infrastructure spending," says Mateusz Morawiecki, chief executive of Bank Zachodni WBK, a unit of Spain's Santander.

He estimates that in addition to completing the highway network and upgrading railways, Poland will need to spend 120bn-180bn zlotys to replace decrepit coal-fired power plants with modern coal, gas, nuclear and renewables.

The country also sits atop potentially large shale gas reserves that could end the need for Polish gas imports from Russia, helping both the current account and the budget.

The economy has benefited both from resilient domestic demand and from strong exports, thanks to the Poland's close ties to the German economy.

Both now show signs of flagging as the eurozone crisis slows growth in western Europe, and Polish consumers and businesses become skittish about increasing spending because of worries about the economic future.

"The real potential dangers in the short term come from abroad. We do not see anything internally that could harm us," says Dominik Radziwill, a deputy finance minister.

That makes it crucial for Mr Tusk to do his bit if Poland is to continue its economic catch-up.

A spending rule limiting new expenditures has helped bring the budget deficit under control – the finance ministry expects that the deficit will drop below 3 per cent of GDP this year – and public debt is retreating from its legal limit of 55 per cent of GDP.

But, as the European Commission has pointed out, Poland labours under structural problems that reduce the country's economic potential.

It has the lowest expenditure on research and development in the EU – only 0.74 per cent of GDP – low labour participation by women and high levels of bureaucracy.

After spending most of his first term focusing on short-term measures to dodge the impact of the economic crisis, Mr Tusk is moving to tackle longer-term issues.

The government is gradually increasing the retirement age to 67 from the current 60 for women and 65 for men, and Jaroslaw Gowin, the justice minister, is trying to deregulate a host of protected professions. Next in the line of fire are retirement benefits for the uniformed services, miners and a separate pension scheme for farmers.

Mr Tusk's centrist Civic Platform party government is already paying a political price for those reforms – the party has shed more than 10 percentage points of support since last year's elections. The first electoral test ahead is for the European parliament in 2014, which gives the government some time to rebuild the affection of voters.

Mr Tusk will not be harmed by the after-glow of the tournament, especially if the Polish team (the weakest in the field) does unexpectedly well.

"For us [Euro 2012] is a symbolic ending of the era of transformation which began in 1989," says Hanna Gronkiewicz-Waltz, Warsaw's mayor.