Although the CEE region is still suffering from instability, several countries have seen improved economic performance, Dominic Carman reports

The search for stability

In yearning for stability, the countries of Central and Eastern Europe (CEE) can take some comfort from their improved economic performance, despite the surrounding turbulence and the widespread shift towards reasserting political control: national identity, borders and domestic finances being the targets.

Boosted by eurozone recovery and lower oil prices, CEE growth rates in GDP this year range between 2% and 4%, providing a fillip to commercial activity for local independent firms. As in much of Europe, they're still waiting for investment and growth to return to pre crisis levels.

Moody's forecasts GDP growth of 3.5% for Poland in 2016, the same level as this year. But following the October election, Polish lawyers are anxious about their new government's taxation plans and the potentially damaging effect on foreign investment.

"If election promises materialise, banks and fast-moving consumer goods companies may retaliate with litigation for unfair treatment," says Rudolf Ostrihansky, managing partner at Sołtysinski Kawecki & Szlezak (SKS). He anticipates "much more state control over the economy and a decrease in legal work, especially M&A."

Yet in spite of everything, adds Krzysztof Zakrzewski, managing partner of Domanski Zakrzewski Palinka (DZP), 2015 has been a good year for M&A and litigation.

He highlights pharma, healthcare and life sciences as particularly active: in the Mergermarket Poland deal tables for 2015 (up to Q3), DZP is number one in volume and number two in value, ahead of Weil Gotshal & Manges, Allen & Overy and Linklaters.

"This year was by far the most successful in our history," confirms Ostrihansky. "Private equity (PE) funds are acquiring, TMT and renewables are active, and there's increased real estate acquisition from Germany and Austria."

Competition for that work remains fierce. "One factor is smaller, very aggressive independent firms of 20-25 lawyers with very competitive prices," Ostrihansky adds. "Most are exiles from international and large local firms. But it's a price challenge, not a quality challenge."

Some international players face further difficulties on rates — setting thresholds that they fail to achieve. "There's been a lot of movement between firms," says Zakrzewski. Norton Rose Fulbright and Dentons (now the largest firm in Poland) are among those hiring, while there have been prominent Warsaw departures from White & Case.

Dentons surge

In May, Hungary witnessed a much larger White & Case defection: the entire Budapest office of 50 lawyers moved to Dentons.

According to Lukas Sevcik, head of Kinstellar's M&A and corporate practice in the region, Hungary is in a difficult situation. "The politics do not help," he adds, "although perception is worse than the reality."

Peter Lakatos, managing partner at Lakatos Koves in Budapest, adds: "With the current government, it's hard to imagine a positive change — nationalistic

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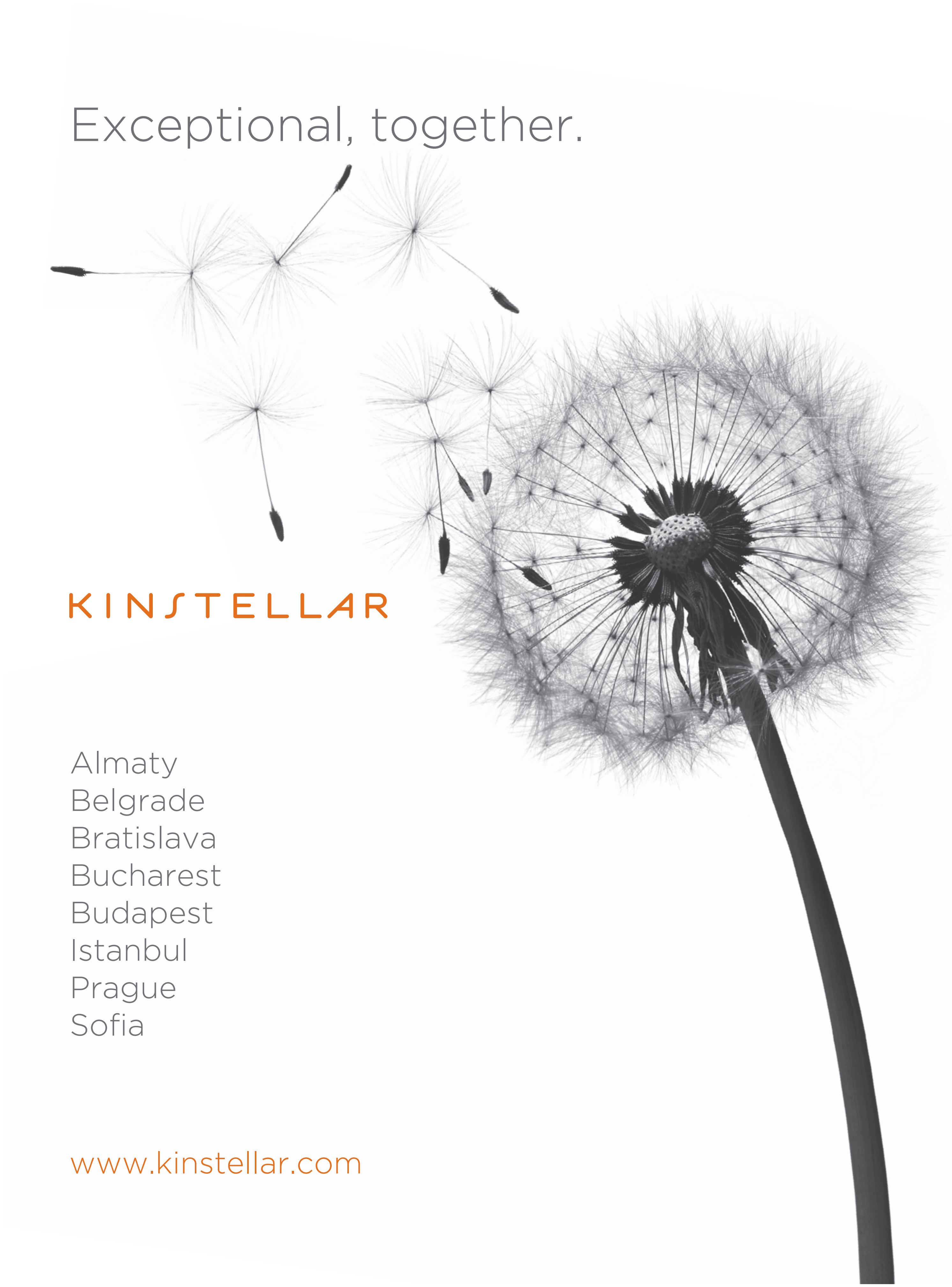
Rudolf Ostrihansky, Sołtysinski Kawecki & Szlezak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policies for vote maximisation. Corruption is also growing; it's a deterrent to some investors."

According to EY, 73% of staff at large Hungarian companies believe that domestic corruption is widespread.

Local lawyers suggest that the harsh treatment of refugees and border closures have also created a bad impression internationally, with those considering investment being adversely influenced.

"It's not helpful for the country or our business," says Lakatos, even though the forint's devaluation - by 20% since 2011 — should increase investor interest as Hungarian assets become cheaper.

But, he adds, the government's decision to convert €9bn of Swiss franc mortgages into forints before the franc's subsequent surge has created losses for banks. He points to Citibank as an example of the consequences: Lakatos advised on the sale of its consumer banking division to Erste Bank.

Meanwhile, temporary 'crisis taxes' introduced in 2010 — on banking, energy, retail and telecoms companies - have since become permanent, affecting large foreign investors. In October, Tesco cited a sharp profit decline in Hungary due to the impact of these taxes. Some companies have left the market. But encouraged by the government, investment in manufacturing remains attractive with low corporate tax rates and liberal regulation.

Things seem brighter in the Czech Republic. Announced in October, the AB InBev - SABMiller merger, worth an estimated €93bn, includes one of the most famous Czech brewers, Pilsner Urquell - owned by SABMiller.

Vladimira Glatzova, managing partner of the eponymous Glatzova, also points to greater activity in autos, IT, construction and energy. Her firm's domestic clients now far surpass international work will 73% of 2015 billings being Czech originated, set against 53% five years ago.

"Many international firms got rid of people during the crisis," she says. "They started their own firms. There are many new players with fresh, hungry lawyers offering low rates."

Sevcik adds: "There is more work flowing in to both the Czech Republic and Slovakia, but rates haven't picked up for fear of losing transactions. It's difficult to raise fee levels once clients get used to lower rates. Other firms are always willing to outbid you." The average billing rate is increasing, he suggests, but slowly.

This year, White & Case's CEE head, Kvetoslav Krejci, who also led its Czech capital markets practice, joined Kinstellar's local office - the fifth partner to leave White & Case in Prague over the last two years.

This follows last year's Prague closures by Norton Rose and Hogan Lovells. Former Norton Rose partner Pavel Kvicala and his team joined the largest Czech-Slovak firm Havel Holasek & Partners. Seen as highly competitive in mid-market work, Havel has 180 lawyers, and is arguably the fastest growing firm in the region. "They're a bit different," says Sevcik, "they have a very broad client base."

In Slovakia, Katarina Cechova, managing partner of Cechova, has seen increased M&A with investment from PE funds, as litigation and arbitration continue to flourish. She notes that: "There's heavy discounting in fee rates for public procurement work — not just from smaller independents, but also from international firms." Their aim, she suggests, is to add work to their portfolio for reputation reasons.

Tough on corruption

According to Sevcik, "Romania is running quite hot on all fronts: real estate, distressed assets, lots of consolidation going on."

Gheorghe Musat, senior partner at Musat, points to "a big increase in litigation — 45% of our work this year. The competition authorities now undertake many investigations." Fee rates remain under pressure, he adds. "It's the same problem — dumping prices. International firms also do this. We're lucky because our multinational clients do not change their advisers that much."

To deal with endemic corruption, Romania now has one of the most aggressive anti-corruption regimes in Europe. "Corruption has been an issue for every foreign investor," says Musat, whose firm has enlarged its white collar crime practice.

"Many senior business people, government minsters and politicians have been investigated and prosecuted. Some are in jail. As a consequence, the perception now is that Romania is a more attractive country with greater transparency."

It's a similar picture at Nestor Nestor Diculescu Kingston Petersen (NNDKP). Its litigation practice has doubled in five years, providing 40% of current firm billings.

As litigation partner Emil Bivolaru explains: "We give advice to companies, and there is intense activity to recover unpaid taxes. They face a much more difficult climate in complex investigations. Many clients have been investigated; it's created a lot of work for us. Ultimately, the activities of the Romanian authorities will create a better climate for commercial investors."

'With the current government, it's hard to imagine a positive change – nationalistic policies for vote maximisation. Corruption is also growing; it's a deterrent to some investors'

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