

Poland: *dynamism at the heart of Europe*

Grant Thornton International Business Report 2014



Introduction

Poland is an emerging economy of more than 38m people. In 2013, its GDP was approximately US\$514m, making it the 23rd largest economy in the world, and sixth largest in the European Union.

Drawing on data and insight from the Grant Thornton International Business Report (IBR), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF), this short report considers the outlook for the economy, including the expectations of 200 business leaders interviewed in Poland, and more than 12,500 globally, over the past 12 months.

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38 million inhabitants

200
business
interviews

Contents

- 3 The economy
- 4 Economic outlook
- 5-6 Business growth prospects
- 7 Business growth constraints
- 8-9 Joining the euro
- 10 Leadership
- 11 Women in business

US\$514m
gross domestic product

Economy

Poland's economy avoided recession during the 2009 financial crisis, and rebounded strongly in 2010-2011.

However, trade with Europe accounts for more than 80% of the total and so it was unable to escape the regional slowdown following the sovereign debt crisis. The economy suffered in 2012-13, growing at approximately 1.5% per annum, well below trend before the financial crisis struck.

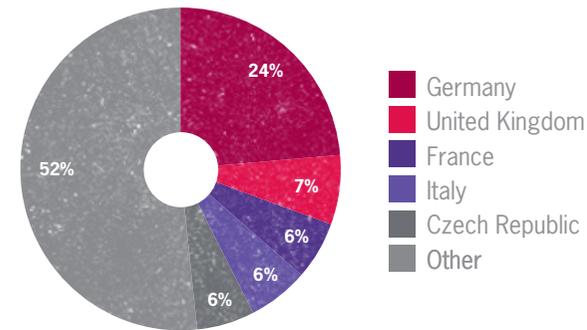
Germany is Poland's key trade partner, accounting for around a quarter of exports and imports. Poland is the top global exporter of various products, including passenger and cargo ships, furniture, seats, copper, coke, knives and blades. Cars and other vehicle parts account for over 10% of exports.

Key indicators

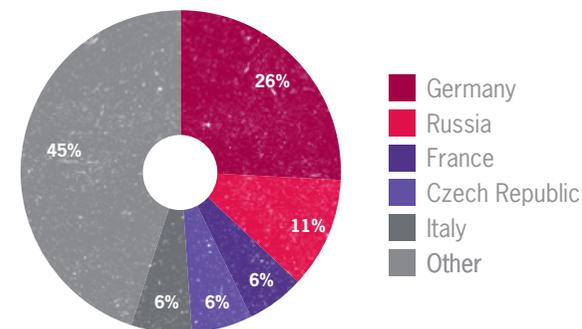
- the economy expanded by 0.6% in Q4 compared with Q3, growth of 2.2% compared with Q4-2012
- real GDP growth for 2013 as a whole was 1.6%, the slowest pace of expansion since 2009
- private and public consumption and net exports each contributed 1.5% to Q4 growth
- total industrial output in January was 6.3% higher compared with the same period in 2013 (and up 2.9% from December) driven by a 5.9% rise in manufacturing, particularly furniture (16.2%) and electrical equipment (12%)
- mining and quarrying output contracted by 12.2% in January from a year earlier
- headline inflation remains under 1%, well below the lower bound of the NBP's target range.

Economy expanded by **1.6%** in 2013

Export destinations



Import originations



Source: Observatory of Economic Complexity (2012)

Economic outlook

The recovery is expected to gain traction in 2014, with expansion of 2.9% forecast in 2014, up from 1.6% in 2013. Growth is likely to be broad-based with good balance between domestic and external demand.

Private consumption will be supported by strong real wage growth and the continuing low interest environment – the NBP has continued its policy of forward guidance and the main policy rate is now expected to remain unchanged at 2.5% until the third quarter of 2014. The recovery in the eurozone should underpin an improvement in exports which are forecast to rise by 6.5% in 2014, although rising domestic demand means imports are expected to climb by 5.9%, from 1.5% in 2013, meaning the contribution of net trade will be lower than last year.

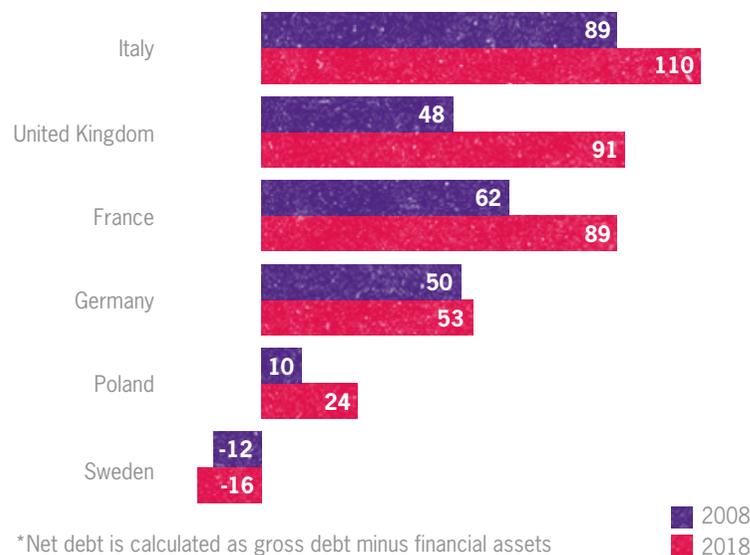
Businesses are also expected to benefit from low interest rates with investment expected to rise by 3.0% in 2014, having contracted by 0.5% in 2013. Producer prices continue to fall, although the pace of decline has slowed and businesses are expected to maintain low prices due to stable input prices and continuing strong competition.

The outlook for 2015 is even stronger with GDP growth of 3.5% forecast, driven by further improvements in private (3.0%) and government (2.7%) consumption. Exports are expected to climb to 6.9% in 2015 and 7.7% in 2016, but imports are forecast to rise even faster with the current account deficit forecast to reach 2.3% in 2016 from 1.5% in 2013.

Government debt is expected to rise to almost a quarter of GDP by 2015, up from a tenth before the financial crisis. However, Poland's public debt is very low in comparison with the largest members of the European Union and well below the 60% threshold specified for euro convergence. However from September 2014, public debt will be calculated in accordance with new standard ESA 2010 (European System of National and Regional Accounts) which defines what is covered by public debt, thus the rules of debt calculation will change and some part of the implicit debt may be revealed. The budget deficit is forecast at 3.5% in 2014 but is expected to fall back inside the Maastricht criteria target (3%) to 2.9% by 2015.

Any slippage in the eurozone recovery, continued instability in neighbouring Ukraine and further currency volatility caused by asset purchase 'tapering' in the United States represent significant downside risks to this forecast.

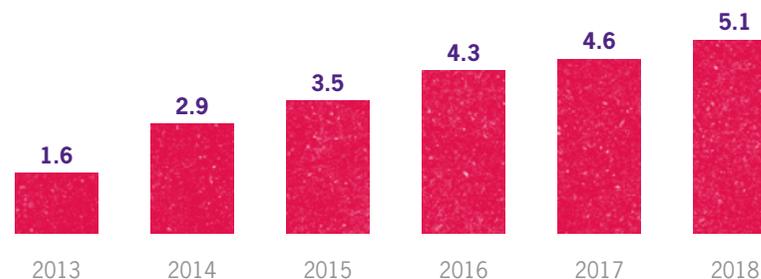
General government (public) net debt (% of GDP)*



*Net debt is calculated as gross debt minus financial assets corresponding to debt instruments.

Source: IMF (2013)

Poland's forecast GDP growth rate (%)



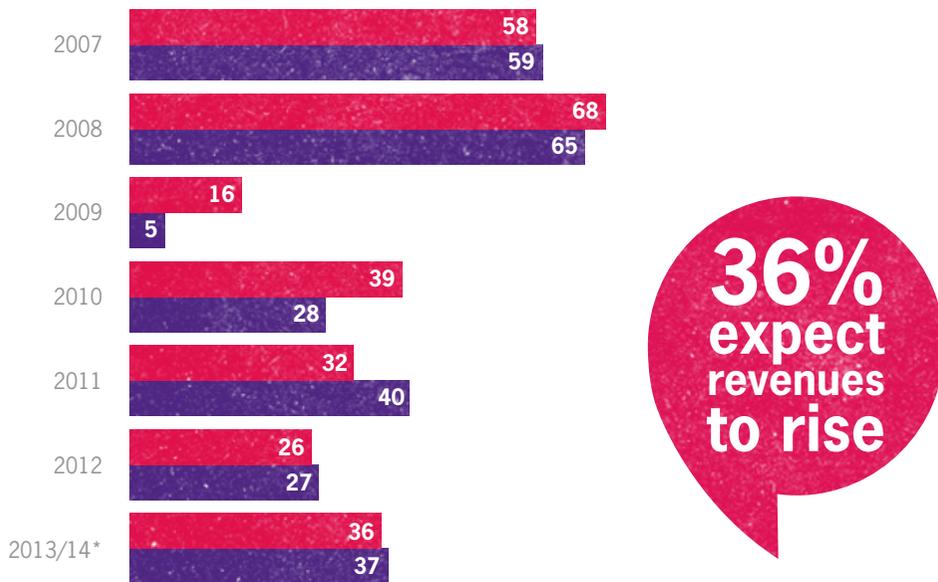
Source: EIU (2014)

Business growth

Business optimism in the economic outlook climbed to net 50% in Poland in Q1, up from 18% in Q4-2013, and the highest level recorded in Poland since 2008. This raises the last four-quarter average up to net 32%, up from just 7% in 2012. This improvement mirrors a rise in optimism seen across the European Union (EU) from net 21% to 37% over the past three months.

This renewed sense of optimism in the wider economy is feeding through into business expectations for the growth of their own operations. Net 58% of business leaders in Poland expect to increase revenues over the next 12 months, bringing the last

Net percentage of expecting to increase revenues (next 12 months)



*last four-quarter rolling average

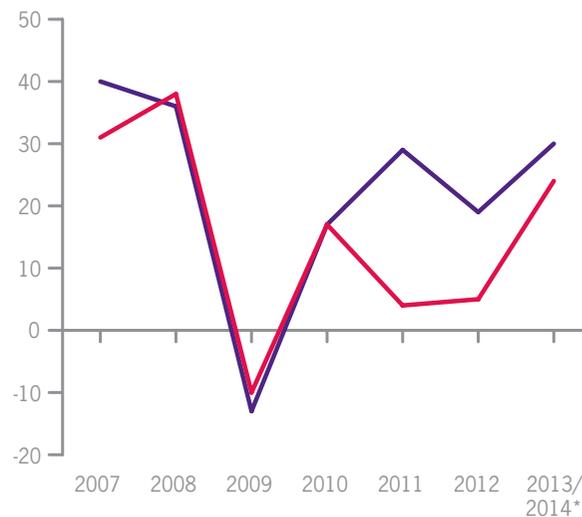
Source: Grant Thornton IBR 2014

■ Poland
■ EU

four-quarter average up to net 36%, ten percentage points higher than 2012. Across the EU, net 44% of business leaders expect their revenues to climb; 37% on average over the past four quarters, up from 27% in 2012. The eastern Europe average is even higher at net 63%.

Polish business leaders are equally bullish on profitability growth, with 48% expecting to see a rise over the next 12 months. The last four-quarter average now stands at net 24%, up from just 5% in 2012. The EU average rose from net 19% to 30% over the same period; again the eastern Europe average is slightly higher at 47%.

Net percentage of expecting to increase profits (next 12 months)



Source: Grant Thornton IBR 2014

■ Poland
■ EU

24% expect profits to rise

Growth prospects (cont.)

Investment plans in Poland remain well above the regional average. Net 50% of business leaders expect to increase investment in plant & machinery over the next 12 months, marginally above the four-quarter average of 47%, up slightly from 44% in 2012. The EU four-quarter average is 29%. However, looking over the longer term, investment activity is actually down on pre-crisis levels; in 2008, 62% of Polish businesses expected to increase spending on plant & machinery and 44% on new buildings.

Expectations for exports have also improved, rising to net 36% in Q1 (25% across the last four quarters) suggesting improved demand across Europe as the region slowly recovers from the sovereign debt crisis.

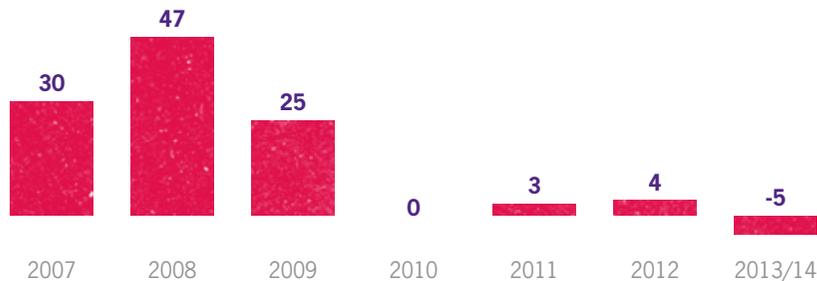
The labour market remains subdued however; net 16% of Polish businesses expect to hire workers over the next 12 months pulling the four-quarter average up to 5%. This compares to 15% across the EU and 29% across eastern Europe. Indeed, Polish businesses have hired very few workers over recent years. In the past 12 months a majority (5%) have actually shed workers. This compares to 47% which hired in 2008.

Net percentage of businesses expecting to hire workers (next 12 months)



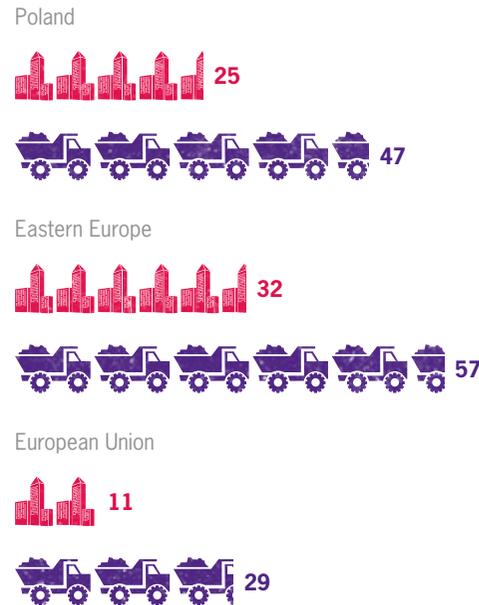
Source: Grant Thornton IBR 2014

Net percentage of Polish businesses hiring workers (last 12 months)



Source: Grant Thornton IBR 2014

Net percentage of expecting to increase investment (four quarter average)



Source: Grant Thornton IBR 2014

■ New buildings
■ Plant & machinery

business investment prospects above EU average

Growth constraints

Bureaucracy remains the key constraint on growth for business leaders in Poland; 47% expect regulations and red tape to slow the expansion of their operations over the next 12 months, well above the EU average of 33%. However, over the longer-term, the burden of bureaucracy has actually declined in Poland: in 2008, 63% of business leaders cited regulations and red tape as a constraint and the result this year is down from 54% in 2012.

Across the EU, economic uncertainty is the most pressing constraint for business leaders (40%) and it is an issue affecting a similar proportion of those in Poland (41%). The Q1 interviews were taken before the crisis in Ukraine (which accounts for only around 3% of total exports) erupted but Europe remains a vital trade partner. Weak demand to the west has hurt Polish exporters, and while prospects are brightening across the eurozone, big economies such as France and Italy remain in the doldrums. The other issue business leaders could be concerned by is the tapering of asset purchases in the United States which has caused a number of other emerging economy currencies to slide.

A lack of demand is affecting more than a third of Poland's businesses (36%), slightly above the EU average (31%), with some key regional trade partners still struggling for growth. This is down from 41% at the height of the sovereign debt crisis in 2011 and 2012, but remains well above levels seen before the financial crisis struck (22% in 2008).

A shortage of finance is also more of a concern in Poland (33%) compared with the EU average (24%), however very few businesses cite connectivity issues with fewer than one in ten business leaders citing poor quality transport or information communications technology (ICT) infrastructure as a drag on their growth prospects.

**bureaucracy
constraining
business
growth
plans**

**a lack of
demand is a
challenge**

Percentage of businesses citing factor as a constraint on growth



Source: Grant Thornton IBR 2014

■ Poland
■ EU

Joining the euro

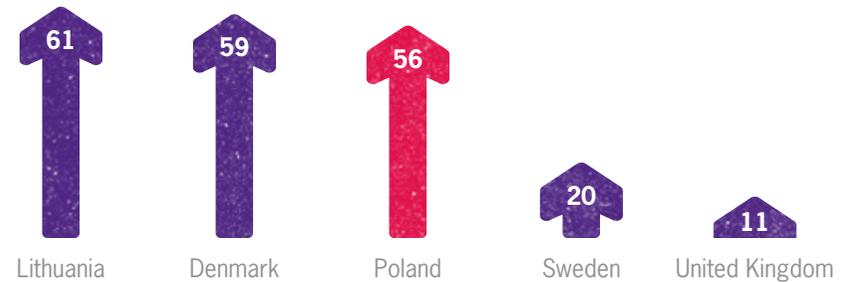
In the wake of the bailout of Cyprus, Poland, together with the Czech Republic, have both taken a step back from joining the Exchange Rate Mechanism (ERM II), one of the Maastricht convergence criteria for joining the single currency.

In 2013, Marek Belka, the president of the National Bank of Poland, suggested that Poland may not be willing to peg the zloty to the euro before joining. At issue is a desire to retain the free-floating zloty for as long as possible in order to be able to maintain the price competitiveness of exports which would be sacrificed if Poland were to join ERM II. However it remains to be seen whether EU member states will be allowed to pick and choose which convergence criteria they adhere to.

Businesses in economies already operating inside ERM II – Lithuania (61%) and Denmark (59%) – are only slightly more positive. Indeed, Polish businesses are about as keen for the euro to keep expanding (39%) as the eurozone average (38%), and more so than their Baltic neighbours, Estonia (33%) and Latvia (18%), which have already adopted the single currency.

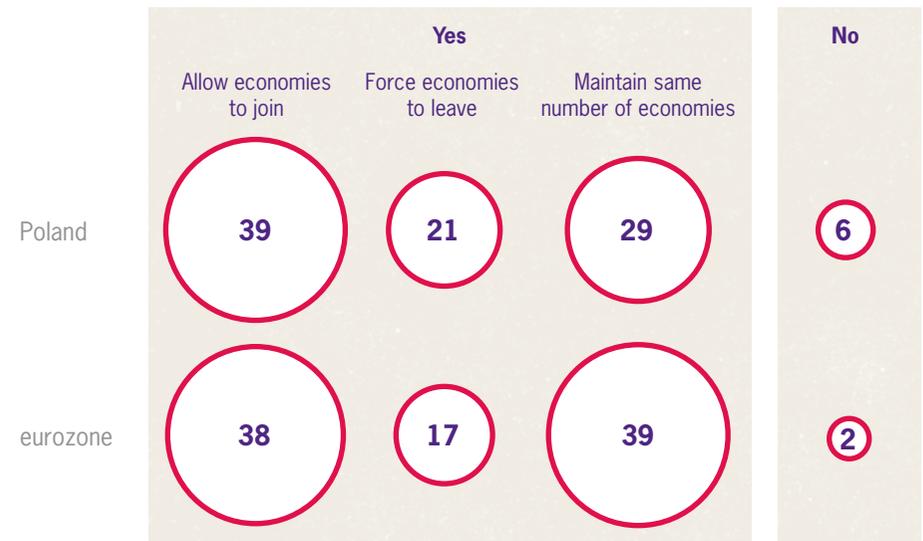
business support for joining euro has fallen

Would you like your country to adopt the euro? (% yes)



Source: Grant Thornton IBR 2013

Would you like to see the euro survive?



Source: Grant Thornton IBR 2013

Joining the euro (cont.)

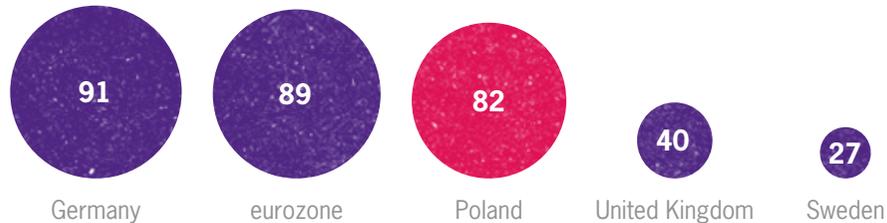
Support for joining the single currency remains fairly high in the Polish business community at 56%, although this is down from 64% in 2012.

Business leaders in Poland are certainly not expecting to join the euro imminently: just 37% expect to be using the single currency by 2016, with a further 45% expecting to join at some point beyond 2017. Just 7% expect never to join the euro, compared with 50% in Sweden and 76% in United Kingdom.

More broadly, business leaders in Poland are more keen than any others outside the single currency to see further economic EU integration of member states (54%), although this is below the eurozone average (66%). A further 13% of businesses do not want to see any further integration, similar to Lithuania (11%) and Latvia (13%) but well behind Sweden and the UK (both 55%).

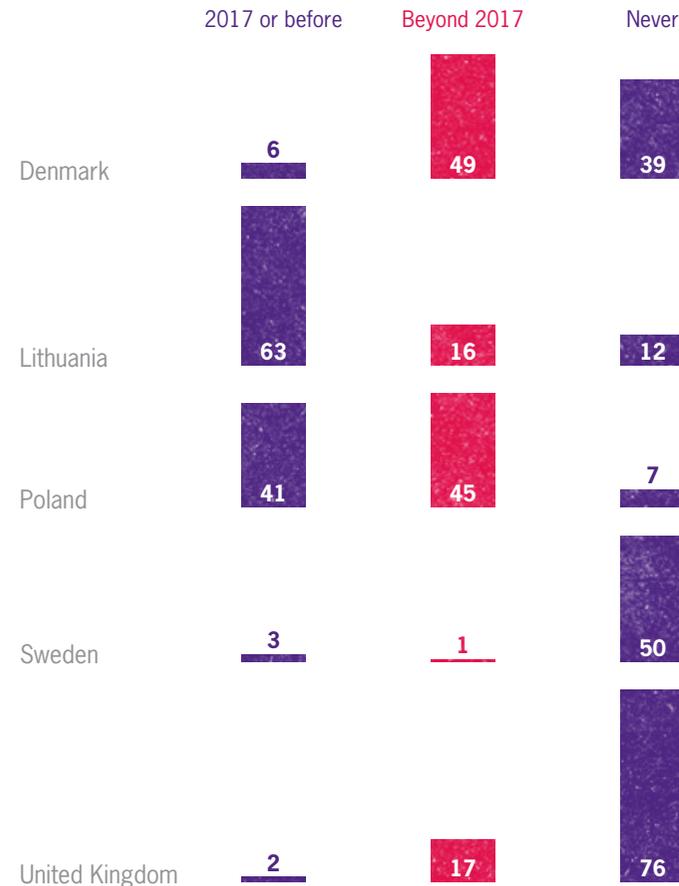
almost half of Polish businesses expect to join the euro beyond 2017

Percentage of business leaders who want to see further EU integration



Source: Grant Thornton IBR 2013

When do you believe your country will join the euro area? (%)



Note: totals do not add up to 100% as 'Do not know' responses are not shown.

Source: Grant Thornton IBR 2013

Leadership

Leaders of successful businesses are varied; the best leaders do not possess one single style or set of characteristics. However, recent IBR research reveals that certain attributes are highly valued across the world.

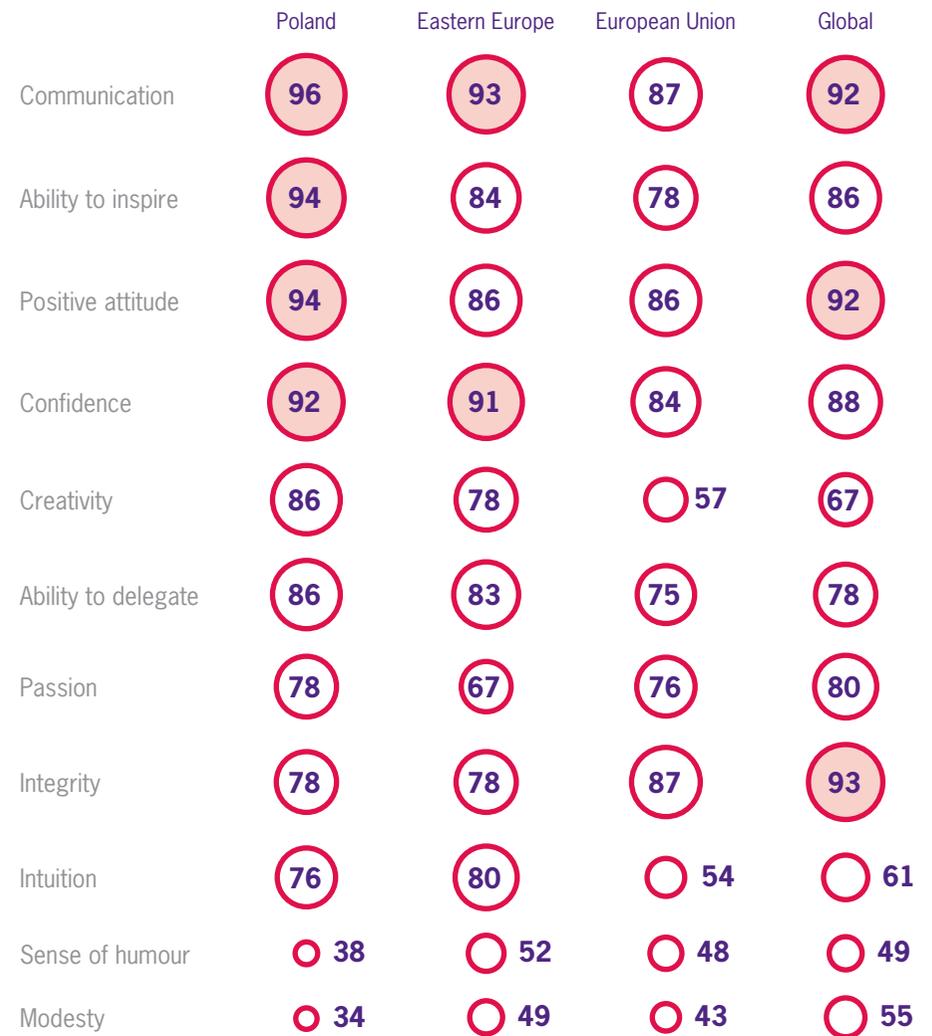
Communication – the ability to articulate a vision and explain a strategy – emerges as the most valued leadership attribute in Poland with 96% of respondents citing it as important. This is also the top attribute across the whole of eastern Europe (93%) and the European Union (87%). It ranked second globally (92%). This is followed in Poland by the ability to inspire and a positive attitude (both 94%). Confidence is relatively more important to business leaders in Poland (92%) compared with the EU (84%) and global (88%) averages.

Creativity (86%), the ability to delegate (86%) and intuition (76%), traits associated with higher levels of women in senior management (see Women in business section), are more far more highly regarded in Poland compared with EU and global average.

However, integrity, which emerges as most important leadership attribute globally (93%), ranks well down the list in Poland (78%). Across eastern Europe, integrity is seen as relatively less important (78%) than in the European Union as a whole (87%), perhaps reflecting an operating environment where businesses are more willing to bend the rules. Neither modesty (34%) nor a sense of humour (38%) are particularly valued in Poland.

Business leaders are also unlikely to use coaches to improve their performance. Just 16% of Polish business leaders have ever used a coach, compared to 35% globally and 25% across the EU. Instead, leaders look to developing their peer networks (78%) and requesting feedback from direct reports (74%) as the key ways in which they develop their leadership capabilities.

Percentage of businesses citing attributes as important for being a good leader



Source: Grant Thornton IBR 2013

Women in business

Women are relatively well represented in the senior ranks of Polish businesses, holding 34% of such roles according to IBR 2014 data, broadly in line with the 2004-2013 average (33%). It is a particularly impressive performance given the global average is stuck 10 percentage points lower at 24%. This is good for Poland: more diversity leads to better decision-making and numerous empirical studies show that greater gender diversity correlates directly to higher sales, stock market growth, returns on invested capital and returns on equity.

Eastern Europe (37%) has particularly high levels of women in senior management. Russia (43%) tops the global rankings with Latvia (41%) and Lithuania (39%) also in the top five. Poland ranks twelfth in the 45-economy study. Just 15% of businesses in Poland have no women in senior management, only just above the eastern Europe average (13%), and well below the global average (33%).

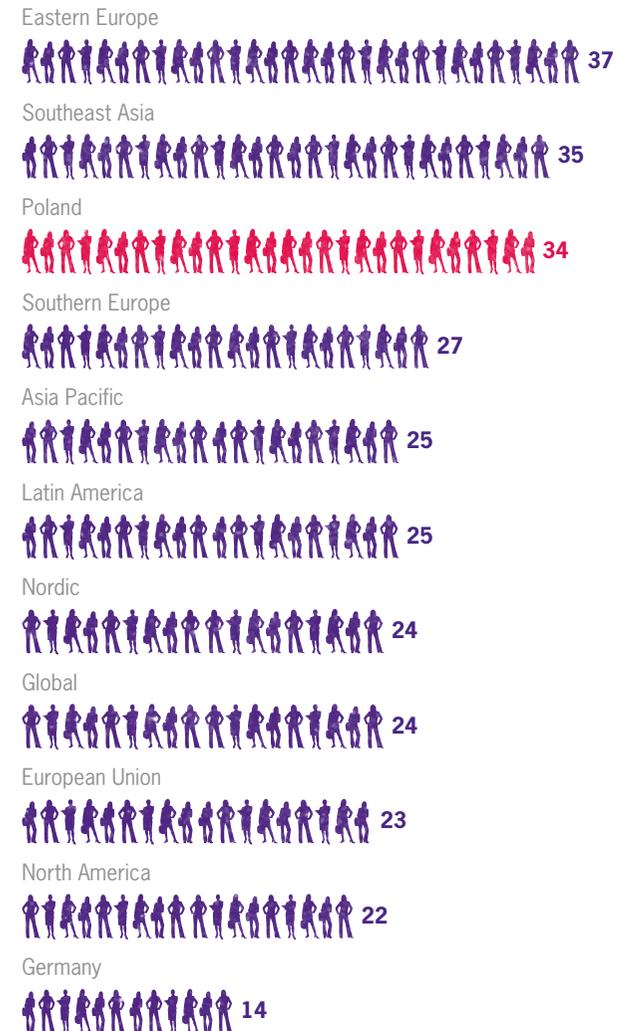
The strong performance of women in these markets can be traced back to the influence of Communism. Communist leaders were eager to show 'equal opportunity for all', demonstrated through the promotion of women in the rapidly expanding services sectors, such as health, education and accountancy.

Just 13% of businesses in Poland are run by a woman, similar to the global (12%) and eastern Europe (13%) averages. Women are much more likely to be employed as Chief Financial Officer (39%)

or HR director (23%). Across eastern Europe, 37% of businesses have a female CFO and 31% have a female HR director; this compares to just 15% and 18% respectively in the European Union.

Perhaps of greater concern when thinking about the next generation of female leaders in Poland is the low proportion of female graduates that business hire each year. Just 18% of the average graduate intake of Polish businesses are women, which is slightly below both the global (21%) and eastern Europe (20%) averages. This compares to 38% of total employees. It is a reasonable assumption that a sizeable proportion of a business's future leaders will come from its pool of graduates, so getting more women starting at that level will increase the odds of them making it to the top. It's better for businesses too; a wider breadth of candidates means more chances of hiring star performers.

Proportion of senior management roles held by women



Source: Grant Thornton IBR 2014

IBR 2014 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 3,300 senior executives every quarter in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys more than 12,500 businesses leaders in 45 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in businesses with 50-499 employees. For the purposes of this report, eastern Europe comprises Armenia, Estonia, Georgia, Latvia, Lithuania, Poland, Russia and Turkey.

To find out more about IBR, please visit: www.internationalbusinessreport.com.

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	Number of respondents		Dates
	Global	Poland	
Q1	3,300	50	February 2014
Four-quarter average	12,500	200	May 2013 – Feb 2014
Women in business	6,700	100	Nov 2013 – Feb 2014
Euro entry	3,100	100	Nov 2012 – Feb 2013
Leadership	3,300	50	September 2013



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