

# **MSZ** Supplement

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## **NATIONAL NEWS**

### **Gov't Sums Up First 100 Days**

*Gazeta.pl, February 24 2008*

The document summarising the government's first 100 days in office, and presenting a strategy for the next 300, 1,000 and 3,000 days, was called "The Strategic Plan of Government," and was divided into four parts: Building Welfare; Dynamic Development; Security and Family; and Trust and Pride. The strategy was presented by Minister in the PM's Chancellery Sławomir Nowak, and Donald Tusk elaborated on it in an interview for the TVP public broadcaster. Asked about the three most important issues the government should tackle by the end of 2008, Tusk enumerated healthcare reform, deregulation and mending international relations. "We must reach an agreement between the political parties and professional groups," he said. Deregulation is to make doing business in Poland more profitable than in the majority of EU countries. Commenting on his visit to Moscow, he said that his priority was the lifting of the Russian embargo on meat products.

### **PM for Changing Constitution**

*tvn24.pl, February 20 2008*

On 20 February, PM Donald Tusk held a two-and-a-half-hour meeting with President Lech Kaczyński. The officials discussed potential changes to the constitution and Poland's foreign policy, especially the PM's recent visit to Moscow and the declaration of independence proclaimed by Kosovo. Tusk believes that there is a need to launch a debate on the division of power between the PM and president. Commenting on the issue, Law and Justice (PiS) MP Krzysztof Putra called for increasing the competence of the head of state in diplomacy. Regarding Kosovo, following the meeting Tusk announced that the government would have recognised Kosovo's independence on 19 February, if not for President Kaczyński's scepticism concerning the issue. Meanwhile, the representatives of all leading political parties believe that there is no reason for Poland to make hasty declarations regarding Kosovo.

### **US Shield Talks Stalled?**

*Gazeta Wyborcza p. 1, February 22 2008*

According to *Gazeta Wyborcza* daily's findings, two weeks before the planned visit of the PM Donald Tusk to Washington, negotiations over the US anti-missile shield on Polish territory are at a stalemate. The negotiators are awaiting orders from the authorities but none are likely to appear soon. The Polish side is

said to have cancelled the last round of talks before the visit. The Americans were ready to show up in Warsaw but received no signal from the Poles. Apparently, the Polish government is disappointed with the US proposals of the past weeks, which did not even come close to Poland's demands concerning US participation in the modernisation of the Polish army. One of *Gazeta Wyborcza*'s sources stated that the proposals were "arrogant in tone." Apparently, Washington had set the deadlines for completing particular stages of the negotiations, presenting Warsaw with a fait accompli.

### **PO Wants to Relieve Budget from Party Financing Burden**

*Dziennik p. 3, February 22 2008*

*Dziennik* has found that the Civic Platform (PO) may soon trigger a political storm over the financing of political parties. According to the daily's findings, in a dozen days or so the ruling PO will present a draft bill liquidating budget subsidies for parties. The idea is being pushed forward by PM Donald Tusk, but the decision is to be made by the PO's leadership. Coalition partner the Polish Peasants Party (PSL) is sceptical about the idea, while the opposition Law and Justice (PiS) and Left and Democrats (LiD) are major opponents. Both parties argue that the present system of financing is transparent. However, the PO is confident that the change is needed. The draft stipulates that taxpayers could allocate 1 percent of their tax to a chosen political party, just as they support public benefit organisations.

### **PiS and LiD on PO's Government**

*tvn24.pl, February 24 2008*

The government was not alone in summing up its first 100 days of office. Over the weekend, the opposition parties Law and Justice (PiS) and Left and Democrats (LiD) presented their own evaluations of its performance. At the PiS convention in Janów Lubelski, party leader Jarosław Kaczyński stated that the government had done nothing. He criticised the economic aspects of PM Donald Tusk's 100-day summary, as well as his proposals for healthcare system reform. He added that it was unfair for the government to boast about its success in the international arena. The LiD was no less scolding. "There are no miracles, no pay rises and the shadow cabinet turned out to be a cabinet of idlers," said Grzegorz Napieralski, while LiD leader Wojciech Olejniczak picked on the PM's announcement of flat tax rate introduction as a sign that the Civic Platform (PO) was returning to a very liberal policy.

## Gov't: Flat Tax Rate in 2012

*Gazeta.pl, February 24 2008*

During the press conference held to summarise the first 100 days of the coalition government of the Civic Platform (PO) and Polish Peasants Party (PSL), Secretary of State in the PM's Chancellery Sławomir Nowak presented "The strategic plan of government." With regard to the economy, the government intends to introduce a flat PIT rate in 2012, preceded by reduction of the number of tax thresholds from three (19, 30 and 40 percent) to two (18 and 32 percent) in 2009. As far as the budget deficit is concerned, the government promised to reduce it from 2.5 percent in 2007 to 1 percent at the end of its term of office. It will also strive to mend public finances, so that it can introduce the euro by 2015. In the next 300 days, the government will implement the public finance balancing programme, create a committee for financial stability and introduce a schedule of work over a task-based budget. Unemployment is meant to drop below 10 percent by the end of the government's tenure. Finally, the one-stop-shop principle for business registration is to become a fact by the end of 2008.

## Finance Minister: PIT Cuts First

*Wall Street Journal Polska p. 1, February 22 2008*

As of 2009, PIT will fall, due to introduction of two income tax rates - 18 and 32 percent. However, this change was adopted during the previous government's term. The next step was supposed to be lowering the CIT. Finance Minister Jacek Rostowski spoke of reducing it to 10 percent. Now he says that when the ministry is convinced PIT is low enough, it will start working on CIT. Capital gains tax will not be abolished. The government will also work on public finance reform. The amended convergence programme is ready. It foresees reduction of the public finance sector deficit by 0.5 percent of GDP annually to about 1 percent of GDP in 2011. In 2009, public spending will grow at a much slower pace than during the last two years. According to Rostowski, budget spending should not grow more than 2-3 percent annually.

## Gas Prices to Go Up 30 Percent?

*Puls Biznesu online, February 20 2008*

On Wednesday, the PGNiG oil and gas giant asked the Energy Regulatory Office (URE) for permission to change gas tariffs. PGNiG would like to raise prices by some 30 percent. For customers, this means bills which are PLN2.5-63 higher per month. The gas giant wants the new prices to abide as of 1 April. Theoretically, the URE has 60 days to reply, but according to the regulator's spokesperson, Agnieszka Dębek, it is difficult to predict when it will approve new tariffs. She said this motion is part of proceedings from November 2007, when PGNiG asked for a 7-percent rise, but the URE rejected the request. PGNiG had to wait for the Economy Ministry to issue a new decree on the matter. The decree was published on Wednesday. PGNiG will probably be asked to provide more details, which will further extend the waiting period.

## GDP Down, Inflation Up in 2008

*Gazeta.pl, February 21 2008*

According to European Commission (EC) experts, in 2008 GDP in Poland will grow 5.3 percent, while inflation will amount to 3.8 percent. In this way, they have corrected the EC's forecasts from November 2007, according to which the two figures were to settle at 5.6 and 2.8 percent, respectively. Commissioner for Economic and Monetary Policy Joaquin Almunia explains that the poorer than expected performance of the Polish economy will be a consequence of the worsening global economic situation. "Lower external demand will translate to a higher trade deficit and reduce GDP growth; on the other hand, the Polish economy will still be propelled by domestic demand, which in turn is fuelled by rapid consumption growth," he says. At the same time, Almunia is concerned about the rising inflation. He expressed hope that the government's convergence programme will propose solutions to the problem.

## PO MPs in Conflict with Finance Minister over Belka's Tax

*Dziennik p. 4, February 23-24 2008*

The Civic Platform (PO) is facing its first serious conflict between the government and the parliamentary caucus. The contentious issue is the capital gains tax, also called Belka's tax, the liquidation of which was one of the PO's flagship projects during the election campaign. Meanwhile, Finance Minister Jacek Rostowski is against doing away with the tax. In an interview for Wall Street Journal Polska, Rostowski said: "I am not a socialist but [the liquidation] would enable very rich people, whose major income comes from financial instruments, to avoid taxes." Sejm Friendly State Committee head and PO MP Janusz Palikot responded that he completely disagreed, arguing that the great majority of Poles were investing in deposits, where they lock up money that has already been taxed. MP Krystyna Skowrońska added that the abolition of Belka's tax would be a motor for the economy.

## Road to Perdition?

*Parkiet p. 13, February 23-24 2008*

The Environment Ministry wants to change the environmental protection laws - this project puts at risk the Road Construction Programme for 2008-2012, which involves a network of roads crucial to the Euro 2012 football championships. Thus, the Infrastructure Ministry (MI) strongly opposes the idea, saying that some investments will not be completed by this deadline. Still, legal regulations need further changes, as Brussels declared in 2006 that Polish procedures are incompatible with two European Commission (EC) directives. The MI claims that without these amendments, the EC might refuse to finance transport investments with the EUR11bn it offered. The changes themselves would involve delaying construction work and would generate immense financial burdens for upgrading the investments. The Environment Ministry does not agree with this pessimistic scenario and is standing its ground.

## Agora to Invest PLN1bn

*Puls Biznesu p. 8, February 21 2008*

A more aggressive investment and merger policy is the strategy Agora is to take in the next three years. "This means enlarging the enterprise's volume, stimulating its growth and diversification of income sources, which means electronic media," said Marek Sowa, Agora's CEO. Internet is the core of its interest; outdoor advertising, TV channels, content generation based on magazines and media digitalisation will follow. Agora is not eager to invest in infrastructure (mobile telecoms, cable or satellite TV), but would accept alliances with companies operating in these sectors. Poland will remain the key market but Agora is looking East, at Ukraine, where it may acquire Ukrayinska Prawda. Sowa's plan is to make Agora a top media player in Europe and to increase income from out-of-print sectors by PLN500m. Experts approve of this strategy. Although Agora's profitability was below expectations, income exceeded forecasts. Net profits grew three-fold, reaching PLN100.2m; income grew by 12 percent, reaching PLN1.27bn.

## WSE to Join Race for Ukrainian Stock Exchange

*Wall Street Journal Polska p. 3, February 23-24 2008*

According to Ukrainian Stock Exchange (PFTS) head Irina Zaria, in the near future the exchange should be transformed into a joint stock company, with its shares to be offered to strategic investors from all over the world. One of them could be the Warsaw Stock Exchange (WSE). Its head Ludwik Sobolewski confirms his interest in the project. "Should there arise the possibility of acquiring a stake in PFTS, we would be more than willing to make use of it," he says. Sobolewski stresses that the Ukrainian bourse is a priority for the WSE both as an area of expansion and a source of potential new debutants in Warsaw. However, experts point to one problem that may ruin the WSE's plans: the PFTS's priority will be to find an investor able to offer it technologically advanced IT solutions; meanwhile, the Polish bourse is not the owner of its WARSETIT trading system. At present, the value of the PFTS is estimated at \$50-100m, with its modernisation to consume several times more.

## TPSA: Financial Services in Mid-Year

*Parkiet p. 7, February 25 2008*

TPSA will deliver its promised results in 2009 and 2010, said TPSA CEO Maciej Witucki in an interview. This year, TPSA will focus on process streamlining. "One of the priorities for 2008 is simplification of the IT infrastructure, which is very complicated and costly," said Witucki. The chief executive said there is no magic solution to save the revenue of the operator - many different initiatives are needed. Most of the initiatives will concern

mobile services, but Witucki said that TPSA will not give up the promotion of stationary Internet access, to focus only on wireless services. The telecom will seek profits in mobile television by developing the infrastructure jointly with the remaining mobile operators Era, Plus and Play, and by offering its own channels - the sports channel developed with digital TV Cyfra+ is to be an example. TPSA plans to introduce financial services in the first half of this year. TPSA has not done this so far, because, the CEO explains, "that would be too obvious." TPSA's subsidiary Contact Centre and web portal Wirtualna Polska will remain in the group, said Witucki.

## Citi to Keep Handlowy

*Wall Street Journal Polska p. 8, February 22 2008*

Citigroup will sell neither part, nor the whole, of Bank Handlowy (BH), but needs to cut costs elsewhere. After the crisis in the US mortgage market and the \$9bn write-off, the company has to make savings. Poland is one of its first choices - Citi holds 75 percent of BH, PLN11.2bn worth. The share Citi holds would cover one third of its losses in Q1 2007. "Doing business in Poland is a core activity in our long term strategy. We are not intending to sell BH. Moreover, we are even expecting it to grow," said Citigroup CEO Vikram Pandit. However, he is supposed to order savings in Poland and BH may reduce its employment by 17 percent, which means cutting 500-1,000 jobs. Before Citi confirmed that it will not get rid of its BH shares, PKO BP announced that it might be interested in purchasing it. "Citi will not be eager to set BH free, even if it's in trouble itself. Poland is too huge and fast growing a market to quit when some difficulties occur. Yet, it is no surprise that BH will cut costs," said KBC Securities analyst Marta Czajkowska. If BH conducts a mass reduction, it would be the largest since 2003, when BRE Bank fired 500 people.

## Goodman to Invest up to EUR100m

*Puls Biznesu p. 10, February 22 2008*

Goodman wants to allocate 5-10 percent of its European spending for use in Poland. The world's second largest industrial space developer wants to compete for the market leader's position against ProLogis. Goodman makes a fifth of its operating profits (EUR175.3m) in Europe. Over the next 12 months, it wants to invest EUR75-100m in Poland. Goodman will use some of this sum to build a logistics centre in Cracow, where the company has bought 30 hectares of land. The EUR100m project will take 18-24 months to complete. However, for this year the company plans another two investments worth EUR50-70m. Thanks to the investments, the developer will be able to fight against ProLogis to assume the dominant position in Poland. This will not be easy, as ProLogis has invested more than \$1.1bn in Poland, owns 1.37m sqm of warehouse space and is in the process of building another 409,000 sqm.

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