COUNTRY ESSENTIALS
POLAND

Summer 2015

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Overview

The Coface Country Essentials offer a concise and clearly structured overview of country economic facts.

The most important facts for 18 countries in Central and Eastern Europe include the most recent risk overview and our Coface country risk assessment.

You receive a general information on the country ranging from major cities to natural resources and most important sectors. This is followed by our risk assessment giving a general overview on the economic and political situation and the strength and weaknesses of the country. The next chapter focuses on the key facts: top trading partners and economic data like GDP growth, inflation or public debt. The insolvency part shows you the top and flop sectors, information on the development of insolvencies and the procedure.

Last but not least we provide you with a checklist for business operations and the latest corruption and doing business index data. If you need further information your will find a list of our contacts in the region.

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GENERAL INFORMATION

Poland has been a sovereign country since 1918 and, since 1 May 2004, the sixth largest member state of the European Union by population. Poland has also been a member of NATO since 1999. The major population centres include the Upper Silesian industrial zone, the cities of Warszawa (Warsaw) and Łódź as well as the Vistula Delta near Gdansk (Danzig). Poland has been divided into 16 decentralised voyevodships since 1999 and is bordered, among others, by Germany, Belarus, Slovakia and Ukraine.

Form of government:	Democratic Rebublic	
Administrative organisation:	16 regions (voyevodships)	
Area:	312,685 km^2	
Population:	38,544,000; density: 122 inhabitants/km^2	
Official language:	Polish	
Local currency:	1 Polish Złoty (PLN) = 100 Groschen	
Capital:	Warsaw (Warszawa): 1.7 million inhabitants	
Major cities and population:	Łódź Kraków Wrocław Poznań Gdansk Katowice	807,000 inhabitants 741,000 inhabitants 638,000 inhabitants 578,000 inhabitants 459,000 inhabitants 346,000 inhabitants
Ethnic groups:	98% Poles, 1% Germans, 0.5% Ukrainians, 0.5% White Russians	
Religion:	96% Roman-Catholic, 4% other (Polish-Orthodox, Protestants, Jews)	
Natural resources:	Hard coal, brown coal, sulphur, iron, tin, salt, natural gas, copper, silver	
Most important sectors:	Agriculture, machinery construction, steel, textiles, manufacturing, heavy industry (exploitation of mineral resources), construction, trade and financial services	
Membership in international organisations:	UNO, NATO, WTO, Council of Europe, CEFTA, CEI, OECD, EU, FAO, IAEO, ILO, IMF, Schengen	

RISK ASSESSMENT

Coface Country Assessment

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Dynamic growth driven by domestic demand

In 2014, growth was dynamic, benefiting both from the resumption in domestic demand and the recovery in the Eurozone, particularly Germany, in the 1st quarter. The reduction in exports to Russia (4% of the total) had a limited effect. In 2015, growth should stabilise at a satisfactory level. Domestic demand will remain strong, with unemployment that will continue to decline and income that will benefit from price drop, wage increases, a rise in small pensions and tax reductions for dependent children. Investment will retain its dynamism thanks to favourable credit accessibility.

Conversely, external trade will have a neutral effect on growth. However, if the crisis in Eastern Europe does not get worse, exports (agri-food, automobiles, machines, household appliances and furniture) should gradually become more dynamic, in phase with the West European economy, particularly the German one (1/4 of outlets). As in 2014, companies will benefit from the dynamism of domestic demand, which is more than twice as big in the economy as exports. Finally, the country is expected to be in deflation in 2015 due to the effect of moderated commodity prices and, thus, imported inflation.

Respectable public finances in spite of a flexible fiscal policy

In spite of a fiscal policy that has remained accommodating since the beginning of the crisis, the deficit and public debt have increased moderately. In 2014, the public finances benefited from the nationalisation of pension funds, which constitute the secondary cornerstone of pensions and, to a lesser extent, the increase in income related to the acceleration of growth.

In 2015, the improvement will be less because, firstly, growth will be stable and secondly, the benefit of the pension reform will be limited to the retention of the pension contributions previously paid to the pension funds. Furthermore, the increase in social expenditure will not be compensated by the maintenance of the temporary freeze in civil servants' salaries.

European funds, competitive exports and transfers from emigrants strengthen the external accounts

The current account deficit is expected to stabilize in 2015. Economic improvement in the Eurozone and lower oil prices, which benefit to the trade balance, will be offset by strong domestic demand that encourages imports. Also, trade in services is in surplus thanks to tourism and international road transport, as are transfers, due to the increased presence of Polish workers in Western Europe. Furthermore, it is amply financed by European structural funds, which were renewed until 2020. Lastly, European investments remain at a satisfactory level due to the integration of Polish production facilities into the European chain, the importance of the domestic market and the competitiveness of agri-food and manufacturing production.

External debt will reach 73% in 2015, comparing to 64% in 2014. More than a third corresponds to commitments of companies or banks in relation to their parent companies. However, more than half is denominated in euros, hence the monitoring performed by the central bank on the zloty, which has also been stable against the euro since 2012.

In spite of the European commitment, adopting the euro is not on the agenda

The conservative opposition Law and Justice party has been reinforced by the victory of its candidate, Andrzej Duda, at the presidential election in May 2015. The political reshuffle operated in June by the Prime Minister Ewa Kopacz might be insufficient to lead the ruling Civic Platform party to victory in the next parliamentary elections (October 2015). Until then, few political initiatives are expected. Even though the country does not have a dispensation from the obligation to join the euro zone and, consequently, the banking union, adoption of the euro is not on the agenda, especially as the conservative Law and Justice Party of the former Prime Minister Kaczynski, the incarnation of euroscepticism, is quite high in the polls. A NATO member, the country plans to spend more than EUR 30 billion (the equivalent of nearly 9% of GDP) in modernising its defence equipment between 2013 and 2022. This is in addition to the ordinary defence budget (1.9% of GDP). Also, the country intends to reduce its energy dependency on Russia, which covers 30% of its requirements and with which it has a common border via the enclave of Kaliningrad.

FOREIGN TRADE & ECONOMIC KEY DATA

Poland’s Top Trading Partners

Imports in MEUR	2011	2012	2013	2014
EU 27	105,848	104,854	107,733	114,201
Germany	41,949	40,521	41,104	44,439
Russia	18,078	21,559	18,654	17,075
China	7,433	7,968	8,469	10,550
Italy	7,969	7,931	8,110	8,676

Exports in MEUR	2011	2012	2013	2014
EU 27	105,695	109,655	115,429	125,272
Germany	35,369	36,269	38,724	42,576
Russia	8,731	9,763	10,036	10,373
Czech Republic	8,459	9,118	9,555	10,300
France	8,297	8,442	8,648	9,150

Source: Eurostat

Economic Key Data

Key Data	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	1.8	1.7	3.3	3.5
Inflation (yearly average) (%)	3.7	0.9	0.0	-1.0
Budget balance (in % of GDP)	-3.7	-4.0	-3.2	-2.8
Current account (in % of GDP)	-3.5	-1.3	-1.4	-1.3
Public debt (in % of GDP)	54.4	55.7	50.1	51.1

(e) estimate
(f) forecast
Source: Coface

INSOLVENCY

Top 5 sectors 👍
Pharmaceutical industry
Telecommunication
Fuel and petrochemical industry
Energetics
Chemical industry

Flop 5 sectors 👎
Construction
Wholesale
Retail sales
Food manufacturing
Steel production

Poland's Biggest Insolvencies in 2014

	Company Name	Sector	Town
1.	DOMEX Sp. z o.o.	Retail sale	Tarnobrzeg
2.	Infrastruktura Kapuściska S.A	Production of chemicals	Bydgoszcz
3.	FAGORMASTERCOOK S.A.	Productions of AGD	Wrocław
4.	ALPINE BAU GMBH Sp. z o.o. Polish branch	Construction	Poznań
5.	HENPOL Sp. z o.o.	Construction	Lublin

Insolvencies in 2014

The total number of insolvencies finally discontinued its rising trend which began back in 2008. Last year company insolvencies decreased by 6.8%, to 823 entities. However, this number is still twice as high than the pre-crisis level. The construction sector was previously a negative performer in the insolvency statistics. In 2011 and 2012, high dynamics of construction companies bankruptcies were recorded (46% and 52%, respectively). The year 2013 brought stabilisation to the sector's insolvencies and they subsequently started to decrease in 2014, by a rate of 21%. Although the construction sector remains challenging, with delays in payments and liquidity problems within many entities, there are signs of the sector's recovery. This includes the improvement in the housing market, with a growing number of dwelling constructions and permits issued for more. This is supported by the lowest historical interest rates and rising wages. Further positive impacts will come from the new EU budget, with significant funds (enhanced by domestic funding) planned to be spent on various infrastructural projects.

Insolvency Law & Insolvency Procedures

The rules on creditors jointly filing claims on insolvent debtors who are entrepreneurs are contained in the Bankruptcy and Rehabilitation Law of 28 February 2003, which essentially entered into force on 1 October 2003. Under the authors' assumptions the Law was meant to improve the position of creditors in the bankruptcy proceedings by introducing a number of new legal mechanisms.

Unlike the solution in force before that date, this Law introduced the uniform treatment of an insolvent entrepreneur. The intention of the first stage of these proceedings i.e. proceedings on the declaration of bankruptcy, is fundamentally to examine whether there are grounds for declaring bankruptcy. The second stage is the actual bankruptcy proceedings. There are two types of bankruptcy proceedings: proceedings with the possibility to make an arrangement or proceedings comprising the liquidation of the debtor's assets. The choice between the two types is made by the court in the decision declaring bankruptcy.

INSOLVENCY

However, the manner of conducting the bankruptcy proceedings may be changed by the court in a decision issued in the course of the proceedings, if such change contributes to the satisfaction of the creditors to a higher degree, and the grounds justifying the other manner of conducting the proceedings were disclosed in the course of the proceedings. The court declares bankruptcy with the possibility to make an arrangement if it is determined likely that under the arrangement the creditors shall be satisfied to a higher degree than they would be satisfied as a result of conducting the bankruptcy proceedings comprising the liquidation of the debtor's assets.

If no basis exists to declare bankruptcy with the possibility to make an arrangement, e.g. if in the view of the debtor's previous conduct it is not certain that the arrangement will be performed, the court will declare the debtor's bankruptcy by liquidation of the bankrupt's assets. The Law expands the catalogue of entities which cannot be declared bankrupt the list of entities not having the capacity to go bankrupt includes: the State Treasury, local government, independent public health institutions, institutions and legal persons created by a law or in the performance of a duty imposed by a law, individuals operating an agricultural farm and higher education institutions (public and private).

Apart from the procedural norms, the law also contains substantive law norms and criminal provisions.

The substantive law norms regulate the consequences of declaring bankruptcy, such as, inter alia, the emergence of a bankruptcy estate, management of the estate and a change in the contractual relations in force with respect to the bankrupt. However, the criminal provisions provide for criminal sanctions for bringing about a state of insolvency and offer protection against action taken to hinder the bankruptcy proceedings themselves.

CHECKLIST FOR BUSINESS OPERATIONS

The following table summarizes relevant information for investors and exporters.

Corporate law	■ Minimum capital for a stock company: PLN 100,000 ■ Minimum capital for a limited liability company: PLN 5,000
Tax law	■ Foreign corporations may be registered for VAT purposes ■ 19% corporate tax ■ 23% VAT ■ Reduced rates: 8% and 5% (reduced rates; further increases possible in 2014) ■ No VAT on exported goods ■ 18% to 32% income tax for individuals, depending on income
Investments	■ Equal treatment of Polish and foreign investors ■ Foreign investors may establish any legal form of business entity ■ Ownership up to 100% of Polish companies possible
Foreign exchange	■ No restrictions within EU
Labour law	■ Minimum wage 2014: PLN 1,680 (approx. EUR 401.53 based on the exchange rate in 04/2014) ■ Termination of contracts requires notice depending on the duration of employment ■ No work permit required for EU citizens and foreign executives
Customs	■ Poland is a member of the EU customs union and WTO
Travel and residence	■ No restrictions for EU citizens ■ Residence permit for stays of more than three months

Corruption

Poland was 35th in the International Corruption Perceptions Index 2014. In comparison, Germany was ranked 12th and Austria was ranked 23rd.

The Corruption Perceptions Index is issued by Transparency International, and lists countries according to the perceived level of public sector corruption. This perception is based on surveys of managers and experts, and related solely to the public sector.

Doing Business

The Doing Business Index issued by the World Bank (www.doingbusiness.org) expresses the ease of doing business in a particular country. In this ranking, Poland was ranked 32nd in 2015 and made a big step of 13 places compared to the previous year (45th). Germany and Austria were rated 14th and 21st, respectively.

This index consists of ten different sub-indexes that determine whether laws or other regulations exist in certain areas and whether or how they are applied. For example, the subcategories deal with the payment of taxes, hiring of staff and the founding and closing of companies.

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