



Country outlook ***Poland***





Poland



Form of Government: Parliamentary republic

Capital: Warsaw

Official language: Polish

Population: 38 million inhabitants (2018)

Currency: Zloty (PLN)

Exchange rate: 1 EUR = 4.26 PLN (31/10/2019)
1 USD = 3.82 PLN (31/10/2019)

GDP: \$585 billion (0.9% of world GDP)

GDP per capita: \$15,426 (\$32,005 purchasing power parity)

Ease of doing business: 40th in the world out of 190 according to the World Bank (Doing Business)

Religion: Catholic: 88%

Economic forecast

GDP. Year-on-year change (%)



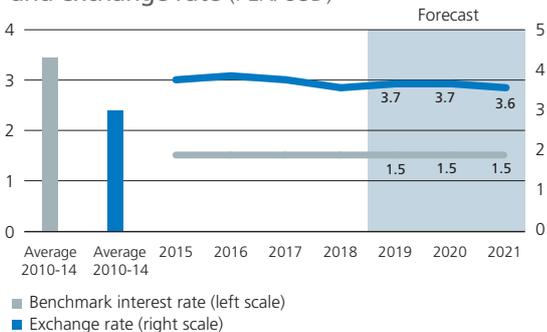
CPI. Year-on-year change (%)



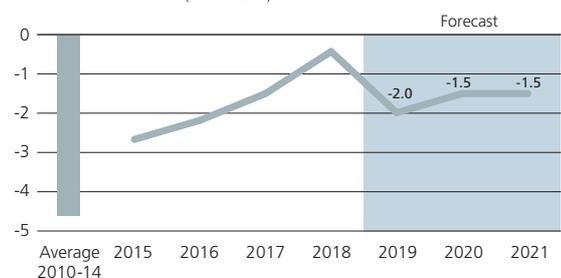
- After growing strongly over the past two years, the economy will moderate its pace of expansion in 2019-2021 towards levels more in line with the historical average, due to less dynamic activity in the euro area, the country's main trading partner. Growth will continue to be backed by strong domestic demand, helped by expansionary fiscal policy and EU structural funds.
- Despite strong economic growth, headline inflation has remained at the lower end of the National Bank of Poland's target band (2.5% +/-1 pp), largely due to the behaviour of energy prices (especially electricity prices) and food prices. For 2019-2021, we expect inflation to gradually recover on the back of strong domestic demand and high wage growth (6.5% year-on-year).

Economic policy

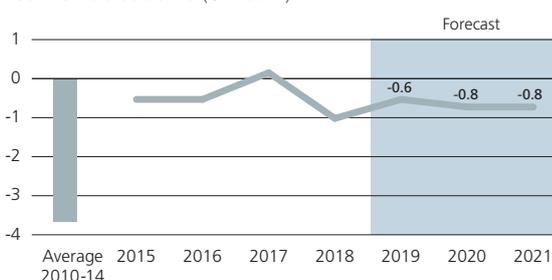
Benchmark interest rate (%) and exchange rate (PLN/USD)



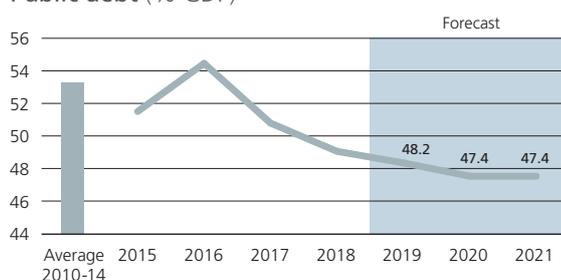
Fiscal balance (% GDP)



Current account (% GDP)



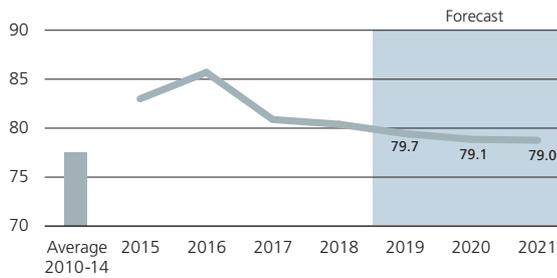
Public debt (% GDP)



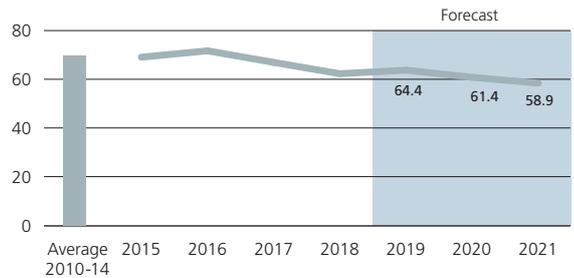
- The current account balance has deteriorated and has been in deficit since 2018 due to the increase in imports (driven by strong internal demand). Looking ahead to 2019-2021, we expect this imbalance to continue due to higher oil prices and a decline in foreign demand. In turn, the National Bank of Poland will remain cautious in 2019-2021 in light of the worsening external environment and the ECB's accommodative monetary policy.
- In 2019, against a backdrop of legislative elections, the decent rate of economic growth enabled the government to continue implementing populist measures (increasing pensions, reducing the income tax for young people, extending child subsidies to boost birth rates, etc.) without a dramatic increase in the deficit. Looking ahead to 2020, we expect the deficit to be far above the government's target (0.3% of GDP), mainly due to accommodative fiscal policy. In this context, the implementation of non-discretionary spending measures, such as social transfers, may raise pressure on the budget and hinder future fiscal adjustment. Nevertheless, public finances have improved considerably in recent years compared to the situation half a decade ago.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



- The Polish banking sector is well capitalised and enjoys a relatively low level of NPLs, which is continuing to fall. Despite being affected by the low interest rate environment, the tax on bank assets (0.44% per year on total assets, excluding public debt holdings) and stricter regulation, the sector's profitability has been recovering and compares favourably with other European countries.
- The Parliament is working on a bill to facilitate the conversion of mortgages denominated in foreign currencies into zloty. This proposal could come into force in 2020 and it includes creating a special fund to facilitate voluntary loan conversion. This fund will be funded through contributions from the sector (0.5% of the mortgage portfolio in foreign currencies). We estimate that this plan

- may cost the sector up to 3.2 billion zloty (744 million euros), although we do not expect it to have an impact on the country's financial stability.
- Additionally, the recent ruling of the European Court of Justice (in favour of mortgages denominated in Swiss francs being converted into zloty at the original exchange rate) may lead to an increase in legal actions against Polish banks. The ruling may entail a significant cost for the sector although it does not introduce any compulsory mechanism forcing the conversion of mortgages.
 - Credit continues to grow at a moderate pace, below nominal GDP growth. Moreover, lending standards have not loosened. However, the composition of the credit stock is somewhat biased towards consumer credit, with a higher yield but also an NPL ratio above the sector average.

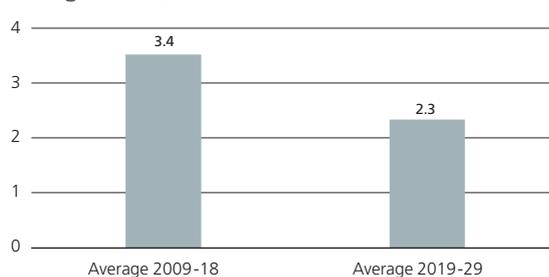
Political situation

- Since the Law and Justice Party (PiS) gained power (in 2015), it has implemented a series of interventionist reforms (judicial system, media, etc.) that have allowed it to increase its control over public institutions at the expense of eroding the country's democratic values. That, combined with the Government's refusal to accept the immigration quotas agreed by the EU, has led to several conflicts with the European Commission and other member states. Furthermore, the willingness of the Commission and some EU countries to make structural and cohesion funds that each member state will receive from 2021 dependent on it abiding

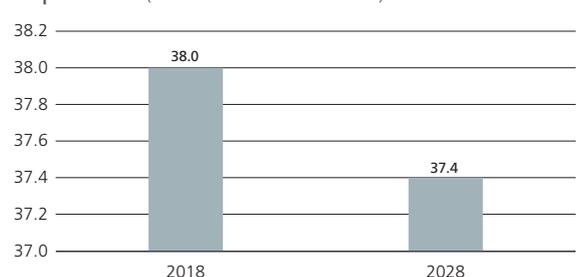
- by the democratic values and principles of the EU may sharpen the divisions between Poland and western EU countries.
- Although the government's policies have polarised public opinion, its generous social policies and traditional values helped the PiS win the parliamentary elections with an absolute majority in October 2019.
 - Internationally, Poland has chosen to diversify its diplomatic relations, pulling somewhat away from Europe and falling more in line with the US in order to temper Russia's influence over the region.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)



- Poland's main challenges are to continue the current convergence process with the advanced economies of the EU and to reduce the economic disparities between the eastern and western regions of the country (the latter with higher income per capita). In order to do this, Poland needs to implement measures that will help raise private investment, which is low due to the country's low savings rate and the reduced weight of foreign direct investment. Likewise, the convergence process requires productivity improvements (the productivity gains from Poland's integration into global production chains have begun to wane) and a higher labour market participation rate. However, the Government's recent reforms to lower the retirement age run directly counter to this goal.

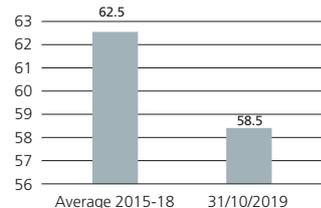
- Despite the policies that the government has implemented (particularly the subsidy for families with children), the country faces a negative demographic outlook, with a slight demographic decline and the progressive ageing of the population. However, the continuous flow of immigrants from Ukraine may help mitigate this effect.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	A-	12/10/18	Stable
MOODY'S	A2	12/05/17	Stable
FitchRatings	A-	23/08/13	Stable

■ Indicates that the country has "investment grade".
 □ Indicates that the country does not have "investment grade".

CDS* 5 years (basis points)



*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

SHORT-TERM

- Populist leaning of economic policy
- Institutional deterioration
- Further slowdown in the EU
- Increased tensions with the EU

LONG-TERM

- Failure to push for modernisation
- Negative demographic outlook
- Impact of Brexit and tensions with the EU on structural and cohesion funds from the EU
- Disparities in income between the country's eastern and western regions

Business environment

STRENGTHS

- Regional economic power.
- Market size (in regional terms).
- Human capital.

WEAKNESSES

- Institutions (regulatory complexity).
- Infrastructure.
- Rigidities in the labour market.
- Underdeveloped capital markets.
- Limited innovation.

Main sectors

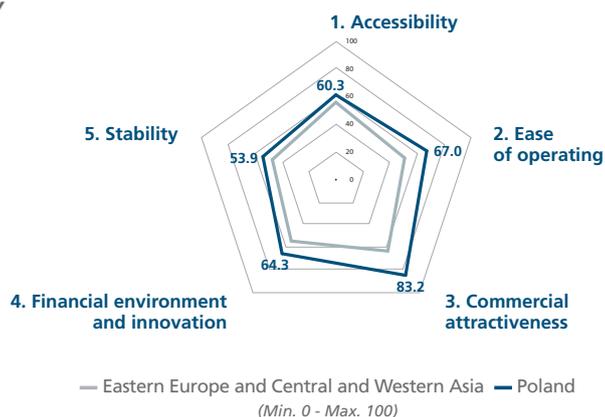
- Industry: transport equipment, metal products, textile products, chemical products and agri-food products.

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POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

- Top**
 Similar tastes to Spain
 Investment relations with Spain
 Credit and financial development
- Bottom**
 Innovation capability
 Easiness of operating a business
 Macroeconomic stability

Taxation

The corporate tax levied on the earnings of companies and legal entities is 19%.

Personal income tax is progressive:

- Incomes up to PLN 85,528: 18% tax after discounting PLN 556.02.
- Incomes above PLN 85,528: a fixed payment of PLN 14,839.02 plus 32% on the income above PLN 85,528.

Individuals carrying out business activities can opt to pay a fixed tax rate of 19%.

There are four rates of VAT:

- General rate of 23% for most goods and services.
- Reduced rate of 8% for some food products, health products and hospital services.
- Super-reduced rate of 5% for certain foods such as bread, dairy products, meat, etc.
- Exempt from VAT: this is applied to intra-EU transactions provided the receiver has an EU VAT number. This rate is also applied to exports of products and international transport.

Investment

In Poland, foreign direct investment for 2015 was 7.489 billion dollars. The main sectors for this investment were: the manufacturing industry, financial and insurance activities, wholesale and retail, the automotive industry and real estate activities. It is worth noting the existing support programme (2011-2020) for investments in sectors considered a priority

interest, such as the automotive industry, aviation, investment in R&D, etc. Over 80% of inbound investment in Poland comes from European countries. The main investors are Germany, France, the Netherlands, Luxembourg, Spain, Italy and the United Kingdom.

Establishment**LOCAL COMPANY**

The most usual forms are limited liability and joint stock companies (minimum capital required EUR 23,900) as they are the most practical. Poland's establishment costs are lower than in the EU15, but it can take time to establish a company as there are lengthy bureaucratic procedures. Moreover, many companies decide to go into business with a local partner due to the difficulties posed by the language.

The main legal forms for economic activities in Poland are:

- Self-employed worker.
- Civil company (*Spółka Cywilna – S. C.*).
- General partnership (*Spolka Jawna*).
- Professional company (*Spolka Partnerska*).
- Limited partnership (*Spolka Komandytowa*).
- Partnership limited by shares (*Spolka Komandytowo-Akcyjna*).
- Limited liability company (*Spolka z ograniczona odpowiedzialnoscia – Sp. z o.o.*).
- Joint stock company (*Spolka Akcyjna – S. A.*).

BRANCH

A foreign firm can set up a branch (*Oddzial*) in the country. The business activities carried out by a branch are limited to the activities carried

out by the parent company in the country of origin. The registration process takes place at the Register of Businesspeople (KRS).

REPRESENTATIVE OFFICE

Foreign companies can have representative offices (*Przedstawicielstwo*) in Poland, but their activity is limited to commercial functions that do not involve sales or income. To set up

a representative office in this country, you must apply to the Ministry of Finance, specifically the Register of Representative Offices for Foreign Enterprises.

Alliances strategic**FREE TRADE ZONE**

At present, free trade zones in Poland do not play a crucial role in the country's economy. These zones are expected to attract more foreign capital and facilitate exportations in the next few years. There are currently seven free trade zones: in Gliwice, close to Poland's

southern border; Terespol, close to Poland's eastern border; Mszczonów, close to Warsaw; at Frederic Chopin international airport in Warsaw; Szczecin; winouj cie and Gdansk. Poland also has 13 customs warehouses.

JOINT VENTURE

The legal forms to set up a joint venture in Poland are the same as for setting up a limited or joint stock company. In general, the same

regulations are applied to companies with foreign capital as companies with national capital, although there are some restrictions.

Customs conditions**FREE TRADE AGREEMENTS**

Regarding customs, since Poland joined the European Union in 2004 a common tariff has been applied to imported products; once paid,

the goods can circulate freely throughout all EU countries.

FREE TRADE ZONE

Goods are exempt from VAT and import duties and tariffs. In the free trade zones of the European Union, goods can be processed under customs control prior to them entering European Union territory or under the regime of inward processing prior to re-exportation. When goods leave a free trade zone, their final destination is not restricted.

If the goods are re-exported, they will not pay any customs duties or internal indirect taxes. If, on the other hand, the goods are released for free circulation, the corresponding customs duties and taxes for importation from the destination territory will have to be paid.

GENERALISED SYSTEM OF PREFERENCES (GSP)

Since it is part of the EU, Poland is one of the countries that grants tariff preferences by

applying zero duty or reduced tariffs to beneficiary countries (less developed countries).

Negotiations and protocol**BUSINESS CULTURE**

When doing business with Polish firms, certain aspects must be taken into account to present a proper and formal image. It is customary to use a local agent in the initial phases and, on some occasions, an interpreter given the complexity of the language. A gift is also often brought from the country of origin.

The negotiating style is direct, and initial business proposals are often made at the first meeting, although the final decision can take some time to

be made. If possible, the company's international experience should be highlighted as Polish businesspeople tend to value business confidence more highly than interpersonal relations.

It is important to respect religious beliefs and remember the strong nationalist sentiment, as sometimes this can make Poles reluctant to allow foreign firms in the country.

Subjects such as the Second World War and the Holocaust should be avoided.

Top fairs

- Budma – Building
- MTP – International Trade in different industries
- POLAGRA – Farming
- AUTOSTRADA-POLSKA
- TECHAGRO ITM – Innovation, Technology and Machinery

- Motor Show – Automotive
- ENOEXPO – Wine and local products
- IT FUTURE EXPO – Computing
- ENERGETAB – Energy
- ENEX - Energy
- PWEA – Renewable energy
- Drema – Machinery Wood Industry

Websites of interest

- Polish Agency for Information and Foreign Investment: <https://www.paih.gov.pl/en>
- Polish-Spanish Chamber of Commerce: <http://www.uzp.gov.pl>
- Government business development agency: <https://www.biznes.gov.pl/en>

Payment and charging methods**MEANS OF COLLECTION**

Bank transfers have now become the most widely used means of collection in this country since it joined the EU in 2004 and since the

privatisation of most of its banks, which are connected to the SWIFT system and offer transfer services cheaply, flexibly and quickly.

MEANS OF PAYMENT

The most widely used means of payment at present is bank transfer thanks to the safety of the new private banks and their inclusion in the SWIFT system.

EXCHANGE RATE INSURANCE

Despite the safety of working with an EU Member State, it may be advisable to hedge com-

mercial transactions against large fluctuations in the exchange rate with regard to the euro.

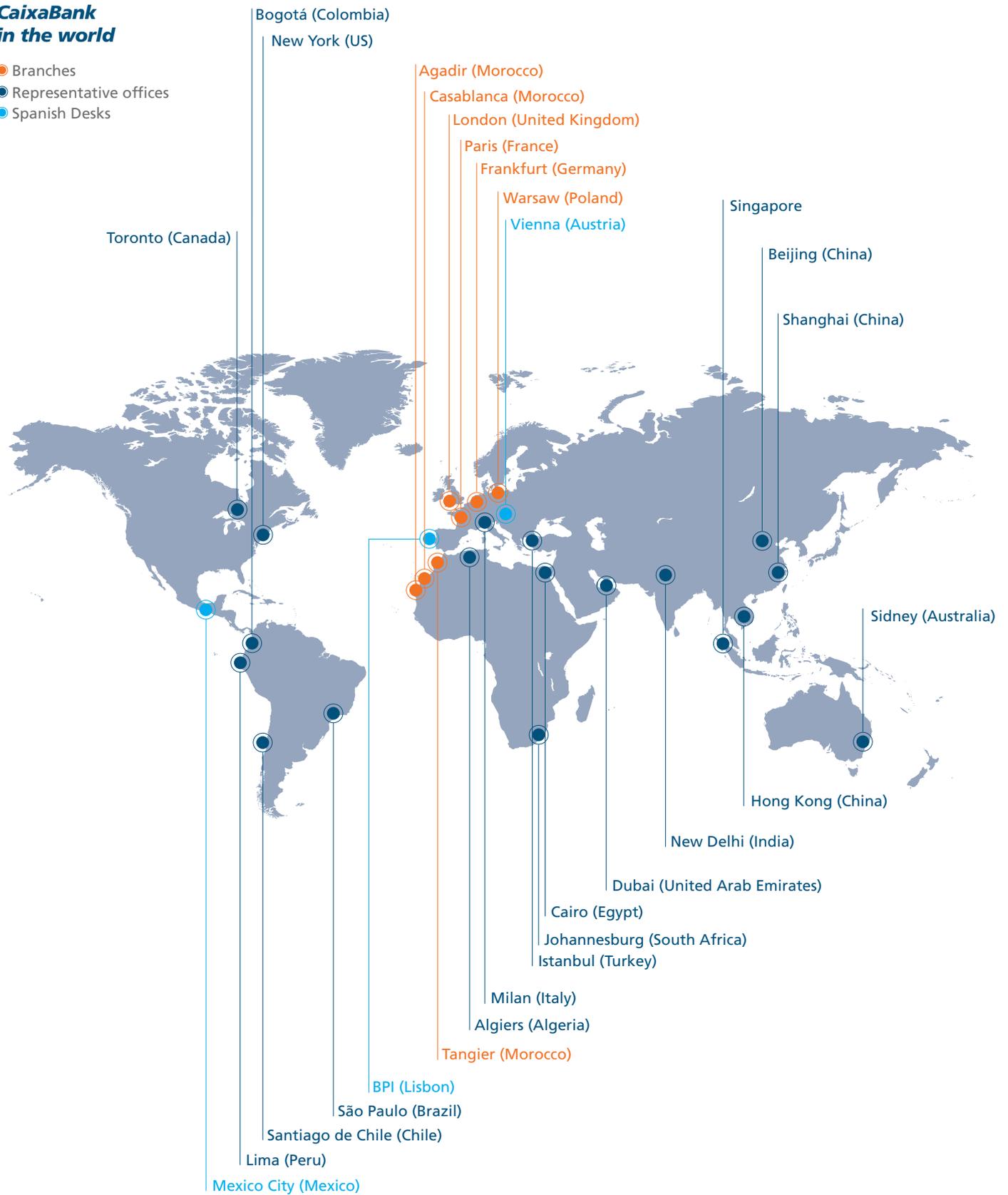
CaixaBank in the country

Through the CaixaBank branch in Poland, we offer consulting, financing and basic banking

services to firms both in the country itself as well as in the economic flows with other countries.

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks



Warsaw branch

Prosta, 51
00838 Warszawa (Polonia)

Director: Juan José Marín
Tel. (+48) 223 061 203