Financial and Economic Analysis

Business opportunity report Poland

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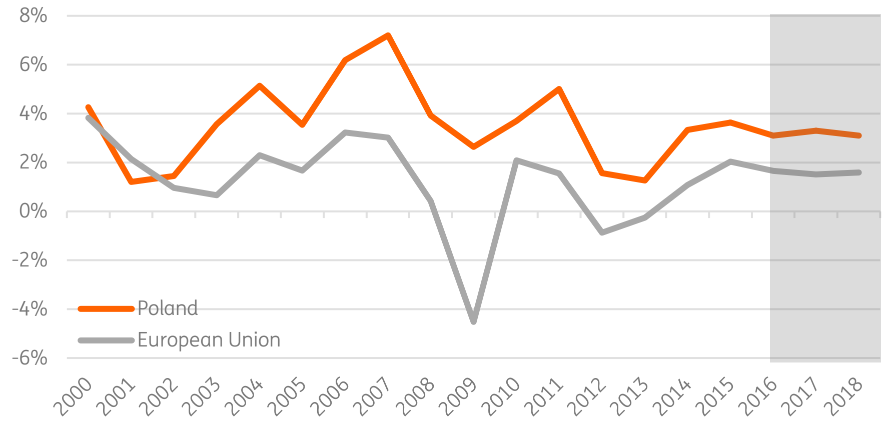
Poland: still worth it?

Poland has been the poster child for the European emerging markets and the Polish economy is expected to continue to outpace the European Union in terms of economic growth. Its industries and demand for foreign products are expected to show ongoing high growth in the future. However, when doing business in Poland significant hurdles remain especially with regard to government affairs and setting up a business. So, is it still worth it to do business with and in Poland?

Which sectors are expected to grow most in Poland?

The Polish economy has experienced above EU-average growth for most years since the start of the century. Instead of cutting the government budget during the years of the financial crisis in 2008-09, the government increased spending. As the government increased spending, Poland was able to avoid recession where most European countries were unable to do so. Figure 1 shows economic growth in Poland and the expectations for the coming years, Poland is expected to continue to outpace the EU in terms of economic growth.

Figure 1. Economic growth (GDP, annual percentage change)



Source: ING

When broken down into sectors of industry the outlook is generally positive. Expectations are particularly high with respect to the production of durable consumption goods, investment goods and intermediate goods. The extraction business (predominantly coal) is expected to contract, primarily due to a move towards more ‘green’ energy sources and environmental pressure from other EU nations.

Within these, we foresee higher than average growth for motor vehicles, computers & office equipment (8-9%) and aerospace and consumer electronics (+6-7%). Industries involved in the production of pesticides & other agrochemicals, leather goods (-0.7%)

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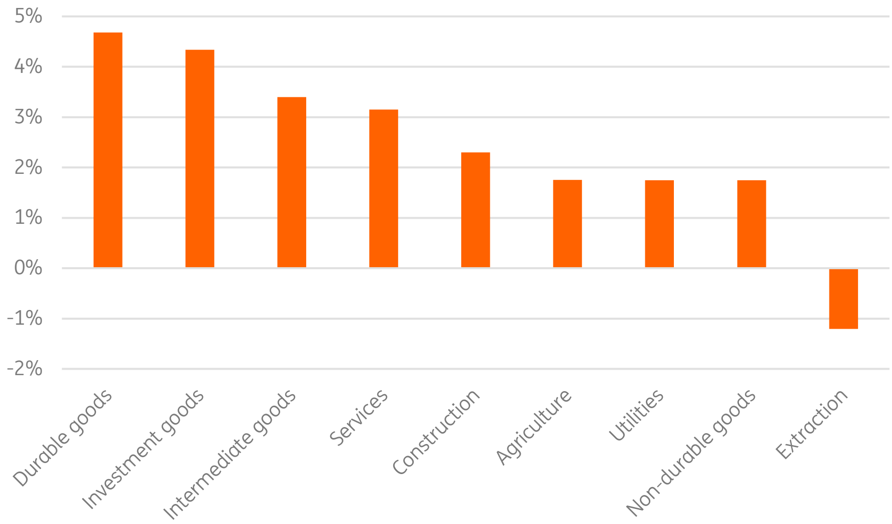
and coke and refined petroleum products are expected to shrink production (by some 1-2%).

Figure 2. Sector growth expectations, average annual growth 2017/2018



Source: Oxford Economics

What shapes the Polish economy?

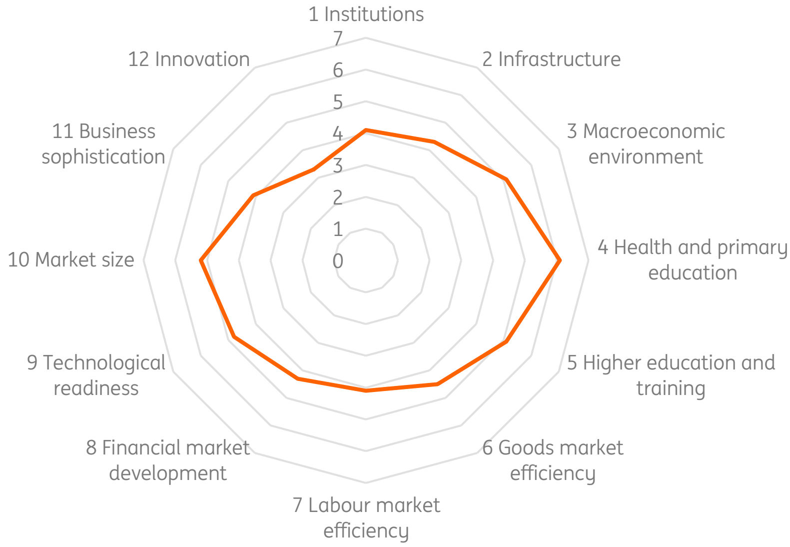
Poland has been a part of the EU since 2004 and is now the eighth largest economy of the European Union. GDP per capita is on average €11,200. This makes Poland a high-income country although income remains much below the EU average of €28,800.The 65% of the Polish economy consists of services, 33% of industry and 3% of agriculture.

Poland ranks 36th out of 138 countries in the World Economic Forum's 2016-17 Global Competitiveness Index. This index measures the set of institutions, policies, and factors which drive medium-term economic growth. Poland sits directly below Lithuania but above Azerbaijan. Poland also scores higher than countries like Italy (44th) and Portugal (46th). Figure 3 illustrates Poland's weak and strong points according to the sub-components of this index. Poland ranks badly when it comes to the public sector and regard for its politicians: public trust in politicians (rank 104), the burden of government regulation (119th) and the transparency of policy making (109th) all score very poorly. Poland scores very well on trade tariffs (5th), but this is because the country is part of the European Union. But Poland registers a good score on market size (21st) and very reasonable on education (37th).

How easy is it doing business in Poland?

Poland ranks 25th on the World Bank's Ease of Doing Business Index of 2016, up from 28th in 2015. Poland ranks higher than the Slovak Republic (29th), the Czech Republic (33th) and Romania (37th) but also above Switzerland, France and the Netherlands (26th, 27th and 28th, respectively).

Figure 3. World Economic Forum Competitiveness Pillars scores



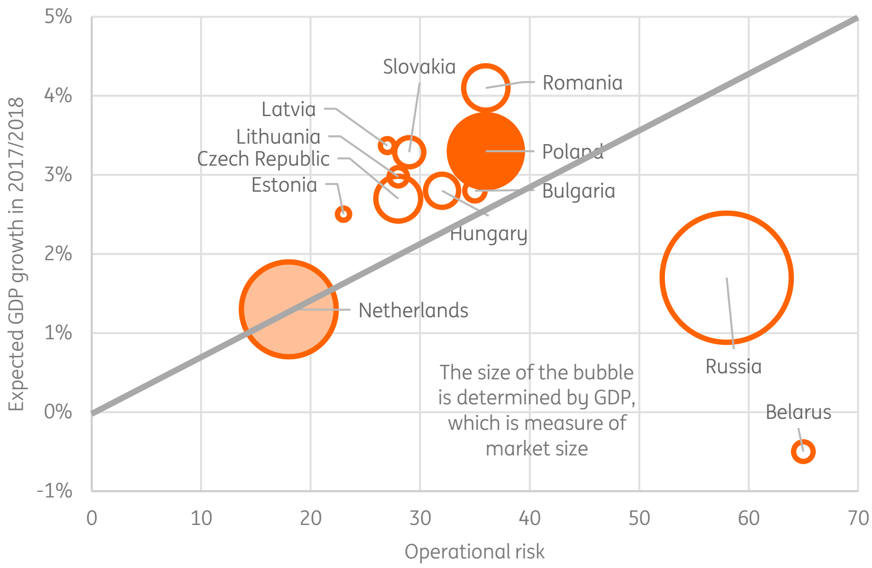
Source: World Economic Forum. The competitiveness index ranks countries on 12 pillars, with a maximum score of 7 (best) and a minimum score of 0 (worst).

Although Poland has a high overall ranking there are nevertheless several hurdles when starting a business in Poland. Starting a business takes 30 days on average in Poland, against only 8 days on in OECD countries. Going through legal procedures to enforce contracts and/or going to court in Poland takes 685 days on average, also longer than in OECD countries. Resolving insolvencies takes about 3 years in Poland, with a 58.3% recovery rate, which is relatively low compared to other Eastern European countries. Start-up costs are four times higher than in OECD high income countries but getting construction permits is cheaper than in many OECD high income countries. The quality of judicial processes however, is in line with OECD high income countries, and the efficiency with which companies' trade across the border is the highest in the world, meaning that the time and cost associated with the logistical process of exporting and importing goods is very low (mostly due to being part of the EU). Also, registering property costs much less. Finally, the cost of electricity is relatively low compared to other eastern European countries.

Is it risky to do business in Poland?

Figure 4 provides an overview of the operational risk associated with running a business in a particular country and the possible opportunities in terms of expected market growth for a number of Eastern European countries. The size of the bubble indicates the market size. The Netherlands has been added for reference. From the chart it can be concluded that Poland has a sizeable market and that expected future growth is also relatively high for Poland compared to other Eastern European Markets. However, at the same time operational risk in Poland is also high. We see a clear trade-off between risk and return when doing business in Poland.

Figure 4. Operational risk and expected economic growth in 2017/2018

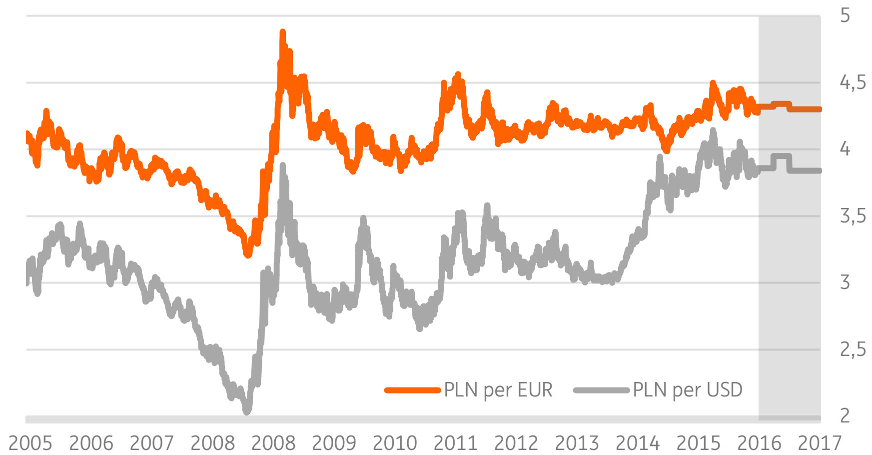


Source: IMF, ING, Economist Intelligence Unit. The operational risk measure summarizes on a scale of 0 – 100 (where 100 represents maximum risk) a broad range of risks: security, political stability, government effectiveness, the legal and regulatory environment, macroeconomic risks, foreign trade and payments issues, labour markets risks, financial risks, tax policy and the standard of local infrastructure.

The Polish zloty

During the financial crisis, the Polish zloty depreciated briefly against both the US dollar and the euro as investments were transferred to safer countries. The PLN/USD exchange rate has been relatively stable period since 2010 (as can be seen in figure 5). ING expects the zloty to slowly appreciate in the coming years as the countries' economy matures.

Figure 5. Exchange rates



Source: Macrobond, ING forecasts

The international trade environment in Poland

Trade agreements and barriers

As a member of the EU, Poland is part of the single market without internal borders or other regulatory obstacles to the free movement of goods and services. All the countries in the EU maintain the same import tariffs for countries outside the EU. In 2016, the EU import average tariff on agriculture is 12.5%, while the average tariff on non-agriculture goods is only 3.9%.

Imports

Table 1 shows that Poland meets most of its demand for foreign products by importing goods from Germany, China and Russia. Within this top 3, imports from China are expected to grow the fastest the coming years at on average of 16% per year while Russia is forecasted to send 10% more goods to Poland annually. Expected import growth from other countries is expected to be single digit.

Table 1. Imports of goods by country of origin

	Import partner	Imports 2015, US$bn	Average growth 2017-18F
1	Germany	48.0	6%
2	China	26.0	16%
3	Russian Federation	18.5	10%
4	Italy	11.7	6%
5	France	8.3	4%
6	Czech Republic	8.0	8%
7	Netherlands	7.9	6%
8	Belgium	5.5	7%
9	United States	5.5	4%
10	United Kingdom	5.2	1%

Source: ING Trade Model, UNCTAD

Table 2 shows what Poland imports. Other manufactured goods (which for Poland consists mostly of metals, plastics and construction materials) forms by far the country's largest import product group. Other large import product groups are office, telecom & electrical equipment (US$31.2bn), chemicals (US$23.8bn) and industrial machinery (US$21.8bn). But services import has already taken the second spot on this list and is expected to continue to grow steadily by some 7% annually. For the period 2017-18, ING estimates that pharmaceuticals will be the fastest growing import product group (+11%).

Table 2. Imports by product group

Product group	Import 2015, US$bn	Average growth 2017-18F
Other manufactured goods	45.0	5%
Services	32.6	7%
Office, telecom and electrical equipment	31.2	4%
Chemicals	23.8	4%
Industrial machinery	21.8	4%
Road vehicles & transport equipment	20.6	3%

Fuels	18.6	3%
Basic food	13.9	5%
Textiles	10.1	4%
Ores & metals	6.3	3%
Pharmaceuticals	5.8	11%
Beverages & tobacco	2.6	3%
Agriculture & raw materials	1.2	3%

Source: ING Trade Model, UNCTAD

Concluding remarks

Poland is well on its way to become a truly advanced economy with economic growth rates remaining above the EU average and improvements in the business environment. For the coming years we foresee high demand for in particular pharmaceuticals and services. Concerns remain however, especially with regard to government affairs and there are various barriers to starting a business locally. Opportunities are plentiful in Poland but one has to look carefully at the risks involved.

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