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PANORAMA POLAND CONSTRUCTION SECTOR

THE COFACE ECONOMIC PUBLICATIONS

by Grzegorz Sielewicz
Coface Central Europe Economist

The construction sector in Poland has undergone turbulent times. After the booming period related to increased demand for housing construction as well as massive public investments thanks to organizing the Euro 2012 football championship, the sector experienced a significant deterioration. The event brought many contracts however companies were suffering from significant fluctuations of prices of construction materials. It impacted their profitability and led in many cases to filing for insolvency. Since 2008 the number of bankruptcies of construction companies has considerably increased by two-digit dynamics each year.

The recent insolvency statistics show signs of stabilization of the construction sector. If bankruptcies have stopped rising, does it mean that the sector rebounded from its serious deterioration? Is this trend going to be continued? Undoubtedly, the housing market has been recently supportive for the entire construction sector. The demand for dwellings has increased thanks to attractive prices, historically low interest rates and support of the governmental program to some extent. Will the trend be supportive for the construction sector over the next few years?

Although funds from the previous EU budget have to be used till 2015, the current multiannual framework for 2014-2020 is going to be further supportive also for construction companies. Poland is the biggest beneficiary of the current framework being allocated with almost EUR 90 billion. Abundant public investments will make a huge opportunity for the construction sector.

This Panorama reviews the current situation of the Polish construction sector and looks into its perspectives. Will the current opportunities transform into the long-term improvement of the sector? Will insolvencies of construction companies become just a theoretical term as higher demand for construction services will trigger a booming period for all entities? First, we will look into historical fluctuations of the construction sector which have had an impact also on its recent performance to some extent. Then we will review the current situation with forecasts for the construction sector including the main drivers that could trigger its possible recovery. The last section focuses on our Sectorial Risk Assessment with the current risk outlook on particular sectors of the Polish economy. In the case of construction sector its improving perspectives have justified our recent decision to upgrade its assessment from very high risk to high risk. We have also made other risk assessment revisions. Upgraded sectors include metals and automotive, both revised to medium risk. Downgrades have been done in the case of the transport sector and chemicals, mostly due to external risks.

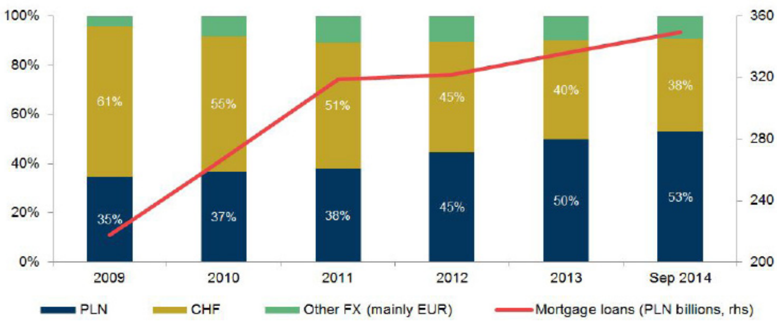
1 UPS AND DOWNS OF THE CONSTRUCTION SECTOR

At a first glance the construction sector is not a crucial driver of Polish economy. Its share in the country's gross value added accounts for just 7% (in line with the CEE average which ranges from 4% in Hungary to 9% in Romania) whereas the biggest contribution comes from manufacturing (25%) and trade (27%). However construction companies use widely the output of the manufacturing sector and therefore the performance and supply of industry is connected with demand generated by the construction sector. It is also an important employer – the construction sector's workforce reached 870 thousand employees in 2012 accounting for 10% of the total number of persons employed in Poland.

The housing market benefits from huge demand and attractive mortgage loans

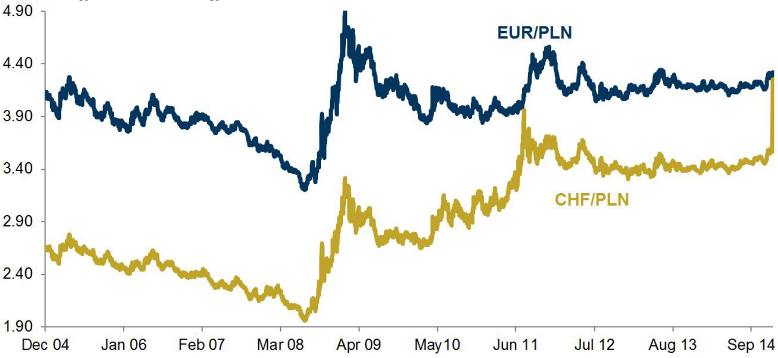
The construction sector's contribution in creating the country's GDP was even higher in last years, especially during 2007-2012 when it peaked at 8.2% in 2011. The housing market benefited from an inflow of demand coming strongly from new consumer base – baby boomers born in early 80s that have entered the labour market and gained the creditworthiness. Many borrowers were willing to accept an exposition to currency risk (see Chart 1) and benefit from sizeable lower installments and higher lending capacity.

Chart 1
Mortgage loans and their currency structure



Source: Polish Financial Supervision Authority

Chart 2
Exchange rate changes



Source: National Bank of Poland

As such mortgage loans in hard currencies became very popular, mainly in Swiss franc (CHF) due to a wide differential to domestic interest rates. The trend of appreciating Polish zloty (PLN, see Chart 2) created estimations that future debt service costs will be even lower than scheduled.
The collapse of Lehman Brothers bank that initiated the financial crisis and volatilities on Foreign exchange (FX) markets was a harmful experience for borrowers with CHF loans. They had to be able to absorb higher installments due to CHF appreciation but also the principal of their loans increased. The dwellings prices slumped facing the oversupply of properties and subdued demand. Consequently, FX borrowers suffered from increasing LtV[1] ratios whereas the principal of their loans exceeded even the dwelling value in some cases. There was a high risk of growing number of non-performing loans however it stabilized so far at 3% - the similar level as in the case of PLN mortgage debt. Banks mitigated the risk by calculating the FX fluctuations buffer while assessing the lending capacity.

However significant exchange rate movements made the Polish Financial Supervision Authority to introduce measures in 2011 limiting the exposition of households to currency risk. Currently, banks do not offer FX loans unless a borrower receives a salary in that currency. Borrowers of outstanding FX loans have benefited at least from disparities of domestic and foreign interest rates.

Although the Polish zloty is forecasted to be on the appreciating trend in a long run, it is subject to temporary fluctuations. The Swiss franc borrowers can still suffer from further exchange rate changes. The recent decision (15th January 2015) of the Swiss National Banks to abandon keeping the minimum exchange rate of Swiss franc to euro at 1.20 made a sizeable appreciation of franc to other currencies. Polish households which incurred loans in CHF will suffer from higher installments and the increase of LtV ratio however it will not have an impact on the construction sector in Poland. CHF borrowers have been already experiencing much stronger CHF compared to the exchange rate when they incurred loans. As such most of them were not potential buyers of new housing so that fact will not diminish demand for new dwellings. At the same time, although non-performing loans ratio will rise, it will not contribute to the massive sale of current dwellings of CHF borrowers. Banks will take over their apartments as the last step if other actions and proposals will fail. Even though, the sale of such apartments by banks will be spread out over time.

[1]Loan to value ratio calculated as the mortgage amount divided by the estimated value of the property

Football championships – another boost for the construction sector

At the time of booming housing market, the construction sector received another positive message. On 18th April 2007 Michel Platini announced the UEFA's decision that Poland and Ukraine will organize the Euro 2012 football championships. On that day the Polish Stock Exchange experienced rallies of share prices of construction entities. Next years have been anticipated as a period of abundant development of the construction sector. Public investments were widely supported by the inflow of EU funds. Some mutual funds created even separated subfunds focused only on investing in construction companies. Foreign construction entities were actively increasing their exposition in Poland or merge with local companies.

For the championship construction companies were competing for public contracts on building the infrastructure and buildings related to the event. These also included projects improving communications between cities and the construction of fast roads in particular. The length of highways and expressways in Poland increased by 2.5 times from 1100 km in 2007 to 2739 km in 2013. Although the championships contributed significantly, creating a milestone in the history of Polish infrastructure development, the resulting fierce competition and contractor selection based on the lowest offered price drove many companies into debt and substantially increased the payment risk. Banks have become increasingly reluctant to finance construction companies which they noted as high risk.

Chart 3

Insolvencies in the construction sector in 2007-2013

Year	Construction insolvencies*	Construction share in all insolvencies
2013	213	24.1%
2012	218	24.9%
2011	143	19.8%
2010	98	15.0%
2009	82	11.9%
2008	59	14.3%
2007	49	11.0%

* excluding manufactures and suppliers of construction materials

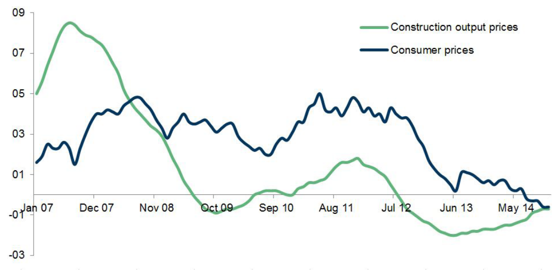
Source: Coface

Limited own funds, low margins and rising overdues contributed to many entities becoming insolvent. Moreover, contracts were not indexed with changes of construction material prices which increased substantially due to higher demand. Companies were forced to absorb those price changes which impacted their profitability. Insolvencies of construction companies have started to become more evident. Whereas the year 2007 brought 49 bankruptcies in the sector, there were four times more insolvent debtors in 2013. Consequently, the construction sector became a negative performer of total insolvency statistics. Hence, one in tenth insolvent companies in 2007 represented the construction sector, it then rose to one in fourth in 2012 and 2013. Whereas the year 2007 brought 49 bankruptcies in the sector, there were four times more insolvent debtors in 2013. Consequently, the construction sector became a negative performer of total insolvency statistics. Hence, one in tenth insolvent companies in 2007 represented the construction sector, it then rose to one in fourth in 2012 and 2013.

Even if construction companies were not declared insolvent they suffer from difficult financial situation. Poland experienced the first deflation of consumer prices in July 2014 (-0.2% y/y). However deflation of construction output prices started much earlier, i.e. in August 2012 and still remains. It was impacted by declining producer prices however it confirms also that construction companies have been operating at low margins for a significant period of time. Cutting costs were one of necessary actions to be implemented. The employment has been constantly decreasing. The average employment in the construction sector decreased by 7.1% in 2013 compared to 2012. Further reductions have been done in the first three quarters of 2014 with 7.8% less persons working than in the consecutive period of previous year.

Chart 4

Price indexes (year on year growth)



Source: Central Statistical Office

Deep contraction evolves into signs of improvement

After years of positive growth of the construction output[2], the contraction started in the middle of 2012. Lower dynamics were in line with finishing investments done for the Euro 2012 championships. However the deterioration was much deeper reaching nearly 30% contraction in yearly

[2]The output of the construction sector is subject to seasonality as new construction works are usually lower during the winter period. Whereas the monthly construction output confirms the seasonality sensitiveness of the sector the yearly average levels reflect the performance of the sector more accurately in a long run.

terms in the summer of 2013. Having been stuck in a negative dynamics for 18 months the construction output finally rebounded at the end of 2013. The positive growth rates have been easier to reach after such a significant contraction.

However beside the base effect, construction enjoyed also additional positive factors. They included a relatively warm winter of 2013/2014 with no long stopovers of construction works as well as an improved sentiment of local companies to develop their businesses and increase capacities. Their investments outlays for buildings and structures generated two digit dynamics of growth both in the first and second quarter of 2014. The improvement is also recorded at the housing market. After first nine months of 2014 dwellings which construction has begun exceeded 114 thousand providing yearly growth of 17%. At the same time the level of dwellings under construction remains stable and it amounted to 709 thousand in the same period of this year.

Chart 5

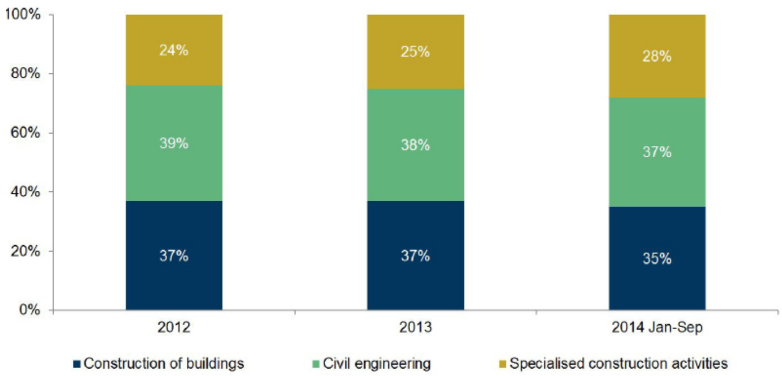
Construction output growth

* Coface forecast

Source: Central Statistical Office, Coface

Chart 6

Construction output by types of activities



Source: Central Statistical Office

The construction output is driven mainly by construction of buildings and civil engineering. The latter was strongly supported by improving infrastructure in Poland, mainly building new or upgrading existing roads. Nevertheless, specialised construction activities accounts for a 25% share and they correspond strongly with the overall performance of the sector and demand for related works and refurbishment activities.

Is the construction sector recovering?

Concluding the latest positive performance of the construction sector, is it going to transform to a sustainable recovery? Especially two factors can trigger an improvement of construction in the near future:

1) Housing demand is expanding

Interest rates in Poland remain at historical low levels. The Monetary Policy Council of the National Bank of Poland started to decrease them in November 2012 when the reference rate was 4.75%. After several revisions and more than one year of a standstill period the latest revision came in October 2014 bringing the reference rate to 2%. The low cost of getting financing has been encouraging for households to incur new loans including mortgage ones. Dynamics of such loans are far away from abundant growth rates recorded during the construction boom however they translate to higher demand for new dwellings. At the same time low interest rates are not supportive for holding deposits and as such the housing market gets more attractiveness as an investment possibility.

The Polish Financial Supervision Authority issued the Recommendation that imposes a certain own contribution while a customer gets financing by a mortgage loan. Starting 2014 financing banks require the own contribution of at least 5%. That ratio will progressively rise in next years: 10% since 2015, 15% since 2016 and 20% since 2017. The implemented Recommendation makes volatilities of the LtV ratio less sensitive and it lowers the interest rate risk. The latter is crucial especially when the customers' credit standing is assessed at time of low interest rates environment. The Recommendation caused also higher demand especially in last months of 2013 when clients wanted to benefit from a possibility of full financing from a mortgage loan. Last months of 2014 have provided stronger demand as well. Assuming that a medium size apartment in main Polish cities could be bought for PLN 400,000 the next threshold of a 10% own contribution scheduled to be in force from 2015 will result in a necessity of engaging own funds of PLN 40,000 i.e. the equivalent of 10 month average gross wages.

In late 2013 the government introduced a dedicated program supporting buyers of housing by co-financing a part of dwelling's price. The scheme called "Housing for the Young" replaced the previous "Family on Their Own" which was in force since 2007 (please refer to a box below regarding details of schemes). Programs are supportive for the housing market however the current one only to some extent due to its restrictive rules.

BOX 1

	Housing for the Young (Mieszkanie dla Młodych)	Family on Their Own (Rodzina na Swoim)
Effective	Ongoing (scheduled from January 2014 till end-September 2018)	2007-2013
Entitled beneficiaries	Married couples and singles (up to 35 years old) with or without child/children that have not owned any housing in the past	Singles with child/children and married couples that cannot own other housing that the one in the scheme
Housing market	Only primary; apartment (up to 75m2) or house (up to 100m2); in a case of families with at least 3 children: 85m2 and 110m2, respectively.	Primary and secondary; apartment (up to 75m2) or house (up to 140m2)
Target of support	Subsidizing own contribution: 10%* (singles and childless couples) or 15%* (singles or couples with at least one child) of average local prices; mortgage loan in PLN for at least 50% of housing price with at least 15 years maturity	Financing a part of interests (up to 50%*) of mortgage loan for first 8 years of repayment
Housing price limits	Maximum price per m^2 updated each quarter referring average market prices	Maximum price per m^2 updated each quarter referring average market prices
Involved institutions	Several banks which signed agreement with the Polish state owned bank (BGK)	Several banks which signed agreement with the Polish state owned bank (BGK)

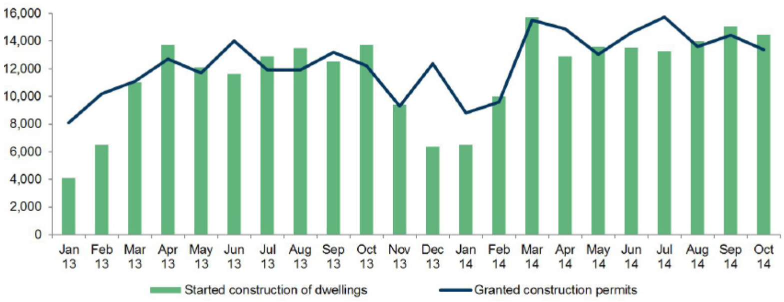
*detailed calculations apply referring the housing size

The relative stabilization of housing prices combined with increasing revenues of households (nominal wages growth of 4% in Jan-Oct 2014), lower unemployment (8.3% in October 2014 compared to 10.3% at the end of 2013 according to Eurostat data) and low interest rates have been generating demand for dwellings. Developers offering new housing have experienced growth of customers' interest as well as final sales. In the first half of 2014 demand for new housing in biggest Polish cities was higher by 50% at average than a year before. The supply of dwellings started to decrease and new investments have been accelerated. Construction companies began also to look for new locations of further investments. Consequently, started constructions of new dwellings and applications for constructions permits have been growing by two-digit dynamics in last months compared to a consecutive period of last year. As interest rates remain low in Poland and housing prices are unlikely to rise significantly, positive prospects for the housing market remain valid. Thanks to increased demand developers of new housing can benefit from growth of prices after a long period of subdued demand and selling dwellings at low margins. Last 12 months brought sales of 42.7 thousand apartments in biggest Polish cities, i.e. 19% higher than in the all-time high year of 2007. At the same time the supply of apartments achieved 44.8 thousand making demand nearly equal to supply what has not been experienced for a long time. Details of initiated and finalized dwellings show that new construction concerns mostly developers' investments dedicated for sale for final customers. Construction investments done by individuals have provided at most stable dynamics in recent months.

The Chart 8 shows that the average price housing per square meter has been growing in biggest Polish cities. However such growth is fueled mainly by a price increase on the housing market in the capital city Warsaw. Prices in other cities generate positive however weak dynamics during last two months. Two years of negative price changes still affect construction companies active in housing market. Although demand increased it is still relatively fragile. The forthcoming increment of mandatory own contribution share to 10% is

Chart 7

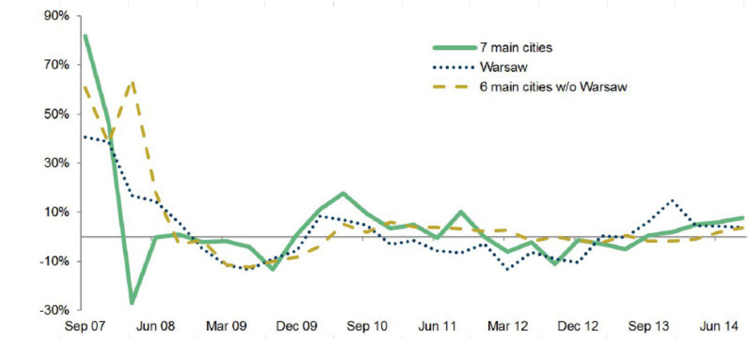
Dwellings – granted permits and started construction



Source: Central Statistical Office

Chart 8

Changes of average transaction prices of housing per square meter on the primary market (year on year growth)



Source: National Bank of Poland

admittedly beneficial for developers as it boosts the current demand however it will constrain it in a long run. Individuals who cannot afford to gather a necessary contribution will postpone their decision of buying housing. Assuming that next thresholds of the mandatory own contribution are scheduled to be implemented each year till 2017, such a postponement could be done for a long period of time or even lead to abandon the idea of buying apartment by many individuals.

Considering above, a wider usage of the "Housing for the Young" scheme is expected. It will enable clients without cash to purchase apartments as its support will be used for a necessary own contribution. As limits of the average price per square meter are relatively low in the scheme, especially in a case of biggest cities, it is expected that clients will be forced to choose housing away from the city center or in the suburbs. The wider usage of the scheme will be supportive for developers as it relates only the primary housing market. Growing number of granted permits and started housing construction will result in higher supply of apartments in 2016 as constructions are mainly scheduled for two years. Final customers will also contribute to higher demand for services of small construction companies which specialize in completion and decor works.

2) EU budget for 2014-2020 will be supportive as well

The EU budget for 2007-2013 was very supportive for infrastructure investments described above. EU funding allocated at the level of EUR 67 billion was used mainly for improvement of infrastructure. Expenditures for roads and railways amounted to EUR 15 billion. According to rules the budget has to be executed till 2015. Nevertheless, the support of EU financing is not going to finish. The new multiannual framework for 2014-2020 made Poland the biggest beneficiary of EU budget with allocated funds of EUR 89 billion (equivalent of 23% of Poland's 2013 nominal GDP). The biggest allocations will come in 'Less Developed Regions' (EUR 23.2 billion) and 'Cohesion Fund' (EUR 51.2 billion). Funds in 'Less Developed Regions' are dedicated for regions where GDP per capita is below 75% of EU average. In the case of Poland 15 out of 16 voivodships fall into this category. The Cohesion Fund is dedicated for member states whose Gross National Income (GNI) per capita is less than 90% of EU average. Poland is allocated with 19% of the entire European Structural and Investment Funds 2014-2020 and 39% of such funds allocated to the CEE region.

The new budget will provide a significant EU support for infrastructure anticipated at EUR 24.3 billion (PLN 103 billion). However investments in infrastructure will be much higher thanks to internal funding. Estimations assume that overall expenditures for infrastructure should reach PLN 500 billion (i.e. 30% of Poland's yearly nominal GDP) till 2020. The biggest share will be taken by roads with PLN 95 billion dedicated for building new roads according to the latest schedule. The program includes building 1,770 kilometers of new highways and expressways as well as 35 ringroads. The EU support in this case will amount to PLN 39 billion (EUR 9.2 billion). Internal funding assumes also that PLN 49 billion will be spent for the maintenance and management of roads. Such significant expenditures will be an opportunity for construction companies to improve its financial standing however it will be perceived by

Chart 9:

Total European Structural and Investment Funds allocations 2014-2020* (EUR millions, current prices) in CEE countries

Country	Cohesion Fund	Less Developed Regions [1]	More Developed Regions [2]	European Territorial Cooperation	Youth Employment Initiative	Rural Development	European Maritime and Fisheries Fund	Total
Bulgaria	2,278.3	5,089.3	-	165.6	55.2	2,338.8	88.1	10,015.3
Croatia	2,559.5	5,837.5	-	146.1	66.2	2,325.2	252.6	11,187.2
Czech Rep.	6,258.9	15,282.5	88.2	339.7	13.6	2,170.3	31.1	24,184.3
Estonia	1,073.3	2,461.2	-	55.4	-	725.9	101.0	4,416.8
Hungary	6,025.4	15,005.2	463.7	361.8	49.8	3,455.3	39.1	25,400.3
Latvia	1,349.4	3,039.8	-	93.6	29.0	969.0	139.8	5,620.6
Lithuania	2,048.9	4,628.7	-	113.7	31.8	1,613.1	63.4	8,499.6
Poland	23,208.0	51,163.6	2,242.4	700.5	252.4	10,941.2	531.2	89,039.4
Romania	6,935.0	15,058.8	441.3	452.7	106.0	8,015.7	168.4	31,177.9
Slovakia	4,168.3	9,483.7	44.2	223.4	72.2	1,890.2	15.8	15,897.7
Slovenia	895.4	1,260.0	847.3	62.9	9.2	837.8	24.8	3,937.4

'* breakdown by category of allocations subject to transfers between categories at the request of the Member States
[1] Less Developed Regions - regions where GDP per capita is below 75% of EU average
[2] More Developed Regions - regionswhere GDP per capita is above 90% of EU average
Note : totals excluding the transfers to Connecting Europe Facility and the Fund for European aid to the most deprived

Source: European Commission

them in late 2015 at earliest.The peak of road investments will come in 2016-2018 when the yearly expenditures will reach PLN 19-23 billion. As such construction companies could experience same problems as during the construction boom related to increased investments for the Euro 2012 championships. Prices of construction materials will rise due to higher demand but also speculative increases cannot be excluded. Many companies will calculate possible price fluctuations in their offers having been badly experienced in the past however new created ones fighting for new deals could fall into liquidity problems if their quotes for public contracts will be too aggressive. Previously, public entities were obliged to choose contractors offering the lowest price as the only criterion. Inadequate quoting triggered payment problems and then insolvencies in the construction sector. The recently updated Public Procurement Law has abandoned the idea of the lowest price priority at public contracts. Beside the EU financial support, the Cohesion Fund defines trans-European transport networks as priority projects of European interest. It promotes enhancing multimodal transport with the new Ten-T core network supported by a comprehensive network of routes feeding into the core network at regional and national level. Member states are supposed to build Ten-T core network till 2030 and comprehensive network till 2050. Poland has two core network corridors crossing the country and it should be noted that the obligation of completing the core network should be filled till 2020. The schedule of investments for 2014-2020 gives priorities for Ten-T networks. Ten-T perfectly fits the EU's idea of building infrastructure to strengthen Europe's economy. It provides a positive message for local companies that infrastructure construction works will be executed at a stable level to reach common EU objectives.
Against this backdrop we decided to upgrade our assessment on the construction sector from its lowest grade of very high risk to the current grade of high risk.

2 SECTORIAL RISK ASSESSMENT

The recent update of Poland Sectorial Risk Assessment brings several changes of risk outlook according to financial data and Coface expertise.

Assessments were upgraded in the case of:
- Construction sector – from very high risk to high risk,
- Metals – from high risk to medium risk thanks to better prospects of construction, automotive and part of manufacturing sectors which metals benefit from significant supplies to those sectors,
- Automotive – from high risk to medium risk; see details below.

Poland Sectorial Risk Assessment			
Sectors	Risk level	Sectors	Risk level
Mechanicals	Medium risk	Agrofood	Medium risk
Construction	High risk	Chemicals	High risk
Metals	Medium risk	Wood Paper	Medium risk
Transport	High risk	Energy	Medium risk
Automotive	Medium risk	Services	Moderate risk

Moderate risk · Medium risk · High risk · Very high risk

Sectorial risk assessment methodology

Coface's assessments are based on the financial data published by companies in respective sectors. Our statistical credit risk indicator simultaneously summarises changes in four financial indicators: turnover, profitability, net indebtedness, and cash flow, completed by the claims recorded through our network.

Assessments were downgraded in the case of:
- Chemicals – from medium risk to high risk; see details below.
- Transport – from medium risk to high risk; see details below.

Agro-food
The share of agriculture sector in gross value added in Poland is relatively low at 3.8%. The CEE average is slightly higher at 4.2%. Nevertheless, the embargo implemented by Russia in August 2014 on meat, fish, fruit, vegetables, milk products from EU, US, Australia, Canada and Norway as retaliation measures for US/EU sanctions put a significant risk on producers and distributors of such products, especially if they traded mainly with Russia. The embargo includes just 0.5% of Polish total exports but more than 10% of its exports to Russia. Going further 80% of Polish agro-food exports to Russia are currently banned (about EUR 840 million). The oversupply which is emphasized by good local harvest last year impacts prices and companies' margins on a domestic market as well. It contributes to deflation in Poland (-0.6% y/y in November 2014) as food and beverages products take 25% of the CPI basket. However growing domestic consumption benefiting from the improved labour market with growing wages result in limiting risks for companies. Retail sales of food products have been generating positive dynamics for plenty of months.

Transport
Similar to the agro-food sector, transport companies suffer from embargo implemented by Russia. As Poland takes the first rank in international good transports by roads among all EU countries, Polish transport companies are widely exposed to international services. Beside Russia and Ukraine directions, the disappointing recovery of

the Eurozone brings some risks to the sector performance. As the Euro area is the main partner of Poland (54% of total exports), its comparatively weak economic growth makes a constraint on volumes of possible frights. Moreover, there is a massive competition in the sector and companies have to accept low margins in many cases. If the Eurozone gets back the momentum of its recovery, it would lead to better prospects for the transport sector. According to the latest Coface forecast the Eurozone GDP growth will reach +1.2% in 2015. On the other hand, the sector benefits from decreasing oil prices which contribute to reduction of operational costs of transport companies.

Automotive

Globally the automotive sector benefits from improved prospects and growing demand. Poland, like the whole CEE region is preferred by many car producers to locate their factories there. Attractive labour costs amid improving infrastructure make production cost effective and easy to deliver to other EU markets. Most of car production is sent for exports. The Polish government supports investments in automotive by creating special economic zones – the new Volkswagen plant is being located in one of such zones.

The risk of the sector is emphasized by turbulences on the Russian market where a growing middle class was a sizeable client base for car producers. The significant part of Polish automotive market is taken by production of spare and equipment parts, both for new and second hand cars.

Chemicals

The sector is significantly dependent on gas as the main resource used in production, especially in producing fertilizers which is a significant part of the chemicals sector in Poland. Current risks relate to an uncertainty of supply from Russia as well as the level of gas prices that Poland will be charged. In the past there have been crucial differences between prices paid by receivers of the Russian gas. Poland tries to diversify sources of gas supply however it will not be possible to abandon imports from Russia completely. Like the transport sector, chemicals have been benefiting from the ongoing decrease of oil prices.

3 CONCLUSION

The construction sector in Poland is hungry for an improvement. The previous booming period remains only within memories as turbulent and difficult times that happened afterwards forced companies to significantly reduce their sales and investments plans. The payment problems within the sector made a direct impact on a massive rise of insolvencies. Whereas yearly growth of insolvencies of 20% in 2010 seemed to be high, the next years of 2011 and 2012 brought a further deterioration with insolvencies climbing by 46% and 52%, respectively. Construction companies were perceived as negative performers and it was difficult for them to get any financing from banks for their core business activities. Many companies had to file for insolvency or just went out of business. Some entities consolidated to survive on the market.

Recently insolvencies in the construction sector stopped rising. The first three quarters of 2014 showed even a decrease of insolvencies by 26%. Have problems of construction sector finished and is it on a constant improvement? The insolvency statistics refer to a huge number of construction companies insolvencies the prior year. As such positive dynamics are more obvious in an improving economic environment. Nevertheless, it can be concluded that insolvencies of construction companies stabilized. In the short term the trend will be continued. The construction sector already benefits from the improvement.

Positive factors include a relatively warm winter of 2013/2014 which did not make significant stopovers of construction works. Moreover, thanks to interest rates at historical low levels, expanding demand and a relative stabilization of prices, the housing market is beneficial for the construction sector and its companies. Positive stimulus comes also from a governmental support with the scheme dedicated for buying the housing for young adults through mortgage loans. As the program is subject only to primary housing market its supportive for companies constructing dwellings as well as smaller companies providing services of completing and decoration of housing. Nevertheless, the housing market is only a minor part of construction sector. The residential buildings take only 13% share of the total volume of construction output. Even if the housing market experiences a long-term improvement, it will not lead to the full recovery of the entire construction sector. Besides that, regulations implemented by the Polish Financial Supervision Authority of mandatory own contribution of at least 5% since 2014 and then 10% since 2015, 15% since 2016 and 20% since 2017 contribute to reducing risks however lead also to temporary increases of demand. Obligations of owing more significant savings to finance housing will make a constraint of a long-term improvement and it will make many individuals more willing to rent an apartment than buy their own ones. Positive but weak dynamics of mortgage loans confirm that the housing market is not at a booming period.

In a longer term construction companies will benefit from an inflow of EU funds from the new EU budget for 2014-2020. Thanks to EU rules which enable executing funds from previous framework till 2015, no significant standstill in public investments is anticipa-

ted. The support of EU budget whose Poland is the biggest beneficiary combined with internal funds will be used for further improvement of infrastructure. It brings a huge opportunity for companies specializing in defined infrastructure construction works.
However due to procedural issues effects of increased investments will be experienced by construction companies starting 2016. At the same time massive increases of numbers of contracts in 2016-2018 can lead to rises of construction material prices, even on a speculative basis. Due to the length of investment process companies could suffer from price fluctuations unless they calculate and secure that in contracts. Payment problems and a massive rise of insolvencies similar to ones experienced during infrastructure investments on the occasion of the Euro 2012 championships cannot be excluded however they are less probable referring past experiences of construction companies. However it should be also noted that global commodity prices (including ones related to the construction sector) are currently on much lower levels than they were in 2011-2012 and therefore the risk of price sensitivity is mitigated.
The current situation of the construction sector can be defined as a relief but not a long-term improvement. Companies were still not able to rebound sufficiently after the deep contraction. Business sentiment indicators confirm that pessimistic views are still present within construction companies. At the same time the sector still experiences a sizeable level of delays in payments. Prices of construction output have been providing negative dynamics confirming further than the current situation cannot be defined as the full recovery. Nevertheless, already experienced and anticipated positive factors have been sufficient to upgrade our Sectorial Risk Assessment from very high risk to high risk in the case of the construction sector in Poland. The increased activity on the housing market leads to more positive view on the construction sector, especially if the improvement is continued in a long run. The new EU budget makes a brighter outlook for construction companies thanks to anticipated growth of demand for their services however they will be practically perceived it in 2016. The current perspective assumes that more visible improvement mitigating the risk further is going to be experienced by construction companies in the course of 2015.